FILED
August 12, 2022
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF SOUTH BEND, INDIANA, FOR (1) AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, (2) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, AND (3) FOR APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES.	))))))))	**CAUSE NO. 45719**

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PUBLIC'S
EXHIBIT NO. 2
12-12-22
DATE REPORTER

PUBLIC'S EXHIBIT NO. 2

TESTIMONY OF SHAWN DELLINGER

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

August 12, 2022

OFFICIAL EXHIBITS

Respectfully submitted

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

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CERTIFICATE OF SERVICE

This is to certify that a copy of the ***Public's Exhibit No. 2 – Testimony of Shawn Dellinger on behalf of the OUCC*** has been served upon the following in the captioned proceeding by electronic service on August 12, 2022.

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TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45719
CITY OF SOUTH BEND

I. INTRODUCTION

Q: Please state your name and business address.

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

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Senior Utility Analyst in the Water/Wastewater Division. My focus is on financing and other financial matters. My educational background and experience are set forth in Appendix A.

Q: What is the purpose of your testimony?

A: The City of South Bend ("South Bend" or "Petitioner") requests the Commission authorize it to issue $46,785,000 of long-term debt. Of that amount, $35,000,000 is to accomplish various capital improvements. The additional $11,785,000 of authority would permit South Bend to apply to the State Revolving Fund ("SRF") to secure funds, at no additional cost, to replace lead service lines. Petitioner requests its rates be based on debt service revenue requirements reflecting a borrowing of $35,000,000 in two issuances at interest rates of 2.5% (first issue) and 2.75% (second issue). I discuss Petitioner's financing requests. I recommend Petitioner be authorized to borrow $47,791,000 and that rates be based upon $35,000,000 of debt as Petitioner requested. I recommend an annual debt service revenue requirement of $2,640,488 and an annual debt service reserve revenue requirement of $499,870. I recommend true-up procedures and reporting requirements.

Q: What did you do to form the opinions in your testimony.

A: I attended a meeting with representatives of Petitioner and the OUCC held on May 4, 2022 before Petitioner filed its case. I reviewed the Petition and Petitioner's case in chief, with a focus on the testimony of Alex Hilt, CPA. I reviewed previous Commission orders for South Bend. I created discovery questions and reviewed Petitioner's responses.

II. DEBT SERVICE REVENUE REQUIREMENT

Q: Please describe Petitioner's planned debt issuance.

A: Petitioner plans to borrow up to $46,785,000 through the State Revolving Fund ("SRF") loan program.[1] Petitioner requests rates including revenue requirements based on a borrowing of $35,000,000 in two series of bonds of approximately equal size. The additional $11,785,000 of requested borrowing authority above the $35,000,000, upon which rates are based, would permit Petitioner to secure funds at zero additional cost to remove lead service lines. Petitioner proposes its debt be issued as two separate bonds with 20-year amortization periods. The first bond issuance of $16,170,000 (Series 2023) is projected to be issued in April 2023, with wrapped payments at an interest rate of 2.5% to accommodate interest rate costs associated with wrapping and the potential for increased interest rates before closing in 2023. The second bond issuance of $18,830,000 (Series 2024) is projected to be issued in November of 2024, with an interest rate of 2.75% to accommodate the potential for increased interest rates before closing in 2024.[2]

Q: Is this structure for borrowing the $35 million appropriate?

A: Yes. First, because SRF offers subsidized interest rates, borrowing from SRF generally results in lower borrowing costs. Second, longer terms more closely align the borrowing

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[1] Petitioner's testimony and my testimony assumes an SRF bond issuance. Petitioner stated that "the Utility will continue to evaluate the most advantageous course of action." (page 13, lines 1-4, Mr. Hilt testimony).

[2] Hilt Testimony, page 12, lines 10-13.

with the life of the financed assets, and the 20-year term applicable in this borrowing is the longest term attainable within SRF guidelines for the vast majority of South Bend's projects. Third, issuing the debt in two series will more closely align the borrowing with the spending of the funds and prevents stagnant funds incurring interest expense without a corresponding project. Finally, while wrapping the first series comes with a cost in higher interest expense over the life of the loan, wrapping will allow more stable debt service expense over time and will keep water rates lower in the near term. For all these reasons, the basic structure of these loans is appropriate.[3]

Q: Should Petitioner be permitted the additional borrowing over the $35 million?

