

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

September 24, 2010

RECEIVED

SEP 28 2010

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

2010-00384

Re: Hyden-Leslie County Water District - KRS 278.023 Application

Dear Mr. Derouen:


Enclosed please find the original and ten (10) copies of the Application of the Hyden-Leslie County Water District for a Certificate of Public Convenience and Necessity to construct, finance and increase rates pursuant to KRS 278.023.

Also enclosed are eleven (11) copies of the exhibits required pursuant to 807 KAR 5.069, **with the exception of the Preliminary and Final Engineering Reports, of which two copies will be forwarded by the Engineers.**

If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jlm
Enclosures

cc: Distribution List

DISTRIBUTION LIST

Account No. 2272.0000

**Re: Hyden-Leslie County Water District Waterworks Revenue Bonds, Series 2010,
in the aggregate principal amount of \$3,050,000, consisting of \$1,094,000 of
Series A Bonds and \$1,956,000 of Series B Bonds**

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

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

Mr. Greg Pridemore
USDA, Rural Development
305awahare Drive
Hazard, Kentucky 41701

Telephone: (606) 436-1379
Fax: (606) 436-6357

Mr. Leihman Howard, Jr., Manager
Hyden-Leslie County Water District
325 Wendover Road
Hyden, Kentucky 41749

Telephone: (606) 672-2791
Fax: (606) 672-7510

Mr. Mike Maggard
Sisler-Maggard Engineering, PLLC
220 East Reynolds Road, Suite A3
Lexington, Kentucky 40517

Telephone: (859) 271-2978
Fax: (859) 271-5670

Philip Lewis, Esq.
Attorney at Law
P.O. Box 915
Hyden, Kentucky 41749

Telephone: (606) 672-2372
Fax: (606) 672-4285

W. Randall Jones, Esq.
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

Telephone: (502) 569-7525
Fax: (502) 569-7555

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 29 2010

PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF HYDEN-LESLIE)
COUNTY WATER DISTRICT)
FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO)
CONSTRUCT, FINANCE AND INCREASE)
RATES PURSUANT TO KRS 278.023.)

CASE NO. 2010 - 00384

A P P L I C A T I O N

This Application of the Hyden-Leslie County Water District ("Applicant") respectfully shows:

1. That Applicant is a water district of Leslie County, Kentucky, created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes.

2. That the post office address of Applicant is:

Hyden-Leslie County Water District
c/o Mr. Fred Ratliff, Chairman
325 Wendover Road
Hyden, Kentucky 41749

3. That Applicant, pursuant to the provisions of KRS 278.020 and 278.023, seeks (i) a Certificate of Public Convenience and Necessity, permitting Applicant to construct a waterworks construction project, consisting of extensions, additions, and improvements (the "Project") to the existing waterworks system of Applicant; (ii) an Order approving increased rates; and (iii) approval of the proposed plan of financing said Project.

4. That the project consists of the extensions, additions and improvements to the existing waterworks system of the Applicant, consisting of (i) a 1.5 MGD water treatment plant expansion; (ii) installation of 12 inch water line and appurtenances; and (iii) construction of a 1,000,000 gallon water storage tank.

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$3,050,000 of its Waterworks Revenue Bonds, Series 2010, consisting of \$1,094,000 of Series A Bonds and \$1,956,000 of Series B Bonds; (ii) 2 USDA, Rural Development ("RD") grants in the amounts of \$600,000 and \$1,100,000; (iii) 2 Appalachian Regional Commission ("ARC") grants in the amounts of \$400,000 and \$200,000; (iv) a Community Development Block

Grant ("CDBG") in the amount of \$1,000,000; (v) a 2005 Coal Bond grant in the amount of \$1,000,000; (vi) a 2007 Coal Bond grant in the amount of \$750,000; (vii) 2 Coal Severance grants in the amounts of \$850,000 and \$450,000; and (viii) an Applicant contribution in the amount of \$1,000,000. Applicant has a commitment from RD to purchase said \$1,094,000 of Series A Bonds maturing over a 40-year period, at an interest rate of not exceeding 4.375% per annum, and said \$1,956,000 of Series B Bonds maturing over a 40-year period, at an interest rate of not exceeding 2.375% per annum, as set out in the RD Letter of Conditions, as amended filed herewith as an Exhibit.

