

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

- **Fund F Loan**

<u>Loan #</u>	<u>Borrower</u>	<u>Amount Requested</u>	<u>Loan Total</u>	<u>County</u>
F21-019	City of Whitesburg	\$ 2,200,000	\$ 2,200,000	Letcher
F21-025	McCreary County Water District	\$ 270,000	\$ 270,000	McCreary
F21-076	City of Hazard	\$ 1,637,500	\$ 1,637,500	Perry

EXECUTIVE SUMMARY		Reviewer		Meili Sun
KENTUCKY INFRASTRUCTURE AUTHORITY		Date		November 5, 2020
FUND F, FEDERALLY ASSISTED DRINKING WATER		KIA Loan Number		F21-019
REVOLVING LOAN FUND		WRIS Number		WX21133061
BORROWER		CITY OF WHITESBURG LETCHER COUNTY		
BRIEF DESCRIPTION				
This project will install approximately 61,000 LF of 2", 3", 4", and 6" PVC waterines, meters, flushing hydrants, a water storage tank, and a duplex pump station. The extension will serve 166 customers who currently rely on wells or hauled water. The duplex pump station will be constructed at the end of the existing 6" waterline to ensure that water pressure requirements are met at the top of the hill on KY HWY 931. This will provide the currently unserved residents with a reliable and safe supply of potable water while increasing rate revenues to the City from the new customers.				
PROJECT FINANCING		PROJECT BUDGET		RD Fee % Actual %
Fund F Loan	\$2,200,000	Administrative Expenses		\$40,000
		Legal Expenses		5,500
		Planning		5,000
		Eng - Design / Const	7.8%	7.8%
		Eng - Insp	4.7%	4.7%
		Eng - Other		25,000
		Construction		1,715,895
		Contingency		171,605
TOTAL	\$2,200,000	TOTAL		\$2,200,000
REPAYMENT	Rate	0.25%	Est. Annual Payment	
	Term	30 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	Nesbitt Engineering, Inc.		
	Bond Counsel	Rubin & Hays		
PROJECT SCHEDULE	Bid Opening	Apr-21		
	Construction Start	Jun-21		
	Construction Stop	Feb-22		
DEBT PER CUSTOMER	Existing	\$1,294		
	Proposed	\$2,559		
OTHER DEBT		See Attached		
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>	
	Current	1,372	\$24.40 (for 4,000 gallons)	
	Additional	166	\$24.40 (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	276,742	353,670	(76,928)	0.8
Audited 2018	90,184	313,104	(222,920)	0.3
Audited 2019	431,264	193,307	237,957	2.2
Projected 2020	693,601	174,809	518,792	4.0
Projected 2021	685,748	167,626	518,122	4.1
Projected 2022	662,438	144,498	517,940	4.6
Projected 2023	641,867	183,584	458,283	3.5
Projected 2024	616,848	237,030	379,818	2.6

Reviewer: Meili Sun
Date: November, 2020
Loan Number: F21-019

**KENTUCKY INFRASTRUCTURE AUTHORITY
DRINKING WATER STATE REVOLVING FUND (FUND F)
CITY OF WHITESBURG, LETCHER COUNTY
PROJECT REVIEW
WX21133061**

I. PROJECT DESCRIPTION

The City of Whitesburg ("City") is requesting a Fund F loan in the amount of \$2,200,000 for the KY HWY 931 Waterline Extension Project. This project will install approximately 61,000 LF of 2", 3", 4", and 6" PVC waterlines, meters, flushing hydrants, a water storage tank, and a duplex pump station. The extension will serve 166 households who currently rely on wells or hauled water. The duplex pump station will be constructed at the end of the existing 6" waterline to ensure that water pressure requirements are met at the top of the hill on KY HWY 931. This will provide the currently unserved residents with a reliable and safe supply of potable water while increasing rate revenues to the City from the new customers.

The City provides retail water to approximately 1,400 customers and wholesale water to the Letcher County Water and Sewer District, which is a PSC regulated entity. Wholesale water is less than 10% of the total usage.

II. PROJECT BUDGET

	Total
Administrative Expenses	\$ 40,000
Legal Expenses	5,500
Planning	5,000
Engineering Fees – Design	118,000
Engineering Fees – Construction	30,000
Engineering Fees – Inspection	89,000
Engineering Fees – Other	25,000
Construction	1,715,895
Contingency	171,605
Total	\$ 2,200,000

III. PROJECT FUNDING

	Amount	%
KIA Fund F Loan	\$ 2,200,000	100%

IV. KIA DEBT SERVICE

Construction Loan	\$ 2,200,000
Principal Forgiveness	0
Amortized Loan Amount	\$ 2,200,000
Interest Rate	0.25%
Loan Term (Year)	30
Estimated Annual Debt Service	\$ 76,164
Administrative Fee (0.25%)	5,500
Total Estimated Annual Debt Service	\$ 81,664

V. PROJECT SCHEDULE

Bid Opening	April 2021
Construction Start	June 2021
Construction Stop	February 2022

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

Customers	Current	Proposed	Total
Residential	1,141	160	1,301
Commercial	231	5	236
Industrial		1	1
Total	1,373	166	1,538

