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May 20, 2010

Idaho Department of Environmental Quality
ATTN: Nancy Bowser
1410 N. Hilton
Boise, ID 83706

RE: Complete Application for State Revolving Loan.

MNV-W-10-01

Dear Ms. Bowser:

Enclosed please find a completed Form 2(a) Application for State Revolving Loan submitted on behalf of Morning View Water Company of Rigby, Idaho. We have completed the application and attached the attachments as best as we understand the application. Additionally, we felt that it may be useful to have this cover letter with some explanatory information for some of the items requested in the loan application. If you have any questions concerning any of the items we have provided, please let us know and we will respond immediately.

As an initial matter, we previously sent to you a letter of interest form with a number of attachments outlining the issues surrounding the Morning View Water Company. After reviewing the loan application, it appears that it will be useful to attach the letter of interest documents, along with my cover letter, to the form. To the extent it contains information that is requested in the loan application, I will refer to it in this cover letter.

Additionally, Morning View submitted an application to the Public Utilities Commission requesting authority to borrow funds in order to perform upgrades to its water system and to comply with IDEQ standards. We recently received Order No. 31061, dated April 22, 2010. A copy of this order is also enclosed for your reference and review.

Paragraphs A through H have been filled out with the appropriate information. We would note that Morning View has not hired a bond attorney, and did not pursue one as it is not a municipality.

Paragraph J(1) of the application requests a project description. This is best described in the PUC Order attached to this letter. As stated in that Order, we requested authority to borrow funds "in order to perform upgrades on its water system and ensure compliance with certain Idaho Department of Environmental Quality standards." If granted, the loan proceeds will be used to fund various projects associated with the water system, including installation of variable speed drives,

installation of water meters on every lot, pump testing of two existing pumps, installation of the backup generator, and the drilling a new municipal well to current IDEQ standards.

Paragraph J(2). While we have filled in the amounts on this particular part of the application, we would also refer you to page 1 of the PUC order, which outlines the projects and their anticipated costs.

Paragraph J(4) requests the applicant to explain why the project is needed and/or what benefits would be derived from the project. In the documents associated with our letter of interest form, I discussed the benefits that would derived from the project in my letter dated January 13, 2010, at page 2 beginning at the paragraph entitled "Step 2".

Paragraph J(5) requests that we explain what public health regulation and enforcement action will be addressed by the project. Attached is the amended consent order executed between IDEQ and Morning View from January 2010.

Paragraph J(6). Morning View attempted to obtain financing from both public and private entities. Initially, Morning View was actually informed that it would not qualify under DEQ's revolving drinking water state revolving fund, and we therefore looked elsewhere. Morning View inquired with the Rural Development Alliance, but after discussing the specific needs of Morning View, was informed by RDA staff that Morning View would not qualify for funding under their guidelines. Morning View thereafter turned to private financing possibilities, but was unsuccessful in receiving private financing from a number of commercial banks. It was only after informing attorneys for the State of Idaho that the ability to obtain financing appeared to have ended, further inquiry was made into the State's drinking water state revolving fund, and it was determined that Morning View may qualify for the proceeds for such a loan.

Paragraph J(7). A public meeting was held on June 9, 2009, at 6:30 p.m. at the Rigby City Library to discuss the pressure issues that were facing Morning View Water Company. Due to a miscommunication from myself to Mr. Greg Eager of the DEQ office in Idaho Falls, he was not able to attend, but Morning View, myself, and Ryan Loftus of Aspin Engineering met to discuss the challenges facing the Morning View system and how we intended to move forward to bring the system into compliance. We discussed in that meeting that there were a number of possibilities, including an attempt to receive a loan or grant to improve the system, which could lead to a rate increase in the future. The meeting provided an opportunity for patrons to ask questions, make their own recommendations for improvement, and to lodge complaints with the system's operation.

Paragraph J(8). Morning View is not a municipality, and therefore did not seek a bond election, nor did it attempt to form a local improvement district.

Paragraph J(9)(b). Attached to the LOI was a final facility plan dated April 13, 2009. The plan appeared to generally comport with DEQ standards, although it did not contain a time line, and

therefore was deemed slightly deficient by DEQ staff. The final facility plan will be updated and submitted to DEQ on June 1, 2010.

