

**Kentucky Infrastructure Authority
Projects for
July 2018 Capital Projects Meeting**

- Broadband Projects - Reconsideration**

<u>Loan #</u>	<u>Borrower</u>	<u>Loan Amount</u>	<u>County</u>
B18-009	Hopkinsville Electric System	\$ 2,500,000	Christian
C12-01	MuniNet Fiber Agency (Increase)	\$ 3,687,049	McCracken
C18-008	Hopkinsville Electric System	\$ 1,800,000	Christian

- Fund F Loan**

<u>Loan #</u>	<u>Borrower</u>	<u>Loan Amount</u>	<u>County</u>
F17-014	City of Campbellsville (Increase)	\$ 7,970,000	Taylor
F18-003	City of Pineville (with P&D loan)	\$ 2,084,590	Bell

- Report Out - KIA Director Approval**

<u>Loan #</u>	<u>Borrower</u>	<u>Loan Amount</u>	<u>County</u>
C18-S007	City of Lebanon	\$ 50,000	Marion County

EXECUTIVE SUMMARY
KENTUCKY INFRASTRUCTURE AUTHORITY
FUND B, INFRASTRUCTURE
REVOLVING LOAN FUND

Reviewer Jeff Abshire
 Date June 12, 2018
 KIA Loan Number B18-009, C18-008

BORROWER HOPKINSVILLE ELECTRIC SYSTEM
 CHRISTIAN COUNTY

BRIEF DESCRIPTION

This project will install sixty-five miles of fiber to provide high speed internet with gigabit speed capability to 3,600 homes within the Hopkinsville city limits. Voice services will also be provided.

PROJECT FINANCING		PROJECT BUDGET	RD Fee %	Actual %
Fund B Loan	\$2,500,000	Legal Expenses		20,000
Fund C Loan	1,800,000	Planning		20,000
		Eng - Technical Services		120,000
		Construction		1,930,407
		Equipment		1,846,749
		Contingency		362,844
TOTAL	\$4,300,000	TOTAL		\$4,300,000

REPAYMENT	Rate	1.75%	Est. Annual Payment	\$153,689
	Term	20 Years	1st Payment	6 Mo. after first draw

PROFESSIONAL SERVICES	Engineer	n/a
	Bond Counsel	Dinsmore & Shohl, LLP

PROJECT SCHEDULE	Bid Opening	Jun-18
	Construction Start	Aug-18
	Construction Stop	Jan-19

DEBT PER CUSTOMER	Existing	\$2,258
	Proposed	\$2,141

OTHER DEBT See Attached

RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>
	Current	3,535	\$60.00
	Additional	900	\$60.00

REGIONAL COORDINATION n/a

CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2014	1,583,453	598,996	984,457	2.6
Audited 2015	1,446,716	598,260	848,456	2.4
Audited 2016	1,642,067	597,960	1,044,107	2.7
Audited 2017	1,389,086	600,350	788,736	2.3
Projected 2018	954,034	593,748	360,286	1.6
Projected 2019	1,035,345	732,662	302,684	1.4
Projected 2020	1,561,678	871,574	690,104	1.8
Projected 2021	1,608,530	871,874	736,656	1.8
Projected 2022	1,941,160	871,673	1,069,487	2.2

Reviewer: Jeff Abshire
Date: June 12, 2018
Loan Number: B18-009, C18-008

**KENTUCKY INFRASTRUCTURE AUTHORITY
INFRASTRUCTURE REVOLVING LOAN FUND (FUND B)
HOPKINSVILLE ELECTRIC SYSTEM CHRISTIAN COUNTY
TELECOM PROJECT REVIEW**

I. PROJECT DESCRIPTION

The Hopkinsville Electric System (HES) Telecom Division is requesting a Fund B loan of \$2.5 million and a Fund C loan of \$1.8 million for a total of \$4.3 million for Phase 2 of the Fiber to Home project. This project will install fifty miles of aerial and fifteen miles of underground fiber to provide high speed internet with gigabit speed capability and voice services to 3,600 homes within the Hopkinsville city limits. The Division has about 3,500 customers with the expectation of adding an additional 900 as a result of this project.

Existing right of ways and utility easements will be used for installation which will significantly reduce the cost and time required to execute the project. Two additional phases with an estimated cost of \$8 - \$10 million are anticipated with Phase 3 beginning in 2020. Timing will ultimately depend on HES' success with Phase 2 as Phases 3 and 4 will be funded from free cash flow.

Phase 1 began in 2007 when HES needed more internet capacity and better pricing than was available from the larger providers. HES determined the best way to lower bandwidth cost and guarantee availability was to build fiber to a Tier 1 provider. Nashville and Bowling Green were evaluated with Bowling Green being selected for the \$3.0 million KIA funded (B07-06) project. The project benefitted both cities as well as other areas along the route as it permits HES to provide internet service to Clifty, Elkton and Russellville. HES also provides connections for other businesses including MuniNet.

HES has about a 30% market share with two primary national competitors who use a mix of copper, coax (Cable TV line) and limited fiber. The primary residential connections are copper and coax. Phase 2 is an underserved area with the expectation that HES will take share as a result of fiber availability. Limitations in competitors' service capacity and customer service will be contributing factors to share increase also. Pricing capacity is sensitive to competition and customers' willingness to pay for premium services.

There are not currently any technologies on the horizon that are being promoted as a replacement or close competitor for fiber connectivity and wireless networks have limitations and require more hands on management than fiber. Areas are deemed

covered by wireless (cellular) service when in reality the service is not capable of supporting video streaming or gaming for one or more devices in a home. Today's home may have ten or more devices connected to the internet including multiple gaming systems, TV's streaming video, tablets, smart phones and an increasing number of smart home devices.

HES is a member of MuniNet Fiber Agency who is also a KIA borrower. The ability to reach Tier 1 internet providers in Nashville and Bowling Green via MuniNet significantly reduced HES' cost of backbone internet connectivity. Each member is able to avoid costly local loop charges from larger national providers for delivering services directly to members. By combining member bandwidth purchases MuniNet is able to buy at 'bulk' pricing. Another benefit that is rarely mentioned is access to a Netflix caching server directly on MuniNet's network. The caching server reduces the amount of traffic going to Netflix and reduces congestion on HES internet connections.

II. PROJECT BUDGET

	<u>Total</u>
Legal Expenses	20,000
Planning	20,000
Engineering Fees - Design	120,000
Construction	1,930,407
Equipment	1,846,749
Contingency	362,844
Total	\$ 4,300,000

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund B Loan	\$ 2,500,000	58%
Fund C Loan	1,800,000	42%
Total	\$ 4,300,000	100%

IV. KIA DEBT SERVICE

	<u>Fund B</u>	<u>Fund C</u>	<u>Total</u>
Amortized Loan Amount	2,500,000	1,800,000	4,300,000
Interest Rate	1.75%	3.00%	2.27%
Loan Term	20	20	20
Estimated Annual Debt Service	148,689	120,338	269,027
Administrative Fee (0.20%)	5,000	3,600	8,600
Annual Debt Service	153,689	123,938	277,627

V. PROJECT SCHEDULE

Bid Opening	June 2018
Construction Start	August 2018
Construction Stop	January 2019

VI. RATE STRUCTURE

A. Customers

Customers	Current	Proposed	Total
Residential	2,988	900	3,888
Commercial	547	0	547
Total	3,535	900	4,435

B. Rates

Residential

8 meg download / 1 meg upload	37.95
8 meg download / 1 meg upload, Home wifi	42.95
Fiber - 50 meg download / 10 meg upload	59.95

Business

50 meg up to 1 gigabit download	quoted pricing
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VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility’s service area population was 32,442 with a Median Household Income (MHI) of \$38,561. The median household income for the Commonwealth is \$43,740. The Fund B loan will be at a 1.75% interest rate and the Fund C loan will be at a 3.0% rate for a blended rate of 2.27%.

Year	City	Population		Unemployment		
		% Change	County	% Change	Date	Rate
1980	27,318		66,878		June 2005	6.8%
1990	29,809	9.1%	68,941	3.1%	June 2010	11.6%
2000	30,089	0.9%	72,265	4.8%	June 2015	6.8%
2010	31,577	4.9%	73,955	2.3%	June 2017	7.3%
Current	32,442	2.7%	73,936	0.0%		
Cumulative %		18.8%		10.6%		

VIII. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the years ended June 30, 2014 through June 30, 2017. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from operating expenses. While operating results are separated for the electric and telecom units the balance sheet is provided on a consolidated basis. A discussion of the balance sheet ratios and most related ratios are therefore limited. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

HISTORY

Revenues increased 10% from \$3.2 million to \$3.5 million from 2014 to 2017, respectively, while operating expenses increased 32% from \$1.6 million to \$2.1 million. Cash flow before debt service declined from \$1.6 million to \$1.4 million.

