

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC APPLICATION OF)
MCCREARY COUNTY WATER DISTRICT) CASE NO. 2021-00300
FOR AN ADJUSTMENT OF ITS SEWER)
RATES PURSUANT TO 807 KAR 5:076)**

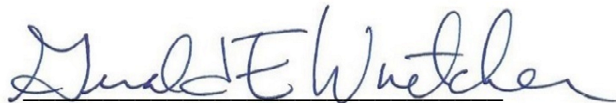
**ELECTRONIC APPLICATION OF)
MCCREARY COUNTY WATER DISTRICT) CASE NO. 2021-00301
FOR AN ADJUSTMENT OF ITS WATER)
RATES PURSUANT TO 807 KAR 5:076)**

**RESPONSE OF MCCREARY COUNTY WATER DISTRICT
TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

McCreary County Water District submits its Response to the Commission Staff's Second Request for Information.

Dated: May 2, 2022

Respectfully submitted,

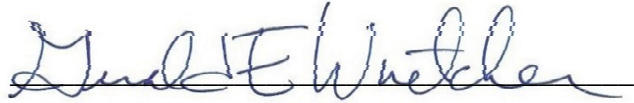


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Counsel for McCreary County Water District

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, and the Public Service Commission's Order of July 22, 2021 in Case No. 2020-00085, I certify that this document was transmitted to the Public Service Commission on May 2, 2022 and that there is currently no party that the Public Service Commission has excused from participation by electronic means in this proceeding.

A handwritten signature in blue ink, appearing to read "David E. Wheeler", written over a horizontal line.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC APPLICATION OF)
MCCREARY COUNTY WATER DISTRICT) CASE NO. 2021-00300
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**ELECTRONIC APPLICATION OF)
MCCREARY COUNTY WATER DISTRICT) CASE NO. 2021-00301
FOR AN ADJUSTMENT OF ITS WATER)
RATES PURSUANT TO 807 KAR 5:076)**

**RESPONSE OF MCCREARY COUNTY WATER DISTRICT
TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

FILED: May 2, 2022

MCCREARY COUNTY WATER DISTRICT

**Response to Commission Staff's Third Request for Information
Cases No. 2021-00300 and No. 2021-00301**

Question No. 1

Responding Witness: Stephen Whitaker

Q-1. Provide copies of the 1099's or W2's that McCreary District issued to the members of its board of commissioners in calendar years 2018, 2019, 2020, and 2021.

A-1. McCreary County Water District issued a W-2 form to each member of its Board of Commissioners for each calendar year from 2018 to 2021. These forms reflected the total amount of salary paid and no withholding of taxes for federal or state income tax purposes or for federal employment taxes. Beginning January 1, 2022, McCreary County Water District began withholding taxes for federal or state income tax purposes or for federal employment taxes from each commissioner's pay. A copy of the payroll transaction report for 2022 for each commissioner is attached to this response as Attachment 1.

At the time of the submission of this response, the requested W-2 forms were not available. McCreary County Water District will supplement its response to this request as soon as it obtains a copy of the requested forms.

ATTACHMENT 1

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05/02/22

**McCreary County Water District
Payroll Transaction Detail
January through December 2022**

Date	Num	Type	Source Name	Payroll Item	Wage Base	Amount
01/25/2022	40857	Paycheck	Coy Taylor	Salary	0.00	500.00
				KY - Surcharge	500.00	0.00
				KY - Surcharge	500.00	0.00
				Medicare Employee Addl Tax	0.00	0.00
				McCreary County	500.00	-7.50
				federal withholding	500.00	0.00
				Social Security Company	500.00	31.00
				Social Security Company	500.00	-31.00
				Social Security Employee	500.00	-31.00
				Medicare Company	500.00	7.25
				Medicare Company	500.00	-7.25
				Medicare Employee	500.00	-7.25
				Federal Unemployment	500.00	3.00
				Federal Unemployment	500.00	-3.00
				KY - Withholding	500.00	0.00
						454.25
02/22/2022	41068	Paycheck	Coy Taylor	Salary	0.00	500.00
				KY - Surcharge	500.00	0.00
				KY - Surcharge	500.00	0.00
				Medicare Employee Addl Tax	0.00	0.00
				McCreary County	500.00	-7.50
				federal withholding	500.00	0.00
				Social Security Company	500.00	31.00
				Social Security Company	500.00	-31.00
				Social Security Employee	500.00	-31.00
				Medicare Company	500.00	7.25
				Medicare Company	500.00	-7.25
				Medicare Employee	500.00	-7.25
				Federal Unemployment	500.00	3.00
				Federal Unemployment	500.00	-3.00
				KY - Withholding	500.00	0.00
						454.25
03/29/2022	41336	Paycheck	Coy Taylor	Salary	0.00	500.00
				KY - Surcharge	500.00	0.00
				KY - Surcharge	500.00	0.00
				Medicare Employee Addl Tax	0.00	0.00
				McCreary County	500.00	-7.50
				federal withholding	500.00	0.00
				Social Security Company	500.00	31.00
				Social Security Company	500.00	-31.00
				Social Security Employee	500.00	-31.00
				Medicare Company	500.00	7.25
				Medicare Company	500.00	-7.25
				Medicare Employee	500.00	-7.25
				Federal Unemployment	500.00	3.00
				Federal Unemployment	500.00	-3.00
				KY - Withholding	500.00	0.00
						454.25
04/25/2022	41553	Paycheck	Coy Taylor	Salary	0.00	500.00
				KY - Surcharge	500.00	0.00
				KY - Surcharge	500.00	0.00
				Medicare Employee Addl Tax	0.00	0.00
				McCreary County	500.00	-7.50
				federal withholding	500.00	0.00
				Social Security Company	500.00	31.00
				Social Security Company	500.00	-31.00
				Social Security Employee	500.00	-31.00
				Medicare Company	500.00	7.25
				Medicare Company	500.00	-7.25
				Medicare Employee	500.00	-7.25
				Federal Unemployment	500.00	3.00
				Federal Unemployment	500.00	-3.00
				KY - Withholding	500.00	0.00
						454.25
TOTAL						1,817.00

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05/02/22

McCreary County Water District
Payroll Transaction Detail
 January through December 2022

Date	Num	Type	Source Name	Payroll Item	Wage Base	Amount
01/25/2022	40858	Paycheck	Doug Sexton	Salary	0.00	500.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	Medicare Employee Addl Tax	0.00	0.00
			Doug Sexton	McCreary County	500.00	-7.50
			Doug Sexton	federal withholding	500.00	0.00
			Doug Sexton	Social Security Company	500.00	31.00
			Doug Sexton	Social Security Company	500.00	-31.00
			Doug Sexton	Social Security Employee	500.00	-31.00
			Doug Sexton	Medicare Company	500.00	7.25
			Doug Sexton	Medicare Company	500.00	-7.25
			Doug Sexton	Medicare Employee	500.00	-7.25
			Doug Sexton	Federal Unemployment	500.00	3.00
			Doug Sexton	Federal Unemployment	500.00	-3.00
			Doug Sexton	KY - Withholding	500.00	0.00
02/22/2022	41069	Paycheck	Doug Sexton	Salary	0.00	500.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	Medicare Employee Addl Tax	0.00	0.00
			Doug Sexton	McCreary County	500.00	-7.50
			Doug Sexton	federal withholding	500.00	0.00
			Doug Sexton	Social Security Company	500.00	31.00
			Doug Sexton	Social Security Company	500.00	-31.00
			Doug Sexton	Social Security Employee	500.00	-31.00
			Doug Sexton	Medicare Company	500.00	7.25
			Doug Sexton	Medicare Company	500.00	-7.25
			Doug Sexton	Medicare Employee	500.00	-7.25
			Doug Sexton	Federal Unemployment	500.00	3.00
			Doug Sexton	Federal Unemployment	500.00	-3.00
			Doug Sexton	KY - Withholding	500.00	0.00
03/29/2022	41337	Paycheck	Doug Sexton	Salary	0.00	500.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	Medicare Employee Addl Tax	0.00	0.00
			Doug Sexton	McCreary County	500.00	-7.50
			Doug Sexton	federal withholding	500.00	0.00
			Doug Sexton	Social Security Company	500.00	31.00
			Doug Sexton	Social Security Company	500.00	-31.00
			Doug Sexton	Social Security Employee	500.00	-31.00
			Doug Sexton	Medicare Company	500.00	7.25
			Doug Sexton	Medicare Company	500.00	-7.25
			Doug Sexton	Medicare Employee	500.00	-7.25
			Doug Sexton	Federal Unemployment	500.00	3.00
			Doug Sexton	Federal Unemployment	500.00	-3.00
			Doug Sexton	KY - Withholding	500.00	0.00
04/25/2022	41554	Paycheck	Doug Sexton	Salary	0.00	500.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	KY - Surcharge	500.00	0.00
			Doug Sexton	Medicare Employee Addl Tax	0.00	0.00
			Doug Sexton	McCreary County	500.00	-7.50
			Doug Sexton	federal withholding	500.00	0.00
			Doug Sexton	Social Security Company	500.00	31.00
			Doug Sexton	Social Security Company	500.00	-31.00
			Doug Sexton	Social Security Employee	500.00	-31.00
			Doug Sexton	Medicare Company	500.00	7.25
			Doug Sexton	Medicare Company	500.00	-7.25
			Doug Sexton	Medicare Employee	500.00	-7.25
			Doug Sexton	Federal Unemployment	500.00	3.00
			Doug Sexton	Federal Unemployment	500.00	-3.00
			Doug Sexton	KY - Withholding	500.00	0.00
TOTAL						1,817.00

