

FILED
February 14, 2020
INDIANA UTILITY
REGULATORY COMMISSION

**TOWN OF NEW PALESTINE &
TOWN OF CUMBERLAND**

IURC CAUSE NO. 45348

DIRECT TESTIMONY

OF

OTTO W. KROHN

SPONSORING ATTACHMENTS OWK-1 THROUGH OWK-4

**DIRECT TESTIMONY
OF
OTTO W. KROHN**

CAUSE NO. _____

BACKGROUND

1 **Q. Please state your name, profession and business address.**

2 A. My name is Otto W. Krohn. I am a Certified Public Accountant and SEC Registered
3 Municipal Advisor. My business address is 231 East Main Street, Westfield, Indiana
4 46074.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the executive partner of O.W. Krohn & Associates, LLP, a firm of certified public
7 accountants and consultants. Our practice focuses on the accounting, financial, and
8 managerial needs of local government units and utilities primarily in the State of
9 Indiana.

10 **Q. Please summarize your educational and professional qualifications.**

11 A. I am a 1978 graduate of Indiana University's Kelley School of Business. I have been
12 engaged in public accounting and financial consulting for almost forty years. I am a
13 Certified Public Accountant (CPA) and Chartered Global Management Consultant
14 (CGMA) in good standing with the American Institute of CPAs and the Indiana CPA
15 Society. After spending eight and a half years with a regional-sized firm of CPAs, I
16 established my own accounting and consulting practice in 1986. The majority of my
17 professional experience has been related to financial accounting and consulting for
18 local government and utilities. I have worked extensively with the financial aspects of

1 utility operations, including utility rate studies, cost of service studies, financial
2 advisory services, and debt financing for capital improvement projects. I have
3 participated in numerous proceedings at the Indiana Utility Regulatory Commission
4 (the “Commission”) over the past forty years. Throughout my career, I have actively
5 participated in many professional organizations and trade associations that pertain to
6 the practice of public accounting, utilities, local government and consulting, including:

7 American Institute of Certified Public Accountants

8 Indiana CPA Society

9 Government Finance Officers Association (GFOA)

10 Indiana Association of Cities and Towns (Now AIM)

11 Association of Indiana Counties

12 Indiana Township Association

13 American Water Works Association

14 Indiana Rural Water Association

15 Alliance of Indiana Water & Wastewater

16 Indiana Municipal Electric Association

17 Association of Indiana Sewer Companies

18 Indiana Water Environmental Association

19 **Q. Please describe your business experience.**

20 A. After graduation from Kelley School of Business, I started my career in May, 1978
21 with H.J. Umbaugh & Associates’ Indianapolis Office. After 8 ½ years, I started my
22 own accounting practice in December, 1986. Over the past 33 plus years, my practice
23 niche has focused on working with local government and utilities in a variety of

1 financial roles, including utility rate consulting and financial advisory services related
2 thereto. I have served as an expert witness in a variety of situations regarding utility
3 rates, cost of service and issuance of long-term debt for municipalities, not-for-profit
4 utilities and other quasi-governmental units (such as regional utilities and conservancy
5 districts).

6 **Q. What are your current responsibilities?**

7 A. I am Executive Partner of our Firm. My 2 partners and I are also Registered Municipal
8 Advisors with the Securities Exchange Commission. Together, we oversee a
9 professional staff of CPAs, financial consultants, analysts and administrative personnel.
10 Our Firm has a focused practice niche in the area of local government finance and
11 utilities.

12 As in this case, I often participate in feasibility studies related to public building projects,
13 infrastructure and projects related to economic development for cities, towns, counties
14 and townships. Utility projects are often key to being able to attract opportunities for
15 new development. I am directly involved in these types of projects, with the goal of
16 providing timely and accurate financial information to the key decision-makers. In this
17 case, those decision-makers include the New Palestine Town Council, Indiana Finance
18 Authority – State Revolving Fund (SRF), prospective lenders and the Indiana Utility
19 Regulatory Commission (IURC or Commission) for this proceeding. New Palestine has
20 received preliminary approvals from its Town Council, Cumberland’s Town Council,

1 SRF and a local bank has indicated its willing to underwrite the acquisition. Of course,
2 these preliminary approvals are subject to the approval of the IURC.

