STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF THE CITY OF MARION, INDIANA, FOR APPROVAL TO ISSUE BONDS AND ADJUST ITS RATES AND CHARGES	**CAUSE NO. 45838**

PREFILED DIRECT TESTIMONY AND EXHIBITS OF JENNIFER Z. WILSON

Prefiled Direct Testimony of Jennifer Z. Wilson	Petitioner's Exhibit 9
Final Revenue Requirements Report	Petitioner's Exhibit 10
Revised Capital Improvement Plan	Petitioner's Exhibit 11

Respectfully submitted,

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<u>Petitioner's Exhibit 9</u>

PETITIONER'S EXHIBIT 9

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IN THE MATTER OF THE PETITION OF THE CITY OF MARION, INDIANA, FOR APPROVAL TO ISSUE BONDS AND ADJUST ITS RATES AND CHARGES	**CAUSE NO. ________**

PREFILED DIRECT TESTIMONY

OF

JENNIFER Z. WILSON

ON BEHALF OF

THE CITY OF MARION, INDIANA

I.
INTRODUCTION

1. Q PLEASE STATE YOUR NAME AND ON WHOSE BEHALF, YOU ARE TESTIFYING.

A My name is Jennifer Z. Wilson, and I am testifying on behalf of the Petitioner, the City of Marion, Indiana's ("Marion") Municipal Water Utility ("Petitioner" or "Utility").

2. Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A I am a Consulting Managing Director with Crowe LLP ("Crowe"), a certified public accounting and consulting firm. Crowe's Consulting Public Sector Municipal Advisory practice and its predecessor, Municipal Consultants, have been providing rate and financial consulting services to various types of utility companies for over fifty-five years. My business address is 135 North Pennsylvania Street, Suite 200, Indianapolis, Indiana 46204.

3. Q PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A I received a bachelor's degree in accounting from Indiana University in 1992. During my employment, I have attended numerous seminars and conferences pertaining to accounting, utility, and rate issues. Universities, utility associations, accounting organizations, state regulatory associations, governmental entities, and other organizations sponsored these seminars. I am a Certified Public Accountant licensed in the State of Indiana and am a member of the Indiana CPA Society and the American Institute of Certified Public Accountants. I am designated by the Municipal Securities Rulemaking Board ("MSRB") as a Municipal Advisor Representative and a Municipal Advisor Principal.

4. Q WHAT IS A DESIGNATION OF MUNICIPAL ADVISOR BY THE MSRB?

A As part of its expanded mandate under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the MSRB implemented the first qualifying examination for municipal advisors. MSRB Rule G-3, effective April 27, 2015, created two classifications of municipal advisor professionals, representative and principal, with firms required to designate at least one principal to oversee the municipal advisory activities of the firm. All municipal advisor representatives and principals are required to take and pass the Series 50 exam to demonstrate the level of knowledge needed to be sufficiently qualified to perform municipal advisory activities. Furthermore, the MSRB restricts any party from providing advice concerning the issuance of debt to only those qualified as a municipal advisor representative or municipal advisor principal. I passed the Series 50 Pilot exam in 2016 and, because of that, am a Series 50-qualified municipal advisor representative. I passed the Series 54 Pilot exam in 2019 to demonstrate the level of knowledge to serve as a municipal advisor principal. My firm has designated me as a municipal advisor principal.

5. Q HOW LONG HAVE YOU BEEN EMPLOYED BY CROWE AND IN WHAT CAPACITIES?

A I have been employed by Crowe since 1992 after graduating from Indiana University. During my employment, I have been responsible for supervising and performing numerous projects including utility rate engagements, feasibility studies, cost of service studies, utility financial analysis, rate evaluation, revenue sufficiency reviews, and other projects related to a variety of utility issues.

I have served as a municipal advisor on both competitive and negotiated bond sales including debt issuance through agencies of the State of Indiana by the Indiana Bond Bank and by the Indiana Finance Authority through the State Revolving Fund Loan Program. While at Crowe, the engagements that I have worked on and been responsible for have included water, sewer, stormwater, and electric utilities that were established as not-for-profit, for-profit, governmental, or quasi-governmental entities. I have prefiled and given oral testimony before the Indiana Utility Regulatory Commission ("Commission").

6. Q HAVE YOU TESTIFIED BEFORE THE COMMISSION IN THE PAST?

A Yes, I testified on behalf of the City of Fort Wayne in its water rate case and financing cases, Cause Nos. 42979 and 42724. I have also testified on behalf of the City of South Bend in Cause No. 42779, the City of New Castle Water Utility in Cause No. 42984, the City of Lafayette in Cause No. 45006, the Crawfordsville Electric Light & Power in

Cause No. 45420, the City of Bloomington Water Utility in Cause No. 45533, and Granger Water Utility LLC in Cause No. 45568.

II.
PREPARATION OF ACCOUNTING REPORT

7. Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CAUSE?

A The purpose of my testimony is to present the revenue requirements of the Utility based on our analysis of the Utility's books, records and other information. The August 15, 2022, Final Revenue Requirements Report ("Report"), which is prefiled as Petitioner's Exhibit 10, documents the results of the analysis that was performed by Crowe under my supervision.

8. Q WERE THE SCHEDULES WHICH ARE INCLUDED IN THE REPORT PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A Yes. I either prepared the schedules or provided supervision as to their preparation.

9. Q WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE SCHEDULES OF THE REPORT?

A The data used to prepare the schedules was provided by the Utility from the Utility's business records, from Utility files maintained by Crowe, or it is data that is part of normal business information that is available to individuals working in the utility rate and financing field. Based upon my experience, the type of data used in the schedules of the Report is consistent with industry standards and is used in the normal course of business for such purposes. Also, the schedules summarize the results of our analysis using such data.

10. Q PLEASE DESCRIBE SOME OF THE MATERIALS YOU REVIEWED IN ORDER TO PREPARE YOUR TESTIMONY IN THIS CAUSE.

A Some of the materials I reviewed to prepare my testimony in this Cause includes, but is not limited to, the Utility's books and records, minutes of meetings of Marion's Common Council and Utility Service Board, Utility files maintained by Crowe which are kept in the normal course of business, files of the Utility, our files regarding previous rate cases, and other materials which are normally examined during an engagement to analyze utility rates, charges, and a proposed financing.

III.
DETAILS OF REPORT, PROPOSED RATE ADJUSTMENT, AND FINANCING OF IMPROVEMENTS

11. Q WHAT INCREASE IN OPERATING REVENUES IS REQUIRED FOR THE UTILITY TO MEET ITS PRO FORMA REVENUE REQUIREMENTS?

A The Statement of Revenue Requirements on page seventeen of the Report shows a proposed five-phase rate increase. Petitioner is proposing a 16.0% increase in Phase I that would be effective upon approval in a Commission final order; a 10.5% increase in Phase II that would be effective January 1, 2025; a 9.4% increase in Phase III that would be effective January 1, 2026; an 8.6% increase in Phase IV that would be effective January 1, 2027; and an 8.0% increase in Phase V that would be effective January 1,

2028. The increases in operating revenues are required in order for the Utility to meet its pro forma revenue requirements for: Operation and Maintenance Expenses; Taxes Other Than Income Taxes; Annual Debt Service on the Proposed Debt to be issued in 2023 and 2025; an annual amount for Extensions and Replacements; and an annual amount to increase the current balance of the Operation and Maintenance Fund to meet the industry standard of two months of operation and maintenance expenses.

The difference between the five Phases being proposed is the amount available for the Annual Debt Service on the Proposed Debt and the amount available for Extensions and Replacements. In Phase I, the Petitioner will pay interest only on the proposed Waterworks Revenue Bonds, Series 2023 ("2023 Bonds"). In Phase II, the Utility will begin making principal payments on the 2023 Bonds in a smaller level than required for level debt service. In Phase III, the Utility will continue paying principal payments on the 2023 Bonds but at an amount consistent with level debt service and will begin paying interest only on the proposed Waterworks Revenue Bonds, Series 2025 ("2025 Bonds") (together with the 2023 Bonds, the "Proposed Bonds"). In Phase IV, the Utility will continue paying level debt service on the 2023 Bonds and begin making principal payments on the 2025 Bonds. The Extensions and Replacements for each Phase represent the calculated extensions and replacements as shown in the capital improvement plan included on page eleven of Petitioner's Exhibit 10. The Extensions and Replacements increase from an amount of $320,000 in Phase I to $1,580,000 in Phase V.

12. Q WHAT IS THE PURPOSE OF A FIVE-PHASE REVENUE INCREASE?

A A five-phase revenue increase allows customers to experience less "rate shock" relative to a single-phase rate increase. A five-phase rate increase is particularly important in context of the proposed changes in rates and charges across customer classes as a result of the cost of service study included as Petitioner's Exhibit 14 that is attached to the prefiled testimony of Petitioner's witness, Mr. Andrew Burnham. A five-phase rate increase balances the needs of the Utility with the challenges of customers absorbing increased rates and charges.

13. Q PLEASE PROVIDE AN EXPLANATION OF PAGE TWO AND THREE OF THE REPORT.

A Pages two and three present the Balance Sheets of the Utility as of May 31, 2022, December 31, 2021, and December 31, 2020.