Debt service averaged \$600 thousand and the debt coverage ratio ranged from 2.3 to 2.7. Debt service is comprised of a ten year KIA loan that matures in 2023 and an allocation of a bond that was issued and secured by the Electric Division.

On a consolidated basis days sales outstanding is 38.5 and the current ratio is 0.8.

PROJECTIONS

Projections are based on the following assumptions:

- 1) The 2018 – 2022 forecast was provided by the applicant.
- 2) The take rate from competitors will be 25% with additional revenue from existing broadband customers that upgrade from their current service to fiber. Revenues will also increase due to additional business customers and initiatives in adjacent areas.
- 3) Debt service coverage ranges from 1.4 to 2.2 throughout the forecast period with cash flow after debt service ranging from \$303,000 to \$1,069,000.

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

REPLACEMENT RESERVE

The replacement reserve will be 5% (estimated \$215,000 total) of the final amount borrowed to be funded annually (estimated \$10,750 yearly) each December 1 for 20 years and maintained for the life of the loan. The Fund B reserve will be up to \$125,000 and the Fund C reserve will be up to \$90,000.

IX. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
KIA (B07-06)	\$ 1,825,095	2023
Total	\$ 1,825,095	

X. CONTACTS

Legal Applicant	
Entity Name	Hopkinsville Electric System - Telecom
Authorized Official	Jeff Hurd (General Manager)
County	Christian
Email	agibbs@hop-electric.com
Phone	(270) 887-4200
Address	1820 E. 9th Street Hopkinsville, KY 42240

Project Contact - Applicant	
Name	Richard Shaw
Organization	Hopkinsville Electric System
Email	rshaw@hop-electric.com
Phone	(270) 887-0762
Address	1820 E. 9th Street Hopkinsville, KY 42240

XI. RECOMMENDATIONS

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

**HOPKINSVILLE ELECTRIC SYSTEM
FINANCIAL SUMMARY (JUNE YEAR END)**

	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Balance Sheet (Consolidated Electric and Telecom)								
Assets								
Current Assets	8,965,968	8,982,261	7,579,524	7,867,724	8,150,324	8,702,424	9,239,224	10,040,424
Other Assets	34,623,035	34,921,352	35,994,993	35,787,915	39,734,741	39,591,567	39,385,593	39,345,919
Total	43,589,003	43,903,613	43,574,517	43,655,639	47,885,065	48,293,991	48,624,817	49,386,343
Liabilities & Equity								
Current Liabilities	9,061,754	9,280,572	9,079,050	9,023,874	8,860,769	8,903,498	9,156,600	9,306,600
Long Term Liabilities	14,872,962	14,729,468	13,885,298	12,414,396	15,406,599	14,056,073	12,452,445	10,798,817
Total Liabilities	23,934,716	24,010,040	22,964,348	21,438,270	24,267,368	22,959,571	21,609,045	20,105,417
Net Assets	19,654,287	19,893,573	20,610,169	22,217,369	23,617,697	25,334,420	27,015,772	29,280,926
Cash Flow (Telecom Only)								
Revenues	3,303,237	3,530,598	3,496,385	3,238,634	3,724,825	4,354,345	4,377,158	4,732,875
Operating Expenses	1,856,521	1,888,531	2,107,299	2,284,600	2,689,480	2,792,667	2,768,629	2,791,715
Other Income	0	0	0	0	0	0	0	0
Cash Flow Before Debt Service	1,446,716	1,642,067	1,389,086	954,034	1,035,345	1,561,678	1,608,530	1,941,160
Debt Service								
Existing Debt Service	598,260	597,960	600,350	593,748	593,848	593,947	594,247	594,046
Proposed KIA Loan	0	0	0	0	138,814	277,627	277,627	277,627
Total Debt Service	598,260	597,960	600,350	593,748	732,662	871,574	871,874	871,673
Cash Flow After Debt Service	848,456	1,044,107	788,736	360,286	302,684	690,104	736,656	1,069,487

Ratios

Current Ratio (Consolidated)	1.0	1.0	0.8	0.9	0.9	1.0	1.0	1.1
Debt Coverage Ratio (Telecom Division)	2.4	2.7	2.3	1.6	1.4	1.8	1.8	2.2

Reviewer: Jeff Abshire
Date: June 12, 2018
C12-01
Loan Number: (Increase)

**KENTUCKY INFRASTRUCTURE AUTHORITY
GOVERNMENTAL AGENCIES LOAN FUND (FUND C)
MUNINET FIBER AGENCY, MCCRACKEN COUNTY
PROJECT REVIEW**

I. PROJECT DESCRIPTION

MuniNet Fiber Agency is requesting a increase of \$514,000 to a previously approved Fund C loan in the amount of \$3,173,049 for the fiber optic cable build project #2. The project was originally planned to be an aerial construction. However, the cost of the pole setups was significantly less at the time the project was planned resulting in a decision to change to buried fiber construction which is more expensive than aerial.

The original project scope was for the construction and acquisition of 144 count fiber that will extend from Paducah to the TVA Paradise Fossil Plant. It will also include the acquisition of Indefeasible Rights to Use (IRUs) from member utilities which include Hopkinsville, Glasgow, Russellville and Princeton to connect and expand their networks. In exchange for the fiber to TVA plants, TVA will provide MuniNet fiber from the plant to Nashville, Tennessee and from Hopkinsville to Bowling Green. This will allow MuniNet to connect to Level 3 and get access to internet bandwidth at a much lower cost than they are currently paying (from \$35/megabyte to \$1.85/megabyte). The fiber will connect local hospitals, health care providers, emergency services, libraries, and local government agencies allowing them to perform functions not currently possible. In addition, it will be open access and available to anyone.

The original project reflected significantly more customers and revenue than are projected today. The ability to reach Tier 1 internet providers in Nashville and Bowling Green via MuniNet significantly reduced members' cost of backbone internet connectivity which enabled them to avoid costly local loop charges from larger national providers. By combining member bandwidth purchases MuniNet is able to buy at 'bulk' pricing. Another benefit that is rarely mentioned is access to a Netflix caching server directly on MuniNet's network. The caching server reduces the amount of traffic going to Netflix and reduces congestion on members' internet connections.

MuniNet Fiber Agency was formed as a joint agency pursuant to Section 65.210 to 65.300 of the Kentucky Revised Statutes, as amended, known as the Interlocal Cooperation Act. An Interlocal Agreement dated October 25, 2010 was executed

between the Electric Plant Board of the City of Paducah and Electric Plant Board of the City of Murray to form the agency. MuniNet is governed by a Board of Directors composed of two Directors designated by each member of the Agency (one designee must be the Chief Executive Officer). Current members are Murray Electric System, Mayfield Electric and Water System, Paducah Power System, Princeton Electric Plant Board, Hopkinsville Electric System, Russellville Electric Plant Board, and Glasgow Electric Plant Board.

II. PROJECT BUDGET

	<u>Total</u>
Construction	\$ 3,179,449
Equipment	507,600
Total	\$ 3,687,049

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund C Loan	\$ 3,173,049	100%

IV. KIA DEBT SERVICE

Amortized Loan Amount	\$ 3,687,049
Interest Rate	3.00%
Loan Term (20 Years)	20
Estimated Annual Debt Service	\$ 246,495
Administrative Fee (0.20%)	7,374
Annual Debt Service (to Cash Flow)	253,869

V. PROJECT SCHEDULE

The project was completed in early 2018.

VI. CUSTOMERS AND RATE STRUCTURE

A) Customers - MuniNet has 201 commercial customers.

B) Rates - Fixed Rate Point-to Point prices are as follows:

Circuit	Price	Circuit	Price
5 Mbps	\$70	100 Mbps	\$225
10 Mbps	\$105	1 Gbps	\$1,450
20 Mbps	\$150	10 Gbps	\$4,500
30 Mbps	\$175		

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, McCracken County's population was 65,451 with a Median Household Income (MHI) of \$42,303. The median household income for the Commonwealth is \$43,740. All Fund "C" loans are at a 3% interest rate.

