

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 www.rubinhays.com

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

January 29, 2007

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

RECEIVED

JAN 30 2007

PUBLIC SERVICE
COMMISSION

Re: Knott County Water and Sewer District - Public Service Commission Application for
the Water Treatment Plant Project

Dear Ms. O'Donnell:

Case No. 2007-00048

Enclosed please find the original and ten (10) copies of the Application of the Knott County Water and Sewer District for a Certificate of Public Convenience and Necessity to construct and finance a water improvement project pursuant to KRS 278.023.

Also enclosed are eleven (11) copies of the exhibits required. **The Preliminary and Final Engineering Reports, as prepared by MSE of Kentucky, Inc. are being forwarded under separate cover.**

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

Sincerely,

Rubin & Hays

By


W. Randall Jones

WRJ:jlm

Enclosures

cc: Distribution List

DISTRIBUTION LIST

Account No. 663.0000

**Re: Knott County Water and Sewer District Water and Sewer Revenue Bonds,
Series 2007, in the principal amount of \$100,000 (Treatment Plant Project)**

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

Telephone: (859) 224-7336
Fax: (859) 224-7425

Mr. Barry Turner
Rural Development
95 South Laurel Road, Suite A
London, Kentucky 40744

Telephone: (606) 864-2172
Fax: (606) 878-7717

Ms. Alice Ritchie, Chairperson
Knott County Water and Sewer District
P.O. Box 884
Hindman, Kentucky 41822

Telephone: (606) 785-5584
Fax: (606) 785-9231

Mr. Ron Johnson
R.M. Johnson Engineers, Inc.
P.O. Box 444
Hindman, Kentucky 41822

Telephone: (606) 785-5926

Scott Taylor, P.E.
MSE of Kentucky, Inc.
624 Wellington Way
Lexington, Kentucky 40503

Telephone: (859) 223-5694

Ronald G. Combs, Esq.
Gullett, Combs & Bowling
109 Broadway
P.O. Box 1039
Hazard, Kentucky 41702-1039

Telephone: (606) 439-1373
Fax: (606) 439-4450

W. Randall Jones, Esq.
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

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

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 30 2007

PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF KNOTT COUNTY)
WATER AND SEWER DISTRICT FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY TO CONSTRUCT AND)
FINANCE PURSUANT TO KRS 278.023.)

Case No. 2007-00048

APPLICATION

This Application of the Knott County Water and Sewer District ("Applicant"), respectfully shows:

1. That Applicant is a water district created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes.

2. That the post office address of Applicant is:

Knott County Water and Sewer District
c/o Ms. Alice Ritchie, Chairperson
P.O. Box 884
Hindman, Kentucky 41822

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 project, consisting of extensions, additions, and improvements (the "Project") to the existing water and sewer system of Applicant; and (ii) an Order approving the proposed plan of financing said Project.

4. That the proposed Project Summary is attached hereto as **Exhibit "A"**.

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$100,000 of its Water and Sewer Revenue Bonds; (ii) a Rural Development ("RD") Grant in the amount of \$3,419,860; (iii) an Appalachian Regional Commission ("ARC") grant in the amount of \$500,000; (iv) a Community Development Block Grant ("CDBG") in the amount of \$2,000,000; (v) an Environmental Protection Agency ("EPA") grant in the amount of \$1,900,000; and (vi) a Kentucky Infrastructure Authority ("KIA") grant in the amount of \$3,000,000. Applicant has a commitment from RD to purchase said \$100,000 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 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 "B"**).
- B. Copy of RD Letter of Concurrence in Contract Award (**Exhibit "C"**).
- C. Copy of Preliminary and Final Engineering Reports.
- D. Certified statement from the Chairperson of Applicant (**Exhibit "D"**), 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 existing 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 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 "Filing Requirements" specified in 807 KAR 5:069.

WHEREFORE, Applicant, the Knott County Water and Sewer 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 project consisting of extensions, additions, and improvements to the water and sewer system of Applicant.
- b. An Order approving the financing arrangements made by Applicant, viz., the issuance of (i) \$100,000 of Knott County Water and Sewer District Water and Sewer Revenue Bonds at an interest rate of not exceeding 4.50% per annum; (ii) a Rural Development grant in the amount of \$3,419,860; (iii) an ARC grant in the amount of \$500,000; (iv) a CDBG grant in the amount of \$2,000,000; (v) an EPA grant in the amount of \$1,900,000; and (vi) a KIA grant in the amount of \$3,000,000.

