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- CONTRACT -

RATES AND TARIFFS

THIS CONTRACT, made this 15<sup>th</sup> day of JUNE, 1961, by and between GREEN RIVER VALLEY WATER DISTRICT, a Water District created under and existing by virtue of the provisions of Chapter 74 of the Kentucky Revised Statutes, situated partly in Hart County, Kentucky, and partly in Barren County, Kentucky, (for convenience sometimes herein called the "District"); THE CITY OF HORSE CAVE, KENTUCKY, a municipal corporation of the Fifth Class in Hart County, Kentucky, and THE HORSE CAVE BOARD OF WATER COMMISSIONERS (for convenience both sometimes herein called "Horse Cave"); and THE CITY OF CAVE CITY, KENTUCKY, a municipal corporation of the Fifth Class in Barren County, Kentucky, and THE CAVE CITY UTILITY COMMISSION, (for convenience both sometimes herein called "Cave City");

W I T N E S S E T H:

That in view of the facts, for the mutual benefits and considerations, and in order to accomplish the purposes, all as hereinafter set forth, the parties have had extensive discussions and negotiations, have reached certain firm decisions upon which it is desired that action be taken immediately in the interests of the public health, safety and general welfare of all of the citizens and inhabitants of the gross area encompassed within the boundaries of the District, Horse Cave, and Cave City, and accordingly make this Contract in evidence thereof, as follows:

A. THE FACTS

(1) The District was created by an Order entered by the County Court of Hart County, Kentucky, on the \_\_\_\_\_ day of \_\_\_\_\_, 1959, pursuant to authority of KRS Chapter 74. As ~~so~~ created, the

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District embraced, and still embraces, a substantial area of Hart County, Kentucky, described with particularity in said Order of the Court, to which reference is hereby made for details. The south boundary line set forth in said description was a part of the boundary line common to Hart and Barren Counties.

(2) Horse Cave is a municipal corporation of the Fifth Class, operated under the City Council form of government provided for in KRS Chapter 87, situated in Hart County, Kentucky, adjacent to or contiguous with the boundary line common to Hart and Barren Counties. The boundaries of the District are such that Horse Cave is surrounded thereby, but the description of the District in the Court Order creating the same expressly excludes Horse Cave. Horse Cave has not, by its City Council, given consent to the inclusion of any part of its incorporated area as a part of the District, as is permitted to be done at the City's election pursuant to KRS 74.120. The Horse Cave Board of Water Commissioners is a body created by Ordinance of the City of Horse Cave as an agency of said City and entrusted with the operation of the water system of the City.

(3) By an Order entered by the County Court of Barren County, Kentucky, on the \_\_\_\_\_ day of \_\_\_\_\_, 1960, pursuant to authority of KRS 74.115 (as subsequently corrected) a substantial area of Barren County, Kentucky, having as its northern boundary line the same part of the Hart-Barren County line which is the southern boundary of the Hart County area of the District, above referred to, was annexed to and made a part of the District.

(4) Cave City is a municipal corporation of the Fifth Class, operated under the City Council form of government provided for in KRS Chapter 87, situated in Barren County, Kentucky, adjacent to or contiguous with the aforesaid boundary line common to Hart and Barren Counties. The boundaries of the District are such that Cave City is surrounded thereby, but the description

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of the Barren County portion of the District expressly excludes Cave City. Cave City has not, by its City Council, given consent to the inclusion of any part of its incorporated area as a part of the District, as is permitted to be done at the City's election pursuant to KRS 74.120. The Cave City Utility Commission is a body created by Ordinance of the City of Cave City as an agency of said City and entrusted with the operation of the water system of the City.

(5) The District's sole corporate and lawful purpose is to supply water to its citizens and inhabitants, but as an incident thereto the District is expressly authorized by KRS 74.120(2) to contract to supply water to Horse Cave, Cave City, or any other city which is not included within its boundaries. Horse Cave and Cave City have proper authority in law to own and operate municipal water systems, and to contract with each other, the District, or outside parties for obtaining a supply of water.

(6) Horse Cave and Cave City own the water systems which provide service in their respective areas, and to certain customers outside their respective corporate limits.

In connection with its water system, Horse Cave has outstanding its revenue bonds in the current principal amount of \$\_\_\_\_\_, payable as to principal and interest solely from its water revenues; and Horse Cave has made a covenant with the holders of said bonds that it will not sell, lease, mortgage or otherwise dispose of its system.

Similarly, Cave City has outstanding its revenue bonds in the current principal amount of \$135,000.00, and Cave City has a similar covenant with the holders of such bonds.

(7) Horse Cave's water supply is from wells. By reason of the geology of the area, this source has always been unreliable and inadequate, and may be expected always to so continue. The City if unwilling to place further reliance, as in the past, upon

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the hope that new wells can be brought in from time to time, as crises are continually developing. But for the new source of supply which this Contract provides, Horse Cave recognizes a critical necessity for constructing a water pipe-line to the nearest feasible intake point on Green River, a distance of some \_\_\_\_\_ miles. According to preliminary studies made by Consulting Engineers, the cost of constructing and installing such a pipe-line, with necessary pumping station and other appurtenant facilities, is estimated to be \$\_\_\_\_\_. If that course were adopted, Horse Cave would maintain its existing water plant in a standby condition for use in the event of emergencies, at an estimated annual cost of \$\_\_\_\_\_.

