

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
THE CITY OF FORT WAYNE, INDIANA,) **CAUSE NO. 45777**
FOR EXPEDITED APPROVAL TO ISSUE)
LONG-TERM DEBT)

PUBLIC'S EXHIBIT NO. 1

TESTIMONY OF SHAWN DELLINGER

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

DECEMBER 1, 2022

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. 1 Testimony of Shawn Dellinger on behalf of the OUCC* has been served upon the following captioned proceeding by electronic service on December 1, 2022

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TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45777
CITY OF FORT WAYNE, INDIANA

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Shawn Dellinger, and my business address is 115 W. Washington St., Suite
3 1500 South, Indianapolis, IN 46204.

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

5 A: I am a Senior Utility Analyst in the Water/Wastewater division employed by the Indiana
6 Office of Utility Consumer Counselor ("OUCC"). My focus is on financial issues.

7 **Q: Please describe your educational background and experience.**

8 A: My credentials are set forth in Appendix A.

9 **Q: What is the purpose of your testimony?**

10 A: My testimony responds to the request of the City of Fort Wayne, Indiana ("Petitioner" or
11 "Ft. Wayne") for authority to issue up to \$13,000,000 in long-term debt from Indiana's
12 Drinking Water State Revolving Fund ("SRF") Loan Program. Fort Wayne proposes to
13 borrow the funds to replace lead service lines. Ft. Wayne is not requesting any rate
14 adjustments concurrent with this debt authorization. I recommend that Fort Wayne's
15 request be approved. I also recommend Fort Wayne be required to file a report after the
16 closing of the debt.

17 **Q: What did you do to form the opinions in your testimony?**

18 A: I reviewed the Petition and read the testimony of both Mr. Andrew Schipper, P.E., and the
19 testimony of Mr. Eric Walsh, CPA. I assisted in the drafting of data requests and reviewed

1 responses. I also had informal discussions with the Petitioner's witness Mr. Schipper and
2 Mr. Matthew Wirtz.

II. PROPOSED FINANCING

3 **Q: Please describe Petitioner's proposed debt issuance.**

4 A: Petitioner proposes to borrow up to \$13,000,000 from the State Revolving Fund ("SRF").
5 Specifically, the proposal is for a 0% 35-year loan of \$2,237,015 and a forgivable 3-year
6 bond anticipation note ("BAN") of \$8,953,040. Fort Wayne intends to use the funds to
7 complete the "Project", which is to "rather immediately" replace approximately 2,100 lead
8 service lines. (Petitioner witness Mr. Schipper, page 7) Petitioner estimates that it will cost
9 \$11,191,300 to complete the Project including all soft costs. (Of this amount, Legal and
10 Financial is estimated to be \$302,500.)¹ The remaining approximately \$1.8 million in debt
11 authority has been requested in case of increased project costs. Fort Wayne has not
12 determined how it would borrow the additional funds, but it indicated it will not borrow
13 funds in an amount that would cause an increase to its monthly user rates at this time.²

14 **Q: How will the borrowed funds be used?**

15 A: The funds being acquired will be used to fund Ft. Wayne's existing program to replace
16 service lines that may contain lead or galvanized materials. Fort Wayne will replace its
17 portion of service lines and offer customers an opportunity to have their portion of the
18 service lines replaced at that time.

¹ See the Preliminary engineering report (PER), Table 6-1 in Petitioner's Exhibit 2 attached to Mr. Schipper's testimony.

² Even a 0% 35-year loan will have an impact on rates in the future, but this is anticipated to be minimal.

1 **Q: What is the cost to customers to replace their portion of the lead service lines?**

2 A: Based on my understanding of Petitioner's Lead Service Line Replacement Program, in
3 order to have the customer side of the lead service line replaced, a participating customer
4 would pay a one-time charge of the actual marginal cost up to a cap of \$2000-\$3,000 per
5 customer. In the alternative customers have the option to pay the charge over a ten-year
6 period at an interest rate of 7.5%. Fort Wayne's program is meant to be a self-funded
7 revolving loan fund in a limited sense, where costs must be recouped from present
8 customers to continue to have funds available to finance future replacements.

9 **Q: Does the OUCC recommend approval of the requested debt authority?**

10 A: Yes. I support this request and recommend approval. I further support Fort Wayne's
11 request to have an order issued soon to allow it to achieve the benefits of the purpose of its
12 borrowing authority.

