

Town of Huntertown Municipal Sewage Works
Preliminary Rate Study Summary – 4,000 New Connections over 20 Years
Prepared August, 2011

This study updates the data used in the March analysis. The proposed connection schedule reflects a slower growth rate for the town, providing for 4,000 new connections over 20 years in lieu of 6,853 in the March study. Additionally, the rate increases for the City connection are adjusted to match the representations in the City of Fort Wayne Long Term Control Plan. The following parameters were provided by the Town for this study:

NEW WASTEWATER TREATMENT PLANT

Add 4,000 new connections over 20 years for a total of 6,824 customers.

Huntertown Tap Fees: New residential connections will pay Huntertown \$1,500 to tap the collection system, and will not increase within the study period. This fee will be used to reduce the capital expense of phase-II. The 1,101 pre-approved connections (platted but undeveloped) will not be subject to the 1,500 area connection fee, but will be subject to the \$500 tap fee.

Huntertown Rate Increases: The expenses to operate, maintain, and replace the wastewater treatment plant are inflated 3% each year.

Phase-I Capital Expense: \$11,223,524 Phase-II Capital Expense: \$4,108,618

UPPER ELY CONNECTION:

Add 4,000 new connections over 20 years for a total of 6,824 customers.

Huntertown Tap Fees: New residential connections will pay Huntertown \$500 to tap the collection system. This fee will be used to reduce the capital expense of phase-II.

City of Fort Wayne Area Connection Fees: New residential connections will pay the City of Fort Wayne a fee of \$3,319 and inflated 3% each year. Since this fee goes to the City of Fort Wayne, it is not used to offset future rate increases. The 1,101 pre-approved connections (platted but undeveloped) will not be subject to the Fort Wayne area connection fee.

City of Fort Wayne Rate Increases: The conveyance and treatment charges assessed by the City of Fort Wayne are inflated 8.29% every year to match the representations in the Long Term Control Plan (See CSO LTCP – Chapter 3, Section 3.5.4 “Projected Revenue Requirements, Financing, and Rate Impacts”, pages 3-58 thru 3-60).

Phase-I Capital Expense: \$6,918,096 Phase-II Capital Expense: \$1,187,004

SEWER BILL SUMMARY:

	<u>2013</u>	<u>2022</u>	<u>2032</u>
Upper Ely Connection at 6% every two years	\$52.54	\$49.12	\$53.83
Upper Ely Connection at 8% every year	\$52.54	\$65.41	\$85.14
New Wastewater Treatment Plant	\$52.00	\$46.92	\$44.31

Long Term Control Plan – Chapter 3

- Operating and maintenance costs for new infrastructure were incorporated based on projects that would directly result in new system components or improved performance. The indexed annual costs were synchronized with the capital program implementation schedule and were compared to historical expenses and published rates for accuracy and consistency.
- Revenue projections for this Financial Capability Assessment rely on the City's current rate policy and structure and assume that the share of revenues derived from industrial and commercial customers remains stable, despite a history of declines in base flow over time.
- Although FWCU will pursue available grant programs, its financial analysis does not rely on significant grants to fund CSO controls. The amount of grant funding that may become available is expected to be relatively minor in comparison to the projected capital expenditures for the program. The City encourages the State of Indiana to issue substantial grants for CSO abatement projects, as has been the practice in other states. We will also be supporting municipal efforts to seek a reinstatement of congressional support for grants for public wastewater projects.

3.5.3 Current Rate Structure

The City's current rate structure includes both a minimum charge per month and a volume-based charge. The volume-based charge is allocated among retail customers based on metered water consumption (a small number of retail customers do not have centralized water service, and therefore pay a flat rate). Each contract customer's agreement has been negotiated on a case-by-case basis, over time; and has a different rate, rate structure methodology, and process for adjusting those contract customer charges to reflect changes in the cost of service. Furthermore, the City does not control how retail rates are set inside the contract customer's service area. While the City has assumed that wholesale customers will incur rate increases at 50% of those rates assessed to retail customers, this assumption may prove to be optimistic.

The 2007 baseline City retail rate consists of a monthly billing charge of \$2.78 and a commodity rate of \$2.4265 per 100 cubic feet (unit). For the typical residential customer using approximately 112.3 units per year, the annual bill in 2007 will be approximately \$305.86.