(8) Cave City also obtains its water supply from wells, but the City has been advised by its Consulting Engineers that this source is adequate and reliable and may be expected to satisfy the City's requirements in the foreseeable future. However, Cave City faces a critical necessity for constructing a water treatment plant and has actually contemplated and made preparations for the construction of such a plant at a cost estimated by its Consulting Engineers to be \$\_\_\_\_\_.

(9) The area of the Water District is one in which there is a history of perennial shortage of water, in that there are no streams of surface water, and the geology of the area is such that wells usually run dry during some seasons of each year. In the northeastern tip of the area of the Water District at Rio Springs, there are springs which have been tested by the District's Consulting Engineer and found to have a minimum year-around-flow equal to almost three times the present normal anticipated water usage of all inhabitants of the Water District whose premises may feasibly be

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served, including all of the water users who are customers of Horse Cave and Cave City. These springs are owned by Kentucky Utilities Company, and the District has ascertained that for a nominal consideration it may obtain from the owner either an outright conveyance thereof or an unlimited right to take water therefrom for distribution in the Water District. The water has been tested by the State Board of Health and is reported to be of good quality and suitable for public consumption with ordinary filtration and chlorination. If water customers of Horse Cave and Cave City are excluded, there are not enough water customers within the boundaries of the District to render financially feasible the construction of a water treatment plant, a principal water main generally along the right-of-way of U. S. Highway 31-E, and thence to the Horse Cave-Cave City area, with necessary pumping facilities, elevated storage and appurtenances. However, if water is supplied to Horse Cave and its customers, it is considered that such installations will be financially feasible, and if water is additionally furnished to Cave City and its customers the projected facilities are clearly financially feasible.

(10) KRS Chapter 74 permits inclusion within a Water District of all territory within the boundaries set forth in the County Court Order, or Orders, creating such District or providing for the enlargement thereof by annexing contiguous territory, except for areas within the corporate limits of incorporated municipalities. Accordingly the District includes the territories surrounding Horse Cave and Cave City up to their respective corporate limits, and the District is authorized to provide water service up to such respective corporate limits. Nevertheless, it is provided in KRS 96.150 that cities owning and operating water systems may

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extend the same into, and furnish and sell the water to any person within, any territory contiguous to the corporate limits and within five miles thereof. By reason of these circumstances, and without going into the merits of conflicting claims which might be asserted as to the right of the District, or Horse Cave, or Cave City, to serve customers in areas wherein the foregoing rights overlap, or apparently overlap, it is recognized by the parties that upon taking into consideration such factors as availability of water mains, adequacy of capacity, sufficiency of pressure, and capital outlay required, the parties ought to be able, as to each prospective new customer in an area of such overlap, to agree amicably and in the public interest from which source and in what manner water service should be made available.

**B. PARTICULAR FACTORS CONSIDERED BY THE PARTIES**

In the course of their discussions and negotiations the parties have weighed, among others, the following important considerations:

(11) Authorization is given in KRS 74.120(1) for the City Councils of Horse Cave and Cave City, or either of them, to consent by resolution or ordinance to the inclusion of the entire areas of the respective Cities in the District; but the parties are advised by legal counsel that such steps would probably, or possibly be in violation of the covenants existing between said Cities and the holders of their respective outstanding Water Revenue Bonds. Further, it appears to be contemplated by KRS 74.100 that in such event it would be in order, and possibly required, that the District purchase and become the owner of the water system of any city consenting to become a part of the District. Proceeding in this manner would require the calling in for redemption and retirement of the

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outstanding Revenue Bonds of a city so consenting, and the re-financing thereof by issuing Revenue Bonds of the Water District; and it is considered by the parties that the same would be impractical.

(12) If, without consenting to become parts of the District, Horse Cave and Cave City should contract to purchase their entire water requirements from the District, Horse Cave would avoid the capital outlay incident to obtaining a new source of water from Green River; and Cave City would avoid the capital outlay incident to the construction of its proposed water treatment plant. As against these advantages, the Cities would thereafter be dependent upon the District for their source of water supply and the proper treatment thereof; and upon retirement of all Revenue Bonds of the District, of Horse Cave, and of Cave City, the ownership of the common source of water, and of the transmission main connecting Rio Springs to the two Cities, would be in the District. It is further considered, however, that there appears to be no legal impediment to the making of a contract whereby such source of supply and facilities would be guaranteed to the Cities, or either of them, on a perpetual basis, or on a basis terminable at the options of the respective Cities upon reasonable notice at any time after the final retirement of the District's Revenue Bonds.

(13) If Horse Cave and Cave City, without consenting to become parts of the District, should thus contract to purchase water from the District, each would continue to be responsible for the operation and maintenance of its own water system and for its own meter-reading, billing and collection, so that within the single gross area included within the outside boundary lines of the District there would be three separate administrative organizations

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performing the same functions; whereas, the parties have been unable to discover any reason why the performance of such administrative functions by a single administrative organization would not avoid costly duplication of personnel and effort, and effect substantial economies in the interests of all.

(14) If Horse Cave and Cave City enter into a contract with the District, whereby the District would undertake to provide for maintenance, meter-reading, billing and collection for them and through a single administrative staff, it would be feasible to place such contract on the basis of a monthly service charge against each customer in Horse Cave and Cave City, in lieu of the respective operating expenses of said Cities and with provision that the District then supply water directly to each customer of said Cities at a rate per metered thousand gallons consumed, as hereinafter set forth. In such event each City would remain the owner of its water system, establish its own service rates and alter the same from time to time at its own pleasure, make its own periodic payments into its "Bond Fund" relating to its outstanding Water Revenue Bonds, and continue to accumulate its own "Depreciation Fund" for capital expenditures represented by extensions to serve new customers and by property replacements not within the scope of ordinary maintenance and repair.

