

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF THE APPLICATION)
OF THE WESTERN MASON COUNTY WATER)
DISTRICT, A WATER DISTRICT ORGANIZED)
PURSUANT TO CHAPTER 74 OF THE KENTUCKY)
REVISED STATUTES, IN MASON COUNTY,)
KENTUCKY, FOR (1) A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY, AUTHORIZING AND)
PERMITTING SAID WESTERN MASON)
COUNTY WATER DISTRICT)
TO CONSTRUCT WATER DISTRIBUTION)
SYSTEM IMPROVEMENTS, CONSISTING OF)
THE CONSTRUCTION OF EXTENSIONS,)
ADDITIONS AND IMPROVEMENTS TO THE)
DISTRICT'S WATER SYSTEM (2) THE)
APPROVAL OF THE PROPOSED PLAN OF)
FINANCING SAID IMPROVEMENTS AND (3) AN)
INCREASE IN THE RATES AND CHARGES FOR)
WATER SERVICE PROVIDED BY WESTERN MASON)
COUNTY WATER DISTRICT.)

CASE NO. 2007 - 00318

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**PUBLIC SERVICE
COMMISSION**

Index to Application

1. Petition of Western Mason County Water District ("District") for Certificate of Public Convenience and Necessity.
2. Affidavit of Publication - *Maysville Ledger Independent* - Legal Notice Regarding the District's Intention to File with the Public Service Commission.
3. Letter of Conditions to District from United States of America, acting through the U.S. Department of Agriculture ("USDARD") dated April 11, 2006 as Amended by Letter dated June 21, 2007.
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7. Preliminary Engineering Report of HMB Professional Engineers, Inc., Frankfort, Kentucky.
8. Final Engineering Report of HMB Professional Engineers, Inc., Frankfort, Kentucky.

**Prepared by Henry M. Reed III, Reed & Johnson, Bond Counsel to District
2218 Frankfort Avenue, Louisville, Kentucky 40206
Phone: 502-899-3880, Fax: 502-899-3882
e-mail: hankreed@bellsouth.net**

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CASE NO. 2007-00318

PETITION

Pursuant to KRS 278.023, this Petition of the Western Mason County Water District ("District"), respectfully states:

1. That Petitioner is a Water District in Mason County, created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes, pursuant to an Order of the County Court of said County, following the requisite procedure prescribed in said Chapter 74.
2. That the Post Office address of said District is "Western Mason County Water District, Larry Redden, Chairman, PO Box 49, Dover, Kentucky 41304-0049".
3. That the formation of the District, its present tariff of rates, and the issuance of its outstanding long term indebtedness have been previously approved by Orders of the Public Service Commission of Kentucky ("PSC").
4. That the District seeks a Certificate of Public Convenience and Necessity approving the proposed Construction Project consisting of (a) approximately seven miles of waterlines; (b) one 105,000-gallon water storage tank and one 148,000-gallon water storage tank; (c) two pump stations; and (d) renovation of the existing water treatment plant ("Construction Project").
5. That subject to the approval of the Commission, the District proposes to finance the Construction Project identified above pursuant to the terms of a certain Letter of Conditions dated April 11, 2006 as Amended by Letter dated June 21, 2007, from the United States Department of Agriculture, Rural Development ("USDARD") to the District, whereunder USDARD proposes to lend to the District through the issuance of the District's Water Revenue Bonds, Series of 2007, the sum of approximately \$1,401,000 supplemented by (a) a USDARD Grant in the amount of approximately \$500,000; (b) a KIA Tobacco Settlement Grant in the amount of approximately \$520,000; and (c) new user tap on charges in the amount of approximately \$4,000.

6. That under the USDARD Letter of Conditions as Amended the District is required to increase its rates and charges for water service in accordance with the District's Amending Rate Ordinance attached to this Petition as Exhibit A.

7. That the Petitioner has observed the appropriate legal procedure in employing HMB, Inc., Frankfort, Kentucky to prepare the plans and specifications for the construction of the proposed Construction Project. The plans and specifications as to said Construction Project have been approved by the appropriate governmental agencies.

8. That the approval of the Public Service Commission is urgently required in order to enable the District to proceed to accept construction bids for the Construction Project and proceed with the construction in order to provide for the needs of the District.

9. That there are attached to this Petition those Exhibits indicated in the Exhibit Addendum to this Petition which the Petitioner believes the Commission will find necessary in ruling on the requests set forth in this Petition pursuant to KRS 278.023.

WHEREFORE, Petitioner prays that the Public Service Commission of Kentucky grant to the Petitioner the following:

A. A Certificate of Public Convenience and Necessity, permitting the Petitioner District to proceed with the Construction Project as described in the Engineers Report filed herewith as an Exhibit in order to provide required water service to said District.

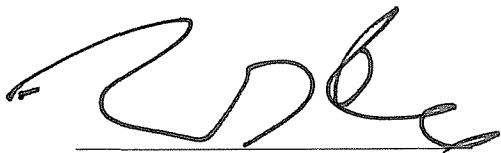
B. An Order approving the financing arrangements made by the District in the issuance of \$1,401,000 of its Water Revenue Bonds, at an interest rate not exceeding 4 3/8% per annum, to be supplemented by (a) a USDARD Grant in the amount of approximately \$500,000, (b) a KIA Tobacco Settlement Grant in the amount of approximately \$520,000, and (c) new user tap on charges in the amount of approximately \$4,000.

C. The approval of the increased tariff of rates and charges for water service provided by the District as shown on the attached Amending Rate Ordinance.

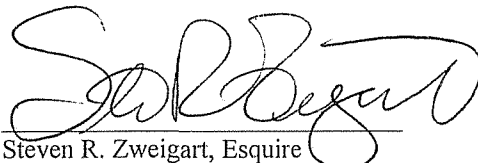
Dated at Dover, Kentucky as of this 16th day of July, 2007.

WESTERN MASON COUNTY WATER DISTRICT

By 
Chairman



Henry M. Reed III, Bond Counsel
2218 Frankfort Avenue
Louisville, Kentucky 40206




Steven R. Zweigart, Esquire
Royse Zweigart Kirk & Brammer
Attorney for the District
215 Court Street
Maysville, Kentucky 41056

STATE OF KENTUCKY)
) SS
COUNTY OF MASON)


The undersigned, Larry Redden, being first duly sworn, deposes and states: That he is the Chairman of Western Mason County Water District of Mason County, Kentucky, Petitioner in the above Petition; that he has read the foregoing Petition and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to those matters, he believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 16th day of July, 2007.


Larry Redden

Acknowledged before me by Larry Redden, Chairman of the Western Mason County Water District, on this 16 day of July, 2007.

My Commission expires My Commission Expires July 28, 2008


Notary Public,
Kentucky

(Seal of Notary)

**LEGAL NOTICE REGARDING
THE WESTERN MASON COUNTY WATER DISTRICT**

On or about July 16, 2007, the Western Mason County Water District ("District") will file a Petition with the Public Service Commission of Kentucky ("PSC") seeking approval for:

1. The issuance of a Certificate of Public Convenience and Necessity for the construction by the District of improvements to the District's water distribution system (the "Construction Project");
2. The plan of financing the Construction Project in accordance with the terms of a certain Letter of Conditions dated April 11, 2006, as Amended by Letter dated June 21, 2007, from the United States Department of Agriculture, Rural Development ("USDARD") to the District, whereunder USDARD proposes to lend to the District through the issuance of the Districts Water Revenue Bonds, Series of 2007, the sum of approximately \$1,401,000 and supplemented by (a) a USDARD Grant in the amount of approximately \$500,000 (b) a KIA Tobacco Settlement Grant of \$520,000, and (c) new user tap on charges in the amount of \$4,000; and
3. An increase in the water rates charged by the District for its water service.