14. Q PLEASE EXPLAIN PAGES FOUR AND FIVE OF THE REPORT.

A Pages four and five present the Utility's Statements of Income for the twelve months ended May 31, 2022, December 31, 2021, and December 31, 2020. The twelve months ended May 31, 2022, has been used as the test year in this Cause. With the appropriate adjustments summarized on pages six and seven, including the detail shown on pages eight and nine of the Report, the test year used in this Cause reasonably reflects current operations and is sufficiently reliable for ratemaking purposes.

15. Q PLEASE EXPLAIN PAGES SIX AND SEVEN OF THE REPORT.

Pages six and seven present the Adjusted Statement of Income that summarizes by functional expense the adjustments detailed on pages eight and nine. It begins with the Utility's historical test year financial information and makes appropriate adjustments for items that are fixed, known, and measurable. The results of the calculations demonstrate that, without the rate relief requested in this Cause, the Utility would generate a net loss of approximately $900,000 in a pro forma twelve-month period. The Utility's adjusted net operating income would normally be used to pay the combined principal and interest payments on the Proposed Bonds. With a net loss, there is no amount available to fund the estimated maximum annual debt service on the Proposed Bonds at approximately $940,000.

16. Q PLEASE DESCRIBE EACH ADJUSTMENT DETAILED ON PAGES EIGHT AND NINE.

A Adjustment (1) is made to adjust test year Metered Sales, Fire Protection, and Private Fire Protections revenues to reflect the 1.42% decrease in rates and charges related to the removal of utility receipts tax approved by the City of Marion Common Council through General Ordinance No. 8-2022 and approved by Order of the Commission on June 28, 2022.

Adjustment (2) is made to adjust credit card convenience fees to the three-year average of revenues between 2019 and 2021 due to a change in methodology for distributing revenue shares to the other utilities of Marion. In prior years, Marion recorded all credit card convenience fee revenues to the water utility, and then distributed allocated shares to the other utilities annually in December. During the Test Year, the Water Utility switched to making monthly distributions, which understated the amount retained by the Water Utility in the Test Year since the distributions included an annual distribution amount and monthly distributions to the other utilities.

Adjustment (3) is made to adjust Materials and Supplies (Supplies-Other) to the amount in the Adopted 2022 Budget. Supplies-Other recorded to the Test Year (i.e. $31,200) were low compared to the three-year average (i.e. $52,827) and the Adopted 2022 Budget amount (i.e. $50,000).

Adjustment (4) is made to increase the Test Year Salaries and Wages due to increased wages effective January 2022 resulting from the Utility's compensation study.

Adjustment (5) is made to adjust Test Year Benefits due to the expected change in employee insurance costs resulting from the Utility switching providers.

Adjustment (6) allows for the change in Test Year Public Employees' Retirement Fund ("PERF") expense that resulted from the salaries and wages increases that were made in Adjustment (4).

Adjustment (7) is made to adjust the Test Year Chemical expense to account for the increased cost of lime. The Pro Forma Lime expense is calculated based on four million pounds of lime used annually at the price of $0.135 per pound.

Adjustment (8) is made to adjust the Test Year Chemical expense for the Adopted 2022 Budget for chlorine. The 2022 Budget amount was estimated based on the 350% increase in chlorine bids received by the Utility between 2021 and 2022.

Adjustment (9) is made to decrease costs incurred for development of the Utility's asset management plan. The Utility anticipates updating this report every five years. This adjustment removes the expenses included in the Test Year while providing funding for the plan to be updated every five years.

Adjustment (10) increases Test Year expenses for lime management costs to align with the Utility's Adopted 2022 Budget relating to the newly reopened east lime lagoon from which lime will be harvested.

Adjustment (11) is made to remove three invoices recorded to the Utility's Distribution System Projects Account. The Utility anticipates funding related expenditures from its ongoing revenue requirement for Extensions and Replacements.

Adjustment (12) increases Contract Meter Reading Expense in the Test Year to add an additional month of expenses based on the average monthly amount incurred by the Utility during the Test Year, as only eleven months of contract meter reading expense were recorded to the Test Year.

Adjustment (13) removes two-thirds (2/3) of expenses relating to the Utility's intervention in Cause 45576 before the Commission in order to include one-third (1/3) of expense to allow for funding in the Revenue Requirement to intervene in such cases every three years.

Adjustment (14) removes four-fifths of expenses relating to the Utility's five-year Well Head Protection Update in order to include one-fifth (1/5) of expense to allow for funding in the Revenue Requirements to complete an update every five years.

Adjustment (15) adjusts the Test Year to include rate case expenses to be incurred every four years.

Adjustment (16) allows for the change in the Federal Insurance Contribution Act ("FICA") that resulted from the pro forma salaries and wages calculations that were made in Adjustment (4).

Adjustment (17) removes Utility Receipts Tax expenses from the Test Year as a result of House Enrolled Act No. 1002 that discontinued the tax.

17. Q PLEASE EXPLAIN PAGE 10.

A Page ten of the Report shows the calculation of annual funding for the Operation and Maintenance Fund balance over five years. The Utility proposes to fund certain capital improvements through two series of bond issuances (i.e. the Proposed Bonds) secured by the Net Revenues of the Utility, defined as the operating revenues of the Utility after payment of the reasonable expenses of operation, repair, and maintenance. Industry standards for the issuance of municipal revenue bonds require the Utility to maintain two months of operation and maintenance expenses in a distinct fund. The bond ordinance filed as Petitioner's Exhibit 4 to the prefiled testimony of Mr. Chuck Binkerd includes the provision to fund the operation and maintenance fund to this two month level in Section 14 of the bond ordinance. To meet this requirement, the Utility plans to increase the current balance of its Operation and Maintenance Fund over the course of the five-phase rate increase.

18. Q PLEASE EXPLAIN PAGE ELEVEN.

A Page eleven shows the CIP which lists each capital project and the source of funding for the capital items as it was prepared for the rate increases and ordinances presented and approved by the Common Council of the City of Marion, Indiana (the "Original CIP"). As described in the testimony of Petitioner's witness, Patrick Pinkerton, since the time the Original CIP was provided for the Revenue Requirements Report, the estimated pricing of the projects has been very volatile and thus has been updated to reflect more recent estimates in the Preliminary Engineering Report. The more recent cost estimates and bond funding timing are shown in the Revised Capital Improvement Plan presented as Exhibit 11 to my testimony (the "Revised CIP").

19. Q HOW WILL THE UTILITY FUND THE PROJECTS IN THE CIP?

A The Original CIP in the Revenue Requirement Report aligns with the timing of funding through the Phases I-V rate increases. The total cost of the Original CIP is $15,270,000 for the five-phase period with $10,330,000 expected to be funded by the Proposed Bonds. The extensions and replacements to be funded with pay-as-you-go revenues (i.e.

included in rates) totals $4,940,000 for over the five-phase period. The allocation of the Original CIP between the Proposed Bonds and extensions and replacements allows the Utility to rely on bond proceeds for larger projects and minimize rate shock to customers by building up extensions and replacements over time through five phases of rate increases. By the end of Phase V, the funding of extensions and replacements will allow the Utility to sustain $750,000 of annual funding for its Water Main Replacement Program and $500,000 of annual funding for its Lead/Copper Abatement Program. Again, Petitioner's witness Patrick Pinkerton describes the capital projects in greater detail.

20. Q PLEASE EXPLAIN PAGES TWELVE AND FOURTEEN.

A. Pages twelve and fourteen show the estimated sources and uses of funds for the 2023 Bonds and 2025 Bonds, respectively. The construction costs (project funds) were provided by the Utility in the Original CIP and costs of issuances are estimates based on similar transactions. Other items on the Uses of Funds section include standard costs of issuing bonds including: (i) funding for debt service reserves based on the maximum annual debt service of the respective issuances; (ii) underwriter's discount (estimated at one percent (1%) of the par amount of the Proposed Bonds) which is a provision for the fee charged by the winning underwriter of the bond sale; (iii) the regulatory fee as required by the Commission; and (iv) other costs of issuance including rating agency fees, bond counsel fees, municipal advisor fees, parity report fees, and other smaller costs of issuance. The Utility is requesting Commission approval to issue up to $14.2

million in revenue bonds at rates not to exceed seven percent (7%) per annum. The par amount requested is $2,500,000 greater than the aggregate par amount of $11,700,000 detailed on pages twelve and fourteen.

21. Q EXPLAIN WHY THE PRINCIPAL AMOUNT IN THE BOND ORDINANCE IS GREATER THAN THE SUM OF THE COMBINED PAR AMOUNTS SHOWN IN THE SOURCES OF FUNDS FOR THE 2023 AND 2025 BONDS ON PAGES TWELVE AND FOURTEEN.

A. The par amount request is $2,500,000 greater than the aggregate par amount of $11,700,000 detailed on pages twelve and fourtenn in the sources of funds. The reason for the difference is two-fold. First, the extra borrowing amount would allow for additional project contingency in case the project bids come in higher than presented in the Original CIP. Second, the additional amount provides the Utility with the ability to leverage bonding capacity for additional projects in the event the Utility is able to bond with a State Revolving Fund Loan Program ("SRF Program") rate, the Utility qualifies for a grant through the SRF Program, and/or the SRF Program offers a longer, more beneficial amortization schedule. Typically, the SRF Program structures its grants as a four (4) year forgivable loan which will be treated as the issuance of long-term debt.