Under such a contract each City might provide for itself and its customers a means of obtaining relief from possible dissatisfaction with service practices of the District by reserving the right upon reasonable notice to resume its own responsibility for maintenance, repair, meter-reading, billing, and collection by purchasing its water requirements from the District at a wholesale rather than a retail rate. It is apparent to the

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parties that under such circumstances the wholesale rate paid by a City to the District would have to be substantially higher than the price paid for water if sold directly by the District to each customer and supplemented by a monthly service charge.

(15) In the event Horse Cave should contract with the District under either of the above-mentioned alternative arrangements, provision could be made in the contract either (a) for Horse Cave itself to maintain its present water treatment plant on a standby basis to its own satisfaction and at its own expense, or (b) for the District to take over the standby maintenance of such plant at the expense of the District and for emergency use in the interests of water users in Horse Cave, Cave City, and the portion of the District's territory accessible thereto.

(16) It is understood by the parties that any contract of Horse Cave or Cave City with the District would necessarily be for a period covering the entire life of the Revenue Bonds issued by the District to provide for defraying the costs of the installation of its proposed facilities.

(17) Horse Cave and Cave City have expressed concern that their citizens, inhabitants and water users be given a voice in the management of the affairs of the District as an incident to the making of any contract with the District. However, the parties are advised by legal counsel that the management of the affairs of the District is vested by law in three Commissioners appointed and re-appointed from time to time by the County Judge of Hart County, Kentucky, from among the citizens and inhabitants of the District's territory, and that consequently persons residing within the corporate limits of Horse Cave and Cave City could not be made eligible for appointment unless the City in question should take action under

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KRS 74.100 to become a part of the District. The parties have further been advised by legal counsel that the persons constituting the duly appointed and qualified Board of Commissioners of the District may not contract away the responsibilities vested in them by law. Nevertheless, it is deemed legally permissible for such Board of Commissioners to contract that a member of the governing body or other duly designated representative of a City contracting to purchase water from the District, be permitted to attend meetings of the District's Board of Commissioners, participate in discussions, and make representations for and on behalf of their constituents, so long as no attempt is made to vest in them the power to vote in the ultimate determination of any matter by said Board of Commissioners of the District. It is further deemed legally permissible for the District's Board of Commissioners to provide for an Advisory Committee with which the Board of Commissioners would agree to consult, and from which the Board would seek advice, before making an ultimate decision upon matters of common interest, as may be defined by agreement of the parties.

C. THE OBJECTIVES WHICH THE PARTIES AGREE SHOULD BE ACCOMPLISHED

As a result of the discussions and negotiations, representatives of the parties are in agreement that the whole area involved is in substance a single community, having economic and geographic interests which cannot realistically be regarded as severable, and that certain objectives are desirable in the interests of the citizens and residents of the several parties, and in the common interests of the public health, safety and general welfare of the aggregate thereof. These objectives are:

- (18) Obtaining for the citizens and residents of the

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whole area a sound and adequate source of pure and potable water conforming to high standards of public health, free of objectionable taste, odor and appearance, properly safeguarded against contamination, and such as to reflect credit upon the general territory;

(19) Provision of water service to the ultimate consumers as economically as possible and as may be consistent with requirements of sound financing and high standards of service; and in furtherance thereof, present elimination and future avoidance of any duplication of effort which is expensive and unnecessary;

(20) In so far as may be possible while striving toward the goals set forth in the foregoing paragraphs (18) and (19), (but recognized as being of subordinate and secondary importance in the event of inescapable conflict), accomplishment of financial equity to all, as nearly as may be;

(21) Avoidance of the involvement of problems of water service in partisan politics; and

(22) In so far as statutory provisions may permit, equitable representation, from time to time, of the several centers of population, and of the rural areas, in such manner as to preserve a proper and fair exchange of viewpoints and balance of treatment.

D. CONTRACTS AND COMMITMENTS AGREED UPON  
AS CONSTITUTING THE BEST MEANS OF  
ACCOMPLISHING THE STATED OBJECTIVES

In the light of all that has been recited in these pages, the District, by Resolution of its Board of Commissioners, and Horse Cave and Cave City, each by Resolution of its City Council duly approved by its Mayor, and each by its Utility Commission, acting through a majority of the members thereof, have mutually agreed and do hereby agree that the course of action hereinafter set forth is the one best calculated to realize the stated objectives; and each of said parties now obligates and commits itself to such course of action,

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and in consideration of the anticipated independent advantages to each, and the anticipated common benefits to all, they now agree, as follows:

I. The Board of Commissioners of the District hereby agrees that Horse Cave and Cave City, by Resolutions of their respective City Councils, may each designate, and replace from time to time, a representative (who may be a member of the Council, any City Officer, or any other person) who shall have access to all records of the District and shall be entitled to attend meetings of the Board of Commissioners, hear all proceedings, and participate in all discussions; but who shall have no vote in any ultimate decision of said Commissioners.