The Construction Project consists of the installation of approximately seven miles of waterlines, one 105,000- and one 148,000-gallon water storage tank, and two pump stations and to renovate and upgrade the existing water treatment plant to serve approximately 1,032 users.

The new water rates and charges sought by the District in the Petition are as follows:

<u>Gallage Block</u>	<u>Existing Rates</u>	<u>New Rates</u>
First 2,000 gallons	\$14.72 Minimum Bill	\$25.00 Minimum Bill
Next 8,000 gallons	3.81 per 1,000 gallons	3.55 per 1,000 gallons
All over 10,000 gallons	2.65 per 1,000 gallons	3.00 per 1,000 gallons
Bulk Sales	2.76 per 1,000 gallons	3.75 per 1,000 gallons

The Petition will be filed pursuant to the provisions of KRS 278.023 and it is anticipated that an Order will be entered by the Public Service Commission approximately 30 days after the actual filing of the Petition.

WESTERN MASON COUNTY WATER DISTRICT

s/ Larry Redden, Chairman

7/11

AFFIDAVIT OF PUBLICATION

I hereby certify that I am the Controller of

THE LEDGER INDEPENDENT

the newspaper published in the County of Mason, Kentucky (hereinafter referred to as the "publication area") which has the largest bona fide circulation in said publication area of any newspaper published therein.

I further certify that there is attached hereto a true copy of

LEGAL NOTICE

which was published in said newspaper in its regular issue for the 11th day of July, 2007.

I further certify that said newspaper maintains its principal office in the publication area for the purpose of gathering news and soliciting advertisements and other general business of newspaper publication and has a second-class mailing permit issued for that office. I further certify that said newspaper is published regularly as frequently as once a week for at least fifty weeks during the calendar year, as prescribed by its mailing permit; and it has been so published in the publication area for the immediately preceding two-year period prior to the date of publication hereinbefore referred to.

I further certify that said newspaper is circulated generally in the publication area, maintains a definite price or consideration not less than fifty per cent of its publication price and is paid for by not less than fifty per cent of those to whom distribution is made. I further certify that said newspaper bears a title or name, consists of not less than four pages without a cover, is of a type to which the general public resorts for passing events of a political, religious, commercial and social nature for current happenings, announcements, miscellaneous reading matter, advertisements and other notices and that the news content of said newspaper is at least twenty-five percent of the total column space in more than one-half of the issues during any 12-month period.

I further certify that all of the foregoing facts were true on the date of the publication hereinbefore referred to.

Dated this 11th day of July, 2007.

Margaret Wallingford

Acknowledged before me this 11th day of July, 2007.

My commission expires May 23, 2008.

Rita Kinder
Notary Public, Magnolia (Mason Co), Kentucky

(Seal of Notary)



United States Department of Agriculture
Rural Development
Kentucky State Office

April 11, 2006

Mr. Larry Redden, Chairman
Western Mason County Water District
2054 Duke Street
Dover, Kentucky 41034

Dear Mr. Redden:

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 \$1,158,000, a RUS grant not to exceed \$500,000, and a Kentucky Infrastructure Authority (KIA) Tobacco Settlement grant in the amount of \$470,000.

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 1,032 water users, of which 1,024 are existing users and 8 are new users contributing \$4,000 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.

2. 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.

3. Drug-Free Work Place:

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

4. 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 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.

5. 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.

6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance and repairs and assist with debt service should the need arise.

The District will be required to deposit \$530 per month into a "Funded Depreciation Reserve Account" until the account reaches \$63,600. The deposits are to be resumed any time the account falls below the \$63,600.

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

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.

The District also needs to fund an account for short-lived assets by depositing a sum of \$1,100 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system.

7. Security Requirements:

A pledge of gross water revenue 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 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.

8. Land Rights and Real Property:

The 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.

9. Organization:

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

10. Business Operations:

The 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 District after review by Rural Development. At no later than loan pre-closing, the 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.

11. Accounts, Records and Audits:

The 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.

The enclosed audit booklet will be used as a guide for preparation of audits. The District shall be required to submit a copy of its audit agreement for review and concurrence by Rural Development prior to pre-closing the loan.

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

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

13. 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 District. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The 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 \$114,000.
- D. Real Property Insurance - The 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 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 District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

14. 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 "24" 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 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.

15. 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.

16. 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 District.

17. Compliance with Special Laws and Regulations:

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

18. Treatment Plant/System Operator:

The District is reminded that the treatment plant and/or system operator must have an Operator's Certificate issued by the State.

19. Prior to Pre-Closing the Loan, the 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."
- G. RUS Bulletin 1780-22, "Eligibility Certification."

20. Refinancing and Graduation Requirements:

The District is reminded that if at any time it shall appear to the Government that the 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 District will apply for and accept such loan in sufficient amount to repay the Government.

21. Commercial Interim Financing:

The 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 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.

22. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the 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 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 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 District.

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

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

23. 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 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.

24. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,617,700
Land and Rights	92,000
Legal and Administrative	40,000
Engineering	212,300
Interest	10,000
Contingencies	<u>160,000</u>
TOTAL	\$ 2,132,000

Financing:

RUS Loan	\$ 1,158,000
RUS Grant	500,000
KIA Tobacco Settlement Grant	470,000
Applicant Connection Fees	<u>4,000</u>
TOTAL	\$ 2,132,000

25. 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 KIA Tobacco Settlement grant in the amount of \$470,000.

26. Use of Remaining Project Funds:

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

27. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, "Operating Budget," or similar form may be utilized for this purpose.

28. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water 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 @ \$	24.00 - Minimum Bill.
Next	8,000	gallons @ \$	3.50 - per 1,000 gallons.
All Over	10,000	gallons @ \$	3.00 - per 1,000 gallons.

Bulk User Rate: \$ 3.75 - per 1,000 gallons.

29. Water Purchase Contract:

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

30. 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).

31. Floodplain Construction:

The District will be required to pass and adopt a Resolution or amend its By-Laws whereby the 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 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.

32. Water Withdrawal Permit:

The 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.

33. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor's Office for Local Development letter dated January 17, 2006, from Mr. Ronald W. Cook, Manager.
- B. 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.

- C. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

34. 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
Buffalo Trace ADD - Maysville, Kentucky
Steve Zweigart - Maysville, Kentucky
✓ Henry M. Reed, III - Louisville, Kentucky
HMB, Inc. - Frankfort, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

June 21, 2007

Mr. Larry Redden, Chairman
Western Mason County Water District
2054 Duke Street
Dover, Kentucky 41034

Re: Letter of Conditions Dated April 11, 2006

Dear Mr. Redden:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated April 11. The purpose of this amendment is to (1) revise the total number of existing users; (2) revise the reserve account requirements; (3) revise the rates and charges; (4) revise the total cost and funding requirements due to a construction bid overrun; and (6) make other editorial changes in accordance with the 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 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 \$1,401,000; a RUS grant not to exceed \$500,000; a Kentucky Infrastructure Authority (KIA) Tobacco Settlement grant of \$520,000; and an applicant cash contribution of \$4,000. ”

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

“ 1. Number of Users:

There shall be 1,032 existing water users. The Area Director will review and authenticate the number of users prior to advertising for construction bids. ”

Paragraph numbered “6” is revised to read as follows:

“ 6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$640 per month into a "Funded Depreciation Reserve Account" until the account reaches \$76,800. The deposits are to be resumed any time the account falls below the \$76,800.

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

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.

