

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 Email: rh@rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

PARALEGAL
MARY M. EMBRY

April 27, 2006

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

RECEIVED

APR 28 2006

PUBLIC SERVICE
COMMISSION

Re: Sharpsburg Water District PSC Application

Dear Ms. O'Donnell:

Case No. 2006-00174


Enclosed please find the original and ten (10) copies of the Application of the Sharpsburg Water District for a Certificate of Public Convenience and Necessity to construct, finance and increase rates pursuant to KRS 278.023.

Also enclosed are eleven (11) copies of the exhibits required pursuant to 807 KAR 5.069, with the exception of the Preliminary and Final Engineering Reports, of which two copies are enclosed.

If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jl
Enclosures
cc: Distribution List

DISTRIBUTION LIST

Account #0127.0000

Re: Sharpsburg Water District Waterworks Revenue Bonds, Series 2006, in the principal amount of \$258,000

Mr. Kenneth Slone
State Director
Rural Development
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503-5477

Telephone: (859) 224-7336
Fax: (859) 224-7340

Ms. Pam Farmer
Rural Development
220 West First Street
Morehead, Kentucky 40351

Telephone: (606) 784-6447
Fax: (606) 784-2921

Ms. Gayle Haney
Sharpsburg Water District
P.O. Box 248
Sharpsburg, Kentucky 40374

Telephone: (606) 247-2861

Mr. Paul V. Amburgey, P.E.
Woolpert Consultants
1200 Corporate Court
Ashland, Kentucky 41102-5336

Telephone: (606) 329-1948
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Earl Rogers III, Esq.
Campbell & Rogers
154 Flemingsburg Road
Morehead, Kentucky 40351

Telephone: (606) 784-8926
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W. Randall Jones, Esq.
Rubin & Hays
Kentucky Home Trust Building
450 South Fifth Street
Louisville, Kentucky 40202

Telephone: (502) 569-7534
Fax: (502) 569-7555

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

APR 28 2006

PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SHARPSBURG WATER DISTRICT FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT, FINANCE AND INCREASE RATES AND CHARGES PURSUANT TO KRS 278.023

))) CASE NO. 2006-00174)))

APPLICATION

This Application of the Sharpsburg Water District ("Applicant") of Bath and Nicholas Counties, Kentucky, respectfully shows:

- 1. That Applicant is a water district of Bath and Nicholas Counties, Kentucky, created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes.
2. That the post office address of Applicant is:

Sharpsburg Water District
c/o Ms. Gayle Haney, Manager
P.O. Box 248
Sharpsburg, Kentucky 40374

- 3. That Applicant, pursuant to the provisions of KRS 278.020 and 278.023, seeks (i) a Certificate of Public Convenience and Necessity, permitting Applicant to construct a water system improvement project (the "Project"); (ii) an Order approving increased water rates and charges; and (iii) approval of the proposed plan of financing said Project.

- 4. That the Project consists of the installation of approximately 20,700 linear feet of 2, 3, 6 and 8 inch waterline and appurtenances; new SCADA system; repainting of the Whetstone tank; and construction of a new office building.

- 5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$258,000 of its Waterworks Revenue Bonds, Series 2006; (ii) a USDA, Rural Development ("RD") grant in the amount of \$160,000; (iii) an Appalachian Regional Commission ("ARC") grant in the amount of \$500,000; (iv) a Tobacco Settlement grant in the amount of \$100,000; and (v) an Applicant contribution in the amount of \$7,000. Applicant has a commitment

from RD to purchase said \$258,000 of bonds maturing over a 40-year period, at an interest rate of not exceeding 4.50% per annum, as set out in the RD Letter of Conditions, as amended, filed herewith as an Exhibit.

6. That Applicant does not contemplate having the Project constructed with any deviation from minimum construction standards of this Public Service Commission.

7. That Applicant files herewith the following Exhibits pursuant to 807 KAR 5:069 in support of this Application:

- A. Copy of RD Letter of Conditions, as amended (**Exhibit "A"**).
- B. Copy of RD Letter of Concurrence in Bid Award (**Exhibit "B"**).
- C. Copy of Preliminary and Final Engineering Reports.
- D. Certified statement from the Chairperson of Applicant (**Exhibit "C"**), based upon statements of the Engineers for Applicant, concerning the following:
 - (1) The proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
 - (2) All other state approvals or permits have already been obtained;
 - (3) The proposed rates of Applicant shall produce the total revenue requirements set out in the engineering reports; and
 - (4) Setting out the dates when it is anticipated that construction will begin and end.

8. That Applicant has arranged for the publication, prior to or at the same time this Application is filed, of a Notice of Proposed Rate Change pursuant to Section 2 of 807 KAR 5:069, in the newspapers of general circulation in Applicant's service area and in Bath and Nicholas Counties, Kentucky. Said Notice sets out the current rates and the proposed rates of Applicant and a description of the construction Project. A copy of said Notice is filed herewith as **Exhibit "D"**.

9. That the foregoing constitutes the documents necessary to obtain the approval of the Kentucky Public Service Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the "Minimum Filing Requirements" specified in 807 KAR 5:069, Section 1.

WHEREFORE, Applicant, the Sharpsburg Water District, asks that the Public Service Commission of the Commonwealth of Kentucky grant to Applicant the following:

- a. A Certificate of Public Convenience and Necessity permitting Applicant to construct a water system improvement project.
- b. An Order approving the financing arrangements made by Applicant, viz., (i) the issuance of \$258,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 2006 at an interest rate of not exceeding 4.50% per annum; (ii) an RD grant in the amount of \$160,000; (iii) an ARC grant in the amount of \$500,000; (iv) a Tobacco Settlement grant in the amount of \$100,000; and (v) an Applicant contribution in the amount of \$7,000.
- c. An Order approving the proposed water rates and charges as set out in Section 25 of the RD Letter of Conditions, as amended, filed herewith as an Exhibit.

SHARPSBURG WATER DISTRICT

By: Becky Ritchie
Chairperson
Board of Water Commissioners

W. Randall Jones, Esq.
Rubin & Hays
Counsel for Applicant
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF BATH)

The undersigned, Becky Ritchie, being duly sworn, deposes and states that she is the Chairperson of the Board of Commissioners of the Sharpsburg Water District, Applicant, in the above proceedings; that she has read the foregoing Application and has noted the contents thereof; that the same is true of her own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, she believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this April 24th 2006.

Becky Ritchie
Becky Ritchie, Chairperson
Sharpsburg Water District

Subscribed and sworn to before me by Becky Ritchie, Chairperson of the Board of Commissioners of the Sharpsburg Water District, on this April 24th, 2006.

My Commission expires: Mar. 22, 08.

Gary Darryl State at Large
Notary Public



**United States Department of Agriculture
Rural Development
Kentucky State Office**

January 31, 2005

Ms. Jeanette Smathers, Chairperson
Sharpsburg Water District
P.O. Box 248
Sharpsburg, Kentucky 40374

Dear Ms. Smathers:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and/or grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$258,000, a RUS grant not to exceed \$110,000, and an Appalachian Regional Commission (ARC) grant of \$500,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

1. Number of Users and Their Contribution:

There shall be 1,451 water users, of which 1,436 are existing users and 15 are new users contributing \$7,000 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Area Director will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids. No contribution is required from the Water District.

1a. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

1b. Drug-Free Work Place:

Prior to grant approval, the Water District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the bond. Principal payment will not be deferred for a period in excess of two years from the date of the bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the Water District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

3. Recommended Repayment Method:

Payments on this loan can be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Area Director will furnish the necessary forms and further guidance on the PAD procedure.

4. Funded Depreciation Reserve Account:

The Water District will be required to deposit \$120.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$14,400. The deposits are to be resumed any time the account falls below the \$14,400.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the Water District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

5. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds.

6. Land Rights and Real Property:

The Water District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

7. Organization:

The Water District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

8. Business Operations:

The Water District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Water District after review by Rural Development. At no later than loan pre-closing, the Water District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

9. Accounts, Records and Audits:

The Water District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed.

10. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Water District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Water District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

11. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Water District. The Water District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.

- B. Worker's Compensation - The Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Water District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$64,000.
- D. Real Property Insurance - The Water District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Water District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Water District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

12. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "22" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Area Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
 - 1. Final plans, specifications and bid documents.
 - 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
 - 3. Legal Service Agreements.
 - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the Water District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

13. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Water District will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the water system, be denied the benefits of the water system, or be subjected to discrimination.

14. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Water District.

15. Compliance with Special Laws and Regulations:

The Water District will be required to conform with any and all state and local laws and regulations affecting this type project.

16. System Operator:

The Water District is reminded that the system operator must have an Operator's Certificate issued by the State.

17. Prior to Pre-Closing the Loan, the Water District Will Be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Water District must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

18. Refinancing and Graduation Requirements:

The Water District is reminded that if at any time it shall appear to the Government that the Water District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Water District will apply for and accept such loan in sufficient amount to repay the Government.

19. Commercial Interim Financing:

The Water District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Water District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

20. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Water District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the Water District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Water District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Water District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the Water District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Water District's construction account records shall be made by Rural Development.

21. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the Water District. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3016 (as applicable). Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly.

22. Cost of Facility:

Breakdown of Costs:

Development	\$ 660,000
Legal and Administrative	12,500
Engineering	126,500
Interest	10,000
Contingencies	<u>66,000</u>

TOTAL \$ 875,000

Financing:

RUS Loan	\$ 258,000
RUS Grant	110,000
ARC Grant	500,000
Applicant Contribution	<u>7,000</u>
TOTAL	\$ 875,000

23. Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all federal payments after January 1, 1999, must be made by Electronic Funds Transfer/Automated Clearing House (EFT/ACH). Borrowers receiving payments by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

24. Use of Remaining Project Funds:

The applicant contribution shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC grant funds and refunded in proportion to participation in the project. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds.

25. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the water and system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	2,000	gallons @ \$	18.00 - Minimum Bill.
Next	3,000	gallons @ \$	4.00 - per 1,000 gallons.
Next	5,000	gallons @ \$	3.50 - per 1,000 gallons.
All Over	10,000	gallons @ \$	3.30 - per 1,000 gallons.

A \$5.00 per month per customer debt service surcharge is added to the minimum bill for the 1996 and 2004 USDA project customers.

Connection Charges:

- 5/8" x 3/4" meter size - \$600.00
- Larger than 5/8" x 3/4" meter - Actual Cost

26. Water Purchase Contracts:

The Water District will submit Water Purchase Contracts for approval by Rural Development before advertising for construction bids. If the contracts are not on Form RD 442-30, "Water Purchase Contract," the contracts will require approval by our Regional Attorney. The contracts must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

27. Commitment of ARC Grant Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grant in the amount of \$500,000.

28. Floodplain Construction:

The Water District will be required to pass and adopt a Resolution or amend its By-Laws whereby the Water District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Water District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

29. Mitigation Measures:

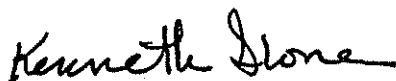
- A. The project shall be in compliance with all requirements noted in the Kentucky Department for Local Government letter dated September 29, 2003, from Mr. Ronald A. Cook, Manager.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated July 25, 2004, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without affect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

30. Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,



KENNETH SLONE
State Director

Enclosures

cc: Area Director - Morehead, Kentucky
Rural Development Manager - Flemingsburg, Kentucky
Gateway ADD - Owingsville, Kentucky
~~Kim Hunt Price - Owingsville, Kentucky~~
Rubin and Hays - Louisville, Kentucky
Woolpert, Inc. - Ashland, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

April 18, 2006

Ms. Becky Ritchie, Chairperson
Sharpsburg Water District
P.O. Box 248
Sharpsburg, Kentucky 40374

Re: Letter of Conditions Dated January 31, 2005

Dear Ms. Ritchie:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated January 31, 2005. The purpose of this amendment is to (1) revise the number of users; (2) revise the amount of funding and sources of funding; (3) revise the charges to be included with the existing water rates; and (4) make other editorial changes in accordance with current Rural Utilities Service (RUS) Instructions.

The Second Paragraph on Page 1 is revised to read as follows:

“ This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$258,000, a RUS grant not to exceed \$160,000, an Appalachian Regional Commission (ARC) grant of \$500,000, and a Kentucky Infrastructure Authority (KIA) Tobacco Settlement grant in the amount of \$100,000. ”

Paragraph numbered “1” is revised to read as follows:

“ 1. Number of Users and Their Contribution:

There shall be 1,456 water users, of which 1,441 are existing users and 15 are new users contributing \$7,000 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Area Director will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids. No contribution is required from the Water District. ”

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

“USDA is an equal opportunity provider, employer and lender.”
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

Paragraph numbered "13" is revised to read as follows:

" 13. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap. "

1" Meter:

First	5,000	gallons @ \$	30.00 - Minimum Bill.
Next	5,000	gallons @ \$	3.50 - per 1,000 gallons.
All Over	10,000	gallons @ \$	3.30 - per 1,000 gallons.

2" Meter:

First	16,000	gallons @ \$	67.30 - Minimum Bill.
All Over	16,000	gallons @ \$	3.30 - per 1,000 gallons.

Schools:

First	50,000	gallons @ \$	179.50 - Minimum Bill.
All Over	50,000	gallons @ \$	3.30 - per 1,000 gallons.

A \$5.00 per month per customer debt service surcharge is added to the minimum bill for the 1996 and 2004 USDA project customers.

Connection Charges:

5/8" x 3/4" meter size - \$600.00
 Larger than 5/8" x 3/4" meter - Actual Cost

Other Charges:

Tank truck sales	\$	7.00 - per 1,000 gallons.
Re-read charge	\$	20.00
Field collection	\$	20.00
Service call investigation	\$	20.00
Meter test charge	\$	20.00
Return check	\$	20.00
After hours turn on	\$	25.00 "

Paragraph numbered "27" is revised to read as follows:

" 27. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grant in the amount of \$500,000 and for the KIA Tobacco Settlement grant in the amount of \$100,000. "

Paragraph numbered "31" is added to read as follows:

" 31. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the Water District will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA). "

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,


KENNETH SLONE
State Director

cc: Area Director - Morehead, Kentucky
Rural Development Manager - Flemingsburg, Kentucky
Gateway ADD - Owingsville, Kentucky
Earl Rogers - Morehead, Kentucky
Rubin and Hays - Louisville, Kentucky
Woolpert, Inc. - Ashland, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

APR 25 2006

April 19, 2006

SUBJECT: Sharpsburg Water District
Phase 3 Water Improvements
Contract Award Concurrence

TO: Area Director
Morehead, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder on Contract F, C and K Contracting, in the amount of \$514,607.50, and the low bidder on Contract G, Standafer Buildings, Inc., in the amount of \$296,397.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.


KENNETH SLONE
State Director
Rural Development

cc: Woolpert, Inc.
Ashland, Kentucky

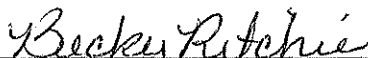
**CERTIFICATE OF CHAIRPERSON OF SHARPSBURG WATER DISTRICT,
AS TO STATEMENT REQUIRED BY SECTION 1(5) OF 807 KAR 5:069**

I, Becky Ritchie, hereby certify that I am the duly qualified and acting Chairperson of the Sharpsburg Water District, and that said District is in the process of arranging to finance the construction of improvements to the water system (the "Project"), in cooperation with Woolpert, Inc., Ashland, Kentucky, the Engineers for the District (the "Engineers").

Based on information furnished to me by said Engineers for the District, I hereby certify as follows:

1. That the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
2. That all other state approvals and/or permits have already been obtained.
3. That the rates proposed by the District in its current Application filed with the Public Service Commission of Kentucky are contemplated to produce *total revenue requirements* set out in the Engineering Reports prepared by such Engineers and filed with the Public Service Commission.
4. That it is now contemplated that construction of the Project will begin on or about June 1, 2006, and will end on or about December 1, 2006.


IN TESTIMONY WHEREOF, witness my signature this April 24th, 2006.



Chairperson
Sharpsburg Water District

STATE OF KENTUCKY)
) SS
COUNTY OF BATH)

Subscribed and sworn to before me by Becky Ritchie, Chairperson of the Board of Commissioners of the Sharpsburg Water District, on this April 24th, 2006.



