



KENTUCKY INFRASTRUCTURE AUTHORITY

Andy Beshear
Governor

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Edith Halbleib
Executive Director

February 10, 2020

The Honorable Don Robertson, Chairman
Lyon County Water District
PO Box 489
Kuttawa, KY 42055

KENTUCKY INFRASTRUCTURE AUTHORITY FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND CONDITIONAL COMMITMENT LETTER (F20-034)

Dear Chairman Robertson:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. On February 6, 2020, the Authority approved your loan for the Water System and Storage Tank Improvements project subject to the conditions stated in Attachment A to this letter. The total cost of the project shall not exceed \$2,094,675 without prior authorization, of which the Authority is the sole source of the funding. The final loan amount will be equal to the amount of funds disbursed for the project. Attachment B incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and "the Lyon County Water District" upon satisfactory performance of the conditions set forth in Attachment A. You must meet the conditions set forth in Attachment A and enter into an Assistance Agreement by February 10, 2021 (twelve months from the date of this letter). A one-time extension of up to six months may be granted for applicants that experience extenuating circumstances. Funds will be available for disbursement only after execution of the Assistance Agreement.

Chairman Robertson
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Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,



Linda Bridwell, PE
Deputy Executive Director
Kentucky Infrastructure Authority

Attachments

cc: Kyle Cunningham, PEADD
HDR, Mike Hansen

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms along with the completed "Transparency Act Reporting Information Form". Complete the attached "Authorization for Electronic Deposit of Vendor Payment Form" and the "ACH Debit Authorization Form" **and return to the US Bank address at the bottom of each form**. Also included are the "Legal Counsel Certification Letter" sample and the "Statement of Approval of Projections of Revenue and Expenses" for you to complete at the appropriate time.

We have attached an SRF loan checklist to use as a guide.


Accepted

8/11/2020
Date

The Assistance Agreement and this commitment shall be subject, but not limited to, the following terms:

1. The Authority project loan shall not exceed \$2,094,675 without prior authorization.
2. This loan was not eligible for principal forgiveness.
3. The loan shall bear interest at the rate of 2.50% per annum commencing with the first draw of funds.
4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1, or December 1, immediately succeeding the date of the initial draw of funds, provided that if such June 1, or December 1, shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1, or December 1, which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid. KIA requires the use of Automated Clearing House (ACH) debits for payment of all balances due on the loan. This will ensure that payments are credited timely to your account without the risk of incurring late payment fees. If the due date falls on a weekend or holiday your account will be debited on the next business day. Please complete and return the attached authorization form to U.S. Bank for processing.
5. Full principal payments will commence on the appropriate June 1, or December 1, within twelve months from initiation of operation. Full payments will be due each six months thereafter until the loan is repaid.
6. The loan shall be repaid over a period not to exceed 20 years from the date of initiation of operation for the project.
7. A loan servicing fee of 0.25% of the outstanding loan balance shall be payable to the Authority as a part of each interest payment.
8. Loan funds will only be disbursed after execution of the Assistance Agreement as project costs are incurred.
9. The Authority loan funds must be expended within six months of the official date of initiation of operation.
10. Fund "F" loan funds may be considered to be federal funds. OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations,

requires that all recipients and sub-recipients **expending \$750,000 or more in a year in federal awards must have a single or program-specific audit conducted for that year** in accordance with the Circular. If the federal amount expended plus all other federal funds expended exceeds the threshold, you are required to arrange for an A-133 audit to be performed by an independent, licensed CPA, or in special cases, the Auditor of Public Accounts of the Commonwealth of Kentucky. Please note that the guidance for single audit requirements has changed for fiscal or calendar year 2016 audits. Please consult with your independent auditor as soon as possible to understand how the changes will affect you.

11. The Authority requires that an annual financial audit be provided for the life of the loan.
12. The final Assistance Agreement must be approved by ordinance or resolution, as applicable, of the city council or appropriate governing board.
13. The Borrower must maintain a 1.1 debt coverage ratio throughout the life of the KIA loan. All borrowers are subject to at least an annual financial review for compliance.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Authority to Award (bid) package must be submitted to the Division of Water for approval within 14 days of bid opening.
2. The Assistance Agreement must be executed within six (6) months from bid opening.
3. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the State's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. Any special conditions listed in Attachment B must be satisfied before the project is presented before the Committee.
4. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be

obtained.