22. Q WILL THE UTILITY UPDATE THE REVENUE REQUIREMENT REPORT FOR THE REVISED CIP?

A. No. As Mr. Pinkerton explains in his testimony, the Council feels comfortable with the amount of the rate increase that was proposed. As I explain further in my testimony, the Utility will need to manage the method of financing and the projects included within the financing when the SRF Program provides its Project Priority List. Once it determines and closes on its best method of financing for each of the Proposed Bonds, the Utility is willing to file true-up reports with the Commission that reflect the projects and costs associated with each financing, the issuance costs, interest rates, and any material impact on the Utility's rates as a result of the actual costs of the projects and financing.

23. Q PLEASE EXPLAIN PAGES THIRTEEN AND FIFTEEN.

A. Pages thirteen and fifteen are the Estimated Amortization Schedules for the Proposed Bonds. The bond ordinance allows for six percent (7%) maximum permissible interest rate for the Proposed Bonds. The 2023 Bonds are structured so the first interest payment will occur on July 1, 2024, and the first principal payment will occur on July 1, 2025. Subsequently, the principal payments will occur semi-annually each January 1 and July 1. The delay in the first principal payment allows the Utility to include interest only on the 2023 Bonds for the Phase I revenue requirement. The principal payments for July 1, 2025, through January 1, 2028, are designed to be a lower amount than the annual debt service required in years 2028 through 2043. This allows for a gradual increase in the 2023 Bonds annual debt service over the five-phase implementation of rates. The full amount of principal and interest on the 2023 Bonds is included within Phase V revenue requirements.

The 2025 Bonds are also structured to phase-in to the full annual debt service at level debt by Phase V. The first interest payment will occur on July 1, 2026, and the first principal payment will occur on July 1, 2028. This allows the Utility to include interest only on the 2025 Bonds within the Phase III and Phase IV revenue requirements. The full amount of principal and interest on the Proposed 2025 Bonds is included within Phase V.

24. Q HOW WERE THE COUPON RATES DETERMINED FOR THE ESTIMATED AMORTIZATION SCHEDULES ON PAGES THIRTEEN AND FIFTEEN FOR THE PROPOSED BONDS?

A. The interest rates shown on page thirteen reflect market conditions as of August 1, 2022, from the Municipal Marketplace Monitor (TM3) (MMD) service using a general obligation "A" scale plus seventy-five (75) basis points. Out of the seventy-five (75) basis points, fifty (50) basis points are estimated for a timing allowance. Rates have fluctuated over the past year, so a level of increase for timing is warranted. The additional twenty-five (25) basis point addition accounts for a credit allowance. The interest rates provided by the Municipal Marketplace Data (Refinitiv TM3) (MMD) service are for a general obligation "A" scale. Revenue bonds in Indiana typically sell ten to fifteen basis points higher because they are revenue supported bonds and not property tax supported bonds. The additional ten to fifteen basis points difference, over and above the increase due to revenue bonds, is the estimated additional basis points that the bond market will place on City of Marion revenue debt. Most recently in 2021, the City of Marion Sewage Works Revenue Bonds, Series 2021, were sold at interest rates that varied from the MMD scale on their date of sale by approximately twenty basis points for the shortest maturity to ninety basis points for the maturity in the twentieth year. Under-estimating the timing allowance exposes the Utility to the risk of not being able to fund its revenue requirements in the event of market changes that exceed the rates provided for in the Utility's case-in-chief.

25. Q IS THE ISSUANCE OF THE PROPOSED BONDS A REASONABLE METHOD OF FINANCING THE PROJECTS?

A As can be seen on page thirteen and fifteen, the Proposed Bonds are to be issued for a term of twenty (20) years. It is anticipated that the improvements funded by the proceeds from the Proposed Bonds will benefit customers well into the future and specifically during the time the Proposed Bonds will be outstanding. The issuance of the Proposed Bonds to fund the needed improvements is both reasonable and appropriate.

26. Q IS THE UTILITY CONSIDERING ISSUING BONDS THROUGH THE SRF PROGRAM?

A Yes. The Utility will be submitting an application to the SRF Program for the issuance of the 2023 Bonds and the 2025 Bonds.

27. Q WHAT IS THE PROCESS TO ISSUE A SRF PROGRAM LOAN?

A The process for an SRF Loan starts with the Utility submitting an application and preliminary engineering report to the SRF Program. The SRF Program then evaluates and prioritizes the request with all the other projects submitted by other Indiana water utilities. The SRF Program publishes its ranking of the various projects in the SRF Program's Project Priority List ("PPL") on July 1 of each year for the upcoming State fiscal year.

The PPL lists which projects are within the fundable range for program funds (i.e. subsidized loans). Program funds are the low interest rate loans that in the past few years have ranged as low as two percent (2%) based upon the median household income and the monthly charge per 4,000 gallons. If the Utility is within the fundable range, the Utility must commit by mid-August as to which quarter the project will be bid and the loan be closed. The SRF Program has guidelines detailing deadlines for the receipt of construction bids, the filing of due diligence reports, and completion of the other items required to proceed with a loan closing.

28. Q WHEN IS THE UTILITY HOPING TO CLOSE ON A LOAN WITH THE SRF PROGRAM?

A. The Utility hopes to obtain a Commission order authorizing it to issue the Proposed Bonds (and adjust its rates) later this fall and close with the SRF Program before the end of the year on the 2023 Bonds. The Utility hopes to close on the 2025 Bonds with the SRF Program in the fourth quarter of 2025.

29. Q SINCE THE UTILITY WILL BE APPLYING FOR A SRF LOAN, WHY SHOW THE 2023 BONDS AND 2025 BONDS ISSUANCES AS IF THEY WILL BE SOLD IN THE OPEN MARKET?

A. There is much competition for the SRF Program funds. The most recent PPL provided by the SRF Drinking Water Program lists over sixty communities with estimated total project costs of approximately $770 million dollars competing for $100 million of program funds. Thus, there is uncertainty as to whether the Utility will qualify for SRF Program's rate. If a utility is not in the fundable range, it may request funding through the SRF pool program where SRF will include a utility's bond issuance with other utilities (that did not obtain program funds) in a bond issue on the open market. In a pooled loan scenario, the SRF Program is able to pledge the credit of the State of Indiana which often results in an interest rate that is lower than what the Utility could achieve on its own. However, inclusion in a pooled financing transaction is conditioned on the SRF Program having capacity to include the Utility in a pooled loan. Thus, there is no certainty that the Utility will be awarded a low interest rate loan or that SRF will have the capacity to include the Utility in a pooled financing. Therefore, open market bonds have been proposed to estimate the annual debt service as that is expected to be the most costly in both costs of issuance as well as the expected interest rate or borrowing cost.

30. Q WHAT WOULD BE THE SAVINGS IF THE UTILITY WERE TO GET PROGRAM FUNDS FROM SRF?

A For the purpose of assisting the Utility in determining the best financing course based on its project needs and credit profile, we estimated a SRF transaction assuming the Utility qualified for the program rate and using similar parameters as the 2023 Bonds previously described (the "Estimated SRF Loan"). Notable differences from the open market financing option include (1) removing the funding of the debt service reserve since SRF will not allow the Utility to fund the debt service reserve from bond proceeds and (2) removing underwriter's discount and the rating agency fee from the cost of the bond issuance. For the 2023 Bonds, we assumed an SRF program rate of 2.72% being (1) the current Drinking Water SRF Interest Rate for Tier III (MHI under $46,588) and user rates between $25 and $45 for 4,000 gallons usage of two and twelve hundredths' percent (2.12%), (2) an estimated one-tenth of one percent (0.1%) as a penalty for delaying principal repayment until 2024, and (3) the same timing allowance utilized for the open market issuance of 50 basis points (0.50%). Based on these assumptions, the 2023 Estimated SRF Loan would result in approximately $528,000 of annual debt service per year, compared to the approximately $660,000 of annual debt service on an open market issue for the 2023 Bonds, or $130,000 in annual savings in debt service. The savings of the 2023 Estimated SRF Loan are offset by the SRF's prohibition against the Utility funding a debt service reserve with SRF Loan proceeds. If the Utility moved forward with the 2023 Estimated SRF Loan, the Utility would modify its revenue requirements to include a five-year build-up of funds of approximately $106,000 annually for five years. Therefore, for the five year period of funding the debt service reserve, the 2023 Estimated SRF Loan and annual debt service reserve funding would result in reduced revenue requirements of approximately $24,000. Over the life of the debt, I estimate that opting for the SRF Loan would result in approximately $1,670,000 of savings. Given these savings occur between years six through twenty of the bond issue, it is appropriate to discount the future cash flows to quantify the present dollar value benefit of the savings. Discounting the savings at the arbitrage yield of the 2023 Bonds of 3.93% results in present value savings of approximately $1,107,000. Bear in mind these savings assume the Utility qualifies for the SRF Program rate. If the Utility issued through the SRF Program's pooled transaction, the increase of the pooled rate compared to the program rate would decrease the present value savings. Additionally, the savings assume no difference in interest rates between the timing of an open market transaction and the timing of an SRF Loan. The additional lead time of issuing through the SRF program exposes the Utility to greater risk that interest rates increase between the time the Utility would have issued bonds assuming an open market transaction as compared to an SRF Loan. If the SRF Program's interest rates were to increase by 120 basis points, whether due to the pool borrowing rate or timing differences, the present value savings decrease to zero. One hundred twenty (120) basis points serves as a break-even value regarding SRF savings rather than an estimate of actual differences between pool and program rates or estimated effects of timing.