3.5.4 Projected Revenue Requirements, Financing, and Rate Impacts

The total capital needed by the City of Fort Wayne over the next 18 years is estimated at nearly \$927.7 million (inflated dollars) to fund both CSO improvements required by this LTCP and other projected wastewater collection and treatment needs. The total capital remaining for the LTCP is estimated at \$239.4 million in current dollars or \$361.7 million in future dollars. The Wastewater Improvements CIP includes the various master

Long Term Control Plan – Chapter 3

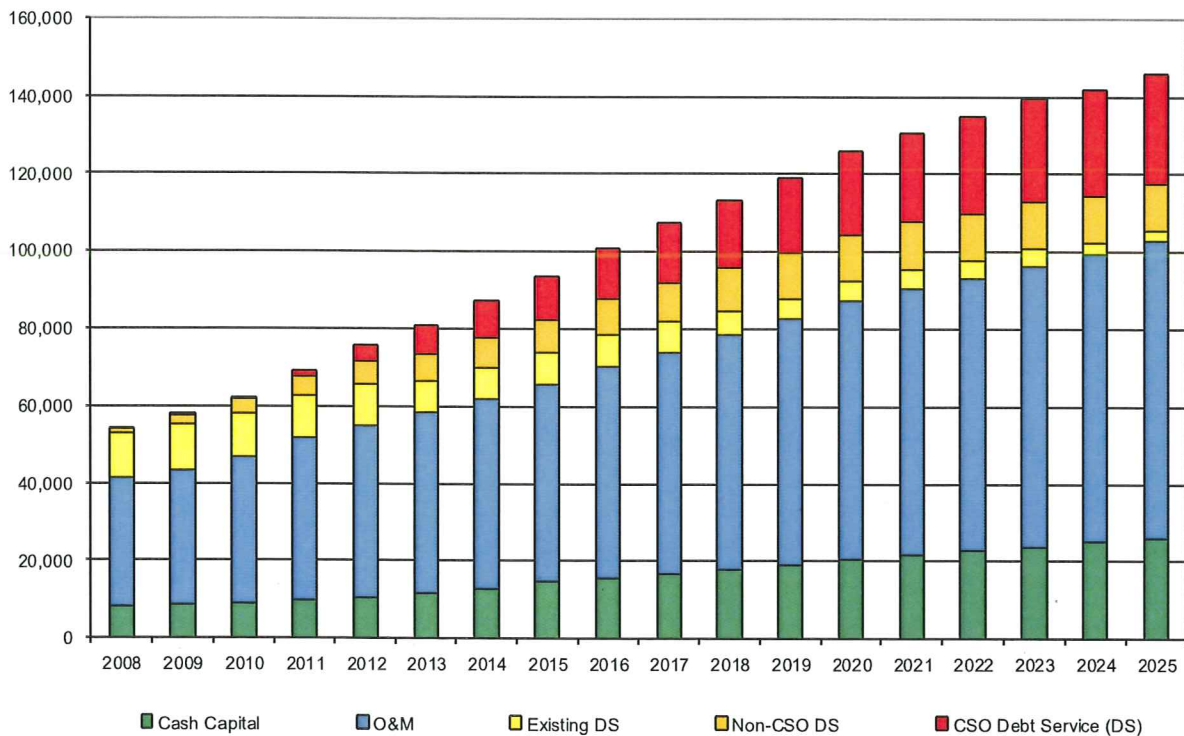
plans that have been prepared for the City, together with other wastewater improvements and maintenance needs. These include unspent portions of the North, South, and Plant Facility Master Plans, and other projected capital improvements and maintenance needs at the wastewater treatment plant and in the collection system. Since the costs published in the various master plans were developed at different times, all costs were converted to a common dollar base (2005 dollars). The total remaining capital need for the Wastewater Improvements CIP is estimated at \$454.6 million in current dollars or \$566.0 million in future dollars (Table 3.5.4.1).

Table 3.5.4.1
Total Capital Needed

Capital Program	Present Dollar Value	Future Dollar Value
LTCP (4/18, 1/12 events/year)	\$239.4 million	\$361.7 million
Wastewater Improvements CIP	\$454.6 million	\$566.0 million

Chart 3.5.4.1 displays the projected revenue requirements for the wastewater system over the forecast period. For the period 2008 to 2014, the average annual increase in revenue requirements will grow nearly 10.5 percent per year. On average, through the end of 2025, the City's revenue requirements will increase by approximately 7.0 percent per year.

Chart 3.5.4.1
Projected Revenue Requirements (\$, 000)



Long Term Control Plan – Chapter 3

As the chart shows, new debt service to ensure the long-term integrity of the system, LTCP compliance, and O&M growth as a result of significant investments in infrastructure, contributes to an overall increase in revenue requirements of nearly 383% over the 18 year implementation period.

3.5.5 Financing Assumptions

The City desires to finance this CIP with a combination of State Revolving Fund (SRF), Indiana Bond Bank revenue bonds, and 'pay-as-you-go' funds. The City does not believe that SRF financing will be readily available in large quantities in future years, so the City assumed that most of the financing will be accomplished through the Indiana Bond Bank. Over the 18 year LTCP implementation period, the City has assumed that all debt issued will have a term of 20 years with an average interest rate of 6 percent. Debt issuance costs are estimated at 2.0% of bond issues. Additionally, FWCU is assuming that the Indiana Bond Bank has an unlimited amount of financing available.

FWCU is also assuming that over the 18 year implementation period, market interest rates do not increase significantly from current levels, and that its revenue bond rating will not drop below Aa3. The weighted average rate of 6.0 percent provides a cushion of approximately 100 to 125 basis points above current market rates. FWCU recognizes that in the short term, this is a conservative interest rate assumption, as current rates are at historically-low levels. If the weighted average rates were to increase to 7.0 percent from the current assumption of 6.0 percent, the average cost per household could increase by approximately \$33 per year.

