

# Rubin & Hays

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CHARLES S. MUSSON  
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NOV 14 2016

November 9, 2016

Public Service  
Commission

Ms. Talina R. Mathews  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, Kentucky 40602

Re: **Mountain Water District Case No. 2016-00356**

Dear Ms. Mathews:

Enclosed please find the original and ten (10) copies of the KIA Conditional Commitment Letter in regards to the additional loan to Mountain Water District in the principal amount of \$370,000.

Please let us know if any additional information is required.

Sincerely,

Rubin & Hays

By   
W. Randall Jones

WRJ:jl  
Enclosures  
cc: Distribution List

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Public Service  
Commission



KENTUCKY INFRASTRUCTURE AUTHORITY

**Matthew G. Bevin** 1024 Capital Center Drive, Suite 340 Capital Center Complex

Governor

Frankfort, Kentucky 40601

(502) 573-0260

(502) 573-0157 (fax)

[kia.ky.gov](http://kia.ky.gov)

November 3, 2016

Mountain Water District  
Roy B. Sawyers, District Administrator  
P.O. Box 3157  
Pikeville, KY 41502

KENTUCKY INFRASTRUCTURE AUTHORITY  
FEDERALLY ASSISTED WASTEWATER REVOLVING LOAN FUND  
CONDITIONAL COMMITMENT LETTER (A15-077, Increase)

Dear Mr. Sawyers:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. Your request to the Authority for a \$370,000 increase to your existing loan was approved on October 27, 2016, for the Douglas Wastewater Treatment Plant Project, subject to the conditions stated below. The total cost of the project shall not exceed \$4,070,000 of which the Authority loan shall provide \$3,472,921 of the funding. Other anticipated funding for the project is reflected in Attachment A. The final loan amount will be equal to the Authority's portion of estimated project cost applied to the actual project cost. Attachment A incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and the Mountain Water District upon satisfactory performance of the conditions set forth in this letter. You must meet the conditions set forth in this letter and enter into an Assistance Agreement by February 3, 2017 (three months from the date of this letter). Funds will be available for disbursement only after execution of the Assistance Agreement.

The Assistance Agreement and this commitment shall be subject, but not limited to, the following terms:

1. The Authority project loan shall not exceed \$3,472,921.
2. This loan does not qualify for principal forgiveness.
3. The loan shall bear interest at the rate of 0.75 percent per annum commencing with the first draw of funds.
4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1, or December 1, immediately succeeding the date of the initial draw of funds, provided that if such June 1, or December 1, shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1, or December 1, which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
5. Full principal payments will commence on the appropriate June 1, or December 1, within twelve months from initiation of operation. Full payments will be due each six months thereafter until the loan is repaid.
6. The loan shall be repaid over a period not to exceed 20 years from the date of initiation of operation for the project.
7. A loan servicing fee of 0.20% of the outstanding loan balance shall be payable to the Authority as a part of each interest payment.
8. Loan funds will only be disbursed after execution of the Assistance Agreement as project costs are incurred.
9. The Authority loan funds must be expended within six months of the official date of initiation of operation.
10. Fund "A" loan funds may be considered to be federal funds. OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations", requires that all recipients and subrecipients **expending \$750,000 or more in a year in federal awards must have a single or program-specific audit conducted for that year** in accordance with the Circular. If the federal amount expended plus all other federal funds expended exceeds the threshold, you are required to arrange for an A-133 audit to be performed by an independent, licensed CPA, or in special cases, the Auditor of Public

Accounts of the Commonwealth of Kentucky. Please note that the guidance for single audit requirements has changed for fiscal or calendar year 2016 audits. Please consult with your independent auditor as soon as possible to understand how the changes will affect you.