III. REPORTING REQUIREMENTS

13 **Q: Should Petitioner be required to file a report when terms of its debt are known?**

14 A: Yes. The precise amount of borrowing, and the composition of this borrowing is not known
15 at this time. There is no immediate rate impact anticipated with this debt, so there should
16 be no "true-up" in the traditional sense. However, Fort Wayne should inform the
17 Commission and the OUCC of the terms of the financing. I propose Petitioner be required
18 to submit a report within 30 days of closing on these loans stating the terms and amounts
19 of the borrowings. This report should itemize all issuance costs. I further recommend that
20 within 30 days of knowing when the forgivable BAN has been forgiven, which is
21 anticipated to occur within 3 years, Fort Wayne notify the Commission and the OUCC. I
22 also recommend the Commission require Fort Wayne to include in its annual report to the

1 IURC the number of lead line replacements it has accomplished in the reported year and
2 the total cost incurred by Fort Wayne for all such lead line replacements. Fort Wayne
3 should provide separate information for customer owned lines and utility owned lines.
4 Finally, if this information is readily available, Ft. Wayne should provide information to
5 clarify what percentage of customers are paying for this cost in one lump sum and what
6 percentage are financing this cost.

IV. OUCC RECOMMENDATIONS

7 **Q: Please summarize your recommendations to the Commission in this Cause.**

8 A: I recommend the following:

- 9
- 10 • The Commission grant debt authority of \$13,000,000.
 - 11 • The Commission order the Petitioner to follow the reporting requirements as indicated in Section III above.

12 **Q: Does this conclude your testimony?**

13 A: Yes.

Appendix A

1 **Q: Please describe your educational background.**

2 A: I graduated from Indiana University with a degree in Biology, a minor in Economics and
3 a certificate from the Liberal Arts and Management Program (LAMP) which is an honors
4 certificate program through the Kelley School of Business and the College of Arts and
5 Sciences, at the time restricted to twenty-five (25) students per year. I received my MBA
6 from Indiana University with a concentration in finance. I am a member of Phi Beta Kappa
7 honor society for my undergraduate work and Beta Gamma Sigma honor society for my
8 master's program. Although not specifically related to my educational background, I have
9 been a member of Mensa for a number of years.

10 **Q: Please describe your work experience.**

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

17 **Q: How long have you been at the OUCC?**

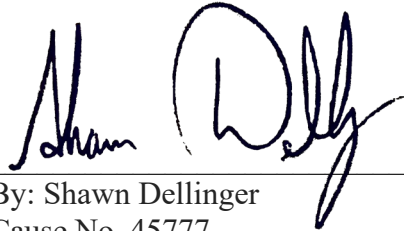
18 A: I started at the OUCC in the Water/Wastewater Division in December of 2019 as a Utility
19 Analyst II, I was promoted to a Senior Utility Analyst in May of 2022. My focus is
20 financial issues, such as ROE's, Capital Structures, etc.

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

23 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.

A handwritten signature in black ink, appearing to read "Shawn Dellinger". The signature is written in a cursive style with a large, circular initial "D".

By: Shawn Dellinger
Cause No. 45777
Office of Utility Consumer Counselor (OUCC)

Date: December 1, 2022

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF
THE CITY OF FORT WAYNE, INDIANA,
FOR EXPEDITED APPROVAL TO ISSUE
LONG-TERM DEBT

CAUSE NO. 45777

CITY OF FORT WAYNE, INDIANA'S RESPONSE TO
OUCG DATA REQUEST SET NO. 1

The City of Fort Wayne, Indiana ("Fort Wayne"), by counsel, hereby provides its response to OUCG Data Request Set No. 1 as follows:

Q-1-1: As part of the PER included as Exhibit 2 of Mr. Schipper's testimony, Chapter Exhibit 6-2, LSLR Program Opt In and Right of Entry Form, Exhibit A shows an interest rate of 7.5% for the customer portion of the LSLR if the customer chooses to finance through the City Utility for 10 years. The interest rate is noted as being based on the Wall Street Journal Prime Rate plus 2.000 percentage points, determined as of April 23, 2019.

- a. If Petitioner wants to encourage participation in this program, especially from low-income customers, why charge an interest rate on money the Petitioner is getting as a forgivable loan or interest free?
- b. Why charge the additional 2.000 percentage points interest above the Prime Rate?
- c. Does Ft. Wayne change this interest rate periodically as the Prime Rate changes?