B) Rates

	Water Inside City		Water Outside City	
	Current	Prior	Current	Prior
Date of Last Rate Increase	07/01/19	01/11/08	07/01/19	01/11/08
Minimum 2,000 Gallons	\$13.40	\$9.40	\$24.00	\$20.00
Next 2,000 Gallons (Per 1,000 Gallons)	5.50	3.50	9.00	7.00
Next 1,000 Gallons	8.00	6.00	9.50	7.50
Next 1,000 Gallons & after	11.56	9.56	16.56	14.56
Cost for 4,000 gallons	\$24.40	\$16.40	\$42.00	\$34.00
Increase %	48.8%		23.5%	
Affordability Index (Rate/MHI)	0.8%	0.6%	1.4%	1.2%

Date of Last Rate Increase	Sewer Inside City		Sewer Outside City	
	Current	Prior	Current	Prior
	07/01/19	07/01/09	07/01/19	07/01/09
Minimum 2,000 Gallons	\$15.41	\$12.67	\$27.60	\$12.67
Next 2,000 Gallons (Per 1,000 Gallons)	6.33	8.57	10.35	8.57
Next 1,000 Gallons	9.20	8.57	10.93	8.57
Cost for 4,000 gallons	\$28.07	\$29.81	\$48.30	\$29.81
Increase %	-5.8%		62.0%	
Affordability Index (Rate/MHI)	1.0%	1.0%	1.6%	1.0%

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2014-2018, the Utility's service area population was 3,203 with a Median Household Income (MHI) of \$33,335. The median household income for the Commonwealth is \$48,392. The project will qualify for the disadvantaged community interest rate at 0.25%.

Year	Population		County	% Change	County Unemployment	
	City	% Change			Date	Rate
1980	1,525		30,687		June 2005	7.8%
1990	1,636	7.3%	27,000	-12.0%	June 2010	11.1%
2000	1,600	-2.2%	25,277	-6.4%	June 2015	11.6%
2010	2,139	33.7%	24,519	-3.0%	June 2020	7.5%
Current	2,335	9.2%	22,676	-7.5%		
Cumulative %		53.1%		-26.1%		

VIII. 2020 CAPITALIZATION GRANT EQUIVALENCIES

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. The City's proprietary funds consolidate water, sewer, and sanitation operations. The non-cash impacts of GASB 68 – Accounting and Financial Reporting for Pensions and GASB 75 – Accounting and Financial Reporting for Other Postemployment Benefit have 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.

On December 20, 2017, the Kentucky Auditor of Public Accounts released an Examination of Certain Policies, Procedures, and Financial Activity of the City of Whitesburg, Kentucky, which identified several findings regarding the City's financial and accounting practices. The Examination revealed more than \$350,000 in delinquent money for billing of water and sewer department. The cause of the delinquent payments was a combination of improper meter readings and erroneous customer billings. Based on the APA recommendations, the City had made drastic improvements to implement sound procedures for collecting all accounts receivable, establish a consistent process for the treatment of past-due accounts, and apply policies and procedures to the adjustment of water utility accounts. In 2019, a restatement of approximately \$550,000 was made to write off aged or inactive accounts.

HISTORY

Combined operating revenues of proprietary funds increased 3.8% from \$1.50 million in 2017 to \$1.55 million in 2019 while operating expenses decreased 8.1% from \$1.22 million to 1.12 million during the same period as a result of less repairs and maintenance required. Consolidated cash flow before debt service was \$336,580 in 2019. Water cash flow was \$77,158 or 22.9% of consolidated cash flow before debt service. The debt coverage ratios of 2017 and 2018 were below 1.1 because of increased bad debt expenses and no rate increases since 2009. The ratio went up to 2.2 in 2019 after the City paid off 3 existing debts.

The balance sheet reflects a current ratio of 1.8, a debt to equity ratio of 0.6, 56.2 days of sales in accounts receivable, and 1.2 months of operating expenses in unrestricted cash.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Inside City water revenues will go up 48.8% and outside city rates up 23.5% from the rate increases that took effect in July, 2019.
- 2) Wholesale water will remain at the current rate.
- 3) Expenses will increase 2% annually for inflation.
- 4) Debt service coverage is 3.5 in 2023 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% (\$110,000 total) of the final amount borrowed to be funded annually (\$5,500 yearly) each December 1 for 20 years and maintained for the life of the loan.

X. DEBT OBLIGATIONS

	Outstanding	Maturity
USDA RD 91-03 Bonds	\$ 42,000	2024
USDA RD 92-05 Bonds	116,000	2029
USDA RD 92-07 Bonds	37,900	2041
USDA RD 92-09 Bonds	809,500	2047
KIA Loan F209-03	47,215	2030
KIA Loan A07-03	648,601	2031
TCF Equipment Finance	65,716	2021
Community Trust Bank	8,040	2020
KIA Loan F20-026 i.a.o. \$300,000		TBD
Total	\$ 1,774,972	

XI. CONTACTS

Legal Applicant

Name	City of Whitesburg
Address	38 E Main St Whitesburg, KY 4185
County	Letcher
Authorized Official	James W Craft, Mayor
Phone	(606) 633-3700
Email	ewcabc@gmail.com

