

**Kentucky Infrastructure Authority  
Projects for  
February 2020 Capital Projects Meeting**

- **Fund A Loan**

<b><u>Loan #</u></b>	<b><u>Borrower</u></b>	<b><u>Amount Requested</u></b>	<b><u>Loan Total</u></b>	<b><u>County</u></b>
A19-002	City of Louisa (Increase)	\$ 688,578	\$ 4,028,166	Lawrence
A19-032	City of Morehead (Increase)	\$ 850,000	\$ 4,500,000	Rowan
A20-031	City of Russell	\$ 500,000	\$ 500,000	Greenup

- **Fund F Loan**

<b><u>Loan #</u></b>	<b><u>Borrower</u></b>	<b><u>Amount Requested</u></b>	<b><u>Loan Total</u></b>	<b><u>County</u></b>
F19-005	City of Burnside (Increase)	\$ 573,000	\$ 2,800,000	Pulaski

<b>EXECUTIVE SUMMARY</b>		Reviewer		Meili Sun	
<b>KENTUCKY INFRASTRUCTURE AUTHORITY</b>		Date		January 9, 2020	
<b>FUND A, FEDERALLY ASSISTED WASTEWATER</b>		KIA Loan Number		A19-002 (Increase)	
<b>REVOLVING LOAN FUND</b>		WRIS Number		SX21127030	
<b>BORROWER</b>		CITY OF LOUISA LAWRENCE COUNTY			
<b>BRIEF DESCRIPTION</b>					
The City of Louisa is requesting a increase of \$688,578 to the original loan approved on May 7, 2019. The project went to bids in October, 2019 but all bids came in higher than budgeted. The increase will bring the total project cost up to \$4,028,166 without additional work or change of scope.					
<b>PROJECT FINANCING</b>		<b>PROJECT BUDGET</b>		<b>RD Fee %</b>	<b>Actual %</b>
Fund A Loan A19-002	\$3,795,500	Administrative Expenses			\$10,000
P&D A17-023	232,666	Planning			70,387
		Eng - Design / Const	7.0%	5.7%	207,279
		Eng - Insp	3.8%	3.3%	118,000
		Construction			3,450,000
		Contingency			172,500
<b>TOTAL</b>	<b>\$4,028,166</b>	<b>TOTAL</b>			<b>\$4,028,166</b>
<b>REPAYMENT</b>	<b>Rate</b>	0.50%	<b>Est. Annual Payment</b>		\$165,350
	<b>Term</b>	20 Years	<b>1st Payment</b>	6 Mo. after first draw	
<b>PROFESSIONAL SERVICES</b>	Engineer	P & A Engineering and Consulting			
	Bond Counsel	Rubin & Hays			
<b>PROJECT SCHEDULE</b>	Bid Opening	Oct-19			
	Construction Start	Mar-20			
	Construction Stop	Mar-21			
<b>DEBT PER CUSTOMER</b>	Existing	\$4,143			
	Proposed	\$6,090			
<b>OTHER DEBT</b>		See Attached			
<b>RESIDENTIAL RATES</b>		<u>Users</u>	<u>Avg. Bill</u>		
	Current	1,857	\$39.48 (for 4,000 gallons)		
	Additional	0	\$39.48 (for 4,000 gallons)		
<b>REGIONAL COORDINATION</b> This project is consistent with regional planning recommendations.					
<b>CASHFLOW</b>	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service		Coverage Ratio
Audited 2016	794,490	674,381	120,109		1.2
Audited 2017	801,245	675,471	125,774		1.2
Audited 2018	936,477	670,884	265,593		1.4
Projected 2019	922,891	779,224	143,667		1.2
Projected 2020	947,760	783,131	164,629		1.2
Projected 2021	961,161	898,095	63,066		1.1
Projected 2022	987,515	926,966	60,549		1.1
Projected 2023	1,014,645	898,828	115,817		1.1

Reviewer: Meili Sun  
Date: January 9, 2020  
Loan Number: A19-002 Increase

**KENTUCKY INFRASTRUCTURE AUTHORITY  
WASTEWATER REVOLVING LOAN FUND (FUND A)  
CITY OF LOUISA, LAWRENCE COUNTY  
PROJECT REVIEW  
SX21127030**

**I. PROJECT DESCRIPTION**

The City of Louisa ("the City") is requesting an increase of \$688,578 to the original loan approved on May 7, 2019 for the Inflow and Infiltration Rehabilitation project. The project went to bid in October, 2019 but all bids came in higher than budgeted. The increase will bring the total project cost up to \$4,028,166 with no additional work or change of scope.

The purpose of this project is to eliminate inflow and infiltration in the Louisa Sewer System by constructing a portion of the storm water sewer facilities.

In 2009, a Sewer Evaluation Study ("SSES") was performed on the entire Louisa Sewer System, which yielded a delineation of three priority zones for rehabilitation. This project will address the downtown area (Zone 1), which is considered to have the oldest infrastructure and is the highest priority of the City. The planning and design portion paid for camera inspection of approximately 23,250 linear feet of sewer line and determined exactly what measures are necessary to address the issues. The construction portion will replace storm sewer along Lock Avenue and Pike Street in downtown Louisa, with an intent to separate the combined sewer in parts of the area and eliminate other inflow and infiltration concerns.

By separating the storm sewer from the City's sanitary sewer, the City will be able to lower the cost of wastewater treatment as well as reduce the risk of sanitary sewer overflow for approximately 1,900 customers within Lawrence County.

## II. PROJECT BUDGET

	Total
Administrative Expenses	\$ 10,000
Planning	70,387
Engineering Fees – Design	162,279
Engineering Fees – Construction	45,000
Engineering Fees – Inspection	118,000
Construction	3,450,000
Contingency	172,500
<b>Total</b>	<b>\$ 4,028,166</b>

## III. PROJECT FUNDING

	Amount	%
KIA A17-023 P&D Loan	\$ 232,666	6%
KIA A19-002 Construction Loan	3,795,500	94%
<b>Total</b>	<b>\$ 4,028,166</b>	<b>100%</b>

## IV. KIA DEBT SERVICE

KIA A17-023 P&D Loan	\$ 232,666
KIA A19-002 Construction Loan	3,795,500
Principal Forgiveness	1,000,000
Amortized Loan Amount	\$ 3,028,166
Interest Rate	0.50%
Loan Term	20
Estimated Annual Debt Service	159,294
Administrative Fee (0.20%)	6,056
<b>Total Estimated Annual Debt Service</b>	<b>\$ 165,350</b>

## V. PROJECT SCHEDULE

Bid Opening	October 2019
Construction Start	March 2020
Construction Stop	March 2021

## VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

### A) Customers

	Current
Residential	1,579
Commercial	278
Industrial	
Total	1,857

### B) Rates

Date of Increase	Water Inside City			Water Outside City		
	Current 07/01/19	Prior 05/01/18	Prior 05/01/17	Current 07/01/19	Prior 05/01/18	Prior 05/01/17
First 1,000 Gallons	\$17.91	\$17.72	\$17.12	\$23.43	\$23.18	\$22.40
Next 3,000 Gallons	7.19	7.11	6.87	9.18	9.08	8.77
Cost for 4,000 gallons	\$39.48	\$39.05	\$37.73	\$50.97	\$50.42	\$48.71
Increase %	1.1%	3.5%		1.1%	3.5%	
Affordability Index	1.5%	1.5%	1.5%	2.0%	2.0%	1.9%

Date of Increase	Sewer Inside City			Sewer Outside City		
	Current 07/01/19	Prior 05/01/18	Prior 05/01/17	Current 07/01/19	Prior 05/01/18	Prior 05/01/17
First 1,000 Gallons	\$10.93	\$10.82	\$10.45	\$11.83	\$11.72	\$11.31
Next 3,000 Gallons	10.93	10.82	10.45	11.83	11.72	11.31
Cost for 4,000 gallons	\$43.72	\$43.28	\$41.80	\$47.32	\$46.88	\$45.24
Increase %	1.0%	3.5%		0.9%	3.6%	
Affordability Index	1.7%	1.7%	1.6%	1.8%	1.8%	1.8%

A CPI clause was written into the 2012 rate ordinance to automatically adjust both water and sewer rates annually based on the Consumer Price Index.