Notary Public
In and For Said State and County

NOTICE OF PROPOSED RATE CHANGE

In accordance with the requirements of the Public Service Commission of the Commonwealth of Kentucky as set out in 807 KAR 5:069, Section 2, notice is hereby given to the customers of the Sharpsburg Water District of a change in water rates and charges for users of the District's water system. The changes in water rates and charges are required by the United States Department of Agriculture, acting by and through Rural Development ("RD"), in connection with a loan by RD to the District in the amount of \$258,000 to be evidenced by the issuance by the District of its Waterworks Revenue Bonds in such amount, which RD has agreed to purchase provided the District meets certain conditions of RD, including revising the water rates and charges as set forth below:

Current Monthly Rates

5/8" x 3/4" meter

First 2,000 gallons	\$15.02 minimum bill
Next 3,000 gallons	3.86 per 1,000 gallons
Next 5,000 gallons	3.36 per 1,000 gallons
All over 10,000 gallons	3.11 per 1,000 gallons

1" meter

First 5,000 gallons	\$26.60 minimum bill
Next 5,000 gallons	3.36 per 1,000 gallons
All over 10,000 gallons	3.11 per 1,000 gallons

2" meter

First 16,000 gallons	\$62.06 minimum bill
All over 16,000 gallons	3.11 per 1,000 gallons

Schools

First 50,000 gallons	\$167.80 minimum bill
All over 50,000 gallons	3.11 per 1,000 gallons

A \$5.00 per month per customer debt service surcharge is added to the minimum bill for all 1996 and 2004 USDA/RD project customers.

Connection Charge

5/8" x 3/4" meter - \$500.00
Larger than 5/8" x 3/4" meter - actual cost

Other Charges:

Tank truck sales - \$4.00 per 1,000 gallons
Meter test charge - \$15.00
Return check - \$15.00

Proposed Monthly Water Rates

5/8" x 3/4" meter

First 2,000 gallons	\$18.00 minimum bill
Next 3,000 gallons	4.00 per 1,000 gallons
Next 5,000 gallons	3.50 per 1,000 gallons
All over 10,000 gallons	3.30 per 1,000 gallons

1" meter

First 5,000 gallons	\$30.00 minimum bill
Next 5,000 gallons	3.50 per 1,000 gallons
All over 10,000 gallons	3.30 per 1,000 gallons

2" meter

First 16,000 gallons	\$67.30 minimum bill
All over 16,000 gallons	3.30 per 1,000 gallons

Schools

First 50,000 gallons	\$179.50 minimum bill
All over 50,000 gallons	3.30 per 1,000 gallons

A \$5.00 per month per customer debt service surcharge is added to the minimum bill for all 1996 and 2004 USDA/RD project customers.

Connection Charge

5/8" x 3/4" meter - \$600.00
Larger than 5/8" x 3/4" meter - actual cost

Other Charges:

Tank truck sales - \$7.00 per 1,000 gallons
Re-read charge - \$20.00
Field collection - \$20.00
Service call investigation - \$20.00

Meter test charge - \$20.00
Return check - \$20.00
After hours turn on - \$25.00

The RD loan proceeds will be used in conjunction with a \$7,000 contribution from the District, a \$160,000 RD grant, a \$500,000 ARC grant, and a 100,000 Tobacco Settlement grant to finance the cost of the installation of approximately 20,700 linear feet of 2, 3, 6 and 8 inch waterline and appurtenances; new SCADA system; repainting of the Whetstone tank; and construction of a new office building. Signed, Becky Ritchie, Chairperson, Sharpsburg Water District.

PRELIMINARY ENGINEERING REPORT

Case No. 2006-00174

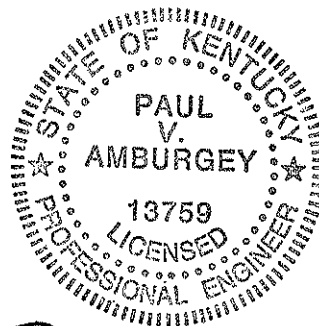
RECEIVED

APR 28 2006

PUBLIC SERVICE
COMMISSION

**PHASE III NICHOLAS/BATH COUNTIES
RURAL WATERLINE IMPROVEMENTS**

**SHARPSBURG WATER DISTRICT
SHARPSBURG, KY**



August 2004

Paul Amburgey
8/2/04

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- A. RD Kentucky Guide 7
- B. Existing Water Rates (AS OF 3-2004)
- C. Excerpts from 12-31-2003 PSC Audit Report

GENERAL

A. Purpose/History

The Sharpsburg Water District serves over 1400 customers in both Bath and Nicholas Counties. The purpose of this project is to finalize water service to the remaining areas within the Sharpsburg Water District service area. More importantly, the project proposes improvements to the existing Sharpsburg Water District system.

These system improvements include construction of a new Water District office, replacement of existing asbestos cement waterlines within the City limits of Sharpsburg. Also proposed are renovations to existing booster stations, repainting the Whetstone elevated storage tank, changing out older water meters, implementing a water loss program, and possible upgrade of the systems SCADA system.

The waterline extensions are thus a minor part of the proposed project. The Sharpsburg Water District has been in operation since the early 1960's. In 1985, the Sharpsburg Water District eliminated their existing water treatment plant and constructed a transmission line/connection to the Bath County Water District.

In 1992, Sharpsburg Water District completed a major water line extension project (Phase I) that also connected to the City of Carlisle water system.

The Sharpsburg Water District system is zoned with its Nicholas County customers using the City of Carlisle as the water supply and the Bath County customers using water from the Bath County Water District.

In 1996, Sharpsburg Water District completed a customer line extension project (Phase II) that added more customers in Nicholas and Bath Counties.

B. Scope

The scope of this project is to extend a safe, adequate supply of potable drinking water to remaining areas of Bath County that are presently served by individual wells, cisterns, or farm ponds.

The project also proposes improvements to the existing Sharpsburg Water District as described above.

The existing Sharpsburg Water District service area includes eastern Nicholas and western Bath County.

Nicholas County

Areas served in Nicholas County include Route 36 south of Carlisle south to the Bath County line; Route 57 north and south of Moorefield, Dixie Highway, Cassidy Creek Road including Myers; Locust Grove, Cane Creek Road, a portion of Whetstone Road, Upper Sharpsburg Road and a portion of Lower Sharpsburg Road.

Nicholas County service areas added by the 1996 project includes the remainder of Whetstone Road and Route 57, Route 1285 to Miranda, Lower Sharpsburg Road including Convict Road, John Dunn Road, and Watkins Lane (R. Teager Road). Finally, a 4-mile loop section of Route 57 between Milltown and Dixie Highway was completed in 2001.

Bath County

Areas served in Bath County include Route 36 from the Nicholas County line east to the Burbridge Branch pump station; service to Route 11 from the Sharpsburg area north to the Bethel area, service to the Bath County portions of Upper and Lower Sharpsburg Roads, portions of Route 1198, Springfield Road, Skidds Road, Flat Creek Road, Route 1106 and 1325, Route 1602 to Pebble, Big Flat South Road, and a portion of Little Flat Creek Road.

Bath County service areas added under the 1996 project included service to the Route 11 and Route 1325 area north of Bethel, Sanderson Road, remainder of Route 1602 from Pebble to Wyoming, and Burbridge Branch Road. Finally a 2 mile section of Flat Creek Road south of Sharpsburg was added in 2001.

I. AREAS TO BE SERVED

A. Boundaries

Nicholas and Bath Counties are located in northeastern Kentucky and are bordered by Robertson, Fleming, and Harrison Counties to the North, Rowan County to the East, Bourbon and Montgomery Counties to the West, and Meniffee County to the South. Carlisle is the county seat for Nicholas County, and Owingsville is the county seat for Bath County.

Bath County is separated by U.S. 68 and State Route 32 which follow a north-south direction, and by State Route 36, which generally runs east to west.

The areas proposed to be served by this project for the Sharpsburg Water District includes Bath County as follows:

Bath County

Service to a 2-mile section of Springfield Road and a 1-mile section of Pecks Pike. A total of 15 potential customers would be served.

For a more complete listing of proposed service areas, refer to Part III "Proposed Facilities".

B. Existing & Future Land Use

The service area of the Sharpsburg Water District is almost exclusively rural in nature. Single family homes and farms dominate the service. Previous studies indicate 2.47 persons occupy each household unit.

The median household income (1990 Census) of Bath County (\$26,018) is below the USDA threshold limit (\$28,585) for grant eligibility.

The further extension of waterlines in the District is not expected to significantly alter the rural farm oriented nature of the service area.