Project Contact - Applicant

Name	Jessica Keene
Organization	City of Whitesburg
Address	38 E Main St Whitesburg, KY 41858
Phone	(606) 633-3705
Email	whitesburgcityclerk@gmail.com

Project Administrator

Name	Angelia Hall
Organization	Kentucky River Area Development District
Address	941 N Main St Hazard, KY 41701
Phone	(606) 436-3158
Email	angelia@kradd.org

Consulting Engineer

Name	Paul Nesbitt
Firm	Nesbitt Engineering, Inc.
Address	227 North Upper Street Lexington, KY 40507
Phone	(859) 233-3111
Email	pnesbitt@nei-ky.com

XII. RECOMMENDATIONS

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

CITY OF WHITESBURG
FINANCIAL SUMMARY (JUNE YEAR END)

	Audited 2017	Audited 2018	Audited 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Balance Sheet								
Assets								
Current Assets	500,899	488,905	348,105	497,989	601,614	705,202	804,359	880,322
Other Assets	9,151,148	8,996,404	8,012,424	7,981,048	7,934,135	11,104,577	10,934,294	10,701,238
Total	9,652,047	9,485,309	8,360,529	8,479,037	8,535,749	11,809,779	11,738,653	11,581,560
Liabilities & Equity								
Current Liabilities	371,482	338,578	192,470	189,238	169,788	165,388	258,727	267,473
Long Term Liabilities	2,605,757	3,143,947	2,888,340	2,769,642	2,671,294	5,078,246	4,892,759	4,699,425
Total Liabilities	2,977,239	3,482,525	3,080,810	2,958,880	2,841,082	5,243,634	5,151,486	4,966,899
Net Assets	6,674,808	6,002,784	5,279,719	5,520,157	5,694,667	6,566,145	6,587,167	6,614,662
Cash Flow								
Revenues	1,495,125	1,638,068	1,551,488	1,851,229	1,851,229	1,851,229	1,899,834	1,899,834
Operating Expenses	1,218,533	1,548,126	1,120,224	1,157,628	1,165,481	1,188,791	1,257,967	1,282,986
Other Income	150	242	0	0	0	0	0	0
Cash Flow Before Debt Service	276,742	90,184	431,264	693,601	685,748	662,438	641,867	616,848
Debt Service								
Existing Debt Service	353,670	313,104	193,307	174,809	167,626	144,498	142,752	155,366
Proposed KIA Loan	0	0	0	0	0	0	40,832	81,664
Total Debt Service	353,670	313,104	193,307	174,809	167,626	144,498	183,584	237,030
Cash Flow After Debt Service	(76,928)	(222,920)	237,957	518,792	518,122	517,940	458,283	379,818
Ratios								
Current Ratio	1.3	1.4	1.8	2.6	3.5	4.3	3.1	3.3
Debt to Equity	0.4	0.6	0.6	0.5	0.5	0.8	0.8	0.8
Days Sales in Accounts Receivable	99.8	87.4	56.2	56.2	56.2	56.2	56.2	56.2
Months Operating Expenses in Unrestricted Cash	0.9	0.7	1.2	2.2	3.3	4.2	4.9	5.5
Debt Coverage Ratio	0.8	0.3	2.2	4.0	4.1	4.6	3.5	2.6

EXECUTIVE SUMMARY		Reviewer		Meili Sun	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date		November 5, 2020	
FUND F, FEDERALLY ASSISTED DRINKING WATER		KIA Loan Number		F21-025	
REVOLVING LOAN FUND		WRIS Number		WX21147013	
BORROWER		MCCREARY COUNTY WATER DISTRICT MCCREARY COUNTY			
BRIEF DESCRIPTION					
This project will install 6,550 linear feet of 3-inch water line that will provide a source of potable water to nine unserved customers. If available, the remaining funds will extend approximately 2,500 linear feet of 3-inch waterline along KY 896 (Noah Dock Road) to serve additional customers.					
PROJECT FINANCING		PROJECT BUDGET		RD Fee %	Actual %
Fund F Loan	\$270,000	Administrative Expenses			\$10,000
		Eng - Design / Const		12.1%	11.7%
		Eng - Insp		10.2%	9.8%
		Construction			210,000
		Contingency			4,000
TOTAL	\$270,000	TOTAL			\$270,000
REPAYMENT	Rate	0.25%	Est. Annual Payment		\$5,011
	Term	30 Years	1st Payment	6 Mo. after first draw	
PROFESSIONAL SERVICES	Engineer	Eclipse Engineers, PLLC			
	Bond Counsel	Rubin & Hays			
PROJECT SCHEDULE	Bid Opening	Mar-21			
	Construction Start	May-21			
	Construction Stop	Nov-21			
DEBT PER CUSTOMER	Existing	\$1,891			
	Proposed	\$2,679			
OTHER DEBT		See Attached			
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>		
	Current	5,905	\$36.56 (for 4,000 gallons)		
	Additional	9	\$36.56 (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	666,173	687,789	(21,616)		1.0
Audited 2018	517,704	689,414	(171,710)		0.8
Audited 2019	772,103	811,169	(39,066)		1.0
Projected 2020	941,275	1,304,961	(363,686)		0.7
Projected 2021	1,110,888	906,585	204,303		1.2
Projected 2022	1,175,525	1,038,149	137,376		1.1
Projected 2023	1,134,188	1,020,765	113,423		1.1
Projected 2024	1,093,145	1,018,441	74,704		1.1

