

FILED
March 24, 2020
INDIANA UTILITY
REGULATORY COMMISSION

**HOWARD COUNTY UTILITIES, INC. and
GREEN ACRES SUBDIVISION SEWER SYSTEM, INC.**

IURC CAUSE NO. 45360

VERIFIED DIRECT TESTIMONY

OF

STEVEN K. BROCK

SPONSORING ATTACHMENTS SKB-1 THROUGH SKB-2

INTRODUCTION

Q1. Please state your name, business address and occupation.

A. My name is Steven K. Brock. My address is 11550 North Meridian Street, Suite 275, Carmel, Indiana, Indiana 46032. I am a financial consultant and municipal advisor with the firm of Therber, Brock & Associates, LLC, a firm of municipal finance advisors specializing in project financing and the preparation of user fee studies.

Q2. Would you please state your academic qualifications?

A. I received a Bachelor of Science degree from Indiana University and a Master of Business Administration degree from Butler University. I have also attended the National Association of Regulatory Utility Commissioners Annual Regulatory Studies Program at Michigan State University.

Q3. Please explain your professional qualifications for working with regulated utilities.

A. My professional qualifications include over 30 years of experience working with municipal, not-for profit and special district utilities, their rate structures and their project financings. I have passed the FINRA Series 50 and Series 54 security exams required for persons giving advice to units of government of the structure term and timing of municipal securities. My work experience includes prior employment by the IURC's accounting division as principal accountant. I have previously been hired by both the IURC and the OUCC as an independent consultant. I have also been an independent consultant to the Indiana State Revolving Loan Fund program. My past client list includes hundreds of utilities in Indiana, various state

organizations, Subaru Isuzu, the University of Notre Dame and IN-Tek Steel Company.

Q4. Have you testified before this Commission previously?

A. I have testified before the IURC on numerous occasions on various utility rate and financing related issues.

Q5. Has your firm been retained by the Petitioner, Green Acres Subdivision Sewer System in connection with these proceedings?

A. Yes it has.

Q6. What relief is being sought in this Cause?

A. Green Acres Subdivision Sewer System, Inc. ("GASSS") seeks approval of the acquisition of the assets and the certificate of territorial authority ("CTA") now held by Howard County Utilities, Inc. We also seek approval of the necessary financing for the transaction. Finally, we seek approval of the initial rates and charges following the closing.

Q7. Would you briefly describe the purpose for which you were retained and the nature and scope of services your firm is to provide?

A. My firm has been hired to assist GASSS in the following areas: (1) the calculation of its initial rates and charges; (2) the issuance of its loan financing with First Farmers Bank; (3) the loan guarantee from USDA-Rural Development; and (4) the support of the petition for financing authority and initial rates and charges to the Indiana Utility Regulatory Commission.

PURCHASE OF UTILITY FROM HOWARD COUNTY UTILITIES, INC.

Q8. Is GASSS seeking to purchase the assets of Howard County Utilities, Inc.?

A. Yes it is.

Q9. Why is GASSS seeking to purchase Howard County Utilities Inc.'s assets?

A. Howard County Utilities, Inc. ("HCU") is an investor owed utility that operates a sewage collection and treatment utility in the service area of the Green Acres housing subdivision in Howard County, Indiana. HCU recently offered to sell the utility to the Green Acres Homeowners Association ("GAHOA"). The GAHOA believes that having local control of the utility will provide the residents with both better customer service and a lower monthly user fee than will continued ownership by HCU. Based on these beliefs the GAHOA hired me, an attorney and an engineer to assist them with the process of evaluating the utility, securing loan financing at favorable terms and applying to the IURC for financing and rate authority. As a result of those engagements and advice, GASSS was formed.

Q10. Has a purchase agreement been negotiated?

A. Yes, the agreement is attached to Mr. Lewis's testimony. Joint Petitioners seek approval of the transfer of the HCU assets pursuant to the terms of the purchase agreement.

Q11. What is the purchase price that GASSS is seeking financing for?

A. HCU has offered to sell the utility for \$2,022,000. GASSS is estimating that it will have \$178,000 of additional costs associated with the purchase, bringing the total financing cost to \$2,200,000. This is the amount of loan financing that Petitioner is seeking financing authority for.

Q12. There is a provision in the purchase agreement regarding reimbursement of transaction costs, which provision was later amended. Can you explain?

A. Yes. It was always understood that professional fees would be incurred both by

HCU and by GASSS between the early stages of the engagement and closing, and that GASSS would not have cash available to pay those fees. As such, to the extent HCU had to advance funds (or to the extent GASSS paid the fees) those expenses would be reimbursed out of the loan proceeds. The total professional fees to be paid from the loan proceeds would be capped at \$100,000, with \$30,000 of that allocated for HCU's counsel fees.

Q13. You mentioned previously that you also seek approval of the transfer of HCU's CTA. Are you familiar with the requirements for transfer of a CTA?

A. Yes. It is my understanding that a CTA may be transferred to any entity to which a CTA may be lawfully issued. That requires a determination of the lawful power and authority of the acquiring entity to provide the service, the financial capability to provide the service and the public convenience and necessity. This, in turn, involves a determination of the managerial and technical capacity of the acquiring entity. I will be addressing financial capability and public convenience and necessity. Witnesses Lewis and Cleland will address lawful power and authority, managerial and technical capacity, and public convenience and necessity.