Knott County Water and Sewer District

By: *Alice D. Ritchie*
Chairperson
Board of Commissioners

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

**KNOTT COUNTY WATER AND SEWER DISTRICT
CARR CREEK WATER TREATMENT PLANT
PROPOSED PROJECT SUMMARY**

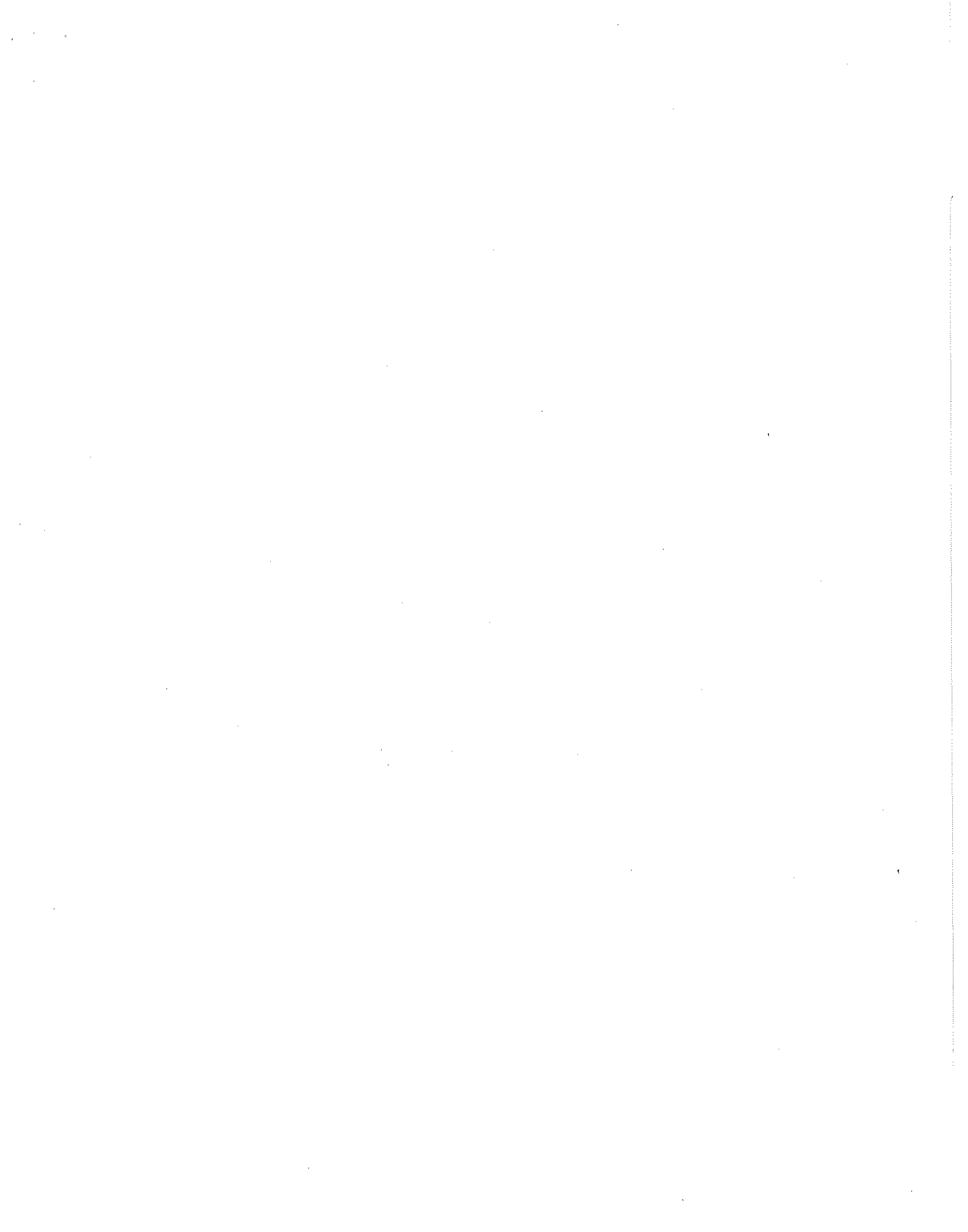
The proposed project will build a new water treatment plant, raw water main and intake facilities at the Carr Creek Lake. They are more fully described in the following:

A. Project Facilities Description:

1. **Water Supply.** The new source being developed is Carr Creek Lake, a Corps of Engineers facility located in southern Knott County. The Corps of Engineers prepared an analysis of withdrawals and their related storage allowing withdrawals up to 6.5 MGD.. The design capacity of 2 MGD was selected for this project and the costs associated with the withdrawals are included in the project cost estimate.
2. The plant will incorporate conventional water treatment units consisting of coagulation, flocculation with accelerated sedimentation and filtration. Disinfection will be accomplished by chlorination. Fluoride will be added in accordance with State law. New processes for improved coagulation (eg. polymers), accelerated sedimentation (eg. Actiflo) and filtration will used.
3. **Storage.** The plant clearwell storage will also act as the first head tank into the distribution system. The new plant will feed into a new distribution system being constructed from other funds. The distribution system is being designed to meet the storage requirements of the state regulations. The tanks will be located at local high points selected to coordinate with the pumping to isolate the system into pressure zones for steadier service, reliability and to allow for multiple lifts to traverse the large elevation differences found in this region.

B. Cost Estimate.

The project costs include construction, engineering, land and rights, legal, contingencies and an initial operation and maintenance fund to start the plant prior to being revenue producing. The project cost is currently estimated at \$10,919,860 and the \$10,919,860 funding includes an RD loan of \$100,000 with the balance in grants from RD and other agencies.





May 22, 2003

Ms. Alice Ritchie, Chairperson
Knott County Water and Sewer District
P.O. Box 884
Hindman, Kentucky 41822

Dear Ms. Ritchie:

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 \$100,000, a RUS grant not to exceed \$2,500,000, an Appalachian Regional Commission (ARC) grant of \$500,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$2,000,000, an Economic Development Administration (EDA) grant of \$1,000,000, and a Coal Development Fund grant in the amount of \$869,000.

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:

1. Number of Users and Their Contribution:

There shall be 123 existing sewer users and 588 existing water users. The Rural Development Manager will review and authenticate the number of users 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 Rural Development Manager 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 \$50.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$6,000. The deposits are to be resumed any time the account falls below the \$6,000.

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 combined pledge of gross water and sewer revenues will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds, if possible. If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the Water District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue.

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 statistical and financial reports, quarterly and annually, in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed. The enclosed audit booklet will be used as a guide for preparation of audits. The Water District will be required to establish and maintain separate accounts for each system. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts. The Water District shall be required to submit a copy of its audit agreement for review and approval prior to pre-closing the loan. Rural Development approval of the accounting system is required.

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 \$16,000.
- 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 Rural Development Manager is prepared to furnish the necessary guide for him 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. Treatment Plant/System Operator:

The Water District is reminded that the treatment plant and/or 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	\$ 5,434,400
Land and Rights	200,000
Legal and Administrative	25,000
Engineering	566,200
Interest	10,000
Initial O&M	100,000
Contingencies	<u>633,400</u>
TOTAL	\$ 6,969,000

Financing:

RUS Loan	\$ 100,000
RUS Grant	2,500,000
ARC Grant	500,000
HUD-CDBG	2,000,000
EDA Grant	1,000,000
Coal Development Fund Grant	<u>869,000</u>
TOTAL	\$ 6,969,000

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:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC/CDBG/EDA/Coal Development Fund 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 sewer systems and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

A. Water rates will be at least:

1. 3/4" Meter

First	2,000	gallons @ \$	18.25 - Minimum Bill.
Next	8,000	gallons @ \$	5.63 - per 1,000 gallons.
All Over	10,000	gallons @ \$	4.55 - per 1,000 gallons.

2. 2" Meter

First	15,000	gallons @ \$	86.00 - Minimum Bill.
All Over	15,000	gallons @ \$	4.55 - per 1,000 gallons.