SCOPE OF TESTIMONY

3 **Q. What is the basis for the Commission’s jurisdiction in this Cause?**

4 A. This is a very unique case in that the Commission does not have jurisdiction over sewer
5 service by either Cumberland or New Palestine; however, Ind. Code §8-1.5-2-6.1
6 requires that Cumberland must obtain the approval of the Commission in order to
7 transfer a portion of its sewer utility. Accordingly, the Joint Petitioners are seeking
8 approval for Cumberland to sell these sewer assets to New Palestine pursuant to the
9 agreement attached to the Joint Petition. The standard, as I understand it, is whether
10 the transfer is in the public interest. As I will explain, it is. After closing, service by
11 New Palestine to the area served by the assets being acquired will continue to be
12 unregulated by this Commission.

13 **Q. Please briefly describe the proposed transfer.**

14 A. New Palestine is proposing to acquire the sewer utility assets and service area within
15 the previous Gem South service territory presently owned and operated by the Town
16 of Cumberland (the “Gem Utilities South Sewer System”). Cumberland will abandon
17 its rights to serve in the area. New Palestine intends to abandon the existing wastewater
18 package plant that is serving approximately 140 existing customers and connect those
19 customers to a primary collection main that is located within a few hundred feet of the
20 Gem Utilities South Sewer System package plant. This proposed inter-connection will
21 replace the existing package plant and transport the wastewater from the Gem Utilities

1 South Sewer System territory to the Town’s recently renovated wastewater treatment
2 facility in New Palestine. The Town’s available treatment capacity will facilitate the
3 efficient development of the entire 400 acre Gem Utilities South Sewer System service
4 territory. In fact, the Town is in the process of annexing approximately 165 acres of
5 the territory for a proposed 250 unit residential subdivision. This three-phase “super-
6 voluntary annexation” will become effective on January 1, 2020.

7 **Q. How did the Town come to agreement on the proposed territory acquisition from**
8 **Cumberland?**

9 A. The Town of New Palestine has been in negotiations with Cumberland for nearly two
10 years regarding this transaction. Witness Fisher is describing the processes that
11 Cumberland has undertaken leading up to the sale. Based upon the appraisal
12 Cumberland received, Cumberland and New Palestine negotiated and mutually agreed
13 to a price of \$7,000 per customer. Both Cumberland and New Palestine have mutually
14 agreed upon this valuation technique and believe the synergies of both communities
15 are best served by this transaction. New Palestine is already best-suited to serve the
16 Gem Utilities South Sewer System territory. New Palestine can immediately connect
17 the Gem Utilities South Sewer System territory to its new, expanded wastewater
18 treatment facility.

19 In order to obtain SRF approval of the proposed transaction, Cumberland agreed to
20 apply the proceeds of the sale towards its outstanding SRF bond issue – in essence,
21 buying down Cumberland’s outstanding SRF bond issue proportional to the reduction
22 in customers to be served by Cumberland. New Palestine agreed to seek non-SRF
23 funding for its proposed acquisition of the Gem Utilities South Sewer System. (Note:

1 SRF must approve any new funding transaction by New Palestine since the Town
2 funded its recent treatment plant renovation and expansion through SRF). Therefore,
3 New Palestine solicited interest from Greenfield Banking Company, a local Hancock
4 County banking institution that has provided a number of favorable financing deals for
5 several other Hancock County municipalities. (i.e. Greenfield Banking Company was
6 the low bidder on a similar financing for the Town of Fortville on November 4th –
7 beating out 4 other competitive bids from other local and national banks). Greenfield
8 Banking Company Sr. Vice President, Brad Herndon, gave the Town a favorable
9 response that it would provide a competitive bid for the Town’s funding plan.

