

**KENTUCKY INFRASTRUCTURE AUTHORITY
Minutes of the Full Board**

Meeting Date/Location: December 6, 2012 – 1:00 p.m.
Kentucky Infrastructure Authority
1024 Capital Center Drive, Suite 340, Frankfort

Members present:

Mr. Tony Wilder, Commissioner, Department for Local Government
Mr. Steve Rucker, Finance and Administration Cabinet
(proxy for Secretary Lori H. Flanery, FAC)
Mr. George Burgess, Economic Development Cabinet
(proxy for Secretary Larry Hayes, EDC)
Ms. Lona Brewer, Energy and Environment Cabinet
(permanent proxy for Secretary Leonard K. Peters, EEC)
Mr. Jerry Wuetcher, Public Service Commission
(permanent proxy for Executive Director Jeff Derouen, PSC)
Mr. C. Ronald Lovan, representing the American Water Works Association
Mr. Damon Talley, representing the Kentucky Rural Water Association
Ms. Linda C. Bridwell, representing for-profit private water companies
Mr. Marty T. Ivy, representing the Kentucky Municipal Utilities Association
Mr. Jody Jenkins, Union County Judge/Executive, representing the Kentucky
Association of Counties

Members absent:

Mr. David W. Cartmell, Mayor, City of Maysville, representing the Kentucky League of Cities

Guests:

Mr. Shafiq Amawi, Division of Water
Mr. Allen Norvell, Blue & Co., Inc.
Mr. Tom Calkins, City of Nicholasville
Mayor Martin Voiers, City of Flemingsburg
Mr. Joe Dunaway, Jr., City of Flemingsburg
Mr. Meredith Story, City of Flemingsburg
Mr. Bryan Kirby, CEDA, Inc.
Mr. Gary Larimore, Kentucky Rural Water Association
Ms. Rebecca Hall, City of Frankfort
Mr. Bob Peterson, City of Frankfort
Mr. Ray Bascom, HMB Engineers
Mr. John Marton, GRW Engineers
Ms. Jennifer Kantner, Office of Financial Management
Mr. Ryan Barrow, Office of Financial Management
Mr. Bill Scalf, City of Frankfort
Ms. Annette Dupont, Kentucky Municipal Utilities Association
Mr. Benton Hanson, HDR Engineering
Mr. Bob Sturdivant, HDR Engineering

PROCEEDINGS

Chair Tony Wilder called the meeting of the Kentucky Infrastructure Authority (KIA) Board to order. Chair Wilder asked board members and guests to introduce themselves. He noted that a quorum was present and that the press had been notified regarding the meeting.

Mr. Rusty Anderson, KIA, made maps available for viewing via the Water Resource Information System (WRIS) which showed an overview of the water and sewer projects that were to be considered at this board meeting.

I. BUSINESS (Board Action Required)

A. 1. APPROVAL OF MINUTES

For: KIA Regular Board Meeting of November 1, 2012

Mr. Damon Talley moved to approve the minutes of the November 1, 2012 regular board meeting. Ms. Linda Bridwell seconded, and the motion carried unanimously.

Chair Tony Wilder introduced Mr. Ryan Barrow as the new Executive Director of the Office of Financial Management, who was attending the meeting.

B. NEW PROJECTS/ACTION ITEMS

1. CONSIDERATION OF THE FISCAL YEAR END JUNE 30, 2012 KENTUCKY INFRASTRUTURE AUTHORITY AUDIT REPORT

Mr. Allen Norvell, CPA, Director of Blue & Co., LLC., presented the Fiscal Year End June 30, 2012 KIA Audit Report to the Board. Mr. Norvell thanked KIA staff for being very helpful throughout the 2012 audit process. KIA received a clean unqualified opinion from the auditors and no significant deficiencies or weaknesses were found.

Mr. Damon Talley moved to accept the KIA Audit Report. Mr. Ron Lovan seconded, and the motion carried unanimously.

2. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING ISSUANCE AN AMENDMENT TO THE CONDITIONAL COMMITMENT FOR A FEDERALLY ASSISTED WASTEWATER REVOLVING FUND A LOAN (A11-01) INCREASING THE AMOUNT TO \$10,619,600 TO THE CITY OF FLEMINGSBURG, FLEMING COUNTY, KENTUCKY

Mr. Shafiq Amawi, DOW, and Ms. Sandy Williams, KIA, presented the project to the Board. The City of Flemingsburg requested a \$1,713,600 increase to their previously approved request for \$8,906,000 for the Wastewater Treatment Plant project, for a revised total loan amount of \$10,619,600. Bid amounts were

substantially higher than originally projected due to three primary issues. First, the utility could not reuse an existing clarifier as a post equalization basin due to hydraulic constraints resulting in the need for a new post equalization structure. Second, an additional 1,700 cubic yards of concrete were required for the SBR units due to the need for higher / thicker walls. Third, an increase in scope during design was required for additional electrical, instrumentation and HVAC infrastructure. The project qualified for additional subsidization in the amount of \$1,910,000. The terms from the original board approval will be retained. The revised unforgiven balance of the loan is \$7,433,720 to be repaid in 20 years with an interest rate of 1% and a revised estimated annual debt service payment of \$425,886. As a part of the original loan approval the City was required to do a series of sewer rate increases and a resolution was passed in July 2011 to increase rates 15% in 2013 and 24% in 2014. Both DOW and KIA staff recommended approval of the loan with the standard conditions.

Ms. Linda Bridwell moved to approve the Fund A (A11-01) increase resolution with the standard conditions. Mr. Ron Lovan seconded, and the motion carried unanimously.

3. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING ISSUANCE OF A CONDITIONAL COMMITMENT FOR A FEDERALLY ASSISTED WASTEWATER REVOLVING FUND LOAN (A13-011) IN THE AMOUNT OF \$8,000,000 TO THE CITY OF FRANKFORT, FRANKLIN COUNTY, KENTUCKY

Mr. Shafiq Amawi, DOW, and Ms. Sandy Williams, KIA, presented the project to the Board. The City of Frankfort requested a \$8,000,000 Fund A loan for the Sewer Equalization Facilities project. The project involves the construction of a 10 million gallon equalization basin for the City's sanitary sewer system. The wastewater treatment plant is designed for 9.9 million gallons per day (MGD) of incoming sewer flow but can accommodate 23 MGD for short periods of time. However, during prolonged heavy rain events the WWTP exceeds its capacity which contributes to combined and sanitary sewer overflows in the collection system. Upon completion three SSO's in or near residential areas are expected to be eliminated. Completion of the project is a substantial step in the City's ongoing efforts to achieve compliance with the Kentucky Division of Enforcement's Consent Judgment and the EPA Administrative Order. The cost to implement the projects necessary to comply with the Consent Judgment is estimated in excess of \$75 million and will take over ten years to complete. The board book stated (a) the project qualified for Green Project Reserve funding under the following categories: \$600,000 for Energy Efficiency and \$7,400,000 for Environmentally Innovative; (b) the project qualified for additional subsidization in the amount of \$800,000; and (c) the term of the loan is 20 years with an interest rate of 1.75% with a total estimated annual debt service payment of \$442,624. Both DOW and KIA staff recommended approval of the loan with the standard conditions.

Ms. Williams made some corrections to the credit analysis as follows: (a) the total estimated annual debt service payments should read \$491,805; and (b) the project did not qualify for additional subsidization. She assured the Board that the corrections would be made to the board book and corrected copies would be

sent to the Capital Projects and Bond Oversight Committee and the Office of Financial Management. Before the meeting, the changes were made known to Mr. Bill Scalf, City of Frankfort, and he said that the City would still be interested in proceeding with the loan request. Both DOW and KIA staff recommended approval of the loan with the standard conditions.