31. Q WHAT IS THE ESTIMATED EFFECT OF NOT ISSUING THROUGH THE SRF PROGRAM FOR THE 2025 BONDS?

A. It is difficult to project the exact cost difference between opting for an open market competitive bond sale and the SRF Program due to market uncertainty and the different costs associated with each process. Furthermore, this analysis is made more difficult by the uncertainty of whether the Utility would qualify for SRF Program's rate, or whether the Utility would be included in a pooled financing transaction that is not subsidized by program dollars. For the purpose of assisting the Utility in determining the best financing course based on its project needs and credit profile, we estimated an SRF transaction assuming the Utility qualified for the program rate and using similar parameters as the 2023 Bonds previously described (the "Estimated SRF Loan"). Notable differences from the open market financing option include (1) removing the funding of the debt service reserve and (2) removing the underwriter's discount, and rating agency fee from the costs of the bond issuance. For the 2025 Bonds, we assumed an SRF Program rate of 3.22% being (1) the current Drinking Water SRF Interest Rate for Tier III (MHI under $46,588) and user rates between $25 and $45 for 4,000 gallons usage of two and twelve hundredths' percent (2.12%), (2) an estimated one-tenth of one percent (0.1%) for a penalty for delaying principal repayment till 2027, and (3) the same timing allowance utilized for the open market issuance of 100 basis points. Based on these assumptions, the 2025 Estimated SRF Loan would result in approximately $247,000 of annual debt service per year, compared to the approximately $264,000 of annual debt service on the 2025 Bonds, or $17,000 in annual savings. The savings of the 2025 Estimated SRF Loan are offset by the SRF's prohibition against the Utility funding a debt service reserve through SRF Loan proceeds. If the Utility to move forward with the 2025 Estimated SRF Loan, the Utility would modify its revenue requirements to include a five-year build-up of funds of approximately $50,000 annually for five years. Therefore, in the near term, the 2025 Estimated SRF Loan would result in increased revenue requirements of approximately $36,000. Over the life of the debt, opting for the SRF Loan could result in approximately $370,000 of savings. Given these savings occur between years six through twenty of the bond issuance, it is appropriate to discount the future cash flows to quantify the present dollar value benefit of the savings. Discounting the savings at the arbitrage yield of the 2025 Bonds of 4.43% results in present value savings of approximately $216,000. Bear in mind these savings assume the Utility qualifies for the SRF Program rate. If the Utility issued through the SRF's pooled transaction, the increase of the pooled rate compared to the program rate would decrease the present value savings. Additionally, the savings assume no difference in interest rates between the timing of an open market transaction and the timing of an SRF Loan. The additional lead time of issuing through the SRF program exposes the Utility to greater risk that interest rates increase between the time the Utility would have issued bonds assuming an open market transaction compared to an SRF Loan. Were the SRF interest rates to increase by 120 basis points, whether due to the pool rate or timing differences, the present value savings decrease to zero. One hundred twenty (120) basis points serves as a break-even value regarding SRF savings rather than an estimate of actual differences between pool and program rates or estimated effects of timing.

32. Q WHAT ARE THE BENEFITS OF AN OPEN MARKET TRANSACTION?

A. A benefit of an open market transaction includes the ability to purchase a surety policy to satisfy the requirement of a debt service reserve fund. At the time of issuance of the Proposed Bonds, if the Proposed Bonds are to be sold in the open market, the Utility will evaluate whether or not it is advantageous to purchase a surety policy and insure the deal with an insurance provider to gain a more favorable rating of the insurance company. The reduction in interest rate due to the insurance policy could possibly lead to debt service savings. Bond insurers may be reluctant to allow the Utility to secure a surety policy without insuring the deal. Thus, a surety policy is typically not pursued for SRF Loans. Additionally, an open market transaction would allow the Utility to sustain and build its credit profile in the municipal bond market. Market participation keeps the Utility as a familiar credit for bond purchasers, which serves to expand the Utility's access to future financings. Accordingly, an open market issuance for the Proposed Bonds enhances the Utility's access to credit markets in the future.

33. Q WHAT IS THE UTILITY'S PHASE I PROPOSED REVENUE REQUIREMENT?

A The Utility's Phase I pro forma revenue requirement total is $4,613,207, as shown on the Statement of Revenue Requirements on page seventeen of the Report. After deducting the operating revenues, the Utility has a revenue shortfall of $620,822. Phase I revenue requirements necessitate a 16.0% increase in operating revenues. Phase I is to be effective in 2023 as soon as a Commission order is received and a new tariff is filed.

34. Q WHAT IS THE UTILITY'S PHASE II PROPOSED REVENUE REQUIREMENT?

A The Utility's Phase II pro forma revenue requirement total is $5,087,752, as shown in the second column on the Statement of Revenue Requirements on page seventeen of the Report. After deducting the adjusted operating revenues accounting for the Phase I increase, the Utility has a revenue shortfall of $473,138. The Phase II revenue requirements necessitate a 10.5% incremental increase in operating revenues above the Phase I increase in order for the Utility to fully fund its Phase II revenue requirements. Phase II is to be effective January 1, 2025.

35. Q WHAT IS THE UTILITY'S PHASE III PROPOSED REVENUE REQUIREMENT?

A The Utility's Phase III pro forma revenue requirement total is $5,556,246, as shown in the third column on the Statement of Revenue Requirements on page seventeen of the Report. After deducting the adjusted operating revenues accounting for the Phase I and Phase II increases, the Utility has a revenue shortfall of $467,960. The Phase III revenue requirements necessitate a 9.4% incremental increase in operating revenues above the Phase I and Phase II increases in order for the Utility to fully fund its Phase III revenue requirements. Marion proposes that the Phase III rates be effective January 1, 2026.

36. Q WHAT IS THE UTILITY'S PHASE IV PROPOSED REVENUE REQUIREMENT?

A The Utility's Phase IV pro forma revenue requirement total is $6,025,841, as shown in the fourth column on the Statement of Revenue Requirements on page seventeen of the Report. After deducting the adjusted operating revenues accounting for the Phase I, Phase II, and Phase III increases, the Utility has a revenue shortfall of $468,981. The Phase IV revenue requirements necessitate an 8.6% incremental increase in operating revenues above the Phase I, Phase II, and Phase III increases in order for the Utility to fully fund its Phase IV revenue requirements. Phase IV is to be effective in January 1, 2027.

37. Q WHAT IS THE UTILITY'S PHASE V PROPOSED REVENUE REQUIREMENT?

A The Utility's Phase V pro forma revenue requirement total is $6,498,281, as shown in the fifth column on the Statement of Revenue Requirements on page seventeen of the Report. After deducting the adjusted operating revenues accounting for the Phase I, Phase II, Phase III, and Phase IV increases, the Utility has a revenue shortfall of $472,428. The Phase V revenue requirements necessitate an 8.0% incremental increase in operating revenues above the Phase I, Phase II, Phase III, and Phase IV increases in order for the Utility to fully fund its Phase V revenue requirements. Phase V is to be effective January 1, 2028.

38. Q PLEASE EXPLAIN PAGES EIGHTEEN (18) THROUGH TWENTY (20).

A Page eighteen represents the current rates and charges of the Utility, and pages 19 and 20 set forth the assumptions that were used in preparation of the Report.

IV.
CONCLUSION

39. Q DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY AT THIS TIME?

A Yes.

VERIFICATION

I affirm under the penalties for perjury that the foregoing testimony is true to the best of my knowledge, information, and belief.

Jennifer Z. Wilson

Jennifer Z. Wilson

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing was served upon the following by electronic mail this 10th day of January, 2023:

Indiana Office of Utility Consumer Counselor
infomgt@oucc.in.gov

J. Christopher Janak

4487677_3

Petitioner's Exhibit 10

Crowe

Smart decisions. Lasting value.™

Final Revenue Requirements Report

Marion Municipal Water Utility

August 15, 2022

Table of Contents

Purpose of the Report

Crowe LLP ("Crowe" or "we") has performed a study and analysis of the operating and financial reports, budgets, and other data pertaining to Marion Municipal Water Utility ("Utility"). The results of our analysis are contained in this Final Revenue Requirements Report ("Report").

The purpose of this Report is to estimate the Utility's on-going revenue requirements for operation and maintenance expenses, proposed debt service payments, and capital improvements to the Utility's system. This Report is based on data for the twelve months ended May 31, 2022 ("Test Year"). The historical information used in this Report was taken from the books and records of the Utility and was adjusted as necessary for fixed, known, and measurable items as disclosed in the exhibits and schedules of this Report.

In the course of preparing this Report, we have not conducted an audit of any financial or supplemental data used in the accompanying exhibits and schedules. We have made certain projections based on assumptions provided by the Utility that may vary from actual results because events and circumstances frequently do not occur as estimated and such variances may be material. We have no responsibility to update this Report for events and circumstances occurring after the date of this Report.

If you have any questions regarding this Report, please call Jennifer Wilson at (317) 269-6699.