10 **Q. What will the effect be on rates for the affected customers?**

11 A. The approximate 140 existing customers served by the Gem Utilities South Sewer
12 System will immediately realize a monthly rate reduction of \$11.50 per month. New
13 Palestine’s monthly residential rate is \$67.00 versus the Cumberland rate within the
14 Gem South territory - \$78.50 per month. Even with this immediate rate reduction, the
15 increased operating revenues from the 140 existing customers is sufficient to cover the
16 potential incremental debt service for New Palestine and provide a debt coverage ratio
17 of more than 125%. Overall, debt coverage will be more than the 125% SRF coverage
18 requirement. However, we want to point out that isolating the 140 existing customers’
19 revenue stream alone will cover the incremental debt service and SRF coverage
20 requirements.

21 That said, New Palestine’s initial funding plan is to issue a 5 year Bond Anticipation
22 Note (BAN). Issuing shorter term debt initially will minimize interest costs while the

1 proposed 250 unit subdivision is being developed. The Town will collect System
2 Development Charges amounting to \$2,750 per home from the developer and builders.
3 The plan during this initial 5 year period is to pay down as much of the BAN as possible
4 and fund the remaining outstanding BAN with a longer term bond at the end of 5 years.
5 During this 5 year window, the Town anticipates other developments to occur (i.e.
6 Hancock Memorial Hospital, Professional Buildings and shovel ready sites are already
7 being developed on the west side of New Palestine).

8 **Q. Is New Palestine requesting Commission authority to acquire the Gem Utilities**
9 **South Sewer System assets and service territory from Cumberland?**

10 A. Yes. The Town is seeking authority to acquire the assets, customers and service
11 territory commonly referred to as the Gem Utilities South Sewer System, as outlined
12 in the Asset Purchase Agreement that has been approved by the Cumberland and New
13 Palestine Town Councils.

14 **Q. Have you prepared any attachments for consideration by the Commission?**

15 A. Yes. I have prepared the following attachments for the Commission's consideration:

- 16 1) **Attachment OWK-1** – Project Costs – New Palestine Municipal
17 Sewage Works;
- 18 2) **Attachment OWK-2** – Financial Feasibility Calculations – New
19 Palestine Municipal Sewage Works;
- 20 3) **Attachment OWK-3** – Existing Sewer Rates – New Palestine
21 Municipal Sewage Works; and
- 22 4) **Attachment OWK-4** – BAN Amortization Schedule.

1 **Q. Is the transfer of these assets and the Gem Utilities South Sewer System to New**
2 **Palestine and the resulting rate of \$67 per month for these customers in the public**
3 **interest?**

4 A. Yes. The Gem Utilities South Sewer System customers will receive an immediate rate
5 reduction of approximately \$11 per month, and their service can be regionalized with
6 a new wastewater treatment plant with capacity to add them. The addition of the
7 existing customers to be acquired will immediately create economies of scale for the
8 Town of New Palestine and eliminate a package plant that is already at its peak
9 capacity. The development potential of this area should create further economies of
10 scale for the municipal sewage works and assist the Town expand its property tax base.

11 **Q. Ind. Code §8-1.5-2-6.1(f) provides that as a part of the Commission's order**
12 **approving a sale, certain provisions must be made with regard to how the**
13 **purchaser is to record the transaction for ratemaking purposes. Does this**
14 **requirement have relevance to New Palestine's proposed acquisition?**

15 A. No. The requirement in the statute is with regards to the amount to be recorded as net
16 original cost rate base for ratemaking purposes. New Palestine does not set its rates on
17 a rate of return basis and, as I indicated previously, New Palestine's rate and charges
18 are not regulated by this Commission. As such, including the required directive as to
19 how the transaction is to be recorded will have no effect on New Palestine.

