

# Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410  
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CHARLES S. MUSSON  
W. RANDALL JONES  
CHRISTIAN L. JUCKETT

July 1, 2016

RECEIVED

JUL 06 2016

PUBLIC SERVICE  
COMMISSION

Mr. Aaron Greenwell  
Deputy Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, Kentucky 40602

Case No. 2016-00229

Re: Fountain Run Water District No. 1 PSC Application - KRS 278.023

Dear Mr. Greenwell:

Enclosed please find the original and ten (10) copies of the Application of the Fountain Run Water District No. 1 for a Certificate of Public Convenience and Necessity to construct, finance and increase sewer rates pursuant to KRS 278.023.

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

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

**Re: Fountain Run Water District No. 1 Waterworks and Sewer Revenue Bonds,  
Series 2016, in the principal amount of \$133,000**

Mr. Thomas G. Fern  
State Director  
USDA, Rural Development  
771 Corporate Drive, Suite 200  
Lexington, Kentucky 40503-5477

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

Mr. Mark Givens  
USDA, Rural Development  
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Columbia, Kentucky 42728-1901  
[mark.givens@ky.usda.gov](mailto:mark.givens@ky.usda.gov)

Telephone: (270) 384-4759  
Fax: (270) 384-6351

Ms. Louise Veach, Office Manager  
Fountain Run Water District #1  
226 Main Street  
P.O. Box 118  
Fountain Run, Kentucky 42133  
[frwd1@scrtc.com](mailto:frwd1@scrtc.com)

Telephone: (270) 434-4080  
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Jeff Reynolds, P.E.  
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3 HMB Circle, US 460  
Frankfort, Kentucky 40601

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RECEIVED

JUL 6 2016

Public Service  
Commission

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE FOUNTAIN RUN )  
 WATER DISTRICT No. 1 FOR A CERTIFICATE )  
 OF PUBLIC CONVENIENCE AND ) Case No. 2016-00229  
 NECESSITY TO CONSTRUCT, FINANCE AND )  
 INCREASE RATES PURSUANT TO KRS 278.023 )

APPLICATION

This Application of the Fountain Run Water District No. 1 ("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:

Fountain Run Water District No. 1  
 c/o Ms. Louise Veatch  
 226 Main Street  
 Fountain Run, Kentucky 42133  
 Phone: (270) 434-4080  
 Fax: (270) 434-4081  
 email address: [frwd1@scrtc.com](mailto:frwd1@scrtc.com)

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

4. That the Project consists of the upgrading and replacing of the existing pump stations and the installation of approximately 925 linear feet of small diameter gravity sewer lines.

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$133,000 of its Waterworks and Sewer Revenue Bonds; (ii) a USDA, Rural Development ("RD") grant in the amount of \$74,000; and (iii) an Appalachian Regional Commission grant in the amount of \$218,000. Applicant has a commitment from RD to purchase

said \$133,000 of bonds maturing over a 40-year period, at an interest rate not to exceed 2.125% 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 Commission.

7. That Applicant files herewith the following Exhibits pursuant to 807 KAR 5:069, Section 2 in support of this Application:

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

8. That Applicant has complied with the "public postings" requirement of 807 KAR 5:069, Section 3(1)(a) and (b) by posting a copy of the Notice of Proposed Rate Change (the "Notice") at its place of business. Applicant does not maintain a website. Applicant has also arranged for the publication, prior to or at the same time this Application is filed, of the Notice pursuant to 807 KAR 5:069, Section 3(2) in the newspaper of general circulation in Applicant's service area. Said Notice sets out the content requirements of 807 KAR 5:069, Section 3(4). A copy of said Notice is filed herewith as **Exhibit "D"**. Applicant shall file with this Commission no later than fifteen (15) days from the date this Application was initially filed, an affidavit and tearsheet from the publisher as required by 807 KAR 5:069 Section 3(3)(b).

9. That the foregoing constitutes the documents necessary to obtain the approval of this 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, Section 2.

WHEREFORE, Applicant, the Fountain Run Water District No. 1, 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 sewer improvement project as described in this Application.
- b. An Order approving the financing arrangements made by Applicant, viz., (i) the issuance of \$133,000 of Fountain Run Water District No. 1 Waterworks and Sewer Revenue Bonds at an interest rate not to exceed 2.125% per annum; (ii) an RD grant in the amount of \$74,000; and (iii) an ARC grant in the amount of \$218,000.
- c. An Order approving the proposed sewer rates as set out in Section 27 of the RD Letter of Conditions filed herewith as an Exhibit.

