

Q1. Refer to Northern District's Petition, Exhibit A at 8 and 10.

Q1a. State whether any of the debts listed in "Gross Debt Service Structure Report (Senior Debt Only After Series 2012 Refunding)" take a subordinate or inferior position to other debts listed in this report. If yes, identify those debts and the debts to which they are subordinate.

A1a. None of these debts have a subordinate position.

Q1b. State whether any of the loans from the Kentucky Infrastructure Authority ("KIA"), which are listed in "Gross Debt Service Structure Report After Series 2012 Refunding" have a subordinate or inferior position to any of the debts listed in "Gross Debt Service Structure Report (Senior Debt Only After Series 2012 Refunding)." If yes, identify each of the KIA Debts that have a subordinate position and the debts to which the KIA debt is inferior.

A1b. The KIA debts are subordinate to the Series Revenue Bond issues refer to Petition Exhibit A.

Q1c. Provide for each KIA debt listed in "Gross Debt Service Structure Report After Series 2012 Refunding)" a copy of the loan agreement, promissory note, and security interest agreement for that debt.

A1c. Agreements are attached.

Q1d. For each KIA debt listed in "Gross Debt Service Structure Report After Series 2012 Refunding),"

- (1) State the debt service coverage that KIA required
- (2) State the section of the loan agreement with KIA where this debt service coverage amount is found.

A1d(1): See attached from Peck Shaffer and Williams

A1d(2): See attached from Peck Shaffer and Williams



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September 4, 2012

Mr. Jack Bragg, VP Finance & Support Services  
Northern Kentucky Water District  
2835 Crescent Springs Road  
Erlanger, Kentucky 41018

Re: Subordinate Status of all Northern Kentucky Water District KIA Indebtedness

Dear Mr. Bragg:

You have asked us to address the question of whether the KIA indebtedness is subordinate to the senior bonded indebtedness of the District. The following excerpt from the Assistance Agreement that deals with just this question:

"Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof."

Additionally, "EXHIBIT G – ADDITIONAL COVENANTS AND AGREEMENTS" provides the following:

The Loan will take a subordinate position to any future parity debt issued by the Governmental Agency ("Parity Debt"), subject to compliance by the Governmental Agency with the following conditions:

- a. The "coverage" requirement in the existing general bond resolution adopted by the Governmental Agency on November 19, 1985, as amended and supplemented on November 17, 1987 (collectively, the "General Bond Resolution") must be met. This requirement specifies that there shall be filed a certificate prepared by an independent firm of certified public accountants demonstrating that the net annual income and revenues of the System are at least 1.20 times the maximum annual debt service requirements.
- b. At the time of the issuance of any additional parity debt under the Bond Ordinance, the Governmental Agency must submit to the Authority a certificate by a firm of certified public accountants certifying coverage of 110% after taking

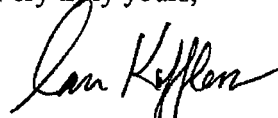
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into account the debt then proposed to be issued as well as all subordinate debt outstanding including the Authority's loan. The methodology for calculating such coverage shall be the same as is applied under the General Bond Resolution for the parity test.

As long as the District, is in compliance with the requirements set forth above and satisfies the question," if the KIA indebtedness is subordinate to the Senior Debt of the District."

Should you have any questions please contact the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ian Koffler". The signature is written in a cursive style with a large initial "I".

Ian F. Koffler, Esq.

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

FUND F

PROJECT NUMBER: F06-03  
BORROWER: Northern Kentucky Water District  
BORROWER'S ADDRESS: 2835 Crescent Spring Road  
Erlanger, Kentucky 41018  
DATE OF ASSISTANCE AGREEMENT: January 1, 2007  
CFDA NO.: 66.468

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ASSISTANCE AGREEMENT

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## ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the date set forth on the cover page hereof (the "Assistance Agreement") by and between the KENTUCKY INFRASTRUCTURE AUTHORITY, a body corporate and politic, constituting a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky (the "Authority") and the Governmental Agency identified on the cover of this Assistance Agreement (the "Governmental Agency"):

### WITNESSETH

WHEREAS, the General Assembly of the Commonwealth of Kentucky, being the duly and legally constituted legislature of Kentucky at its 1988 Regular Session, enacted House Bill 217 amending Chapter 224A of the Kentucky Revised Statutes (the "Act"), creating the "Kentucky Infrastructure Authority" to serve the public purposes identified in the Act; and

WHEREAS, the Authority has established its Program as hereinafter defined, for the purpose of providing financial assistance to Governmental Agencies, as defined in the Act, in connection with the acquisition and construction of Projects, as defined in the Act, in order to preserve, protect, upgrade, conserve, develop, utilize and manage the resources of the Commonwealth of Kentucky (the "Commonwealth") for the protection and preservation of the health, safety, convenience, and welfare of the Commonwealth and its citizens, and in that respect to assist and cooperate with Governmental Agencies in achieving such purposes; and

WHEREAS, the Program is funded in part, pursuant to the Capitalization Grant Operating Agreement between the Authority and the U.S. Environmental Protection Agency dated as of November 1, 1998 (the "Federal Agreement") under which the Authority is responsible for providing certain "match funding" described in the Federal Agreement; and

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of February 1, 2000 (the "Indenture") between the Authority and National City Bank of Kentucky (the "Trustee") in order to provide the "match funding" for the Program; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to finance the acquisition and construction of the Project, as hereinafter defined, and the Authority has determined that the Project is a Project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Authority; and

WHEREAS, the Governmental Agency desires to enter into this Assistance Agreement with the Authority for the purpose of securing from the Authority the repayable Loan hereinafter identified; and

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WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to repay the Loan and the interest thereon from the sources herein provided, all as hereinafter more specifically provided; and

WHEREAS, the Authority and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants, and obligations with respect to the acquisition, construction and financing of the Project and the repayment of the Loan and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

## ARTICLE I

### DEFINITIONS

All of the terms utilized in this Assistance Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Assistance Agreement by reference, the same as if set forth hereby verbatim; provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 224A of the Kentucky Revised Statutes, as amended.

"*Administrative Fee*" means the charge of the Authority for the servicing of the Loan, which is the annual percentage charged against the unpaid principal balance of the Loan as identified in the Project Specifics.

"*Architects*" means the firm of consulting architects employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Assistance Agreement*" shall mean this agreement made and entered into by and between a Governmental Agency and the Authority, as authorized by the Act, providing for a Loan to the Governmental Agency by the Authority, and for the repayment thereof to the Authority by the Governmental Agency.

"*Authority*" shall mean the Kentucky Infrastructure Authority created by the Act, a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the Commonwealth of Kentucky, or such other designation as may be effected by future amendments to the Act.

"*Bond*" or "*Bonds*" or "*Revenue Bonds*" shall mean any Kentucky Infrastructure Authority Bond or Bonds, or the issue of such Bonds, as the case may be, authenticated and delivered under the Indenture.

"*Business Day*" shall mean any day other than a Saturday, Sunday or other legal holiday on which the general offices of the Commonwealth are closed.

"*Cabinet*" means the Natural Resources and Environmental Protection Cabinet of the Commonwealth.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"*Commonwealth*" shall mean the Commonwealth of Kentucky.

"*Construction*" shall mean construction as defined in the Act.

"*Debt Obligations*" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance

Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

"*Drinking Water Supply Project*" shall mean the planning, design and construction of drinking water treatment and distribution systems, including expenditures to address Federal Act health goals, or to address situations where compliance standards have been exceeded or to prevent future violations of rules, and may further include drinking water treatment plants, including basins for rapid mix, flocculation, coagulation, filtration, pre-treatment disinfection, and disinfection prior to entry to the distribution system; distribution systems; storage tanks; intake lines and short-term water storage; clearwells; drilled wells and wellhead areas; and any other structure or facility considered necessary by the Natural Resources Cabinet of the Commonwealth of Kentucky to the efficient and sanitary operation of a public water system and complies with the requirements of the Federal Act.

"*Engineers*" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Federal Act*" shall mean the Federal Safe Drinking Water Act, as amended, 42 U.S.C. Section 1401, et seq.

"*Governmental Agency*" shall mean any incorporated city or municipal corporation, or other agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate infrastructure projects, including specifically but not by way of limitation, incorporated cities, counties, including any counties containing a metropolitan sewer district, sanitation districts, water districts, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Assistance Agreement shall mean the Governmental Agency identified in the Project Specifics.

"*Indenture*" shall mean the General Trust Indenture dated as of February 1, 2000 between the Authority and the Trustee.

"*Interagency Agreement*" means the Memorandum of Understanding dated as of July 1, 1999 between the Authority and the Cabinet, as the same may be amended or supplemented from time to time.

"*Loan*" shall mean the loan effected under this Assistance Agreement from the Authority to the Governmental Agency in the principal amount set forth in the Project Specifics, for the purpose of defraying the costs incidental to the Construction of the Project.

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"*Loan Rate*" means the rate of interest identified in the Schedule of Payments.

"*Person*" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"*Program*" shall mean the program authorized by KRS 224A.1115 and the Indenture as the "federally assisted drinking water revolving fund" for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

"*Project*" shall mean, when used generally, a Drinking Water Supply Project, and when used in specific reference to the Governmental Agency, the Project described in the Project Specifics.

"*Project Specifics*" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Assistance Agreement.

"*Requisition for Funds*" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Authority as the Construction of the Project progresses.

"*Resolution*" means the resolution of the Governmental Agency attached hereto as Exhibit D authorizing the execution of this Assistance Agreement.

"*Schedule of Payments*" means the principal and interest requirements of the Loan as set forth in Exhibit F hereto, to be established and agreed to upon or prior to the completion of the Project.

"*Schedule of Service Charges*" shall mean those general charges to be imposed by the Governmental Agency for services provided by the System, as set forth in Exhibit C hereto, and such other revenues identified in Exhibit C hereto from which the Loan is to be repaid, which Schedule of Service Charges shall be in full force and effect to the satisfaction of the Authority

"*Service Charges*" shall mean any monthly, quarterly, semi-annual, or annual charges, surcharges or improvement benefit assessments to be imposed by a Governmental Agency, or by the Authority, in respect of the System, which Service Charges arise by reason of the existence of, and requirement of, any Assistance Agreement and for the purposes of this Assistance Agreement said Service Charges shall be no less than those set forth in the Schedule of Service Charges.

"*System*" shall mean the water system owned and operated by the Governmental Agency of which the Project shall become a part and from the earnings of which (represented by the Service Charges) the Governmental Agency shall repay the Authority the Loan hereunder.



## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Authority. The Authority represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Authority is a body corporate and politic constituting a governmental agency and instrumentality of the Commonwealth, has all necessary power and Authority to enter into, and perform its obligations under, this Assistance Agreement, and has duly authorized the execution and delivery of this Assistance Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Authority, there is no litigation or proceeding pending or threatened against the Authority or any other person affecting the right of the Authority to execute or deliver this Assistance Agreement or to comply with its obligations under this Assistance Agreement. Neither the execution and delivery of this Assistance Agreement by the Authority, nor compliance by the Authority with its obligations under this Assistance Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Assistance Agreement and all actions of the Authority with respect thereto, are in compliance with the Act and the Federal Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of the Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Authority as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Assistance Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action of the governing body of the Governmental Agency.

~~(C) This Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability hereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.~~

(D) To the knowledge of the Governmental Agency, there is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Assistance Agreement or to proceed with the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Assistance Agreement or the Construction of the Project, or in any way contesting or affecting the validity of this Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Assistance Agreement.

(E) The authorization and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Assistance Agreement and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has all licenses, permits and other governmental approvals (including but not limited to all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, to charge and collect the Service Charges and to enter into this Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project, and has full right, power and authority to perform the acts and things as provided for in this Assistance Agreement.

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(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

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(J) The Governmental Agency is in full compliance with all federal and state labor and procurement laws in connection with the planning, design, acquisition and construction of the Project.

(K) Project is consistent with the water supply plan developed pursuant to 401 KAR 4:220 for the county in which the Governmental Agency is located.

## ARTICLE III

### AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. Pursuant to the terms of the Act and the Indenture, the Authority has determined that the Governmental Agency's Project is a Drinking Water Supply Project under the Act and the Governmental Agency is entitled to financial assistance from the Authority in connection with financing the Construction of the Project.

Section 3.2. Principal Amount of Loan Established; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be the Loan Amount as identified in the Project Specifics, subject to such adjustments as may be set forth in the Schedule of Payments. Principal payments shall be made semiannually in the amounts and on the dates to be established by the Schedule of Payments, which Schedule of Payments shall provide for approximately level debt service payments over the Repayment Term set forth in the Project Specifics, commencing with the Amortization Commencement Date set forth in the Project Specifics.

The Loan shall bear interest, payable semiannually, at the Loan Rate identified in the Project Specifics, and after the Amortization Commencement Date, in the amounts (based on such Loan Rate) and on the dates set forth in the Schedule of Payments; provided that, should an Event of Default occur, such payments of interest shall be made on the first day of each month during the continuation of such Event of Default.

The Authority shall advance the proceeds of the Loan as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto. Each disbursement under a Requisition for Funds representing a portion of the principal amount of the Loan shall bear interest at the Loan Rate from the date of the disbursement; and shall be subject to the further requirements set forth in Article IV hereof.

Payments of principal and interest on the Loan shall be made at the principal office of the Authority or the Trustee, as designated by the Authority.

Section 3.3. Governmental Agency's Right to Prepay Loan. The Governmental Agency shall have the right to prepay and retire the entire amount of the Loan at any time without penalty upon written notice to the Authority no less than five (5) Business Days in advance of said prepayment.

Notwithstanding the foregoing, upon the determination by the Authority that it intends to issue revenue bonds secured by a pledge of the payments on the Loan, the Authority shall advise the Governmental Agency (i) of its intention to proceed with the authorization of such bonds (ii) ~~of the limitation on prepayments after such bonds are issued and (iii) that the Governmental Agency has thirty (30) days from its receipt of said notice to exercise its option to prepay the Loan.~~ Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Loan shall be limited to the terms described in such notice.

Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable

from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

## ARTICLE IV

### CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Assistance Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Authority and the Cabinet appropriate documentation, satisfactory to the Authority indicating the following:

(A) That the Authority and the Cabinet and any appropriate regulatory agency of the Commonwealth as may be designated by the Authority or the Cabinet, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to examine and inspect the Project.

(B) All real estate and interest in real estate and all personal property constituting the Project and the sites of the Project heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Authority (as described in the Project Specifics) the Authority shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of the Construction of the Project over and above the Loan, prior to the disbursement by the Authority of any portion of the Loan.

(D) The Governmental Agency shall do all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by the Engineers.

(E) Actual construction and installation incident to the Project shall be performed by either the lump-sum (fixed price) or unit price contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) Unless construction of the Project has already been initiated as of the date of this Assistance Agreement, pursuant to due compliance with state law and applicable regulations, the Project will not be advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals has been received by the Governmental Agency and furnished to the Cabinet.

(G) Duly authorized representatives of the Cabinet and such other agencies of the Commonwealth as may be charged with responsibility will have reasonable access to the construction work whenever it is in preparation or progress, and the Governmental Agency will assure that the contractor or contractors will provide facilities for such access and inspection.

(H) The construction contract or contracts shall require the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(I) A work progress schedule utilizing a method of standard acceptance in the engineering community shall be prepared prior to the institution of construction in connection with each construction contract, or, if construction has already been initiated as of the date of this Assistance Agreement, at the earliest practicable date, to indicate the proposed schedule as to completion of the Project, and same shall be maintained monthly thereafter to indicate the actual construction progress of the Project.

(J) Prior to the award of the construction contract and prior to the commencement of construction, the Governmental Agency will arrange and conduct a conference as to the Project said conference to include representatives of the Authority, the Governmental Agency, the Cabinet and any other participating federal or state agency, the Engineers, and all construction contractors, such conference to be held in accordance with guidelines established by the Authority and the Cabinet. A written brief of said conference summarizing the construction schedule, fund requirements schedule, payment authorizations, responsible parties for approval of all facets of the construction work and payment therefor, and other pertinent matters shall be prepared and distributed to each agency involved, and all construction contractors and Engineers. Provided, however, that in the event construction shall have been initiated as of the date of this Assistance Agreement, this provision may be waived.

(K) All construction contracts will be so prepared that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency may be readily itemized.

(L) Any change or changes in a construction contract will be promptly submitted to the Cabinet and any state or federal agencies.

(M) The Construction, including the letting of contracts in connection therewith, will conform in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(N) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers for the Governmental Agency and approved by state and federal agencies.

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(O) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority and the United States Environmental Protection Agency noting the participation of the Authority and the U.S. Government, respectively, in the financing of the Project.

(P) Except as otherwise provided in this Assistance Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

(Q) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Authority and the Cabinet, acting by and through their duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Authority and the Cabinet such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state assistance.

(R) The Governmental Agency shall require that each construction contractor or contractors furnish a performance and a payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the Project covered by the particular contract as security for the faithful performance of such contract.

(S) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(T) The Governmental Agency shall provide and maintain competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Cabinet, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

(U) The Governmental Agency shall demonstrate to the satisfaction of the Authority the legal capability of the Governmental Agency to enact, adopt, levy, charge, collect, enforce and remit to the Authority and the Cabinet the Service Charges of the Governmental Agency described in the Schedule of Service Charges attached to and made a part of this Assistance Agreement as Exhibit C and submit proof satisfactory to the Authority that the Service Charges are in full force and effect

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Section 4.2. Additional Conditions to Disbursement Required Under the Federal Agreement. The Governmental Agency, in order to comply with the terms and conditions of the Federal Agreement, further covenants and further agrees to additional conditions to disbursement, as follows:

(A) Notwithstanding any other agreements contained herein regarding the maintenance of books and records, that it shall maintain Project accounts in accordance with



generally accepted governmental accounting standards, as required by the Federal Agreement. The Governmental Agency shall retain such records for no less than three (3) years following the final payment by the Governmental Agency under this Assistance Agreement or if any portion of the Project is disposed of, until at least three (3) years after such disposition; provided that if any litigation, claim, appeal or audit is commenced prior to the end of such period such records shall be maintained until the completion of such action or until three (3) years after such commencement, whichever is later.

(B) That it has not and will not apply any other federal funding to the Project in a manner that would cause it to receive "double benefits" as described in Section 603 of the Water Quality Act of 1987.

(C) That all property required for the completion of the Project shall be obtained, by easement, purchase or other means acceptable to the Authority, prior to commencement of construction and that the relocation of any Person resulting therefrom be in accordance with 49 CFR24 for Uniform Relocation Assistance and Real Property Acquisition Act of 1970.

(D) That all Project contractors shall be required to retain Project records for the periods established for the retention of the Governmental Agency's records in Section 4.2(A).

(E) That no more than fifty percent (50%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the final plan for operation for the Project.

(F) That no more than ninety percent (90%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the draft operations and maintenance manual.

(G) That final disbursement will not be allowed until approval by the Cabinet of a final operations and maintenance manual.

(H) That, as required by 40 CFR 35.2218, all engineering services regarding construction and regarding the first year of operation of the Project shall be provided for, including the following:

- (1) The operation of the Project and the revision of the operations and maintenance manual as necessary to accommodate actual operating experience;
- (2) The training of operating personnel, including preparation of curricula and training material for operating personnel; and
- (3) Advice as to whether the Project is meeting the Project performance standards (including three quarterly reports and one project performance report).

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(I) That it shall advise the Cabinet and the Authority in writing of the date for initiation of operation of the Project.

(J) That one year after operation is initiated, it shall certify to the Cabinet and the Authority that the Project is capable of meeting the Project performance standards.

(K) That it shall provide that qualified inspectors are present at the construction site. A summary of such inspector's qualifications and experience shall be submitted to the Cabinet and the Authority.

(L) That it shall notify the Authority and the Cabinet of the completion date of the Project.

(M) That it agrees to the terms and conditions of its application for assistance and the Authority's commitment to provide assistance, the terms of which are incorporated herein by reference.

(N) That all measures required to minimize water pollution to affected waters shall be employed in the Project including compliance with Section 404 of PL 92-500, as amended, it being understood that approval of the Project does not constitute sanction or approval of any changes or deviations from established water quality standards, criteria implementation dates, or dates established by enforcement proceedings.

Section 4.3. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) and the Cabinet a Requisition for Funds prior to the fifth day of each month (or such other designated period as is acceptable to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

(A) A full and complete accounting of the costs of the planning and design of the Project to be obligated by contract or otherwise during the month in question, or already obligated and not included in any previous accounting;

(B) A full and complete accounting of any costs of the planning and design of the Project paid by the Governmental Agency from its own funds with the approval of the Authority and not included in any previous accounting for which it seeks reimbursement;

(C) A full and complete accounting of any costs of the planning and design of the Project paid or requisitioned under any other financing, loan, bond, grant or similar agreement or paid from its own funds for which it does not seek reimbursement and which have not been identified in any previous requisition form.

(D) The Contractor's estimate of work performed during the preceding month pursuant to construction contracts for the Project and payment thereunder due, together with the Engineer's and Governmental Agency's approval thereof for disbursement by the Authority.

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~~Upon the Authority's receipt of the Requisition for Funds, and such additional documentation as it may require, and subject to certification by the Cabinet, the Authority may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.~~

## ARTICLE V

### CERTAIN COVENANTS OF THE GOVERNMENTAL AGENCY; PAYMENTS TO BE MADE BY GOVERNMENTAL AGENCY TO THE AUTHORITY

Section 5.1. Imposition of Service Charges. The Governmental Agency hereby irrevocably covenants and agrees to comply with all of the terms, conditions and requirements of this Assistance Agreement, pursuant to which the Loan is to be made by the Authority to the Governmental Agency as specified herein and in the Act and the Indenture. The Governmental Agency hereby further irrevocably covenants and agrees that it already has, or will, to the extent necessary, immediately impose Service Charges upon all persons, firms and entities to whom or which services are provided by the System, such Service Charges to be no less than as set forth in Exhibit C annexed hereto. If so required, such Service Charges shall be in addition to all other rates, rentals and service charges of a similar nature of the Governmental Agency now or hereafter authorized by law, and now or hereafter being levied and collected by the Governmental Agency and shall be levied and collected solely for the purpose of repaying to the Authority all sums received from the Authority as representing the Loan in respect of the Project.

Section 5.2. Governmental Agency's Obligation to Repay Loan. The obligation of the Governmental Agency to repay to the Authority the amount of the Loan from the Service Charges shall not be revocable, and in the event that services supplied by the Project shall cease, or be suspended for any reason, the Governmental Agency shall continue to be obligated to repay the Loan from the Services Charges. In the event the Governmental Agency defaults in the payment of any Service Charges to the Authority, the amount of such default shall bear interest at the per annum rate equal to the Default Rate set forth in the Project Specifics, from the date of the default until the date of the payment thereof.

Section 5.3. Covenant to Adjust Service Charges. In the event, for any reason, the Schedule of Service Charges shall prove to be insufficient to provide to the Authority the minimum sums set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, the Governmental Agency hereby covenants and agrees that it will, upon notice by the Authority, to the full extent authorized by law, both federal and state, immediately adjust and increase such Schedule of Service Charges, or immediately commence proceedings for a rate adjustment and increase with all applicable regulatory authorities, so as to provide funds sufficient to pay to the Authority the minimum sums set forth in the Schedule of Payments, to provide for the operation of the System as required under this Assistance Agreement and to make the required deposits to the Maintenance and Replacement Reserve.

Section 5.4. Adequacy of Service Charges. The Service Charges herein covenanted to be imposed by the Governmental Agency shall be fixed at such rate or rates (and it is represented that the Schedule set forth in Exhibit C hereto so qualifies), as shall be at least adequate to make ~~the payments at the times and in the amounts set forth in the Schedule of Payments, to make the~~ required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, subject to necessary governmental and regulatory approvals.

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment period set forth in the Project Specifics, and shall be remitted to the Authority by the

Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Schedule of Payments.

Section 5.5. Covenant to Establish Maintenance and Replacement Reserve. The Governmental Agency shall establish a special account identified as a "Maintenance and Replacement Reserve". The Governmental Agency shall deposit into the Maintenance and Replacement Reserve an amount equal to the amount set forth in the Project Specifics at the times set forth in the Project Specifics. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

Section 5.6. Covenant to Charge Sufficient Rates; Reports; Inspections. The Governmental Agency hereby irrevocably covenants and agrees with the Authority:

(A) That, as aforesaid, it will at all times impose, prescribe, charge and collect the Service Charges set forth in Exhibit C as shall result in net revenues to the Governmental Agency at least adequate to provide for the payments to the Authority required by this Assistance Agreement, to provide for the operation of the System and to make the required deposits to the Maintenance and Replacement Reserve.

(B) That it will furnish to the Authority and the Cabinet not less than annually reports of the operations and income and revenues of the System, and will permit authorized agents of the Authority to inspect all records, accounts and data of the System at all reasonable times.

(C) That it will collect, account for and promptly remit to the Authority those specific revenues, funds, income and proceeds derived from Service Charges incident to this Assistance Agreement.

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations. It further covenants that it will not issue any notes, bonds or other obligations payable from the revenues of the System, if the pledge of the revenues of the System to the repayment of such obligations is to rank on a parity with, or superior to, the pledge of the revenues of the System for the repayment of the Loan granted under this Assistance Agreement, unless the Governmental Agency has secured the consent of the Authority not less than fifteen (15) days prior to the issuance of such obligations.

Section 5.7. Segregation of Funds. The Governmental Agency shall at all times account for the income and revenues of the System and distinguish same from all other revenues, moneys and funds of the Governmental Agency, if any.

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## ARTICLE VI

### OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

Section 6.1. Further Assurance. At any time and all times the Governmental Agency shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 6.2. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency.

Section 6.3. Establishment of Completion Date. The completion date for the Project shall be evidenced to the Authority by a certificate signed by the Engineer and an authorized representative of the Governmental Agency stating that, except for amounts retained by the Authority for costs of the Project not then due and payable, (i) the Construction has been completed and all labor, services, materials, supplies, machinery and equipment used in such Construction have been paid for, (ii) all other facilities necessary in connection with the Project have been acquired, constructed, equipped and installed and all costs and expenses incurred in connection therewith have been paid, (iii) the Project and all other facilities in connection therewith have been acquired, constructed, equipped and installed to his satisfaction.

Section 6.4. Commitment to Operate. The Governmental Agency hereby covenants and agrees to commence operation of the Project immediately on completion of construction and not to discontinue operations or dispose of such Project without the approval of the Authority.

Section 6.5. Continue to Operate. The Governmental Agency hereby covenants and agrees to continuously operate and maintain the Project in accordance with applicable provisions of federal and state law and to maintain adequate records relating to said operation; said records to be made available to the Authority upon its request at all reasonable times.

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the funds for the Loan, the Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Authority in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, ~~(ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Authority.~~ The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in accordance with the "Uniform System of

Accounts" established by the Commonwealth, in which complete and accurate entries shall be made of all its transactions relating to the System and which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within ninety (90) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principles on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity.

Section 6.9. General Compliance With All Duties. The Governmental Agency shall faithfully and punctually perform all duties with reference to the Project and the System required by the Constitution and laws of the Commonwealth, and by the terms and provisions of this Assistance Agreement and any other Debt Obligations.

Section 6.10. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act, the Federal Act and this Assistance Agreement in accordance with the terms of such provisions including the Additional Covenants and Agreements, if any, set forth in Exhibit G hereto.

Section 6.11. Further Covenants under the Federal Agreement. The Governmental Agency shall comply with all further requirements or conditions which may arise from time to time in order to assure compliance with the Federal Act, and with the agreements of the Authority set forth in the Federal Agreement, including but not limited to the following:

(A) The Governmental Agency shall provide all information requested of it by the Authority or the Cabinet so that (i) the Grants Information Control System, referred to in the Federal Agreement, can be maintained, (ii) the accounting and auditing procedures required by the Federal Act can be maintained and (iii) the Authority can furnish the information required of its under the Federal Agreement.

(B) Qualified operating personnel, properly certified by the Cabinet, shall be retained by the Governmental Agency to operate the Project during the entire term of this Assistance Agreement. An approved plan of operating and an operations and maintenance manual for the Project shall be provided by the Governmental Agency to the Cabinet and the Authority. The Project shall be operated and maintained in an efficient and effective manner.

(C) All residents in the service area of the Project must be offered the same opportunity to become users of the Project regardless of race, creed, color, or level of income.

(D) The Governmental Agency shall comply with provisions contained in the following federal regulations, orders, acts and circulars and the following statutes and regulations of the Commonwealth.

(1) Federal Cross-Cutters

Environmental Authorities

- (a) Archeological and Historic Preservation Act of 1974, Pub. L. 86-523, as amended
- (b) Clean Air Act, Pub. L. 84-159, as amended
- (c) Coastal Barrier Resources Act, Pub. L. 97-348
- (d) Coastal Zone Management Act, Pub. L. 93-583, as amended
- (e) Endangered Species Act, Pub. L. 93-205, as amended
- (f) Environmental Justice, Executive Order 12898
- (g) Floodplain Management, Executive Order 11988 as amended by Executive Order 12148
- (h) Protection of Wetlands, Executive Order 11990
- (i) Farmland Protection Policy Act, Pub. L. 97-98
- (j) Fish and Wildlife Coordination Act, Pub. L. 85-624, as amended
- (k) National Historic Preservation Act of 1966, PL 89-665, as amended
- (l) Safe Drinking Water Act, Pub. L. 93-523, as amended
- (m) Wild and Scenic Rivers Act, Pub. L. 90-542, as amended

Economic and Miscellaneous Authorities

- (a) Demonstration Cities and Metropolitan Development Act of 1966, Pub. L. 89-754, as amended, Executive Order 12372
- (b) Procurement Prohibitions under Section 306 of the Clean Air Act and Section 508 of the Clean Water Act, including Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans.
- (c) Uniform Relocation and Real Property Acquisition Policies Act, Pub. L. 91-646, as amended
- (d) Debarment and Suspension, Executive Order 12549

Social Policy Authorities

- (a) Age Discrimination Act of 1975, Pub. L. 94-135
- (b) Title VI of the Civil Rights Act of 1964, Pub. L. 88-352
- (c) Section 13 of the Federal Water Pollution Control Act Amendments of 1972, Pub. L. 92-500 (the Clean Water Act)
- (d) Section 504 of the Rehabilitation Act of 1973, Pub. L. 93-112 (including Executive Orders 11914 and 11250)
- (e) Equal Employment Opportunity, Executive Order 11246
- (f) Women's and Minority Business Enterprise, Executive Orders 11625, 12138, and 12432

(g) Section 129 of the Small Business Administration Reauthorization and Amendment Act of 1988, Pub. L. 100-590

(2) State:

- (a) KRS 224
- (b) KRS 224A.1115 Federally Assisted Drinking Water Revolving Fund
- (c) KRS Chapter 337, Labor Laws
- (d) 401 KAR Chapter 5

Section 6.12. Continuing Disclosure Obligation. The Governmental Agency covenants and agrees that notwithstanding any other provision of this Assistance Agreement to the contrary, upon written notice from the Authority that the Schedule of Payments provides ten percent (10%) or more of the debt service requirements on an issue of the Authority's Bonds and that compliance by the Governmental Agency with the requirements of Securities and Exchange Commission Rule 15c2-12, as amended (the "SEC Rule") is required in connection with the Authority's Bonds, the Governmental Agency shall provide to the Authority such information as may be required by the Rule, within the time periods set out in such notice by the Authority, to enable the Authority to establish to the satisfaction of prospective purchasers of the Authority's Bonds that the requirements of the SEC Rule will be satisfied in connection with the issuance of the Authority's Bonds. The Governmental Agency further understands and agrees that the Authority shall act as the Governmental Agency's disclosure agent for purposes of compliance with the SEC Rule and that upon a failure by the Governmental Agency to provide the information required to be provided under the SEC Rule within the time frame specified in such notice, the Authority and/or the beneficial owners and holders of the Authority's Bonds shall be specifically granted the right of enforcing the provisions of this Section 6.12 by an action in mandamus, for specific performance, or similar remedy to compel performance.



## ARTICLE VII

### MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

Section 7.1. Maintain System. The Governmental Agency agrees that during the entire term of this Assistance Agreement, it will keep the Project, including all appurtenances thereto, and the equipment and machinery therein, in good and sound repair and good operating condition at its own cost so that the completed Project will continue to provide the services for which the System is designed.

Section 7.2. Additions and Improvements. The Governmental Agency shall have the privilege of making additions, modifications and improvements to the sites of the Project, and to the Project itself from time to time provided that said additions, modifications and improvements do not impair the operation or objectives of the Project. The Cost of such additions, modifications and improvements shall be paid by the Governmental Agency, and the same shall be the property of the Governmental Agency and shall be included under the terms of this Assistance Agreement as part of the site of the Project, or the Project, as the case may be. Nothing herein contained shall be construed as precluding the Authority and the Governmental Agency from entering into one or more supplementary Assistance Agreements providing for an additional Loan or Loans in respect of additional Projects undertaken by the Governmental Agency.

Section 7.3. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not, without the prior written consent of the Authority, which consent shall not be unreasonably withheld, sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the System or any part thereof (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 7.4. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.5. Access to Records. The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the Project, and commencement of operations thereof.

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~~Section 7.6. Covenant to Insure Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.~~

Section 7.7. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.8. Covenant to Insure - Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal injury, death and property damage) and in such amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.9. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.10. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.11. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

(A) The restoration of the improvements located on the Project sites to substantially the same condition as prior to the exercise of said power of eminent domain; or

(B) The acquisition of additional property, if necessary, and the acquisition of additional facilities by construction or otherwise, equivalent to the Project facilities, which property and facilities shall be deemed to be a part of the Project sites and a part of the ~~Project facilities and to be substituted for Project facilities so taken by eminent domain,~~ without the payment of any amount other than herein provided, to the same extent as if such property and facilities were specifically described herein.

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.11, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an authorized officer of the Governmental Agency to the effect that the Governmental Agency has

complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Project or any part thereof without the written consent of the Authority.

Section 7.12. Flood Insurance. All structures located in flood prone areas shall be covered by flood insurance carried by the Governmental Agency for an amount equal to the total Project cost excluding the cost of land and any uninsurable improvements, or for the maximum limit available under the National Flood Insurance Act of 1968, as amended, whichever is less, for the entire useful life of the Project.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

Section 8.1. Events of Default Defined. The following will be "Events of Default" under this Assistance Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Assistance Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any payments specified herein at the times specified herein.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Authority unless the Authority agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

(D) A default by the Governmental Agency under the provisions of any agreements relating to its Debt Obligations.

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing (other than an event of default arising under Section 6.13 of this Assistance Agreement), the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Schedule of Payments, to be immediately due and payable.

(B) Exercise all the rights and remedies of the Authority set forth in the Act.

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(C) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights under this Assistance Agreement.

(D) Submit a formal referral to the appropriate federal agency, as required by the Federal Agreement.

The sole remedies for an Event of Default under this Assistance Agreement arising by virtue of the failure of the Governmental Agency to comply with the provisions of Section 6.10 hereof shall be those remedies specifically set forth in Section 6.10 hereof

Section 8.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 8.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 8.5. Consent to Powers of Authority Under Act. The Governmental Agency hereby acknowledges to the Authority its understanding of the provisions of the Act, vesting in the Authority certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Authority should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Authority in the due and prompt implementation of this Assistance Agreement.

Section 8.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 8.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto will default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

## ARTICLE IX

### MISCELLANEOUS PROVISIONS

Section 9.1. Approval not to be Unreasonably Withheld. Any approval of the Authority required by this Assistance Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Authority, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Assistance Agreement requiring the approval of the Authority or the satisfaction or the evidence of satisfaction of the Authority shall be interpreted as requiring action by an authorized officer of the Authority granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 9.2. Approval. This Agreement is made subject to, and conditioned upon, the approval of this Assistance Agreement by the Secretary of the Finance and Administration Cabinet.

Section 9.3. Effective Date. This Assistance Agreement shall become effective as of the date first set forth hereinabove and shall continue in full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Assistance Agreement have been fully satisfied.

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, without the written consent of the other party.

Section 9.5. Severability. In the event that any provision of this Assistance Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 9.6. Assignability. The rights of the Authority under this Assistance Agreement shall be assignable by the Authority without the consent of the Governmental Agency, but none of the rights, duties or obligations of the Governmental Agency under this Assistance Agreement shall be assignable by the Governmental Agency without the prior written consent of the Authority.

Section 9.7. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

---

Section 9.8. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 9.9. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Assistance Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assistance Agreement to be executed by their respective duly authorized officers as of the day and year above written.

**ATTEST:**

**KENTUCKY INFRASTRUCTURE  
AUTHORITY**

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**ATTEST:**

**GOVERNMENTAL AGENCY:  
NORTHERN KENTUCKY WATER DISTRICT**

  
\_\_\_\_\_

Title: Andrew Collins, Secretary

By:   
\_\_\_\_\_

Title: Joseph Koester, Chairman

**APPROVED:**

**EXAMINED:**

\_\_\_\_\_  
SECRETARY/FINANCE AND  
ADMINISTRATION CABINET OF THE  
COMMONWEALTH OF KENTUCKY

\_\_\_\_\_  
LEGAL COUNSEL TO THE  
KENTUCKY INFRASTRUCTURE  
AUTHORITY

ENVIRONMENTAL AND PUBLIC PROTECTION  
CABINET OF THE COMMONWEALTH OF KENTUCKY

By: \_\_\_\_\_  
Director  
Division of Water

APPROVED AS TO FORM AND LEGALITY

\_\_\_\_\_  
APPROVED  
FINANCE AND ADMINISTRATION CABINET

**EXHIBIT A**  
**NORTHERN KENTUCKY WATER DISTRICT**  
**PROJECT SPECIFICS**  
**F06-03**

**GOVERNMENTAL AGENCY:**

Name: Northern Kentucky Water District  
 Address: 2835 Crescent Springs Road  
 Erlanger, KY 41018

**ENGINEER:**

Quest Engineers, Inc.  
 2517 Sir Barton Way  
 Lexington, KY 40509

**Contact**

Person: C. Ronald Lovan, P.E., President / CEO  
 Phone: (859) 578-9898 (phone)  
 Fax: (859) 578-7893 (fax)

Mr. Robert J. Sturdivant  
 (859) 223-3755 (phone)  
 (859) 223-3150 (fax)

**SYSTEM:** Drinking water

**PROJECT:** Construct improvements to the Memorial Parkway Water Treatment Plant (MPTP). The project includes (1) improvements to the Memorial Parkway Water Treatment Plant (MPTP) chemical building (2) renovation of three MPTP filters (3) rehabilitation of the MPTP clearwell (4) replacement of the Chesapeake Avenue main and (5) replacement of the Montross Avenue main.

**PROJECT BUDGET**

	Fund F Loan	Local Funds	Total
Administrative and Legal		15,928	\$ 15,928
Engineering		603,299	603,299
Construction	\$ 4,000,000	\$ 1,899,484	5,899,484
Miscellaneous		70,000	70,000
Contingencies		276,289	276,289
<b>Total Budget</b>	<b>\$ 4,000,000</b>	<b>\$ 2,865,000</b>	<b>\$6,865,000</b>

**FUNDING SOURCES**

---

KIA Fund F Loan	\$4,000,000
Local Funds	2,865,000
<b>Total Funding</b>	<b>\$6,865,000</b>



**KIA DEBT SERVICE**

Construction Loan	\$4,000,000
Interest Rate	3.00%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 267,417
Administrative Fee (0.25%)	\$ 10,000
<b>Total Estimated Annual Debt Service</b>	<b>\$ 277,417</b>

**AMORTIZATION COMMENCEMENT DATE:** June 1 and December 1

Interest payments will commence within six months from first draw of funds.  
(est 6/1/2007).

Full principal and interest payments will commence within one year of initiation of operation. (est 12/1/2008).

**REPLACEMENT RESERVE ACCOUNT:** The Northern Kentucky Water District self funds an "Improvement, Repair and Replacement Account" which is available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets as of December 31, 2005 are \$3,074,102. Based on the account already in place, the system will not be required to further fund an additional replacement reserve specifically for this loan.

**ADMINISTRATIVE FEE:** .25%

**DEFAULT RATE:** 8.0%

**DEBT OBLIGATIONS CURRENTLY OUTSTANDING:**

Issue	Amount Outstanding	Maturity Date
Series 1997 Revenue Bonds	\$6,310,000	2022
Series 1998 Revenue Bonds	\$9,805,000	2028
Series 2001 Revenue Bonds	\$15,335,000	2026
Rural Development Loan	\$2,196,000	2039
Series 2002A Revenue Bonds	\$44,430,000	2027
Series 2002B Revenue Bonds	\$9,095,000	2017
Series 2003A Revenue Bonds	\$1,545,000	2032
Series 2003B Revenue Bonds	\$28,600,000	2028
Series 2003C Revenue Bonds	\$21,200,000	2020
Series 2004 Bond Anticipation Notes	\$3,605,000	2006
Series 2004 Revenue Bonds	\$10,185,000	2029
Taylor Mill Purchase Financing	\$2,375,000	2018
Series 2005 Bond Anticipation Notes	\$17,980,000	2007
Deferred Note Payable	\$100,000	n/a
<b>Total</b>	<b>\$172,761,000</b>	

LIABILITY INSURANCE COVERAGE –

Death or personal injury (1 person): \$1,000,000

Death or personal injury (each occurrence): \$1,000,000

Property Damage: \$1,000,000

Umbrella Coverage: \$19,000,000



**PECK SHAFFER**

PECK, SHAFFER & WILLIAMS LLP  
ATTORNEYS AT LAW  
50 EAST RIVERCENTER BLVD  
SUITE 1150  
COVINGTON, KENTUCKY 41011

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888 431 7511  
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WWW.PECKSHAFFER.COM

July 13, 2009

---

Mr. Ron Lovan, President  
Northern Kentucky Water District  
2835 Crescent Springs Road  
Erlanger, KY 41018

RE: Assistance Agreement Between The Kentucky Infrastructure Authority and Northern  
Kentucky Water District Fund F08-07

Assistance Agreement Between The Kentucky Infrastructure Authority and Northern  
Kentucky Water District Fund C08-01

Dear Mr. Lovan:

We are enclosing a volume of the Transcript of Proceedings for the above-referenced issue. We would like to take this opportunity to say how much we enjoyed working on this transaction with the various members of the team and to seeing the financing to a successful conclusion.

Should questions arise in the future concerning this transaction please do not hesitate to call. Again, it was our pleasure working with each of you on this transaction and we look forward to working with you again in the future.

Very truly yours,

PECK, SHAFFER & WILLIAMS LLP

Per

  
Dirk M. Bedarff

DMB/mmw  
Encl.

ASSISTANCE AGREEMENT  
BETWEEN THE KENTUCKY INFRASTRUCTURE AUTHORITY  
AND  
NORTHERN KENTUCKY WATER DISTRICT

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TRANSCRIPT OF PROCEEDINGS

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Peck, Shaffer & Williams LLP  
Covington, Kentucky

## INDEX TO TRANSCRIPT OF PROCEEDINGS

In re: Assistance Agreement between Kentucky Infrastructure Authority (the "Authority") and Northern Kentucky Water District (the "Governmental Agency"), dated as of November 1, 2008

1. ~~Opinion of Counsel to the Governmental Agency.~~
2. General Closing Certificate of the Governmental Agency.
3. Assistance Agreement.
4. Resolution of the Governmental Agency authorizing the Assistance Agreement.
5. Extract of Minutes of the Meeting of the Board of Commissioners adopting Resolution authorizing Assistance Agreement.
6. Extract of Minutes of the Authority authorizing the Assistance Agreement.
7. Commitment Letter, including Credit Analysis.

DISTRIBUTION LIST

Mr. Ron Lovan, President  
Northern Kentucky Water District  
2835 Crescent Springs Road  
Erlanger, Kentucky 41018

Ms. Kasi White  
Kentucky Infrastructure Authority

---

1024 Capital Center Drive, Suite 340  
Frankfort, Kentucky 40601

Ms. Lola Lyle  
Resource Planning and Program Support Branch  
Division of Water  
Natural Resources and Environmental Protection Cabinet  
14 Reilly Road  
Frankfort, Kentucky 40601

Mr. Charles Lush, Jr.  
U.S. Bank National Association  
Corporate Trust Services  
Locator CN-KY-0850  
One Financial Square  
Louisville, Kentucky 40202

Dirk M. Bedarff, Esq.  
Peck, Shaffer & Williams LLP  
Suite A  
118 W. Fifth Street  
Covington, Kentucky 41011

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

FUND C

PROJECT NUMBER:

C08-01

BORROWER:

Northern Kentucky Water District

BORROWER'S ADDRESS

2835 Crescent Springs Road  
Crescent Springs, Kentucky 41018-0640

DATE OF ASSISTANCE AGREEMENT: January 1, 2009

ASSISTANCE AGREEMENT

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## FUND C

### ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the date set forth on the cover page hereof (the "Assistance Agreement") by and between the KENTUCKY INFRASTRUCTURE AUTHORITY, a body corporate and politic, constituting a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky (the "Authority") and the Governmental Agency identified on the cover of this Assistance Agreement (the "Governmental Agency").

#### WITNESSETH

WHEREAS, the General Assembly of the Commonwealth of Kentucky, being the duly and legally constituted legislature of Kentucky at its 1988 Regular Session enacted House Bill 217 amending Chapter 224A of the Kentucky Revised Statutes (the "Act"), creating the "Kentucky Infrastructure Authority" to serve the public purposes identified in the Act; and

WHEREAS, the Authority has established its Governmental Agencies Program as hereinafter defined, for the purpose of providing financial assistance to Governmental Agencies, as defined in the Act, in connection with the acquisition and construction of Projects, as defined in the Act, in order to preserve, protect, upgrade, conserve, develop, utilize and manage the resources of the Commonwealth of Kentucky (the "Commonwealth") for the protection and preservation of the health, safety, convenience and welfare of the Commonwealth and its citizens, and in that respect to assist and cooperate with Governmental Agencies in achieving such purposes; and

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of April 1, 1989 (the "Indenture") between the Authority and National City Bank of Kentucky (F/K/A First Kentucky Trust Company) (the "Trustee") in order to Provide funding for its Governmental Agencies Program; and

WHEREAS, the Governmental Agency determined that it was necessary and desirable to acquire, construct, and finance the project, as hereinafter defined, and the Authority has determined that the Project is a Project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Authority; and

WHEREAS, the Governmental Agency desires to enter into this Assistance Agreement with the Authority for the Purpose of securing from the Authority the repayable Loan hereinafter identified in order to secure to the Governmental Agency the advantages of the credit of the Authority and its ability to finance the costs incident to the Project on behalf of the Governmental Agency; and

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to levy, collect and enforce and remit adequate Service Charges, as hereinafter defined, for the services Provided by the Governmental Agency's System, as hereinafter defined,

and to apply the necessary portion of said Service Charges to the repayment of the Loan and the interest thereon, as hereinafter specifically provided; and

WHEREAS, the Authority and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants and obligations with respect to the acquisition, construction and financing of the project and the repayment of the Loan and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS.

## ARTICLE I

### DEFINITIONS

All of the terms utilized in this Assistance Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Assistance Agreement by reference, the same as if set forth hereby verbatim; provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"Act" shall mean Chapter 224A of the Kentucky Revised Statutes, as amended.

"Administrative Fee" means the charge of the Authority for the services of the Final Loan, which is the annual percentage charged against the unpaid principal balance of the Final Loan as identified in the Project Specifics.

"Applicable Interest Rate" shall mean the rate(s) of interest which shall be used as part of the repayment criteria for a Governmental Agency under an Assistance Agreement and shall be determined by the Authority in a manner based upon the source of funds from which the Project to which the Assistance Agreement relates were generated, said term shall include the terms "Interim Rate" and "Final Loan Rate".

"Assistance Agreement" shall mean this agreement made and entered into by and between a Governmental Agency and the Authority, as authorized by the Act, providing for a Loan to the Governmental Agency by the Authority, and for the repayment thereof to the Authority by the Governmental Agency.

"Authority" shall mean the Kentucky Infrastructure Authority created by the Act, a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the Commonwealth of Kentucky, or such other designation as may be effected by future amendments to the Act.

"Bond" or "Bonds" or "Revenue Bonds" shall mean any Kentucky Infrastructure Authority Bond or Bonds, or the issue of such Bonds, as the case may be, authenticated and delivered under the Indenture.

"Business Day" shall mean any day other than a Saturday, Sunday or other legal holiday on which the general offices of the Commonwealth are closed.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"Commonwealth" shall mean the Commonwealth of Kentucky.

"Construction" shall mean construction as defined in the Act.

"Costs of Issuance" shall mean only the costs of issuing a series of Bonds as designated by the Authority including, but not being limited to, the fees and charges of the financial advisors or underwriters, bond counsel, trustee, rating agencies, bond and official statement printers, costs of any credit enhancement, and such other fees and expenses normally attendant to an issue of the Authority's Bonds.

"Debt Obligations" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

"Debt Service Reserve" shall mean the reserve for payment of principal of, interest on, and redemption requirements in respect of the Bonds, created and established by the Indenture.

"Engineers" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"Final Loan" shall mean the principal amount of the Loan identified in the Project Specifics, consisting of the principal amount of the Loan, the Authority's Costs of Issuance incident to the issuance of its Bonds, the Governmental Agency's pro rata portion of the required Debt Service Reserve and the Governmental Agency's pro rata portion of the market discount or underwriting costs to the Authority in connection with the issuance of its Bonds, which Final Loan amount will be set forth in the Schedule of Payments established upon issuance of Bonds relating to the Loan.

"Final Loan Rate" means the rate identified in the Schedule of Payments; being the rate established in connection with the issuance of Bonds.

"Governmental Agencies Program" shall mean the program authorized by the Act and the Indenture for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

"Governmental Agency" shall mean any agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct and operate a Project, including specifically but not by way of limitation, incorporated cities, counties, sanitation districts, water districts, public authorities, sewer construction districts, metropolitan sewer districts, sanitation taxing districts and any other agencies, commissions, districts or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Assistance Agreement shall mean the Governmental Agency identified in the Project Specifics.

"Indenture" shall mean the General Trust Indenture dated as of April 1, 1989 between the Authority and the Trustee.

"Interim Loan" shall mean the principal amount of the Loan identified in the Project Specifics advanced by the Authority to the Governmental Agency to meet all or the designated portion of the costs of Construction.

"Interim Rate" shall mean the rate of interest identified in the Project Specifics which the Interim Loan shall bear from the date of each disbursement and which shall be payable on the Payment Dates set forth in the Project Specifics.

"Interim Term" shall mean the term of the Interim Loan which shall be the period from the first disbursement of Loan Proceeds by the Authority to the Governmental Agency to the date upon which the Authority's Bonds are issued and delivered, or such lesser term in the event the Governmental Agency shall elect to prepay its Interim Loan.

"Issue Date" shall mean, with respect to Bonds of a particular series, the date of delivery of the Bonds of such series specified and determined by the series resolution and series indenture authorizing such Bonds.

"Loan" shall mean the loan effected under this Assistance Agreement from the Authority to the Governmental Agency for the purpose of defraying the costs incidental to the permanent financing of the Construction of the Project and shall include the term "Final Loan".

"Person" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"Project" shall mean, when used generally, an infrastructure project as defined in the Act, and when used in specific reference to the Governmental Agency, the project described in the Project Specifics.

"Project Specifics" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Assistance Agreement.

"Requisition for Funds" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Final Loan from the Authority.

"Schedule of Payments" means the principal and interest requirements of the Final Loan as determined following the issuance of the Authority's Bonds and representing the Governmental Agency's pro rata portion of the principal of the Authority's Bonds and the interest accruing thereon from the date of the delivery of the Authority's Bonds as set forth in Exhibit F hereto.

"Schedule of Service Charges" shall mean those general charges to be imposed by the Governmental Agency for services provided by the System, as set forth in Exhibit C hereto, and such other revenues identified in Exhibit C from which the Loan is to be repaid, which Schedule of Service Charges shall be in full force and effect to the satisfaction of the Authority Prior to the disbursement of any portion of the Interim Loan hereunder.

"Service Charges" shall mean any monthly, quarterly, semi-annual, or annual charges, surcharges or improvement benefit assessments to be imposed by a Governmental Agency, or by

the Authority, in respect of the Project which Service Charges arises by reason of the existence of, and requirement of, any Assistance Agreement and for the purposes of this Assistance Agreement said Service Charge shall be no less than those set forth in the Schedule of Service Charges.

"System" shall mean the utility system owned and operated by the Governmental Agency of which the project shall become a part and from the earnings of which (represented by the Service Charges) the Governmental Agency shall repay the Authority the Loan hereunder.



## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Authority. The Authority represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Authority is a body corporate and politic constituting a governmental agency and instrumentality of the Commonwealth, has all necessary power and Authority to enter into, and perform its obligations under, this Assistance Agreement, and has duly authorized the execution and delivery of this Assistance Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Authority, there is no litigation or proceeding pending or threatened against the Authority or any other person affecting the right of the Authority to execute or deliver this Assistance Agreement or to comply with its obligations under this Assistance Agreement. Neither the execution and delivery of this Assistance Agreement by the Authority, nor compliance by the Authority with its obligations under this Assistance Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Assistance Agreement and all actions of the Authority with respect thereto, are in compliance with the Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of the Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Authority as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Assistance Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action of the governing body of the Governmental Agency.

(C) This Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability hereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

(D) To the knowledge of the Governmental Agency, there is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Assistance Agreement or to construct the projects or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Assistance Agreement or the construction of the Project, or in any way contesting or affecting the validity of this Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Assistance Agreement.

(E) The authorization and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Assistance Agreement and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has all licenses, permits and other governmental approvals (including but not limited to all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, to charge and collect the Service Charges and to enter into this Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the project, and has full right, power and authority to perform the acts and things as provided for in this Assistance Agreement.

(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

## ARTICLE III

### AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. Pursuant to the terms of the Act and the Indenture, the Authority has determined that the Governmental Agency's Project is a Project under the Act and the Governmental Agency is entitled to financial assistance from the Authority in connection with permanently financing the Construction of the Project.

Section 3.2. Principal Amount of Final Loan and Interim Loan Established; Disbursement of Funds; Loan Payments. The principal amount of the Interim Loan shall be as identified in the Project Specifics. The Authority shall advance the proceeds of the Interim Loan upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto. Such disbursement under a Requisition for Funds representing a portion of the principal amount of the Loan shall bear interest at the Interim Rate from the date of the disbursement; subject to the requirements set forth in Article IV hereof.

Interest on the Interim Loan shall be payable on the Payment Dates set forth in the Project Specifics and shall be calculated upon the aggregate principal amount of the Interim Loan then advanced from the date of each disbursement until the delivery of the Authority's Bonds after which interest will accrue from said date of delivery at the Final Loan Rate.

The term of the Interim Loan shall be the Period beginning with the disbursement by the Authority on behalf of the Governmental Agency of the amount set forth in Exhibit B and ending upon the date of delivery of the Authority's Bonds and the payment of the Interim Loan from the proceeds of said Bonds. Pursuant to the terms of the Indenture, the Interim Loan shall be due and payable on the next February 1 of the year that the General Assembly of the Commonwealth is not scheduled to adopt a budget for the Commonwealth, unless the Authority shall have determined prior to such date that the amounts deposited in the Revenue Fund and the Debt Service Fund prior to the next Interest Payment Date will be sufficient to pay all interest and principal installments coming due on such Interest Payment Date. In addition, if the Authority fails to issue Bonds for the payment of the Interim Loan within three years from the date of this Assistance Agreement, the Interim Loan shall be payable in full unless the Authority agrees to other amortization provisions for the Interim Loan.

Upon the delivery of the Authority's Bonds, the exact principal amount of the Final Loan shall be calculated based upon the Interim Loan, accrued interest on the Interim Loan then unpaid, and the Governmental Agency's pro rata share of the required Debt Service Reserve, market discount, and Costs of Issuance incurred by the Authority in connection with the issuance of its Bonds.

Section 3.3. Governmental Agency's Right to Repay Interim Loan; Termination of Right. The Governmental Agency shall have the right to prepay and retire the entire amount of the Interim Loan at any time without Penalty upon written notice to the Authority no less than five (5) Business Days in advance of said prepayment.

Notwithstanding the right granted under the preceding paragraph, upon the determination by the Authority of the approximate date of delivery of its Bonds, the Authority shall advise the

Governmental Agency of its intention to proceed with the authorization of its Bonds and the Governmental Agency shall then have thirty (30) days from its receipt of said notice to exercise its option to prepay the Interim Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Interim Loan shall terminate and the terms of the Indenture shall govern the terms of the prepayment of all amounts owing the Authority from the Governmental Agency as set forth in Section 3.5 hereof.

Section 3.4. Amortization of Final Loan; Schedule of Payments Incorporated. Upon the delivery of the Authority's Bonds and the establishment of the Final Loan amount, the Authority shall calculate the Schedule of Payments reflecting the Governmental Agency's pro rata participation in the Authority's Bonds.

As soon as practicable following the delivery of the Authority's Bonds, the Authority shall forward the Schedule of Payments to the Governmental Agency for review and acceptance, and upon the execution of the Schedule of Payments by the chief executive officer of the Governmental Agency, said Schedule of Payments shall automatically, without any further action by either of the parties to this Assistance Agreement, become a part of this Assistance Agreement as Exhibit F and shall be attached to the permanent executed copies of this Assistance Agreement.

Interest on the Final Loan shall be payable on the dates set forth in the Schedule of Payments based, in part, upon the interest rate borne by the Bonds until the payment in full of the Governmental Agency's pro rata portion of the Authority's Bonds as reflected by the Schedule of Payments. Principal due on the Final Loan shall be payable in accordance with the Schedule of Payments.

Section 3.5. Authority's Discretion Regarding Terms of Bonds; Prepayment of Final Loan Restricted. The terms upon which the Authority issues its Bonds to fund the Final Loan to the Governmental Agency shall be in accordance with the terms of the Indenture. The Authority, in its sole discretion, shall establish the terms of repayment and prepayment for its Bonds. Notwithstanding the foregoing, it is anticipated that the Authority's Bonds, and accordingly, the Governmental Agency's pro rata responsibility thereunder as represented by the Final Loan under the Schedule of Payments, will mature over the approximate Final Loan Term from the date of delivery of the Bonds, as set forth in the Project Specifics.

The terms under which the Bonds of the Authority may be prepaid or redeemed prior to their stated maturities shall be established by the Authority in its sole discretion at the time of the authorization of the Bonds. The Governmental Agency shall be bound by the terms of prepayment established by the Authority for its Bonds which shall apply to the Governmental Agency's pro rata portion of the indebtedness represented by the Bonds. Any refinancing or defeasance of the Authority's Bonds shall be initiated at the sole discretion of the Authority which shall determine the terms of said refinancing; provided, however, that any such refinancing program shall not increase the annual obligations of the Governmental Agency under the Final Loan as represented by the Schedule of Payments without the prior written consent of the Governmental Agency.

Section 3.6. Subordination of Final Loan. The Authority hereby agrees that the security interest and source of payment for the Final Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

## ARTICLE IV

### CONDITIONS PRECEDENT TO DISBURSEMENT OF INTERIM LOAN; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Assistance Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Interim Loan made hereunder, the Governmental Agency shall supply the Authority, if requested, appropriate documentation, satisfactory to the Authority, in its sole discretion, indicating the following:

(A) That the Authority and any appropriate regulatory agency of the Commonwealth as may be designated by the Authority, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to enter upon the Project and to examine and inspect same.

(B) All real estate and interest in real estate and all personal property constituting the Project and the Project sites heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Authority (as described in the Project Specifics) the Authority shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of Construction of the Project over and above the Loan, prior to the disbursement by the Authority of any portion of the Interim Loan.

(D) The Governmental Agency has done all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by the Engineers.

(E) Actual construction and installation incident to the Project has been performed by either the lump-sum (fixed price) or unit price contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) The Project was not advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals were received by the Governmental Agency and furnished to the Authority.

(G) The construction contract or contracts required the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(H) A work progress schedule utilizing a method of standard acceptance in the engineering community was prepared prior to the institution of construction in connection with each construction contract to indicate the proposed schedule as to completion of the Project, and same was maintained monthly thereafter to indicate the actual construction progress of the Project.

(I) All construction contracts were prepared so that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency could be readily itemized.

(J) The Construction, including the letting of contracts in connection therewith, conformed in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(K) The Governmental Agency proceeded expeditiously with and completed the Project in accordance with the approved surveys, plans, specifications and designs or amendments thereto, prepared by the Engineers to the Governmental Agency and approved by state and federal agencies, but only to the extent such approvals were required.

(L) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority noting the participation of the Authority in the financing of the Project.

(M) Except as otherwise provided in this Assistance Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

(N) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the project sites and the costs of Construction. The Governmental Agency shall permit the Authority, acting by and through its duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Authority such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state grants.

(O) The Governmental Agency required that each construction contractor or contractors furnish an performance and payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the project covered by the particular contract as security for the faithful performance of such contract.

(P) The Governmental Agency required that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor, shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority,

the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(Q) The Governmental Agency provided and maintained competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Authority, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

(R) The Governmental Agency shall demonstrate to the satisfaction of the Authority the legal capability of the Governmental Agency to enact, adopt, levy, charge, collect, enforce and remit to the Authority the Service Charges of the Governmental Agency described in the Schedule of Service Charges attached to and made a part of this Assistance Agreement as Exhibit C and submit proof satisfactory to the Authority that the Service Charges are in full force and effect as of the submission of the initial Requisition for Funds.

Section 4.2. Disbursements of Interim Loan; Requisition for Funds. The Governmental Agency shall submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) a Requisition for Funds, in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

- (A) A full and complete accounting of the costs of the Project; and
- (B) A full and complete accounting of any costs of the Project paid by the Governmental Agency from its own funds with the approval of the Authority and not included in any previous accounting for which it seeks reimbursement;

Upon the Authority's receipt of the Requisition for Funds, and such additional documentation as it may require, the Authority may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.



## ARTICLE V

### CERTAIN COVENANTS OF THE GOVERNMENTAL AGENCY; PAYMENTS TO BE MADE BY GOVERNMENTAL AGENCY TO THE AUTHORITY

Section 5.1. Imposition of Service Charges. The Governmental Agency hereby irrevocably covenants and agrees to comply with all of the terms, conditions and requirements of this Assistance Agreement, pursuant to which the Loan is to be made by the Authority to the Governmental Agency as specified herein and in the Act and the Indenture. The Governmental Agency hereby further irrevocably covenants and agrees that it already has, or will, to the extent necessary, immediately impose Service Charges upon all persons, firms and entities to whom or which services are provided by the System, such Service Charges to be no less than as set forth in Exhibit C annexed hereto. If so required, such Service Charges shall be in addition to all other rates, rentals and service charges of a similar nature of the Governmental Agency now or hereafter authorized by law, and now or hereafter being levied and collected by the Governmental Agency and shall be levied and collected solely for the purpose of repaying to the Authority all sums received from the Authority as representing the Loan in respect of the Project.

Section 5.2. Governmental Agency's Obligation to Repay Loan. The obligation of the Governmental Agency to repay to the Authority the amount of the Final Loan from the Service Charges shall not be revocable, and in the event that services supplied by the Project shall cease, or be suspended for any reason, the Governmental Agency shall continue to be obligated to repay the Final Loan from the Services Charges. In the event the Governmental Agency defaults in the payment of any Service Charges to the Authority, the amount of such default shall bear interest at the Final Loan Rate, or ten percent (10%) per annum, whichever is the greater, from the date of the default until the date of the payment thereof.

Section 5.3. Covenant to Adjust Service Charges. In the event, for any reason, the Schedule of Service Charges shall prove to be insufficient to provide to the Authority the minimum sums set forth in the Schedule of payments, the Governmental Agency hereby covenants and agrees that it will, upon notice by the Authority, to the full extent authorized by law, both federal and state, immediately adjust and increase such Schedule of Service Charges, or immediately commence proceedings for a rate adjustment and increase with all applicable regulatory authorities, so as to provide funds sufficient to pay to the Authority the minimum sums set forth in the Schedule of Payments.

Section 5.4. Adequacy of Service Charges. The Service Charges herein covenanted to be imposed by the Governmental Agency shall be fixed at such rate or rates (and it is represented that the Schedule set forth in Exhibit C hereto so qualifies), as shall be at least adequate to pay the Estimated Annual Debt Service payments set forth in the Project Specifics and, upon the establishment of the Schedule of Payments, to make the payments at the times and in the amounts set forth in the Schedule of Payments, subject to necessary governmental and regulatory approvals.

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment Period set forth in the Project Specifics, and shall be remitted to the Authority by the

Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Project Specifics or Schedule of Payments, as applicable.

Section 5.5. Covenant to Charge Sufficient Rates; Reports; Inspection. The Governmental Agency hereby irrevocably covenants and agrees with the Authority:

(A) That, as aforesaid, it will at all times impose prescribed, charge and collect the Service Charges set forth in Exhibit C hereto for the services of the Project as shall result in net revenues to the Governmental Agency at least adequate to provide for the payments to the Authority required by this Assistance Agreement.

(B) That it will furnish to the Authority not less than annually reports of the operations and income and revenues of the Project, and will permit authorized agents of the Authority to inspect all records, accounts and data of the project at all reasonable times.

(C) That it will collect, account for and promptly remit to the Authority those specific revenues, funds, income and proceeds derived from Service Charges incident to this Assistance Agreement.

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations.

Section 5.6. Segregation of Funds. The Governmental Agency shall at all times account for the income and revenues of the System and distinguish same from all other revenues, moneys and funds of the Governmental Agency, if any.

Section 5.7. Mandatory Sewer Connection. In the event that the Project consists of sanitary sewer facilities, the Governmental Agency hereby irrevocably covenants and agrees with the Authority that it will, to the maximum extent permitted by Kentucky law, and by means of ordinance, or other appropriate legislative order or action, mandatorily require the connection to and use of, the sanitary sewers constituting the Project by all persons owning, renting or occupying premises generating pollutants where such sanitary sewers are reasonably available to such premises, and to exhaust, at the expense of the Governmental Agency, all remedies for the collection of Service Charges, including, either directly or indirectly, pursuant to authority granted by Sections 96.930 to 96.943, inclusive, of the Kentucky Revised Statutes, and the Act, causing termination of water services to any premises where the bill for sewer services is delinquent and foreclosure and decretal sale in respect of improvement benefit assessments which are delinquent.

Section 5.8. Termination of Water Services Delinquent Users. In the event the Project consists of water facilities the Governmental Agency covenants and agrees that it shall, pursuant to applicable provisions of law, to the maximum extent authorized by law, enforce and collect the Service Charges imposed upon users of the Project and facilities constituting the System, and will promptly cause water service to be discontinued to any premises where any billing for such facilities and services shall not be paid in a timely manner.

## ARTICLE VI

### OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

Section 6.1. Further Assurance. At any time and all times the Governmental Agency shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 6.2. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency.

Section 6.3. Establishment of Completion Date. The completion date for the Project shall be evidenced to the Authority by a certificate signed by the Engineer and an authorized representative of the Governmental Agency stating that (i) the Construction has been completed and all labor, services, materials, supplies, machinery and equipment used in such Construction have been paid for, (ii) all other facilities necessary in connection with the Project have been acquired, constructed, equipped and installed and all costs and expenses incurred in connection therewith have been paid, (iii) the Project and all other facilities in connection therewith have been acquired, constructed, equipped and installed to his satisfaction.

Section 6.4. Commitment to Operate. The Governmental Agency hereby covenants and agrees to commence operation of the project immediately on completion of construction and not to discontinue operations or dispose of such Project without the approval of the Authority.

Section 6.5. Continue to Operate. The Governmental Agency hereby covenants and agrees to continuously operate and maintain the project in accordance with applicable provisions of federal and state law and to maintain adequate records relating to said operation; said records to be made available to the Authority upon its request at all reasonable times.

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the funds for the Final Loan, the Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Authority in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Authority. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries

shall be made of all its transactions relating to the System, which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within one hundred eighty (180) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principles on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity.

Section 6.9. General Compliance With All Duties. The Governmental Agency shall faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth, and by the terms and provisions of the this Assistance Agreement and any other Debt Obligations.

Section 6.10. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the System or any part thereof without the prior written consent of the Authority, which consent shall not be unreasonably withheld (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 6.11. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act and this Assistance Agreement in accordance with the terms of such provisions.

## ARTICLE VII

### MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

Section 7.1. Maintain System. The Governmental Agency agrees that during the entire term of this Assistance Agreement, it will keep the Project, including all appurtenances thereto, and the equipment and machinery therein, in good and sound repair and good operating condition at its own cost so that the completed Project will continue to provide the services for which the System is designed.

Section 7.2. Additions and Improvements. The Governmental Agency shall have the privilege of making additions, modifications and improvements to the sites of the Project, and to the Project itself from time to time provided that said additions, modifications and improvements do not impair the operation or objectives of the Project. The Cost of such additions, modifications and improvements shall be paid by the Governmental Agency, and the same shall be the property of the Governmental Agency and shall be included under the terms of this Assistance Agreement as part of the site of the Project, or the Project, as the case may be. Nothing herein contained shall be construed as precluding the Authority and the Governmental Agency from entering into one or more supplementary Assistance Agreements providing for an additional Loan or Loans in respect of additional Projects undertaken by the Governmental Agency.

Section 7.3. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.4. Access to Records: The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the project, and commencement of operations thereof.

Section 7.5. Covenant to Insure – Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

Section 7.6. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.7. Covenant to Insure – Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal injury, death and property damage) and in such

amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.8. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.9. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.10. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

(A) The restoration of the improvements located on the project sites to substantially the same condition as prior to the exercise of said power of eminent domain; or

(B) The acquisition of additional property, if necessary, and the acquisition of additional facilities by construction or otherwise, equivalent to the Project facilities, which property and facilities shall be deemed to be a part of the Project sites and a part of the Project facilities and to be substituted for Project facilities so taken by eminent domain, without the payment of any amount other than herein provided, to the same extent as if such property and facilities were specifically described herein.

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.10, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an authorized officer of the Governmental Agency to the effect that the Governmental Agency has complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the project or any part thereof without the written consent of the Authority.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

Section 8.1. Events of Default Defined. The following will be "Events of Default" under this Assistance Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Assistance Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any payments at the times specified herein.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Authority unless the Authority agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

(D) A default by the Governmental Agency under the provisions of any agreements relating to its Debt Obligations which would in the opinion of the Authority materially and adversely affect the performance of the obligations of the Governmental Agency under the Agreement.

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing, the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Project Specifics of the Schedule of Payments to be immediately due and payable.

(B) Exercise all the rights and remedies of the Authority set forth in the Act.

(C) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights under this Assistance Agreement.

Section 8.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of

the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 8.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 8.5. Consent to Powers of Authority Under Act. The Governmental Agency hereby acknowledges to the Authority its understanding of the provisions of the Act, vesting in the Authority certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Authority should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Authority in the due and prompt implementation of this Assistance Agreement.

Section 8.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 8.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto will default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.



## ARTICLE IX

### MISCELLANEOUS PROVISIONS

Section 9.1. Approval not to be Unreasonably Withheld. Any approval of the Authority required by this Assistance Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Authority, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Assistance Agreement requiring the approval of the Authority or the satisfaction or the evidence of satisfaction of the Authority shall be interpreted as requiring action by an authorized officer of the Authority granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 9.2. Approval. This Agreement is made subject to and conditioned upon, the approval of this Assistance Agreement by the Secretary of the Finance and Administration Cabinet.

Section 9.3. Effective Date. This Assistance Agreement shall become effective as of the date first set forth hereinabove and shall continue in full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Assistance Agreement have been fully satisfied.

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the power and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, nor assignable by either party without the written consent of the other party.

Section 9.5. Severability. In the event that any provision of this Assistance Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 9.6. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 9.7. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 9.8. Venue. The parties hereto agree that in the event of a default by the Governmental Agency pursuant to the provisions of Article 8 of this Agreement, the Authority shall, to the extent permitted under the laws of the Commonwealth, have the right to file any necessary actions with respect thereto in Franklin Circuit Court.

Section 9.9. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Assistance Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assistance Agreement to be executed by their respective duly authorized officers as of the day and year above written.

ATTEST:

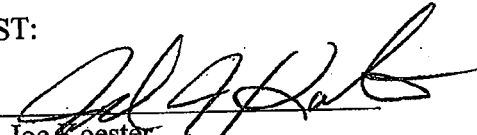
KENTUCKY INFRASTRUCTURE  
AUTHORITY

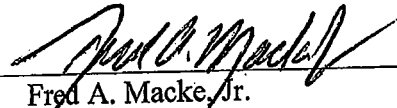
By: \_\_\_\_\_  
Title: Secretary

By: \_\_\_\_\_  
Title: \_\_\_\_\_

GOVERNMENTAL AGENCY:  
NORTHERN KENTUCKY WATER  
DISTRICT

ATTEST:

By:   
Joe Koester  
Title: Secretary

By:   
Fred A. Macke, Jr.  
Title: Chairman

APPROVED:

EXAMINED:

\_\_\_\_\_  
SECRETARY/FINANCE AND  
ADMINISTRATION CABINET OF THE  
COMMONWEALTH OF KENTUCKY

\_\_\_\_\_  
LEGAL COUNSEL TO THE  
KENTUCKY INFRASTRUCTURE  
AUTHORITY

ENVIRONMENTAL AND PUBLIC PROTECTION  
CABINET OF THE COMMONWEALTH OF KENTUCKY

By: \_\_\_\_\_  
Director  
Division of Water

APPROVED AS TO FORM AND LEGALITY

\_\_\_\_\_  
APPROVED  
FINANCE AND ADMINISTRATION CABINET

**EXHIBIT A**  
**Northern Kentucky Water District**  
**PROJECT SPECIFICS**  
**C08-01**

**GOVERNMENTAL AGENCY:**

Name: Northern Kentucky Water District  
P.O. Box 18640  
Erlanger, Kentucky 41018-0640

Contact Person: C. Ronald Lovan, PE  
(859) 426-2758

**SYSTEM:** Infrastructure

**PROJECT:** The Water District is proposing to purchase and implement the Badger/Orion AMR transponder system. This will allow the district to get its monthly meter readings by means of a drive by pick up method as opposed to a reader physically contacting each customer.

**PROJECT BUDGET:**

	<b>Total</b>	
Equipment	6,000,000	
<b>Total</b>	<b>6,000,000</b>	

**FUNDING SOURCES:**

	Amount	%
Fund C Loan	\$ 6,000,000	100%
<b>Total</b>	<b>\$ 6,000,000</b>	<b>100%</b>

**KIA DEBT SERVICE:**

Construction Loan	\$	6,000,000
Interest Rate		3.00%
Loan Term (Years)		10
Estimated Annual Debt Service	\$	698,949
Administrative Fee (0.20%)	\$	12,000
<b>Total Estimated Annual Debt Service</b>	<b>\$</b>	<b>710,949</b>

**AMORTIZATION COMMENCEMENT DATE:** June 1 and December 1

Interest payments will commence within six months from first draw of funds (estimated 6/1/09).

Full principal and interest payments will commence within one year of the last draw of funds (estimated 6/1/10).

**REPLACEMENT RESERVE ACCOUNT:**                   \$    -    ANNUAL AMOUNT  
   \$    -    TOTAL AMOUNT

The Northern Kentucky Water District self funds an "Improvement, Repair and Replacement Account" which is available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets as of December 31, 2007 are \$3,331,799. Based on the account already in place, the system will not be required to further fund an additional replacement reserve specifically for this loan.

**ADMINISTRATIVE FEE:**                   0.20%

**DEFAULT RATE:**                         8.00%

**DEBT OBLIGATIONS CURRENTLY OUTSTANDING:**

	<u>Outstanding</u>	<u>Maturity</u>
Series 1997 Revenue Bonds	\$4,650,000	2022
Series 1998 Revenue Bonds	\$9,285,000	2028
Series 2001 Revenue Bonds	\$14,920,000	2026
2000 Rural Development Loan	\$2,143,000	2039
Series 2002A Revenue Bonds	\$43,680,000	2027
Series 2002B Revenue Bonds	\$7,985,000	2017
Series 2003A Revenue Bonds	\$1,475,000	2032
Series 2003B Revenue Bonds	\$26,860,000	2028
Series 2003C Revenue Bonds	\$18,805,000	2020
Series 2004 Revenue Bonds	\$9,625,000	2029
Taylor Mill Purchase Financing	\$1,875,000	2018
Series 2006 Revenue Bonds	\$28,700,000	2031
Series 2007 Revenue Bonds	\$27,165,000	2009
Deferred Note Payable	\$100,000	
KIA Fund F Loan (F06-03)	\$4,000,000	
<b>Total</b>	<u>\$201,268,000</u>	

**LIABILITY INSURANCE COVERAGE:**

Death or Personal Injury (per person)	<u>\$1,000,000</u>
Death or Personal Injury (per occurrence)	<u>\$1,000,000</u>
Property Damage on System	<u>\$1,000,000</u>
<b>Umbrella Coverage</b>	<u>\$19,000,000</u>

EXHIBIT B

REQUEST FOR PAYMENT WITH RESPECT TO  
ASSISTANCE AGREEMENT DATED JANUARY 1, 2009

Request No. \_\_\_

Dated \_\_\_\_\_

Original sent to: Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

FROM: Northern Kentucky Water District  
("Governmental Agency")

Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Infrastructure Authority (the "Authority") for the permanent financing of the acquisition and construction of facilities described in the Assistance Agreement as the "project".

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Authority's funding share of these expenses is in the amount so denoted in this request totaling \$\_\_\_\_\_.

Documentation supporting the expenses incurred and identified per this request are attached.

ELIGIBLE PROJECT EXPENSES INCURRED

Contractor

Expenses Incurred

Total:

ALLOCATION OF FUNDING FOR EXPENSES

Funding Source

Portion of Expenses  
This Request

Portion of Expenses  
Total to Date

Totals

Respectfully submitted,

Governmental Agency  
Northern Kentucky Water District

By: \_\_\_\_\_

Title: \_\_\_\_\_

Certificate of Consulting Engineers as to  
Payment Request

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request in connection with the "Eligible Project" and that all expenses represented in this request were duly incurred for the Construction of the "Project," that the Authority's funding share of these expenses is accurately represented and that such expenses have not been the subject of any request for disbursement previously submitted.