## **VII. DEMOGRAPHICS**

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility's service area population was 3,433 with a Median Household Income (MHI) of \$30,830. The median household income for the Commonwealth is \$44,811. The MHI of the City's service area is below 80% of the state MHI, which qualifies this project for a 0.5% interest rate and \$1,000,000 in principal forgiveness.

Year	Population		County	% Change	County Unemployment	
	City	% Change			Date	Rate
1980	1,832		14,121		June 2005	9.0%
1990	1,990	8.6%	13,998	-0.9%	June 2010	13.9%
2000	2,018	1.4%	15,569	11.2%	June 2015	9.0%
2010	2,467	22.2%	15,860	1.9%	June 2018	8.3%
Current	2,708	9.8%	15,870	0.1%		
Cumulative %		47.8%		12.4%		

## **VIII. 2018 CAPITALIZATION GRANT EQUIVALENCIES**

- 1) Green Project Reserve - This project does not qualify for Green Project Reserve (GPR) funding.
- 2) Additional Subsidization – Principal forgiveness of 50% of the assistance amount, not to exceed \$1,000,000, will be credited to the loan balance upon release of liens on all contracts and disbursement of the final draw request by KIA to the borrower.

## **IX. FINANCIAL ANALYSIS**

Financial information was obtained from the audited financial statements for the years ended June 30, 2016 through June 30, 2018. The City's Enterprise Funds account for water & sewer and swimming pool activities. The swimming pool operations are excluded from this analysis. The cash impact of GASB 68 - Accounting and Financial Reporting for Pensions and GASB 75 - Other Postemployment Benefit has been removed from the operating expenses. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

### **HISTORY**

Combined water and sewer revenues went up 5.5% from \$2.62 million in 2016 to \$2.77 million in 2018 due to annual CPI rate increases. Operating expenses increased less than 1% from \$1.83 million to \$1.84 million during the same period. The debt coverage ratio was 1.2, 1.2 and 1.4 for 2016, 2017, and 2018 respectively.

The balance sheet reflects a current ratio of 2.4, debt to equity ratio of 0.8, 67.5 days sales in accounts receivable, and 0.2 months of operating expenses in unrestricted cash.

## PROJECTIONS

Projections are based on the following assumptions:

- 1) Sewer and retail water revenues will increase 2.8% each year based on the historical average of CPI increases.
- 2) Wholesale water rate to Big Sandy Water District will remain at \$3.06 per 1,000 gallons as it's not subject to the annual CPI adjustments. However, the Public Service Commission may set new rates as appropriate.
- 3) Expenses will increase 2% each year for inflation.
- 4) Debt service coverage is 1.1 in 2022 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 A loan.

## REPLACEMENT RESERVE

The replacement reserve will be 5% (\$202,000 total) of the final amount borrowed (prior to principal forgiveness, if any) to be funded annually (\$10,100 yearly) each December 1 for 20 years and maintained for the life of the loan.

## X. DEBT OBLIGATIONS

	Outstanding	Maturity
Water Revenues Bonds, Series 1989	\$ 48,260	2029
Water & Sewer Bonds, Series 2002	763,500	2042
Water & Sewer Bonds, Series 2007	362,000	2046
Revenue Bonds, Series 2010D	290,000	2025
KIA Loan C98-02	105,000	2022
KIA Loan A11-02	798,885	2034
KIA Loan F02-06	1,171,091	2024
KIA Loan A209-10	353,850	2030
KIA Loan B08-07	748,344	2033
KIA Loan F10-03	1,299,047	2033
KIA Loan A97-02	151,658	2021
KACO Loan 1BP2017B	1,601,511	2032
KIA Loan F18-018 i.a.o. \$834,430		TBD
<b>Total</b>	<b>\$ 7,693,146</b>	

## **XI. CONTACTS**

<b>Legal Applicant</b>	
Name	City of Louisa
Address	215 N Main Cross St Louisa, KY 41230
County	Lawrence
Authorized Official	Harold E Slone
Phone	(606) 638-4050
Email	mayoroflouisa@gmail.com

<b>Project Contact - Applicant</b>	
Name	Jason Helton
Organization	City of Louisa
Address	215 N Main Cross St Louisa, KY 401230
Phone	(606) 638-9322
Email	louisawater@louisawater.com

<b>Project Administrator/Engineer</b>	
Name	Robert S Martin
Organization	P & A Engineering and Consulting
Address	PO Box 279 Louisa, KY 41230
Phone	(606) 673-4413
Email	bmartin@pa-eng.com

## **XII. RECOMMENDATIONS**

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



**CITY OF LOUISA**  
**FINANCIAL SUMMARY (JUNE YEAR END)**

	<b>Audited 2016</b>	<b>Audited 2017</b>	<b>Audited 2018</b>	<b>Projected 2019</b>	<b>Projected 2020</b>	<b>Projected 2021</b>	<b>Projected 2022</b>	<b>Projected 2023</b>
<b>Balance Sheet</b>								
<b>Assets</b>								
Current Assets	584,323	697,564	663,056	701,111	745,537	769,950	794,160	829,724
Other Assets	16,863,923	19,239,389	20,808,568	19,962,992	20,371,516	23,783,161	23,164,626	22,590,305
Total	17,448,246	19,936,953	21,471,624	20,664,103	21,117,053	24,553,111	23,958,786	23,420,029
<b>Liabilities &amp; Equity</b>								
Current Liabilities	380,876	339,152	273,966	265,646	267,446	269,246	271,046	272,946
Long Term Liabilities	8,036,359	7,583,201	9,555,724	9,336,775	9,950,522	12,936,932	13,102,760	13,132,628
Total Liabilities	8,417,235	7,922,353	9,829,690	9,602,421	10,217,968	13,206,178	13,373,806	13,405,574
Net Assets	9,031,011	12,014,600	11,641,934	11,061,682	10,899,085	11,346,933	10,584,980	10,014,455
<b>Cash Flow</b>								
Revenues	2,624,401	2,719,469	2,769,819	2,792,946	2,855,262	2,919,059	2,984,373	3,051,242
Operating Expenses	1,832,006	1,920,489	1,835,653	1,872,366	1,909,813	1,960,209	1,999,169	2,038,908
Other Income	2,095	2,265	2,311	2,311	2,311	2,311	2,311	2,311
Cash Flow Before Debt Service	794,490	801,245	936,477	922,891	947,760	961,161	987,515	1,014,645
<b>Debt Service</b>								
Existing Debt Service	674,381	675,471	670,884	779,224	783,131	815,420	761,616	733,478
Proposed KIA Loan	0	0	0	0	0	82,675	165,350	165,350
Total Debt Service	674,381	675,471	670,884	779,224	783,131	898,095	926,966	898,828
Cash Flow After Debt Service	120,109	125,774	265,593	143,667	164,629	63,066	60,549	115,817
<b>Ratios</b>								
Current Ratio	1.5	2.1	2.4	2.6	2.8	2.9	2.9	3.0
Debt to Equity	0.9	0.7	0.8	0.9	0.9	1.2	1.3	1.3
Days Sales in Accounts Receivable	63.7	67.7	67.5	67.5	67.5	67.5	67.5	67.5
Months Operating Expenses in Unrestricted Cash	0.1	0.5	0.2	0.4	0.6	0.7	0.7	0.9
Debt Coverage Ratio	1.2	1.2	1.4	1.2	1.2	1.1	1.1	1.1

