STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF LAWRENCEBURG MANCHESTER SPARTA TOWNSHIPS CONSERVANCY DISTRICT FOR A NEW SCHEDULE OF RATES AND CHARGES	)))))	**CAUSE NO. 45412-U**

SUPPLEMENT TO THE OUCC'S REPORT

CONSISTING OF

SUPPLEMENTAL TESTIMONY
OF
SHAWN DELLINGER

ON BEHALF OF THE
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 4

January 27, 2021

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Daniel M. Le Vay, Atty. No. 22184-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***OUCC's Supplemental Testimony of Shawn Dellinger*** has been provided to the following individuals by electronic service on January 27, 2021.

Hershell Gosset
LMS TOWNSHIPS CONSERVANCY DISTRICT
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SUPPLEMENTAL TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45412-U
LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Shawn Dellinger, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, IN 46204.

Q: What is the purpose of your supplemental testimony

A: After the OUCC filed its report in this case, which included my own testimony (Public's Exhibit No. 3), Lawrenceburg, Manchester, Sparta Townships Conservancy District ("LMS" or "Applicant") procured a debt offer from a financial institution for substantially different terms than what LMS had presented in its application. I explain how the new loan offer would eliminate the need to lower rates before the next rate case, which I had recommended in my original testimony. (See page 6 of Public's Exhibit No. 3.)

Q: Do you sponsor any attachments?

A: Yes. I sponsor the proposal letter from FCN Bank describing the terms of the refinanced loans, which I marked as OUCC Attachment SD-1-S. I also sponsor a year-by-year comparison of the original proposal for debt service and the new proposal for debt service, which I marked as OUCC Attachment SD-2-S.

II. REVISED BORROWINGS

Q: Please describe the latest proposal for refinancing the debt of Applicant?

A: Applicant received a letter of commitment from FCN Bank ("Bank") that outlines the proposed structure and terms of the debts. (See OUCC Attachment SD-1-S.) This proposal fundamentally alters the previous debt profile by harmonizing the interest rate across all borrowings and consolidating *three* loans that would expire in 3-years, 6-years, and 20-years into *two* loans that would expire in 7-years and 10-years. The 10-year loan would also require payment of interest only for the first nine-months.

Q: Are the interest rates the same as previously proposed by LMS in its application?

A: No. Interest rates on the two existing loans are 3.4% and 4.5%, while the interest rate on the new loan was estimated to be at 4%. The new interest rate under the proposal would be 2.875% for *all* debt.

Q: How were the loans to be structured as of LMS's application?

A: Applicant's original debt profile consisted of three loans. First, CiVista loan #7324, which had a balance of $387,636.85, was due to be paid off in 2023. It had an annual debt service revenue requirement of $112,220. Second, CiVista loan #7931, which had a balance of $656,167.14, was due to be paid off in 2026. It had an annual debt service revenue requirement of $116,619. Third, the new debt, with a balance of $1,500,000, would have been paid off in 2041. It had an annual debt service revenue requirement of $109,125.[1]

Q: How are the loans to be structured according to the new offer?

A: The revised proposal combines CiVista loan #7324 and the new debt into a single loan with a 9-month interest only period and then an amortization period of 10 years. The balance of CiVista Loan #7931 is proposed to be refinanced to a 7-year amortization period.

Q: What was the OUCC's proposed debt service revenue requirement?

A: My original testimony recommended approval of Applicant's requested debt service

[1] Please note, the full revenue requirement of the New Debt was not in place for the three years utilized to determine the average debt service of 2020-2022, therefore the total of these annual debt service revenue requirements does not equal the total requested or recommended.

revenue requirement of $284,772 annually. This was based on the average debt payments over the years 2020, 2021, and 2022, which proposal was included by LMS in its application. I also recommended the Commission require rate reductions as the two existing loans were expected to be paid off in or around 2023 and 2026.

Q: How would the new financing proposal affect your recommendation that the rates be revised to reflect lower debt payments?

A: Because of the financing proposal provided after the OUCC's report, it would no longer be necessary to decrease LMS's rates between rate cases to reflect elimination of a major debt service requirement. The new financing creates debt service payments that are uniform for a longer time.

Q: What should the debt service revenue requirement be if LMS secures the new proposed financing?