5. The Borrower must complete and return the attached "Authorization for Electronic Deposit of Vendor Payment" form to U.S. Bank.
6. The Borrower must provide documentation of Eclearinghouse Endorsement and Eclearinghouse Comments.
7. Prior to the project bid, an environmental review shall be conducted by the Division of Water for all construction projects receiving State Revolving Funds ("SRF") money.
8. Technical plans and specifications and a complete SRF specifications checklist shall be approved by the Division of Water prior to project bid.
9. All easements or purchases of land shall be completed prior to commencement of construction. Clear Site Certification of all land or easement acquisitions shall be provided to the Division of Water. DOW representatives shall be notified for attendance of the pre-construction conference.
10. Project changes or additions deviating from the original scope of work described in the Project Profile may require a new or amended environmental review and change order review before they can be included in the SRF loan project.
11. The Borrower must provide certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state or federal wage rate laws, and that the procurement procedures, including those for construction, land, equipment and professional services that are a part of the project, are in compliance with applicable federal, state and local procurement laws.
12. The Borrower shall implement the Kentucky Uniform System of Accounting (KUSoA), or an alternative approved by the Authority and assure that rates and charges for services are based upon the cost of providing such service.
13. The Borrower shall comply with all Davis Bacon related monitoring and reporting and require all contractors to pay wages pursuant to applicable prevailing wage rates for all work relating to the subject Project.
14. The project shall comply with the reporting requirements of the

Chairman Robertson
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Attachment A

Transparency Act, and shall complete the attached Transparency Act Reporting Information Form and provide to the Authority no later than 30 days after the KIA Board approval date of your loan.

15. Based on the final “as-bid” project budget, the Borrower must provide satisfactory proof, based on then existing conditions, that the revenue projections in the attached descriptions are still obtainable and that the projections of operating expenses have not materially changed. The “as bid” project budget shall be reviewed and approved by the consulting engineer.
16. The project shall comply with American Iron and Steel requirements of The Consolidated Appropriations Act of 2014 (H.R. 3547), which became effective January 17, 2014, unless engineering plans and specifications were approved by the Division of Water prior to the effective date.

Any special conditions stated in Attachment B must be resolved.

ATTACHMENT B

**Lyon County Water District
F20-034**

EXECUTIVE SUMMARY		Reviewer	Ashley Adams	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date	February 6, 2020	
FUND F, FEDERALLY ASSISTED DRINKING WATER		KIA Loan Number	F20-034	
REVOLVING LOAN FUND		WRIS Number	WX21143017	
BORROWER	LYON COUNTY WATER DISTRICT LYON COUNTY			
BRIEF DESCRIPTION				
This project will help to improve water quality and resolve pressure issues throughout the system by rehabilitating 2 water tanks, building an interconnect to loop lines for better water circulation, upsizing a line in the Tinsley Creek Subdivision, and replacing a creek crossing near KY 274 that is in danger of failure.				
PROJECT FINANCING		PROJECT BUDGET		
Fund F Loan	\$2,094,675	RD Fee %	Actual %	
		Administrative Expenses		\$50,000
		Legal Expenses		15,000
		Eng - Design / Const	7.8%	4.4%
		Eng - Insp	4.8%	5.8%
		Construction		1,675,000
		Contingency		167,500
TOTAL	\$2,094,675	TOTAL		\$2,094,675
REPAYMENT	Rate	2.50%	Est. Annual Payment	\$138,967
	Term	20 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	HDR		
	Bond Counsel	Rubin & Hays		
PROJECT SCHEDULE	Bid Opening	Mar-20		
	Construction Start	Apr-20		
	Construction Stop	Aug-21		
DEBT PER CUSTOMER	Existing	\$1,891		
	Proposed	\$2,473		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>	
	Current	2,649	\$46.24	(for 4,000 gallons)
	Additional	0	\$46.24	(for 4,000 gallons)
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.			
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2016	278,617	120,909	157,708	2.3
Audited 2017	401,254	126,621	274,633	3.2
Audited 2018	281,165	224,090	57,075	1.3
Projected 2019	281,165	261,542	19,623	1.1
Projected 2020	281,165	253,720	27,445	1.1
Projected 2021	281,165	254,044	27,121	1.1
Projected 2022	476,894	398,446	78,448	1.2
Projected 2023	457,441	398,781	58,660	1.1