Reviewer: Meili Sun
Date: November 5, 2020
Loan Number: F21-025

**KENTUCKY INFRASTRUCTURE AUTHORITY
WASTEWATER REVOLVING LOAN FUND (FUND A)
MCCREARY COUNTY WATER DISTRICT, MCCREARY COUNTY
PROJECT REVIEW
WX21147013**

I. PROJECT DESCRIPTION

The McCreary County Water District ("District") is requesting a Fund F loan in the amount of \$270,000 for the Catron/Needle Road Water Line project. This project will install 6,550 linear feet of 3-inch water line that will provide a safe and reliable source of potable water to nine unserved customers. If available, any remaining funds will extend approximately 2,500 linear feet of 3-inch water line along KY 896 (Noah Dock Road) to serve additional customers.

The District currently serves approximately 5,900 retail water customers and 1,100 sewer customers in McCreary County and provide wholesale water to the Whitley County Water District and the City of Onieda in Tennessee. Both McCreary and Whitley County Water Districts are under the Public Service Commission jurisdiction ("PSC") and subject to PSC rate regulations. The District had not sold any water to Onieda in the past 3 years due to the need basis agreement but may resume sales in 2021 to supply water for Onieda's source water project.

II. PROJECT BUDGET

	Total
Administrative Expenses	\$ 10,000
Engineering Fees – Design	17,000
Engineering Fees – Construction	8,000
Engineering Fees – Inspection	21,000
Construction	210,000
Contingency	4,000
Total	\$ 270,000

III. PROJECT FUNDING

	Amount	%
KIA Fund F Loan	\$ 270,000	100%

IV. KIA DEBT SERVICE

KIA Loan	\$	270,000
Principal Forgiveness		135,000
Amortized Loan Amount	\$	135,000
Interest Rate		0.25%
Loan Term (Year)		30
Estimated Annual Debt Service	\$	4,674
Administrative Fee (0.25%)		338
Total Estimated Annual Debt Service	\$	5,011

V. PROJECT SCHEDULE

Bid Opening	March 2021
Construction Start	May 2021
Construction Stop	November 2021

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

Customers	Current	Proposed	Total
Residential	5,652	9	5,661
Commercial	247		247
Industrial/Institutional	6		6
Total	5,905	9	5,914

B) Rates

	Sewer	
	Current	Prior
Date of Last Rate Increase	08/29/19	03/06/15
Minimum 2,000 Gallons	\$24.19	\$19.35
Next 18,000 Gallons	8.44	6.75
Over 20,000 Gallons	7.50	6.00
Cost for 4,000 gallons	\$41.07	\$32.85
Increase %	25.0%	
Affordability Index (Rate/MHI)	2.1%	1.7%

		Water	
	Proposed	Current	Prior
Date of Last Rate Increase	01/01/21	08/02/19	03/06/15
Minimum 2,000 Gallons	\$22.50	\$21.98	\$20.35
Over 2,000 Gallons	9.25	7.29	6.75
Cost for 4,000 gallons	\$41.00	\$36.56	\$33.85
Increase %	12.1%	8.0%	
Affordability Index (Rate/MHI)	2.1%	1.9%	1.8%

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2014-2018, the Utility's service area population was 16,057 with a Median Household Income (MHI) of \$23,209. The median household income for the Commonwealth is \$48,392. The project will qualify for a 30-year term at 0.25% interest rate and up to 50% or \$135,000 principal forgiveness.

Population			County Unemployment	
Year	County	% Change	Date	Rate
1980	15,634		June 2005	8.8%
1990	15,603	-0.2%	June 2010	13.8%
2000	17,080	9.5%	June 2015	8.3%
2010	18,306	7.2%	June 2020	5.2%
Current	17,635	-3.7%		
Cumulative %		12.8%		

VIII. 2020 CAPITALIZATION GRANT EQUIVALENCIES

Additional Subsidization – This project qualifies for additional subsidization. Principal forgiveness of 50% of the assistance amount, not to exceed \$135,000 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 December 31, 2017 through December 31, 2019. The non-cash impacts of GASB 68 – Accounting and Financial Reporting for Pensions and GASB 75 – Other Postemployment Benefit have 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 increased 6.7% from \$4.18 million in 2017 to \$4.46 million in 2019 due to previously approved rate increases while operating expenses decreased 0.5% from \$3.92 million to \$3.90 million during the same period. The debt coverage ratios were 1.0, 0.8, and 1.0 in the three respective audit years.

The balance sheet reflects a current ratio of 0.8, a debt to equity ratio of 0.7, 31.4 days of sales in accounts receivable, and 0.8 month of operating expenses in unrestricted cash.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Water rates will increase 5.6% as previously approved in 2020 and 12.1% pending PSC approval in 2021.
- 2) Sewer revenues will increase 17.5% as previously approved in 2020.
- 3) This project will add 9 new customers to the District's water services.
- 4) Based on a 2020 up-to-dated Profit & Loss report provided by the District that demonstrates significantly improved financial performance compared with 2019, KIA will apply only 1% annual inflationary increase to the operating expenses.
- 5) Debt service coverage is 1.1 in 2022 when first principal repayment for this requested loan is anticipated.