A: It should be very similar or identical to the debt service revenue requirement LMS already proposed. While annual debt service will be $303,300, Applicant projects nine months of interest only payments on Credit Facility 1 (Loan 1).[2] For the first 9 months of the loans, the debt service will be approximately $12,308 per month at an annualized cost of $147,690 per year.[3] OUCC Attachment SD-2-S assumes the full balance on this loan is disbursed on January 1, 2021, and principal payments begin on October 1, 2021. This provides a total debt service amount of $186,592 in Year 1, and $303,300 in the following years until

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[2] Credit Facility 1, which consists of an approximate amount of $1,800,000 including the projected capital expenses originally included in "New Loan" and approximately $300,000 of Civista loan #7324, is interest only for the first approximately 9 months. During this period, no principal payments are made and payments on this loan are calculated at approximately $51,750 annually, making the simplifying assumptions that the entire balance is borrowed immediately on January 1, 2021.

[3] Loan #1 is interest only at $4,312.50 per month for the first 9 months. Loan #2 is $7,995 per month. Therefore, the monthly total payment is $12,307.50 ($4,312.50 + $7,995) per month for the first 9 months. $12,307.50 * 12 months = $147,690. The first 12 months after the debt issuance will include 9 months with a $12,307.50 payment and 3 months with a full payment of $25,275 ($17,280 per month for Loan #1 and $7,995 per month for Loan #20

Credit Facility #2 (Loan #2) is paid off, which would occur in December 2027. A five-year average would result in an average debt service of $279,958.50. A six-year average would result in an average debt service cost of $283,848.75.[4] The $284,772 debt service revenue requirement recommended in my original testimony equates to an average annual debt service cost over six years and nearly four months.

Q: The offer LMS has secured include lower interest rates. Why would lower interest rates result in no significant decrease in debt service?

A: Because of the consolidation of debt into overall shorter periods, LMS's existing loans will be paid off sooner than they otherwise would be. While LMS would be paying less interest, it would be paying off its principle faster. Under the revised proposal, there will be no debt service after ten years, as opposed to twenty years in the previous proposal.

Q: What revenue requirement do you propose be applied for the new debt?

A: The average of these costs over six years produces a revenue requirement for debt service that is very similar to the $284,772 revenue requirement the OUCC proposed in its report for the first three years of the rates set in this case.[5] As I noted above, $284,772 equates to an average debt service cost based on the rates set in this case are in effect for almost 76 months (i.e. six years and four months). That estimate for the life of these rates is not unreasonable. Consequently, the OUCC proposes the schedules and revenue requirements it has already submitted with its report be used to set rates in this case.

[4] The difference is $923.25 ($284,772-$283,848.75). This is approximately 0.3% lower.

[5] The three years in the Application and my testimony in Public's exhibit 3 was 2020, 2021 and 2022. The six years referenced here are 2021-2026.

Q: Is authorizing this new financing proposal in the public interest?

A: Yes. In addition to paying a lower interest rate, LMS will have more uniform debt service requirements, eliminating the need for rate revision as the OUCC had originally proposed. Without increasing its debt service revenue requirements in the short term, all of LMS's currently authorized debt would expire in ten years as opposed to twenty years.

Q: What is your recommendation for the debt service revenue requirement?

A: Previously, there were significant variations from year to year in the costs that the Applicant would incur on debt service. With the new proposed debt, there would be no significant decrease in debt service costs that invites a rate decrease in the short term. Consequently, using a roughly six-year average to establish the debt service revenue requirement is appropriate. I recommend using the original requested amount of debt service revenue of $284,772. Using the same debt service costs avoids the need for the Commission to revise the OUCC's schedules. Moreover, a 75-to-76-month average to calculate debt service costs is not less justified than a 72-month average.

Q: Should any conditions be imposed on this debt service proposal?

A: Yes. The latest financing offer avoids the need to adjust its rates to reflect the material elimination of debt as recommended by the OUCC in its report. LMS should only be permitted to avoid decreasing its utility rates if it accepts and enters into the terms set forth in the financing proposal it has recently received.

III. <u>TRUE-UP</u>

Q: Should Applicant be required to true-up its proposed annual debt service once the interest rates on its proposed debt are known?