In like manner, the water customers of the Hart County area of the District (exclusive of Horse Cave) and the water customers of the Barren County area of the District (exclusive of Cave City) may each designate in any manner of their own choice, a similar representative, who shall be accorded the same rights and privileges, and be subject to the same limitations as are applicable to the representatives of Horse Cave and Cave City.

The District's Board of Commissioners shall establish by Resolution spread at large upon its minutes, or in its By-laws, stated times and places for regular meetings; and said Board agrees that except in circumstances when there is a pressing need for action which in the judgment of said Board must be taken without delay, it will transact the business of the District at such regular meetings. When in the judgment of said Board it is necessary that business be considered or transacted otherwise than at such regular meetings, the Board agrees that it will in good faith make every reasonable effort to notify the non-voting representatives of the time, place

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and purpose of a special meeting; but failure of non-voting members to receive any such notice shall in no manner affect the legality or propriety of consideration of any matter or the transaction of any business by the Board of Commissioners at such special meeting.

Said Board of Commissioners further agrees that in its consideration of policy matters which, in the judgment of the Board, are such as to permit of reasonable delay, it will entertain suggestions from the non-voting representatives for limited and reasonable postponement of decisions, in order that each representative may have a reasonable opportunity to consult his constituents.

It is expressly understood and agreed, however, that these provisions for non-voting representation do not constitute, and shall not be interpreted as being, to any degree, a surrender, delegation, or abdication on the part of any Commissioner of the District, or of the Board of Commissioners as a whole, of duties and responsibilities devolving upon them as a matter of law, or of their discretion and duty to vote and act as in their own judgment may, from time to time, appear to be consistent with their responsibilities as public officers.

Meetings of the Board of Commissioners shall be open to the public. The non-voting representatives and members of the public, however, shall not be permitted to obstruct the orderly conduct of the affairs of the District, nor to deport themselves in an abusive or objectionable manner.

It is the desire of all the parties contracting hereto that both the Hart County and the Barren County areas of the District be represented in the membership of the Board of Commissioners, if such representation is permissible under the present statute, and the appointing authority will be so informed by the present officers

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of the District. If the statute is found to be ambiguous in this respect, it is hereby declared to be the intention of the Board of Commissioners to petition the 1962 session of the General Assembly to clarify the statute by amendment.

II. The District shall immediately take such steps as may be necessary to obtain from the owner of Rio Springs, either an outright conveyance of the springs and such watershed area as may be proper to guard against contamination, or adequate perpetual unlimited rights to withdraw water from the springs and protect the watershed area.

III. The District, as required by law, shall at a proper time apply to the Public Service Commission of Kentucky for issuance of a Certificate of Public Convenience and Necessity authorizing construction of the aforesaid water facilities. A copy of this Contract may be submitted therewith as evidence of the participation of Horse Cave and of Cave City in the over-all plan, and as contributing to the evidence of financial feasibility. Said Cities agree to send representatives to attend the hearing before the Public Service Commission and testify in support of the District's Application.

IV. The District shall forthwith instruct its Consulting Engineers, Campbell Wallace Consulting Engineers, of Knoxville, Tennessee, to proceed with all diligence in the preparation of working plans, drawings, and specifications of waterworks and distribution facilities substantially as set forth in the report of said Engineers which is dated August 1960. Upon completion and approval thereof, and clearance by public health and other authorities having jurisdiction, the District shall authorize public solicitation of construction bids. The District shall accept the lowest and best bid or combination thereof.

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bids which may be received, if recommended by the Consulting Engineers and sufficiently within the range of preliminary cost estimates to indicate financial feasibility, substantially as projected.

V. In recognition of legal services heretofore rendered without having any contract for compensation, and for the purpose of retaining such services in the carrying out of the undertakings herein outlined, the District may enter into contracts of employment with Attorney James B. Myers, of Horse Cave, Kentucky, and Grafton, Ferguson & Fleischer, bond counsel of Louisville, Kentucky, upon such terms as may be agreed to be fair and reasonable. In the case of Grafton, Ferguson & Fleischer, such contract of employment shall contemplate their preparation of all proceedings incident to the District's financing program, and the furnishing of approving legal opinions to the purchaser or purchasers of the District's bonds, at the expense of the District, and not at the expense of such purchasers, or of any Fiscal Agent or Fiscal Agents, if any, employed by the District pursuant hereto.

VI. In connection with the preparation and marketing of bonds, the District may obtain expert professional advice, assistance and sponsorship through employment of one or more licensed municipal bond dealers upon such reasonable terms as may be approved by the District.

VII. The District agrees that in the design and construction of its Water System facilities, it will make provision for such installations adjacent to, in, and through Horse Cave and Cave City as may be calculated, in the judgment of the District's Consulting Engineers, and within limits of financial feasibility, to improve service and pressure to existing and prospective customers of said Cities by strengthening and "looping" the existing facilities

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of said Cities. To the extent that the same are in substance new or substantially new installations, the cost thereof is recognized as being for the common benefit of all, and shall be defrayed from the proceeds of revenue bonds of the District. To the extent that the same constitute replacements of existing facilities which are inadequate and would require replacement by the respective Cities if independent operation of their respective water systems were to be continued, the costs shall be the responsibility of the City in question, to be defrayed from its own Depreciation Fund, or through issuance of additional revenue bonds; provided, nevertheless, that as of the date of this Contract, no immediate extensive improvements at the expense of either City are planned or considered to be necessary.