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% (\$14,000 total) of the final amount borrowed prior to principal forgiveness to be funded annually (\$700 yearly) each December 1 for 20 years and maintained for the life of the loan.

X. DEBT OBLIGATIONS

	Outstanding	Maturity
United Cumberland Loan	\$ 495,000	2020
BB&T Loan	728,000	2028
RD Series 2013D	860,000	2052
RD Series 2013A	578,500	2030
RD Series 2005A	617,000	2045
RD Series 2008A	280,500	2048
RD Series 2008A	129,500	2048
RD Series 2012D	2,600,000	2040

	Outstanding	Maturity
RD Series 2012D1	1,190,000	2052
RD Series 2015	1,125,500	2055
KIA Loan F04-03	505,200	2026
RD Series 2005A – Sewer	238,000	2045
RD Series 2012D – Sewer	1,300,000	2040
RD Series 2019 i.a.o. \$1,324,000	517,918	2060
KIA Loan A 20-047 i.a.o. \$3,244,500		TBD
RD Loan i.a.o. \$400,000 for A20-047		TBD
RD Loan i.a.o. \$722,710 for Marsh Creek project		TBD
RD Loan i.a.o. \$819,750 for Parkers Lake project		TBD
Total	\$ 11,165,118	

XI. CONTACTS

Legal Applicant

Name	McCreary County Water District
Address	PO Box 488 Whitley City, KY 42653
County	McCreary
Authorized Official	Randy Kidd, Chairman
Phone	(606) 376-2540
Email	stepwhitaker@gmail.com

Project Contact - Applicant

Name	Stephen Whitaker, Superintendent
Organization	McCreary County Water District
Address	456 N Hwy 27 Whitley City, KY 42653
Phone	(606) 376-2540
Email	stepwhitaker@gmail.com

Project Administrator	
Name	Judy Hachey, Community Development Specialist
Organization	LCADD
Address	2384 Lakeway Drive, PO Box 1570 Russell Springs, KY 42642
Phone	(270) 866-4200
Email	judyh@lcadd.org

Consulting Engineer	
Name	Alan Ray Robinson
Firm	Eclipse Engineers, PLLC
Address	113 W Mount Vernon Street Somerset, KY 42501
Phone	(859) 433-9585
Email	arobinson@eclipseengineers.net

XII. RECOMMENDATIONS

KIA staff recommends approval of the loan with the standard conditions and the following special conditions as required by the PSC:

- 1) The District shall apply to the Public Service Commission (PSC), pursuant to KRS 278.300, for debt authorization for KIA loan F21-025 in the amount of \$135,000. This debt authorization application should include a financial forecast that meets debt service projected through 2025.
- 2) Prior to execution of the assistance agreement, the District must receive a Certificate of Public Convenience and Necessity, pursuant to KRS 278.020, from the PSC for any portion of the project that may require it, or provide an opinion from legal counsel or the staff of the PSC, or a declaratory order from the PSC, that a CPCN is not required for any portion of the assets to be constructed as part of the loan agreement.

MCCREARY COUNTY WATER DISTRICT
FINANCIAL SUMMARY (DECEMBER YEAR END)

	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Balance Sheet								
Assets								
Current Assets	1,369,825	1,189,079	1,140,490	809,624	1,032,727	1,183,403	1,296,826	1,371,530
Other Assets	40,348,720	40,044,396	39,272,909	36,949,944	42,822,021	41,136,860	39,452,398	37,767,937
Total	<u>41,718,545</u>	<u>41,233,475</u>	<u>40,413,399</u>	<u>37,759,568</u>	<u>43,854,748</u>	<u>42,320,263</u>	<u>40,749,224</u>	<u>39,139,467</u>
Liabilities & Equity								
Current Liabilities	679,396	783,851	1,508,611	1,092,875	1,224,156	1,227,707	1,246,783	1,269,326
Long Term Liabilities	13,545,929	14,631,312	14,624,198	14,076,938	19,601,056	18,932,464	18,251,695	17,555,484
Total Liabilities	<u>14,225,325</u>	<u>15,415,163</u>	<u>16,132,809</u>	<u>15,169,812</u>	<u>20,825,212</u>	<u>20,160,170</u>	<u>19,498,478</u>	<u>18,824,809</u>
Net Assets	<u>27,493,220</u>	<u>25,818,312</u>	<u>24,280,590</u>	<u>22,589,756</u>	<u>23,029,537</u>	<u>22,160,093</u>	<u>21,250,747</u>	<u>20,314,658</u>
Cash Flow								
Revenues	4,179,599	4,164,004	4,459,832	4,841,164	5,059,181	5,213,925	5,213,925	5,213,925
Operating Expenses	3,922,787	3,751,384	3,904,223	3,943,265	3,991,669	4,081,776	4,123,113	4,164,156
Other Income	409,361	105,084	216,494	43,376	43,376	43,376	43,376	43,376
Cash Flow Before Debt Service	<u>666,173</u>	<u>517,704</u>	<u>772,103</u>	<u>941,275</u>	<u>1,110,888</u>	<u>1,175,525</u>	<u>1,134,188</u>	<u>1,093,145</u>
Debt Service								
Existing Debt Service	687,789	689,414	811,169	1,304,961	906,585	1,033,138	1,015,754	1,013,430
Proposed KIA Loan	0	0	0	0	0	5,011	5,011	5,011
Total Debt Service	<u>687,789</u>	<u>689,414</u>	<u>811,169</u>	<u>1,304,961</u>	<u>906,585</u>	<u>1,038,149</u>	<u>1,020,765</u>	<u>1,018,441</u>
Cash Flow After Debt Service	<u>(21,616)</u>	<u>(171,710)</u>	<u>(39,066)</u>	<u>(363,686)</u>	<u>204,303</u>	<u>137,376</u>	<u>113,423</u>	<u>74,704</u>
Ratios								
Current Ratio	2.0	1.5	0.8	0.7	0.8	1.0	1.0	1.1
Debt to Equity	0.5	0.6	0.7	0.7	0.9	0.9	0.9	0.9
Days Sales in Accounts Receivable	31.4	31.5	31.4	31.4	31.4	31.4	31.4	31.4
Months Operating Expenses in Unrestricted Cash	1.7	1.3	0.8	(0.3)	0.3	0.7	1.1	1.3
Debt Coverage Ratio	1.0	0.8	1.0	0.7	1.2	1.1	1.1	1.1