VIII. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the years ended June 30, 2014 through June 30, 2017.

HISTORICAL

Revenues increased 15% from \$501,934 to \$578,328 while operating expenses averaged about \$471,000. The average member contribution was \$361,000. Debt service declined from 2.3 in 2014 to 1.8, 1.6, and 1.8 in 2015, 2016, and 2017, respectively.

The balance sheet reflects 3.2 months of operating expenses in unrestricted cash.

PROJECTED

Projections are based on the following assumptions:

- 1) The 2018 to 2022 forecast was provided by the applicant.
- 2) Member contributions will fund any cash flow shortfalls to ensure that the debt coverage ratio remains at or above 1.0.
- 3) Debt service coverage is 1.0 throughout the forecast period based on the minimum required funding from members.

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

REPLACEMENT RESERVE

The annual replacement cost is \$9,200. This amount should be added to the replacement account each December 1 until the balance reaches \$92,000 and maintained for the life of the loan.

IX. DEBT OBLIGATIONS

Description	Outstanding	Maturity
KIA (B09-02)	\$ 1,712,393	2030
KIA (B11-09)	1,775,736	2034
KIA (C12-01, i/a/o \$3.173M)	1,997,492	2038
Total	\$ 5,485,621	

X. CONTACTS

Legal Applicant	
Entity Name	MuniNet Fiber Agency
Authorized Official	Tony Thompson (Chair)
County	McCracken
Email	tthompson@murrayelectric.net
Phone	(270) 762-1704
Address	P.O. Box 1095 Murray, KY 42071

Project Contact - Applicant	
Name	Debra Adams
Organization	MuniNet Fiber Agency
Email	djadams@murray-ky.net
Phone	270-762-1717
Address	PO Box 1095 Murray, KY 42071

XI. RECOMMENDATIONS

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

MUNINET FIBER AGENCY
FINANCIAL SUMMARY (JUNE YEAR END)

	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Balance Sheet								
Assets								
Current Assets	130,030	133,204	161,163	138,869	138,869	138,869	138,869	138,869
Other Assets	6,726,503	6,530,572	7,220,391	8,098,826	8,139,526	7,666,226	7,180,426	6,694,626
Total	6,856,533	6,663,776	7,381,554	8,237,695	8,278,395	7,805,095	7,319,295	6,833,495
Liabilities & Equity								
Current Liabilities	1,249,930	1,206,556	1,596,297	1,592,296	1,600,231	1,608,359	1,616,686	1,625,217
Long Term Liabilities	5,146,067	4,983,685	5,174,616	5,999,169	6,154,230	5,787,163	5,411,769	5,027,844
Total Liabilities	6,395,997	6,190,241	6,770,913	7,591,465	7,754,461	7,395,522	7,028,455	6,653,061
Net Assets	460,536	473,535	610,641	646,230	523,934	409,573	290,840	180,434
Cash Flow								
Revenues	540,782	531,857	578,328	621,278	646,271	671,695	698,563	726,506
Operating Expenses	480,140	496,285	430,671	425,000	434,200	434,200	421,700	421,700
Other Income	399,569	372,506	368,568	196,839	304,293	278,869	239,501	211,558
Cash Flow Before Debt Service	460,211	408,078	516,225	393,117	516,364	516,364	516,364	516,364
Debt Service								
Debt Service	262,404	259,524	284,588	393,117	516,364	516,364	516,364	516,364
Cash Flow After Debt Service	197,807	148,554	231,637	0	0	0	0	0

Ratios

Current Ratio	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Debt to Equity	13.9	13.1	11.1	11.7	14.8	18.1	24.2	36.9
Days Sales in Accounts Receivable	(0.6)	0.6	(0.2)	0.0	0.0	0.0	0.0	0.0
Months Operating Expenses in Unrestricted Cash	2.6	2.8	3.2	3.4	3.4	3.4	3.4	3.4
Debt Coverage Ratio	1.8	1.6	1.8	1.0	1.0	1.0	1.0	1.0

EXECUTIVE SUMMARY
KENTUCKY INFRASTRUCTURE AUTHORITY
FUND B, INFRASTRUCTURE
REVOLVING LOAN FUND

Reviewer Jeff Abshire
Date June 12, 2018
KIA Loan Number B18-009, C18-008

BORROWER HOPKINSVILLE ELECTRIC SYSTEM
CHRISTIAN COUNTY

BRIEF DESCRIPTION

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PROJECT FINANCING		PROJECT BUDGET	RD Fee %	Actual %
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REPAYMENT	Rate	1.75%	Est. Annual Payment	\$153,689
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PROFESSIONAL SERVICES	Engineer	n/a
	Bond Counsel	Dinsmore & Shohl, LLP

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OTHER DEBT See Attached

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Date: June 12, 2018
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**KENTUCKY INFRASTRUCTURE AUTHORITY
INFRASTRUCTURE REVOLVING LOAN FUND (FUND B)
HOPKINSVILLE ELECTRIC SYSTEM CHRISTIAN COUNTY
TELECOM PROJECT REVIEW**

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Existing right of ways and utility easements will be used for installation which will significantly reduce the cost and time required to execute the project. Two additional phases with an estimated cost of \$8 - \$10 million are anticipated with Phase 3 beginning in 2020. Timing will ultimately depend on HES' success with Phase 2 as Phases 3 and 4 will be funded from free cash flow.

Phase 1 began in 2007 when HES needed more internet capacity and better pricing than was available from the larger providers. HES determined the best way to lower bandwidth cost and guarantee availability was to build fiber to a Tier 1 provider. Nashville and Bowling Green were evaluated with Bowling Green being selected for the \$3.0 million KIA funded (B07-06) project. The project benefitted both cities as well as other areas along the route as it permits HES to provide internet service to Clifty, Elkton and Russellville. HES also provides connections for other businesses including MuniNet.

HES has about a 30% market share with two primary national competitors who use a mix of copper, coax (Cable TV line) and limited fiber. The primary residential connections are copper and coax. Phase 2 is an underserved area with the expectation that HES will take share as a result of fiber availability. Limitations in competitors' service capacity and customer service will be contributing factors to share increase also. Pricing capacity is sensitive to competition and customers' willingness to pay for premium services.

There are not currently any technologies on the horizon that are being promoted as a replacement or close competitor for fiber connectivity and wireless networks have limitations and require more hands on management than fiber. Areas are deemed

covered by wireless (cellular) service when in reality the service is not capable of supporting video streaming or gaming for one or more devices in a home. Today's home may have ten or more devices connected to the internet including multiple gaming systems, TV's streaming video, tablets, smart phones and an increasing number of smart home devices.

HES is a member of MuniNet Fiber Agency who is also a KIA borrower. The ability to reach Tier 1 internet providers in Nashville and Bowling Green via MuniNet significantly reduced HES' cost of backbone internet connectivity. Each member is able to avoid costly local loop charges from larger national providers for delivering services directly to members. By combining member bandwidth purchases MuniNet is able to buy at 'bulk' pricing. Another benefit that is rarely mentioned is access to a Netflix caching server directly on MuniNet's network. The caching server reduces the amount of traffic going to Netflix and reduces congestion on HES internet connections.

II. PROJECT BUDGET

	<u>Total</u>
Legal Expenses	20,000
Planning	20,000
Engineering Fees - Design	120,000
Construction	1,930,407
Equipment	1,846,749
Contingency	362,844
Total	\$ 4,300,000

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund B Loan	\$ 2,500,000	58%
Fund C Loan	1,800,000	42%
Total	\$ 4,300,000	100%

IV. KIA DEBT SERVICE

	<u>Fund B</u>	<u>Fund C</u>	<u>Total</u>
Amortized Loan Amount	2,500,000	1,800,000	4,300,000
Interest Rate	1.75%	3.00%	2.27%
Loan Term	20	20	20
Estimated Annual Debt Service	148,689	120,338	269,027
Administrative Fee (0.20%)	5,000	3,600	8,600
Annual Debt Service	153,689	123,938	277,627

V. PROJECT SCHEDULE

Bid Opening	June 2018
Construction Start	August 2018
Construction Stop	January 2019

VI. RATE STRUCTURE

A. Customers

Customers	Current	Proposed	Total
Residential	2,988	900	3,888
Commercial	547	0	547
Total	3,535	900	4,435

B. Rates

Residential

8 meg download / 1 meg upload	37.95
8 meg download / 1 meg upload, Home wifi	42.95
Fiber - 50 meg download / 10 meg upload	59.95

Business

50 meg up to 1 gigabit download	quoted pricing
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VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility’s service area population was 32,442 with a Median Household Income (MHI) of \$38,561. The median household income for the Commonwealth is \$43,740. The Fund B loan will be at a 1.75% interest rate and the Fund C loan will be at a 3.0% rate for a blended rate of 2.27%.