\_\_\_\_\_  
Engineer/Consultant

\_\_\_\_\_  
Firm Name

## Exhibit C

### Schedule of Service Charges

#### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00135 DATED DECEMBER 21, 2007

The following rates and charges are prescribed for the customers in the area served by Northern Kentucky Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Effective Date: March 3, 2008

#### **1. Service Charges**

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$12.54	\$18.97
3/4"	\$12.96	\$19.99
1"	\$14.15	\$22.98
1 1/2"	\$15.93	\$27.08
2"	\$20.13	\$38.07
3"	\$48.61	\$118.45
4"	\$60.89	\$148.45
6"	\$90.16	\$219.44
8"	\$121.75	\$299.79
10" and larger	\$161.91	\$391.47

#### **2. Commodity Charges**

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic ft	4,500 cubic ft	\$3.31 per 100 cubic ft
Next	163,500 cubic ft	490,500 cubic ft	\$2.88 per 100 cubic ft
Over 165,000 cubic ft		495,000 cubic ft	\$2.55 per 100 cubic ft

#### **3. Sub-district Charges (Effective 1/11/08)**

Sub-district A shall be assessed a monthly surcharge in the amount of \$ 9.03  
Sub-district B shall be assessed a monthly surcharge in the amount of \$18.36  
Sub-district C shall be assessed a monthly surcharge in the amount of \$19.44  
Sub-district D shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district E shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district F shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district G shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district K shall be assessed a monthly surcharge in the amount of \$21.09  
Sub-district R shall be assessed a monthly surcharge in the amount of \$18.50  
Sub-district RF shall be assessed a monthly surcharge in the amount of \$25.47  
Sub-district RL shall be assessed a monthly surcharge in the amount of \$36.22

#### **4. Wholesale Water Rates**

Bullock Pen Water District	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons
City of Walton	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons
Pendleton County	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons

#### **5. Miscellaneous Service Fees**

Returned Check Charge \$20.00  
Water Hauling Station \$3.50 per 1000 gallons  
Service Charge \$25.00  
Overtime Charge \$40.00



**RESOLUTION  
C08-01**

**RESOLUTION OF THE NORTHERN KENTUCKY WATER DISTRICT  
APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT  
BETWEEN THE NORTHERN KENTUCKY WATER DISTRICT AND  
THE KENTUCKY INFRASTRUCTURE AUTHORITY.**

WHEREAS, the Board of Commissioners ("Governing Authority") of the Northern Kentucky Water District ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain facilities and improvements to the Governmental Agency's Water System (the "Project") and

WHEREAS, the Governmental Agency has made application to the Kentucky Infrastructure Authority (the "Authority") for the purpose of providing monies to permanently finance the construction of the Project; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an Assistance Agreement with the Authority;

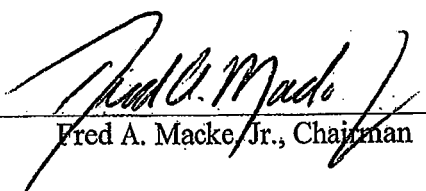
NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Northern Kentucky Water District, as follows:

SECTION 1. That the Governing Authority hereby approves and authorizes the Assistance Agreement between the Governmental Agency and the Authority for Project No. C08-01 substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the Project.

SECTION 2. That the Chairman and Secretary of the Governmental Agency be and hereby are authorized, directed and empowered to execute necessary documents or agreements, and to otherwise act on behalf of the Governmental Agency to effect such financing.

SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on February 19, 2009.

  
\_\_\_\_\_  
Fred A. Macke, Jr., Chairman

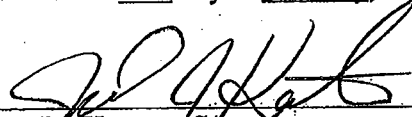
Attest:

  
\_\_\_\_\_  
Joe Koester, Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Northern Kentucky Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said District at a meeting duly held on February 19, 2009; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 19th day of February, 2009.



---

Joe Koester, Secretary

# HEMMER PANGBURN DeFRANK PLLC

SUITE 200  
250 GRANDVIEW DRIVE  
FT. MITCHELL, KENTUCKY 41017  
(859) 344-1188  
FAX: (859) 578-3869

February 19, 2009

Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and Northern Kentucky Water District for Project No. C08-01, dated as of January 1, 2009

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the Northern Kentucky Water District, hereinafter referred to as the "Governmental Agency". I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the drinking water supply project (the "Project") with respect to which the Assistance Agreement by and between the Kentucky Infrastructure Authority ("Authority") and the Governmental Agency is being authorized, executed and delivered.

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency and the resolution of the Board of Commissioners of the Governmental Agency authorizing the execution and delivery of said Assistance Agreement.

Based upon my review I am of the opinion that:

1) The Governmental Agency is a duly organized and existing water district and political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.

2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to

execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

4) The Service Charges, as defined in the Assistance Agreement, are in full force and effect and have been duly and lawfully adopted by the Governmental Agency.

5) To the best of my knowledge after due inquiry, the execution and delivery of the Assistance Agreement and the performance by the Governmental Agency of its obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or, to the best of my knowledge any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. To the best of my knowledge after due inquiry, the Governmental Agency has obtained each and every authorization, consent, permit, approval or license of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Assistance Agreement and the imposition of the Service Charges.

6) To the best of my knowledge after due inquiry, there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the Project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

7) None of the proceedings or authority heretofore had or taken by the Governmental Agency for the authorization, execution or delivery of the Assistance Agreement has or have been repealed, rescinded, or revoked.

8) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,

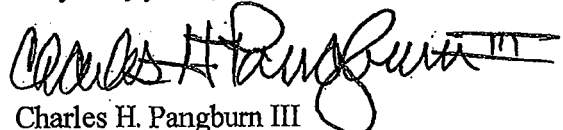
  
Charles H. Pangburn III

EXHIBIT F

TO ASSISTANCE AGREEMENT BETWEEN  
NORTHERN KENTUCKY WATER DISTRICT,  
("GOVERNMENTAL AGENCY") AND  
THE KENTUCKY INFRASTRUCTURE AUTHORITY

1) Total C08-01 Loan to be Repaid by  
Governmental Agency to  
Kentucky Infrastructure Authority \$ \_\_\_\_\_

Principal and Interest payable  
on each December 1 and June 1

It is understood and agreed by the parties to this Assistance Agreement that this Exhibit F is an integral part of the Assistance Agreement between the Governmental Agency and the Kentucky Infrastructure Authority.

IN WITNESS WHEREOF, the parties have caused this Exhibit F to Assistance Agreement to be executed by their respective duly authorized officers as of the date of said Assistance Agreement.

KENTUCKY INFRASTRUCTURE AUTHORITY

By: \_\_\_\_\_

Title: \_\_\_\_\_

NORTHERN KENTUCKY WATER DISTRICT,  
Governmental Agency

By: \_\_\_\_\_

Title: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Title: \_\_\_\_\_

## EXHIBIT G

### ADDITIONAL COVENANTS AND AGREEMENT

1. The Loan will take a subordinate position to any future parity debt issued by the Governmental Agency ("Parity Debt"), subject to compliance by the Governmental Agency with the following conditions:

- a. The "coverage" requirement in the existing general bond resolution adopted by the Governmental Agency on November 19, 1985, as amended and supplemented on November 17, 1987 (collectively, the "General Bond Resolution") must be met. This requirement specifies that there shall be filed a certificate prepared by an independent firm of certified public accountants demonstrating that the net annual income and revenues of the System are at least 1.20 times the maximum annual debt service requirements.

- b. At the time of the issuance of any additional parity debt under the Bond Ordinance, the Governmental Agency must submit to the Authority a certificate by a firm of certified public accountants certifying coverage of 110% after taking into account the debt then proposed to be issued as well as all subordinate debt outstanding including the Authority's loan. The methodology for calculating such coverage shall be the same as is applied under the General Bond Resolution for the parity test.

43260.1

**EXHIBIT A**  
**Northern Kentucky Water District**  
**PROJECT SPECIFICS**  
**C08-01**

**GOVERNMENTAL AGENCY:**

Name: Northern Kentucky Water District  
P.O. Box 18640  
Erlanger, Kentucky 41018-0640

**Contact**

Person: C. Ronald Lovan, PE  
(859) 426-2758

**SYSTEM:** Infrastructure

**PROJECT:** The Water District is proposing to purchase and implement the Badger/Orion AMR transponder system. This will allow the district to get its monthly meter readings by means of a drive by pick up method as opposed to a reader physically contacting each customer.

**PROJECT BUDGET:**

	Total
Equipment	6,000,000
Total	6,000,000

**FUNDING SOURCES:**

	Amount	%
Fund C Loan	\$ 6,000,000	100%
Total	\$ 6,000,000	100%

**KIA DEBT SERVICE:**

Construction Loan	\$	6,000,000
Interest Rate		3.00%
Loan Term (Years)		10
Estimated Annual Debt Service	\$	698,949
Administrative Fee (0.20%)	\$	12,000
<b>Total Estimated Annual Debt Service</b>	<b>\$</b>	<b>710,949</b>

**AMORTIZATION COMMENCEMENT DATE:** June 1 and December 1

Interest payments will commence within six months from first draw of funds (estimated 6/1/09).

Full principal and interest payments will commence within one year of the last draw of funds (estimated 6/1/10).



**REPLACEMENT RESERVE ACCOUNT:**                   \$    -   ANNUAL AMOUNT  
   \$    -   TOTAL AMOUNT

The Northern Kentucky Water District self funds an "Improvement, Repair and Replacement Account" which is available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets as of December 31, 2007 are \$3,331,799. Based on the account already in place, the system will not be required to further fund an additional replacement reserve specifically for this loan.

**ADMINISTRATIVE FEE:**                   0.20%

**DEFAULT RATE:**                         8.00%

**DEBT OBLIGATIONS CURRENTLY OUTSTANDING:**

	<u>Outstanding</u>	<u>Maturity</u>
Series 1997 Revenue Bonds	\$4,650,000	2022
Series 1998 Revenue Bonds	\$9,285,000	2028
Series 2001 Revenue Bonds	\$14,920,000	2026
2000 Rural Development Loan	\$2,143,000	2039
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Series 2003A Revenue Bonds	\$1,475,000	2032
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Series 2006 Revenue Bonds	\$28,700,000	2031
Series 2007 Revenue Bonds	\$27,165,000	2009
Deferred Note Payable	\$100,000	
KIA Fund F Loan (F06-03)	\$4,000,000	
<b>Total</b>	<u>\$201,268,000</u>	

**LIABILITY INSURANCE COVERAGE:**

Death or Personal Injury (per person)	<u>\$1,000,000</u>
Death or Personal Injury (per occurrence)	<u>\$1,000,000</u>
Property Damage on System	<u>\$1,000,000</u>
<b>Umbrella Coverage</b>	<u>\$19,000,000</u>

EXHIBIT B

REQUEST FOR PAYMENT WITH RESPECT TO  
ASSISTANCE AGREEMENT DATED JANUARY 1, 2009

Request No. \_\_\_\_

Dated \_\_\_\_\_

Original sent to: Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

FROM: Northern Kentucky Water District  
("Governmental Agency")

Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Infrastructure Authority (the "Authority") for the permanent financing of the acquisition and construction of facilities described in the Assistance Agreement as the "project".

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Authority's funding share of these expenses is in the amount so denoted in this request totaling \$ \_\_\_\_\_.

Documentation supporting the expenses incurred and identified per this request are attached.

ELIGIBLE PROJECT EXPENSES INCURRED

Contractor

Expenses Incurred

Total:

ALLOCATION OF FUNDING FOR EXPENSES

Funding Source

Portion of Expenses  
This Request

Portion of Expenses  
Total to Date

Totals

Respectfully submitted,

Governmental Agency  
Northern Kentucky Water District

By: \_\_\_\_\_

Title: \_\_\_\_\_

Certificate of Consulting Engineers as to  
Payment Request

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request in connection with the "Eligible Project" and that all expenses represented in this request were duly incurred for the Construction of the "Project," that the Authority's funding share of these expenses is accurately represented and that such expenses have not been the subject of any request for disbursement previously submitted.

\_\_\_\_\_  
Engineer/Consultant

\_\_\_\_\_  
Firm Name

## Exhibit C

### Schedule of Service Charges

#### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00135 DATED DECEMBER 21, 2007

The following rates and charges are prescribed for the customers in the area served by Northern Kentucky Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Effective Date: March 3, 2008

#### 1. Service Charges

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$12.54	\$18.97
3/4"	\$12.96	\$19.99
1"	\$14.15	\$22.98
1 1/2"	\$15.93	\$27.08
2"	\$20.13	\$38.07
3"	\$48.61	\$118.45
4"	\$60.89	\$148.45
6"	\$90.16	\$219.44
8"	\$121.75	\$299.79
10" and larger	\$161.91	\$391.47

#### 2. Commodity Charges

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic ft	4,500 cubic ft	\$3.31 per 100 cubic ft
Next	163,500 cubic ft	490,500 cubic ft	\$2.88 per 100 cubic ft
Over	165,000 cubic ft	495,000 cubic ft	\$2.55 per 100 cubic ft

#### 3. Sub-district Charges (Effective 1/11/08)

Sub-district A shall be assessed a monthly surcharge in the amount of \$ 9.03  
Sub-district B shall be assessed a monthly surcharge in the amount of \$18.36  
Sub-district C shall be assessed a monthly surcharge in the amount of \$19.44  
Sub-district D shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district E shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district F shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district G shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district K shall be assessed a monthly surcharge in the amount of \$21.09  
Sub-district R shall be assessed a monthly surcharge in the amount of \$18.50  
Sub-district RF shall be assessed a monthly surcharge in the amount of \$25.47  
Sub-district RL shall be assessed a monthly surcharge in the amount of \$36.22

#### 4. Wholesale Water Rates

Bullock Pen Water District	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons
City of Walton	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons
Pendleton County	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons

#### 5. Miscellaneous Service Fees

Returned Check Charge \$20.00  
Water Hauling Station \$3.50 per 1000 gallons  
Service Charge \$25.00  
Overtime Charge \$40.00

**RESOLUTION**  
**C08-01**

**RESOLUTION OF THE NORTHERN KENTUCKY WATER DISTRICT  
APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT  
BETWEEN THE NORTHERN KENTUCKY WATER DISTRICT AND  
THE KENTUCKY INFRASTRUCTURE AUTHORITY.**

WHEREAS, the Board of Commissioners ("Governing Authority") of the Northern Kentucky Water District ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain facilities and improvements to the Governmental Agency's Water System (the "Project") and

WHEREAS, the Governmental Agency has made application to the Kentucky Infrastructure Authority (the "Authority") for the purpose of providing monies to permanently finance the construction of the Project; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an Assistance Agreement with the Authority;

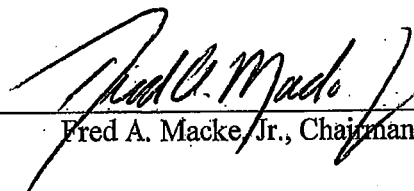
NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Northern Kentucky Water District, as follows:

SECTION 1. That the Governing Authority hereby approves and authorizes the Assistance Agreement between the Governmental Agency and the Authority for Project No. C08-01 substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the Project.

SECTION 2. That the Chairman and Secretary of the Governmental Agency be and hereby are authorized, directed and empowered to execute necessary documents or agreements, and to otherwise act on behalf of the Governmental Agency to effect such financing.

SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on February 19, 2009.

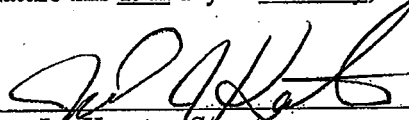
  
\_\_\_\_\_  
Fred A. Macke, Jr., Chairman

Attest:  
  
\_\_\_\_\_  
Joe Koester, Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Northern Kentucky Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said District at a meeting duly held on February 19, 2009; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 19th day of February, 2009.



---

Joe Koester, Secretary

# HEMMER PANGBURN DEFRAK PLLC

SUITE 200  
250 GRANDVIEW DRIVE  
FT. MITCHELL, KENTUCKY 41017  
(859) 344-1188  
FAX: (859) 578-3869

February 19, 2009

Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and Northern Kentucky Water District for Project No. C08-01, dated as of January 1, 2009

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the Northern Kentucky Water District, hereinafter referred to as the "Governmental Agency". I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the drinking water supply project (the "Project") with respect to which the Assistance Agreement by and between the Kentucky Infrastructure Authority ("Authority") and the Governmental Agency is being authorized, executed and delivered.

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency and the resolution of the Board of Commissioners of the Governmental Agency authorizing the execution and delivery of said Assistance Agreement.

Based upon my review I am of the opinion that:

1) The Governmental Agency is a duly organized and existing water district and political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.

2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to



execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

4) The Service Charges, as defined in the Assistance Agreement, are in full force and effect and have been duly and lawfully adopted by the Governmental Agency.

5) To the best of my knowledge after due inquiry, the execution and delivery of the Assistance Agreement and the performance by the Governmental Agency of its obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or, to the best of my knowledge any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. To the best of my knowledge after due inquiry, the Governmental Agency has obtained each and every authorization, consent, permit, approval or license of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Assistance Agreement and the imposition of the Service Charges.

6) To the best of my knowledge after due inquiry, there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the Project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

7) None of the proceedings or authority heretofore had or taken by the Governmental Agency for the authorization, execution or delivery of the Assistance Agreement has or have been repealed, rescinded, or revoked.

8) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,

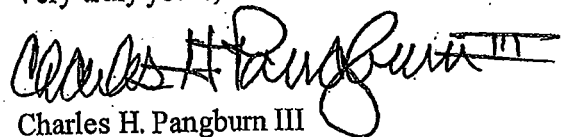
  
Charles H. Pangburn III

EXHIBIT F

TO ASSISTANCE AGREEMENT BETWEEN  
NORTHERN KENTUCKY WATER DISTRICT,  
("GOVERNMENTAL AGENCY") AND  
THE KENTUCKY INFRASTRUCTURE AUTHORITY

- 1) Total C08-01 Loan to be Repaid by  
Governmental Agency to  
Kentucky Infrastructure Authority \$ \_\_\_\_\_

Principal and Interest payable  
on each December 1 and June 1

It is understood and agreed by the parties to this Assistance Agreement that this Exhibit F is an integral part of the Assistance Agreement between the Governmental Agency and the Kentucky Infrastructure Authority.

IN WITNESS WHEREOF, the parties have caused this Exhibit F to Assistance Agreement to be executed by their respective duly authorized officers as of the date of said Assistance Agreement.

KENTUCKY INFRASTRUCTURE AUTHORITY

By: \_\_\_\_\_

Title: \_\_\_\_\_

NORTHERN KENTUCKY WATER DISTRICT,  
Governmental Agency

By: \_\_\_\_\_

Title \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Title: \_\_\_\_\_

## EXHIBIT G

### ADDITIONAL COVENANTS AND AGREEMENT

1. The Loan will take a subordinate position to any future parity debt issued by the Governmental Agency ("Parity Debt"), subject to compliance by the Governmental Agency with the following conditions:

- a. The "coverage" requirement in the existing general bond resolution adopted by the Governmental Agency on November 19, 1985, as amended and supplemented on November 17, 1987 (collectively, the "General Bond Resolution") must be met. This requirement specifies that there shall be filed a certificate prepared by an independent firm of certified public accountants demonstrating that the net annual income and revenues of the System are at least 1.20 times the maximum annual debt service requirements.

- b. At the time of the issuance of any additional parity debt under the Bond Ordinance, the Governmental Agency must submit to the Authority a certificate by a firm of certified public accountants certifying coverage of 110% after taking into account the debt then proposed to be issued as well as all subordinate debt outstanding including the Authority's loan. The methodology for calculating such coverage shall be the same as is applied under the General Bond Resolution for the parity test.

43260.1

## Exhibit C

### Schedule of Service Charges

#### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00135 DATED DECEMBER 21, 2007

The following rates and charges are prescribed for the customers in the area served by Northern Kentucky Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Effective Date: March 3, 2008

#### 1. Service Charges

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February 19, 2009

Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and Northern Kentucky Water District for Project No. C08-01, dated as of January 1, 2009

Ladies and Gentlemen:

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I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency and the resolution of the Board of Commissioners of the Governmental Agency authorizing the execution and delivery of said Assistance Agreement.

Based upon my review I am of the opinion that:

- 1) The Governmental Agency is a duly organized and existing water district and political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.
- 2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.
- 3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to

execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

4) The Service Charges, as defined in the Assistance Agreement, are in full force and effect and have been duly and lawfully adopted by the Governmental Agency.

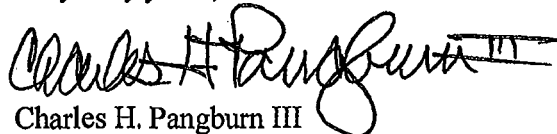
5) To the best of my knowledge after due inquiry, the execution and delivery of the Assistance Agreement and the performance by the Governmental Agency of its obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or, to the best of my knowledge any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. To the best of my knowledge after due inquiry, the Governmental Agency has obtained each and every authorization, consent, permit, approval or license of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Assistance Agreement and the imposition of the Service Charges.

6) To the best of my knowledge after due inquiry, there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the Project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

7) None of the proceedings or authority heretofore had or taken by the Governmental Agency for the authorization, execution or delivery of the Assistance Agreement has or have been repealed, rescinded, or revoked.

8) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,

  
Charles H. Pangburn III

**Northern Kentucky Water District  
Board of Commissioners Meeting  
February 19, 2009**

A regular meeting of the Board of Commissioners of the Northern Kentucky Water District was held on February 19, 2009 at the District's facility located at 2835 Crescent Springs Road in Erlanger, Kentucky. Commissioners Macke, Collins, Koester and Wagner were present. Commissioner Sommerkamp was not present but participated by telephone. Commissioner Jackson was absent. Also present were Ron Lovan, Richard Harrison, Bari Joslyn, Mark Lofland, Jack Bragg, Bob Buhrlage, Bill Wulfeck, Don Gibson, Amy Kramer, Scott Shepherd, Frances Robinson, Kyle Ryan and Charles Pangburn.

Commissioner Macke called the meeting to order.

Commissioner Koester led those in attendance in the Pledge of Allegiance.

Mr. Lovan delivered a presentation and brief video on water related assets and aging infrastructure.

Mr. Lovan led the Commissioners in a review and update of the District's vision, mission, values, key goals and strategic initiatives.

The Commissioners present or participating reviewed correspondence received and articles published since the last regular Board meeting on January 15, 2009.

On motion of Commissioner Koester, seconded by Commissioner Wagner, the Commissioners present or participating unanimously approved the minutes for the regular Board meeting held on January 15, 2009.

On motion of Commissioner Wagner, seconded by Commissioner Collins, and after discussion, the Commissioners present or participating unanimously approved the expenditures of the District for the month of January, 2009.

On motion of Commissioner Koester, seconded by Commissioner Wagner, the Commissioners present or participating unanimously approved a resolution approving a Grant Assistance Agreement with the Kentucky Infrastructure Authority for Project ID No. 91N-2008, 92N-2008 & 93N-2008 and authorizing the District's President/CEO to sign the Grant Assistance Agreement and all other necessary documents or agreements and to otherwise act on behalf of the District to implement the project.

On motion of Commissioner Wagner, seconded by Commissioner Sommerkamp, and after discussion, the Commissioners present or participating unanimously agreed to authorize the purchase of the designated distribution inventory materials from the vendors listed on the attached 16 page document.



On motion of Commissioner Wagner, seconded by Commissioner Koester, and after discussion, the Commissioners present or participating unanimously agreed to award the design of the Sub-District H Water Main Extension Project to Viox & Viox, Inc. and to authorize the District staff to execute appropriate engineering contract documents.

On motion of Commissioner Collins, seconded by Commissioner Wagner, the Commissioners present or participating unanimously agreed to authorize the award of a contract to H.D. Supply Waterworks, LLC for the purchase of copper service piping.


Commissioner Collins excused himself and departed the meeting.

On motion of Commissioner Wagner, seconded by Commissioner Sommerkamp, and after discussion, the Commissioners present or participating unanimously agreed to reject all proposals for credit card processing originally reviewed and deferred at the August 21, 2008 Board meeting and to authorize the execution of contract documents with Fifth Third Bank for credit card processing for a term of 36 months with an option of a 12 month extension.

On motion of Commissioner Wagner, seconded by Commissioner Sommerkamp, and after discussion, the Commissioners present or participating unanimously approved a resolution authorizing the District's designated personnel to sign checks, drafts and other instruments and accounts with The Bank of Kentucky.

On motion of Commissioner Koester, seconded by Commissioner Wagner, and after discussion, the Commissioners present or participating unanimously approved a resolution authorizing the District's designated personnel to sign checks, drafts and other instruments and account with Park National Bank.

Commissioner Collins returned to the meeting.

 On motion of Commissioner Sommerkamp, seconded by Commissioner Collins, and after discussion, the Commissioners present or participating unanimously approved a resolution approving an Assistance Agreement with the Kentucky Infrastructure Authority for Project C08-01 and authorizing the Chairman and the Secretary of the District to execute all necessary documents and agreements and to otherwise act on behalf of the District to effect such Assistance Agreement.

On motion of Commissioner Wagner, seconded by Commissioner Collins, and after discussion, the Commissioners present or participating unanimously approved proposed Procedure No. FIN-1100 regarding Commissioner approval of District disbursements as an addition to the District's Policy and Procedures Manual.

On motion of Commissioner Wagner, seconded by Commissioner Koester, and after discussion, the Commissioners present or participating unanimously agreed to reject all January 30, 2009 bids received for the Fort Thomas Treatment Plant Roof Project.

The Commissioner present or participating reviewed the District's financial reports and Department reports.

On motion of Commissioner Wagner, seconded by Commissioner Koester, and after discussion, the Commissioners present or participating unanimously agreed to move the date of the Board meeting scheduled for April 16, 2009 to April 30, 2009, to move the Board meeting scheduled for June 18, 2009 to June 25, 2009 and to move the Board meeting scheduled for July 16, 2009 to July 30, 2009.

On motion of Commissioner Collins, seconded by Commissioner Wagner, the Commissioners present or participating unanimously agreed to go into executive session under the provisions of KRS 61.810(1)(c) to discuss proposed litigation on behalf of the District and to protect the District's legal interests and strategy in connection with such litigation.

The Board returned to open session.

Other matters of a general nature were discussed.

There being no further business to come before the Board, on motion of Commissioner Collins, seconded by Commissioner Wagner, the Commissioners present or participating unanimously agreed to adjourn the meeting.

---

CHAIRMAN

---

SECRETARY

Re: Assistance Agreement between the Kentucky Infrastructure Authority ("KIA") and Northern Kentucky Water District (the "Governmental Agency"), dated as of January 1, 2009, for Project No. C08-01

### **GENERAL CLOSING CERTIFICATE OF GOVERNMENTAL AGENCY**

In connection with the above-captioned Assistance Agreement (the "Assistance Agreement"), the Governmental Agency, through its undersigned duly authorized officer, hereby certifies, represents, warrants and covenants as follows:

1. No event of default exists, or with the passage of time will exist, under the Assistance Agreement, and the representations and warranties set forth in the Assistance Agreement are true and correct as of the date hereof.
2. The Governmental Agency has examined and is familiar with proceedings of the governing body of the Governmental Agency approving the Assistance Agreement and authorizing its negotiation, execution and delivery, and such proceedings were duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such proceedings are in full force and effect and have not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.
3. The Governmental Agency is a duly organized and validly existing water district and political subdivision of the Commonwealth of Kentucky with full power to own its properties, conduct its affairs, enter into the Assistance Agreement and consummate the transactions contemplated thereby.
4. The negotiation, execution and delivery of the Assistance Agreement by the Governmental Agency and the consummation of the transactions contemplated thereby by the Governmental Agency have been duly authorized by all requisite action of the governing body of the Governmental Agency.
5. The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.
6. There is no controversy or litigation of any nature pending, or to the knowledge of the Governmental Agency after diligent inquiry, threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under the Assistance Agreement or to construct the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of the Assistance Agreement or the construction of the Project, or in any way contesting or

affecting the validity of the Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of the Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefore, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with the Assistance Agreement.

7. The authorization and delivery of the Assistance Agreement and the consummation of the transactions contemplated thereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

8. All actions taken by the Governmental Agency in connection with the Assistance Agreement and the loan described therein and the Project, as defined in the Assistance Agreement, have been in full compliance with the provisions of the Kentucky Open Meetings Law, KRS 61.805 to 61.850.

9. The Governmental Agency has all licenses, permits and other governmental approvals required to own, occupy, operate and maintain the Project and to enter into the Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Governmental Agency Project, and has full right, power and authority to perform the acts and things as provided for in the Assistance Agreement.

10. The individuals named below are the duly elected or appointed qualified and acting incumbents in the office of the Governmental Agency indicated after their respective names and the signatures subscribed above their names are their genuine signatures.

WITNESS our signatures, this 19<sup>th</sup> day of February, 2009.

**GOVERNMENTAL AGENCY:  
NORTHERN KENTUCKY WATER DISTRICT**

By:   
Fred A. Macke., Jr, Chairman

**ATTEST:**

By:   
Joe Koester, Secretary

**RESOLUTION  
C08-01**

**RESOLUTION OF THE NORTHERN KENTUCKY WATER DISTRICT  
APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT  
BETWEEN THE NORTHERN KENTUCKY WATER DISTRICT AND  
THE KENTUCKY INFRASTRUCTURE AUTHORITY.**

WHEREAS, the Board of Commissioners ("Governing Authority") of the Northern Kentucky Water District ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain facilities and improvements to the Governmental Agency's Water System (the "Project") and

WHEREAS, the Governmental Agency has made application to the Kentucky Infrastructure Authority (the "Authority") for the purpose of providing monies to permanently finance the construction of the Project; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an Assistance Agreement with the Authority;

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Northern Kentucky Water District, as follows:

SECTION 1. That the Governing Authority hereby approves and authorizes the Assistance Agreement between the Governmental Agency and the Authority for Project No. C08-01 substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the Project.

SECTION 2. That the Chairman and Secretary of the Governmental Agency be and hereby are authorized, directed and empowered to execute necessary documents or agreements, and to otherwise act on behalf of the Governmental Agency to effect such financing.

SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on February 19, 2009.

  
\_\_\_\_\_  
Fred A. Macke, Jr., Chairman

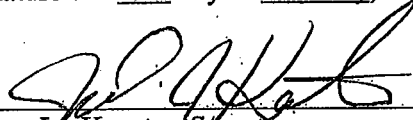
Attest:

  
\_\_\_\_\_  
Joe Koester, Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Northern Kentucky Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said District at a meeting duly held on February 19, 2009; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this 19th day of February, 2009.



---

Lee Koester, Secretary

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

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FUND F

PROJECT NUMBER: F08-07

BORROWER: Northern Kentucky Water District

BORROWER'S ADDRESS: 2835 Crescent Spring Road  
Erlanger, Kentucky 41018

DATE OF ASSISTANCE AGREEMENT: November 1, 2008

CFDA NO.: 66.468

ASSISTANCE AGREEMENT

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## ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the date set forth on the cover page hereof (the "Assistance Agreement") by and between the KENTUCKY INFRASTRUCTURE AUTHORITY, a body corporate and politic, constituting a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky (the "Authority") and the Governmental Agency identified on the cover of this Assistance Agreement (the "Governmental Agency"):

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### WITNESSETH

WHEREAS, the General Assembly of the Commonwealth of Kentucky, being the duly and legally constituted legislature of Kentucky at its 1988 Regular Session, enacted House Bill 217 amending Chapter 224A of the Kentucky Revised Statutes (the "Act"), creating the "Kentucky Infrastructure Authority" to serve the public purposes identified in the Act; and

WHEREAS, the Authority has established its Program as hereinafter defined, for the purpose of providing financial assistance to Governmental Agencies, as defined in the Act, in connection with the acquisition and construction of Projects, as defined in the Act, in order to preserve, protect, upgrade, conserve, develop, utilize and manage the resources of the Commonwealth of Kentucky (the "Commonwealth") for the protection and preservation of the health, safety, convenience, and welfare of the Commonwealth and its citizens, and in that respect to assist and cooperate with Governmental Agencies in achieving such purposes; and

WHEREAS, the Program is funded in part, pursuant to the Capitalization Grant Operating Agreement between the Authority and the U.S. Environmental Protection Agency dated as of November 1, 1998 (the "Federal Agreement") under which the Authority is responsible for providing certain "match funding" described in the Federal Agreement; and

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of February 1, 2000 (the "Indenture") between the Authority and National City Bank of Kentucky (the "Trustee") in order to provide the "match funding" for the Program; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to finance the acquisition and construction of the Project, as hereinafter defined, and the Authority has determined that the Project is a Project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Authority; and

WHEREAS, the Governmental Agency desires to enter into this Assistance Agreement with the Authority for the purpose of securing from the Authority the repayable Loan hereinafter identified; and

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to repay the Loan and the interest thereon from the sources herein provided, all as hereinafter more specifically provided; and

WHEREAS, the Authority and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants, and obligations with respect to the acquisition, construction and financing of the Project and the repayment of the Loan and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER ~~GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY~~ ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

## ARTICLE I

### DEFINITIONS

All of the terms utilized in this Assistance Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Assistance Agreement by reference, the same as if set forth hereby verbatim; provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 224A of the Kentucky Revised Statutes, as amended.

"*Administrative Fee*" means the charge of the Authority for the servicing of the Loan, which is the annual percentage charged against the unpaid principal balance of the Loan as identified in the Project Specifics.

"*Architects*" means the firm of consulting architects employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Assistance Agreement*" shall mean this agreement made and entered into by and between a Governmental Agency and the Authority, as authorized by the Act, providing for a Loan to the Governmental Agency by the Authority, and for the repayment thereof to the Authority by the Governmental Agency.

"*Authority*" shall mean the Kentucky Infrastructure Authority created by the Act, a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the Commonwealth of Kentucky, or such other designation as may be effected by future amendments to the Act.

"*Bond*" or "*Bonds*" or "*Revenue Bonds*" shall mean any Kentucky Infrastructure Authority Bond or Bonds, or the issue of such Bonds, as the case may be, authenticated and delivered under the Indenture.

"*Business Day*" shall mean any day other than a Saturday, Sunday or other legal holiday on which the general offices of the Commonwealth are closed.

"*Cabinet*" means the Natural Resources and Environmental Protection Cabinet of the Commonwealth.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"*Commonwealth*" shall mean the Commonwealth of Kentucky.

"*Construction*" shall mean construction as defined in the Act.

"*Debt Obligations*" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

"*Drinking Water Supply Project*" shall mean the planning, design and construction of drinking water treatment and distribution systems, including expenditures to address Federal Act health goals, or to address situations where compliance standards have been exceeded or to prevent future violations of rules, and may further include drinking water treatment plants, including basins for rapid mix, flocculation, coagulation, filtration, pre-treatment disinfection, and disinfection prior to entry to the distribution system; distribution systems; storage tanks; intake lines and short-term water storage; clearwells; drilled wells and wellhead areas; and any other structure or facility considered necessary by the Natural Resources Cabinet of the Commonwealth of Kentucky to the efficient and sanitary operation of a public water system and complies with the requirements of the Federal Act.

"*Engineers*" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Federal Act*" shall mean the Federal Safe Drinking Water Act, as amended, 42 U.S.C. Section 1401, et seq.

"*Governmental Agency*" shall mean any incorporated city or municipal corporation, or other agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate infrastructure projects, including specifically but not by way of limitation, incorporated cities, counties, including any counties containing a metropolitan sewer district, sanitation districts, water districts, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Assistance Agreement shall mean the Governmental Agency identified in the Project Specifics.

"*Indenture*" shall mean the General Trust Indenture dated as of February 1, 2000 between the Authority and the Trustee.

"*Interagency Agreement*" means the Memorandum of Understanding dated as of July 1, 1999 between the Authority and the Cabinet, as the same may be amended or supplemented from time to time.

"*Loan*" shall mean the loan effected under this Assistance Agreement from the Authority to the Governmental Agency in the principal amount set forth in the Project Specifics, for the purpose of defraying the costs incidental to the Construction of the Project.

"*Loan Rate*" means the rate of interest identified in the Schedule of Payments.

"Person" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"Program" shall mean the program authorized by KRS 224A.1115 and the Indenture as the "federally assisted drinking water revolving fund" for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

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~~"Project" shall mean, when used generally, a Drinking Water Supply Project, and when used in specific reference to the Governmental Agency, the Project described in the Project Specifics.~~

"Project Specifics" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Assistance Agreement.

"Requisition for Funds" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Authority as the Construction of the Project progresses.

"Resolution" means the resolution of the Governmental Agency attached hereto as Exhibit D authorizing the execution of this Assistance Agreement.

"Schedule of Payments" means the principal and interest requirements of the Loan as set forth in Exhibit F hereto, to be established and agreed to upon or prior to the completion of the Project.

"Schedule of Service Charges" shall mean those general charges to be imposed by the Governmental Agency for services provided by the System, as set forth in Exhibit C hereto, and such other revenues identified in Exhibit C hereto from which the Loan is to be repaid, which Schedule of Service Charges shall be in full force and effect to the satisfaction of the Authority

"Service Charges" shall mean any monthly, quarterly, semi-annual, or annual charges, surcharges or improvement benefit assessments to be imposed by a Governmental Agency, or by the Authority, in respect of the System, which Service Charges arise by reason of the existence of, and requirement of, any Assistance Agreement and for the purposes of this Assistance Agreement said Service Charges shall be no less than those set forth in the Schedule of Service Charges.

"System" shall mean the water system owned and operated by the Governmental Agency of which the Project shall become a part and from the earnings of which (represented by the Service Charges) the Governmental Agency shall repay the Authority the Loan hereunder.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Authority. The Authority represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Authority is a body corporate and politic constituting a governmental agency ~~and instrumentality of the Commonwealth, has all necessary power and Authority to enter into,~~ and perform its obligations under, this Assistance Agreement, and has duly authorized the execution and delivery of this Assistance Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Authority, there is no litigation or proceeding pending or threatened against the Authority or any other person affecting the right of the Authority to execute or deliver this Assistance Agreement or to comply with its obligations under this Assistance Agreement. Neither the execution and delivery of this Assistance Agreement by the Authority, nor compliance by the Authority with its obligations under this Assistance Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Assistance Agreement and all actions of the Authority with respect thereto, are in compliance with the Act and the Federal Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of the Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Authority as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Assistance Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action of the governing body of the Governmental Agency.

(C) This Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability hereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.



(D) To the knowledge of the Governmental Agency, there is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Assistance Agreement or to proceed with the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Assistance Agreement or the Construction of the Project, or in any way contesting or affecting the validity of this Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Assistance Agreement.

(E) The authorization and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Assistance Agreement and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has obtained or shall obtain all licenses, permits and other governmental approvals (including but not limited to all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, to charge and collect the Service Charges and to enter into this Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project, and has full right, power and authority to perform the acts and things as provided for in this Assistance Agreement.

(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

(J) The Governmental Agency is in full compliance with all federal and state labor and procurement laws in connection with the planning, design, acquisition and construction of the Project.

(K) Project is consistent with the water supply plan developed pursuant to 401 KAR 4:220 for the county in which the Governmental Agency is located.

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## ARTICLE III

### AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. Pursuant to the terms of the Act and the Indenture, the Authority has determined that the Governmental Agency's Project is a Drinking Water Supply Project under the Act and the Governmental Agency is entitled to financial assistance from the Authority in connection with financing the Construction of the Project.

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Section 3.2. Principal Amount of Loan Established; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be the Loan Amount as identified in the Project Specifics, subject to such adjustments as may be set forth in the Schedule of Payments. Principal payments shall be made semiannually in the amounts and on the dates to be established by the Schedule of Payments, which Schedule of Payments shall provide for approximately level debt service payments over the Repayment Term set forth in the Project Specifics, commencing with the Amortization Commencement Date set forth in the Project Specifics.

The Loan shall bear interest, payable semiannually, at the Loan Rate identified in the Project Specifics, and after the Amortization Commencement Date, in the amounts (based on such Loan Rate) and on the dates set forth in the Schedule of Payments; provided that, should an Event of Default occur, such payments of interest shall be made on the first day of each month during the continuation of such Event of Default.

The Authority shall advance the proceeds of the Loan as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto. Each disbursement under a Requisition for Funds representing a portion of the principal amount of the Loan shall bear interest at the Loan Rate from the date of the disbursement; and shall be subject to the further requirements set forth in Article IV hereof.

Payments of principal and interest on the Loan shall be made at the principal office of the Authority or the Trustee, as designated by the Authority.

Section 3.3. Governmental Agency's Right to Prepay Loan. The Governmental Agency shall have the right to prepay and retire the entire amount of the Loan at any time without penalty upon written notice to the Authority no less than five (5) Business Days in advance of said prepayment.

Notwithstanding the foregoing, upon the determination by the Authority that it intends to issue revenue bonds secured by a pledge of the payments on the Loan, the Authority shall advise the Governmental Agency (i) of its intention to proceed with the authorization of such bonds (ii) of the limitation on prepayments after such bonds are issued and (iii) that the Governmental Agency has thirty (30) days from its receipt of said notice to exercise its option to prepay the Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Loan shall be limited to the terms described in such notice.

Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security

interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

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## ARTICLE IV

### CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Assistance Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Authority and the Cabinet appropriate documentation, satisfactory to the Authority indicating the following:

(A) That the Authority and the Cabinet and any appropriate regulatory agency of the Commonwealth as may be designated by the Authority or the Cabinet, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to examine and inspect the Project.

(B) All real estate and interest in real estate and all personal property constituting the Project and the sites of the Project heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Authority (as described in the Project Specifics) the Authority shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of the Construction of the Project over and above the Loan, prior to the disbursement by the Authority of any portion of the Loan.

(D) The Governmental Agency shall do all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by the Engineers.

(E) Actual construction and installation incident to the Project shall be performed by either the lump-sum (fixed price) or unit price contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) Unless construction of the Project has already been initiated as of the date of this Assistance Agreement, pursuant to due compliance with state law and applicable regulations, the Project will not be advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals has been received by the Governmental Agency and furnished to the Cabinet.

(G) Duly authorized representatives of the Cabinet and such other agencies of the Commonwealth as may be charged with responsibility will have reasonable access to the construction work whenever it is in preparation or progress, and the Governmental Agency will assure that the contractor or contractors will provide facilities for such access and inspection.

(H) The construction contract or contracts shall require the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate ~~provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors~~ subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(I) A work progress schedule utilizing a method of standard acceptance in the engineering community shall be prepared prior to the institution of construction in connection with each construction contract, or, if construction has already been initiated as of the date of this Assistance Agreement, at the earliest practicable date, to indicate the proposed schedule as to completion of the Project, and same shall be maintained monthly thereafter to indicate the actual construction progress of the Project.

(J) Prior to the award of the construction contract and prior to the commencement of construction, the Governmental Agency will arrange and conduct a conference as to the Project said conference to include representatives of the Authority, the Governmental Agency, the Cabinet and any other participating federal or state agency, the Engineers, and all construction contractors, such conference to be held in accordance with guidelines established by the Authority and the Cabinet. A written brief of said conference summarizing the construction schedule, fund requirements schedule, payment authorizations, responsible parties for approval of all facets of the construction work and payment therefor, and other pertinent matters shall be prepared and distributed to each agency involved, and all construction contractors and Engineers. Provided, however, that in the event construction shall have been initiated as of the date of this Assistance Agreement, this provision may be waived.

(K) All construction contracts will be so prepared that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency may be readily itemized.

(L) Any change or changes in a construction contract will be promptly submitted to the Cabinet and any state or federal agencies.

(M) The Construction, including the letting of contracts in connection therewith, will conform in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(N) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers for the Governmental Agency and approved by state and federal agencies.

(O) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority and the United States Environmental Protection Agency noting the participation of the Authority and the U.S. Government, respectively, in the financing of the Project.

(P) Except as otherwise provided in this Assistance Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

~~(Q) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Authority and the Cabinet, acting by and through their duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Authority and the Cabinet such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state assistance.~~

(R) The Governmental Agency shall require that each construction contractor or contractors furnish a performance and a payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the Project covered by the particular contract as security for the faithful performance of such contract.

(S) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(T) The Governmental Agency shall provide and maintain competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Cabinet, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

(U) The Governmental Agency shall demonstrate to the satisfaction of the Authority the legal capability of the Governmental Agency to enact, adopt, levy, charge, collect, enforce and remit to the Authority and the Cabinet the Service Charges of the Governmental Agency described in the Schedule of Service Charges attached to and made a part of this Assistance Agreement as Exhibit C and submit proof satisfactory to the Authority that the Service Charges are in full force and effect

Section 4.2. Additional Conditions to Disbursement Required Under the Federal Agreement. The Governmental Agency, in order to comply with the terms and conditions of the Federal Agreement, further covenants and further agrees to additional conditions to disbursement, as follows:

(A) Notwithstanding any other agreements contained herein regarding the maintenance of books and records, that it shall maintain Project accounts in accordance with generally accepted governmental accounting standards, as required by the Federal Agreement. ~~The Governmental Agency shall retain such records for no less than three (3) years following the~~ final payment by the Governmental Agency under this Assistance Agreement or if any portion of the Project is disposed of, until at least three (3) years after such disposition; provided that if any litigation, claim, appeal or audit is commenced prior to the end of such period such records shall be maintained until the completion of such action or until three (3) years after such commencement, whichever is later.

(B) That it has not and will not apply any other federal funding to the Project in a manner that would cause it to receive "double benefits" as described in Section 603 of the Water Quality Act of 1987.

(C) That all property required for the completion of the Project shall be obtained, by easement, purchase or other means acceptable to the Authority, prior to commencement of construction and that the relocation of any Person resulting therefrom be in accordance with 49 CFR24 for Uniform Relocation Assistance and Real Property Acquisition Act of 1970.

(D) That all Project contractors shall be required to retain Project records for the periods established for the retention of the Governmental Agency's records in Section 4.2(A).

(E) That no more than fifty percent (50%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the final plan for operation for the Project.

(F) That no more than ninety percent (90%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the draft operations and maintenance manual.

(G) That final disbursement will not be allowed until approval by the Cabinet of a final operations and maintenance manual.

(H) That, as required by 40 CFR 35.2218, all engineering services regarding construction and regarding the first year of operation of the Project shall be provided for, including the following:

(1) The operation of the Project and the revision of the operations and maintenance manual as necessary to accommodate actual operating experience;

(2) The training of operating personnel, including preparation of curricula and training material for operating personnel; and

(3) Advice as to whether the Project is meeting the Project performance standards (including three quarterly reports and one project performance report).



(I) That it shall advise the Cabinet and the Authority in writing of the date for initiation of operation of the Project.

(J) That one year after operation is initiated, it shall certify to the Cabinet and the Authority that the Project is capable of meeting the Project performance standards.

(K) That it shall provide that qualified inspectors are present at the construction site. ~~A summary of such inspector's qualifications and experience shall be submitted to the Cabinet and the Authority.~~

(L) That it shall notify the Authority and the Cabinet of the completion date of the Project.

(M) That it agrees to the terms and conditions of its application for assistance and the Authority's commitment to provide assistance, the terms of which are incorporated herein by reference.

(N) That all measures required to minimize water pollution to affected waters shall be employed in the Project including compliance with Section 404 of PL 92-500, as amended, it being understood that approval of the Project does not constitute sanction or approval of any changes or deviations from established water quality standards, criteria implementation dates, or dates established by enforcement proceedings.

Section 4.3. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) and the Cabinet a Requisition for Funds prior to the fifth day of each month (or such other designated period as is acceptable to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

(A) A full and complete accounting of the costs of the planning and design of the Project to be obligated by contract or otherwise during the month in question, or already obligated and not included in any previous accounting;

(B) A full and complete accounting of any costs of the planning and design of the Project paid by the Governmental Agency from its own funds with the approval of the Authority and not included in any previous accounting for which it seeks reimbursement;

(C) A full and complete accounting of any costs of the planning and design of the Project paid or requisitioned under any other financing, loan, bond, grant or similar agreement or paid from its own funds for which it does not seek reimbursement and which have not been identified in any previous requisition form.

(D) The Contractor's estimate of work performed during the preceding month pursuant to construction contracts for the Project and payment thereunder due, together with the Engineer's and Governmental Agency's approval thereof for disbursement by the Authority.

Upon the Authority's receipt of the Requisition for Funds, and such additional documentation as it may require, and subject to certification by the Cabinet, the Authority may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.

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## ARTICLE V

### CERTAIN COVENANTS OF THE GOVERNMENTAL AGENCY; PAYMENTS TO BE MADE BY GOVERNMENTAL AGENCY TO THE AUTHORITY

Section 5.1. Imposition of Service Charges. The Governmental Agency hereby irrevocably covenants and agrees to comply with all of the terms, conditions and requirements of this Assistance Agreement, pursuant to which the Loan is to be made by the Authority to the Governmental Agency as specified herein and in the Act and the Indenture. The Governmental Agency hereby further irrevocably covenants and agrees that it already has, or will, to the extent necessary, immediately impose Service Charges upon all persons, firms and entities to whom or which services are provided by the System, such Service Charges to be no less than as set forth in Exhibit C annexed hereto. If so required, such Service Charges shall be in addition to all other rates, rentals and service charges of a similar nature of the Governmental Agency now or hereafter authorized by law, and now or hereafter being levied and collected by the Governmental Agency and shall be levied and collected solely for the purpose of repaying to the Authority all sums received from the Authority as representing the Loan in respect of the Project.

Section 5.2. Governmental Agency's Obligation to Repay Loan. The obligation of the Governmental Agency to repay to the Authority the amount of the Loan from the Service Charges shall not be revocable, and in the event that services supplied by the Project shall cease, or be suspended for any reason, the Governmental Agency shall continue to be obligated to repay the Loan from the Services Charges. In the event the Governmental Agency defaults in the payment of any Service Charges to the Authority, the amount of such default shall bear interest at the per annum rate equal to the Default Rate set forth in the Project Specifics, from the date of the default until the date of the payment thereof.

Section 5.3. Covenant to Adjust Service Charges. In the event, for any reason, the Schedule of Service Charges shall prove to be insufficient to provide to the Authority the minimum sums set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, the Governmental Agency hereby covenants and agrees that it will, upon notice by the Authority, to the full extent authorized by law, both federal and state, immediately adjust and increase such Schedule of Service Charges, or immediately commence proceedings for a rate adjustment and increase with all applicable regulatory authorities, so as to provide funds sufficient to pay to the Authority the minimum sums set forth in the Schedule of Payments, to provide for the operation of the System as required under this Assistance Agreement and to make the required deposits to the Maintenance and Replacement Reserve.

Section 5.4. Adequacy of Service Charges. The Service Charges herein covenanted to be imposed by the Governmental Agency shall be fixed at such rate or rates (and it is represented that the Schedule set forth in Exhibit C hereto so qualifies), as shall be at least adequate to make the payments at the times and in the amounts set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, subject to necessary governmental and regulatory approvals.

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment

period set forth in the Project Specifics, and shall be remitted to the Authority by the Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Schedule of Payments.

Section 5.5. Covenant to Establish Maintenance and Replacement Reserve. The Governmental Agency shall establish a special account identified as a "Maintenance and Replacement Reserve". The Governmental Agency shall deposit into the Maintenance and Replacement Reserve an amount equal to the amount set forth in the Project Specifics at the times set forth in the Project Specifics. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

Section 5.6. Covenant to Charge Sufficient Rates; Reports; Inspections. The Governmental Agency hereby irrevocably covenants and agrees with the Authority:

(A) That, as aforesaid, it will at all times impose, prescribed, charge and collect the Service Charges set forth in Exhibit C as shall result in net revenues to the Governmental Agency at least adequate to provide for the payments to the Authority required by this Assistance Agreement, to provide for the operation of the System and to make the required deposits to the Maintenance and Replacement Reserve.

(B) That it will furnish to the Authority and the Cabinet not less than annually reports of the operations and income and revenues of the System, and will permit authorized agents of the Authority to inspect all records, accounts and data of the System at all reasonable times.

(C) That it will collect, account for and promptly remit to the Authority those specific revenues, funds, income and proceeds derived from Service Charges incident to this Assistance Agreement.

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations. It further covenants that it will not issue any notes, bonds or other obligations payable from the revenues of the System, if the pledge of the revenues of the System to the repayment of such obligations is to rank on a parity with, or superior to, the pledge of the revenues of the System for the repayment of the Loan granted under this Assistance Agreement, unless the Governmental Agency has secured the consent of the Authority not less than fifteen (15) days prior to the issuance of such obligations.

Section 5.7. Segregation of Funds. The Governmental Agency shall at all times account for the income and revenues of the System and distinguish same from all other revenues, moneys and funds of the Governmental Agency, if any.

## ARTICLE VI

### OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

Section 6.1. Further Assurance. At any time and all times the Governmental Agency shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, ~~assigning and confirming all and singular the rights, assets and revenues herein pledged or~~ assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 6.2. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency.

Section 6.3. Establishment of Completion Date. The completion date for the Project shall be evidenced to the Authority by a certificate signed by the Engineer and an authorized representative of the Governmental Agency stating that, except for amounts retained by the Authority for costs of the Project not then due and payable, (i) the Construction has been completed and all labor, services, materials, supplies, machinery and equipment used in such Construction have been paid for, (ii) all other facilities necessary in connection with the Project have been acquired, constructed, equipped and installed and all costs and expenses incurred in connection therewith have been paid, (iii) the Project and all other facilities in connection therewith have been acquired, constructed, equipped and installed to his satisfaction.

Section 6.4. Commitment to Operate. The Governmental Agency hereby covenants and agrees to commence operation of the Project immediately on completion of construction and not to discontinue operations or dispose of such Project without the approval of the Authority.

Section 6.5. Continue to Operate. The Governmental Agency hereby covenants and agrees to continuously operate and maintain the Project in accordance with applicable provisions of federal and state law and to maintain adequate records relating to said operation; said records to be made available to the Authority upon its request at all reasonable times.

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the funds for the Loan, the Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Authority in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Authority. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in accordance with the "Uniform System of Accounts" established by the Commonwealth, in which complete and accurate entries shall be made of all its transactions relating to the System and which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within ninety (90) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principles on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity.

Section 6.9. General Compliance With All Duties. The Governmental Agency shall faithfully and punctually perform all duties with reference to the Project and the System required by the Constitution and laws of the Commonwealth, and by the terms and provisions of this Assistance Agreement and any other Debt Obligations.

Section 6.10. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act, the Federal Act and this Assistance Agreement in accordance with the terms of such provisions including the Additional Covenants and Agreements, if any, set forth in Exhibit G hereto.

Section 6.11. Further Covenants under the Federal Agreement. The Governmental Agency shall comply with all further requirements or conditions which may arise from time to time in order to assure compliance with the Federal Act, and with the agreements of the Authority set forth in the Federal Agreement, including but not limited to the following:

(A) The Governmental Agency shall provide all information requested of it by the Authority or the Cabinet so that (i) the Grants Information Control System, referred to in the Federal Agreement, can be maintained, (ii) the accounting and auditing procedures required by the Federal Act can be maintained and (iii) the Authority can furnish the information required of its under the Federal Agreement.

(B) Qualified operating personnel, properly certified by the Cabinet, shall be retained by the Governmental Agency to operate the Project during the entire term of this Assistance Agreement. An approved plan of operating and an operations and maintenance manual for the Project shall be provided by the Governmental Agency to the Cabinet and the Authority. The Project shall be operated and maintained in an efficient and effective manner.

(C) All residents in the service area of the Project must be offered the same opportunity to become users of the Project regardless of race, creed, color, or level of income.

(D) The Governmental Agency shall comply with provisions contained in the following federal regulations, orders, acts and circulars and the following statutes and regulations of the Commonwealth.

(1) Federal Cross-Cutters

Environmental Authorities

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- (a) Archeological and Historic Preservation Act of 1974, Pub. L. 86-523, as amended
- (b) Clean Air Act, Pub. L. 84-159, as amended
- (c) Coastal Barrier Resources Act, Pub. L. 97-348
- (d) Coastal Zone Management Act, Pub. L. 93-583, as amended
- (e) Endangered Species Act, Pub. L. 93-205, as amended
- (f) Environmental Justice, Executive Order 12898
- (g) Floodplain Management, Executive Order 11988 as amended by Executive Order 12148
- (h) Protection of Wetlands, Executive Order 11990
- (i) Farmland Protection Policy Act, Pub. L. 97-98
- (j) Fish and Wildlife Coordination Act, Pub. L. 85-624, as amended
- (k) National Historic Preservation Act of 1966, PL 89-665, as amended
- (l) Safe Drinking Water Act, Pub. L. 93-523, as amended
- (m) Wild and Scenic Rivers Act, Pub. L. 90-542, as amended

Economic and Miscellaneous Authorities

- (a) Demonstration Cities and Metropolitan Development Act of 1966, Pub. L. 89-754, as amended, Executive Order 12372
- (b) Procurement Prohibitions under Section 306 of the Clean Air Act and Section 508 of the Clean Water Act, including Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans.
- (c) Uniform Relocation and Real Property Acquisition Policies Act, Pub. L. 91-646, as amended
- (d) Debarment and Suspension, Executive Order 12549

Social Policy Authorities

- (a) Age Discrimination Act of 1975, Pub. L. 94-135
- (b) Title VI of the Civil Rights Act of 1964, Pub. L. 88-352
- (c) Section 13 of the Federal Water Pollution Control Act Amendments of 1972, Pub. L. 92-500 (the Clean Water Act)
- (d) Section 504 of the Rehabilitation Act of 1973, Pub. L. 93-112 (including Executive Orders 11914 and 11250)
- (e) Equal Employment Opportunity, Executive Order 11246
- (f) Women's and Minority Business Enterprise, Executive Orders 11625, 12138, and 12432

- (g) Section 129 of the Small Business Administration Reauthorization and Amendment Act of 1988, Pub. L. 100-590

(2) State:

- (a) KRS 224
  - (b) KRS 224A.1115 Federally Assisted Drinking Water Revolving Fund
  - (c) KRS Chapter 337, Labor Laws
  - (d) 401 KAR Chapter 5
- 

Section 6.12. Continuing Disclosure Obligation. The Governmental Agency covenants and agrees that notwithstanding any other provision of this Assistance Agreement to the contrary, upon written notice from the Authority that the Schedule of Payments provides ten percent (10%) or more of the debt service requirements on an issue of the Authority's Bonds and that compliance by the Governmental Agency with the requirements of Securities and Exchange Commission Rule 15c2-12, as amended (the "SEC Rule") is required in connection with the Authority's Bonds, the Governmental Agency shall provide to the Authority such information as may be required by the Rule, within the time periods set out in such notice by the Authority, to enable the Authority to establish to the satisfaction of prospective purchasers of the Authority's Bonds that the requirements of the SEC Rule will be satisfied in connection with the issuance of the Authority's Bonds. The Governmental Agency further understands and agrees that the Authority shall act as the Governmental Agency's disclosure agent for purposes of compliance with the SEC Rule and that upon a failure by the Governmental Agency to provide the information required to be provided under the SEC Rule within the time frame specified in such notice, the Authority and/or the beneficial owners and holders of the Authority's Bonds shall be specifically granted the right of enforcing the provisions of this Section 6.12 by an action in mandamus, for specific performance, or similar remedy to compel performance.



## ARTICLE VII

### MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

Section 7.1. Maintain System. The Governmental Agency agrees that during the entire term of this Assistance Agreement, it will keep the Project, including all appurtenances thereto, and the equipment and machinery therein, in good and sound repair and good operating condition at its own cost so that the completed Project will continue to provide the services for which the System is designed.

Section 7.2. Additions and Improvements. The Governmental Agency shall have the privilege of making additions, modifications and improvements to the sites of the Project, and to the Project itself from time to time provided that said additions, modifications and improvements do not impair the operation or objectives of the Project. The Cost of such additions, modifications and improvements shall be paid by the Governmental Agency, and the same shall be the property of the Governmental Agency and shall be included under the terms of this Assistance Agreement as part of the site of the Project, or the Project, as the case may be. Nothing herein contained shall be construed as precluding the Authority and the Governmental Agency from entering into one or more supplementary Assistance Agreements providing for an additional Loan or Loans in respect of additional Projects undertaken by the Governmental Agency.

Section 7.3. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not, without the prior written consent of the Authority, which consent shall not be unreasonably withheld, sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the System or any part thereof (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 7.4. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.5. Access to Records. The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the Project, and commencement of operations thereof.

Section 7.6. Covenant to Insure - Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

Section 7.7. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.8. Covenant to Insure - Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal injury, death and property damage) and in such amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.9. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.10. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.11. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

(A) The restoration of the improvements located on the Project sites to substantially the same condition as prior to the exercise of said power of eminent domain; or

(B) The acquisition of additional property, if necessary, and the acquisition of additional facilities by construction or otherwise, equivalent to the Project facilities, which property and facilities shall be deemed to be a part of the Project sites and a part of the Project facilities and to be substituted for Project facilities so taken by eminent domain, without the payment of any amount other than herein provided, to the same extent as if such property and facilities were specifically described herein.

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.11, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an

authorized officer of the Governmental Agency to the effect that the Governmental Agency has complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Project or any part thereof without the written consent of the Authority.

Section 7.12. Flood Insurance. All structures located in flood prone areas shall be covered by flood insurance carried by the Governmental Agency for an amount equal to the total Project cost excluding the cost of land and any uninsurable improvements, or for the maximum limit available under the National Flood Insurance Act of 1968, as amended, whichever is less, for the entire useful life of the Project.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

Section 8.1. Events of Default Defined. The following will be "Events of Default" under this Assistance Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Assistance Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any payments specified herein at the times specified herein.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Authority unless the Authority agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

(D) A default by the Governmental Agency under the provisions of any agreements relating to its Debt Obligations.

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing (other than an event of default arising under Section 6.13 of this Assistance Agreement), the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Schedule of Payments, to be immediately due and payable.

(B) Exercise all the rights and remedies of the Authority set forth in the Act.

(C) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights under this Assistance Agreement.

(D) Submit a formal referral to the appropriate federal agency, as required by the Federal Agreement.

The sole remedies for an Event of Default under this Assistance Agreement arising by virtue of the failure of the Governmental Agency to comply with the provisions of Section 6.10 hereof shall be those remedies specifically set forth in Section 6.10 hereof

Section 8.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 8.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 8.5. Consent to Powers of Authority Under Act. The Governmental Agency hereby acknowledges to the Authority its understanding of the provisions of the Act, vesting in the Authority certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Authority should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Authority in the due and prompt implementation of this Assistance Agreement.

Section 8.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 8.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto will default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

## ARTICLE IX

### MISCELLANEOUS PROVISIONS

Section 9.1. Approval not to be Unreasonably Withheld. Any approval of the Authority required by this Assistance Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Authority, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Assistance Agreement requiring the approval of the Authority or the satisfaction or the evidence of satisfaction of the Authority shall be interpreted as requiring action by an authorized officer of the Authority granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 9.2. Approval. This Agreement is made subject to, and conditioned upon, the approval of this Assistance Agreement by the Secretary of the Finance and Administration Cabinet.

Section 9.3. Effective Date. This Assistance Agreement shall become effective as of the date first set forth hereinabove and shall continue in full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Assistance Agreement have been fully satisfied.

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, without the written consent of the other party.

Section 9.5. Severability. In the event that any provision of this Assistance Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 9.6. Assignability. The rights of the Authority under this Assistance Agreement shall be assignable by the Authority without the consent of the Governmental Agency, but none of the rights, duties or obligations of the Governmental Agency under this Assistance Agreement shall be assignable by the Governmental Agency without the prior written consent of the Authority.

Section 9.7. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

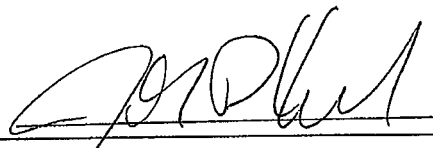
Section 9.8. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

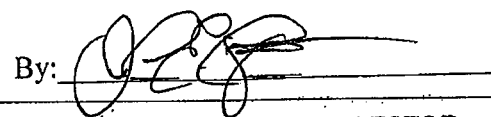
Section 9.9. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Assistance Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assistance Agreement to be executed by their respective duly authorized officers as of the day and year above written.

**ATTEST:**

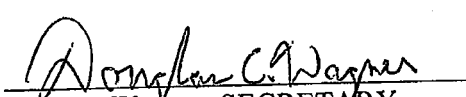
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AUTHORITY**

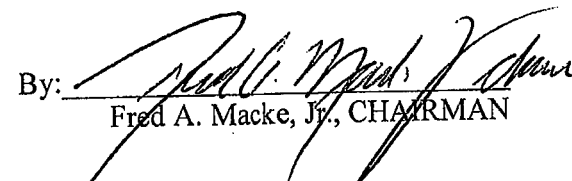
  
\_\_\_\_\_  
Title: SECRETARY

By:   
\_\_\_\_\_  
Title: EXECUTIVE DIRECTOR

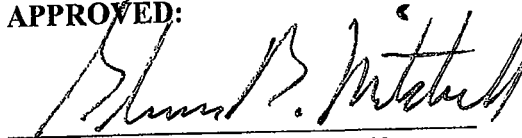
**ATTEST:**

**GOVERNMENTAL AGENCY:  
NORTHERN KENTUCKY WATER DISTRICT**

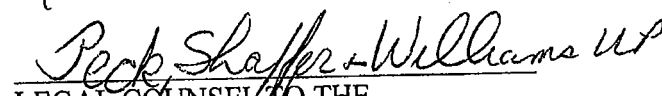
  
\_\_\_\_\_  
Doug Wagner, SECRETARY

By:   
\_\_\_\_\_  
Fred A. Macke, Jr., CHAIRMAN

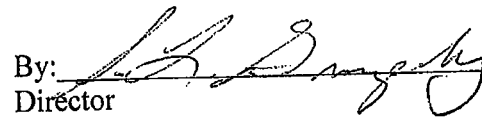
**APPROVED:**

  
\_\_\_\_\_  
SECRETARY/FINANCE AND  
ADMINISTRATION CABINET OF THE  
COMMONWEALTH OF KENTUCKY

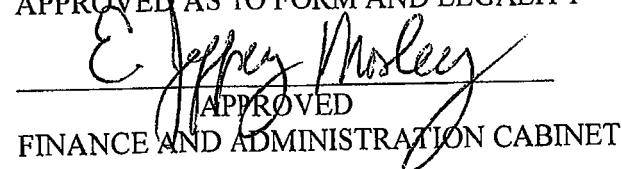
**EXAMINED:**

  
\_\_\_\_\_  
LEGAL COUNSEL TO THE  
KENTUCKY INFRASTRUCTURE  
AUTHORITY

ENVIRONMENTAL AND PUBLIC PROTECTION  
CABINET OF THE COMMONWEALTH OF KENTUCKY

By:   
\_\_\_\_\_  
Director  
Division of Water

APPROVED AS TO FORM AND LEGALITY

  
\_\_\_\_\_  
APPROVED  
FINANCE AND ADMINISTRATION CABINET

**EXHIBIT A**  
**Northern Kentucky Water District**  
**PROJECT SPECIFICS**  
**F08-07**

**GOVERNMENTAL AGENCY:**

Name: Northern Kentucky Water District  
P.O. Box 18640  
Erlanger, Kentucky 41018-0640

Contact Person: C. Ronald Lovan, P.E.  
859-578-9898

**SYSTEM:** Drinking Water

**PROJECT:** The Water District is proposing to construct improvements to the chemical feed system at the Ft. Thomas Water Treatment Plant and upgrades to the gravity thickener. The project also includes the purchase of a portable emergency generator and installation of transfer switches at multiple pump stations to allow acceptance of generator power. A new 24-inch transmission main will be constructed along the AA Highway from East Alexandria Pike to Riley Road for redundancy and increased pressure.

**PROJECT BUDGET:**

	Total
Administrative Expenses	1,000
Legal Expenses	2,000
Engineering Fees	541,135
Construction	6,020,865
Total	6,565,000

**FUNDING SOURCES:**

	Amount	%
Fund F Loan	\$ 4,000,000	61%
Local Funds	\$ 2,565,000	39%
Total	\$ 6,565,000	100%

**KIA DEBT SERVICE:**

Construction Loan		\$ 4,000,000.00
Interest Rate		1.00%
Loan Term (Years)		20
Estimated Annual Debt Service		\$ 221,164.15
Administrative Fee (0.20%)		\$ 10,000.00
<b>Total Estimated Annual Debt Service</b>		<b>\$ 231,164.15</b>



**AMORTIZATION COMMENCEMENT DATE:** June 1 and December 1

Interest payments will commence within six months from first draw of funds (estimated 12/01/08).

Full principal and interest payments will commence within one year of initiation of operation (estimated 6/01/10).

<b>REPLACEMENT RESERVE ACCOUNT:</b>	\$ -	ANNUAL AMOUNT
	\$ -	TOTAL AMOUNT

The Northern Kentucky Water District self funds an "Improvement, Repair and Replacement Account" which is available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets as of December 31, 2005 are \$3,074,102. Based on the account already in place, the system will not be required to further fund an additional replacement reserve specifically for this loan.

**ADMINISTRATIVE FEE:** 0.20%

**DEFAULT RATE:** 8.00%

**DEBT OBLIGATIONS CURRENTLY OUTSTANDING:**

	Outstanding	Maturity
Series 1997 Revenue Bonds	\$5,500,000	2022
Series 1998 Revenue Bonds	\$9,550,000	2028
Series 2001 Revenue Bonds	\$15,120,000	2026
2000 Rural Development Loan	\$2,170,000	2039
Series 2002A Revenue Bonds	\$44,060,000	2027
Series 2002B Revenue Bonds	\$8,565,000	2017
Series 2002C Revenue Bonds	\$1,510,000	2032
Series 2003A Revenue Bonds	\$27,740,000	2028
Series 2003B Revenue Bonds	\$20,020,000	2020
Series 2003C Revenue Bonds	\$9,910,000	2029
Series 2004 Revenue Bonds	\$2,125,000	2018
Taylor Mill Purchase Financing	\$2,900,000	2031
Series 2006 Revenue Bonds	\$4,000,000	2028
KIA Fund F Loan		
<b>Total</b>	<b>\$153,170,000</b>	

**LIABILITY INSURANCE COVERAGE:**

Death or Personal Injury (per person)	\$1,000,000
Death or Personal Injury (per occurrence)	\$1,000,000
Property Damage on System	\$1,000,000
<b>Umbrella Coverage</b>	<b>\$19,000,000</b>

**EXHIBIT B**

**REQUEST FOR PAYMENT WITH RESPECT TO  
ASSISTANCE AGREEMENT DATED NOVEMBER 1, 2008  
LOAN NO. F08-07**

Request No. \_\_\_\_\_

Dated: \_\_\_\_\_

Original sent to: Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

Copy sent to: Branch Manager  
Resource Planning and Program Support Branch  
Division of Water  
Natural Resources and  
Environmental Protection Cabinet  
14 Reilly Road  
Frankfort, Kentucky 40601

FROM: NORTHERN KENTUCKY WATER DISTRICT (the "Governmental Agency")

Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Infrastructure Authority (the "Authority") for the acquisition and construction of drinking water supply facilities, described in the Assistance Agreement as the "Project."

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Authority's funding share of these expenses is in the amount so denoted in this request totaling \$ \_\_\_\_\_.

Documentation supporting the expenses incurred and identified per this request are attached.

**ELIGIBLE PROJECT EXPENSES INCURRED**

<u>Contractor</u>	<u>Expenses this Request</u>	<u>Expenses to Date</u>
-------------------	------------------------------	-------------------------

Total

ALLOCATION OF FUNDING FOR EXPENSES

<u>Funding Source</u>	<u>Portion of Expenses this Request</u>	<u>Portion of Expenses Total to Date</u>
-----------------------	---	--

---

Totals

The Governmental Agency certifies it has also paid Project expenses for planning and design or has submitted requisitions to the applicable funding sources for Project expenses, which have not been identified in any previous Request or Payment, as follows:

<u>Funding Source</u>	<u>Amount of Payment or Requisition</u>	<u>Date of Payment or Requisition</u>
-----------------------	---	---

Respectfully submitted,

\_\_\_\_\_  
Governmental Agency

By: \_\_\_\_\_

Title \_\_\_\_\_

CERTIFICATE OF CONSULTING ENGINEERS AS TO  
PAYMENT REQUEST

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request in connection with the "Eligible Project" and that all expenses represented in this request were duly incurred for the Construction of the "Project," that the Authority's funding share of these expenses is accurately represented and that such expenses have not been the subject of any request for disbursement previously submitted.

\_\_\_\_\_  
Engineer/Architect

\_\_\_\_\_  
Firm Name

## Exhibit C

### Schedule of Service Charges

#### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00135 DATED DECEMBER 21, 2007

The following rates and charges are prescribed for the customers in the area served by Northern Kentucky Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Effective Date: March 3, 2008

#### 1. Service Charges

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$12.54	\$18.97
3/4"	\$12.96	\$19.99
1"	\$14.15	\$22.98
1 1/2"	\$15.93	\$27.08
2"	\$20.13	\$38.07
3"	\$48.61	\$118.45
4"	\$60.89	\$148.45
6"	\$90.16	\$219.44
8"	\$121.75	\$299.79
10" and larger	\$161.91	\$391.47

#### 2. Commodity Charges

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic ft	4,500 cubic ft	\$3.31 per 100 cubic ft
Next	163,500 cubic ft	490,500 cubic ft	\$2.88 per 100 cubic ft
Over	165,000 cubic ft	495,000 cubic ft	\$2.55 per 100 cubic ft

#### 3. Sub-district Charges (Effective 1/11/08)

Sub-district A shall be assessed a monthly surcharge in the amount of \$ 9.03  
Sub-district B shall be assessed a monthly surcharge in the amount of \$18.36  
Sub-district C shall be assessed a monthly surcharge in the amount of \$19.44  
Sub-district D shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district E shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district F shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district G shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district K shall be assessed a monthly surcharge in the amount of \$21.09  
Sub-district R shall be assessed a monthly surcharge in the amount of \$18.50  
Sub-district RF shall be assessed a monthly surcharge in the amount of \$25.47  
Sub-district RL shall be assessed a monthly surcharge in the amount of \$36.22

#### 4. Wholesale Water Rates

Bullock Pen Water District \$2.22 per 100 cubic ft or \$2.97 per 1000 gallons  
City of Walton \$2.22 per 100 cubic ft or \$2.97 per 1000 gallons  
Pendleton County \$2.22 per 100 cubic ft or \$2.97 per 1000 gallons

#### 5. Miscellaneous Service Fees

Returned Check Charge \$20.00  
Water Hauling Station \$3.50 per 1000 gallons  
Service Charge \$25.00  
Overtime Charge \$40.00

**EXHIBIT D**

**RESOLUTION**

**RESOLUTION OF THE NORTHERN KENTUCKY WATER DISTRICT  
APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT  
DATED AS OF NOVEMBER 1, 2008 BETWEEN THE NORTHERN  
KENTUCKY WATER DISTRICT AND THE KENTUCKY  
INFRASTRUCTURE AUTHORITY.**

---

WHEREAS, the Board of Commissioners ("Governing Authority") of the Northern Kentucky Water District ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain facilities and improvements to the Governmental Agency's Water System (the "Project") and

WHEREAS, the Governmental Agency has made application to the Kentucky Infrastructure Authority (the "Authority") for the purpose of providing monies to acquire and construct the Project; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an assistance agreement dated as of November 1, 2008 (the "Assistance Agreement") with the Authority.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Northern Kentucky Water District, as follows:

SECTION 1. That the Governing Authority hereby approves and authorizes the Assistance Agreement between the Governmental Agency and the Authority substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the acquisition and construction of the Project.

SECTION 2. That the Chairman and Secretary of the Governmental Agency be and hereby are authorized, directed and empowered to execute necessary documents or agreements, and to otherwise act on behalf of the Governmental Agency to effect such financing.

SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on \_\_\_\_\_, 2008.

\_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Title: Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Northern Kentucky Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the governing authority of said District at a meeting duly held on \_\_\_\_\_, 2008; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this \_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
Recording Officer

**EXHIBIT E**

**OPINION OF COUNSEL**

[Letterhead of Counsel to Governmental Agency]

---

[Date]

Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and Northern Kentucky Water District, dated as of November 1, 2008

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the Northern Kentucky Water District, hereinafter referred to as the "Governmental Agency". I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the drinking water supply project (the "Project") with respect to which the Assistance Agreement by and between the Kentucky Infrastructure Authority ("Authority") and the Governmental Agency is being authorized, executed and delivered.

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement.

Based upon my review I am of the opinion that:

1) The Governmental Agency is a duly organized and existing political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.

2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.



3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

4) The Service Charges, as defined in the Assistance Agreement, are in full force and effect and have been duly and lawfully adopted by the Governmental Agency.

~~5) The execution and delivery of the Assistance Agreement and the performance by the Governmental Agency of its obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. Except as specifically provided for in the Assistance Agreement, the Governmental Agency has obtained each and every authorization, consent, permit, approval or license of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Assistance Agreement and the imposition of the Service Charges.~~

6) To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the Project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

7) None of the proceedings or authority heretofore had or taken by the Governmental Agency for the authorization, execution or delivery of the Assistance Agreement has or have been repealed, rescinded, or revoked.

8) To the best of my knowledge, the Governmental Agency has fully complied with all federal and state labor and procurement laws in connection with the construction of the Project.

9) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,

**EXHIBIT F**

TO ASSISTANCE AGREEMENT BETWEEN  
NORTHERN KENTUCKY WATER DISTRICT  
("GOVERNMENTAL AGENCY") AND  
THE KENTUCKY INFRASTRUCTURE AUTHORITY

---

Total Loan to be Repaid by  
Governmental Agency to  
Kentucky Infrastructure Authority

\$ \_\_\_\_\_

Principal and Interest Payable  
on Each June 1 and December 1

It is understood and agreed by the parties to this Assistance Agreement that this Exhibit F is an integral part of the Assistance Agreement between the Governmental Agency and the Kentucky Infrastructure Authority.

IN WITNESS WHEREOF, the parties have caused this Exhibit F to Assistance Agreement to be executed by their respective duly authorized officers as of the date of said Assistance Agreement.

**KENTUCKY INFRASTRUCTURE  
AUTHORITY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**NORTHERN KENTUCKY WATER DISTRICT  
Governmental Agency**

By: \_\_\_\_\_

Title: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Title: \_\_\_\_\_

## EXHIBIT G

### ADDITIONAL COVENANTS AND AGREEMENTS

1. The Loan will take a subordinate position to any future parity debt issued by the Governmental Agency ("Parity Debt"), subject to compliance by the Governmental Agency with the following conditions:
- 

- a. The "coverage" requirement in the existing general bond resolution adopted by the Governmental Agency on November 19, 1985, as amended and supplemented on November 17, 1987 (collectively, the "General Bond Resolution") must be met. This requirement specifies that there shall be filed a certificate prepared by an independent firm of certified public accountants demonstrating that the net annual income and revenues of the System are at least 1.20 times the maximum annual debt service requirements.