EXECUTIVE SUMMARY		Reviewer		Alex Fisher	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date		November 5, 2020	
FUND F, FEDERALLY ASSISTED DRINKING WATER		KIA Loan Number		F21-076	
REVOLVING LOAN FUND		WRIS Number		WX21193049	
BORROWER		CITY OF HAZARD PERRY COUNTY			
BRIEF DESCRIPTION					
The City of Hazard ("City") is requesting a Fund F loan in the amount of \$1,637,500 for the Emergency Tank Replacement project. This project will replace the Liberty Street tank. This project will construct two 1,000,000 gallon ground storage tanks at the existing location. The existing will be demolished upon completion of the new tank. The project will include telemetry. Currently, the existing 2,000,000 million gallon tank feeds the entire Hazard system from the plant, when the tank has issues or needs maintenance, the system must be taken offline. By constructing two 1,000,000 million gallon tanks the City will be able to leave one tank in operation when issues arise or maintenance is necessary and therefore not have to take the system offline. The project will also include two VFD's at the plant. Governor Andy Beshear issued an emergency declaration due to the results of a tank inspection dated August 14, 2020 that deemed the tank unsafe and needed to be taken out of service.					
Currently the City of Hazard serves 9,000 residential and over 750 commercial customers.					
PROJECT FINANCING		PROJECT BUDGET		RD Fee %	Actual %
Fund F Loan	\$1,637,500	Administrative Expenses			\$50,000
ARC	800,000	Legal Expenses			5,000
		Eng - Design / Const	7.6%	6.9%	145,000
		Eng - Insp	4.6%	4.3%	90,000
		Eng - Other			35,000
		Construction			1,862,500
		Contingency			250,000
TOTAL	\$2,437,500	TOTAL			\$2,437,500
REPAYMENT	Rate	0.25%	Est. Annual Payment		\$44,724
	Term	30 Years	1st Payment	6 Mo. after first draw	
PROFESSIONAL SERVICES	Engineer	Nesbitt Engineering			
	Bond Counsel	Rubin & Hays			
PROJECT SCHEDULE	Bid Opening	May-21			
	Construction Start	Jun-21			
	Construction Stop	Jul-22			
DEBT PER CUSTOMER	Existing	\$683			
	Proposed	\$695			
OTHER DEBT	See Attached				
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>		
	Current	9,768	\$30.81 (for 4,000 gallons)		
	Additional	0	\$30.81 (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	372,417	784,705	(412,288)		0.5
Audited 2018	1,558,501	425,683	1,132,818		3.7
Audited 2019	135,431	401,110	(265,679)		0.3
Projected 2020	1,204,799	437,426	767,373		2.8
Projected 2021	1,203,299	671,390	531,909		1.8
Projected 2022	1,201,799	697,137	504,662		1.7
Projected 2023	1,196,199	594,764	601,435		2.0
Projected 2024	1,190,599	511,993	678,606		2.3

Reviewer: Alex Fisher
Date: Nov. 5, 2020
Loan Number: F21-076

**KENTUCKY INFRASTRUCTURE AUTHORITY
DRINKING WATER STATE REVOLVING FUND (FUND F)
CITY OF HAZARD, PERRY COUNTY
PROJECT REVIEW
WX21193049**

I. PROJECT DESCRIPTION

The City of Hazard ("City") is requesting a Fund F loan in the amount of \$1,637,500 for the Emergency Tank Replacement project. This project will replace the Liberty Street tank. This project will construct two 1,000,000 gallon ground storage tanks at the existing location. The existing will be demolished upon completion of the new tank. The project will include telemetry. Currently, the existing 2,000,000 million-gallon tank feeds the entire Hazard system from the plant, when the tank has issues or needs maintenance, the system must be taken offline. By constructing two 1,000,000 million gallon tanks the City will be able to leave one tank in operation when issues arise or maintenance is necessary and therefore not have to take the system offline. The project will also include two VFD's at the plant. Governor Andy Beshear issued an emergency declaration due to the results of a tank inspection dated August 14, 2020 that deemed the tank unsafe and needed to be taken out of service.