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McCreary County Water District
Payroll Transaction Detail
 January through December 2022

Date	Num	Type	Source Name	Payroll Item	Wage Base	Amount	
01/25/2022	40859	Paycheck	Mark Sumner	Salary	0.00	500.00	
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	Medicare Employee Addl Tax	0.00	0.00
				Mark Sumner	McCreary County	500.00	-7.50
				Mark Sumner	federal withholding	500.00	0.00
				Mark Sumner	Social Security Company	500.00	31.00
				Mark Sumner	Social Security Company	500.00	-31.00
				Mark Sumner	Social Security Employee	500.00	-31.00
				Mark Sumner	Medicare Company	500.00	7.25
				Mark Sumner	Medicare Company	500.00	-7.25
				Mark Sumner	Medicare Employee	500.00	-7.25
				Mark Sumner	Federal Unemployment	500.00	3.00
				Mark Sumner	Federal Unemployment	500.00	-3.00
				Mark Sumner	KY - Withholding	500.00	0.00
02/22/2022	41070	Paycheck	Mark Sumner	Salary	0.00	500.00	
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	Medicare Employee Addl Tax	0.00	0.00
				Mark Sumner	McCreary County	500.00	-7.50
				Mark Sumner	federal withholding	500.00	0.00
				Mark Sumner	Social Security Company	500.00	31.00
				Mark Sumner	Social Security Company	500.00	-31.00
				Mark Sumner	Social Security Employee	500.00	-31.00
				Mark Sumner	Medicare Company	500.00	7.25
				Mark Sumner	Medicare Company	500.00	-7.25
				Mark Sumner	Medicare Employee	500.00	-7.25
				Mark Sumner	Federal Unemployment	500.00	3.00
				Mark Sumner	Federal Unemployment	500.00	-3.00
				Mark Sumner	KY - Withholding	500.00	0.00
03/29/2022	41338	Paycheck	Mark Sumner	Salary	0.00	500.00	
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	Medicare Employee Addl Tax	0.00	0.00
				Mark Sumner	McCreary County	500.00	-7.50
				Mark Sumner	federal withholding	500.00	0.00
				Mark Sumner	Social Security Company	500.00	31.00
				Mark Sumner	Social Security Company	500.00	-31.00
				Mark Sumner	Social Security Employee	500.00	-31.00
				Mark Sumner	Medicare Company	500.00	7.25
				Mark Sumner	Medicare Company	500.00	-7.25
				Mark Sumner	Medicare Employee	500.00	-7.25
				Mark Sumner	Federal Unemployment	500.00	3.00
				Mark Sumner	Federal Unemployment	500.00	-3.00
				Mark Sumner	KY - Withholding	500.00	0.00
04/25/2022	41555	Paycheck	Mark Sumner	Salary	0.00	500.00	
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	KY - Surcharge	500.00	0.00
				Mark Sumner	Medicare Employee Addl Tax	0.00	0.00
				Mark Sumner	McCreary County	500.00	-7.50
				Mark Sumner	federal withholding	500.00	0.00
				Mark Sumner	Social Security Company	500.00	31.00
				Mark Sumner	Social Security Company	500.00	-31.00
				Mark Sumner	Social Security Employee	500.00	-31.00
				Mark Sumner	Medicare Company	500.00	7.25
				Mark Sumner	Medicare Company	500.00	-7.25
				Mark Sumner	Medicare Employee	500.00	-7.25
				Mark Sumner	Federal Unemployment	500.00	3.00
				Mark Sumner	Federal Unemployment	500.00	-3.00
				Mark Sumner	KY - Withholding	500.00	0.00
TOTAL						1,817.00	

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**McCreary County Water District
Payroll Transaction Detail
January through December 2022**

Date	Num	Type	Source Name	Payroll Item	Wage Base	Amount
01/25/2022	40860	Paycheck	Randy Kidd	Salary	0.00	500.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	Medicare Employee Addl Tax	0.00	0.00
			Randy Kidd	McCreary County	500.00	-7.50
			Randy Kidd	federal withholding	500.00	0.00
			Randy Kidd	Social Security Company	500.00	31.00
			Randy Kidd	Social Security Company	500.00	-31.00
			Randy Kidd	Social Security Employee	500.00	-31.00
			Randy Kidd	Medicare Company	500.00	7.25
			Randy Kidd	Medicare Company	500.00	-7.25
			Randy Kidd	Medicare Employee	500.00	-7.25
			Randy Kidd	Federal Unemployment	500.00	3.00
			Randy Kidd	Federal Unemployment	500.00	-3.00
			Randy Kidd	KY - Withholding	500.00	0.00
02/22/2022	41071	Paycheck	Randy Kidd	Salary	0.00	500.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	Medicare Employee Addl Tax	0.00	0.00
			Randy Kidd	McCreary County	500.00	-7.50
			Randy Kidd	federal withholding	500.00	0.00
			Randy Kidd	Social Security Company	500.00	31.00
			Randy Kidd	Social Security Company	500.00	-31.00
			Randy Kidd	Social Security Employee	500.00	-31.00
			Randy Kidd	Medicare Company	500.00	7.25
			Randy Kidd	Medicare Company	500.00	-7.25
			Randy Kidd	Medicare Employee	500.00	-7.25
			Randy Kidd	Federal Unemployment	500.00	3.00
			Randy Kidd	Federal Unemployment	500.00	-3.00
			Randy Kidd	KY - Withholding	500.00	0.00
03/29/2022	41339	Paycheck	Randy Kidd	Salary	0.00	500.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	Medicare Employee Addl Tax	0.00	0.00
			Randy Kidd	McCreary County	500.00	-7.50
			Randy Kidd	federal withholding	500.00	0.00
			Randy Kidd	Social Security Company	500.00	31.00
			Randy Kidd	Social Security Company	500.00	-31.00
			Randy Kidd	Social Security Employee	500.00	-31.00
			Randy Kidd	Medicare Company	500.00	7.25
			Randy Kidd	Medicare Company	500.00	-7.25
			Randy Kidd	Medicare Employee	500.00	-7.25
			Randy Kidd	Federal Unemployment	500.00	3.00
			Randy Kidd	Federal Unemployment	500.00	-3.00
			Randy Kidd	KY - Withholding	500.00	0.00
04/25/2022	41556	Paycheck	Randy Kidd	Salary	0.00	500.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	KY - Surcharge	500.00	0.00
			Randy Kidd	Medicare Employee Addl Tax	0.00	0.00
			Randy Kidd	McCreary County	500.00	-7.50
			Randy Kidd	federal withholding	500.00	0.00
			Randy Kidd	Social Security Company	500.00	31.00
			Randy Kidd	Social Security Company	500.00	-31.00
			Randy Kidd	Social Security Employee	500.00	-31.00
			Randy Kidd	Medicare Company	500.00	7.25
			Randy Kidd	Medicare Company	500.00	-7.25
			Randy Kidd	Medicare Employee	500.00	-7.25
			Randy Kidd	Federal Unemployment	500.00	3.00
			Randy Kidd	Federal Unemployment	500.00	-3.00
			Randy Kidd	KY - Withholding	500.00	0.00
TOTAL						1,817.00