Reviewer: Ashley Adams
Date: February 6, 2020
Loan Number: F20-034

**KENTUCKY INFRASTRUCTURE AUTHORITY
DRINKING WATER STATE REVOLVING FUND (FUND F)
LYON COUNTY WATER DISTRICT, LYON COUNTY
PROJECT REVIEW
WX21143017**

I. PROJECT DESCRIPTION

The Lyon County Water District is requesting a Fund F loan in the amount of \$2,094,675 for the Water System and Storage Tank Improvements project. This project will address several areas throughout the distribution system to help improve water age, water quality, pressure issues, and maintenance in the system.

Two water tanks will be rehabilitated including the Lamasco glass lined standpipe tank and the Jack Thompson tank. The Lamasco tank needs coating on the interior to mitigate a rust problem as well as installation of a mixing system and work on the exterior valve vault to install a bypass valve for better control at the tank site. The Jack Thompson elevated storage tank needs coating on the interior and exterior per the latest inspection.

The project will also loop several lines in the KY 295 area in order to increase circulation of water and improve water quality. This includes an interconnect between KY 295 and KY 373 and another between US 62 and KY 295. The KY 373 to KY 295 Loop project is a project that loops a line that dead ends at the City of Eddyville's master meter valve. The line is also the first phase in allowing the Crittenden Livingston County Water District to serve the City of Kuttawa as a backup source or possibly a primary source. In addition, the loop will allow additional water to be transmitted by the City of Eddyville to the City of Kuttawa as a backup water source.

The US 62 & KY 295 project provides another connection between the Lyon County Water District and the City of Kuttawa. Along with the KY 373 to KY 295 project described above, the project provides a means of allowing Kuttawa to receive water from the Crittenden Livingston County Water District and a higher volume feed from the City of Eddyville. The new feed will currently serve as a backup water supply for Kuttawa and could serve as Kuttawa's primary water supply in the event Kuttawa ceases operation of its water treatment plant.

In addition, an undersized 2" line in the Tinsley Creek Subdivision will be replaced with an adequately sized line to resolve water quality and pressure issues in the area and a creek crossing near KY 274 will also be replaced as the line is very shallow and in danger of immediate failure.

The Lyon County Water District is a PSC regulated distribution system that does not produce water. The District purchases approximately 111 MG of water annually

primarily from the Kuttawa Water Department (41 MG) and Princeton Water (41 MG) in addition to the Crittenden-Livingston County Water District (12 MG), and the Eddyville Water Department (6 MG).

II. PROJECT BUDGET

	<u>Total</u>
Administrative Expenses	\$ 50,000
Legal Expenses	15,000
Engineering Fees - Design	50,000
Engineering Fees - Construction	31,150
Engineering Fees - Inspection	106,025
Construction	1,675,000
Contingency	167,500
Total	\$ 2,094,675

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund F Loan	\$ 2,094,675	100%
Total	\$ 2,094,675	100%

IV. KIA DEBT SERVICE

Construction Loan	\$ 2,094,675
Less: Principal Forgiveness	<u>0</u>
Amortized Loan Amount	\$ 2,094,675
Interest Rate	2.50%
Loan Term (Years)	<u>20</u>
Estimated Annual Debt Service	\$ 133,730
Administrative Fee (0.25%)	<u>5,237</u>
Total Estimated Annual Debt Service	\$ 138,967

V. PROJECT SCHEDULE

Bid Opening	March 2020
Construction Start	April 2020
Construction Stop	August 2021