Currently the City of Hazard serves 9,000 residential and over 750 commercial customers.

II. PROJECT BUDGET

	Total
Administrative Expenses	\$ 50,000
Legal Expenses	5,000
Engineering Fees - Design	115,000
Engineering Fees - Construction	30,000
Engineering Fees - Inspection	90,000
Engineering Fees - Other	35,000
Construction	1,862,500
Contingency	250,000
Total	\$ 2,437,500

III. PROJECT FUNDING

	Amount	%
Fund F Loan	\$ 1,637,500	67%
ARC	800,000	33%
Total	\$ 2,437,500	100%

IV. KIA DEBT SERVICE

Construction Loan	\$ 1,637,500
Less: Principal Forgiveness	432,637
Amortized Loan Amount	\$ 1,204,863
Interest Rate	0.25%
Loan Term (Years)	30
Estimated Annual Debt Service	\$ 41,712
Administrative Fee (0.25%)	3,012
Total Estimated Annual Debt Service	\$ 44,724

V. PROJECT SCHEDULE

Bid Opening	May 1, 2021
Construction Start	June 1, 2021
Construction Stop	July 31, 2021

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

Customers	Current	Proposed	Total
Residential	9,000	0	9,000
Commercial	768	0	768
Industrial	0	0	0
Total	9,768	0	9,768

B) Rates

WATER IN CITY	Current	Prior	Prior
Date of Last Rate Increase	02/01/20	05/01/19	02/01/14
Minimum (2,000 gallons)	\$18.03	\$17.62	\$10.62
Next 8,000 Gallons	6.39	6.25	5.01
Cost for 4,000 gallons	\$30.81	\$30.12	\$20.64
Increase %	2.3%	45.9%	
Affordability Index (Rate/MHI)	1.1%		

WATER OUT OF CITY	Current	Prior	Prior
Date of Last Rate Increase	02/01/20	05/01/19	02/01/14
Minimum (2,000 gallons)	\$22.04	\$21.54	\$14.54
Next 8,000 Gallons	8.44	8.25	7.02
Cost for 4,000 gallons	\$38.92	\$38.04	\$28.58
Increase %	2.3%	33.1%	
Affordability Index (Rate/MHI)	1.4%		

Sewer In & Out of City	Current	Prior	Prior
Date of Last Rate Increase	02/01/20	01/01/17	07/01/16
Minimum bill	\$9.49	\$9.28	\$8.74
Per 1,000 Gallons of Water Usage	4.75	4.64	4.37
Cost for 4,000 gal. Sewer Treatment	\$18.99	\$18.56	\$17.48
Increase %	2.3%	6.2%	
Affordability Index (Rate/MHI)	0.7%		

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2014-2018, the Utility's service area population was 23,684 with a Median Household Income (MHI) of \$32,646. The median household income for the Commonwealth is \$48,392. The project will qualify for a 0.25% interest rate.

Year	Population				County Unemployment	
	City	% Change	County	% Change	Date	Rate
1980	5,371		33,763		June 2005	7.5%
1990	5,416	0.8%	30,283	-10.3%	June 2010	11.6%
2000	4,806	-11.3%	29,390	-2.9%	June 2015	8.9%
2010	4,456	-7.3%	28,712	-2.3%	June 2020	6.9%
Current	4,424	-0.7%	25,758	-10.3%		
Cumulative %		-17.6%		-23.7%		

VIII. 2020 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. Principal forgiveness of 50% of the assistance amount, not to exceed \$432,637 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, 2017 through June 30, 2019. The non-cash impacts of GASB 68 – Accounting and Financial Reporting for Pensions and GASB 75 – Accounting and Financial Reporting for Other Postemployment Benefit have 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

Total revenues have increased 3.5% from \$5.00 million in 2017 to \$5.18 million in 2019. Water revenues increased 6.5% from \$3.47 million in 2017 to \$3.69 million in 2019, and sewer revenues declined 6.0% from \$1.52 million in 2017 to \$1.43 million during the same time period. Total operating expenses increased 8.8% from \$4.63 million in 2017 to \$5.05 million in 2019.

The 2019 balance sheet reflects a current ratio of 2.0, a debt to equity ratio of 0.4, 66.1 days of sales in accounts receivable, and 0.2 months operating expenses in unrestricted cash.

PROJECTIONS

Projections are based on the following assumptions:

- 1) The 2020 projections reflect 45.9% rate increase for in city water and 33.1% rate increase for out of city water that was made effective by ordinance 5/1/2019. Although revenues are projected flat after 2020, the City of Hazard does now have in place a CPI adjustment annually.
- 2) Expenses are projected to rise 2% annually.
- 3) Debt service coverage is 2.0 in 2023 when principal and interest repayments begin.

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

REPLACEMENT RESERVE

The replacement reserve will be 5% (\$82,000 total) of the final amount borrowed (prior to principal forgiveness, if any) to be funded annually (\$4,100 yearly) each December 1 for 20 years and maintained for the life of the loan.