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05/02/22

**McCreary County Water District
Payroll Transaction Detail
January through December 2022**

Date	Num	Type	Source Name	Payroll Item	Wage Base	Amount
01/25/2022	40861	Paycheck	Raymond Taylor	Salary	0.00	500.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	Medicare Employee Addl Tax	0.00	0.00
			Raymond Taylor	McCreary County	500.00	-7.50
			Raymond Taylor	federal withholding	500.00	0.00
			Raymond Taylor	Social Security Company	500.00	31.00
			Raymond Taylor	Social Security Company	500.00	-31.00
			Raymond Taylor	Social Security Employee	500.00	-31.00
			Raymond Taylor	Medicare Company	500.00	7.25
			Raymond Taylor	Medicare Company	500.00	-7.25
			Raymond Taylor	Medicare Employee	500.00	-7.25
			Raymond Taylor	Federal Unemployment	500.00	3.00
			Raymond Taylor	Federal Unemployment	500.00	-3.00
			Raymond Taylor	KY - Withholding	500.00	0.00
02/22/2022	41072	Paycheck	Raymond Taylor	Salary	0.00	500.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	Medicare Employee Addl Tax	0.00	0.00
			Raymond Taylor	McCreary County	500.00	-7.50
			Raymond Taylor	federal withholding	500.00	0.00
			Raymond Taylor	Social Security Company	500.00	31.00
			Raymond Taylor	Social Security Company	500.00	-31.00
			Raymond Taylor	Social Security Employee	500.00	-31.00
			Raymond Taylor	Medicare Company	500.00	7.25
			Raymond Taylor	Medicare Company	500.00	-7.25
			Raymond Taylor	Medicare Employee	500.00	-7.25
			Raymond Taylor	Federal Unemployment	500.00	3.00
			Raymond Taylor	Federal Unemployment	500.00	-3.00
			Raymond Taylor	KY - Withholding	500.00	0.00
03/29/2022	41340	Paycheck	Raymond Taylor	Salary	0.00	500.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	Medicare Employee Addl Tax	0.00	0.00
			Raymond Taylor	McCreary County	500.00	-7.50
			Raymond Taylor	federal withholding	500.00	0.00
			Raymond Taylor	Social Security Company	500.00	31.00
			Raymond Taylor	Social Security Company	500.00	-31.00
			Raymond Taylor	Social Security Employee	500.00	-31.00
			Raymond Taylor	Medicare Company	500.00	7.25
			Raymond Taylor	Medicare Company	500.00	-7.25
			Raymond Taylor	Medicare Employee	500.00	-7.25
			Raymond Taylor	Federal Unemployment	500.00	3.00
			Raymond Taylor	Federal Unemployment	500.00	-3.00
			Raymond Taylor	KY - Withholding	500.00	0.00
04/25/2022	41557	Paycheck	Raymond Taylor	Salary	0.00	500.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	KY - Surcharge	500.00	0.00
			Raymond Taylor	Medicare Employee Addl Tax	0.00	0.00
			Raymond Taylor	McCreary County	500.00	-7.50
			Raymond Taylor	federal withholding	500.00	0.00
			Raymond Taylor	Social Security Company	500.00	31.00
			Raymond Taylor	Social Security Company	500.00	-31.00
			Raymond Taylor	Social Security Employee	500.00	-31.00
			Raymond Taylor	Medicare Company	500.00	7.25
			Raymond Taylor	Medicare Company	500.00	-7.25
			Raymond Taylor	Medicare Employee	500.00	-7.25
			Raymond Taylor	Federal Unemployment	500.00	3.00
			Raymond Taylor	Federal Unemployment	500.00	-3.00
			Raymond Taylor	KY - Withholding	500.00	0.00
TOTAL						1,817.00

MCCREARY COUNTY WATER DISTRICT

Response to Commission Staff's Third Request for Information Cases No. 2021-00300 and No. 2021-00301

Question No. 2

Responding Witness: Legal Counsel

- Q-2. a. Explain whether McCreary District qualifies as a tax-exempt organization under Internal Revenue Code (IRC) 501(c)(3).**
- b. If the response to Item 2.a. is IRC 501(c)(3) is not applicable, explain whether McCreary District is a tax-exempt organization for federal and state income tax purposes and how do [sic] it qualifies as an exempt organization.**
- A-2. a. McCreary County Water District is not a tax-exempt organization under 26 U.S.C. § 501(c)(3). That statute applies to “[c]orporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition . . . or for the prevention of cruelty to children or animals.” McCreary County Water District does not fall within any of those categories. It is a political subdivision of a state. *See, e.g., Rev. Rul. 58-452 1958-2 C.B. 37.*
- b. The Internal Revenue Service has determined that “[i]ncome earned by a state, a political subdivision of a state, or an integral part of a state or political subdivision of a state is generally not taxable in the absence of specific statutory authorization for taxing such income.” *Rev. Rul. 87-2, 1987-1 C.B. 18.* Water districts are political subdivisions of the Commonwealth of Kentucky. *See Louisville Extension Water District v. Diehl Pumping & Supply Co.*, 246 S.W.2d 585 (Ky. 1952); *Public Service Commission v. Dewitt Water Dist.*, 720 S.W.2d 7225, 731 (Ky. 1986); *Davis v. Powell’s Valley Water Dist.*, 920 S.W. 75, 79 (Ky. Ct. App. 1995). *See also Rev. Rul. 58-452 1958-2 C.B. 37.* McCreary County Water District is not aware of any specific statutory exception that would render its income subject to federal taxation. To the extent that a person or corporation would contribute or makes a gift to McCreary District for public purposes, that contribution or gift is eligible for possible deduction from the donor’s taxable income pursuant to 26 U.S.C. § 170(c).

McCreary County Water District is not aware of any Kentucky statute that authorizes the Commonwealth of Kentucky to assess a tax on the income of a political subdivision or agency of the Commonwealth. To the extent that a person or corporation makes a gift or contribution to McCreary County Water District for public purposes, that gift or contribution would be excluded from taxation by the Commonwealth of Kentucky. *See KRS 141.010(19); KRS 141.039(1).*

MCCREARY COUNTY WATER DISTRICT

Response to Commission Staff's Third Request for Information Cases No. 2021-00300 and No. 2021-00301

Question No. 3

Responding Witness: Legal Counsel

Q-3. Provide McCreary District's position regarding the following Internal Revenue Service statement on the payment of fees/salaries to members of a governing board of a tax-exempt organization.

Directors of a corporation - members of the governing board - are defined by statute as non-employees. If an exempt organization pays its board members to attend board meetings or otherwise compensates them for performing their duties as directors, the organization should treat them as independent contractors. (The director fee is reported on Form 1099-NEC.) This is the most common type of statutory non-employee that may be involved in an exempt organization. [Footnote omitted.]

A-3. The statement expresses the Internal Revenue Service's ("IRS") position regarding the payment of fees and salaries to **the members of the governing board of a non-governmental corporation or organization**. The IRS has adopted a different position pertaining to salaries and fees paid to **the governing board members of political subdivisions who are either appointed or elected**. Attached to this Response as Attachment 3A is IRS Information Letter 2000-0039 in which the IRS took the position that "[a]mounts paid to water district directors from a government fund are properly treated as wages."

In its *Federal-State Reference Guide* (IRS Publication 963) (July 2020), the IRS further explains its position that government officials serving on the governing boards of government agencies are **not** independent contractors.

Elected Officials and Officers

Under IRC Section 3401(c), an officer, employee or elected official of a state or local government is an employee for income tax withholding purposes. Thus, by federal statute, public officers are specifically included within the term "employee" for income tax withholding purposes (and conversely are not "independent contractors" for income tax withholding purposes). Treas. Reg. 31.3401(c)-1(a) clarifies the officers or employees can either be elected or appointed.

For Social Security and Medicare purposes, elected officials (also referred to as individuals in elective positions) are subject to a degree of control that

typically makes them employees under the common law, and therefore subject to these taxes. Elected officials are responsible to the public, which has the power to vote them out of office. Elected officials may also be subject to recall by the public or a superior official. Very few elected officials have sufficient independence to be considered independent contractors.

Public Officer or Official

The term “public officer” refers to someone who has authority to exercise the power of the government and does so as an agent and employee of the government. The Internal Revenue Code does not define the term “public officer,” but Treas. Reg. Section 1402(c)-2(b), addressing self-employment tax, provides that holders of “public office” are not in a trade or business and are therefore not subject to self-employment tax. Rather, an individual recognized as a “public officer” is an employee.

An exception to this rule applies for certain public officials paid solely on a fee basis (see Chapter 5).

The Treas. Reg. give the following examples of positions that constitute “public office”:

...

Members of boards and commissions, such as school boards, utility districts, zoning boards and boards of health

Id. at 33. The pertinent section of Publication 963 is attached to this response as Attachment 3B.

McCreary County Water District is a water district and therefore a political subdivision of the Commonwealth of Kentucky. See *Louisville Extension Water District v. Diehl Pumping & Supply Co.*, 246 S.W.2d 585 (Ky. 1952); *Public Service Commission v. Dewitt Water Dist.*, 720 S.W.2d 7225, 731 (Ky. 1986); *Davis v. Powell’s Valley Water Dist.*, 920 S.W. 75, 79 (Ky. Ct. App. 1995). The members of its Board of Commissioners are public officers. *Commonwealth v. Howard*, 379 S.W.2d 475 (Ky. 1964). They are not paid on a fee basis but are paid directly from water district funds. Under the IRS’s stated position in IRS Information Letter 2000-0039 and IRS Publication 963, the members of McCreary County Water District are public officers and are employees of McCreary County Water District for income tax withholding purposes and federal employment tax purposes.