The District also needs to fund an account for short-lived assets by depositing a sum of \$1,100 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system. "

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

" 13. Insurance and Bonding:

The following insurance and bonding will be required:

- C. Fidelity Bond - The 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 \$127,000. "

Paragraph numbered "24" is revised to read as follows:

" 24. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,915,600
Land and Rights	92,000
Legal and Administrative	50,000
Engineering	251,200
Interest	20,000
Contingencies	<u>96,200</u>
TOTAL	\$ 2,425,000

Financing:

RUS Loan	\$ 1,401,000
RUS Grant	500,000
KIA Tobacco Settlement Grant	520,000
Applicant Contribution	<u>4,000</u>
TOTAL	\$ 2,425,000

Paragraph numbered "25" is revised to read as follows:

" 25. 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 KIA grant in the amount of \$520,000 and for the applicant cash contribution in the amount of \$4,000. "

Paragraph numbered "28" is revised to read as follows:

" 28. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water 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 @ \$	25.00 - Minimum Bill.
Next	8,000	gallons @ \$	3.55 - per 1,000 gallons.
All Over	10,000	gallons @ \$	3.00 - per 1,000 gallons.
Bulk User Rate		\$	3.75 - per 1,000 gallons. "

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
- Buffalo Trace ADD - Maysville, Kentucky
- Steve Zweigart - Maysville, Kentucky
- ✓ Henry M. Reed, III - Louisville, Kentucky
- HMB, Inc. - Frankfort, Kentucky
- PSC - ATTN: Bob Amato - Frankfort, Kentucky

AN ORDINANCE OF THE BOARD OF COMMISSIONERS OF WESTERN MASON COUNTY WATER DISTRICT AMENDING RATES AND CHARGES FOR WATER SERVICE PROVIDED BY THE DISTRICT.

WHEREAS, Western Mason County Water District (the "District") will apply to the Kentucky Public Service Commission ("PSC") for a Certificate of Public Convenience and Necessity authorizing and permitting said District to construct water distribution system improvements consisting of approximately seven miles of waterlines, one 105,000- and one 148,000-gallon water storage tank, and two pump stations and to renovate and upgrade the existing water treatment plant to serve the 1,024 existing customers and eight new customers (the "Construction Project"), and,

WHEREAS, the District proposes to finance said Construction Project through the issuance of \$1,401,000 of the District's "Water Revenue Bonds, Series of 2007," (the "Bonds") to the United States Department of Agriculture, Rural Development ("USDARD") supplemented by \$4,000 in new user tap on charges, a \$500,000 Grant from USDARD, a \$520,000 KIA Tobacco Settlement Grant, and,

WHEREAS, the District will apply to the Kentucky Public Service Commission for a Certificate of Public Convenience and Necessity and approval of a Schedule of Rates and Charges for water service in accordance with the USDARD Letter of Conditions, dated April 11, 2006 as Amended by Letter dated June 21, 2007, and,

WHEREAS, Contractors' bids for the Construction Project were higher than anticipated by the original Letter of Conditions requiring an increase in the USDARD Loan, KIA Grant and accordingly rates and charges for water service in accordance with the Amended Letter of Conditions;

NOW, THEREFORE, BE IT AND IT IS HEREBY ORDAINED BY THE BOARD OF COMMISSIONERS OF THE WESTERN MASON COUNTY WATER DISTRICT AS FOLLOWS:

1. That the District's Ordinance amending rates and charges for water service passed and adopted on March 19, 2007 is hereby repealed in toto and the provisions of this Ordinance shall govern charges made by the District for water service.

2. That subject to PSC approval commencing with the billing period corresponding to the month following the month in which the approval of the Public Service Commission is obtained, the District's rates and charges for water service shall be as follows:

<u>Gallage Block</u>		<u>Existing Rates</u>	<u>New Rates</u>
First	2,000 gallons	\$14.72 Minimum Bill	\$25.00 Minimum Bill
Next	8,000 gallons	3.81 per 1,000 gallons	3.55 per 1,000 gallons
All over	10,000 gallons	2.65 per 1,000 gallons	3.00 per 1,000 gallons
Bulk Sales		2.76 per 1,000 gallons	3.75 per 1,000 gallons

3. That all other rates and charges not specifically mentioned herein shall remain as presently effective.

4. That all ordinances or parts thereof and resolutions of the District in conflict with the provisions of this Ordinance are hereby repealed to the extent of such conflict.

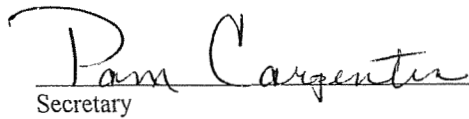
5. That this Ordinance shall become effective upon its adoption and approval of the Public Service Commission.

Passed and adopted this 16th day of July, 2007.

WESTERN MASON COUNTY WATER DISTRICT


Chairman

Attest:


Secretary

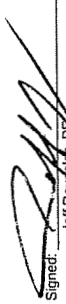


Western Mason Water District
 Water System Improvements - Contract IV
 SCADA System
 Bid Date: April 26, 2007 AT 2:00 PM local time

Water/Wastewater
 Transportation
 Engineers
 Environmental Planners

Project: 4076.00
 Date: 4/7/2007
 Engineer: JDR
 Page: 1 of 1

ITEM No.	ITEM DESCRIPTION	QUANTITY	UNIT	Micro Com		TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL
				UNIT PRICE	TOTAL							
1	Furnish, install and place into operation a completely integrated all solid-state radio telemetry base Supervisory Control and Data Acquisition(SCADA) System as described in the specifications.	1	LS	\$87,500.00	\$87,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BID TOTALS:					\$87,500.00	\$0.00		\$0.00		\$0.00		\$0.00

Signed: 
 Jeff Reynolds, PE
 Kentucky PE #6-20469
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Western Mason Water District
Water System Improvements - Contract III
Well Project
Bid Date: April 26, 2007 AT 2:00 PM local time

Water/Wastewater
Transportation
Engineers
Environmental Planners

Project: 4076.00
Date: 4/7/2007
Engineer: JDR
Page: 1 of 1

ITEM NO.	ITEM DESCRIPTION	QUANTITY	UNIT	National Water Service, LLC		Moody's of Dayton, Inc		Reynolds, Inc.		TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL
				UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL					
1	8" PVC Class 200 Pipe, DR-14, AWWA C-900 Furnishing, Trenching, Laying and Backfilling (Unclassified Excavation)	4,900	LF	\$21.75	\$106,575.00	\$20.00	\$98,000.00	\$32.00	\$156,800.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2	8" PVC, Class 200 Pipe, SDR-21, Furnishing, Trenching, Laying, and Backfilling, (Unclassified Excavation) 14" Steel Cover Pipe, Furnishing and Installing Under State and County Maintained Roads, Including Unclassified Boring and/or Jacking (Water Pipe Not Included)	5,000	LF	\$18.33	\$91,650.00	\$20.00	\$100,000.00	\$28.55	\$142,750.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3	8" C.I. AWWA N.R.S. Gate Valve and Box, Concrete Pad, Complete in Place	130	LF	\$200.00	\$26,000.00	\$140.00	\$18,200.00	\$226.00	\$29,380.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4	6" C.I. AWWA N.R.S. Gate Valve and Box, Concrete Pad, Complete in Place	4	EA	\$1,394.00	\$5,576.00	\$800.00	\$3,200.00	\$1,140.00	\$4,560.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5	6" C.I. AWWA N.R.S. Gate Valve and Box, Concrete Pad, Complete in Place	6	EA	\$1,156.00	\$6,936.00	\$500.00	\$3,000.00	\$800.00	\$4,800.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
6	4" C.I. AWWA N.R.S. Gate Valve and Box, Concrete Pad, Complete in Place	2	EA	\$994.00	\$1,988.00	\$500.00	\$1,000.00	\$700.00	\$1,400.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
7	Two Nozzle Blowoff Hydrant Assembly, Including Tee, Valve, Valve Box, Mechanical Joint Anchoring, Pipe and Fittings, Complete in Place	1	EA	\$1,473.00	\$1,473.00	\$3,000.00	\$3,000.00	\$2,150.00	\$2,150.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
8	Crushed Stone on trench, full depth On Driveways, roadway crossings and streets	50	LF	\$19.00	\$950.00	\$20.00	\$1,000.00	\$18.75	\$937.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
9	Check Valve Vault, including but not limited to check valve, fittings, restrainers, gate valves, etc. as shown on the plans, complete in place	1	EA	\$11,514.00	\$11,514.00	\$8,000.00	\$8,000.00	\$13,250.00	\$13,250.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
10	Mainline Pressure Reducing Station including but not limited to PRV, piping, fittings, vault as shown on plans, complete in place	1	LS	\$11,234.00	\$11,234.00	\$15,000.00	\$15,000.00	\$11,950.00	\$11,950.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
11	Gravel Packed Well including but not limited to test well, deep well pump, piping, electrical and control work, fence, access road, building and all appurtenances as shown on the plans and specifications, complete in place	2	EA	\$136,921.00	\$273,842.00	\$165,050.00	\$330,100.00	\$165,550.00	\$331,100.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BID TOTALS:					\$557,738.00		\$580,500.00		\$699,077.50		\$0.00		\$0.00	\$0.00