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

	<u>Current</u>
Residential	2,607
Commercial	<u>42</u>
Total	2,649

B) Rates

	<u>Current</u>	<u>Prior</u>
Date of Last Rate Increase	01/07/16	04/23/15
Minimum (2,000 gallons)	\$25.00	\$20.02
Next 3,000 Gallons	10.62	8.50
Cost for 4,000 gallons	\$46.24	\$37.02
Increase %	24.9%	
Affordability Index (Rate/MHI)	1.1%	

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2013-2017, the Utility's service area population was 4,039 with a Median Household Income (MHI) of \$51,086. The median household income for the Commonwealth is \$46,535. The project will qualify for a 2.5% interest rate based on MHI.

Year	Population		County Unemployment	
	County	% Change	Date	Rate
1980	6,490		June 2005	7.0%
1990	6,624	2.1%	June 2010	10.1%
2000	8,080	22.0%	June 2015	5.2%
2010	8,314	2.9%	June 2019	5.1%
Current	8,268	-0.6%		
Cumulative %		27.4%		

VIII. 2019 CAPITALIZATION GRANT EQUIVALENCIES

- 1) Green Project Reserve - The Drinking Water capitalization grant does not contain a "green" requirement.
- 2) Additional Subsidization – This project does not qualify for additional subsidization.

IX. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the years ended June 30, 2016 through June 30, 2018. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from fiscal 2016-2018 operating expenses and GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, has been removed from 2018 operating expenses. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

HISTORY

Revenues have averaged approximately \$1.2 million from 2016 to 2018 while operating expenses have increased 3.4% from \$922,389 in 2016 to \$953,566 in 2018. The District's last rate increase occurred in 2016 when rates jumped 25%. The District is currently undergoing a rate study by their engineering firm in order to apply for another rate increase at the PSC which will include projected revenue needs for this project as well as several other necessary capital projects for the system. Debt coverage was 2.3 in 2016, 3.2 in 2017, and 1.3 in 2018. Debt service was adjusted in 2017 to remove an interim financing payoff to Kentucky Rural Water Association which was replaced with KIA loan F12-02 for another water quality system improvement project to normalize the debt coverage ratio.

The balance sheet reflects a current ratio of 2.0, a debt to equity ratio of 1.6, 52.5 days sales in accounts receivable, and 5.4 months operating expenses in unrestricted cash.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Revenues will increase at least \$220,000 or 18% annually upon approval of the PSC in order to support inflation and debt service for this loan.
- 2) Expenses will increase 2% for inflation starting in the year debt service begins on this pending loan. Inflation expense has been removed from projections in 2019-2021 as this is the only thing driving rate increase needs during that time period.
- 3) Debt service coverage is 1.2 in 2022 when principal and interest repayments begin.

Based on the pro forma assumptions, the utility shows adequate cash flow to repay the KIA Fund F loan.

REPLACEMENT RESERVE

The replacement reserve will be 5% (\$104,000 total) of the final amount borrowed (prior to principal forgiveness, if any) to be funded annually (\$5,200 yearly) each December 1 for 20 years and maintained for the life of the loan.

X. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
Regions - Series 2013 C	\$ 1,115,000	2040
USDA - Series 2016	1,900,000	2046
KIA Loan (F12-02)	1,959,089	2038
Capital Lease	34,774	2020
Total	\$ 5,008,863	

XI. CONTACTS

Legal Applicant

Entity Name	Lyon County Water District
Authorized Official	Don Robertson (Chairman)
County	Lyon
Email	lyoncountyw24787@bellsouth.net
Phone	270-388-0271
Address	PO Box 489 Kuttawa, KY 42055

Applicant Contact

Name	Dixie Cayce
Organization	Lyon County Water District
Email	dixie.cayce@att.net
Phone	270-388-0271
Address	PO Box 489 Kuttawa, KY 42055

Project Administrator

Name	Kyle Cunningham
Organization	PEADD
Email	kyle.cunningham@ky.gov
Phone	270-886-9484
Address	300 Hammond Dr Hopkinsville, KY 42240