B. Sewer rates will be at least:

1. 3/4" Meter

First	2,000	gallons @ \$	13.80 - Minimum Bill.
Next	8,000	gallons @ \$	4.38 - per 1,000 gallons.
All Over	10,000	gallons @ \$	3.42 - per 1,000 gallons.

2. 2" Meter

First	15,000	gallons @ \$	65.77 - Minimum Bill.
All Over	15,000	gallons @ \$	3.42 - per 1,000 gallons.

3. Sewer Only Customers:

Residential Flat Rate	\$	26.25
-----------------------	----	-------

26. Commitment of ARC, HUD, EDA and Coal Development Fund Grants:

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, for the HUD grant in the amount of \$2,000,00, for the EDA grant in the amount of \$1,000,000, and for the Coal Development Fund grant in the amount of \$869,000.

27. 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.

28. Water Withdrawal Permit:

The Water District will be required to obtain satisfactory evidence that a revised water withdrawal permit has been secured from the Division of Water. The permit must be obtained prior to the commencement of construction on the water project.

29. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Kentucky Department for Local Government letter dated March 12, 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 February 19, 2003, 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 loan 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 Rural Development Manager will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,


KENNETH SLONE
State Director

Enclosures

cc: Rural Development Manager - Morehead, Kentucky
Community Development Manager - Prestonsburg, Kentucky
Kentucky River ADD - Hazard, Kentucky
Randy G. Slone - Hindman, Kentucky
Rubin and Hays - Louisville, Kentucky
MSE - Lexington, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

June 29, 2006

Ms. Alice Ritchie, Chairperson
Knott County Water and Sewer District
P.O. Box 884
Hindman, Kentucky 41822

Re: Letter of Conditions Dated May 22, 2003

Dear Ms. Ritchie:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated May 22, 2003. The purpose of this amendment is to provide additional conditions and information resulting from consideration of an additional RUS grant in the amount of \$919,860

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 \$100,000; a RUS grant not to exceed \$3,419,860; an Appalachian Regional Commission (ARC) grant of \$500,000; a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$2,000,000; and an Environmental Protection Agency (EPA) grant in the amount of \$1,900,000. ”

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.

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7444 • 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,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

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. ”

Paragraph numbered "22" is revised to read as follows:

“ 22. Cost of Facility:

Breakdown of Costs:

Development	\$ 5,434,400
Land and Rights	1,116,839
Legal and Administrative	25,000
Engineering	566,200
Interest	10,000
Initial O&M	100,000
Contingencies	<u>667,421</u>
TOTAL	\$ 7,919,860

Financing:

RUS Loan	\$ 100,000
RUS Grant	3,419,860
ARC Grant	500,000
HUD-CDBG Grant	2,000,000
EPA Grant	<u>1,900,000</u>
TOTAL	\$ 7,919,860 ”

Paragraph numbered "26" is revised to read as follows:

" 26. 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, for the HUD-CDBG grant in the amount of \$2,000,000, and for the EPA grant in the amount of \$1,900,000. "

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

" 31. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the 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). "

Paragraph numbered "32" is added to read as follows:

" 32. Water Rights:

The District will purchase water rights from the U. S. Army Corp of Engineers. The District will obtain satisfactory and legal evidence that these water rights have been obtained, and will provide evidence of the water withdrawal permit/water rights prior to commencement of construction on the Water Treatment Plant. "

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

Sincerely,


KENNETH SLONE
State Director

- cc: Area Director - London, Kentucky
- Rural Development Manager - Hazard, Kentucky
- Kentucky River ADD - Hazard, Kentucky
- ~~Randy G. Stone~~ - Hindman, Kentucky
- ✓ Rubin and Hays - Louisville, Kentucky
- MSE, Inc. - Lexington, Kentucky
- PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

January 23, 2007

Ms. Alice Ritchie, Chairperson
Knott County Water and Sewer District
P.O. Box 884
Hindman, Kentucky 41822

Re: Letter of Conditions Dated May 22, 2003 and Amendment No. 1 dated June 20, 2006

Dear Ms. Ritchie:

This letter shall serve as Amendment No. 2 to the Letter of Conditions dated May 22, 2003. The purpose of this amendment is to revise the total cost of the project and the project funding.