Paragraph J(10). Morning View is in the process of reviewing an environmental clearance/determination. We will provide it to you as soon as we receive it. Preliminarily, there is a finding of no significant impact.

Paragraph J(11). The anticipated amounts are set forth in the application. However, as a narrative to how Morning View intends to move forward, we hope to install the meters and variable speed drives immediately. We anticipate that this could be done between July 1 and August 31, 2010, but this work may continue into the fourth quarter of 2010. Additionally, assuming the loan is granted, we intend to move forward with the drilling of the new well as soon as possible. We therefore would anticipate that with the meters, drilling of the new well, and installation of variable speed drives, we would anticipate drawing out $210,000.00 by the end of 2010. We anticipate installation of the backup generator and followup work to be finished by June 30, 2011, where we would withdraw up to the final $65,000.00, if necessary.

Paragraph K(1). Attached you will find financial statements from Morning View.

Paragraph K(2). Attached you will find the financial statement from Morning View which shows the capital budget.

Paragraph K(3). Attached is a summary of user rate charges prepared by Morning View.

Paragraph K(4). The engineering report is attached to the Letter of Interest documentation attached hereto.

Paragraph K(5). Morning View currently does not have any other loans, and therefore we have not provided any repayment schedule.

Paragraph K(6). This requests an operation and maintenance manual, which is best summarized by the engineering report attached to Letter of Interest form and provided hereto.

Paragraph K(7). Morning View Water Company does not have board members, and therefore this is not applicable.

Paragraph K(8). As stated above, Morning View Water Company does not have board members, and therefore does not have board governance policy.

Paragraph K(9). Morning View does not currently have a personnel policy, as it only currently has one part-time employee and one full-time employee, Mr. Nolan Gneiting. It is

anticipated that once the Morning View system comes into compliance, personnel policy will be prepared for Morning View.

Paragraph K(10). The current operating and emergency plan is the engineering report attached to the Letter of Interest documentation.

Paragraph K(11). Morning View does not currently have a safety and/or risk management plan, but will endeavor to prepare such a plan once the Morning View water system is in and approved status.

Paragraph K(12). Morning View does not currently have a written customer service policy, however, its office is open on weekdays from 8:00 a.m to 5:00 p.m., and there is a 24 hour answering service for any emergencies. Morning View intends to prepare such a customer service policy in the near future.

If you have any questions or concerns regarding the above information, please let us know, and we will endeavor to respond as promptly as we can. We appreciate your kind assistance in this matter, and are hopeful that Morning View will receive the requested loan.

Best Regards,

Robert L. Harris
HOLDEN, KIDWELL, HAHN & CRAPO, P.L.L.C.

c: Nolan Gneiting
Greg Eager, Engineering Manager, DEQ
Terri Carlock, Public Utilities Commission

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Form 2-A
Application for State Revolving Loan

Pre-Application Meeting Date: January 20, 2010

Project Identification and Description

A. APPLICANT

Public Water System Number: ID7260063
Name and Title: Morning View Water Company
Address: 3996 E. 200 N.
City: Rigby State: ID Zip Code: 83442
Phone, Email, & Fax: 208-745-0029, morningviewhomes@qwestoffice.net;208-745-0

B. PRESIDING OFFICIAL

Public Water System Number: ID7260063
Name and Title: Nolan Gneiting
Address: PO Box 598
City: Rigby State: ID Zip Code: 83442
Phone, Email, & Fax: 208-745-0029; 208-745-0041; morningviewhomes@qwestoffic

C. CONTACT PERSON

Public Water System Number: Same
Name and Title:
Address:
City: State: Zip Code:
Phone, Email, & Fax:

D. CLERK/TREASURER

Name and Title: Denise Kynoch
Public Water System Number: ID7260063

E. CONSULTING ENGINEER

Name and Title: Ryan Loftus, PE, Aspen Engineering, Inc.
Address: 10727 N. Yellowstone Hwy.
City: Idaho Falls State: ID Zip Code: 83401
Phone, Email, & Fax: 208-542-1911; ryan@aspeneng.net; 208-542-1922