Financial Statements

Balance Sheets as of May 31, 2022, December 31, 2021, and December 31, 2020

	May 31, 2022	December 31, 2021	December 31, 2020
ASSETS AND OTHER DEBITS			
Utility Plant			
Utility Plant in Service	$ 55,192,639	$ 55,192,639	$ 55,117,915
Less: Accumulated Depreciation	(33,585,777)	(33,585,777)	(32,678,698)
Net Utility Plant in Service	21,606,862	21,606,862	22,439,217
Add: Construction Work in Progress	670,752	69,298	-
Net Utility Plant	22,277,614	21,676,160	22,439,217
Restricted Assets			
Customer Deposit Fund	227,857	224,536	229,236
Equipment and Replacement Fund	674,692	690,230	685,077
Quail Hollow Fund	21,700	21,700	21,700
Depreciation Reserve Fund	216,701	739,521	843,425
Total Restricted Assets	1,140,950	1,675,987	1,779,438
Current and Accrued Assets			
Operation and Maintenance Fund	626,900	626,900	626,960
Accounts Receivable	564,941	564,769	539,816
Prepaid Expenses	52,608	26,391	28,765
Materials and Supplies Inventory	135,186	130,426	139,032
Other Current Assets	-	-	6,960
Total Current and Accrued Assets	1,379,635	1,348,486	1,341,533
Total Assets and Other Debits	$ 24,798,199	$ 24,700,633	$ 25,560,188

Data Source: Utility trial balances

Balance Sheets as of May 31, 2022, December 31, 2021, and December 31, 2020 (Continued)

	May 31, 2022	December 31, 2021	December 21, 2020
LIABILITIES AND OTHER CREDITS			
Equity Capital			
Retained Earnings	$ 19,558,433	$ 20,304,154	$ 20,685,071
Current Year Earnings	70,862	(745,721)	(377,198)
Total Equity Capital	19,629,295	19,558,433	20,307,873
Current and Accrued Liabilities			
Accounts Payable	-	-	378
Customer Deposits	231,174	225,745	232,496
Other Current Liabilities	227,582	206,307	309,293
Total Current and Accrued Liabilities	458,756	432,052	542,167
Other Contributions			
Contributions in Aid of Construction	4,675,468	4,675,468	4,675,468
Surplus Donations	34,680	34,680	34,680
Total Other Contributions	4,710,148	4,710,148	4,710,148
Total Liabilities and Other Credits	$ 24,798,199	$ 24,700,633	$ 25,560,188

Data Source: Utility trial balances

Statements of Income for the Twelve Months Ended May 31, 2022, December 31, 2021, and December 31, 2020

	May 31, 2022	December 31, 2021	December 31, 2020
Operating Revenue			
Metered Residential Sales	$ 1,988,311	$ 1,974,659	$ 2,013,275
Metered Commercial Sales	584,756	579,831	548,024
Metered Industrial Sales	180,979	178,575	175,552
Metered Institutional Sales	425,661	424,254	418,744
Fire Protection	565,166	560,769	559,419
Private Fire Protection	200,078	199,973	198,403
Forfeited Discounts	25,127	22,712	5,028
Miscellaneous Revenue	67,884	149,292	60,454
Total Operating Revenue	4,037,962	4,090,065	3,978,899
Operating Expenses			
Operation and Maintenance Expenses			
Wells Expense			
Utilities	124,157	108,144	110,844
Materials and Supplies	176	324	-
Contractual Services	551	638	3,231
Insurance	1,152	973	938
Wells Maintenance Expense			
Materials and Supplies	2,303	3,120	3,071
Contractual Services	2,934	3,399	3,583
Insurance	1,152	973	938
Treatment Plant Expense			
Salaries and Wages	195,376	189,830	158,036
Employee Benefits and Taxes	112,002	106,819	102,988
Materials and Supplies	50,486	43,255	25,403
Chemicals	458,288	376,358	383,142
Utilities	160,569	150,003	160,269
Contractual Services	50,765	51,806	55,158
Transportation	10,213	7,917	7,045
Insurance	17,427	21,579	20,616
Treatment Plant Maintenance Expense			
Salaries and Wages	313,180	308,569	292,949
Employee Benefits and Taxes	167,346	188,453	175,103
Materials and Supplies	33,834	38,030	34,111
Contractual Services	82,477	117,632	45,525
Transportation	17,982	15,620	21,990
Insurance	10,530	11,364	11,248
Distribution Expense			
Employee Benefits and Taxes	-	-	500
Materials and Supplies	565	(1,285)	-
Contractual Services	-	-	1,013
Insurance	2,303	1,894	1,927

Data Source: Utility trial balances

Statements of Income (continued)

	May 31, 2022	December 31, 2021	December 31, 2020
Distribution Maintenance Expense			
Salaries and Wages	$ 274,565	$ 268,661	$ 241,835
Employee Benefits and Taxes	94,312	100,972	105,877
Materials and Supplies	149,708	140,794	107,555
Contractual Services	155,966	179,204	149,323
Transportation	48,534	50,465	25,571
Insurance	18,232	19,119	19,159
Customer Accounts Expense			
Salaries and Wages	55,196	55,288	53,518
Employee Benefits and Taxes	25,632	27,954	37,016
Materials and Supplies	1,318	1,202	979
Contractual Services	112,372	111,676	102,242
Transportation	2,601	1,873	2,525
Insurance	10,297	9,844	10,062
Miscellaneous	1,302	1,282	8,374
Administrative and General Expense			
Salaries and Wages	453,739	432,500	400,563
Employee Benefits and Taxes	242,077	220,456	183,645
Materials and Supplies	20,225	21,445	29,259
Contractual Services and Service Charges	133,868	136,016	91,920
Transportation	15	240	298
Insurance	6,232	6,257	7,487
Miscellaneous	9,056	8,483	6,992
Total Operation and Maintenance Expenses	3,631,015	3,539,146	3,203,828
Depreciation Expense	907,489	907,489	908,567
Taxes Other Than Income Taxes			
FICA Taxes	95,307	92,670	79,584
Utility Receipts Tax	50,000	47,400	41,602
Total Taxes Other Than Income Taxes	145,307	140,070	121,186
Total Operating Expenses	4,683,811	4,586,705	4,233,581
Net Operating Income/(Loss)	(645,849)	(496,640)	(254,682)
Other Income			
Gain on Sale of Assets	-	-	15,630
Other Non-Operating Income	10,000	-	89
Interest Income	3,031	-	7,040
Total Other Income	13,031	-	22,759
Other Expenses			
Capital Expenditures	176,552	221,192	168,825
Interest Expense	-	27,889	-
Other Non-Operating Expenses	23,550	-	(23,550)
Total Other Expenses	200,102	249,081	145,275
Net Income/(Loss)	$ (832,920)	$ (745,721)	$ (377,198)

Data Source: Utility trial balances

Adjustments to the Financial Statements

Note: Expense categories with multiple adjustments are listed on separate lines.

Adjusted Statement of Income

	Test Year	Adjustments		Adjusted
Operating Revenue				
Metered Residential Sales	$ 1,988,311	$ (28,234)	1	$ 1,960,077
Metered Commercial Sales	584,756	(8,304)	1	576,452
Metered Industrial Sales	180,979	(2,570)	1	178,409
Metered Institutional Sales	425,661	(6,044)	1	419,617
Fire Protection	565,166	(8,025)	1	557,141
Private Fire Protection	200,078	(2,842)	1	197,236
Forfeited Discounts	25,127			25,127
Miscellaneous Revenue	67,884	10,442	2	78,326
Total Operating Revenue	4,037,962	(45,577)		3,992,385
Operating Expenses				
Operation and Maintenance Expenses				
Wells Expense				
Utilities	124,157			124,157
Materials and Supplies	176	106	3	282
Contractual Services	551			551
Insurance	1,152			1,152
Wells Maintenance Expense				
Materials and Supplies	2,303	528	3	2,831
Contractual Services	2,934			2,934
Insurance	1,152			1,152
Treatment Plant Expense				
Salaries and Wages	195,376	8,094	4	203,470
Employee Benefits and Taxes	112,002	(2,577)	5	110,510
		1,085	6	
Materials and Supplies	50,486	6,842	3	57,328
Chemicals	458,288	139,372	7	603,860
		6,200	8	
Utilities	160,569			160,569
Contractual Services	50,765			50,765
Transportation	10,213			10,213
Insurance	17,427			17,427
Treatment Plant Maintenance Expense				
Salaries and Wages	313,180	12,974	4	326,154
Employee Benefits and Taxes	167,346	(4,022)	5	164,993
		1,669	6	
Materials and Supplies	33,834	6,970	3	40,804
Contractual Services	82,477	(50,378)	9	52,099
		20,000	10	
Transportation	17,982			17,982
Insurance	10,530			10,530
Distribution Expense				
Materials and Supplies	565	340	3	905
Insurance	2,303			2,303

See Appendix A: Assumptions and Adjustment Detail

Adjusted Statement of Income (Continued)