A: Yes. Because only $35,000,000 of its authorized borrowing would affect Petitioner's debt service revenue requirement, the additional authority should result in elimination of lead service lines without increasing rates to customers. The remaining authority should be conditioned on Petitioner only using the authority to accomplish lead service line replacement through programs offered by the Indiana State Revolving Fund.

Q: How was the amount of additional authority requested determined?

A: The current SRF program for lead service line replacements provides funds to borrowers at no net cost by reducing the overall interest rate (potentially all the way down to 0%) on the total amount borrowed. Petitioner requested an additional $11,785,000 of authority because it is the total amount of estimated interest to be incurred over the amortization

[3] Although Mr. Hilt testified Petitioner will wrap the first issuance, he indicated the second issuance would not be wrapped stating these bonds are to have level amortization. Hilt Testimony, page 12, lines 14-15. However, lower principal payments in the first two years of that second issuance suggests Petitioner does intend to wrap the second series. My proposal does not include wrapping this second issuance, so in this limited sense, my proposed structure would deviate from Petitioner's amortization tables.

period for the borrowing of the $35 million, and is therefore the maximum potential amount of additional principal that could be borrowed for the same annual payments if interest rates for all if its new debt were zero.[4] If the actual interest rate is different than the estimate, this would affect how much additional lead service line funding could be granted by the SRF without increasing payments on the bonds.

Q: Why did you calculate a higher amount of additional debt authority?

A: The interest rates I propose for ratemaking purposes are marginally higher overall than the rates used in Petitioner's case, which increases the interest expense over the life of the loans to $12,791,000.[5] This becomes the maximum amount that SRF could provide for lead line replacement without increasing South Bend's debt service expense. Accordingly, I propose additional debt authority of $12,791,000 for total debt authority of $47,791,000. This additional borrowing authority should only apply if used for lead service line replacement programs through the SRF that will not increase water rates through higher debt service costs.

Q: Why do you propose a higher interest rate for the 2023 bond issuance than what Petitioner projected for the proposed borrowing?

A: Interest rates have increased since South Bend filed is case. SRF rates are reset quarterly. The current interest rate available to South Bend is 2.2%.[6] At the time Petitioner filed its

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[4] Please see the Total Interest on page 11 of Attachment ADH-1 (Schedule of Amortization for Series 2023 Bond) and Total Interest on page 12 of the same attachment for the 2024 Bond.

[5] The additional authority is allocated $6,919,000 for the 2023 Bond and $5,871,000 for the 2024 Bond (all figures are rounded down to the nearest thousand, and the overall debt authorization is rounded to the nearest $10,000). This is simply the total interest paid on each of these loans in my proposal, and a table may be found in OUCC Attachment SD-2.

[6] Please find the current SRF Interest Rate Matrix effective as of July 1, 2022 through September 30, 2022, included as OUCC Attachment SD-1. South Bend Rates are under $25.00, and the Median Household Income for the South Bend region is $42,647 (see https://www.census.gov/quickfacts/fact/table/southbendcityindiana/INC110220).

case, SRF interest rates were at 2%. Where Petitioner included 25 basis points as an allowance for the potential for higher interest rates, I included 50 basis points.

Q: How did Petitioner calculate its proposed interest rates?

A: For the Series 2023 issuance, Petitioner started with a 2% base rate and added 25 basis points for wrapping and 25 basis points to allow for potential increases in interest rates before interest rates are locked resulting in a total proposed interest rate of 2.5%. For the Series 2024 issuance, Petitioner started with a 2% base rate and added 75 basis points, apparently as an allowance for increases in interest rates, resulting in a total of 2.75%.

Q: How did you calculate your proposed interest rate?

A: For the 2023 issuance, I began with a 2.2% base rate and added 25 basis points for wrapping and 50 basis points to allow for increases in interest rates before interest rates are secured for a total of 2.95%. For the 2024 issuance, I began with a 2.2% interest rate and added 50 basis points to allow for increases in interest rates before the interest rates are set for a total of 2.7%. I did not make any adjustment for wrapping the 2024 bond issuance.

Q: Does Petitioner indicate that the 2024 bond issuance will be wrapped?