ATTACHMENT 3A

IRS INFO 2000-0038, 2000 WL 33961432

Internal Revenue Service (I.R.S.)

IRS INFO
Information Letter

Issue: June 30, 2000
April 17, 2000

Section 1402 -- Definitions
1402.00-00 Definitions
1402.02-00 Self-Employment Income
The Honorable Kay Bailey Hutchison

United States Senator

10440 North Central Expressway, Suite 1160

[LB 606](#)

Dallas, TX 75231

Attn: Mary Fae Kamm

Dear Senator Hutchison:

This letter replies to your inquiry dated March 13, 2000, on behalf of several of your constituents from the *** (the District). The District is concerned about advice from the Internal Revenue Service (IRS) that water district directors are employees of the districts they represent.

The District is concerned because that advice conflicts with previous advice provided by the IRS. The advice requires the District to report the amounts paid to the water district directors on Form W-2 and to withhold and pay federal employment taxes on those amounts. The District is concerned about the additional cost and record keeping that will require. While I cannot discuss an individual's tax information without his or her permission, I can provide the following general information, which I hope will assist you in responding to your constituents.

Amounts paid to water district directors from a government fund are properly treated as wages. Any advice provided by the IRS to the contrary was in error. The District should report amounts paid to the employees on Forms W-2 and the employees should report the amounts as wages on Forms 1040.

The letters you forwarded to this office state that water district directors are typically residents of the water districts that they represent. They are elected by their neighbors to oversee the water and wastewater services. Thus, they are elected public officials.

Various Internal Revenue Code (Code) provisions govern whether an elected official is subject to employment taxes. In general, when a public official receives payment directly from the members of the public with whom he does business, [section 1402\(c\)\(1\) of the Code](#) provides that the public official is engaged in a trade or business and is subject to Self-Employment Contribution Act (SECA) taxes. The payments are considered fees, not wages, and are properly reported on Form 1099. However, when a public official receives remuneration or salary from a government fund, and may not keep amounts he collects from the public in his course of duties, the payments are wages and are properly reported with Form W-2. [See Empl. tax reg. sec. 31.3401\(a\)-2\(b\)\(1\)](#);

[Rev. Rul. 74-608, 1974-2 C.B. 275](#). Thus, the source of a public official's payments determines whether the amounts received constitute fees or wages. Because water district directors are compensated from a government fund, the amounts they are paid are properly treated as wages, reported with Form W-2.

Wages reported with Form W-2 may be covered by social security insurance and Medicare insurance. Subject to limited exceptions, state and local government employees are subject to Medicare tax and state and local government employees who are not covered by a public retirement program are subject to social security tax. A detailed explanation of social security and Medicare coverage of state and local government employees is provided in Code sections 3121(b)(7) and 3121(u) and the regulations corresponding to those Code sections.

This letter will be made available for public inspection after names, addresses, and other identifying information have been deleted, as appropriate, under the Freedom of Information Act.

I am sorry for the confusion the previous IRS letter has created. I hope this information is helpful to you in responding to the District. As requested, I am enclosing a copy of your letter. If you have questions regarding this letter, or if I can be of further assistance, please contact Linda Alsalihi (ID No. 50-14451) of my staff at (202) 622-6040.

Sincerely,

Mary Oppenheimer
Assistant Chief Counsel (Employee Benefits and Exempt Organizations)

Enclosure

IRS INFO 2000-0038, 2000 WL 33961432

End of Document

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ATTACHMENT 3B



Federal-State Reference Guide

A Federal-State Cooperative Publication

- Social Security Administration
- Internal Revenue Service
- National Conference of State Social Security Administrators

Providing guidelines for Social Security and Medicare coverage and tax withholding requirements for state, local and Indian tribal government employees and public employers.

Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding

In difficult cases, the IRS can provide a determination as to whether a worker is an employee or an independent contractor. To obtain a determination from the IRS, file [Form SS-8](#). Either a governmental entity or a worker may submit Form SS-8. The IRS will acknowledge receipt of the form and will request information from the other party. If a contract has been executed between the worker and the entity, a copy of the contract should be submitted with Form SS-8. In some cases, the State Social Security Administrator may help determine whether the entity and position are covered by a Section 218 Agreement. The IRS will generally issue a formal determination to the entity and will send a copy to the worker.

Note: The SS-8 determination is not an examination. It does not reopen a closed examination or change the findings for years previously examined.

Classification Issues Involving Government Employees

The following discussion addresses some special worker classification situations involving governmental employees.

Elected Officials and Officers

Under IRC Section 3401(c), an officer, employee or elected official of a state or local government is an employee for income tax withholding purposes. Thus, by federal statute, public officers are specifically included within the term “employee” for income tax withholding purposes (and conversely are **not** “independent contractors” for income tax withholding purposes). Treas. Reg. 31.3401(c)-1(a) clarifies the officers or employees can either be elected or appointed.

For Social Security and Medicare purposes, elected officials (also referred to as individuals in elective positions) are subject to a degree of control that typically makes them employees under the common law, and therefore subject to these taxes. Elected officials are responsible to the public, which has the power to vote them out of office. Elected officials may also be subject to recall by the public or a superior official. Very few elected officials have sufficient independence to be considered independent contractors.

Public Officer or Official

The term “public officer” refers to someone who has authority to exercise the power of the government and does so as an agent and employee of the government. The Internal Revenue Code does not define the term “public officer,” but Treas. Reg. Section 1402(c)-2(b), addressing self-employment tax, provides that holders of “public office” are not in a trade or business and are therefore not subject to self-employment tax. Rather, an individual recognized as a “public officer” is an employee.

An exception to this rule applies for certain public officials paid solely on a fee basis (see [Chapter 5](#)).

The Treas. Reg. give the following examples of positions that constitute “public office”:

- Governor
- Mayor
- Member of a legislature or elected representative (elective office)
- County commissioner
- State or local judge, or justice of the peace
- County or city attorney
- Marshal, sheriff, constable
- Registrar of deeds
- Tax collector or tax assessor
- Road commissioners
- Members of boards and commissions, such as school boards, utility districts, zoning boards and boards of health

MCCREARY COUNTY WATER DISTRICT

**Response to Commission Staff's Third Request for Information
Cases No. 2021-00300 and No. 2021-00301**

Question No. 4

Responding Witness: Stephen Whitaker

Q-4. Refer to McCreary District's response to the Commission Staff's Report (filed April 4, 2022) (McCreary District's Response), page 3, the Sanitary Sewer Collection System Phase I Project.

- a. Provide the date that McCreary District estimates that Phase 1 of its Sanitary Sewer Collection System Phase I Project (Phase 1) will be completed.**
- b. Identify the number of customers that currently reside along phase 1 of the sewer force main extension.**
- c. McCreary District estimates that the additional 405 customers will generate \$57,348 in additional revenues. Provide the supporting calculations and the assumptions that McCreary District used to calculate the expected revenue impact for the additional customers. Include copies of any documentation used by McCreary District to calculate its estimate.**
- d. Provide the estimated cost McCreary District will incur to provide sewer service to the additional 405 customers. Include copies of any documentation used by McCreary District to calculate its cost estimate.**
- e. Provide calculations of the projected impact the competition [sic] Phase 1 will have on annual depreciation expense.**

A-4. a. McCreary County Water District currently estimates that the Sanitary Sewer Collection System Phase I project will be completed in September 2020.

b. Total number of potential customers along the Sanitary Sewer Collection System Phase I project is 305.

c. The reference to additional annual revenues of \$57,348 is based upon the assumption that 100 customers will take service upon the Sanitary Sewer Collection System Phase I Project being placed in service, that each customer will use 4,000 gallons of water monthly, and that a 16.38 percent increase in McCreary District's present rates for sewer service occurs. The supporting calculations for this revenue level are shown below.

Monthly bill for 4,000 gallons = $\$28.15 + (2 \times \$9.82/1,000 \text{ gallons}) = \47.79

Monthly minimum charge includes 2,000 gallons.

$\$47.79/\text{month} \times 12 \text{ months} \times 100 \text{ customers} = \$57,348.$

At this time, 164 households have applied to receive sewer service through the Sanitary Sewer Collection System Phase I Project. Once the Project is placed into service, additional annual revenues of \$94,050.72 should be generated. The calculations for this amount are shown below.

Monthly bill for 4,000 gallons = $\$28.15 + (2 \times \$9.82/1,000 \text{ gallons}) = \47.79
Monthly minimum charge includes 2,000 gallons.
 $\$47.79/\text{month} \times 12 \text{ months} \times 164 \text{ customers} = \$94,050.72.$

In its response to the Staff Report, as well as its Application in Case No. 2020-00399, McCreary District has represented the maximum expected number of customers will be 305. If the Sanitary Sewer Collection System Phase I Project serves 305 customers, then the Project will produce total additional annual revenues of \$174,911.40. The calculations for this amount are shown below.