	Test Year	Adjustments		Adjusted
Distribution Maintenance Expense				
Salaries and Wages	$ 274,565	$ 11,374	4	$ 285,939
Employee Benefits and Taxes	94,312	(1,572)	5	94,242
		1,502	6	
Materials and Supplies	149,708	3,201	3	152,909
Contractual Services	155,966	(19,145)	11	136,821
Transportation	48,534			48,534
Insurance	18,232			18,232
Customer Accounts Expense				
Salaries and Wages	55,196	2,287	4	57,483
Employee Benefits and Taxes	25,632	(584)	5	25,357
		309	6	
Materials and Supplies	1,318	198	3	1,516
Contractual Services	112,372	3,545	12	115,917
Transportation	2,601			2,601
Insurance	10,297			10,297
Miscellaneous	1,302			1,302
Administrative and General Expense				
Salaries and Wages	453,739	18,641	4	472,380
Employee Benefits and Taxes	242,077	(5,084)	5	239,470
		2,477	6	
Materials and Supplies	20,225	614	3	20,839
Contractual Services and Service Charges	133,868	(8,747)	13	214,079
		6,458	14	
		82,500	15	
Transportation	15			15
Insurance	6,232			6,232
Miscellaneous	9,056			9,056
Total Operation and Maintenance Expenses	3,631,015	245,177		3,876,192
Depreciation Expense	907,489			907,489
Taxes Other Than Income Taxes				
FICA Taxes	95,307	7,332	16	102,639
Utility Receipts Tax	50,000	(50,000)	17	-
Total Taxes Other Than Income Taxes	145,307	(42,668)		102,639
Total Operating Expenses	4,683,811	202,509		4,886,320
Net Operating Income/(Loss)	$ (645,849)	$ (248,086)		$ (893,935)

Note: Expense categories with multiple adjustments are listed on separate lines.

See Appendix A: Assumptions and Adjustment Detail

Adjustment Detail

#	Functional Area	Category	Adjustment to Test Year (1)	Description
1	Multiple	Multiple	$56,019	To adjust Metered Sales, Fire Protection, and Private Fire Protection for the 1.42% decrease in rates and charges related to the removal of utility receipts tax approved by the City of Marion Common Council through General Ordinance No. 8-2022, and approved by Order of the Commission on June 28, 2022.
2	Operating Revenue	Miscellaneous Operating Revenue	($10,442)	To adjust the credit card convenience fee revenues to the three-year average of revenues between 2019 through 2021. In prior years, Marion recorded all credit card convenience fee revenues to the water utility, and then distributed allocated shares to the other utilities annually in December. During the Test Year, the Water Utility switched to making monthly distributions of revenue to other utilities, which understated the amount included in the Test Year.
3	Multiple	Materials and Supplies	$18,799	To adjust Materials and Supplies (Supplies-Other) to 2022 Budget. Supplies-Other recorded to the Test year totaled $31,200 compared to a three-year average of expense of $52,827 and a 2022 budget of $50,000.
4	Multiple	Salaries and Wages	$53,370	To adjust Test Year Salaries and Wages for the increased wages effective January 2022 resulting from the Utility's compensation study.
5	Multiple	Multiple	($13,839)	To adjust Test Year Benefits for the expected change in employee insurance costs resulting from the Utility switching providers.
6	Multiple	Multiple	$7,042	To adjust Test Year PERF Expense for the expected increase in Salaries and Wages.
7	Treatment Plant	Chemicals	$139,372	To adjust Test Year Chemical expense for the increased cost of lime. Pro Forma Lime expense is calculated based on four million pounds of lime used annually at a price of $0.135/pound.
8	Treatment Plant	Chemicals	$6,200	To adjust Test Year Chemical expense for the 2022 Budget for chlorine. The 2022 Budget amount was estimated based on the 350% increase in chlorine bids received by the Utility between 2021 and 2022.
9	Treatment Plant Maintenance	Contractual Services and Service Charges	($50,378)	The Test Year included several invoices from CDM Smith for development of the Utility's asset management plan totaling $73,570. Total costs incurred for the plan totaled $115,960. The Utility anticipates updating this report every five years. This adjustment removes the expenses included in the Test Year while providing funding for the plan to be completed every five years.
10	Treatment Plant Maintenance	Contractual Services and Service Charges	$20,000	To adjust Test Year expenses for increased Lime Management costs in the Utility's 2022 Budget. Increased Lime Management expense relates to the newly reopened east lime lagoon from which lime will be harvested.
11	Distribution Maintenance	Contractual Services and Service Charges	($19,145)	To remove three invoices recorded to the Utility's Distribution System Projects Account. The Utility anticipates funding related expenditures from its ongoing revenue requirement for Extensions and Replacements.

#	Functional Area	Category	Adjustment to Test Year (1)	Description
12	Customer Accounts	Contractual Services and Service Charges	$3,545	The Test Year only included 11 months of Contract Meter Reading Expense. This adjustment adds in one additional month of contract meter reading expense based on the average monthly amount incurred by the Utility during the Test Year.
13	Administration and General	Contractual Services and Service Charges	($8,747)	The Utility intervened in Cause 45576 before the Indiana Utility Regulatory Commission. This adjustment removes two-thirds (2/3) of the $13,120 expense from Bose McKinney & Evans LLP and NewGen Strategies & Solutions, LLC related to the regulatory proceedings in order to include one-third (1/3) of expense ($4,373) in its Revenue Requirement to allow for intervening in such cases every three years.
14	Administration and General	Contractual Services and Service Charges	$6,458	The Test Year included an invoice for $8,072 from Peerless Midwest for the Utility's 5-year Well Head Protection Update. This adjustment removes four-fifths (4/5) of the invoice ($6,458) in order to provide funding in the Revenue Requirement to complete an update every five years.
15	Administration and General	Contractual Services and Service Charges	$82,500	To adjust the Test Year for rate case expenses totaling $330,000 expected to be incurred every four years.
16	Taxes Other Than Income Taxes	FICA	$7,332	To adjust Test Year FICA Expense for the expected increase in Salaries and Wages.
17	Taxes Other Than Income Taxes	Utility Receipts Tax	($50,000)	To remove Utility Receipts Tax expenses from the Test Year as a result of House Enrolled Act 1002 that discontinued the tax.

(1) Adjustment amounts are expressed based on the net effect on the Utility's revenue requirements. For example, an increase in revenues will be listed as a negative value as it lowers the Utility's revenue requirement.

See Appendix A: Assumptions

Calculation of Operation and Maintenance Fund Balance

Adjusted Operation and Maintenance Expenses (O&M)	$ 3,876,192
Adjusted Taxes Other Than Income Taxes (Taxes)	102,639
Annual O&M and Taxes	3,978,831
Divide by: 12 Months	12
Monthly O&M and Taxes	331,569
Times: Required Months of Operation and Maintenance Fund Balance	2
Required Balance of Operation and Maintenance Fund	663,138
Less: Current Balance	(626,900)
Balance to Fund	36,238
Years to Fund (5)	5
Annual Funding for Operation and Maintenance Fund Balance	$ 7,248

Note: The Utility proposes to fund portions of its Capital Improvement Plan, summarized on the following page, through issuance of two series of bonds secured by the Net Revenues of the Utility which are generally defined as the operating revenues of the Utility after payment of the reasonable expenses of operation, repair, and maintenance. Industry standards for the issuance of municipal revenue bonds require the Utility to covenant with bondholders, through the ordinance authorizing the bonds, to maintain two months of operation and maintenance expenses in a distinct fund. The Utility plans to increase the current balance of its Operation and Maintenance Fund over the course of its five phase rate increase to meet this requirement.

Capital Improvement Plan

Project	Phase I	Phase II	Phase III	Phase IV	Phase V	Total
Treatment Plant						
Building Repairs/Roof Replacement	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 250,000
Miscellaneous Plant Updates	50,000	50,000	50,000	50,000	50,000	250,000
Well Repairs Cleaning/Maintenance	50,000	75,000	100,000	100,000	100,000	425,000
Pickup Truck Replacement	35,000	-	40,000	-	40,000	115,000
East Claricone Upgrade	-	250,000	250,000	250,000	-	750,000
Clear Well Rehabilitation	-	200,000	200,000	-	-	400,000
Plant Lot Paving	50,000	-	-	-	-	50,000
Filter Media Upgrade	-	50,000	-	-	-	50,000
CO2 System Upgrade	-	-	300,000 &	-	-	300,000
Mower Replacement	-	-	15,000	-	-	15,000
TriAxle Dump/Lime Removal Equipment	-	-	-	150,000	-	150,000
Distribution						
Butler Avenue Tank Coating/Improvements	1,000,000 ^	-	-	-	-	1,000,000
SR18 Booster Station Improvements	80,000 ^	-	-	-	-	80,000
Lead/Copper Survey	150,000 ^	150,000 ^	-	-	-	300,000
Water Main Replacement	500,000 ^	500,000 ^	750,000 &	750,000	750,000	3,250,000
Hydrant/Valve Replacement	50,000	50,000	50,000	50,000	50,000	250,000
Lead/Copper Abatement	-	500,000 ^	500,000 &	500,000 &	500,000	2,000,000
Water Meter Replacement/AMI	4,400,000 ^					4,400,000
Pickup Truck Replacement	35,000	-	40,000	-	40,000	115,000
Backhoe Replacement	-	-	120,000	-	-	120,000
Meridian Street Tank Coating/Improvements	-	-	-	500,000 &	500,000 &	1,000,000
Total Capital Improvement Plan	$ 6,450,000	$ 1,875,000	$ 2,465,000	$ 2,400,000	$ 2,080,000	$ 15,270,000
Less: Projects to be Funded by 2023 Bond Issuance (^)	(6,130,000)	(1,150,000)	-	-	-	(7,280,000)
Less: Projects to be Funded by 2025 Bond Issuance (&)	-	-	(1,550,000)	(1,000,000)	(500,000)	(3,050,000)
Calculated Extensions and Replacements	$ 320,000	$ 725,000	$ 915,000	$ 1,400,000	$ 1,580,000	$ 4,940,000

