



Rural Development

August 10, 2020

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Jeff Prather, Chairman
Southern Water & Sewer District
P.O. Box 610
McDowell, KY 41647

Les Stapleton, Mayor
City of Prestonsburg
200 North Lake Drive
Prestonsburg, KY 41653

Honorable Mr. Prater and Mr. Stapleton:

USDA Rural Development has reviewed the documentation submitted to us requesting a Partial Release of certain Southern Water and Sewer District customers along HWY 23 in Floyd county; these customers are to be transferred to the Prestonsburg Utility system in exchange for a cash payment in the amount of \$1,600,000. This proposal is outlined in the Asset Purchase Agreement that has been drafted between the two parties. As Rural Development has indebtedness with Southern Water and Sewer that is secured by a Water Revenue Bond, the release of these customers would be a release of future revenues, and thus a release of security that is pledged to Rural Development. We have reviewed our guidelines and regulations that pertain to a partial release of security, along with the Asset Purchase Agreement and Amendments, an appraisal (income valuation) on the customers to be released, and the projected income statement for Southern Water and Sewer.

In accordance with Rural Development instruction 1782.12 (a), we have determined that this proposal will satisfy the requirements of our instructions as follows:

- 1) The consideration is adequate for the security released.
- 2) The sale will not impair the purpose of the loan or service to the customers.
- 3) Southern Water has adequate repayment ability for the remaining debt owed.
- 4) Prestonsburg will continue to provide service to existing users.
- 5) The proceeds from this transaction will be used to reduce existing RD debt.

As these requirements have been satisfied, Rural Development does hereby approve this transaction subject to receipt of the above mentioned \$1,600,000 payment. This cash payment to Southern Water and Sewer will in turn be paid to Rural Development and will be applied to Southern's loan 91-11; thereby reducing the RD indebtedness to compensate for the security released. As the RD debt is secured by a Revenue Bond, and since there is no RE Mortgage or UCC lien to release, the approval of Rural Development is evidenced through this letter, and through our signature on Form 465-1 Application for Partial Release.

Respectfully,



HILDA GAY LEGG
State Director

USDA is an equal opportunity provider, employer and lender.

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

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
FARM SERVICE AGENCY

STATE Kentucky
COUNTY Floyd
CASE NO. 21-036-611265253

**APPLICATION FOR PARTIAL RELEASE,
SUBORDINATION, OR CONSENT**

TYPE OF LOAN
91-01, 91-04,
91-06, and 91-11

(SPECIFY)

The undersigned Southern Water and Sewer District
(Names of Borrower and Co-Borrower)

P.O.Box 610, McDowell, KY 41647

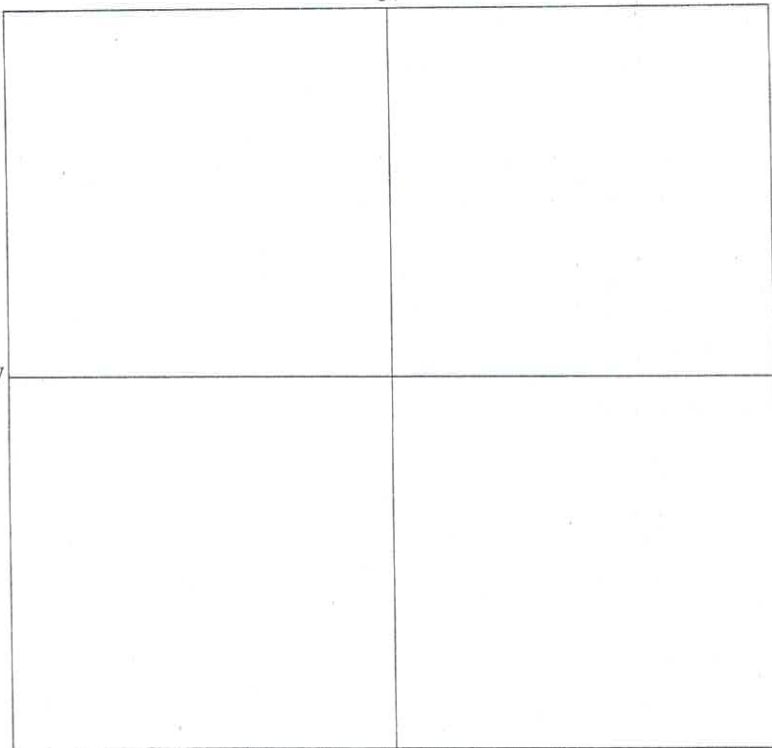
whose address (Including ZIP Code) is _____
in accordance with the terms of the security instruments held by Rural Development or the Farm Service Agency (hereafter referred to as "Agency") on their property, apply for release or subordination of the liens of said security instruments or consent to the following transaction.