<b>EXECUTIVE SUMMARY</b> <b>KENTUCKY INFRASTRUCTURE AUTHORITY</b> <b>FUND A, FEDERALLY ASSISTED WASTEWATER</b> <b>REVOLVING LOAN FUND</b>		Reviewer Date KIA Loan Number WRIS Number		Ashley Adams January 9, 2020 A19-032 (Increase) SX21205037	
BORROWER		CITY OF MOREHEAD ROWAN COUNTY			
BRIEF DESCRIPTION					
This is a loan increase for a project that was approved in March 2019. During the design phase of the project modifications were made to better accommodate the flows in the proposed project area. The modifications were made because of the high elevation of the existing lift station and its inability to adequately perform during peak flows. Bids came in higher than originally anticipated resulting in the need for additional funds to complete the project.					
Original Description: This project will address capacity issues and sanitary sewer overflows (SSO) throughout sections of the US 60 West and KY 801 sections of Morehead Utility Plant Board's collection system. This will be accomplished by rehabilitating over 65,000 linear feet (LF) of line and 5 different lift stations. Some of the lift station rehabilitation will include increasing capacity as well as installing energy efficient VFD devices and SCADA. Approximately 62% of the recorded 396 SSO events that have occurred since 1998 in the collection system have occurred in the proposed project area.					
PROJECT FINANCING		PROJECT BUDGET		RD Fee %	Actual %
KIA Fund A Loan	\$4,500,000	Legal Expenses			10,000
		Land, Easements			11,140
		Planning			15,000
		Eng - Design / Const	6.9%	6.1%	249,660
		Eng - Insp	3.7%	2.9%	118,600
		Eng - Other			20,600
		Construction			3,715,855
		Contingency			359,145
TOTAL	\$4,500,000	TOTAL			\$4,500,000
REPAYMENT	Rate Term	2.00% 20 Years	Est. Annual Payment 1st Payment		\$283,100 6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer Bond Counsel	Bluegrass Engineering, PLLC Dinsmore & Shohl, LLP			
PROJECT SCHEDULE	Bid Opening Construction Start Construction Stop	Aug-19 Jan-20 Oct-20			
DEBT PER CUSTOMER	Existing Proposed	\$2,290 \$4,620			
OTHER DEBT	See Attached				
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached				
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>		
	Current	5,581	\$29.76	(for 4,000 gallons)	
	Additional	0	\$29.76	(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 2017	2,306,343	1,170,694	1,135,649	2.0	
Audited 2018	2,685,132	1,176,634	1,508,498	2.3	
Audited 2019	4,328,517	1,275,444	3,053,073	3.4	
Projected 2020	3,804,387	1,265,399	2,538,988	3.0	
Projected 2021	3,582,143	1,405,209	2,176,934	2.5	
Projected 2022	3,266,893	2,131,783	1,135,110	1.5	
Projected 2023	3,006,640	1,966,443	1,040,197	1.5	
Projected 2024	2,713,420	1,982,661	730,759	1.4	

Reviewer: Ashley Adams  
Date: January 9, 2020  
Loan Number: A19-032 Increase

**KENTUCKY INFRASTRUCTURE AUTHORITY  
WASTEWATER REVOLVING LOAN FUND (FUND A)  
CITY OF MOREHEAD, ROWAN COUNTY  
PROJECT REVIEW  
SX21205037**

**I. PROJECT DESCRIPTION**

The City of Morehead and the Morehead Plant Utility Board is requesting a Fund A loan increase in the amount of \$850,000 to a loan originally approved by the KIA Board on March 7, 2019 in the amount of \$3,650,000 for the US 60 West and KY 801 SSO Correction project. The increase will bring the loan total to \$4,500,000. During the design phase of the project modifications were made to better accommodate the flows in the proposed project area. The modifications were made because of the high elevation of the existing lift station and its inability to adequately perform during peak flows. Bids came in higher than originally anticipated resulting in the need for additional funds to complete the project.

This project will improve the sanitary sewer collection system in order to address capacity issues and sanitary system overflows (SSO). MUPB began recording SSO events circa 1998. In 2000, MUPB was released from their Agreed Order with the Kentucky Division of Water. Since 1998, MUPB has recorded 396 SSO events throughout their collection system; 245 of the recorded 396 SSO events, approximately 62%, have occurred in the proposed capital improvement project area. Currently, the majority of the SSO events occur at the lift station wet wells in the proposed project area. However, the manholes found in lower elevation areas, such as Salt Lick, often overflow when the pump stations become backed up. Increasing the line capacity will alleviate the bottleneck and allow the lift stations to pump at their designed capacity, thus reducing SSO events. Approximately 65,500 linear feet of line will be rehabilitated as well as 5 lift stations and related appurtenances. Two of the lift stations will be equipped with SCADA and three will be equipped with VFD devices to increase energy efficiency.

The Morehead Utility Plant Board currently serves 5,581 sewer customers, 3,453 water customers, and also provides natural gas to customers in Rowan County.

## II. PROJECT BUDGET

	<u>Total</u>
Legal Expenses	\$ 10,000
Land, Easements	11,140
Planning	15,000
Engineering Fees - Design	210,240
Engineering Fees - Construction	39,420
Engineering Fees - Inspection	118,600
Engineering Fees - Other	20,600
Construction	3,715,855
Contingency	359,145
<b>Total</b>	<b>\$ 4,500,000</b>

## III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
KIA Fund A Loan	\$ 4,500,000	100%
<b>Total</b>	<b>\$ 4,500,000</b>	<b>100%</b>

## IV. KIA DEBT SERVICE

Construction Loan	\$ 4,500,000
Less: Principal Forgiveness	0
Amortized Loan Amount	\$ 4,500,000
Interest Rate	2.00%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 274,100
Administrative Fee (0.20%)	9,000
<b>Total Estimated Annual Debt Service</b>	<b>\$ 283,100</b>

## V. PROJECT SCHEDULE

Bid Opening	August 14, 2019
Construction Start	January 2, 2020
Construction Stop	October 1, 2020

## VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

### A) Customers

	<u>Current</u>
Residential	4,783
Commercial	792
Industrial	6
<b>Total</b>	<b>5,581</b>