Data Source: Utility

See Appendix A: Assumptions

Proposed Waterworks Revenue Bonds, Series 2023

Estimated Sources and Uses of Funds

Estimated Sources of Funds:		
Par Amount of Bonds	$	8,185,000
Estimated Uses of Funds:		
Project Fund	$	7,280,000
Debt Service Reserve Funding		661,542
Underwriter's Discount		81,850
IURC Regulatory Fees		20,463
Other Costs of Issuance		139,000
Additional Proceeds		2,145
Total Estimated Uses of Funds	$	8,185,000

See Appendix A: Assumptions

Estimated Amortization Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
7/1/24			$ 153,564	$ 153,564	
1/1/25			153,564	153,564	$ 307,128
7/1/25	$ 35,000	2.60 %	153,564	188,564	
1/1/26	35,000	2.65	153,109	188,109	376,673
7/1/26	100,000	2.65	152,645	252,645	
1/1/27	100,000	2.75	151,320	251,320	503,965
7/1/27	95,000	2.80	149,945	244,945	
1/1/28	95,000	2.80	148,615	243,615	488,560
7/1/28	180,000	2.85	147,285	327,285	
1/1/29	185,000	3.00	144,720	329,720	657,005
7/1/29	190,000	3.05	141,945	331,945	
1/1/30	190,000	3.10	139,048	329,048	660,993
7/1/30	195,000	3.15	136,103	331,103	
1/1/31	195,000	3.20	133,031	328,031	659,134
7/1/31	205,000	3.20	129,911	334,911	
1/1/32	200,000	3.30	126,631	326,631	661,542
7/1/32	205,000	3.30	123,331	328,331	
1/1/33	210,000	3.35	119,949	329,949	658,280
7/1/33	215,000	3.35	116,431	331,431	
1/1/34	215,000	3.50	112,830	327,830	659,261
7/1/34	220,000	3.50	109,068	329,068	
1/1/35	225,000	3.65	105,218	330,218	659,286
7/1/35	230,000	3.70	101,111	331,111	
1/1/36	230,000	3.80	96,856	326,856	657,967
7/1/36	240,000	3.85	92,486	332,486	
1/1/37	240,000	3.95	87,866	327,866	660,352
7/1/37	250,000	3.95	83,126	333,126	
1/1/38	250,000	4.00	78,189	328,189	661,315
7/1/38	260,000	4.05	73,189	333,189	
1/1/39	260,000	4.10	67,924	327,924	661,113
7/1/39	270,000	4.10	62,594	332,594	
1/1/40	270,000	4.15	57,059	327,059	659,653
7/1/40	280,000	4.20	51,456	331,456	
1/1/41	280,000	4.20	45,576	325,576	657,032
7/1/41	290,000	4.25	39,696	329,696	
1/1/42	295,000	4.30	33,534	328,534	658,230
7/1/42	305,000	4.30	27,191	332,191	
1/1/43	305,000	4.35	20,634	325,634	657,825
7/1/43	320,000	4.35	14,000	334,000	
1/1/44	320,000	4.40	7,040	327,040	661,040
Totals	$ 8,185,000		$ 4,041,354	$ 12,226,354	

Coupon rates are estimated and subject to change. Yield on the bonds is estimated at 4.04%. Coupon rate is based on "A" rates as of August 1, 2022, plus an issuer credit spread and a 50 basis point timing spread to account for uncertainty of future market rates at time of issuance.

See Appendix A: Assumptions

Proposed Waterworks Revenue Bonds, Series 2025

Estimated Sources and Uses of Funds

Estimated Sources of Funds:	
Par Amount of Bonds	$ 3,515,000
Estimated Uses of Funds:	
Project Fund	$ 3,050,000
Debt Service Reserve Funding	279,098
Underwriter's Discount	35,150
IURC Regulatory Fees	8,788
Other Costs of Issuance	139,000
Additional Proceeds	2,964
Total Estimated Uses of Funds	$ 3,515,000

See Appendix A: Assumptions

Estimated Amortization Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
7/1/26			$ 75,601	$ 75,601	
1/1/27			75,601	75,601	$ 151,202
7/1/27			75,601	75,601	
1/1/28			75,601	75,601	151,202
7/1/28	60,000	3.35 %	75,601	135,601	
1/1/29	65,000	3.50	74,596	139,596	275,197
7/1/29	65,000	3.55	73,459	138,459	
1/1/30	65,000	3.60	72,305	137,305	275,764
7/1/30	65,000	3.65	71,135	136,135	
1/1/31	70,000	3.70	69,949	139,949	276,084
7/1/31	70,000	3.70	68,654	138,654	
1/1/32	70,000	3.80	67,359	137,359	276,013
7/1/32	70,000	3.80	66,029	136,029	
1/1/33	75,000	3.85	64,699	139,699	275,728
7/1/33	75,000	3.85	63,255	138,255	
1/1/34	75,000	4.00	61,811	136,811	275,066
7/1/34	80,000	4.00	60,311	140,311	
1/1/35	80,000	4.10	58,711	138,711	279,022
7/1/35	85,000	4.10	57,071	142,071	
1/1/36	80,000	4.20	55,329	135,329	277,400
7/1/36	85,000	4.20	53,649	138,649	
1/1/37	85,000	4.25	51,864	136,864	275,513
7/1/37	90,000	4.25	50,058	140,058	
1/1/38	90,000	4.30	48,145	138,145	278,203
7/1/38	90,000	4.30	46,210	136,210	
1/1/39	95,000	4.35	44,275	139,275	275,485
7/1/39	100,000	4.40	42,209	142,209	
1/1/40	95,000	4.45	40,009	135,009	277,218
7/1/40	105,000	4.45	37,895	142,895	
1/1/41	100,000	4.50	35,559	135,559	278,454
7/1/41	105,000	4.50	33,309	138,309	
1/1/42	105,000	4.60	30,946	135,946	274,255
7/1/42	110,000	4.60	28,531	138,531	
1/1/43	110,000	4.65	26,001	136,001	274,532
7/1/43	120,000	4.65	23,444	143,444	
1/1/44	115,000	4.65	20,654	135,654	279,098
7/1/44	125,000	4.65	17,980	142,980	
1/1/45	120,000	4.70	15,074	135,074	278,054
7/1/45	130,000	4.70	12,254	142,254	
1/1/46	125,000	4.70	9,199	134,199	276,453
7/1/46	130,000	4.70	6,261	136,261	
1/1/47	135,000	4.75	3,206	138,206	274,467
Totals	$ 3,515,000		$ 2,039,410	$ 5,554,410	

Coupon rates are estimated and subject to change. Yield on the bonds is estimated at 4.54%. Coupon rate is based on "A" rates as of August 1, 2022, plus an issuer credit spread and a 100 basis point timing spread to account for uncertainty of future market rates at time of issuance.

See Appendix A: Assumptions

Estimated Combined Amortization Schedule

Year	Proposed 2023 Bond	Proposed 2025 Bonds	Total Proposed Bonds
2024	$ 307,128		$ 307,128
2025	376,673		376,673
2026	503,965	$ 151,202	655,167
2027	488,560	151,202	639,762
2028	657,005	275,197	932,202
2029	660,993	275,764	936,757
2030	659,134	276,084	935,218
2031	661,542	276,013	937,555
2032	658,280	275,728	934,008
2033	659,261	275,066	934,327
2034	659,286	279,022	938,308
2035	657,967	277,400	935,367
2036	660,352	275,513	935,865
2037	661,315	278,203	939,518
2038	661,113	275,485	936,598
2039	659,653	277,218	936,871
2040	657,032	278,454	935,486
2041	658,230	274,255	932,485
2042	657,825	274,532	932,357
2043	661,040	279,098	940,138
2044		278,054	278,054
2045		276,453	276,453
2046		274,467	274,467
Totals	$ 12,226,354	$ 5,554,410	$ 17,780,764
Estimated Maximum Annual Debt Service			$ 940,138

Statement of Revenue Requirements

	Phase I	Phase II	Phase III	Phase IV	Phase V
Adjusted Operation and Maintenance Expenses	$ 3,876,192	$ 3,876,192	$ 3,876,192	$ 3,876,192	$ 3,876,192
Adjusted Taxes Other Than Income Taxes	102,639	102,639	102,639	102,639	102,639
Proposed 2023 Bonds Estimated Annual Debt Service	307,128	376,673	503,965	488,560	657,005
Proposed 2025 Bonds Estimated Annual Debt Service			151,202	151,202	275,197
Calculated Annual Extensions and Replacements	320,000	725,000	915,000	1,400,000	1,580,000
Operation and Maintenance Fund Balance	7,248	7,248	7,248	7,248	7,248
Total Revenue Requirements	4,613,207	5,087,752	5,556,246	6,025,841	6,498,281
Less: Adjusted Operating Revenues	(3,992,385)	(4,614,614)	(5,088,286)	(5,556,860)	(6,025,853)
Deficit	620,822	473,138	467,960	468,981	472,428
Divide by: Adjustable Operating Revenues	3,888,932	4,511,161	4,984,833	5,453,407	5,922,400
Percentage Rate Increase Required	16.0%	10.5%	9.4%	8.6%	8.0%

Note: Total combined increase in revenues is 64.5% across all five phases. Actual percentage increases applied to customers will vary pending the results of the Utility's Cost of Service Study. Assumes Phase I takes effect with the Commission's Order in 2023. Assumes Phases II through V take effect starting January 1, 2025, and annual thereafter. Actual timing of phases will be determined based on timing of approval of rates and charges before the Indiana Utility Regulatory Commission and timing of the issuance of bonds to fund capital improvement projects identified in the Capital Improvement Plan.