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

“ This letter is not to be considered as loan and 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 \$100,000; a RUS grant not to exceed \$3,419,860; an Appalachian Regional Commission (ARC) grant of \$500,000; a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$2,000,000; an Environmental Protection Agency (EPA) grant of \$1,900,000; and a Kentucky Infrastructure Authority (KIA) grant of \$3,000,000. ”

Paragraph numbered "22" is revised to read as follows:

“ 22. Cost of Facility:

Breakdown of Costs:

Development	\$ 8,639,000
Land and Rights	517,000
Legal and Administrative	88,000
Engineering	1,050,300
Interest	60,000
Initial O&M	100,000
Contingencies	<u>465,560</u>
TOTAL	\$ 10,919,860

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7444 • 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,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

Financing:

RUS Loan	\$ 100,000
RUS Grant	3,419,860
ARC Grant	500,000
HUD-CDBG Grant	2,000,000
EPA Grant	1,900,000
KIA Grant	<u>3,000,000</u>
TOTAL \$	10,919,860 "

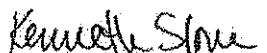
Paragraph numbered "26" is revised to read as follows:

" 26. 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 Appalachian Regional Commission (ARC) grant of \$500,000; the Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$2,000,000; the Environmental Protection Agency (EPA) grant of \$1,900,000; and the Kentucky Infrastructure Authority (KIA) grant of \$3,000,000. "

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

Sincerely,


KENNETH SLONE
State Director

cc: Area Director - London, Kentucky
Rural Development Manager - Hazard, Kentucky
Kentucky River ADD - Hazard, Kentucky
Rubin and Hays - Louisville, Kentucky
Ron Combs - Hazard, Kentucky
MSE, Inc. - Lexington, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



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

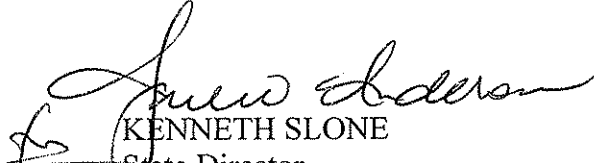
January 23, 2007

SUBJECT: Knott County Water and Sewer District
Carr Creek Water Treatment Plant
Contract Award Concurrence

TO: Area Director
London, 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, Reynolds, Inc., in the amount of \$8,639,000.00.

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


KENNETH SLONE
State Director
Rural Development

cc: MSE
Lexington, Kentucky

~~Rubin and Hayes~~
Louisville, Kentucky

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).

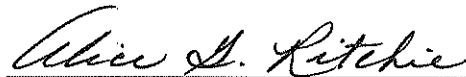
**CERTIFICATE OF CHAIRPERSON OF THE
KNOTT COUNTY WATER AND SEWER DISTRICT AS TO STATEMENT
REQUIRED BY SECTION 1(5)(a) OF 807 KAR 5:069**

I, Alice Ritchie, hereby certify that I am the duly qualified and acting Chairperson of the Knott County Water and Sewer District, and that said District is in the process of arranging to finance the construction of extensions, additions and improvements to the water and sewer system of the District (the "Project"), in cooperation with Ron Johnson, Engineer and MSE of Kentucky, Lexington, 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 existing rates of the District 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 March 13, 2007, and will end on or about September 13, 2008.

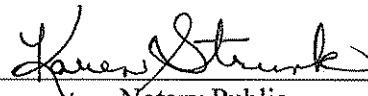
IN TESTIMONY WHEREOF, witness my signature this January 26, 2007.



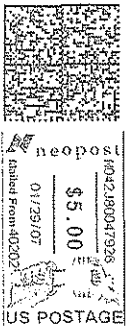
Chairperson
Knott County Water and Sewer District

STATE OF KENTUCKY)
) SS
COUNTY OF LAUREL)

Subscribed and sworn to before me by Alice Ritchie, Chairperson of the Board of Commissioners of the Knott County Water and Sewer District, on this January 26, 2007.



Notary Public
In and For Said State and County



ATTORNEYS AT LAW
Rubin & Hays

Kentucky Home Trust Bldg., 450 South Third St., Louisville, KY 40202

To

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



RECEIVED
JAN 3 0 2007
PUBLIC SERVICE
COMMISSION