A: Yes. The precise interest rates and annual debt service will not be known until Applicant's debt is issued. Although there is a letter of intent from the lender that provides more clarity, these rates and terms will not be secured until the loan is closed. Therefore, at the time of closing, Applicant's rates should be trued-up to reflect the actual cost of the debt. I recommend the Commission require Applicant to file a report within thirty (30) days of closing on its long-term debt disclosing the terms of the loan or loans and stating when principal payments will begin. The report should include a revised tariff and amortization schedule, and it should calculate the effect on rates using the form in the OUCC's schedules. However, if both parties agree in writing that the increase or decrease is immaterial, the true-up need not be implemented. The OUCC should have thirty days after service of the true-up to challenge Applicant's proposed true-up. Applicant should have fourteen (14) days to file a response to the OUCC if it has challenged Applicant's calculation.

IV. OUCC RECOMMENDATIONS

Q: Please summarize your recommendations to the Commission in this cause.

A: I recommend approval of long-term debt issuance by Applicant of up to $1,500,000 in accordance with this testimony and my earlier testimony. I recommend approval to refinance existing debt in accordance with the terms of the proposal in OUCC Attachment SD-1-S. I recommend the debt service revenue requirement be set at $284,772. I withdraw my recommendation LMS be required to revise its rates in in the short term, provided LMS enters into debt in accordance with the terms of the proposal. I recommend Applicant be required to file a true-up report within 30 days of closing on its loan.

Q: Does this conclude your testimony?

A: Yes.

December 3, 2020

Lawrenceburg Manchester Sparta Townships Conservancy District
1406 Sunnyside
Aurora, IN 47001

Re: Loan Commitment

Dear Mr. Gossett:

FCN Bank N.A., herein referred to as “Bank”, is pleased to provide this letter of commitment of terms we will provide in conjunction with the replacement of approximately 4 ½ miles of water lines and the refinance of an existing loan with Civista Bank. This letter is a summary of approved terms and is not to be construed as an all-inclusive list of terms and conditions. Please review the following terms and I look forward to discussing the matter further at that time.

Credit Facility 1:

Borrower: Lawrenceburg, Manchester, Sparta Townships Conservancy District

Loan Amount: Approximately $1,800,000.00

Purpose: $1,500,000.00 Finance the installation of approximately 4 1/2 miles of expanded water line and approximately $300,000.00 to pay off Civista note # 7234. Loan amount will be adjusted to ensure the Civista note is paid in full. Payoff amount preliminarily determined from the Conservancy District’s financial reports.

Maturity: 129 months (10 years 9 months). To be broken into two phases. Phase one: *Construction Phase* of 9 months during which time the borrower will pay accrued interest monthly based on the amount borrowed at that time. Phase Two: *Permanent Financing Phase* of 120 months during which time the borrower will pay substantially equal monthly principal and interest installments. Estimated monthly principal and interest payment once in the repayment Permanent Financing Phase if fully drawn would be approximately $17,280.00.

Rate: The interest rate if closed today would be 2.875%. Rate may be adjusted at closing to reflect changes in the ten-year US Treasury Note interest rate.

Collateral: None

Disbursements: Advances intended for improvements will be available as improvements are completed.

Fees: Borrower will pay a closing fee of $1,000.00 which may be financed into the loan amount at borrower’s choice.

Credit Facility 2:

Borrower: Lawrenceburg, Manchester, Sparta Townships Conservancy District

Loan Amount: Approximately $610,000

Purpose: Pay off Civista note # 7931. Loan amount will be adjusted to ensure the Civista note is paid in full. Payoff amount preliminarily determined from the Conservancy District’s financial reports and inclusive of Civista 1% prepayment fee.

Maturity: 84 months (7 years) during which time the borrower will pay substantially equal monthly principal and interest installments. Estimated monthly principal and interest payment if fully drawn would be approximately $7,995.00.

Rate:	The interest rate if closed today would be 2.75%. Rate may be adjusted at closing to reflect changes in the seven-year US Treasury Note interest rate.
Collateral:	None
Disbursements:	Funds disbursed to retire Civista debt at closing.
Fees:	Borrower will pay a closing fee of $350.00 which may be financed into the loan amount at borrower's choice.

Covenants:

- Borrower shall provide copies of their annual CPA compiled financial statement with accompanying notes to Bank within 120 days of their fiscal year end.