Monthly bill for 4,000 gallons = $\$28.15 + (2 \times \$9.82/1,000 \text{ gallons}) = \47.79
Monthly minimum charge includes 2,000 gallons.
 $\$47.79/\text{month} \times 12 \text{ months} \times 305 \text{ customers} = \$174,911.40.$

- d. McCreary District estimates that its annual cost of operation for the Sanitary Sewer Collection System Phase I Project will be \$40 for each installed grinder pump station. See Case No. 2020-0399, Application, Exhibit 16. Assuming 164 installed grinder pump stations, the annual cost of operation will be \$6,560 ($\40.00×164).

In its response to the Staff Report, as well as its Application in Case No. 2020-00399, McCreary District has represented the maximum expected number of customers will be 305. Assuming 305 installed grinder pump stations, the annual cost of operation will be \$12,200 ($\40.00×305). Because McCreary County Water District's sewage treatment has adequate capacity to treat the additional wastewater, no other significant operational and maintenance costs are expected. See Case No. 2020-0399, Application, Exhibit 16.

- e. A detailed depreciation schedule for the Sanitary Sewer Collection System Phase I Project was provided to the Public Service Commission in McCreary District's Application in Case No. 2020-00399 at Exhibit 23. A copy of that schedule is attached as Attachment 4. Note that the attachment assumes the installation of 240 grinder pump stations.

ATTACHMENT 4

PROPOSED DEPRECIATION SCHEDULE FOR PROPOSED FACILITIES

Item	Cost	Project Cost Multiplier	Installed Value	Service Life	Annual Depreciation
1.5-inch Hope DR 11 CTS Force Main	\$ 296,125	25%	\$ 370,363.54	40	\$ 9,259.09
2-inch PVC SDR 21 Force Main	\$ 297,003	25%	\$ 371,461.65	40	\$ 9,286.54
3-inch PVC SDR 21 Force Main	\$ 77,957	25%	\$ 97,500.82	40	\$ 2,437.52
4-inch PVC SCR 21 Force Main	\$ 124,788	25%	\$ 156,072.35	40	\$ 3,901.81
4-inch PVC SDR 35 Gravity Sewer (Laterals)	\$ 210,195	25%	\$ 262,890.89	55	\$ 4,779.83
Flushing Connection (2-inch)	\$ 46,800	25%	\$ 58,532.76	40	\$ 1,463.32
Flushing Connection (3-inch)	\$ 17,500	25%	\$ 21,887.25	40	\$ 547.18
Flushing Connection (4-inch)	\$ 32,000	25%	\$ 40,022.40	40	\$ 1,000.56
4-inch HDPE DR 11 IPS Casing Pipe (Directional Bore)	\$ 15,120	25%	\$ 18,910.58	40	\$ 472.76
6-inch HDPE DR 11 IPS Casing Pipe (Directional Bore)	\$ 9,450	25%	\$ 11,819.12	40	\$ 295.48
8-inch HDPE DR 11 IPS Casing Pipe (Directional Bore)	\$ 5,400	25%	\$ 6,753.78	40	\$ 168.84
2-inch Combination Air Release Valve Assembly	\$ 109,500	25%	\$ 136,951.65	20	\$ 6,847.58
Bituminous Pavement Replacement	\$ 4,500	25%	\$ 5,628.15	35	\$ 160.80
Concrete Drive Replacement	\$ 6,000	25%	\$ 7,504.20	35	\$ 214.41
Electric Modifications / Breaker	\$ 180,000	25%	\$ 225,126.00	8	\$ 28,140.75
Grinder Check Valve Assembly	\$ 108,000	25%	\$ 135,075.60	8	\$ 16,884.45
Grinder Pump Station - Single Stage (Moving Parts)	\$ 172,800	25%	\$ 216,120.96	8	\$ 27,015.12
Grinder Pump Station - Single Stage (Non-Moving Parts)	\$ 691,200	25%	\$ 864,483.84	30	\$ 28,816.13
Sanitary Sewer Cleanout Assembly /Connect Lateral	\$ 189,750	25%	\$ 237,320.33	20	\$ 11,866.02
Total	\$ 2,594,088		\$ 3,244,425.86		\$ 153,558.20

MCCREARY COUNTY WATER DISTRICT

**Response to Commission Staff's Third Request for Information
Cases No. 2021-00300 and No. 2021-00301**

Question No. 5

Responding Witness: Stephen Whitaker

- Q-5. Refer to McCreary District's Application in Case No. 2020-00399, page 4 [footnote omitted]. McCreary District stated that Phase 1 will provide the infrastructural foundation for later expansions of McCreary District's collection system and increase the economic viability of McCreary District's sewer operations by the addition of approximately 305 customers.**
- a. Given McCreary District's statement that Phase 1 is the infrastructural foundation for latter expansions, provide the following: (1) identify each projected phase of McCreary District's collection system expansion; (2) provide a detailed explanation of each construction phase; (3) provide the estimated cost for each construction phase; (4) identify the date construction will begin for each phase and the expected in service date of each phase; (5) the number of customers that McCreary District expects to add when each construction phase is placed into service; and (6) the expected impact each phase will have on the sewer division's revenues and expenses.**
 - b. Provide cites in the application where McCreary District estimated that an additional 100 sewer customers will be added to its sewer system at the completion of Phase 1.**
- A-5.**
- a. Plans for additional extension projects connecting to Sanitary Sewer Collection System Phase I Project have not yet been developed and will depend in part upon McCreary County Water District's ability to obtain financing. Please note that the original plan for Sanitary Sewer Collection System Phase I Project included areas that were subsequently omitted from the Project due to funding limitations. See Case No. 2020-00399, Application, Exhibits 10, 13, 14 and 15.
 - b. The application does not contain an estimate as to the number of customers upon completion of the Sanitary Sewer Collection System Phase I Project. Currently, 164 households along Sanitary Sewer Collection System Phase I Project have contracted with McCreary County Water District for service.

MCCREARY COUNTY WATER DISTRICT

Response to Commission Staff's Third Request for Information Cases No. 2021-00300 and No. 2021-00301

Question No. 6

Responding Witness: Stephen Whitaker

Q-6. Refer to McCreary District's Response at 3. McCreary District's claim that the expansion of Fibrotex USA operations at the end of 2022 will result in the doubling of water purchases and additional revenues of \$49,761 for the sewer division.

- a. Provide the calculations and the assumptions that McCreary District used to calculate the expected revenue impact of Fibrotex USA's expansion of operations. Include copies of any documentation used by McCreary District to calculate its estimate.**
- b. Provide the estimated impact the Fibrotex USA expansion will have on McCreary District's sewer expenses. Include copies of any documentation used by McCreary District to calculate its expense estimates.**

A-6. a. In October 2018, Fibrotex USA was awarded a 10-year, \$480 million contract to supply Ultra-Lightweight Camouflage Net Systems (ULCANS) to the United States Army. It established a new manufacturing facility in Stearns, Kentucky to manufacture material used in makes the fabric that is used for in ULCANS and additional signature management. The manufacturing facility was established in partnership with Outdoor Venture Corp., which had operated a manufacturing facility in Stearns, Kentucky for more than 35 years. Fibrotex USA leased an existing facility from Outdoor Venture and began renovations to expand the facility to meet its needs. The plant began operations in 2019 but continues to undergo renovation and expansion.

The Stearns plant manufactures the fabrics used to produce military uniforms and camouflage systems. Because of the Stearns plant's current limitations, fabrics are shipped to Fibrotex USA facilities in other parts of the United States for certain treatments twice in the manufacturing process and then returned to the Stearns plant for additional processing. The processes at the other locations also require a significant amount of water. When the renovation and expansion of the Stearns facility is completed, however, all processing will occur at the Stearns facility and water usage for the present plant output will increase. As plant production is increased to meet required production schedules, water usage will also increase. Once the expansion is completed in December 2022, Fibrotex USA expects monthly plant output to be 2,500 units. Current monthly plant output is approximately 1,400 units.

Fibrotex USA's expected water requirements and wastewater output are set forth in an agreement between Outdoor Venture Corp. and McCreary County Water District. A copy of the Fibrotex Sanitary Sewer Pump Station Agreement is attached as Attachment 6 to this Response. Exhibit A to this Agreement is a schedule of Fibrotex USA water demands. Based upon Fibrotex USA's projections, approximately 1,442,632 gallons of water will be required monthly to produce the required 2,500 units. This usage equates to approximately 17,311,584 gallons of water annually.