Fountain Run Water District No. 1

By: 

Chairman

Board of Water Commissioners



W. Randall Jones, Esq.

Rubin & Hays

Counsel for Applicant

Kentucky Home Trust Building

450 South Third Street

Louisville, Kentucky 40202

Phone: (502) 569-7525

Fax: (502) 569-7555

[wrjones@rubinhays.com](mailto:wrjones@rubinhays.com)



A



August 7, 2015

Mr. Joe Cornwell, Chairman  
Fountain Run Water District  
P. O. Box 118  
Fountain Run, Kentucky 42133

Dear Mr. Cornwell:

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 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 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 \$133,000; a RUS grant not to exceed \$74,000; an Appalachian Regional Commission (ARC) grant in the amount of \$218,000. No cash contribution will be required.

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 210 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:

**Rural Development • Kentucky State Office**  
771 Corporate Drive, Suite 200, Lexington, Kentucky 40502  
Voice (859) 224-7300 • Fax (859) 224-4748 • TTY (859) 224-7422

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at [http://www.ascr.usda.gov/complaint\\_filing\\_cust.html](http://www.ascr.usda.gov/complaint_filing_cust.html), or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at [program.intake@usda.gov](mailto:program.intake@usda.gov).



1. Number of Users and Their Contribution:

There shall be 107 sewer users and 520 water users, of which all are existing users. 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 closing, 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. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January and July) 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 shall 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 RD 3550-28, "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, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$45 per month into a "Funded Debt Reserve Account" until the account reaches \$5,000. The deposits are to be resumed any time the account falls below the \$5,000.

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 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.

The District also needs to fund an account for short-lived assets by depositing a sum of \$200 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 utility system. This short-lived asset reserve amount replaces any previous short-lived assets requirements previously set with any prior RUS loan.

7. Security Requirements:

A pledge of gross water & sewer revenue(s) 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 or repay money.

The District must maintain a current registration of their Dun and Bradstreet Data Universal Numbering System (DUNS) number in SAM.gov (System for Award Management) in order to receive federal loan and/or grant financial assistance. This registration must be updated/renewed at least annually.

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, delayed payment penalties, disconnect/reconnect fees, 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)/statistical and financial reports, quarterly and annually, in accordance with subsection 1780.47 of RUS Instruction 1780.

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.

The District will be required to maintain separate accounts for each system. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts.

12. 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 \$50,000.
- 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.

13. 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 "23" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 180 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.

14. 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.

15. 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.

16. 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.

17. Treatment Plant and System Operator:

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

18. 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."

19. 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.

20. 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.

21. 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.

For each "construction account" as established, if the amount of RUS loan and grant funds plus any applicant contributions or funds from other sources to be deposited into the account are expected to exceed \$250,000 at any time, the financial institution will secure the amount in excess of \$250,000 by pledging collateral with the Federal Reserve Bank in an amount not less than the excess in accordance with 7 CFR, 1902.7(a).

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.

Borrowers receiving federal loan and/or grant funds 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.

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

22. 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.

23. Cost of Facility:

Breakdown of Costs:

Development	\$ 260,000
Land and Rights	3,000
Legal and Administrative	12,000
Engineering	64,800
Interest	5,000
Contingencies	25,200
Refinance Existing Sewer Debt	<u>55,000</u>
TOTAL	\$ 425,000

Financing:

RUS Loan	\$ 133,000
RUS Grant	74,000
ARC Grant	<u>218,000</u>
TOTAL	\$ 425,000

24. 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 \$218,000.

25. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC grant funds and refunded in proportion to participation in the project. If the amount of unused project funds exceeds the grant(s), that part would be RUS loan funds.

26. 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.

27. 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 & sewer 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 @ \$	16.72 - Minimum Bill.
Next	3,000 gallons @ \$	5.84 - per 1,000 gallons.
Next	5,000 gallons @ \$	5.43 - per 1,000 gallons.
Next	10,000 gallons @ \$	4.66 - per 1,000 gallons.
All Over	20,000 gallons @ \$	3.98 - per 1,000 gallons.

Sewer rates will be at least:

First	1,000 gallons @ \$	22.00 - Minimum Bill.
All Over	1,000 gallons @ \$	2.00 - per 1,000 gallons.