Conditions Precedent:

- Borrower will provide evidence that it legally exists in the State of Indiana and is empowered to enter into the transaction herein contemplated.
- Subject to satisfactory review of the proposed construction contract by Bank.
- Borrower to execute loan documentation satisfactory to FCN Bank N.A.
- Borrower will provide a resolution of its Board of Directors indicating the party or parties authorized to execute the note andclosing documents
- Subject to Borrower obtaining approval by the Indiana Utility Regulatory Commission of its outstanding request for a rate hike providing an increase in water rates satisfactory to FCN Bank, in its sole discretion, sufficient to meet its cash flow coverage requirement, calculated as EBITDA/Total Required Annual Principal and Interest Debt Service, of not less than 1.15:1.
- Borrower to provide a statement in writing that the requested financing is "Bank Qualified" for Federal Income Tax purposes.

The commitment of terms is for your benefit only. It may not be transferred or assigned whether voluntarily, involuntarily, or by operations of law. Please review the proposed terms and, if you wish to move forward, kindly execute the acceptance below and return the accepted Commitment Letter. Should the herein described Loan not close through no fault of FCN Bank N.A. you will be responsible for all of FCN Bank's out of pocket costs and fees.

This commitment shall expire and be rendered invalid if not accepted on or before close of business at our counters January 21, 2021. If timely accepted, the Borrowing outlined herein must close on or before February 26, 2021 or this commitment shall expire and be rendered invalid.

Thank you for the opportunity to serve your financial needs.

Best regards,

Roger R. Potraffke
Vice President, Chief Lending Officer

Acceptance

By executing the statement below Lawrenceburg Manchester Sparta Townships Conservancy District hereby accepts FCN Bank N.A.'s commitment of lending terms.

Lawrenceburg Manchester Sparta Townships Conservancy District

By: ___________________________________ Date: ____________________________

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(Print Name & Title)

LMS Debt:

	Original Proposal				New Proposal Assuming start in January 2021			
Balance: EOY 2020*	$ 287,038.90	$ 567,256.76	$ 1,500,000.00		$ 1,800,000.00	$ 610,000.00		
Interest Rate	3.40%	4.50%	4%		2.875%	2.875%		
Year	Loan 7324	Loan 7931	New Loan	Total	Loan #1	Loan #2	Total	Delta
2020	$ 112,219.56	$ 116,619.00	$ -	$ 228,838.56				
2021	$ 112,219.56	$ 116,619.00	$ 58,675.31	$ 287,513.87	$ 90,652.50	$ 95,940.00	$ 186,592.50	$ (100,921.37)
2022	$ 112,219.56	$ 116,619.00	$ 109,125.00	$ 337,963.56	$ 207,360.00	$ 95,940.00	$ 303,300.00	$ (34,663.56)
2023	$ 76,278.34	$ 116,619.00	$ 109,125.00	$ 302,022.34	$ 207,360.00	$ 95,940.00	$ 303,300.00	$ 1,277.66
2024		$ 116,619.00	$ 109,125.00	$ 225,744.00	$ 207,360.00	$ 95,940.00	$ 303,300.00	$ 77,556.00
2025		$ 116,619.00	$ 109,125.00	$ 225,744.00	$ 207,360.00	$ 95,940.00	$ 303,300.00	$ 77,556.00
2026		$ 58,309.50	$ 109,125.00	$ 167,434.50	$ 207,360.00	$ 95,940.00	$ 303,300.00	$ 135,865.50
2027			$ 109,125.00	$ 109,125.00	$ 207,360.00	$ 95,940.00	$ 303,300.00	$ 194,175.00
2028			$ 109,125.00	$ 109,125.00	$ 207,360.00		$ 207,360.00	$ 98,235.00
2029			$ 109,125.00	$ 109,125.00	$ 207,360.00		$ 207,360.00	$ 98,235.00
2030			$ 109,125.00	$ 109,125.00	$ 207,360.00		$ 207,360.00	$ 98,235.00
2031			$ 109,125.00	$ 109,125.00	$ 155,520.00		$ 155,520.00	$ 46,395.00
2032			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2033			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2034			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2035			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2036			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2037			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2038			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2039			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2040			$ 109,125.00	$ 109,125.00				$ (109,125.00)
2041			$ 90,937.50	$ 90,937.50				$ (90,937.50)
							Total	$ (381,117.27)

Yellow Highlight=3 Year average found in original application. $284,772.
Blue Highlight =6 Year average, $283,848.75.