## B) Rates

<b>Water</b>	<b>Inside City</b>		<b>Outside City</b>	
	Current	Prior	Current	Prior
Date of Last Rate Increase	08/01/19	08/01/18	08/01/18	08/01/18
Minimum (First 2,000 gallons)	19.89	17.40	23.87	20.88
Next 4,000 Gallons (per 1,000)	8.04	7.03	9.64	8.43
<b>Cost for 4,000 gallons</b>	<b>\$35.97</b>	<b>\$31.46</b>	<b>\$43.15</b>	<b>\$37.74</b>
Increase %	14.3%		14.3%	
Affordability Index (Rate/MHI)	1.1%		1.3%	

  

<b>Sewer</b>	<b>Inside City</b>		<b>Outside City</b>	
	Current	Prior	Current	Prior
Date of Last Rate Increase	08/01/18	08/01/17	08/01/18	08/01/17
Minimum (First 2,000 gallons)	14.60	\$10.50	17.53	\$12.61
Next 4,000 Gallons (per 1,000)	7.58	5.45	8.78	6.32
<b>Cost for 4,000 gallons</b>	<b>\$29.76</b>	<b>\$21.40</b>	<b>\$35.09</b>	<b>\$25.25</b>
Increase %	39.1%		39.0%	
Affordability Index (Rate/MHI)	0.9%		1.1%	

Water rates will be evaluated and adjusted on an annual basis for the next few years based on pending capital projects in the system. The Utility is exploring the implementation of a CPI clause in the future to keep up with inflation.

## VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility's service area population was 15,128 with a Median Household Income (MHI) of \$38,498. The median household income for the Commonwealth is \$44,811. The project will qualify for the non-standard interest rate of 2% because the MHI of the system is between 80-100% of Kentucky's MHI and will retain that interest rate for the loan increase.

Year	City	Population		County	% Change	County Unemployment	
		% Change				Date	Rate
1980	7,789			19,049		June 2005	6.6%
1990	8,357	7.3%		20,353	6.8%	June 2010	10.4%
2000	5,914	-29.2%		22,094	8.6%	June 2015	6.6%
2010	6,845	15.7%		23,333	5.6%	June 2018	6.3%
Current	7,615	11.2%		24,302	4.2%		
Cumulative %		-2.2%			27.6%		

## **VIII. 2018 CAPITALIZATION GRANT EQUIVALENCIES**

- 1) Green Project Reserve - This project does not qualify for Green Project Reserve (GPR) funding.
- 2) Additional Subsidization – This project does not qualify for additional subsidization.

## **IX. FINANCIAL ANALYSIS**

Financial information was obtained from the audited financial statements for the years ended June 30, 2017 through June 30, 2019. Morehead Plant Utility Board is comprised of water, sewer, and gas operations and has limited segregation in their financial statements. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from fiscal 2017-2019 operating expenses and GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, has been removed from 2018 and 2019 operating expenses. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

### **HISTORY**

Total revenues including water, sewer, and gas have increased 33% from 2017 to 2019 mostly due to rate increases. Water revenues increased 22% during that period, sewer revenues increased 61%, and gas revenues increased 16%. Historically, water has contributed the majority of cash available for debt service to the operation while also making up for deficits in sewer. A 39% rate increase in FY 2019 brought sewer into the black for the first time in the observed historical period and contributing almost equal cash flows to debt service. Total operating expenses increased 19% from 2017 to 2019. Water, sewer, and gas share administrative expenses which saw a 28% increase during this time period while water saw a 12% increase, sewer a 14% increase, and gas a 21% increase in operating expenses.

The 2019 balance sheet reflects a current ratio of 1.9, a debt to equity ratio of 0.8, 53 days sales in accounts receivable, and 1.9 months operating expenses in unrestricted cash. The debt coverage ratio from 2017 to 2019 was 2.0, 2.3, and 3.4, respectively.

### **PROJECTIONS**

Projections are based on the following assumptions:

- 1) Sewer revenues will remain flat after the 39% increase in 2018.
- 2) Residential water revenues will increase 14.3% in 2020 for an already approved rate increase effective August 1, 2019. Wholesale water rates will be adjusted approximately 5% January 1, 2020. Water rates are expected to be adjusted through 2021 to prepare for an ongoing water treatment plant project. Only the currently known 2020 water rate increase is factored into this analysis.
- 3) Expenses will increase 2% annually for inflation.

- 4) Debt coverage is 1.5 in 2022 when full principal and interest payments for loan A19-032 and the first four increments of pending KIA loan F19-002 for a major water treatment plant project go into repayment.

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

#### REPLACEMENT RESERVE

The replacement reserve will be 5% (\$226,000 total) of the final amount borrowed (prior to principal forgiveness, if any) to be funded annually (\$11,300 yearly) each December 1 for 20 years and maintained for the life of the loan.

#### **X. DEBT OBLIGATIONS**

	<b>Outstanding</b>	<b>Maturity</b>
RD Series 2001A	\$ 3,331,000	2042
RD Series 2004	1,231,500	2044
Revenue Bonds 1966	15,000	2019
KIA Loan (F00-05)	1,110,080	2023
KIA Loan (A04-02)	2,680,841	2026
KIA Loan (A10-16)	1,371,231	2033
KIA Loan (A209-36)	229,972	2031
KIA Loan (A209-37)	401,444	2032
KIA Loan (A16-065 i/a/o \$1,800,000)	1,722,805	2038
KIA Loan (F18-004 P&D i/a/o \$1,297,200)	687,943	TBD
KIA Loan (F19-002 i/a/o \$26,428,000)	0	TBD
<b>Total</b>	<b>\$ 12,781,816</b>	

#### **XI. CONTACTS**

<b>Legal Applicant</b>	
Entity Name	City of Morehead
Authorized Official	Laura White-Brown (Mayor)
County	Rowan
Email	mayor.whitebrown@morehead-ky.gov
Phone	606-784-8505
Address	314 Bridge Street Morehead, KY 40351

**Applicant Contact**

Name	Holly McGrath- Rosas
Organization	Morehead Utility Plant Board
Email	hrosas@mupb.com
Phone	606-784-8313
Address	135 S Wilson Ave Morehead, KY 40351

**Project Administrator**

Name	Jocelyn R. Gross
Organization	Gateway ADD
Email	jocelynr.gross@ky.gov
Phone	606-780-0090
Address	110 Lake Park Dr. Morehead, KY 40351

**Consulting Engineer**

PE Name	Matthew Ray Curtis
Firm Name	Bluegrass Engineering, PLLC
Email	mcurtis@bludgrassengineering.net
Phone	502-370-6551
Address	222 East Main St, Suite 1 Georgetown, KY 40324