A: No. Unlike the 2023 bond issuance, Petitioner did not indicate it intends to wrap the debt from the 2024 bond issuance and indicated the issuance was to have a "level amortization."[7] However, the amortization table provided by Mr. Hilt in his testimony implied wrapping by showing reduced principal payments in bond years 2025 and 2026. My recommendation assumes there will be no wrapping on the 2024 issuance, and I assumed level payments throughout the 20-year amortization period.

[7] See Mr. Hilt Testimony, page 12, line 14-15.

Q: Do you disagree with Petitioner's proposed Costs of Issuance?

A: No. However, the costs of issuance should be supported. Currently, the estimate of the costs found on page 10 of Mr. Hilts testimony are estimates only. While obviously some costs are only estimates at this stage, it would be reasonable to expect that the actual costs may very well be lower than estimated at this point. The estimated costs include $120,000 for Bond Counsel, $140,000 for the financial advisor/attest rating services and $20,000 for SRF Fees/Counsel (in addition to $4,000 of rounding). If actual costs incurred are lower than estimated, borrowings should be reduced. Therefore, I recommend these costs should be verified and itemized with detail at the time of the true-up. Discovery responses about these costs are included in OUCC Attachment SD-3.

Q: Do you agree with the method Petitioner used to determine its proposed $2,849,458 debt service revenue requirement?

A: No. Petitioner is proposing to use the highest annual payment they will experience as the amount of revenue they should collect every year. Petitioner's *pro forma* debt service expense is based on highest annual debt service payment, which only occurs in 2026. Petitioner's *pro forma* debt service revenue requirement should be based on an average annual debt service payment during the life of rates.

Q: On what is Petitioner's proposed debt service revenue requirement based?

A: The $2,849,458 total debt service revenue requirement Petitioner proposed is the maximum annual payment for current outstanding bonds and proposed bonds, which will not occur until bond year 2026. Petitioner indicated its annual payment on current outstanding debt is $1,638,230[8] while its payment on proposed debt will be $1,211,228 for a total debt

[8] Page 33 of 33, attachment ADH-1, "Schedule of Combined Outstanding Amortization" table.

service revenue requirement of $2,849,458.[9] However, in 2022, when South Bend's existing debt payments are $1,638,230, no debt payments will be due on the new debt. Petitioner's approach to recover the highest annual debt service in every year would result in overcollection of this expense during the life of rates. The overall imbalance between revenue and costs in this proposal would be $1,746,541 over the five years, with the annual overcollection being very significant in 2023 and 2024.[10] Table SD-1 shows the annual amount of excess revenues over costs for each year that would be caused by implementation of Petitioners proposed debt service revenue requirement. It also shows the cumulative total of this overcollection for each year during the life of these rates.

Table SD-1

Petitioner's Proposal for Debt Service Revenue Requirement vs. Costs

Year	2023 Bond Payments	2024 Bond Payments	Existing Bond Payments	Combined Bond Payments	Petitioner Proposed Revenue Requirement	Annual Over/(Under) Funding	Running Total as of Year-End
2023*	$ 304,188	$ -	$ 1,050,356	$ 1,354,544	$ 2,137,094	$ 782,550	$ 782,550
2024	$ 405,225	$ 86,304	$ 1,402,893	$ 1,894,422	$ 2,849,458	$ 955,036	$ 1,737,586
2025	$ 405,200	$ 1,039,825	$ 1,402,389	$ 2,847,414	$ 2,849,458	$ 2,044	$ 1,739,630
2026	$ 405,175	$ 1,039,470	$ 1,404,813	$ 2,849,458	$ 2,849,458	$ (0)	$ 1,739,630
2027	$ 500,150	$ 1,264,730	$ 1,078,824	$ 2,843,704	$ 2,849,458	$ 5,754	$ 1,745,384
2028*	$ 127,438	$ 316,348	$ 267,422	$ 711,207	$ 712,365	$ 1,158	$ 1,746,541

*-2023 is April-December Only, 2028 is January-March Only

Q: How should Petitioner's debt service revenue requirement be determined?

A: Instead of basing payments on a maximum debt payment that occurs in 2026, a more appropriate method would base rates on the average annual debt service over the life of the rates. As initial annual debt service payments are lower than the average, this would allow

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[9] See Mr. Hilt Testimony, page 13, lines 18-20.