Ms. Linda Bridwell questioned whether or not the project should be tabled for now and approved at a later date, to ensure DOW had time to receive and approve the plans and specifications and possibly prevent significant changes that would delay the project schedule. She was concerned about the risk of changes to the project scope and/or costs if the Board were to approve the project now without any plans and specifications. Mr. Covington stated that DOW recommended the project be presented to the Board, and it was prioritized to be funded in the current year funding cycle. He explained the Authority tends to come in on projects earlier than other funding sources as a conscious decision to get projects moving.

Mr. Covington redirected the question to DOW and asked if they felt comfortable for the project to proceed since their determinations are made on a technical basis, as opposed to the Authority's determinations which are financially based. Mr. Amawi stated that the only concern he had was with the anticipated project schedule. DOW would need time to make sure the design was appropriate and would probably require advertisement and a public meeting for this project to get public comments. He stated that even though the project would qualify for a Categorical Exclusion (CE), or a brief environmental review, because of the scope and location of the project, it would be wise to proceed with a public meeting to assess what concerns the public may have. If the public had concerns about odor then DOW would have to require the City to include a dome, scrubber, and/or a mixing system in the plans to address the potential for odor problems which could increase the cost of the project. If the public did not have any major negative comments, then the project could proceed as designed in a timely manner. If there are negative comments from the public, then a full Environmental Assessment will be required by DOW.

Ms. Williams informed the Board that in the Conditional Commitment Letter the City would have 12 months to comply with the standard conditions and then, based on extenuating circumstances, KIA has the ability to offer an additional 6 months should the City need to address any of the issues that have been brought up DOW.

Mr. Ron Lovan asked about tying up \$8,000,000 in this funding cycle for this project as opposed to funding other projects that are ready to go; especially if this project experienced delays and could possibly get funding in the next funding cycle. Mr. Covington explained projects are invited annually at the same time and prioritized. Other projects were not as ready as the City of Frankfort.

Ms. Bridwell stated that perhaps waiting another month to approve this project may be more appropriate to see what findings DOW comes back with after the public meeting is held. Mr. Covington noted that DOW submitted a letter to KIA that the project is ready for approval, which is in the Board Book prior to the Credit Analysis.

Mr. Damon Tally suggested that the Board include as a special condition to their approval that a public meeting be held and a favorable environmental review be issued by DOW. Mr. Jerry Wuetcher had a concern about the Board imposing a requirement outside the lending requirements and suggested that tabling the project may be more appropriate until after the public meeting is held so that DOW and the City have a better idea as what is required for the project. Mr. Bob Peterson from the City of Frankfort stated that a public meeting will be held anyway as a result of a requirement from a reviewer comment response from the scoping letters to cross cutting agencies that were sent out.

Ms. Williams addressed the issue of the special condition for an environmental review. She informed the Board of the different levels of environmental review. The first level is a CE, which applies to this project because it is on previously disturbed ground. If it was on ground that was not previously disturbed, then the project would have needed a full environmental review which automatically required a public meeting. She reiterated that the City acknowledged the concerns of DOW and its citizens, and while it qualifies for the CE under the regular process, they are willing to go that one step further. The regular 12 month timeframe allows borrowers who have to perform a full environmental review to do so to and still meet the conditions of the loan.

Ms. Linda Bridwell moved to table the Fund A loan (A13-011) request to the City of Frankfort until the next KIA Board Meeting. Mr. Jerry Wuetcher seconded. Chair Wilder asked for discussion.

Ms. Brewer asked if there would be time to hold the public meeting and respond to all public comments before the KIA Board Meeting. Mr. Amawi answered that a formal response or evaluation may not be complete, but DOW would have an idea if the project would be able to proceed or if it would need more time.

Chair Wilder called for a vote and the motion to table the project until the next KIA Board Meeting carried unanimously.

Mr. Jerry Wuetcher at this time left the meeting due to other commitments.

8. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING THE ISSUANCE OF A CONDITIONAL COMMITMENT FOR A GOVERNMENTAL AGENCIES PROGRAM LOAN (C13-001) OF \$1,000,000 TO THE NORTHERN MADISON COUNTY SANITATION DISTRICT, MADISON COUNTY, KENTUCKY

Ms. Sandy Williams, KIA, presented the project to the Board. The Northern Madison County Sanitation District requested a Fund C loan in the amount of \$1,000,000 for the Muddy Creek Wastewater Treatment Plant project. The project will involve the construction of a 200,000 gallon per day (GPD) wastewater treatment plant, force main and two lift stations in the Muddy Creek area east of the Richmond city limits. The project will serve an existing 300 customers and provide capacity for future growth while permitting the District an opportunity to exit a cost prohibitive bulk treatment arrangement with the City of

Richmond. About thirty customers will be added due to the extension of the force main and it will provide the capacity to expand into existing unserved areas (subdivisions with failing septic systems, a school, several small businesses) along its path. The agreement with the City limits total customers at 400. The City is knowledgeable of the proposed project and the revenue impact on them. Wastewater is currently transported to Richmond's system via a force main. The District entered into a bulk treatment with the City in 2000 at a rate of \$2.36 per hundred cubic feet (CF). Since that time the rate has increased to \$6.25 and is anticipated to increase to \$10.00 (\$53.00 for 4,000 gallons) by 2014. The Board Book showed the term of the loan as being 20 years with an interest rate of 2.75% and a total estimated annual debt service payment of \$67,339. Ms. Williams corrected the interest rate as being 3%. KIA staff recommended approval of the loan with the standard conditions.

Mr. Ron Lovan raised concerns over building a package plant when there is an existing arrangement already in place with a municipality and regulations are not getting any easier for anyone in this business. Another concern he had was that the present sewer rates and projected sewer rates were pretty substantial.

Ms. Linda Bridwell asked if the City of Richmond was in favor of the project or if the City was just knowledgeable of the project and the revenue impact. Mr. Bryan Kirby of CEDA, Inc., stated the City of Richmond was present and always represented at the regional water planning council when this project was reviewed. The vote from the City of Richmond was a positive vote for this project. Ms. Bridwell then asked if the plans for the project have been approved by DOW and if a permit was issued. Mr. Kirby responded that the design for the project had not begun.

Mr. Lovan asked if there are current facility plans for the City of Richmond and for the Northern Madison County Sanitation District and have they taken into account this disconnect of systems. Mr. Shafiq Amawi stated he saw in DOW's records a request to get a wastewater allocation for the new plant. Nesbitt Engineering will be updating the facility plan.

Mr. Lovan suggested to table the project until the next KIA Board Meeting in order to give time for additional information. Mr. Covington noted that Fund C loans are different than the SRF funds in that the Fund C funds may not be available at a later time; therefore, the project could be frozen unless the District has funds to cover planning and design and move into the next step.

Ms. Lona Brewer asked what additional information did DOW need before they would approve of the project. Mr. Amawi noted that the project would not be able to move forward until there was an update to the facility plan, which would mean a full environmental study and approval from DOW. Ms. Brewer noted that approval of this project for a package plant would be different than the talk of the past regarding more regional processes. She asked if it would be appropriate to add a special condition to obtain DOW approval for the project before funds were drawn. Ms. Covington responded that that was a standard condition to all Fund C loans. Ms. Bridwell stated that she didn't mind encumbering the funds today as long as the standard conditions met the Board's stated concerns.

Mr. Lovan expressed his concerns regarding the City of Richmond's rates and the new package plant rates. He stated it would be helpful to be provided a simple comparison of what the projected rates would be for the new treatment plant compared to the City of Richmond's rates. He also stated it would be helpful if there was a letter from the City of Richmond stating that their capacity was capped and they were in agreement with the construction of the new plant. He felt there were enough unknowns to not proceed at this time and believed it wouldn't take much to get the additional information.

Mr. Ron Lovan moved to table the Fund C loan (C13-001) request to the Northern Madison County Sanitation District until additional information is obtained. Ms. Lona Brewer seconded, and, upon a majority vote of 8 approving and 1 opposing, the motion was approved.