- b. At the time of the issuance of any additional parity debt under the Bond Ordinance, the Governmental Agency must submit to the Authority a certificate by a firm of certified public accountants certifying coverage of 110% after taking into account the debt then proposed to be issued as well as all subordinate debt outstanding including the Authority's loan. The methodology for calculating such coverage shall be the same as is applied under the General Bond Resolution for the parity test.

2. The Governmental Agency shall obtain all necessary permits, licenses or approvals for the portion of the Project consisting of the construction of a new transmission main along the AA highway from East Alexandria Pike to Riley Road prior to submission of any disbursement requests for funds for such portion of the Project and shall submit evidence satisfactory to the Authority that all such necessary permits have been obtained.

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

FUND F

RECEIVED  
JUL 02 2010  
SRE/RRAP SECTION

PROJECT NUMBER: F09-02  
BORROWER: Northern Kentucky Water District  
BORROWER'S ADDRESS: 2835 Crescent Springs Road  
Erlanger, Kentucky 41018  
DATE OF ASSISTANCE AGREEMENT: June 1, 2010  
CFDA NO.: 66.458

RECEIVED  
KENTUCKY INFRASTRUCTURE  
AUTHORITY

2010 JUL 15 A 11:21

RECEIVED  
KENTUCKY INFRASTRUCTURE  
AUTHORITY  
2010 JUL 27 P 2:43

RECEIVED  
KENTUCKY INFRASTRUCTURE  
AUTHORITY  
2010 JUN 28 P 2:27

ASSISTANCE AGREEMENT

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## ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the date set forth on the cover page hereof (the "Assistance Agreement") by and between the KENTUCKY INFRASTRUCTURE AUTHORITY, a body corporate and politic, constituting a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky (the "Authority") and the Governmental Agency identified on the cover of this Assistance Agreement (the "Governmental Agency"):

### WITNESSETH

WHEREAS, the General Assembly of the Commonwealth of Kentucky, being the duly and legally constituted legislature of Kentucky at its 1988 Regular Session, enacted House Bill 217 amending Chapter 224A of the Kentucky Revised Statutes (the "Act"), creating the "Kentucky Infrastructure Authority" to serve the public purposes identified in the Act; and

WHEREAS, the Authority has established its Program as hereinafter defined, for the purpose of providing financial assistance to Governmental Agencies, as defined in the Act, in connection with the acquisition and construction of Projects, as defined in the Act, in order to preserve, protect, upgrade, conserve, develop, utilize and manage the resources of the Commonwealth of Kentucky (the "Commonwealth") for the protection and preservation of the health, safety, convenience, and welfare of the Commonwealth and its citizens, and in that respect to assist and cooperate with Governmental Agencies in achieving such purposes; and

WHEREAS, the Program is funded in part, pursuant to the Capitalization Grant Operating Agreement between the Authority and the U.S. Environmental Protection Agency dated as of November 1, 1998 (the "Federal Agreement") under which the Authority is responsible for providing certain "match funding" described in the Federal Agreement; and

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of February 1, 2000 (the "Indenture") between the Authority and National City Bank of Kentucky (the "Trustee") in order to provide the "match funding" for the Program; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to finance the acquisition and construction of the Project, as hereinafter defined, and the Authority has determined that the Project is a Project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Authority; and

WHEREAS, the Governmental Agency desires to enter into this Assistance Agreement with the Authority for the purpose of securing from the Authority the repayable Loan hereinafter identified; and

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to repay the Loan and the interest thereon from the sources herein provided, all as hereinafter more specifically provided; and



WHEREAS, the Authority and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants, and obligations with respect to the acquisition, construction and financing of the Project and the repayment of the Loan and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

## ARTICLE I

### DEFINITIONS

All of the terms utilized in this Assistance Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Assistance Agreement by reference, the same as if set forth hereby verbatim; provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 224A of the Kentucky Revised Statutes, as amended.

"*Administrative Fee*" means the charge of the Authority for the servicing of the Loan, which is the annual percentage charged against the unpaid principal balance of the Loan as identified in the Project Specifics.

"*Architects*" means the firm of consulting architects employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Assistance Agreement*" shall mean this agreement made and entered into by and between a Governmental Agency and the Authority, as authorized by the Act, providing for a Loan to the Governmental Agency by the Authority, and for the repayment thereof to the Authority by the Governmental Agency.

"*Authority*" shall mean the Kentucky Infrastructure Authority created by the Act; a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the Commonwealth of Kentucky, or such other designation as may be effected by future amendments to the Act.

"*Bond*" or "*Bonds*" or "*Revenue Bonds*" shall mean any Kentucky Infrastructure Authority Bond or Bonds, or the issue of such Bonds, as the case may be, authenticated and delivered under the Indenture.

"*Business Day*" shall mean any day other than a Saturday, Sunday or other legal holiday on which the general offices of the Commonwealth are closed.

"*Cabinet*" means the Natural Resources and Environmental Protection Cabinet of the Commonwealth.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"*Commonwealth*" shall mean the Commonwealth of Kentucky.

"*Construction*" shall mean construction as defined in the Act.

"*Debt Obligations*" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance

Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

"*Drinking Water Supply Project*" shall mean the planning, design and construction of drinking water treatment and distribution systems, including expenditures to address Federal Act health goals, or to address situations where compliance standards have been exceeded or to prevent future violations of rules, and may further include drinking water treatment plants, including basins for rapid mix, flocculation, coagulation, filtration, pre-treatment disinfection, and disinfection prior to entry to the distribution system; distribution systems; storage tanks; intake lines and short-term water storage; clearwells; drilled wells and wellhead areas; and any other structure or facility considered necessary by the Natural Resources Cabinet of the Commonwealth of Kentucky to the efficient and sanitary operation of a public water system and complies with the requirements of the Federal Act.

"*Engineers*" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Federal Act*" shall mean the Federal Safe Drinking Water Act, as amended, 42 U.S.C. Section 1401, et seq.

"*Governmental Agency*" shall mean any incorporated city or municipal corporation, or other agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate infrastructure projects, including specifically but not by way of limitation, incorporated cities, counties, including any counties containing a metropolitan sewer district, sanitation districts, water districts, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Assistance Agreement shall mean the Governmental Agency identified in the Project Specifics.

"*Indenture*" shall mean the General Trust Indenture dated as of February 1, 2000 between the Authority and the Trustee.

"*Interagency Agreement*" means the Memorandum of Understanding dated as of July 1, 1999 between the Authority and the Cabinet, as the same may be amended or supplemented from time to time.

"*Loan*" shall mean the loan effected under this Assistance Agreement from the Authority to the Governmental Agency in the principal amount set forth in the Project Specifics, for the purpose of defraying the costs incidental to the Construction of the Project.

"*Loan Rate*" means the rate of interest identified in the Schedule of Payments.

"*Person*" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"*Program*" shall mean the program authorized by KRS 224A.1115 and the Indenture as the "federally assisted drinking water revolving fund" for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

"*Project*" shall mean, when used generally, a Drinking Water Supply Project, and when used in specific reference to the Governmental Agency, the Project described in the Project Specifics:

"*Project Specifics*" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Assistance Agreement.

"*Requisition for Funds*" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Authority as the Construction of the Project progresses.

"*Resolution*" means the resolution of the Governmental Agency attached hereto as Exhibit D authorizing the execution of this Assistance Agreement.

"*Schedule of Payments*" means the principal and interest requirements of the Loan as set forth in Exhibit F hereto, to be established and agreed to upon or prior to the completion of the Project.

"*Schedule of Service Charges*" shall mean those general charges to be imposed by the Governmental Agency for services provided by the System, as set forth in Exhibit C hereto, and such other revenues identified in Exhibit C hereto from which the Loan is to be repaid, which Schedule of Service Charges shall be in full force and effect to the satisfaction of the Authority

"*Service Charges*" shall mean any monthly, quarterly, semi-annual, or annual charges, surcharges or improvement benefit assessments to be imposed by a Governmental Agency, or by the Authority, in respect of the System, which Service Charges arise by reason of the existence of, and requirement of, any Assistance Agreement and for the purposes of this Assistance Agreement said Service Charges shall be no less than those set forth in the Schedule of Service Charges.

"*System*" shall mean the water system owned and operated by the Governmental Agency of which the Project shall become a part and from the earnings of which (represented by the Service Charges) the Governmental Agency shall repay the Authority the Loan hereunder.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Authority. The Authority represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Authority is a body corporate and politic constituting a governmental agency and instrumentality of the Commonwealth, has all necessary power and Authority to enter into, and perform its obligations under, this Assistance Agreement, and has duly authorized the execution and delivery of this Assistance Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Authority, there is no litigation or proceeding pending or threatened against the Authority or any other person affecting the right of the Authority to execute or deliver this Assistance Agreement or to comply with its obligations under this Assistance Agreement. Neither the execution and delivery of this Assistance Agreement by the Authority, nor compliance by the Authority with its obligations under this Assistance Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Assistance Agreement and all actions of the Authority with respect thereto, are in compliance with the Act and the Federal Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of the Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Authority as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Assistance Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action of the governing body of the Governmental Agency.

(C) This Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability hereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

(D) To the knowledge of the Governmental Agency, there is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Assistance Agreement or to proceed with the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Assistance Agreement or the Construction of the Project, or in any way contesting or affecting the validity of this Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Assistance Agreement.

(E) The authorization and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Assistance Agreement and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has all licenses, permits and other governmental approvals (including but not limited to all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, to charge and collect the Service Charges and to enter into this Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project, and has full right, power and authority to perform the acts and things as provided for in this Assistance Agreement.

(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

(J) The Governmental Agency is in full compliance with all federal and state labor and procurement laws in connection with the planning, design, acquisition and construction of the Project.

(K) Project is consistent with the water supply plan developed pursuant to 401 KAR 4:220 for the county in which the Governmental Agency is located.

## ARTICLE III

### AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. Pursuant to the terms of the Act and the Indenture, the Authority has determined that the Governmental Agency's Project is a Drinking Water Supply Project under the Act and the Governmental Agency is entitled to financial assistance from the Authority in connection with financing the Construction of the Project.

Section 3.2. Principal Amount of Loan Established; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be the Loan Amount as identified in the Project Specifics, subject to such adjustments as may be set forth in the Schedule of Payments. Principal payments shall be made semiannually in the amounts and on the dates to be established by the Schedule of Payments, which Schedule of Payments shall provide for approximately level debt service payments over the Repayment Term set forth in the Project Specifics, commencing with the Amortization Commencement Date set forth in the Project Specifics.

The Loan shall bear interest, payable semiannually, at the Loan Rate identified in the Project Specifics, and after the Amortization Commencement Date, in the amounts (based on such Loan Rate) and on the dates set forth in the Schedule of Payments; provided that, should an Event of Default occur, such payments of interest shall be made on the first day of each month during the continuation of such Event of Default.

The Authority shall advance the proceeds of the Loan as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto. Each disbursement under a Requisition for Funds representing a portion of the principal amount of the Loan shall bear interest at the Loan Rate from the date of the disbursement; and shall be subject to the further requirements set forth in Article IV hereof.

Payments of principal and interest on the Loan shall be made at the principal office of the Authority or the Trustee, as designated by the Authority.

Section 3.3. Governmental Agency's Right to Prepay Loan. The Governmental Agency shall have the right to prepay and retire the entire amount of the Loan at any time without penalty upon written notice to the Authority no less than five (5) Business Days in advance of said prepayment.

Notwithstanding the foregoing, upon the determination by the Authority that it intends to issue revenue bonds secured by a pledge of the payments on the Loan, the Authority shall advise the Governmental Agency (i) of its intention to proceed with the authorization of such bonds (ii) of the limitation on prepayments after such bonds are issued and (iii) that the Governmental Agency has thirty (30) days from its receipt of said notice to exercise its option to prepay the Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Loan shall be limited to the terms described in such notice.

Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable



from the revenues of the System outstanding at the time this Assistance Agreement is executed as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

## ARTICLE IV

### CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Assistance Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Authority and the Cabinet appropriate documentation, satisfactory to the Authority indicating the following:

(A) That the Authority and the Cabinet and any appropriate regulatory agency of the Commonwealth as may be designated by the Authority or the Cabinet, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to examine and inspect the Project.

(B) All real estate and interest in real estate and all personal property constituting the Project and the sites of the Project heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Authority (as described in the Project Specifics) the Authority shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of the Construction of the Project over and above the Loan, prior to the disbursement by the Authority of any portion of the Loan.

(D) The Governmental Agency shall do all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by the Engineers.

(E) Actual construction and installation incident to the Project shall be performed by either the lump-sum (fixed price) or unit price contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) Unless construction of the Project has already been initiated as of the date of this Assistance Agreement, pursuant to due compliance with state law and applicable regulations, the Project will not be advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals has been received by the Governmental Agency and furnished to the Cabinet.

(G) Duly authorized representatives of the Cabinet and such other agencies of the Commonwealth as may be charged with responsibility will have reasonable access to the construction work whenever it is in preparation or progress, and the Governmental Agency will assure that the contractor or contractors will provide facilities for such access and inspection.

(H) The construction contract or contracts shall require the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(I) A work progress schedule utilizing a method of standard acceptance in the engineering community shall be prepared prior to the institution of construction in connection with each construction contract, or, if construction has already been initiated as of the date of this Assistance Agreement, at the earliest practicable date, to indicate the proposed schedule as to completion of the Project, and same shall be maintained monthly thereafter to indicate the actual construction progress of the Project.

(J) Prior to the award of the construction contract and prior to the commencement of construction, the Governmental Agency will arrange and conduct a conference as to the Project said conference to include representatives of the Authority, the Governmental Agency, the Cabinet and any other participating federal or state agency, the Engineers, and all construction contractors, such conference to be held in accordance with guidelines established by the Authority and the Cabinet. A written brief of said conference summarizing the construction schedule, fund requirements schedule, payment authorizations, responsible parties for approval of all facets of the construction work and payment therefor, and other pertinent matters shall be prepared and distributed to each agency involved, and all construction contractors and Engineers. Provided, however, that in the event construction shall have been initiated as of the date of this Assistance Agreement, this provision may be waived.

(K) All construction contracts will be so prepared that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency may be readily itemized.

(L) Any change or changes in a construction contract will be promptly submitted to the Cabinet and any state or federal agencies.

(M) The Construction, including the letting of contracts in connection therewith, will conform in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(N) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers for the Governmental Agency and approved by state and federal agencies.

(O) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority and the United States Environmental Protection Agency noting the participation of the Authority and the U.S. Government, respectively, in the financing of the Project.

(P) Except as otherwise provided in this Assistance Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

(Q) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Authority and the Cabinet, acting by and through their duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Authority and the Cabinet such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state assistance.

(R) The Governmental Agency shall require that each construction contractor or contractors furnish a performance and a payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the Project covered by the particular contract as security for the faithful performance of such contract.

(S) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(T) The Governmental Agency shall provide and maintain competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Cabinet, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

(U) The Governmental Agency shall demonstrate to the satisfaction of the Authority the legal capability of the Governmental Agency to enact, adopt, levy, charge, collect, enforce and remit to the Authority and the Cabinet the Service Charges of the Governmental Agency described in the Schedule of Service Charges attached to and made a part of this Assistance Agreement as Exhibit C and submit proof satisfactory to the Authority that the Service Charges are in full force and effect.

(V) The Governmental Agency shall require all laborers and mechanics employed by contractors and subcontractors on the Project shall be paid wages at rates not less than prevailing on projects of a character similar in the locality as determined by the Secretary of Labor in accordance with subchapter IV of Chapter 31 of title 40, United States Code.

Section 4.2. Additional Conditions to Disbursement Required Under the Federal Agreement. The Governmental Agency, in order to comply with the terms and conditions of the

Federal Agreement, further covenants and further agrees to additional conditions to disbursement, as follows:

(A) Notwithstanding any other agreements contained herein regarding the maintenance of books and records, that it shall maintain Project accounts in accordance with generally accepted governmental accounting standards, as required by the Federal Agreement. The Governmental Agency shall retain such records for no less than three (3) years following the final payment by the Governmental Agency under this Assistance Agreement or if any portion of the Project is disposed of, until at least three (3) years after such disposition; provided that if any litigation, claim, appeal or audit is commenced prior to the end of such period such records shall be maintained until the completion of such action or until three (3) years after such commencement, whichever is later.

(B) That it has not and will not apply any other federal funding to the Project in a manner that would cause it to receive "double benefits" as described in Section 603 of the Water Quality Act of 1987.

(C) That all property required for the completion of the Project shall be obtained, by easement, purchase or other means acceptable to the Authority, prior to commencement of construction and that the relocation of any Person resulting therefrom be in accordance with 49 CFR24 for Uniform Relocation Assistance and Real Property Acquisition Act of 1970.

(D) That all Project contractors shall be required to retain Project records for the periods established for the retention of the Governmental Agency's records in Section 4.2(A).

(E) That no more than fifty percent (50%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the final plan for operation for the Project.

(F) That no more than ninety percent (90%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the draft operations and maintenance manual.

(G) That final disbursement will not be allowed until approval by the Cabinet of a final operations and maintenance manual.

(H) That, as required by 40 CFR 35.2218, all engineering services regarding construction and regarding the first year of operation of the Project shall be provided for, including the following:

(1) The operation of the Project and the revision of the operations and maintenance manual as necessary to accommodate actual operating experience;

(2) The training of operating personnel, including preparation of curricula and training material for operating personnel; and

(3) Advice as to whether the Project is meeting the Project performance standards (including three quarterly reports and one project performance report).

(I) That it shall advise the Cabinet and the Authority in writing of the date for initiation of operation of the Project.

(J) That one year after operation is initiated, it shall certify to the Cabinet and the Authority that the Project is capable of meeting the Project performance standards.

(K) That it shall provide that qualified inspectors are present at the construction site. A summary of such inspector's qualifications and experience shall be submitted to the Cabinet and the Authority.

(L) That it shall notify the Authority and the Cabinet of the completion date of the Project.

(M) That it agrees to the terms and conditions of its application for assistance and the Authority's commitment to provide assistance, the terms of which are incorporated herein by reference.

(N) That all measures required to minimize water pollution to affected waters shall be employed in the Project including compliance with Section 404 of PL 92-500, as amended, it being understood that approval of the Project does not constitute sanction or approval of any changes or deviations from established water quality standards, criteria implementation dates, or dates established by enforcement proceedings.

Section 4.3. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) and the Cabinet a Requisition for Funds prior to the fifth day of each month (or such other designated period as is acceptable to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

(A) A full and complete accounting of the costs of the planning and design of the Project to be obligated by contract or otherwise during the month in question, or already obligated and not included in any previous accounting;

(B) A full and complete accounting of any costs of the planning and design of the Project paid by the Governmental Agency from its own funds with the approval of the Authority and not included in any previous accounting for which it seeks reimbursement;

(C) A full and complete accounting of any costs of the planning and design of the Project paid or requisitioned under any other financing, loan, bond, grant or similar agreement or paid from its own funds for which it does not seek reimbursement and which have not been identified in any previous requisition form.

(D) The Contractor's estimate of work performed during the preceding month pursuant to construction contracts for the Project and payment thereunder due, together with the Engineer's and Governmental Agency's approval thereof for disbursement by the Authority.

Upon the Authority's receipt of the Requisition for Funds, and such additional documentation as it may require, and subject to certification by the Cabinet, the Authority may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.

## ARTICLE V

### CERTAIN COVENANTS OF THE GOVERNMENTAL AGENCY; PAYMENTS TO BE MADE BY GOVERNMENTAL AGENCY TO THE AUTHORITY

Section 5.1. Imposition of Service Charges. The Governmental Agency hereby irrevocably covenants and agrees to comply with all of the terms, conditions and requirements of this Assistance Agreement, pursuant to which the Loan is to be made by the Authority to the Governmental Agency as specified herein and in the Act and the Indenture. The Governmental Agency hereby further irrevocably covenants and agrees that it already has, or will, to the extent necessary, immediately impose Service Charges upon all persons, firms and entities to whom or which services are provided by the System, such Service Charges to be no less than as set forth in Exhibit C annexed hereto. If so required, such Service Charges shall be in addition to all other rates, rentals and service charges of a similar nature of the Governmental Agency now or hereafter authorized by law, and now or hereafter being levied and collected by the Governmental Agency and shall be levied and collected solely for the purpose of repaying to the Authority all sums received from the Authority as representing the Loan in respect of the Project.

Section 5.2. Governmental Agency's Obligation to Repay Loan. The obligation of the Governmental Agency to repay to the Authority the amount of the Loan from the Service Charges shall not be revocable, and in the event that services supplied by the Project shall cease, or be suspended for any reason, the Governmental Agency shall continue to be obligated to repay the Loan from the Services Charges. In the event the Governmental Agency defaults in the payment of any Service Charges to the Authority, the amount of such default shall bear interest at the per annum rate equal to the Default Rate set forth in the Project Specifics, from the date of the default until the date of the payment thereof.

Section 5.3. Covenant to Adjust Service Charges. In the event, for any reason, the Schedule of Service Charges shall prove to be insufficient to provide to the Authority the minimum sums set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, the Governmental Agency hereby covenants and agrees that it will, upon notice by the Authority, to the full extent authorized by law, both federal and state, immediately adjust and increase such Schedule of Service Charges, or immediately commence proceedings for a rate adjustment and increase with all applicable regulatory authorities, so as to provide funds sufficient to pay to the Authority the minimum sums set forth in the Schedule of Payments, to provide for the operation of the System as required under this Assistance Agreement and to make the required deposits to the Maintenance and Replacement Reserve.

Section 5.4. Adequacy of Service Charges. The Service Charges herein covenanted to be imposed by the Governmental Agency shall be fixed at such rate or rates (and it is represented that the Schedule set forth in Exhibit C hereto so qualifies), as shall be at least adequate to make the payments at the times and in the amounts set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, subject to necessary governmental and regulatory approvals.

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment period set forth in the Project Specifics, and shall be remitted to the Authority by the

Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Schedule of Payments.

Section 5.5. Covenant to Establish Maintenance and Replacement Reserve. The Governmental Agency shall establish a special account identified as a "Maintenance and Replacement Reserve". The Governmental Agency shall deposit into the Maintenance and Replacement Reserve an amount equal to the amount set forth in the Project Specifics at the times set forth in the Project Specifics. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

Section 5.6. Covenant to Charge Sufficient Rates; Reports; Inspections. The Governmental Agency hereby irrevocably covenants and agrees with the Authority:

(A) That, as aforesaid, it will at all times impose, prescribe, charge and collect the Service Charges set forth in Exhibit C as shall result in net revenues to the Governmental Agency at least adequate to provide for the payments to the Authority required by this Assistance Agreement, to provide for the operation of the System and to make the required deposits to the Maintenance and Replacement Reserve.

(B) That it will furnish to the Authority and the Cabinet not less than annually reports of the operations and income and revenues of the System, and will permit authorized agents of the Authority to inspect all records, accounts and data of the System at all reasonable times.

(C) That it will collect, account for and promptly remit to the Authority those specific revenues, funds, income and proceeds derived from Service Charges incident to this Assistance Agreement.

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations. It further covenants that it will not issue any notes, bonds or other obligations payable from the revenues of the System, if the pledge of the revenues of the System to the repayment of such obligations is to rank on a parity with, or superior to, the pledge of the revenues of the System for the repayment of the Loan granted under this Assistance Agreement, unless the Governmental Agency has secured the consent of the Authority not less than fifteen (15) days prior to the issuance of such obligations.

Section 5.7. Segregation of Funds. The Governmental Agency shall at all times account for the income and revenues of the System and distinguish same from all other revenues, moneys and funds of the Governmental Agency, if any.



## ARTICLE VI

### OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

Section 6.1. Further Assurance. At any time and all times the Governmental Agency shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 6.2. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency.

Section 6.3. Establishment of Completion Date. The completion date for the Project shall be evidenced to the Authority by a certificate signed by the Engineer and an authorized representative of the Governmental Agency stating that, except for amounts retained by the Authority for costs of the Project not then due and payable, (i) the Construction has been completed and all labor, services, materials, supplies, machinery and equipment used in such Construction have been paid for, (ii) all other facilities necessary in connection with the Project have been acquired, constructed, equipped and installed and all costs and expenses incurred in connection therewith have been paid, (iii) the Project and all other facilities in connection therewith have been acquired, constructed, equipped and installed to his satisfaction.

Section 6.4. Commitment to Operate. The Governmental Agency hereby covenants and agrees to commence operation of the Project immediately on completion of construction and not to discontinue operations or dispose of such Project without the approval of the Authority.

Section 6.5. Continue to Operate. The Governmental Agency hereby covenants and agrees to continuously operate and maintain the Project in accordance with applicable provisions of federal and state law and to maintain adequate records relating to said operation; said records to be made available to the Authority upon its request at all reasonable times.

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the funds for the Loan, the Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Authority in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Authority. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in accordance with the "Uniform System of

Accounts" established by the Commonwealth, in which complete and accurate entries shall be made of all its transactions relating to the System and which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within ninety (90) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principles on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity.

Section 6.9. General Compliance With All Duties. The Governmental Agency shall faithfully and punctually perform all duties with reference to the Project and the System required by the Constitution and laws of the Commonwealth, and by the terms and provisions of this Assistance Agreement and any other Debt Obligations.

Section 6.10. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act, the Federal Act and this Assistance Agreement in accordance with the terms of such provisions including the Additional Covenants and Agreements, if any, set forth in Exhibit G hereto.

Section 6.11. Further Covenants under the Federal Agreement. The Governmental Agency shall comply with all further requirements or conditions which may arise from time to time in order to assure compliance with the Federal Act, and with the agreements of the Authority set forth in the Federal Agreement, including but not limited to the following:

(A) The Governmental Agency shall provide all information requested of it by the Authority or the Cabinet so that (i) the Grants Information Control System, referred to in the Federal Agreement, can be maintained, (ii) the accounting and auditing procedures required by the Federal Act can be maintained and (iii) the Authority can furnish the information required of its under the Federal Agreement.

(B) Qualified operating personnel, properly certified by the Cabinet, shall be retained by the Governmental Agency to operate the Project during the entire term of this Assistance Agreement. An approved plan of operating and an operations and maintenance manual for the Project shall be provided by the Governmental Agency to the Cabinet and the Authority. The Project shall be operated and maintained in an efficient and effective manner.

(C) All residents in the service area of the Project must be offered the same opportunity to become users of the Project regardless of race, creed, color, or level of income.

(D) The Governmental Agency shall comply with provisions contained in the following federal regulations, orders, acts and circulars and the following statutes and regulations of the Commonwealth.

(1) Federal Cross-Cutters

Environmental Authorities

- (a) Archeological and Historic Preservation Act of 1974, Pub. L. 86-523, as amended
- (b) Clean Air Act, Pub. L. 84-159, as amended
- (c) Coastal Barrier Resources Act, Pub. L. 97-348
- (d) Coastal Zone Management Act, Pub. L. 93-583, as amended
- (e) Endangered Species Act, Pub. L. 93-205, as amended
- (f) Environmental Justice, Executive Order 12898
- (g) Floodplain Management, Executive Order 11988 as amended by Executive Order 12148.
- (h) Protection of Wetlands, Executive Order 11990
- (i) Farmland Protection Policy Act, Pub. L. 97-98
- (j) Fish and Wildlife Coordination Act, Pub. L. 85-624, as amended
- (k) National Historic Preservation Act of 1966, PL 89-665, as amended
- (l) Safe Drinking Water Act, Pub. L. 93-523, as amended
- (m) Wild and Scenic Rivers Act, Pub. L. 90-542, as amended

Economic and Miscellaneous Authorities

- (a) Demonstration Cities and Metropolitan Development Act of 1966, Pub. L. 89-754, as amended, Executive Order 12372
- (b) Procurement Prohibitions under Section 306 of the Clean Air Act and Section 508 of the Clean Water Act, including Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans.
- (c) Uniform Relocation and Real Property Acquisition Policies Act, Pub. L. 91-646, as amended
- (d) Debarment and Suspension, Executive Order 12549

Social Policy Authorities

- (a) Age Discrimination Act of 1975, Pub. L. 94-135
- (b) Title VI of the Civil Rights Act of 1964, Pub. L. 88-352
- (c) Section 13 of the Federal Water Pollution Control Act Amendments of 1972, Pub. L. 92-500 (the Clean Water Act)
- (d) Section 504 of the Rehabilitation Act of 1973, Pub. L. 93-112 (including Executive Orders 11914 and 11250)
- (e) Equal Employment Opportunity, Executive Order 11246
- (f) Women's and Minority Business Enterprise, Executive Orders 11625, 12138, and 12432

(g) Section 129 of the Small Business Administration Reauthorization and Amendment Act of 1988, Pub. L. 100-590

(2) State:

- (a) KRS 224
- (b) KRS 224A.1115 Federally Assisted Drinking Water Revolving Fund
- (c) KRS Chapter 337, Labor Laws
- (d) 401 KAR Chapter 5

Section 6.12. Continuing Disclosure Obligation. The Governmental Agency covenants and agrees that notwithstanding any other provision of this Assistance Agreement to the contrary, upon written notice from the Authority that the Schedule of Payments provides ten percent (10%) or more of the debt service requirements on an issue of the Authority's Bonds and that compliance by the Governmental Agency with the requirements of Securities and Exchange Commission Rule 15c2-12, as amended (the "SEC Rule") is required in connection with the Authority's Bonds, the Governmental Agency shall provide to the Authority such information as may be required by the Rule, within the time periods set out in such notice by the Authority, to enable the Authority to establish to the satisfaction of prospective purchasers of the Authority's Bonds that the requirements of the SEC Rule will be satisfied in connection with the issuance of the Authority's Bonds. The Governmental Agency further understands and agrees that the Authority shall act as the Governmental Agency's disclosure agent for purposes of compliance with the SEC Rule and that upon a failure by the Governmental Agency to provide the information required to be provided under the SEC Rule within the time frame specified in such notice, the Authority and/or the beneficial owners and holders of the Authority's Bonds shall be specifically granted the right of enforcing the provisions of this Section 6.12 by an action in mandamus, for specific performance, or similar remedy to compel performance.

## ARTICLE VII

### MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

Section 7.1. Maintain System. The Governmental Agency agrees that during the entire term of this Assistance Agreement, it will keep the Project, including all appurtenances thereto, and the equipment and machinery therein, in good and sound repair and good operating condition at its own cost so that the completed Project will continue to provide the services for which the System is designed.

Section 7.2. Additions and Improvements. The Governmental Agency shall have the privilege of making additions, modifications and improvements to the sites of the Project, and to the Project itself from time to time provided that said additions, modifications and improvements do not impair the operation or objectives of the Project. The Cost of such additions, modifications and improvements shall be paid by the Governmental Agency, and the same shall be the property of the Governmental Agency and shall be included under the terms of this Assistance Agreement as part of the site of the Project, or the Project, as the case may be. Nothing herein contained shall be construed as precluding the Authority and the Governmental Agency from entering into one or more supplementary Assistance Agreements providing for an additional Loan or Loans in respect of additional Projects undertaken by the Governmental Agency.

Section 7.3. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not, without the prior written consent of the Authority, which consent shall not be unreasonably withheld, sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the System or any part thereof (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 7.4. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.5. Access to Records. The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the Project, and commencement of operations thereof.

Section 7.6. Covenant to Insure - Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

Section 7.7. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.8. Covenant to Insure - Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal injury, death and property damage) and in such amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.9. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.10. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.11. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

(A) The restoration of the improvements located on the Project sites to substantially the same condition as prior to the exercise of said power of eminent domain; or

(B) The acquisition of additional property, if necessary, and the acquisition of additional facilities by construction or otherwise, equivalent to the Project facilities, which property and facilities shall be deemed to be a part of the Project sites and a part of the Project facilities and to be substituted for Project facilities so taken by eminent domain, without the payment of any amount other than herein provided, to the same extent as if such property and facilities were specifically described herein.

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.11, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an authorized officer of the Governmental Agency to the effect that the Governmental Agency has

complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Project or any part thereof without the written consent of the Authority.

Section 7.12. Flood Insurance. All structures located in flood prone areas shall be covered by flood insurance carried by the Governmental Agency for an amount equal to the total Project cost excluding the cost of land and any uninsurable improvements, or for the maximum limit available under the National Flood Insurance Act of 1968, as amended, whichever is less, for the entire useful life of the Project.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

Section 8.1. Events of Default Defined. The following will be "Events of Default" under this Assistance Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Assistance Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any payments specified herein at the times specified herein.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Authority unless the Authority agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

(D) A default by the Governmental Agency under the provisions of any agreements relating to its Debt Obligations.

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing (other than an event of default arising under Section 6.13 of this Assistance Agreement), the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Schedule of Payments, to be immediately due and payable.

(B) Exercise all the rights and remedies of the Authority set forth in the Act.

(C) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights under this Assistance Agreement.

(D) Submit a formal referral to the appropriate federal agency, as required by the Federal Agreement.



The sole remedies for an Event of Default under this Assistance Agreement arising by virtue of the failure of the Governmental Agency to comply with the provisions of Section 6.10 hereof shall be those remedies specifically set forth in Section 6.10 hereof

Section 8.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 8.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 8.5. Consent to Powers of Authority Under Act. The Governmental Agency hereby acknowledges to the Authority its understanding of the provisions of the Act, vesting in the Authority certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Authority should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Authority in the due and prompt implementation of this Assistance Agreement.

Section 8.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 8.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto will default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

## ARTICLE IX

### MISCELLANEOUS PROVISIONS

Section 9.1. Approval not to be Unreasonably Withheld. Any approval of the Authority required by this Assistance Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Authority, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Assistance Agreement requiring the approval of the Authority or the satisfaction or the evidence of satisfaction of the Authority shall be interpreted as requiring action by an authorized officer of the Authority granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 9.2. Approval. This Agreement is made subject to, and conditioned upon, the approval of this Assistance Agreement by the Secretary of the Finance and Administration Cabinet.

Section 9.3. Effective Date. This Assistance Agreement shall become effective as of the date first set forth hereinabove and shall continue in full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Assistance Agreement have been fully satisfied.

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, without the written consent of the other party.

Section 9.5. Severability. In the event that any provision of this Assistance Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 9.6. Assignability. The rights of the Authority under this Assistance Agreement shall be assignable by the Authority without the consent of the Governmental Agency, but none of the rights, duties or obligations of the Governmental Agency under this Assistance Agreement shall be assignable by the Governmental Agency without the prior written consent of the Authority.

Section 9.7. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 9.8. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 9.9. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Assistance Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assistance Agreement to be executed by their respective duly authorized officers as of the day and year above written.

ATTEST:

KENTUCKY INFRASTRUCTURE  
AUTHORITY

Sandy Williams  
Title: SECRETARY

By: [Signature]  
Title: EXECUTIVE DIRECTOR

ATTEST:

GOVERNMENTAL AGENCY:  
NORTHERN KENTUCKY WATER DISTRICT

[Signature]  
Name: Fred A. Macke, Jr.  
Title: Secretary

By: [Signature]  
Name: Andrew C. Collins  
Title: Chairman

APPROVED:

EXAMINED:

E. Jeffrey Morley for  
SECRETARY/FINANCE AND  
ADMINISTRATION CABINET OF THE  
COMMONWEALTH OF KENTUCKY

Peck, Shaffer + Williams LLP  
LEGAL COUNSEL TO THE  
KENTUCKY INFRASTRUCTURE  
AUTHORITY

ENERGY AND ENVIRONMENT CABINET

By: [Signature] for SG  
Director  
Division of Water

APPROVED AS TO FORM AND LEGALITY  
[Signature]  
APPROVED  
FINANCE AND ADMINISTRATION CABINET

**EXHIBIT A**  
**Northern Kentucky Water District**  
**PROJECT SPECIFICS**  
**F09-02**

**GOVERNMENTAL AGENCY:**

Name: Northern Kentucky Water District  
2835 Crescent Springs Road  
Erlanger, KY 41018

Contact  
Person: C. Ronald Lovan, P.E.  
(859) 578-5458

**SYSTEM:** Drinking Water

**PROJECT:** The Northern Kentucky Water District is requesting an \$8,000,000 Drinking Water SRF loan for it's Advanced Treatment Project. The project will promote public health and help maintain compliance with the Safe Drinking Water Act in a number of ways. SRF Funding will be used for Phase 3 and Phase 4 of the project. Phases III and IV involve the installation of granular activated carbon (GAC) post-filter contactors, ultraviolet disinfection and replacement of undersized emergency power generators at two treatment plants (FTTP and Memorial Parkway). The addition of GAC is necessary for the District to comply with Stage 2 of the Disinfection By-Product Rule (DBPR) by 2012. The District will not be able to comply with this new regulation with the existing treatment processes at the treatment plants.

**PROJECT BUDGET:**

	<u>Total</u>
Administrative Expenses	\$ 12,000
Legal Expenses	1,500
Engineering Fees	5,664,000
Construction	36,050,000
Contingency	3,572,500
<b>Total</b>	<b>\$ 45,300,000</b>

**FUNDING SOURCES:**

	<u>Amount</u>	<u>%</u>
Fund F Loan	\$ 8,000,000	18%
NKWD	37,300,000	82%
<b>Total</b>	<b>\$ 45,300,000</b>	<b>100%</b>

**KIA DEBT SERVICE:**

Construction Loan	\$ 8,000,000
Interest Rate	2.00%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 487,290
Administrative Fee (0.25%)	\$ 20,000
<b>Total Estimated Annual Debt Service</b>	<b>\$ 507,290</b>

**AMORTIZATION COMMENCEMENT DATE:** June 1 and December 1

Interest payments will commence within six months from first draw of funds (estimated 06/01/10).

Full principal and interest payments will commence within one year of initiation of operation (estimated 12/01/12).

**REPLACEMENT RESERVE ACCOUNT:**

The NKWD self funds an Improvement, Repair and Replacement Account which is available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets as of December 31, 2008 are \$2,873,636. Based on the account already in place, the system will not be required to further fund an additional replacement reserve specifically for this loan.

**ADMINISTRATIVE FEE:** 0.25%

**DEFAULT RATE:** 8.00%

**DEBT OBLIGATIONS CURRENTLY OUTSTANDING:**

Debt Issuance	Outstanding	Maturity
Series 1997 Revenue Bonds	\$ 3,760,000	2022
Series 1998 Revenue Bonds	9,005,000	2028
Series 2001 Revenue Bonds	14,750,000	2026
2000 Rural Development Loan	2,115,000	2039
Series 2002A Revenue Bonds	43,270,000	2027
Series 2002B Revenue Bonds	7,360,000	2017
Series 2003A Revenue Bonds	1,440,000	2032
Series 2003B Revenue Bonds	25,965,000	2028
Series 2003C Revenue Bonds	17,570,000	2020
Series 2004 Revenue Bonds	9,335,000	2029
Taylor Mill Purchase Financing	1,625,000	2018
Series 2006 Revenue Bonds	27,980,000	2031
Series 2007 Bond Anticipation Note	27,165,000	2009
KIA Fund F Loan	3,348,035	2028
Series 2009 Revenue Bonds	28,290,000	2033
<b>Total</b>	<b>\$ 222,978,035</b>	

**LIABILITY INSURANCE COVERAGE:**

Death or Personal Injury (per person)	<u>\$ 1,000,000</u>
Death or Personal Injury (per occurrence)	<u>1,000,000</u>
Property Damage on System	<u>1,000,000</u>
<b>UMBRELLA COVERAGE</b>	<b>\$ 19,000,000</b>

**EXHIBIT B**

**REQUEST FOR PAYMENT WITH RESPECT TO  
ASSISTANCE AGREEMENT DATED JUNE 1, 2010  
LOAN NO. F09-02**

Request No. \_\_\_\_\_

Dated: \_\_\_\_\_

Original sent to: Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

Copy sent to: Branch Manager  
Water Infrastructure Branch  
Division of Water  
Energy and Environment Cabinet  
200 Fair Oaks, 4<sup>th</sup> Floor  
Frankfort, Kentucky 40601

FROM: NORTHERN KENTUCKY WATER DISTRICT (the "Governmental Agency")

Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Infrastructure Authority (the "Authority") for the acquisition and construction of drinking water supply facilities, described in the Assistance Agreement as the "Project."

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Authority's funding share of these expenses is in the amount so denoted in this request totaling \$\_\_\_\_\_.

Documentation supporting the expenses incurred and identified per this request are attached.

ELIGIBLE PROJECT EXPENSES INCURRED

<u>Contractor</u>	<u>Expenses this Request</u>	<u>Expenses to Date</u>
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Total

ALLOCATION OF FUNDING FOR EXPENSES

<u>Funding Source</u>	<u>Portion of Expenses this Request</u>	<u>Portion of Expenses Total to Date</u>
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Totals

The Governmental Agency certifies it has also paid Project expenses for planning and design or has submitted requisitions to the applicable funding sources for Project expenses, which have not been identified in any previous Request or Payment, as follows:

<u>Funding Source</u>	<u>Amount of Payment or Requisition</u>	<u>Date of Payment or Requisition</u>
-----------------------	---	---

Respectfully submitted,

\_\_\_\_\_  
Governmental Agency

By: \_\_\_\_\_

Title \_\_\_\_\_

CERTIFICATE OF CONSULTING ENGINEERS AS TO  
PAYMENT REQUEST

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request in connection with the "Eligible Project" and that all expenses represented in this request were duly incurred for the Construction of the "Project," that the Authority's funding share of these expenses is accurately represented and that such expenses have not been the subject of any request for disbursement previously submitted.

\_\_\_\_\_  
Engineer/Architect

\_\_\_\_\_  
Firm Name



**Exhibit C**

Schedule of Service Charges

**APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE  
NO. 2007-00135 DATED DECEMBER 21, 2007**

The following rates and charges are prescribed for the customers in the area served by Northern Kentucky Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Effective Date: March 3, 2008

**1. Service Charges**

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$12.54	\$18.97
3/4"	\$12.96	\$19.99
1"	\$14.15	\$22.98
1 1/2"	\$15.93	\$27.08
2"	\$20.13	\$38.07
3"	\$48.61	\$118.45
4"	\$60.89	\$148.45
6"	\$90.16	\$219.44
8"	\$121.75	\$299.79
10" and larger	\$161.91	\$391.47

**2. Commodity Charges**

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
<b>First</b>	1,500 cubic ft	4,500 cubic ft	\$3.31 per 100 cubic ft
<b>Next</b>	163,500 cubic ft	490,500 cubic ft	\$2.88 per 100 cubic ft
<b>Over</b>	165,000 cubic ft	495,000 cubic ft	\$2.55 per 100 cubic ft

**3. Sub-district Charges (Effective 1/11/08)**

Sub-district A shall be assessed a monthly surcharge in the amount of \$ 9.03  
Sub-district B shall be assessed a monthly surcharge in the amount of \$18.36  
Sub-district C shall be assessed a monthly surcharge in the amount of \$19.44  
Sub-district D shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district E shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district F shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district G shall be assessed a monthly surcharge in the amount of \$30.00  
Sub-district K shall be assessed a monthly surcharge in the amount of \$21.09  
Sub-district R shall be assessed a monthly surcharge in the amount of \$18.50  
Sub-district RF shall be assessed a monthly surcharge in the amount of \$25.47  
Sub-district RL shall be assessed a monthly surcharge in the amount of \$36.22

**4. Wholesale Water Rates**

Bullock Pen Water District	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons
City of Walton	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons
Pendleton County	\$2.22 per 100 cubic ft or \$2.97 per 1000 gallons

**5. Miscellaneous Service Fees**

Returned Check Charge \$20.00  
Water Hauling Station \$3.50 per 1000 gallons  
Service Charge \$25.00  
Overtime Charge \$40.00

**EXHIBIT D**

**RESOLUTION**

RESOLUTION OF THE NORTHERN KENTUCKY WATER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT DATED AS OF JUNE 1, 2010 BETWEEN THE NORTHERN KENTUCKY WATER DISTRICT AND THE KENTUCKY INFRASTRUCTURE AUTHORITY.

WHEREAS, the Board of Commissioners ("Governing Authority") of the Northern Kentucky Water District ("Governmental Agency") has previously determined that it is in the public interest to acquire and construct certain facilities and improvements to the Governmental Agency's Water System (the "Project") and

WHEREAS, the Governmental Agency has made application to the Kentucky Infrastructure Authority (the "Authority") for the purpose of providing monies to acquire and construct the Project; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter into an assistance agreement dated as of June 1, 2010 (the "Assistance Agreement") with the Authority.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of the Northern Kentucky Water District, as follows:

SECTION 1. That the Governing Authority hereby approves and authorizes the Assistance Agreement between the Governmental Agency and the Authority substantially in the form on file with the Governmental Agency for the purpose of providing the necessary financing to the Governmental Agency for the acquisition and construction of the Project.

SECTION 2. That the Chairman and Secretary of the Governmental Agency be and hereby are authorized, directed and empowered to execute necessary documents or agreements, and to otherwise act on behalf of the Governmental Agency to effect such financing.

SECTION 3. That this resolution shall take effect at the earliest time provided by law.

ADOPTED on \_\_\_\_\_, 2010.

\_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Title: Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Northern Kentucky Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Commissioners of said City at a meeting duly held on \_\_\_\_\_, 2010; that said official action appears as a matter of public record in the official records or journal of the governing authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this \_\_\_\_ day of \_\_\_\_\_, 2010.

\_\_\_\_\_  
Secretary

**EXHIBIT E**

**OPINION OF COUNSEL**

[Letterhead of Counsel to Governmental Agency]

[Date]

Kentucky Infrastructure Authority  
1024 Capital Center Drive  
Suite 340  
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and Northern Kentucky Water District, dated as of June 1, 2010

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the Northern Kentucky Water District, hereinafter referred to as the "Governmental Agency". I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the drinking water supply project (the "Project") with respect to which the Assistance Agreement by and between the Kentucky Infrastructure Authority ("Authority") and the Governmental Agency is being authorized, executed and delivered.

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement.

Based upon my review I am of the opinion that:

1) The Governmental Agency is a duly organized and existing political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.

2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

4) The Service Charges, as defined in the Assistance Agreement, are in full force and effect and have been duly and lawfully adopted by the Governmental Agency.

5) The execution and delivery of the Assistance Agreement and the performance by the Governmental Agency of its obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. The Governmental Agency has obtained each and every authorization, consent, permit, approval or license of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Assistance Agreement and the imposition of the Service Charges.

6) To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the Project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

7) None of the proceedings or authority heretofore had or taken by the Governmental Agency for the authorization, execution or delivery of the Assistance Agreement has or have been repealed, rescinded, or revoked.

8) To the best of my knowledge, the Governmental Agency has fully complied with all federal and state labor and procurement laws in connection with the construction of the Project.

9) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,

**EXHIBIT F**

TO ASSISTANCE AGREEMENT BETWEEN  
NORTHERN KENTUCKY WATER DISTRICT  
("GOVERNMENTAL AGENCY") AND  
THE KENTUCKY INFRASTRUCTURE AUTHORITY

Total Loan to be Repaid by  
Governmental Agency to  
Kentucky Infrastructure Authority           \$ \_\_\_\_\_

Principal and Interest Payable  
on Each June 1 and December 1

It is understood and agreed by the parties to this Assistance Agreement that this Exhibit F is an integral part of the Assistance Agreement between the Governmental Agency and the Kentucky Infrastructure Authority.

IN WITNESS WHEREOF, the parties have caused this Exhibit F to Assistance Agreement to be executed by their respective duly authorized officers as of the date of said Assistance Agreement.

**KENTUCKY INFRASTRUCTURE AUTHORITY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**NORTHERN KENTUCKY WATER DISTRICT  
Governmental Agency**

\_\_\_\_\_  
By: \_\_\_\_\_

Title: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Title: \_\_\_\_\_

## EXHIBIT G

### ADDITIONAL COVENANTS AND AGREEMENTS

1. The Loan will take a subordinate position to any future parity debt issued by the Governmental Agency ("Parity Debt"), subject to compliance by the Governmental Agency with the following conditions:

- a. The "coverage" requirement in the existing general bond resolution adopted by the Governmental Agency on November 19, 1985, as amended and supplemented on November 17, 1987 (collectively, the "General Bond Resolution") must be met. This requirement specifies that there shall be filed a certificate prepared by an independent firm of certified public accountants demonstrating that the net annual income and revenues of the System are at least 1.20 times the maximum annual debt service requirements.

- b. At the time of the issuance of any additional parity debt under the Bond Ordinance, the Governmental Agency must submit to the Authority a certificate by a firm of certified public accountants certifying coverage of 110% after taking into account the debt then proposed to be issued as well as all subordinate debt outstanding including the Authority's loan. The methodology for calculating such coverage shall be the same as is applied under the General Bond Resolution for the parity test.

48059.1

NKWD\_PSCDR3\_Q2\_090612  
Case 2012-00072  
Response to Q2  
Witness: Herbert

Q2. Refer to Northern District's Petition, Exhibit N, "Summary of Revenue Requirements Test Year 2011." State whether, in determining its Debt Service Coverage Requirement as \$3,793,192, Northern District assumed 20 percent debt service coverage on all of its loans from KIA. If yes, explain why Northern District assumed 20 percent debt service coverage.

A2. Northern District assumed 20 percent debt service coverage on all of its loans from KIA. This is the same coverage used in Case 2010-00094.



NKWD\_PSCDR3\_Q3\_090612  
Case 2012-00072  
Response to Q3  
Witness: Bragg

Q3. Refer to Northern District's Petition, Exhibit A at 8. On the "Gross Debt Service Report (After Series 2012 Refunding ), the term "Estimated" appears in the column heading for "Series 2008 KIA 08-07 Loan" and "Series 2010 KIA 09-02 Loan". Explain why these loans have been "Estimated."

A2: This is an internal terminology used by NKWD and Ross, Sinclair, and Associates to describe the loan as, KIA does not provide a final amortization schedule for each issue until the completion of the project.

Q4. Refer to Northern District's Petition, Exhibit N, Schedules G and K; Northern District's Response to Commission Staff's Second Request for Information, Item 8.

- a. Explain why amounts listed on Schedule G and Schedule K for "Bulk Water Sales" and Other Operating Revenues" are omitted from "Revenue as Adjusted" in Item 8.
- b. If these omissions were inadvertent, recalculate the coverage ratios shown in Northern District's Response to each section of Item 8 to include the appropriate level of bulk sales and other operating revenue.
- c. State whether operating expenses listed in Northern District's Responses to each section of Item 8 exclude depreciation.

A4a: The calculation was made taking actual 2011 numbers for revenue that include Bulk Water Sales and Other Operating Revenues and estimating the effect of the second stage of the rate increase from Case 2010-00094. These revenues for 2011 were approximately \$44 million and \$4 million anticipating that the new rates were applied.

A4b: N/A

A4c: Yes

Q5. Refer to Northern District's Response to Commission Staff's Second Request for Information, Item 9(b) and (c); Northern District's Petition, Exhibit N, "Summary of Revenue Requirements Test Year 2011."

- a. Northern District's Responses to Item 9(b) did not include the document(s) that require Northern District to maintain 20 percent debt coverage. Provide these documents
- b. Column A in Table I details the calculation of Northern District's revenue requirement from rates as presented in Exhibit N as well as the resulting required revenue increase. Column A also shows the Debt Service Coverage Ratio resulting from the increase. Column B presents the same information as Column A except that the Debt Service Coverage component is removed from the calculations. As shown in Column A, Northern District includes operation and maintenance expenses, debt principal and interest payments, debt service coverage, depreciation expense, amortization of acquisition adjustments, and taxes other than income in the calculation of its total revenue requirement. It is understood that recovery of operation and maintenance expenses, debt principal and interest payments, and taxes other than income are necessary to provide cash to pay the expenses and debts of the district and the recovery of depreciation and amortization of acquisition adjustments is necessary to recovery of the investment in plant to provide internal funding for ordinary renewals and replacement of service. Explain why Northern District must include the Debt Service Coverage in the calculation of revenue requirements. This explanation should include a description of the anticipated use of these funds after they are recovered. Note that the coverage requirement requested by the Northern District is equal to 20 percent of the debt and principal and interest payments and that, as shown in Column B after removing this amount from the revenue requirement, revenues could be decreased by \$546,266 and the resulting debt service coverage would be 137 percent of the maximum annual principal and interest payments which exceeds the 120 percent required by Northern District's debt instruments.

Table I	Column A	Column B
Calculation of Required Revenue Increase (Decrease)		
Operation and Maintenance Expense	\$22,779,395	\$22,779,395
Debt Service Requirements	\$18,965,960	\$18,965,960
Debt Service Coverage	\$3,793,192	
Depreciation Expense	\$9,296,885	\$9,296,885
Amortization of Acquisition Adjustment	\$201,120	\$201,120
Taxes Other Than Income	\$630,798	\$630,798
Total Revenue Required	\$55,667,350	\$51,874,158
Other Operating Revenue	(\$3,770,347)	(\$3,770,347)
Revenue Required from Water Service Rates	\$51,897,003	\$48,103,811
Less: Pro forma Present Water Service Rate	(\$48,650,077)	(\$48,650,077)
Resulting Debt Service Coverage		
Total Revenue	\$55,667,350	\$51,874,158
Less: Expenses	(\$32,908,198)	(\$32,908,198)
Ad Back Depreciation	\$9,296,885	\$9,296,885
Net Revenues for Debt Service Calculation	\$32,056,037	\$28,262,845
Divided by: Maximum Annual Debt Service Requirement, Refer to Application, Exhibit A, Page 8	\$20,661,308	\$20,661,308
DSC Ratio	155%	137%

A5a: See Attached.

A5b: The 1985 General Bond Resolution attached per question 5a requires it per section 711. The District approached this case in the most conservative manner, consciously working to reduce Operation and Maintenance expenses in order to weather the necessity to comply with EPA mandates achieved through major treatment plant improvements. The O&M expenses were also lower for 2011 as our variable production costs were lower due to decreased demand thus electric for pumping, chemicals, and other production related expenses were lower than the prior year and budgeted amounts. The funds would be used for increases in O&M expense we are seeing in 2012 including those related to main breaks that cannot be precisely predicted, as well as other expenses that are greater than those from 2011 where we had a combination of lower demand and production as well as good fortune and timing in keeping O&M in check. As discussed previously in 9c of Commission Staff's Second Request for Information, the District will also have carbon expenses for the Advanced Filtration process that will be significant but at this time are not precisely known that will have a major impact on O&M expense levels. The District has also opted to not estimate our increase in depreciation for 2012 until we can accurately determine the final cost of major projects and establish an exact depreciable basis to apply

depreciation. As the year plays out we will be able to accomplish this and realistically determine the proper depreciation expense. As always the District strives to control its O&M expenses and after meeting debt service requirements, any excess funds are to be utilized in the Internal Repair and Replacement program to self-finance as much of the aging infrastructure replacement as possible to help mitigate the borrowing costs and resultant rates to our customers. Taking all of these factors into consideration, our coverage is closer to the required 1.20.

**R E S T A T E D**

**1985 GENERAL BOND RESOLUTION  
AUTHORIZING THE ISSUANCE OF AND SECURING  
WATER DISTRICT REVENUE BONDS**

\* \* \* \* \*

**KENTON COUNTY WATER DISTRICT NO. 1  
OF KENTON COUNTY, KENTUCKY**

**A Water District Duly Organized Pursuant to  
Chapter 74 of the Kentucky Revised Statutes**

---

**ADOPTED**

**November 19, 1985**

**with**

**November 17, 1987 Amendments**

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1985 GENERAL BOND RESOLUTION AUTHORIZING THE ISSUANCE OF  
AND SECURING WATER DISTRICT REVENUE BONDS OF KENTON COUNTY  
WATER DISTRICT NO. 1

KENTON COUNTY, KENTUCKY

This GENERAL BOND RESOLUTION made and adopted as of the 19th day of November, 1985, by KENTON COUNTY WATER DISTRICT NO. 1, Kenton County, Kentucky, (hereinafter sometimes referred to as the "District"), a body corporate and politic constituting a de jure public corporation and a political subdivision of the Commonwealth of Kentucky, existing pursuant to authority of Chapter 74 of the Kentucky Revised Statutes, for the establishment of the rules, regulations and conditions for the issuance from time to time by the District of its Water District Revenue Bonds:

W I T N E S S E T H:

THAT WHEREAS, Kenton County Water District No. 1 has been heretofore duly created and established pursuant to law as a Water District and, pursuant to the provisions of Chapter 74 of the Kentucky Revised Statute, the District has the authority and duty to plan, design, finance, construct, install, operate, replace and maintain water works and water distribution system facilities within the service area of the District and the District owns and operates substantial water works and water distribution system facilities, which are used throughout the service area of the District for the provision of potable water for human consumption and for fire protection; and

WHEREAS, the District, pursuant to Chapter 74 of the Kentucky Revised Statutes, has and possesses authority to establish water service rates and charges, subject to the regulatory jurisdiction of the Public Service Commission of Kentucky and its successors; and the District is in compliance with all regulatory laws governing its operations and has the legal authority to levy, bill and collect a schedule of water service rates, rentals and charges, which rates, rentals and charges have been approved by the Public Service Commission of Kentucky; and

WHEREAS, the District, acting by and through its Board of Commissioners, has heretofore constructed, installed and placed into service major extensions, additions and improvements to its existing water works and water distribution facilities, for which the District has been granted appropriate Certificates of Public Convenience and Necessity therefor by the Public Service Commission of Kentucky or its predecessor; and

**WHEREAS**, a comprehensive General Bond Resolution authorizing the issuance of the District's water revenue bonds was adopted by the District on January 29, 1981, pursuant to which Water District Revenue Bonds, 1981 Series A were issued, of which \$13,050,000 are presently outstanding (the "1981 Bonds"), there being no other outstanding bonds under the 1981 General Bond Resolution; and

**WHEREAS**, the 1981 General Bond Resolution contains provisions for the defeasance of bonds issued thereunder; and

**WHEREAS**, the Board of Commissioners of the District have determined the necessity of defeasing the 1981 Bonds; and

**WHEREAS**, changes in the law and other circumstances make it inappropriate for the 1981 General Bond Resolution to be the vehicle for the issuance of Bonds of the District, in conjunction with defeasance of the 1981 Bonds; and

**WHEREAS**, bonds issued under this 1985 General Bond Resolution can be used to defease outstanding bonds which are secured by a lien on the District's income and revenues, which 1985 General Bond Resolution further makes provision for the continued operation, maintenance, and expansion of the District in the future from time to time, by the issuance of parity bonds of the District pursuant to terms and conditions contained in such 1985 General Bond Resolution; and

**WHEREAS**, in conjunction with the defeasance of the 1981 Bonds, it is now necessary that the District adopt this 1985 General Bond Resolution in order to secure the rights of those who may become holders of the Water District Revenue Bonds of the District issued hereunder and to make provision for: (a) the issuance of the District's Water District Revenue Bonds, (b) providing for the security in respect of such Bonds, (c) protecting and enforcing the rights and remedies of the Bondholders, (d) the custody, safeguarding and application of all District income and revenues, (e) the duties and responsibilities of Fiduciaries, as hereinafter defined, and (f) inter alia, all other necessary and desirable provisions with respect to said Water District Revenue Bonds, including covenants of the District; and

**WHEREAS**, all acts, conditions and things required by the Constitution and laws of the Commonwealth of Kentucky and by the requirements of the District to happen, to exist, and to be performed precedent to and in the execution and delivery of this 1985 General Bond Resolution have happened, have existed and have been performed as so required in order to make this 1985 General Bond Resolution a valid and binding legal basis for the security of the Water District Revenue Bonds hereinafter authorized and described, in accordance with its terms;

NOW, THEREFORE, THIS GENERAL BOND RESOLUTION  
WITNESSETH, that in consideration of the premises and of the purchase and acceptance of the Water District Revenue Bonds by the holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which the Water District Revenue Bonds of the District are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all the Water District Revenue Bonds at any time issued and outstanding hereunder and the interest thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein and herein contained, the District has executed and delivered this General Bond Resolution, and the District does hereby agree and covenant for the equal and proportionate benefit and security of all and singular the present and future holders of the Water District Revenue Bonds issued under this General Bond Resolution, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond by reason or priority in the issue, sale or negotiation thereof or otherwise, as follows:

#### ARTICLE I

##### SHORT TITLE, DEFINITIONS, CONSTRUCTION

101. Short Title. This General Bond Resolution may hereafter be cited by the District, the holders of the Bonds and any Fiduciaries, and is hereinafter sometimes referred to as the "1985 General Bond Resolution", the "General Bond Resolution" or the "Resolution."

102. Definitions. Unless the context clearly indicates some other meaning, the following words and terms shall, for all purposes of the General Bond Resolution, have the following meanings:

"Account or Accounts" - shall mean one or more of the separate accounts for each Series of Bonds which are created and established pursuant to the Resolution.

"Act" - shall mean the Water District Law of Kentucky, being codified as Chapter 74 of the Kentucky Revised Statutes and, pursuant to KRS 74.370(2), shall include Sections 96.350 to 96.510, inclusive, of the Kentucky Revised Statutes.

"Aggregate Debt Service Reserve Requirement" - shall mean the maximum Annual Debt Service Requirement in any succeeding Bond Fiscal Year with respect to Outstanding Bonds of all Series.

**"Annual Budget"** - shall mean the annual budget, as amended or supplemented, for a particular calendar year adopted by the District under the General Bond Resolution as provided in Section 711.

**"Annual Debt Service Requirement"** - for any Bond Fiscal Year, as applied to the Bonds, shall mean the interest on the Bonds which shall be due and payable August 1 of such Bond Fiscal Year and February 1 of the ensuing Bond Fiscal Year, the principal of the Bonds which shall be due and payable on February 1 of the ensuing Bond Fiscal Year, and any Sinking Fund Installments in respect of the Bonds which shall be due and payable on February 1 of the ensuing Bond Fiscal Year.

**"Authorized Newspapers"** - shall mean a newspaper of general circulation in the service area of the District which meets the requirements of a qualified newspaper as established by law, a daily newspaper of general circulation in Kentucky, and a newspaper or financial journal printed in the English language, customarily published and circulated, for at least five days (other than legal holidays) in each calendar week, in the Borough of Manhattan, City and State of New York, or as otherwise provided by Kentucky law.

**"Authorized Officer"** - shall mean the Chairman, Secretary, Treasurer and General Manager of the District, and any other of its officers, agents or employees duly authorized by resolution of the District to perform the act or sign the document in question.

**"Board"** - shall mean and refer to the Board of Commissioners of the District described in KRS 74.020, which is vested and empowered with the management, control and operation of the activities and affairs of the District.

**"Bond or Bonds"** - shall mean any Water District Revenue Bond or Bonds, or the issue of Bonds, as the case may be, authenticated and delivered under the 1985 General Bond Resolution and authorized and issued pursuant to a Series Resolution.

**"Bond Proceeds Fund"** - shall mean the Fund so designated which is established and created by Section 502.

**"Bond Fiscal Year"** - shall mean each annual period which begins on February 1 in any year and ends on January 31 in the following calendar year.

**"Bondholder," or "Holder," or "Holder of Bonds"** or any similar term (when used with reference to Bonds) - shall mean the registered owner of any Outstanding Bond or Bonds which shall at the time be registered other than to bearer.

Recognizing that bearer bonds may become possible in the future, it shall also mean the bearer of any Outstanding Bond or Bonds registered to bearer or not registered. "Holder" (when used with reference to coupons) shall mean any person who shall be the bearer of such coupons.

"Certificate" - shall mean a document signed by an Authorized Officer attesting to or acknowledging the circumstances or other matters therein stated.

"Construction" - shall mean and shall include, inter alia, (a) preliminary planning to determine the economic and engineering feasibility of Water Works constituting a part of the District's Public Water System, now or in the future, the engineering, architectural, legal, fiscal and marketing costs in respect thereto, economic investigations and studies necessary thereto, and surveys, designs, plans, working drawings, specifications, procedures and other actions necessary to the construction of Water Works; (b) the erection, building, acquisition, alteration, remodeling, improvement or extension of Water Works; and (c) the inspection and supervision of the construction of Water Works, and all costs incidental to the acquisition and financing of same; and such term shall also relate to and mean any other physical devices or appurtenances in connection with, or reasonably attendant to, Water Works.

"Construction and Acquisition Account" - shall mean, for each Series of Bonds which has one, the account created by Section 502.

"Consulting Engineer of National Recognition" - shall mean and refers to an Engineer or a firm of Engineers, who, by virtue of experience, reputation and ability, bear a reputation in the field of sanitary engineering which is nationally recognized and known, and upon whose professional judgment sophisticated investors rely in connection with securities which are issued for water purposes.

"Costs of Issuance" - shall mean the costs of issuing a Series of Bonds, which may include the costs allowable in computing the adjusted yield on the Bonds pursuant to Section 103(c) of the Internal Revenue Code of 1954, as amended, and in effect on the date of adoption of any Series Resolution, and the applicable Regulations of the Department of the Treasury thereunder and Rulings of the Commissioner of the Internal Revenue Service issued to the District thereunder or a Counsel's Opinion thereunder.

"Costs of Issuance Account" - shall mean, for each Series, the respective Account so designated which is established and created pursuant to Section 502.

"Counsel's Opinion" - shall mean an opinion, including supplemental opinions thereto, signed by such attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds and municipal finance as may be selected by the District.

"Debt Service Fund" - shall mean the Fund so designated which is established and created by Section 502.

"Debt Service Reserve" - shall mean the reserve for payment of principal of, interest on, and redemption requirements in respect of the Bonds, created by Section 502.

"District" - shall mean Kenton County Water District No. 1, Kenton County, Kentucky, a de jure Water District, duly organized and existing pursuant to Chapter 74 of the Kentucky Revised Statutes, a body corporate and politic and a political subdivision of the Commonwealth of Kentucky.

"District Revenues" - shall mean the totality of all water service rates, rentals and charges of any and all types and varieties imposed, enforced and collected by the District for any services rendered by the works and facilities of the District, together with other income received by the District, if any, from any agency of government, both federal and state, as representing income or operating subsidies, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

"Engineer" or "Engineers" - shall mean any firm or firms of consulting engineers who have been or who will be in the future retained by the District for the purpose of preparing plans and specifications for present or future portions of the Public Water System.

"Fiduciary" or "Fiduciaries" - shall mean any Paying Agent, any Registrar, and the depositories of all District funds, or any or all of them, as may be appropriate.

"Interest Payment Date" - shall mean, for each Series, the date upon which interest on the Bonds of such Series shall be payable pursuant to Section 302.

"Improvement, Repair and Replacement Fund" - shall mean the Fund created by Section 502.

"Investment Obligations" - shall mean and include any of the following:

- (a) Direct obligations of or obligations guaranteed by the United States of America;



(b) Obligations issued by any of the following agencies: Federal Home Loan Bank System; Export-Import Banks; Government National Mortgage Association; Farmers Home Administration; the Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association; and any other Federal Agency to the extent that such obligations are backed by the full faith and credit of the United States (other than as provided in (a) hereof);

(c) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(d) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$100,000 maximum coverage) by the Federal Deposit Insurance Corporation in commercial banks, and to the extent not so insured (amounts in excess of the \$100,000 maximum coverage), collateralized by obligations described in (a) or (b) above, having at all times a quoted market value at least equal to such uninsured amount plus accrued and undisbursed interest.

"Issue Date" - shall mean, with respect to Bonds of a particular Series, the date of the Bonds of such Series specified and determined by the Series Resolution authorizing such Bonds.

"KRS" - shall mean and refer to the Kentucky Revised Statutes.

"1981 General Bond Resolution" - shall mean the General Bond Resolution of the District adopted January 29, 1981.

"Notes" - shall mean any obligations issued or to be issued by the District pursuant to the Act to provide funds for any lawful District purposes authorized by the Act in anticipation of the issuance of Bonds.

"Operation and Maintenance Costs" - shall mean, as of any particular date, the District's operating and maintenance expenses and all other expenses of carrying out and administering its Public Water System, and in that regard.

operating and maintaining its Water Works, and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, upkeep, furnishings, equipment, repair of facilities, insurance premiums, legal, accounting, management, consulting and banking services and expenses, and the fees and expenses of any regulatory agency having jurisdiction of the District, Fiduciaries and Paying Agents, including Costs of Issuance, if any, other than Costs of Issuance paid from proceeds of Bonds.

**"Operation and Maintenance Fund"** - shall mean the Fund so designated which is established and created by Section 502.

**"Outstanding"** - when used with reference to Bonds, shall mean, as of any date, all Bonds theretofore or then being authenticated and delivered under the Resolution, except:

(a) Any Bonds cancelled pursuant to the Resolution at or prior to such date;

(b) Bonds (or portions of Bonds) for the payment or redemption of which there shall be held in trust under the Resolution (whether at or prior to maturity or Redemption Date) (i) cash, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or Redemption Date, or (ii) Investment Obligations as defined in clause (a) of the definition of Investment Obligations in such principal amounts, having such maturities and bearing such interest, which, together with cash, if any, shall be sufficient to pay when due, the principal amount or Redemption Price, as the case may be, with interest to the date of maturity or Redemption Date; provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as in the General Bond Resolution provided or satisfactory provisions for the giving of such notice shall have been made;

(c) Bonds in lieu of or in substitution for which other Bonds have been authenticated and delivered pursuant to the General Bond Resolution; and

(d) Bonds deemed to have been paid as provided in Section 1201.

**"Paying Agent"** - shall mean any bank or trust company designated, and its successor or successors hereafter appointed, as paying agent for the Bonds of any Series in the manner provided in the General Bond Resolution.

**"Person"** - shall mean any individual, firm, partnership, association, joint venture, corporation or governmental agency, either State or Federal.

**"Pledged Receipts"**

(a) shall mean the totality of District Revenues;

(b) shall not mean any State appropriations or Federal Grants specified for use by the District for capital construction purposes in connection with the District's Public Water System; and

(c) shall also include all interest earned and gains realized on Investment Obligations unless the General Bond Resolution specifically requires such interest earned or gains realized to remain in a particular Fund or Account provided that any interest or gains on funds held in escrow by a trustee for the payment of previously outstanding bonds shall not be included.

**"Principal Installment"** - for any Bond Fiscal Year shall mean, as of any date of calculation and with respect to any Series so long as any Bonds thereof are Outstanding:

(a) the principal amount of the Outstanding Bonds of said Series which mature in such Bond Fiscal Year, reduced by the aggregate principal amount of such Bonds which would before such Bond Fiscal Year be retired by reason of the payment when due and application in accordance with the General Bond Resolution of Sinking Fund Installments payable before such Bond Fiscal Year for the retirement of such Bonds; plus

(b) the unsatisfied balance of the Sinking Fund Installment, if any, due during such Bond Fiscal Year for the Bonds of such Series.

**"Principal Installment Date"** - shall mean, for such Series, the date upon which each Principal Installment on the Bonds of such Series shall be payable pursuant to Section 303.

**"Public Water System"** - shall mean (a) the existing waterworks and water distribution facilities of the District, and (b) all future extensions, additions and extensions thereto.

**"Redemption Date"** - shall mean any date on which Bonds are to be redeemed.

**"Redemption Price"** - shall mean, with respect to any Bonds, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the General Bond Resolution and the Series Resolution pursuant to which the same was issued.

**"Refunding Bonds"** - shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to Section 207 and thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the General Bond Resolution.

**"Registrar"** - shall mean any bank or trust company and its successor or successors, acting as registrar for the Bonds of any Series pursuant to the Series Resolution for said Bonds.

**"Revenue Fund"** - shall mean the General Revenue Fund created by Section 502.

**"Registrar and Paying Agent Agreement"** - shall mean any registrar and paying agent agreement between the District and a bank or trust company that may be authorized by any Series Resolution.

**"Serial Bonds and Term Bonds"** - shall mean such portion of the Bonds designated as Serial Bonds and Term Bonds in a Series Resolution.

**"Series Bonds"** - shall mean all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the 1985 General Bond Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

**"Series Resolution"** - shall mean a resolution of the District authorizing the issuance of a Series of Bonds in accordance with the terms and provisions hereof, adopted by the District in accordance with Section 204.

**"Sinking Fund Installment"** - for any Bond Fiscal Year, shall mean as of any date of calculation, and with respect to the Outstanding Bonds of any Series, the amount of money required by a Series Resolution to be paid in any event by the District on a single future February 1 for the retirement of such Outstanding Bonds which mature after said February 1, but does not include any amount payable by the District by reason only of the maturity of a Bond, and said future date is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment, and said Outstanding Bonds are deemed to be the Bonds entitled to such Sinking Fund Installment.

**"Supplemental Resolution"** - shall mean any resolution supplemental to or amendatory of the General Bond Resolution adopted by the District in accordance with Article VIII and Article IX.

**"Water Works"** - shall mean all or any part of any facilities, devices and systems used and useful in the acquisition, storage, treatment, neutralization, pumping, distribution and sale of potable, treated water, storage, distribution and sale of water, including without limiting the generality of the foregoing, sources of water, water mains of all types, pumping stations and other equipment and their appurtenances; extensions, improvements, remodeling, additions and alterations thereof, and any water treatment works, including site acquisition of the land that will be an integral part of the water treatment or distribution process.

**103. Construction of General Bond Resolution.** In the Resolution, unless the context otherwise requires:

Articles and Sections referred to by number shall mean the corresponding Articles and Sections of the Resolution.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Works importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, joint ventures, corporations, or other legal entities including public bodies, as well as natural persons.

The terms "hereby," "hereof," "hereto," "herein," "hereunder," and any similar terms, as used in this Resolution, refer to this Resolution or Sections or subsections of this Resolution and the term "hereafter" means after the date of adoption of the Resolution.

## ARTICLE II

### AUTHORIZATION AND ISSUANCE OF BONDS

**201. Authorization for General Bond Resolution.** This General Bond Resolution is adopted pursuant to the Act.

**202. General Bond Resolution to Constitute Contract.** In consideration of the purchase and acceptance of the Bonds by those who shall purchase and hold the same from time to time, the provisions of the General Bond Resolution shall be a part of the contract of the District with the Holders of the Bonds and coupons, if any, and shall be deemed to be and constitute a contract between the District and the Holders from time to time

of the Bonds and coupons, if any, and such provisions are covenants and agreements with such Holders which the District hereby determines to be necessary and desirable for the security and payment thereof. The provisions, covenants and agreements herein set forth to be performed on behalf of the District shall be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds and coupons, if any, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds or coupons, if any, over any other thereof except as expressly provided in the General Bond Resolution.

203. Authorization of Bonds. In order to provide sufficient funds for the Public Water System of the District, Bonds of the District, each to be entitled "Water District Revenue Bond, Series \_\_\_\_\_" are hereby authorized to be issued from time to time without limitation as to amount except as provided by the rules, conditions and limitations set out with specificity in the General Bond Resolution, and as may be limited by the Act, and such Bonds shall be issued from time to time subject to the terms, conditions and limitations established in the General Bond Resolution and in one or more Series as hereinafter provided. All Bonds shall rank on a basis of parity and equality with one another as to security and source of payment (except if expressly issued as subordinate obligations), and all Bonds shall be entitled to the benefit of the continuing pledges and liens created by the General Bond Resolution to secure the full and final payment of the principal of or Redemption Price, if any, and interest on the Bonds and any Sinking Fund Installments for the retirement thereof. Subject to any agreements hereafter made with the holders of any other notes or bonds of the District pledging any particular revenues or assets not pledged under the General Bond Resolution, if any, the Bonds shall be special obligations of the District, payable only from income, revenues and funds specifically pledged by the District for the payment of the principal of or Redemption Price, if any, and interest on said Bonds, including the Pledged Receipts. Pursuant to KRS 74.290(3), the Bonds shall contain on their face a statement that the District is not obligated to pay the principal thereof or the interest thereon except solely from the income and revenues pledged for their payment and that the Bonds do not constitute indebtedness of the District within the meaning of the Constitution of Kentucky.

204. Authorization for Bonds in Series. From time to time when authorized by the General Bond Resolution and subject to the terms, limitations and conditions established in the General Bond Resolution, the District may authorize the issuance of a Series of Bonds upon adoption of a Series Resolution, and the Bonds of any such Series may be issued and

delivered upon compliance with the provisions of Article II and Article VIII. The Bonds of each Series shall bear the title "Water District Revenue Bonds," and, at the option of the District, such other designation as may be necessary to distinguish them from the Bonds of other Series. Bonds of any Series may be authorized to be issued in the form of Serial Bonds or Term Bonds, or both. The first Series of Bonds issued pursuant to the Resolution shall effect the refunding of all then outstanding obligations of the District secured by District Revenues, in order to effectuate the unencumbered pledge of the Pledged Receipts thereafter to the purposes of the Public Water System.

Each Series Resolution authorizing the issuance of a Series of Bonds shall describe in general terms the Construction of Water Works for which Bonds are being authorized, and shall include a determination by the District to the effect that the principal amount of said Series of Bonds is necessary to provide sufficient funds to be used and expended for the Public Water System. Each Series Resolution shall specify and determine:

(1) the authorized principal amount of said Series of Bonds;

(2) the purposes for which each Series of Bonds are being issued, which shall be to provide funds for the purposes authorized by the Act, and in furtherance of the Public Water System, including, inter alia, one or more of the following:

(a) for deposit in the Cost of Issuance Account, any Construction and Acquisition Account and any Refunding Account established for such Series in the Bond Proceeds Fund for purposes for which such Accounts may be used, all as provided in Section 503;

(b) for the redemption of Bonds and related purposes as provided in and under the conditions and subject to the provisions and limitations of Section 207, if applicable;

(c) for deposit in the Operation and Maintenance Fund, Debt Service Fund or Debt Service Reserve; and

(d) for payment of the principal of or Redemption Price, if any, and interest on any Notes, and in such event, the Series Resolution shall provide for the establishment of a special account into which the proceeds of sale of such Series Bonds in whole or in part shall be deposited in trust for such payments.

(3) the title and designation of, the manner of numbering and lettering, and the denomination or denominations of the Bonds of such Series;

(4) the date or dates of maturity and the amounts thereof and the Issue Date of the Bonds of such Series;

(5) the interest rate or rates or the manner of determining such rate or rates of the Bonds of such Series and the interest payment dates of such Bonds;

(6) the Redemption Price or Redemption Prices and the Redemption Date or Redemption Dates and other terms of redemption (if any) of any of the Bonds of such Series;

(7) the Paying Agent or Paying Agents and the Registrar or Registrars appointed by such Series Resolution for such Bonds, subject to Section 1102, and the authorization of an agreement or agreements therewith;

(8) the portion of such series that are Serial Bonds and that are Term Bonds, if any, including the amount and date of such Sinking Fund Installment, if any, required by such Series Resolution to be paid in any event by the District for the retirement of any of such Bonds of like maturity and interest rate, expressed as an amount payable on a Principal Installment Date of such Bonds sufficient to redeem at the Redemption Price thereof applicable on said date a specified principal amount thereof;

(9) the manner in which Bonds of such Series are to be sold and provisions for the sale thereof; and

(10) any other provisions deemed advisable by the District, not in conflict with or in substitution for the provisions of the General Bond Resolution.