C. Description of Service Area Boundary

The existing Sharpsburg Water District territorial service boundaries can be generally described as follows:

The northern boundary follows the Licking River/Fleming County line. The southern boundary follows Hinkston Creek and the Bourbon/Montgomery County lines. Sharpsburg Water District eastern boundary is shared with the Bath County Water District and the western boundary with the Nicholas County Water District. The District's boundary descriptions and maps are filed with the Public Service Commission.

D. Required Annexation of Additional District Territory

The District's service area boundary was amended in July/August 1989 to include annexation of additional territory along Cassidy Creek, Route 32 in the Myers area, Locust Grove Road, Cane Run Road, Maple Grove Road, Dixie Highway, and the East Union area. All area's proposed for service under this Phase III project are within existing defined District boundary.

E. Major Obstacles/Problems

No major obstacles/problems are anticipated as all extensions can be served without the need for additional storage tanks or pump stations.

F. Need for Facility/Extensions

Existing groundwater supplies in the area proposed for water service are for the most part totally unsuitable for human consumption. Existing wells and cisterns are contaminated with confluent growth and fecal coliform bacteria.

II. EXISTING FACILITIES

A. Existing Distribution System

The present distribution system consists of the following pipe sizes and lengths. The existing Sharpsburg Water System serves a total of approximately 1,425 (940 – Bath, 485 – Nicholas) customers.

TABLE 1
EXISTING WATER MAINS

2 inch pipe	.....	1 mile
3 inch pipe	.....	25 miles
4 inch pipe	.....	60 miles
6 inch pipe	.....	40 miles
8 inch pipe	.....	10 miles

There are three tanks and two pumping stations. The system is separated by two separate pressure zones. The Carlisle pump station and Whetstone tank pressure zone for Nicholas County; and the Burbridge Branch pump station and Reynoldsville and Sharpsburg tanks zone for Bath County.

Nicholas County Customers

A 100,000 gallon elevated tank is located at Whetstone Road and filled by the Carlisle pump station (100 gpm). Water for the Nicholas County customers is supplied by a master meter and Water Purchase Contract from the City of Carlisle. This Contract allows for purchase up to 100,000 gallons per day.

Bath County Customers

A 100,000 gallon elevated tank is located on Route 36 at Reynoldsville hill and is filled by the Burbridge Branch pump station (200 gpm). A second 100,000 gallon standpipe tank is located in downtown Sharpsburg and is filled by the Reynoldsville tank.

Water for the Bath County customers is supplied by a master meter and Water Purchase Contract from the Bath County Water District which allows purchase up to 288,000 gallons per day.

B. Existing Water Supply

As noted previously, Sharpsburg's Bath County customers are supplied by a Water Purchase Contract from the Bath County Water District, which allows purchase of 288,000 gallons per day. Currently, Sharpsburg purchases an average of about 200,000 gallons per day from Bath County, or 70% of the maximum withdrawal rate.

Sharpsburg's Nicholas County customers are supplied by a Water Purchase Contract from the City of Carlisle which allows purchase up to 100,000 gallons per day. Currently, Sharpsburg purchases an average of 80,000 gallons per day from Carlisle, or 80% of the maximum withdrawal rate.

We would recommend Sharpsburg increase the maximum daily withdrawal amount from Carlisle by about 20% for future growth.

III. PROPOSED FACILITIES

A. Design Criteria and Approvals

All waterlines will be designed in accordance with Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water and U.S. Department of Agriculture (RUS) guidelines.

Construction drawings, specifications, and bid documents will be submitted for approval by the Division of Water, and the RUS. The minimum pressure at all customer meter connections will be 30 psi. Individual pressure reducing valves will be provided at all meter settings where main line pressure is to exceed 90 psi.

B. Lands and Rights of Way

For all lines constructed on private right of way, a construction and permanent easement will be obtained from the property owner prior to constructing the lines. For lines to be constructed on Kentucky state or county highways, all necessary encroachment permits will be obtained before proceeding with waterline construction. There are no new tanks or pump stations required for this project, therefore no fee simple property acquisitions are required. The land for the new Water District office has already been acquired.

C. Waterline Extensions

The areas proposed to be served by the waterline extensions are as follows:

Bath County

Service to 12 potential customers along Springfield Road southeast of Sharpsburg

Service to 3 potential customers along Pecks Pike east of Sharpsburg.

A total of 15 potential customers are proposed for service in Bath County.

D. Water System Improvements

The various water system improvements are proposed as follows:

1. Construct a new 1,400 – 1,500 square feet Water District office building. The building will be located on property already owned by the District at Montgomery Street/Stevens Alley.

The District has utilized rental space for their District office for a number of years. The new office will allow them to vacate the current rented office space.

2. Clean, repaint existing 100,000 gallon Whetstone elevated tank in Nicholas County. The tank was constructed in 1991 and is due for painting.

Replace pumps, upgrade controls at Burbridge Branch (Bath) and Scrubgrass (Nicholas) booster pump stations. Controls upgrade would include upgrading existing radio telemetry

controls to a SCADA type system where both booster stations and all three (3) system tanks are monitored at the water office.

3. Replace 1.5 miles of existing asbestos cement waterline located on Main, Back, and Montgomery Streets in downtown Sharpsburg.
4. Purchase and change out 600 older inaccurate water meters with new meters.

IV. COST ESTIMATES

The Construction Cost estimate for new waterline extensions/replacement, pump stations/storage tank improvements, new water office, and meter change out program are shown on Table IV-1.

The Total Project Cost estimate including costs for engineering, legal, land and rights of way, project administration, contingencies, and capitalized interest is included on Table IV-2.

The proposed sources of funding for the project are illustrated on Table IV-3

VI. ANNUAL OPERATING BUDGETS

A. Income

The analysis of water usage and income based upon the 1425 existing, 15 new customers served by the new water system improvements project shown on Table IV-5.

The water rate schedule currently in effect for the Sharpsburg Water District and the proposed rate schedule for the new and existing water customers are both shown on Table IV-4. The current water rate was last adjusted by the District in March 2004 when the Bath County Water District bulk rate was raised. Also shown on this page are the existing residential water connection fee and the proposed connection fee.

It is worth noting that new users associated with the waterline extensions project will be assessed a \$5.00 per month debt service surcharge. This will continue the precedent set with the last USDA project in 1996.

B. Operation and Maintenance Costs

The projects first year of operation, operation and maintenance costs, and costs for debt service on the proposed \$362,000 RUS loan are included as Table IV-7. The Operating Budget (first full year of operation – 2006) costs were in part based on Sharpsburg's Year ending December 31, 2003 Audit Report as included in the Appendix of this report.

C. Capital Improvements

As noted previously, the construction cost and total project costs associated with the proposed waterline extensions and improvements are shown on Tables IV-1 and IV-2.

D. Debt Repayment/Reserve

The debt service requirements for the new RUS loan are shown on Table IV-7. The debt service coverage (reserve) available has also been shown on Table IV-7.

VI. MAPS

A map showing the existing water service area and proposed waterline extensions has been included as Figure 1.

TABLE IV-1

WATERLINE IMPROVEMENTS & EXTENSIONS NICHOLAS AND BATH COUNTIES SHARPSBURG WATER DISTRICT

Construction Cost Estimate

Item	Description	Quantity	Unit Cost	Total Cost
1	8" Waterline*	3,200 L.F.	\$10.00	\$ 32,000.00
2.	6" Waterline*	4,000 L.F.	\$7.00	\$ 28,000.00
3.	3" waterline	16,500 L.F.	\$4.00	\$ 66,000.00
4.	¾" Service Line	2,500 L.F.	\$3.50	\$ 8,750.00
5.	8" Gate Valves	3 Each	\$800.00	\$ 2,400.00
6.	6" Gate Valves	4 Each	\$600.00	\$ 2,400.00
7.	3" Gate Valves	4 Each	\$400.00	\$ 1,600.00
8.	Flush Hydrants	6 Each	\$2,000.00	\$ 12,000.00
9.	Residential Meter Settings	15 Each	\$350.00	\$ 5,250.00
10.	Road Bores	200 L.F.	\$70.00	\$ 14,000.00
11.	Blow Off Valves	2 Each	\$700.00	\$ 1,400.00
12.	Pavement Replacement	2,000 S.Y.	\$30.00	\$ 60,000.00
13.	Gravel Driveway Replacement	500 S.Y.	\$15.00	\$ 7,500.00
14.	Concrete Encasement	100 L.F.	\$20.00	\$ 2,000.00
15.	Connect New Waterlines to Existing	8 Each	\$1,000.00	\$ 8,000.00
16.	Replacement Water Meters	600 Each	\$35.00	\$ 21,000.00
17.	Carlisle and Burbridge Branch BPS renovation	2 Each	\$20,000.00	\$ 40,000.00
18.	Whetstone Tank repainting	1 Each	\$45,000.00	\$ 45,000.00
19.	New 1,400 S.F. Water Office Building	1 Each	\$177,700.00	\$ 177,700.00
20.	SCADA system for system tanks, booster stations	1 Each	\$125,000	\$ 125,000.00
<i>* Waterline for replacement of existing AC lines in Sharpsburg.</i>				
TOTAL CONSTRUCTION COST – WATERLINE EXTENSIONS & IMPROVEMENTS; BATH & NICHOLAS COUNTIES				\$660,000