Year	City	Population		Unemployment		
		% Change	County	% Change	Date	Rate
1980	27,318		66,878		June 2005	6.8%
1990	29,809	9.1%	68,941	3.1%	June 2010	11.6%
2000	30,089	0.9%	72,265	4.8%	June 2015	6.8%
2010	31,577	4.9%	73,955	2.3%	June 2017	7.3%
Current	32,442	2.7%	73,936	0.0%		
Cumulative %		18.8%		10.6%		

VIII. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the years ended June 30, 2014 through June 30, 2017. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from operating expenses. While operating results are separated for the electric and telecom units the balance sheet is provided on a consolidated basis. A discussion of the balance sheet ratios and most related ratios are therefore limited. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

HISTORY

Revenues increased 10% from \$3.2 million to \$3.5 million from 2014 to 2017, respectively, while operating expenses increased 32% from \$1.6 million to \$2.1 million. Cash flow before debt service declined from \$1.6 million to \$1.4 million.

Debt service averaged \$600 thousand and the debt coverage ratio ranged from 2.3 to 2.7. Debt service is comprised of a ten year KIA loan that matures in 2023 and an allocation of a bond that was issued and secured by the Electric Division.

On a consolidated basis days sales outstanding is 38.5 and the current ratio is 0.8.

PROJECTIONS

Projections are based on the following assumptions:

- 1) The 2018 – 2022 forecast was provided by the applicant.
- 2) The take rate from competitors will be 25% with additional revenue from existing broadband customers that upgrade from their current service to fiber. Revenues will also increase due to additional business customers and initiatives in adjacent areas.
- 3) Debt service coverage ranges from 1.4 to 2.2 throughout the forecast period with cash flow after debt service ranging from \$303,000 to \$1,069,000.

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

REPLACEMENT RESERVE

The replacement reserve will be 5% (estimated \$215,000 total) of the final amount borrowed to be funded annually (estimated \$10,750 yearly) each December 1 for 20 years and maintained for the life of the loan. The Fund B reserve will be up to \$125,000 and the Fund C reserve will be up to \$90,000.

IX. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
KIA (B07-06)	\$ 1,825,095	2023
Total	\$ 1,825,095	

X. CONTACTS

Legal Applicant	
Entity Name	Hopkinsville Electric System - Telecom
Authorized Official	Jeff Hurd (General Manager)
County	Christian
Email	agibbs@hop-electric.com
Phone	(270) 887-4200
Address	1820 E. 9th Street Hopkinsville, KY 42240

Project Contact - Applicant	
Name	Richard Shaw
Organization	Hopkinsville Electric System
Email	rshaw@hop-electric.com
Phone	(270) 887-0762
Address	1820 E. 9th Street Hopkinsville, KY 42240

XI. RECOMMENDATIONS

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

**HOPKINSVILLE ELECTRIC SYSTEM
FINANCIAL SUMMARY (JUNE YEAR END)**

	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Balance Sheet (Consolidated Electric and Telecom)								
Assets								
Current Assets	8,965,968	8,982,261	7,579,524	7,867,724	8,150,324	8,702,424	9,239,224	10,040,424
Other Assets	34,623,035	34,921,352	35,994,993	35,787,915	39,734,741	39,591,567	39,385,593	39,345,919
Total	43,589,003	43,903,613	43,574,517	43,655,639	47,885,065	48,293,991	48,624,817	49,386,343
Liabilities & Equity								
Current Liabilities	9,061,754	9,280,572	9,079,050	9,023,874	8,860,769	8,903,498	9,156,600	9,306,600
Long Term Liabilities	14,872,962	14,729,468	13,885,298	12,414,396	15,406,599	14,056,073	12,452,445	10,798,817
Total Liabilities	23,934,716	24,010,040	22,964,348	21,438,270	24,267,368	22,959,571	21,609,045	20,105,417
Net Assets	19,654,287	19,893,573	20,610,169	22,217,369	23,617,697	25,334,420	27,015,772	29,280,926
Cash Flow (Telecom Only)								
Revenues	3,303,237	3,530,598	3,496,385	3,238,634	3,724,825	4,354,345	4,377,158	4,732,875
Operating Expenses	1,856,521	1,888,531	2,107,299	2,284,600	2,689,480	2,792,667	2,768,629	2,791,715
Other Income	0	0	0	0	0	0	0	0
Cash Flow Before Debt Service	1,446,716	1,642,067	1,389,086	954,034	1,035,345	1,561,678	1,608,530	1,941,160
Debt Service								
Existing Debt Service	598,260	597,960	600,350	593,748	593,848	593,947	594,247	594,046
Proposed KIA Loan	0	0	0	0	138,814	277,627	277,627	277,627
Total Debt Service	598,260	597,960	600,350	593,748	732,662	871,574	871,874	871,673
Cash Flow After Debt Service	848,456	1,044,107	788,736	360,286	302,684	690,104	736,656	1,069,487

Ratios

Current Ratio (Consolidated)	1.0	1.0	0.8	0.9	0.9	1.0	1.0	1.1
Debt Coverage Ratio (Telecom Division)	2.4	2.7	2.3	1.6	1.4	1.8	1.8	2.2

EXECUTIVE SUMMARY KENTUCKY INFRASTRUCTURE AUTHORITY FUND F, FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND		Reviewer Date KIA Loan Number WRIS Number	Ashley Adams July 10, 2018 F17-014 (Increase) WX21217025	
BORROWER	CITY OF CAMPBELLSVILLE TAYLOR COUNTY			
BRIEF DESCRIPTION				
This is a request for an increase to an existing loan in the amount of \$1,377,000 which will bring the new loan total to \$7,970,000. The reason for the increase includes the addition of a storage garage, additional work required to complete the treatment plant improvements, and bids coming in higher than expected.				
Original Project Description: This project includes improvements to the existing water treatment plant as well as the urban area of the distribution system. Work at the treatment plant will include clarifier rehabilitation, filter control console replacements, pipe gallery valve replacements, raw water meter vault improvements, pre-filter chlorination upgrade, and upgrade of two existing high service pumps to capacity of 3,300 GPM. Along with this will be the addition of two sludge thickening basins, a filter belt press, as well as sludge and supernatant pumping facilities. Improvements to the distribution system include replacement of approximately 4,000 LF of aging and deteriorated cast iron pipes and appurtenances in several areas within the city with new PVC lines.				
PROJECT FINANCING		PROJECT BUDGET		
Fund F Loan	\$7,970,000	Administrative Expenses	\$10,000	
USDA RD Grant	330,000	Legal Expenses	10,000	
		Eng - Design / Const	6.5% 6.0% 446,858	
		Eng - Insp	4.3% 3.9% 292,978	
		Eng - Other	20,000	
		Construction	6,801,493	
		Contingency	683,671	
		Other	35,000	
TOTAL	\$8,300,000	TOTAL	\$8,300,000	
REPAYMENT	Rate Term	0.25% 20 Years	Est. Annual Payment 1st Payment 6 Mo. after first draw \$428,719	
PROFESSIONAL SERVICES	Engineer Bond Counsel	Monarch Engineering, Inc Dinsmore & Shohl, LLP		
PROJECT SCHEDULE	Bid Opening Construction Start Construction Stop	May-18 Aug-18 Aug-19		
DEBT PER CUSTOMER	Existing Proposed	\$1,172 \$2,112		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES	Current Additional	Users 9,539 0	Avg. Bill \$19.32 (for 4,000 gallons) \$19.32 (for 4,000 gallons)	
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.			
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2015	786,247	414,350	371,897	1.9
Audited 2016	1,410,059	485,135	924,924	2.9
Audited 2017	1,135,940	696,009	439,931	1.6
Projected 2018	1,084,308	870,883	213,425	1.2
Projected 2019	1,524,402	949,054	575,349	1.6
Projected 2020	1,495,805	1,172,190	323,615	1.3
Projected 2021	1,486,518	1,087,341	399,177	1.4
Projected 2022	1,476,624	1,053,938	422,686	1.4

Reviewer: Ashley Adams
Date: July 10, 2018
Loan Number: F17-014 (Increase)

**KENTUCKY INFRASTRUCTURE AUTHORITY
DRINKING WATER STATE REVOLVING FUND (FUND F)
CITY OF CAMPBELLSVILLE, TAYLOR COUNTY
PROJECT REVIEW
WX21217025**

I. PROJECT DESCRIPTION

The City of Campbellsville is requesting an increase in the amount of \$1,377,000 to KIA Loan F17-014 which was approved by the KIA Board on June 1, 2017. The reason for the increase includes the addition of a storage garage, additional work required to complete the treatment plant improvements, and bids coming in higher than expected.