205. Issuance and Delivery of Bonds. After their authorization by a Series Resolution, Bonds of a Series may be executed by or on behalf of the District, and upon compliance by the District with the special requirements, if any, set forth in such Series Resolution and with the requirements of Section 206, such Bonds shall thereupon be issued to or upon the order of the District.



**206. Conditions Precedent to Authentication and Delivery of Bonds.** Except as permitted by Sections 311 and 312, the Bonds authorized to be issued pursuant to this General Bond Resolution and a Series Resolution shall be issued only upon condition that the following have been executed:

(1) A copy of the General Bond Resolution and the applicable Series Resolution, each certified by an Authorized Officer of the District;

(2) The written order of the District as to the delivery of such Bonds signed by an Authorized Officer describing such Bonds to be authenticated and delivered, designating the purchaser or purchasers to whom such Bonds are to be delivered, and stating the purchase price of such Bonds;

(3) A Counsel's Opinion stating that in the opinion of such Counsel the General Bond Resolution and the applicable Series Resolution authorizing the Series of Bonds have been duly and lawfully adopted by the District, that the General Bond Resolution and the applicable Series Resolution are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms; that the General Bond Resolution creates the valid pledge which it purports to create subject only to the provisions of the General Bond Resolution permitting the application of the Pledged Receipts for or to the purposes and on the terms and conditions set forth in the General Bond Resolution; and upon the execution, authentication and delivery thereof, that the Bonds of such Series will be duly and validly issued and will constitute valid and binding obligations of the District entitled to the benefits of the General Bond Resolution and such applicable Series Resolution;

(4) A written order of the District signed by an Authorized Officer directing the deposit in the Debt Service Reserve of so much of the proceeds of the Bonds to be issued, upon their issuance, sale and delivery, as may be required to increase the aggregate amount then held in said Fund to the Aggregate Debt Service Reserve Requirement; provided that the District may obtain, in lieu of such deposit, a Debt Service Reserve Guaranty as permitted under Section 506 hereof;

(5) Except in the case of an issue of Refunding Bonds, a certificate of an Authorized Officer of the District stating that the District is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the General Bond Resolution; and

(6) Such further documents, as are required by the provisions of this Section, Section 207, or Article VII or VIII or any Supplemental Resolution adopted pursuant to Article VIII.

(7) As a further condition, such moneys and securities as are required by the provisions of this Section, Section 207, or Article VII or VIII or any Supplemental Resolution adopted pursuant to Article VIII.

207. Provision for Refunding Issue. (1) One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds or any Series of Outstanding Bonds or any part of one or more Series of Outstanding Bonds. Bonds of the Series of Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Act, this Section and of the Series Resolution authorizing said Series of Refunding Bonds.

(2) The Bonds of the Series of Refunding Bonds may be authenticated and delivered only upon receipt by the appropriate Fiduciary or Fiduciaries (in addition to the receipt by it or them of the documents required by Section 206) of:

(a) Irrevocable instructions to the Paying Agent and to the Registrar in respect of the Bonds to be Refunded, satisfactory to each of them, to give due notice of redemption of all the Bonds to be refunded on the Redemption Date specified in such instructions;

(b) Irrevocable instructions to the Paying Agent and to the Registrar in respect of the Bonds to be Refunded, satisfactory to each of them, to give due notice provided for in Section 1201 to the Holders of Outstanding Bonds and coupons, if any, being refunded;

(c) Either:

(i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be Refunded, together with

accrued interest on such Bonds to the Redemption Date, which moneys shall be held by any one or more of the Paying Agents in a separate account - irrevocably in trust for and assigned to the respective Holders of Outstanding Bonds and coupons being refunded, or

(ii) Investment Obligations (as defined for this purpose only those obligations identified in clause (a) of the definition of Investment Obligations) in such principal amounts, having such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of subsection (2) of Section 1201 and any moneys required pursuant to said subsection (with respect to all Outstanding Bonds or any part of one or more Series of Outstanding Bonds being refunded) which Investment Obligations and moneys shall be held in trust and used only as provided in said subsection; and

(d) A Certificate of an Authorized Officer containing such additional statements as may be reasonably necessary to show compliance with the requirements of this subsection, and the Paying Agent shall be entitled to rely on such Certificate.

(3) The appropriate Paying Agent in respect of the Bonds to be refunded shall furnish to the District at the time of delivery of the Series of Refunding Bonds a certificate stating that it holds in trust the moneys and/or Investment Obligations required to effect such redemption on the date specified in such Series Resolution.

(4) Any balance of the proceeds of the Bonds of each such Series shall be deposited in such Funds or Accounts as shall be specified in the Series Resolution authorizing such Series of Refunding Bonds.

(5) Any moneys received by the District from any source, which receipt is conditioned upon the District using such moneys for the redemption of any Outstanding Bonds shall be deemed to be and treated as the proceeds of a Series of Refunding Bonds and the District shall deliver to the Paying Agent and Registrar the documents and moneys or obligations required by the provisions of clauses (a), (b) and (c) of subsection (2) hereof and shall do all other acts and things necessary to accomplish the redemption of such Bonds, in accordance with applicable provisions of this Section.

## ARTICLE III

### GENERAL TERMS AND PROVISIONS OF BONDS

301. Date of Bonds. Each Bonds shall be dated as of, and bear interest from, its Issue Date except as otherwise provided in Section 304 in the case of registered Bonds.

302. Interest Payment Dates. Interest on each Bond shall be payable on the date of a February 1 or an August 1 not more than twelve months after its Issue Date and semiannually after such date.

303. Principal Installment Dates. The date when each Principal Installment with respect to a Series of Bonds is payable shall be a February 1 not less than twelve months after its Issue Date.

303a. References to Coupon Bonds. All references herein to "coupon Bonds" or "coupons" shall be ineffective unless and until coupon Bonds are issued hereunder. No coupon Bonds shall be issued unless and until the District has received a Counsel's Opinion to the effect that any Bonds issued hereunder in coupon form would be exempt from federal income taxation. All references to published notices to Bondholders herein shall be ineffective unless and until coupon Bonds are issued hereunder.

304. Medium of Payment; Form and Date. The Bonds shall be payable, with respect to principal or Redemption Price, if any, and interest, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

The Bonds of each Series shall be issued in the form of fully registered Bonds without coupons. In the event that bearer Bonds including coupon Bonds become possible in the future, all or any of the Bonds of such Series may be issued in the form of bearer Bonds and Bonds registrable as to principal only.

Bonds of each Series shall be dated as of the date specified in the Series Resolution authorizing the issuance thereof. Coupon Bonds, if any, of each Series shall bear interest from their date, payable in accordance with, and upon surrender of, the appurtenant interest coupons as they severally mature. Bearer Bonds without coupons, if such bonds may be issued on a tax-exempt basis, may also be issued. Registered Bonds of such Series issued prior to the first interest payment date thereof shall be dated as of the date specified in the Series Resolution authorizing the issuance thereof. Registered Bonds issued on or subsequent to the first

interest payment date shall be dated as of the date six months preceding the interest payment date next following the date of delivery thereof, unless such date of delivery shall be an interest payment date, in which case they shall be dated as of such date of delivery; provided, however, that if, as shown by the records of the Paying Agent, interest on the Bonds of any Series shall be in default, the registered Bonds of such Series issued in lieu of Bonds surrendered for transfer or exchange may be dated as of the date to which interest has been paid in full on the Bonds surrendered. Registered Bonds of each Series shall bear interest from their date.

305. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise, as may be determined by the District prior to the delivery thereof.

306. Execution. The Bonds shall be executed in the name and on behalf of the District by the manual or facsimile signature of the Chairman of the Board of Commissioners of the District and the corporate seal of the District (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual signature of the District Secretary or Treasurer. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officers before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond of a Series may be signed and sealed on behalf of the District by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in the District, although at the date of the Bonds of such Series such persons may not have been so authorized or have held such office.

The coupons, if any, to be attached to the coupon Bonds of each Series shall be signed by the facsimile signature of the Chairman of the Board of Commissioners of the District, and attested by the facsimile signature of the District Secretary.

307. Interchangeability of Bonds. Coupon Bonds, if any, upon surrender thereof at the principal office of the District with all unmatured coupons attached, may, at the option of the Holder thereof, be exchanged for an equal aggregate principal amount of registered Bonds of the same Series and maturity of any of the authorized denominations.

Registered Bonds, upon surrender thereof at the principal office of the appropriate Registrar together with an assignment duly executed by the registered owner or his authorized attorney, in such form as shall be satisfactory to the appropriate Registrar, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of coupon Bonds of the same Series and maturity with appropriate coupons attached, or of registered Bonds of the same Series and maturity of any other authorized denominations.

308. Negotiability, Transfer and Registration. All the Bonds issued under this General Bond Resolution shall be negotiable as provided by the Act, subject to the provisions for registration and transfer contained in this General Bond Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, the Registrar shall maintain and keep books for the registration and transfer of Bonds; and, upon presentation thereof for such purpose to the Registrar, the Registrar shall register or cause to be registered therein, and permit to be transferred thereon any Bond entitled to registration or transfer under such reasonable regulations as it or the District may prescribe.

309. Transfer and Registration of Coupon Bonds. In the event that coupon Bonds are issued in the future, provisions for their transfer, registration as to principal, if any, and notice of redemption prior to maturity, shall be contained in the appropriate Series Resolution.

310. Transfer of Registered Bonds. Each registered Bond shall be transferable only upon the books of the Registrar, which shall be kept for the purpose at the principal office of the Registrar, at the request of the registered owner thereof or by his authorized attorney upon surrender thereof together with an assignment satisfactory to the appropriate Registrar duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such registered Bond, the District shall issue in the name of the transferee a new registered Bond or Bonds of the same aggregate principal amount and Series and maturity as the surrendered Bond.

The District and any Fiduciary may deem and treat the person in whose name any Outstanding registered Bond shall be registered upon the books of the District as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price, if any, of and interest on, such Bond and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the District nor any Fiduciary shall be affected by any notice to

the contrary. The District agrees to indemnify and save any Fiduciary harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence hereunder, in so treating such registered owner.

311. Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of transferring registered Bonds is exercised, the District shall execute and deliver Bonds in accordance with the provisions of the General Bond Resolution. All registered Bonds surrendered in any such transfers shall forthwith be cancelled. The Registrar shall not be obligated to make any such transfer of Bonds of any Series during the sixteen days next preceding an Interest Payment Date on the Bonds of such Series or, in the case of any proposed redemption of Bonds of such Series, next preceding the date of the first publication of notice of such redemption.

312. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, the District shall execute and deliver a new Bond of like Series, maturity and principal amount as the Bond and attached coupons, if any, so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond upon surrender and cancellation of such mutilated Bond and attached coupons, if any, or in lieu of and in substitution for the Bond and coupons, if any, destroyed, stolen or lost, upon filing with the Registrar evidence satisfactory to the Registrar that such Bond and attached coupons, if any, have been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Registrar and the District with indemnity satisfactory to each of them and complying with such other reasonable regulations as the Registrar and the District may prescribe and paying such expenses as the Registrar and the District may incur in connection therewith. All Bonds and coupons so surrendered to the Registrar shall be cancelled by it.

313. Preparation of Definitive Bonds; Temporary Bonds. The definitive Bonds of each Series shall be lithographed or printed on steel engraved borders. Until the definitive Bonds of any Series are prepared, the District may execute, in the same manner as is provided in Section 306, and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, one or more temporary Bonds (which may be registrable as to principal and interest), substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, in denominations of \$5,000 or any multiple thereof authorized by the District, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The District at its own expense shall prepare and execute and, upon

the surrender of such temporary Bonds, with all unmatured coupons, if any, and all matured coupons, if any, for which no payment or only partial payment has been provided, attached, for exchange and the cancellation of such surrendered temporary Bonds and coupons, without charge to the Holder thereof, deliver in exchange therefor, at the principal office of the appropriate Registrar, definitive Bonds, of the same aggregate principal amount and series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

All temporary Bonds surrendered in exchange for a definitive Bond or Bonds shall be forthwith cancelled.

314. Form of Bonds. Subject to the provisions of any Series Resolution, which may contain a different bond form or authorized variations herefrom, the Bonds shall be in registered form, substantially as follows:



UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
KENTON COUNTY WATER DISTRICT NO. 1  
KENTON COUNTY, KENTUCKY  
WATER DISTRICT REVENUE BOND, SERIES 1985

No. R-1

\$ \_\_\_\_\_

BOND DATE: \_\_\_\_\_

RATE: \_\_\_\_\_%

MATURITY DATE: February 1, \_\_\_\_\_

CUSIP \_\_\_\_\_

REGISTERED HOLDER:

PRINCIPAL AMOUNT:

DOLLARS

KNOW ALL MEN BY THESE PRESENTS:

That Kenton County Water District No. 1, Kenton County, Kentucky, a public body corporate and a political subdivision in the Commonwealth of Kentucky duly organized and existing pursuant to Chapter 74 of the Kentucky Revised Statutes (the "District"), for value received, hereby acknowledges itself obligated to, and promises to pay to the registered holder identified above, or registered assigns, solely from the limited sources hereinafter described, the principal sum identified above (or, if any part thereof has been paid the balance thereof remaining unpaid); on the maturity date specified above, and to pay interest on said principal sum (or, if any part thereof has been paid, the balance thereof remaining unpaid) from the date hereof at the rate of interest per annum identified above, payable semiannually on the first days of February and August in each year until paid, commencing February 1, 1987, except as the provisions hereinafter set forth with respect to prior redemption may be and become applicable hereto. This bond will bear interest from the most recent interest payment date to which interest has been paid or, if no interest has been paid, from the date of original issuance hereof. The principal and interest of this bond are payable, without deduction for exchange, collection, or service charges, in lawful money of the United States of America. Principal is payable at the principal office of \_\_\_\_\_

or any successor (the "Registrar"). All interest on this bond shall be payable by check or draft mailed to the record date

registered owner hereof at the address shown on the registration records kept by the Registrar. The record dates for February 1 and August 1 interest payment dates shall be the preceding January 15 and July 15, respectively.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE. [if appropriate]

This bond is one of an authorized issue of Water District Revenue Bonds of the District, of like tenor and effect, except as to denomination, maturity and call provisions, numbered from R-1 upward, of the denomination of any integral multiple of \$5,000, originally aggregating in principal amount \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) issued under and pursuant to a Series Resolution duly adopted by the Board of Commissioners of the District, and the General Bond Resolution hereinafter described, pursuant to and in full conformity with the Constitution and the laws of the Commonwealth of Kentucky, and particularly under the provisions of Chapter 74 and Sections 96.350 to 96.510, inclusive, of the Kentucky Revised Statutes, for the purpose of providing additions, extensions and betterments to the District's Public Water System, as defined in the General Bond Resolution. The bonds of said authorized issue, together with such additional bonds ranking on a parity therewith that may be issued and outstanding from time to time under the restrictions and provisions of said General Bond Resolution, do not constitute an indebtedness of the District within the meaning of the Constitution, but are payable as to principal and interest and premium, if any, solely from and are secured by, inter alia, a pledge of revenues and income resulting from the collection of water rates, rentals and charges for the services rendered by the facilities of said District.

A statutory mortgage lien which is hereby recognized as valid and binding on all properties of the District, including the Public Water System and all extensions and appurtenances thereto, is created and granted to and in favor of the registered owner or owners of this bond and the issue of which it forms a part and said properties shall remain subject to said statutory mortgage lien until the payment in full of the principal of and interest on this bond and the issue of which it forms a part.

This bond is exempt from taxation in the Commonwealth of Kentucky.

Said bonds are all issued under and are equally and ratably secured and entitled to the protection given by the General Bond Resolution, adopted November 19, 1985, (the "General Bond Resolution") duly executed and delivered by the

District and reference is hereby made to the General Bond Resolution and to all resolutions supplemental thereto for a more complete description of the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the District, the Paying Agents, the Registrars and the holders of said bonds and the terms and conditions upon which said bonds are issued and secured, to all of the provisions of which General Bond Resolution, each holder, by the acceptance hereof, assents.

Said bonds are issuable as fully registered bonds in denominations of \$5,000 and any authorized multiple thereof. Said bonds are not callable for redemption prior to February 1, 1995. Bonds maturing on and after February 1, 1996, are subject to redemption by the District prior to maturity at any time on or after February 1, 1995, in whole or in part and in inverse order of their maturity (less than all of such bonds of a single maturity to be selected by lot), at a redemption price, equal to the following percentages of the principal amount redeemed plus accrued interest to the redemption date:

<u>Period</u> <u>(Both Dates Inclusive)</u>	<u>Redemption Price</u>
February 1, 1995 to and including January 31, 2000	103%
Thereafter, at	100%

Call for redemption shall be by registered mail only, addressed to the registered holder at the address shown on the records of the Registrar. Call for redemption having been given as aforesaid, the bonds or portions thereof so called for redemption shall become due and payable at the the applicable redemption price herein provided, and from and after the date so fixed for redemption, interest on the bonds, or portions thereof so called for redemption, shall cease to accrue and become payable.

The principal of, redemption price, if any, and interest on said bonds are payable solely and only from and such payment is secured by a pledge of the Pledged Receipts, as defined in the General Bond Resolution to the extent and in the manner provided in the General Bond Resolution. There are further pledged for the payment of the principal on or redemption price, if any, and interest on the bonds, subject to the provisions of the General Bond Resolution permitting the application thereof for or to the purposes and on the terms and conditions set forth therein, (i) the proceeds of sale of the Bonds, except to the extent such proceeds may be applied to the payment of notes issued in anticipation of the sale of bonds, (ii) Investment Obligations as defined in the General Bond Resolution, and (iii) all Funds created and established pursuant to the General Bond Resolution, including Accounts thereof and moneys and securities therein.

This bond shall be registered as to principal and interest in the name of the holder thereof, after which it shall be transferable only upon presentation to the \_\_\_\_\_, as Registrar, with an assignment duly acknowledged by the registered holder or his duly authorized attorney, which transfer shall be noted upon this bond and upon the books of the Registrar kept for that purpose.

[Note to printer: The following paragraph shall appear on the face of the bond.]

THIS BOND HAS BEEN ISSUED UNDER THE PROVISIONS OF KRS 74.280 TO 74.310, INCLUSIVE. THE BONDS OF WHICH THIS BOND IS A PART DO NOT CONSTITUTE A DEBT, LIABILITY OR OTHER OBLIGATION OF THE DISTRICT OR OF ANY POLITICAL SUBDIVISION OF THE COMMONWEALTH OF KENTUCKY. THE DISTRICT SHALL NOT BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON EXCEPT FROM THE INCOME, REVENUES, FUNDS AND ASSETS OF THE DISTRICT SPECIFICALLY PLEDGED THEREFOR, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY POLITICAL SUBDIVISION OF THE COMMONWEALTH OF KENTUCKY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

The registered owners of said bonds shall not be entitled to enforce the provisions of the General Bond Resolution or to institute, appear in or defend any suit, action or proceeding at law or in equity to enforce any rights, remedies or covenants granted by the General Bond Resolution, or to take any action with respect to any event of default under the General Bond Resolution, except as provided in the General Bond Resolution.

The General Bond Resolution contains provisions permitting the District, with the consent of the bond insurer and the registered owners of not less than  $66\frac{2}{3}\%$  in aggregate principal amount of bonds at the time outstanding, exclusive of any bonds then held or owned by the District, to execute supplemental resolutions for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms and provisions of the General Bond Resolution; provided, however, that no such supplemental resolution shall extend the maturity of, the principal of, or the interest on, any bond or reduce the principal of any bond, or the rate of interest or redemption premium thereon, without the consent of the bond insurer and the registered owner of each bond so affected, or reduce the aggregate principal amount of bonds required for consent to such supplemental resolution without the consent of the registered owners of all bonds then outstanding.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by the Constitution and Statutes of the Commonwealth of Kentucky and the General Bond Resolution and Series Resolution to exist, happen and be performed precedent to and in the issuance of this bond do exist, have happened and have been performed in the manner and form required by law, and that said District will continuously operate said waterworks and water distribution facilities constituting the District's Public Water System as a revenue-producing undertaking; that, subject to regulatory approvals which the District will timely seek, a schedule of rates, rentals and charges for the services and facilities rendered by the Public Water System of said District will be fixed, revised, collected and accounted for at all times so as to produce aggregate revenues sufficient to pay promptly when due the interest on and principal of all bonds that may be outstanding from time to time and to also pay when due all costs and expenses of operating and maintaining said works and facilities and to create and maintain proper and adequate reserves for depreciation and for repair and replacement; that a sufficient amount of said revenues and income derived from collection of said rates, rentals and charges has been pledged to and will be set aside each year into a special account created for the purpose of paying the interest on this bond and all other bonds authorized or permitted to be issued by said General Bond Resolution, and redeeming and fully discharging all such bonds at or prior to the maturity thereof, and that this bond, together with all other obligations of said District, does not exceed any limitation prescribed by law.

IN WITNESS WHEREOF said Kenton County Water District No. 1, Kenton County, Kentucky, by its Board of Commissioners as the governing body thereof has caused this bond to be executed in its name by the reproduced facsimile signature of its Chairman and attested by its Secretary [or Treasurer], and a reproduced facsimile of its corporate seal to be hereunto affixed, and this bond to be dated the first day of December, 1985.

KENTON COUNTY WATER DISTRICT NO. 1  
KENTON COUNTY, KENTUCKY

(SEAL)

BY \_\_\_\_\_  
Chairman

ATTEST:

\_\_\_\_\_  
Secretary

Date of Registration and Authentication:

CERTIFICATE

This is to certify that this bond is one of the bonds described hereinabove.

\_\_\_\_\_  
Registrar

By

Authorized Signature

(Reverse of Bond)

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT MIN ACT Custodian
TEN ENT - as tenants by the entireties	(Cust) (Minor) under Uniform Gift to Minors
JT TEN - as joint tenants with right of survivorship and not as tenants in common	Act _____ (State)

Additional Abbreviations may also be used though not in the above list.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns, and transfers unto

Please insert Social Security or other identifying number of assignee.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Name and address of assignee)  
\_\_\_\_\_ the within Bond and does hereby irrevocably  
constitute \_\_\_\_\_

\_\_\_\_\_ attorney to transfer said Bond on the books kept for registration of said Bond, with full power of substitution in the premises.

Dated: \_\_\_\_\_

(Signature Guarantee)

NOTICE: The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within bond in every particular, without alteration or any change whatever.

CERTIFICATE

It is hereby certified that the following is a correct and complete copy of the text of the legal opinion of Messrs. Peck, Shaffer & Williams, Attorneys, Covington, Kentucky, regarding the issue of which the within bond is one, the original of which opinion was manually executed, dated and issued as of the date of delivery of and payment for said issue and a copy of which is on file with the undersigned.

\_\_\_\_\_  
(facsimile)  
City Clerk

The following opinion is premised on facts and law existing on the date of original delivery by the issuer of the bonds of this issue:

Gentlemen:

We have acted as bond counsel in connection with the authorization, sale and issuance by Kenton County Water District No. 1, Kenton County, Kentucky (the "District"), a public body corporate and politic and a political subdivision of the Commonwealth of Kentucky, acting by and through its Board of Commissioners as its duly authorized governing body, of \$14,955,000 principal amount of Water District Revenue Bonds, Series 1985, dated December 1, 1985 (the "Series 1985 Bonds").

Said Series 1985 Bonds have been authorized and issued pursuant to Chapter 74 and Sections 96.350 to 96.510, inclusive, of the Kentucky Revised Statutes (collectively, the "Act"), a certain General Bond Resolution adopted by the District on November 19, 1985 (the "Resolution") and a certain Series Resolution authorizing the Series 1985 Bonds adopted on December 5, 1985 (the "Series Resolution"). Pursuant to the Resolution and the Series Resolution, the District has authorized the issuance of said Series 1985 Bonds for the purpose of refunding certain outstanding obligations of the District and paying the costs of issuance of said Series 1985 Bonds.

We have examined such portions of the Constitution and Statutes of the United States, the Constitution and Statutes of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.



We have also examined records, and the transcript of proceedings relating to the authorization and issuance of the Series 1985 Bonds, including executed Bond No. R-1, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the District as to certain factual matters. Based upon the foregoing, we advise you that in our opinion under existing law:

1. The Series 1985 Bonds have been duly authorized, executed and issued by the District in accordance with the Constitution and Statutes of the Commonwealth, including the Act, and in accordance with the Resolution and the Series Resolution, and constitute valid and binding special obligations of the District, payable as to principal, interest, and premium, if any, from and secured by a pledge of (i) the Pledged Receipts, as defined in the Resolution, (ii) the proceeds of the sale of the Series 1985 bonds, (iii) Investment Obligations, as defined in the Resolution, (iv) all funds established by the Resolution, including accounts thereof and monies and securities therein, subject only to the provisions of the Resolution, permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in the Resolution and (v) a statutory mortgage lien on all properties of the District, including the Public Water System and all extensions and appurtenances thereto, as provided by Section 96.400 of the Kentucky Revised Statutes and as more specifically described in the Resolution.
2. Neither the faith and credit nor the taxing power of the District, the Commonwealth, or any political subdivision thereof, nor the faith and credit of the District is pledged to the payment of the principal of or interest on the Series 1985 bonds, or to the payment of premium, if any.
3. Interest on the Series 1985 bonds is exempt from income taxation by the United States of America and from income taxation by the Commonwealth, and the Series 1985 bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Resolution, the Bonds and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights or by general equitable principles.

Without having undertaken to determine independently or to verify the accuracy or completeness of the statements contained in the Official Statement, and expressing no opinion as to the financial statements or any other financial or statistical data contained therein, nothing has come to our attention in the course of our professional engagement as Bond Counsel which would lead us to believe that the Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

The Series 1985 Bonds are special and limited obligations of the District, payable solely and only from the revenues provided for by the Resolution. The Bonds do not pledge the general credit or taxing power, if any, of the District, the Commonwealth or any other agency or political subdivision of the Commonwealth.

PECK, SHAFFER & WILLIAMS

## ARTICLE IV

### APPLICATION OF BOND PROCEEDS

401. Application of Bond Proceeds. (1) All proceeds of the Bonds of any Series to be issued, upon their issuance, sale and delivery, shall be deposited in to the applicable Funds of Accounts specified, in accordance with the provisions of the Series Resolution authorizing the issuance of the Bonds of such Series. Such proceeds shall be applied solely for purposes for which amounts in said Funds or Accounts, respectively, may be applied in accordance with the provisions of the Series Resolution and the General Bond Resolution.

(2) Accrued interest and capitalized interest, if any, received upon delivery of any Series of Bonds shall be deposited in the Series Interest Account of the Debt Service Fund. The amount, if any, received as a premium over the principal amount of any Series of Bonds upon delivery of such Series shall be applied as provided in the Series Resolution authorizing such Series.

## ARTICLE V

### ESTABLISHMENT OF FUNDS AND ACCOUNTS APPLICATION OF PLEDGED RECEIPTS

501. The Pledge Effected by the General Bond Resolution. (1) There are hereby pledged for the payment of the principal of or Redemption Price, if any, and interest on the Bonds, and the Sinking Fund Installments for the retirement thereof, in accordance with their terms and the provisions of the General Bond Resolution, subject only to the provisions of the General Bond Resolution permitting the application thereof for or to the purposes and on the terms and conditions set forth in the General Bond Resolution, (a) the proceeds of sale of the Bonds to the extent not required to be utilized for payment of Notes, (b) Investment Obligations acquired by Bond proceeds or by application of funds derived from District Revenues, (c) the Pledged Receipts, and (d) all Funds created and established pursuant to the General Bond Resolution, including Accounts thereof and moneys and securities therein.

(2) The proceeds of sale of the Bonds, the Investment Obligations, the Pledged Receipts and all Funds created and established pursuant to the General Bond Resolution, including Accounts thereof created and established pursuant to the General Bond Resolution and moneys and securities therein, hereby pledged, shall immediately be subject to the lien of the pledge of Section 501 without any physical delivery thereof or further act, and the lien of said pledge shall be valid and

binding as against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice thereof.

502. Transition of Funds and Accounts for 1981 Bonds into Funds and Accounts for Bonds Authorized by this Resolution. The District has heretofore formally established and created the following special trust Funds and the following Accounts within such Funds:

- (1) General Revenue Fund
- (2) Debt Service Fund  
Interest Account  
Principal Account
- (3) Debt Service Reserve [Fund]
- (4) Operation and Maintenance Fund
- (5) Improvement, Repair and Replacement Fund.

Upon the defeasance of the 1981 Bonds, the above-identified Funds and their Accounts shall become funds and accounts of like name for Bonds authorized hereunder.

The above identified Funds and the Accounts thereof and the Bond Proceeds Fund hereinafter created shall be held and maintained by the District in the following financial institutions (being hereinafter sometimes referred to as "depositories," and each being a Fiduciary as defined in the General Bond Resolution):

Fund	Depository
Bond Proceeds Fund .....	A depository to be named in the Series Resolution authorizing a particular Series of Bonds.
General Revenue Fund.....	A depository named in the first Series Resolution adopted hereunder as the Registrar and Paying Agent for the bonds authorized thereby.
Debt Service Fund.....	A depository named in the first Series Resolution adopted hereunder as the Registrar and Paying Agent for the bonds authorized thereby.

Debt Service Reserve Fund...

A depository named in the first Series Resolution adopted hereunder as the Registrar and Paying Agent for the bonds authorized thereby.

Operation and Maintenance Fund.....

Covington Trust & Banking Co.  
Covington, Kentucky

Improvement, Repair and Replacement Fund.....

The Peoples-Liberty Bank & Trust Co.  
Covington, Kentucky

To the extent any moneys held in any Fund or Account shall be in excess of the amount insured by Federal Deposit Insurance Corporation, such excess shall be secured by the depository by a pledge of Investment Obligations, as defined in clause (a) of the definition of Investment Obligations equal at all times in value to such amount so in excess of Federal Deposit Insurance Corporation coverage.

503. Bond Proceeds Fund. (1) There is hereby created the Bond Proceeds Fund-General Bond Resolution (the "Bond Proceeds Fund"). The District shall establish and create within the Bond Proceeds Fund, beginning with the issue of the first Series Bonds hereunder, a separate (a) Cost of Issuance Account, and a separate (b) Construction and Acquisition Account, for each Series of Bonds Outstanding, (provided, that in the event that Bond proceeds are to be used in whole or in part for the payment, or provision therefor, of outstanding debt obligations, a different suitable name and purpose for such separate account may be employed such as "\_\_\_\_\_ Refunding Account") and shall identify each separate Account by inserting in the designation therefor the year, letter or other designation of the Bonds of such Series.

(2) There shall be deposited from time to time in the Cost of Issuance Account established for each Series the amount of moneys necessary to pay the costs of issuance of such Series from either:

(a) the proceeds of the Bonds of such Series as specified and determined in the Series Resolution authorizing the issuance of such Series, or

(b) moneys from time to time received by the District from any other source, and determined by the District to be deposited in such Account, unless required to be otherwise applied as provided by the Resolution.

To the extent not otherwise provided for, the Cost of Issuance of a Series of Bonds shall be paid only from the moneys credited to the Cost of Issuance Account established for such Series of Bonds.

(3) The depository shall from time to time pay out, or permit the withdrawal, of moneys credited to any Cost of Issuance Account, free and clear of any lien or pledge or assignment in trust created by this Article, for the purpose of paying in the manner herein authorized any Costs of Issuance of the Bonds of the Series for which such Account was established, upon receipt by said depository of a check or other bill of exchange drawn upon such Account, signed by two members of the Board of Commissioners of the District stating with respect to each payment to be made:

- (a) the item for which payment is to be made,
- (b) the name of the person or party to whom the payment is to be made, and
- (c) the amount to be paid.

(4) Upon receipt of a Certificate signed by two members of the Board of Commissioners of the District to the effect that all Costs of Issuance of the applicable Series of Bonds have been paid, the depository, upon such direction of the District, taken by similar action, shall transfer any moneys remaining in said Cost of Issuance Account to the Construction and Acquisition Account established for such Series.

(5) Upon the deposit of the proceeds of the Bonds of a Series or other moneys in the manner hereinabove prescribed in any Cost of Issuance Account, the District shall direct the depository to invest and reinvest the moneys in said identified Account in Investment Obligations, so that the maturity date or date of redemption at the option of the holder of such Investment Obligations shall coincide as nearly as practicable with the times at which moneys are needed by the District to be expended. The Investment Obligations purchased shall be physically held by the depository and shall be deemed at all times to be part of such Cost of Issuance Account and the depository shall deliver to the District a safekeeping certificate as to the identity and amount of all such investments. The District shall sell at the best price obtainable or present for redemption, any obligations purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment from the Cost of Issuance Account.

(6) There shall be deposited into the applicable Construction and Acquisition Account, such amounts of the proceeds of the Bonds of any Series required to be deposited therein as shall be specified and determined by the Series Resolution authorizing such Series of Bonds, in accordance with and subject to the provisions of Article IV.

(7) Moneys credited to the Construction and Acquisition Account shall be expended only for the payment of Construction costs of the Public Water System subject to the provisions and restrictions of this Section.

(8) Except as may be expressly limited by the purposes for which a Series of Bonds is issued as set forth in the Series Resolution authorizing such Series, amounts in any Construction and Acquisition Account shall be expended and applied by the depository upon issuance of a check or other bill of exchange drawn upon such Account, signed by two members of the Board of Commissioners of the District. Such checks shall be issued in connection with the Public Water System work for which such Series of Bonds is issued, in order to make disbursements required to be made by the District pursuant to the terms and provisions of construction and acquisition contracts to which the District is a party relating to the District's Public Water System. The District shall keep and maintain complete and detailed records with respect to said Construction and Acquisition Account.

(9) Upon the deposit of the proceeds of the Bonds of a Series or other moneys in the manner hereinabove prescribed in the Construction and Acquisition Account, the District shall invest and reinvest the moneys in said Account in Investment Obligations so that the maturity date or date of redemption at the option of the holder of such Investment Obligations shall coincide as nearly as practicable with the times at which moneys are required by the District to be expended on account of construction and acquisition contracts in respect of the Public Water System. All Investment Obligations purchased shall be physically held in the custody of the depository and shall be deemed at all times to be part of such Construction and Acquisition Account, and the depository shall deliver to the District a safekeeping certificate as to the identity and amount of all such investments. The District shall, by order signed by two members of the Board of Commissioners of the District, sell at the best price obtainable, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any authorized payment from such Construction and Acquisition Account.

(10) The District shall from time to time pay out or permit the withdrawal of moneys from any Construction and Acquisition Account for the purpose of making disbursements and payments to contractors, material suppliers, fabricators and others rendering services pursuant to the Public Water System, pursuant to the terms of contracts between the District and such persons upon issuance of a check or other bill of exchange drawn upon such Account signed by two members of the Board of Commissioners of the District, accompanied by a written voucher executed by the Engineers, which voucher shall contain the following with respect to each payment or disbursement to be made:

(a) the name of the person or party to whom the payment or disbursement is to be made;

(b) the amount to be paid to such person or party;

(c) the applicable construction, acquisition or service contract in respect of which the payment or disbursement is to be made;

(d) that with respect to such requested payment or disbursement there has not been filed with or served upon the District notice of any lien or attachment upon, or claim affecting the right to receive, payment of any of the amounts requisitioned and payable to any of the persons, firms, or corporations named in such requisition which has not been released or will not be released simultaneously with such payment;

(e) that such requisition for payment contains no item representing payment on account of any retained percentages of Construction cost which the District is at the date of such requisition entitled to retain;

(f) that in connection with such requisition for payment, the District has received such proofs as are properly required by the District to the effect that each obligation set forth in said requisition for payment has been (i) properly incurred, and (ii) is then due and unpaid; and (iii) that insofar as such obligation was incurred for work, services materials, equipment or supplies, such work or services was actually performed, or such materials, equipment or supplies were actually installed in furtherance of the Construction of the Public Water System, or were delivered at the site or sites of the Public Water System for such purposes.



(11) All such written checks or bills of exchange (requisitions) of the District signed by two members of the Board of Commissioners and conforming to subsection (1) above, received by the depository as herein set forth may be relied upon by and shall be retained in the possession of the depository, subject at all times to the inspection of the District and its officials.

(12) At such times as all moneys due to be disbursed from any Construction and Acquisition Account have been so disbursed and paid, and the depository has received (a) a Certificate executed by the Chairman of the Board of Commissioners of the District countersigned by one other member of such Board of Commissioners stating that completion of the designated portion of the Public Water System authorized by the specified Series of Bonds has occurred, which Certificate shall be accompanied by (b) an opinion of legal counsel for the District stating that there are no uncalled mechanics', laborers', contractors' or materialmens' liens on file in any public office where the same should be filed in order to be valid liens against any part of any Water Works constructed by the District, and that in the opinion of said legal counsel the time within which such liens can be filed has expired, the balance in such Construction and Acquisition Account shall thereupon be transferred by the depository to the Debt Service Fund, or upon the filing of a Certificate by the same officers of the District to the effect that further Series of Bonds are due to be issued within a reasonable time, may be held in said Account. Provided, further, that the District, by Certificate executed by the same Officers of the District, may direct the depository to pay and transfer such remaining balance to any other Construction and Acquisition Account created in connection with the Public Water System.

504. General Revenue Fund. (1) The District shall cause all moneys received as Pledged Receipts, together with income from the Debt Service Reserve pursuant to Section 506(5) hereof, to be deposited promptly into the General Revenue Fund.

(2) To the extent moneys are received by the District representing any legislative appropriation or grant, federal or state, for purposes of deposit to the General Revenue Fund, the Debt Service Fund or the Debt Service Reserve, or for the defrayal of Operation and Maintenance Costs, such funds shall be promptly transmitted by the District to the appropriate depository for deposit to the Fund or Account so specified.

(3) The District shall cause all moneys received as such income and revenues, and as such Pledged Receipts as set forth in the statement of account, to be transferred from the General Revenue Fund and deposited to the following Accounts and Funds in the amounts hereinafter stated and in the prescribed sequence:

**FIRST:** Into the Interest Account within the Debt Service Fund such an amount as when added to the amount then on deposit therein will equal the interest on all Outstanding Bonds accrued and unpaid in respect of the next Interest Payment Date.

**SECOND:** Into the Principal Account within the Debt Service Fund such an amount as when added to the amount then on deposit therein will equal the Principal Installments accrued and unpaid in respect of the next Principal Installment Date.

**THIRD:** Into the Debt Service Reserve such amount as is necessary so that the amount on deposit therein will equal the Aggregate Debt Service Reserve Requirement.

**FOURTH:** Into the Operation and Maintenance Fund, (i) the amount of moneys needed and required prior to the tenth day of the succeeding month to pay reasonable and necessary Operation and Maintenance costs in accordance with the Annual Budget (the "Monthly Requirement") together with (ii) such proportionate amounts as will, during the twenty-four months following the issuance of any Series of Bonds, together with sums then on deposit in said Fund, equal estimated and budgeted Operation and Maintenance Costs for one (1) month, such additional sums to be held as an operational reserve and expended as required, subject to replacement in the same manner, if so expended.

**FIFTH:** Into the Improvement, Repair and Replacement Fund, all amounts remaining.

(4) Moneys in the General Revenue Fund shall be invested by the District, in Investment Obligations maturing no later than the tenth (10th) day of the month next succeeding the month that the depository last made deposits as provided in subsection (3) hereof, and except for such investments, shall be used only to make the deposits as provided for in this Section. All investments made by the District in any Fund or Account created by this General Bond Resolution shall be made upon written order issued by two members of the Board of Commissioners of the District.

505. Debt Service Fund. (1) The Debt Service Fund shall be maintained by the District in the appropriate depository so long as any of the Bonds authorized or permitted to be issued by this General Bond Resolution remain outstanding; and all moneys deposited in the Debt Service Fund from time to time shall be used, disbursed and applied, and are irrevocably pledged solely for the purpose of paying the principal of, interest on, and sinking Fund installments in respect of all such Bonds as may be issued and outstanding from time to time pursuant to the provisions of this General Bond

Resolution, including future parity Bond Series. Funds in the Debt Service Fund may, from time to time, at the option of the District, be used and employed to purchase sufficient term Bonds, if any be outstanding, to satisfy a Sinking Fund installment due within the next succeeding twelve (12) months. The District shall direct the depository to, and the depository shall, pay out of the Interest Account to any Paying Agents for any of the Bonds (a) on the day preceding each Interest Payment Date, the amounts required for the payment of interest on the Outstanding Bonds due on such date, and (b) on the date preceding the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Bonds redeemed or purchased for retirement unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments.

(2) The District may invest the moneys in the Interest Account in Investment Obligations so that the maturity date or date of redemption at the option of the holder shall be on or before the Interest Payment Date next succeeding the date upon which such investment is made.

(3) The District shall direct the depository to, and the depository shall, pay out of moneys credited to the Principal Account to the respective Paying Agents on the day preceding each Principal Installment Date for any of the Outstanding Bonds, the amounts required for the payment of principal due on such date and such amounts shall be applied by the Paying Agents to such payments.

(4) The amount accumulated in the Principal Account for each Sinking Fund Installment may, at the option of the District, be applied (together with amounts accumulated in the Interest Account with respect to interest on the Bonds for which such Sinking Fund Installment was established) by the District prior to the forty-fifth (45th) day preceding the due date of such Sinking Fund Installment, as follows:

(a) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price payable from Sinking Fund Installments for such Bonds when such Bonds are redeemable by application of said Sinking Fund Installments, plus unpaid interest accrued to the date of purchase, such purchases to be made in such manner as the District shall determine, or

(b) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in Clause (a) hereof.

As soon as practicable after the forty-fifth (45th) day preceding the due date of any such Sinking Fund Installment, the District shall proceed to call for redemption, pursuant to Section 603, on such due date, Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such Sinking Fund Installment of the Bonds of such Series and maturity. The District shall so call such Bonds for redemption whether or not it then has moneys in the Principal Account sufficient to pay the applicable Redemption Price thereof, to the Redemption Date. The District shall direct the depository to, and the depository shall, pay out of such Principal Account to the appropriate Paying Agents, on the day preceding each such Redemption Date, the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(5) The District may invest the moneys in the Principal Account in Investment Obligations so that the maturity date or date of redemption at the option of the holder shall be on or before the Principal Installment Date next succeeding the date when such investment is made.

506. Debt Service Reserve. (1) There shall be deposited to the credit of the Debt Service Reserve (a) all Pledged Receipts from the General Revenue Fund required to be deposited therein by this General Bond Resolution, (b) all moneys received on account of or in connection with Investment Obligations credited to the Debt Service Reserve as in this Section provided, and (c) all Bond proceeds required by Series Resolution to be deposited in said Debt Service Reserve.

(2) The Debt Service Reserve is pledged to and shall be used for the payment of principal of, interest on, and Redemption Price, if any, in respect of any Outstanding Bond as to which there would otherwise be a default in payment, and sums in the Debt Service Reserve shall be transferred to other Funds and Accounts in a timely manner upon due certification as provided in subsection (3) of this Section in order to effectuate the intent of this Section and the purposes of the Debt Service Reserve. In the event that amounts in the Debt Service Reserve are reduced below the Aggregate Debt Service Reserve Requirement, the deficiency in the Debt Service Reserve shall be cured from the first available revenues.

(3) The District shall cause the depository from time to time to transfer or pay out moneys in the Debt Service Reserve for the purpose of making payments and transfers to other Funds and Accounts pursuant to subsection (2) hereof upon receipt by said depository of a check or other bill of exchange executed by two members of the Board of Commissioners stating with respect to each payment or transfer to be made:

(a) the Account or Fund to which the payment or transfer is to be made,

(b) the purpose of the payment or transfer, and

(c) the amount to be paid.

(4) Sums from time to time in the Debt Service Reserve shall be continuously invested upon direction of the District, in Investment Obligations. The District shall sell at the best price obtainable, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary in order to provide moneys to effectuate the purposes of the Debt Service Reserve.

(5) Any interest earned or sums realized as a result of investment of moneys in the Debt Service Reserve in Investment Obligations shall accrue to, and be a part of, said Debt Service Reserve; provided, however, that so long as the Debt Service Reserve contains the Aggregate Debt Service Reserve Requirement, any such interest earned or sums realized shall be transferred, as received, to the General Revenue Fund.

(6) In lieu of the deposit of funds in the Debt Service Reserve, the District may obtain a Debt Service Reserve Guaranty. Any Debt Service Reserve Guaranty shall be considered a deposit of funds in the Debt Service Reserve equal to the Debt Service Reserve Coverage provided by the Debt Service Reserve Guaranty Agreement.

As conditions precedent to delivery of a Debt Service Reserve Guaranty, the District shall obtain (i) a Debt Service Reserve Guaranty, (ii) an opinion of counsel addressed to the District stating that the delivery of such Debt Service Reserve Guaranty to the District is authorized under the General Bond Resolution, as amended, and complies with the terms thereof, and (iii) written evidence from a Rating Agency, if the Bonds are rated by such Rating Agency, that the Rating Agency has reviewed the proposed Debt Service Reserve Guaranty and that (x) the issuance of the Debt Service Reserve Guaranty to the District and (y) if a Debt Service Reserve Guaranty is then in effect with respect to the Debt Service Reserve, the substitution of the proposed Debt Service Reserve Guaranty for the Debt Service Reserve Guaranty then in effect, will not, by itself, result in a reduction or withdrawal of its rating on the Bonds. If the Bonds are insured by a bond insurer, the references to Rating Agency in the prior sentence shall be read to mean such bond insurer and the substitution of the proposed Debt Service Reserve Guaranty shall not result in the cancellation of the bond insurance provided by such Bond Insurer.

"Debt Service Reserve Guarantor" means the issuer of a Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty" means a letter of credit, surety bond or similar arrangement representing the irrevocable obligation of the Debt Service Reserve Guarantor to pay to the District upon request made by the District up to an amount stated therein for application as provided in this Section 506.

"Debt Service Reserve Guaranty Agreement" means the reimbursement agreement, loan agreement or similar agreement between the District and a Debt Service Reserve Guarantor with respect to repayment of amounts advanced under the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Coverage" means the amount available at any particular time to be paid to the District under the terms of the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Limit" means the maximum aggregate amount available to be paid to the District under the terms of a Debt Service Reserve Guaranty.

"Rating Agency" means either Moody's Investors Service, Inc. or Standard & Poor's Corporation, both corporations and organized under the laws of the States of Delaware and New York, respectively, and their successors and assigns.

507. Operation and Maintenance Fund. (1) The Operation and Maintenance Fund shall be used to pay the reasonable expenses of operating, maintaining and repairing the Public Water System and for paying Operation and Maintenance Costs. There shall be paid into the Operation and Maintenance Fund the amounts required to be so paid by the provisions of the 1985 General Bond Resolution, and there may be paid into the Operation and Maintenance Fund any moneys received by the District from any other source, unless required to be otherwise applied as provided by this General Bond Resolution.

(2) Subject to the provisions and requirements of subsection (3) of Section 504, moneys in the Operation and Maintenance Fund shall be withdrawn and paid out from time to time by the District for the purpose of paying reasonable or necessary Operation and Maintenance Costs and when so withdrawn and paid out shall be free and clear of any lien, pledge or assignment in trust created by this General Bond Resolution, provided, however, the District may at any time withdraw moneys from the Operation and Maintenance Fund and deposit such moneys into any other Funds or Accounts created by this General Bond Resolution, other than the Improvement, Repair and Replacement Fund.

(3) Amounts in the Operation and Maintenance Fund may, in the discretion of the District, be invested in Investment Obligations maturing in such amounts and at such times as may be necessary to provide funds when needed to pay Operation and Maintenance Costs. The District may, and to the extent required for payments from the Operation and Maintenance Fund shall, sell at the best price obtainable, or duly present for redemption, any such Investment Obligations at any time, and the proceeds of such sale and of all payments at maturity and upon redemption of such Investment Obligations shall be held in the Operation and Maintenance Fund and unless otherwise transferred or expended pursuant to the provisions of this Section shall be applied to reduce the next succeeding Monthly Requirement.

508. Improvement, Repair and Replacement Fund. (1) The Improvement, Repair and Replacement Fund shall be available and shall be utilized to balance depreciation, to make unforeseen major repairs and replacements of the Public Water System and to pay the costs of constructing additions, extensions, betterments and improvements to the Public Water System which will either increase income and revenues or provide a higher degree of service. There shall be deposited or transferred to the Improvement, Repair and Replacement Fund any moneys required to be deposited or transferred thereto by the provisions of Section 504 hereof.

(2) In addition, there shall be transferred to and deposited in the Improvement, Repair and Replacement Fund any other moneys:

(a) received by the District from any other source and duly determined and ordered by the District to be deposited therein, unless required to be otherwise applied as provided by this General Bond Resolution,

(b) for which the District has exercised a discretion to so deposit or transfer as permitted by this Resolution, and

(c) ordered to be so deposited from the proceeds of any Series of Bonds, pursuant to a duly adopted Series Resolution.

(3) Within ninety (90) days following the end of each calendar year all amounts in the Improvement, Repair and Replacement Fund in excess of \$2,500,000 shall be expended and applied upon written direction of the District signed by two members of the Board of Commissioners of the District from time to time only:

(a) for making up any deficiency existing at any time in the minimum amounts required to be on hand in the Debt Service Fund and the Debt Service Reserve as provided by this Resolution.

(b) for the redemption of Bonds, in whole or in part, as provided in Article VI of this Resolution.

(c) for the payment of Principal Installments of and interest on Bonds when due, without limitation,

(d) for transfer and deposit to the Operation and Maintenance Fund, or

(e) for investment in Investment Obligations which shall be a part of the Improvement, Repair and Replacement Fund.

(4) Any Investment Obligation credited to the Improvement, Repair and Replacement Fund may be sold at any time by the District, upon written direction by two members of the Board of Commissioners of the District in order to provide moneys for any of the purposes described in subsection (3) hereof.

(5) To the extent that other moneys will not be available for the payment of Principal Installments of and interest on Bonds when due, any Investment Obligation credited to the Improvement, Repair and Replacement Fund shall be sold by the District, upon written direction by two members of the Board of Commissioners of the District and the proceeds of such sales shall be deposited in the Debt Service Fund.

(6) The depository shall from time to time pay out or permit the withdrawal of moneys from the Improvement, Repair and Replacement Fund for the purpose of making payments pursuant to subsection (3) hereof upon receipt by said depository of a check or bill of exchange executed by two members of the Board of Commissioners of the District stating the following with respect to each payment to be made:

(a) the Fund from which the payment is to be made,

(b) the name of the person or party to whom the payment is to be made, and

(c) the amount to be paid.

509. Investment of Funds. Except as otherwise provided for in this General Bond Resolution:



(a) Investment Obligations purchased as an investment of moneys in any Fund or Account held by the District or the depository under the provisions of this General Bond Resolution shall be deemed at all times to be a part of such Fund or Account and the income or interest earned, gains realized or losses suffered by a Fund or Account due to the investment thereof shall be retained in, credited or charged thereto as the case may be, subject, in the case of the Debt Service Reserve, to the provisions of Section 506(5) hereof; provided that escrow agreements may provide otherwise.

(b) In computing the amount in all Funds, including the Accounts thereof, Investment Obligations purchased as an investment of moneys therein, shall be valued at the lesser of cost or fair market value. Valuation as of any date of computation shall include the amount of interest or gain realized to such date.

(c) The District shall sell at the best price obtainable, or present for redemption or exchange, any Investment Obligation purchased by it as an investment pursuant to this General Bond Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made. The depository shall advise the District in writing, on or before the twentieth day of each calendar month, of the details of all Investment Obligations held for the credit of each Fund or Account in its custody under the provisions of this General Bond Resolution as of the end of the preceding month. The depository shall review and advise the District annually on the nature and value of investments in each Fund or Account. In the event that Investment Obligations in the Debt Service Reserve fall below the level required by this General Bond Resolution, the depository shall notify the District and the District shall cure such deficiency as provided in Section 506(2) hereof.

510. Notes and Other Obligations. (1) The District may, at any time or from time to time, issue notes, bonds and other obligations having such terms and provisions and secured by a pledge of such funds as the resolution authorizing the same shall provide; provided, however (except as otherwise provided in subsection (2) of this Section), that any pledge of any Fund or Account created under this General Bond Resolution to the holders of any such notes, bonds or other obligations shall be, and shall be expressed to be, subordinate in all respects to the pledge created under this General Bond Resolution for the benefit of the holders of Bonds issued under this General Bond Resolution.

(2) Whenever the District shall have by Series Resolution authorized or made provision for the authorization of, the issuance of a Series of Bonds, the District may by resolution authorize the issuance of Notes in anticipation of the sale of such Series in a principal amount not exceeding the principal amount of such Series. The principal or any interest on such Notes and renewals thereof shall be payable from other moneys of the District available therefor and not pledged under this General Bond Resolution, including, but not by way of limitation, Investment Obligations purchased from Note proceeds. The principal on such Notes shall also be payable from the proceeds of the sale of the Series of Bonds in anticipation of which such Notes are issued. Such proceeds may be pledged for the payment of the principal of such Notes and any such pledge shall have priority over any other pledge created by this General Bond Resolution. The proceeds of sale of such Notes shall be applied to the purposes for which such Notes are authorized, and, if the resolution or resolutions authorizing such Notes so provide, to the payment of interest and other costs in connection with the sale and issuance of such Notes.

## ARTICLE VI

### REDEMPTION OF BONDS

601. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to a Series Resolution shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such terms as may be specified in the Series Resolution authorizing such Series.

602. Redemption at the Election or Direction of the District. In the case of any redemption of Bonds otherwise than as provided in Section 603, the District shall give written notice to the depository of the Debt Service Fund of its election so to redeem, of the Redemption Date, of the Series, of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by the District in its sole discretion, subject to any limitations with respect thereto contained in this Resolution and any Series Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least 45 days prior to the Redemption Date or such shorter period as shall be acceptable to the depository of the Debt Service Fund. In the event notice of redemption shall have been given as in Section 605 provided, the depository of the Debt Service Fund shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any available

therefore held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof, all of the Bonds to be redeemed.

603. Selection of Bonds to be Redeemed by Lot. In the event of redemption of less than all the Outstanding Bonds of like Series and maturity, the District shall assign to each such Outstanding registered Bond a distinctive number for each \$5,000 of the principal amount of such Bond and shall select by lot, using such method of selection as it shall deem proper in its discretion, as many numbers as, at \$5,000 for each number shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the registered Bonds to which were assigned numbers so selected; provided, however, that only so much of the principal amount of each such registered Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purpose of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding.

6.04 Notice of Redemption. The District shall give notice in the name of the District of the redemption of Bonds determined by the District to be redeemed, which notice shall specify the Series and maturities of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed and, in the case of registered Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such Date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such Redemption Date interest thereon shall cease to accrue and be payable. The District shall mail a copy of such notice, postage prepaid, registered mail, not less than thirty (30) days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books.

605. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 604, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with an assignment duly

executed by the registered owner or his duly authorized attorney, and, in the case of coupon Bonds, if any, all appurtenant coupons maturing subsequent to the Redemption Date, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest accrued and unpaid to the Redemption Date not represented by coupons for matured interest installments. All interest installments represented by coupons which shall have matured on or prior to the Redemption Date shall continue to be payable to the bearers of such coupons. If there shall be drawn for redemption less than all of a registered Bond, the District shall execute and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the registered Bond so surrendered at the option of the owner thereof, either coupon Bonds (subject to the requirements of Section 303a hereof) or registered bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by any Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable, and the coupons for interest appertaining thereto maturing subsequent to the Redemption Date shall be void. If said moneys shall not be so available on the Redemption Date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

## ARTICLE VII

### PARTICULAR COVENANTS OF THE DISTRICT

701. Effect of Covenants. The District hereby particularly covenants and agrees with the Holders of the Bonds and coupons, and makes provisions which shall be a part of the contract with such Holders, to the effect and with the purposes set forth in the following Sections of this Article.

702. Payment of Bonds. The District shall duly and punctually pay or cause to be paid from the moneys and assets herein pledged, the principal of or Redemption Price, if any, of every Bond and the interest thereon, at the date and places and in the manner mentioned in the bonds and in the coupons thereto appertaining, if any, according to the true intent and meaning thereof, and shall duly and punctually pay or cause to be paid all Sinking Fund Installments, if any, becoming payable with respect to any Series of Bonds, but solely from the moneys pledged pursuant to this Resolution.

703. Offices For Servicing Bonds. The District shall at all times maintain or cause to be maintained an office or agency where notices, presentations and demands upon the District in respect of the Bonds and coupons, if any, or of this Resolution may be served. The District hereby designates the Registrars' principal offices as the offices for the registration, transfer or exchange of Bonds. The District hereby appoints the Paying Agents and Registrars as its respective agents to maintain such offices or agencies for the payment of Bonds and coupons, if any, as may be stipulated in any Series Resolution.

704. Further Assurance. At any time and all times the District shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the District may hereafter become bound to pledge or assign.

705. Powers as to Bonds and Pledge. The District is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the Resolution and to pledge the income, revenues and assets pledged by the Resolution in the manner and to the extent provided in the Resolution. The income, revenues and assets so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all official action on the part of the District to that end has been duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable special obligations of the District in accordance with their terms and the terms of the Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the income, revenues and assets pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

706. Tax Covenant. (1) In this Section and Section 707 unless a different meaning clearly appears from the context:

(a) "Code" means the Internal Revenue Code of 1954 of the United States of America, Title 26 of the United States Code as amended to the date of adoption of the Resolution or as hereafter amended, including valid Regulations of the Department of the Treasury thereunder and Rulings of the Commissioner of the Internal Revenue Service to the District thereunder.

(b) Reference to a provision of the Code by number or letter includes reference to any law hereafter enacted as an amendment to or substitute for such provision;

(c) Words which are used herein and in Section 103 of the Code shall have the meaning given to such words in or pursuant to said Section.

(2) The District shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the Bonds shall, for the purposes of Federal income taxation, be exempt from income taxation under any valid provision of law; provided, however, that the District shall not be in default of this covenant solely by reason of the purchase of any Bonds by a person referred to in Section 103(b) (13) of the Code.

(3) The District shall not permit at any time or times any of the proceeds of the Bonds or other funds of the District to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in subsection (c) of Section 103 of the Code as then in effect and to be subject to treatment under subsection (c) (1) of said Section as an obligation not described in subsection (a) (1) of said Section, unless, under any valid provision of law hereafter enacted, the interest paid by the District on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the provisions of subsection (c) of Section 103 of the Code.

(4) In order to assure compliance with this Section, thereby better securing and protecting the Bonds and the District, the District from the date of adoption of the Resolution covenants that it shall not:

(a) make any investment in connection with the Public Water System that produces a yield in excess of such applicable maximum yield as may be permitted by the Code, and

(b) invest or direct any depository to invest moneys in any Fund or Account created by the Resolution in Investment Obligations, respectively that produces a yield in excess of such applicable maximum yield as may be permitted by the Code.

(c) The District further covenants prior to the issuance of said Bonds and as a condition precedent to such issuance, the District shall certify by issuance of a certificate, supplemental to any Series

Resolution by an Authorized Officer having responsibility for such Bonds and the administration of District Revenues, that on the basis of the facts, estimates, and circumstances in existence on the date of issue of said Series of Bonds it is not expected that the proceeds of said issue of Bonds will be used in a manner that would cause such obligations to be arbitrage bonds. Such certificate shall recite in detail the facts, circumstances and estimates upon which the certificate is based.

707. Accounts and Reports. The District shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Public Water System, and all Funds and Accounts established by this Resolution, which shall at all reasonable times be subject to the inspection of the Holders of an aggregate of not less than five percentum (5%) in principal amount of bonds then Outstanding or their representatives duly authorized in writing.

708. General Compliance With All Duties. The district shall faithfully and punctually perform all duties with reference to said Public Water System required by the Constitution and laws of the Commonwealth of Kentucky, Chapter 74 and Sections 96.350 to 96.510, inclusive, of the Kentucky Revised Statutes, and by the terms and provisions of the Resolution.

709. Operation and Maintenance; No Free Service. The District shall at all times lawfully maintain and operate said Public Water System and all extensions thereto on a revenue-producing basis, and will provide no free water services to any person. From and after the issuance of any Bonds, the District will not initiate and commence service to any person without charging in full for services rendered in accordance with its prescribed and current schedule of rates, rentals and charges. The District shall further maintain the said Public Water System in good condition through application of Pledged Receipts accumulated and set aside for operation and maintenance, as provided in the Resolution; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of Pledged Receipts accumulated and set aside for such purposes.

710. Public Water System Not to Be Disposed Of. The District covenants and agrees that, so long as any Bonds are Outstanding, it will not sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the Public Water System or any part thereof (except that the District may retire obsolete and worn out facilities, and sell same, if appropriate), depositing the sale

price to the funds maintained by the District for replacements and extension of the Public Water System; and, except as provided for in the Resolution, it will not create or permit to be created any charge or lien on the Pledged Receipts ranking equal or prior to charge, or lien of the Bonds.

711. Rates and Charges; Coverage; Annual Budget. The District shall at all times establish, enforce and collect rates, rentals, and charges for services rendered and facilities afforded by said District works and facilities constituting the Public Water System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the Public Water System, the costs of operating the same and maintaining the same in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all Outstanding Bonds and the accruing interest thereon, and the accumulation and maintenance of reserves as provided in the Resolution; and such rates and charges shall be adequate to meet all such requirements as provided in the Resolution, and shall, if necessary, be adjusted from time to time in order to comply therewith (subject to such regulatory approvals as may be required by law); and annual revenue from such rates, rentals and charges shall be further adequate to provide, after fulfillment of all contractual obligations required of the District incident to the Bonds, including accumulation and maintenance of all reserves required by the Resolution, and after payment of Operation and Maintenance Costs as provided in the Annual Budget of the Public Water System 1.20 times coverage of annual principal, interest, and Sinking Fund requirements on all Bonds, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the first day of each calendar year, so long as any Bonds authorized or permitted to be issued by the Resolution are outstanding, the District will adopt an Annual Budget of Current Expenses for the ensuing calendar year, and will promptly file a copy of each such Budget, and of any amendments thereto, in the Office of the Secretary of the District, and will furnish copies thereof to any holder of any Bond upon request. The term "Current Expenses" as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining and insuring the Public Water System, allowances for depreciation on all plant, but shall exclude expenditures for extensions, improvements and extraordinary repairs and maintenance, and payments into the Debt Service Fund, and the Debt Service Reserve. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the total amount provided



for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Board determining that such expenses are necessary in order to operate and maintain the Public Water System. At the same time, and in like manner, the District agrees that it will prepare an estimate of gross income and revenue to be derived from operation of the Public Water System for such calendar year, and to the extent that said gross income and revenues are insufficient to meet all requirements as provided in this Resolution, the District covenants and agrees that it will immediately (subject to regulatory approvals as required by law) revise its rates, rentals and charges for services rendered by the District's works and facilities, so that the same will be adequate to meet all of such requirements.

712. No Decrease in Rates, Rentals and Charges. The District shall not at any time make any reduction in any prevailing schedule of rates, rentals and charges for use of the services and facilities of the District without first obtaining the written determination of a Consulting Engineer of National Recognition in the Field of Water Engineering to the effect that the proposed reduction will not adversely affect the ability of the District to meet all the requirements and covenants set forth in this General Bond Resolution. Notwithstanding the foregoing, the District shall make any reductions required by the Public Service Commission.

713. Segregation of Funds. The District shall at all times account for the income and revenues of the Public Water System and distinguish same from all other revenues, moneys and funds of the District, if any, and will promptly and regularly make application and distribution thereof into the special funds identified in and created by the Resolution, in the manner and with due regard for the priorities herein attributed thereto.

714. Annual Audit Required. The District shall, within sixty (60) days after the end of each calendar year, cause an audit to be made of the books of record and account pertinent to the Public Water System, and a report on such audit to be issued by an independent state-licensed certified public accounts accountant, reflecting in reasonable detail and the financial condition and results of operations of the Public Water System, including the status of the required insurance and fidelity bonding, as provided by this General Bond Resolution, the current rates, rentals and charges of the District and coverage ratios as set forth in Section 711 hereof, with comments of the certified public accountant concerning compliance with all provisions and requirements of this General Bond Resolution, such audit to be in accordance with generally accepted governmental accounting principles, and will promptly cause a copy of the audit report of said

certified public accountant to be submitted to the Board for review, and when received and approved by the Board, to be filed in the Office of the Secretary of the District, where it will be available for public inspection, and will promptly mail a copy thereof to the original purchaser or purchasers of any Series of Bonds issued pursuant to this General Bond Resolution. If requested to do so, the District will furnish to any Bondholder a condensed form of the balance sheet, and a condensed form of the operating report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the Public Water System, and may be paid for District Revenues allocated for such purposes, as herein provided.

715. Fidelity Bonding of Personnel. The District shall cause each officer or other person (other than depository banks) having custody of any moneys administered under the provisions of the Resolution to be bonded at all times in an amount at least equal to \$25,000; each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Board, and the premiums for such surety shall constitute a proper expense of operating the Public Water System.

716. Insurance of Facilities. The District covenants and agrees that so long as any Bonds are outstanding, it will keep all buildings and all machinery and equipment therein constituting a part of the Public Water System and, to the extent possible, all other facilities of the Public Water System which are insurable, insured against loss or damage by fire, lightning, windstorm, vandalism and malicious mischief, together with coverage against the perils normally and regularly insured against in standard "extended coverage" protection, under a policy or policies of a responsible insurance company or companies authorized and qualified under the laws of Kentucky to assume such risks. Coverage of such insurance shall be for not less than ninety percentum (90%) of the insurable value, or the total principal amount of Bonds outstanding, whichever sum is the lesser, subject to the deduction from such loss or damage (except in the case of a total loss) of not more than five percentum (5%) of such insurable value, nor more than Twenty-Five Thousand Dollars (\$25,000).

717. Liability Coverage Required. The District shall carry public liability, vehicular insurance, and property damage insurance covering such risks and for such amounts as the Board determines from time to time to be necessary or advisable by reason of the character and extent of operations of the District. However, at a minimum, the District shall carry such insurance insuring the District against losses

occasioned by bodily injury in the amount of \$500,000 for each occurrence with a total maximum insurance coverage of \$500,000, and in respect of property damage in the amount of \$100,000 for each occurrence with a maximum total insurance coverage of \$100,000. If obtainable, the District may (but need not) carry loss of use and occupancy insurance, and war risk insurance. The proceeds of any and all such insurance, other than public liability and property damage, are hereby pledged as security for the Bonds issued pursuant to the Resolution until such proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, by repairing or replacing the property damaged or destroyed.

718. Public Water System Improvements To Be Expeditiously Completed. When any Series of Bonds are issued, the District shall cause the work thereby to be acquired to be constructed and installed as rapidly and expeditiously as good business practice dictates, and will use and employ its best efforts to prevent delay in the prompt fulfillment of any such work.

719. Personnel and Servicing of Program. (1) The District shall at all times appoint, retain and employ personnel for the purposes of administering and managing the Public Water System and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by the District shall be qualified for their respective positions.

(2) The District may pay to any state agency, municipality, political subdivision or governmental instrumentality of the state from the Operation and Maintenance Fund such amounts as are necessary to reimburse such state agency, municipality, political subdivision or governmental instrumentality of the state for the reasonable costs of any services performed for and on behalf of the District, if any.

(3) The District shall in a timely manner file all reports, including quarterly reports, with the Public Service Commission of Kentucky as may, from time to time be required by law, and shall prepare and file such other reports and documents as shall in the future be required by law, including administrative regulations promulgated by any agency of the federal government or the Commonwealth of Kentucky having jurisdiction.

720. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by the Resolution or a Series Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds, shall exist,

shall have happened and shall have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of the District, shall be within every debt and other limit prescribed by law.

721. General. The District shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the District under the provisions of the Act and the Resolution in accordance with the terms of such provisions.

722. Waiver of Laws. The District shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in any Series Resolution or Supplemental Resolution or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the District.

723. Termination of Water Services to Delinquent Users. The District covenants and agrees that it shall, pursuant to the provisions of KRS 74.367 and any other applicable provisions of law, to the maximum extent authorized by law enforce and collect the schedule of rates, rentals and charges imposed upon users of the District's works and facilities constituting the Public Water System, and will promptly cause water service to be discontinued to any premises where such District bill for such facilities and services shall not be paid in full.

724. Extension of Payment of Bonds. The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest, or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled in case of any default under the Resolution to the benefit of the General Bond Resolution or to any payment out of any assets of the District or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the General Bond Resolution) held by any Fiduciary except subject to the prior payment of the principal of all Bonds issued and Outstanding, the maturity of which has occurred and has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing herein shall be deemed to limit the right of the District to issue bonds as provided in this General Bond Resolution, and such issuance shall not be deemed to constitute an extension of the maturity of any Bond or of the time of payment of any claim for interest.

725. Statutory Mortgage Lien. For the further protection of the holders of the Bonds authorized to be issued by this General Bond Resolution, a statutory mortgage lien upon all properties of the District and extensions thereof and belonging thereto, including the Public Water System, is granted and created by Chapter 74 and Section 96.400 of the Kentucky Revised Statutes, which said mortgage lien is hereby recognized and declared to be valid and binding upon the District and all its property as provided by law, and shall take effect immediately upon the delivery of any Bonds authorized to be issued under the provisions of this General Bond Resolution.

726. Parity Bond Provisions Adopted. From and after the issuance and delivery of any of the Bonds authorized or permitted to be issued by this General Bond Resolution, said General Bond Resolution shall constitute the sole and exclusive method for the issuance of any Bonds by the District, and any further Series of Bonds of the District payable from the Pledged Receipts shall be authorized and issued solely pursuant to authority of this General Bond Resolution.

The Bonds authorized to be issued by this General Bond Resolution and from time to time outstanding, together with any additional Bonds ranking on a parity therewith issued under the conditions and restrictions of this section, shall not be entitled to priority one over the other in the application of the Pledged Receipts or the security for payment thereof, regardless of the time or times of their issuance it being the intention that there shall be no priority amount such Bonds regardless of the fact that they may be actually issued and delivered at different times.

Said District hereby reserves the right and privilege of issuing additional Series of Bonds from time to time payable from the Pledged Receipts of the Public Water System on a basis of parity and equality with all other parity Bonds authorized to be issued by this General Bond Resolution in order to (a) reconstruct, repair and improve the District's Public Water System; (b) make, acquire, construct and install additions, extensions, betterments, or improvements thereto; (c) acquire existing waterworks and water distribution systems from any person, if said waterworks and water distribution systems are revenue-producing; and (d) refund any bonds outstanding, provided in each instance that:

(i) the facility or facilities to be acquired, constructed, reconstructed or improved from the proceeds of the additional parity Bonds is or are made an integral part of the District's Public Water System and its or their income and revenues are pledged as additional security for the additional parity Bonds and the outstanding Bonds;

(ii) the District is in compliance with all covenants and undertakings in connection with all of its Bonds then outstanding and payable from the Pledged Receipts; and

(iii) the net annual income and revenues of the Public Water System for a period of twelve (12) consecutive months of the fifteen (15) months immediately prior to the issuance of said parity Bonds, are certified in writing by an independent firm of state-licensed Certified Public Accountants (subject to adjustments as hereinafter provided) to have been equal to at least one and twenty hundredths (1.20) times the maximum Annual Debt Service Requirement coming due in any future 12-month period beginning February 1 and ending January 31 on all Bonds outstanding payable from Pledged Receipts, together with the parity Bonds then to be issued.

The words "net annual income and revenues" as used in this Section are defined as Pledged Receipts of the District, less Operation and Maintenance Costs for the same period, which shall include salaries, wages, costs of maintenance and operation, materials and supplies, administration and insurance (specifically excluding depreciation) and all other items that are normally and regularly so included under generally accepted accounting principles.

With reference to the requirements of subparagraph (iii) of this Section 726, the amount of Pledged Receipts, and the "net annual income and revenues" of the Public Water System as that term is herein defined, may be adjusted in writing by a firm of independent state-licensed Certified Public Accountants, which firm shall be the firm performing the certification required by subparagraph (iii) of this Section 726, to reflect and take into account for the historical period being tested, any revision in the schedule of water rates, rentals and charges either (i) being actually imposed and billed by the District at the time of issuance of such additional parity Bonds, or (ii) approved by the Public Service Commission of Kentucky or its successor at the time of issuance of such additional parity Bonds, and, (iii) where bonds are refunded, the additional available "net income and revenues" of the Public Water System released as a result thereof.

The amount of Pledged Receipts and the "net annual income and revenues" of the Public Water System, as that term is herein defined, may also be adjusted in writing by a Consulting Engineer of National Recognition, to take into account and reflect for the historical period being tested, the amount of additional net income and revenues to be realized by the District by virtue of the acquisition by the District of

existing and operating waterworks and water distribution facilities. A further adjustment may be made by adding thereto an estimate of the said engineer of the increase in operating revenues anticipated to be derived from the additions, extensions, replacements and betterments to be financed by the additional bonds then being authorized, for the first twelve months following issuance of said bonds, less said engineer's estimate of any additional expenses of operation and maintenance during said twelve months. Additionally, an adjustment thereunder may take into consideration revenues to be generated by virtue of contractual relationships between the District and other municipal corporations or other entities, either governmental or private, which contracts must extend for the life of the Bonds, where such income and revenues are historically determinable, for the period being tested, namely, 12 consecutive months of the 15 months immediately prior to issuance of parity bonds. Provided, however, that any such adjustment by such Consulting Engineer of National Recognition shall take into account only such income and revenues as would have been derived during the historical period being tested had the valid and lawful schedule of rates, rentals and charges of the District which is in effect at the time of issuance of parity Bonds been charged during such historical period being tested, and such adjustments shall also take into account all Operations and Maintenance Costs for such historical period being tested.

The District hereby covenants and agrees that in the event additional Series of parity Bonds are issued, it shall:

(a) adjust the monthly deposits into the Debt Service Fund on the basis prescribed in the Resolution to reflect the Annual Debt Service on the additional parity Bonds; and

(b) adjust the prescribed amount to be accumulated in the Debt Service Reserve in accordance with the provisions of the Resolution (the "Aggregate Debt Service Reserve Requirement"), and fund from such parity Bonds said additional Debt Service Reserve Requirement pursuant to the prescribed formula.

The additional parity Bonds (sometimes herein referred to as "permitted" to be issued) the issuance of which is herein conditioned and restricted, shall be understood to mean Bonds payable from the Pledged Receipts on a basis of parity and equality with the Bonds initially issued pursuant to the Resolution, and shall not be construed to include other bonds or obligations, the security and source of payment of which are subordinate and subject to the priority of the Bonds herein authorized to be issued. The District expressly reserves the right to issue its bonds or other obligations payable from the revenues herein pledged and not ranking on a basis of equality

and parity with the Bonds and parity Bonds herein otherwise described, without any proof of previous earnings or net revenues, but only if such bonds or other obligations are issued to provide for additions, betterments, extensions or improvements of the Public Water System, and only if the same are issued in express recognition of the priorities, liens and rights created and existing for the security and source of payment and protection of the said Bonds and parity Bonds herein authorized and permitted to be issued. In the event any of such subordinate lien securities are issued, the District reserves the right to authorize and issue subordinated Bonds to refund same, pursuant to the terms and conditions of this Section 726.

Provided, however, that nothing in this Section is intended or shall be construed as a restriction upon the ordinary refunding of the initially authorized Bonds and/or of any Bonds which may be issued and are outstanding under any of the provisions of the Resolution if such refunding does not operate to increase amortization requirements in any year to and including the final maturity of Bonds outstanding and not to be refunded, if any.

727. Effect of Defeasance. From and after the defeasance of the 1981 Bonds, the 1981 General Bond Resolution shall not govern the issuance of Bonds of the District.

## ARTICLE VIII

### SERIES RESOLUTION AND SUPPLEMENTAL RESOLUTIONS

801. Modification and Amendment Without Consent. Notwithstanding any other provision of this Article VIII, or Article IX, the District may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing thereof in the District's official records, certified by an Authorized Officer.

802. Supplemental Resolutions Effective With Consent of Bondholders. The provisions of this General Bond Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders, in accordance with and subject to the provisions of Article IX hereof, such Supplemental Resolution to become effective upon the obtaining of consent of the requisite percentages of Bondholders and the filing in the District's official records of a copy thereof certified by an Authorized Officer.



803. General Provisions Relating to Series Resolutions and Supplemental Resolutions. This General Bond Resolution shall not be modified or amended in any respect except in accordance with and subject to the provisions of this Article VIII and Article IX. Nothing contained in this Article VIII or Article IX shall affect or limit the rights or obligations of the District to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions of Section 704 or the right or obligation of the District to execute and deliver to any Fiduciary any instrument elsewhere in this General Bond Resolution provided or permitted to be delivered to any such Fiduciary.

A copy of every Series Resolution and Supplemental Resolution adopted by the District when filed with the District's official records shall be accompanied by a Counsel's Opinion stating that such Series Resolution or Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this General Bond Resolution and is valid and binding upon the District and enforceable in accordance with its terms.

No Series Resolution or Supplemental Resolution changing, amending or modifying any of the rights or obligations of any Fiduciary may be adopted by the District without the written consent of the Fiduciary affected thereby.

#### ARTICLE IX

##### AMENDMENTS OF GENERAL BOND RESOLUTION - FURTHER PROVISIONS

901. Modification or Amendment. Any modification or amendment of this General Bond Resolution and of the rights and obligation of the District and of the Holders of the Bonds and coupons hereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as hereinafter provided in Section 902, (1) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given (2) in cases where less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (3) in case the modification or amendment changes the amount or date of any Sinking Fund Installment of the Holders of at least two-thirds in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain

Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section; and provided, further, no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this General Bond Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The District may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series or maturity would be adversely affected by any modification or amendment of this General Bond Resolution and any such determination shall be binding and conclusive on the District and all Holders of Bonds. The District may receive an opinion of Counsel, including Counsel's Opinion, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of this General Bond Resolution.