RD LOAN GUARANTEE AND FIRST FARMERS LOAN

Q14. What relief is sought in connection with financing approvals?

A. GASSS needs to finance the purchase of the cost of the utility. Petitioner has negotiated this loan with First Farmers Bank. The commitment is set forth in Attachment SKB-1. First Farmers will only make the loan if it gets the loan guarantee with Rural Development. We seek approval of the financing from First Farmers as guaranteed by Rural Development.

Q15. Have the terms of the Rural Development loan guarantee been finalized?

A. GASSS is working through the Rural Development loan guarantee program process. The RD loan guarantee programs provides up to a 90 percent loan guarantee for qualifying loans for loan terms up to 40-years. The RD loan guarantee has a fee of 1% of the principal amount of the loan.

Q16. Can you explain the terms of the First Farmers loan?

A. The First Farmers loan will have a loan term of up to 30 years. The interest rate will be 5.50% for a 30-year loan term, 5.43% for a 25-year loan term or a 5.360% for a 20-year loan term. The loan will be secured by a mortgage on the wastewater treatment plant, and the GASSS seeks authority to encumber the assets with such mortgage.

Q17. What are the effects of these terms on Petitioner's proposed annual principal and interest payments?

A. The 30-year loan term on a \$2,200,000 loan for a 5.50% interest rate will produce an annual debt service payment of \$151,371.86.

PROPOSED MONTHLY USER FEE

Q18. Is approval of initial sewer rates and charges being sought at this time?

A. Yes. The proposed rates are set forth and calculated in Attachment SKB-2.

Q19. What will be the average monthly bill for a residential customer under the proposed rates?

A. Under the proposed rates a residential user will receive a monthly bill of \$151.47 under the 30-year loan term or a monthly bill of \$165.63 under the 20-year loan term.

Q20. What is the average monthly bill for a residential customer under the current schedule of rates and charges?

A. GASSS is proposing to purchase the utility from Howard County Utilities Inc. Howard County Utilities Inc. has petitioned the IURC for rate of \$153.92. The current rate being charged customers of the utility is \$69, which was approved by the Commission more than 12 years ago in Cause No. 43294. The requested HCU rate has not yet been approved by the Commission.

EFFECT OF UTILITY PURCHASE ON RATES AND CHARGES

Q21. Will the purchase of the utility by Petitioner cause rates to increase or decrease from the monthly rates currently being paid for by the customers of the utility?

A. The rates being requested by Petitioner represent an increase in the rates currently being charged customers – but represent a decrease from the rates being requested by Howard County Utilities, Inc.

Q22. Will the requested rates and charges allow the Petitioner to pay its annual operation and maintenance, working capital, extensions and replacements, debt service (on the new loans) and debt service reserve?

A. Yes. As shown on page 17 of Petitioner's Attachment SKB-2, the requested rates and charges will collect sufficient funds to allow GASSS to pay its revenue requirements, including operation and maintenance, working capital, extensions and replacements, debt service and debt service reserve. I am proposing an amount for extensions and replacements that would be equivalent to depreciation expense as shown on page 21 of the report.

REQUESTED ACTION FROM THE IURC

Q23. What action is Petitioner requesting from the IURC?

- A. In addition to approval of the acquisition of the plant, equipment and CTA from HCU, GASSS is requesting that the IURC approve financing authority for the loan required to purchase HCU and approve Petitioner's requested rates and charges. In connection with the financing authority, we also seek approval of the encumbrance of the utility plant with the mortgage I have previously described and that is also set forth in Attachment SKB-1.

Q24. Are there any special timing requirements related to either Petitioner requested action from the IURC or related to Petitioner's purchase agreement, loan agreement, loan guarantee from Rural Development or Petitioner's requested rates and charges?

- A. Yes. The purchase agreement with HCU has a fixed term by which the purchased needs to be completed. Additionally, interest rates in the open market are at historic lows currently and there are many circumstances under which general market interest rates could rise. Any rise in interest rates would lock in the higher interest rates and annual interest expense each year for the proposed 30-year or 40-year loan terms. GASSS wants to close its loan with First Farmers while interest rates remain at their current historically low level. Finally, Petitioner's proposed user fees are less than the user fees being proposed by HCU. Petitioner wants to close its purchase agreement with HCU prior to HCU's higher user fees are implemented.

REASONABLENESS OF FINANCING METHOD

Q25. Is GASSS's financing method reasonable and are the interest rates for this

financing reasonable and in the best interest of the ratepayers?

- A. Yes. GASSS is proposing to use Rural Development's guaranteed loan program to both obtain the loan from First Farmers Bank and to reduce First Farmers risk of a default on the loan. The RD loan guarantee – by reducing the risk on the loan - reduces the interest rate required to be charged for the loan. It is my opinion that without the loan guarantee Petitioner would not find a buyer for either a 30-year or a 40-year loan. Loan terms of up to 20 years may be found in the general market but loan terms in excess of 10 years can be very difficult to obtain and loan terms over 20 years are very unusual. Given the lack of any operating history or credit history on the part of the Petitioner it would be nearly impossible for Petitioner to obtain financing on the open market, at reasonable rates and terms, without some sort of credit enhancement such as the RD loan guarantee.