Shading means error on contractors bid

Signature: 
 Jeff Reynolds, PE
 Kentucky PE No. 20469
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Western Mason Water District
 Water System Improvements - Contract II
 Dover Water Storage Tank - 137,000 Gallon
 Germantown Water Storage Tank - 148,000 Gallon
 Bid Date: April 26, 2007 AT 2:00 PM local time

Water/Wastewater
 Transportation
 Engineers
 Environmental Planners

Project: 4076.00
 Date: 4/7/2007
 Engineer: JDR
 Page: 1 of 1

ITEM NO.	QUANTITY	UNIT	ITEM DESCRIPTION	Kentucky Glass Lined Tank Systems, Inc.		Welding, Inc.		Laurel Construction Co., Inc.		TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL
				UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL					
1	1	LS	137,000 Gallon Water Storage Tank (Dover), including tank, tank foundation, valve vault, piping, site preparation, excavation, fencing, access road and all appurtenances, as shown on the Plans and Specifications, complete in place.	\$224,100.00	\$224,100.00	\$220,000.00	\$220,000.00	\$280,000.00	\$280,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2	1	LS	148,000 Gallon Water Storage Tank (Germantown), including tank, tank foundation, valve vault, piping, site preparation, excavation, fencing, access road and all appurtenances, as shown on the Plans and Specifications, complete in place.	\$281,821.00	\$281,821.00	\$340,000.00	\$340,000.00	\$510,000.00	\$510,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3	1	LS	Highland Heights Valve Vault, including valves, vault, piping fittings and all appurtenances, as shown on the Plans and Specifications, complete in place.	\$34,657.00	\$34,657.00	\$42,000.00	\$42,000.00	\$30,000.00	\$30,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4	1	LS	Dover Booster Pump Station, including but not limited to furnishing and 2-250 gpm pumps all piping, valves, controls, concrete, site work, power pole, electric to site etc. (Complete in Place)	\$99,205.00	\$99,205.00	\$115,000.00	\$115,000.00	\$110,000.00	\$110,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5	1	LS	Dover Meter Vault including but not limited to meter, piping, fittings, vault and lid as shown on plans complete in place	\$8,500.00	\$8,500.00	\$10,000.00	\$10,000.00	\$25,000.00	\$25,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
6	400	LF	6" PVC, Class 200 Pipe, SDR-21 Furnishing, Trenching, Laying and Backfilling. (Unclassified Excavation)	\$16.46	\$6,584.00	\$35.00	\$14,000.00	\$30.00	\$12,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
7	180	LF	6" PVC, Class 200 Pipe, SDR-21 Furnishing, Trenching, Laying and Backfilling. (Unclassified Excavation)	\$14.22	\$2,559.60	\$33.00	\$5,940.00	\$25.00	\$4,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
8	45	LF	14" Steel Cover Pipe, Furnishing and Installing Under State and County Maintained Roads, Including Unclassified Boring and/or Jacking (Water Pipe Not Included)	\$211.11	\$9,499.95	\$180.00	\$8,100.00	\$180.00	\$8,100.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
9	35	LF	12" Steel Cover Pipe, Furnishing and Installing Under State and County Maintained Roads, Including Unclassified Boring and/or Jacking (Water Pipe Not Included)	\$200.00	\$7,000.00	\$150.00	\$5,250.00	\$160.00	\$5,600.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
10	7	EA	6" CI AWWA NRS Gate Valve and Box, Concrete Pad, Complete in Place	\$666.00	\$4,662.00	\$1,200.00	\$8,400.00	\$700.00	\$4,900.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BID TOTALS:				\$678,588.55	\$678,588.55	\$768,690.00	\$768,690.00	\$970,100.00	\$970,100.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Jeff Reynolds, PE
 Kentucky PE No. 20469
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Western Mason Water District
 Water System Improvements - Contract 1
 Water Treatment Plant/Office Building
 Bid Date: May 15, 2007 AT 3:00 PM local time

Water/Wastewater
 Transportation
 Engineers
 Environmental Planners

Project: 4076.00
 Date: 4/7/2007
 Engineer: JDR
 Page: 1 of 1

ITEM No.	ITEM DESCRIPTION	QUANTITY	UNIT	Bp Pipeline, LLC		TRACE CREEK CONSTRUCTION, INC		BUILDING CRAFTS		TOTAL		UNIT PRICE	TOTAL	UNIT PRICE	TOTAL
				UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL				
1	Office building, including building, foundation, site preparation, excavation, mechanical, electrical, concrete sidewalks, blacktopping, fencing, and all appurtenances, as shown on the Plans and Specifications, complete in place. Chlorine Feed Equipment, including Vacuum regulators, flowmeter panel, scale, gas detector, residual analyzer, two booster pumps, piping, fittings safety equipment and all appurtenances, as shown on the Plans and Specifications, complete in place.	1	LS	\$490,800.00	\$490,800.00	\$796,319.00	\$796,319.00	\$916,037.00	\$916,037.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2	Fluoride Feed Equipment, including two metering pumps, pressure relief valve, chemical feed skid, fluoride saturation unit, piping, fittings, and all appurtenances, as shown on the Plans and Specifications complete in place.	1	LS	\$51,000.00	\$51,000.00	\$40,593.00	\$40,593.00	\$36,500.00	\$36,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3	Meter Vault, including meter, valves, vault, piping, fittings and all appurtenances, as shown on the Plans and Specifications complete in place.	1	LS	\$25,000.00	\$25,000.00	\$18,665.00	\$18,665.00	\$13,500.00	\$13,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4	Raw Water Line, including furnishing, and installation of water line, gate valves, fittings thrust blocking etc. as shown on the Plans and Specifications, complete in place.	1	LS	\$20,000.00	\$20,000.00	\$14,816.00	\$14,816.00	\$10,200.00	\$10,200.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5		1	LS	\$25,000.00	\$25,000.00	\$35,700.00	\$35,700.00	\$11,000.00	\$11,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BID TOTALS:					\$611,800.00		\$906,093.00		\$989,237.00		\$0.00		\$0.00		\$0.00

Signed: 
 Jeff Reynolds, PE
 Kentucky PE No. 24569
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Unfortunately, this exceeded the amount of funding as outlined in the Letter of Conditions. Therefore, the District is requesting additional funding in the form of a Rural Development Loan and Grant. It our understanding, that grant monies are difficult to come by. Therefore, if this is the case, the District is willing to accept the additional funding in the form of a loan as shown below:

Financing:

<u>Funding Source</u>	<u>Letter of Conditions</u>	<u>Recommended (As Bid)</u>
RUS Loan	\$1,158,000	\$1,401,000
RUS Grant	\$500,000	\$500,000
KIA Tobacco Grant	\$470,000	\$470,000
Applicant Contribution	\$4,000	\$4,000
Additional KIA Grant	\$0	\$50,000
Total Project Cost	\$2,132,000	\$2,425,000


We recommend that a Revised Letter of Conditions be issued based on the Recommended Financing as shown above.