20 **Q. Does this conclude your direct testimony?**

21 A. Yes.

VERIFICATION

I, Otto W. Krohn, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Otto W. Krohn

Otto W. Krohn

February 11, 2020

Date: _____

ATTACHMENT OWK-1

PROJECT COSTS - NEW PALESTINE MUNICIPAL SEWAGE WORKS

NEW PALESTINE MUNICIPAL WASTEWATER UTILITY

SCHEDULE OF SOURCES AND USES

USES OF FUNDS:	<u>USERS</u>	<u>COST / USER</u>	
PROPOSED ACQUISITION COST	140	\$7,000	\$ 980,000
ESTIMATED COST OF CONNECTION			40,000
TOTAL CONSTRUCTION & CONTINGENCIES			1,020,000
LEGAL, FINANCIAL & BOND COUNSEL			100,000
UNDERWRITER DISCOUNT / FEES			25,000
ENGINEERING & INSPECTION			30,000
ACCOUNTS RECEIVABLE			30,000
ALLOWANCE FOR IURC EXPENSES			70,000
ADMIN, TRANSACTION COSTS & CONTINGENCIES			25,000
TOTAL USES OF FUNDS			\$ 1,300,000
SOURCES OF FUNDS:			
PAR AMOUNT OF BOND ANTICIPATION NOTE			\$ 1,270,000
CASH ON HAND - ACCOUNTS RECEIVABLE			30,000
TOTAL SOURCES OF FUNDS			\$ 1,300,000

ATTACHMENT OWK-2

FINANCIAL FEASIBILITY CALCS - NEW PALESTINE SEWAGE WORKS

NEW PALESTINE MUNICIPAL WASTEWATER UTILITY					
PROJECTED OPERATING RECEIPTS, OPERATION AND MAINTENANCE EXPENSES, DEBT SERVICE & DEBT COVERAGE					
BASED UPON THE YEAR ENDED DECEMBER 31, 2018					
PROJECTED RECEIPTS		BEFORE / AFTER ACQUISITION & AFTER BUILDOUT			
		2018 ACTUAL	ACQUISITION	NEW HOMES	
COLLECTION AND TREATMENT RECEIPTS - 2018 ACTUAL		\$ 1,093,238	\$ 1,093,238	\$ 1,093,238	
REVENUE FROM 125 NEW CUSTOMERS @ \$67.00 140		-	112,560	112,560	
REVENUE FROM 250 NEW CUSTOMERS @ \$67.00 250				201,000	
STORMWATER, PENALTIES & OTHER		74,951	74,951	74,951	
OTHER PLEDGED RECEIPTS EXCLUDES SYSTEM DEVELOPMENT CHARGE		1,625	1,625	1,478	
TOTAL PROJECTED RECEIPTS		1,169,814	1,282,374	1,483,227	
PROJECTED OPERATING DISBURSEMENTS					
OPERATING DISBURSEMENTS 2018 INCLUDED EXTRA-ORDINARY REPAIRS & MAINTENANCE COSTS OF APPROX. \$98K		867,233	806,130	900,000	
NET PLEDGED RECEIPTS NORMALIZED 2018 N.O.I. \$400,581		302,581	476,244	583,227	
DEBT SERVICE					
MAX ANNUAL DEBT SERVICE (SRF BONDS)		\$ 223,600	\$ 223,600	\$ 223,600	
ANNUAL P&I ON PROPOSED ADDITIONAL BONDS / BAN (20 Yr @ 3.5%)		-	89,359	89,359	
INTEREST ONLY \$44,450					
TOTAL ESTIMATED DEBT SERVICE (WITHOUT CONN. FEE BUY-DOWN)		\$ 223,600	\$ 312,959	\$ 312,959	
COMPUTED BOND COVERAGE		NORMALIZED 2018 COVERAGE 179.2%	135.3%	152.2%	186.4%
		NORMALIZED COVERAGE W/ SDCs 272.2%	(1)	(2)	(3)
(1)	Non-Receipts in 2018 included \$208,050 of one-time connection and availability fees which are pledged receipts. Expenditures also included \$98,000 of extra-ordinary contract services. Had those transactions been excluded in the calculation above the resulting bond coverage could have exceeded 270%.				
(2)	The test year operation and maintenance disbursements have been adjusted to eliminate non-recurring costs and to include inflation in other operating costs. Debt service on the proposed bonds to acquire the service territory from Cumberland has also been included.				
(3)	Operating revenues and expenses have been adjusted to reflect the estimated financial impact of 250 new homes that are proposed to be constructed within the service territory proposed to be acquired.				
NOTE: IN ADDITION TO THE OPERATING REVENUES FROM THE PROPOSED NEW 250 UNIT DEVELOPMENT, EACH NEW HOME WILL BE SUBJECT TO THE TOWN'S SYSTEM DEVELOPMENT CHARGE OF \$2,750 PER UNIT: \$ 687,500 TOTAL SDC's.					