During the test period, Fibrotex USA purchased 5,698,100 gallons of water from McCreary County Water District. See Case No. 2021-00301, Application, 001_RateCalculationsSpreadsheetWater.xlsx, Tab 2020_AdjustedRevenue. For purposes of determining the effect of Fibrotex USA's plant expansion, McCreary County Water District in its Response to the Staff Report merely doubled the amount of test period consumption to reflect a doubling of units. It did not consider the change in the production process that permits all work on fabric to be performed at the Stearns plant. If all processes were performed at the Stearns plant, as is expected before the end of this year, the production of 1,400 units will require annual water purchases of 9,643,260 gallons.

Assuming that Fibrotex USA's usage increased by 5,698,100 gallons and present sewer rates were increase 16.38 percent, McCreary County Water District would experience a revenue increase of \$49,744.41. In calculating this amount, McCreary County Water District assumed that all of the increased volume would be billed at a rate of \$8.73 per 1,000 gallons (the rate for usage in excess of 20,000 gallons). $5,698,100 \text{ gallons} \times \$8.73 \text{ per } 1,000 \text{ gallons} = \$49,744.41$.

Assuming that Fibrotex USA's usage increased by 11,613,484 gallons (17,311,584 gallons – 5,698,100 gallons) to permit the production of 2,500 units and present sewer rates were increase 16.38 percent, McCreary County Water District would experience a revenue increase of \$101,385.72. In calculating this amount, McCreary County Water District assumed that the increased volume would be billed at a rate of \$8.73 per 1,000 gallons (the rate for usage in excess of 20,000 gallons). $11,613,484 \text{ gallons} \times \$8.73 \text{ per } 1,000 \text{ gallons} = \$101,385.72$.

If plant output is eventually increased to 5,000 units, McCreary County Water District will experience a revenue increase from Fibrotex's increased water usage of \$252,598.92. The calculation for this revenue increase is shown below:

Annual Gallons = 2,886,057 gals per month x 12 months/year = 34,632,684 gals
Increase from Test Period = 34,632,684 gals – 5,698,100 gals = 28,934,584 gals
Revenue Increase = 28,934,584 x \$8.73 gals = \$252,598.92

- b. To estimate the increased operating expense associated with serving the Fibrotex USA plant's additional wastewater output, an average operating cost of treating 1,000 gallons of wastewater was established. The calculations for determining this

average cost are shown below. Costs not listed are not expected to vary with the increased usage. The average operating cost was then applied to the increased wastewater output in each scenario.

Average Operating Cost:

Water	\$ 11,148.00
Chemicals	\$124,891.00
Power	<u>\$140,049.00</u>
Total	\$276,088.00

$$\$276,088 \div 141,013,234 \text{ gallons} = \$1.958/1,000 \text{ gallons}$$

Output increase of 5,698,100 gallons will result in an increase of \$11,156.88 in operating expenses (5,698,100 gallons x \$1.958/1,000 gallons = \$11,156.88).

Output increase of 11,613,484 gallons will result in an increase of \$22,739.20 in operating expenses (11,613,484 gallons x \$1.958/1,000 gallons = \$22,739.20).

Output increase of 28,934,584 gallons will result in an increase of \$56,653.92 in operating expenses of (28,934,584 gallons x \$1.958/1,000 gallons = \$56,653.92).

ATTACHMENT 6

FIBROTEX SANITARY SEWER PUMP STATION AGREEMENT

This agreement is made on the 16th day of May 2019, between ~~Fibrotex USA~~ of 30 Venture Drive, Stearns Ky, and the McCreary County Water District, of 456 North Highway 27, P.O. Box 488, Whitley City, KY 42653, to-wit:

WHEREAS, Fibrotex USA [hereafter referred to as "Fibrotex"] is in the process of opening a manufacturing plant in Stearns, McCreary County, Kentucky, which is projected to use water and sewer services to be provided by the McCreary County Water District [hereafter "MCWD"], and the parties desire to agree to certain parameters of service the MCWD can provide using its current system equipment and capacities. The subject agreement shall be based upon providing such water and sewer services in accordance with Fibrotex's use projections as specifically set out by Fibrotex and furnished to the MCWD in a document entitled A Water and Waste - Water Consumption for Fibrotex USA Plant@, on or about May 7, 2019, as more specifically set forth and shown on the A1400 Systems Monthly@ portion of the document, a copy of which is attached hereto and made a part hereof and marked as Exhibit AA@.

WHEREAS, Fibrotex's current plan is to purchase water and sewer service for its plant based upon the projected usage rates set out on Exhibit "A", the "1400 Systems Monthly" projections, at the specified usage rates for which MCWD is capable of providing using current equipment and facilities pending approval of such services from existing facilities being by the Commonwealth of Kentucky, Division of Water of the Energy and Environment Cabinet [hereinafter "Division of Water"]. These monthly flow rates are not to exceed 803,605 gallons of water per month, with Fibertex's average flow requirement and discharge projections not to exceed 27 gallons per minute [gpm] with the peak instantaneous flow not to exceed 66 gpm, all as shown on Exhibit AA@.

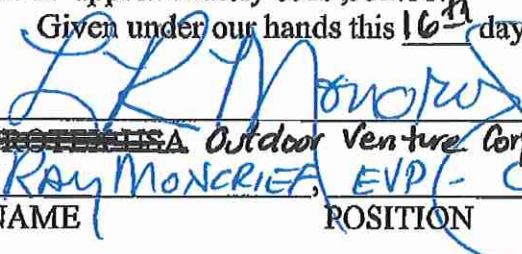
The parties hereto are aware that the Division of Water has previously approved Eclipse Engineer's design specifications, as set out below, for a new upgraded pump station and other improvements and that such agency may not approve such water and sewer services being furnished by the MCWD from existing facilities. Furthermore the parties are aware that even if MCWD obtains a favorable decision from the Division of Water based upon the "1400 Systems Monthly" projections, in practice the demand may overload the system's pumping capacity causing pump failure, or Fibertex's consumption, peak flow rates, and instantaneous flow rates may change in the future based upon Fibertex's operational and manufacturing characteristics and product output which may necessitate facility improvements by the MCWD. If so these issues and/or future changes and upgrades will entail modifications in MCWD's facilities requiring

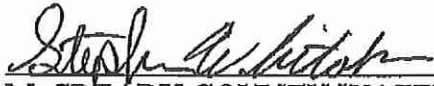
significant capital expenditures which must be borne by Fibertex.

NOW THEREFORE, the parties have agreed that should these water usage and/or flow rates at any time after the date of this agreement exceed the stated parameters set out on the "1400 Systems Monthly" projections shown on Exhibit AA@, and should such excessive usage and/or flow rates result in equipment, mechanical, and/or regulatory failures and/or incurred expenses for the MCWD, Fibrotex shall, at the sole discretion of the MCWD, immediately pay for any and all such expenses incurred by MCWD attributable to Fibrotex's excessive usage, flow rate, or service demand such as, but not limited to, the repair or replacement of pumps .

Furthermore, the parties agree that if repeated episodes of such excessive water usage and/or sewer discharge flow cause system failures and chronic insufficiencies of capacity, such as pump failures and/or sanitary system overflows, Fibrotex agrees to pay for the construction of an improved sanitary sewer system in accordance with plans and specifications as originally designed by MCWD engineers which are dated on or about January, 2019. These plans and specifications are entitled "Fibrotex Waterline and Sanitary Sewer Extensions, January, 2019" prepared by Eclipse Engineers, PLLC for the MCWD and have been provided to Fibrotex for its review on or about January 8, 2019, and are commonly referred to as "The Fibrotex project cost spreadsheet@" with a projected project cost of approximately \$529,332.00.

Given under our hands this 16th day of May, 2019.