11. The Authority requires that an annual financial audit be provided for the life of the loan.
12. The final Assistance Agreement must be approved by ordinance or resolution, as applicable, of the city council or appropriate governing board.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Authority to Award (bid) package must be submitted to the Division of Water for approval within 14 days of bid opening.
2. The Assistance Agreement must be executed within six (6) months from bid opening.
3. Documentation of final funding commitments from all parties other than the Authority as reflected in the credit analysis shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding shall be immediately reported and may cause this loan to be subject to further consideration.
4. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the State's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. Any special conditions listed in Attachment A must be satisfied before the project is presented before the Committee.
5. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
6. The Borrower must complete and return the attached "Authorization for Electronic Deposit of Vendor Payment" form to the Authority.

7. Documentation of Clearinghouse Endorsement and Clearinghouse Comments.
8. Prior to the project bid, an environmental review shall be conducted by the Division of Water for all construction projects receiving CWSRF funds.
9. Technical plans and specifications and a complete CWSRF specifications checklist shall be approved by the Division of Water prior to project bid.
10. All easements or purchases of land shall be completed prior to commencement of construction. Clear Site Certification of all land or easement acquisitions shall be provided to the Division of Water. DOW representatives shall be notified for attendance of the pre-construction conference.
11. Project changes or additions deviating from the original scope of work described in the Project Profile may require a new or amended environmental review and change order review before they can be included in the CWSRF loan project.
12. Applicant must provide certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state or federal wage rate laws, and that the procurement procedures, including those for construction, land, equipment and professional services that are a part of the project, are in compliance with applicable federal, state and local procurement laws.
13. Implement the Kentucky Uniform System of Accounting (KUSoA), or an alternative approved by the Authority and assure that rates and charges for services are based upon the cost of providing such service.
14. The Borrower shall comply with all Davis Bacon related monitoring and reporting and require all contractors to pay wages pursuant to applicable prevailing wage rates (federal or state) for all work relating to the subject Project.
15. The project shall comply with the reporting requirements of the Transparency Act, and shall complete the attached Transparency Act Reporting Information Form and provide to the Authority no later than 30 days after the KIA Board approval date of your loan.
16. If the project has a "Green Reserve" component, the Borrower must submit a Business Case, if required.

Mr. Roy Sawyers  
November 7, 2016  
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17. Based on the final "as-bid" project budget, the Borrower must provide satisfactory proof, based on then existing conditions, that the revenue projections in the attached descriptions are still obtainable and that the projections of operating expenses have not materially changed. The "as bid" project budget shall be reviewed and approved by the consulting engineer.
18. The project shall comply with American Iron and Steel requirements of The Consolidated Appropriations Act of 2014 (H.R. 3547), which became effective January 17, 2014, unless engineering plans and specifications were approved by the Division of Water prior to the effective date.

Any special conditions stated in Attachment A must be resolved.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,



Amanda Yeary  
Kentucky Infrastructure Authority

Attachments

cc: Mike Spears, Michael R. Spears, CPA  
Summit Engineering, Inc., Jody G. Hunt  
State and Local Debt Office, DLG

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms. Also attach the completed "Authorization for Electronic Deposit of Vendor Payment" Form.

  
Accepted

11/08/16  
Date



Mr. Roy Sawyers November  
7, 2016  
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**ATTACHMENT A**  
**Mountain Water District**  
**A15-077 (Increase)**

Reviewer: Jami Johnson  
Date: October 27, 2016  
Loan Number: A15-077 (Increase)

**KENTUCKY INFRASTRUCTURE AUTHORITY  
WASTEWATER REVOLVING LOAN FUND (FUND "A")  
MOUNTAIN WATER DISTRICT, PIKE COUNTY  
PROJECT REVIEW  
SX21195699**

**I. PROJECT DESCRIPTION**

The Mountain Water District (District) is requesting an increase to a Fund A loan in the amount of \$370,000 to make the total loan requested \$3,472,921 for the Douglas Wastewater Treatment Plant Project. The District initially opened bids June 2016 which resulted in a rejection of all bids due to them coming in excessively higher than estimated. The excessive increase is believed to be attributed to the new membrane technology being the first installed in the Commonwealth.