Mr. Lovan added that once a preliminary design is started there should be estimated projected rates that could be compared to the City of Richmond. And, if there is a capacity issue with the City, it would be helpful to have something in writing from the City stating so, or if there is something already in the agreement and the City of Richmond concurs with the agreement.

2. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING ISSUANCE OF A CONDITIONAL COMMITMENT FOR A FEDERALLY ASSISTED DRINKING WATER REVOLVING FUND (F13-022) LOAN IN THE AMOUNT OF \$250,000 TO THE CITY OF NICHOLASVILLE, JESSAMINE COUNTY, KENTUCKY

RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING ISSUANCE OF A CONDITIONAL COMMITMENT FOR A FEDERALLY ASSISTED DRINKING WATER REVOLVING FUND (F13-026) LOAN IN THE AMOUNT OF \$756,100 TO THE CITY OF NICHOLASVILLE, JESSAMINE COUNTY, KENTUCKY

Mr. Shafiq Amawi, DOW, and Ms Sandy Williams, KIA, presented both projects to the Board.

The City of Nicholasville requested a \$250,000 Fund F loan for Armory Place Water System Improvements project. The project involves the replacement of much of the undersized and obsolete water distribution system in the Armory Place area of Nicholasville. The lines being replaced were installed in the 1920's are comprised of one, two and four inch lines. The four inch lines are tuberculated to the extent that their carrying capacity is close to a two inch line. Flows from fire hydrants in the project area have also been demonstrated to be severely deficient. The 2012 Drinking Water Capitalization grant does not contain a "green" requirement. The project does not qualify for additional subsidization. The term of the loan is 20 years with an interest rate of 1.75% and an estimated annual debt service payment of \$15,494. Both DOW and KIA staff recommended approval of the loan with the standard conditions.

The City of Nicholasville also requested a \$756,100 Fund F loan for the Nicholasville – Jessamine-South Elkhorn Interconnect project. This project will connect the Jessamine-South Elkhorn Water District and the City of Nicholasville

water systems. It will permit each location to be an alternative water source for the other in addition to Kentucky American Water Company being a source. The project includes replacement of 2,150 linear feet of leaking small diameter mains with a twelve inch main along Wilmore Road, one booster pump station with energy efficient motors, variable frequency drives, security fencing and an intrusion alarm. The 2012 Drinking Water Capitalization grant does not contain a “green” requirement. The project does not qualify for additional subsidization. The term of the loan is 20 years with an interest rate of 1.75% and an estimated annual debt service payment of \$46,860. Both DOW and KIA staff recommended approval of the loan with the standard conditions.

Mr. Damon Talley moved to approve both the Fund F (F13-022) resolution for the Armory Place Water System Improvements project and the Fund F (F13-026) resolution for the Nicholasville – Jessamine-South Elkhorn Interconnect project with the standard conditions. Mr. Marty Ivy seconded, and the motion carried unanimously with Ms. Linda Bridwell abstaining due to the fact that both the City of Nicholasville and Jessamine-South Elkhorn Water District are customers of Kentucky American Water Company.

Mr. Steve Rucker at this time left the meeting due to other commitments.

4. RESOLUTION AND ORDER OF THE BOARD OF DIRECTORS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY AUTHORIZING AND APPROVING THE ISSUANCE OF OBLIGATIONS OF THE KENTUCKY INFRASTRUCTURE AUTHORITY TO REIMBURSE CAPITAL EXPENDITURES MADE BY GOVERNMENTAL AGENCIES PURSUANT TO LOANS MADE BY THE KENTUCKY INFRASTRUCTURE AUTHORITY TO SUCH GOVERNMENTAL AGENCIES

This is a routine resolution allowing KIA to reimburse expenses that are paid out of the Authority’s funds with bond proceeds. The resolution will be revised to reflect the removal of the City of Frankfort and Northern Madison County Sanitation District. The projects listed below are covered under this resolution:

APPLICANT	FUND	AMOUNT
City of Flemingsburg (Increase)	A11-01	\$ 10,619,600
Marshall County Fiscal Court (10% Increase)	B10-03	\$ 1,075,000
City of Nicholasville	F13-022	\$ 250,000
City of Nicholasville	F13-026	\$ 756,100

Ms. Linda Bridwell moved to approve the resolution with the revisions. Mr. George Burgess seconded, and the motion carried unanimously.