TABLE IV-2

TOTAL PROJECT COST ESTIMATE PHASE III RURAL WATERLINE EXTENSIONS & IMPROVEMENTS SHARPSBURG WATER DISTRICT

Construction	\$ 660,000.00
Planning (Preliminary Engineering)	\$ 7,500.00
Engineering Design Services	\$ 58,300.00
Engineering Inspection Services	\$ 36,700.00
Additional Engineering Services	\$ 24,000.00
Legal Services	\$ 12,500.00
Land and Rights-of-Way Acquisition	\$ 0
Capitalized Interest	\$ 10,000.00
Contingency	\$ 66,000.00
TOTAL PROJECT COST	\$ 875,000.00

TABLE IV-3

TOTAL PROJECT FINANCING SHARPSBURG RURAL WATERLINE EXTENSIONS & IMPROVEMENTS

RUS Grant (30% of RUS funds)	\$ 156,000.00
RUS Loan (70% of RUS – 40 Years @ 4.5%)	\$ 362,000.00
Sharpsburg Cash Contribution (Tap Fees)	\$ 7,000.00
KIA/Tobacco Settlement Grant	\$ 350,000.00
TOTAL PROJECT FINANCING	\$ 875,000.00

TABLE IV-4

SHARPSBURG WATER DISTRICT NICHOLAS/BATH COUNTIES PROPOSED RURAL WATERLINE EXTENSIONS & IMPROVEMENTS

EXISTING WATER RATE SCHEDULE

First 2,000 Gallons	\$15.02* (Minimum Bill)
Next 3,000 Gallons	\$3.86 per 1,000 Gallons
Next 5,000 Gallons	\$3.36 per 1,000 Gallons
All Over 10,000 Gallons	\$3.11 per 1,000 Gallons
Tank Truck Sales	\$4.00 per 1,000 Gallons

PROPOSED WATER RATE SCHEDULE

First 2,000 Gallons	\$18.00* (Minimum Bill)
Next 3,000 Gallons	\$4.00 per 1,000 Gallons
Next 5,000 Gallons	\$3.50 per 1,000 Gallons
All Over 10,000 Gallons	\$3.30 per 1,000 Gallons

***5.00 debt service surcharge added to minimum bill for
1996/2004 USDA project customers (170 customers total)**

PROPOSED CONNECTION CHARGES

5/8" X 3/4" Meter	\$600.00
Larger than 5/8" X 3/4" Meter	Actual Cost

TABLE IV-5

**Water Customer Revenue- 1st Year of Operation-2006
(Proposed Rates- Existing Plus New Customers)**

Revenue		4. Proposed Residential and Non-Residential Rates						
Date								
Total Users	1451							
Total Annual Revenues	\$508,101							
Rates as of 03-02-2004								
\$18.00		2,000	Gallons		Minimum Bill			
\$4.00	per	1,000	Gallons	2,000	to	5,000	Gallons	
\$3.50	per	1,000	Gallons	5,000	to	10,000	Gallons	
	per	1,000	Gallons	10,000	to	15,000	Gallons	
	per	1,000	Gallons	15,000	to	20,000	Gallons	
	per	1,000	Gallons	20,000	to	95,000	Gallons	
	per	1,000	Gallons	95,000	to	195,000	Gallons	
\$3.30	per	1,000	Gallons	10,000	to	10,000,000	Gallons	
usage Gallons		Gallons		rate	monthly # of users Residential	monthly # of users Non-Residential	usage x 1000 Gal	income
0-1K		500		18.00		0	0	\$875
0-2K		1,000		18.00	449	0	449	\$8,082
2-3K		2,500		20.00	228	0	570	\$4,560
3-4K		3,500		24.00	195	2	690	\$4,728
4-5K		4,500		28.00	175	0	788	\$4,900
5-6k		5,500		31.75	138	0	759	\$4,382
6-7K		6,500		35.25	65	1	429	\$2,327
7-8K		7,500		38.75	48	0	360	\$1,860
8-9K		8,500		42.25	33	0	281	\$1,394
9-10K		9,500		45.75	21	0	200	\$961
10-11k		10,500		49.15		16	168	\$786
11-12k		11,500		52.45		7	81	\$367
12-13k		12,500		55.75		10	125	\$558
13-14k		13,500		59.05		5	68	\$295
14-15k		14,500		62.35		4	58	\$249
15-16k		15,500		65.65		5	78	\$328
16-17k		16,500		68.95		2	33	\$138
17-18k		17,500		72.25	0	4	70	\$289
18-19k		18,500		75.55	0	1	19	\$76
19-20k		19,500		78.85		2	39	\$158
22-24k		23,000		90.40		6	138	\$542
24-26k		25,000		97.00		6	150	\$582
27-29k		28,000		106.90		10	280	\$1,069
29-31k		30,000		113.50		4	120	\$454
32-33k		32,500		121.75	0	1	33	\$122
33-35k		34,000		126.70	0	2	68	\$253
35-39k		36,000		133.30	0	4	144	\$533
39-41k		40,000		146.50	0	5	200	\$733
52-54k		53,000		189.40	0	1	53	\$189
137-139k		138,000		552.00	0	1	138	\$552
sub total					1352	99	6585	42342
average residential rate per month							1451	\$31.32
average residential usage per month in Gallons								4,870
annual revenue								\$508,101
annual flow quantity in gallons sold								79,014,000

TABLE IV-6

SHARPSBURG WATER DISTRICT OPERATION AND MAINTENANCE EXPENSE PROJECTION

EXISTING SYSTEM PLUS NEW EXTENSIONS

The following table provides Operation/Maintenance expenses for the 1st year of full operation (2006) after completion of the Phase III USDA water system extensions, improvements project. The Operation/Maintenance expenses are based on the 2003 audit, adjusted to 2006.

Source of Supply Expense	\$	215,000.00
Pumping Expense	\$	10,000.00
Water Treatment Expense	\$	0
Trans. & Dist. Expense	\$	78,000.00
Customers Accts Expense	\$	78,000.00
<u>Admin. & General Expense</u>	<u>\$</u>	<u>78,000.00</u>
TOTAL O/M EXPENSES	\$	459,000.00

TABLE IV-7

SHARPSBURG WATER DISTRICT REVENUE/EXPENSE PROJECTIONS PHASE III WATER IMPROVEMENTS PROJECT

Annual Revenue (Existing customers plus new extension customers)

\$42,342/month revenue x 12 months/year = \$508,000
Other Income = \$ 34,500

TOTAL \$ 542,500

Debt Service on \$362,000 Loan

The RUS latest Poverty level interest rate of 4.5% requires an annual payment of \$55.41/1,000 loan over 38 years. (principal deferred 2 years)

New Debt Service Requirement = $\$362,000 \times \$55.41/1,000 = \$20,060$
Existing Debt Service = \$48,640

TOTAL \$68,700

Operation & Maintenance Expenses

The operation and maintenance costs for the existing system plus new extensions project are estimated at \$459,000 for the 1st year of operation (Table IV-6).