[10] The overcollection would be significantly higher is we used the years 2022-2026 instead.

Petitioner to collect adequate funds before higher required payments in later years.

Q: What years did you use to calculate Petitioner's *pro forma* annual debt service revenue requirement?

A: I used an average based on the five years from April 2023 through March 2028. (While Petitioner included $7,037,000 in debt financed projects in 2022,[11] I did not use 2022 because these new rates will not be in effect for most or any of 2022.[12] Using the five years represented in the capital improvement plan of 2022-2026 would not follow the principle of aligning revenues with costs.) Beginning with 2023 more accurately reflects the costs that will be incurred over the anticipated life of these rates. To determine the rates for April to December of 2023, I used the proposed payments for the full calendar year and 75% of the payments for the existing debt. To determine the rates for January to March 2028, I multiplied both the proposed debt and outstanding debt annual payments for bond year 2028 by 25%.[13]

Q: Will Petitioner make any required payments on its existing bonds from debt service reserve funds?

A: Yes. The 2016 Bonds will mature in Bond Year 2026 (final payment January 1, 2027). Therefore, the final payments on this bond will likely be made by applying the debt service reserve funds. Therefore, the actual costs that must be reflected in the debt service revenue requirement should reflect no payments on this bond in Bond Year 2026. However, accomplishing the same result, I reflected this cost within the debt service reserve revenue requirement allowing me to use Petitioner's existing tables to refer to the outstanding debt.

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[11] Please see page 14 of Accountants Compilation Report (Attachment ADH-1) from Mr. Hilt's testimony, "Multi-Year Capital Improvement Plan".

[12] The Petitioner indicated it does not plan on issuing any Bond Anticipation Notes in 2022.

[13] For 2023, 75%=9 months of 12. 9/12=.75. Similarly for 2028, 25%=3 months, 3/12=.25.

One bond (series 2012-B) will be paid off in Bond Year 2022, which for my purposes is prior to the five year period I used to establish rates. (Two other bonds will be paid off in Bond Year 2029 (2009-A and 2019-A-1), so those bonds are outside of the life of rates in this present cause.)

Q: What debt service revenue requirement do you recommend?

A: While Petitioner proposes a debt service revenue requirement of $2,849,458, I propose a debt service revenue requirement of $2,640,488, which is based on my estimated average total debt service expense from April 2023 through March 2028. This reflects $1,319,148 for the proposed debt, and $1,321,339 for existing debt. Table SD-2 below shows annual bond payments for each of the new proposed bonds, the existing bonds, and the combined payments for all bonds in each of the years that make up the five-year life of rates. The amortization tables incorporating interest rates, wrapping assumptions, loan balances and terms may be found in OUCC Attachment SD-2.

Table SD-2

Bond Year	Series 2023 Bond Payments	Series 2024 Bond Payments	Combined 2023 and 2024 Payments	Outstanding Bond Payments	All Bond Payments
2023*	$ 358,511	$ -	$ 358,511	$ 1,050,356	$ 1,408,867
2024	$ 477,993	$ 84,735	$ 562,728	$ 1,402,893	$ 1,965,621
2025	$ 477,963	$ 1,230,828	$ 1,708,791	$ 1,402,389	$ 3,111,180
2026	$ 477,934	$ 1,230,828	$ 1,708,762	$ 1,404,813	$ 3,113,575
2027	$ 572,897	$ 1,230,828	$ 1,803,725	$ 1,078,824	$ 2,882,549
2028*	$ 145,518	$ 307,707	$ 453,225	$ 267,422	$ 720,647
Average:	$ 502,163	$ 816,985	$ 1,319,148	$ 1,321,339	$ 2,640,488

*-April-December for 2023, January-March for 2028

Q: Will the Petitioner have the cash flow to cover its bond payments in your proposal?

A: Yes. There is a significant overcollection of revenue in the first two years of the OUCC's proposal, so with respect to debt service, Petitioner will have higher revenues than costs overall until the end of March 2028. Table SD-3 below shows the annual amount of over or under funding based on the bond payments and proposed OUCC revenue requirement for each year of the life of rates. It also shows the cumulative total of these over and under collection of rates. The $0 running total in March 2028 shows that the overall revenue and overall costs are balanced over the life of these rates.