F. FINANCIAL CONSULTANT

Public Water System Number: ID7260063

Name and Title:

Address:

City: State: Zip Code:

Phone, Email, & Fax:

G. LEGAL ADVISOR

Public Water System Number: ID7260063

Name and Title: Robert L. Harris; Attorney; Holden, Kidwell, Hahn & Crapo, PLLC

Address: PO Box 50130

City: Idaho Falls State: ID Zip Code: 83405-0130

Phone, Email, & Fax: 208-523-0620; rharris@holdenlegal.com; 208-523-9518

H. BOND ATTORNEY

Public Water System Number:

Name and Title: NA

Address:

City: State: Zip Code:

Phone, Email, & Fax:

I. DESCRIPTION OF PROJECT SETTING

Location of Project: 3996 E. 200 N., Rigby, ID 83442 County: Jefferson

J. GENERAL PROJECT OVERVIEW AND BENEFITS REPORTING

1. Project description: See attached cover letter.

a) Year construction will be initiated: 2010

b) Year construction will be completed: End of 2011

2. Construction cost estimate (use current dollar value):

a) Treatment plant:

b) Transmission and distribution system: 100,000

c) Storage:

d) Land acquisition:

e) Source development: 160,000

f) Purchase of existing systems

g) Restructuring

h) Other 15,000

i) **Total cost**

3. Financing the new facilities

a) Total cost 275,000

b) Are funds already available for the project? ○Y ◉N ○N/A

c) List other expected funding (specify agency and status of funds)

None.

d) Amount to be financed 275,000

Amount to be financed = Total cost – funds already available for the project – other expected funding

4. Explain why the project is needed and/or what benefits will be derived from the project. Examples would include, but not be limited to the following:

- Reduction of health risk(s). (If so, specify the health risk(s) averted and how many people are affected.) Examples of health risks addressed by such actions as the development of new sources, treatment, or other methodologies might include:
  - Elimination of primary inorganic chemical risk (for example, antimony, arsenic, asbestos, barium, beryllium, cadmium, chromium, copper, cyanide, fluoride, lead, mercury, nickel, nitrate, nitrite, selenium, thallium)
  - Elimination of primary chemical risks (for example, trihalomethanes, radionuclides, organic chemicals)
  - Elimination of infiltration or intrusion of secondary pollutants (for example, chloride, fluoride, iron, manganese, silver, sodium, sulfate, zinc)
- Installation of security measures.
- Installation of backflow prevention devices.
- Lower operating costs. (If so, how much money is estimated to be saved annually?)
- Ability to provide safe drinking water to those not currently served by a community system. (If so, how many additional people will be served?)
- Water conservation. (If so, what is the estimate of water savings?) Examples of measures taken to conserve water would include installation of metering, dual distribution, improvement of the distribution system, or installation of pressure reduction devices.
- Other benefits might include the installation of treatment plant discharge improvements or a new distribution reservoir.

See attached documents.

5. Explain what public health regulation or enforcement action will be addressed by the project.

See attached documents.

6. Explain what good-faith efforts have been taken to secure all or part of the project costs from other funding agencies.

See attached documents.

7. Describe public participation leading up to the loan application. (Meetings, fact sheets, etc.)

See Attached meeting.

8. Public support for the project:

a) Bond election date NA Passed: ☐Yes ☐No

Bond type

b) Local Improvement District (LID) Date Formed

NA

c) Date of judicial decision to proceed with "Ordinary and Necessary" determination

NA

9. Type of planning document prepared (facility plan, engineering report, etc.)

Final Facility Plan

a) Planning document date April 13, 2009

b) Enclose a copy of the current planning document if it has not already been submitted to the Department of Environmental Quality (DEQ).

10. Type of environmental clearance/determination

a) Categorical exclusion ☐

b) Finding of no significant impact ☒

c) Environmental impact statement ☐

d) Date of determination ☐

e) Agency rendering the environmental clearance/determination ☐

11. Estimated schedule of cash draws against the loan

Quarter Ending (give date)	Cash Draw Amount
December 31, 2010	$210,000.00
June 30, 2011	$60,000.00

K. PLEASE ATTACH COPIES OF THE FOLLOWING:

1. Audited financial statements for the three previous years.

   An independent audit provides expert testimony regarding an entity's internal controls, integrity of financial statements, and adherence to generally accepted accounting standards. Periodic financial audits produce verifiable information that can be easily examined by the Applicant's management team, as well as financial assistance providers and regulatory agencies. In terms of the annual business cycle, periodic financial audits contribute valuable information for analysis purposes.