The original project includes improvements to the existing water treatment plant as well as the urban area of the distribution system. Work at the treatment plant will include clarifier rehabilitation, filter control console replacements, pipe gallery valve replacements, raw water meter vault improvements, pre-filter chlorination upgrade, and upgrade of two existing high service pumps to capacity of 3,300 GPM. Along with this will be the addition of two sludge thickening basins, a filter belt press, as well as sludge and supernatant pumping facilities. Improvements to the distribution system include replacement of approximately 4,000 LF of aging and deteriorated cast iron pipes and appurtenances in several areas within the city with new PVC lines.

Campbellsville Municipal Water & Sewer System provides service to over 9,500 customers.

II. PROJECT BUDGET

	<u>Total</u>
Administrative Expenses	\$ 10,000
Legal Expenses	10,000
Engineering Fees - Design	446,858
Engineering Fees - Inspection	292,978
Engineering Fees - Other	20,000
Construction	6,801,493
Contingency	683,671
Other	35,000
Total	\$ 8,300,000

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund F Loan	\$ 7,970,000	96%
USDA RD Grant	330,000	4%
Total	\$ 8,300,000	100%

IV. KIA DEBT SERVICE

Amortized Loan Amount	\$ 7,970,000
Interest Rate	0.25%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 408,794
Administrative Fee (0.25%)	19,925
Total Estimated Annual Debt Service	\$ 428,719

V. PROJECT SCHEDULE

Bid Opening	May 2018
Construction Start	August 2018
Construction Stop	August 2019

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

<u>Customers</u>	<u>Current</u>
Residential	7,631
Commercial	1,899
Industrial	9
Total	9,539

B) Rates

Water	<u>Inside City</u>		<u>County</u>	
	Current	Prior	Current	Prior
Date of Last Rate Increase	07/01/18	07/01/17	07/01/18	07/01/17
Minimum (1,000 gallons)	\$9.82	\$9.67	\$16.91	\$16.66
Next 9,000 Gallons	3.17	3.12	7.04	6.94
Next 40,000 Gallons	2.86	2.82	6.33	6.24
Over 50,000 Gallons	2.40	2.36	5.12	5.04
Cost for 4,000 gallons	\$19.32	\$19.03	\$38.04	\$37.48
Increase %	1.5%		1.5%	
Affordability Index (Rate/MHI)	0.8%		1.5%	

Sewer	Inside City		County	
	Current	Prior	Current	Prior
Date of Last Rate Increase	07/01/18	07/01/17	07/01/18	07/01/17
Minimum (1,000 gallons)	\$9.19	\$9.05	\$18.37	\$18.10
Next 9,000 Gallons	3.89	3.83	7.77	7.66
Cost for 4,000 gallons	\$20.85	\$20.54	\$41.70	\$41.08
Increase %	1.5%		1.5%	
Affordability Index (Rate/MHI)	0.8%		1.6%	

As of July 1, 2016, rates can be increased 3% of the rate for the previous year in both water and sewer with City Council approval. For FY 2019 rates were adjusted 1.5% by the Council instead of the maximum of 3%.

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility's service area population was 21,052 with a Median Household Income (MHI) of \$30,662. The median household income for the Commonwealth is \$44,811. The project will qualify for a 0.25% interest rate based on MHI.

Year	Population		County	% Change	County Unemployment	
	City	% Change			Date	Rate
1980	8,715		21,178		June 2005	6.2%
1990	9,577	9.9%	21,146	-0.2%	June 2010	12.0%
2000	10,498	9.6%	22,927	8.4%	June 2015	7.2%
2010	9,108	-13.2%	24,512	6.9%	June 2017	5.8%
Current	11,329	24.4%	25,315	3.3%		
Cumulative %		30.0%		19.5%		

VIII. 2016 CAPITALIZATION GRANT EQUIVALENCIES

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

IX. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the Campbellsville Municipal Water and Sewer System for the years ended June 30, 2015 through June 30, 2017. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from fiscal 2016 and 2017 operating expenses. Interim finance payoffs to Taylor County Bank and Citizens Bank and Trust for ongoing projects in 2016 and 2017 were factored out of debt service so that debt

coverage ratios could be accurately depicted. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

HISTORY

Revenues increased 18% from \$4.7 million in 2015 to \$5.5 million in 2017 due to multiple rate increases. Operating expenses increased 13% from \$3.9 million in 2015 to \$4.4 million in 2017. The debt coverage ratio was 1.9, 2.9, and 1.6 from 2015 to 2017, respectively. The City will pay off two KIA loans in 2018 which will reduce debt service before going into repayment with this loan.

The balance sheet reflects a current ratio of 1.7, a debt to equity ratio of 0.5, and a collection period of 66.8 days. Unrestricted cash equals 2 months of operating expenses.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Revenues will be flat for volume and increase 1.5% annually, in both water and sewer, due to a previously approved annual rate adjustment which allows up to a 3% increase by City Council.
- 2) Expenses will increase 2% for inflation.
- 3) Debt service coverage is 1.3 in 2020 when full year principal and interest repayments begin.

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

REPLACEMENT RESERVE

The annual replacement cost is \$19,900. This amount should be added to the replacement account each December 1 until the balance reaches \$398,000 and maintained for the life of the loan.

X. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
KIA (C88-02)	\$ 120,000	2018
KIA (C89-56A)	95,030	2018
United Citizens Bank	381,116	2020
KIA (B94-01)	970,754	2028
City of Jeffersontown Series 2000	1,245,000	2030
KIA (F12-03)	1,163,405	2036
Bond Series 2009	532,200	2048
Bond Series 2010	443,000	2049
Bond Series 2013	1,626,000	2054

	Outstanding	Maturity
USDA Bond 2016 (North Water Tank)	1,307,000	2055
KIA (F15-013 \$1,919,910 still in process)	3,294,049	TBD
Total	\$11,177,554	

XI. CONTACTS

Legal Applicant	
Name	City of Campbellsville
Address	110 South Columbia Ave, Suite B Campbellsville, KY 42718
County	Taylor
Authorized Official	Tony W. Young, Mayor
Phone	270-465-7011
Email	mayor@campbellsville.us

Project Administrator	
Name	Cheryl Sullivan
Title	Controller
Organization	City of Campbellsville
Email	controller@campbellsville.us
Phone	270-789-3133
Address	110 South Columbia Ave, Suite B Campbellsville, KY 42718

Consulting Engineer	
Name	David Bowles
Firm	Monarch Engineering, Inc.
Address	556 Carlton Drive Lawrenceburg, KY 40342
Phone	502-839-1310
Email	dbowles@monarchengineering.net

XII. RECOMMENDATIONS

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

CITY OF CAMPBELLSVILLE
FINANCIAL SUMMARY (JUNE YEAR END)