The District will cause its Consulting Engineers to prepare and submit proposed designs, cost estimates, and allocations of costs, and the same shall be subject to review, as to each of the Cities, by Consulting Engineers of its own choosing. If either City, upon advice of its own Consulting Engineers, shall refuse to consent to any proposed allocation of such cost to it, and an agreement cannot be reached which is acceptable to the District, Horse Cave and Cave City, the proposed allocation of cost to the objecting City shall not be made, and the District may elect to abandon or modify the questioned installation according to the judgment of its own Consulting Engineers as to whether the questioned installation is of sufficient importance to the provision of proper service by the District as to warrant undertaking thereof at the sole expense of the District, from the proceeds of its own revenue bonds.

The District agrees that it will not undertake the con

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struction of any new lines or facilities within its own area proper which will create a financial burden upon the water users within the two Cities without substantial benefit to them; the Consulting Engineer of the District, therefore, will be required to determine the financial feasibility of any such undertaking, and to consult with any engineer or engineers who may be named by either or both of the Cities to represent their interests in such matters.

VIII. In determining the amount of the revenue bonds which shall be authorized and offered at public sale by the District, it is agreed that it is provident to make liberal rather than conservative provision of funds, in order that there may be no shortage which might jeopardize completion of planned installations. It is agreed that the District shall determine the amount of the initial bond issue, in consultation with its Consulting Engineers, Attorneys, and Fiscal Agents (if any), having due regard for the following elements of cost:

Cost of acquiring the source of water supply

Payments to Contractor

Capitalization of interest during the period required for development and completion of the Project to the point where the same will produce revenues sufficient to be self-sustaining

Fees of Engineers for design and supervision of construction

Fees of Fiscal Agents and Attorneys

Allowance for a discount in the sale of the bonds, if recommended by the Fiscal Agents (if any be employed) as a means calculated to realize for the District the lowest interest cost

Expenses incident to authorizing, advertising, selling, printing and delivery of the bonds

Adequate allowance for unforeseen contingencies.

The District shall make reasonable provisions for investment of bond proceeds pending necessity for expenditure thereof, securing of bank deposits to the extent of excess over the amount

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secured by Federal Deposit Insurance Corporation, disbursement of funds to contractors only upon certification by professional Engineers, and application of any ultimate surplus of bond proceeds to proper reserves.

IX. It is recognized that the District will be under obligation, as a matter of law, and by necessary covenants with the holders of its bonds, to establish and from time to time adjust, if necessary, its rates and charges for the services and facilities of its Waterworks and Water System so as to produce revenues and income sufficient to pay its costs of operation, the maturing principal of and interest on its bonds, and accumulate and set aside proper and adequate reserves for debt service, operation and maintenance costs, and extensions, additions and improvements. Initial rates and charges shall be as herein provided, but it is recognized that the District cannot guarantee continuance thereof in disregard of its financial obligations.

X. The initial schedule of rates and charges of the District shall be according to a schedule which is attached hereto as "Exhibit A."

Said Schedule sets forth:

- (a) rates and charges of the District for retail water service to its own direct customers;
- (b) the initial amount of a monthly service charge, per customer, to be collected by the District from customers of Horse Cave, and of Cave City, or either of them, at the election of said respective Cities, which charge the District shall collect directly from each city customer as compensation to the District for taking over and assuming, in full, the responsibility, cost, and expense of operating, maintaining, repairing, meter reading, billing and collecting for and on behalf of the Cities.

If a City elects that the District perform such service for such compensation, the District agrees that it will provide water service to each

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customer of the City at the prescribed monthly charge, plus water consumed as shown by the meter of each customer, at an initial rate of thirty cents per thousand gallons per month, plus five cents per thousand gallons per month to be collected on behalf of the City concerned and paid into a Depreciation Fund as hereinafter described, and the aggregate charge on such basis shall be treated by the City as its cost of operating and maintaining, corresponding to the City's own necessary expense for such items under its own municipal operation.

A City electing to proceed in this manner shall certify its own schedule of rates and charges to the District (which shall not be less than the amount required under the terms of the foregoing paragraph plus an amount sufficient to provide for the amortization of the City's water system indebtedness), and the District shall bill and collect for the City on the basis thereof. The District shall segregate and account for all sums so collected on behalf of the City, and shall deposit such sums in the Revenue Fund established by the City according to the provisions of the Ordinance providing for the issuance of the City's own Water Revenue Bonds. The District shall act as attorney-in-fact for the City, and shall, after allocating to the Bond and Interest Redemption Account from said Revenue Fund an amount sufficient to meet the obligations thereof, remit to the District's own account the sums due to the District under this Section (including the 5¢ Depreciation Fund). From this amount it shall withdraw and set aside to the credit of the City in a separate fund in the custody of the District, the sum of 5 cents per thousand gallons per month, which shall be held as a Depreciation Fund for said City, to be expended for maintenance and repairs as directed and required by the City.

- (c) A wholesale rate at which either or both Cities shall purchase water from the District to the full extent of its water requirements, in the event the City shall determine, upon due notice as hereinafter provided, that it wishes to terminate the arrangement provided for in (b) above, and resume its own operation and maintenance responsibilities.

A City electing, upon notice, to proceed under this alternative shall provide and install at its own expense, one or more master meters and any water mains and other facilities which may be required, in order that water so purchased from the District at the wholesale rate may be measured accurately. The District shall bill the City monthly for water so supplied, and the City shall remit in full to the District within ten (10) days of billing.