902. Consent of Bondholders. The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 901 to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto) together with a request to Bondholders for their consent thereto, shall promptly after adoption be mailed by the District to Bondholders (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (1) there shall have been filed with the District (a) the written consents of the Holders of the percentages of Outstanding Bonds specified in Section 901 and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by the District in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon the District and enforceable in accordance with its terms. Each such consent shall be effective only if accompanied by proof of the holding at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. Any such consent shall be binding

upon the Holder of the Bonds giving such consent and, anything in Section 1202 to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange thereof (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the District, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 1202. The fact that a consent has not been revoked may likewise be proved by a certificate of the District to the effect that no revocation thereof is on file with the District. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the District shall make and file (a) in the official records of the District, accompanied by a Counsel's Opinion, as to the quality thereof, and (b) with each Fiduciary a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the District on a stated date) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section, shall be given to Bondholders by the District by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section provided) not more than ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statements of the Trustee hereinabove provided for are filed. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the District, each Fiduciary and the Holders of all Bonds and coupons, if any, at the expiration of thirty (30) days after the filing with each Fiduciary of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the District during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in its reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

903. Mailing. Any provision in this Article for the mailing of a notice or other document to Bondholders shall be fully complied with if it is mailed postage prepaid only (1) to

each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the Registrar, and (2) to each Holder of any Bond payable to bearer who shall have filed with the District or Paying Agent an address for notices.

904. Modifications by Unanimous Action.

Notwithstanding anything contained in Article VIII or in the foregoing provisions of this Article IX, the rights and obligations of the district and of the Holders of the Bonds and coupons, if any, and the terms and provisions of the Bonds or of this Resolution may be modified or amended in any respect upon the adoption of a Supplemental Resolution by the District and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in Section 902 except that no notice to Bondholders by mailing shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto in addition to the consent of the District and of the Bondholders.

905. Exclusion of Bonds. Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Resolution, and the District shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Resolution.

906. Notation on Bonds. Bond authenticated and delivered after the effective date of any action taken as in Article VIII or this Article IX provided may bear a notation by endorsement or otherwise in form approved by the District as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and upon presentation of his Bond for such purpose at the principal office of any Paying Agent, suitable notation shall be made on such Bond by such Paying Agent as to any such action. If the District shall so determine, new Bonds so modified as in the opinion of the District to conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds with all unpaid coupons, if any, appertaining thereto.

907. Contracts or Indentures. The District, in so far as authorized by law, may and if requested by any Fiduciary shall, enter into a contract or an indenture with any Fiduciary giving effect to any modification or amendment of the Bonds or of the Resolution as hereinabove in this Article IX provided.

## ARTICLE X

### DEFAULTS AND REMEDIES

1001. Events of Defaults. Each of the following events is hereby declared as "Event of Default," that is to say if:

(1) the District shall default in the payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise;

(2) payment of any installment of interest on any of the Bonds shall not be made when and as the same shall become due; or

(3) the District shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in this Resolution, any Series Resolution, any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Holders of not less than five percentum (5%) in principal amount of the Outstanding Bonds.

1002. Remedies. (1) Upon the happening and continuance of any Event of Default, the Holders of not less than twenty-five percentum (25%) in principal amount of the Outstanding Bonds, may proceed, in their own name, subject to the provisions of this Section 1002, to protect and enforce the rights of the Bondholders by such of the following remedies, as such Bondholders, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including (subject to regulatory requirements) the right to require the District to adopt, enforce, collect and receive water rates, rentals and charges adequate to carry out the covenants and agreements of the District in respect of production of minimum District Revenues and to require the District to carry out any and all other covenants or agreements with Bondholders and to perform its duties under the Act;

(b) by bringing suit upon the Bonds;

(c) by action or suit in equity, require the District to account as if it were the trustee of an express trust for the Holders of the Bonds;

(d) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds;

(e) by action or suit in equity, seek the appointment of a receiver who shall take charge of and administer the affairs of the District;

(f) by declaring all Bonds due and payable, and if all defaults shall be made good (excepting that in respect of acceleration of maturities), then, with the written consent of the Holders of not less than twenty-five percentum (25%) in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(g) in the event that all Bonds are declared due and payable and a receiver is appointed, by selling Investment Obligations and all other assets of the District (to the extent not theretofore set aside for redemption of Bonds for which call has been made), and by the taking over by the receiver of the Public Water System, and operating same as an adequate revenue-generating operation to the fullest legal extent in the name of the District for the use and benefit of the Holders of Bonds;

(2) In the enforcement of any rights and remedies under this Resolution, the Bondholders shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the District for principal, Redemption Price, interest or otherwise, under any provision of this Resolution or a Series Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Bondholders, and to recover and enforce a judgment or decree against the District for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purposes, in any manner provided by law, the moneys adjudged or decreed to be payable.

1003. Priority of Payments After Default. In the event that upon the happening and continuance of any Event of Default, the funds held by the Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons which have theretofore become due at maturity or by call for redemption) and any other moneys received or collected by the District acting pursuant to the Act and this Article X, after making provision for the payment of any

expenses necessary in the opinion of the District to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by any Registrar and any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

**FIRST:** To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

**SECOND:** To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by a call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, and such declaration shall not have been annulled, then, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds and coupons.

Whenever moneys are to be applied by the District pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time; having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purposes, shall constitute proper application, and the representative Bondholders or receiver shall incur no liability whatsoever, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the

representative Bondholders or receivers act with reasonable diligence, having due regard for the circumstances, and ultimately apply the same in accordance with such provisions of this Resolution as may be applicable at the time of application. Wherever the representative Bondholders or the receiver shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the representative Bondholders or the receiver shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The representative Bondholders or the receiver shall give such notice as it may deem appropriate for the fixing of any such date. The representative Bondholders or the receiver shall not be required to make payment to the Holder of any unpaid coupon or any Bond unless such coupon or such Bond shall be presented to the appropriate Paying Agent for appropriate endorsement or for cancellation if fully paid.

1004. Termination of Proceedings. In case any proceedings taken on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the District and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Bondholders shall continue as though no such proceeding had been taken.

1005. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the Holders of the majority in principal amount of the Bonds then Outstanding shall have the right by an instrument or concurrent instruments in writing executed and delivered to the District, to direct the method of conducting all remedial proceedings to be taken hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution.

1006. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

1007. No Waiver of Default. No delay or omission of the Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this General Bond Resolution to the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.



1008. Notice of Event of Default. The District shall cause the appropriate Registrar to give to the Bondholders notice of each Event of Default hereunder known to the District within sixty (60) days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of Event of Default shall be given by mailing written notice thereof: (1) to all registered Holders of Bonds, as the name and addresses of such Holders appear upon the books for registration and transfer of Bonds as kept by the Registrar; (2) to such other Bondholders as have filed their names and addresses with the District or Paying Agent for that purpose; and (3) to such other persons as is required by law.

## ARTICLE XI

### CONCERNING THE FIDUCIARIES

1101. Appointment and Acceptance of Duties of Paying Agents and Registrars. The District may appoint one or more Paying Agents and one or more Registrars (who may be a Paying Agent) for the Bonds of any Series in the Series Resolution authorizing such Bonds or may appoint such Paying Agent or Paying Agents and such Registrar or Registrars by resolution of the District adopted prior to the authentication and delivery of such Bonds, and may at any time or from time to time appoint one or more other Paying Agents or one or more other Registrars in the manner and subject to the conditions set forth in Section 1107 for the appointment of a Successor Paying Agent or Registrar.

Each Paying Agent or Registrar shall signify its acceptance of the duties and obligations imposed upon it by this General Bond Resolution by written instrument of acceptance executed and delivered to the District.

The principal offices of the Paying Agents are hereby designated as the respective agencies of the District for the payment of the interest on and principal or Redemption Price of the Bonds.

The District shall enter into an agreement for paying agent and for registrar for each issue of Series Bonds.

1102. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of the District and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this General Bond Resolution or of any Bonds or coupons issued thereunder or in respect of the security afforded by this General Bond Resolution, and no Fiduciary shall incur any responsibility in respect thereof. Each Registrar shall, however, be responsible for its representation contained in its

certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the District. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the other Fiduciaries.

1103. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the District, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund or Account, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by an Authorized Officer, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this General Bond Resolution upon the faith thereof, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidences as to it may seem reasonable. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by the District to any Fiduciary shall be sufficiently executed if executed in the name of the District by an Authorized Officer.

1104. Compensation. The District shall pay to each Paying Agent, Registrar and other Fiduciary from time to time reasonable compensation for all services rendered under this General Bond Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this General Bond Resolution. The District further agrees to indemnify each

Paying Agent, Registrar and other Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

1105. Permitted Acts and Functions. Each Paying Agent, Registrar and any other Fiduciary may become the owner of any Bonds and coupons, with the same rights it would have if it were not such Paying Agent, Registrar or other Fiduciary. Each Paying Agent, Registrar and any other Fiduciary may act as Depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this General Bond Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

1106. Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all of substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 1110 or Section 1113 and shall be authorized by law to perform all the duties imposed upon it by this General Bond Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

1107. Resignation or Removal of the Paying Agents, Registrars and other Fiduciaries and Appointment of Successors. Any Paying Agent, Registrar or other Fiduciary may at any time resign and be discharged of the duties and obligations created by this General Bond Resolution by giving at least sixty (60) days' written notice to the District. Any Paying Agent, Registrar or other Fiduciary may be removed at any time by an instrument filed with such Paying Agent, Registrar or other Fiduciary and signed by an Authorized Officer of the District. Any successor Paying Agent, Registrar or other Fiduciary shall be appointed by the District and (subject to the requirements of Section 703) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least Fifty Million Dollars (\$50,000,000), and willing and able to accept the office of Paying Agent or Registrar on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this General Bond Resolution.

In the event of the resignation or removal of any Paying Agent, Registrar or other Fiduciary, such Paying Agent, Registrar or other Fiduciary shall pay over, assign and deliver any moneys held by it to its successor, if there be no successor then appointed, to the District until such successor be appointed.

## ARTICLE XII

### MISCELLANEOUS

1201. Defeasance. (1) If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Bonds and coupons, if any, all of the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this General Bond Resolution, then and in that event the General Bond Resolution shall cease, determine, and become null and void, and the covenants, agreements and other obligations of the District hereunder shall be satisfied and discharged, and in such event, the District shall execute and deliver all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the District all moneys or securities held by them pursuant to the General Bond Resolution which are not required for the payment or redemption of Bonds or coupons, if any, not theretofore surrendered for such payment or redemption.

(2) Bonds or coupons, if any, or interest installments for the payment or redemption of which moneys shall have been set aside and which shall be held in trust by Fiduciaries (through deposit by the District of funds for such payment or redemption or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (1) of this Section. All Outstanding Bonds and all coupons, if any, appertaining to such Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (1) of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the District shall have given notice of redemption on said date of Redemption of such bonds as provided in Article VI, and (b) there shall have been deposited with the Paying Agents either moneys in an amount which shall be sufficient, or Investment Obligations as described in (a) of the definition of Investment Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Paying Agents at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the

case may be. Neither Investment Obligations nor moneys deposited with the Paying Agents pursuant to this Section nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purposes other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Obligations deposited with the Paying Agent if not then needed for such purposes, shall, to the extent practicable, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and shall be paid over to the District, following full discharge and payment of such Bonds free and clear of any trust, lien or pledge.

(3) If, through the deposit of moneys by the District or otherwise, the Fiduciaries shall hold, pursuant to this General Bond Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds and coupons, if any, or in the case of Bonds in respect of which the District shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and Interest to such Redemption Date, then at the request of the District all moneys held by and Paying Agent shall be paid over to the District, and together with other moneys held by it hereunder, shall be held by the District for the payment or redemption of Outstanding Bonds and coupons, if any.

(4) Anything in this General Bond Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds or coupons, if any, which remain unclaimed for six (6) years after the date when all of the Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, at the written request of the District, be repaid by the Fiduciary to the District, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged; provided, however, that before being required to make any such payment to the District, the Fiduciary shall, at the expense of the District, cause to be published at least twice, at an interval of not less than seven (7) days between publications, in the Authorized Newspapers notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than ten (10) nor more than twenty (20) days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the District.

1202. Evidence of Signatures of Bondholders and Ownership of Bonds. Any request, consent or other instrument which this General Bond Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their authorized attorneys: Proof of (1) the execution of any such instruments, or of an instrument appointing any such attorney, or (2) the holding by any person of the Bonds or coupons appertaining thereto, shall be sufficient for any purpose of the General Bond Resolution (except as otherwise expressly provided) if made in the following manner, but the District may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(a) The fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the certificate, which need not be acknowledged or verified, of an officer of a bank or trust company satisfactory to the District or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or a vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary;

(b) The amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a certificate, which need not be acknowledged or verified, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc., wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such certificate. Continued ownership after the date stated in such certificate may be proved by the presentation of such certificate if the certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the certificate and that they will not be surrendered without the surrender of the certificate to the depository, except with the consent of the District, and a certificate of the District, which need not be acknowledged or verified, that such consent has not been given.

The ownership of Bonds registered otherwise than to bearer and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books. Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the District or any Fiduciary in accordance therewith.

1203. Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of this General Bond Resolution or any supplemental General Bond Resolution or Series Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the District, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

1204. Parties in Interest. Nothing in this General Bond Resolution or in any Series Resolution adopted pursuant to the provisions hereof, expressed or implied, is intended to or shall be construed to confer upon or to give to any person or party other than the District, Paying Agents, Registrars and the Holders of the Bonds and coupons appertaining thereto any rights, remedies or claims under or by reason of this General Bond Resolution or any Series Resolution or any covenants, conditions or stipulations thereof; and all covenants, stipulations, promises and agreements in this General Bond Resolution and any Series Resolution contained by or on behalf of the District shall be for the sole and exclusive benefit of the District, Paying Agents, Registrars and the Holders from time to time of the Bonds and the coupons appertaining thereto.

1205. No Recourse Under General Bond Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of the District contained in this General Bond Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the District and not of any member, officer, director or employee of the District in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this General Bond Resolution against any member, officer, director or employee of the District or any natural person executing the Bonds.

1206. Severability. If any one or more of the covenants, stipulations, promises, agreements or obligations provided in this General Bond Resolution on the part of the District or any Paying Agent or any Registrar to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant or covenants, stipulation

or stipulations, promise or promises, agreement or agreements, obligation or obligations shall be deemed and construed to be severable from the remaining covenants, stipulations, promises, agreements and obligations herein contained and shall in no way affect the validity of the other provisions of this General Bond Resolution.

1207. Headings. Any headings preceding the texts of the several Articles and Sections hereof, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this General Bond Resolution, nor shall they affect its meaning, construction or effect.

1208. Conflict. All General Bond Resolutions and resolutions or parts of General Bond Resolutions and resolutions, or other proceedings of the District in conflict herewith be and the same are repealed insofar as such conflict exists.

1209. Effective Date. This General Bond Resolution shall take effect on the day of defeasance of the 1981 Bonds.

KENTON COUNTY WATER DISTRICT  
NO. 1 Kenton County, Kentucky

By \_\_\_\_\_

Chairman

(SEAL)

ATTESTED:

\_\_\_\_\_  
Secretary

ADOPTED:

November 19, 1985

DATE OF TAKING EFFECT:

\_\_\_\_\_, 1985  
(to be completed only upon  
defeasance of the 1981 Bonds)



CERTIFICATION

I, the undersigned, the duly appointed and qualified General Manager of Kenton County Water District No. 1, Kenton County, Kentucky, do hereby certify that the foregoing Resolution is a true, accurate and complete copy of said District's General Bond Resolution, as amended, which has been duly adopted by the Board of Commissioners of said District at duly and properly convened meetings of said Board of Commissioners.

IN WITNESS WHEREOF, I have hereunto set my hand  
this 7th day of April, 1991.

Dennis L. Williams  
General Manager  
Kenton County Water District  
No. 1, Kenton County, Kentucky

1209. Effective Date. This General Bond Resolution shall take effect on the day of defeasance of the 1981 Bonds.

KENTON COUNTY WATER DISTRICT  
NO. 1 Kenton County, Kentucky


By



Chairman

(SEAL)

ATTESTED:

  
Secretary

ADOPTED:

November 19, 1985

DATE OF TAKING EFFECT:

\_\_\_\_\_, 1985  
(to be completed only upon  
defeasance of the 1981 Bonds)

FIRST SUPPLEMENTAL GENERAL BOND RESOLUTION  
REGARDING THE ISSUANCE OF AND SECURING  
WATER DISTRICT REVENUE BONDS  
KENTON COUNTY WATER DISTRICT NO. 1

KENTON COUNTY, KENTUCKY

This FIRST SUPPLEMENTAL GENERAL BOND RESOLUTION (the "First Supplemental Resolution") made and adopted as of the 17th day November, 1987, by KENTON COUNTY WATER DISTRICT NO. 1, Kenton County, Kentucky, (hereinafter sometimes referred to as the "District"), a body corporate and politic constituting a de jure public corporation and a political subdivision of the Commonwealth of Kentucky, existing pursuant to authority of Chapter 74 of the Kentucky Revised Statutes, for the establishment of the rules, regulations and conditions for the issuance from time to time by the District of its Water District Revenue Bonds:

W I T N E S S E T H:

THAT WHEREAS, the District has heretofore authorized and adopted its "1985 General Bond Resolution Authorizing the Issuance of and Securing Water District Revenue Bonds of Kenton County Water District No. 1," dated November 19, 1985 (the "General Bond Resolution"), pursuant to which the District has established the rules, regulations and conditions regarding the issuance of its Water District Revenue Bonds from time to time, capitalized terms used herein, unless otherwise defined herein, having the meaning given them in the General Bond Resolution; and

WHEREAS, the Article IX of the General Bond Resolution permits amendments and modifications to the General Bond Resolution by the adoption of a Supplemental Resolution, subject to the conditions for adopting a Supplemental Resolution set forth in the General Bond Resolution; and

WHEREAS, the District has heretofore adopted Series Resolutions identified as the Series 1985 Bond Resolution and the Series 1987 Bond Resolution, pursuant to which the District has issued its Bonds identified as Series 1985 Bonds and pursuant to which it intends to issue its 1987 Series A Bonds; and

WHEREAS, the Series 1985 Bond Resolution provides, in Section 210 thereof, that AMBAC Indemnity Corporation (the "Bond Insurer"), be deemed holder of the Bonds insured by it for the purpose of the adoption of a Supplemental Resolution; and

WHEREAS, there exists no default of the Bond Insurer under the bond insurance policy insuring the Series 1985 Bonds and there are no Bonds other than the Series 1985 Bonds outstanding; and

WHEREAS, the bond Insurer has consented to the adoption of this First Supplemental Resolution; and

WHEREAS, pursuant to Section 901 of the General Bond Resolution, the District hereby finds and determines that no Bonds of the District which are currently outstanding under the General Bond Resolution would be adversely affected by the modifications or amendments to the General Bond Resolution hereinafter provided;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL RESOLUTION WITNESSETH, that in consideration of the premises and for the purpose of amending and supplementing the terms and conditions upon which the Water District Revenue Bonds of the District are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, in order to secure the performance and observance of all the covenants, agreements and conditions therein and herein contained, the District has executed and delivered this First Supplemental Resolution, the District does hereby agree and covenant for the equal and proportionate benefit and security of all and singular the present and future holders of the Water District Revenue Bonds issued under the General Bond Resolution, as supplemented, without preference, priority or distinction, except as otherwise hereinafter provided, of any one Bond over any other Bond by reason or priority in the issue, sale or negotiation thereof or otherwise, as follows:

## ARTICLE I

### SHORT TITLE, DEFINITIONS

101. Short Title. This First Supplemental Bond Resolution may hereafter be cited by the District, the holders of the Bonds and any Fiduciaries, and is hereinafter sometimes referred to as the "First Supplemental Resolution."

102. Definitions. Unless the context clearly indicates some other meaning, the capitalized words and terms shall, for all purposes of the First Supplemental Resolution, have meanings, given them in the General Bond Resolution, except as follows:

The term "Investment Obligations" is hereby amended and restated in its entirety, as follows:

"Investment Obligations" - shall mean and include any of the following:

(a) Direct obligations of or obligations guaranteed by the United States of America;

(b) Obligations issued by any of the following agencies: Federal Home Loan Bank System; Export-Import Banks; Government National Mortgage Association; Farmers Home Administration; the Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association; and any other Federal Agency to the extent that such obligations are backed by the full faith and credit of the United States (other than as provided in (a) hereof);

(c) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(d) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$100,000 maximum coverage) by the Federal Deposit Insurance Corporation in commercial banks, and to the extent not so insured (amounts in excess of the \$100,000 maximum coverage), collateralized by obligations described in (a) or (b) above, having at all times a quoted market value at least equal to such uninsured amount plus accrued and undisbursed interest.

## ARTICLE II

### AMENDMENT OF GENERAL BOND RESOLUTION

201. Amendment to Section 206. Section 206 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

206. Conditions Precedent to Authentication and Delivery of Bonds. Except as permitted by Sections 311 and 312, the Bonds authorized to be issued pursuant to this General Bond Resolution and a Series Resolution shall be issued only upon condition that the following have been executed:

(1) A copy of the General Bond Resolution and the applicable Series Resolution, each certified by an Authorized Officer of the District;

(2) The written order of the District as to the delivery of such Bonds signed by an Authorized Officer describing such Bonds to be authenticated and delivered, designating the purchaser or purchasers to whom such Bonds are to be delivered, and stating the purchase price of such Bonds;

(3) A Counsel's Opinion stating that in the opinion of such Counsel the General Bond Resolution and the applicable Series Resolution authorizing the Series of Bonds have been duly and lawfully adopted by the District, that the General Bond Resolution and the applicable Series Resolution are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms; that the General Bond Resolution creates the valid pledge which it purports to create subject only to the provisions of the General Bond Resolution permitting the application of the Pledged Receipts for or to the purposes and on the terms and conditions set forth in the General Bond Resolution; and upon the execution, authentication and delivery thereof, that the Bonds of such Series will be duly and validly issued and will constitute valid and binding obligations of the District entitled to the benefits of the General Bond Resolution and such applicable Series Resolution;

(4) A written order of the District signed by an Authorized Officer directing the deposit in the Debt Service Reserve of so much of the proceeds of the Bonds to be issued, upon their issuance, sale and delivery, as may be required to increase the aggregate amount then held in said Fund to the Aggregate Debt Service Reserve Requirement; provided that the District may obtain, in lieu of such deposit, a Debt Service Reserve Guaranty as permitted under Section 506 hereof;

(5) Except in the case of an issue of Refunding Bonds; a certificate of an Authorized Officer of the District stating that the District is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the General Bond Resolution; and

(6) Such further documents, as are required by the provisions of this Section, Section 207, or Article VII or VIII or any Supplemental Resolution adopted pursuant to Article VIII.

(7) As a further condition, such moneys and securities as are required by the provisions of this Section, Section 207, or Article VII or VIII or any Supplemental Resolution adopted pursuant to Article VIII.

202. Amendment to Section 506. Section 506 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

506. Debt Service Reserve. (1) There shall be deposited to the credit of the Debt Service Reserve (a) all Pledged Receipts from the General Revenue Fund required to be deposited therein by this General Bond Resolution, (b) all moneys received on account of or in connection with Investment Obligations credited to the Debt Service Reserve as in this Section provided, and (c) all Bond proceeds required by Series Resolution to be deposited in said Debt Service Reserve.

(2) The Debt Service Reserve is pledged to and shall be used for the payment of principal of, interest on, and Redemption Price, if any, in respect of any Outstanding Bond as to which there would otherwise be a default in payment, and sums in the Debt Service Reserve shall be transferred to other Funds and Accounts in a timely manner upon due certification as provided in subsection (3) of this Section 506 in order to effectuate the intent of this Section and the purposes of the Debt Service Reserve. In the event that amounts in the Debt Service Reserve are reduced below the Aggregate Debt Service Reserve Requirement, the deficiency in the Debt Service Reserve shall be cured from the first available revenues.

(3) The District shall cause the depository from time to time to transfer or pay out moneys in the Debt Service Reserve for the purpose of making payments and transfers to other Funds and Accounts pursuant to subsection (2) hereof upon receipt by said depository of a check or other bill of exchange executed by two members of the Board of Commissioners stating with respect to each payment or transfer to be made:

(a) the Account or Fund to which the payment or transfer is to be made,

(b) the purpose of the payment or transfer, and

(c) the amount to be paid.

(4) Sums from time to time in the Debt Service Reserve shall be continuously invested upon direction of the District, in Investment Obligations. The District shall sell at the best price obtainable, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary in order to provide moneys to effectuate the purposes of the Debt Service Reserve.

(5) Any interest earned or sums realized as a result of investment of moneys in the Debt Service Reserve in Investment Obligations shall accrue to, and be a part of, said Debt Service Reserve; provided, however, that so long as the Debt Service Reserve contains the Aggregate Debt Service Reserve Requirement, any such interest earned or sums realized shall be transferred, as received, to the General Revenue Fund.

(6) In lieu of the deposit of funds in the Debt Service Reserve, the District may obtain a Debt Service Reserve Guaranty. Any Debt Service Reserve Guaranty shall be considered a deposit of funds in the Debt Service Reserve equal to the Debt Service Reserve Coverage provided by the Debt Service Reserve Guaranty Agreement.

As conditions precedent to delivery of a Debt Service Reserve Guaranty, the District shall obtain (i) a Debt Service Reserve Guaranty, (ii) an opinion of counsel addressed to the District stating that the delivery of such Debt Service Reserve Guaranty to the District is authorized under the General Bond Resolution, as amended, and complies with the terms thereof, and (iii) written evidence from a Rating Agency, if the Bonds are rated by such Rating Agency, that the Rating Agency has reviewed the proposed Debt Service Reserve Guaranty and that (x) the issuance of the Debt Service Reserve Guaranty to the District and (y) if a Debt Service Reserve Guaranty is then in effect with respect to the Debt Service Reserve, the substitution of the proposed Debt Service Reserve Guaranty for the Debt Service Reserve Guaranty then in effect, will not, by itself, result in a reduction or withdrawal of its rating on the Bonds. If the Bonds are insured by a bond insurer, the references to Rating Agency in the prior sentence shall be read to mean such bond insurer and the substitution of the proposed Debt Service Reserve Guaranty shall not result in the cancellation of the bond insurance provided by such Bond Insurer.

"Debt Service Reserve Guarantor" means the issuer of a Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty" means a letter of credit, surety bond or similar arrangement representing the irrevocable obligation of the Debt Service Reserve Guarantor to pay to the District upon request made by the District up to an amount stated therein for application as provided in this Section 506.



"Debt Service Reserve Guaranty Agreement" means the reimbursement agreement, loan agreement or similar agreement between the District and a Debt Service Reserve Guarantor with respect to repayment of amounts advanced under the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Coverage" means the amount available at any particular time to be paid to the District under the terms of the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Limit" means the maximum aggregate amount available to be paid to the District under the terms of a Debt Service Reserve Guaranty.

"Rating Agency" means either Moody's Investors Service, Inc. or Standard & Poor's Corporation, both corporations and organized under the laws of the States of Delaware and New York, respectively, and their successors and assigns.

203. Amendment to Section 707. Section 707 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

707. Accounts and Reports. The District shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Public Water System, and all Funds and Accounts established by this Resolution, which shall at all reasonable times be subject to the inspection of the Holders of an aggregate of not less than five percentum (5%) in principal amount of bonds then Outstanding or their representatives duly authorized in writing.

204. Amendment to Section 711. Section 711 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

711. Rates and Charges; Coverage; Annual Budget. The District shall at all times establish, enforce and collect rates, rentals, and charges for services rendered and facilities afforded by said District works and facilities constituting the Public Water System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the Public Water System, the costs of operating the same and maintaining the same in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all Outstanding Bonds and the accruing interest thereon, and the accumulation and maintenance of reserves as provided in the Resolution; and such rates and charges shall be adequate to meet all such requirements as

provided in the Resolution, and shall, if necessary, be adjusted from time to time in order to comply therewith (subject to such regulatory approvals as may be required by law); and annual revenue from such rates, rentals and charges shall be further adequate to provide, after fulfillment of all contractual obligations required of the District incident to the Bonds, including accumulation and maintenance of all reserves required by the Resolution, and after payment of Operation and Maintenance Costs as provided in the Annual Budget of the Public Water System 1.20 times coverage of annual principal, interest, and Sinking Fund requirements on all Bonds, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the first day of each calendar year, so long as any Bonds authorized or permitted to be issued by the Resolution are outstanding, the District will adopt an Annual Budget of Current Expenses for the ensuing calendar year, and will promptly file a copy of each such Budget, and of any amendments thereto, in the Office of the Secretary of the District, and will furnish copies thereof to any holder of any Bond upon request. The term "Current Expenses" as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining and insuring the Public Water System, allowances for depreciation on all plant, but shall exclude expenditures for extensions, improvements and extraordinary repairs and maintenance, and payments into the Debt Service Fund, and the Debt Service Reserve. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the total amount provided for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Board determining that such expenses are necessary in order to operate and maintain the Public Water System. At the same time, and in like manner, the District agrees that it will prepare an estimate of gross income and revenue to be derived from operation of the Public Water System for such calendar year, and to the extent that said gross income and revenues are insufficient to meet all requirements as provided in this Resolution, the District covenants and agrees that it will immediately (subject to regulatory approvals as required by law) revise its rates, rentals and charges for services rendered by the District's works and facilities, so that the same will be adequate to meet all of such requirements.

205. Amendment to Section 714. Section 714 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

714. Annual Audit Required. The District shall, within sixty (60) days after the end of each calendar year, cause an audit to be made of the books of record and account pertinent to the Public Water System, and a report on such audit to be issued by an independent state-licensed certified public accounts accountant, reflecting in reasonable detail and the financial condition and results of operations of the Public Water System, including the status of the required insurance and fidelity bonding, as provided by this General Bond Resolution, the current rates, rentals and charges of the District and coverage ratios as set forth in Section 711 hereof, with comments of the certified public accountant concerning compliance with all provisions and requirements of this General Bond Resolution, such audit to be in accordance with generally accepted governmental accounting principles, and will promptly cause a copy of the audit report of said certified public accountant to be submitted to the Board for review, and when received and approved by the Board, to be filed in the Office of the Secretary of the District, where it will be available for public inspection, and will promptly mail a copy thereof to the original purchaser or purchasers of any Series of Bonds issued pursuant to this General Bond Resolution. If requested to do so, the District will furnish to any Bondholder a condensed form of the balance sheet, and a condensed form of the operating report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the Public Water System, and may be paid for District Revenues allocated for such purposes, as herein provided.

206. Amendment to Section 801. Section 801 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

801. Modification and Amendment Without Consent. Notwithstanding any other provision of this Article VIII, or Article IX, the District may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing thereof in the District's official records, certified by an Authorized Officer.

207. Amendment to Section 802. Section 802 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

802. Supplemental Resolutions Effective With Consent of Bondholders. The provisions of this General Bond Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of

Bondholders, in accordance with and subject to the provisions of Article IX hereof, such Supplemental Resolution to become effective upon the obtaining of consent of the requisite percentages of Bondholders and the filing in the District's official records of a copy thereof certified by an Authorized Officer.

208. Amendment to Section 902. Section 902 of the General Bond Resolution is hereby amended and restated in its entirety, as follows:

902. Consent of Bondholders. The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 901 to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto) together with a request to Bondholders for their consent thereto, shall promptly after adoption be mailed by the District to Bondholders (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (1) there shall have been filed with the District (a) the written consents of the Holders of the percentages of Outstanding Bonds specified in Section 901 and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by the District in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon the District and enforceable in accordance with its terms. Each such consent shall be effective only if accompanied by proof of the holding at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 1202 to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange thereof (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the District, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 1202. The fact that a consent has not been revoked may likewise be proved by a certificate of the District to the effect that no revocation thereof is on file with the District. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the District shall make and file (a) in the official records of the District, accompanied by a Counsel's Opinion, as to the quality thereof, and (b) with each Fiduciary a written statement that the Holders of such

required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the District on a stated date) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section, shall be given to Bondholders by the District by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section provided) not more than ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statements of the Trustee hereinabove provided for are filed. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the District, each Fiduciary and the Holders of all Bonds and coupons, if any, at the expiration of thirty (30) days after the filing with each Fiduciary of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the District during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in its reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

### ARTICLE III

#### EFFECT OF FIRST SUPPLEMENTAL RESOLUTION

301. Effect of First Supplemental Resolution. The provisions of this First Supplemental Resolution shall become effective immediately upon the execution and delivery hereof and this First Supplemental Resolution shall form a part of the General Bond Resolution and all the terms and conditions hereof shall be deemed to be part of the terms and conditions of the General Bond Resolution, as fully and with the same effect as if they had been set forth in the General Bond Resolution as originally executed. Except as modified or amended by this First Supplemental Resolution, the General Bond Resolution as amended shall remain and continue in full force and effect in accordance with the terms and provisions thereof, and all the covenants, conditions, terms and provisions of the General Bond Resolution as amended with respect to the District shall remain in full force and effect and be applied to the District in the same manner as though set out herein at length.

ARTICLE IV

MISCELLANEOUS PROVISIONS

401. Severability. If any one or more of the covenants, stipulations, promises, agreements or obligations provided in this First Supplemental Resolution on the part of the District or any Paying Agent or any Registrar to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant or covenants, stipulation or stipulations, promise or promises, agreement or agreements, obligation or obligations shall be deemed and construed to be severable from the remaining covenants, stipulations, promises, agreements and obligations herein contained and shall in no way affect the validity of the other provisions of this First Supplemental Resolution.

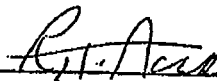
402. Headings. Any headings preceding the texts of the several Articles and Sections hereof, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this First Supplemental Resolution, nor shall they affect its meaning, construction or effect.

403. Conflict. All resolutions or parts of resolutions, or other proceedings of the District in conflict herewith be and the same are repealed insofar as such conflict exists.

404. Effective Date. This First Supplemental Resolution shall take effect upon adoption, as provided by law.

KENTON COUNTY WATER DISTRICT  
NO. 1 Kenton County, Kentucky

By



Chairman

(SEAL)

ATTESTED:

  
Secretary

ADOPTED:

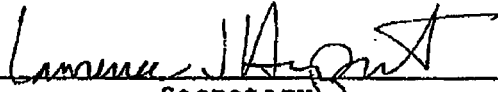
November 17, 1987

CERTIFICATION

I, the undersigned, the duly appointed and qualified Secretary of Kenton County Water District No. 1, Kenton County, Kentucky, do hereby certify that the foregoing Resolution is a true, accurate and complete copy of a certain Resolution duly adopted by the Board of Commissioners of said District at a duly and properly convened meeting of said Board of Commissioners held on November 17, 1987, on the same occasion signed in open session by the Chairman attested under seal by me as Secretary, and declared to be in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said District this \_\_\_\_ day of December, 1987.

(SEAL)

  
Secretary  
Kenton County Water District  
No. 1, Kenton County,  
Kentucky

NKWD\_PSCDR3\_Q6\_090612  
Case 2012-00072  
Response to Q6  
Witness: Bragg

Q6. In Case No. 2005-00148, the Commission reduced payroll taxes and employee pensions and benefits to remove the portion that should be capitalized as payroll overhead. Explain why Northern District did not propose such an adjustment in this proceeding.

A6: The District's practice has always been not to capitalize the pensions and benefits of the hours charged to capital projects being conservative and not avoiding the immediate expensing of these items that will be incurred regardless of the classification of the expense. The District's payroll system is not readily configured to separate these costs based on hours capitalized.



Q7 Refer to Northern District's Response to Commission Staff's Second Request for Information, Item 5(a).

- a. Northern District refers to "Payout of Accrued PTO for terminating employees." Define "PTO".
- b. Provide Northern District's written policy regarding the accrual of employee PTO.
- c. Provide Northern District's written policy regarding the payout of PTO to current and terminated employees.
- d. Provide a breakdown of the \$55,457 of PTO by terminated employee position and identify the period PTO was accrued over. Include a detailed calculation of the PTO.
- e. Provide the journal entry(s) Northern records accruing employee PTO.
- f. Provide the journal entry(s) Northern District records when the employee PTO is paid out for employees that are terminated and to current employees.
- g. State when Northern District records the accrual of the employee PTO (i.e.; monthly, quarterly, annual).
- h. (1) Identify by position title the employee receiving the "One Week Unused PTO Buyback" of PTO of \$66,788.  
(2) Describe how the amount was determined. Show all calculations and state assumptions used.
- i. Explain why, if the pro forma salaries and wages expenses reflects that each employee worked 2,080 hours in the test year, the accrued payroll adjustment of \$15,084 of third party sick pay should be reflected in the pro forma adjustment.
- j. Describe in detail each item listed below and explain why it should be included in Northern District's pro forma salaries and wages expense.
  1. Increase in Accrued Payroll Year End 2010 to 2011 of \$15,084.
  2. Third Party Sick Pay for Short Term Disability of \$14,829.
  3. Miscellaneous taxable benefits of \$14,500.
  4. Decrease in Accrued Vacation/Sick Year End 2010 to 2011 of (\$44,154).
  5. Miscellaneous Capitalized Payroll of \$39,831.

A7a: PTO is Paid Time Off. PTO can be used for vacation, personal time to take care of family needs or personal business, illnesses, or emergencies.

A7b: See attached.

A7c: See attached PTO Exchange section and Terminating Employees.

A7d: See attached schedule.

A7e: See Attached Journal entries.

A7f: See attached journal entries. Entry is first made to record cash transaction on 12/8/11 for the PTO buyback and the regular weekly payroll. At the end of the month, the entry is made to re-class the debit to 601-8000-079 to the various expense and liability accounts for the monthly totals of the payroll transactions.

A7g: Annually

A7h(1): See attached schedule.

A7h(2): Number of hours multiplied by the hourly rate. Assume any hours greater than 40 reflect employees over maximum sick time allowed.

A7i: The increase of \$15,084 is in account 242-0014-000 Accrued Payroll an amount that will vary at the end of each year depending on the mix of employees, rates, and the number of days earned but unpaid at the end of the year.

A7j(1): See response to 7i.

A7j(2): The third party sick pay is administered for those who are on short term disability and are earning at 60% of regular pay. Again we cannot anticipate who might be on this program during any year and must anticipate everyone works at regular rates.

A7j(3): This is the auto allowance included in payroll expense and is taxable as earnings and will continue into future periods.

A7j(4): This is like the calculation of the earned but not taken Vacation /Sick that has either a positive or negative effect on the wage expenses to which they relate. Like the other items we do not know the amount until year end based on who, how much, and what rate. For the test year 2011, the reduction in liability actually reduced the expensed amount.

Aj(5): We are never certain entering into any particular year what amounts may be capitalized thus potentially it could be entirely included in wage expense.

### 301 PAID TIME OFF (PTO)

PTO benefits apply to all regular full-time employees, who begin accumulating paid time off from the time of hire and may begin using accumulated PTO after they have been employed with the District for six (6) months. PTO time can be used for: vacation, personal time to take care of family needs or personal business, illnesses or disabilities of one-day duration, or emergencies.

PTO accumulates according to a formula based on length of service and number of hours paid (to a maximum of 40 hours per week):

<u>Years of Service</u>	<u>Rate</u>	<u>=Days per yr.</u>
0	1.54 hrs	10
1	2.31 hrs	15
5	2.62 hrs	17
10	3.08 hrs	20
15	3.38 hrs	22
20	3.85 hrs	25
25	4.16 hrs	27
30	4.62 hrs	30

Example: An employee who has completed two (2) years of service will accumulate PTO at the rate 2.31 hours for each forty (40) hours paid. This equals fifteen (15) days per year.

PTO Accumulation - PTO accumulated in one calendar year may be carried over to the next calendar year. Any PTO over the permitted one year carry-over will be forfeited if not used or exchanged by December 31. Example: If an employee can accumulate fifteen (15) days per year, then fifteen (15) PTO days is the maximum amount the employee can carry over to the next year.

Eligibility - PTO benefits under this policy apply to all regular full-time employees. If a designated holiday is observed during an employee's PTO period, the employee will be given credit for a holiday taken and not a PTO day on the day of the holiday. PTO continues to accumulate during time paid but not worked (PTO, paid sick time, jury duty, funeral leave, holidays, etc.) but does not accumulate during unpaid time off. PTO requests will be awarded based on departmental seniority until March 31 of the current year. PTO requests submitted after that date will be honored on a first-come first-served basis.

PTO Pay - As with other benefits, PTO is paid at the base wage of an employee at the time it is used. PTO pay is distributed on the regular payday and is not paid in advance.

### PTO Scheduling -

PTO may be taken with permission from a supervisor as long as the needs of the District are being met first. PTO should be approved with the employee's supervisor in advance, with the request being made before the end of the previous working day.

Employees will follow the mandatory vacation policy as outlined in the Human Resource Standard Operating Guidelines (SOG's), which can be modified from time to time.

The supervisor will schedule PTO with due consideration given to:

First	Staffing Requirements
Second	Employee's Length of Service
Third	Employee's Preference

Requests for PTO that are not made prior to the end of the previous working day must be made at least fifteen (15) minutes prior to the start of the shift and are subject to the discretion of the supervisor. Such requests will be considered based on the staffing requirements of the department as well as the nature of the need. Employees requesting PTO must complete and submit to their supervisor a PTO Report Form. The District reserves the right to require proof of a medical condition which necessitated the use of PTO, as a condition to receiving pay for the absence. The District determines the type of proof it will require.

Time taken off without approval will be considered an absence without pay (AWOP) and can lead to disciplinary action, up to and including discharge. All completed and approved PTO records will be maintained in the Human Resources office. Human Resources should be notified immediately if a discrepancy exists.

### PTO Exchange -

In November of each year, employees are given the opportunity to:

- Exchange a maximum of forty (40) PTO hours based on the hours accumulated as of the last pay date in November (with a check to be received in December) for its cash value, based on the base wage rate at that time, or
- Deposit a maximum of forty (40) hours into their sick leave accumulation, or
- A combination of both, not to exceed forty (40) PTO hours.

Terminating Employees - PTO is not an earned benefit paid upon severance. It is to be used for paid time off from work for current employees. However, if an employee resigns with proper notice (2 weeks), retires with proper notice (2 weeks), is terminated for lack of work, or terminates by death, the District will pay an amount equal to unused PTO to the terminating employee or his/her estate in exchange for a release satisfactory to the District. Payments for unused PTO will not typically otherwise occur, except that the District reserves the right to make severance payments in exchange for releases on a case-by-case basis.

### 302 SICK TIME

Sick time is intended to protect employees by providing them with continued income for a limited period when they are unable to work because of either an occupational or non-occupational injury or illness. As with any other employee provided benefit, this benefit may be modified at any time at the sole discretion of the District's Board of Commissioners.

Sick Time Allowance - Full-time regular employees begin accumulating sick time from the date of hire and become eligible to receive benefit payments after completing six (6) months of employment. Sick time is accumulated at a rate of 1.08 hours per weekly pay period. The maximum amount of sick time that may be accumulated per year is seven (7) days. Non-exempt employees may accumulate a maximum of 84 sick time days and exempt employees may accumulate a maximum of 130 sick time days.

Eligibility - The sick time benefit applies to all regular, full-time employees. The benefit is provided only for absences caused by an employee's own illness or injury. The benefit is not provided for any absence caused by any other reason.

Eligible employees may begin using sick time beginning with the 9<sup>th</sup> scheduled hour off from work due to a personal illness or injury.

Employees must have a physician's statement or completed Family Medical Leave Act (FMLA) form to be paid sick time benefits. The physician's statement must include, at minimum, the same information included on FMLA forms. Should a physician's statement not be provided, sick time will not be available the 9<sup>th</sup> scheduled hour off from work due to personal illness or injury. The District reserves the right to seek additional medical information, medical reports, and examinations to verify the proper use of sick time benefits.

Sick time can be used for medical or dental appointments, or surgery, beginning with the first scheduled hour off work. A physician's statement must be supplied for this exception to be approved.

Sick time can also be used for documented family emergencies beginning with the first scheduled hour off work. Such emergency need must be approved by the department vice president after proper documentation has been provided by a physician verifying the necessity. A documented family emergency is limited to two (2) days per occurrence. This clause only addresses the use of sick pay time and does not preclude any FMLA rights.

Notwithstanding any other terms in this Section both exempt and non-exempt employees who have accumulated eighty-four (84) sick time days begin receiving the benefit as of the first hour missed, subject to medical verification, as determined by the District.

Eligible employees with a covered FMLA personal illness or injury may use the sick time benefit on an intermittent basis for the same FMLA illness or injury without taking an additional eight (8) hours of PTO. Those employees who do not qualify for FMLA and return to work after being on sick time, and experience a recurrence of the health condition within three days after returning to work, may continue being covered by accumulated sick time.

Sick time benefits continue to accumulate during time paid but not worked (PTO, paid sick leave, jury duty, funeral leave, holidays, etc.) but do not accumulate during unpaid time off. Supplements to an employee's workers' compensation benefits are available through sick leave pay.

#### Sick Time Pay –

Upon retirement through the Kentucky Retirement System (or its successor) directly from the Water District, employees (or the employee's personal representatives in the case of death) become eligible to return sick leave hours for pay at the applicable base rate at the time of retirement in the following manner:

Non-exempt employees will be paid for one day for every six days that they have accrued as of the date of retirement.

Exempt employees will be paid for one day for every three days that they have accrued as of the date of retirement.

The maximum allowed accrual is 84 days for non-exempt employees and 130 days for exempt employees. Employees who have reached their maximum in sick time accumulation will be paid at the rate of 17 percent of their base rate in December of each year for the sick leave time they would have accumulated for the 12 months preceding November 30 of that year, but lost because they were at the maximum. Hours accumulated under this policy will be the only hours eligible for this pay. Unused sick time is not otherwise paid to a terminating employee.

**Schedule Response to Data Request Three  
Question 7d Case 2012-00072**

<b>Position</b>	<b>Hours</b>	<b>Rate</b>	<b>Total</b>	<b>Accrue</b>
Construction Manager	682.15	\$38.47	\$26,242	Unpaid Accrued PTO and 1/3 of unused Sick Time earned over multiple years per policy
Distribution Crew Leader	239.79	\$26.57	\$6,371	Unpaid Accrued PTO and 1/6 of unused Sick Time earned over multiple years per policy
Security Tech	42.95	\$16.87	\$725	Unpaid Accrued PTO and 1/6 of unused Sick Time earned over multiple years per policy
Plant Operator	43.62	\$18.29	\$798	Unpaid Accrued PTO and 1/6 of unused Sick Time earned over multiple years per policy
Customer Service Rep.	227.69	\$15.09	\$3,436	Unpaid Accrued PTO and 1/6 of unused Sick Time earned over multiple years per policy
Instrumentation Supervisor	508.15	\$31.08	\$15,793	Unpaid Accrued PTO and 1/3 of unused Sick Time earned over multiple years per policy
CIS Administrator	12.28	\$20.60	\$253	Unpaid Accrued PTO and 1/6 of unused Sick Time earned over multiple years per policy
HR Administrative Assist.	103.61	\$17.75	\$1,839	Unpaid Accrued PTO and 1/6 of unused Sick Time earned over multiple years per policy
<b>Total</b>			<b>\$55,457</b>	

**Schedule Response to Data Request Three**

**Question 7h Case 2012-00072**

<b>Position</b>	<b>Hours</b>	<b>Rate</b>	<b>Amount</b>
Account Service Representative	45	\$20.60	\$927.00
Account Service Representative	35	\$13.43	\$470.05
Account Service Representative	40	\$25.05	\$1,002.00
Account Service Representative	25	\$13.72	\$343.00
Administratiive Assistant	40	\$19.46	\$778.40
Chemist	40	\$29.90	\$1,196.00
Chemist	16	\$27.51	\$440.16
Customer Service Field Rep	20	\$20.16	\$403.20
Customer Service Field Rep	40	\$23.69	\$947.60
Customer Service Field Rep	47.5	\$23.69	\$1,125.28
Customer Service Field Rep	49.5	\$21.78	\$1,078.11
Customer Service Field Rep	40	\$23.31	\$932.40
Customer Service Supervisor	40	\$32.79	\$1,311.60
Database Administrator	40	\$31.93	\$1,277.20
Distribution Manager	42	\$44.42	\$1,865.64
Distribution Supervisor	30	\$32.90	\$987.00
Engineering Clerk	40	\$16.08	\$643.20
Engineering Foreman	49.5	\$31.09	\$1,538.96
Engineering Supervisor	49.5	\$33.47	\$1,656.77
Engineering Tech	40	\$22.36	\$894.40
Equipment Serviceman	41.5	\$23.42	\$971.93
Equipment Serviceman	40	\$29.72	\$1,188.80
Equipment Serviceman	2.75	\$23.55	\$64.76
Equipment Serviceman	47.75	\$23.42	\$1,118.31
Fieldman	40	\$24.06	\$962.40
Fieldman	40	\$16.84	\$673.60
Fieldman	40	\$22.89	\$915.60
Fieldman	20	\$16.22	\$324.40
Human Resources Manager	40	\$45.93	\$1,837.20
Info Systems Manager	40	\$44.64	\$1,785.60
Instrumentaton Specialist	40	\$24.84	\$993.60
Inspectors	2	\$25.67	\$51.34
Inspectors	40	\$21.32	\$852.80
Inspectors	47.5	\$24.47	\$1,162.33
Inspectors	40	\$25.63	\$1,025.20
Lab Tech	40	\$18.89	\$755.60
Lab Manager	40	\$43.97	\$1,758.80
Maintenance Manager	40.5	\$41.67	\$1,687.64
Maintenance Supervisor	40	\$33.23	\$1,329.20
Operations Manager	43	\$52.41	\$2,253.63
Plant Foreman	20	\$24.84	\$496.80
Plant Foreman	40	\$25.49	\$1,019.60
Fieldman	40	\$20.38	\$815.20
Plant Operators	30	\$17.60	\$528.00
Plant Operators	49.5	\$23.75	\$1,175.63
Plant Operators	40	\$19.20	\$768.00
Plant Operators	20	\$19.80	\$396.00



<b>Question 7h Case 2012-00072</b>			
<b>Position</b>	<b>Hours</b>	<b>Rate</b>	<b>Amount</b>
Plant Supervisors	40	\$29.32	\$1,172.80
Plant Supervisors	40	\$27.31	\$1,092.40
President/CEO	40	\$110.23	\$4,409.20
Receptionist/Clerk	40	\$16.21	\$648.40
Safety Coordinator	40	\$33.38	\$1,335.20
Scanner	20	\$13.04	\$260.80
Staff Engineer	16	\$28.91	\$462.56
Vice President	45.75	\$67.00	\$3,065.25
Vice President	40	\$55.56	\$2,222.40
Pump Tech	20	\$23.61	\$472.20
Fieldman	40	\$30.66	\$1,226.40
Fieldman	40	\$19.40	\$776.00
Fieldman	40	\$31.09	\$1,243.60
Distribution Supervisor	40	\$37.03	\$1,481.20
Customer Service Foreman	7	\$27.12	\$189.84
			\$66,788.16

\* Voided Journal Entry

Ranges:	From:	To:	From:	To:
Journal Entry	246484	246484	Date	First
Source Document	First	Last	Account	First
Audit Trail Code	First	Last		Last

Include: Posting Sort by: Journal Entry

Journal Entry	Trx Date	Source Document	Audit Trail Code		
-----					
	Account	Description		Debit	Credit
	-----				
	246,484	12/8/2011	CMTRX	GLTRX00031286	
		131-0020-000	Cash		\$215,520.00
		601-8000-079	Gross Payroll Clearing Account	\$215,520.00	
	Total Distributions: 2			Totals:	\$215,520.00
					\$215,520.00
=====					
Total Journal Entries:	1			Grand Totals:	\$215,520.00
					\$215,520.00

Support  
 7F

\* Voided Journal Entry

Ranges:	From:	To:	From:	To:
Journal Entry	246093	246093	Date	First
Source Document	First	Last	Account	First
Audit Trail Code	First	Last		Last

*Support*  
*7F*

Include: Posting Sort by: Journal Entry

Journal Entry	Trx Date	Source Document	Audit Trail Code	Account	Description	Debit	Credit
				246,093	12/30/2011 GJ GLTRX00031221		
					184-0999-999 clearing 184's from payroll	\$18,480.87	
					242-0017-000 Deferred Compensation		\$23,698.12
					242-0018-000 Special Withholding-Loans DefComp		\$4,614.55
					242-0018-000 Special Withholding-Loans DefComp		\$1,406.25
					242-0019-000 Cintas Uniforms Deduction		\$122.20
					242-0020-000 457 Deferred Comp.		\$6,375.24
					242-0022-000 Childcare Deduction		\$2,033.30
					242-0023-000 Flex-Spend MEDICAL		\$4,757.70
					242-0024-000 Flex-Spend CHILD CARE		\$1,636.50
					242-0025-000 Pension Payments (BOUGHT)		\$2,317.25
					242-0027-000 FICA Tax WITHHELD Employee		\$29,566.77
					242-0027-000 FICA Tax WITHHELD Employee		\$10,899.26
					242-0029-000 Federal Income Tax Withheld		\$91,263.87
					242-0030-000 KY State Income Tax Withheld		\$32,804.29
					242-0031-000 Accrued Pension WITHHELD		\$35,349.99
					242-0031-000 Accrued Pension WITHHELD		\$1,533.19
					242-0033-000 Kenton Co. TAX Withheld		\$1,055.28
					242-0036-000 United Appeal Withheld		\$932.90
					242-0037-000 Indiana Income Tax Withheld		\$190.45
					242-0038-000 Dearborn Co. Tax Withheld		\$33.60
					242-0039-000 Ohio Income Tax Withheld		\$2,622.57
					242-0040-000 Campbell Co. Tax Withheld		\$1,303.60
					242-0041-000 Covington PR Tax Withheld		\$578.41
					242-0042-000 Cresent Spring PR Tax Withheld		\$4.04
					242-0043-000 Edgewood PR Tax Withheld		\$35.88
					242-0044-000 Erlanger PR Tax Withheld		\$6,892.11
					242-0045-000 FT. Mitchell PR Tax Withheld		\$18.50
					242-0046-000 FT. Thomas PR Tax Withheld		\$2,804.58
					242-0047-000 FT. Wright PR Tax Withheld		\$35.49
					242-0048-000 Independence PR Tax Withheld		\$76.03
					242-0048-000 Independence PR Tax Withheld		\$13.69
					242-0050-000 Park Hills PR Tax Withheld		\$16.23
					242-0051-000 Taylor Mill PR Tax Withheld		\$500.94
					242-0052-000 Villa Hills PR Tax Withheld		\$8.88
					242-0053-000 Bellevue PR Tax Withheld		\$147.96
					242-0054-000 Cold Spring PR Tax Withheld		\$36.73
					242-0055-000 Dayton PR Tax Withheld		\$151.02
					242-0056-000 Alexandria PR Tax Withheld		\$80.26
					242-0057-000 Crestview Hills Tax Withheld		\$11.57
					242-0058-000 Highland Heights PR Tax Withheld		\$29.46
					242-0059-000 Ohio Local School District Tax (3118)		\$53.98
					242-0060-000 Health Insurance Withheld		\$24,553.55
					242-0062-000 City of Ludlow Taxes		\$24.77
					242-0064-000 Newport tax withheld		\$383.93
					242-0065-000 Special deduction		\$596.25
					242-0066-000 City of Southgate Taxes payable		\$25.01
					242-0078-000 401-K Roth		\$1,519.65
					331-0001-000 Transmission & Distribution. Mains	\$128.16	
					333-0001-000 Services	\$1,161.32	
					333-0001-000 Services	\$884.97	
					601-3100-001 Labor Ops. - FTTP	\$65,665.50	
					601-3100-002 Labor - TMTP	\$6,442.64	
					601-3100-003 Labor - Laboratory	\$43,398.93	
					601-3100-029 Labor-Memorial Pkwy. Treatment Plant	\$30,345.73	

\* Voided Journal Entry

Journal Entry	Trx Date	Source Document	Audit Trail Code		
Account		Description		Debit	Credit
601-3102-001		Labor-Security FTTP		\$1,624.75	
601-4100-001		Labor Maint. - FTTP		\$7,980.00	
601-4100-001		Labor Maint. - FTTP		\$20,598.31	
601-4100-002		Labor Maint. - TMTP		\$7,167.45	
601-4100-020		Labor - Instrumentation		\$20,105.00	
601-4100-029		Labor - Maint MPTP		\$4,014.12	
601-5101-030		Operations Labor - Engineering		\$38,404.39	
601-5101-031		Operations Labor - Distribution		\$14,180.48	
601-5101-033		Labor - Flushing		\$155.20	
601-5102-030		Clerk Labor - Engineering		\$9,289.23	
601-5102-031		Clerk Labor - Distribution		\$3,158.50	
601-5103-030		Engineering Supervisor		\$34,034.17	
601-6100-025		Labor - General		\$48,058.14	
601-6101-031		Dist. Labor - Vehicle Maint.		\$6,815.92	
601-6104-031		Dist. Labor - Maint. Supervision		\$27,228.79	
601-6106-031		Dist. Labor - Maint. Of Mains		\$136,307.80	
601-6107-031		Dist. Labor - Maint. Of Services		\$8,193.22	
601-6109-031		Dist. Labor - Maint. Of Hydrants		\$8,059.44	
601-7101-050		Meter Readers Labor		\$9,445.55	
601-7101-051		Field Service Labor		\$57,684.02	
601-7101-052		Account Service Labor		\$53,917.47	
601-7101-055		Labor - Courier		\$3,038.22	
601-7101-056		Labor - Meter Shop		\$365.76	
601-7101-056		Labor - Meter Shop		\$22,798.01	
601-8000-079		Gross Payroll Clearing Account			\$43,646.26
601-8000-079		Gross Payroll Clearing Account			\$10,899.26
601-8000-079		Gross Payroll Clearing Account			\$44,590.15
601-8000-079		Gross Payroll Clearing Account			\$483,412.81
601-8100-072		Executive Mgt.Labor		\$45,601.80	
601-8100-074		Bookkeeping/Accounting Labor		\$11,635.58	
601-8100-076		Board of Comm. - Monthly Fee		\$3,000.00	
601-8100-078		Labor - HR/Information Systems		\$50,508.12	
601-8101-078		Labor - Supervision Detainee's		\$1,936.00	
604-8400-072		Health Ins. - Executive Mgt.			\$385.35
604-8700-079		Misc. Benefits - District			\$309.45
699-3000-001		Taxes Other Than Income Taxes (Fica) - FTTP		\$3,677.31	
699-3000-001		Taxes Other Than Income Taxes (Fica) - FTTP		\$860.00	
699-3000-001		Taxes Other Than Income Taxes (Fica) - FTTP		\$100.73	
699-3000-001		Taxes Other Than Income Taxes (Fica) - FTTP		\$23.57	
699-3000-002		Taxes Other Than Income Taxes (Fica) - TMTP		\$377.81	
699-3000-002		Taxes Other Than Income Taxes (Fica) - TMTP		\$88.38	
699-3000-003		Taxes Other Than Income Taxes - Lab		\$2,480.42	
699-3000-003		Taxes Other Than Income Taxes - Lab		\$580.00	
699-3000-029		FICA-Ops MPTP		\$1,753.96	
699-3000-029		FICA-Ops MPTP		\$410.20	
699-4000-001		Taxes Other Than Income Taxes - FTTP		\$471.06	
699-4000-001		Taxes Other Than Income Taxes - FTTP		\$110.17	
699-4000-001		Taxes Other Than Income Taxes - FTTP		\$1,146.62	
699-4000-001		Taxes Other Than Income Taxes - FTTP		\$268.16	
699-4000-002		Taxes Other Than Income Taxes - TMTP		\$390.83	
699-4000-002		Taxes Other Than Income Taxes - TMTP		\$91.41	
699-4000-020		Taxes Other Than Income Taxes - Inst.		\$1,129.37	
699-4000-020		Taxes Other Than Income Taxes - Inst.		\$264.14	
699-4000-029		FICA - MPTP		\$217.50	
699-4000-029		FICA - MPTP		\$50.87	
699-5000-030		FICA Engineering		\$2,136.72	
699-5000-030		FICA Engineering		\$499.72	
699-5000-030		FICA Engineering		\$539.62	
699-5000-030		FICA Engineering		\$126.23	
699-5000-030		FICA Engineering		\$1,005.92	
699-5000-030		FICA Engineering		\$457.67	
699-5000-030		FICA Engineering		\$67.25	

\* Voided Journal Entry

Journal Entry	Trx Date	Source Document	Audit Trail Code		
Account		Description		Debit	Credit
699-5000-030		FICA Engineering		\$15.72	
699-5000-030		FICA Engineering		\$1,028.41	
699-5000-030		FICA Engineering		\$240.54	
699-5000-033		FICA Taxes-Flushing		\$8.48	
699-5000-033		FICA Taxes-Flushing		\$1.98	
699-6000-025		Taxes Other Than Income Taxes - Pumping		\$2,688.64	
699-6000-025		Taxes Other Than Income Taxes - Pumping		\$628.80	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$838.84	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$196.16	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$176.56	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$41.30	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$7,676.83	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$1,795.34	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$453.64	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$106.14	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$455.15	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$106.45	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$365.90	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$85.59	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$1,540.74	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$360.34	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$50.18	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$11.73	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$7.55	
699-6000-031		Taxes Other Than Income Taxes - Distribution		\$1.76	
699-7000-050		Taxes Other Than Income Taxes (FICA) - Meter R		\$554.77	
699-7000-050		Taxes Other Than Income Taxes (FICA) - Meter R		\$129.75	
699-7000-051		Taxes Other Than Income Taxes (FICA) - Field S		\$3,310.90	
699-7000-051		Taxes Other Than Income Taxes (FICA) - Field S		\$774.37	
699-7000-052		Taxes Other Than Income Tax (FICA) - Acct. Ser		\$3,062.89	
699-7000-052		Taxes Other Than Income Tax (FICA) - Acct. Ser		\$716.28	
699-7000-055		FICA Taxes - Courier		\$161.61	
699-7000-055		FICA Taxes - Courier		\$37.79	
699-7000-056		FICA - Meter Shop		\$21.32	
699-7000-056		FICA - Meter Shop		\$4.98	
699-7000-056		FICA - Meter Shop		\$1,278.38	
699-7000-056		FICA - Meter Shop		\$298.98	
699-8000-072		Taxes Other Than Income Taxes (FICA) - Exc Mgt		\$666.56	
699-8000-072		Taxes Other Than Income Taxes (FICA) - Exc Mgt		\$625.13	
699-8000-074		Taxes Other Than Income Taxes (FICA) - Accting		\$631.17	
699-8000-074		Taxes Other Than Income Taxes (FICA) - Accting		\$147.62	
699-8000-076		Taxes Other Than Income Taxes (FICA) - BOC		\$157.56	
699-8000-076		Taxes Other Than Income Taxes (FICA) - BOC		\$36.84	
699-8000-078		FICA Taxes - HR/Info Systems		\$2,895.02	
699-8000-078		FICA Taxes - HR/Info Systems		\$677.07	
699-8000-078		FICA Taxes - HR/Info Systems		\$120.04	
699-8000-078		FICA Taxes - HR/Info Systems		\$28.08	
Total Distributions:	163		Totals:	\$876,359.08	\$876,359.08
Total Journal Entries:	1		Grand Totals:	\$876,359.08	\$876,359.08

\* Voided Journal Entry

Ranges:	From:	To:	From:	To:
Journal Entry	246468	246468	Date	First
Source Document	First	Last	Account	First
Audit Trail Code	First	Last		Last

Include: Posting Sort by: Journal Entry

Journal Entry	Trx Date	Source Document	Audit Trail Code	Account	Description	Debit	Credit		
				246,468	12/30/2011	GJ	GLTRX00031283		
				242-0013-000	Accrued Vacation/Sick		\$891,026.70		
				601-3100-001	Labor Ops. - FTTP	\$58,959.24			
				601-3100-002	Labor - TMTP	\$8,113.65			
				601-3100-003	Labor - Laboratory	\$43,456.25			
				601-3100-029	Labor-Memorial Pkwy. Treatment Plant	\$30,464.00			
				601-4100-020	Labor - Instrumentation	\$8,694.76			
				601-5101-030	Operations Labor - Engineering	\$135,868.23			
				601-6100-025	Labor - General	\$99,687.95			
				601-6106-031	Dist. Labor - Maint. Of Mains	\$165,242.46			
				601-7101-050	Meter Readers Labor	\$5,636.00			
				601-7101-051	Field Service Labor	\$63,526.01			
				601-7101-052	Account Service Labor	\$23,324.06			
				601-7101-055	Labor - Courier	\$815.41			
				601-7101-056	Labor - Meter Shop	\$17,082.73			
				601-8100-072	Executive Mgt.Labor	\$70,003.89			
				601-8100-074	Bookkeeping/Accounting Labor	\$1,930.00			
				601-8100-078	Labor - HR/Information Systems	\$158,222.06			
				Total Distributions:	17	Totals:	\$891,026.70	\$891,026.70	
				Total Journal Entries:	1	Grand Totals:	\$891,026.70	\$891,026.70	

Support 7E



NKWD\_PSCDR3\_Q8\_090612  
Case 2012-00072  
Response to Q8  
Witness: Bragg

Q8. State for each year from 2009 through 2011 Northern District's accrued PTO liability balance as of December 31.

A8: The balance is made up of accrued vacation and sick leave represented by account 242-0013-000. The following is a summary of the total balances:

<b>Year</b>	<b>Accrued Vacation</b>	<b>Accrued Sick</b>	<b>Total</b>
2009	\$483,400.23	\$357,728.51	\$841,128.74
2010	\$469,426.57	\$336,964.04	\$806,390.61
2011	\$437,408.86	\$324,827.36	\$762,236.22



NKWD\_PSCDR3\_Q9\_090612  
Case 2012-00072  
Response to Q9  
Witness: Bragg

Q9. Refer to Northern District's Response to Commission Staff's Second Request for information, Item 5(c). Describe each item listed in that schedule and explain why it should be included in Northern District's pro forma employee pension and benefit expense.

A9. See Attached.



NKWD\_PSCDR3\_Q10\_090612

Case 2012-00072

Response to Q10

Witness: Bragg

Q10. Provide the most recent "Business Ethics and Conflicts of Interest Policy" of Northern District's Board of Commissioners.

A10: See attached.

**404 BUSINESS ETHICS AND CONFLICTS OF INTEREST** *(Revised July 12, 2012)*

The successful operation and reputation of the District is built upon the principles of ethical conduct of our commissioners, officers and employees while they are serving or employed by the District (defined herein collectively as “District Members” and individually as “District Member”). The District’s reputation for integrity and excellence requires careful observance of the spirit and letter of all applicable laws and regulations, as well as a scrupulous regard for the highest standards of conduct and personal integrity.

The continued success of the District is dependent upon our customers’ trust and the District is dedicated to preserving that trust. The District Members are expected to act in a way that will merit the continued trust and confidence of the public. In general, the use of good judgment based on high ethical principles, will guide each District Member with respect to lines of acceptable conduct.

The District awards business solely on merit, without personal favoritism. No District Member shall directly, or indirectly through any other person or business, accept any gift having a fair market value of more than two hundred fifty dollars (\$250), whether in the form of service, loan, travel, entertainment, hospitality, thing or promise, or any other form, under circumstances in which it could be reasonably inferred that the gift was intended to influence, or could reasonably be expected to influence the District Member, in the performance of his or her duties for the District. The foregoing shall not prevent, by way of some examples, a District Member from receiving actual and reasonable out-of-pocket expenses incurred in connection with an appearance, speech, or ceremony related to the District Member’s service to the District, a door prize, raffle or the like so long as it was not awarded on a predetermined or preferential basis over other attendees/participants, a loan from a lending institution in its regular course of business on the same terms generally available to other persons, or gifts or loans from family members. The District Members shall not have any financial relationship with anyone who may have an interest in doing business with the District that might impair independence of judgment on behalf of the District.

The District will comply with all applicable laws and regulations and expects all District Members to conduct business in accordance with the letter, spirit, and intent of all applicable laws and regulations and to refrain from any illegal, dishonest, or unethical conduct. District Members should not engage in self-employment that could conflict or appear to conflict with the best interest of the District.

If a situation arises where it is difficult to determine the proper course of action, or if a conflict of interest situation does arise, it should be discussed promptly with Human Resources or the President/CEO. If any District Member believes the District has violated a law/regulation, or has engaged in practices that are otherwise wrongful, he or she must report the matter immediately to Human Resources or to the President/CEO.

Each District Member shall upon request provide a current certified disclosure statement in a form reasonably prescribed by the District to assist in the District's ability to identify conflicts of interest. Providing this statement shall not replace each District Member's ongoing obligation to not violate any business ethics or conflicts of interest policies applicable to the District, including, without limitation, the requirement to disclose and not participate in the approval of transactions that would constitute a conflict of interest.

Compliance with this policy of business ethics and conflicts of interest is the responsibility of every District employee. Disregarding or failing to comply with this standard of business ethics and conduct could lead to disciplinary action, including possible termination of employment or removal from the Board of Commissioners pursuant to Kentucky law, as applicable.

Revised/Adopted by Board of Commissioners as its Business Ethics and Conflicts of Interest Policy: July 12, 2012

NKWD\_PSCDR3\_Q11\_090612

Case 2012-00072

Response to Q11

Witness: Bragg

Q11. Provide a copy of the Northern District's current employment contract with its President.

A11. See attached.

## EMPLOYMENT AGREEMENT

This Employment Agreement (hereinafter, the "Agreement") is made and entered into as of the 31st day of January, 2012 by and between the **NORTHERN KENTUCKY WATER DISTRICT**, a water district organized and operating under the provisions of Chapter 74 of the Kentucky Revised Statutes (hereinafter, the "District") and **CHARLES RONALD LOVAN** (hereinafter, "Executive").

WHEREAS, the District desires to continue to employ Executive as its President and Chief Executive Officer, and

WHEREAS, Executive desires to continue to serve the District as its President and Chief Executive Officer; and

WHEREAS, the District and Executive have agreed to the terms and conditions under which Executive will continue to serve the District as its President and Chief Executive Officer and desire to memorialize the terms and conditions in writing;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are expressly acknowledged, the District and Executive hereby agree as follows:

**1. Employment and Duties.**

The District hereby appoints and confirms the employment of Executive as its President and Chief Executive Officer. Executive hereby accepts such appointment and confirmation of employment. Executive will devote his full business time and attention to the District and the performance of his duties hereunder, will faithfully perform his duties in a diligent and proper manner to the best of his abilities, and will conduct himself at all times so as to advance the best interests of the District. Executive will abide by all policies of the District which are applicable to employees generally. Executive, as President and Chief Executive Officer, will report to, and receive advice, supervision and direction from, the Board of Commissioners of the District and will be responsible and have authority for all of the managerial and operational functions of the District, including the management of personnel, assets, finances and capital improvements. Executive's duties and responsibilities shall include, but not be limited to, those set forth on Exhibit A attached hereto.

**2. Compensation.**

In consideration of Executive's services, the District shall pay and provide to Executive an annualized salary of Two Hundred Thirty-Six Thousand and One Hundred Fifty-Three Dollars (\$236,153), from which deductions for income tax and other payroll withholding shall be

made. At least once each year, the Board of Commissioners of the District will review and evaluate the performance of Executive and meet with Executive to discuss his performance. The District will not reduce Executive's annualized salary during the term of this Agreement and will provide Executive with an annual percentage increase in his annualized salary no less than the average annual percentage increase provided to all other employees of the District. In addition, the District, in its sole discretion, may further increase Executive's annualized salary each year based upon Executive's performance.

**3. Benefits.**

Executive will be entitled to all benefits offered to District Employees, as such benefits may be amended from time to time. These benefits include participation in the County Employees Retirement System and health care and dental care coverage as provided under District policies. In addition to the benefits offered to District Employees generally, the benefits listed on Exhibit B attached hereto will be provided to Executive by the District.

**4. Term and Termination.**

(a) The term of Executive's employment under this Agreement will commence on January 31, 2012 and will extend through August 1, 2017.

(b) If the District decides not to extend or renew this Agreement, the District will provide Executive with written notice of such decision at least one hundred twenty (120) days prior to the expiration date specified in Section 4(a) above. In the absence of such notice, the District will continue to provide Executive with the salary and benefits described in this Agreement for such period of time beyond the expiration date specified in Section 4(a) as will ensure that Executive receives his salary and benefits for a period of at least one hundred twenty (120) days after receiving written notice that his employment will not be renewed or extended.

(c) Notwithstanding anything in Section 4(a) to the contrary, and subject to the notice and cure period described herein, the District may terminate Executive's employment for cause. For purposes of this Agreement, the term "cause" shall include, but not be limited to, the following:

- (i) the continued failure on the part of Executive, without the consent of the District, to perform substantially his duties hereunder as designated and assigned by the District (other than any such failure resulting from incapacity due to illness);
- (ii) habitual failure to follow the District's policies and procedures;
- (iii) Executive's conviction of a felony or any crime involving dishonesty or moral turpitude;
- (iv) Executive's dishonesty in performing his duties;
- (v) any material violation by Executive of the terms of this Agreement; or
- (vi) Executive's addiction to drugs or alcohol that negatively affects job performance.



The District will provide Executive with a minimum of ten (10) days written notice of Executive's termination for cause and the basis for termination, during which period Executive may respond to the District regarding the basis for termination. In addition, with respect to items (i), (ii) and (v) above, the District may only terminate Executive's employment under this Agreement following Executive's failure to cure the basis for termination for cause within thirty (30) business days after receipt of written notice of the basis for termination for cause.

(d) Should the District terminate Executive's employment under this Agreement without cause prior to the expiration date specified in Section 4(a), the District will continue to pay Executive for the remainder of the term, as applicable, either, (i) Executive's full annualized salary in the event Executive is not re-employed; or (ii) the difference between the Executive's annualized salary and any lesser annualized salary from new employment in the event Executive is re-employed. The District will cease paying Executive any and all of his annualized salary if Executive receives an annualized salary from new employment that is equal to or higher than his annualized salary with the District. The District also will continue to provide Executive with medical and dental coverage and with the Disability Insurance benefit and the Life Insurance benefit listed in Exhibit B attached hereto (but no other benefits) until the expiration of the term specified in Section 4(a) or until such benefits are replaced through new employment, whichever occurs first.

**5. Defense and Indemnity.**

The District will defend and indemnify Executive against all claims, actions and judgments arising from Executive's employment under this Agreement, whether occurring before or after the termination of Executive's employment under this Agreement, except for those claims, actions or judgments caused by gross negligence, recklessness or intentional misconduct of Executive.

**6. Governing Law, Form and Service of Process.**

This Agreement will be governed by and construed in accordance with the laws of the Commonwealth of Kentucky. All actions, suits and other proceedings with respect to this Agreement will be brought only in a court of competent jurisdiction in either Campbell County, Kentucky or Kenton County, Kentucky. In any such action, suit or proceeding, such court shall have personal jurisdiction over all of the parties hereto, and service of process upon them under any applicable statutes, laws and rules will be deemed valid and good.

**7. Severability.**

The invalidity, illegality or unenforceability of any provision of this Agreement will not affect the validity, legality or enforceability of the remainder of this Agreement, and this Agreement will be reformed to the extent necessary to effectuate the foregoing.

**8. Assignment.**

This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors and assigns. Notwithstanding the foregoing, Executive may not assign any of his rights or obligations hereunder without the prior written consent of the District.

**9. Amendment.**

This Agreement may be amended only by a written document signed by the District and Executive.

**10. Waiver.**

No waiver of any provision of this Agreement will be effective unless in writing and signed by the party making the waiver. No valid waiver of any provision will constitute a waiver of any other provision or a continuing waiver. No delay or omission in exercising any right hereunder will constitute a waiver of such right or any other right.

**11. Entire Agreement.**

This Agreement constitutes the entire agreement between the parties and supersedes all prior and contemporaneous agreements, representations and understandings of the parties, whether oral or written, with respect to the subject matter stated herein.

**12. Termination of Prior Agreements.**

All prior employment agreements between the District and Executive, including the Employment Agreement dated as of December 7, 2000, the Amendment thereto dated as of January 31, 2002, the Employment Agreement dated as of January 31, 2003, and all subsequent amendments thereto, are terminated as of January 31, 2012.

**13. Headings.**

The headings of the Sections in this Agreement are inserted for convenience of reference only and are not intended to be a part and shall not affect the instruction or interpretation of this Agreement.

**14. Acknowledgment.**

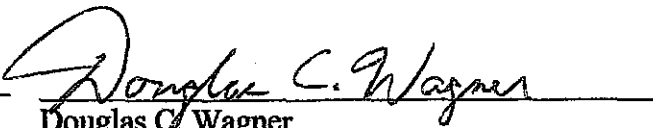
Executive acknowledges that he has thoroughly read and understands this Agreement and has received a copy of it for his permanent files.

IN WITNESS WHEREOF, this Agreement is executed in triplicate, each copy being considered an original, by and on behalf of the District and Executive, as of the date first above written.

**EXECUTIVE**

**NORTHERN KENTUCKY WATER DISTRICT**

  
Charles Ronald Lovan

  
Douglas C. Wagner  
Chairman, Board of Commissioners

Attachments:  
Exhibit A, Duties and Responsibilities  
Exhibit B, Benefits

## **EXHIBIT A**

### **EMPLOYMENT AGREEMENT**

#### **DUTIES AND RESPONSIBILITIES**

The President and Chief Executive Officer of the Northern Kentucky Water District will lead and manage the District in the accomplishment of the goals, objectives and strategic planning established in cooperation with the Board of Commissioners. The duties and responsibilities of the President and Chief Executive Officer include the following:

- (a) Plan, develop, organize, direct and evaluate the District's operational functions within the legal and environmental framework dictated by the Kentucky Public Service Commission, the Kentucky Division of Water, the U.S. Environmental Protection Agency and other appropriate regulatory agencies.
- (b) Oversee the development and implementation of a comprehensive community involvement/marketing/public relations program for the purpose of creating a positive and visible presence in the Northern Kentucky community.
- (c) Oversee the capital budget and District expenditures and the timely and accurate analysis of budgets and financial reports that will assist the Board and District staff in managing their responsibilities.
- (d) Serve as a mentor to the District staff and oversee the professional growth and development of the District staff.
- (e) Provide strategic input and leadership on decision-making issues affecting the organization.
- (f) Communicate regularly with the Board of Commissioners and keep the Commissioners fully informed of all pending issues.
- (g) Evaluate the District's structure for continual improvement in the efficiency and effectiveness of the District as well as the professional growth and development of the District Staff.
- (h) Enhance and/or develop, implement, and enforce policies and procedures that will improve the overall operation and effectiveness of the District.
- (i) Along with the District's staff, associate with local, state, regional and national organizations, serving on key committees where possible, with the purpose of building alliances and relationships that will help the District achieve its goals.