28. Compliance with the Bioterrorism Act:

Prior to 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).

29. Floodplain Construction:

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

30. Division of Water (DOW) Health & Sanitary Certification:

The Median Household Income (MHI) for the District's service area qualifies this project for the poverty interest rate. A certification from the Division of Water stating this project will remove a health or sanitary problem will be required. This certification must be obtained prior to loan pre-closing.

31. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor's Office for Local Development letter dated July 28, 2015, from Ms. Lee Nalley.
- B. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without effect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- C. Any excavation by Contractor that uncovers a historical or archaeological artifact shall be immediately reported to Owner and a representative of Agency. Construction shall be temporarily halted pending the notification process and further directions issued by Agency after consultation with the State Historic Preservation Officer (SHPO).
- 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.



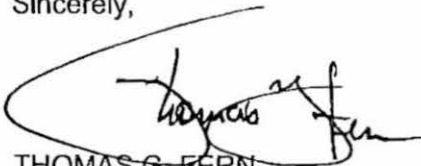
- E. Best Management Practices shall be incorporated into the project design, construction, and maintenance.

32. 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,

A handwritten signature in black ink, appearing to read "Thomas G. Fern", is written over a large, loopy scribble that partially obscures the text below.

THOMAS G. FERN  
State Director

Enclosures

cc: Area Director - Columbia Kentucky  
Barren River ADD – Bowling Green Kentucky  
Catherine Capps - Burkesville, Kentucky  
HMB Professional Engineers, Inc. - Frankfort Kentucky





Rural Development July 1, 2016

Kentucky State Office

771 Corporate Drive,  
Suite 200  
Lexington, KY  
40503

SUBJECT: Fountain Run Water District No. 1  
Sewer Improvement Project  
Contract Award Concurrence

Voice 859.224.7300  
Fax 859.224.7425  
TTY 859.224.7422

TO: Area Office  
Columbia, 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, N.E. Sabkar Corp., in the amount of \$168,944, and the low bidder on Contract 2, North East Environmental Services, in the amount of \$44,150.

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

  
THOMAS G. FERN  
State Director  
Rural Development

cc: HMB  
Frankfort, Kentucky

Randy Jones  
Louisville, Kentucky

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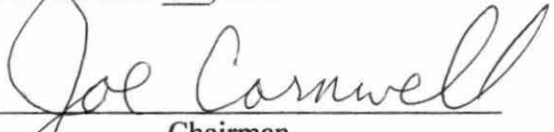
**CERTIFICATE OF CHAIRMAN OF FOUNTAIN RUN  
WATER DISTRICT No. 1, AS TO STATEMENT REQUIRED BY  
SECTION 2(6) OF 807 KAR 5:069**

I, the undersigned, hereby certify that I am the duly qualified and acting Chairman of the Fountain Run Water District No. 1, and that said District is in the process of arranging to finance the construction of improvements to the sewer system (the "Project"), in cooperation with HMB Professional Engineers, Frankfort, Kentucky, the Engineers for the District (the "Engineers").

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

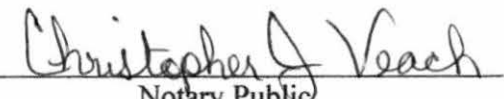
1. That the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
2. That all other state approvals and/or permits have been obtained.
3. That the rates proposed by the District in its current Application filed with the Kentucky Public Service Commission are contemplated to produce total revenue requirements recommended 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 September 1, 2016, and will end on or about November 1, 2016.

IN TESTIMONY WHEREOF, witness my signature this June 28, 2016.

  
\_\_\_\_\_  
Chairman  
Fountain Run Water District No. 1

STATE OF KENTUCKY            )  
  ) SS  
COUNTY OF MONROE         )

Subscribed and sworn to before me by Joe Cornwell, Chairman of the Board of Commissioners of the Fountain Run Water District No. 1, on this June 28, 2016.