	<u>Audited</u> <u>2015</u>	<u>Audited</u> <u>2016</u>	<u>Audited</u> <u>2017</u>	<u>Projected</u> <u>2018</u>	<u>Projected</u> <u>2019</u>	<u>Projected</u> <u>2020</u>	<u>Projected</u> <u>2021</u>	<u>Projected</u> <u>2022</u>
Balance Sheet								
Assets								
Current Assets	1,351,352	1,894,528	1,988,825	2,046,216	2,258,286	2,338,209	2,433,444	2,533,681
Other Assets	34,792,714	37,471,210	42,952,119	50,656,811	51,996,167	50,851,636	49,767,554	48,702,280
Total	36,144,066	39,365,738	44,940,944	52,703,027	54,254,453	53,189,845	52,200,999	51,235,962
Liabilities & Equity								
Current Liabilities	721,875	824,418	1,165,838	1,055,581	995,027	978,874	998,980	548,310
Long Term Liabilities	8,057,930	10,336,107	13,734,162	21,450,167	23,036,009	22,571,969	22,096,929	22,096,929
Total Liabilities	8,779,805	11,160,525	14,900,000	22,505,748	24,031,036	23,550,843	23,095,909	22,645,239
Net Assets	27,364,261	28,205,213	30,040,944	30,197,279	30,223,417	29,639,002	29,105,089	28,590,722
Cash Flow								
Revenues	4,657,300	5,362,660	5,505,806	5,586,371	6,116,365	6,199,366	6,283,611	6,369,120
Operating Expenses	3,902,208	3,986,408	4,406,861	4,539,058	4,628,958	4,740,556	4,834,088	4,929,491
Other Income	31,155	33,807	36,995	36,995	36,995	36,995	36,995	36,995
Cash Flow Before Debt Service	786,247	1,410,059	1,135,940	1,084,308	1,524,402	1,495,805	1,486,518	1,476,624
Debt Service								
Existing Debt Service	414,350	485,135	696,009	870,883	734,694	743,471	658,622	625,219
Proposed KIA Loan	0	0	0	0	214,360	428,719	428,719	428,719
Total Debt Service	414,350	485,135	696,009	870,883	949,054	1,172,190	1,087,341	1,053,938
Cash Flow After Debt Service	371,897	924,924	439,931	213,425	575,349	323,615	399,177	422,686

Ratios

Current Ratio	1.9	2.3	1.7	1.9	2.3	2.4	2.4	4.6
Debt to Equity	0.3	0.4	0.5	0.7	0.8	0.8	0.8	0.8
Days Sales in Accounts Receivable	46.0	53.8	66.8	66.8	66.8	66.8	66.8	66.8
Months Operating Expenses in Unrestricted Cash	1.5	2.7	2.0	2.1	2.4	2.5	2.6	2.8
Debt Coverage Ratio	1.9	2.9	1.6	1.2	1.6	1.3	1.4	1.4

EXECUTIVE SUMMARY		Reviewer	Ashley Adams	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date	July 10, 2018	
FUND F, FEDERALLY ASSISTED DRINKING WATER		KIA Loan Number	F18-003	
REVOLVING LOAN FUND		WRIS Number	WX21013918	
BORROWER		CITY OF PINEVILLE BELL COUNTY		
BRIEF DESCRIPTION				
This loan will fund the construction portion of a prior KIA Planning and Design loan (F1 15-06). The project will construct a new 2.0 million gallon per day (MGD) treatment unit with a new upflow adsorption clarifier and mixed media filter at the Pineville Water Treatment Plant. The project will add necessary redundancy the plant is currently lacking in order to prevent service loss and water use restrictions when maintenance is necessary. In addition, the project will also install raw water flow meters and electric valves, electric backwash valves, finished water valves, and an electric generator for emergency backup power.				
PROJECT FINANCING		PROJECT BUDGET		
Fund F Loan	\$1,864,590	Eng - Design / Const	RD Fee % 7.9%	Actual % 14.9%
KIA P&D Loan (F1 15-016)	220,000	Eng - Insp	6.4%	2.0%
		Construction		1,621,500
		Contingency		162,150
TOTAL	\$2,084,590	TOTAL		\$2,084,590
REPAYMENT	Rate	0.50%	Est. Annual Payment	\$69,381
	Term	20 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL	Engineer	HDR Engineering, Inc		
	Bond Counsel	Dinsmore & Shohl, LLP		
PROJECT SCHEDULE	Bid Opening	Jun-18		
	Construction Start	Jul-18		
	Construction Stop	Apr-19		
DEBT PER CUSTOMER	Existing	\$1,400		
	Proposed	\$1,419		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES	Current	Users	Avg. Bill	
		5,178	\$37.03 (for 4,000 gallons)	
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.			
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2015	727,037	352,764	374,273	2.1
Audited 2016	926,845	405,601	521,244	2.3
Audited 2017	850,215	472,247	377,968	1.8
Projected 2018	848,617	513,091	335,526	1.7
Projected 2019	848,617	488,112	360,505	1.7
Projected 2020	843,417	589,640	253,777	1.4
Projected 2021	843,417	590,063	253,355	1.4
Projected 2022	843,417	581,575	261,843	1.5

Reviewer: Ashley Adams
Date: June 12, 2018
Loan Number: F18-003

**KENTUCKY INFRASTRUCTURE AUTHORITY
DRINKING WATER STATE REVOLVING FUND (FUND F)
CITY OF PINEVILLE, BELL COUNTY
PROJECT REVIEW
WX21013918**

I. PROJECT DESCRIPTION

The City of Pineville is requesting a Fund F loan in the amount of \$1,864,590 for the Water Treatment Plant Expansion project. This will be the construction portion of a prior KIA Planning and Design loan (F1 15-016) in the amount of \$220,000. The proposed project consists of constructing a new 2.0 million gallon per day (MGD) treatment unit including a new upflow adsorption clarifier as well as a mixed media filter. The existing water treatment plant was last renovated in 2002 and has a rated design capacity of 4.0 MGD. The current system demand of 2.28 MGD (annual average) does not allow for taking a unit out of service for maintenance without having to implement water use restrictions. The added redundancy will enable rotation of the units and maintenance intervals without curtailment of service. The project also includes the installation of raw water flow meters and electric valves, electric backwash valves, finished water valves, and an electric generator to provide backup power during an emergency.

II. PROJECT BUDGET

	<u>Total</u>
Engineering Fees - Design	\$ 232,140
Engineering Fees - Construction	33,800
Engineering Fees - Inspection	35,000
Construction	1,621,500
Contingency	162,150
Total	\$ 2,084,590

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund F Loan	\$ 1,864,590	89%
KIA P&D Loan (F1 15-016)	220,000	11%
Total	\$ 2,084,590	100%

IV. KIA DEBT SERVICE

Construction Loan	\$ 1,864,590
KIA P&D Loan (F1 15-016)	220,000
Less: Principal Forgiveness	825,509
Amortized Loan Amount	\$ 1,259,081
Interest Rate	0.50%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 66,233
Administrative Fee (0.25%)	3,148
Total Estimated Annual Debt Service	\$ 69,381

V. PROJECT SCHEDULE

Bid Opening	June 2018
Construction Start	July 2018
Construction Stop	April 2019

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

<u>Customers</u>	<u>Current</u>
Residential	5,009
Commercial	169
Total	5,178

B) Rates

Water Rates	<u>Inside City</u>		<u>Outside City</u>	
	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>
Date of Last Rate Increase	07/01/14	07/01/13	07/01/14	07/01/13
First 1,000 Gallons	\$14.35	\$13.41	\$22.40	\$20.93
Next 9,000 Gallons	7.56	7.07	8.35	7.80
Next 20,000 Gallons	7.36	6.88	7.36	7.16
Cost for 4,000 gallons	\$37.03	\$34.62	\$47.45	\$44.33
Increase %	7.0%		7.0%	
Affordability Index (Rate/MHI)	1.8%		2.3%	

Sewer Rates	Inside/Outside City	
	Current	Prior
Date of Last Rate Increase	07/01/14	07/01/13
First 1,000 Gallons	\$8.22	\$7.68
Next 9,000 Gallons	5.84	5.46
Next 20,000 Gallons	5.55	5.19
Cost for 4,000 gallons	\$25.74	\$24.06
Increase %	7.0%	
Affordability Index (Rate/MHI)	1.3%	

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility's service area population was 15,534 with a Median Household Income (MHI) of \$24,481. The median household income for the Commonwealth is \$43,740. The project will qualify for a 0.50% interest rate based on MHI.

Year	Population		County		County Unemployment	
	City	% Change	County	% Change	Date	Rate
1980	2,599		34,330		June 2005	8.0%
1990	2,198	-15.4%	31,506	-8.2%	June 2010	12.7%
2000	2,093	-4.8%	30,060	-4.6%	June 2015	8.5%
2010	1,732	-17.2%	28,691	-4.6%	June 2017	9.6%
Current	1,744	0.7%	27,676	-3.5%		
Cumulative %		-32.9%		-19.4%		

VIII. 2017 CAPITALIZATION GRANT EQUIVALENCIES

- 1) Green Project Reserve - The Drinking Water capitalization grant does not contain a "green" requirement.
- 2) Additional Subsidization – This project qualifies for additional subsidization not to exceed \$825,509.

