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July 19, 2010

R. David Ketchum
Lakewood Hills
9125 Lake Hills Road
Ozawkie, KS 66070-5071

Dear David,

As requested, I met with you to discuss questions concerning ways to reduce the operational and maintenance costs on the utility. The system's outstanding indebtedness includes three revenue bonds and one general obligation bond; the combined annual debt service is \$80,000. These bonds have interest rates of 5.00%, two at 5.125% and the most recent is 4.125%. You have 139 active services; the sewer utility charges \$65 per month for sewer service; the inactive services are billed \$20 per month. You pay approximately \$500 month for electrical, \$400 to a Class I contract operator and \$600 for another operator per month. There is also a smaller cost for the billing. There are also sewage pump replacements that are impacting the system's cash flow.

We discussed merging RWD #9 and the sewer district to reduce labor and billing cost, but the RWD was not enthused about this idea. There is also a restriction that rural water districts are not authorized to govern or operate sewer systems in Kansas. However, if it were combined in the sense of sharing an operator or billing, there would be improvement in the economy of scale and funds and accounting could still be separated by Water and Sewer. Labor services ought to be reduced to one operator and one billing clerk. This option would also facilitate being able to disconnect for unpaid sewer bills, which you cannot do at this time.

The other option would be to have the day to day operator become certified; I estimate that this could reduce the monthly costs by as much as \$400 or \$4,800 or more annually.

The best option, in my opinion, is for your utilities to share a certified operator as an employee. However, there may be some advantage to consider refinancing but that would need to be evaluated by a financial advisor. Your debt is presently out to 40 years and while the interest rate can be reduced, the annual payment may increase due to moving to a 20-year private financing. Please let me know if you want to further discuss that option.

Please call if you have any questions. KRWA appreciates the opportunity to provide assistance to your system.

Sincerely,

Charlie Schwindamann
Wastewater Tech

CS: ejr
C: Gary Smith, USDA Rural Development
Helen Holm, KDHE, Lawrence