6. That Applicant does not contemplate having the Project constructed with any deviation from minimum construction standards of this Public Service Commission.

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

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

8. That Applicant has arranged for the publication, prior to or at the same time this Application is filed, of a Notice of Proposed Rate Change pursuant to Section 2 of 807 KAR 5:069, in the Leslie County News, which is the newspaper of general circulation in Applicant's service area and in Leslie County, Kentucky. Said Notice sets out the current rates and the proposed rates of Applicant and a short description of the Project. A copy of said Notice is filed herewith as an Exhibit.

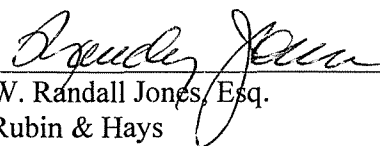
9. That the foregoing constitutes the documents necessary to obtain the approval of the Kentucky Public Service Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the "Filing Requirements" specified in 807 KAR 5:069, Section 1.

WHEREFORE, Applicant, the Hyden-Leslie County Water District asks that the Public Service Commission of the Commonwealth of Kentucky grant to Applicant the following:

- a. A Certificate of Public Convenience and Necessity permitting Applicant to construct a waterworks project consisting of extensions, additions, and improvements to the existing waterworks system of Applicant.
- b. An Order approving the financing arrangements made by Applicant, viz., the issuance of (i) \$3,050,000 of Hyden-Leslie County Water District Waterworks Revenue Bonds, Series 2010, consisting of \$1,094,000 of Series A Bonds and \$1,956,000 of Series B Bonds at an interest rate of not exceeding 4.375% per annum as to the Series A Bonds and 2.375% as to the Series B Bonds; (ii) 2 RD Grants in the amounts of \$600,000 and \$1,100,000; (iii) 2 ARC grants in the amounts of \$400,000 and \$200,000; (iv) a CDBG grant in the amount of \$1,000,000; (v) 2 Coal Bond grants in the amounts of \$1,000,000 and \$750,000; (vi) 2 Coal Severance grants in the amounts of \$850,000 and \$450,000; and (vii) an Applicant contribution in the amount of \$1,000,000.
- c. An Order approving the proposed increased rates as set out in Section 28 of RD Amendment No. 1, dated September 14, 2010, filed herewith as an Exhibit.

Hyden-Leslie County Water District

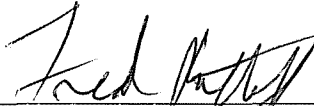
By: 
Chairman
Board of Water Commissioners


W. Randall Jones, Esq.
Rubin & Hays
Counsel for Applicant
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF LESLIE)

The undersigned, Fred Ratliff, being duly sworn, deposes and states that he is the Chairman of the Board of Commissioners of the Hyden-Leslie County Water District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this September 16, 2010.



Fred Ratliff, Chairman
Hyden-Leslie County Water District

Subscribed and sworn to before me by Fred Ratliff, Chairman of the Board of Commissioners of the Hyden-Leslie County Water District, on this September 16, 2010.

My Commission expires: 2/23/11.



Notary Public, Leslie County, Kentucky



**United States Department of Agriculture
Rural Development**
Kentucky State Office

June 12, 2006

Mr. Fred Ratliff, Chairman
Hyden-Leslie County Water District
325 Wendover Road
Hyden, Kentucky 41749

Dear Mr. Ratliff:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and/or grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$1,094,000, a RUS grant not to exceed \$600,000, an Appalachian Regional Commission (ARC) grant of \$400,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$1,000,000, and a State Coal Severance grant in the amount of \$1,000,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

1. Number of Users and Their Contribution:

There shall be 2,932 existing water users. The Area Director will review and authenticate the number of users prior to advertising for construction bids.

2. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

3. Drug-Free Work Place:

Prior to grant approval, the District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

4. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the bond. Principal payment will not be deferred for a period in excess of two years from the date of the bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (June 1st and December 1st) and principal will be due on or before the first of June. Rural Development may require the District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

5. Recommended Repayment Method:

Payments on this loan can be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Area Director will furnish the necessary forms and further guidance on the PAD procedure.

6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$500.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$60,000. The deposits are to be resumed any time the account falls below the \$60,000.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the District's prior bond ordinances.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

The District also needs to fund an account for short-lived assets by depositing a sum of \$4,000 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system.

7. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds, if possible. If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue.

8. Land Rights and Real Property:

The District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

9. Organization:

The District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

10. Business Operations:

The District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the District after review by Rural Development. At no later than loan pre-closing, the District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

11. Accounts, Records and Audits:

The District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed.

12. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

13. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the District. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$130,000.
- D. Real Property Insurance - The District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

14. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "24" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Area Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
 - 1. Final plans, specifications and bid documents.
 - 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
 - 3. Legal Service Agreements.
 - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

15. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

16. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the District.

17. Compliance with Special Laws and Regulations:

The District will be required to conform to any and all state and local laws and regulations affecting this type project.

18. Treatment Plant/System Operator:

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

19. Prior to Pre-Closing the Loan, the District Will Be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."
- G. RUS Bulletin 1780-22, "Eligibility Certification."

20. Refinancing and Graduation Requirements:

The District is reminded that if at any time it shall appear to the Government that the District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the District will apply for and accept such loan in sufficient amount to repay the Government.

21. Commercial Interim Financing:

The District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

22. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

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

23. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the District. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3016 (as applicable). Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly.

24. Cost of Facility:

Breakdown of Costs:

Development	\$ 3,275,000
Land and Rights	10,000
Legal and Administrative	25,000
Engineering	393,000
Interest	25,000
CDBG Administrative	45,000
Contingencies	<u>321,000</u>
TOTAL	\$ 4,094,000

Financing:

RUS Loan	\$ 1,094,000
RUS Grant	600,000
ARC Grant	400,000
HUD-CDBG Grant	1,000,000
State Coal Severance Grant	<u>1,000,000</u>
TOTAL	\$ 4,094,000

25. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grant in the amount of \$400,000, for the HUD-CDBG grant in the amount of \$1,000,000, and for the State Coal Severance grant in the amount of \$1,000,000.

26. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC/HUD-CDBG/State Coal Severance grant funds and refunded in proportion to participation in the project. If the amount of unused project funds exceeds the grants, that part would be RUS loan funds.

27. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, "Operating Budget," or similar form may be utilized for this purpose.

28. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

Residential

First	2,000	gallons @ \$	19.03 - Minimum Bill.
Next	3,000	gallons @ \$	5.28 - per 1,000 gallons.
Next	5,000	gallons @ \$	4.18 - per 1,000 gallons.
Next	15,000	gallons @ \$	3.41 - per 1,000 gallons.
Next	25,000	gallons @ \$	2.97 - per 1,000 gallons.
Next	50,000	gallons @ \$	2.53 - per 1,000 gallons.
Next	100,000	gallons @ \$	2.09 - per 1,000 gallons.
All Over	200,000	gallons @ \$	1.65 - per 1,000 gallons.

Commercial

First	2,000	gallons @ \$	28.55 - Minimum Bill.
Next	3,000	gallons @ \$	7.92 - per 1,000 gallons.
Next	5,000	gallons @ \$	6.27 - per 1,000 gallons.
Next	15,000	gallons @ \$	5.12 - per 1,000 gallons.
Next	25,000	gallons @ \$	4.46 - per 1,000 gallons.
Next	50,000	gallons @ \$	3.80 - per 1,000 gallons.
Next	100,000	gallons @ \$	3.14 - per 1,000 gallons.
All Over	200,000	gallons @ \$	2.48 - per 1,000 gallons.

29. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the District will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA).

30. Floodplain Construction:

The District will be required to pass and adopt a Resolution or amend its By-Laws whereby the District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

31. Water Withdrawal Permit:

The District will be required to obtain satisfactory evidence that a revised water withdrawal permit has been secured from the Division of Water. The permit must be obtained prior to the commencement of construction on the water project.

32. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor's Office for Local Development letter dated March 23, 2006, from Mr. Ronald W. Cook, Manager.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated February 1, 2006, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without affect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.

- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

33. Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,


KENNETH SLONE
State Director

Enclosures

- cc: Area Director - London, Kentucky
Rural Development Manager - London, Kentucky
Kentucky River ADD - Hazard, Kentucky
Phillip Lewis - Hyden, Kentucky
✓ Rubin and Hays - Louisville, Kentucky
Sisler-Maggard Engineering - Lexington, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

September 14, 2010

Mr. Fred Ratliff, Chairman
Hyden-Leslie County Water District
325 Wendover Road
Hyden, Kentucky 41749

Re: Letter of Conditions Dated June 12, 2006

Dear Mr. Ratliff:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated June 12, 2006. The purpose of this amendment is to revise the 1) total cost of proposed project, 2) project funding, 3) number of users, 4) Funded Depreciation Reserve Account, 5) Fidelity Bond, 6) revise the rates and charges, 7) to make other editorial changes in accordance with the current Rural Utilities Service (RUS) Instructions.

The Second Paragraph on Page 1 is revised to read as follows:

“ This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a subsequent RUS loan not to exceed \$1,956,000 in addition to the original RUS Loan of \$1,094,000, a subsequent RUS grant not to exceed \$1,100,000 in addition to the original RUS Grant of \$600,000, two Appalachian Regional Commission (ARC) grants of \$400,000 and \$200,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$1,000,000, two Coal Severance Grants of \$450,000 and \$850,000, two Coal Bond Grants of \$750,000 and \$1,000,000, and an applicant cash contribution of \$1,000,000. ”

Paragraph numbered “1” is revised to read as follows:

“ 1. Number of Users and Their Contribution:

There shall be 2,923 existing water users. The Area Director will review and authenticate the number of users prior to advertising for construction bids. ”

Paragraph numbered “6” is revised to read as follows:

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7344 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

“USDA is an equal opportunity provider, employer and lender.”
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD)

“ 6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$1,160 per month into a "Funded Debt Reserve Account" until the account reaches \$139,200. The deposits are to be resumed any time the account falls below the \$139,200.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

The District also needs to fund an account for short-lived assets by depositing a sum of \$4,000 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system. ”

Paragraph numbered “13” is revised to read as follows:

“ 13. Insurance and Bonding:

The following insurance and bonding will be required:

- C. Fidelity Bond – The District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$209,000. ”

Paragraph numbered “24” is revised to read as follows:

“ 24. Cost of Facility:

Breakdown of Costs:

Development	\$ 8,894,307
Land and Rights	10,000
Legal and Administrative	25,000
Engineering	905,400
Interest	60,000
CDBG - Planning & Admin.	45,000
Coal Bond – Admin.	10,000
Contingencies	<u>450,293</u>
TOTAL	\$ 10,400,000

Financing:

RUS Initial Loan	\$	1,094,000	
RUS Initial Grant		600,000	
RUS Subsequent Loan		1,956,000	
RUS Subsequent Grant		1,100,000	
ARC Grant		400,000	
ARC Grant		200,000	
HUD-CDBG		1,000,000	
Coal Bond 2005		1,000,000	
Coal Bond 2007 - #121C		750,000	
Coal Severance #120		850,000	
Coal Severance County		450,000	
Applicant Contribution		<u>1,000,000</u>	
	TOTAL	\$	10,400,000

Paragraph numbered "25" is revised to read as follows:

" 25. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grants for a total of \$600,000, for the HUD-CDBG grant in the amount of \$1,000,000, for the Coal Severance grants for a total of \$1,300,000, and for the Coal Bond grants for a total of \$1,750,000. "

Paragraph numbered "26" is revised to read as follows:

" 26. Use of Remaining Project Funds:

The applicant contribution shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC/HUD-CDBG/Coal Severance/Coal Bond grant funds and refunded in proportion to participation in the project. If the amount of unused project funds exceeds the grants, that part would be RUS loan funds. "

Paragraph numbered "28" is revised to read as follows:

" 28. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

Residential

First	2,000	gallons @ \$	20.24. - Minimum Bill.
Next	3,000	gallons @ \$	5.62. - per 1,000 gallons.
Next	5,000	gallons @ \$	4.45. - per 1,000 gallons.
Next	15,000	gallons @ \$	3.63. - per 1,000 gallons.
Next	25,000	gallons @ \$	3.16. - per 1,000 gallons.
Next	50,000	gallons @ \$	2.69.- per 1,000 gallons.
Next	100,000	gallons @ \$	2.22.- per 1,000 gallons.
All Over	200,000	gallons @ \$	1.76. - per 1,000 gallons.