## **EXHIBIT B**

### **EMPLOYMENT AGREEMENT**

#### **BENEFITS**

The President and Chief Executive Officer (hereinafter, "Executive") will be entitled to the following benefits in addition to those benefits provided to District employees generally:

- (a) **Disability Insurance**: The District will pay directly or reimburse Executive for up to Three Hundred Dollars (\$300.00) per month for actual disability insurance premiums.
- (b) **Paid Time Off**: Executive shall be considered to have had twenty-five (25) years of service for the purpose of determining Paid Time Off. As of January 31, 2012, Executive has twenty-one and eight-tenths (21.8) days immediately available.
- (c) **Life Insurance**: The District will provide term life insurance coverage to Executive in the amount of one year's salary.
- (d) **Extension of Medical Coverage**: To the extent permitted by law, the District will allow Executive to extend his coverage under the District's healthcare policy for a maximum of thirty-six (36) months after leaving the District's employment, with the cost of the premium for such coverage and any additional charge related thereto being borne solely by Executive.
- (e) **Automobile Allowance**: The District will provide Executive with an automobile allowance of One Thousand and 00/100 Dollars (\$1,000.00) per month for Executive's purchase or lease of a 4-door, full-size automobile. Executive will be required to obtain insurance with reasonable policy limits set by the District and to arrange for the naming of the District as an additional insured. All insurance, maintenance and fuel expenses for the automobile will be paid by Executive.

NKWD\_PSCDR3\_Q12\_090612  
Case 2012-00072  
Response to Q12  
Witness: Bragg

Q12. Provide a copy of Mr. Bragg's presentation to Northern District's February 25, 2011 regarding monthly and quarterly billing.

A12: See attached.



## **Status of Implementing Monthly Billing For Customers**

Quarterly Report Requested by PSC in Order Case 2010-00094  
beginning March 31, 2011

Address Issue in Next General Rate Case Why NKWD Cannot Issue  
Monthly Bills

The Commission Encourages Utilities to Bill Monthly

AMR Allows NKWD to Bill on a Monthly Basis



## **Status of Implementing Monthly Billing For Customers**

### **Issues Facing NKWD When Considering Monthly Billing**

Cost to Provide Monthly Billing

What Do Our Customers Want?

Advantages/Disadvantages to NKWD



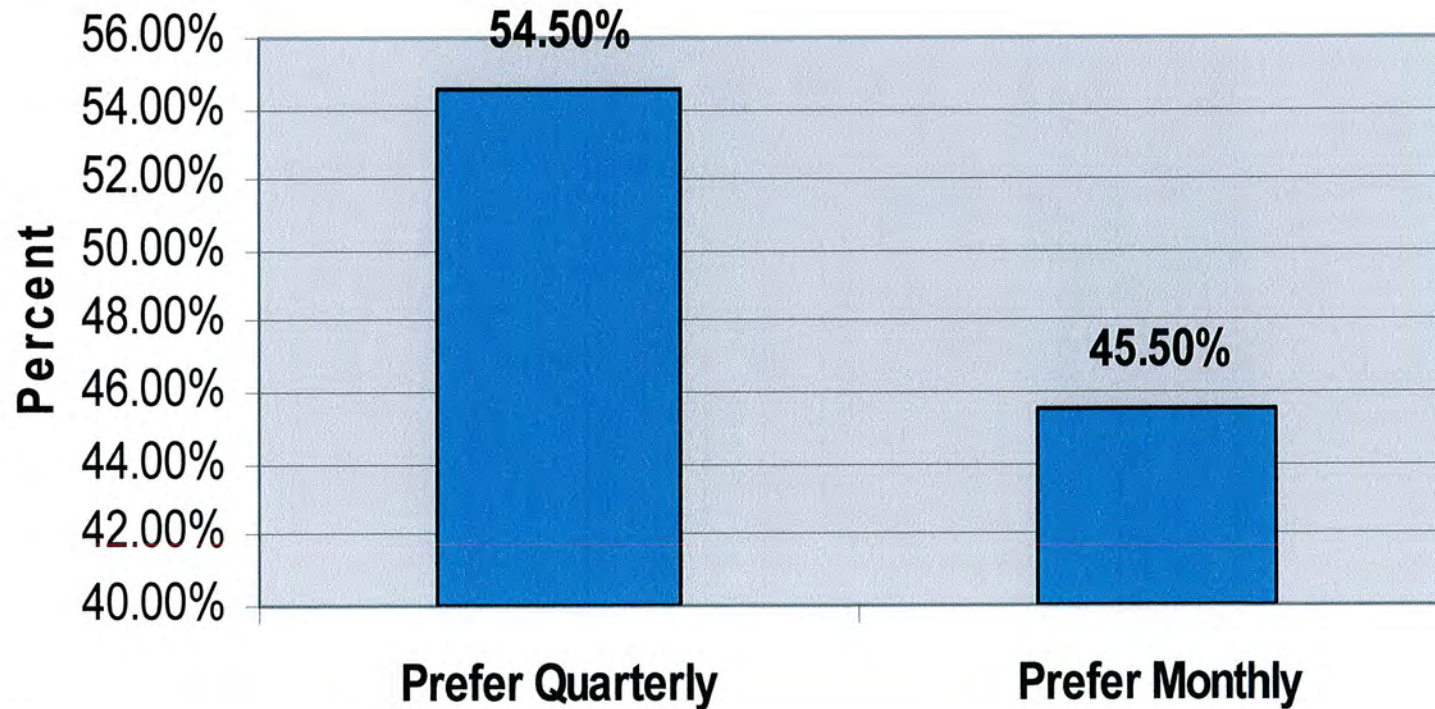


**Summary**

**Monthly Billing Incremental Costs & Income**

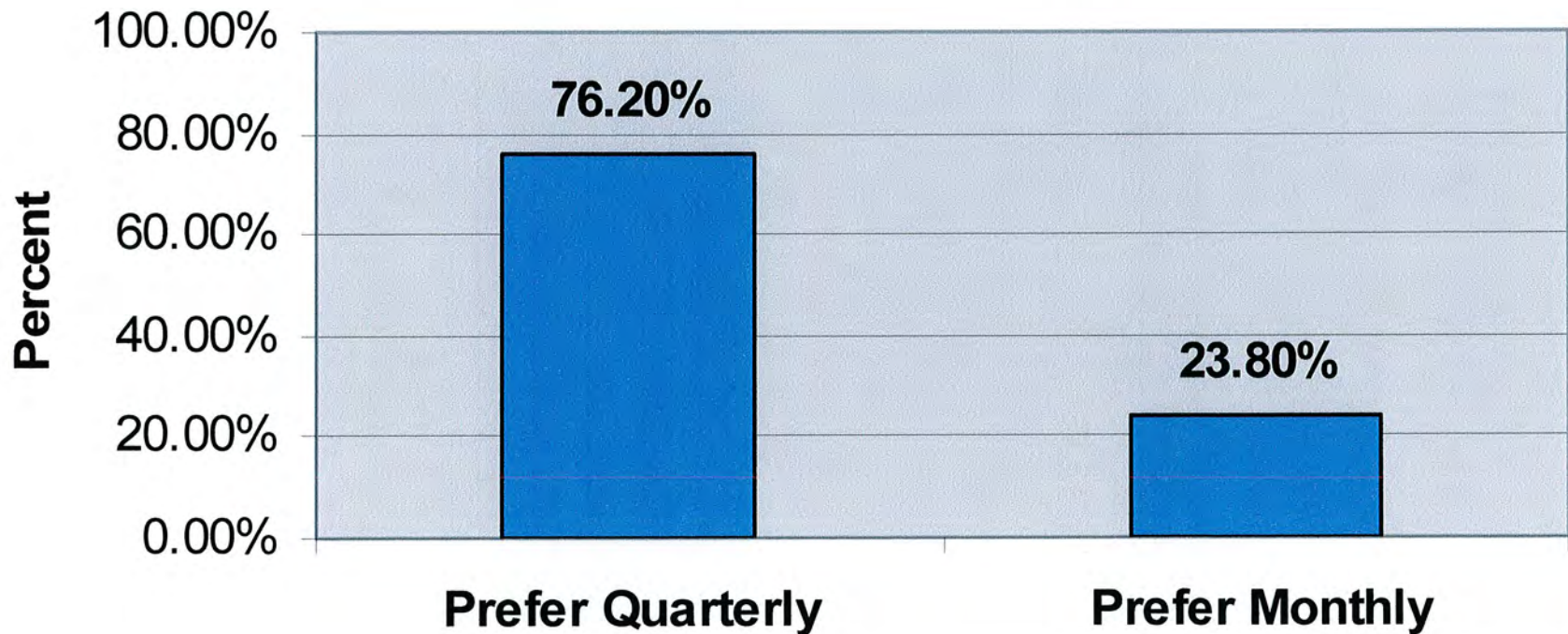
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Additional Staff Sum of Costs	\$190,000	\$195,700	\$201,571	\$207,618	\$213,847	\$220,262	\$226,870	\$233,676	\$240,686	\$247,907	\$2,178,137
Credit Card Processing Sum of Costs	\$200,000	\$201,000	\$202,005	\$207,075	\$208,111	\$209,151	\$214,401	\$215,473	\$216,550	\$221,986	\$2,095,752
Postage Sum of Costs	\$292,400	\$293,862	\$309,068	\$310,613	\$326,040	\$327,670	\$343,322	\$345,038	\$360,917	\$362,722	\$3,271,652
Bill Prep Sum of Costs	\$105,600	\$106,128	\$106,659	\$110,408	\$110,960	\$111,515	\$115,434	\$116,011	\$116,591	\$120,690	\$1,119,995
Lockbox Sum of Costs	\$109,440	\$109,440	\$109,440	\$111,629	\$111,629	\$111,629	\$113,861	\$113,861	\$113,861	\$116,139	\$1,120,929
Misc. Sum of Costs	\$17,000	\$17,510	\$18,035	\$18,576	\$19,134	\$19,708	\$20,299	\$20,908	\$21,535	\$22,181	\$194,886
<b>Total Sum of Incremental Costs</b>	<b>\$914,440</b>	<b>\$923,640</b>	<b>\$946,778</b>	<b>\$965,919</b>	<b>\$989,720</b>	<b>\$999,935</b>	<b>\$1,034,187</b>	<b>\$1,044,968</b>	<b>\$1,070,142</b>	<b>\$1,091,624</b>	<b>\$9,981,352</b>
Incremental Earnings Interest	(\$37,204)	(\$37,204)	(\$37,204)	(\$37,204)	(\$37,204)	(\$37,204)	(\$37,204)	(\$37,204)	(\$37,204)	(\$37,204)	(\$372,043)
<b>Expense in Excess of Income</b>	<b>\$877,236</b>	<b>\$886,436</b>	<b>\$909,573</b>	<b>\$928,715</b>	<b>\$952,515</b>	<b>\$962,730</b>	<b>\$996,983</b>	<b>\$1,007,764</b>	<b>\$1,032,938</b>	<b>\$1,054,420</b>	<b>\$9,609,309</b>

### Initial Survey Qtrly. Vs. Monthly 356 Respondents





### Second Survey Qtrly. Vs. Monthly (Cost Considered) 130 Respondents





## **Advantages of Monthly Billing**

Leaks Potentially Caught Sooner

Budgeting for Customer

Each Payment Is for Smaller Amount

District Gets Cash Sooner (Somewhat Mitigated by Lower Interest Rates)

## **Disadvantages of Monthly Billing**

Higher Costs and Higher Resulting Rates

Need for Additional Staff

Increases Our Risk of Higher Postage, Supplies, and Fuel

Would Increase Our Delinquent Service Calls

NKWD\_PSCDR3\_Q13\_090612  
Case 2012-00072  
Response to Q13  
Witness: Bragg

**Q13. List all legal actions in which Northern District is currently involved and state the current status of each action.**

**A13. Attached please see letter from District's legal counsel. Also attached are any lawsuits being handled by the District's Insurance Company, which are highlighted in yellow.**



Brian C. Dunham  
E-mail: bdunham@hemmerlaw.com  
Direct Dial: (859) 578-3853

September 4, 2012

Northern Kentucky Water District  
Attn: Mr. Jack Bragg, Vice President of Finance  
2835 Crescent Springs Pike  
Erlanger, Kentucky 41018

RE: *Status of Pending Litigation Matters*

Dear Jack:

At your request, I am providing a summary of all outstanding litigation matters being handled by our firm, which serves as General Counsel to the Northern Kentucky Water District. Specifically, we have the following two outstanding and unresolved litigation matters:

Thomas Schrage v. Northern Kentucky Water District and Sanitation District No. 1, Kenton Circuit Court, Case No. 07-CI-1652. On June 6, 2007, plaintiff Thomas Schrage filed a class action complaint against the District and Sanitation District No. 1, seeking a judicial declaration that the assessment of sales tax against one to four unit non-owner occupied residential properties as required by the State of Kentucky is unlawful. Mr. Schrage filed the action as the purported representative of similarly situated class members. On June 29, 2007, the District filed a Motion to Dismiss based upon several procedural and substantive deficiencies with the plaintiff's complaint, including failure to name an indispensable party to the litigation. The District also filed a Motion to Disqualify counsel. Prior to the Court ruling on the District's motions, the parties reached an agreement to stay the litigation in Kenton Circuit Court to facilitate the filing of an administrative refund action with the Kentucky Department of Revenue. The parties are currently in the process of preparing and submitting an application for administrative refund with the Kentucky Department of Revenue. Although this matter remains pending, any

Northern Kentucky Water District  
Attn: Mr. Jack Bragg, Vice President of Finance  
September 4, 2012  
Page 2

refund amount ultimately required to be paid should be recoverable only from the Kentucky Department of Revenue and not from the District.

Northern Kentucky Water District vs. Ft. Mitchell Hotel, LLC, Kenton Circuit Court, Case No. 12-CI-1553. On June 14, 2012, the Northern Kentucky Water District filed a complaint against Ft. Mitchell Hotel, LLC to collect payment of \$16,657.07 in delinquent water service fees. To date, the Kenton County Sheriff has been unable to have Ft. Mitchell Hotel, LLC properly served although it continues to attempt to do so.

Should you have any questions regarding the above summary or need any additional information, please let me know.

Sincerely,

Hemmer DeFrank PLLC

A handwritten signature in black ink, appearing to read 'B. Dunham', with a long horizontal flourish extending to the right.

Brian C. Dunham,  
Member

BCD/cml





**Detail Loss Report**

Losses From: 08/28/2005 To 08/28/2012

Claimant: \_\_\_\_\_ Adj Off: \_\_\_\_\_ FP: \_\_\_\_\_ Claim Number: \_\_\_\_\_ Accident Date: \_\_\_\_\_ Notice Date: \_\_\_\_\_ Close Date: \_\_\_\_\_ O/C: \_\_\_\_\_ Total: \_\_\_\_\_ Claim: \_\_\_\_\_ Medical: \_\_\_\_\_ Expense: \_\_\_\_\_

Line of Insurance: **GL - GENERAL LIABILITY**

Date of Loss: **11/16/2010**

CLAIMANT FELL ON SIDEWALK, ALLEGES IT WAS DUE TO INSURED SUBCONTRACTOR CONSTRUCTION CREW

Inc:	\$24,275.00	\$8,275.00	\$5,000.00	\$11,000.00
Pd:	\$2,482.90	\$0.00	\$0.00	\$2,482.90
O/S:	\$21,792.10	\$8,275.00	\$5,000.00	\$8,517.10

Subtotals for Date of Loss : 11/16/2010

Total Claim Count: 1

Inc:	\$24,275.00	\$8,275.00	\$5,000.00	\$11,000.00
Pd:	\$2,482.90	\$0.00	\$0.00	\$2,482.90
O/S:	\$21,792.10	\$8,275.00	\$5,000.00	\$8,517.10

Date of Loss: **11/22/2010**

SETHER JUDITH 026 ER CES749 11/22/2010 01/11/2011 05/26/2011  
 QFII: CLMT STEPPED IN HOLE THAT HAD WATER DISTRICT COVER.

Inc:	\$335.00	\$0.00	\$335.00	\$0.00
Pd:	\$335.22	\$0.00	\$335.22	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Subtotals for Date of Loss : 11/22/2010

Total Claim Count: 1

Inc:	\$335.00	\$0.00	\$335.00	\$0.00
Pd:	\$335.22	\$0.00	\$335.22	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: **11/28/2010**

BAKER HEIDI 204 ER EJA954 11/28/2010 11/29/2010 11/30/2010  
 WATER MAIN BREAK CAUSED DAMAGE TO HOME OF HEIDI BAKER

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Subtotals for Date of Loss : 11/28/2010

Total Claim Count: 1

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: **12/01/2010**

SAVOR 026 ER EJA707 12/01/2010 12/02/2010 10/24/2011  
 WATER MAIN BREAK CAUSED EXTENSIVE WATER DAMAGE TO 10 OR MORE COMMERCIAL BUSINESS - DAMAGE CONSIST OF BASEMENTS FILLING U

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

**Losses From: 08/28/2005 To 08/28/2012**

**Detail Loss Report**

Claimant	Adj Off	FP	Claim Number	Accident Date	Notice Date	Close Date	O/C	Total	Claim	Medical	Expense
<b>Line of Insurance: GL - GENERAL LIABILITY</b>											
<b>Date of Loss: 05/26/2011</b>											
<b>Subtotals for Date of Loss : 05/26/2011</b>											
Total Claim Count: 1											
<b>Date of Loss: 05/31/2011</b>											
KUMBERWILMA 234 BR EUN6339 05/31/2011 06/10/2011 06/10/2011											
BOTTEOL OF METER SPLIT AND FLOODED BASEMENT											
Inc: \$0.00											
Pd: \$0.00											
O/S: \$0.00											
<b>Subtotals for Date of Loss : 05/31/2011</b>											
Total Claim Count: 1											
<b>Date of Loss: 06/02/2011</b>											
KUMBERWILMA 234 BR EUN6339 06/10/2011 06/10/2011 06/10/2011											
INSURED HIRED CONTRACTOR WHOSE SUBCONTRACTOR HIT WATER MAIN AND FIBER OPTIC LINE											
Inc: \$35,923.00											
Pd: \$1,297.50											
O/S: \$34,625.50											
<b>Subtotals for Date of Loss : 06/02/2011</b>											
Total Claim Count: 1											
<b>Date of Loss: 06/10/2011</b>											
KUMBERWILMA 234 BR EUN6339 06/10/2011 06/10/2011 06/10/2011											
WATER IN BASEMENT TO MAIN LINE BREAK											
Inc: \$0.00											
Pd: \$0.00											
O/S: \$0.00											
<b>Subtotals for Date of Loss : 06/10/2011</b>											
Total Claim Count: 1											

**Detail Loss Report** Losses From: 08/28/2005 To 08/28/2012

Claimant    Adj Off    FP    Claim Number    Accident Date    Notice Date    Close Date    O/C    Total    Claim    Medical    Expense

Line of Insurance: **GL - GENERAL LIABILITY**

Date of Loss: 07/16/2011

Subtotals for Date of Loss : 07/16/2011

Total Claim Count: 1  
 Inc: \$8,560.00    \$8,560.00    \$0.00    \$0.00    \$0.00  
 Pd: \$8,560.39    \$8,560.39    \$0.00    \$0.00    \$0.00  
 O/S: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00

Date of Loss: 07/24/2011

028 LR ESA044 07/24/2011 10/07/2011 2/09/2011  
 KEEL'SHLEY CLMT ALLEGES TO HAVE FALLEN IN WATER METER PIT

Inc: \$1,989.00    \$0.00    \$1,989.00    \$0.00    \$0.00  
 Pd: \$1,989.13    \$0.00    \$1,989.13    \$0.00    \$0.00  
 O/S: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00

Subtotals for Date of Loss : 07/24/2011

Total Claim Count: 1  
 Inc: \$1,989.00    \$0.00    \$1,989.00    \$0.00    \$0.00  
 Pd: \$1,989.13    \$0.00    \$1,989.13    \$0.00    \$0.00  
 O/S: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00

Date of Loss: 07/28/2011

PER FAX-KELLY MOORE'S SON STEPPED ON METER LID AND FELL INSIDE. LEG IS INJURED.

Inc: \$1,617.00    \$1,000.00    \$0.00    \$0.00    \$617.00  
 Pd: \$17.00    \$0.00    \$0.00    \$0.00    \$17.00  
 O/S: \$1,600.00    \$1,000.00    \$0.00    \$0.00    \$600.00

Subtotals for Date of Loss : 07/28/2011

Total Claim Count: 1  
 Inc: \$1,617.00    \$1,000.00    \$0.00    \$0.00    \$617.00  
 Pd: \$17.00    \$0.00    \$0.00    \$0.00    \$17.00  
 O/S: \$1,600.00    \$1,000.00    \$0.00    \$0.00    \$600.00

Date of Loss: 08/05/2011

234 LR EN01319 08/05/2011 09/20/2011 02/28/2012  
 CAMPBELL COUNTY FIRE PRO FIRE DEPT HOOKED UP TO WATER HYDRANT AND DEBRI IN WATER DAMAGE FIRE PUMP FOR THE FIRE TRUCK

Inc: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00  
 Pd: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00  
 O/S: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00

Subtotals for Date of Loss : 08/05/2011

Total Claim Count: 1  
 Inc: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00  
 Pd: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00  
 O/S: \$0.00    \$0.00    \$0.00    \$0.00    \$0.00

**Detail Loss Report**

Losses From: 08/28/2005 To 08/28/2012

Claimant    Adj Off    FP    Claim Number    Accident Date    Notice Date    Close Date    O/C    Total    Claim    Medical    Expense

Line of Insurance: **GL - GENERAL LIABILITY**

Date of Loss: 09/26/2011

CLMT FELL IN HOLE. INSD ADVISED THIS HOLE IS ACTUALLY THE RESPONSIBILITY OF THE SEWER DISTRICT.

Inc:	\$17,241.00	\$2,241.00	\$0.00	\$15,000.00
Pd:	\$2,235.00	\$0.00	\$0.00	\$2,235.00
O/S:	\$15,006.00	\$2,241.00	\$0.00	\$12,765.00

Subtotals for Date of Loss : 09/26/2011

Total Claim Count: 1

Inc:	\$17,241.00	\$2,241.00	\$0.00	\$15,000.00
Pd:	\$2,235.00	\$0.00	\$0.00	\$2,235.00
O/S:	\$15,006.00	\$2,241.00	\$0.00	\$12,765.00

Date of Loss: 09/28/2011

KEPER RICK    234    LR    ENG2139    09/28/2011    10/25/2011    03/26/2012    C  
 SOUTHERN CAMPBELL COUNTY FIRE DEPARTMENT WAS TESTING HYDRANTS IN THE AREA. POSSIBLY CAUSING THE MAIN BREAK THAT BLEW RO

Inc:	\$8,607.00	\$8,607.00	\$0.00	\$0.00
Pd:	\$8,607.15	\$8,607.15	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Subtotals for Date of Loss : 09/28/2011

Total Claim Count: 1

Inc:	\$8,607.00	\$8,607.00	\$0.00	\$0.00
Pd:	\$8,607.15	\$8,607.15	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: 10/03/2011

FURFELER, RYAN    234    LR    ENG218    10/03/2011    10/10/2011    09/10/2011    C  
 WATER DAMAGE TO HOME DUE TO WATER MAIN BREAK

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Subtotals for Date of Loss : 10/03/2011

Total Claim Count: 1

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: 10/04/2011

LITNER, JOHN    234    LR    ENG2540    10/04/2011    11/07/2011    11/07/2011    C  
 WATER TURNED ON IN ERROR CAUSING WATER DAMAGE TO PROPERTY

Inc:	\$3,312.00	\$3,312.00	\$0.00	\$0.00
Pd:	\$3,312.36	\$3,312.36	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

**Detail Loss Report** Losses From: 08/28/2005 To 08/28/2012

Claimant Adj Off FP Claim Number Accident Date Notice Date Close Date O/C Total Claim Medical Expense

Line of Insurance: GL - GENERAL LIABILITY

Date of Loss: 01/27/2012

CLAIMANT ALLEGE WATER PIPE BREAK CAUSED WATER DAMAGE TO HIS PROPERTY - ALSO ALLEGES FAULTY CONSTRUCTION/DESIGN/ETC BY DE

Inc:	\$60,000.00	\$50,000.00	\$0.00	\$10,000.00
Pd:	\$7,017.00	\$0.00	\$0.00	\$7,017.00
O/S:	\$52,983.00	\$50,000.00	\$0.00	\$2,983.00

Subtotals for Date of Loss : 01/27/2012  
Total Claim Count: 1

Inc:	\$60,000.00	\$50,000.00	\$0.00	\$10,000.00
Pd:	\$7,017.00	\$0.00	\$0.00	\$7,017.00
O/S:	\$52,983.00	\$50,000.00	\$0.00	\$2,983.00

Date of Loss: 03/30/2012

CHEMAN RICHARD 234 BR ENG872 03/30/2012 04/09/2012 04/13/2012  
CUSTOMER ALLEGES SMALL LEAK IN WATER METER DAMAGED BASEMENT

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Subtotals for Date of Loss : 03/30/2012  
Total Claim Count: 1

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: 04/28/2012

MOREMARY 028 BR ENG867 04/28/2012 05/03/2012 06/14/2012  
CLAIMANT STEPPED ON LOOSE WATER METER LID WHILEW JOGGING INJURING HER HAND

Inc:	\$2,284.00	\$750.00	\$1,534.00	\$0.00
Pd:	\$2,283.85	\$750.00	\$1,533.85	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Subtotals for Date of Loss : 04/28/2012  
Total Claim Count: 1

Inc:	\$2,284.00	\$750.00	\$1,534.00	\$0.00
Pd:	\$2,283.85	\$750.00	\$1,533.85	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: 05/12/2012

ELFSON TOWNS 010 BR ENG868 05/12/2012 05/12/2012 05/12/2012  
CLAIMANT CROSSING THE STEET AND HE FELL INTO A MANHOLE (MANHOLE COVER MISSING)

Inc:	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Losses From: 08/28/2005 To 08/28/2012

Detail Loss Report

Claimant    Adj Off    FP    Claim Number    Accident Date    Notice Date    Close Date    O/C    Total    Claim    Medical    Expense

Line of Insurance: GL - GENERAL LIABILITY

Date of Loss: 05/12/2012

Subtotals for Date of Loss : 05/12/2012

Total Claim Count: 1

Inc:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: 05/16/2012

STAMPER EDWARD    234    UR    ESE1052    05/16/2012    05/05/2012    05/26/2012    C

EMPLOYEE TURNED ON WATER AND PIPE BURST

Subtotals for Date of Loss : 05/16/2012

Total Claim Count: 1

Inc:	\$711.00	\$711.00	\$711.00	\$711.00	\$711.00	\$711.00	\$711.00	\$711.00	\$711.00	\$0.00	\$0.00
Pd:	\$711.15	\$711.15	\$711.15	\$711.15	\$711.15	\$711.15	\$711.15	\$711.15	\$711.15	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: 06/05/2012

CLAIMANT ALLEGES DAMAGE TO BOXES STORED IN BASEMENT DUE TO WATER METER BEING CHANGED

Subtotals for Date of Loss : 06/05/2012

Total Claim Count: 1

Inc:	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$0.00	\$0.00

Date of Loss: 06/06/2012

STACROD STACY    234    UR    ESE123    06/06/2012    07/03/2012    06/07/2012    C

WATER MAIN BREAK CAUSING DAMAGE TO CLMT'S BASEMENT

Subtotals for Date of Loss : 06/06/2012

Total Claim Count: 1

Inc:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Losses From: 08/28/2005 To 08/28/2012

Detail Loss Report

Claimant: \_\_\_\_\_ Adj Off: \_\_\_\_\_ FP: \_\_\_\_\_ Claim Number: \_\_\_\_\_ Accident Date: \_\_\_\_\_ Notice Date: \_\_\_\_\_ Close Date: \_\_\_\_\_ O/C: \_\_\_\_\_ Total: \_\_\_\_\_ Claim: \_\_\_\_\_ Medical: \_\_\_\_\_ Expense: \_\_\_\_\_

Line of Insurance: GL - GENERAL LIABILITY

Date of Loss: 07/27/2012

LOCKMAN BOB 234 LR ESE312 07/27/2012 05/14/2012 08/22/2012  
 CLAIMANT ALLEGES DAMAGE TO HIS HOME FROM WATER BREAKS IN 2008-2010 AND 2012

Subtotals for Date of Loss : 07/27/2012

Total Claim Count: 1

Inc:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Inc:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Date of Loss: 08/21/2012

BRYAN SKINNER CLAIMS BUILDING DAMAGE FROM WATER MAIN BREAK

Subtotals for Date of Loss : 08/21/2012

Total Claim Count: 1

Inc:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Inc:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pd:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Subtotals for Line of Insurance : GL

Total Claim Count: 226

Inc:	\$605,038.00	\$454,409.00	\$31,789.00	\$118,840.00
Pd:	\$470,017.11	\$371,869.45	\$26,789.26	\$71,358.40
O/S:	\$135,020.89	\$82,539.55	\$4,999.74	\$47,481.60

Line of Insurance: MP - MALPRACTICE

Date of Loss: 10/19/2007

SYED WAJAHAT 028 LR A902186 01/01/2007 10/27/2007 05/14/2012  
 LEGAL DOCUMENTS FOR AGE DISCRIMINATION

Subtotals for Date of Loss : 10/19/2007

Total Claim Count: 1

Inc:	\$192,141.00	\$4,000.00	\$0.00	\$188,141.00
Pd:	\$192,141.00	\$4,000.00	\$0.00	\$188,141.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00
Inc:	\$192,141.00	\$4,000.00	\$0.00	\$188,141.00
Pd:	\$192,141.00	\$4,000.00	\$0.00	\$188,141.00
O/S:	\$0.00	\$0.00	\$0.00	\$0.00

Q14. Refer to "Status Report Implementation of Monthly Billing (March 31, 2011)".

- a. Provide a copy of the survey forms regarding monthly billing that Northern District placed on its website.
- b. Provide a copy of the opinion forms that were placed in Northern District's office lobby to solicit customer opinions.
- c. Provide a sample of the message on customer bills to encourage customer participation in Northern District's web survey.
- d. Provide a copy of the results of the surveys if additional information not included in the Status Report on March 31, 2011.
- e. Explain why Northern District believes that the sampling of 356 customers is representative of customer opinion. The response should describe the analysis applied to the results to determine that sample was representative.

A14a: See attached support for Q14a.

A14b: See attached support for Q14b.

A14c: See Attached support for 14c.

A14d: See attached support for 14d.

A14e: We currently have 3,908 responses of which 71.3% favor quarterly billing while 28.7% favor monthly billing. This represents 4.82% of our customers (81,000 meters) which is much higher than most direct mail campaigns who normally have a 1% response rate. We also have talked to the Florence Water Department who went monthly and then went back to quarterly due to the additional expense. They have addressed those who wanted monthly due to budget planning by just having them pay monthly for two months and settling up at the end of the quarter. The response from their customers has been generally positive.



### Survey info - internet web page

Jackie Stanton

Sent: Monday, August 27, 2012 11:16 AM

To: Jack Bragg

Support  
Q 14 A.

The survey has been on the web site since February 15, 2011...

The screenshot shows the Northern Kentucky Water District website. At the top, there is a navigation menu with links for HOME, ABOUT US, VIEW YOUR ACCOUNT, CONTACT US, LINKS, and SEARCH. The main content area features a 'Welcome' message and a 'Billing Survey' section. The survey asks if users prefer quarterly or monthly billing. The 'Monthly' option is selected. Below the radio buttons, there is a text box for 'Please explain why:' and a 'Done' button. On the right side of the page, there are sections for 'PAY YOUR BILL' and 'HEADLINES'.

**Navigation:** HOME ABOUT US VIEW YOUR ACCOUNT CONTACT US LINKS SEARCH

**Welcome**  
Our mission is to provide our customers a safe, clean and sufficient water supply through a reliable system that meets all state and federal regulations at the lowest reasonable cost.

- Serving approximately 300,000 people in Campbell and Kenton counties and portions of Boone, Grant and Pendleton counties
- Over 300 Square Miles of Total Service Area
- 1,272 Miles of Main
- Three (3) Water Treatment Plants with a Capacity of 64 Million Gallons Per Day (MGD)
- Sixteen (16) Distribution Pump Stations
- Twenty (20) Water Storage Tanks

**Billing Survey**  
Would you prefer to be billed for your water consumption on a quarterly or monthly basis? (Monthly billing requires additional costs).

Quarterly  
 Monthly

Please explain why:  
[Text Box]

[Done]

**PAY YOUR BILL**  
**HEADLINES**  
NKWD's Advanced Water Treatment Technologies  
NKWD Offers Water-Saving Tips for Summer  
US EPA: Achievement of Area-Wide Optimization Program Performance Goals During 2011  
Kentucky Division of Water: Water Treatment Plants Recognized for Superior Performance  
NKWD Rate Adjustment 2012  
[View the 'Headlines' Archive](#)



Jackie Stanton



## Billing Survey

Would you prefer to be billed for your water consumption on a monthly or quarterly basis?

(Monthly billing requires additional costs)

Check the appropriate billing method

Quarterly

---

Monthly

---

Please Explain Why

---

---

Please return to the cashier

Thank you for your participation

Support  
Q14b



Service Address  
710 GREER ST

Customer Number  
0416548646

Account Number  
7510232551

Account Summary

Prior Balance	Payments	Bal. Forward	Adjustments	New Charges	Total Amount Due
\$ 858.39	\$-1,145.06	\$-286.67	\$ 0.00	\$ 518.85	\$232.18

Billing Date  
February 14, 2012

Payment Due BEFORE  
March 19, 2012

Payment Due AFTER Due Date  
\$255.40

Office:  
2835 Crescent Springs Rd  
Erlanger, KY 41018

Meter Reading Data

Meter #	Meter Size	Previous Read Date	Current Read Date	Days	Read Type	Previous Reading	Current Reading	Usage	Units
36320414	5/8"	10/28/11	01/24/12	88	Regular	1996	2139	143	HCF
Next Reading Date: April 2012								Total Usage Billed:	143 HCF

Mailing Address:  
P.O. Box 18640  
Erlanger, KY 41018-0640

Any questions?  
Please call us at  
(859) 578-9898  
Monday to Friday  
8:00 AM to 5:00 PM

Make checks to:  
NKWD

Current Charges Detail Service period: October 28, 2011 to January 24, 2012

Balance Forward.....	\$286.67CR
<b>Current Charges Detail</b>	
Consumption - Tier 1: 45.00 HCF @ \$3.67 per HCF .....	\$165.15
Consumption - Tier 2: 98.00 HCF @ \$3.08 per HCF .....	\$301.84
Fixed Service Charge.....	22.49
Sales Taxes - Kentucky.....	29.37
<b>Current Charges for 710 GREER ST</b>	<b>\$518.85</b>

\*\*PAY YOUR BILL ONLINE! NO SIGN-UP  
REQUIRED! Go to www.nkywater.org and click  
"PAY YOUR BILL." Approved payments are  
applied to your water account IMMEDIATELY.  
Visa, Mastercard, Discover & eChecks are  
accepted.

\*\*We value your opinion. Please visit our  
website at www.nkywater.org to take a  
one-question survey regarding quarterly or  
monthly billing.

**Amount Due ON or BEFORE March 19, 2012 ..... \$232.18**

Usage History

Bill date	Days	Usage	
10/28/2011	94	247.00	HCF
7/26/2011	91	288.00	HCF
4/26/2011	91	227.00	HCF
1/25/2011	91	312.00	HCF
10/26/2010	95	469.00	HCF

Return this portion with your payment. Make check or money order made to NKWD

Customer Number	ON or BEFORE	Pay this Amount	AFTER	Pay this Amount
0416548646	03/19/12	\$232.18	03/19/12	\$255.40

PO BOX 188190  
Erlanger, KY 41018-8190  
Address Service Requested

Account Number  
7510232551

- If address has changed, please check here, complete the information on the reverse side and mail back to NKWD.
- To pay by credit card, please check here, complete the information on the reverse side and mail back to NKWD.

Service Address  
710 GREER ST

Northern Kentucky Water District  
P.O. BOX 188190  
Erlanger, KY, 41018-8190

DUDLEY PROPERTIES II LLC  
801 MAIN ST  
COVINGTON KY 41011

SUPPORT Q14 C.

04165486467510232551000023218000025540201203195

### View Summary

[Filter Responses](#) [Download Responses](#) [Browse Responses](#)

#### PAGE:

1. Would you prefer to be billed for your water consumption on a quarterly or monthly basis? (Monthly billing requires additional costs).

	Response Percent	Response Count
<b>Quarterly</b>	71.3%	2,787
<b>Monthly</b>	28.7%	1,121
Please explain why: <a href="#">Show replies</a>		2,319
<b>answered question</b>		<b>3,908</b>
<b>skipped question</b>		<b>21</b>

Support 14D

**Q15a. State whether Northern Kentucky accepts payment of fees by credit card.**

**A15a. Yes**

**Q15b. If Northern Kentucky accepts such payments, state whether a customer paying his or her bills by credit must pay a separate fee to make payment by credit card.**

**A15b. No**

**Q15c. State Northern District's cost per transaction to accept payment by credit card. If the cost of the transaction is based upon a percentage of the bill, provide the percentage. If costs vary due to the credit card provider used (e.g. Discover, MasterCard, Visa), indicate the cost associated with each provider.**

**A15c. There are multiple rates and cost per item with each credit card used, please refer to Attached Schedule for summary cost and detailed cost per credit card vendor & Fifth Third bank.**

**Q15d. State the average number of bills per quarter that were paid by credit card in calendar year 2011.**

**A15d. 25 percent**

**Q15e. State the average total amount of customer payments per quarter in calendar year 2011 that were made by credit card payments.**

**A15e. \$907,861.51**

**Q15f. State the average percentage of total customer bills per quarter that were paid by credit card in calendar year 2011.**

**A15f. 23.89 percent**

## Credit Card Fees for 4th Qtr 2011

	October 2011	Customer #	Rates	Total Fees	Credit Card Payments \$	Total Sales	Fee %
1	Total Water Sales for Month	26,075				\$3,717,823.46	
2	' Discover	393	See List Below	\$644.65	\$47,954.60		1.34%
3	' MasterCard	3,217	See List Below	\$5,317.70	\$378,593.28		1.40%
4	' Visa	3,620	See List Below	\$5,294.25	\$379,749.76		1.39%
5	' ChargeBack Fee			\$45.00			
6	- Echeck	917	2.25% + \$.15/item	\$2,294.16	\$95,627.06		2.40%
7	Totals Paid by Credit Card	8,147		\$13,595.76	\$901,924.70		1.51%
8							
9	% Paid by Credit Cards						24.26%
10							
11	<b>November 2011</b>						
12	Total Water Sales for Month	22,695				\$3,052,316.71	
13	' Discover	350	See List Below	\$505.04	\$37,429.06		1.35%
14	' MasterCard	3,526	See List Below	\$5,222.61	\$351,983.16		1.48%
15	' Visa	3,303	See List Below	\$5,007.94	\$325,793.75		1.54%
16	' ChargeBack Fee			\$30.00			
17	- Echeck	987	2.25% + \$.15/item	\$2,461.64	\$102,604.17		2.40%
18	Totals Paid by Credit Card	8,166		\$13,227.23	\$817,810.14		1.62%
19							
20	% Paid by Credit Cards						26.79%
21							
22	<b>December 2011</b>						
23	Total Sales All Customers	31,591				\$4,400,089.54	
24	' Discover	296	See List Below	\$534.99	\$47,075.91		1.14%
25	' MasterCard	3,519	See List Below	\$6,985.40	\$409,299.96		1.71%
26	' Visa	3,159	See List Below	\$5,370.12	\$371,685.04		1.44%
27	' ChargeBack Fee			\$15.00			
28	- Echeck	806	2.25% + \$.15/item	\$1,921.41	\$79,800.60		2.41%
29	Totals Paid by Credit Card	7,780		\$14,826.92	\$907,861.51		1.63%
30							
31	% Paid by Credit Cards						20.63%
32							
33	Totals for 4th Quarter	24,093		\$41,649.91	\$2,627,596.35	\$11,170,229.71	
34							
35							
36	General Fee Structure						
37	.05% + \$.20/item, Third Party Fee, vanti fees						

VANTIV HOLDING, LLC  
 DBA FIFTH THIRD PROCESSING SOLUTIONS  
 MD: 1GH2Y1  
 8500 GOVERNORS HILL DR  
 SYMMES TWP, OH 45249-1384



OCT  
2011



NORTHERN KY WATER DISTRICT  
 2835 CRESCENT SPRINGS PIKE  
 ERLANGER, KY 41018-1326

Page	1 of 4
Billing Account Number	C 70548768

MERCHANT BILLING STATEMENT	
Statement Date	November 7, 2011
Statement Period	October, 2011
Chain	058323

For Customer Service Please Call: 1-877-744-5300  
 Refer Billing Inquiries To: Merchant Services  
 Mail Drop 1GH2X2  
 8500 Governors Hill Dr  
 Symmes Township, OH 45249-1384

Please refer to the last page of this statement for important information.

Services Summary		
Section Description	Processing	Total
Transaction Fees	\$ 1,894.15	\$ 1,894.15
Dial Communication Fees	-	-
Third Party Credit Fees	\$ 914.06	\$ 914.06
Products, Comm, Prog and Other Fees	\$ 8.95	\$ 8.95
<b>Totals</b>	<b>\$ 2,817.16</b>	<b>\$ 2,817.16</b>

Statement Period Fees		
Account	R&T	Amount
***6014	042102115	\$ 2,817.16
<b>Total Fees Due</b>		<b>\$ 2,817.16</b>

ACH debit of \$ 2,817.16 is scheduled to post on or about 11/9/11 to R/T # 042102115 Account # \*\*\*6014

**Transaction Fees**

Processing Fees	Rate	Volume	Total
Discover Fees	0.05%	\$ 47,954.60	\$ 23.98
MasterCard Fees	0.05%	\$ 378,593.28	\$ 189.30
Visa Fees	0.05%	\$ 379,749.76	\$ 189.87
<b>Totals</b>		<b>\$ 806,297.64</b>	<b>\$ 403.15</b>

Credit Card Type	Per Unit Fee	Count	Total Fees
Discover Transaction Fee	\$ 0.20	393	\$ 78.60
MasterCard Transaction Fee	\$ 0.20	3,217	\$ 643.40
Visa Transaction Fee	\$ 0.20	3,620	\$ 724.00
<b>Totals</b>		<b>7,230</b>	<b>\$ 1,446.00</b>

Chargeback and Adjustment Services	Per Unit Fee	Count	Total Fees
Chargeback Processing Fee	\$ 15.00	3	\$ 45.00
<b>Totals</b>		<b>3</b>	<b>\$ 45.00</b>

**Total Transaction Fees \$ 1,894.15**

**Dial Communication Fees**

Dial Provider	Per Unit Fee	Count	Total Fees
Discover Communication Fee	-	393	-
<b>Totals</b>		<b>393</b>	<b>-</b>

**Total Dial Communication Fees -**

**Third Party Credit Fees**

Network Fees	Per Unit Fee	Count	Total Fees
MC Acct Inquiry Status Dom	\$ 0.025	28	\$ 0.70
MC Address Verification Cnp	\$ 0.0075	3,187	\$ 23.90
MC Address Verification Cp	\$ 0.005	28	\$ 0.14
MC No Clr 120 Day Auth	\$ 0.045	3	\$ 0.14
VS Acct Verification Fee	\$ 0.025	64	\$ 1.60
VS Auth Misuse Fee	\$ 0.045	2	\$ 0.09
<b>Totals</b>		<b>3,312</b>	<b>\$ 26.57</b>

Assessments	Rate	Volume	Total
Discover Assessment Fee	0.10%	\$ 47,954.60	\$ 47.95
MasterCard Assessment Fee	0.11%	\$ 324,877.03	\$ 357.36
MC Assessment Fee \$1000 & Over	0.12%	\$ 53,716.25	\$ 64.46
Visa Assessment Fee	0.11%	\$ 379,749.76	\$ 417.72
<b>Totals</b>		<b>\$ 806,297.64</b>	<b>\$ 887.49</b>

**Total Third Party Credit Fees \$ 914.06**

**Products, Comm, Prog and Other Fees**

Products	Fee	Count	Total Fees	
Direct Express	-	2	-	Waive
<b>Totals</b>		<b>-</b>	<b>-</b>	



DIRECT

Powered by **vantiv**

Express

HELP

LOGOFF

Admin Merchant Reports & Statements

Last Logon: 11/03/2011 01:24:10 PM EDT

Reports & Statements  
View Reports  
Download Reports

Monthly Interchange Fee Summary - October 31, 2011

Save As Text

Save As Pdf

Select/Enter Relationship

Help on Report

Chain

058323

Date Range

From: 10/31/2011

By Single Date

To: 10/31/2011

Search

Clear

Page 1 of 1  
<<First Page <Previous Page Next Page> Last Page>>

MM-085

MONTHLY INTCH/OTHER FEE SUMMARY

10/31/11

PAGE: 1

\*\*Please note that the Monthly Intch/Other Fee Summary report should be used to evaluate your intch/other qualification levels but should not be used for fee reconciliation purposes due to rounding requirements for intch/other calculation determined by the Visa and MasterCard Card Associations.

Go To

Report Dates

CHAIN: 58323- : NORTHERN KY WATER DISTRICT

MERCHANT: 4445154969774

STORE: 0001 NORTHERN KY WATER DIST

INTCH/OTHER FEE SUMMARY			
The base rate is: Visa-CPS Utility      MasterCard-Utility      Discover-Utility			
	INTCH/OTHER LEVELS	NUMBER	SALE AMOUNT      FEE AMOUNT
MASTERCARD	MC COML DATA RATE 1 BUS	9	342.99      11.02
	MC COML DATA RATE 1 BUS WORLD	1	44.79      1.49
	MC COML DATA RATE 1 CORP	1	80.00      2.46
	MC COML DATA RATE 1 FLEET	42	26,804.98      794.97
	MC COML UTILITIES BUS	66	15,453.83      145.36
	MC CREDIT UTILITIES	141	16,577.85      91.65
	MC DEBIT REGULATED	33	3,024.69      25.99
	MC DEBIT REGULATED FRAUD	1,478	152,425.32      1,819.01
	MC DEBIT UTILITIES	942	92,085.86      700.16
	MC DEBIT REGULATED FRAUD RETURN	2-	150.57-      .52-
	MC WORLD UTILITIES	150	16,858.52      148.08
	MC WORLD ELITE UTILITIES	24	5,661.11      34.98
	MC ENHANCED UTILITIES	168	41,316.20      233.15
	MC WORLD HIGH VALUE UTILITIES	9	7,917.14      30.50
-----		3,062	378,442.71      4,038.30
VISA	VS COML CARD NOT PRESENT PRCH	8	2,040.10      58.94
	VS COML UTILITY BUS	51	7,909.96      100.23
	VS DEBIT CPS UTILITY	403	38,917.45      378.70
	VS DEBIT REGULATED	2,211	222,438.70      2,830.60
	VS DEBIT / PREPAID RETURN	6-	632.00-      .52-
	VS CREDIT CPS UTILITY	790	108,443.55      592.50
-----		3,457	379,117.76      3,960.97
DISCOVER	DS COML UTILITY	82	10,228.58      153.69
	DS PREMIUM PSL UTILITY	68	7,477.94      73.43
	DS REWARD PSL UTILITY	228	29,249.50      258.75
	DS PREM PLUS PSL UTILITY	7	998.58      8.25
	-----		385
-----		6,904	805,515.07      8,493.39

<<First Page <Previous Page Next Page> Last Page>>  
Page 1 of 1

Help on Report

TeleCheck Services, Inc.  
P.O. Box 60028  
City of Industry, CA 91716-0028

**Your account will be automatically  
deducted on November 21, 2011.  
Do not pay this invoice.**

BILLING PERIOD: 01-OCT-2011 THRU 31-OCT-2011  
INVOICE NUMBER: K144018735  
TELECHECK NUMBER: 44018735  
AMOUNT DUE: \$2,294.16

All inquiries, call 1-800-366-1054  
business hours 7:00 to 7:00 CST, M-F

Written correspondence (excluding payments) must be directed to:  
TeleCheck Merchant Services  
Mail Stop A-12  
7301 Pacific Street  
Omaha, NE 68114

NORTHERN KENTUCKY WATER DISTRC  
JACKIE STANTON  
PO BOX 18640  
ERLANGER KY 41018

Amount Enclosed \$ \_\_\_\_\_  
Please return this portion with your payment.  
Finance charge of 1.50% per month on unpaid balance.

8144018735900002294168

TeleCheck Services, Inc.  
P.O. Box 60028  
City of Industry, CA 91716-0028

BILLING PERIOD: 01-OCT-2011 THRU 31-OCT-2011  
INVOICE NUMBER: K144018735  
CUSTOMER NAME: NORTHERN KENTUCKY WATER DISTRC  
TELECHECK NUMBER: 44018735

DESCRIPTION	CHARGES	TOTALS
BALANCE FORWARD		\$2,238.31
ACH PAYMENT - THANK YOU - 18-OCT-2011		2,238.31CR
\$95,627.06 CHECK INQUIRIES @ 2.25%	\$2,151.61	
917 TRANSACTIONS @ 0.1500	137.55	
PROCESSING FEE	\$5.00	
CURRENT MONTH CHARGES	2,294.16	2,294.16
BALANCE DUE		\$2,294.16

**CHECK ACTIVITY**

11 ELECTRONIC CHECKS PURCHASED TOTALING	\$1,407.03
13 OUT OF AREA SALES TOTALING	\$1,814.07
106 CHECKS DECLINED SAVING	\$13,200.80

BALANCE FORWARD	PAYMENTS	CURRENT	30 DAYS	60 DAYS	90+ DAYS	BALANCE DUE
\$2,238.31	\$2,238.31CR	\$2,294.16	\$0.00	\$0.00	\$0.00	\$2,294.16

Have you been to the TeleCheck website lately? Find helpful product information, training  
information and more at [www.telecheck.com](http://www.telecheck.com)

VANTIV HOLDING, LLC  
 DBA FIFTH THIRD PROCESSING SOLUTIONS  
 MD: 1GH2Y1  
 8500 GOVERNORS HILL DR  
 SYMMES TWP, OH 45249-1384



NORTHERN KY WATER DISTRICT  
 2835 CRESCENT SPRINGS PIKE  
 ERLANGER, KY 41018-1326

Page	1 of 3
Billing Account Number	C 70548768

MERCHANT BILLING STATEMENT	
Statement Date	December 7, 2011
Statement Period	November, 2011
Chain	058323

**For Customer Service Please Call:** 1-877-744-5300  
**Refer Billing Inquiries To:** Merchant Services  
 Mail Drop 1GH2X2  
 8500 Governors Hill Dr  
 Symmes Township, OH 45249-1384

**This Month's News**

Please see below for information on upcoming PIN debit fee modifications from Jeanie® (effective December 2011) and Interlink® (effective April 2012).

Jeanie Exempt Interchange Rate	Current	Effective December 2011
Supermarket	\$0.35	\$0.218
All Other (Retail)	0.80% + \$0.19 (\$9.99 max)	0.75% + \$0.10 (No Cap)

Interlink POS Switch Fee	Current	Effective April 2012
POS Switch Fee	\$0.035	0.08% + \$0.0225 (\$0.035 max)

**This Month's News**

We want to provide your business with reliable, convenient, hassle-free transactions and the best possible quality service and support in the industry. Ours is a competitive industry, and we have determined it is necessary to assess an Annual Fee of \$99 per each Merchant ID. Trust that our commitment to your business is centered on growing and protecting your business, your brand and your bottom line. We look forward to continuing to be your trusted source of information, education, and consultation.

Services Summary		
Section Description	Processing	Total
Transaction Fees	\$ 1,823.40	\$ 1,823.40
Dial Communication Fees	-	-
Third Party Credit Fees	\$ 813.43	\$ 813.43
Products, Comm, Prog and Other Fees	\$ 8.95	\$ 8.95
Rebates, Corrections, and Misc.	-	-
<b>Totals</b>	<b>\$ 2,645.78</b>	<b>\$ 2,645.78</b>

Statement Period Fees		
<b>Statement fees total debit for the month of November:</b>		
<b>Account</b>	<b>R&amp;T</b>	<b>Amount</b>
***6014	042102115	\$ 2,645.78
<b>Total Fees Due</b>		<b>\$ 2,645.78</b>

**ACH debit of \$ 2,645.78 is scheduled to post on or about 12/9/11 to R/T # 042102115 Account # \*\*\*6014**

**Transaction Fees**

Processing Fees	Rate	Volume	Total
Discover Fees	0.05%	\$ 37,429.06	\$ 18.71
MasterCard Fees	0.05%	\$ 351,983.16	\$ 175.99
Visa Fees	0.05%	\$ 325,793.76	\$ 162.90
<b>Totals</b>		<b>\$ 715,205.98</b>	<b>\$ 357.60</b>

Credit Card Type	Per Unit Fee	Count	Total Fees
Discover Transaction Fee	\$ 0.20	350	\$ 70.00
MasterCard Transaction Fee	\$ 0.20	3,526	\$ 705.20
Visa Transaction Fee	\$ 0.20	3,303	\$ 660.60
<b>Totals</b>		<b>7,179</b>	<b>\$ 1,435.80</b>

Chargeback and Adjustment Services	Per Unit Fee	Count	Total Fees
Chargeback Processing Fee	\$ 15.00	2	\$ 30.00
<b>Totals</b>		<b>2</b>	<b>\$ 30.00</b>

<b>Total Transaction Fees</b>	<b>\$ 1,823.40</b>
-------------------------------	--------------------

**Dial Communication Fees**

Dial Provider	Per Unit Fee	Count	Total Fees
Discover Communication Fee	-	350	-
<b>Totals</b>		<b>350</b>	<b>-</b>

<b>Total Dial Communication Fees</b>	<b>-</b>
--------------------------------------	----------

**Third Party Credit Fees**

Network Fees	Per Unit Fee	Count	Total Fees
MasterCard Documentation Image Fee	\$ 0.30	1	\$ 0.30
MC Acct Inquiry Status Dom	\$ 0.025	25	\$ 0.63
MC Address Verification Cnp	\$ 0.0075	3,499	\$ 26.24
MC Address Verification Cp	\$ 0.005	25	\$ 0.13
MC Chargeback Assessment Fee	\$ 0.006	166	\$ 1.00
MC Chgback Support Document Fee	\$ 0.35	1	\$ 0.35
MC No Cir 120 Day Auth	\$ 0.045	1	\$ 0.05
VS Acct Verification Fee	\$ 0.025	59	\$ 1.48
<b>Totals</b>		<b>3,777</b>	<b>\$ 30.18</b>

Assessments	Rate	Volume	Total
Discover Assessment Fee	0.10%	\$ 37,429.06	\$ 37.43
MasterCard Assessment Fee	0.11%	\$ 349,300.32	\$ 384.23
MC Assessment Fee \$1000 & Over	0.12%	\$ 2,682.84	\$ 3.22
Visa Assessment Fee	0.11%	\$ 325,793.76	\$ 358.37
<b>Totals</b>		<b>\$ 715,205.98</b>	<b>\$ 783.25</b>

<b>Total Third Party Credit Fees</b>	<b>\$ 813.43</b>
--------------------------------------	------------------

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Monthly Interchange Fee Summary - November 30, 2011

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Chain

058323

Date Range

From: 11/30/2011

By Single Date

To: 11/30/2011

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Report Dates

MM-085 MONTHLY INTCH/OTHER FEE SUMMARY 11/30/11 PAGE: 1  
\*\*Please note that the Monthly Intch/Other Fee Summary report should be used to evaluate your intch/other qualification levels but should not be used for fee reconciliation purposes due to rounding requirements for intch/other calculation determined by the Visa and MasterCard Card Associations.  
CHAIN: 58323- : NORTHERN KY WATER DISTRICT MERCHANT: 4445154969774  
STORE: 0001 NORTHERN KY WATER DIST

INTCH/OTHER FEE SUMMARY			
The base rate is: Visa-CPS Utility MasterCard-Utility Discover-Utility			
INTCH/OTHER LEVELS	NUMBER	SALE AMOUNT	FEE AMOUNT
<b>MASTERCARD</b>			
MC COML DATA RATE 1 BUS	14	610.54	19.39
MC COML DATA RATE 1 FLEET	13	2,477.64	74.37
MC COML DATA RATE 1 PRCH	1	108.81	3.31
MC COML UTILITIES BUS	52	8,822.05	104.47
MC COML UTILITIES BUS WORLD	1	151.69	1.96
MC CREDIT UTILITIES	118	14,148.90	76.70
MC DEBIT REGULATED	13	1,250.52	17.74
MC DEBIT REGULATED FRAUD	1,710	178,103.66	2,513.63
MC DEBIT UTILITIES	996	104,614.49	762.04
MC DEBIT REGULATED FRAUD RETURN	2	309.33	.59
MC WORLD UTILITIES	144	16,261.82	142.39
MC WORLD ELITE UTILITIES	22	3,883.31	28.15
MC ENHANCED UTILITIES	172	19,691.71	170.88
MC WORLD HIGH VALUE UTILITIES	7	1,858.02	10.82
<b>MC INTCH/OTHER FEES</b>	<b>3,261</b>	<b>351,673.83</b>	<b>3,925.26</b>
<b>VISA</b>			
VS COML CARD NOT PRESENT PRCH	9	1,543.70	44.90
VS COML UTILITY BUS	65	11,256.74	131.27
VS DEBIT CPS UTILITY	362	38,399.03	350.50
VS DEBIT REGULATED	1,885	193,455.52	2,736.17
VS CREDIT CPS UTILITY	749	81,138.77	561.75
<b>VS INTCH/OTHER FEES</b>	<b>3,070</b>	<b>325,793.76</b>	<b>3,824.59</b>
<b>DISCOVER</b>			
DS COML UTILITY	61	7,121.22	112.86
DS REWARD CONSUMER ADJ P3	1	750.00	13.13
DS PREMIUM PSL UTILITY	59	6,815.12	64.70
DS REWARD PSL UTILITY	189	22,914.94	210.49
DS PREM PLUS PSL UTILITY	3	577.78	3.98
<b>DS INTCH/OTHER FEES</b>	<b>311</b>	<b>36,679.06</b>	<b>378.90</b>
<b>TOTAL INTCH/OTHER FEES</b>	<b>6,642</b>	<b>714,146.65</b>	<b>8,128.75</b>

<<First Page <Previous Page Next Page> Last Page>>  
Page 1 of 1

Help on Report

For Dec. Bank Statement.

**TeleCheck Services, Inc.**  
**P.O. Box 60028**  
**City of Industry, CA 91716-0028**

**Your account will be automatically deducted on December 19, 2011.**  
**Do not pay this invoice.**

BILLING PERIOD: 01-NOV-2011 THRU 30-NOV-2011  
 INVOICE NUMBER: L144018735  
 TELECHECK NUMBER: 44018735  
 AMOUNT DUE: \$2,461.64

All inquiries, call 1-800-366-1054  
 business hours 7:00 to 7:00 CST, M-F

Written correspondence (excluding payments) must be directed to:  
 TeleCheck Merchant Services  
 Mail Stop A-12  
 7301 Pacific Street  
 Omaha, NE 68114

NORTHERN KENTUCKY WATER DISTRC  
 JACKIE STANTON  
 PO BOX 18640  
 ERLANGER KY 41018

Amount Enclosed \$ \_\_\_\_\_  
 Please return this portion with your payment.  
 Finance charge of 1.50% per month on unpaid balance.

8144018735900002461643

TeleCheck Services, Inc.  
 P.O. Box 60028  
 City of Industry, CA 91716-0028

BILLING PERIOD: 01-NOV-2011 THRU 30-NOV-2011  
 INVOICE NUMBER: L144018735  
 CUSTOMER NAME: NORTHERN KENTUCKY WATER DISTRC  
 TELECHECK NUMBER: 44018735

DESCRIPTION	CHARGES	TOTALS
BALANCE FORWARD		\$2,294.16
ACH PAYMENT - THANK YOU - 18-NOV-2011		2,294.16CR
\$ 102,604.17 CHECK INQUIRIES @ 2.25%	\$2,308.59	
987 TRANSACTIONS @ 0.1500	148.05	
PROCESSING FEE	\$5.00	
CURRENT MONTH CHARGES	2,461.64	2,461.64
BALANCE DUE		\$2,461.64

CHECK ACTIVITY		
11	ELECTRONIC CHECKS PURCHASED TOTALING	\$1,464.45
9	OUT OF AREA SALES TOTALING	\$ 589.96
153	CHECKS DECLINED SAVING	\$20,878.57

BALANCE FORWARD	PAYMENTS	CURRENT	30 DAYS	60 DAYS	90+ DAYS	BALANCE DUE
\$2,294.16	\$2,294.16CR	\$2,461.64	\$0.00	\$0.00	\$0.00	\$2,461.64

Have you been to the TeleCheck website lately? Find helpful product information, training information and more at [www.telecheck.com](http://www.telecheck.com)

VANTIV HOLDING, LLC  
 DBA: FIFTH THIRD PROCESSING SOLUTIONS  
 MD: 1GH2Y1  
 8500 GOVERNORS HILL DR  
 SYMMES TWP, OH 45249-1384



*Dec 2012*



NORTHERN KY WATER DISTRICT  
 2835 CRESCENT SPRINGS PIKE  
 ERLANGER, KY 41018-1326

Page	1 of 3
Billing Account Number	C 70548768

MERCHANT BILLING STATEMENT	
Statement Date	January 6, 2012
Statement Period	December, 2011
Chain	058323

For Customer Service Please Call: 1-877-744-5300  
 Refer Billing Inquiries To: Merchant Services  
 Mail Drop 1GH2X2  
 8500 Governors Hill Dr  
 Symmes Township, OH 45249-1384

**This Month's News**

Just a reminder that our corporate headquarters and legal name have changed. Please ensure you send any legal correspondence to the following address:

Vantiv, LLC  
 Attention: General Counsel/Legal Department  
 8500 Governors Hill Drive  
 MD 1GH1Y1  
 Cincinnati  
 Symmes Township, OH 45249-1384

Please refer to the last page of this statement for important information.

Services Summary			Statement Period Fees		
<b>Section Description</b>	<b>Processing</b>	<b>Total</b>	<b>Statement fees total debit for the month of December:</b>		
Transaction Fees	\$ 1,823.83	\$ 1,823.83	<b>Account</b>	<b>R&amp;T</b>	<b>Amount</b>
Dial Communication Fees	-	-	***6014	042102115	\$ 2,774.13
Third Party Credit Fees	\$ 941.35	\$ 941.35	<b>Total Fees Due</b>		
Products, Comm, Prog and Other Fees	\$ 8.95	\$ 8.95	<b>\$ 2,774.13</b>		
<b>Totals</b>	<b>\$ 2,774.13</b>	<b>\$ 2,774.13</b>			

**ACH debit of \$ 2,774.13 is scheduled to post on or about 1/10/12 to R/T # 042102115 Account # \*\*\*6014**

**CONFIDENTIALITY NOTICE:** This statement, and the information contained herein, is the confidential and proprietary information of the party providing the statement. Further disclosure of this information is prohibited.

**Transaction Fees**

Processing Fees	Rate	Volume	Total
Discover Fees	0.05%	\$ 47,075.91	\$ 23.54
MasterCard Fees	0.05%	\$ 409,299.96	\$ 204.65
Visa Fees	0.05%	\$ 371,685.04	\$ 185.84
<b>Totals</b>		<b>\$ 828,060.91</b>	<b>\$ 414.03</b>

Credit Card Type	Per Unit Fee	Count	Total Fees
Discover Transaction Fee	\$ 0.20	296	\$ 59.20
MasterCard Transaction Fee	\$ 0.20	3,519	\$ 703.80
Visa Transaction Fee	\$ 0.20	3,159	\$ 631.80
<b>Totals</b>		<b>6,974</b>	<b>\$ 1,394.80</b>

Chargeback and Adjustment Services	Per Unit Fee	Count	Total Fees
Chargeback Processing Fee	\$ 15.00	1	\$ 15.00
<b>Totals</b>		<b>1</b>	<b>\$ 15.00</b>

**Total Transaction Fees \$ 1,823.83**

**Dial Communication Fees**

Dial Provider	Per Unit Fee	Count	Total Fees
Discover Communication Fee	-	296	-
<b>Totals</b>		<b>296</b>	<b>-</b>

**Total Dial Communication Fees -**

**Third Party Credit Fees**

Network Fees	Per Unit Fee	Count	Total Fees
MasterCard Documentation Image Fee	\$ 0.30	1	\$ 0.30
MC Acct Inquiry Status Dom	\$ 0.025	14	\$ 0.35
MC Address Verification Cnp	\$ 0.0075	3,359	\$ 25.19
MC Address Verification Cp	\$ 0.005	14	\$ 0.07
MC Chargeback Assessment Fee	\$ 0.006	129	\$ 0.77
MC Chgback Support Document Fee	\$ 0.35	1	\$ 0.35
VS Acct Verification Fee	\$ 0.025	32	\$ 0.80
<b>Totals</b>		<b>3,550</b>	<b>\$ 27.83</b>

Assessments	Rate	Volume	Total
Discover Assessment Fee	0.10%	\$ 47,075.91	\$ 47.08
MasterCard Assessment Fee	0.11%	\$ 335,716.93	\$ 369.29
MC Assessment Fee \$1000 & Over	0.12%	\$ 73,583.03	\$ 88.30
Visa Assessment Fee	0.11%	\$ 371,685.04	\$ 408.85
<b>Totals</b>		<b>\$ 828,060.91</b>	<b>\$ 913.52</b>

**Total Third Party Credit Fees \$ 941.35**

**Products, Comm, Prog and Other Fees**

Products	Fee	Count	Total Fees	
Direct Express	-	2	-	Waive
<b>Totals</b>		<b>-</b>	<b>-</b>	

**CONFIDENTIALITY NOTICE:** This statement, and the information contained herein, is the confidential and proprietary information of the party providing the statement. Further disclosure of this information is prohibited.



\*\*Please note that the Monthly Intch/Other Fee Summary report should be used to evaluate your intch/other qualification levels but should not be used for fee reconciliation purposes due to rounding requirements for intch/other calculation determined by the Visa and MasterCard Card Associations.

CHAIN: 58323- : NORTHERN KY WATER DISTRICT

MERCHANT: 4445154969774  
STORE: 0001 NORTHERN KY WATER DIST

INTCH/OTHER FEE SUMMARY			
The base rate is:	Visa-CPS Utility	MasterCard-Utility	Discover-Utility
	INTCH/OTHER LEVELS	NUMBER	SALE AMOUNT FEE AMOUNT
MASTERCARD	MC COML DATA RATE 1 BUS	16	593.16 19.08
	MC COML DATA RATE 1 BUS ENHANCED	3	78.01 2.70
	MC COML DATA RATE 1 FLEET	22	57,429.57 1,696.36
	MC COML UTILITIES BUS	66	10,038.19 129.11
	MC COML UTILITIES BUS WORLD	3	253.64 5.26
	MC CREDIT UTILITIES	119	11,411.67 77.35
	MC DEBIT REGULATED	6	677.63 9.39
	MC DEBIT REGULATED FRAUD	1,774	176,594.38 2,509.72
	MC DEBIT UTILITIES	1,046	100,096.16 770.99
	MC DEBIT REGULATED FRAUD RETURN	5-	700.25- 1.45-
	MC DEBIT RETURN G1	1-	105.48- 1.81-
	MC WORLD UTILITIES	135	14,080.21 129.99
	MC WORLD ELITE UTILITIES	25	4,497.06 32.24
	MC ENHANCED UTILITIES	170	33,338.72 210.52
	MC WORLD HIGH VALUE UTILITIES	3	211.56 2.88
	MC INTCH/OTHER FEES	3,382	408,494.23 5,592.33
VISA	VS COML CARD NOT PRESENT PRCH	5	11,717.56 334.45
	VS COML UTILITY BUS	57	49,315.37 233.45
	VS DEBIT CPS UTILITY	431	41,678.86 405.19
	VS DEBIT REGULATED	1,865	184,239.41 2,621.17
	VS CREDIT RETURN MOTO & ECOMM	1-	94.15- 1.93-
	VS DEBIT / PREPAID RETURN	3-	298.18-
	VS CREDIT CPS UTILITY	734	84,733.84 550.50
	VS INTCH/OTHER FEES	3,088	371,292.71 4,142.83
DISCOVER	DS CREDIT PSL UTILITY	1	199.59 .75
	DS COML UTILITY	63	5,902.75 112.21
	DS REWARD CONSUMER ADJ P3	1-	12.16- .21-
	DS PREMIUM PSL UTILITY	53	5,892.93 57.43
	DS REWARD PSL UTILITY	160	16,371.14 169.11
	DS PREM PLUS PSL UTILITY	13	18,709.50 65.88
	DS INTCH/OTHER FEES	289	47,063.75 405.17
	TOTAL INTCH/OTHER FEES	6,759	826,850.69 10,140.33

**TeleCheck Services, Inc.**  
**P.O. Box 60028**  
**City of Industry, CA 91716-0028**

**Your account will be automatically deducted on January 19, 2012.**  
**Do not pay this invoice.**

BILLING PERIOD: 01-DEC-2011 THRU 31-DEC-2011  
 INVOICE NUMBER: A244018735  
 TELECHECK NUMBER: 44018735  
 AMOUNT DUE: \$1,921.41

All inquiries, call 1-800-366-1054  
 business hours 7:00 to 7:00 CST, M-F

Written correspondence (excluding payments) must be directed to:  
 TeleCheck Merchant Services  
 Mail Stop A-12  
 7301 Pacific Street  
 Omaha, NE 68114

NORTHERN KENTUCKY WATER DISTRC  
 JACKIE STANTON  
 PO BOX 18640  
 ERLANGER KY 41018

Amount Enclosed \$ \_\_\_\_\_  
 Please return this portion with your payment.  
 Finance charge of 1.50% per month on unpaid balance.

8144018735900001921415

TeleCheck Services, Inc.  
 P.O. Box 60028  
 City of Industry, CA 91716-0028

BILLING PERIOD: 01-DEC-2011 THRU 31-DEC-2011  
 INVOICE NUMBER: A244018735  
 CUSTOMER NAME: NORTHERN KENTUCKY WATER DISTRC  
 TELECHECK NUMBER: 44018735

DESCRIPTION	CHARGES	TOTALS
BALANCE FORWARD		\$2,461.64
ACH PAYMENT - THANK YOU - 16-DEC-2011		2,461.64CR
\$79,800.60 CHECK INQUIRIES @ 2.25%	\$1,795.51	
806 TRANSACTIONS @ 0.1500	120.90	
PROCESSING FEE	\$5.00	
CURRENT MONTH CHARGES	1,921.41	1,921.41
BALANCE DUE		\$1,921.41

**CHECK ACTIVITY**

16 ELECTRONIC CHECKS PURCHASED TOTALING	\$4,411.60
8 OUT OF AREA SALES TOTALING	\$ 640.46
127 CHECKS DECLINED SAVING	\$17,309.79

BALANCE FORWARD	PAYMENTS	CURRENT	30 DAYS	60 DAYS	90+ DAYS	BALANCE DUE
\$2,461.64	\$2,461.64CR	\$1,921.41	\$0.00	\$0.00	\$0.00	\$1,921.41

Have you been to the TeleCheck website lately? Find helpful product information, training information and more at [www.telecheck.com](http://www.telecheck.com)

Q16. Refer to Northern District's Response current program to reduce non-revenue water.

Q16a. Describe Northern District's current program to reduce non-revenue water.

A16a. Please refer to response by District to PSCDR2, Q21C.

Q16b. Provide a copy of Northern District's contract with ADS Environmental Services.

A16b. Attached as A16b

Q16c. Provide all written guidance that Northern District has provided to ADS Environmental Services regarding the conduct of the pilot program.

A16c. Meeting was held with ADS and a map overview of the District area was discussed. Attached are items A16c and A16c1. A16c is the map of the service area review and A16c1 is the reports for 2010 and 2011 from ADS.

Q16d. Identify the water main sections that were examined in 2010 (15 miles) and 2011 (67 miles). Explain why these sections were selected for the pilot program. State the criteria used for the selection

A16d. These are the river city water mains which are older and have had higher frequency of failures. Also, since sewers are close in proximity water does not always surface.

Q16e. Describe the results of the 2010 and 2011 main inspection.

A16e. Please refer to report in response to 16c.

10-12-'11 09:57 TO- 93724774

FROM-

**MASTER AGREEMENT FOR PROFESSIONAL OR TECHNICAL SERVICES**

THIS MASTER AGREEMENT ("Agreement") made and entered into by and between Northern Kentucky Water District ("Client"), with an office located at 2835 Crescent Springs Road, Exlanger, Kentucky 41018 and ADS LLC, a Delaware Limited Liability Company, with its headquarters at 1300 Meridian Street, Suite 3000, Huntsville, AL 35801 ("ADS"), collectively referred to as the "Parties", shall become effective upon authorized signatures by both Parties to this Agreement ("Effective Date"), and shall remain in effect through September 30, 2012, unless terminated as provided herein.

WHEREFORE, from time to time Client intends to engage ADS to provide professional services. This Agreement sets forth the general terms and conditions which shall govern the relationships and performance of Client and ADS, if and only if one or more Task Orders are agreed to under this Agreement. Each engagement shall be documented by a Task Order.

NOW THEREFORE, the Parties, agreeing to be legally bound, hereby agree as follows:

**ARTICLE 1 - SERVICES OF ADS****1.01 Scope**

A. The services to be provided by ADS shall include the Basic and Additional Services set forth in each duly-executed Task Order under Exhibit A as authorized by Client as provided herein. Each Task Order will indicate the specific tasks and functions to be performed and or deliverables to be provided hereunder.

B. ADS shall not be obligated to perform any prospective Task Order unless and until Client and ADS agree as to the particulars of the Specific Project, ADS' services, ADS' compensation, and all other appropriate matters.

**ARTICLE 2 - OWNER'S RESPONSIBILITIES****2.01 General**

A. Client shall have the responsibilities set forth herein and in each Task Order issued hereunder.

**ARTICLE 3 - TIMES FOR RENDERING SERVICES****3.01 General**

A. This Agreement shall be effective and applicable to Task Orders issued hereunder for one (1) year from the Effective Date of the Agreement.

B. This Agreement may be extended or renewed, with or without changes, by written amendment establishing a new term.

**3.02 Times for Rendering Services**

A. The times for performing services and or providing deliverables will be stated in each Task Order. If no times are so stated, ADS will perform services and provide deliverables within a reasonable time.

B. For purposes of this Agreement the term "day" means a calendar day of twenty-four (24) hours. The term

"business day" shall mean Monday through Friday, 8:00 A.M. until 5:00 P.M., excluding Federal Holidays.

C. The time for a party's performance will be extended to the extent performance was delayed by causes beyond the control and without the fault of the party seeking the extension. That party shall promptly notify the other party in writing when it is being delayed.

**3.03 Force Majeure**

A. Neither Client nor ADS shall hold the other responsible for damages or delays in performance of the work in a specific Task Order caused by Force Majeure or other events beyond the control of the other Party which could not reasonably have been anticipated or prevented. Force Majeure shall include, but not be limited to, unusually severe weather, floods, power outages, epidemics, war, acts of terrorism, riots, strikes, lockouts, exercise of police power, condemnation or eminent domain. The foregoing shall not give rise to any claims or damages or be considered a waiver by either Party of the obligations of this Agreement.

**ARTICLE 4 - SUSPENSION AND TERMINATION****4.01 Suspension****A. Suspension**

1. If Client fails to give prompt written authorization to proceed with any phase of services after completion of the immediately preceding phase, under a Task Order, or if ADS' services are delayed through no fault of ADS, ADS may, after giving five (5) business days written notice to Client, suspend services under this Agreement.

2. If ADS' services under a Task Order are delayed or suspended in whole or in part by Client's actions or inactions for more than sixty (60) days through no fault of ADS, ADS shall be entitled to equitable adjustment of rates and amounts of compensation provided for elsewhere in this Agreement to reflect reasonable costs incurred by ADS in connection with, among other things, such delay or

suspension and reactivation and the fact that the time for performance under this Agreement has been revised.

#### **4.02 Termination**

##### **A. For Cause**

1. The obligation to provide further services under this Agreement may be terminated by either party for cause upon thirty (30) days written notice in the event of a substantial failure by either party to perform in accordance with the terms of this Agreement through no fault of the terminating party. Notwithstanding the foregoing, this Agreement will not terminate as a result of such substantial failure if the Party receiving such notice begins, within seven (7) days of receipt of such notice, to correct its failure to perform and proceeds diligently to cure such failure within no more than thirty (30) days of receipt thereof.

2. In the event of termination by ADS for cause or by Client for convenience, ADS will be entitled to invoice Client and will be paid for all services rendered and all reimbursable expenses incurred through the effective date of termination.

**B. For Convenience** Either party may terminate this Agreement for its convenience upon sixty (60) days written notice to the other party. If this Agreement is terminated by the Client for its convenience, ADS shall be paid a reasonable amount for expenses directly attributable to termination, both before and after the effective date of termination, including, but not limited to demobilization expenses and costs associated with terminating subcontract agreements.

### **ARTICLE 5 - PAYMENTS TO ADS**

#### **5.01 Methods of Payment for Services and Reimbursable Expenses of ADS**

A. Client shall pay ADS as set forth herein and in each Task Order.

#### **5.02 Other Provisions Concerning Payments**

**A. Preparation of Invoices.** Invoices for each Task Order will be prepared in accordance with ADS' standard invoicing practices and will be submitted to Client by ADS, unless otherwise agreed.

**B. Payment of Invoices.** Invoices are due and payable within thirty (30) days after the date they are issued by ADS. If Client fails to make any payment due ADS for services and or reimbursable expenses within thirty (30) days after issuance of ADS' invoice, the amounts due ADS will be increased at the rate of one and one-half percent (1.5%) per month (or the maximum rate of interest permitted by law) from said thirtieth day. In addition, ADS may, after giving five (5) business days written notice to Client, suspend services under any Task Order issued under

this Agreement until ADS has been paid in full all amounts due for services, expenses, and other related charges. Payments will be credited first to interest and then to principal.