The Petitioner is seeking a long loan term to reduce the impact of the loan on rates and charges. The use of a longer loan term produces lower annual principal and interest payments than will a shorter loan term. However, using a longer loan term requires the use of some sort of credit enhancement, such as the RD loan guarantee. The interest rate available using a Rural Development loan guarantee is below what would be available in the open market without a guarantee. This lower interest rate reduces the annual principal and interest payment on the loan. For these reasons the terms of the loan, specifically the long loan term and the Rural Development loan guarantee represent the best financing terms that are available to Petitioner and will produce the lowest annual debt service payments that are currently available, given Petitioner's credit history and circumstances.

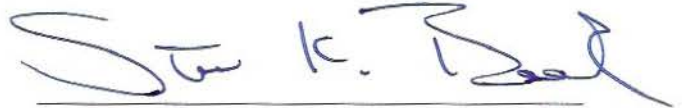
Q26. Does this conclude your direct testimony in this Cause?

A. Yes.

DMS 16939776v1

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations
are true to the best of my knowledge, information, and belief.

A handwritten signature in blue ink, appearing to read "Steven K. Brock", written over a horizontal line.

Steven K. Brock

Kokomo Square Office
101 W. Sycamore
Kokomo, Indiana 46901
Phone: (765) 252-1738
Fax: (765) 457-1390



December 31, 2019

Green Acres Subdivision Sewer System, Inc.
Attn: Chuck Lewis
1621 Green Acres Drive
Kokomo, IN 46901

Re: Loan Proposal

Dear Chuck:

Hi Chuck, thank you for taking the time to meet with me over the last few months in regard to the waste water treatment facility in Green Acres. I am pleased to notify you that First Farmers Bank & Trust (FFBT) has approved financing the purchase of the waste water treatment facility, subject to the USDA Rural Development approval providing FFBT with a 90% Guarantee, and the following terms and conditions:

- Loan Amount: \$2,200,000.00
- Term:
 - Option 1 – 240 monthly payments of principal and interest, beginning 1 month after closing
 - Option 2 – 300 monthly payments of principal and interest, beginning 1 month after closing
 - Option 3 – 360 monthly payments of principal and interest, beginning 1 month after closing
- Rate:
 - Option 1 – currently 5.360% fixed for 20 years
 - Option 2 – currently 5.430% fixed for 25 years
 - Option 3 – currently 5.500% fixed for 30 years

**These rates are subject to change based on market rates at the time of closing. Rate options match corresponding loan term options.

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- **Collateral:** 1st mortgage on the waste water treatment facility (parcel to be split before closing), 1st mortgage on all ground around golf course to be purchased, approx. 158.06 acres in addition to waste water treatment facility, Assignment of community members sewer/waste water monthly payments
- **Guaranty:** Approval subject to the 90% Guarantee from USDA Rural Development
- **Fee:** \$11,000 origination fee. All third party fees will be the responsibility of the borrower, including but not limited to USDA RD Guarantee fee (most recently 1% or \$22,000.00), appraisals, title insurance, flood certs, credit reports, recording and release fees.
- **Prepayment Penalty:** Borrower may pay up to 10% of the unpaid principal balance in any one calendar year. Payment above that amount will be subject to the following prepayment penalty 5/4/3/2/1% per year for the first five years.
- **Covenants:** Both the Operating deposit account and the Maintenance Reserve deposit account must be opened, maintained and transacted with FFBT. There is a minimum of 1.25 debt-service coverage ratio requirement that will be tested annually upon receipt of the financial reports.
- **Contingencies:** Subject to review of appraisal, title insurance, and other documents deemed necessary by the bank and its counsel.
- **Expiration:** This approval letter will expire, if not returned to the bank by January 28th, 2020
- **Confidentiality:** This letter is for the sole use of Green Acres Subdivision Sewer System, Inc. and Chuck Lewis, concerning the loan from First Farmers Bank & Trust, and is not to be seen by third parties not involved in this transaction.

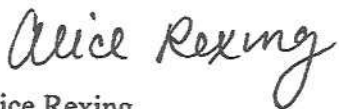
This letter is not a commitment to lend. The bank's obligation to provide the financing is subject to further negotiations and agreement by the bank with Green Acres Subdivision Sewer System, Inc., on all material terms of the proposal; and subject to the completion of loan documents

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acceptable to the bank and its counsel. This letter is also not assignable to other third parties, and it supersedes all other discussions and agreements between the borrower and the bank.

If the above terms and conditions are acceptable to you, please acknowledge your agreement by signing this proposal below and choosing term option 1, 2 or 3. If you have any questions, please contact us.

Sincerely,



Alice Rexing
VP Commercial Lender
First Farmers Bank & Trust

Acknowledgement:

Chuck Lewis

Date

ATTACHMENT SKB-2
FILED AS AN EXCEL DOCUMENT