Attached please find a copy of the Bid Tabulation for the project.

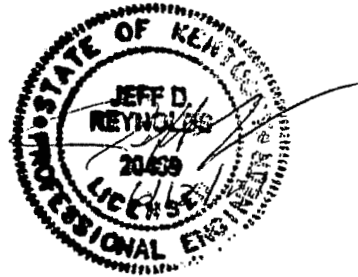
If you have any questions or need additional information, please call.

Sincerely,

HMB Professional Engineers, Inc.


Jeff Reynolds, P.E.

cc: David French, Manager
Henry Reed, III





3 HMB Circle
 U.S. 460
 Frankfort, KY 40601
 Office: (502) 695-9800
 Fax: (502) 695-9810

June 12, 2007

Elwood Howe
 Rural Development
 220 West First Street
 Morehead, Ky 40351

Re: Final Engineering Report
 Water System Improvements
 Western Mason Water District
 HMB #4076

Dear Mr. Howe:

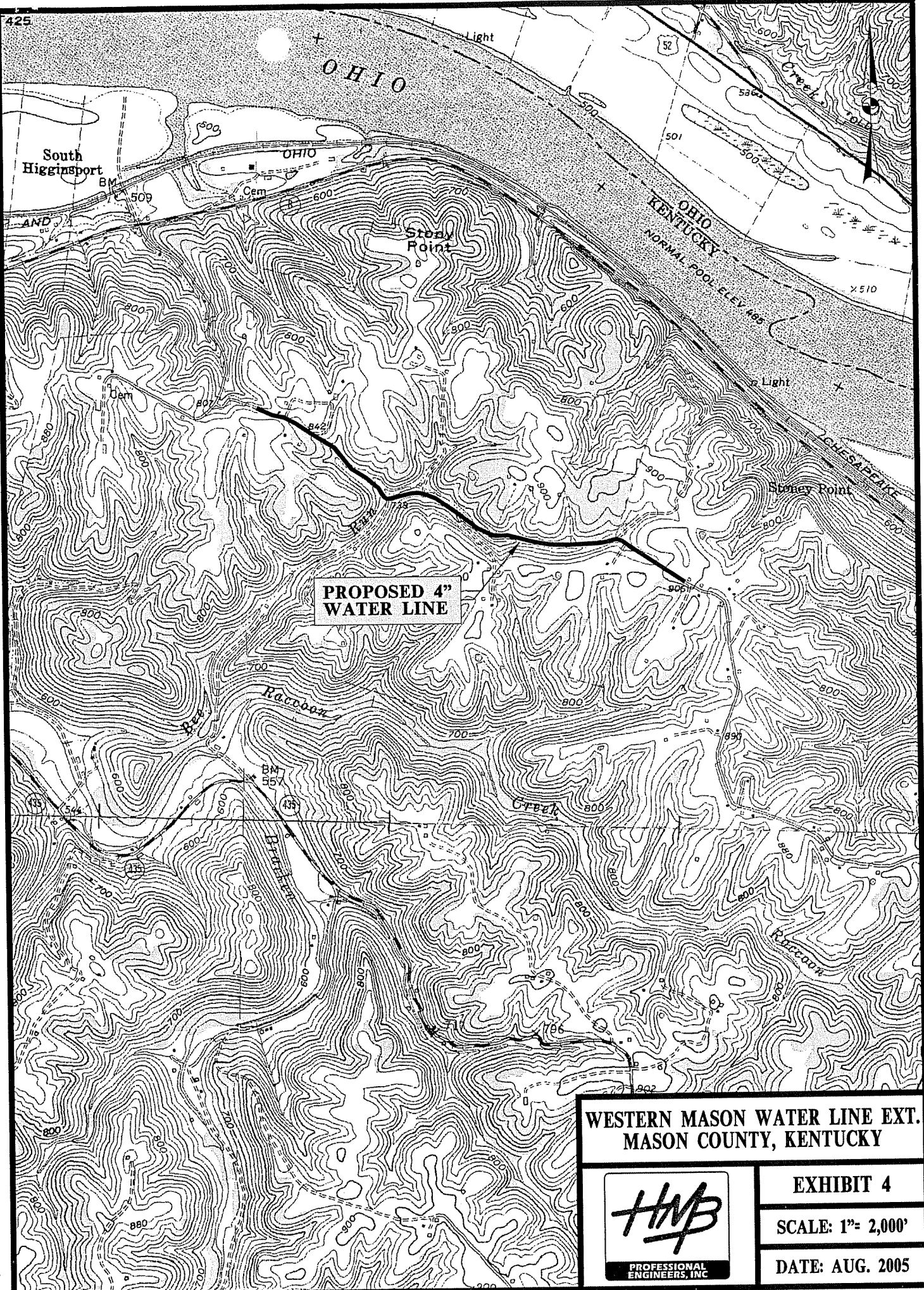
As you are aware, the above referenced project was bid on April 26, 2007. Unfortunately, there were no bidders on Contract I, so it was re-bid on May 15, 2007. The low bidder for each contract and their bid amount is shown below.

<u>Contract</u>	<u>Low Bidder</u>	<u>Bid Amount</u>
I - Office Building/WTP	B.P. Pipeline, Inc.	\$611,800.00
II - Water Storage Tanks	Ky Glass Lined Tank	\$678,588.55
III - Wells	National Water Service	\$537,738.00
IV - SCADA System	Micro-Comm	<u>\$87,500.00</u>
TOTAL DEVELOPMENT COST		\$1,915,626.55

Following is a summary of the financing and budget for this project:

<u>Project Budget</u>	<u>Letter of Conditions</u>	<u>As Bid</u>
Development	\$1,617,700	\$1,915,626.55
Land & Rights	\$92,000	\$92,000.00
Legal & Administration	\$40,000	\$50,000.00
Engineering	\$212,300	\$251,210.00
Interest	\$10,000	\$20,000.00
<u>Contingencies</u>	<u>\$160,000</u>	<u>\$96,163.45</u>
Total Project Cost	\$2,132,000	\$2,425,000.00

Highway Engineering
 Structural Engineering
 Water & Wastewater
 Site Development
 Master Planning
 Environmental Planning
 Surveying
 Project Management
 Cost Estimation
 Construction Inspection
 Aviation Services
 Environmental Remediation