**C. Disputed Invoices.** If Client objects to ADS' invoice, Client shall so advise ADS in writing giving specific reasons within ten (10) business days of receipt of such invoice. In the event of such dispute, only that portion so contested may be withheld from payment, and the undisputed portion will be paid. If no such objection is made within the ten (10)-business day period, the invoice will be considered acceptable by Owner.

**D. Records of ADS' Costs, Compensation and Payment.** ADS' fiscal records relating to ADS' compensation and payments under this agreement shall be kept in accordance with ADS' Company policy and in compliance with applicable State and Federal law. All other records relating to this Agreement shall be kept for a period not to exceed two (2) years from the date the record was generated, unless this period is extended in writing by ADS.

**E. Legislative Actions.** In the event of legislative actions after the Effective Date of a Task Order by any level of government that impose any taxes, fees, or costs on ADS' services or other costs in connection with that Task Order or compensation therefor, such new taxes, fees, or costs shall be invoiced to and paid by Client as a Reimbursable Expense. Should such taxes, fees, or costs be imposed, they shall be in addition to ADS' estimated total compensation under each affected Task Order.

### **ARTICLE 6 - GENERAL CONSIDERATIONS**

#### **6.01 Standards of Performance**

A. The standard of care for all services performed or furnished by ADS under this Agreement will be the care and skill ordinarily used by members of ADS' profession practicing under similar circumstances at the same time and in the same locality. ADS makes no warranties, express or implied, under this Agreement or otherwise, in connection with ADS' services, except as provided in section 6.01.B.

B. All new products manufactured by ADS will be free from defects in material and workmanship for up to one (1) year following the date of shipment from ADS. During this warranty period, upon satisfactory proof of a defect, the product may be returned for repair or replacement, at ADS' sole option. No returns will be accepted unless the Client has prepaid shipping and has received a prior authorization return number from ADS. Please contact ADS to obtain an authorization return number. Warranty repairs and replacements will be performed only by ADS or its authorized representative. Any unauthorized repair or replacement, including

without limitation opening up a monitor, will void this product warranty. Any repair or replacement will be covered by this new product warranty for ninety (90) days from the date that such repaired or replaced product is shipped from ADS. This warranty is available to the Client as the original purchaser of the product and only if it has been installed, operated, and maintained in accordance with ADS' standards. This warranty does not apply to damage by catastrophes of nature, fire, explosion, acts of God (including, but not limited to, lightning damage and power surges), accidents, improper use or service, damage during transportation, or other similar causes beyond ADS' control.

C. Client shall be responsible for, and ADS may rely upon, the accuracy and completeness of all requirements, programs, instructions, reports, data, and other information furnished by Client to ADS pursuant to this Agreement. ADS may use such requirements, reports, data, and information in performing or furnishing services under this Agreement.

#### **6.02 Authorized Representatives**

A. Contemporaneous with the execution of each Task Order, ADS and Client shall designate specific individuals to act as ADS and Client's representatives with respect to the services to be performed or furnished by ADS and responsibilities of Client under the Task Order. Such individuals shall have authority to transmit instructions, receive information, and render decisions relative to the Work on behalf of each respective party.

#### **6.03 Use of Documents**

A. All Documents are instruments of service in respect to Work under each Task Order, and ADS shall retain an ownership and property interest therein (including the right of reuse at the discretion of ADS) whether or not the Work is completed.

B. Copies of Documents that may be relied upon by Client are limited to the printed copies (also known as hard copies) that are signed or sealed by ADS. Files in electronic media format of text, data, graphics, or of other types that are furnished by ADS to Client are only for convenience of Client. Any conclusion or information obtained or derived from such electronic files will be at the user's sole risk. If there is a discrepancy between the electronic files and the hard copies, the hard copies govern.

C. Because data stored in electronic media format can deteriorate or be modified inadvertently or otherwise without authorization of the data's creator, the party receiving electronic files agrees that it will perform acceptance tests or procedures within thirty (30) days, after which the receiving party shall be deemed to have accepted

the data thus transferred. Any errors detected within the thirty (30)-day acceptance period will be corrected by the party delivering the electronic files. ADS shall not be responsible to maintain documents stored in electronic media format after acceptance by Owner.

D. When transferring documents in electronic media format, ADS makes no representations as to long term compatibility, usability, or readability of documents resulting from the use of software application packages, operating systems, or computer hardware differing from those used by ADS at the beginning of a Project under a Task Order.

E. Owner may make and retain copies of Documents for information and reference in connection with use on a Project by Owner. Such Documents are not intended or represented to be suitable for reuse by Owner or others on extensions of the Work or on any other Work. Any such reuse or modification without written verification or adaptation by ADS, as appropriate for the specific purpose intended, will be at Owner's sole risk and without liability or legal exposure to ADS or to ADS' Subcontractors. Owner shall indemnify and hold harmless ADS and ADS' Subcontractors from all claims, damages, losses, and expenses, including attorneys' fees arising out of such use.

#### **6.04 Changes**

A. Either party reserves the right at any time and without nullifying this Agreement and without notice to the sureties, if any, to request a change in the Agreement in the form of additions, deletions, or revisions in the Work or the manner of its performance under each Task Order that include but are not limited to changes: in drawings, designs or specifications; in the sequence of ADS' Work; directing acceleration or deceleration in performance of the Work; or modifying the Task Order Schedule or the Task Order milestones. Requested changes shall be made in writing and shall be signed by the party's Authorized Representatives. If the requested changes are agreed upon by both Parties, upon receipt of any request, the Agreement shall be modified as requested in writing. Should the parties disagree on any requested change, the matter may be brought under the disputes clause as stated in section 6.06 hereunder.

#### **6.05 Insurance**

A. During the term of this Agreement, ADS shall at all times procure and maintain insurance as set forth in Exhibit B, and upon request of Client, shall furnish certificates evidencing insurance.

#### **6.06 Controlling Law, Venue and Dispute Resolution**

A. A. The Parties shall endeavor to resolve any disputes through informal negotiations between the Parties. If the dispute cannot be resolved within sixty (60)

days after first notice of the dispute, the Parties agree that the dispute may be submitted to the court of competent jurisdiction in the county in which the work under this Agreement was performed, or in an alternative location upon agreement of the Parties.

**B. THE PARTIES HERETO EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT EACH MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION BASED HEREBON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER ORAL OR WRITTEN) OR ACTIONS OF EITHER PARTY TO THIS AGREEMENT.**

C. Any action for Breach of Contract shall be commenced within one (1) year after the cause of action has accrued.

#### *6.07 Successors, Assigns, and Beneficiaries*

A. Client and ADS each are hereby bound and the partners, successors, executors, administrators and legal representatives of Client and ADS (and to the extent permitted by paragraph 6.07.B the assigns of Client and ADS) are hereby bound to the other party to this Agreement and to the partners, successors, executors, administrators and legal representatives (and said assigns) of such other party, in respect of all covenants, agreements and obligations of this Agreement.

B. Neither Client nor ADS may assign, sublet, or transfer any rights under or interest (including, but without limitation, moneys that are due or may become due) in this Agreement without the written consent of the other, except to the extent that any assignment, subletting, or transfer is mandated or restricted by law. Such consent will not be unreasonably withheld by either Party. Unless specifically stated to the contrary in any written consent to an assignment, no assignment will release or discharge the assignor from any duty or responsibility under this Agreement.

C. Nothing in this Agreement shall be construed to create, impose, or give rise to any duty owed by Client or ADS to any Contractor, Contractor's subcontractor, supplier, other individual or entity, or to any surety for or employee of any of them. All duties and responsibilities undertaken pursuant to this Agreement will be for the sole and exclusive benefit of Client and ADS and not for the benefit of any other third Party.

#### *6.08 Hazardous Environmental Condition*

A. Client represents to ADS that to the best of its knowledge a Hazardous Environmental Condition does not exist, and has disclosed to the best of its knowledge to ADS the existence of all Asbestos, PCB's, Petroleum, Hazardous Waste, or Radioactive Material located at or near the Site(s), including type, quantity, and location.

B. It is acknowledged by both Parties that ADS' scope of services in any Task Order does not include any services related to a Hazardous Environmental Condition unless specifically agreed to in a Task Order. In the event ADS or any other party encounters a Hazardous Environmental Condition not specifically identified in the Task Order, ADS may, at its option and without liability for consequential or any other damages, suspend performance of services on the portion of the Work affected thereby until Client: (i) retains appropriate specialist consultant(s) or contractor(s) to identify and, as appropriate, abate, remediate, or remove the Hazardous Environmental Condition; and (ii) warrants that the Site(s) is/are in full compliance with applicable Laws and Regulations.

C. Client acknowledges that ADS is performing services for Client and that ADS is not and shall not be required to become an "arranger," "operator," "generator," or "transporter" of hazardous substances, as defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1990 (CERCLA), which are or may be encountered at or near the Site(s) in connection with ADS' activities under this Agreement.

D. If ADS' services under any Task Order cannot be performed because of a Hazardous Environmental Condition not specifically identified in the Task Order, the existence of the condition shall justify ADS' terminating that Task Order for cause on thirty (30) days notice.

#### *6.09 Limitation of Liability*

TO THE EXTENT PERMITTED BY APPLICABLE LAW, IN NO EVENT SHALL ADS, OR ANY OF ITS AFFILIATES, DIRECTORS, EMPLOYEES, AGENTS OR PARENT CORPORATIONS, BE LIABLE TO ANY PERSON, FIRM OR ENTITY, INCLUDING, BUT NOT LIMITED TO CLIENT, FOR ANY INDIRECT, PUNITIVE, EXEMPLARY, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS, BUSINESS INTERRUPTION, LOST DATA, LOST REVENUE AND/OR LOST SAVINGS, EVEN IF CLIENT HAS BEEN ADVISED OF THEIR POSSIBLE EXISTENCE OR IF SAME WERE REASONABLY FORESEEABLE.

#### **6.10 Confidentiality and Non-disclosure**

A. Both parties acknowledge that, in the course of performing services in any Task Order under this Agreement, certain employees, agents or representatives may be exposed to or acquire information which is proprietary or confidential. Such proprietary and confidential information may include without limitation information related to research, development, designs, plans, reports, investigations, materials, data, pricing, trade secrets, customer lists, salaries, or business information ("Confidential and Proprietary Information").

B. Both parties agree to hold each other's Proprietary and Confidential Information in strict confidence and not to make each other's Proprietary and Confidential Information available in any form to any third party or to use each other's Proprietary and Confidential Information for any other purpose than for the performance of work under the implementation of Task Orders under this Agreement.

#### **6.11 Employees**

A. Throughout the term of this Agreement, and for one (1) year following its termination, neither party shall solicit or hire any current or former (within twelve months of termination) personnel of the other party, without the express written consent of the other party.

#### **6.12 Notices**

A. Any notice required under this Agreement shall be in writing, addressed to the appropriate party at its address on the signature page and given personally, or by registered or certified mail postage prepaid, or by a commercial courier service. All notices shall be effective upon the date of receipt.

#### **6.13 Attorney's Fees**

A. In the event of any dispute and/or legal action arising from an interpretation and/or the performance of any of the provisions of this Agreement, the parties hereby agree that the prevailing party shall be awarded reasonable attorney's fees and costs, including but not limited to, the cost of paralegals, accountants and

attorney's fees and costs of appellate proceedings, if applicable.

#### **6.14 Survival**

A. All express representations, indemnifications, limitations of liability, and assurances of confidentiality included in this Agreement shall survive its completion or termination for any reason.

#### **6.15 Severability**

A. Any provision or part of this Agreement held to be void or unenforceable under any Laws or Regulations shall be deemed stricken, and all remaining provisions shall continue to be valid and binding upon Client and ADS, who agree that the Agreement shall be reformed to replace such stricken provision or part thereof with a valid and enforceable provision that comes as close as possible to expressing the intention of the stricken provision.

#### **6.16 Waiver**

A. Non-enforcement of any provision by either party shall not constitute a waiver of that provision, nor shall it affect the enforceability of that provision or of the remainder of this Agreement.

#### **6.17 Headings**

A. The headings used in this Agreement are for general reference only and do not have special significance.

#### **6.18 Entire Agreement**

A. This Agreement constitutes the entire agreement between the Parties and exclusive statement of the terms between the Parties with respect to services to be performed in any Task Order hereunder. The Exhibits referenced in this Agreement and the specifications and drawings referenced therein are a part of this Agreement with the same force and effect as if fully set forth herein. No alteration, modification, or amendment of any of the provisions hereof shall be binding unless in writing and signed by duly Authorized Representatives of the Parties.



In Witness Whereof, the Parties hereto have executed this Agreement on this 19<sup>th</sup> day of October, 2011.

Client:

ADS:

By: [Signature]  
Title: CEO

By: [Signature]  
Title: Treasurer

Date Signed: 10/12/11

Date Signed: October 19, 2011

Address for giving notices:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Address for giving notices:  
1300 Meridian St.  
Suite 3000  
Huntsville, AL 35801

Designated Representative:  
\_\_\_\_\_

Designated Representative:  
\_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_

Phone Number: \_\_\_\_\_

Facsimile Number: \_\_\_\_\_

Facsimile Number: \_\_\_\_\_

E-Mail Address: \_\_\_\_\_

E-Mail Address: \_\_\_\_\_

Exhibit

This is Task Order No. <u>  1  </u> , consisting of <u>  1  </u> pages ADS Project Number: <u>          </u>
--

Task Order

In accordance with the Master Agreement for Professional Services between Northern Kentucky Water District and ADS, dated \_\_\_\_\_ ("Agreement"), the Parties agree as follows:

Specific Project Data

A. Title: Leak Detection Survey

B. Description: Bellevue/Dayton areas (BD 1& 2) consisting of approximately 23 miles of mains.

1. Scope of Work. Article 1 of the Agreement is amended and supplemented to include the following agreement of the Parties. ADS shall provide Basic and Additional Services as set forth below.

Part 1 -Basic Services

ADS shall provide trained personnel and necessary equipment in order to identify and pinpoint leaks in the water distribution system in areas designated by NKWD.

Part 2 - Additional Services

ADS shall provide a final report of all findings for each area investigated.

2. Client's Responsibilities. Article 2 of the Agreement is amended and supplemented to include the following agreement of the Parties.

- Client shall inform ADS of any required permits or notifications necessary to perform services under this Agreement

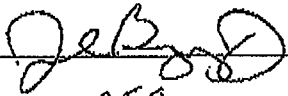
3. Times for Rendering Services

Phase of Project	Completion Date
<u>Leak Detection Survey</u>	<u>October 31, 2011</u>
_____	_____
_____	_____


4. Compensation. Article 4 of the Agreement is amended and supplemented to include the following agreement of the Parties:

Lump Sum Cost of ~~\$14,000~~

Client:

By:   
Title: CFO  
Date Signed: 10/12/11

ADS:

By:   
Title: Treasurer  
Date Signed: 10/19/2011

**Exhibit B****INSURANCE**

---

Paragraph 5.05 of the Agreement is amended and supplemented to include the following agreement of the parties.

**Section 1 - Workers Compensation Insurance**

ADS shall carry a standard Worker's Compensation and Employer's Liability Policy on all its employees subject to statutory limits of the applicable Worker's Compensation Act.

**Section 2 - Commercial Automobile Liability Insurance**

ADS agrees to carry a Commercial Automobile Liability Policy providing bodily injury liability, on an occurrence basis and property damage liability on an accident basis. The policy shall protect ADS against all liability arising out of the use of owned or leased automobiles, both passenger and commercial. Limits of liability for Commercial Automobile Liability Insurance shall be not less than One Million Dollars (\$1,000,000) Combined Single Limit.

**Section 3 - Commercial General Liability Insurance**

ADS agrees to carry a Commercial General Liability Policy providing bodily injury coverage on an occurrence basis, and property damage coverage on an accident basis, and including completed operations, independent contractors, and contractual liability coverage. Limits of liability for Commercial General Liability Insurance shall be: \$1,000,000 combined single limit bodily injury and property damage, \$1,000,000 products completed operations annual aggregate and \$1,000,000 general aggregate.

Exhibit

This is Task Order No. 2,  
consisting of 1 pages  
ADS Project Number: \_\_\_\_\_

Task Order

In accordance with the Master Agreement for Professional Services between Northern Kentucky Water District and ADS, dated \_\_\_\_\_ ("Agreement"), the Parties agree as follows:

Specific Project Data

- A. Title: Leak Detection Survey
- B. Description: Covington area C1 consisting of approximately 12.4 miles of mains.

1. Scope of Work. Article 1 of the Agreement is amended and supplemented to include the following agreement of the Parties. ADS shall provide Basic and Additional Services as set forth below.

Part 1 - Basic Services

ADS shall provide trained personnel and necessary equipment in order to identify and pinpoint leaks in the water distribution system in areas designated by NKWD.

Part 2 - Additional Services

ADS shall provide a final report of all findings for each area investigated.

2. Client's Responsibilities. Article 2 of the Agreement is amended and supplemented to include the following agreement of the Parties.

- Client shall inform ADS of any required permits or notifications necessary to perform services under this Agreement.

3. Times for Rendering Services

Phase of Project	Completion Date
<u>Leak Detection Survey</u>	<u>October 31, 2011</u>

4. Compensation. Article 4 of the Agreement is amended and supplemented to include the following agreement of the Parties:

Lump Sum Cost ~~of \$2700.00~~

Client:  
 By: [Signature]  
 Title: CFO  
 Date Signed: 10/13/11

ADS:  
 By: [Signature]  
 Title: Treasurer  
 Date Signed: Oct. 19, 2011

Exhibit

This is Task Order No. 3,  
consisting of 1 pages  
ADS Project Number: \_\_\_\_\_

Task Order

In accordance with the Master Agreement for Professional Services between Northern Kentucky Water District and ADS, dated \_\_\_\_\_ ("Agreement"), the Parties agree as follows:

Specific Project Data

- A. Title: Leak Detection Survey
- B. Description: Covington area C2 consisting of approximately 11.46 miles of mains.

1. Scope of Work. Article 1 of the Agreement is amended and supplemented to include the following agreement of the Parties. ADS shall provide Basic and Additional Services as set forth below.

Part 1 - Basic Services

ADS shall provide trained personnel and necessary equipment in order to identify and pinpoint leaks in the water distribution system in areas designated by NKWD.

Part 2 - Additional Services

ADS shall provide a final report of all findings for each area investigated.

2. Client's Responsibilities. Article 2 of the Agreement is amended and supplemented to include the following agreement of the Parties.

- Client shall inform ADS of any required permits or notifications necessary to perform services under this Agreement

3. Times for Rendering Services

Phase of Project	Completion Date
<u>Leak Detection Survey</u>	<u>October 31, 2011</u>

4. Compensation. Article 4 of the Agreement is amended and supplemented to include the following agreement of the Parties:

Lump Sum Cost of ~~62,500.00~~

Client:  
 By: [Signature]  
 Title: CFE  
 Date Signed: 10/13/11

ADS:  
 By: [Signature]  
 Title: Treasurer  
 Date Signed: 10/19/2011

Exhibit

This is Task Order No. 4,  
consisting of 1 pages  
ADS Project Number: \_\_\_\_\_

Task Order

In accordance with the Master Agreement for Professional Services between Northern Kentucky Water District and ADS, dated \_\_\_\_\_ ("Agreement"), the Parties agree as follows:

Specific Project Data

- A. Title: Leak Detection Survey
- B. Description: Covington areas C3 and C4 consisting of approximately 11.81 miles of mains and 8.85 miles of main respectively.

1. Scope of Work. Article 1 of the Agreement is amended and supplemented to include the following agreement of the Parties. ADS shall provide Basic and Additional Services as set forth below.

Part 1 - Basic Services

ADS shall provide trained personnel and necessary equipment in order to identify and pinpoint leaks in the water distribution system in areas designated by NKWD.

Part 2 - Additional Services

ADS shall provide a final report of all findings for each area investigated.

2. Client's Responsibilities. Article 2 of the Agreement is amended and supplemented to include the following agreement of the Parties.

- \* Client shall inform ADS of any required permits or notifications necessary to perform services under this Agreement

3. Times for Rendering Services

Phase of Project	Completion Date
<u>Leak Detection Survey</u>	<u>October 31, 2011</u>

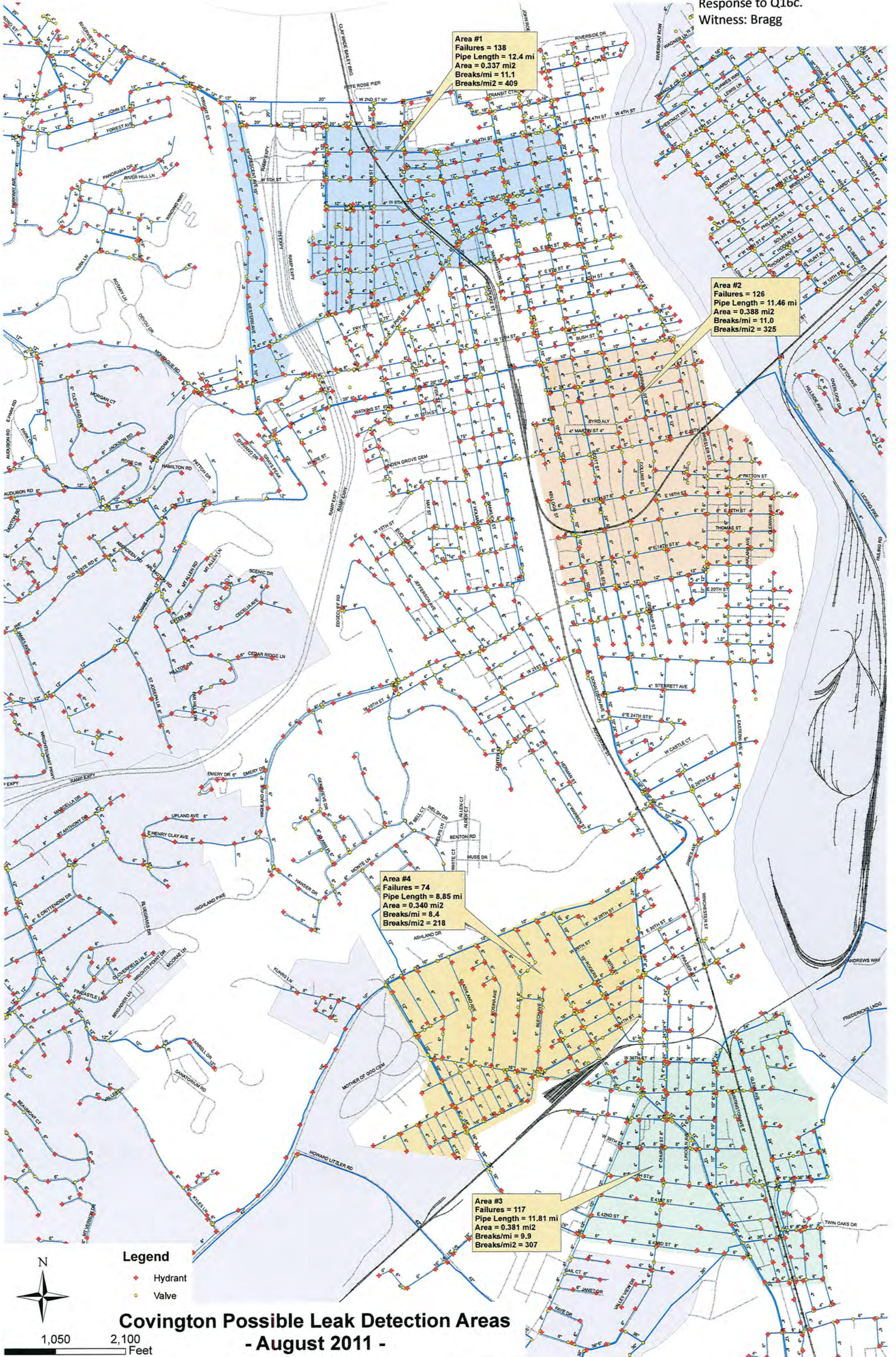
4. Compensation. Article 4 of the Agreement is amended and supplemented to include the following agreement of the Parties:

Lump Sum Cost of ~~\$520,000~~

Client:  
 By: [Signature]  
 Title: CEO  
 Date Signed: 10/13/11

ADS:  
 By: [Signature]  
 Title: Treasurer  
 Date Signed: 10/19/2011





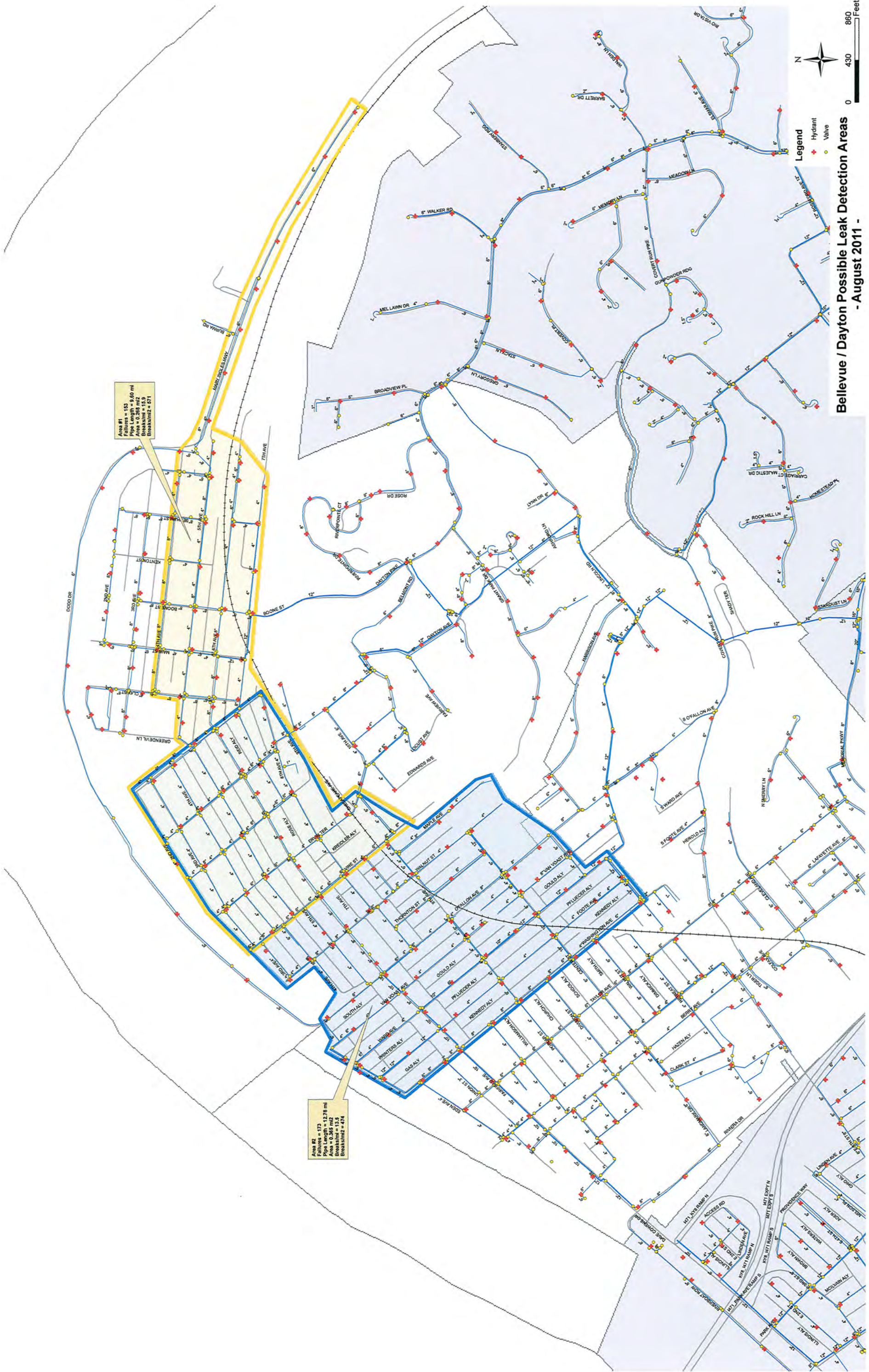
**Legend**

- Hydrant
- Valve

**Covington Possible Leak Detection Areas**  
 - August 2011 -

1,050 2,100 Feet





Area #1  
 Failures = 153  
 Pipe Length = 9.60 mi  
 Area = 0.36 sq mi  
 Breaks/mi = 15.5  
 Breaks/mi<sup>2</sup> = 271

Area #2  
 Failures = 173  
 Pipe Length = 12.76 mi  
 Area = 0.36 sq mi  
 Breaks/mi = 13.6  
 Breaks/mi<sup>2</sup> = 274

Legend  
 Hydrant  
 Valve

Bellevue / Dayton Possible Leak Detection Areas  
 - August 2011 -





NKWD\_PSCDR3\_Q16c\_090612

Case No. 2012-00072

Response to Q16c

Exhibit A16c1

Witness: Bragg

**ADS** ENVIRONMENTAL  
SERVICES

2010

*Innovation ▪ Flexibility ▪ Affordability*





**Leak Detection Pilot Project  
For  
Northern Kentucky Water  
District**

**NOVEMBER 2010**

# Leak Detection Pilot Survey

Prepared For:

**Northern Kentucky Water District**

November 2010  
Project No. 31216.31



*Innovation • Flexibility • Affordability*

**ADS ENVIRONMENTAL SERVICES**



1445 Jamike Dr. Suite 1  
Erlanger, KY 41018  
www.adsenv.com

November 15 2010

Mr. Don Gibson  
Distribution System Manager  
Northern Kentucky Water District  
2835 Crescent Springs Road  
Erlanger, KY 41018

**RE: Leak Detection Survey Pilot**

Dear Mr. Gibson,

In accordance with our agreement, ADS LLC has completed the pilot leak detection survey of approximately 15 miles of the City of Newport water distribution system and herewith submits its report. Three copies of the report are enclosed; additionally an electronic copy will also be supplied.

We wish to express our appreciation for the courtesy and cooperation extended to us during the course of the survey. Please don't hesitate to contact me at 859-512-2553 if you require additional information.

Respectfully submitted,

James E. Fisher  
Sr. Project Manager  
ADS LLC

Cc: Rusty Collingsworth  
Ed Prather



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## Scope of Work

The survey consisted of the following:

- A pilot leakage investigation of a portion of the Northern Kentucky Water Districts – City of Newport’s water distribution system. This included listening on all hydrants and strategic main line valves and selected B-Box service valves using sensitive sound intensifying instruments.
- A subsequent investigation was conducted in all suspect areas where indications of leakage were detected by using an electronic leak correlator to pinpoint the leaks for repair.
- The submission of this report showing the results of the investigation. The results include a list of leak locations and estimated quantities of water being wasted by the leakage.



## Leakage Investigation

The leaks were classified as follows:

Class	Definition
3	Leaks which are hazardous in terms of potential underground washouts, possibly resulting in surface collapse, encroachment and/or damage to nearby utilities, commercial and private properties or leaks that indicate leakage to be severe enough to warrant immediate repair by Village's work forces.
2	Leaks which display water losses significant enough to be placed on a regular repair schedule.
1	Relatively small leaks which should be repaired as work time permits.

The following is a tabulation of the leaks located during the survey with an estimate of the quantity of leakage. Individual maps of each leak location, which were created in the field, can be found in the Appendix. The maps contain a leak reference number, type of leak, leak location and the estimated quantity of leakage.

Type of Leak	Reference Number	Class	Location	Estimated Leakage (gpd)
Valve-Flange	1	1	590 Columbia St - Intersection of Columbia & 6 <sup>th</sup> St	7,200
Main Line	2	2	Intersection of Isabella and 4th St	14,400
Main Line	3	1	1104 Lowell St - North of intersection of Thornton and Lowell St	28,800

A total of three confirmed leaks were located in the Northern Kentucky Water District - City of Newport, wasting an estimated 50,400 gallons of water per day or 18,396,000 gallons of water per year if they were to allowed to continue to run.



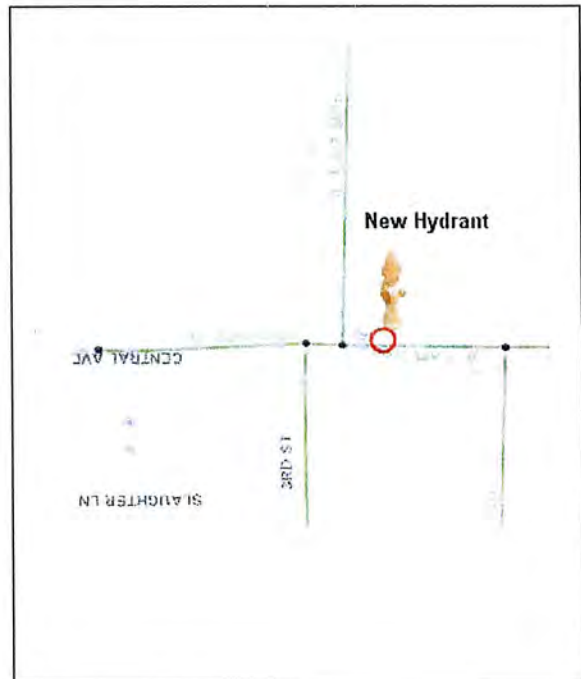
## Map Deficiencies & Errors

The following map deficiencies were identified during the course of this pilot study:

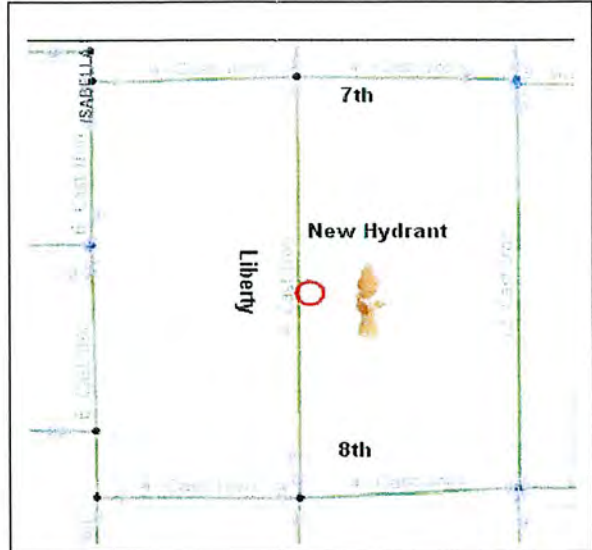
New Fire Hydrant on Riverboat Row West of Taylor Southgate Bridge



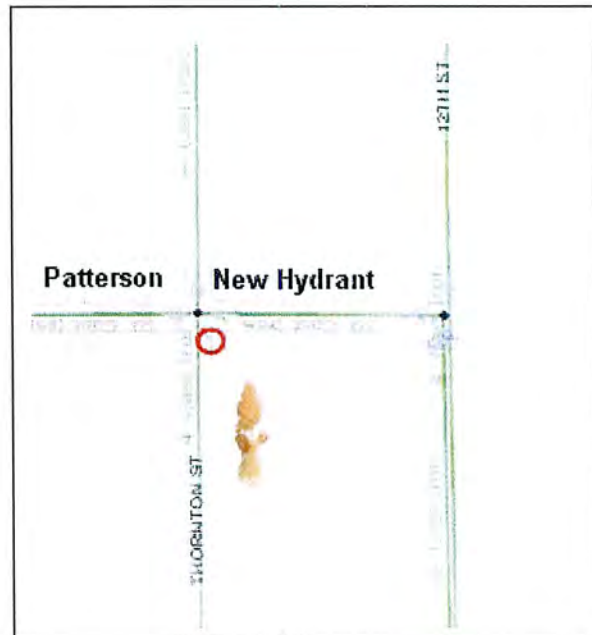
New Fire Hydrant on Central Ave South of 3<sup>rd</sup> Street



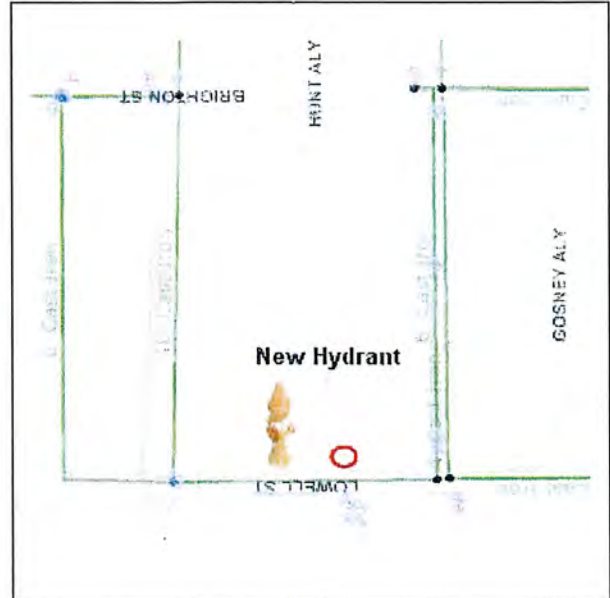
New Fire Hydrant on Liberty between 7<sup>th</sup> and 8<sup>th</sup> Streets.



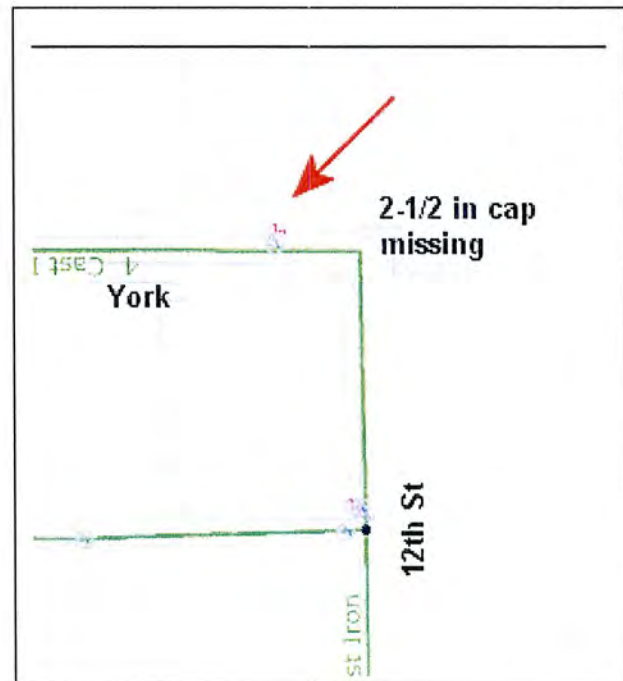
New Fire Hydrant on Thornton St at Patterson.



New Fire Hydrant on Lowell St at 11<sup>th</sup> Street



Fire Hydrant on York St at 12<sup>th</sup> Street is missing the 2-1/2 inch cap.





## Conclusions & Recommendations

The ADS LLC Pilot Leak Detection Survey conducted in a portion of the City of Newport Kentucky water distribution system, for the Northern Kentucky Water District resulted in the location of approximately 50,400 gallons of water per day in leakage. When repaired, the elimination of this leakage would save the District an estimated 18,396,000 gallons of water per year if not repaired.

Five fire hydrants were identified that were not listed on the maps provided, one fire hydrant was located that was missing a 2-1/2 inch cap and one fire hydrant was located that was dripping water from a hydrant cap indicating the hydrant was charged.

It is recommended that the pilot program of investigating the water distribution system for leakage be continued to include the remaining system in Newport and other areas in the Water District on a regular basis in order to keep underground leakage to a minimum.



## Appendix



**LEAKAGE LOCATION SHEET**

Date 11/9/2010 Map No. \_\_\_\_\_ Leak #: 1 Technician: Jim Fisher

City/Town Northern Kentucky Water District

Street Address 590 Columbia St - Corner of Columbia & 8th St

Leak Classification:  Public  Private  Easement

Leak Classification:  1  2  3

Estimated Water Loss:  7,200 GPD  4 Main Size  Service Size

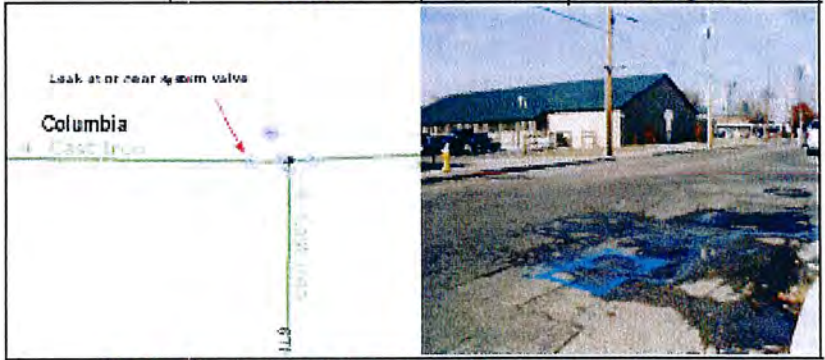
<b>Leak on:</b>	<b>Surface:</b>	<b>Detected at:</b>	<b>Detection Method:</b>
<input checked="" type="checkbox"/> Main	<input checked="" type="checkbox"/> Asphalt	<input checked="" type="checkbox"/> Hydrant	<input checked="" type="checkbox"/> Sonic
<input type="checkbox"/> Service	<input type="checkbox"/> Concrete	<input checked="" type="checkbox"/> Valve	<input checked="" type="checkbox"/> Visible Leak
<input type="checkbox"/> Hydrant	<input type="checkbox"/> Grass	<input type="checkbox"/> Curb Valve	<input type="checkbox"/> Correlation
<input checked="" type="checkbox"/> System Valve	<input type="checkbox"/> Soil	<input type="checkbox"/> Meter Valve	<input type="checkbox"/> Other
<input type="checkbox"/> Other	<input type="checkbox"/> Other	<input type="checkbox"/> Other	

Pipe Material:  Ductile Iron  Cast Iron  Galvanized Iron  Steel  Copper  AC  PVC  HDPE

Asset I.D. \_\_\_\_\_

GPS Coordinates: \_\_\_\_\_  

Latitude	Longitude
----------	-----------



(Show location of water main, leak, fittings and correlator sensors)



Comments:  
 This leak is either on the system valve or a flange at the valve.

# ADS ENVIRONMENTAL SERVICES

## LEAKAGE LOCATION SHEET

Date 11/12/2010 Map No. \_\_\_\_\_ Leak #: 2  
 Technician: Jim Fisher

City/Town Northern Kentucky Water District

Street Address Intersection of Isabella St and 4th Street

Public  Private  Easement

Leak Classification:  1  2  3

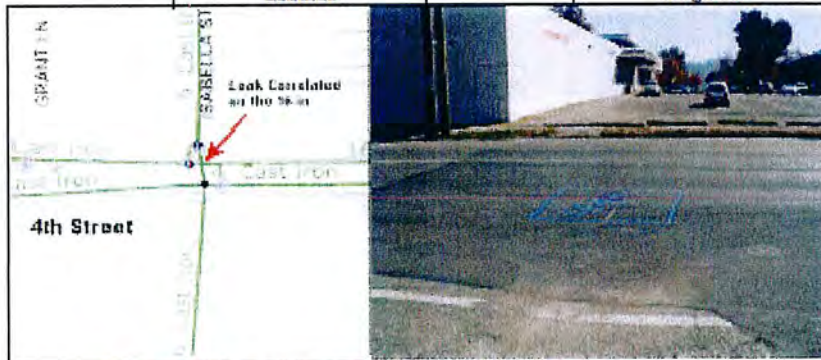
Estimated Water Loss  14,400 GPD  16 Main Size  Service Size

Leak on:	Surface:	Detected at:	Detection Method:
<input checked="" type="checkbox"/> Main	<input checked="" type="checkbox"/> Asphalt	<input checked="" type="checkbox"/> Hydrant	<input checked="" type="checkbox"/> Sonic
<input type="checkbox"/> Service	<input type="checkbox"/> Concrete	<input checked="" type="checkbox"/> Valve	<input type="checkbox"/> Visible Leak
<input type="checkbox"/> Hydrant	<input type="checkbox"/> Grass	<input type="checkbox"/> Curb Valve	<input checked="" type="checkbox"/> Correlation
<input type="checkbox"/> System Valve	<input type="checkbox"/> Soil	<input type="checkbox"/> Meter Valve	<input type="checkbox"/> Other
<input type="checkbox"/> Other	<input type="checkbox"/> Other	<input type="checkbox"/> Other	

Pipe Material:	<input type="checkbox"/> Ductile Iron	<input type="checkbox"/> Steel	<input type="checkbox"/> PVC
	<input checked="" type="checkbox"/> Cast Iron	<input type="checkbox"/> Copper	<input type="checkbox"/> HDPE
	<input type="checkbox"/> Galvanized Iron	<input type="checkbox"/> AC	

Asset I.D. \_\_\_\_\_

GPS Coordinates: \_\_\_\_\_  
 Latitude \_\_\_\_\_ Longitude \_\_\_\_\_



(Show location of water main, leak, fittings and correlator sensors)

Comments:  
 This leak correlated on the 16-inch main. Valves for the 4-in line are marked but buried.  
 This leak could be heard with acoustic leak sounder on hydrants on Isabella North of 4th street.  
 Water can be heard running in the sewer line just West of this location



**LEAKAGE LOCATION SHEET**

Date 11/12/2010 Map No. \_\_\_\_\_ Leak #: 3  
 Technician: Jim Fisher

City/Town Northern Kentucky Water District

Street Address 1104 Lowell St - Intersection of Thomson and Lowell St

Leak Classification:  Public  Private  Easement

Leak Classification:  1  2  3

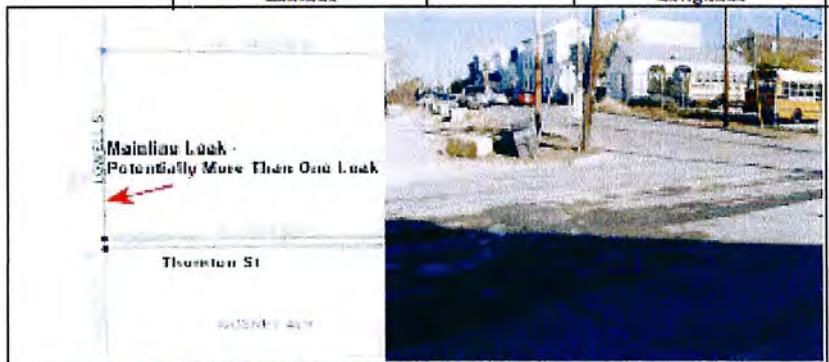
Estimated Water Loss:  28,800 GPD  8 Main Size  Service Size

<b>Leak on:</b>	<b>Surface:</b>	<b>Detected at:</b>	<b>Detection Method:</b>
<input checked="" type="checkbox"/> Main	<input checked="" type="checkbox"/> Asphalt	<input checked="" type="checkbox"/> Hydrant	<input checked="" type="checkbox"/> Sonic
<input type="checkbox"/> Service	<input checked="" type="checkbox"/> Concrete	<input checked="" type="checkbox"/> Valve	<input checked="" type="checkbox"/> Visible Leak
<input type="checkbox"/> Hydrant	<input type="checkbox"/> Grass	<input type="checkbox"/> Curb Valve	<input checked="" type="checkbox"/> Correlation
<input type="checkbox"/> System Valve	<input type="checkbox"/> Soil	<input type="checkbox"/> Meter Valve	<input type="checkbox"/> Other
<input type="checkbox"/> Other	<input type="checkbox"/> Other	<input type="checkbox"/> Other	

Pipe Material:  Ductile Iron  Steel  PVC  
 Cast Iron  Copper  HDPE  
 Galvanized Iron  AC

Asset I.D. \_\_\_\_\_

GPS Coordinates: \_\_\_\_\_  
 Latitude \_\_\_\_\_ Longitude \_\_\_\_\_



(Show location of water main, leak, fittings and correlator sensors)

**Comments:**  
 Water can be seen surfacing on the street - There is potentially more than one leak at this location  
 The current leak will need to be fixed and the pipe segment re-correlated to identify other leaks.  
 The sewer manhole just North of this location has water entering from a service lateral. See main body of the report.



### Lowell Street Leak

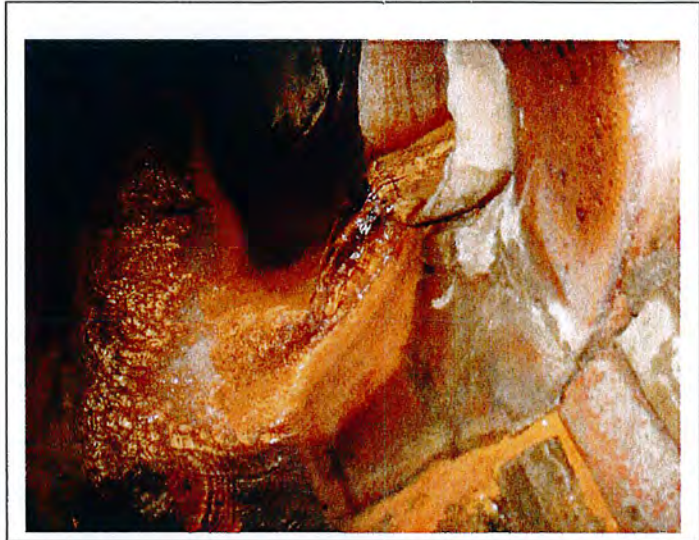
This leak was correlated from several different points to attempt to identify the exact location of the leak that is surfacing. It is believed that there is more than one leak at this location but in order to prove this assumption the current leak will need to be repaired and the line section re-correlated to identify the location of the other suspected leaks.

This image was taken on July 2, 2010 and the water in the street is visible at that time.



The following pictures were taken inside the sewer manhole located on Lowell St at Thornton St, just South of the leak location. This water was observed on two separate days and the rate of flow did not appear to change.

The top photo is looking South towards 12<sup>th</sup> Street



This photo is looking North and shows longitudinal cracks and water dripping into the pipe.





**LEAKAGE LOCATION SHEET**

Date 11/12/2010 Map No. \_\_\_\_\_ Leak #: 4  
 Technician: Jim Fisher

City/Town Northern Kentucky Water District

Street Address Orchard between 8th and 9th Street

Public  Private  Easement

Leak Classification:  1  2  3

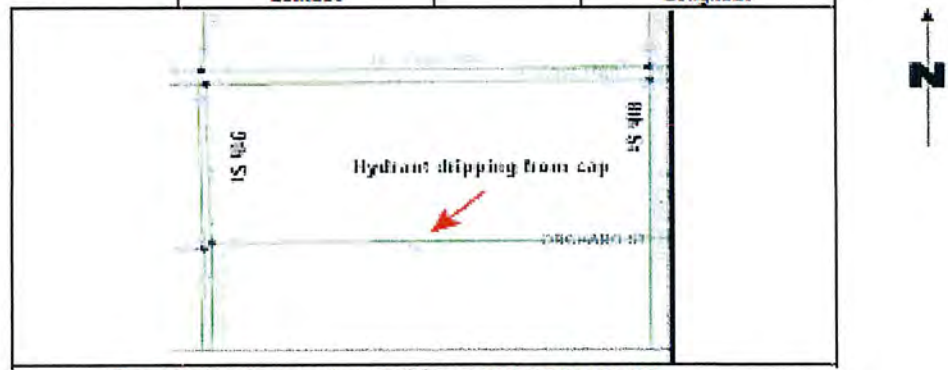
Estimated Water Loss  GPD  6 Main Size  Service Size

<b>Leak on:</b>	<b>Surface:</b>	<b>Detected at:</b>	<b>Detection Method:</b>
<input type="checkbox"/> Main	<input checked="" type="checkbox"/> Asphalt	<input checked="" type="checkbox"/> Hydrant	<input checked="" type="checkbox"/> Sonic
<input type="checkbox"/> Service	<input type="checkbox"/> Concrete	<input type="checkbox"/> Valve	<input checked="" type="checkbox"/> Visible Leak
<input checked="" type="checkbox"/> Hydrant	<input type="checkbox"/> Grass	<input type="checkbox"/> Curb Valve	<input type="checkbox"/> Correlation
<input type="checkbox"/> System Valve	<input type="checkbox"/> Soil	<input type="checkbox"/> Meter Valve	<input type="checkbox"/> Other
<input type="checkbox"/> Other	<input type="checkbox"/> Other	<input type="checkbox"/> Other	

<b>Pipe Material:</b>	<input type="checkbox"/> Ductile Iron	<input type="checkbox"/> Steel	<input type="checkbox"/> PVC
	<input checked="" type="checkbox"/> Cast Iron	<input type="checkbox"/> Copper	<input type="checkbox"/> HDPE
	<input type="checkbox"/> Galvanized Iron	<input type="checkbox"/> AC	

Asset I.D. \_\_\_\_\_

GPS Coordinates: \_\_\_\_\_  
 Latitude \_\_\_\_\_ Longitude \_\_\_\_\_



(Show location of water main, leak, fittings and correlator sensors)

**Comments:**  
 This hydrant has a drip at the 4-1/2 in cap indicating the hydrant is changed.





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2011

*Innovation ▪ Flexibility ▪ Affordability*





**Leak Detection Project  
For  
Northern Kentucky Water  
District  
COVINGTON & BELLEVUE/DAYTON  
JANUARY 2012**





A Division of ADS LLC

1445 Jamike Dr. Suite 1  
Erlanger, KY 41018  
www.adsenv.com

January 18 2012

Mr. Don Gibson  
Distribution System Manager  
Northern Kentucky Water District  
2835 Crescent Springs Road  
Erlanger, KY 41018

**RE: Leak Detection Survey – Covington and Bellevue/Dayton Areas**

Dear Mr. Gibson,

In accordance with our agreement, ADS LLC has completed the leak detection survey of the six individual areas within the City of Covington and the Bellevue/Dayton areas water distribution system and herewith submits its report. Three copies of the report are enclosed; additionally an electronic copy will also be supplied.

We wish to express our appreciation for the courtesy and cooperation extended to us during the course of the survey. Please don't hesitate to contact me at 859-512-2553 if you require additional information.

Respectfully submitted,

James E. Fisher  
Sr. Project Manager  
ADS LLC

Cc: Rusty Collingsworth  
Ed Prather



An IDEX Fluid & Metering Business  
Accusonic  
ADS Environmental Services  
Hydra-Stop



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## Scope of Work

The survey consisted of the following:

- A leak detection survey in select areas of the water distribution system in the City of Covington and portions of the Bellevue and Dayton water distribution system. This included listening on all hydrants and strategic main line valves and selected B-Box service valves using sensitive sound intensifying instruments.
- A subsequent investigation was conducted in all suspect areas where indications of leakage were detected by using an electronic leak correlator to pinpoint and mark the leaks for repair.
- The submission of this report showing the results of the investigation. The results include a list of leak locations and estimated quantities of water being wasted by the leakage.



## Leakage Investigation

The leaks were classified as follows:

Class	Definition
3	Leaks which are hazardous in terms of potential underground washouts, possibly resulting in surface collapse, encroachment and/or damage to nearby utilities, commercial and private properties or leaks that indicate leakage to be severe enough to warrant immediate repair by Village's work forces.
2	Leaks which display water losses significant enough to be placed on a regular repair schedule.
1	Relatively small leaks which should be repaired as work time permits.

The following is a tabulation of the leaks located during the survey with an estimate of the quantity of leakage. Individual maps of each leak location, which were created in the field, can be found in the Appendix. The maps contain a leak reference number, type of leak, leak location and the estimated quantity of leakage.

Type of Leak	Reference Number	Class	Location	Estimated Leakage (gpd)
Service	1	1	233 Van Voast Ave	2,880
Service	2	1	Between 1015 & 1021 Maple St	2,880
Main Line	3	2	1010 5 <sup>th</sup> Street	7,200
Hydrant	4	1	314 Grant St	2,880
Service	5	1	3536 Myrtle St	2,880
Main Line	6	2	Between 3608 & 3610 Myrtle	28,800
Hydrant	7	1	333 Western Ave ***	7,200
Hydrant	8	1	429 Western Ave ***	7,200
Hydrant	9	1	Intersection of W. 8 <sup>th</sup> St & Willard	5,280
Hydrant	10	1	342 E. 18 <sup>th</sup> St.	1,440

\*\*\* - Suspected Hydrant Leaks – Recommend Flushing and Resound

A total of eight confirmed leaks and two suspected hydrant leaks were located in the Northern Kentucky Water District – in select areas of Covington, Bellevue and Dayton, wasting an estimated 68,640 gallons of water per day or 25,053,602 gallons of water per year if they were to be allowed to continue to run. We have two suspected hydrant leaks on Western Ave but recommend flushing these hydrants and resounding. We tightened the operating nut with no change in leak sound.



# Map Deficiencies & Errors

There were no map deficiencies or errors but we did find a fire hydrant shown below off Dodd Dr. that has a hose connection attached to the 2-1/2 in port. We were not aware if the line for this hydrant was metered.





## Conclusions & Recommendations

The ADS LLC Leak Detection Survey conducted in portions of the City of Covington, Bellevue and Dayton Kentucky water distribution system, for the Northern Kentucky Water District resulted in the location of an estimated 68,640 gallons of water per day in leakage. When repaired, the elimination of this leakage would save the District an estimated 25,053,600 gallons of water per year if not repaired.

There are two suspected fire hydrants leaking on Western Avenue in Covington that we recommend be flushed and re-seated then re-sounded. The water line section these hydrants are connected to was correlated and we did not get defined peaks that would indicate a positive leak. This line section was very noisy but the sound at the hydrants in front of 333 Western Ave and 429 Western Ave are very loud. If these hydrants are flushed and Northern Kentucky Water District would like ADS to resound them please contact us and we will be happy to do so.



Date: 11/2/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: J. Fisher

City/Town: Bellevue, KY M. Starks

Street No.: 233 Street: Van Voast Ave Cross Street: \_\_\_\_\_

Location Description In front of meter box @ curb line

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 2880 W/L Size: 4

Asset Type: Service Leak Ground Cover: Concrete

W/L Material Cl

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Service

Asset ID PPG\_ID 7855

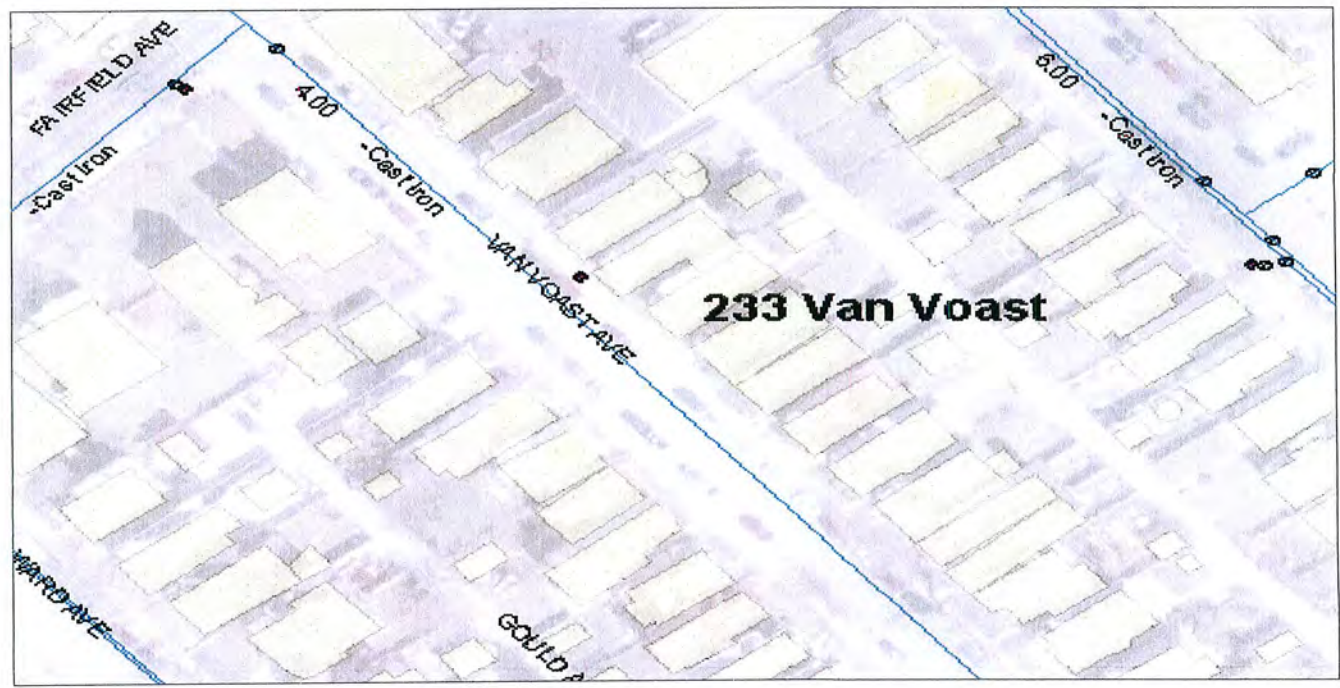
Leak Description Service Leak

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Contacted: Yes

Comments Looks like a new meter setting. Water surfacing from curb line.

Correlation of Leak: No



Date: 11/10/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: J.Fisher - M. Starks

City/Town: Dayton Kentucky

Street No.: 1015 Street: Maple Ave Cross Street: \_\_\_\_\_

Location Description Empty lot between 1015 and 1021 Maple

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 2880 W/L Size: 0.75

Asset Type: Service Leak Ground Cover: Gravel Grass

W/L Material Copper

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Service

Asset ID PPG\_ID 8240

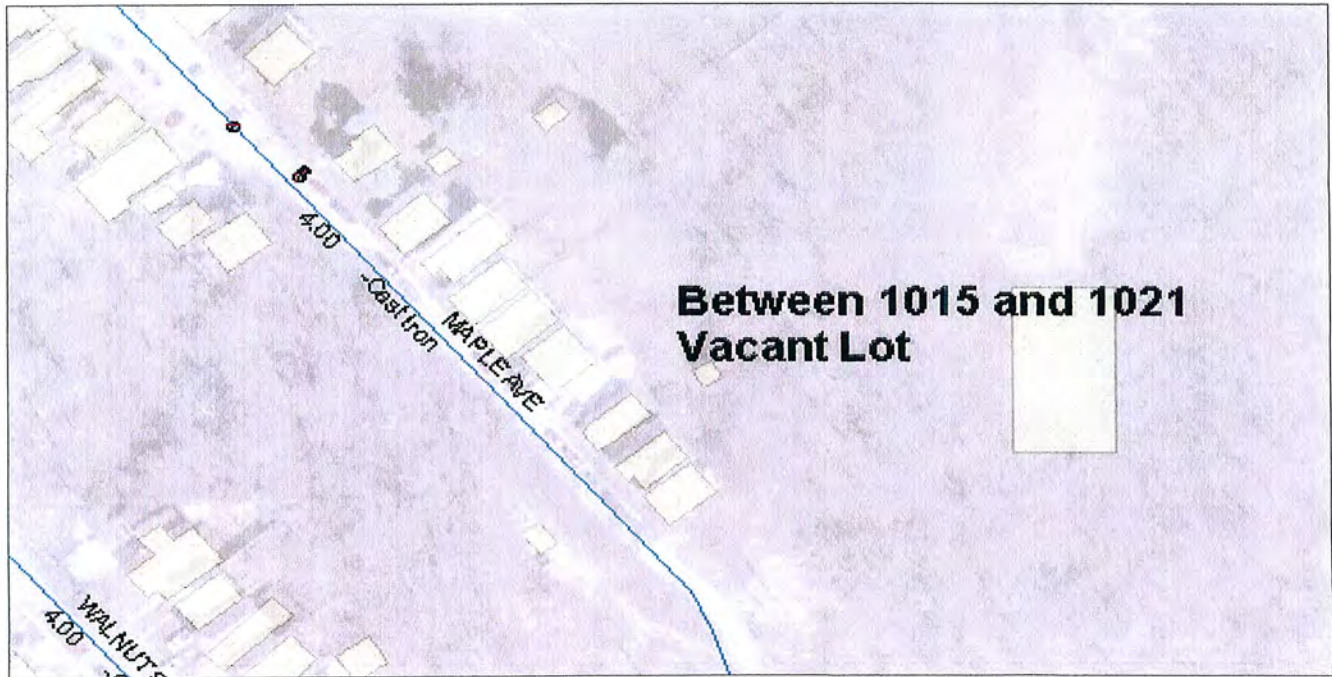
Leak Description Service leak at suspected abandoned service

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Comments

Contacted: Yes

Correlation of Leak: No





Date: 11/11/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: J. Fisher - M. Starks

City/Town: Bellevue Kentucky

Street No.: 1010 Street: 5th St Cross Street: \_\_\_\_\_

Location Description In front of 1010 5th St.

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 7200 W/L Size: 4

Asset Type: Main Leak Ground Cover: Asphalt

W/L Material CI

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Mainline

Asset ID PPG\_ID 7966

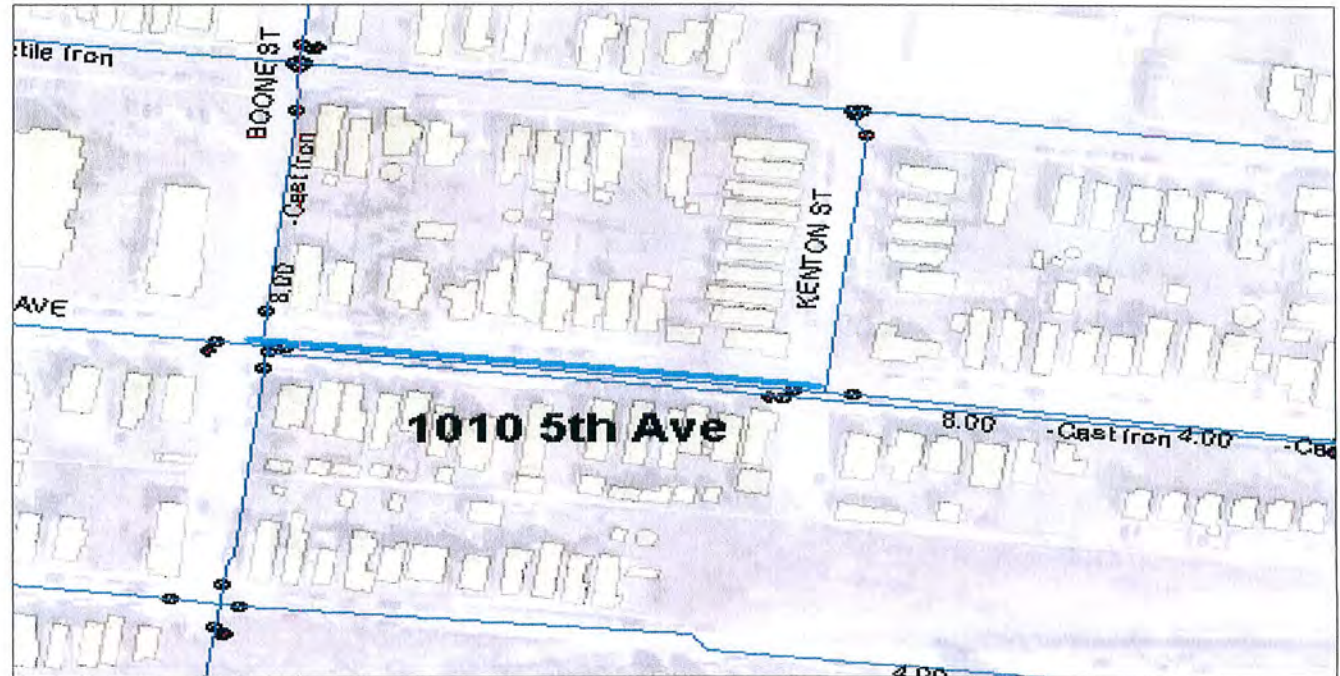
Leak Description Main line leak

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Contacted: Yes

Comments Appears to be 2 leaks. City dug and fixed one. The other sound was an old repair clamp. There was another leak further down the street on a service that was repaired.

Correlation of Leak: Yes





Date: 12/8/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: J. Fisher - M. Starks

City/Town: Latonia Kentucky

Street No.: 314 Street: Grant St Cross Street: RR Tracks

Location Description 1st Hydrant -W- RR Tracks

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 2880 W/L Size: 6

Asset Type: Hydrant Leak Ground Cover: Concrete

W/L Material CI

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Hydrant

Asset ID CO2929H

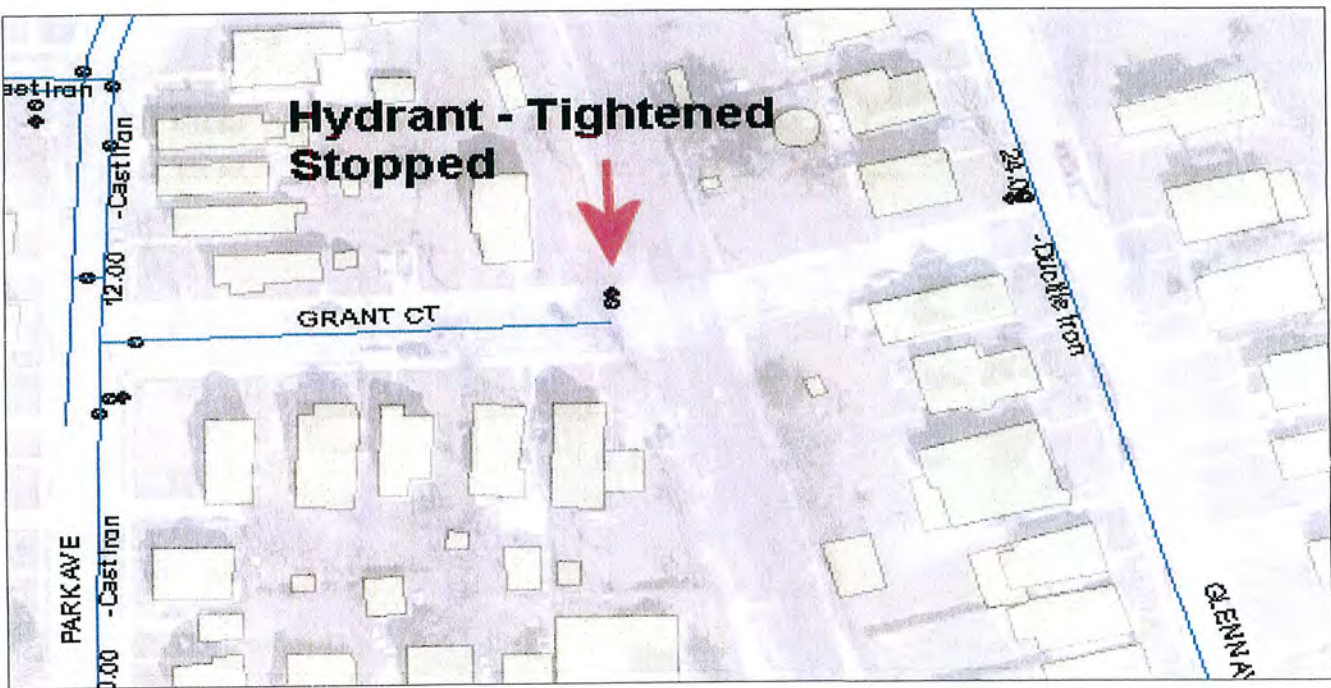
Leak Description Hydrant leak

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Contacted: No

Comments Tightened hydrant operating nut and leak stopped

Correlation of Leak: No



Date: 12/9/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: J. Fisher - M. Starks

City/Town: Covington Kentucky

Street No.: 3536 Street: Myrtle Cross Street: Park

Location Description In front of 3536 Myrtle

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 2880 W/L Size: 4

Asset Type: Main Leak Ground Cover: Asphalt

W/L Material CI

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other
- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Mainline

Asset ID PPG\_ID 4085

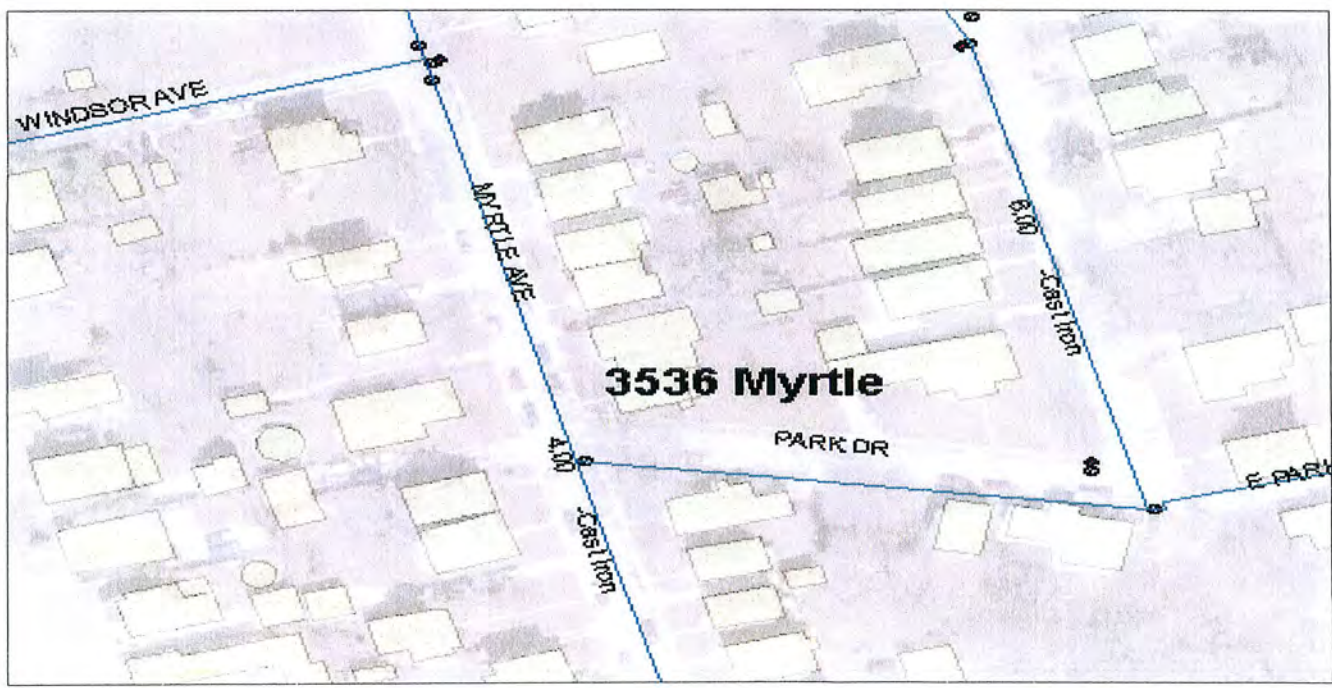
Leak Description Main Line - Service Tap

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Comments Appears to be the service tap at the main.

Contacted: Yes

Correlation of Leak: Yes





Date: 12/12/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: JF - MS

City/Town: Latonia Kentucky

Street No.: 3608 Street: Myrtle Cross Street: \_\_\_\_\_

Location Description Between 3608 & 3610

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 28800 W/L Size: 4

Asset Type: Main Leak Ground Cover: Asphalt

W/L Material CI

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Mainline

Asset ID PPG\_ID 4086

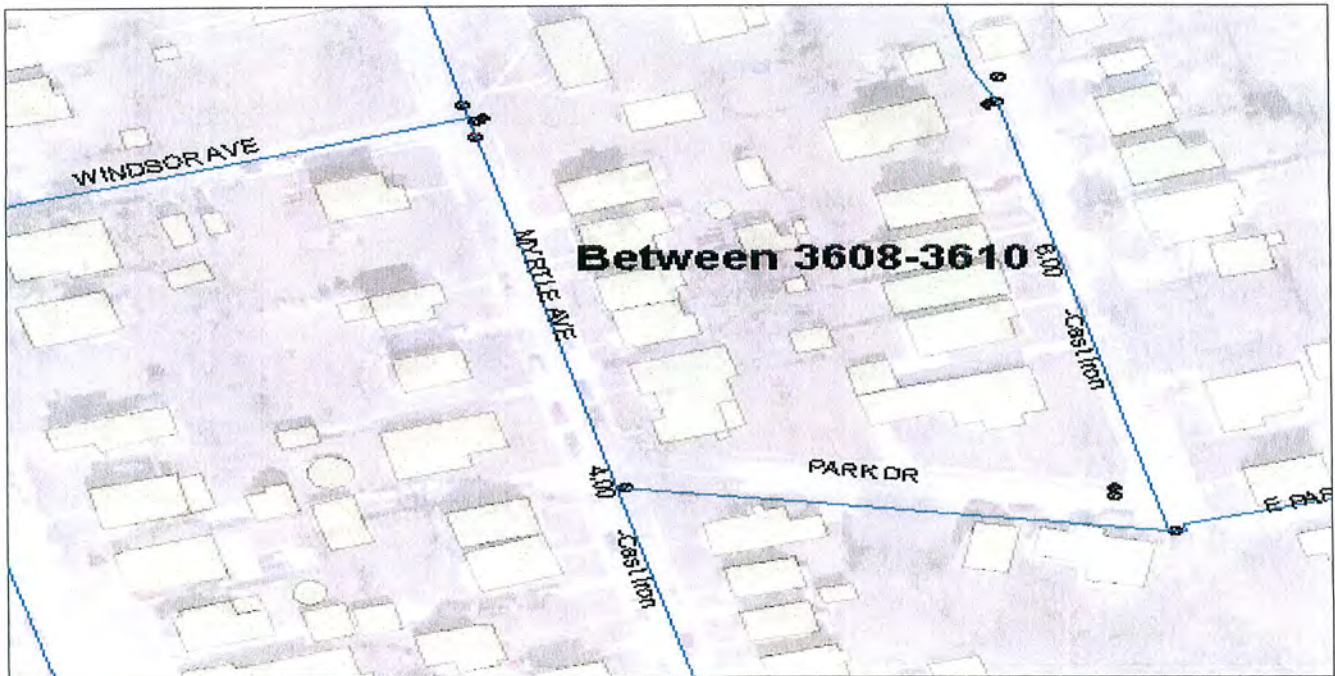
Leak Description Potential Longitudinal Crack on main.

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Comments Could see water running into sewer. Ground miking indicates a potential longitudinal crack.