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XI. Horse Cave and Cave City each elect alternative (b) as set forth in the foregoing paragraph X, effective from and after the meter reading date immediately following notice by the District to each City that the District is prepared to provide water service and assume the agreed responsibilities and duties incident to such relationship.

XII. In consideration of the election of both Horse Cave and Cave City to choose and proceed under alternative (b) of the foregoing paragraph X, the District agrees that during the period of construction and development of the Project it will prepare for assumption of its responsibilities and functions in that regard by making arrangements for a General Office to serve as the principal seat of its administrative functions, and by furnishing, equipping and staffing the same in a manner adequate for its purposes, including provision for central accounting, billing, storage of materials and supplies, maintenance of service, and automotive equipment, receiving of complaints and requests for extension of service to new customers, etc. If the location selected for such General Office shall be otherwise than in or adjacent to the concentration of customers represented by the combined communities of Horse Cave and Cave City, then the District shall additionally make suitable provision for a service office in said area, to the end that such customers may be afforded access to service personnel, equipment and supplies substantially the same as the cities provide at this time in their own water system administrations; and reasonable provision shall in like manner be made for rendering prompt and adequate service in the less densely populated areas of the District.

XIII. As provided in KRS 74.040, <sup>PUBLIC SERVICE COMMISSION</sup> ~~the Public Service Commission~~ OF KENTUCKY EFFECTIVE

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select and employ a competent Superintendent, and such Superintendent shall be advised that it is the general policy of the District in the employment of subordinate personnel, to give first consideration to persons presently employed in the performance of comparable functions by Horse Cave and Cave City, but only in so far as may be consistent with sound administration of the affairs of the District and the rendering of adequate and efficient service, giving due consideration to requirements of experience, training, skill, and availability of suitable employment within the range of compensation established by the District.

XIV. As between the District and the Cities, the monthly service charge collected from the City customers by the District shall cover and include all ordinary costs of maintenance and repair of facilities, but shall not include the cost of capital additions and replacements within the operating area of each of the Cities.

The terms "ordinary maintenance and repair" on the one hand, as contrasted with "capital additions and replacements" on the other hand, are used in and intended to be given, the common and generally understood meanings of those terms according to the usage of Engineers and in conformity with the classification of accounts as prescribed in the Uniform System of Accounting for Water Systems of the Public Service Commission of Kentucky; provided, however, it is agreed for the sake of certainty and simplicity

- (a) that unless it is necessary to install new facilities of a permanent nature (such as new pipe, a new meter, etc.) for extension of service, or by reason of deterioration of the existing facility beyond the reasonable scope of efficient use, or by reason of inadequacy of size or capacity, or by reason of obsolescence which is inconsistent with efficient operations, a job shall be carried out with

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as ordinary maintenance and repair and shall be the responsibility of the District; and conversely;

(b) all installations which are made for extending or enlarging a water system of a city, or for necessary replacement by reason of deterioration, inadequacy of capacity or obsolescence of existing facilities of a city water system shall be classified as capital additions and replacements, and shall be the responsibility of the city in question, including labor incident thereto; and

(c) in cases involving a combination of (a) and (b), allocation shall be made by a licensed Consulting Engineer.

XV. (a) Horse Cave and Cave City agree with the District that construction and installation of the initial facilities of the District, as set forth and recommended in the Engineering Report of Campbell Wallace Consulting Engineers, are necessary in the interests of all the parties, in order to obtain a supply of water, give it proper treatment, and conduct it to the Horse Cave-Cave City area while making provision, en route, for serving customers which contribute to the financial feasibility of the Project as a whole.

(b) The District agrees that after completion of such initial facilities, any extension of water lines, installations of meters and service settings, etc., which are made in order to furnish water service to more remote customers of the District itself, will not be relevant to the interests of the Cities and shall not have any bearing upon the adequacy of rates charged by the District to the customers of the respective Cities under alternative (b) of paragraph X, or to the Cities under the wholesale alternative (c) of paragraph X. Such extension of District facilities for District customers shall be paid for by the District out of its own Depreciation Fund, for which reasonable allowance is made in the schedule of rates initially agreed upon; and if the District shall

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require funds for such purposes in excess of that which is available in its own Depreciation Fund, it may issue additional Revenue Bonds in order to provide the same, and if additional revenues are necessary in order to make possible the issuance of such additional bonds, the same shall be provided by adjustments in the District's schedule of service rates for its own customers, and shall not constitute a just or equitable reason for increasing rates to the Cities of to the Cities' customers. The District agrees to make reasonable installation and service charges for fire hydrants in its own area in order to protect itself against unreasonable loss of water.

(c) In corresponding fashion, Horse Cave and Cave City agree with the District that if expansion of the District's commonly used installations and facilities for obtaining the water supply, treating the same, conducting the same to the Horse Cave-Cave City area, and providing adequate storage, shall be made necessary by increasing demands of customers of both Cities, then the costs thereof should not equitably be charged to the District's own customers. To the extent that the District may find it necessary to provide additional capital funds for such reason, any required rate adjustments shall be made in the rates for service to the Cities and the Cities' customers, and not in rates charged to customers of the District itself.

(d) In the event a City shall demand such expansion of commonly used facilities for reasons identifiably its own (e.g., for a new industrial customer using large quantities of water, for example) such City shall have the privilege of electing to either (a) provide the necessary capital funds by issuing its own revenue bonds, or (b) agreeing to a higher level of rates charged by the District to that City or its customers.