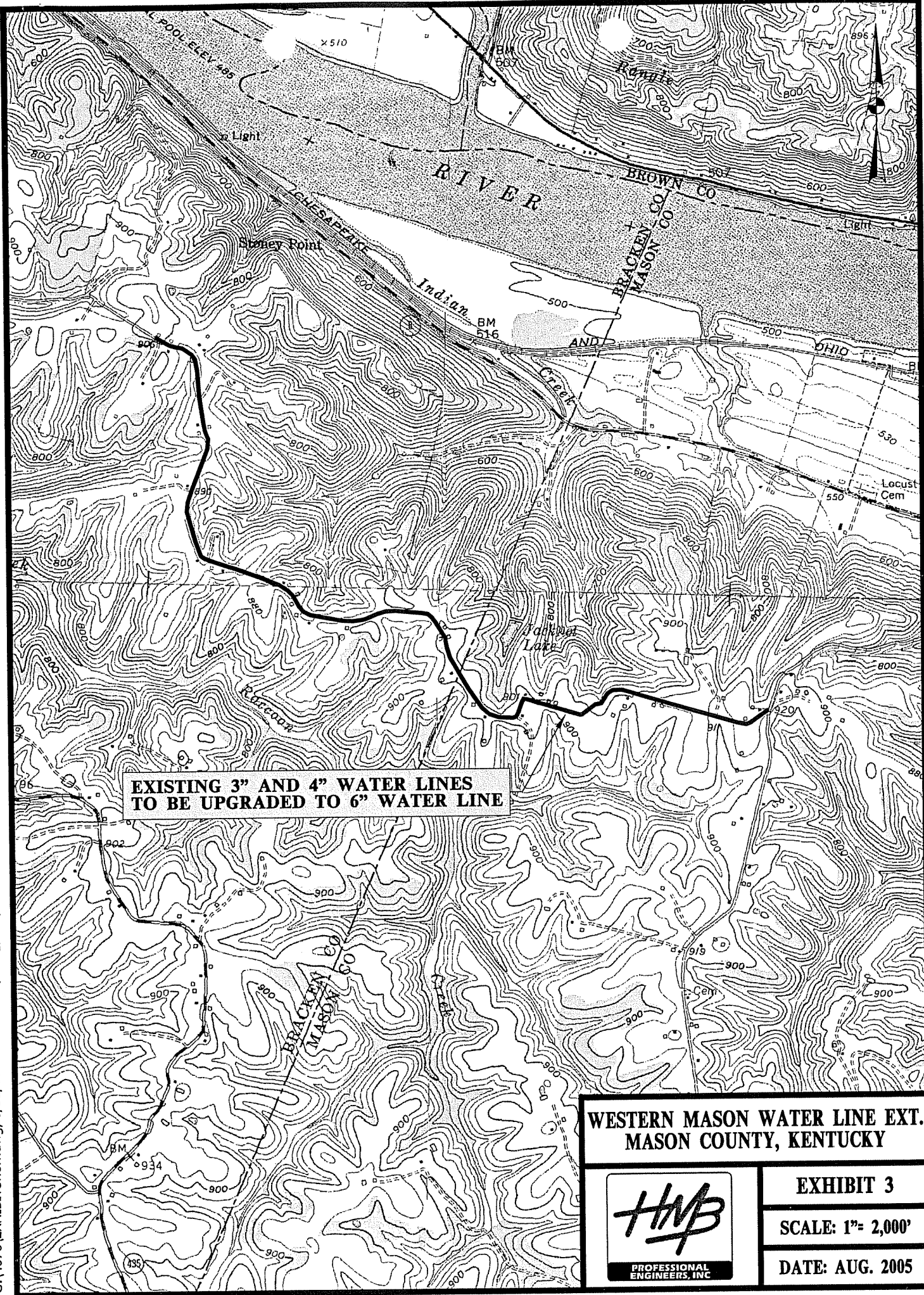


**PROPOSED 4"
WATER LINE**

**WESTERN MASON WATER LINE EXT.
MASON COUNTY, KENTUCKY**



EXHIBIT 4
SCALE: 1"= 2,000'
DATE: AUG. 2005

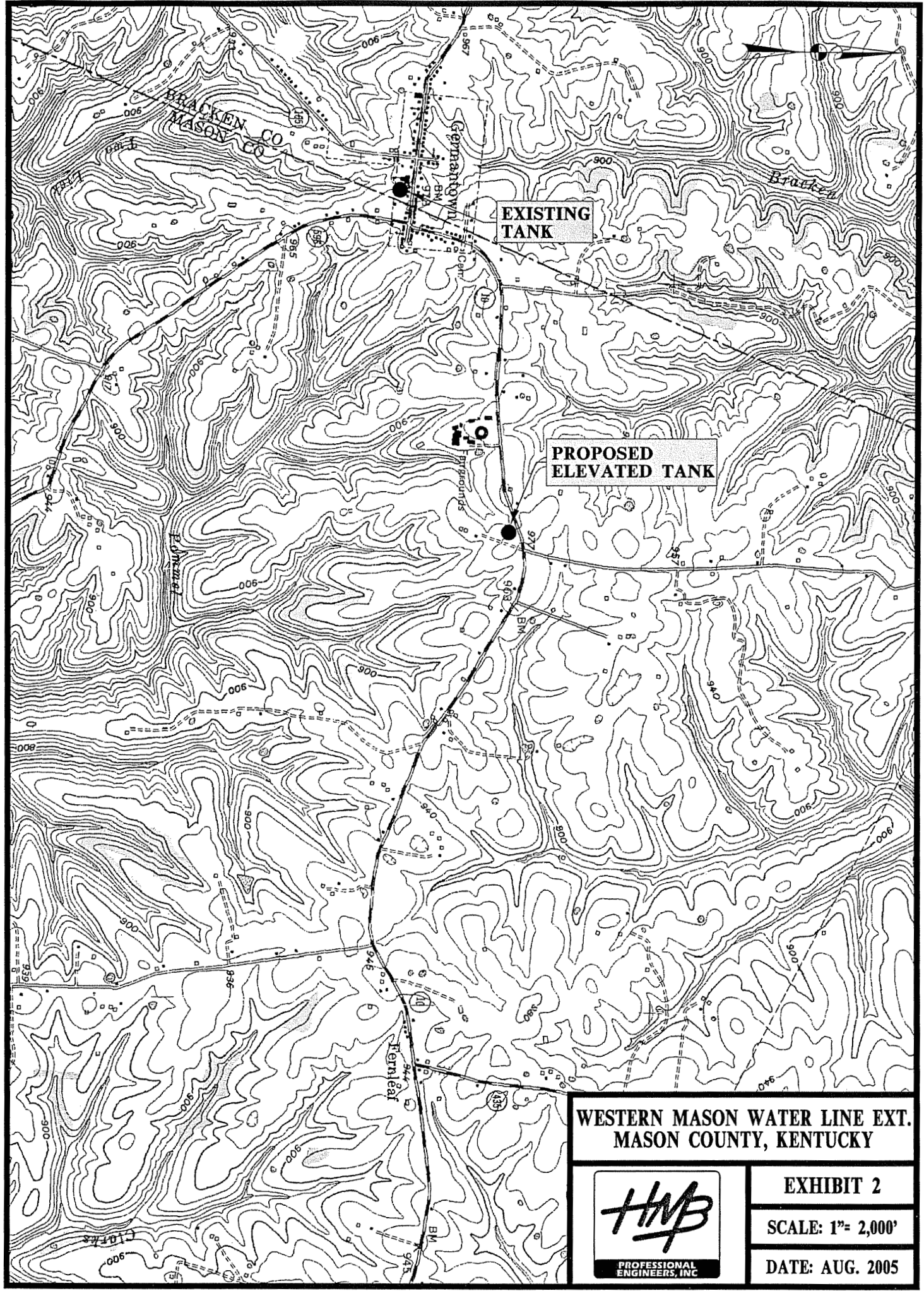


**WESTERN MASON WATER LINE EXT.
MASON COUNTY, KENTUCKY**



EXHIBIT 3
SCALE: 1"= 2,000'
DATE: AUG. 2005

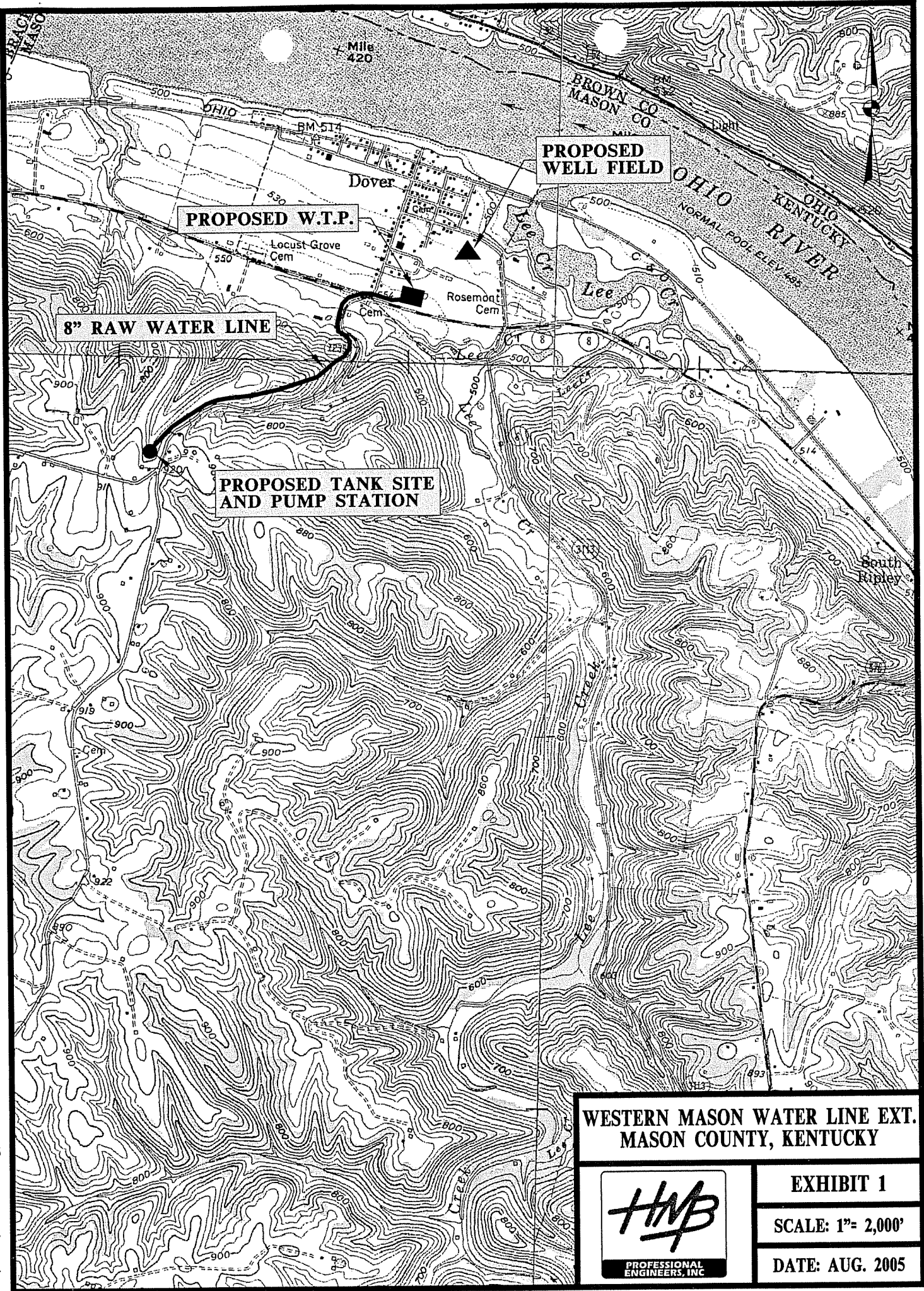
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**WESTERN MASON WATER LINE EXT.
MASON COUNTY, KENTUCKY**



EXHIBIT 2
SCALE: 1"= 2,000'
DATE: AUG. 2005



**WESTERN MASON WATER LINE EXT.
MASON COUNTY, KENTUCKY**



EXHIBIT 1

SCALE: 1" = 2,000'

DATE: AUG. 2005

Appendix A

Project Maps

VII FUNDING

Proposed funding for this project is being made available by the following:

TABLE 5
PROPOSED FUNDING

Tap Fees	\$4,000
KIA Tobacco Money	\$470,000
Rural Development Grant	\$500,000
Rural Development Loan ⁽¹⁾	\$1,158,000
TOTAL PROJECT FUNDING	\$2,132,000

(1) 4.5% loan for 40 years with principal deferred for 2 years.

VIII RECOMMENDATIONS

It is recommended that the project be funded by Rural Development and a Letter of Conditions be issued as soon as possible.

TABLE 4

ESTIMATED PROJECT COST

Construction Cost	\$1,617,700
Engineering Fees	\$123,000
Resident Inspection Fee	\$57,000
Legal & Administrative Costs	\$10,000
Land and/or Rights	\$91,758
Interest During Construction	\$10,000
Contingencies	\$160,092
Other (Botanical Survey/Geotech./Arch. Survey/Architect/Test Wells)	\$62,450
TOTAL ESTIMATED PROJECT COST	\$2,132,000

TABLE 3
ESTIMATED CONSTRUCTION COST
AUGUSTA-DOVER ROAD

ITEM	QUANTITY	UNIT	UNIT PRICE	TOTAL
6" WATER LINE (UPGRADE EXISTING)	16,600	L.F.	\$7.00	\$116,200.00
4" WATER LINE	8,000	L.F.	\$5.50	\$44,000.00
12" ROAD BORE	120	L.F.	\$90.00	\$10,800.00
8" ROAD BORE	80	L.F.	\$75.00	\$6,000.00
6" GATE VALVE	7	EA.	\$650.00	\$4,550.00
4" GATE VALVE	5	EA.	\$450.00	\$2,250.00
CONNECTION TO EXIST. SYSTEM	1	EA.	\$1,000.00	\$1,000.00
CUSTOMERS (SAME SIDE)	5	EA.	\$550.00	\$2,750.00
CUSTOMERS (OPP. SIDE)	5	EA.	\$700.00	\$3,500.00
CUSTOMER RECONNECTION (SAME)	22	EA.	\$200.00	\$4,400.00
CUSTOMER RECONNECTION (OPP.)	21	EA.	\$300.00	\$6,300.00