ATTACHMENT OWK-3

EXISTING SEWER RATES - NEW PALESTINE MUNICIPAL SEWAGE WORKS

NEW PALESTINE MUNICIPAL WASTEWATER UTILITY			
<u>SCHEDULE OF PRESENT WASTEWATER RATES AND CHARGES</u>			
<u>UNMETERED WASTEWATER USERS:</u>	<u>MONTHLY FLAT RATE / USER</u>		
	<u>CURRENT</u>		
<u>RESIDENTIAL</u>			
SINGLE FAMILY/UNIT	\$	67.00	
APARTMENT/UNIT		67.00	
<u>COMMERCIAL</u>			
1ST 3 EMPLOYEES	\$	67.00	
EACH ADDITIONAL EMPLOYEE		17.00	
<u>GASOLINE SERVICE STATION</u>			
WITH CAR WASH	\$	167.00	
WITHOUT CAR WASH		99.50	
<u>SHOP OR OFFICE IN HOME</u>		100.75	
<u>CAR WASH, MANUAL/BAY</u>		168.37	
<u>LAUNDROMATS</u>		201.75	
LAUNDROMAT/WASHER		50.50	
<u>RESTAURANT</u>			
1ST 2 EMPLOYEES	\$	67.00	
EACH ADDITIONAL EMPLOYEE		44.36	
<u>BEAUTY/BARBER SHOPS</u>			
1ST EMPLOYEE	\$	67.00	
EACH ADDITIONAL EMPLOYEE		17.00	
<u>PROFESSIONAL OFFICE</u>			
1ST 3 EMPLOYEES	\$	67.00	
EACH ADDITIONAL EMPLOYEE		17.00	
<u>INSTITUTIONAL</u>			
SCHOOLS/PER STUDENT	\$	4.16	
CHURCHES, LODGES, ETC.			
NO EATING FACILITIES			
EACH 200 MEMBERS OR FRACTION THEREOF	\$	88.75	
<u>GOVERNMENTAL OFFICES</u>			
1ST 3 EMPLOYEES	\$	67.00	
EACH ADDITIONAL 5 EMPLOYEES		33.50	
EACH ADDITIONAL EMPLOYEE		17.00	
<u>INDUSTRIAL (SANITARY FLOW ONLY)</u>			
1ST 3 EMPLOYEES	\$	67.00	
EACH ADDITIONAL 5 EMPLOYEES		33.50	