(e) The foregoing sub-paragraphs (a) to (d), inclusive, of this paragraph XV are statements of agreed principles

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The parties realize that in actual fact it is not unlikely that expansion of installations and facilities of the District and additional financing therefor, may be made necessary by a concurrence of several of the enumerated factors, rather than by one of them alone, as in the case of more or less uniform development and expansion throughout the whole area of the District. If such be the case, analysis of the various contributing causes shall be made by licensed Consulting Engineers, and equitable application of the stated principles shall be made, as nearly as may be. The parties agree that a concurrence of happenings and developments over a period of time may not be susceptible to precise and mathematical determination of equities, and that some degree of uncertainty and inequality must be tolerated from time to time in the ordinary course of human events.

XVI. The District agrees that it will cause an audit of its affairs to be made annually, as soon as practical after the close of each fiscal year of its operations, by Certified Public Accountants familiar with and experienced in Utility Accounting principles and practices; the cost thereof to be chargeable as an expense of common operations. The audit report shall remain on file in the Central Office of the District, open to inspection at all reasonable times during business hours; and condensed forms of the balance sheet and operating statement shall be prepared in a reasonable number of copies which customers may obtain on request, free of charge.

XVII. The District agrees that it will retain on an annual basis from time to time a firm of licensed Consulting Engineers who will be caused to make a general inspection of the entire facilities of the District not less often than once every three years, and at

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lesser intervals as may be advisable. After each periodic inspection such Engineers shall file in the office of the District a written report of their findings and recommendations with reference to adequacy of installations, condition thereof, soundness of operating practices, adequacy and equitable balance in rates, and necessary expenditures for increasing efficiency or expansion of service. The reports shall be on file and open to inspection as in the case of the Audit Reports, and the fees of the Engineers shall be chargeable as an expense of common operations.

XVIII. The District agrees that prior to the commencement of each fiscal year after completion of the original Project installations, it will prepare a Budget of Operations for the ensuing fiscal year, taking into consideration past operating experience, anticipated increases or decreases in expenses, and any proposed changes in methods or procedures as may be recommended by the Auditors and Engineers and adopted by the Board of Commissioners. In the course of its operations during each fiscal year the District agrees that its expenditures will not exceed such as are provided in the Budget of Operations for such year, except as expressly authorized by action of the Board of Commissioners, for reasons which shall be stated in each instance in the Minutes of the Board's proceedings.

XIX. The term of this Contract shall be for such period as any Revenue Bonds issued by the District pursuant hereto shall remain outstanding and unpaid, with interest, and including any bonds which may be issued in any refunding of outstanding bonds. During such term, this Contract shall not be subject to termination by any party; and if controversies arise which cannot otherwise be disposed of amicably, the same shall be settled by arbitration with the District, Horse Cave and Cave City each represented by a

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BY: B. J. [Signature]

EXHIBIT "A"

(a) Initial Retail Rate Schedule for Direct Customers (Retail) of the District

|       |                 |    |                     |
|-------|-----------------|----|---------------------|
| First | 2,000 Gallons   | -- | \$3.70 Minimum      |
| Next  | 8,000 Gallons   | -- | \$1.35 Per Thousand |
| Next  | 10,000 Gallons  | -- | \$1.00 Per Thousand |
| Next  | 30,000 Gallons  | -- | \$0.70 Per Thousand |
| Next  | 50,000 Gallons  | -- | \$0.50 Per Thousand |
| Over  | 100,000 Gallons | -- | \$0.45 Per Thousand |

(b) Wholesale rate for Towns of Horse Cave and Cave City for water, maintenance, and operation:

|  |                              |
|--|------------------------------|
| Each retail connection                     | \$2.10 per retail connection |
| Gross water as individually metered        | \$0.30 per 1,000 gallons     |
| Charge for each City's "Depreciation Fund" | \$0.05 per 1,000 gallons     |

(c) Wholesale water rate for Towns of Horse Cave and Cave City as purchased through a master meter. (Contract Provision X(c))

\$0.55 per 1,000 gallons

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licensed Consulting Engineer or firm of such Engineers, retained at its own expense. The purpose of arbitration in each instance shall be to make a final and binding disposition of the controversy in issue, as among the parties, but always to the end that the obligations of the District to holders of its outstanding bonds, and to the ultimate water consumers shall be observed and respected, and shall remain unimpaired. In each instance, a written disposition of the controversy in issue, signed by any two of the three selected Arbitrators, shall be final and binding upon all three parties.

XX. In the event additional unincorporated areas shall seek to be annexed to the District, and shall be so annexed by order of a court having proper jurisdiction, the status thereof, as far as Horse Cave and Cave City are concerned, shall be the same as if included in the District at the time of the execution of this Contract.