**XII. RECOMMENDATIONS**

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



**CITY OF MOREHEAD**  
**FINANCIAL SUMMARY (JUNE YEAR END)**

	<b>Audited 2017</b>	<b>Audited 2018</b>	<b>Audited 2019</b>	<b>Projected 2020</b>	<b>Projected 2021</b>	<b>Projected 2022</b>	<b>Projected 2023</b>	<b>Projected 2024</b>
<b>Balance Sheet</b>								
<b>Assets</b>								
Current Assets	3,010,960	2,910,114	3,521,512	3,997,469	4,219,262	4,332,773	4,436,793	4,919,578
Other Assets	40,104,332	42,181,210	42,767,771	46,305,846	51,882,461	54,905,752	53,455,433	47,121,562
Total	<u>43,115,292</u>	<u>45,091,324</u>	<u>46,289,283</u>	<u>50,303,315</u>	<u>56,101,724</u>	<u>59,238,526</u>	<u>57,892,226</u>	<u>52,041,140</u>
<b>Liabilities &amp; Equity</b>								
Current Liabilities	1,393,732	1,819,172	1,816,978	1,825,008	1,685,349	1,540,503	1,575,985	805,323
Long Term Liabilities	16,084,456	18,298,424	18,187,697	18,989,395	25,219,769	31,077,339	32,611,277	32,611,277
Total Liabilities	<u>17,478,188</u>	<u>20,117,596</u>	<u>20,004,675</u>	<u>20,814,403</u>	<u>26,905,118</u>	<u>32,617,842</u>	<u>34,187,262</u>	<u>33,416,600</u>
Net Assets	<u>25,637,104</u>	<u>24,973,728</u>	<u>26,284,608</u>	<u>29,488,912</u>	<u>29,196,606</u>	<u>26,620,684</u>	<u>23,704,964</u>	<u>18,624,540</u>
<b>Cash Flow</b>								
Revenues	9,990,829	11,271,041	13,312,938	13,625,955	13,653,858	13,653,858	13,653,858	13,653,858
Operating Expenses	7,657,223	8,591,321	9,106,436	9,943,583	10,193,730	10,508,980	10,769,233	6,363,356
Other Income	(27,263)	5,412	122,015	122,015	122,015	122,015	122,015	122,015
Cash Flow Before Debt Service	<u>2,306,343</u>	<u>2,685,132</u>	<u>4,328,517</u>	<u>3,804,387</u>	<u>3,582,143</u>	<u>3,266,893</u>	<u>3,006,640</u>	<u>7,412,517</u>
<b>Debt Service</b>								
Existing Debt Service*	1,170,694	1,176,634	1,275,444	1,265,399	1,263,659	1,848,683	1,683,343	1,699,561
Proposed KIA Loan	0	0	0	0	141,550	283,100	283,100	283,100
Total Debt Service	<u>1,170,694</u>	<u>1,176,634</u>	<u>1,275,444</u>	<u>1,265,399</u>	<u>1,405,209</u>	<u>2,131,783</u>	<u>1,966,443</u>	<u>1,982,661</u>
Cash Flow After Debt Service	<u>1,135,649</u>	<u>1,508,498</u>	<u>3,053,073</u>	<u>2,538,988</u>	<u>2,176,934</u>	<u>1,135,110</u>	<u>1,040,197</u>	<u>5,429,856</u>
<b>Ratios</b>								
Current Ratio	2.2	1.6	1.9	2.2	2.5	2.8	2.8	6.1
Debt to Equity	0.7	0.8	0.8	0.7	0.9	1.2	1.4	1.8
Days Sales in Accounts Receivable	51.0	51.8	53.0	53.0	53.0	53.0	53.0	53.0
Months Operating Expenses in Unrestricted Cash	3.3	1.6	1.9	2.5	3.0	3.3	3.4	5.1
Debt Coverage Ratio	2.0	2.3	3.4	3.0	2.5	1.5	1.5	1.4

\* Existing debt service in 2022-2023 includes the first four funding increments of pending KIA loan F19-022

EXECUTIVE SUMMARY KENTUCKY INFRASTRUCTURE AUTHORITY FUND A, FEDERALLY ASSISTED WASTEWATER REVOLVING LOAN FUND		Reviewer Date KIA Loan Number WRIS Number	Meili Sun January 9, 2020 A20-031 SX21089110	
BORROWER		CITY OF RUSSELL GREENUP COUNTY		
BRIEF DESCRIPTION This project will evaluate the condition of the existing sewer collection infrastructure for upgrades and repairs to reduce infiltration and inflow. An I & I study will identify areas in the system that have cracked or broken pipes, deteriorated manholes, faulty manhole covers or frames, uncapped clean outs, and connections that discharge storm water into the collection system. The study area will include approximately 13,800 linear feet of sewer pipeline. Once the needs are identified and prioritized, the rehab of the collection system will begin. The most effective methods will be utilized for the rehab efforts, which may include, but are not limited to, replacing pipelines, slip-lining, and point repairs.				
PROJECT FINANCING		PROJECT BUDGET		
Fund A Loan	\$500,000	RD Fee %	Actual %	
		Administrative Expenses	\$3,000	
		Planning	41,500	
		Eng - Design / Const	10.8% 10.5% 40,500	
		Eng - Insp	8.1% 7.8% 30,000	
		Construction	350,000	
		Contingency	35,000	
TOTAL	\$500,000	TOTAL	\$500,000	
REPAYMENT	Rate Term	2.50% 20 Years	Est. Annual Payment \$32,921 1st Payment 6 Mo. after first draw	
PROFESSIONAL SERVICES	Engineer Bond Counsel	Banks Engineering Rubin & Hays		
PROJECT SCHEDULE	Bid Opening Construction Start Construction Stop	Sep-20 Dec-20 Jul-21		
DEBT PER CUSTOMER	Existing Proposed	\$719 \$988		
OTHER DEBT		See Attached		
RESIDENTIAL RATES		Users	Avg. Bill	
	Current	506	\$23.75 (for 4,000 gallons)	
	Additional	0	\$23.75 (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	137,147	120,084	17,063	1.1
Audited 2017	200,522	132,935	67,587	1.5
Audited 2018	127,598	46,257	81,341	2.8
Projected 2019	259,922	372,754	(112,832)	0.7
Projected 2020	261,278	0	261,278	n/a
Projected 2021	262,661	0	262,661	n/a
Projected 2022	262,822	16,461	246,362	16.0
Projected 2023	264,262	32,921	231,341	8.0

Reviewer: Meili Sun  
Date: January 9, 2020  
Loan Number: A20-031

**KENTUCKY INFRASTRUCTURE AUTHORITY  
WASTEWATER REVOLVING LOAN FUND (FUND A)  
CITY OF RUSSELL, GREENUP COUNTY  
PROJECT REVIEW  
SX21089110**

**I. PROJECT DESCRIPTION**

This project will evaluate the condition of the existing sewer collection infrastructure for upgrades and repairs to reduce inflow and infiltration. An Inflow and Infiltration Study will identify areas in the system that have cracked or broken pipes, deteriorated manholes, faulty manhole covers or frames, uncapped clean outs, and connections that discharge storm water into the collection system. The study area will cover approximately 13,800 linear feet of sewer pipeline. Preliminary engineering will include reviews of previous field investigations and condition assessments, and collection of new field data to update the condition assessments. Once the needs are identified and prioritized, the rehab of the collection system will begin. The most effective methods will be utilized for the rehab efforts, which may include, but are not limited to, replacing pipelines, slip-lining, and point repairs.

As a Kentucky Inter-System Operational Permit ("KISOP") system, the City of Russell ("City") is charged for the flow that is sent to the Greenup County Environmental Commission. By repairing and rehabilitating the points of inflow and infiltration, the City will be able to reduce the cost of treatment. The project will also lower the risk of sanitary overflows in the City and improve public health for the existing 500 sewer customers.