Table SD-3

Year	2023 Bond Payments	2024 Bond Payments	Existing Bond Payments	Combined Bond Payments	OUCC Proposed Revenue Requirement	Annual Over/(Under) Funding	Running Total as of Year-End
2023*	$ 358,511	$ -	$ 1,050,356	$ 1,408,867	$ 1,980,366	$ 571,498	$ 571,498
2024	$ 477,993	$ 84,735	$ 1,402,893	$ 1,965,621	$ 2,640,488	$ 674,867	$ 1,246,365
2025	$ 477,963	$ 1,230,828	$ 1,402,389	$ 3,111,180	$ 2,640,488	$ (470,692)	$ 775,673
2026	$ 477,934	$ 1,230,828	$ 1,404,813	$ 3,113,575	$ 2,640,488	$ (473,087)	$ 302,586
2027	$ 572,897	$ 1,230,828	$ 1,078,824	$ 2,882,549	$ 2,640,488	$ (242,061)	$ 60,525
2028*	$ 145,518	$ 307,707	$ 267,422	$ 720,647	$ 660,122	$ (60,525)	$ (0)

*-2023 is April-December Only, 2028 is January-March Only

Q: If Petitioner pursues an open market or private placement financing in lieu of SRF borrowing, should it be authorized to borrow more than $35,000,000?

A: No. Borrowing authority should be limited to the $35,000,000 that rates are based upon, because in that event the SRF lead service line replacement program would not be available. Moreover, if Petitioner is considering open market borrowing, it must be understood that the "interest rate" refers to the *yield*, and not the *coupon* rate of interest. Also, it must be understood that the debt authority refers to the total sources of funds, inclusive of any premium or discount. If an open market bond is pursued, then Petitioner must secure a competitive market yield on the offering at the time of issuance. Finally, if Petitioner decides to secure debt in the open market or through a private placement, Petitioner should be prepared to articulate why this avenue of funding is beneficial and why it was not feasible to secure funding through SRF.

III. DEBT SERVICE RESERVE

Q: Do you agree with Petitioner's proposed debt service reserve?

A: No. Petitioner proposes an annual *pro forma* revenue requirement of $562,278.[14] Looking at all of Petitioner's various debt service reserve requirements during the expected life of its rates (April 2023 through March 2028), I calculated an annual *pro forma* revenue requirement for debt service reserve of $499,870. As a stand-alone proposition for the new SRF debt, I calculated a debt service reserve annual revenue requirement of $565,870. However, my calculation of $499,870 recognized that South Bend will pay off its Series 2016 Bond on January 1, 2027. To that end, South Bend will access and draw down its debt service reserve by $330,000.[15] (As cash is fungible, the Commission may account for this either by showing $330,000 less in all debt service payments or by reducing the debt service reserve required to be funded. As discussed previously in my testimony, I accounted for this drawdown within the debt service reserve revenue requirement, so the overall amount must be reduced by $330,000.) Recognizing the application of the $330,000 reduces the debt service reserve revenue requirement by $66,000 per year over the life of the rates.

Q: How did you calculate the amount of funding required for debt service reserve?

A: To determine the amount of the debt service reserve funds for the SRF debt that must be collected, I began with the highest annual SRF debt payments and subtracted the current balance the utility has already funded in its existing SRF linked debt service reserve

[14] Please see Mr. Hilt testimony page 13, line 20-21.

[15] Balance of $330,000 may be found on page 9 of Attachment ADH-1 (the Accountants Compilation Report) found in Mr. Hilt's testimony.

accounts. I refer to this product as the unmet debt service reserve balance. To determine the annual revenue requirement for debt service reserve, I divided the unmet debt service reserve balance by the maximum number of years within which the utility must fund its debt service reserve. (The SRF Program requires the debt service reserve be funded within five years.) The only existing SRF Bond is currently fully funded at $32,120. The maximum annual payment on the proposed debt SRF debt is $2,861,468. (See OUCC Attachment SD-2.) To determine an annual debt service reserve revenue requirement, I subtracted the existing debt service reserve balance ($32,120) from the $2,861,468 required balance and then divided that value by five years, resulting in an annual amount of $565,870. After reducing that amount by $66,000 per year for the drawdown of the debt service reserve funds associated with the 2016 Bonds, I calculated an annual *pro forma* revenue requirement for debt service reserve of $499,870.