Commercial

First	2,000	gallons @ \$	30.36. - Minimum Bill.
Next	3,000	gallons @ \$	8.43. - per 1,000 gallons.
Next	5,000	gallons @ \$	6.68. - per 1,000 gallons.
Next	15,000	gallons @ \$	5.45. - per 1,000 gallons.
Next	25,000	gallons @ \$	4.74. - per 1,000 gallons.
Next	50,000	gallons @ \$	4.04. - per 1,000 gallons.
Next	100,000	gallons @ \$	3.33. - per 1,000 gallons.
All Over	200,000	gallons @ \$	2.64. - per 1,000 gallons.”

Paragraph numbered “34” is added to read as follows:

34. **American Recovery and Reinvestment Act of 2009 ("Recovery Act").**

Recovery Act requirements apply to this financing. In addition to the other conditions contained in this Letter of Conditions, you must understand and agree to these following conditions specific to the Recovery Act:

- A. **Certifications.** With respect to Recovery Act funds made available to State or local governments for infrastructure investments, Section 1511 of the Recovery Act requires the Governor, mayor or other chief executive, as appropriate, to certify that the infrastructure investment has been properly approved as required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars. RD Water and Waste personnel will provide specific guidance on the information required in the certification.
- B. **Reports on Use of Funds.** Section 1512 of the Recovery Act requires each recipient receiving Recovery Act funding to provide specific information to the government on a periodic basis for inclusion in various internal and publicly-available reports. RD Water and Waste Program personnel will provide specific guidance on the type and frequency of information required to assist Recovery Act recipients in complying with this condition.
- C. **Buy American.** Section 1605 of the Recovery Act requires that all projects financed with Recovery Act funds be bid and constructed using only iron, steel and manufactured

goods produced in the United States in accordance with Section 1605 of the Recovery Act. Specific guidance, including contract provisions to be included in any construction contracts, is being formulated and drafted as of the date of this Letter of Conditions. RD Water and Waste Program personnel will provide specific guidance related to this condition as soon as it is available.

- D. Wage Rate Requirements. Section 1606 of the Recovery Act requires that all laborers and mechanics employed by contractors and subcontractors for the project will be paid wages at rates not less than those prevailing on projects of a character similar in the locality where this project will occur. Specific guidance, including contract provisions to be included in any construction or otherwise related contracts, is being formulated and drafted as of the date of this Letter of Conditions. RD Water and Waste Program personnel will provide specific guidance related to this condition as soon as it is available.

Compliance with the conditions in this section is required for financing under the Recovery Act. However, these conditions are not substitutes for, or in lieu of, the remaining conditions contained in this Letter of Conditions. Each of the conditions in this Letter of Conditions must also be understood and complied with to receive financing for your project.

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas G. Fern", is written over a circular stamp or seal. The signature is fluid and cursive.

THOMAS G. FERN
State Director

cc: Area Director - London, Kentucky
Office Manager - Hazard, Kentucky
Kentucky River ADD - Hazard, Kentucky
Phillip Lewis - Hyden, Kentucky
Rubin & Hays - Louisville, Kentucky
Sisler-Maggard Engineering - Lexington, Kentucky
PSC - ATTN: Dennis Jones - Frankfort, Kentucky



**United States Department of Agriculture
Rural Development
Kentucky State Office**

September 24, 2010

SUBJECT: Hyden-Leslie County Water District
Water System Improvements
Letter of Concurrence

TO: Area Office
Hazard, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder on Contract 4, BP Pipeline, Inc., in the amount of \$435,000.00, the low bidder on Contract 5, Knight Electric, Inc., in the amount of \$773,307.00, and the low bidder on Contract 6, Judy Construction Co., Inc., in the amount of \$7,686,000.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7336.


VERNON BROWN
Acting State Director
Rural Development

cc: SME Engineers, Inc.
Lexington, Kentucky

Rubin and Hays (Randy Jones)
Louisville, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

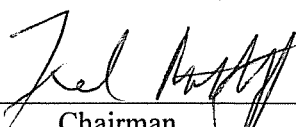
**CERTIFICATE OF CHAIRMAN OF HYDEN-LESLIE COUNTY WATER
DISTRICT AS TO STATEMENT REQUIRED
BY SECTION 1(5) OF 807 KAR 5:069**

I, Fred Ratliff, hereby certify that I am the duly qualified and acting Chairman of the Hyden-Leslie County Water District, and that said District is in the process of arranging to finance the construction of extensions, additions and improvements to the existing waterworks system of the District (the "Project"), in cooperation with Sisler-Maggard Engineering, PLLC, Lexington, Kentucky, the Engineers for the District (the "Engineers").