ATTACHMENT OWK-3

EXISTING SEWER RATES - NEW PALESTINE MUNICIPAL SEWAGE WORKS

SYSTEM DEVELOPMENT CHARGES

NEW PALESTINE MUNICIPAL WASTEWATER UTILITY				
<u>PRESENT CONNECTION & AVAILABILITY FEES - EFFECTIVE 2011</u>				
CONNECTION FEES:				
		EDU	ESTABLISHED	
<u>UNMETERED SIZE EQUIVALENCE - PER 170 IAC</u>		<u>RATIO</u>	<u>2011</u>	
SINGLE FAMILY RESIDENCE		1.00	\$ 2,750.00	
TWO FAMILY RESIDENCE		1.80	4,950.00	
MULTI-FAMILY & APARTMENTS-PER UNIT		0.70	1,925.00	
MOBILE HOMES & PARKS-PER UNIT		0.80	2,200.00	
MOTELS & HOTELS-PER UNIT		0.40	1,100.00	
SERVICE CLUBS & CHURCHES-PER 200 MEMBERS:				
WITHOUT KITCHEN		1.00	2,750.00	
WITH KITCHEN		2.00	5,500.00	
OFFICE USE-PER 1,000 SQ.FT.		0.50	1,375.00	
HEALTH SERVICE OFFICE-PER EXAM ROOM		0.60	1,650.00	
PERSONAL CARE-PER CHAIR		0.40	1,100.00	
RESTAURANT-PER SEAT		0.10	275.00	
FOOD DRIVE-IN-PER CAR SPACE		0.20	550.00	
FAST FOOD-PER EMPLOYEE		0.20	550.00	
FOOD & DRUG RETAIL SERVICE-PER EMPLOYEE		0.20	550.00	
LAUNDRY-PER WASHER		1.30	3,575.00	
CAR WASH-PER BAY		2.00	5,500.00	
SERVICE STATION		1.50	4,125.00	
RETAIL SALES & SERVICE-EACH EMPLOYEE		1.00	2,750.00	
MANUFACTURING-PER 8 EMPLOYEES		1.00	2,750.00	
BARS & COCKTAIL LOUNGES-PER SEAT		0.05	138.00	
BOWLING ALLEY-PER ALLEY		0.40	1,100.00	
BOWLING ALLEY W/ BAR-PER ALLEY		2.00	5,500.00	
DENTIST OFFICE-PER CHAIR		1.40	3,850.00	
PHYSICIAN'S OFFICE-PER EXAM ROOM		0.60	1,650.00	
SCHOOLS W/ GYM & CAFETERIA-PER STUDENT		0.06	165.00	
SCHOOLS WITHOUT GYM & CAFÉ-PER STUDENT		0.04	110.00	
SPECULATIVE COMMERCIAL/INDUSTRIAL-PER ACRE		1.00	2,750.00	
AVAILABILITY FEES - PER ACRE			\$ 1,975.00	

ATTACHMENT OWK-4

BAN AMORTIZATION SCHEDULE ILLUSTRATION

ASSUMES 5 YR, \$1.3 M BAN ISSUED TO A LOCAL BANK

NEW PALESTINE MUNICIPAL SEWAGE WORKS							
<u>SCHEDULE OF AMORTIZATION OF</u> <u>AMORTIZATION OF \$1,300,000 OF SEWAGE WORKS REVENUE BONDS OF 2020</u> <u>ASSUMED CLOSING DATE OF APRIL 15, 2020</u>							
PAYMENT DATE	PRINCIPAL BALANCE	INTEREST RATE	PRINCIPAL	INTEREST	PERIOD TOTAL	BOND YEAR TOTAL	
06/01/20				\$ 3,656.25	\$ 3,656.25		
12/01/20	\$ 1,300,000			14,625.00	14,625.00	\$ 18,281.25	
06/01/21				14,625.00	14,625.00		
12/01/21	1,300,000	2.25%		14,625.00	14,625.00	29,250.00	
06/01/22				14,625.00	14,625.00		
12/01/22	1,300,000	2.25%		14,625.00	14,625.00	29,250.00	
06/01/23				14,625.00	14,625.00		
12/01/23	1,300,000	2.25%		14,625.00	14,625.00	29,250.00	
06/01/24				14,625.00	14,625.00		
12/01/24	1,300,000	2.25%		14,625.00	14,625.00	29,250.00	
04/15/25	TAKE OUT WITH BOND ISSUE		1,300,000	10,968.75	1,310,968.75		
12/01/25	-					1,310,968.75	
TOTALS			\$1,300,000.00	\$146,250.00	\$1,446,250.00	\$ 1,446,250.00	
THIS REPRESENTS THE MOST CONSERVATIVE ASSUMPTION.							
THE TOWN INTENDS TO PAY OFF BAN WITH FEES FROM NEW DEVELOPMENT WITHIN NEXT 5 YEARS.							