The District re-bid the project in August 2016 with modifications to the grading and odor control roof which resulted in lower bids. The District decided to add three alternates including Penny Road Lift Station Renovation, Lick Branch Lift Station Renovation and a 400 KW Diesel Stationary Standby Generator. The original loan amount of \$3,102,921 and project scope, which was approved by the KIA board on April 2, 2015, is as follows:

The project will construct a new wastewater treatment plant to replace its existing plant using membrane technology. The plant will increase capacity from 200,000 gallons per day (GPD) to 300,000 GPD and add headwork designed to expand capacity to 400,000 GPD. The plant is currently at maximum capacity and the expansion will allow more customers to be added to the service.

Another component to this project is rehabilitation to the lift stations to efficiently serve customers and increase reliability of the sewer collection system. The District will install high efficiency pumps and motors in conjunction with advanced electrical controllers for best optimization of the station. Odor and corrosion control systems will be installed at the lift stations upstream of the new treatment plant that will assist in minimizing hydrogen sulfide issues to the more developed area.

The District serves the area of Pike County and has approximately 17,200 water and 2,400 sewer customers. Elkhorn City purchases approximately six million gallons of water annually from the District.



## **II. PROJECT BUDGET**

	Total
Administrative Expenses	\$ 50,000
Legal Expenses	2,000
Planning	5,000
Engineering Fees - Design / Const	127,537
Engineering Fees - Inspection	106,389
Engineering Fees - Other	81,500
Construction	2,420,000
Equipment	1,066,830
Contingency	210,743
<b>Total</b>	<b>\$ 4,070,000</b>

## **III. PROJECT FUNDING**

	Amount	%
Fund A Loan	\$ 3,472,921	85%
HB 608	486,079	12%
HB 269	111,000	3%
<b>Total</b>	<b>\$ 4,070,000</b>	<b>100%</b>

## **IV. KIA DEBT SERVICE**

Construction Loan	\$ 3,472,921
Interest Rate	0.75%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 187,320
Administrative Fee (0.20%)	6,946
<b>Total Estimated Annual Debt Service</b>	<b>\$ 194,266</b>

**V. PROJECT SCHEDULE**

Bid Opening	July 2016
Construction Start	December 2016
Construction Stop	December 2018

**VI. CUSTOMER COMPOSITION AND RATE STRUCTURE**

**A) Customers**

<u>Customers</u>	<u>Current</u>
Residential	2,163
Commercial	182
Total	<hr/> 2,345

**B) Rates**

	Sewer Rates			
	Future	Current	Prior	Prior
Date of Last Rate Increase	10/10/17	10/10/16	10/09/15	01/12/13
Minimum (up to 2,000 gallons)	37.73	29.82	\$21.91	\$14.00
Next 2,000 Gallons	16.17	12.78	9.39	6.00
Cost for 4,000 gallons	\$70.07	\$55.38	\$40.69	\$26.00
Increase %	26.5%	36.1%	56.5%	
Affordability Index (Rate/MHI)	2.7%	2.1%	1.6%	1.1%

	Water Rates			
	Future	Current	Prior	Prior
Date of Last Rate Increase	10/10/17	10/10/16	10/09/15	01/12/13

Minimum (up to 2,000 gallons)	23.35	24.66	\$25.98	\$20.02
Next 8,000 Gallons	8.18	8.64	9.10	7.01
	7.66	8.07	6.22	
	<hr/>			
Cost for 4,000 gallons	\$39.71	\$41.94	\$44.18	\$34.04
Increase %	(5.6%)	(5.3%)	29.8%	
Affordability Index (Rate/MHI)	1.5%	1.6%	1.7%	1.5%

## **VII. DEMOGRAPHICS**

Based on current Census data from the American Community Survey 5-Year Estimate 2010-2014, the Utility's service area population was 3,652 with a Median Household Income (MHI) of \$27,491. The median household income for the Commonwealth is \$43,342. The project will qualify for a 0.75% interest rate.