  
\_\_\_\_\_  
Notary Public  
In and For Said State and County

D

## NOTICE OF PROPOSED RATE CHANGE

In accordance with the requirements of the Kentucky Public Service Commission ("PSC") as set out in 807 KAR 5:069, Section 3, notice is hereby given to the customers of the Fountain Run Water District No. 1 ("District") of a change in sewer rates for users of the District's sewer system. The changes in sewer rates are required by the U.S. Department of Agriculture, acting through Rural Development ("RD") in connection with a loan by RD to the District in the principal amount of \$133,000 to be evidenced by the issuance by the District of its waterworks and sewer revenue bonds in such amount, which RD has agreed to purchase provided the District meets certain conditions of RD, including revising the sewer rates as set forth below (the existing water rates will not change):

### Current Monthly Sewer Rates

\$18.80 flat rate

### Proposed Monthly Sewer Rates

	<u>All Meters</u>	<u>New Monthly Rate</u>	<u>Dollar Change</u>	<u>% Change</u>
First	1,000 gallons	\$22.00 Minimum Bill	\$3.20	17%
Over	1,000 gallons	2.00 per 1,000 gallons		

The proposed monthly sewer rates shall be effective for water sold after the date of the final approving Order of the PSC, which Order is expected to be issued no later than 30 days of the filing of the Application. The amount of average sewer usage (based on water usage) for all customers in the calendar year 2015 was 3,300 gallons per month thus generating an average monthly sewer billing based on current rates of \$18.80. The proposed monthly sewer rates will increase the average monthly sewer billing to \$26.60 for an impact of \$7.80 or 41%. The Application for approval of the rate change has been filed with the PSC and may be examined during normal business hours at the following locations: (i) Fountain Run Water District No. 1 Office, 226 Main Street, Fountain Run, KY 42133; (ii) PSC, 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., E.T.; and (iii) via the PSC website at <http://psc.ky.gov>. Comments regarding the Application may be submitted to the PSC via its website or by mail to PSC, P.O. Box 615, Frankfort, Kentucky 40602.

The proposed rates are required under the terms of an agreement between the District and RD and KRS 278.023 does not grant the PSC any discretionary authority to modify or reject any portion of the agreement between the District and RD, or to defer the issuance of all necessary orders to implement the terms of the agreement. The RD loan proceeds will be used in conjunction with a \$74,000 RD grant and a \$218,000 ARC grant to finance the cost of upgrading and replacing of the existing pump stations and the installation of approximately 925 linear feet of small diameter gravity sewer line. Signed: Joe Cornwell, Chairman, Fountain Run Water District No. 1.

RECEIVED

JUL 6 2016

Public Service  
Commission

**PRELIMINARY ENGINEERING REPORT**

**Sewer System Improvements  
Fountain Run Water District No. 1**

January 2011

Revised July 2015



Prepared by:  
HMB Professional Engineers, Inc.  
3 HMB Circle  
Frankfort, KY 40601



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**Household Income Information .....3**

**Financial Considerations.....4**

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**Proposed Project Funding.....6**

**Appendix A**

Exhibit 1 – Sewer System Layout

## **INTRODUCTION**

The City of Fountain Run, Kentucky is a small rural community, located in Western Monroe County with a population of 236, according to the 2000 US Census. The service area of the Fountain Run Water District No. 1 (FRWD#1) includes portions of Monroe County, Allen County and Barren County and serves 525 water customers. The service area of the Fountain Run Sewer includes portions of Monroe and Barren County and serves 135 customers. The Fountain Run Water District #1 has a contract to purchase water from the Glasgow Water Company, with a not to exceed limit of 3,750,000 gallons per month and from the Monroe County Water District with no maximum or minimum usage stated.

The District is applying to Rural Development (RD) for funds to design and construct nine (9) existing pump station upgrades and renovations and repairing the drain fields by replacing 8 valves. The information provided in this report more fully describes these proposed improvements, emphasizes the need for the construction, and supplies appropriate financial summaries.

## **SUMMARY AND CONCLUSIONS**

The Fountain Run Water District No. 1 (FRWD #1) sewer system is in excess of 30 years old and there is no central control system. The system is very unique system in that it is basically a community septic system. Each of the 107 customers has individual septic tanks that gravity flow to one of ten (10) pump stations. The pump stations send brown and gray water to one of five (5) existing community leach (drain) fields. In 2008, one of the leach fields was bypassed as the field had become oversaturated and needed idle time to “re-charge”. This unique system, to our knowledge, is the only such system in Kentucky and there is only a handful in the United States.