**II. PROJECT BUDGET**

	Total
Administrative Expenses	\$ 3,000
Planning	41,500
Engineering Fees – Design	32,500
Engineering Fees – Construction	8,000
Engineering Fees – Inspection	30,000
Construction	350,000
Contingency	35,000
<b>Total</b>	<b>\$ 500,000</b>

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### III. PROJECT FUNDING

	Amount	%
KIA Fund A Loan	\$ 500,000	100%

### IV. KIA DEBT SERVICE

Construction Loan	\$ 500,000
Principal Forgiveness	0
Amortized Loan Amount	\$ 500,000
Interest Rate	2.50%
Loan Term (Year)	20
Estimated Annual Debt Service	\$ 31,921
Administrative Fee (0.2%)	1,250
<b>Annual Debt Service</b>	<b>\$ 32,921</b>

### V. PROJECT SCHEDULE

Bid Opening	September 2020
Construction Start	December 2020
Construction Stop	July 2021

### VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

#### A) Customers

	Current
Residential	400
Commercial	106
Total	506

#### B) Rates

	Sewer	
	Current	Prior
Date of Last Rate Increase	07/01/14	07/01/10
Minimum 1,000 Gallons	\$14.00	\$12.50
Next 1,000 Gallons	3.25	3.00
Cost for 4,000 gallons	\$23.75	\$21.50
Increase %	10.5%	
Affordability Index (Rate/MHI)	0.5%	0.4%

Date of Last Rate Increase	Water Inside City		Water Outside City	
	Current	Prior	Current	Prior
	06/01/19	04/01/17	06/01/19	04/01/17
Minimum 1,000 Gallons	\$20.00	\$18.00	\$20.50	\$18.50
Next 1,000 Gallons	3.30	3.00	3.65	3.30
Next 8,000 Gallons	3.00	2.70	3.40	3.05
Cost for 4,000 gallons	\$29.30	\$26.40	\$30.95	\$27.90
Increase %	11.0%		10.9%	
Affordability Index (Rate/MHI)	0.6%	0.5%	0.6%	0.6%

## VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2013-2017, the Utility's service area population was 853 with a Median Household Income (MHI) of \$58,137. The median household income for the Commonwealth is \$46,535. A standard interest rate of 2.5% will be applied to this loan as the project's Median Household Income does not qualify for a non-standard rate.

Year	Population		County	% Change	County Unemployment	
	City	% Change			Date	Rate
1980	3,824		39,132		June 2005	6.7%
1990	4,014	5.0%	36,742	-6.1%	June 2010	11.7%
2000	3,645	-9.2%	36,891	0.4%	June 2015	7.7%
2010	3,380	-7.3%	36,910	0.1%	June 2019	7.5%
Current	3,284	-2.8%	36,012	-2.4%		
Cumulative %		-14.1%		-8.0%		

## VIII. 2019 CAPITALIZATION GRANT EQUIVALENCIES

1) Additional Subsidization – This project does not qualify for additional subsidization.

## IX. FINANCIAL ANALYSIS

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

## HISTORY

Combined water and sewer revenues increased 1.6% from \$1.65 million in 2016 to \$1.68 million in 2018 while operating expenses went up 2.6% during the same period. The debt coverage ratio was 1.1, 1.5, and 2.8 in 2016, 2017, and 2018 respectively.

The balance sheet reflected a current ratio of 1.2, debt to equity ratio of 0.6, 33.2 days sales in accounts receivable, and 1.5 months of operating expenses in unrestricted cash.

## PROJECTIONS

Projections are based on the following assumptions:

- 1) Water revenues will increase 11% in 2019 from a previously approved rate increase on retail and wholesale water.
- 2) Beginning in 2020, the City will automatically adjust water rates each year based on the Consumer Price Index.
- 3) No sewer rate increase is required during the 5 years in the forecast as the City anticipates savings on treatment costs charged by the Greenup County Environmental Commission after reduction of inflow and infiltration achieved by this project.
- 4) Operating expenses will increase 2% each year for inflation.
- 5) Debt service coverage is 8.0 in FY 2023 when full principal and interest repayments begin.

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

## REPLACEMENT RESERVE

The replacement reserve will be 5% (\$26,000 total) of the final amount borrowed to be funded annually (\$1,300 yearly) each December 1 for 20 years and maintained for the life of the loan.

## X. DEBT OBLIGATIONS

	Outstanding	Maturity
First & Peoples Bank LOC	\$ 358,784	2019
Water Revenue Bond – matured coupon	5,000	2019
<b>Total Debt</b>	<b>\$ 363,784</b>	

## **XI. CONTACTS**

### **Legal Applicant**

Name	City of Russell
Address	410 Ferry St., PO Box 394 Russell, KY 41169
County	Greenup
Authorized Official	Samuel R Simpson IV, Mayor
Phone	(606) 836-9666
Email	Ronsimpson1952@yahoo.com

### **Project Contact - Applicant**

Name	Joy Conley, City Clerk
Organization	City of Russell
Address	410 Ferry St, PO Box 394 Russell, KY 41169
Phone	(606) 836-9666
Email	russelljec@aol.com

### **Project Administrator**

Name	Eric Patton
Organization	FIVCO
Address	32 Fivco Ct Grayson, KY 41143
Phone	(606) 929-1366
Email	eric@fivco.org

### **Consulting Engineer**

Name	John Steinmetz
Firm	Banks Engineering
Address	1211 Jessamine Station Nicholasville, KY 40356
Phone	(859) 421-9695
Email	jsteinmetz@banksengineering.net

## **XII. RECOMMENDATIONS**

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



**CITY OF RUSSELL**  
**FINANCIAL SUMMARY (JUNE YEAR END)**

	<b>Audited 2016</b>	<b>Audited 2017</b>	<b>Audited 2018</b>	<b>Projected 2019</b>	<b>Projected 2020</b>	<b>Projected 2021</b>	<b>Projected 2022</b>	<b>Projected 2023</b>
<b>Balance Sheet</b>								
<b>Assets</b>								
Current Assets	473,238	520,514	441,017	343,017	607,295	873,056	1,122,518	1,357,059
Other Assets	4,577,102	4,535,281	5,441,720	4,672,928	4,481,441	4,277,454	4,574,717	4,371,980
Total	5,050,340	5,055,795	5,882,737	5,015,945	5,088,736	5,150,510	5,697,235	5,729,039
<b>Liabilities &amp; Equity</b>								
Current Liabilities	138,138	59,302	377,972	14,188	14,188	14,188	39,188	39,188
Long Term Liabilities	1,213,323	1,051,243	1,797,777	1,676,309	1,676,309	1,676,309	2,151,309	2,126,309
Total Liabilities	1,351,461	1,110,545	2,175,749	1,690,497	1,690,497	1,690,497	2,190,497	2,165,497
Net Assets	3,698,879	3,945,250	3,706,988	3,325,448	3,398,239	3,460,013	3,506,738	3,563,542
<b>Cash Flow</b>								
Revenues	1,646,386	1,639,260	1,676,323	1,839,630	1,872,588	1,906,205	1,940,495	1,975,471
Operating Expenses	1,509,724	1,439,196	1,549,125	1,580,108	1,611,710	1,643,944	1,678,073	1,711,609
Other Income	485	458	400	400	400	400	400	400
Cash Flow Before Debt Service	137,147	200,522	127,598	259,922	261,278	262,661	262,822	264,262
<b>Debt Service</b>								
Existing Debt Service	120,084	132,935	46,257	372,754	0	0	0	0
Proposed KIA Loan	0	0	0	0	0	0	16,461	32,921
Total Debt Service	120,084	132,935	46,257	372,754	0	0	16,461	32,921
Cash Flow After Debt Service	17,063	67,587	81,341	(112,832)	261,278	262,661	246,362	231,341
<b>Ratios</b>								
Current Ratio	3.4	8.8	1.2	24.2	42.8	61.5	28.6	34.6
Debt to Equity	0.4	0.3	0.6	0.5	0.5	0.5	0.6	0.6
Days Sales in Accounts Receivable	35.2	36.7	33.2	33.2	33.2	33.2	33.2	33.2
Months Operating Expenses in Unrestricted Cash	1.8	2.2	1.5	0.6	2.6	4.4	6.1	7.6
Debt Coverage Ratio	1.1	1.5	2.8	0.7	#DIV/0!	#DIV/0!	16.0	8.0