IX. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the City of Pineville for the years ended June 30, 2015 through June 30, 2016. For 2017, the Utility, which includes water and sewer, started being audited separately from the City by a new auditor. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from fiscal 2017 operating expenses. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

HISTORY

Total revenues for water and sewer operations increased 2% from \$3.9 million in 2015 to \$4 million in 2017. Operating expenses decreased 1% from \$3.24 million to \$3.2 million during the same time period. The debt coverage ratio was 2.1, 2.3, and 1.8 from 2015-2017. It is noteworthy that from 2009 until 2014, the City increased both water and sewer rates 7% each year in order to bring the Utility into good financial health and prepare to take on debt for new projects.

The balance sheet reflects a current ratio of 0.9, a debt to equity ratio of 0.7, 49.6 days sales in accounts receivable, and 2.5 months operating expenses in unrestricted cash.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Revenues will remain flat for growth and volume.
- 2) Expenses will remain flat. It is noteworthy that the Utility is sensitive to potential inflationary increases when full debt service payments begin in 2020 and beyond. Should inflation increase at the standard 2% yearly assumption, revenues would need to increase approximately \$132,000 (3.5%) to maintain a 1.1 debt coverage ratio by 2022.
- 3) The City was granted a sewer Planning & Design (P&D) loan with KIA in the amount of \$146,000 in April 2018. Full project funding is estimated at approximately \$3.9 million. Only the P&D debt service was taken into consideration for this analysis as the full project budget is simply an estimate. The City expects to receive heavy grant subsidization for the construction loan but revenue needs will be reassessed upon construction funding by KIA staff.
- 4) Debt service coverage is 1.4 in 2020 when principal and interest repayments begin.

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

REPLACEMENT RESERVE

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

X. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
KIA (A209-05)	\$ 806,954	2032
KIA (F01-03)	44,555	2021
KIA (A11-051) \$300,486 remaining	498,667	2037
KIA (F115-016)	154,928	2022
KIA (B16-003)	274,271	2036

	<u>Outstanding</u>	<u>Maturity</u>
KIA (B13-003)	1,347,958	2036
Home Federal Bank (Vehicle)	11,993	2018
Home Federal Bank (LOC)	27,544	2018
KRWFC Bond Series 2012	3,430,000	2040
KRWFC Bond Series 2016 (i/a/o \$745,000)	0	2042
KIA (A18-027 P&D i/a/o \$146,000)	0	TBD
Total	\$ 6,596,870	

XI. CONTACTS

Legal Applicant

Entity Name	City of Pineville
Authorized Official	David Scott Madon (Mayor)
County	Bell
Email	pinevillemayor@gmail.com
Phone	606-337-7000
Address	PO Box 688, 300 Virginia Ave Pineville, KY 40977

Applicant Contact

Name	Callie Melton
Organization	City of Pineville
Email	pinevillecity@gmail.com
Phone	606-337-2958
Address	PO Box 688, 300 Virginia Ave Pineville, KY 40977

Project Administrator

Name	Bob Sturdivant
Organization	HDR Engineering, Inc
Email	bob.sturdivant@hdrinc.com
Phone	859-629-4826
Address	2517 Sir Barton Way Lexington, KY 40509

Consulting Engineer

PE Name	Brent Alan Tippey
Firm Name	HDR Engineering, Inc.
Email	brent.tippey@hdrinc.com
Phone	859-223-3755
Address	2517 Sir Barton Way Lexington, KY 40509

XII. RECOMMENDATIONS

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

CITY OF PINEVILLE
FINANCIAL SUMMARY (JUNE YEAR END)

	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Balance Sheet								
Assets								
Current Assets	592,646	791,290	1,790,621	1,857,763	1,929,864	1,980,620	2,031,291	2,083,659
Other Assets	19,888,748	20,991,925	22,093,179	21,100,350	23,275,045	22,569,886	21,864,390	21,165,684
Total	20,481,394	21,783,215	23,883,800	22,958,113	25,204,909	24,550,506	23,895,681	23,249,343
Liabilities & Equity								
Current Liabilities	483,583	539,803	2,097,856	964,340	947,751	958,947	970,257	974,422
Long Term Liabilities	5,068,794	6,097,076	7,750,387	7,413,739	9,012,627	8,690,672	8,362,208	8,034,478
Total Liabilities	5,552,377	6,636,879	9,848,243	8,378,079	9,960,378	9,649,619	9,332,464	9,008,900
Net Assets	14,929,017	15,146,336	14,035,557	14,580,034	15,244,531	14,900,887	14,563,217	14,240,444
Cash Flow								
Revenues	3,943,692	3,615,739	4,025,182	4,025,182	4,025,182	4,025,182	4,025,182	4,025,182
Operating Expenses	3,249,177	2,721,533	3,216,737	3,218,335	3,218,335	3,223,535	3,223,535	3,223,535
Other Income	32,522	32,639	41,770	41,770	41,770	41,770	41,770	41,770
Cash Flow Before Debt Service	727,037	926,845	850,215	848,617	848,617	843,417	843,417	843,417
Debt Service								
Existing Debt Service	352,764	405,601	472,247	513,091	488,112	520,259	520,682	512,194
Proposed KIA Loan	0	0	0	0	0	69,381	69,381	69,381
Total Debt Service	352,764	405,601	472,247	513,091	488,112	589,640	590,063	581,575
Cash Flow After Debt Service	374,273	521,244	377,968	335,526	360,505	253,777	253,355	261,843

Ratios

Current Ratio	1.2	1.5	0.9	1.9	2.0	2.1	2.1	2.1
Debt to Equity	0.4	0.4	0.7	0.6	0.7	0.6	0.6	0.6
Days Sales in Accounts Receivable	31.1	38.6	49.6	49.6	49.6	49.6	49.6	49.6
Months Operating Expenses in Unrestricted Cash	0.0	0.1	2.5	2.7	3.0	3.2	3.4	3.6
Debt Coverage Ratio	2.1	2.3	1.8	1.7	1.7	1.4	1.4	1.5

EXECUTIVE SUMMARY
KENTUCKY INFRASTRUCTURE AUTHORITY
FUND C, GOVERNMENTAL AGENCIES FUND
REVOLVING LOAN FUND

Reviewer Melissa Rife
 Date June 12, 2018
 KIA Loan Number C18-S007

BORROWER LEBANON WATER WORKS, CO., INC.
 MARION COUNTY

BRIEF DESCRIPTION
 This loan will be used to purchase surplus equipment.

PROJECT FINANCING		PROJECT BUDGET	RD Fee %	Actual %
Fund C Loan -Surplus Equipment	\$50,000	Equipment		50,000
TOTAL	\$50,000	TOTAL		\$50,000

REPAYMENT	Rate	2.00%	Est. Annual Payment	\$10,658
	Term	5 Years	1st Payment	6 Mo. after first draw

PROFESSIONAL SERVICES
 Bond Counsel Dinsmore & Shohl, LLP

PROJECT SCHEDULE	Bid Opening	Jun-18
	Construction Start	Jun-18
	Construction Stop	May-20

DEBT PER CUSTOMER	Existing	\$2,321
	Proposed	\$2,730

OTHER DEBT See Attached
OTHER STATE-FUNDED PROJECTS LAST 5 YRS See Attached

RESIDENTIAL RATES	Current	Users	Avg. Bill
		2,629	\$25.26 (for 4,000 gallons)
	Additional	0	\$25.26 (for 4,000 gallons)

REGIONAL COORDINATION This project is consistent with regional planning recommendations.

CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2016	1,039,129	401,726	637,403	2.6
Audited 2017	969,492	423,100	546,392	2.3
Projected 2018	826,174	497,839	328,335	1.7
Projected 2019	917,886	559,554	358,332	1.6
Projected 2020	869,469	620,126	249,343	1.4
Projected 2021	836,751	573,217	263,534	1.5
Projected 2022	786,711	573,215	213,496	1.4

Reviewer: Melissa Rife
Date: July 10, 2018
Loan Number: C18-S007

**KENTUCKY INFRASTRUCTURE AUTHORITY
GOVERNMENTAL AGENCIES LOAN FUND (FUND C)
CITY OF LEBANON f/b/o LEBANON WATER WORKS CO., INC., MARION COUNTY
LOAN REVIEW**

I. DESCRIPTION

The City of Lebanon is requesting a Fund C Federal Surplus Property Equipment Loan in the amount of \$50,000 for the benefit of Lebanon Water Works Co., Inc. The loan will be used to purchase the following items if and when they are available: pallet shelving, backhoe, hydraulic hoe ram, valve turning trailer, service/maintenance truck with crane, mini-excavator, zero turn mower, and/or a tractor.