Year	Population				Unemployment	
	City	% Change	County	% Change	Date	Rate
1980	4,756		81,123		June 2004	7.5%
1990	6,324	33.0%	72,583	-10.5%	June 2009	10.7%
2000	6,295	-0.5%	68,736	-5.3%	June 2015	11.1%
2010	6,903	9.7%	65,024	-5.4%	June 2016	11.6%
Current	7,313	5.9%	64,380	-1.0%		
Cumulative %		53.8%		-20.6%		

## **VIII. 2014 CAPITALIZATION GRANT EQUIVALENCIES**

- 1) Green Project Reserve - This project does not qualify for Green Project Reserve (GPR) funding.
- 2) Additional Subsidization – This project does not qualify for additional subsidization.

## **IX. FINANCIAL ANALYSIS**

Financial information was obtained from the audited financial statements for the combined water and sewer operations for years ended December 31, 2013 through December 31, 2015. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

### **HISTORY**

Revenues decreased approximately 3% while expenses increased approximately 8% for the years 2013 through 2015. Cash flow before debt service declined approximately 46% from 2013 to 2015 as a result of decrease in revenues of approximately \$230,000 and an increase in expenses of approximately \$850,000. Debt coverage was 1.2, 0.8, and 0.6 in 2013, 2014, and 2015, respectively. Debt service averaged of \$1.2 million for same time period.

The balance sheet reflects a current ratio of 0.7 and a debt to equity ratio of 0.3. The number of months of operating expenses in unrestricted cash is 0.6. The District maintains multiple restricted funds including Construction, Depreciation, Maintenance and Replacement and Customer Deposits. At December 30, 2015, the repair and maintenance funds required by KIA were underfunded by \$12,503. The depreciation reserve requirement for USDA- Rural Development loan requirements were underfunded by \$11,355. The District plans to transfer \$11,000 to KIA reserves and \$9,000 to RD Reserves until the deficit is made up.

In July 2016 Mountain Water District terminated their management contract with UMG. They have retained all but one employee that worked on their system from UMG and believe terminating the contract will save Mountain Water District money over time. Mountain Water District currently owes UMG approximately \$1.46M for their services which is anticipated to be paid off in 2 years. By cancelling the contract with UMG, the District anticipates a \$425,000 decrease in operating expenses once the contract is paid in full.

### **PROJECTIONS**

Projections are based on the following assumptions:

- 1) Sewer revenues will increase the following amounts for a previously approved rate increases:
  - 32% in 2016 • 23% in 2017
  - 19% in 2018
- 2) Sewer revenues will need an additional 8% in 2019 and 7% in 2020 to meet the 1.1 debt coverage ratio for their debt requirements.
- 3) Water revenues will increase the following amounts for a previously approved rate increases:
  - 19% in 2016
  - (5%) in 2017
  - (5%) in 2018
- 4) Expenses will increase 2% annually.
- 5) Operating expense of approximately \$425,000 annual savings beginning in 2016 from elimination of UMG management contract.
- 6) Debt service coverage is 1.7 in 2018 when principal and interest repayments begin.

Based on the proforma assumptions, the utility shows adequate cash flow to repay the KIA Fund A loan.

#### REPLACEMENT RESERVE

The annual replacement cost is \$8,700. This amount should be added to the replacement account each December 1 until the balance reaches \$87,000 and maintained for the life of the loan.

### X. DEBT OBLIGATIONS

	Outstanding Maturity	
USDA Rural Development Bond 2005	657,000	2045
USDA Rural Development Bond 2003	371,000	2043
USDA Rural Development Bond 2002	658,000	2035
USDA Rural Development Bond 2005	1,489,000	2027
USDA Rural Development Bond 2009	613,000	2047
Rural Water Note Payable	5,400,000	2039
KIA (B291-07)	1,837,105	2023
KIA (B291-01)	121,202	2023
KIA (F01-07)	561,508	2024