AIR RELEASE VALVE	5	EA.	\$450.00	\$2,250.00
BLOWOFF HYDRANT	2	EA.	\$1,000.00	\$2,000.00
ADDITIONAL SERVICE TUBING	250	L.F.	\$6.00	\$1,500.00
CRUSHED STONE	1000	L.S.	\$5.00	\$5,000.00
MISC.	1	L.S.	\$12,500.00	\$12,500.00
TOTAL ESTIMATED CONSTRUCTION COST				\$225,000.00

TABLE 2
ESTIMATED CONSTRUCTION COST
WTP / WELL / DOVER TANK

ITEM	QUANTITY	UNIT	UNIT PRICE	TOTAL
NEW WELL	2	EA.	\$130,000.00	\$260,000.00
WTP INCLUDING CHLORINE AND FLUORIDE FEED EQUIP., PUMPS		L.S.		\$50,000.00
NEW OFFICE INCLUDING FURNISHINGS	3120	FT^2	\$90.00	\$280,800.00
METER PIT		L.S.		\$8,000.00
105,000 GALLON TANK / CLEARWELL (47')		L.S.		\$135,000.00
FENCE @ TANK (75'x75')	300	L.F.	\$20.00	\$6,000.00
VALVE VAULT		L.S.		\$20,000.00
PUMP STATION @ CLEARWELL		L.S.		\$75,000.00
TELEMETRY		L.S.		\$30,000.00
8" RAW WATER LINE	7,000.0	L.F.	\$12.00	\$84,000.00
8" WATER LINE	5,500.0	L.F.	\$12.00	\$66,000.00
8" GATE VALVE	6	EA.	\$650.00	\$3,900.00
MAIN LINE PRV		LS.		\$12,000.00
14" ROAD BORE	140	L.F.	\$75.00	\$10,500.00
CRUSHED STONE	100	L.F.	\$5.00	\$500.00
TOTAL ESTIMATED CONSTRUCTION COST				\$1,041,700.00

TABLE 1
ESTIMATED CONSTRUCTION COST
GERMANTOWN TANK / PUMP STATION

ITEM	QUANTITY	UNIT	UNIT PRICE	TOTAL
148,000 GALLON STAND PIPE (129')		L.S.		\$225,000.00
FENCE (75'x75')	300	L.F.	\$20.00	\$6,000.00
VALVE VAULT		L.S.		\$20,000.00
PUMP STATION		L.S.		\$75,000.00
CHECK VALVE VAULT		L.S.		\$5,000.00
TELEMETRY		L.S.		\$20,000.00
TOTAL ESTIMATED CONSTRUCTION COST				\$351,000.00

V THE PROPOSED PROJECT

The proposed project will replace the Germantown tank with a 148,000 gallon standpipe water storage tank which will be filled by a proposed booster pump station. This tank should provide adequate pressure to the customers in the Germantown area who currently suffer from low pressure. The existing WTP will be replaced by a modern groundwater treatment plant with new equipment and a high service pump station located at the Dover tank. The Dover tank will be replaced by a new water storage which will also act as a clearwell for the new WTP and contains baffles to ensure chlorine contact time.