Q: What is the status of Petitioner's non-SRF debt service reserve accounts?

A: Petitioner indicated its non-SRF debt service reserve accounts are fully funded.

Q: Does your proposal result in the debt service reserve funds being completely funded in the life of these rates?

A: Yes. Because the 2024 bonds will not be issued until 2024, South Bend's debt service reserve will not have to be fully funded until November of 2029. My proposal will allow South Bend to be fully funded within five years of the life of the rates or March 31 of 2028. My proposal will result in South Bend collecting $565,870 per year to fund the debt service reserve, which will total $2,829,348 by March 2028. This will be sufficient revenue to fully fund both bonds debt service reserve funds within five years.

Q: Should there be any restrictions on Petitioner's proposed debt service reserve?

A: Yes. Petitioner's debt service reserve should be placed in a restricted account, and Petitioner should notify the Commission and the OUCC if it spends any funds from its debt service reserves for any reason other than to make the last payment on its current or proposed debt issuances. Petitioner should be required to provide a report to the Commission and the OUCC within five business days of any such transaction. The report should (1) state how much Petitioner spent from its debt service reserve, (2) explain why it spent funds from its debt service reserve accounts, (3) cite to any applicable loan documents that allow it to spend funds from its debt service reserve, (4) describe its plans to replenish its debt service reserve, and (5) describe any cost-cutting it has implemented to forestall spending funds from its debt service reserve.

IV. TRUE-UP AND OTHER ISSUES

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

A: Yes. The precise interest rates, borrowing amount and annual debt service will not be known until Petitioner's debt has been issued. Therefore, Petitioner's rates should be trued-up to reflect the actual cost of the debt. I recommend the Commission require Petitioner to file a report within thirty (30) days of closing on each long-term debt issuance explaining the terms of the new loan, the balance actually borrowed, the amount of debt service reserve required, bid tabulations for any projects for which these are available at the time of the true-up, and an itemized account of all issuance costs (such as bond counsel and financial advising fees), including issuance costs actually incurred to that date. The report should include a revised tariff, amortization schedule and calculation of the rate impact in a manner similar to the OUCC's schedules. The report also should indicate any lead service line replacement borrowings and indicate how those affected the realized interest rate and confirm that the borrowings upon which rates are based do not exceed the maximum debt authorization. Further, because collection of revenue will occur substantially at the time of the order, protections should be put in place to ensure that if bonds are not issued promptly, ratepayers are not harmed and revenues are aligned with costs. Therefore, for any timing differences of more than two months between implementation of rates and closing on the first issuance of debt, the revenue requirement for current debt should be placed in a restricted account and used to reduce the balance that must be borrowed. If the borrowing is delayed for more than one year, refunds should be issued to ratepayers out of this restricted balance. If the 2024 bond issuance is delayed, the revenue associated with this bond issue should be placed in a restricted account until such borrowing occurs and used to reduce the amount borrowed (revenue of $102,569 per month after December 2024). Further, because I propose Petitioner collect the full, projected amount of debt service reserve initially, rather than aligning this revenue with costs incurred as the bonds are issued, rates reflecting the final debt service reserve revenue requirement should not be reflected in the tariff until the true-up after the 2024 issuance. At the time of the second true-up, the debt service reserve revenue requirement should be determined such that full funding of the debt service reserve be accomplished within the five-year life of rates (or 60 months after the date of the order). In the event of an open market issuance, the requirements of a debt service reserve may be substantially different.

Q: How should disputes regarding Petitioner's true up report be identified?

A: The OUCC should have no less than twenty-one (21) days after service of the true-up to challenge Petitioner's proposed true-up. Petitioner should similarly have twenty-one (21) days to file a response to the OUCC. Thereafter, the Commission should resolve any issue raised through a process it deems appropriate. Any true-up report should be served on counsel of record and state the time frames for objections or responses.

Q: Should there be any exceptions to the requirement for a true-up?

A: Yes. If both parties state in writing to the Commission that the increase or decrease indicated by the report need not occur because the increase or decrease would be immaterial, the true-up need not be implemented.

Q: What other conditions should be placed on Petitioner's proposed debt issuance?