EXECUTIVE SUMMARY KENTUCKY INFRASTRUCTURE AUTHORITY FUND F, FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND			Reviewer Date KIA Loan Number WRIS Number	Meili Sun January 9, 2020 F19-005 (Increase) WX21199128
BORROWER		CITY OF BURNSIDE PULASKI COUNTY		
BRIEF DESCRIPTION A loan increase of \$573,000 is requested to fund the additional project costs after the City received higher bids than budgeted.  'The proposed project will replace approximately 28,375 LF of waterline, along with valves and fire hydrants in residential and commercial areas within the Burnside Water System. The replacement lines will be 6" PVC. The completion of the project will restore proper fire protection by upsizing lines and replacing fire hydrants. It will also improve domestic service and reduce water loss eliminating leaks as well as provide a direct connection between the WTP and old Burnside.				
PROJECT FINANCING		PROJECT BUDGET		
Fund F Loan	\$2,800,000	Administrative Expenses	RD Fee %	Actual %
		Legal Expenses		
		Planning		
		Eng - Design / Const	7.4%	5.6%
		Eng - Insp	4.3%	3.4%
		Eng - Other		
		Construction		
		Contingency		
TOTAL	\$2,800,000	TOTAL		
REPAYMENT	Rate	0.50%	Est. Annual Payment	\$64,825
	Term	30 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	HMB, Inc		
	Bond Counsel	Rubin & Hays		
PROJECT SCHEDULE	Bid Opening	Nov-19		
	Construction Start	Mar-20		
	Construction Stop	Dec-20		
DEBT PER CUSTOMER	Existing	\$2,681		
	Proposed	\$5,362		
OTHER DEBT	See Attached			
RESIDENTIAL RATES		Users	Avg. Bill	
	Current	597	\$52.22	(for 4,000 gallons)
	Additional	0	\$52.22	(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	(4,894)	72,296	(77,190)	-0.1
Audited 2017	101,598	65,635	35,963	1.5
Audited 2018	177,198	92,634	84,564	1.9
Projected 2019	186,131	93,249	92,882	2.0
Projected 2020	221,339	90,284	131,055	2.5
Projected 2021	225,581	90,418	135,163	2.5
Projected 2022	222,893	151,130	71,763	1.5
Projected 2023	227,275	149,325	77,950	1.5

Reviewer: Meili Sun  
Date: January 9, 2020  
Loan Number: F19-005 Increase

**KENTUCKY INFRASTRUCTURE AUTHORITY  
DRINKING WATER STATE REVOLVING FUND (FUND F)  
CITY OF BURNSIDE, PULASKI COUNTY  
PROJECT REVIEW  
WX21199128**

**I. PROJECT DESCRIPTION**

The City of Burnside ("City") is requesting an increase to its Fund F19-005 loan. The Combined Waterline Improvement project was initially approved on January 8, 2019 for \$2,227,000. The project has gone to bids in November and all bids came out higher than budgeted. An increase of \$573,000 is requested to fund the new total project cost of \$2.8 million.

The project will replace approximately 28,375 LF of waterline with valves and fire hydrants in residential and commercial areas in the Burnside Water System. The replacement lines will be 6" PVC. The completion of the project will restore proper fire protection by upsizing lines and replacing fire hydrants. It will also improve domestic service and reduce water loss by eliminating leaks as well as provide a direct connection between the WTP and old Burnside.

The City produces 85% and purchases around 15% of its water supply from the Southeastern Water Association to serve approximately 600 customers within the system. In a Town Hall meeting held on December 10, 2018 to address the need for the project and the KIA assistance, the City received full support from its residents to move forward with the project.

**II. PROJECT BUDGET**

	Total
Administrative Expenses	\$ 65,000
Legal Expenses	10,000
Planning	15,000
Engineering Fees – Design	111,300
Engineering Fees – Construction	27,825
Engineering Fees – Inspection	84,875
Engineering Fees – Other	6,500
Construction	2,256,290
Contingency	223,210
<b>Total</b>	<b>\$ 2,800,000</b>

### III. PROJECT FUNDING

	Amount	%
KIA Fund F Loan	\$ 2,800,000	100%

### IV. KIA DEBT SERVICE

Construction Loan	\$ 2,800,000
Principal Forgiveness (50%)	1,113,500
Amortized Loan Amount	\$ 1,686,500
Interest Rate	0.50%
Loan Term (Years)	30
Estimated Annual Debt Service	\$ 60,608
Administrative Fee (0.25%)	4,216
<b>Total Estimated Annual Debt Service</b>	<b>\$ 64,825</b>

### V. PROJECT SCHEDULE

Bid Opening	November 2019
Construction Start	March 2020
Construction Stop	December 2020

### VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

#### A) Customers

Customers	Current
Residential	538
Commercial/Institutional	44
Other	15
<b>Total</b>	<b>597</b>

#### B) Rates

	Water Inside City		
	Current	Prior	Prior
Date of Last Rate Increase	07/01/19	07/01/18	07/01/17
First 1,000 Gallons	\$21.14	\$19.22	\$18.67
1,000 Gallons and Above	11.52	10.47	10.17
3,000 Gallons and Above	8.04	7.31	7.10
Cost for 4,000 gallons	\$52.22	\$47.47	\$46.11
Increase %	10.0%	2.9%	
Affordability Index (Rate/MHI)	1.8%	1.6%	1.5%

Date of Last Rate Increase	Water Outside City		
	Current	Prior	Prior
	07/01/19	07/01/18	07/01/17
First 1,000 Gallons	\$25.55	\$23.23	\$18.67
1,000 Gallons and Above	14.33		
3,000 Gallons and Above	9.96		
Cost for 4,000 gallons	\$64.17	\$58.34	\$56.68
Increase %	10.0%	2.9%	
Affordability Index (Rate/MHI)	2.2%	2.0%	1.9%

Date of Last Rate Increase	Sewer		
	Current	Prior	Prior
	07/01/19	07/01/18	07/01/17
First 1,000 Gallons	\$9.58	\$9.13	\$8.87
Debt Service	8.22	8.22	8.22
1,000 Gallons and Above	9.58	9.13	8.87
Cost for 4,000 gallons	\$46.54	\$44.74	\$43.70
Increase %	4.0%	2.4%	
Affordability Index (Rate/MHI)	1.6%	1.5%	1.5%

The City adopted a CPI clause in the 2014 rate ordinance to automatically adjust both water and sewer rates each year based on the Consumer Price Index.

## VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility's service area population was 1,388 with a Median Household Income (MHI) of \$35,706. The median household income for the Commonwealth was \$44,811. The project qualifies for a 30 year loan term at 0.5% interest rate with its MHI below 80% of the State average.

Year	Population		County	% Change	County Unemployment	
	City	% Change			Date	Rate
1980	775		45,803		June 2005	6.1%
1990	695	-10.3%	49,489	8.0%	June 2010	9.8%
2000	637	-8.3%	56,217	13.6%	June 2015	5.9%
2010	611	-4.1%	63,063	12.2%	June 2018	5.8%
Current	1,270	107.9%	63,772	1.1%		
Cumulative %		63.9%		39.2%		

## **VIII. 2018 CAPITALIZATION GRANT EQUIVALENCIES**

- 1) Additional Subsidization – This project qualified for additional subsidization. Principal forgiveness of 50% of the assistance amount, not to exceed \$1,113,500 will be credited to the loan balance upon release of liens on all contracts and disbursement of the final draw request by KIA to the borrower. No changes to the subsidization are expected with the increase request.

## **IX. FINANCIAL ANALYSIS**

Financial information was obtained from the audited financial statements for the years ended June 30, 2016 through June 30, 2018. The non-cash impacts of GASB 68 - Accounting and Financial Reporting for Pensions and GASB 75 - Other Postemployment Benefit has been removed from operating expenses.

### **HISTORY**

Combined water and sewer revenues increased 1.0% from \$587,978 in 2016 to \$593,956 in 2018 while operating expenses decreased 29.7% during the same period. In 2016, the maintenance and treatment costs were significantly higher for renovation of the water treatment plant and water loss control. The debt coverage ratio fell below zero in 2016 but recovered above 1.1 in 2017 and 2018.

The balance sheet reflects a current ratio of 0.6, a debt to equity ratio of 0.4, 20.7 days sales in accounts receivable, and 1.8 months of operating expenses in unrestricted cash.

### **PROJECTIONS**

Projections are based on the following assumptions:

- 1) Water revenues will go up 10% and sewer up 4% from the previously approved rate increases to take effect in FY 2020.
- 2) The City will deposit \$5,000 additionally into the Reserve and Sinking Fund accounts starting FY 2020 for 4 years to replenish the minimum fund balances. This will be subject to annual KIA administrative compliance monitoring.
- 3) The City will continue to adjust rates based on the Consumer Price Index in FY 2021 and going forward.
- 4) Expenses will increase 2% annually for general inflation.
- 5) Debt coverage ratio is 1.5 in 2022 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 replacement reserve will be 5% (\$140,000 total) of the final amount borrowed prior to principal forgiveness to be funded annually (\$7,000 yearly) each December 1 for 20 years and maintained for the life of the loan. As of June 30, 2017, the Reserve and Sinking Fund balances were under funded by approximately \$20,000. The City will set aside additional cash to fund the balances appropriately.

## X. DEBT OBLIGATIONS

	Outstanding	Maturity
Sewer Revenue and Waterworks Bonds	\$ 1,600,500	2055
<b>Total</b>	<b>\$ 1,600,500</b>	

## XI. CONTACTS

### Legal Applicant

Name	City of Burnside
Address	7929 S Hwy 27, PO Box 8 Burnside, KY 42519
County	Pulaski
Authorized Official	Robert Lawson, Mayor
Phone	(606) 561-4113
Email	mayor@burnsidecitygovernment.com

### Project Contact - Applicant

Name	Crissa Morris
Organization	City of Burnside
Address	7929 S Hwy 27, PO Box 8 Burnside, KY 42519
Phone	(606) 561-4113
Email	clerk@burnsidecitygovernment.com

**Project Administrator**

Name	Judy Keltner
Organization	Lake Cumberland Area Development District
Address	2384 Lakeway Dr, PO Box 1570 Russell Springs, KY 42642
Phone	(270) 866-4200
Email	judy@lcadd.org

**Consulting Engineer**

Name	Chris Stewart
Firm	HMB, Inc
Address	3 HMB Circle Frankfort, KY 40601
Phone	(502) 695-9800
Email	castewart@hmbpe.com

**XII. RECOMMENDATIONS**

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



**CITY OF BURNSIDE**  
**FINANCIAL SUMMARY (JUNE YEAR END)**

	<b>Audited 2016</b>	<b>Audited 2017</b>	<b>Audited 2018</b>	<b>Projected 2019</b>	<b>Projected 2020</b>	<b>Projected 2021</b>	<b>Projected 2022</b>	<b>Projected 2023</b>
<b>Balance Sheet</b>								
<b>Assets</b>								
Current Assets	119,782	174,224	198,133	217,591	246,402	274,035	288,988	305,178
Other Assets	8,828,921	8,565,742	8,333,898	7,921,774	7,738,480	10,358,472	10,134,745	9,915,967
Total	8,948,703	8,739,966	8,532,031	8,139,365	7,984,882	10,632,507	10,423,732	10,221,144
<b>Liabilities &amp; Equity</b>								
Current Liabilities	333,837	376,864	359,718	359,731	318,331	319,431	320,531	321,631
Long Term Liabilities	1,956,111	1,973,240	1,962,339	1,889,112	1,889,112	3,575,612	3,575,612	3,575,612
Total Liabilities	2,289,948	2,350,104	2,322,057	2,248,843	2,207,443	3,895,043	3,896,143	3,897,243
Net Assets	6,658,755	6,389,862	6,209,974	5,890,522	5,777,439	6,737,464	6,527,589	6,323,901
<b>Cash Flow</b>								
Revenues	587,978	594,558	593,956	608,826	655,090	665,509	676,121	686,929
Operating Expenses	592,872	492,960	416,758	422,695	433,751	439,928	453,228	459,654
Other Income	0	0	0	0	0	0	0	0
Cash Flow Before Debt Service	(4,894)	101,598	177,198	186,131	221,339	225,581	222,893	227,275
<b>Debt Service</b>								
Existing Debt Service	72,296	65,635	92,634	93,249	90,284	90,418	86,305	84,500
Proposed KIA Loan	0	0	0	0	0	0	64,825	64,825
Total Debt Service	72,296	65,635	92,634	93,249	90,284	90,418	151,130	149,325
Cash Flow After Debt Service	(77,190)	35,963	84,564	92,882	131,055	135,163	71,763	77,950
<b>Ratios</b>								
Current Ratio	0.4	0.5	0.6	0.6	0.8	0.9	0.9	0.9
Debt to Equity	0.3	0.4	0.4	0.4	0.4	0.6	0.6	0.6
Days Sales in Accounts Receivable	14.3	39.7	20.7	20.7	20.7	20.7	20.7	20.7
Months Operating Expenses in Unrestricted Cash	0.3	0.3	1.8	2.3	3.0	3.7	4.0	4.4
Debt Coverage Ratio	(0.1)	1.5	1.9	2.0	2.5	2.5	1.5	1.5