~~FIBROTEX USA~~ Outdoor Venture Corporation
BY Ray Moncrief, EVP - COO
NAME POSITION


McCREARY COUNTY WATER DISTRICT
BY Stephen Whitaker, Superintendent
NAME POSITION

Note: All references to Fibrotex USA is amended to Outdoor Venture Corporation

Water and Waste - Water Consumption for Fibrotex USA Plant

October 8, 2018

Revised:

February 14, 2019

Revised:

April 11, 2019

Revised:

May 7, 2019

1400 Systems Monthly		
56000 run/mtrs		
Machine/Process	Number of Machines	Consumption
		m3/Month
Printing	2	1121
Beams	1	1680
Finishing	1	70
Print.Paste		36
Drum Washer	1	34
Vapor	1	101
m3		3042
Gallons per Month		803,605
Gallons per Day*		26,787
Gallons per Minute		27
Gallons per Minute PEAK***		66
Plant Capacity %**		4.3

2500 Systems Monthly		
100000 run/ mtrs		
Machine/Process	Number of Machines	Consumption
		m3/Month
Printing	2	1998
Beams	2	3000
Finishing	1	175
Print.Paste		50
Drum Washer		48
Vapor		180
m3		5451
Gallons per Month		1,442,632
Gallons per Day*		48,150
Gallons per Minute		48
Gallons per Minute PEAK***		119
Plant Capacity %**		7.6

5000 Systems Monthly		
200000 run/ mtrs		
Machine/Process	Number of Machines	Consumption
		m3/Month
Printing	2	3998
Beams	2	6000
Finishing	1	350
Print.Paste		120
Drum Washer		96
Vapor		360
m3		10925
Gallons per Month		2,886,057
Gallons per Day*		96,202
Gallons per Minute		95
***Gallons per Minute PEAK		239
Plant Capacity %**		15.3

*Based on a 30-day Month (21 Production Days)

*Based on a 30-day Month (21 Production Days)

*Based on a 30-day Month (21 Production Days)

**Based on District WWTP Plant Capacity of

**Based on District WWTP Plant Capacity of

**Based on District WWTP Plant Capacity of

900,000 GPD

900,000 GPD

900,000 GPD

***Based on a 2.5 peaking factor

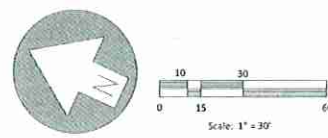
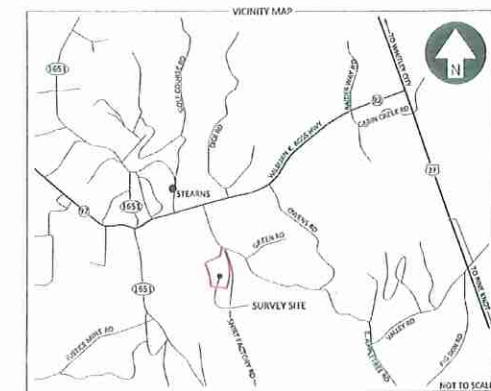
***Based on a 2.5 peaking factor

***Based on a 2.5 peaking factor

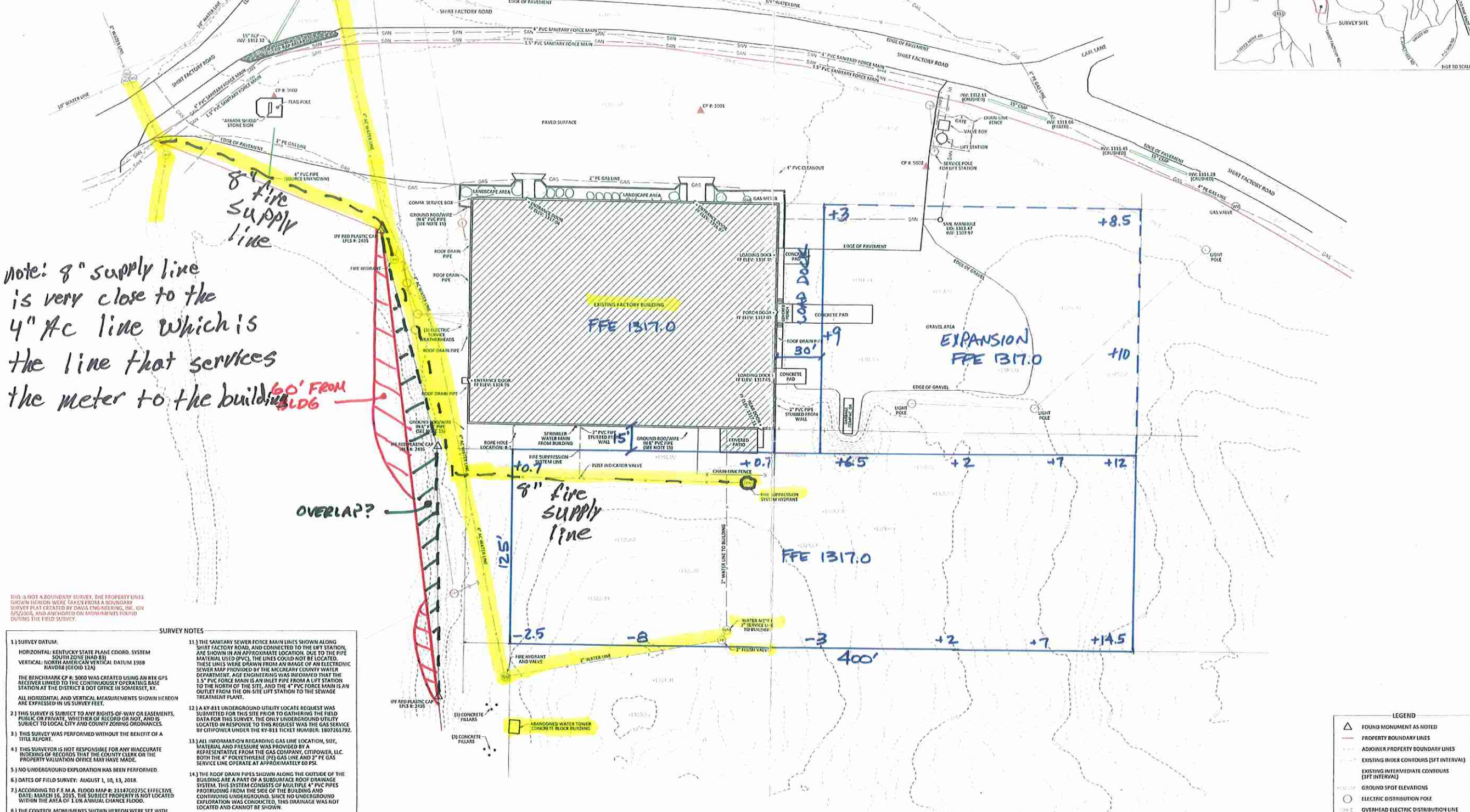
Projected Revenue Calculations		
Water	Water	Water
803,605	1,442,632	2,886,057
gallons per month	gallons per month	gallons per month
First 2000 gallons	First 2000 gallons	First 2000 gallons
\$ 20.35	\$ 20.35	\$ 20.35
All over 2000 gallons	All over 2000 gallons	All over 2000 gallons
\$ 5,410.83	\$ 9,724.27	\$ 19,467.39
Monthly Water Invoice	Monthly Water Invoice	Monthly Water Invoice
\$ 5,431.18	\$ 9,744.62	\$ 19,487.74
Annual District Revenue	Annual District Revenue	Annual District Revenue
\$ 65,174.22	\$ 116,935.42	\$ 233,852.84
Sewer	Sewer	Sewer
803,605	1,442,632	2,886,057
gallons per month	gallons per month	gallons per month
First 2000 gallons	First 2000 gallons	First 2000 gallons
\$ 19.35	\$ 19.35	\$ 19.35
Next 18,000 gallons	Next 18,000 gallons	Next 18,000 gallons
\$ 121.50	\$ 121.50	\$ 121.50
All over 20,000 gallons	All over 20,000 gallons	All over 20,000 gallons
\$ 4,701.63	\$ 8,535.79	\$ 17,196.34
Monthly Sewer Invoice	Monthly Sewer Invoice	Monthly Sewer Invoice
\$ 4,842.48	\$ 8,576.64	\$ 17,337.19
Annual District Revenue	Annual District Revenue	Annual District Revenue
\$ 58,109.77	\$ 104,119.73	\$ 208,046.32

"Exhibit A"

Attachment #1



PROPERTY OWNER: OUTDOOR VENTURE CORPORATION
 PROPERTY ADDRESS: SHIRT FACTORY ROAD, STEARNS, KY 42647
 ENGINEER: AGE ENGINEERING SERVICES, INC., 165 FOSTER LANE, STANFORD, KY 40484



Note: 8" supply line is very close to the 4" Ac line which is the line that services the meter to the building.

60' FROM 1506

8" fire supply line

6RW DRAFT 8/21/18

THIS IS NOT A BOUNDARY SURVEY. THE PROPERTY LINES SHOWN HEREON WERE TAKEN FROM A SECONDARY SURVEY PLAN CREATED BY DAVID ENGINEERING, INC. ON 6/2/2005, AND ANCHORED ON MONUMENTS FOUND DURING THE FIELD SURVEY.