A: Financing authority should not continue indefinitely. Petitioner is expecting to complete its requested borrowing in two phases, in April of 2023 and November of 2024. Any financing authority not used by Petitioner should expire at the end of 2025 (allowing approximately one additional year beyond the projected November 2024 issuance date).

V. <u>OUCC RECOMMENDATIONS</u>

Q: Please summarize your recommendations.

A: I recommend that the Commission approve a debt authority of $47,791,000, with rates based on borrowings up to $35,000,000. I recommend the Commission approve a debt service annual revenue requirement of $2,640,488. I recommend the Commission approve a debt service reserve revenue requirement of $499,870. I recommend Commission require Petitioner to follow the true-up procedures I describe in this testimony. I recommend that the Commission require Petitioner to follow the reporting requirements regarding withdrawals from any debt service reserve funds.

Q: Does this conclude your testimony?

A: Yes.

Appendix A

Q: Please describe your educational background.

A: I graduated from Indiana University with a degree in Biology, a minor in Economics and a certificate from the Liberal Arts and Management Program (LAMP) which is an honors certificate program through the Kelley School of Business and the College of Arts and Sciences, at the time restricted to twenty-five (25) students per year. I received my MBA from Indiana University with a concentration in finance. I am a member of Phi Beta Kappa honor society for my undergraduate work and Beta Gamma Sigma honor society for my master's program. I have been a member of Mensa for a number of years.

Q: Please describe your work experience.

A: My first jobs after graduating with my undergraduate degree were in New York in finance at Grant's Interest Rate Observer, which is a financial newsletter and Lebenthal and Co., which was a municipal bond brokerage. I worked at and ultimately owned RCI Sales in Indianapolis, which was a manufacturer representative/distributor in commercial and institutional plumbing, for a number of years, leaving when I sold the company and merged it into a competitor. After receiving my MBA, I worked at Amazon as a financial analyst in their fulfillment division.

Q: How long have you been at the OUCC?

A: I have been in the Water/Wastewater Division since December 2019. I was a Utility Analyst II until May 2022, when I was promoted to Senior Utility Analyst. My focus is financial issues, such as financings, ROE's, capital structures, and the like.

Q: Have you previously testified before the Indiana Utility Regulatory Commission ("Commission")?

A: Yes, I have testified before the commission regarding various aspects of finance.

AFFIRMATION

I affirm the representations I made in the foregoing testimony are true to the best of my knowledge, information, and belief.

By: Shawn Dellinger
Cause No. 45719
Office of Utility Consumer Counselor (OUCC)

Date: August 12, 2022

State Revolving Fund Loan Programs

FACT SHEET

Drinking Water, Clean Water, Nonpoint Source

July 2022

Environmental Programs

Brownfields SRF

SUMMARY OF CURRENT INTEREST RATES

Indiana's Drinking Water and Wastewater State Revolving Fund Loan Programs use a Base SRF Program Interest Rate, which is re-set on the first business day of each January, April, July, and October.

The Base Rate is calculated by using 90 percent of the average 20-year AAA-rated, general obligation bond Municipal Market Data ("MMD") composite index for the most recent calendar month. The Base Rate is then discounted further based upon a borrower's Median Household Income (MHI) from the most recent Census data and projected user rates. This Census data is posted at data.census.gov.

Below are the current SRF Program interest rates effective July 1, 2022 through September 30, 2022. The interest rates vary based on three ranges of average monthly user rates for an equivalent dwelling unit (User Rates) within each of the three existing MHI tiers, creating nine possible interest rates.

Wastewater SRF Interest Rates	User Rates (Over $50)	User Rates ($30 to $50)	User Rates (Under $30)
Tier III (MHI: under $46,588)	2.00%	2.00%	2.20%
Tier II (MHI: $46,589 to $58,234)	2.00%	2.00%	2.45%
Tier I (MHI over $58,235)	2.00%	2.20%	2.70%

** MHI reflected in 2016-2020 ACS 5-year estimates*
Note: Up to an additional .50% reduction may be permitted if a nonpoint source project is financed along with a point source project or a project that includes green/sustainable, including climate resiliency, components.