Response: a. There are several reasons why Fort Wayne's lead service line replacement ("LSLR") program includes an interest rate for those customers seeking to finance the cost of their service line replacements. Much of the reasoning, however, concerns the timing of when the LSLR program was developed and the fact that the LSLR program is a revolving loan fund program that counts on reimbursement from property owners to finance future improvements.

In terms of timing, the Board of Works for the City of Fort Wayne, Indiana ("Board"), established the revolving loan fund (i.e. LSLR Program) in 2019 with the hope of using it to finance the replacement of the estimated 14,500 lead service lines throughout the City's service territory. At that time, the

Board did not know if any loans or grants would ever be available to fund the LSLR program. With this in mind, the Board planned on funding the LSLR program by allocating a relatively small amount of its extensions and replacements budget to this program. In turn, Fort Wayne would seek reimbursement from its customers for the cost of construction, the proceeds of which would be placed into the LSLR revolving program to fund future replacements.

Without repayment of the funds, the Board would not have any new funds to complete future replacements. If a customer could not afford to pay the cost of the replacement, the Board agreed that it would finance such cost. However, the Board recognized that Fort Wayne would incur additional administrative and billing costs if the customer selected to finance the replacement. The financing or interest rate was intended to cover these costs, as well as to recognize that the customer was able to avoid loan origination fees, a potentially high interest rate, credit checks, and other costs associated with obtaining a private loan. The Board also wanted to encourage immediate repayment (or reimbursement) so that Fort Wayne would have new funds in its LSLR program that could be used to complete future lead service line replacements.

In March of 2022, Fort Wayne submitted a preliminary engineering report ("PER") and application to the Indiana State Revolving Fund Loan Program ("SRF Program") seeking low interest loans and grants as "seed money" for its LSLR program. At or near the time of receiving the PER, the SRF Program contacted Fort Wayne with some of the same questions raised by the OUCC in its data request. After discussions with Fort Wayne and analysis of its LSLR program, the SRF Program graded Fort Wayne's contemplated projects as number 1 on its Project Priority List and offered to fund the initial phase of the proposed LSLR program with forgivable and zero percent (0%) interest loans in a total, aggregate amount of \$11,191,300. These proceeds will significantly increase the funds available to the LSLR Program and, in turn, allow Fort Wayne to more rapidly complete lead service line replacements (especially as new customers reimburse Fort Wayne for the cost of the service lines completed with the SRF monies).

In light of the monies available from the SRF Program, Fort Wayne is evaluating ways of assisting customers by offering such incentives as "capping" the cost of individual service line replacements and grants to low income customers. The ability to offer such assistance to its customers and complete the LSLR program in a reasonably timely manner, does, in the Board's opinion, require a reasonable interest rate for any customers seeking to finance the cost of replacing the customers' lead service lines.

As noted in Fort Wayne's prefiled evidence, the \$11,191,300 in forgivable and zero percent (0%) interest loans will allow Fort Wayne to complete

approximately 2,000 of the 14,500 lead service line replacements that need to be done. In the future, Fort Wayne anticipates (based on representations from the SRF Program) that grants and loans from the SRF Program will be more limited. In recognition of this fact, the Board will likely be required to use its own monies and funds in the LSLR revolving fund to pay for future lead service line replacements. By charging a reasonable interest rate from the beginning of its LSLR program, Fort Wayne is able to: (i) recover some of its costs of administering the program; (ii) encourage individuals to promptly pay for the individual costs associated with replacing their lead service lines; (iii) expedite, to the extent possible, completion of the LSLR program; (iv) perpetuate the LSLR program until all 14,500 lead service lines have been replaced; and (v) similarly treat all customers regardless of whether their service lines were paid for with a grant (or not).

b. In light of the considerations outlined in the response to OUCC Data Request 1-1(a), the Board believed that a financing rate of 2% above prime is reasonable.

c. Fort Wayne Board of Works has not changed this charge percentage since inception of the lead service line replacement policy in May 2019. Fort Wayne has no current plans to update this percentage, as it believes it would result in an even higher interest rate for customers in today's market conditions. If a rate change is made in the future, contracts previously signed with homeowners would not be impacted.

Person(s) providing information: Andrew Schipper

Testifying Witness: Andrew Schipper