II. BUDGET

	Total	
Equipment	\$	50,000
	\$	50,000

III. FUNDING

	Amount	%
Fund C Loan	\$ 50,000	100%
Total	\$ 50,000	100%

IV. KIA DEBT SERVICE

Construction Loan	\$	50,000
Less: Principal Forgiveness		0
Amortized Loan Amount	\$	50,000
Interest Rate		2.00%
Loan Term (Years)		5
Estimated Annual Debt Service	\$	10,558
Administrative Fee (0.20%)		100
Total Estimated Annual Debt Service	\$	10,658

V. SCHEDULE

Loan Opening June 30, 2018
 The loan will close when all funds are expended or on
 Loan Closing June 30, 2020, whichever occurs first.

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

	Current
Residential	2,543
Commercial	86
Total	2,629

B) Rates

	Current	Prior
Date of Last Rate Increase	11/15/17	09/17/13
Meter Charge	\$ 7.35	\$ 6.75
100 Cubic Feet (748.052 Gallons)	3.35	2.50
Cost for 4,000 gallons	\$ 25.26	\$ 20.12
Increase %	25.6%	
Affordability Index (Rate/MHI)	1.1%	

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility’s service area population was 6,144 with a Median Household Income (MHI) of \$26,445. The median household income for the Commonwealth is \$43,740. Fund C loans with terms less than or equal to 5 years carry an interest rate of 2.00%.

Year	Population				Unemployment	
	City	% Change	County	% Change	Date	Rate
1980	6,590		17,910		June 2005	6.2%
1990	5,695	-13.6%	16,499	-7.9%	June 2010	11.9%
2000	5,718	0.4%	18,212	10.4%	June 2015	5.2%
2010	5,539	-3.1%	19,820	8.8%	June 2017	4.8%
Current	5,604	1.2%	19,497	-1.6%		
Cumulative %		-15.0%		8.9%		

VIII. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the years ended June 30, 2016 through June 30, 2017. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from operating expenses for fiscal year 2016 (\$61,390) and fiscal year 2017 (\$69,228). Percentage references in the History section below are based on actual dollar amounts, not the rounded amounts presented.

HISTORY

Operating revenues increased 1.2% from \$2.67 million in 2016 to \$2.71 million in 2017. Operating expenses increased 7.8% from \$1.65 million in 2016 to \$1.79 million in 2017. The debt coverage ratio was 2.6 in 2016 and 2.3 in 2017.

The 2017 balance sheet shows a debt coverage ratio of 2.3, a current ratio of 1.0, 48.1 days of sales in accounts receivable, and 4.8 months of operating expenses in unrestricted cash.

AUDIT INFORMATION

Opinion:

2016 Unqualified

2017 Unqualified

Internal Control over Financial Reporting:

2016 Auditor did not identify any deficiencies in internal control considered to be material weaknesses.

Auditor did identify a deficiency in internal control. See finding 2016-1.

2017 Auditor did not identify any deficiencies in internal control considered to be material weaknesses.

Compliance and Other Matters:

2016 Auditor's tests did not disclose any instances of noncompliance or other matters required to be reported under Government Auditing Standards.

2017 Auditor's tests did not disclose any instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Summary of Findings:

2016-1

The Company does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

2017-1

The Company does not have the internal control procedures required to draft the

financial statements in conformity with generally accepted accounting principles.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Revenues will increase by 10.1% in 2018, 11.9% in 2018, and remain flat thereafter. The increases are due to a rate increase that became effective September 29, 2017 for retail customers and April 16, 2018 for Marion County Water District. The rate increase for Marion County Water District is still pending PSC approval as of June 2018.
- 2) Operating expenses will increase by approximately 2.0% each year due to inflation.
- 3) Operating expenses will increase when the Utility begins purchasing 400,000 gallons of water a day from the City of Campbellsville. This will increase costs by approximately \$220,000 in 2018 and \$450,000 afterwards.
- 4) Debt service coverage is 1.4 in 2021 when full principal and interest payments are expected to begin.

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

REPLACEMENT RESERVE

A replacement reserve is not required for Fund C Federal Surplus Property Equipment Loans.

IX. DEBT OBLIGATIONS

	Outstanding	Maturity
KIA B08-09	\$ 406,911	2031
KIA F14-036 (in progress, \$593,372 available)	1,667,628	2036
KIA F15-057	703,283	2037
Citizens National Bank	3,157,847	2029
Citizens National Bank	165,293	2020
KIA F18-006 i/a/o \$2,641,680 (\$1,000,000 principal forgiveness; \$1,641,680 to be repaid)		tbd
Total	\$ 6,100,962	

X. CONTACTS

Legal Applicant	
Name	City of Lebanon f/b/o Lebanon Water Works Co., Inc.
Address	P. O. Box 840 Lebanon, KY 40033
County	Marion
Authorized Official	Gary D. Crenshaw, Mayor
Phone	270-692-6272
Email	gdcrenshaw@windstream.net

Project Contact - Applicant	
Name	Daren Thompson, Operations & Management Superintendent
Representing	Lebanon Water Works Co., Inc.
Address	120 S. Proctor Knott Avenue Lebanon, KY 40033
Phone	270-692-2491
Email	Daren.Thompson@lebanonwaterworks.com

Project Administrator	
Organization Name	Lebanon Water Works Co., Inc.
Name	Daren Thompson, Operations & Management Superintendent
Address	120 S. Proctor Knott Avenue Lebanon, KY 40033
Phone	270-692-2491
Email	Daren.Thompson@lebanonwaterworks.com

XI. RECOMMENDATIONS

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

LEBANON WATER WORKS, CO., INC.
FINANCIAL SUMMARY (JUNE YEAR END)

	Audited <u>2016</u>	Audited <u>2017</u>	Projected <u>2018</u>	Projected <u>2019</u>	Projected <u>2020</u>	Projected <u>2021</u>	Projected <u>2022</u>
Balance Sheet							
Assets							
Current Assets	1,190,292	1,315,012	1,249,398	1,331,131	1,356,065	1,382,418	1,403,768
Other Assets	11,653,477	14,134,160	14,146,543	16,510,721	16,133,880	15,769,811	15,360,707
Total	12,843,769	15,449,172	15,395,940	17,841,852	17,489,945	17,152,229	16,764,475
Liabilities & Equity							
Current Liabilities	563,148	627,239	680,554	687,866	650,156	664,377	700,979
Long Term Liabilities	5,277,799	6,917,220	7,108,072	8,346,142	7,985,342	7,615,521	7,214,398
Total Liabilities	5,840,947	7,544,459	7,788,626	9,034,008	8,635,498	8,279,898	7,915,377
Net Assets	7,002,822	7,904,713	7,607,314	8,807,844	8,854,447	8,872,331	8,849,098
Cash Flow							
Revenues	2,674,904	2,708,423	2,977,549	3,326,439	3,326,439	3,326,439	3,326,439
Operating Expenses	1,654,789	1,794,034	2,163,677	2,420,855	2,469,272	2,501,990	2,552,030
Other Income	19,014	55,103	12,302	12,302	12,302	12,302	12,302
Cash Flow Before Debt Service	1,039,129	969,492	826,174	917,886	869,469	836,751	786,711
Debt Service							
Existing Debt Service	401,726	423,100	497,839	559,554	614,797	562,559	562,557
Proposed KIA Loan	0	0	0	0	5,329	10,658	10,658
Total Debt Service	401,726	423,100	497,839	559,554	620,126	573,217	573,215
Cash Flow After Debt Service	637,403	546,392	328,335	358,332	249,343	263,534	213,496

Ratios

Current Ratio	2.1	2.1	1.8	1.9	2.1	2.1	2.0
Debt to Equity	0.8	1.0	1.0	1.0	1.0	0.9	0.9
Days Sales in Accounts Receivable	49.9	48.1	48.1	48.0	48.0	48.0	48.0
Months Operating Expenses in Unrestricted Cash	4.6	4.8	4.2	3.9	4.0	4.1	4.1
Debt Coverage Ratio	2.6	2.3	1.7	1.6	1.4	1.5	1.4