- SURVEY NOTES**
- 1) SURVEY DATUM:
HORIZONTAL: KENTUCKY STATE PLANE COORD. SYSTEM SOUTH ZONE (ROAD 83)
VERTICAL: NORTH AMERICAN VERTICAL DATUM 1988 NAVD84 (GEOID 12A)
 - 2) THE BENCHMARK CP # 5000 WAS CREATED USING AN RTK GPS RECEIVER LINKED TO THE CONTIGUOUS OPERATING BASE STATION AT THE DISTRICT # DOT OFFICE IN SOMERSET, KY. ALL HORIZONTAL AND VERTICAL MEASUREMENTS SHOWN HEREON ARE EXPRESSED IN US SURVEY FEET.
 - 3) THIS SURVEY IS SUBJECT TO ANY RIGHTS-OF-WAY OR EASEMENTS, PUBLIC OR PRIVATE, WHETHER OF RECORD OR NOT, AND IS SUBJECT TO LOCAL CITY AND COUNTY ZONING ORDINANCES.
 - 4) THIS SURVEY WAS PERFORMED WITHOUT THE BENEFIT OF A TITLE REPORT.
 - 5) THIS SURVEYOR IS NOT RESPONSIBLE FOR ANY INACCURATE RECORDS THAT THE COUNTY CLERK OR THE PROPERTY VALUATION OFFICE MAY HAVE MADE.
 - 6) NO UNDERGROUND EXPLORATION HAS BEEN PERFORMED.
 - 7) DATES OF FIELD SURVEY: AUGUST 1, 10, 13, 2018.
 - 8) ACCORDING TO F.E.M.A. FLOOD MAP # 21147C0275C EFFECTIVE DATE: MARCH 16, 2015, THE SUBJECT PROPERTY IS NOT LOCATED WITHIN THE AREA OF 1.0% ANNUAL CHANCE FLOOD.
 - 9) THE CONTROL MONUMENTS SHOWN HEREON WERE SET WITH AN RTK GPS SYSTEM. THE EXPECTED ACCURACY OF THE MONUMENT SHOULD BE +/- 0.03 FEET HORIZONTAL AND +/- 0.05 FEET VERTICAL.
 - 10) CONTOURS SHOWN HEREON ARE EXPRESSED IN 1 FT INTERVALS.
 - 11) THE WATER LINES SHOWN WERE LOCATED BY THE MCCREARY COUNTY WATER DISTRICT (MCWD) UPON REQUEST. THE MCWD SUPERINTENDENT, STEPHEN WHITAKER, LOCATED THE WATER LINES AT THE PROPERTY LINE AND LOCATED THE WATER LINES AT THE PROPERTY LINE WITH A REPRESENTATIVE FROM AGE ENGINEERING. DUE TO THE PIPE MATERIAL USED (ASTM-2000-100), OR A 18" RCP PIPE WOULD HAVE TO BE EXPOSED IN ORDER TO LOCATE. ALL WATER LINES SHOWN ARE AN APPROXIMATE LOCATION. ALL INFORMATION REGARDING WATER PIPE LOCATION, SIZE, AND MATERIAL WAS PROVIDED BY MR. WHITAKER.
 - 12) THE SANITARY SEWER FORCE MAIN LINES SHOWN ALONG SHIRT FACTORY ROAD, AND CONNECTED TO THE LIFT STATION, ARE SHOWN IN AN APPROXIMATE LOCATION. DUE TO THE PIPE MATERIAL USED (PVC), THE LINES COULD NOT BE LOCATED. THESE LINES WERE DRAWN FROM A IMAGE OF AN ELECTRONIC SEWER MAP PROVIDED BY THE MCCREARY COUNTY WATER DEPARTMENT. AGE ENGINEERING WAS INFORMED THAT THE 1.5" PVC FORCE MAIN IS AN INLET PIPE FROM A LIFT STATION TO THE NORTH OF THE SITE, AND THE 4" PVC FORCE MAIN IS AN OUTLET FROM THE ON-SITE LIFT STATION TO THE SEWAGE TREATMENT PLANT.
 - 13) A KY-811 UNDERGROUND UTILITY LOCATE REQUEST WAS SUBMITTED FOR THIS SITE PRIOR TO GATHERING THE FIELD DATA FOR THIS SURVEY. THE ONLY UNDERGROUND UTILITY LOCATED IN RESPONSE TO THIS REQUEST WAS THE GAS SERVICE BY CITIPOWER UNDER THE KY-811 TICKET NUMBER: 1807261792.
 - 14) ALL INFORMATION REGARDING GAS LINE LOCATION, SIZE, MATERIAL AND PRESSURE WAS PROVIDED BY A REPRESENTATIVE FROM THE GAS COMPANY, CITIPOWER, LLC. BOTH THE 4" POLYETHYLENE (PE) GAS LINE AND 2" PE GAS SERVICE LINE OPERATE AT APPROXIMATELY 60 PSI.
 - 15) THE ROOF DRAIN PIPES SHOWN ALONG THE OUTSIDE OF THE BUILDING ARE A PART OF A SUBSURFACE ROOF DRAINAGE SYSTEM. THIS SYSTEM CONSISTS OF MULTIPLE 4" PVC PIPES PROTRUDING FROM THE SIDE OF THE BUILDING AND CONTINUING UNDERGROUND. SINCE NO UNDERGROUND EXPLORATION WAS CONDUCTED, THIS DRAINAGE WAS NOT LOCATED AND CANNOT BE SHOWN.
 - 16) THE GROUND ROD AND GROUND WIRE FOUND AT THE BOTTOM OF A 6" PVC PIPE IN THE GROUND (VERTICALLY) ARE LOCATED AROUND THE PERIMETER OF THE BUILDING. THOUGH NOT CONFIRMED, THESE GROUND RODS/WIRES APPEAR TO BE CONNECTED AND ARE BELIEVED TO BE A GROUNDING LOOP FOR THE BUILDING.
 - 17) THE STORM PIPE SHOWN AT THE INTERSECTION OF SHIRT FACTORY ROAD AND LOWER SHIRT FACTORY ROAD WAS MEASURED AS A 15" RCP AT ONE END, AND AN 18" RCP AT THE OTHER. IT IS UNKNOWN WHERE ALONG THIS LINE THE TRANSITION FROM 15" TO 18" IS LOCATED.

SURVEY CONTROL POINTS

CONTROL PT. #	NORTHING	EASTING	ELEV.	DESCRIPTION
5000	1774592.261	2014600.731	1335.45	PK IN PAVEMENT
5001	1774337.504	2014709.624		PK IN PAVEMENT
5002	1774168.975	2014738.499		PK IN PAVEMENT

- LEGEND**
- △ FOUND MONUMENT AS NOTED
 - PROPERTY BOUNDARY LINES
 - - - ADJOINER PROPERTY BOUNDARY LINES
 - - - EXISTING INDEX CONTOURS (5 FT INTERVAL)
 - - - EXISTING INTERMEDIATE CONTOURS (1 FT INTERVAL)
 - GROUND SPOT ELEVATIONS
 - ELECTRIC DISTRIBUTION POLE
 - OVERHEAD ELECTRIC DISTRIBUTION LINE
 - COMMUNICATIONS POLE
 - OVERHEAD COMMUNICATIONS LINE
 - WATER VALVE
 - WATER LINE (SEE NOTE 10)
 - SANITARY SEWER LINE (SEE NOTE 11)
 - UNDERGROUND GAS LINE (SEE NOTE 13)
 - EXISTING STORM WATER INFRASTRUCTURE

DATE: 8/16/18
 SCALE: 1" = 30'
 DRAWN BY: B.L.M.
 APPROVED BY: GOOCH
 FILENAME: 182918XCOND

EXISTING CONDITIONS
 OUTDOOR VENTURE CORPORATION
 SHIRT FACTORY ROAD
 STEARNS, MCCREARY COUNTY, KY

CLIENT:
 BRANSCUM CONSTRUCTION
 COMPANY, INC.
 90 KEY VILLAGE ROAD
 RUSSELL SPRINGS, KY 42642

P.O. BOX 204
 165 FOSTER LANE
 STANFORD, KY 40484
 PHONE: (606) 365-8362
 FAX: (606) 365-1097



REVISION(S)
 SHEET: 1 OF 1

MCCREARY COUNTY WATER DISTRICT

**Response to Commission Staff's Third Request for Information
Cases No. 2021-00300 and No. 2021-00301**

Question No. 7

Responding Witness: Stephen Whitaker

- Q-7. In its procedural Order issued October 8, 2021, the Commission made the following finding: "If Commission Staff finds that changes should be made to the manner in which McCreary District accounts for the depreciation of McCreary District's assets, McCreary District in its response to the Commission Staff Report shall also state its position in writing on whether the Commission should require McCreary District to implement the proposed change for accounting purposes." [Footnote omitted.] Provide McCreary District's position regarding implementing for accounting purposes the Commission Staff's proposed depreciation life changes for the water and sewer divisions.**
- A-7. McCreary County Water District notes the absence of any evidence in the record of this proceeding to support the assertion that the service lives currently used to calculate its depreciation expense are erroneous or unreasonable or that the useful lives recommended by Commission Staff are more accurate or reasonable. Notwithstanding the absence of any evidence to support the accounting change suggested by the request, McCreary County Water District does not object to such accounting change but reserves the right to contest the imposition of such accounting changes in future Public Service Commission proceedings.