KIA (A03-06)	87,684	2023
KIA (A209-32)	290,830	2031
KIA (A15-077 i/a/o \$3.5M)	-	TBD
KIA (A16-079 i/a/o \$300,000)	-	TBD
KIA (A16-073 i/a/o \$1.05M)	-	TBD
US Bank	149,956	2017
US Bank	27,428	2017
Community Trust Bank Lease	9,873	2015
Community Trust Bank Lease	25,163	2020
Community Trust Bank Lease	13,276	2018
Community Trust Bank Lease	8,269	2014
Community Trust Bank Lease	13,276	2018
Community Trust Bank Lease	13,276	2018
Community Trust Bank Lease	4,998	2014
Community Trust Bank Lease	7,475	2014
<b>Total</b>	<b><u>12,359,319</u></b>	

#### **XI. OTHER STATE OR FEDERAL FUNDING IN PAST FIVE YEARS**

Description	Funding Source	Amount
<b>2nd Magisterial District – Various Projects</b>		
#B642	HB 265	500,000
Belfry - Pond Area Sewer - #565	HB 410	850,000
Belfry Sewer Project #B643	HB 265	308,846
Jonican Water Project #B644	HB 265	808,846
LMI Service Connections - #566	HB 410	205,400

Majestic – Knox Creek Sewer #B641	HB 410	640,000
Majestic Alternative Sewer Project - #365	HB 410	100,000
Phelps Wastewater - Upgrades #B639	HB 265	1,500,000
Tank and Pump Station Rehab - #366	HB 265	375,000
Various Short Line Extensions - #569	HB 265	100,000

## **XII. CONTACTS**

<b>Legal Applicant</b>	
Name	Mountain Water District
Address	P.O. Box 3157 Pikeville, KY 41502
County	Pike
Authorized Official	Roy B. Sawyers (District Administrator)
Phone	606-631-9162 ext 309
Email	rsawyers@mtwater.org
<b>Project Administrator</b>	
Name	Michael R. Spears, CPA
Address	P.O. Box 1270 Prestonsburg, KY 41563
Contact	Mike Spears
Phone	(606) 886-8040
Email	mikespears@setel.com

<b>Consulting Engineer</b>	
Name	Jody G. Hunt
Firm	Summit Engineering, Inc.
Address	131 Summit Drive Suite 303 Pikeville, KY 41501
Phone	(606) 432-1447 Ext 327



Email

[jhunt@summit-engr.com](mailto:jhunt@summit-engr.com)

### **XIII. RECOMMENDATIONS**

KIA staff recommends approval of the loan with the standard conditions.

**MOUNTAIN WATER DISTRICT  
FINANCIAL SUMMARY (DECEMBER YEAR END)**

	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Projected</b>
	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
<b>Balance Sheet</b>				
<b>Assets</b>				
Current Assets	1,175,101	1,301,423	1,885,267	2,279,675
Other Assets	93,787,274	92,553,708	91,952,043	89,498,500

Total	94,962,375	93,855,131	93,837,310	91,778,175
<b>Liabilities &amp; Equity</b>				
Current Liabilities				
Long Term Liabilities	1,985,959	2,463,469	2,688,106	2,701,120
Total Liabilities	18,233,268	15,831,164	17,072,808	16,000,105
Net Assets	20,219,227	18,294,633	19,760,914	18,701,225
<b>Cash Flow</b>				
Revenues				
Operating Expenses				
Other Income	9,250,154	8,998,808	9,020,794	10,753,754
Cash Flow Before Debt Service	7,654,359	7,968,712	8,291,410	9,032,238
	2,886	3,031	2,774	2,774
Debt Service	1,598,681	1,033,127	732,158	1,724,290
Existing Debt Service				
Proposed KIA Loan				
Total Debt Service				
Cash Flow After Debt Service	1,349,286	1,332,110	1,165,997	1,140,984
	0	0	0	0
<b>Ratios</b>	1,349,286	1,332,110	1,165,997	1,140,984
	249,395	(298,983)	(433,839)	583,306
Current Ratio	0.6	0.5	0.7	0.8
Debt to Equity	0.3	0.2	0.3	0.3
Days Sales in Accounts Receivable	38.3	45.3	70.8	70.8
Months Operating Expenses in Unrestricted Cash	0.3	0.2	0.2	0.3
Debt Coverage Ratio	1.2	0.8	0.6	1.5