Drinking Water SRF Interest Rates	User Rates (Over $45)	User Rates ($25 to $45)	User Rates (Under $25)
Tier III (MHI: under $46,588)	2.00%	2.00%	2.20%
Tier II (MHI: $46,589 to $58,234)	2.00%	2.00%	2.45%
Tier I (MHI over $58,235)	2.00%	2.20%	2.70%

** MHI reflected in 2016-2020 ACS 5-year estimates*
Note: Up to an additional .50% reduction may be permitted if a project is financed that includes green/sustainable, including climate resiliency, components. The SRF interest rate may also be reduced if a project includes lead line replacement.

Persons having questions should direct them to:

Bill Harkins, Indiana State Revolving Fund Loan Program
100 North Senate Avenue, Rm. 1275
Indianapolis, IN 46204
Phone: (317) 234-4862
E-mail: wharkins@ifa.IN.gov.

Combined Amortizations-SRF Issues

Year	Series 2023	Series 2024	Combined Proposed Debt	2009-SRF Debt	Combined Total SRF
2022	$ -	$ -	$ -	$ 32,120	$ 32,120
2023	$ 358,511	$ -	$ 358,511	$ 32,119	$ 390,630
2024	$ 477,993	$ 84,735	$ 562,728	$ 32,119	$ 594,847
2025	$ 477,963	$ 1,230,828	$ 1,708,791	$ 32,120	$ 1,740,911
2026	$ 477,934	$ 1,230,828	$ 1,708,762	$ 32,120	$ 1,740,882
2027	$ 572,897	$ 1,230,828	$ 1,803,725	$ 32,119	$ 1,835,844
2028	$ 582,072	$ 1,230,828	$ 1,812,900	$ 32,120	$ 1,845,020
2029	$ 572,886	$ 1,230,828	$ 1,803,714	$ 30,452	$ 1,834,166
2030	$ 1,088,877	$ 1,230,828	$ 2,319,705		$ 2,319,705
2031	$ 1,089,558	$ 1,230,828	$ 2,320,386		$ 2,320,386
2032	$ 1,084,678	$ 1,230,828	$ 2,315,506		$ 2,315,506
2033	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2034	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2035	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2036	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2037	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2038	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2039	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2040	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2041	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2042	$ 1,630,640	$ 1,230,828	$ 2,861,468		$ 2,861,468
2043	$ -	$ 1,230,828	$ 1,230,828		$ 1,230,828
2044	$ -	$ 1,230,828	$ 1,230,828		$ 1,230,828
2045	$ -	$ -	$ -		$ -
2046	$ -	$ -	$ -		$ -
Maximum Payment			$ 2,861,468	$ 32,120	$ 2,861,468

Total Interest:

$6,919,769	2023 Bond
$5,871,290	2024 Bond
$12,791,059	Total Interest
$35,000,000	Requested Borrowing
$47,791,059	Total Debt Authorization

Rounded to $47,791,000

DSR Calculation

$	2,861,468	Maximum Payment
$	32,120	Existing Balance
$	2,829,348	Required Funding
$	565,870	Annual Funding
$	330,000	Excess Funding
$	66,000	Annual Drawdown
$	499,870	Net DSR Annual Revenue Requirement

OUCC DR 3-6

DATA REQUEST
City of South Bend, Indiana

Cause No. 45719

Information Requested:

Please refer to the Schedule of Estimated Project Costs and Funding found on page 10 of Attachment ADH-1. Please breakdown the $283,900 indicated for "legal, bond counsel, financial advisory and contingencies." Please explain how the allocation between the 2023 and 2024 Bonds was determined.

Information Provided:

	COI	COI
Bond Counsel	$60,000	$60,000
Local Counsel	-	-
FA/Attest	70,000	70,000
Rating	-	-
SRF Fees/Counsel	10,000	10,000
Printing	-	-
Rounding	1,875	2,025
Total	$141,875	$142,025

These costs reflect the estimated costs of each bond series 2023 – 2024.

OUCC DR 3-7

DATA REQUEST
City of South Bend, Indiana

Cause No. 45719

Information Requested:

Please provide the contract for all consultants whose costs are included in the line item for Legal, Bond Counsel, Financial Advisory and Contingencies found on page 10 of Attachment ADH-1. If any or all such contracts have been provided in response to DR 1-32, please so indicate.

Information Provided:

As stated in OUCC DR 3-6, the costs included in the line item are estimates. Contracts have not yet been executed for the 2023 or 2024 Bond sales.