The FRWD #1 has done an admirable job operating and maintaining the system to date; however, after 30 years, the system, particularly the pump stations, is in need of repair. The proposed project will benefit all of the 107 customers – roughly 341 total residents. It is anticipated that a general rate increase will be required to make the project economically feasible; however, the sewer system has not seen a rate increase since 2002. The magnitude of such a rate increase will be examined in the Summary Addendum to this report, which will be forwarded under a separate cover. The FRWD #1 Board of Commissioners are requesting a 70/30 loan/grant funding package; however, understands the final eligibility of the project must be determined by the RD Staff. The District is also seeking funding from the Appalachian Regional Commission (ARC).

## **PROJECT DESCRIPTION**

The proposed project will consist of upgrading and replacement of many components within the existing pump stations. Through our field assessment and conversations with the FRWD #1 operator, areas of concern that shall be addressed are as follows:

1. Pumps – in all stations the existing pumps are in dire need of replacement. The operator has done a great job of getting by with the current equipment, however the pumps have surpassed their shelf life and the District is a blown motor or failed pump away from having a significant problem with stations overflowing and having a sanitary sewer overflow.
2. Guide Rails – in all stations the guide rails are severely corroded. Because of such conditions, it is nearly impossible to remove pumps without getting into the wet well and physically removing the pump. In order to ease the maintenance and operation of the stations, the guide rails should be replaced.
3. Control Panels – most of the pump stations need to have an updated control panel to help the station run more efficiently and prolong the life of the replacement pumps.
4. Level Controls – along with the control panel new mercury float switches are needed to update the overall control system.
5. Discharge Piping – from the pump discharge to the valve vault needs to be replaced with either Ductile Iron or PVC pipe and a new wall sleeve installed through the wet well.
6. Influent/Effluent lines at dosing tanks need to be replaced at several locations.

The proposed project will also include eliminating one of the ten (10) existing pump stations, approximately 450 LF gravity sewer line required to by-pass the station and replacing eight (8) valves. Exhibit 1 located in Appendix A outlines the location of the existing pump stations.

The Project Budget, which includes estimates of various costs and funding sources for the project, is also presented herein.

### **HEALTH HAZARDS**

As stated previously, the existing sewer system is 30 years old and has had minimal upgrades or improvements over this time period. The FRWD #1 has done an excellent job of maintaining the system and keeping it in working order. However, as the system continues to age, there are significant health risks and hazards to the Fountain Run community if actions are not taken. Potential pump failures could create sanitary sewer overflows, the poor conditions of the guide rails creates great risk for the operator in having to enter a confined space with toxic fumes.

### **HOUSEHOLD INCOME INFORMATION**

Qualifications for funding from RD are based in part on the median income level of the households affected by the project. In order to qualify for the lowest interest rate available, the

median income level for households in the project area must be below \$17,785. An examination of the 2000 U.S. Census data indicates that the median household income in the area of Fountain Run is \$11,591. Since this income level is below the required amount, the project qualifies for the poverty level interest rate on RD loan funds.

### **FINANCIAL CONSIDERATIONS**

The methodology used in developing the District's existing rate schedule was taken from the American Water Works Association, Manual M-I, Water Rates, Section 5, "Rate Design for Small Utilities" , published by the AWWA in 1991. Basic philosophy and methodology presented in other sections of that manual were also incorporated into the rate design.

It appears that, with the additional debt service and operating expenses resulting from the proposed project, a general rate increase will be required. As previously stated, the final determination of a rate increase will be made in the Summary Addendum.



**Fountain Run Water District No. 1  
Sewer System Improvements  
Opinion of Probable Cost**

Project	4166
Engineer	JR
Date	7/21/2015

**Construction Cost:**

<u>Item</u>	<u>Quantity</u>	<u>Unit</u>	<u>Unit Price</u>	<u>Total</u>
<b>Pump Station Rehab</b>				
Lift Station No. 1*	1	LS	\$24,000	\$24,000
Lift Station No. 2*	1	LS	\$25,000	\$25,000
Lift Station No. 3*	1	LS	\$24,000	\$24,000
Lift Station No. 4*	1	LS	\$24,000	\$24,000
Lift Station No. 5*	1	LS	\$24,000	\$24,000
Lift Station No. 6*	1	LS	\$24,000	\$24,000
Lift Station No. 7*	1	LS	\$25,000	\$25,000
Lift Station No. 8*	1	LS	\$25,000	\$25,000
Lift Station No. 9*	1	LS	\$24,000	\$24,000
4" Sewer Line (bypass Station No. 10)	449	LF	\$35	\$15,715
Drain Field Repairs (est.)**	1	LS	\$25,000	\$25,000