X. DEBT OBLIGATIONS

	Outstanding	Maturity
Series 2000A Water Revenue Bonds	\$ 927,000	0
Series 2000B Water Revenue Bonds	558,500	0
Series 2009	1,387,000	0
Series 2014A	2,118,500	0
Series 2014B	365,800	0
KIA A15-096 Sewer Loan	919,515	0
TFC Equipment Finance	14,052	0
Rural Utility Service	361,000	0
Cat Financial (Water Fund)	22,624	0
KIA B19-010 i.a.o. \$596,000	0	TBD
Total	\$ 6,673,991	

The debt obligations are based on the 2019 audit. In the spring of 2020 the City of Hazard has refinanced the Series 2000A, Series 2000B, Series 2009 and Rural Utility Service loans into one with Kentucky Bond Corporation with about a 1% interest rate. They additionally fully paid both the TFC Equipment Finance loan and the Cat Financial loan. These changes will further increase their debt coverage ratio in the projected years. These changes have not been reflected in the projections, but will make the financial position that much more favorable going forward.

XI. CONTACTS

Legal Applicant	
Name	City of Hazard
Address	PO Box 420 Hazard, KY 41702
County	Perry
Authorized Official	Donald Mobelini
Phone	(606) 436-3171
Email	Donald.mobelini@hazardky.gov

Project Contact - Applicant	
Name	Derrick Hall
Representing	City of Hazard
Address	PO Box 420 Hazard, KY 41702
Phone	(606) 436-3171
Email	Derrick.hall@hazardky.gov

Project Administrator

Name	Angelia Hall
Address	941 N Main St Hazard, KY 41702
Phone	(606) 436-3158
Email	angelia@kradd.org

Consulting Engineer

Name	Paul Nesbitt
Firm	Nesbitt Engineering
Address	227 N Upper St. Lexington, KY 40507
Phone	(859) 233-3111
Email	pnesbitt@nei-ky.com

XII. RECOMMENDATIONS

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

CITY OF HAZARD
FINANCIAL SUMMARY (JUNE YEAR END)

	Audited 2017	Audited 2018	Audited 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Balance Sheet								
Assets								
Current Assets	2,065,956	1,972,075	2,291,259	1,645,664	1,752,027	1,852,960	1,973,247	2,108,968
Other Assets	40,137,258	39,916,836	41,081,146	34,084,123	32,885,246	32,201,134	33,441,539	32,311,782
Total	<u>42,203,214</u>	<u>41,888,911</u>	<u>43,372,405</u>	<u>35,729,787</u>	<u>34,637,273</u>	<u>34,054,093</u>	<u>35,414,786</u>	<u>34,420,750</u>
Liabilities & Equity								
Current Liabilities	714,191	682,964	1,117,909	1,290,358	1,311,548	1,221,122	1,208,542	1,206,321
Long Term Liabilities	9,355,251	10,682,762	10,257,336	8,925,100	8,492,711	8,758,048	9,656,428	9,363,966
Total Liabilities	<u>10,069,442</u>	<u>11,365,726</u>	<u>11,375,245</u>	<u>10,215,458</u>	<u>9,804,259</u>	<u>9,979,170</u>	<u>10,864,970</u>	<u>10,570,287</u>
Net Assets	<u>32,133,772</u>	<u>30,523,185</u>	<u>31,997,160</u>	<u>25,514,329</u>	<u>24,833,014</u>	<u>24,074,923</u>	<u>24,549,816</u>	<u>23,850,463</u>
Cash Flow								
Revenues	5,006,404	5,384,933	5,180,484	6,350,838	6,350,838	6,350,838	6,350,838	6,350,838
Operating Expenses	4,637,564	3,829,562	5,049,306	5,150,292	5,151,792	5,153,292	5,158,892	5,164,492
Other Income	3,577	3,130	4,253	4,253	4,253	4,253	4,253	4,253
Cash Flow Before Debt Service	<u>372,417</u>	<u>1,558,501</u>	<u>135,431</u>	<u>1,204,799</u>	<u>1,203,299</u>	<u>1,201,799</u>	<u>1,196,199</u>	<u>1,190,599</u>
Debt Service								
Existing Debt Service	784,705	425,683	401,110	437,426	671,390	697,137	550,040	467,269
Proposed KIA Loan	0	0	0	0	0	0	44,724	44,724
Total Debt Service	<u>784,705</u>	<u>425,683</u>	<u>401,110</u>	<u>437,426</u>	<u>671,390</u>	<u>697,137</u>	<u>594,764</u>	<u>511,993</u>
Cash Flow After Debt Service	<u>(412,288)</u>	<u>1,132,818</u>	<u>(265,679)</u>	<u>767,373</u>	<u>531,909</u>	<u>504,662</u>	<u>601,435</u>	<u>678,606</u>
Ratios								
Current Ratio	2.9	2.9	2.0	1.3	1.3	1.5	1.6	1.7
Debt to Equity	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Days Sales in Accounts Receivable	79.4	93.2	107.2	66.1	66.1	66.1	66.1	66.1
Months Operating Expenses in Unrestricted Cash	1.7	0.4	0.2	0.5	0.8	1.0	1.3	1.6
Debt Coverage Ratio	0.5	3.7	0.3	2.8	1.8	1.7	2.0	2.3