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

1. That the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
2. That all other state approvals and/or permits have already been obtained.
3. That the rates proposed by the District in its current Application filed with the Kentucky Public Service Commission are contemplated to produce total revenue requirements set out in the Engineering Reports prepared by such Engineers and filed with the Public Service Commission.
4. That it is now contemplated that construction of the Project will begin on or about October 18, 2010, and will end on or about January 20, 2012.


IN TESTIMONY WHEREOF, witness my signature this September 16, 2010.



Chairman
Hyden-Leslie County Water District

STATE OF KENTUCKY)
) SS
COUNTY OF LESLIE)

Subscribed and sworn to before me by Fred Ratliff, Chairman of the Board of Commissioners of the Hyden-Leslie County Water District, on this September 16, 2010.



Notary Public
In and For Said State and County

NOTICE OF PROPOSED RATE CHANGE

In accordance with the requirements of the Public Service Commission of the Commonwealth of Kentucky as set out in 807 KAR 5:069, Section 2, notice is hereby given to the customers of the Hyden-Leslie County Water District of a change to the District's rate schedule as set forth herein. The proposed rate change is required by USDA, Rural Development in connection with a loan by RD to the District to be evidenced by the issuance by the District of its waterworks revenue bonds in such amount, which RD has agreed to purchase provided the District meets certain conditions of RD, including increasing water rates as set forth below:

Current Residential Monthly Rates

First 2,000 gallons	\$17.30 minimum bill
Next 3,000 gallons	4.80 per 1,000 gallons
Next 5,000 gallons	3.80 per 1,000 gallons
Next 15,000 gallons	3.10 per 1,000 gallons
Next 25,000 gallons	2.70 per 1,000 gallons
Next 50,000 gallons	2.30 per 1,000 gallons
Next 100,000 gallons	1.90 per 1,000 gallons
All over 200,000 gallons	1.50 per 1,000 gallons

Current Commercial Monthly Rates

First 2,000 gallons	\$25.90 minimum bill
Next 3,000 gallons	7.20 per 1,000 gallons
Next 5,000 gallons	5.70 per 1,000 gallons
Next 15,000 gallons	4.70 per 1,000 gallons
Next 25,000 gallons	4.10 per 1,000 gallons
Next 50,000 gallons	3.50 per 1,000 gallons
Next 100,000 gallons	2.90 per 1,000 gallons
All over 200,000 gallons	2.30 per 1,000 gallons

Proposed Residential Monthly Rates

First 2,000 gallons	\$20.24 minimum bill
Next 3,000 gallons	5.62 per 1,000 gallons
Next 5,000 gallons	4.45 per 1,000 gallons
Next 15,000 gallons	3.63 per 1,000 gallons
Next 25,000 gallons	3.16 per 1,000 gallons
Next 50,000 gallons	2.69 per 1,000 gallons
Next 100,000 gallons	2.22 per 1,000 gallons
All over 200,000 gallons	1.76 per 1,000 gallons

Proposed Commercial Monthly Rates

First 2,000 gallons	\$30.36 minimum bill
Next 3,000 gallons	8.43 per 1,000 gallons
Next 5,000 gallons	6.68 per 1,000 gallons
Next 15,000 gallons	5.45 per 1,000 gallons
Next 25,000 gallons	4.74 per 1,000 gallons
Next 50,000 gallons	4.04 per 1,000 gallons
Next 100,000 gallons	3.33 per 1,000 gallons
All over 200,000 gallons	2.64 per 1,000 gallons

The RD loan proceeds will be used in conjunction with certain other funds to finance the cost of extensions, additions and improvements to the existing waterworks system of the District, consisting of (i) a 1.5 MGD water treatment plant expansion; (ii) installation of 12 inch water line and appurtenances; and (iii) construction of a 1,000,000 gallon water storage tank. Signed: Fred Ratliff, Chairman, Hyden-Leslie County Water District.