See Appendix A: Assumptions

Current Rates and Charges

	Current Rates and Charges (1)
Metered Rates Per Month	
First 133 Cubic Feet	$ 3.96
Next 534 Cubic Feet	3.43
Next 9,333 Cubic Feet	1.95
Over 10,000 Cubic Feet	1.30
Minimum Charge Per Month	
5/8 inch meter	11.06
3/4 inch meter	18.00
1 inch meter	31.63
1 1/2 inch meter	48.36
2 inch meter	82.97
3 inch meter	168.14
4 inch meter	335.53
6 inch meter	502.87
8 inch meter	670.25
Fire Protection - per Annum	
Private Hydrant - per hydrant	413.06
Sprinkler Heads - per head	0.43
Monthly Public Fire Protection Charge	
5/8 inch connection	3.02
3/4 inch connection	3.02
1 inch connection	7.72
1 1/2 inch connection	17.38
2 inch connection	30.89
3 inch connection	69.50
4 inch connection	123.56
6 inch connection	278.01
8 inch connection	494.23

(1) Current Rates and Charges were approved by the City of Marion Common Council on April 19, 2022, through Ordinance 8-22, and approved by the Indiana Utility Regulatory Commission in conference minutes on June 28, 2022, to reflect a 1.42% decrease due to the elimination of the Utility Receipts Tax. The last order received by the Utility was in Cause No. 42720 dated March 30, 2005.

Appendix A: Assumptions

The following assumptions, provided by and approved by the management of the Utility, were used in preparation of the Report.

#	Report Area	Assumption
1	All	Operating Revenues, Operation and Maintenance Expenses, and Taxes Other Than Income Taxes of the Utility for the year ending May 31, 2022, ("Test Year") are representative of expected pro forma operating results, except where otherwise noted.
2	All	Assumes no provision for new debt or leases beyond those summarized in the Estimated Combined Amortization Schedule.
3	Adjusted Statement of Income	Consumption patterns and number of customers are assumed to be stable and not materially fluctuate in future years from the Test Year.
4	Adjusted Statement of Income	Adjustment 2: Average credit card convenience revenues between 2019 through 2021 are representative of pro forma revenues.
5	Adjusted Statement of Income	Adjustment 3: The 2022 Budget for Supplies-Other is representative of pro forma expense.
6	Adjusted Statement of Income	Adjustment 4: 2022 Salaries and Wages increased by 7.47% over 2021 Salaries and Wages. No employee positions were vacant during the Test Year and no employee positions will be added to the Utility. Total Pro Forma Salaries and Wages, including overtime, will be $1,341,690.
7	Adjusted Statement of Income	Adjustment 5: Monthly insurance premiums charged by United Healthcare, net of employee contributions, will average $32,744. Test Year vision and other expenses recorded to employee insurance accounts will not change as a result of the switch in insurance providers.
8	Adjusted Statement of Income	Adjustment 6: Pro Forma PERF expense equals Pro Forma Salaries and Wages times PERF rate of 11.2%.
9	Adjusted Statement of Income	Adjustment 7: The Utility will use four million pounds of Lime annually in future years. Lime will be purchased at an average price of $0.135/pound.
10	Adjusted Statement of Income	Adjustment 8: The 2022 Budget for Chlorine is representative of pro forma expense.
11	Adjusted Statement of Income	Adjustment 9: The Utility will complete/update its asset management plan every five years.
12		Adjustment 10: The 2022 Budget for Lime Management is representative of pro forma expense.
13	Adjusted Statement of Income	Adjustment 11: Future expenditures recorded to account 104.06.636.40.911 will be paid from ongoing Extensions and Replacements.
14	Adjusted Statement of Income	Adjustment 13: The Indiana Michigan Power, the Utility's electric provider, will petition the Indiana Utility Regulatory Commission (IURC) every three years and the Utility will intervene and incur attorney fees.
15	Adjusted Statement of Income	Adjustment 14: The Utility will undertake complete/update its Well Head Protection Update every five years.
16	Adjusted Statement of Income	Adjustment 15: The Utility will incur rate case expenses every four years.
17	Adjusted Statement of Income	Adjustment 16: Pro Forma FICA expense equals Pro Forma Salaries and Wages times FICA rate of 7.65%.
18	Capital Improvement Plan	• Capital Improvement Plan shown for Phase I through Phase V. Actual implementation of the first year of the Capital Improvement Plan will begin when the Utility implements Phase I rates and charges. • Capital Expenditures of the nature included in "Other Expenses" on the Statements of Income are included within the Capital Improvement Plan, and therefore, will be funded through Extensions and Replacements.

#	Report Area	Assumption
19	Estimated Sources and Uses (Proposed 2023 Bonds and Proposed 2025 Bonds)	• Project costs based on sum of projects to be financed as indicated on the Capital Improvement Plan provided by Management of the Utility. • Debt Service Reserve Funds are based on the maximum annual debt service of the respective issuances. • IURC Regulatory Fees are based on $2.50 per $1,000 of the par of the 2023 Bonds and 2025 Bonds proposed to be issued. • Costs of issuance are estimates based on similar transactions.
20	Estimated Amortization Schedules (Proposed 2023 Bonds and Proposed 2025 Bonds)	Coupon rates based on A Refinitiv MMD rates as of August 1, 2022, plus an issuer credit spread, and a 50 basis point timing spread, and 100 basis point timing spread for the 2023 and 2025 Bonds, respectively. Rates are estimated and subject to change. The amortization schedule for the 2023 Bonds is sized to achieve increases of relatively similar amounts in annual revenue requirements for Phases II through V in context of the revenue requirement for Extensions and Replacements. Assumes level debt service after interest only payments for the first two years for the 2025 Bonds.

Petitioner’s Exhibit 11

Project	Phase I	Phase II	Phase III	Phase IV	Phase V	Total
Treatment Plant						
Building Repairs/Roof Replacement	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 250,000
Miscellaneous Plant Updates	50,000	50,000	50,000	50,000	50,000	250,000
Well Repairs Cleaning/Maintenance	50,000	75,000	100,000	100,000	100,000	425,000
Pickup Truck Replacement	35,000	-	40,000	-	40,000	115,000
East Claricone Upgrade	-	250,000	250,000	250,000	-	750,000
Clear Well Rehabilitation	-	200,000	200,000	-	-	400,000
Plant Lot Paving	50,000	-	-	-	-	50,000
Filter Media Upgrade	-	50,000	-	-	-	50,000
CO2 System Upgrade	-	-	300,000	-	-	300,000
Mower Replacement	-	-	15,000	-	-	15,000
TriAxle Dump/Lime Removal Equipment	-	-	-	150,000	-	150,000
Distribution						
Butler Avenue Tank Coating/Improvements	921,000 ^	-	-	-	-	921,000
SR18 Booster Station Improvements	80,000	-	-	-	-	80,000
Lead/Copper Survey	150,000	150,000	-	-	-	300,000
Water Main Replacement	675,005 ^	675,005 ^	881,285 &	750,000	750,000	3,731,295
Hydrant/Valve Replacement	50,000	50,000	50,000	50,000	50,000	250,000
Lead/Copper Abatement	-	-	1,505,000 &	500,000	500,000	2,505,000
Water Meter Replacement/AMI	5,002,700 ^	-	-	-	-	5,002,700
Pickup Truck Replacement	35,000	-	40,000	-	40,000	115,000
Backhoe Replacement	-	-	120,000	-	-	120,000
Meridian Street Tank Coating/Improvements	-	-	1,112,500 &	-	-	1,112,500
Total Capital Improvement Plan	$ 7,148,705	$ 1,550,005	$ 4,713,785	$ 1,900,000	$ 1,580,000	$ 16,892,495
Less: Projects to be Funded by 2023 Bond Issuance (^)	(6,598,705)	(675,005)	-	-	-	(7,273,710)
Less: Projects to be Funded by 2025 Bond Issuance (&)	-	-	(3,498,785)	-	-	(3,498,785)
Less: 2025 Bond Projects to be Funded by Cash on Hand	-	-	448,785	-	-	448,785
Less: Projects to be Funded by Cash on Hand or Delayed	(230,000)	(150,000)	(748,785)	(500,000)	-	(1,628,785)
Calculated Extensions and Replacements	$ 320,000	$ 725,000	$ 915,000	$ 1,400,000	$ 1,580,000	$ 4,940,000