Contacted: Yes

Correlation of Leak: Yes



Date: 12/23/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: JF - MS

City/Town: Covington Kentucky

Street No.: 333 Street: Western Ave Cross Street: \_\_\_\_\_

Location Description Hydrant in front of 333 Western Ave

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 7200 W/L Size: 4

Asset Type: Hydrant Leak Ground Cover: Grass

W/L Material CI

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Hydrant

Asset ID COO744H

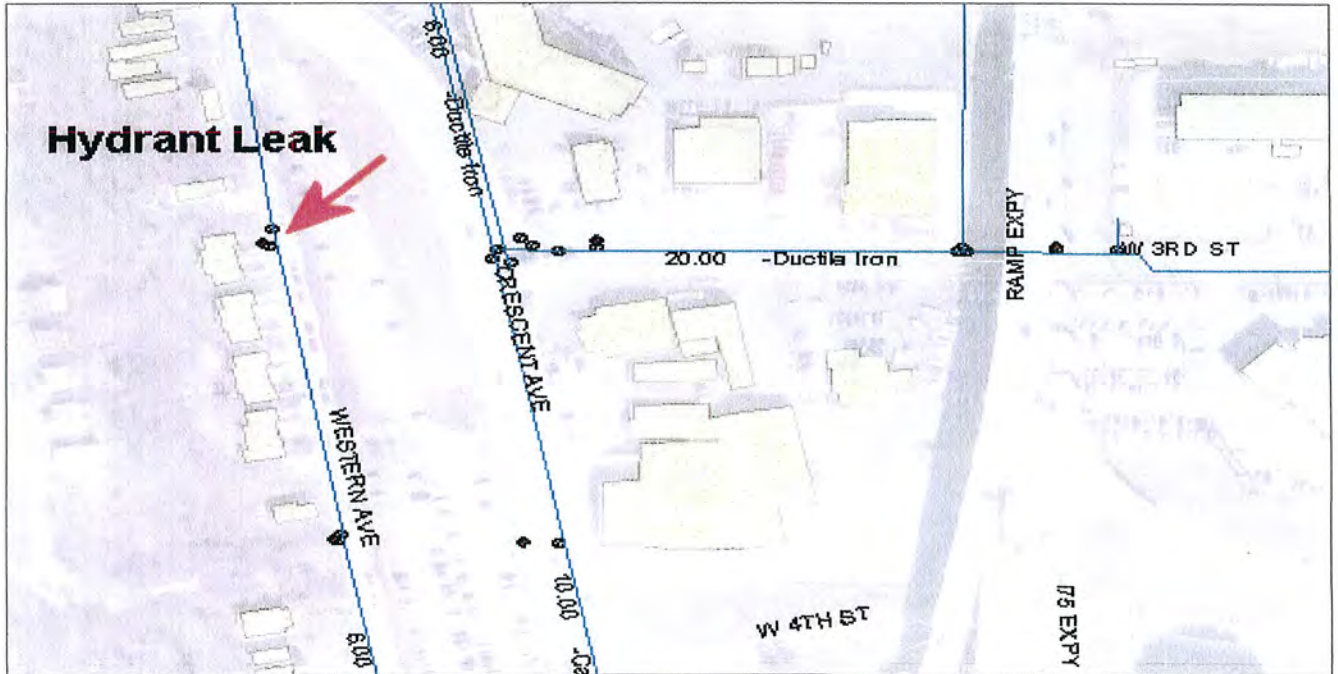
Leak Description Hydrant is very loud.

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Comments Tightened operating nut with no change in sound. Correlated this section of main but got no positive results. Recommend flush and Resound.

Contacted: No

Correlation of Leak: Yes





Date: 12/23/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: JF - MS

City/Town: Covington Kentucky

Street No.: 429 Street: Western Ave Cross Street: Highway Ave

Location Description 5th Hydrant -S- Highway Ave

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 7200 W/L Size: 4  
Asset Type: Hydrant Leak Ground Cover: Grass  
W/L Material CI

Detected at:  
 Hydrant  
 Valve  
 Curb Valve  
 Meter Valve  
 Other

Detected Method:  
 Sonic  
 Visible Leak  
 Correlation  
 Other

Leak Type Hydrant

Asset ID COO746H

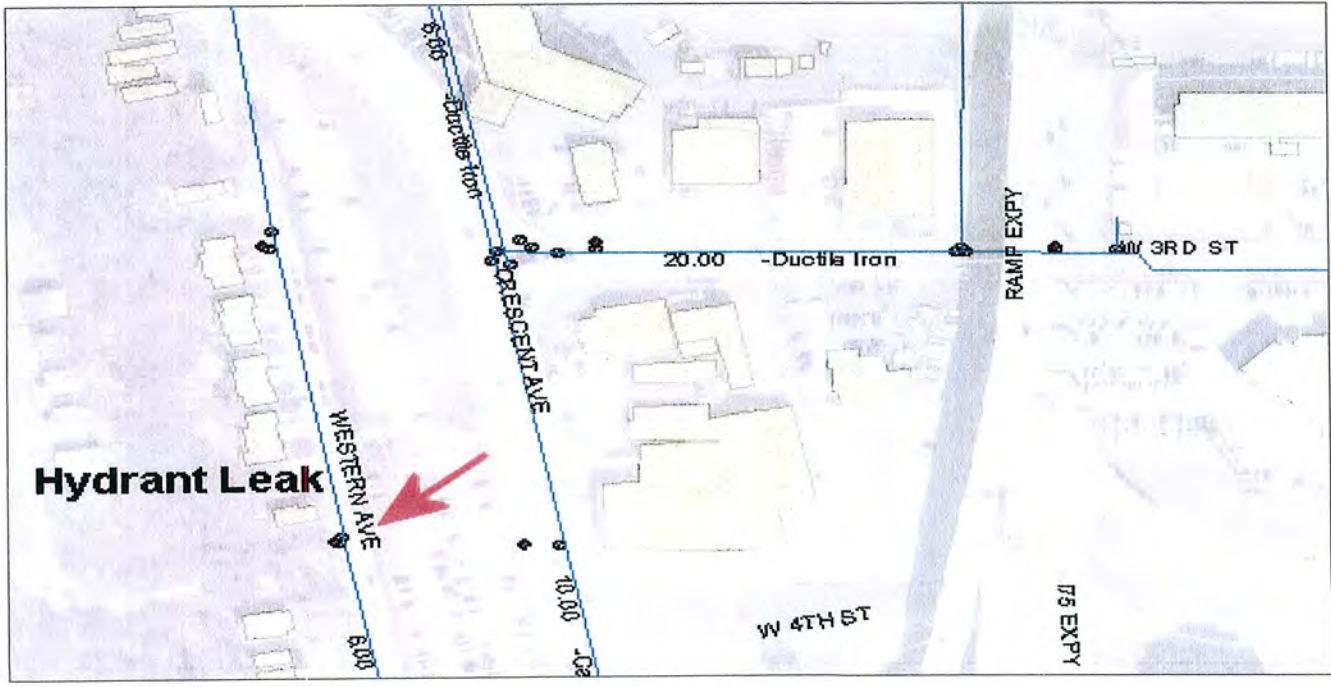
Leak Description Good sound on hydrant, tightened operating nut with no change in sound.

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Contacted: No

Comments Hydrant Loud, Ground miked area sounds like the hydrant. Good sound, but correlation did not pick this up. Recommend Flush and Resound.

Correlation of Leak: Yes



Date: 12/29/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: JF - MS

City/Town: Covington Kentucky

Street No.: \_\_\_\_\_ Street: W. 8th St Cross Street: Willard

Location Description Hydrant on the corner of W. 8th St and Willard

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 5280 W/L Size: 4

Asset Type: Hydrant Leak Ground Cover: Concrete

W/L Material Cl

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Hydrant

Asset ID COO972H

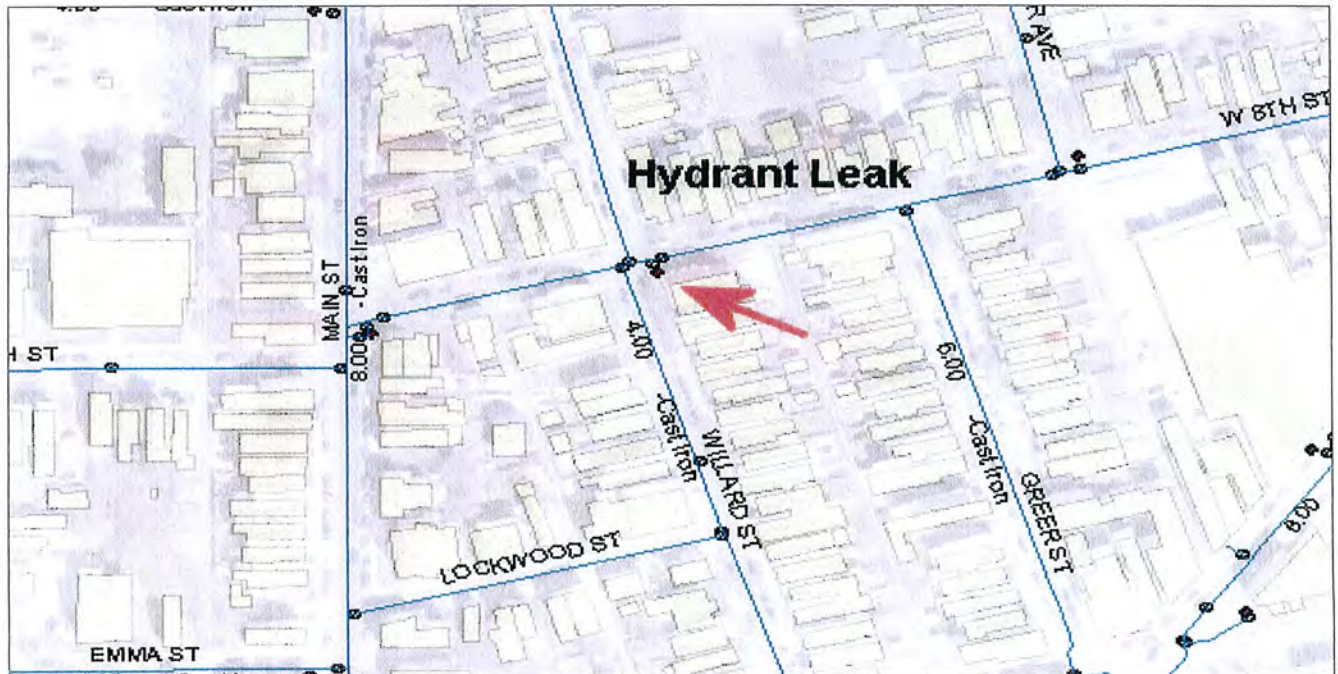
Leak Description Hydrant leak or Hydrant leg.

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Contacted: No

Comments Correlated with no positive results, line is very noisy. Recommend Flush and Resound.

Correlation of Leak: Yes





Date: 12/29/2011 Time: \_\_\_\_\_ Map No: \_\_\_\_\_ Technician: JF - MS

City/Town: Covington Kentucky

Street No.: 342 Street: E. 18th St Cross Street: \_\_\_\_\_

Location Description Hydrant corner of E. 18th & Oliver

W/L Ownership: City Leak Classification:  1  2  3 W/L Service Type: City Mainline

Estimated Water Loss: 1440 W/L Size: 8

Asset Type: Hydrant Leak Ground Cover: Asphalt

W/L Material CI

- Detected at:
- Hydrant
  - Valve
  - Curb Valve
  - Meter Valve
  - Other

- Detected Method:
- Sonic
  - Visible Leak
  - Correlation
  - Other

Leak Type Hydrant

Asset ID CO1901H

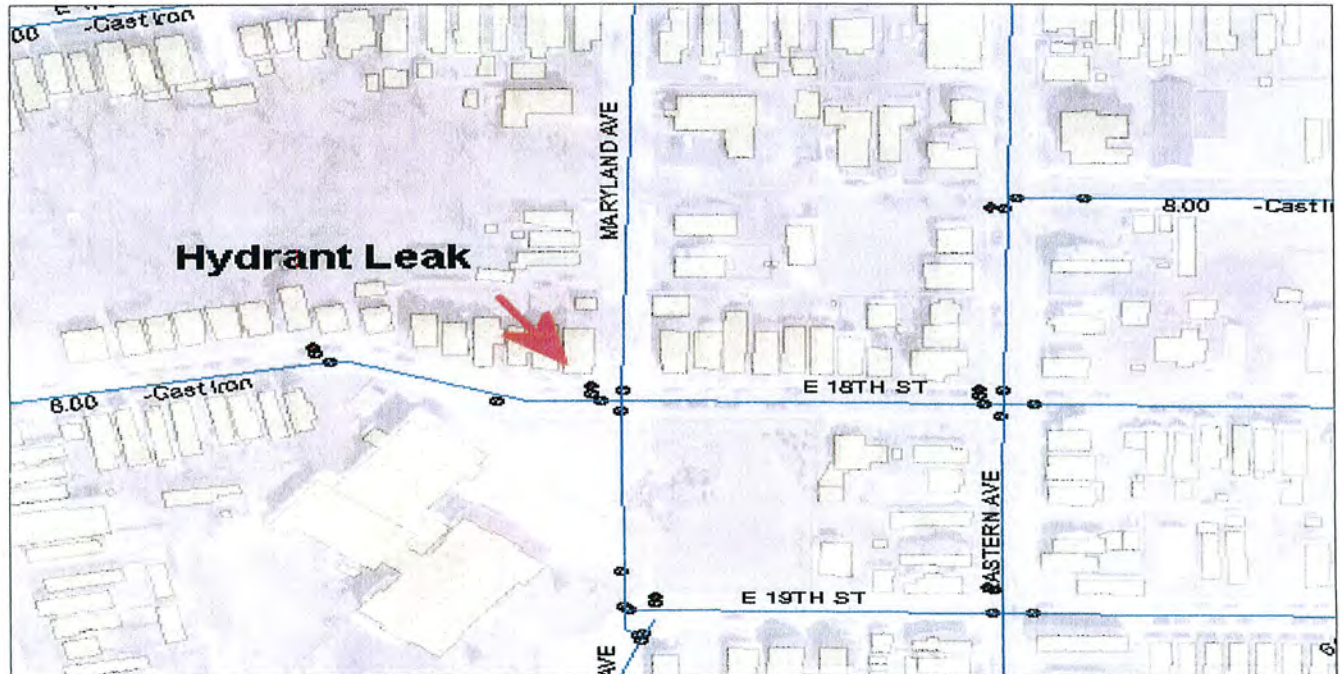
Leak Description Hydrant leak

Latitude \_\_\_\_\_ Longitude \_\_\_\_\_

Comments Tightened operating nut and leak stopped.

Contacted: No

Correlation of Leak: Yes



Q17. Refer to Northern District's Response to Commission Staff's Second Request for information, Item 18.

Q17a. In Case No. 2010-00094, the Commission placed Northern District "on notice that it would have to explain why a declining block rate design is appropriate given the recent trends within the water industry." Explain why Northern District failed to provide any instructions to its consultant to explore the benefits and disadvantages of using a declining block rate design and the use of an alternative rate design.

Q17b. Describe all studies and analyses that Northern District conducted or commissioned regarding the use of alternative rate designs. Provide a copy of such studies or analyses.

Q17c. List and describe all studies, reports, articles, monographs, or other papers that Northern District reviewed before deciding to retain its current rate design. If no studies, reports, articles, monographs, or other papers were reviewed, explain why not.

Q17d. Provide all internal memoranda, electronic mail messages, and correspondence in which Northern District officials discussed the use of alternative rate design or revisions to its existing declining rate block structure.

Q17e. State the date of each meeting of Northern District's Board of Commissioners since January 1, 2011 in which Northern District's current rate design and possible changes or alternatives to that design were discussed.

Q17f. State and discuss all reasons not previously provided in Northern District's response to Commission staff's Second Request for Information for Commission why the Commission should approve Northern District's proposed rate structure.

A17a: The consultant, through the use of the cost of service study, demonstrated the benefits of using a declining block rate design by being able to closely match proposed revenue with cost of service for each customer class. See Schedule A, page 5 of Exhibit N.

Northern District's declining block rate is designed so that the residential class has the majority of its consumption billed at the first block rate, the commercial/multifamily and public classes have the majority of their consumption billed at the second block rate, and



the industrial class has the majority of its consumption billed at the third block rate. No further analysis was deemed to be needed.

A17b: Northern District commissioned a cost of service study as described above. No other analysis was performed.

A17c: See part b.

A17d: There are no internal memoranda, electronic mail messages or correspondence in which Northern District officials discussed the use of alternative rate design. All discussions were telephonic and concluded that the existing rate structure was appropriate.

A17e: On June 21, 2012, the Board of Commissioners reviewed the District's financial reports. As part of his report, Mr. Bragg presented a detailed summary of the final rate case to be filed with the PSC by the end of June, which would have outlined the proposed rate design.

A17f: In the Public Service Commission's order for Case No. 2010-00094, an article by Scott Rubin is referenced (Scott J. Rubin, *What Does Water Really Cost? Rate Design Principles for an Era of Supply Shortages, Infrastructure Upgrades, and Enhanced Conservation 7-8* (NRRI July 2010)) which we have attached in an exhibit to this data request. The Commission is correct when it quotes Mr. Rubin as writing:

"In recent years, there has been a trend away from using declining-block rates and toward the other two rate forms".

However further in his executive summary he also states:

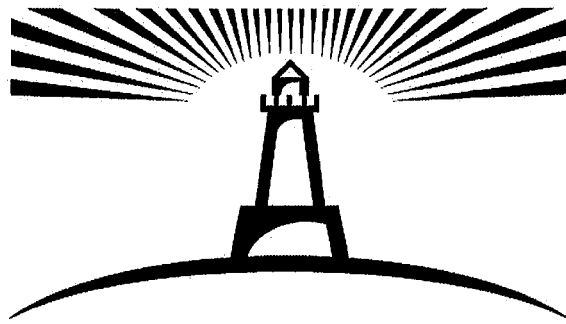
"When properly designed, declining-block rates remain a valid rate form that is consistent with cost-of service principles. Declining-block rates also enable a utility to serve all customers on a single rate schedule, avoiding the need for the precise classification of customers."

In fact, Mr. Rubin further states that:

"When changing from a declining-block rate structure or a uniform usage structure to an inclining-block rate structure, regulators must be sensitive to the

possible effects on customers who differ from the “average,” such as large commercial and industrial customers, renters, and large families.”

The Northern District rate structure is an efficient rate design that produces revenue by class commensurate with the class cost of service study results. Any change to the rate design, such as change to a single block rate by class, may have some unintended consequences such as some rate payers receiving decreases and some rate payers paying significantly more for their water service.



National Regulatory  
Research Institute

**What Does Water Really Cost?  
Rate Design Principles for an Era of Supply  
Shortages, Infrastructure Upgrades, and  
Enhanced Water Conservation**

**Scott J. Rubin, J.D.**

**July 2010**

**10-10**

## **Acknowledgments**

The author would like to thank NRRI's Executive Director, Scott Hempling, and Sue Daly of the Public Utilities Commission of Ohio, for their insightful comments and suggestions, which helped to refine the paper. Any errors, of course, are the responsibility of the author.

## **Online Access**

This paper can be accessed online at  
[http://www.nrri.org/pubs/water/NRRI\\_water\\_rate\\_design\\_jul10-10.pdf](http://www.nrri.org/pubs/water/NRRI_water_rate_design_jul10-10.pdf).

## Executive Summary

Supply shortages, water main breaks, water conservation, and other challenges call for clarity in water rate design. In most jurisdictions, water ratemaking is based on principles and rate designs established many decades ago. But substantial changes are occurring in the design of water rates, particularly in areas experiencing water shortages. Further, some of the basic principles of water rate design have fallen into disuse by regulators and expert witnesses, impeding the ability of commissions to meet these challenges by setting rates that bear a reasonable relationship to the cost of serving different types of customers.

Nearly fifty years ago, Professor Bonbright suggested that the most important rate design criteria are adequacy (collection of the revenue requirement), efficiency (encouragement of economically efficient consumption and discouragement of waste), and fairness to all customer classes. Those standards remain valid goals today, but the method of achieving them in the water industry has changed over the years.

Generally, differences in water rates should be based on differences in costs the utility incurs to serve different types of customers rather than on characteristics of the customer that have no impact on the utility's cost of service. Thus, the primary purpose of designing any utility's rates is to recover the utility's revenue requirement in a manner that does not require any class of customers to pay significantly more or less than the cost of providing service to the class. But those are not the only appropriate rate-design goals. Water rates are used to encourage conservation, promote economic development, improve the affordability of service to low-income customers, and implement other public policy goals. Each of those goals can be achieved in a manner that is consistent with the cost of serving different types of customers, but doing so requires careful attention to detailed data about costs, customer consumption, and demand patterns.

Three types of rate structures dominate water rate design: declining-block rates, uniform usage rates, and inclining-block rates. In recent years, there has been a trend away from using declining-block rates and toward the other two rate forms. Some of that movement has been the result of a misunderstanding of the purpose, and proper design, of declining-block rates. When properly designed, declining-block rates remain a valid rate form that is consistent with cost-of-service principles. Declining-block rates also enable a utility to serve all customers on a single rate schedule, avoiding the need for the precise classification of customers (for example, is an apartment building residential or commercial?).

Uniform usage charges, often by customer class, have become the most popular water rate structure. When using this rate form, care must be taken to develop customer classes that have similar demand and consumption characteristics, so that similarly situated customers do not pay different rates. Commissions also must be careful to avoid developing customer classes that have customers of vastly different size. If customer classes are not relatively homogeneous, the uniform usage rate charged to larger customers in the class will not reflect the lower per-unit cost of distributing a large volume of water to one customer, resulting in unwarranted subsidies to smaller customers in the class.

Inclining-block rates have become an important method of encouraging water conservation. Such rates should be designed based on differences in the cost of serving customers who contribute to the system's peak demands, not just on customers who use large amounts of water throughout the year. When changing from a declining-block rate structure or a uniform usage structure to an inclining-block rate structure, regulators must be sensitive to the possible effects on customers who differ from the "average," such as large commercial and industrial customers, renters, and large families.

During the past two decades, several municipally owned utilities and at least one investor-owned utility, primarily in the western United States, have developed a new type of water rate, known variously as customer-specific rates, tailored rates, or water budgets. This new type of water rate structure is an inclining-block rate in which the size of each block varies depending on the characteristics of each customer. Depending on the specific criteria that regulators choose to affect the size of each consumption block, changing to customer-specific rates can lead to substantial rate increases for some customers. Adversely affected customers are likely to challenge the lawfulness, appropriateness, and cost basis of these rates when used for investor-owned water utilities. To avoid such challenges, commissions must ensure not only that the rate structure helps to meet conservation goals, but that the classifications used to determine customer-specific rates bear a reasonable relationship to the utility's cost of serving customers.

In order to implement public policies, many commissions are authorized to adopt special rates for particular types of customers or to expedite the recovery of certain types of cost increases. Promoting the local economy and the affordability of utility service, for example, are important public goals, but regulators should not leave behind cost-of-service principles when attempting to implement those types of policies. When properly designed, rates that encourage customers to remain on the system, or that attract new customers, can help spread the utility's fixed costs over a larger customer base, which can provide a benefit to all customers. Similarly, rate discounts that improve the collection of bills, thereby reducing collection costs and working capital requirements, also can benefit all customers if properly designed and implemented. These types of special rate forms do not require the abandonment of Bonbright's essential rate design principles.

After reading this paper, regulators will have a better understanding of essential water rate design principles and be able to make informed choices about the appropriate rate structure for investor-owned water utilities.

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## Introduction

Supply shortages, water main breaks, water conservation, and other challenges call for clarity in water rate design. In most jurisdictions, water ratemaking is based on principles and rate designs established many decades ago. Water utilities, regulators, and public advocates rely on two major reference works for designing water rates: the “M1 manual” published by the American Water Works Association (AWWA),<sup>1</sup> and a cost allocation and rate design manual jointly published by NRRI and the Water Research Foundation (formerly the American Water Works Association Research Foundation).<sup>2</sup> These two works are 10 and 20 years old, respectively, and were prepared for use by the entire water industry, most of which consists of publicly owned utilities.<sup>3</sup>

This paper will focus on rate design issues for investor-owned water utilities, including the challenges of designing rates during an era of supply shortages, enhanced water conservation, and extensive infrastructure replacement spending. The focus on investor-owned utilities is important for at least three reasons. First, while the two books referred to above continue to provide useful information for utility commissions and practitioners, substantial changes have occurred in the design of water rates since their publication. Second, regulators and expert witnesses fail to apply some of the central teachings of those manuals. Third, important differences exist between rate designs that are reasonable or appropriate for an investor-owned utility and those that are appropriate for a publicly owned utility.

Part I provides an overview of basic rate design principles and purposes for any type of utility. The concept of a “just and reasonable” rate is discussed, along with other fundamental rate design principles.

Part II provides a review of essential rate design principles and rate structures for water utilities. In recent years, there has been significant movement away from declining-block rates for water utilities. That trend is designed to help encourage water conservation, but as explained below, regulators must be careful to ensure that rates continue to reflect important differences in the cost of serving different types of customers.

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<sup>1</sup> American Water Works Association, *Principles of Water Rates, Fees, and Charges* (Denver, CO, 5<sup>th</sup> ed., 2000) (hereafter “AWWA Manual M1”). The comparable manual for the wastewater utility industry is Water Environment Federation, *Financing and Charges for Wastewater Systems*, WEF Manual of Practice No. 27 (New York, NY, 2005).

<sup>2</sup> Janice A. Beecher, et al., *Cost Allocation and Rate Design for Water Utilities*, NRRI No. 90-17, AWWARF No. 90590 (Columbus, OH, and Denver, CO, 1990) (hereafter “Beecher”).

<sup>3</sup> “Publicly owned utilities” here means utilities that are government-owned as distinct from entities that are shareholder-owned.



A new form of water rates, customer-specific rates, has been developed in water-short areas of the western United States. Part III explores this new type of rate and discusses its potential usefulness for investor-owned water utilities throughout the country.

Water rates are variously used to encourage or guide economic development, maintain or improve the stability of a utility's revenue stream, promote water conservation or discourage waste, ensure the provision of affordable service to low-income consumers, and restrict outdoor water use during droughts and other water shortages, among other things.<sup>4</sup> Part IV discusses some of these special-purpose water rates.

Finally, proposals for automatic rate adjustment mechanisms have become common among investor-owned water utilities. Part V discusses these types of rates, their relationship to established ratemaking principles, their relationship to cost, and the incentives and disincentives each may provide to utilities and consumers.

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<sup>4</sup> For a useful paper on the multiplicity of rate design purposes and how different rate design assist or impede those purposes, see A. Pollock and E. Shumilkina, *How to Induce Customers to Consume Energy Efficiently: Rate Design Options and Methods*, NRRI Publication 10-03 (January 2010), [http://www.nrri.org/pubs/electricity/NRRI\\_inducing\\_energy\\_efficiency\\_jan10-03.pdf](http://www.nrri.org/pubs/electricity/NRRI_inducing_energy_efficiency_jan10-03.pdf).

## I. Essential Rate Design Principles

In most jurisdictions, water utility rates are required by law to be “just and reasonable,” but that term is rarely defined in a statute. The characteristics of a “just and reasonable” rate are left to regulatory commissions and courts to determine. The “just and reasonable” standard typically refers to the specific *rates* that are charged by the utility—what is referred to as the “rate design” or “rate structure.” For example, Pennsylvania’s Public Utility Code states: “Every rate made, demanded, or received by any public utility ... shall be just and reasonable, and in conformity with the regulations or orders of the commission.”<sup>5</sup> New York’s Public Service Law contains a similar directive for water rates: “All charges made or demanded by any such water-works corporation for water, or for equipment furnished or for any service rendered or to be rendered shall be just and reasonable and not more than allowed by law or by order of the commission.”<sup>6</sup>

In their seminal works on utility regulation, Professors Bonbright and Phillips agree on the essential criteria for a sound rate structure:

- Practicality, including simplicity, understandability, ability to implement, and public acceptability;
- Clarity in its interpretation;
- Effectiveness in yielding the total revenue requirement;
- Stability in revenues from year to year;
- Continuity of rates, including the concept of gradualism;
- Fairness in relation to the cost of serving different types of customers;<sup>7</sup>
- Avoidance of undue discrimination among similarly situated customers; and
- Encouragement of efficient consumption practices.<sup>8</sup>

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<sup>5</sup> 66 Pa. Consolidated Statutes § 1301 (emphasis added).

<sup>6</sup> NY Public Service Law § 89-b(1) (emphasis added).

<sup>7</sup> The “fairness” of a utility rate generally means that the rate bears a reasonable relationship to the utility’s cost of serving the customer without exceeding the value of service to the customer. See, e.g., James C. Bonbright, *Principles of Public Utility Rates* (New York, NY, 1961) (hereafter “Bonbright”), pp. 82-92; Leonard Saul Goodman, *The Process of Ratemaking* (Arlington, VA, 1998) (hereafter “Goodman”), vol. II, pp. 893-895.

<sup>8</sup> Bonbright, p. 291; Charles F. Phillips, Jr., *The Regulation of Public Utilities: Theory and Practice* (Arlington, VA, 1993), pp. 434-435.

Bonbright suggests that the most important of these criteria are adequacy (collection of the revenue requirement), efficiency (encouragement of economically efficient consumption and discouragement of waste), and fairness to all customer classes.<sup>9</sup> He notes that these criteria are primary “not only because of their widespread acceptance but also because most of the more detailed criteria are ancillary thereto.”<sup>10</sup>

“Just and reasonable” rates have been defined as rates that are consistent with these rate design criteria. For example, the Vermont Public Service Board states that it has “long used Bonbright’s three criteria of adequacy, efficiency, and fairness when considering rate designs. It is appropriate for us to consider those principles when evaluating the reasonableness [of a proposed change in rate design].”<sup>11</sup> See also a decision by the Supreme Court of Rhode Island relying on Bonbright’s complete list of rate design principles in upholding the reasonableness of a utility’s rate design, even though it did not strictly follow the results of a cost of service study.<sup>12</sup>

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<sup>9</sup> Bonbright, p. 292.

<sup>10</sup> *Id.*

<sup>11</sup> *Investigation into Village of Morrisville Water and Light Department's tariff filing*, Docket No. 7332, 2007 Vt. PUC LEXIS 295 (VT Pub. Svc. Bd., December 13, 2007), citing cases dating back to 1981.

<sup>12</sup> *U.S. v. Pub. Util. Comm'n of Rhode Island*, 635 A.2d 1135, 1141-42 (R.I. 1993).

## **II. The Basics of Water Rate Design**

### **A. Introduction**

Regulators recognize that water service is essential to public health and sanitation. Water also is an irreplaceable engine for commerce; it is difficult (and in many areas impossible) to sustain economic activity without a plentiful and reliable supply of water—for sanitation, human consumption, food preparation, and numerous commercial activities and industrial processes. As such, it is important to ensure that water service is available throughout a utility's service area, that the rates bear a reasonable relationship to the utility's cost of providing service, and that the rates charged do not exceed the value received by the customer.

As discussed in Part I above, the primary purpose of designing any utility's rates is to recover the utility's revenue requirement in a manner that is fair and based on the cost of providing service. But those are not the only appropriate rate-design goals. The Connecticut Department of Public Utility Control summarized the numerous goals of a water rate design, as follows:

Conservation of water and energy resources is a goal of the State and of the Department. Rate structures for all utilities should be designed with an eye towards that goal. However, conservation is just one of the several legitimate goals to be advanced through rate design. Another goal is revenue stability, i.e., the reasonable opportunity for a utility to recover through rates the revenues it has been awarded. Cost responsibility is also an appropriate principle to be reflected in rate design.

In general, rates should be designed so that customers are charged rates that reflect the costs they cause a company to incur on their behalf. It is also a goal of rate design to promote economic development and to ensure that large use customers, among them manufacturers, are encouraged to locate, remain, and expand their operations within Connecticut. It is the purpose of regulation and rate design to harmonize and reflect the aforementioned goals in an economically and administratively coherent fashion. No one goal should be permitted to displace the others.<sup>13</sup>

### **B. The base-extra capacity method**

The first step in the process of setting water rates that meet a community's needs is to perform a cost-of-service study. A cost-of-service study provides regulators and the public with information about the utility's cost to serve different types of customers. Customers usually are classified into categories such as residential, commercial, industrial, publicly owned, and fire

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<sup>13</sup> *Application of Stamford Water Co.*, 125 PUR4th 339 (Ct. DPUC, 1991).

protection. Most cost-of-service studies for water utilities are prepared using the base-extra capacity method (“BECM”) described in the AWWA manual.<sup>14</sup> The BECM usually allocates costs among five categories:

- *Base costs* that are incurred to meet average water consumption throughout the year, such as the cost of chemicals to treat the water.
- Extra capacity costs to meet *maximum daily demands*, such as pumping equipment that is used to move water during peak periods.
- Extra capacity costs to meet *peak hour demands*, such as some water storage tanks.
- *Customer-related costs* that vary with the number of customers but are unrelated to water use, such as billing and meter-reading costs.
- Costs that are related to *fire protection*, such as the cost of fire hydrants.

As explained in Part II.D below, the BECM is designed not only to allocate costs among customer classes, but also to provide important information to help design cost-based rates. Many practitioners and regulators, however, fail to recognize the importance of using the BECM in designing water rates. Indeed, it has become common in some jurisdictions for water cost-of-service studies to focus solely on the result—the cost allocated to each customer class—while ignoring (and sometimes not even reporting) essential components of those costs, including the base costs and extra capacity costs that lie at the heart of a BECM study.

### C. Unmetered (flat) rates

Historically, many water utilities provided service under flat rates (also known as unmetered rates); that is, the customer paid the same amount each month regardless of the amount of water used. The “rate” was a rate per customer, or sometimes a rate per plumbing fixture (so much per month for each toilet, shower, bathtub, etc.), rather than a rate per gallon of water used.

Flat rates made sense when water was inexpensive and plentiful; the cost of purchasing, installing, and reading meters was high; and many older homes (especially multi-family buildings) were not designed to readily enable the cost-effective installation of water meters. Indeed, one of the nation’s largest water utilities, New York City, did not require water meters until 1988.<sup>15</sup>

Unmetered water service is no longer common among larger water utilities, but there are still some small water utilities that provide service without meters. The cost of treating and distributing water is high enough, and the cost of metering technology is low enough, that it is

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<sup>14</sup> AWWA Manual M1, pp. 51-57.

<sup>15</sup> David Stipp, “In Crowded East, Water Becomes Gold -- Heavy Demand, Pollution Strain Supplies, Nerves,” *Wall Street Journal*, Aug 30, 1989, p. 1.

usually cost-effective to meter water service. Moreover, providing unmetered service is inconsistent with the efficient and economic use of water, in that it fails to provide the consumer with any price signal concerning the value or cost of the service. Beecher concludes: “Most analysts reject the idea of flat fees because they send a poor price signal to customers about the cost of water service; nor do they provide an incentive to conserve. Flat fees, in fact, tend to encourage waste.”<sup>16</sup>

Some water utilities, however, continue to use flat rates for certain groups of customers where metering would be prohibitively expensive or otherwise impractical.<sup>17</sup> This can arise when a housing development was built without separate water service lines for each home or other plumbing configurations that make it costly to isolate water consumption for each housing unit. These customers pay the same amount each month without regard to the amount of water they use.

When unmetered service is provided to a small group of customers within a largely metered utility, it is appropriate to establish the flat rate by assuming that each unmetered customer uses at least the same amount of water as a typical metered customer. For example, the Connecticut Department of Public Utility Control set the flat rate for a small group of unmetered customers by comparing it to a metered customer who uses 800 cubic feet of water (approximately 6,000 gallons) per month.<sup>18</sup> Similarly, the Public Utilities Commission of Ohio set a flat rate for a small group of unmetered customers by using an average metered customer’s consumption, less the average cost of metering and meter reading.<sup>19</sup>

#### **D. Metered rates generally**

With few exceptions, water utilities charge metered rates for service. Rates often are based on a combination of a fixed charge, which is often termed a customer charge or meter charge (such as \$10.00 per month for a customer with a 5/8-inch meter), and a variable charge that is applied to the amount of water that flows through the meter (for example, \$3.00 for each 1,000 gallons of water).

There are three major types of metered rates: *declining-block* rates (the more water a customer uses, the lower the rate per unit of water), *uniform rates* (the same rate is charged for all water), and *inclin-ing-block rates* (the more water a customer uses, the higher the rate per unit of water). During the past 25 years, there has been an important shift away from declining-block rates and toward either uniform or inclin-ing-block rates. For example, a survey of more than 200

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<sup>16</sup> Beecher, p. 106.

<sup>17</sup> See, e.g., *California Water Service Company*, 2007 Cal. PUC LEXIS 607; *Aquarion Water Co. of Connecticut*, 262 PUR4th 81 (Conn. DPUC 2007); *Carolina Water Service, Inc. of North Carolina*, 2007 N.C. PUC LEXIS 221; *Ohio-American Water Co.*, 2008 Ohio PUC LEXIS 696.

<sup>18</sup> *Aquarion Water Co. of Connecticut*, 262 PUR4th 81 (CT DPUC 2007).

<sup>19</sup> *Ohio-American Water Co.*, 2008 Ohio PUC LEXIS 696.

utilities conducted for AWWA showed that in 1996 36% of utilities had declining-block rates, but by 2006 that percentage had dropped to only 24%. The percentage of utilities with uniform rates increased from 32% to 40%, while the percentage with inclining-block rates increased from 32% to 36%.<sup>20</sup> That is, during that ten-year period, declining-block rates went from being the most prevalent rate structure to being the least-used structure.

### 1. Declining-block rates

Declining-block rates are designed to recognize the efficiencies inherent in distributing a large quantity of water to a single customer. A typical declining-block rate might be structured as follows: \$4.00 per 1,000 gallons for the first 10,000 gallons per month; \$3.50 per 1,000 gallons for the next 50,000 gallons per month; and \$3.00 per 1,000 gallons for all water in excess of 60,000 gallons per month.

Most people would readily acknowledge, and most cost-of-service studies demonstrate, that it costs less to deliver five million gallons per month to one large customer than it does to deliver that same five million gallons to 1,000 residential customers. While the cost of treating and pumping the water may be the same for each gallon that leaves the treatment plant, the cost of building and maintaining the infrastructure to deliver the water will vary among customers. For example, a large customer might be connected directly to a single 10-inch transmission main, while serving 1,000 small customers from that same transmission main might require a distribution network of several miles of 6-inch water main, as well as 1,000 service lines and meters, numerous valves, and other infrastructure. Because most water rates include the recovery of fixed capital costs (such as water mains and treatment plants) as part of the variable (per-gallon) charge, the efficiencies in distributing water to large customers should be reflected in a lower rate per gallon.<sup>21</sup>

There is a perception, however, that declining-block rates discourage conservation or lead to inefficient consumption decisions by customers. That perception is legitimate when the consumption blocks are not designed properly or if the rates in each block do not reflect differences in the cost of serving large customers. As the AWWA states: “When properly designed, the declining block rate structure reflects the manner in which costs are incurred by the utility. It assesses costs associated with the usage patterns and demand requirements of the various classes of customers served.”<sup>22</sup>

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<sup>20</sup> AWWA, *2006 Water and Wastewater Rate Survey* (Denver, CO, 2007), p. 7.

<sup>21</sup> One could debate the wisdom of including large amounts of fixed costs in a variable, per-gallon charge. The fixed costs of a water utility are so large (typically 90 percent or more of the cost of delivering a gallon of water to a customer), however, that any substantial movement away from including fixed costs in the variable charge would result in dramatic rate changes for most customers. In addition, moving toward a “true” variable charge would result in an incremental charge for water that is very low, which would be contrary to efforts by many utility commissions and environmental regulators to encourage water conservation.

<sup>22</sup> AWWA Manual M1, p. 91.

The key phrase in the quotation from AWWA is “when properly designed.” Declining-block rates can be appropriate when a utility uses one rate schedule for customers with very different levels of consumption. Such diversity can exist if all customers are served on one rate schedule or if there is a very diverse customer class, such as a non-residential class that includes small shops and large industrial operations.

To determine how to reflect that diversity in a single rate structure, regulators must use a fully allocated cost-of-service study and a bill frequency analysis. The cost-of-service study is used to determine the difference in cost to serve customers of different sizes. While everyone might agree that it costs less to deliver five million gallons to one customer than it does to deliver that same amount of water to 1,000 small customers, there is no intuitive answer to the question “How much less does it cost?” To answer that question requires a cost-of-service study.

The bill frequency analysis provides the data to develop the break points between rate blocks. Typically, the first rate block should capture 75% or more of total consumption from the residential class (some rate structures are designed to capture 90% or more of residential consumption in the first block). The concept is that the first block should reflect the amount of water used by most residential customers. This ensures that a small customer does not see a decline in the price of water as consumption increases (which would be contrary to water conservation policies).

For utilities where there is great diversity within a class (for example, if the residential class includes single-family homes, apartment buildings, college dormitories, condominiums, and nursing homes), then meter sizes (which are a proxy for the size of a customer’s water demand) might be used in addition to customer class definitions to determine the amount of water that should be included in the first block. For example, the first block could be designed to recover 75% to 90% of consumption by residential customers with 5/8-inch meters, which would capture usage by customers in single-family homes. If the residential class is homogenous (for example, containing only single-family houses of similar size), then the first block might include closer to 100% of residential consumption.

The price for consumption in the first block should be based on the cost-of-service study results for a typical residential customer. Generally, the price in the first block would include the recovery of base costs (that is, the average annual cost of producing and delivering a gallon of water) and peak demand costs for a residential customer.

For example, assume the following results from a cost-of-service study:

<b>Table 1. Example of Base, Maximum Day, and Maximum Hour Costs and Demands</b>			
<b>Cost component</b>	<b>Cost of service</b>	<b>1,000 gallons</b>	<b>Cost per 1,000 gallons</b>
Base (average)	\$18,000,000	3,600,000	\$ 5.00
Maximum day	\$ 3,500,000	5,040,000	\$ 0.69
Maximum hour	\$ 6,000,000	10,800,000	\$ 0.56



Then assume the following usage characteristics for the residential customer class: maximum day equal to 2.5 times the average day and maximum hour of 4.5 times the average hour. The base-extra capacity method for conducting a water cost-of-service study would consider a maximum day of 2.5 times the average day to equal 1.0 times the average day plus *extra daily capacity* of 1.5 times the average day. Thus the maximum-day multiplier for the residential class would be 1.5. Similarly, a maximum hour of 4.5 times the annual average hour would consist of the average hour during maximum day (which is 2.5 times the average hour) plus *extra hourly capacity* of 2.0 times the average annual hour.

In gallons, these demands might appear as a typical residential customer using 180 gallons per day, on average, throughout the year. A peak day would see the typical customer using 450 gallons in one day. Those 450 gallons would consist of 180 gallons of average daily consumption and 270 gallons of peak-day consumption.

Similarly, the typical customer's average hourly demand throughout the year would be 7.5 gallons (180 gallons per day divided by 24 hours). During the maximum day, the customer's average hourly demand would be 18.75 gallons (450 gallons on the maximum day divided by 24 hours). And during the peak hour of the year, the customer would use 33.75 gallons (4.5 times the average hour of 7.5 gallons). Those 33.75 gallons would consist of 7.5 gallons of average-hour consumption, 11.25 gallons of maximum-day hourly consumption in excess of the annual average hour, and 15.00 gallons of maximum hour demand.

Using the information from this example, a cost-based rate for the first consumption block, based on the cost of serving most residential customers, would be \$7.155 per 1,000 gallons, as shown in the following table.

<b>Table 2. Determining First-Block Rate from Cost-of-Service Study Results</b>			
<b>Cost component</b>	<b>System cost per 1,000 gallons (from Table 1)</b>	<b>Residential class multiplier</b>	<b>Residential cost (System cost x Multiplier)</b>
Base (average)	\$5.00	1.00	\$5.000
Maximum day	\$0.69	1.50	\$1.035
Maximum hour	\$0.56	2.00	\$1.120
Total			\$7.155

The same process would be followed to determine the cost-based rate in each succeeding rate block, using the customer class whose usage was predominantly included in that rate block. For example, if the second block were designed to include 80% of commercial consumption, then the commercial class's demand characteristics would be used to determine the price charged in that rate block.

The rates in the second and succeeding rate blocks may need to be adjusted slightly to ensure that costs are not over-recovered from larger customers. This over-recovery could occur because larger customers have already passed through the earlier rate blocks and, therefore, are purchasing some water at a higher cost than the average cost indicated by the cost-of-service

study. This process is well recognized as developing declining-block rates that accurately reflect the cost of service, including the different usage characteristics of each customer class.<sup>23</sup>

In other words, the key to designing cost-based, declining-block rates is to ensure (1) that the rate blocks are designed to reflect the usage characteristics of the major customer classes, and (2) that the rate charged in each block is based on the demand characteristics of the predominant customer class in each rate block, using the results from a BECM cost-of-service study.

Unfortunately, this process of designing cost-based declining-block rates is frequently ignored. Utilities and commissions take short cuts, choosing “discounts” from one rate block to the next, or simply applying the same percentage increase to all blocks regardless of changes in the utility’s actual costs. Over time, these approaches—which may have been reasonable approximations the first time they were used—can result in declining-block rates that no longer bear a reasonable relationship to the cost of service. That can result in customers and regulators becoming dissatisfied with declining-block rates as a rate structure. The fault lies not with the concept of declining-block rates, but with the failure to set the rates using the information gleaned from the cost-of-service study and bill frequency analysis.

In summary, declining-block rates are not an anachronism. When properly designed, they can continue to provide appropriate price signals to customers, reflect the cost of serving customers with different consumption patterns and demand characteristics, and meet Bonbright’s standards of adequacy, efficiency, and fairness. Moreover, declining-block rates enable a utility to serve all customers on a single rate schedule, avoiding the need for the precise classification of customers (for example, is an apartment building residential or commercial?).

## **2. Uniform usage rates**

When utilities move away from declining-block rates, the movement usually is to uniform usage rates, where all consumption is charged at the same rate per 1,000 gallons. More diverse utilities (those with very substantial differences in the average cost of delivering the same quantity of water to different customers, such as our earlier example of delivering five million gallons to one customer as opposed to 1,000 residential customers) may adopt separate uniform usage rates for each customer class. For example, all residential consumption will be billed at one rate (say \$4.00 per 1,000 gallons) and all commercial consumption will be billed at another rate, with the commercial rate set lower than the residential rate (for example, \$3.50 per 1,000 gallons), and so on.

When uniform rates are adopted for diverse customer classes (either one uniform rate for all customers or a customer-class rate for a very diverse class, as discussed above), the resulting rates will not reflect the lower per-unit cost to deliver water to large customers.

Moreover, when a utility moves from a rate schedule that applies to all customers (such as the declining-block rate schedule discussed above) to separate rate schedules for each customer class, the utility and regulators must ensure that the utility’s classification of customers is accurate and reasonable. When all customers are served on the same rate schedule, the

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<sup>23</sup> See generally, AWWA Manual M1, Chapter 11 and Appendix C.

customer's bill is based solely on the size of its meter and the amount of water it uses. Whether a customer is residential or commercial or public has no effect on the customer's bill or the utility's revenues.

But if the utility adopts separate rate schedules for each customer class, then the customer classification matters a great deal, affecting both the customer's bill and the utility's revenues. For example, a utility might classify privately owned apartment buildings as residential customers, but apartment buildings owned by a public housing authority (or dormitories owned by a public university) might be classified as public customers. Similarly, nursing homes that are owned privately (even if they are not-for-profit) might be considered residential customers, but the same type of facility owned by a county or other government agency might be classified as a public customer. The same types of classification problems can exist with schools, hospitals, condominiums, and other types of facilities that could be residential, commercial, or public depending on their ownership and the precise mix of uses (for instance, how much non-residential water use must a condominium have to be classified as commercial instead of residential?).

As an example, in 2007 the Kentucky Public Service Commission approved the following uniform class rates (per 1,000 gallons) for a large water utility:<sup>24</sup>

Residential	\$3.11706
Commercial	\$2.85067
Public	\$2.66001

A typical 50-unit apartment building might use 150,000 gallons per month. If the apartment building is classified as residential, it would pay \$468 per month. But if the utility classifies the apartment building as a commercial customer (for instance, because it has a convenience store in the lobby), the bill would be \$428. Further, if the apartment building is owned by a public housing authority, then the rate would be only \$399. It is difficult to justify this difference in charges solely because of the identity of the building's owner or the way in which a utility chooses to classify a particular building. Generally, differences in water rates should be based on differences in costs the utility incurs to serve different types of customers, not on characteristics of the customer that have no impact on the utility's cost of service. To address this challenge when moving to class-specific rates, some utilities and regulators find that it is necessary to create new customer classes, such as a separate class for multi-family buildings.<sup>25</sup>

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<sup>24</sup> *Adjustment of Rates of Kentucky-American Water Company*, 261 PUR4th 470 (KY PSC 2007).

<sup>25</sup> See, e.g., *Application of Massamutten Public Service Corp.*, Hearing Examiner's Report, 2010 Va. PUC LEXIS 272 (Apr. 28, 2010); *Westwick Utilities Inc.: Notice of Intent to Establish Rates for Water Service for Apartments*, Docket No. 05-UN-280 (Miss. PSC, June 10, 2005); *Pa. Public Utility Comm'n v. United Water Pennsylvania Inc.*, 2010 Pa. PUC LEXIS 11 (Feb. 8, 2010).

Once customers are properly classified, developing uniform usage rates by class is fairly straightforward. In the cost-of-service study, base, extra capacity, and customer-related costs are assigned to each customer class by using the class's characteristics. After determining the revenue each class will generate from meter charges, the remaining revenue needed from each class is recovered by dividing the revenue by the class's total annual water consumption.

In summary, the challenge in developing uniform usage rates for each customer class is not in the mechanics of designing the rates themselves, but in ensuring that the appropriate customer classes are developed. Care must be taken to develop customer classes that have similar demand and consumption characteristics, so that similarly situated customers do not pay different rates. Commissions also must be careful to avoid developing customer classes that have customers of vastly different size, so that the rates reflect the lower per-unit cost of distributing a large volume of water to one customer.

### **3. Inclining-block rates**

Inclining-block rates (also known as increasing-block rates, inverted rates, or conservation rates) contain at least two rate blocks with the rates increasing from one block to the next. The intent of this type of rate is to encourage customers to conserve water.

The first (lowest-priced) block should contain enough water to meet the indoor water use of a typical residential customer. For example, the California Public Utilities Commission has set the first block at a utility's "median water use ... [which] approximates residential indoor use."<sup>26</sup> Similarly, the Nevada Public Utilities Commission has established the first block "based on the monthly inside-the-walls domestic use per customer, based on monthly statistics during off-peak winter months."<sup>27</sup>

Inclining-block rates can be cost-based rates when the utility faces increased marginal costs to meet peak water demands, or when the cost of adding water supplies in the foreseeable future is expected to be higher than the average embedded cost of existing supplies. In these instances (high peak costs or high avoidable costs), inclining-block rates can be justified if they charge a higher rate to the peak users or to customers whose consumption is growing (thereby driving the need for new capacity). The AWWA manual provides an example of designing a two-step inclining-block rate. In that example, the second block rate is calculated based on projected marginal operating and capital costs for new water supplies. The first-block rate is then calculated as the total revenue requirement minus customer charge revenues, minus second-block revenues, all divided by the amount of water consumption in the first block.<sup>28</sup>

Another approach to designing inclining-block rates is to assume that indoor residential consumption does not contribute significantly to system-wide peak demands, which is a

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<sup>26</sup> *Application of San Gabriel Valley Water Co.*, 2010 Cal. PUC LEXIS 98 (Apr. 8, 2010).

<sup>27</sup> *Application of Spring Creek Utilities Co.*, 2009 Nev. PUC LEXIS 26 (Mar. 19, 2009).

<sup>28</sup> AWWA Manual M1, p. 102.

reasonable assumption for many utilities. Thus, if consumption in the first block is limited to typical indoor residential consumption, then it may be reasonable to set the first-block charge equal to the base cost of water. All peaking costs then would be recovered through the second-block charge.

Unfortunately, inclining-block rates frequently are not designed to target peak demand or are not based on marginal cost. If the rates are not properly designed on a customer-class basis, inclining-block rates can result in customers with high *average* demands, and relatively modest *peaking* requirements, paying higher rates. This can result in customers who place *fewer* peak demands on the system, but who use larger amounts of water year-round, being required to pay more for water even though they are not causing increased system costs. For example, a restaurant or food processor that uses large amounts of water throughout the year and has little seasonal peak demand is not the “cause” of peak demands on the system, but is likely to pay significantly higher rates under inclining-block rates if the rates are not class-specific. Similarly, if the goal is to capture indoor residential consumption in the first block, care must be taken to ensure that the first-block consumption for multi-family buildings takes into account the number of residential units in the building. For example, if the first-block consumption limit is 3,000 gallons per month for a single-family residential customer, then the first-block consumption limit for a 20-unit apartment building should be 60,000 gallons per month (3,000 gallons per unit x 20 units).

While inclining-block rates are used throughout the United States, they are most prevalent in areas that are experiencing rapid growth, have a scarcity of water, or both. Inclining-block rates for investor-owned utilities are common in states like Arizona, California, Florida, and Nevada, but much less common in the Northeast and Midwest, where populations are growing slowly and water supplies tend to be plentiful.

Finally, regulators must ensure that a change to an inclining-block rate structure equity does not have unintended consequences. One such consequence can be significant rate increases for larger families and for some customers in rental housing. One study cautions:

Water use by multifamily residential customers also is less responsive to price than water use by single-family customers. If multifamily housing tends to consist of lower-income customers, this finding has implications for affordability. Price changes will not induce significant reductions in use that could lower total water bills. ... Changes in rate design to achieve conservation and other goals may have varying equity implications depending on the demographics of the service territory and the features of the rate structure.

... Furthermore, poor households may not have the capital necessary for installing and maintaining conservation devices. Renters, in particular, may not be permitted to change plumbing fixtures or make other improvements.<sup>29</sup>

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<sup>29</sup> Janice A. Beecher, Thomas W. Chesnutt, and David M. Pikelney, *Socioeconomic Impacts of Water Conservation* AWWARF No. 90817 (Denver, CO 2001), pp. 49-50.

Indeed, because of these types of factors, the California Public Utilities Commission has issued the following caution about moving to inclining-block rates: “Before instituting increasing block rates, however, the Commission will carefully consider the impact on low income customers and may develop specific low income water rates ...”<sup>30</sup> Policy-makers also might consider other approaches to alleviate these types of unintended consequences, such as modifications to plumbing codes or landlord-tenant laws.

In summary, inclining-block rates can be a useful tool for helping to encourage water conservation and avoid the construction of new water supply projects. Such rates should be designed based on differences in the cost of serving customers who contribute to the system’s peak demands. Commissions also must be sensitive to the possible impacts of a change in rate structure on customers who differ from the “average,” such as large commercial and industrial customers, renters, and large families.

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<sup>30</sup> *Application of San Gabriel Valley Water Co.*, 2010 Cal. PUC LEXIS 98 (Apr. 8, 2010).

### III. New Development in Water Rate Design: Customer-Specific Rates

During the past two decades, several municipally owned utilities, primarily in the western United States, have developed a new type of water rate, known variously as customer-specific rates, tailored rates, or water budgets.<sup>31</sup> The rate structure is an inclining-block rate in which the size of each block varies depending on the characteristics of each customer. The rates themselves are the same for all customers (for example, the block 1 rate is \$4.00 per 1,000 gallons; the block 2 rate is \$5.00 per 1,000 gallons; and the block 3 rate is \$7.00 per 1,000 gallons), but the amount of consumption included in each block varies for each customer.

The first block is typically tied to a customer's necessary level of indoor consumption. The size of this block might depend on the size of the family, the type of commercial or industrial enterprise, the number of living units in an apartment building, or other similar factors.

The second block is an excess use block. Consumption in this block is designed to capture the customer's reasonable outdoor water consumption. The size of this block can vary by season; for example, a customer might be allowed to use more water in this block during the summer months than during other times of the year. The amount of water in the excess-use block can be based on arable land area, projected weather conditions, or other factors that recognize the need for some outdoor consumption. The charge for water used in the excess-use block would be higher than the first-block charge, with a goal of encouraging reductions in outdoor water use.

The third block often is a penalty block. Usage above the second block is considered to be wasteful based on reasonable water use given the customer's characteristics. In the water-short regions that have adopted customer-specific rates, this type of usage (it could represent, for example, a hose left running, an unfixed leak, or an uncontrolled sprinkler system) is strongly discouraged.

An investor-owned utility in California has adopted this type of rate structure for one of its service areas.<sup>32</sup> The customer-specific rates in that service area are determined by using 12 categories. Water budgets for commercial customers must be based on customer-specific audits conducted by the utility.

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<sup>31</sup> The process of designing these rates, including the extensive data required, as well as the advantages and disadvantages of this type of rate, are described in a study by Mayer and colleagues, as well as an earlier paper by Teodoro. Peter Mayer, et al., *Water Budgets and Rate Structures: Innovate Management Tools*, AWWARF No. 91205 (Denver, CO: 2008); Peter Mayer, et al., "Water Budgets and Rate Structures: Innovative Management Tools," *Journal AWWA*, 100:5:117-131 (May 2008); Manuel P. Teodoro, "Tailored Rates," *Journal AWWA*, 94:10:54-64 (Oct. 2002).

<sup>32</sup> See *California-American Water Co.*, 2006 Cal. PUC LEXIS 479 (Nov. 30, 2006).

The lawfulness of customer-specific rates for investor-owned utilities is, as yet, undetermined in most jurisdictions. Utility commissions usually are required to set rates that avoid “undue discrimination.” This standard means that differences in rates must be based on differences in the cost of service or other relevant factors. Put simply, similarly situated customers should pay the same rates. It is unknown how commissions and courts would determine when customers are similarly situated. For example, under most rate structures, most residential customers are placed in the same class. The characteristic of providing utility service to a residential dwelling is what distinguishes those customers from the utility’s other customers. Under customer-specific rates, that characteristic is no longer sufficient. Instead, the rates paid by a customer are based on another group of characteristics, such as family size, lot size, and so on. While it is possible that commissions and courts would determine that such a fine-tuning of customer classifications is reasonable, it also is possible that commissions or courts could find such classifications to be arbitrary, particularly if it cannot be demonstrated that the classifications are directly related to differences in the utility’s cost of serving the customer.<sup>33</sup>

Customer-specific rates will be part of the rate-design landscape for many years to come, particularly in areas facing water shortages. Customer-specific water budgets can be an effective water conservation tool. It is anticipated that challenges will occur to the lawfulness, appropriateness, and cost basis of these rates. To avoid such challenges, commissions must ensure not only that the rate structure helps to meet conservation goals, but that the classifications used to determine customer-specific rates bear a reasonable relationship to the utility’s cost of serving customers.

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<sup>33</sup> In 2008, California enacted a law that specifically permits publicly owned utilities to establish customer-specific rates. Cal. Water Code §§ 370-374. See Mark Hildebrand, Sanjay Gaur, and Kelly J. Salt, “Water Conservation Made Legal: Water Budgets and California Law,” *Journal AWWA*, 101:4:85-89 (Apr. 2009). The law does not apply to investor-owned utilities.



## **IV. Special-Purpose Water Rates**

Parts I and II discussed the basic purpose of water rate design—recovering the utility’s revenue requirement in a manner that is fair to all customers. Parts II and III explained that selecting the appropriate rate structure can help to implement important public policy goals, such as water conservation. This Part IV explores two other ways to implement public policy through water rates: rates to encourage (or preserve) economic development and rates to assist low-income customers.

### **A. Economic development rates (negotiated rates)**

One important purpose of a public water supply is to enable a community’s economy to develop and thrive. This development, of course, must be consistent with the community’s land-use plans. Providing water infrastructure may not be sufficient to enable business to develop. The price of water service, especially during the start-up stages of a business, also can be important. Thus, some utility commission have approved special tariffs that enable a water utility to offer discounted water service to businesses that meet certain criteria.

For example, the Missouri Public Service Commission has approved an economic development tariff that enables a water utility “to encourage industrial and commercial development” in the utility’s service area. The discounted rate is available only to the following types of businesses:

New industrial or commercial customers moving to the Company's service territory from outside the state of Missouri or relocating or expanding from unsuitable facilities within Missouri, or the additional separately-metered facilities of an existing industrial or commercial customer, that meet the following criteria:

- 1) The annual load factor of the new or additional facilities must reasonably be projected to equal or exceed fifty-five percent (55%) during the entire term of application of this Rider. The projected annual customer load factor shall be determined using the following relationship: Projected Annual Water Consumption, Expressed as MGD [million gallons per day] Divided by Maximum Summer Monthly Billing Demand, Expressed as MGD.
- 2) The average annual billing demand of the new or additional facilities must be projected to be at least 0.5% of the total district consumption during each contract year under this Rider.

3) The customer's new or additional facilities must create new permanent jobs within the facilities qualifying for this Rider. The number of jobs created must be 0.1 % of the total population of the district's service territory, except that any location providing at least 50 jobs qualifies under this paragraph.<sup>34</sup>

For customers that meet these requirements, the Missouri economic development tariff provides rate discounts for five years: a 30% discount from the normal rate in the first year, with the discount declining by 5% each year until the customer pays the full tariffed rate in year six.

In special circumstances, however, even this discount may not be sufficient to attract a new customer. When that occurs, the utility may offer (subject to Commission approval) discounts that are larger or last for more than five years. In order to do so, the customer must “demonstrate a viable competitive alternative in another geographical area, which is critical to the customer’s decision to locate new or expanding facilities in the Company’s service territory.” The customer also must “demonstrate that net benefits will accrue to the State of Missouri.”<sup>35</sup>

Another approach to encouraging economic development has been used by the Pennsylvania Public Utility Commission. That commission has approved tariffs for water utilities that permit the utility to negotiate rates on a customer-specific basis, subject to Commission approval, for the purpose of either retaining or attracting large customers that will employ a significant number of people.<sup>36</sup>

Importantly, AWWA cautions that an economic development rate should be offered only if three criteria are met by the water utility and community:

- A comprehensive economic development plan. The plan should identify financial and economic benefits that the community is willing to offer targeted customers. It should also identify how subsidies will be met.
- A financially sound utility. The comprehensive economic development plan should address any threats to the financial integrity of the water utility.
- A long-term economic gain. The potential long-term economic gain to the community should be greater than any short-term subsidies provided.<sup>37</sup>

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<sup>34</sup> *Application of Missouri-American Water Co.*, 2008 Mo. PSC LEXIS 931 (Sept. 3, 2008), \*3-4.

<sup>35</sup> *Id.*, at \*5.

<sup>36</sup> *Pa. Pub. Util. Comm’n v. Pennsylvania-American Water Co.*, 1995 Pa. PUC LEXIS 170 (July 24, 1995), \*95-96.

<sup>37</sup> AWWA Manual M1, pp. 139-140.

AWWA also warns that “in areas where water supply is extremely limited, it may not be appropriate to provide such concessions to a major water user” through an economic development rate.<sup>38</sup>

### **B. Rates for low-income customers**

For at least the past two decades, water rates have been increasing faster than the rate of inflation and, in many jurisdictions, at a rate much faster than consumers’ incomes.<sup>39</sup> As a consequence, some water utilities and their regulators have a segment of their customer base who find that water service at the fully tariffed price is not affordable.

While there are multiple reasons why water utilities cannot always collect the full amount billed to customers, customer affordability (that is, an inability to pay, as opposed to an unwillingness to pay) certainly is one factor. Thus, unaffordable water service affects not only low-income customers, but also utilities and their paying customers, who must bear the cost of both the unpaid bills and attempts to collect those bills. Indeed, one recent study summarized the problem for water utilities (and paying customers), as follows:

The uncollectibles rate may be maintained at levels below 1% of a water utility’s customer base *at any given point in time*. However ... nationwide there are an estimated 10 million households with annual incomes below \$20,000 (roughly equivalent to 125% of the Federal Poverty Level) that pay a water bill. This compares with a total 64 million households that pay water bills to community water systems. It is conceivable therefore that, *over time*, as much as 15% (10/64) of the customer base nationally might come into contact with a utility’s bill collection practices. In some communities, the proportion can be much higher.<sup>40</sup>

Almost 20 years ago, the Pennsylvania Public Utility Commission explained that the affordability of water service was a relevant factor in determining whether a utility’s rates are just and reasonable. That commission held:

The question which the ALJ has put to us asks whether evidence of the general customer population, as it relates to the affordability of utility service, is relevant to setting rates. The short answer is “yes”. ... For well over a decade, this Commission has recognized that the issue of affordability is relevant to utility operations. For example, we have approved a number of special rates in order to promote economic development and to retain existing industries. Also, we routinely take customer’s financial circumstances into consideration in dealing

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<sup>38</sup> *Id.*, p. 143.

<sup>39</sup> AWWA, *Thinking Outside the Bill: A Utility Manager’s Guide to Assisting Low-Income Water Customers* (Denver, CO: 2004), p. 6 (hereafter “*Thinking Outside the Bill*”); see also John E. Cromwell, III, et al., *Best Practices in Customer Payment Assistance Programs*, Water Research Foundation No. 4004 (Denver, CO: 2010), p. 30 (hereafter “*Best Practices*”).

<sup>40</sup> *Best Practices*, p. 25 (emphasis in original).

with individual inability-to-pay cases and in ordering the creation of Customer Assistance Programs. Clearly, affordability is commonly recognized as one of the possible inputs for our deliberations.<sup>41</sup>

There are a number of types of programs that can help address the affordability of water service.<sup>42</sup> One of those tools is a rate discount for low-income customers who meet certain qualifications. In recent years, several utility commissions have approved discounted rates for low-income water customers. Following is a sample of those rates:

- A discount off of the entire bill (e.g., 15%);<sup>43</sup>
- A percentage discount off of the service (meter) charge only (e.g., 50%);<sup>44</sup>
- A discount varying with household size (1 to 4 people, \$8 per month; 5 to 8 people, \$12 per month; more than 8 people, \$16 per month);<sup>45</sup>
- A fixed dollar discount (e.g., \$10 per month);<sup>46</sup>
- A “lifeline” rate that provides a certain quantity of water estimated for typical essential indoor water consumption (e.g., 2,000 gallons per month) to low-income customers at a discounted rate.<sup>47</sup>

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<sup>41</sup> *Pa. Pub. Util. Comm’n v. Pennsylvania Gas and Water Co.*, 1993 Pa. PUC LEXIS 134 (Mar. 8, 1993), \*7-8.

<sup>42</sup> See, e.g., *Thinking Outside the Bill; Best Practices*; Margot Saunders, et al., *Water Affordability Programs*, AWWARF No. 90732 (Denver, CO: 1998); Water Environment Federation, *Affordability of Wastewater Service* (Alexandria, VA: 2007).

<sup>43</sup> *Application of Chaparral City Water Co.*, 2009 Ariz. PUC LEXIS 229 (Oct. 21, 2009).

<sup>44</sup> *Application of Arizona-American Water Co.*, 2008 Ariz. PUC LEXIS 109 (May 16, 2008); *Application of Valencia Water Co.*, 255 PUR4th 205 (Cal. PUC 2006); *Pa. Pub. Util. Comm’n v. Pennsylvania-American Water Co.*, 231 PUR4th 277 (Pa. PUC 2004).

<sup>45</sup> *Application of California-American Water Co.*, 2009 Cal. PUC LEXIS 346 (July 10, 2009).

<sup>46</sup> *Application of California Water Service Co.*, 2007 Cal. PUC LEXIS 368 (Apr. 12, 2007); *Portland Water District*, 2006 Me. PUC LEXIS 467 (Dec. 19, 2006); *Application of Mountain Water Co.*, 1997 Mont. PUC LEXIS 13 (Aug. 12, 1997).

<sup>47</sup> *Application of United Water Idaho Inc.*, 243 PUR4th 113 (Ida. PUC 2005).

In contrast, the Kentucky Public Service Commission has rejected a low-income water rate. The commission held that such a rate is not authorized for water utilities by Kentucky's public utility statute (there is a separate statute containing such an authorization for energy utilities).<sup>48</sup>

Frequently, low-income rates are the product of compromise or viewed only as a public policy decision. While the public policy—ensuring access to an essential public service—is an important one, low-income rates should have a cost-of-service basis, as well. Moving customers from non-paying or sporadically paying to regularly paying (but at a smaller amount) can reduce a utility's costs for customer service and collections. While there may not be a precise match between the foregone revenue and the cost savings, an appropriate analysis can provide a cost-based rationale for low-income rates. In addition, as Colton explains, as long as the low-income rate exceeds the variable cost of serving the customer, a contribution is being made to the utility's fixed costs, which benefits all other customers.<sup>49</sup>

### C. Summary

In order to implement public policies, many commissions are authorized to adopt special rates for particular types of customers. Promoting the local economy and the affordability of utility service are important public goals, but regulators should not leave behind cost-of-service principles when attempting to implement those types of policies. When properly designed, rates that encourage customers to remain on the system, or that attract new customers, can help spread the utility's fixed costs over a large customer base, which can provide a benefit to all customers. Similarly, rate discounts that improve the collection of bills, thereby reducing collection costs and working capital requirements, also can benefit all customers if properly designed and implemented.

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<sup>48</sup> *Kentucky-American Water Co.*, 2005 Ky. PUC LEXIS 192 (Feb. 28, 2005).

<sup>49</sup> Roger D. Colton, A Cost-Based Response to Low-Income Energy Problems, *Public Utilities Fortnightly*, 127:5:31-35 (Mar. 1, 1991), p. 35. See also *Best Practices*, pp. 49-52.

## V. Automatic Rate Adjustments

### A. Introduction

The ratemaking process involves a matching of revenues, expenses, investment, return, customers, and consumption. Automatic rate adjustments for single expense items break this relationship.

The matching principle involves a synchronous examination of the cost of service and sources of revenue, as well other considerations such as the quality of service and efficiency of management. That synchronization is the reason why a test year is used when a rate case is filed. One treatise on utility regulation discusses this synchronization, or the matching principle, as follows:

If the utility proposes a change, particularly a major change, in the test year rate base, it is required also to consider the related changes in other costs or in revenue. Additional investments may result in efficiencies that reduce operating costs or quality improvements that will increase sales. Unless the utility shows that it has taken such matters into account, its revenue requirement is likely to be out of balance or overstated.<sup>50</sup>

For example, under normal circumstances, when a utility replaces an aging piece of equipment, it might increase rate base and depreciation expense, but it also could reduce maintenance expenses or produce other cost savings (such as reducing losses). To keep costs synchronized might require adjustments to rate base, depreciation expense, expenses, working capital, and taxes.

The use of automatic rate adjustment mechanisms only for certain aspects of the Company's revenue requirement violates the matching principle, disrupting the relationship between utility rates and levels of cost and investment.

As a general rule, therefore, automatic rate adjustments should be used, if at all, only for significant volatile expenses largely outside the utility's control. A good example of this is a surcharge to recover state or local revenue taxes or franchise taxes that are imposed on the utility.<sup>51</sup> For example, the Arizona Corporation Commission has canceled a water utility's purchased water and power surcharges because the costs were not sufficiently volatile, stating: "Adjustment mechanisms should ... be used only in extraordinary circumstances to mitigate the effect of uncontrollable price volatility or uncertainty in the marketplace."<sup>52</sup>

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<sup>50</sup> Goodman, vol. II, p. 735.

<sup>51</sup> See, e.g., 220 Ill. Comp. Stat. § 5/9-221; 66 Pa. Cons. Stat. § 1307(g.1).

<sup>52</sup> *Application of Arizona Water Co.*, 247 PUR4th 304 (Ariz. CC 2005).

Before deciding to use a surcharge, commissions should consider two additional factors. First, is the cost related to other expenditures that are not subject to the adjustment mechanism (that is, are there trade-offs)? Second, is the cost large enough to justify making periodic changes in customers' bills?

A simple example illustrates the trade-off concern. Assume that a utility has an automatic rate adjustment to recover its postage expenses for sending bills to customers. A utility could increase or decrease its postage costs by changing the manner in which it provides other billing options to customers, such as electronic billing. If a utility eliminated its electronic billing operations, it would greatly increase its postage expenses while saving substantial computer-related and payment-processing costs. The increase in postage costs would be recovered automatically through the hypothetical postage adjustment tariff, but the utility would retain all of the cost savings from reduced computer expenses. Similarly, such an adjustment mechanism would provide a disincentive for the utility to enhance its use of electronic billing, which might result in overall cost savings. The utility would be unable to recover the additional costs of online processing, but it would be required to pass through the savings in postage expenses.

In other words, adopting an automatic rate adjustment can skew the normal evaluation of investments in new technologies or processes that might improve efficiency and save costs in the long term. If one aspect of the cost or savings is passed through to customers automatically but another aspect is not, then the utility's investment decisions may be changed solely because of the ratemaking construct that was put in place. It is important, therefore, to ensure that any automatic rate adjustment does not affect an area in which the utility will be making investment or other decisions that could result in trade-offs not fully captured by the rate adjustment mechanism.

The second additional concern is that the expenditure involved should be large enough to justify the regulatory compliance costs that will be incurred by utilities, regulators, public advocates, and other customers. For example, in New Jersey water utilities are permitted to use a purchased water adjustment tariff only if purchased water costs exceed 10 percent of the utility's operating and maintenance expenses.<sup>53</sup> In Delaware, a water utility is permitted to request a change in purchased water or electricity costs only if the change from the amount determined in the most recent base rate case is more than three percent (and the rate case must have been completed within the last 18 months).<sup>54</sup>

Because single-issue surcharges are an exception to typical ratemaking procedures, specific types of surcharges often require statutory authorization. For example, a Pennsylvania court overturned the use of a system investment surcharge for wastewater utilities because a statute only authorized such a surcharge for water utilities.<sup>55</sup> Even where a special statute is not

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<sup>53</sup> N.J. Admin. Code § 14:9-7.1.

<sup>54</sup> Code of Dela. Regs. 26-1000-1002 Part G.

<sup>55</sup> *Popowsky v. Pa. Pub. Util. Comm'n*, 869 A.2d 1144 (Pa. Cmwlth Ct. 2005), appeal denied, 586 Pa. 761, 895 A.2d 552 (2006).

required, commissions may delineate acceptable types of surcharges through regulations or policy statements of general application to a utility industry rather than addressing such issues on a case-by-case basis.

Two types of surcharges have received particular attention in the water industry: (1) distribution system investment and (2) purchased water and/or electricity expenses.

#### **B. Distribution system investment**

A distribution system investment surcharge permits a rate adjustment for the recovery of a return of and return on non-revenue-producing investments in the water distribution system (typically, water mains, valves, service lines, and fire hydrants). For example, an Illinois statute authorizes a surcharge for the “return on the investment in and depreciation expense related to plant items or facilities (including, but not limited to, replacement mains, meters, services, and hydrants) which (i) are not reflected in the rate base used to establish the utility’s base rates and (ii) are non-revenue producing.”<sup>56</sup> That statute then defines “non-revenue producing” as a facility “that is not constructed or installed for the purpose of serving a new customer.”<sup>57</sup>

This type of surcharge is often capped at a certain percentage of the utility’s total revenues, such that when investments exceed the cap, the utility must file a base rate case to recover any additional costs. For example, Pennsylvania and West Virginia cap such surcharges at 7.5% of a water utility’s revenues,<sup>58</sup> while Illinois has a cap of 5% of revenues.<sup>59</sup>

#### **C. Purchased water and/or energy expenses**

By statute, regulation, or policy, several state commissions permit water utilities to adjust rates through a surcharge for changes in the cost of purchasing water and/or electricity from other utilities (including municipal utilities). As discussed in Part V.A. above, the commission may require that these costs reach some threshold level (typically a certain percentage of operating and maintenance expenses) before the surcharge can be used.<sup>60</sup>

A purchased water surcharge also may include a cap on the percentage of lost or unaccounted-for water (“LUFW”) that can be recovered from customers through the surcharge. For example, the Florida Public Service Commission has limited the recovery of LUFW to

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<sup>56</sup> 220 Ill. Comp. Stat. § 5/9-220.2.

<sup>57</sup> *Id.*

<sup>58</sup> *Petition of Pennsylvania-American Water Co.*, 2007 Pa. PUC LEXIS 42 (Aug. 14, 2007); *West Virginia-American Water Co.*, 2010 W. Va. PUC LEXIS 330 (Feb. 12, 2010).

<sup>59</sup> 83 Ill. Adm. Code § 656.30.

<sup>60</sup> See, e.g., N.J. Admin. Code § 14:9-7.1; Code of Dela. Regs. 26-1000-1002 Part G.



10%,<sup>61</sup> the New York Public Service Commission has used a LUFW limit of 18%,<sup>62</sup> and the Illinois Commerce Commission has established limits based on utility-specific factors (generally LUFW between 12% and 14%).<sup>63</sup>

Regulators also impose additional conditions on the use of purchased water and/or electricity surcharges. For example, the surcharge may be available only to small water utilities,<sup>64</sup> the utility may be required to contest actively (or otherwise negotiate regarding) rate increases proposed by its supplier,<sup>65</sup> the surcharge may be available only to utilities in sound financial condition that have had a recent base-rate review,<sup>66</sup> the surcharge may not be available if the supplier is an affiliate of the utility,<sup>67</sup> or the surcharge may be used only for changes in the supplier's rates and not for changes in consumption.<sup>68</sup>

In other words, several state commissions have authorized the recovery of purchased water and/or energy costs through a surcharge. Such authorizations often come with restrictions or other limits to ensure that the utility exercises prudent purchasing practices and that the surcharge process does not become a substitute for base rate reviews.

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<sup>61</sup> See, e.g., *Aloha Utilities, Inc.*, 1982 Fla. PUC LEXIS 825, 82 Fl. PSC 29 (Mar. 3, 1982).

<sup>62</sup> See, e.g., *United Water New Rochelle Inc.*, 2002 N.Y. PUC LEXIS 332 (July 29, 2002).

<sup>63</sup> See, e.g., *Citizens Utilities Co. of Illinois*, 1993 Ill. PUC LEXIS 464 (Nov. 23, 1993); *Citizens Utilities Co. of Illinois*, 1992 Ill. PUC LEXIS 331 (Aug. 26, 1992).

<sup>64</sup> 52 Pa. Code § 53.54(c) (Pa. PUC limits use to utilities with annual revenues less than \$250,000).

<sup>65</sup> *Gordon's Corner Water Co.*, 2006 N.J. PUC LEXIS 166 (Aug. 18, 2006).

<sup>66</sup> Code of R.I. Rules 90-060-001(2.10).

<sup>67</sup> 30 Tex. Admin. Code § 291.21(h)(6).

<sup>68</sup> 170 Ind. Admin. Code § 6-5-4.

## **Conclusion**

Even in the face of new challenges, Bonbright's primary rate design principles of adequacy, efficiency, and fairness continue to be relevant to utility commissions today. In order to implement those principles, regulators must focus on three essential sets of facts: the detailed elements of a cost-of-service study, information about customer consumption gleaned from a bill-frequency analysis, and data about the utility's demand patterns. These factors remain of paramount importance, even when regulators elect to use water rates to implement other important public policy goals such as conservation, economic development, and affordability. Indeed, assuring that those goals are implemented in a manner that is fair to the utility and its customers requires an understanding of the same essential sets of facts.