Two new water supply wells will also be included as part of this project. The new wells will be located just east of Dover.

The proposed project will also extend water service to approximately 10 potential customers along Augusta-Dover Road in Bracken County. The proposed line extension includes extending a 4" water line approximately 1.5 miles and upgrading approximately 3 miles of 3" and 4" water line with a 6" water line.

VI COST SUMMARY

Tables 1 through 4 summarize the estimated construction cost for the project. Table 5 shows the estimated project cost.

Maysville to purchase 100,000 gpd and 200,000 gpd with approval. At present, the District purchases an average of 20,000 gpd from the City of Maysville.

IV NEED FOR PROJECT

A. Existing System

The Germantown tank, the Dover tank and the WTP are components of the District's that have exhausted their useful life and are no longer meeting current requirements. The Germantown tank and the Dover tank are stand pipes which have been in service for over 40 years. Both tank are starting to require lots of maintenance. In addition, the Germantown tank can no longer provide sufficient pressure to the customers in its service area, and in fact, it can barely provide the minimum pressure required by the Division of Water. The WTP is also technologically outdated and no longer meets current OSHA regulations.

B. Health and Sanitation Hazards

Presently, the water needs of residents located on South Ripley Road and Lees Creek Road are supplied by wells and cisterns. The use of wells and cisterns is not only a great inconvenience, but also raises concerns on health issues. Untreated water poses a risk for water borne diseases. Public water supply in the proposed service area would significantly reduce any health related issues caused by contaminated water.

C. New Office Building

Currently, the District's office and wells are located on an approximately 100'x75' square with the septic system located under the office building. The current office does not provide enough space to conduct routine business meeting or any type of public meeting. It has no type plumbing for washing or using the restroom. The restroom for the office is located upstairs in the adjacent clearwell building. This office fails to meet most if not all handicap accessible regulations.

I INTRODUCTION

This Preliminary Engineering Report will examine the proposed Water System Improvement Project for the Western Mason Water District. This project includes two booster pump stations, two 500 gpm production wells, a new office building/water treatment plant, water line extension and replacement of two water storage tanks. These improvements should help insure that the District can meet current Division of Water and OSHA regulations. It will also help eliminate existing health and sanitation hazards with regard to lack of potable water for those persons currently living along Augusta-Dover Road. Presently, their water needs are supplied by wells and cisterns.

II. DESCRIPTION OF WATER DISTRICT

Western Mason Water District was created in approximately 1960. The members of the Board of Commissioners are nominated by the Judge Executive of Mason County and must be approved by the Fiscal Court. These Commissioners transact and administer all business of the District at its office located in Dover, Kentucky. The District serves areas of Western Mason County, which includes the communities of Dover, Germantown, Minerva, Fernleaf and Highland Heights Area.

III EXISTING WATER SYSTEM

Western Mason Water District is comprised of approximately 74 miles of water line ranging in sizes from 2 inches to 6 inches and consists of 4 water storage tanks. The water storage tanks have a combined capacity of 382,000 gallons and are filled by the high service pumps at the water treatment plant and three booster pump stations. The District supplies approximately 960 customers with potable water.

The District's Water Treatment Plant (WTP), which is located in Dover, consists of chlorination and fluoridation facilities. Two wells, also located in Dover, act as the raw water source for the WTP. The water treatment plant has a capacity of 300,000 gpd. At present, the WTP operates at an average of 200,000 gpd, which is 67 percent of capacity. The District also has a contract with the City of

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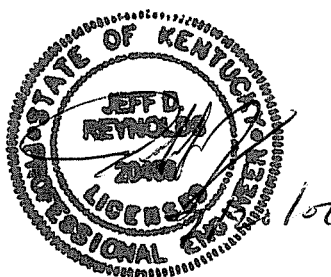
Appendices

Appendix A - Project Maps

PRELIMINARY ENGINEERING REPORT

**WATER SYSTEM IMPROVEMENT PROJECT
WESTERN MASON WATER DISTRICT
MASON COUNTY, KENTUCKY**

Revised
August 2005



Prepared By:
HMB PROFESSIONAL ENGINEERS, INC.
3 HMB CIRCLE
FRANKFORT, KENTUCKY
502-695-9800
502-695-9810-FAX



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

July 2, 2007

SUBJECT: Western Mason Water District
Water System 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 1, B.P. Pipeline, Inc., in the amount of \$611,800.00, the low bidder on Contract 2, Ky Glass Lined Tanks, Inc., in the amount of \$678,588.55, the low bidder on Contract 3, National Water Service, in the amount of \$537,738.00, and the low bidder on Contract 4, Micro-Comm, in the amount of \$87,500.00.

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


KENNETH SLONE
State Director
Rural Development

cc: HMB Engineers
Frankfort, Kentucky

~~Reed Law Office~~
Louisville, Kentucky

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**CERTIFICATION OF DISTRICT CHAIRMAN REGARDING COMPLIANCE
WITH PUBLIC SERVICE COMMISSION REQUIREMENTS**

The undersigned certifies that he is the duly authorized and acting Chairman of the Western Mason County Water District (the "District") which intends to file with the Public Service Commission of Kentucky ("PSC") a Petition seeking a Certificate of Public Convenience and Necessity in connection with the construction of additions, extensions, and improvements to the District's water distribution system, consisting of (a) approximately seven miles of waterlines; (b) one 105,000- gallon water storage tank and one 148,000-gallon water storage tank; (c) two pump stations; and (d) renovation of the existing water treatment plant (the "Construction Project").

The undersigned has executed this Certificate in reliance upon information and advice of HMB Professional Engineers, Inc., Frankfort, Kentucky (the "Engineers") which firm has been retained by the District to provide engineering services in connection with the Construction Project.

The undersigned states that the proposed plans and specifications for the Construction Project have been designed to meet the minimum construction and operating requirements established 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.

The undersigned has been advised by the Engineers that on or before the actual filing of the District's Petition with PSC all other State approvals or permits will have been obtained.


The undersigned further certifies that the Construction Project is to be financed through the issuance of the District's Water Revenue Bonds, Series of 2007, in the principal amount of \$1,401,000 (the "Bonds") which are to be sold to the United States Department of Agriculture, Rural Development ("USDARD"), plus (a) a USDARD Grant not to exceed the amount of \$500,000; (b) a KIA Tobacco Settlement grant in the amount of \$520,000; and (c) new user tap on charges in the amount of \$4,000.

Based upon the information supplied by the Engineers, it is estimated that the Construction Project will commence on 9/1/2007 and end on 3/1/2008.

Based upon the advice of the Engineers and USDARD, the undersigned believes that increased water rates will be required by the District in order to meet the expenses incident to the operation and maintenance of the District's water distribution system and pay and retire all of the District's outstanding Water Revenue Bonds, Series of 1988, Series of 1997, Series of 2001 and Series of 2007.

Dated this 16th day of July, 2007.

**WESTERN MASON COUNTY WATER
DISTRICT**


Chairman