release of lien on certain assets to allow completion of Asset Purchase Agreement

(Description)

1. Plot of Property:

N



2. Prior lienholders listed in order:

none

3. The prior lien to which subordination is requested is to be held by:

N/A

4. The property to be leased or conveyed to:

Prestonsburg City Utility
Commission (PCUC)

5. Description of property to be covered by the release, subordination, or consent:

a certain "portion" of the Southern Water and Sewer District water system that serves approximately 1050 water customers along HWY 23 in Floyd County, KY. Said assets are identified and valued per an appraisal dated June 15, 2020 and completed by Dean Dorton Allen Ford, LLC.

6. The use to be made of the property covered by this application is:

no change in use

7. The anticipated proceeds from this transaction are:

Initial payment \$ 1,600,000.00
Subsequent payment(s) \$ 0.00

Other considerations:

If the borrower obtains a loan from another lender as a result of any subordination covered by this application, the lender must incorporate in the borrower's note a statement that the loan will be in default should any proceeds of the loan funds obtained as a result of this subordination be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity.

n/a

8. Subject to the provisions of Paragraph 7 it is proposed to use the proceeds as follows:

n/a

9. Have you or any member, stockholder, partner or joint operator of the entity borrower been convicted under Federal or State law of planting, cultivating, growing, producing, harvesting, or storing a controlled substance since December 23, 1985?

Yes No

If yes, provide date of conviction and details on a separate sheet.

10. If this application is approved, the undersigned borrower(s) agree to comply with such terms as may be prescribed by Agency and to disposition of the proceeds as required by Agency pursuant to its regulations, including the method of applying payments to the borrower(s)' loan accounts. It is expressly understood that unless a separate written instrument of subordination or partial release is executed and delivered by Agency pursuant to this application, approval by Agency of this application will merely constitute and evidence its consent, as lienholder, to the proposed transaction without in any way subordinating its lien, releasing any of its security, modifying the payment terms of the loan, or otherwise affecting any rights of Agency.

The borrower(s) agrees that none of the funds obtained as a result of any subordination covered by this application will be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as explained in Exhibit M of Subpart G of Part 1940 of Title 7 of the Code of Federal Regulations.

Date 08-03-2020

Signed *Jeff Prater* (Borrower)

(Co-Borrower)

1. The proposed transaction:

- WILL WILL NOT prevent or make more difficult the successful operation of this property.
- WILL WILL NOT reduce the efficiency of the property.

2. The proposed transaction will affect the value of this property as security for the loan as follows:

Present Market Value

(a) Value of Real Estate Before _____ \$1,510,960.00

(b) Value of Real Estate After _____

(c) Value of Real Estate Disposed of _____ \$1,510,960.00

3. The following damages benefits will result to this property from the transaction:

These customers are more closely located to and are more efficiently served by the City of Prestonsburg water system. This proposed transaction will transfer this section of the Southern system to Prestonsburg. This will result in better service to the end customers, and will also result in reduced maintenance, workload, and financial obligations for the Southern Water and Sewer District system. Southern will sell or release assets worth \$1,510,960 and will receive \$1,600,000 cash in exchange which will reduce their Rural Development indebtedness.

I hereby recommend that this application be approved and that the proceeds be applied or released as follows:

INITIAL PAYMENT

\$ 1,600,000.00 To extra payment on Agency loan

\$ _____ To regular payment on Agency loan

\$ _____ To borrower as regular income

\$ _____ To prior lien(s)

\$ _____ Other (specify) _____

SUBSEQUENT PAYMENTS:

\$ _____ or _____ % To extra payment on Agency loan

\$ _____ or _____ % To regular payment on Agency loan

\$ _____ or _____ % To borrower as regular income

\$ _____ or _____ % To prior lien(s)

\$ _____ Other (specify) _____

Date

8/5/2020

Recommended by

[Handwritten Signature]

Payson District

(Title)

Date

8/10/2020

Approved

Disapproved by

[Handwritten Signature]
State Director

(Title)

UNITED STATES DEPARTMENT OF AGRICULTURE