II. EXECUTIVE DIRECTOR’S REPORT

Mr. John Covington, KIA, asked the Chair to introduce the West Liberty projects to the Board. Chair Wilder explained his involvement along with other agencies to help in the immediate needs the City of West Liberty experienced after a tornado struck the City in early March 2012. Ms. Sandy Williams reported to the Board that in November 2009,

during ARRA, the Board gave KIA's Executive Director the authority to swap previously approved base loan funding for ARRA funding. What has happened since then, all of the ARRA projects have met the original guidelines and some of the projects did not use all of their money. Additionally, DOW had some admin set-aside money they were not going to be able to use, because the ARRA money could only be used for ARRA projects. This condition applied to both clean water and drinking water ARRA funds. The unused admin money fees were transferred over to the construction account. KIA had to find someplace to put the funds. After reviewing all projects that had already received KIA Board approval and met the original intent of ARRA, the decision was made to let those ARRA funds go to the City of West Liberty. Ms. Williams presented a handout to the Board which detailed a breakdown of the original approval for both the clean water and drinking water loans made to the City of West Liberty and then how the remaining ARRA funds would replace those original funds. The total dollar amount of funding committed to the projects remained the same, only the funding source was changed. After talking with EPA Region IV and US EPA in Washington, D.C., KIA was given permission to offer 100% principal forgiveness. The resolution passed by the Board on November 12, 2009, stated the Executive Director had the authority to substitute the leftover ARRA funds for previously approved projects and that decision would then have to be ratified by the Board.

Mr. Damon Talley moved to ratify the actions of the Executive Director to substitute ARRA funds for previously approved commitments to the City of West Liberty, A11-11 and F11-04. Ms. Linda Bridwell seconded and the motion carried unanimously.

Mr. Covington reported that currently KIA had received 18 Clean Water applications and 16 Drinking Water applications under the current SRF funding cycle. The Clean Water applications ask for \$15M more than is available and KIA staff is still looking to identify ways remedy the shortfall. The Drinking Water SRF still has \$3M in funds available, so second round invitations could potentially be sent, or the funds could be rolled over to the next funding cycle.

He also reported on actions in Washington, D.C. that could impact the SRF program. He noted that if sequestration were to occur due to the budget crisis or "fiscal cliff", KIA could be impacted by 8.5%. EPA would have to take a percentage from all programs, not just one. Depending on how it is applied, there is a possibility that in the 2013 funding cycle \$1.3M would be lost in the Drinking Water SRF and \$1.8M would be lost in the Clean Water SRF. That would leave KIA with almost \$56M for Drinking Water and \$116M for Clean Water.

Mr. Covington stated that currently there would not be a January 2013 meeting because there is nothing on the calendar at this time, but he will wait to make that decision. If not, the next meeting would be February 7, 2013.

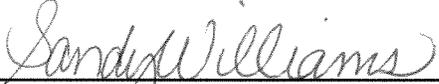
III. STATUS REPORT FOR FUNDS A, A2, B, B1, C, F, F2

IV. ANNOUNCEMENTS/NOTIFICATIONS

- Next scheduled KIA board meeting:
Tentatively scheduled for
Thursday, January 3, 2013
1024 Capital Center Drive, Suite 340
Frankfort, Kentucky

There being no further business Ms. Linda Bridwell moved to adjourn. Mr. Ron Lovan seconded and the motion carried unanimously. The December 6, 2012, regular meeting of the Board of the Kentucky Infrastructure Authority was adjourned.

Submitted by:



Sandy Williams, Secretary
Kentucky Infrastructure Authority



Date