<b>Total Estimated Construction Cost</b>				<b>\$259,715</b>
			<b>USE</b>	<b>\$260,000</b>

**Engineering Fees:**

Preliminary	\$10,000			
Design/Bid/CA	\$30,300			
Inspection	\$24,500			
				<b>\$64,800</b>

**Other Costs:**

Interest During Construction				\$5,000
Refinancing of Existing Sewer Loan				\$55,000
Administration/Legal				\$10,000
Land/Rights				\$3,000
PSC				\$2,000
Construction Contingencies				\$25,200

**Total Estimated Project Cost: \$425,000**

\* Note: Unit Price includes: New Pumps, New Discharge package, ¾" Schedule 40 stainless steel guide rails, four (4) SMNO25 floats, Duplex Pump Control Panel and Labor costs.


\*\* Includes: Replacing 4-8" valves and 4-10" valves.

**Proposed Project Funding**

RD Loan	\$129,000
RD Grant	\$78,000
ARC Grant	\$218,000
<b>Total</b>	<b>\$425,000</b>

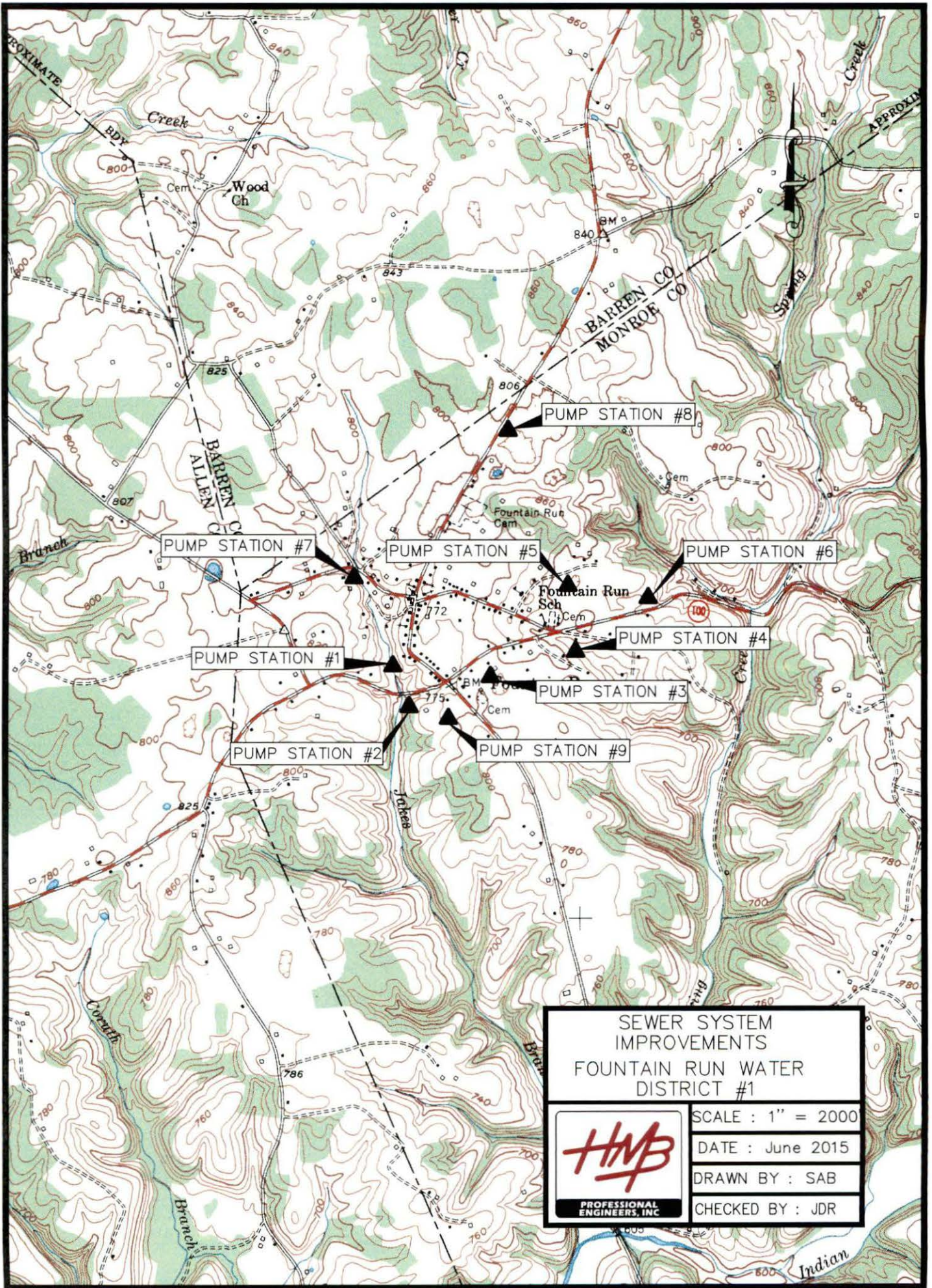
Prepared By:

HMB PROFESSIONAL ENGINEERS, INC

  
\_\_\_\_\_  
Jeff Reynolds, P.E.  
Kentucky Registration No. 20469



## Appendix A







US 460  
Frankfort, KY 40601  
Office: (502) 695-9800  
Fax: (502) 695-9810

June 8, 2016

Mark Givens, Area Specialist  
Rural Development  
957 Campbellsville Road  
Columbia, KY 42728

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JUL 6 2016

Public Service  
Commission

Re: Final Engineering Report  
Sewer Improvements Project  
Fountain Run Water District #1  
HMB #4166

Dear Mr. Givens:

As you are aware, the above referenced project was bid June 2, 2016. The low bidder for Contract I (Pump Station Rehab.) was N. E. Zabkar Corp. from Mt. Juliet, TN with a bid of \$168,944. The lower bidder for Contract II (Small Diameter Gravity Sewer) was North East Environmental Services from Grayson, KY with a bid of \$44,150.

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	\$260,000	\$213,094
Land and Rights	\$3,000	\$3,000
Legal & Administration	\$12,000	\$12,000
Engineering	\$64,800	\$62,400
Interest	\$5,000	\$5,000
Contingencies	\$25,200	\$10,655
Equipment (Backhoe)	\$0	\$63,851
<u>Refinance Existing Sewer Debt</u>	<u>\$55,000</u>	<u>\$55,000</u>
Total Project Cost	\$425,000	\$425,000

Financing:

<u>Funding Source</u>	<u>Letter of Conditions</u>
RUS Grant	\$74,000
RUS Loan	\$133,000
ARC Grant	<u>\$218,000</u>
Total Project Cost	\$425,000

It appears the project can be completed within the available funding; therefore, we recommend this contract be approved and allowed to go forward. Please contact us if there are any questions.

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: Joe Cornwell, FRWD  
Richard Jackson, Attorney  
Randy Jones, Rubin & Hayes  
Kerry Odle, HMB

- Highway Engineering
- Structural Engineering
- Water & Wastewater
- Site Development
- Right-of-Way
- Master Planning
- Environmental Planning
- Surveying
- Project Management
- Cost Estimation
- Construction Inspection
- Aviation Services
- Environmental Remediation
- Landscape Architecture



Fountain Run Water District #1  
 Contract I - Sewer Pump Station Rehab  
 Bid Date: June 2, 2016 AT 10:00 AM local time