Funds available for Reserve \$14, 800**

** Equals approximately 20% of debt service

APPENDICES

- RD Summary/Addendum to PER
- Latest Water Rate Ordinance (effective 03/02/04)
- Excerpts from Fiscal Year Ending December 31, 2003 Audit Report

FINAL ENGINEERING REPORT

Case No. 2006-00174

RECEIVED

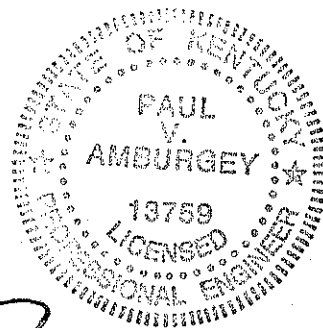
APR 28 2006

PUBLIC SERVICE
COMMISSION

PHASE III NICHOLAS/BATH COUNTIES
RURAL WATERLINE IMPROVEMENTS

SHARPSBURG WATER DISTRICT
SHARPSBURG, KY

APRIL 2006



Paul Amburgey
4/5/06

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GENERAL

A. Purpose/History

The Sharpsburg Water District serves over 1400 customers in both Bath and Nicholas Counties. The purpose of this project is to finalize water service to the remaining areas within the Sharpsburg Water District service area. More importantly, the project proposes improvements to the existing Sharpsburg Water District system.

These system improvements include construction of a new Water District office, replacement of existing asbestos cement waterlines within the City limits of Sharpsburg. Also proposed are renovations to existing booster stations, repainting the Whetstone elevated storage tank, changing out older water meters, implementing a water loss program, and possible upgrade of the systems SCADA system.

The waterline extensions are thus a minor part of the proposed project. The Sharpsburg Water District has been in operation since the early 1960's. In 1985, the Sharpsburg Water District eliminated their existing water treatment plant and constructed a transmission line/connection to the Bath County Water District.

In 1992, Sharpsburg Water District completed a major water line extension project (Phase I) that also connected to the City of Carlisle water system.

The Sharpsburg Water District system is zoned with its Nicholas County customers using the City of Carlisle as the water supply and the Bath County customers using water from the Bath County Water District.

In 1996, Sharpsburg Water District completed a customer line extension project (Phase II) that added more customers in Nicholas and Bath Counties.

B. Scope

The scope of this project is to extend a safe, adequate supply of potable drinking water to remaining areas of Bath County that are presently served by individual wells, cisterns, or farm ponds.

The project also proposes improvements to the existing Sharpsburg Water District as described above.

The existing Sharpsburg Water District service area includes eastern Nicholas and western Bath County.

Nicholas County

Areas served in Nicholas County include Route 36 south of Carlisle south to the Bath County line; Route 57 north and south of Moorefield, Dixie Highway, Cassidy Creek Road including Myers; Locust Grove, Cane Creek Road, a portion of Whetstone Road, Upper Sharpsburg Road and a portion of Lower Sharpsburg Road.

Nicholas County service areas added by the 1996 project includes the remainder of Whetstone Road and Route 57, Route 1285 to Miranda, Lower Sharpsburg Road including Convict Road, John Dunn Road, and Watkins Lane (R. Teager Road). Finally, a 4-mile loop section of Route 57 between Milltown and Dixie Highway was completed in 2001.

Bath County

Areas served in Bath County include Route 36 from the Nicholas County line east to the Burbridge Branch pump station; service to Route 11 from the Sharpsburg area north to the Bethel area, service to the Bath County portions of Upper and Lower Sharpsburg Roads, portions of Route 1198, Springfield Road, Skidds Road, Flat Creek Road, Route 1106 and 1325, Route 1602 to Pebble, Big Flat South Road, and a portion of Little Flat Creek Road.

Bath County service areas added under the 1996 project included service to the Route 11 and Route 1325 area north of Bethel, Sanderson Road, remainder of Route 1602 from Pebble to Wyoming, and Burbridge Branch Road. Finally a 2 mile section of Flat Creek Road south of Sharpsburg was added in 2001.

I. AREAS TO BE SERVED

A. Boundaries

Nicholas and Bath Counties are located in northeastern Kentucky and are bordered by Robertson, Fleming, and Harrison Counties to the North, Rowan County to the East, Bourbon and Montgomery Counties to the West, and Meniffee County to the South. Carlisle is the county seat for Nicholas County, and Owingsville is the county seat for Bath County.

Bath County is separated by U.S. 68 and State Route 32 which follow a north-south direction, and by State Route 36, which generally runs east to west.

The areas proposed to be served by this project for the Sharpsburg Water District includes Bath County as follows:

Bath County

Service to a 2-mile section of Springfield Road and a 1-mile section of Pecks Pike. A total of 15 potential customers would be served.

For a more complete listing of proposed service areas, refer to Part III "Proposed Facilities".

B. Existing & Future Land Use

The service area of the Sharpsburg Water District is almost exclusively rural in nature. Single family homes and farms dominate the service. Previous studies indicate 2.47 persons occupy each household unit.

The median household income (1990 Census) of Bath County (\$26,018) is below the USDA threshold limit (\$28,585) for grant eligibility.

The further extension of waterlines in the District is not expected to significantly alter the rural farm oriented nature of the service area.

C. Description of Service Area Boundary

The existing Sharpsburg Water District territorial service boundaries can be generally described as follows:

The northern boundary follows the Licking River/Fleming County line. The southern boundary follows Hinkston Creek and the Bourbon/Montgomery County lines. Sharpsburg Water District eastern boundary is shared with the Bath County Water District and the western boundary with the Nicholas County Water District. The District's boundary descriptions and maps are filed with the Public Service Commission.

D. Required Annexation of Additional District Territory

The District's service area boundary was amended in July/August 1989 to include annexation of additional territory along Cassidy Creek, Route 32 in the Myers area, Locust Grove Road, Cane Run Road, Maple Grove Road, Dixie Highway, and the East Union area. All area's proposed for service under this Phase III project are within existing defined District boundaries.

E. Major Obstacles/Problems

No major obstacles/problems are anticipated as all extensions can be served without the need for additional storage tanks or pump stations.

F. Need for Facility/Extensions

Existing groundwater supplies in the area proposed for water service are for the most part totally unsuitable for human consumption. Existing wells and cisterns are contaminated with confluent growth and fecal coliform bacteria.

II. EXISTING FACILITIES

A. Existing Distribution System

The present distribution system consists of the following pipe sizes and lengths. The existing Sharpsburg Water System serves a total of approximately 1,425 (940 – Bath, 485 – Nicholas) customers.

TABLE 1
EXISTING WATER MAINS

2 inch pipe	1 mile
3 inch pipe	25 miles
4 inch pipe	60 miles
6 inch pipe	40 miles
8 inch pipe	10 miles

There are three tanks and two pumping stations. The system is separated by two separate pressure zones. The Carlisle pump station and Whetstone tank pressure zone for Nicholas County and the Burbridge Branch pump station and Reynoldsville and Sharpsburg tanks zone for Bath County.

Nicholas County Customers

A 100,000 gallon elevated tank is located at Whetstone Road and filled by the Carlisle pump station (100 gpm). Water for the Nicholas County customers is supplied by a master meter and Water Purchase Contract from the City of Carlisle. This Contract allows for purchase up to 100,000 gallons per day.

Bath County Customers

A 100,000 gallon elevated tank is located on Route 36 at Reynoldsville hill and is filled by the Burbridge Branch pump station (200 gpm). A second 100,000 gallon standpipe tank is located in downtown Sharpsburg and is filled by the Reynoldsville tank.

Water for the Bath County customers is supplied by a master meter and Water Purchase Contract from the Bath County Water District which allows purchase of up to 288,000 gallons per day.

B. Existing Water Supply

As noted previously, Sharpsburg's Bath County customers are supplied by a Water Purchase Contract from the Bath County Water District, which allows purchase of 288,000 gallons per day. Currently, Sharpsburg purchases an average of about 200,000 gallons per day from Bath County, or 70% of the maximum withdrawal rate.

Sharpsburg's Nicholas County customers are supplied by a Water Purchase Contract from the City of Carlisle which allows purchase up to 100,000 gallons per day. Currently, Sharpsburg purchases an average of 80,000 gallons per day from Carlisle, or 80% of the maximum withdrawal rate.

We would recommend Sharpsburg increase the maximum daily withdrawal amount from Carlisle by about 20% for future growth.

III. PROPOSED FACILITIES

A. Design Criteria and Approvals

All waterlines will be designed in accordance with Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water and U.S. Department of Agriculture (RUS) guidelines.