Consulting Engineer

PE Name	Mike Hansen
Firm Name	HDR
Email	mike.hansen@hdrinc.com
Phone	270-443-7600
Address	2550 Irvin Cobb Rd Paducah, KY 42003

XII. RECOMMENDATIONS

KIA staff recommends approval of the loan with the standard conditions:

- 1) By March 1, 2020, the District will need to apply to the Public Service Commission (PSC) for debt authorization for the \$2,094,675 million loan. This debt authorization application should include a forecast for meeting debt service projected through no less than 2025.
- 2) By March 1, 2020, the District will need a resolution from the Lyon County Water District Board, demonstrating their intentions to increase revenues as necessary and authorized by the PSC to meet the loan requirements over the life of the loan. KIA Staff review indicates that revenues would need to increase by \$220,000 annually which equates to an approximate 18% rate increase by January 1, 2022 to meet expenses and debt service in the first full year of repayment.
- 3) Prior to the assistance agreement being executed, the District must receive a Certificate of Public Convenience and Necessity from the PSC for any portion of the project that may be necessary or provide an opinion from the staff of the PSC that a CPCN is not required for any portion of the assets to be constructed as part of the loan agreement.

**LYON COUNTY WATER DISTRICT
FINANCIAL SUMMARY (DECEMBER YEAR END)**

	<u>Audited</u> <u>2016</u>	<u>Audited</u> <u>2017</u>	<u>Audited</u> <u>2018</u>	<u>Projected</u> <u>2019</u>	<u>Projected</u> <u>2020</u>	<u>Projected</u> <u>2021</u>	<u>Projected</u> <u>2022</u>	<u>Projected</u> <u>2023</u>
Balance Sheet								
Assets								
Current Assets	469,955	712,802	652,731	656,625	662,114	667,538	714,927	726,659
Other Assets	11,167,361	9,253,211	8,836,080	8,393,442	9,134,704	9,875,706	9,558,066	9,224,595
Total	11,637,316	9,966,013	9,488,811	9,050,067	9,796,818	10,543,244	10,272,993	9,951,254
Liabilities & Equity								
Current Liabilities	4,415,176	2,346,033	333,446	311,515	316,118	325,755	469,395	474,095
Long Term Liabilities	3,431,550	3,656,711	5,443,627	4,642,067	5,510,979	6,371,653	6,042,750	5,710,647
Total Liabilities	7,846,726	6,002,744	5,777,073	4,953,582	5,827,097	6,697,408	6,512,145	6,184,742
Net Assets	3,790,590	3,963,269	3,711,738	4,096,485	3,969,721	3,845,836	3,760,848	3,766,512
Cash Flow								
Revenues	1,200,355	1,244,269	1,231,775	1,231,775	1,231,775	1,231,775	1,451,775	1,451,775
Operating Expenses	922,389	844,700	953,566	953,566	953,566	953,566	977,837	997,290
Other Income	651	1,685	2,956	2,956	2,956	2,956	2,956	2,956
Cash Flow Before Debt Service	278,617	401,254	281,165	281,165	281,165	281,165	476,894	457,441
Debt Service								
Existing Debt Service	120,909	126,621	224,090	261,542	253,720	254,044	259,479	259,814
Proposed KIA Loan	0	0	0	0	0	0	138,967	138,967
Total Debt Service	120,909	126,621	224,090	261,542	253,720	254,044	398,446	398,781
Cash Flow After Debt Service	157,708	274,633	57,075	19,623	27,445	27,121	78,448	58,660
Ratios								
Current Ratio	0.1	0.3	2.0	2.1	2.1	2.0	1.5	1.5
Debt to Equity	2.1	1.5	1.6	1.2	1.5	1.7	1.7	1.6
Days Sales in Accounts Receivable	47.1	54.9	52.5	52.5	52.5	52.5	52.5	52.5
Months Operating Expenses in Unrestricted Cash	3.6	6.9	5.4	5.4	5.5	5.6	5.7	5.7
Debt Coverage Ratio	2.3	3.2	1.3	1.1	1.1	1.1	1.2	1.1