Water/Wastewater  
 Transportation  
 Engineers  
 Environmental Planners

Project: 4166.00  
 Date: 6/2/2016  
 Engineer: JR  
 Page: 1 of 1

ITEM No.	ITEM DESCRIPTION	QUANTITY	UNIT	N E Zabkar Corp		Cumberland Pipeline, LLC		Scott & Ritter		Twin States Utilities & Excavating		UNIT PRICE	TOTAL
				UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL		
1	Pump Station #1 Rehab	1	LS	\$19,118.00	\$19,118.00	\$20,038.00	\$20,038.00	\$30,125.00	\$30,125.00	\$50,000.00	\$50,000.00		
2	Pump Station #2 Rehab	1	LS	\$19,118.00	\$19,118.00	\$20,038.00	\$20,038.00	\$30,125.00	\$30,125.00	\$50,000.00	\$50,000.00		
3	Pump Station #3 Rehab	1	LS	\$19,118.00	\$19,118.00	\$20,043.00	\$20,043.00	\$30,135.00	\$30,135.00	\$50,000.00	\$50,000.00		
4	Pump Station #4 Rehab	1	LS	\$19,118.00	\$19,118.00	\$20,032.00	\$20,032.00	\$30,120.00	\$30,120.00	\$50,000.00	\$50,000.00		
5	Pump Station #5 Rehab	1	LS	\$19,118.00	\$19,118.00	\$20,038.00	\$20,038.00	\$30,125.00	\$30,125.00	\$50,000.00	\$50,000.00		
6	Pump Station #6 Rehab	1	LS	\$19,118.00	\$19,118.00	\$20,038.00	\$20,038.00	\$30,125.00	\$30,125.00	\$50,000.00	\$50,000.00		
7	Pump Station #7 Rehab	1	LS	\$19,118.00	\$19,118.00	\$20,038.00	\$20,038.00	\$30,125.00	\$30,125.00	\$50,000.00	\$50,000.00		
8	Pump Station #8 Rehab	1	LS	\$19,118.00	\$19,118.00	\$23,207.00	\$23,207.00	\$30,685.00	\$30,685.00	\$50,000.00	\$50,000.00		
9	Bypass Connection	8	EA	\$2,000.00	\$16,000.00	\$2,520.00	\$20,160.00	\$3,280.00	\$26,240.00	\$2,000.00	\$16,000.00		
<b>BID TOTALS:</b>					<b>\$168,944.00</b>		<b>\$183,632.00</b>		<b>\$267,805.00</b>		<b>\$416,000.00</b>		




Fountain Run Water District #1  
 Contract II - Small Diameter Gravity Sewer  
 Bid Date: June 2, 2016 AT 10:00 AM local time

Water/Wastewater  
 Transportation  
 Engineers  
 Environmental Planners

ITEM No.	ITEM DESCRIPTION	QUANTITY	UNIT	North East Kentucky Environmental Services		Scott & Ritter, Inc		Twin States Utilities & Excavating		Fletcher Excavating, LL		Cumberland Pipeline, LLC	
				UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL	UNIT PRICE	TOTAL
1	4" Small Diameter Gravity Sewer. PVC CI 200 Pipe, SDR-21. Furnishing, Trenching, Installing and Backfilling (Unclassified Excavation)	925	LF	\$18.00	\$16,650.00	\$22.42	\$20,738.50	\$35.00	\$32,375.00	\$44.42	\$41,088.50	\$31.78	\$29,396.50
2	4" PVC Sewer Cleanout	5	EA	\$400.00	\$2,000.00	\$246.53	\$1,232.65	\$550.00	\$2,750.00	\$840.00	\$4,200.00	\$784.00	\$3,920.00
3	Connection to Existing Sewer Line	3	EA	\$500.00	\$1,500.00	\$797.26	\$2,391.78	\$300.00	\$900.00	\$332.00	\$996.00	\$905.00	\$2,715.00
4	Electronic Marker System (EMS), Full Range Marker. Furnishing and Installation	14	EA	\$50.00	\$700.00	\$55.87	\$782.18	\$40.00	\$560.00	\$44.00	\$616.00	\$45.00	\$630.00
5	Pump Station #9 Modifications	1	LS	\$2,500.00	\$2,500.00	\$5,046.37	\$5,046.37	\$5,000.00	\$5,000.00	\$2,000.00	\$2,000.00	\$8,675.00	\$8,675.00
6	10" Plug Valve Replacement	4	EA	\$3,000.00	\$12,000.00	\$4,730.23	\$18,920.92	\$3,300.00	\$13,200.00	\$3,000.00	\$12,000.00	\$3,712.00	\$14,848.00
7	8" Plug Valve Replacement	4	EA	\$2,200.00	\$8,800.00	\$3,971.90	\$15,887.60	\$2,800.00	\$11,200.00	\$1,900.00	\$7,600.00	\$3,019.00	\$12,076.00
<b>BID TOTALS:</b>					<b>\$44,150.00</b>		<b>\$65,000.00</b>		<b>\$65,985.00</b>		<b>\$68,500.50</b>		<b>\$72,260.50</b>

This is to state that the above is an accurate tabulation of bids received on June 2, 2016 by the Fountain Run Water District #1 for the Sewer System Improvements Project

Signed:   
 Jeff Reynolds, PE  
 Kentucky PE No. 20469

Application

CONTAINS

MAP(S)

RECEIVED ON:

7/06/2016