Construction drawings, specifications, and bid documents will be submitted for approval by the Division of Water, and the RUS. The minimum pressure at all customer meter connections will be 30 psi. Individual pressure reducing valves will be provided at all meter settings where main line pressure is to exceed 90 psi.

B. Lands and Rights of Way

For all lines constructed on private right of way, a construction and permanent easement will be obtained from the property owner prior to constructing the lines. For lines to be constructed on Kentucky state or county highways, all necessary encroachment permits will be obtained before proceeding with waterline construction. There are no new tanks or pump stations required for this project, therefore no fee simple property acquisitions are required. The land for the new Water District office has already been acquired.

C. Waterline Extensions

The areas proposed to be served by the waterline extensions are as follows:

Bath County

Service to 12 potential customers along Springfield Road southeast of Sharpsburg
Service to 3 potential customers along Pecks Pike east of Sharpsburg.

A total of 15 potential customers are proposed for service in Bath County.

D. Water System Improvements

The various water system improvements are proposed as follows:

1. Construct a new 1,400 – 1,500 square feet Water District office building. The building will be located on property already owned by the District at Montgomery Street/Stevens Alley.

The District has utilized rental space for their District office for a number of years. The new office will allow them to vacate the current rented office space.

2. Clean, repaint existing 100,000 gallon Whetstone elevated tank in Nicholas County. The tank was constructed in 1991 and is due for painting.

Replace pumps, upgrade controls at Burbridge Branch (Bath) booster pump station. Controls upgrade would include upgrading existing radio telemetry controls to a SCADA type system where both booster stations and all three (3) system tanks are monitored at the water office.

3. Replace 1.5 miles of existing asbestos cement waterline located on Main, Back, and Montgomery Streets in downtown Sharpsburg.
4. Purchase and change out 600 older inaccurate water meters with new meters.

IV. COST ESTIMATES

The Construction Cost estimate for new waterline extensions/replacement, pump stations/storage tank improvements, new water office, and meter change out program are shown on Table IV-1.

The Total Project Cost estimate including costs for engineering, legal, land and rights of way, project administration, contingencies, and capitalized interest is included on Table IV-2.

The proposed sources of funding for the project are illustrated on Table IV-3

VI. ANNUAL OPERATING BUDGETS

A. Income

The analysis of water usage and income based upon the 1425 existing, 15 new customers served by the new water system improvements project shown on Table IV-5.

The water rate schedule currently in effect for the Sharpsburg Water District and the proposed rate schedule for the new and existing water customers are both shown on Table IV-4. The current water rate was last adjusted by the District in March 2004 when the Bath County Water District bulk rate was raised. Also shown on this page are the existing residential water connection fee and the proposed connection fee.

It is worth noting that new users associated with the waterline extensions project will be assessed a \$5.00 per month debt service surcharge. This will continue the precedent set with the last USDA project in 1996.

B. Operation and Maintenance Costs

The projects first year of operation, operation and maintenance costs, and costs for debt service on the proposed \$258,000 RUS loan are included as Table IV-7. The Operating Budget (first full year of operation – 2006) costs were in part based on Sharpsburg's Year ending December 31, 2003 Audit Report as included in the Appendix of this report.

C. Capital Improvements

As noted previously, the construction cost and total project costs associated with the proposed waterline extensions and improvements are shown on Tables IV-1 and IV-2.

D. Debt Repayment/Reserve

The debt service requirements for the new RUS loan are shown on Table IV-7. The debt service coverage (reserve) available has also been shown on Table IV-7.

VI. MAPS

A map showing the existing water service area and proposed waterline extensions has been included as Figure 1.

TABLE IV-1

TOTAL PROJECT COST ESTIMATE PHASE III RURAL WATERLINE EXTENSIONS & IMPROVEMENTS SHAPRSBURG WATER DISTRICT

Construction Cost (Based on Bids Received 3/30/2006)

See attached Bid Tabulation Pages 7a,b, and c.

BID TABULATION

PROJECT: Sharpsburg Water District
Water System Improvements

BID DEADLINE: March 30, 2006 2:00 P.M.

CONTRACT F – WATERLINES, SCADA, TANK PAINTING

CONTRACTOR	<u>BASE BID</u>	ADD ALTERNATIVES	TOTAL
1. C&K Contracting Grayson, KY 41143	<u>\$ 463,090.20</u>	<u>\$51,517.30*</u>	<u>\$514,607.50</u>
2. Little Creek Construction Greenup, KY 41144	<u>\$ 568,033.00</u>	<u>\$68,754.50*</u>	<u>\$636,787.50</u>
3. Southern Ohio Trenching Ironton, OH 45638	<u>\$ 672,718.50*</u>	<u>\$89,057.15</u>	<u>\$761,775.65</u>
4. S. J. Cox Enterprises, Inc. Flemingsburg, KY 41041	<u>\$ 779,397.50</u>	<u>\$98,047.50</u>	<u>\$877,445.00</u>
5. Silver Oaks Ventures Salt Lick, KY 40371	<u>\$ 771,230.00</u>	<u>\$123,305.00</u>	<u>\$894,535.00</u>

ENGINEER'S ESTIMATE – BASE BID \$500,000 - \$550,000

* Corrected math error.

CONTRACT G – NEW OFFICE BUILDING

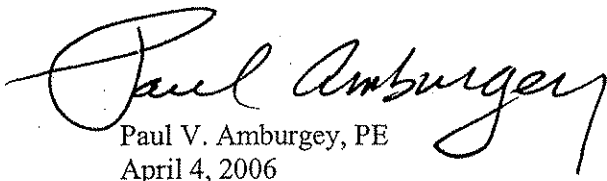
CONTRACTOR	<u>BASE BID</u>
1. Standafer Builders, Inc. West Liberty KY 41472	<u>\$ 296,397.00</u>

ENGINEERS ESTIMATE - \$225,000

To the best our knowledge and belief, the above bids as received and opened at the time and location noted are true and correct.

Prepared by;

WOOLPERT, INC.


Paul V. Amburgey, PE
April 4, 2006

BID TABULATION

SHARPSBURG WATER DISTRICT

MARCH 30, 2006 2:00 PM

CONTRACT F - WATER LINES, SCADA EQUIP., BPS IMPROVEMENTS, TANK REPAIRING

BASE BID WORK

Item	Description	Quantity	Units	Unit Price	Amount	Unit Price	Amount
1	8" CL 200 PVC waterline	2,890	LF	\$ 35.50	\$102,595.00	\$ 35.00	\$101,150.00
2	6" CL 200 PVC water line	1660	LF	\$ 28.00	\$46,480.00	\$ 33.00	\$54,780.00
3	3" CL 200 PVC water line	13850	LF	\$ 15.00	\$207,750.00	\$ 10.00	\$138,500.00
4	2" CL 200 PVC water line	50	LF	\$ 12.75	\$ 637.50	\$ 20.00	\$1,000.00
5	1" CL 200 PB service line	100	LF	\$ 5.00	\$ 500.00	\$ 10.00	\$1,000.00
6	3/4" CL 200 PE service line	1800	LF	\$ 4.75	\$ 8,550.00	\$ 6.00	\$10,800.00
7	8-inch gate valves	3	EA	\$ 835.00	\$ 2,505.00	\$ 1,000.00	\$ 3,000.00
8	6-inch gate valves	2	EA	\$ 635.00	\$ 1,270.00	\$ 800.00	\$ 1,600.00
9	3-inch gate valve	4	EA	\$ 495.00	\$ 1,980.00	\$ 600.00	\$ 2,400.00
10	2-inch gate valve	1	EA	\$ 435.00	\$ 435.00	\$ 500.00	\$ 500.00
11	6-inch blowoff/FH w/ gate valve assembly	1	EA	\$ 2,500.00	\$ 2,500.00	\$ 2,800.00	\$ 2,800.00
12	3-inch blowoff valve assembly	5	EA	\$ 960.00	\$ 4,800.00	\$ 800.00	\$ 4,000.00
13	Reconnect new 8" W/L to exist. FH w/new 6" gate valve	5	EA	\$ 1,200.00	\$ 6,000.00	\$ 4,000.00	\$ 4,000.00

S J Cox Enterprises, Inc. Silver Oaks Ventures, LLC

Item	Description	Quantity	Units	Unit Price	Amount	Unit Price	Amount
10	Specialties	1	LS	\$ 8,615.00	\$ 8,615.00	\$ 11,050.00	\$ 11,050.00
11	Equipment (Not Applicable)	1	LS	\$ -	\$ -	\$ -	\$ -
12	Heating and Ventilation	1	LS	\$ 8,000.00	\$ 8,000.00	\$ 4,200.00	\$ 4,200.00
13	Special Construction	1	LS	\$ 5,500.00	\$ 5,500.00	\$ 9,981.50	\$ 9,981.50
14	Conveying Systems (Not Applicable)	1	LS	\$ -	\$ -	\$ -	\$ -
15	Mechanical/Plumbing	1	LS	\$ 7,100.00	\$ 7,100.00	\$ 3,650.00	\$ 3,650.00
16	Electrical	1	LS	\$ 8,500.00	\$ 8,500.00	\$ 10,500.00	\$ 10,500.00
TOTAL							\$ 296,397.00

ENGINEER'S CERTIFICATION

I hereby certify to the best of my knowledge and belief the above bids as received and opened at the date, time, & location indicated above are correct as shown.