If any incorporated municipality shall seek to obtain its water supply from the District, it may do so only by subscribing to this Contract, with the consent of Horse Cave and Cave City, upon the conditions that (a) providing the necessary supply of water will not jeopardize the adequacy of supply to existing customers, as demonstrated to the satisfaction of all the parties by the report of a mutually acceptable licensed Consulting Engineer or firm of such Engineers, (b) any required expansion of commonly used supply, treatment, storage and transmission facilities shall be made at the expense of such municipality, or of the District, and without increase in rates applicable at that time to Horse Cave or Cave City, or the customers thereof, and (c) after completion of the required initial installations, such additional municipality shall be subject to the same agreed equitable principles and

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agreements as are herein set forth. In the event of arbitration at a time when an even number of parties is concerned, each party shall appoint a qualified Arbitrator, and before entering upon deliberations the Arbitrators shall select by agreement an outside Consulting Engineer who (a) shall be called in only if a majority fail to agree upon a conclusion of the controversy, (b) shall act as umpire to break a deadlock and determine the matter, and (c) shall be paid reasonable compensation chargeable as a common expense of operations of the District as a whole.

XXI. When a new customer makes application for water service and is situated in an area where there is an overlap of jurisdictions as between the District and either or both of the Cities, the customer shall be allocated to, and become a customer of, the party which is able to provide the service in an adequate manner (considering both quantity and pressure) at the lowest expenditure of capital funds; and if a genuine dispute shall exist on this score, the customer shall be permitted to make its own election. In case of annexation of a portion of the District proper by one of the contracting Cities, the City shall be permitted to purchase that part of the District's property in the annexed area which is designed to serve the area. The price shall be fixed at the reasonable market value of the property, to be determined by the Consulting Engineers of the District and the City. The right to make such adjustments shall be reserved by the District in its own Bond proceedings.

IN TESTIMONY WHEREOF the parties hereto have caused this instrument to be executed in seven copies in their names and on their behalf, each by its duly authorized officer whose signature is attested by the duly authorized Clerk or secretary, and each party has caused its seal to be affixed to each copy ~~all upon the day~~

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and year first above written.

(SEAL)

ATTEST:

Donald McDonald  
Secretary

GREEN RIVER VALLEY WATER DISTRICT

By

R. P. Palmer  
Chairman

(SEAL)

ATTEST:

W. R. MaIntee  
City Clerk

CITY OF HORSE CAVE, KENTUCKY

By

Raymond Brantley  
Mayor

HORSE CAVE BOARD OF WATER COMMISSIONERS

By

Chris Fleck  
Secretary

M. B. Minor  
Chairman

(SEAL)

ATTEST:

Hampton Reynolds  
City Clerk

CITY OF CAVE CITY, KENTUCKY

By

J. Gardner  
Mayor

CAVE CITY UTILITY COMMISSION

By

W. W. ...  
Secretary

Louis C. Gardner  
Chairman

STATE OF KENTUCKY )  
                                  ) SS  
COUNTY OF HART )

This day personally appeared before me, a Notary Public,  
in and for the State and County aforesaid, R. P. Palmer,  
Chairman of the Green River Valley Water District, a water district

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STATE OF KENTUCKY )  
 ) SS  
COUNTY OF BARREN )

This day personally appeared before me, a Notary Public, in and for the State and County aforesaid, J. B. Gardner Mayor of the City of Cave City, Kentucky, a municipal corporation, and Hamptone Reynolds City Clerk of said City, personally known to me and personally known by me to be such officers and to be the same persons who executed as such officers, respectively, the within and foregoing instrument of writing, and such persons duly acknowledged the execution of the same to be their act and deed and the act and deed of said City.

Subscribed and sworn to before me this 15th day of September, 1961. My commission expires January 10, 1965

(SEAL)

J. C. Jerry  
Notary Public, Barren County, Kentucky  
State at Large

STATE OF KENTUCKY )  
 ) SS  
COUNTY OF HART )

This day personally appeared before me, a Notary Public, in and for the State and County aforesaid, W. B. Minor, Chairman of the Horse Cave Board of Water Commissioners, a Commission duly organized and existing under and by virtue of an Ordinance of the City of Horse Cave, and Chris E. Houk, Secretary of said Commission, personally known to me and personally known by me to be such officers and to be the same persons who executed as such officers, respectively, the within and foregoing instrument of writing, and such persons duly acknowledged the execution of the same to be their act and deed and the act and deed of said Commission.

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Subscribed and sworn to before me this 27 day of Sept., 1961. My commission expires 4-19-62.

(SEAL)

Bushell C. Channing  
Notary Public, Hart County, Kentucky

STATE OF KENTUCKY )  
                                  ) SS  
COUNTY OF BARREN )

This day personally appeared before me, a Notary Public, in and for the State and County aforesaid, John E. Gardner, Chairman of the Cave City Utility Commission, a Commission duly organized and existing under and by virtue of an Ordinance of the City of Cave City, and A. A. Caldwell, Secretary of said Commission, personally known to me and personally known by me to be such officers and to be the same persons who executed as such officers, respectively, the within and foregoing instrument of writing, and such persons duly acknowledged the execution of the same to be their act and deed and the act and deed of said Commission.

Subscribed and sworn to before me this 28th day of September 1961. My commission expires Jan 10, 1965.

(SEAL)

J. E. Lantry  
Notary Public, ~~Barren County~~, Kentucky  
State of large

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EXHIBIT "A"

(a) Initial Retail Rate Schedule for Direct Customers (Retail) of the District

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|-------|--|
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(b) Wholesale rate for Towns of Horse Cave and Cave City for water, maintenance, and operation:

|  |                              |
|--|------------------------------|
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| Charge for each City's "Depreciation Fund" | \$0.05 per 1,000 gallons     |

(c) Wholesale water rate for Towns of Horse Cave and Cave City as purchased through a master meter. (Contract Provision X(c))

\$0.55 per 1,000 gallons

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