   If your system has not been required to have audited financial statements (or to prepare financial statements in accordance with generally accepted accounting principles), then provide summarized statements of annual expenses and revenues, along with annual statements of assets (what you own) and liabilities (what you owe).

2. Operating budget and capital budget.

   Effective operation of a water system requires use of an annual budget. A system's budget should forecast planned revenues and expenditures for the coming year based on anticipated activities. The budget is then used to control activities and evaluate performance of the system.

   An example of a good budgeting technique would be a water system that keeps a cash reserve of one and one-half the monthly operational expenses. Such a system would be conscious of the need to be prepared for emergencies, payment delinquencies, and other short-term cash flow problems. The cash budget goal of one and one-half the monthly operational expenses is suggested because many small water systems may not be able to quickly assemble their board of directors to deal with cash-flow problems. Until the governing board can be convened, the costs of operation would be covered.

   The use of a multi-year capital budget is a positive indicator of financial management and supports the assessment of financial capacity conditions. A capital budget is an indication that the water system is aware of the need for financing infrastructure upgrade and/or replacement.

3. User rate charges (and ordinance, if applicable).
4. Engineering report.
5. Repayment schedule(s) for any other loan(s).
6. Operations and maintenance manual.

   An operations and maintenance (O&M) manual provides technical guidance on how the water system is operated and is likely to be the system's most detailed guidance document. O&M manuals also include guidance for monitoring and reporting of water samples and testing results, and help ensure continuity of quality service in the event of staff turnover.

7. List of board members.
8. Board governance policy.

   The board governance policy reflects the protocols for the governing board's activities. This policy includes qualifications for election of board members, the number of members who may serve and their terms of office, rules regarding the conduct of meetings, etc.

Establishing board protocols can improve the efficiency of board meetings and result in effective use of officers' time.

9. Personnel policy.

The personnel policy typically includes guidance regarding hiring, probation, dismissal, and disciplinary procedures; provides detail on employee compensation and fringe benefits; establishes requirements for conduct and performance; describes job descriptions and expectations; and explains procedures for employee evaluation.

10. Operating emergency plan.

Every public water system should plan for natural disasters and other emergencies. Specifically, the water system management team should indicate what steps are to be taken and what actions are to be accomplished, given a variety of threats to service delivery.

11. Safety and/or risk management plan.

Accidents can cause significant disruptions of water service and create unexpected financial liabilities. A safety and risk management policy attempts to confine the scope of authority of employees and managers in order to reduce the risk of such negative financial exposure. A water system's insurance provider can offer assistance in establishing risk management guidelines to limit liability.

12. Customer service policy.

A water system is in the business of providing safe drinking water to its customers. By clarifying how the water system will relate to its customers, a customer service policy strengthens the relationship between the two parties. The customer service policy should include public information guidance, complaint resolution procedures, problem response requirements, billing and other notification rules, and other actions the system can take to assure customers that the water system is being run in the most professional manner possible.

NOTE: Water systems with limited staff capacity to create these policies can borrow and adapt sample policies, which may be available from the following organizations:

- Rural Community Assistance Corporation
- Idaho Rural Water Association
- U.S. Environmental Protection Agency
- American Water Works Association

Other water systems of comparable size may be good sources of sample policies.

Please keep in mind that your written policies and procedures need only be as complex as the size and nature of your system.

L. APPLICATION AUTHORIZATION

Robert L. Harris
Signature of person responsible for completing this form

ROBERT L. HARRIS
Printed name of person responsible for completing this form

May 19, 2010
Date

Robert L. Harris
Signature of authorized representative

ROBERT L. HARRIS
Printed name and title of authorized representative

May 19, 2010
Date

Cheri Vandermeulen
Signature of witness to signing of authorized representative

Cheri Vandermeulen
Printed name of witness

May 19, 2010
Date