Paul Amburgey 4-4-06
 Paul Amburgey, PE

TABLE IV-2

TOTAL PROJECT COST ESTIMATE PHASE III RURAL WATERLINE EXTENSIONS & IMPROVEMENTS SHAPRSBURG WATER DISTRICT

Construction	\$ 818,005.00*
Planning (Preliminary Engineering)	\$ 7,500.00
Engineering Design Services (8.43%)	\$ 68,368.00*
Engineering Inspection Services (4.98%)	\$ 40,388.00*
Additional Engineering Services	\$ 24,000.00
Legal Services	\$ 12,500.00
Land and Rights-of-Way Acquisition	\$ 0
Capitalized Interest	\$ 10,000.00
Contingency	\$ 41,739.00
TOTAL PROJECT COST	\$ 1,022,500

*Updated based on actual total of low construction bids received for Contracts F and G.

TABLE IV-3
TOTAL PROJECT FINANCING
SHARPSBURG RURAL WATERLINE EXTENSIONS & IMPROVEMENTS

RUS Grant	\$ 160,000.00
RUS Loan (Updated Based On Construction Bids)	\$ 258,000.00
ARC Grant	\$ 500,000.00
Sharpsburg Cash Contribution (Tap Fees)	\$ 7,000.00
KIA/Tobacco Settlement Grant	\$ 97,500.00
TOTAL PROJECT FINANCING	\$ 1,022,500

TABLE IV-4
SHARPSBURG WATER DISTRICT
NICHOLAS/BATH COUNTIES
PROPOSED RURAL WATERLINE EXTENSIONS & IMPROVEMENTS

EXISTING WATER RATE SCHEDULE

First 2,000 Gallons	\$15.02* (Minimum Bill)
Next 3,000 Gallons	\$3.86 per 1,000 Gallons
Next 5,000 Gallons	\$3.36 per 1,000 Gallons
All Over 10,000 Gallons	\$3.11 per 1,000 Gallons
 Tank Truck Sales	 \$4.00 per 1,000 Gallons

PROPOSED WATER RATE SCHEDULE

First 2,000 Gallons	\$18.00* (Minimum Bill)
Next 3,000 Gallons	\$4.00 per 1,000 Gallons
Next 5,000 Gallons	\$3.50 per 1,000 Gallons
All Over 10,000 Gallons	\$3.30 per 1,000 Gallons

***5.00 debt service surcharge added to minimum bill for
1996/2004 USDA project customers (170 customers total)**

PROPOSED CONNECTION CHARGES

$\frac{5}{8}$ " X $\frac{3}{4}$ " Meter	\$600.00
Larger than $\frac{5}{8}$ " X $\frac{3}{4}$ " Meter	Actual Cost

TABLE IV-5

**Water Customer Revenue- 1st Year of Operation-2006
(Proposed Rates- Existing Plus New Customers)**

Revenue		A. Proposed Rates and New Customers					
Date							
Total Users	1451						
Total Annual Revenues	\$508,101						
Rates as of 03-02-2004							
\$18.00		2,000	Gallons	Minimum Bill			
\$4.00	per	1,000	Gallons	2,000	to	5,000	Gallons
\$3.50	per	1,000	Gallons	5,000	to	10,000	Gallons
	per	1,000	Gallons	10,000	to	15,000	Gallons
	per	1,000	Gallons	15,000	to	20,000	Gallons
	per	1,000	Gallons	20,000	to	95,000	Gallons
	per	1,000	Gallons	95,000	to	195,000	Gallons
\$3.30	per	1,000	Gallons	10,000	to	10,000,000	Gallons
usage Gallons		Gallons	rate	monthly # of users Residential	monthly # of users Non-Residential	usage x 1000 Gal	income
0-1K		500	18.00		0	0	\$875
0-2K		1,000	18.00	449	0	449	\$8,082
2-3K		2,500	20.00	228	0	570	\$4,560
3-4K		3,500	24.00	195	2	690	\$4,728
4-5K		4,500	28.00	175	0	788	\$4,900
5-6k		5,500	31.75	138	0	759	\$4,382
6-7K		6,500	35.25	65	1	429	\$2,327
7-8K		7,500	38.75	48	0	360	\$1,860
8-9K		8,500	42.25	33	0	281	\$1,394
9-10K		9,500	45.75	21	0	200	\$961
10-11k		10,500	49.15		16	168	\$786
11-12k		11,500	52.45		7	81	\$367
12-13k		12,500	55.75		10	125	\$558
13-14k		13,500	59.05		5	68	\$295
14-15k		14,500	62.35		4	58	\$249
15-16k		15,500	65.65		5	78	\$328
16-17k		16,500	68.95		2	33	\$138
17-18k		17,500	72.25	0	4	70	\$289
18-19k		18,500	75.55	0	1	19	\$76
19-20k		19,500	78.85		2	39	\$158
22-24k		23,000	90.40		6	138	\$542
24-26k		25,000	97.00		6	150	\$582
27-29k		28,000	106.90		10	280	\$1,069
29-31k		30,000	113.50		4	120	\$454
32-33k		32,500	121.75	0	1	33	\$122
33-35k		34,000	126.70	0	2	68	\$253
35-39k		36,000	133.30	0	4	144	\$533
39-41k		40,000	146.50	0	5	200	\$733
52-54k		53,000	189.40	0	1	53	\$189
137-139k		138,000	552.00	0	1	138	\$552
sub total				1352	99	6585	42342
average residential rate per month						1451	\$31.32
average residential usage per month in Gallons							4,870
annual revenue							\$508,101
annual flow quantity in gallons sold							79,014,000

TABLE IV-6

SHARPSBURG WATER DISTRICT OPERATION AND MAINTENANCE EXPENSE PROJECTION

EXISTING SYSTEM PLUS NEW EXTENSIONS

The following table provides Operation/Maintenance expenses for the 1st year of full operation (2006) after completion of the Phase III USDA water system extensions, improvements project. The Operation/Maintenance expenses are based on the 2003 audit, adjusted to 2006.

Source of Supply Expense	\$ 215,000.00
Pumping Expense	\$ 10,000.00
Water Treatment Expense	\$ 0
Trans. & Dist. Expense	\$ 78,000.00
Customers Accts Expense	\$ 78,000.00
<u>Admin. & General Expense</u>	<u>\$ 78,000.00</u>
TOTAL O/M EXPENSES	\$ 459,000.00

TABLE IV-7

SHARPSBURG WATER DISTRICT REVENUE/EXPENSE PROJECTIONS PHASE III WATER IMPROVEMENTS PROJECT

Annual Revenue (Existing customers plus new extension customers)

\$42,342/month revenue x 12 months/year	= \$508,000
Other Income	= \$ 34,500
TOTAL \$ 542,500	

Debt Service on \$258,000 Loan

The RUS latest Poverty level interest rate of 4.5% requires an annual payment of \$55.41/1,000 loan over 38 years. (principal deferred 2 years)

New Debt Service Requirement = \$258,000 x \$55.41/1,000 =	\$14,295
Existing Debt Service	= <u>\$48,640</u>
TOTAL \$62,935	

Operation & Maintenance Expenses

The operation and maintenance costs for the existing system plus new extensions project are estimated at \$459,000 for the 1st year of operation (Table IV-6). (\$542,500 - \$459,000 - \$62,935= \$20,565)

Funds available for Reserve \$20,565**

**** Equals approximately 30% of debt service**