3.5.6 Impacts of Future Competition and Inflation of Capital Costs

The costs of construction is expected to increase at a faster pace than general inflation for several reasons: 1) increased demand for construction services within the local construction market, 2) increased demand for specialized CSO construction services within the Midwest, and 3) recent 5 year trend in which construction costs outpaced general inflation by nearly 1 percent.

Demand for local construction services will increase during this projection period simply as a result of the LTCP and other Utility construction plans. Prior to this program, typical wastewater construction spending averaged around \$8 million. The average annual construction spending under this program is \$45 million. Basic economics suggest that this increase in spending will have an inflationary effect on construction services. In addition to the increased spending anticipated by this program, the City intends to accelerate investment in infrastructure to attract and retain commercial and industrial enterprises. As noted in other sections of this document, the City's economic indicators suggest stagnation if not an actual decline in socio-economic conditions. Although, the City assumes no noticeable growth during the projection period, local investments will be made in an attempt to improve on that situation.



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August 1, 2011

Huntertown Town Council
15617 Lima Road
Post Office Box 95
Huntertown, Indiana 46748

Re: Huntertown (Indiana) Municipal Sewage Works – Preliminary Rate Study

Dear Council Members:

The attached schedules (listed below) present unaudited and limited information for the purpose of discussion and consideration in the preliminary planning stage of a sewer project by the appropriate officers, officials and advisors of the Town. The use of these schedules should be restricted to this purpose, for internal use only, as the information is subject to future revision and final report.

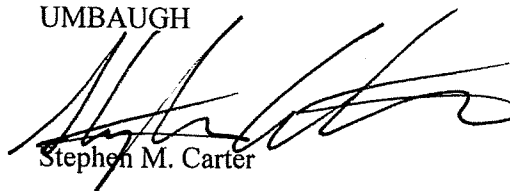
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|---|---|
| 2 | Schedule of Estimated Project Costs and Funding – Option #1 (New WWTP) |
| 3 | Schedule of Estimated Project Costs and Funding – Option #2 and Option #3 (CFW Upper Ely Connection (1) Forcemain + Equalization Basin) |
| 4 | Calculation of Rates and Charges – Option #1 (New WWTP) |
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| 6 | Calculation of Rates and Charges – Option #3 (CFW Upper Ely Connection (1) Forcemain + Equalization Basin) |
| 7 | Comparative Schedule of Selected Financial Information Arising From Cash Transactions |
| 8 | Comparative Schedule of Cash Receipts and Disbursements |

We would appreciate your questions or comments on this information and would provide additional information upon request.

Very truly yours,

UMBAUGH



Stephen M. Carter

cc: Derek Frederickson, Engineering Resources
David Rudolph, Clerk-Treasurer

HUNTERTOWN (INDIANA) MUNICIPAL SEWAGE WORKS

SCHEDULE OF ESTIMATED PROJECT COSTS AND FUNDING - OPTION #1
(New WWTP)

	<u>Phase I</u> (2013)	<u>Phase II</u> (2022)
<u>ESTIMATED PROJECT COSTS: (1)</u>		
Capital Expense	\$8,132,988	\$2,977,259
General Conditions	243,990	89,318
Contingency (15%)	1,219,948	446,589
Soft Costs	<u>1,626,596</u>	<u>595,451</u>
 Total Estimated Construction Costs	 <u><u>\$11,223,522</u></u>	 <u><u>\$4,108,617</u></u>
<u>ESTIMATED PROJECT FUNDING:</u>		
Proposed Sewage Works Bonds	\$11,223,522	\$2,745,117
Connection Fees (2013 - 2022) (2)	<u> </u>	<u>1,363,500</u>
 Total Estimated Project Funding	 <u><u>\$11,223,522</u></u>	 <u><u>\$4,108,617</u></u>

(1) Per Consulting Engineer. Represents a new 1.5 MGD WWTP in 2013 and assumes expanding to 3.0 MGD in 2022.

(2) Assumes \$1,500 per connection at 909 (1,101 pre-platted lots excluded) connections over 10 years.

(Subject to the attached letter dated August 1, 2011)
(Preliminary - Subject to Change)
(Internal Use Only)

HUNTERTOWN (INDIANA) MUNICIPAL SEWAGE WORKS

SCHEDULE OF ESTIMATED PROJECT COSTS AND FUNDING - OPTION #2 AND OPTION #3
(CFW Upper Ely Connection (1) Forcemain + Equalization Basin)

	<u>Phase I</u> (2013)	<u>Phase II</u> (2022)
<u>ESTIMATED PROJECT COSTS: (1)</u>		
Capital Expense	\$4,637,666	\$892,484
General Conditions	139,130	26,775
Contingency (10%)	463,767	89,248
Soft Costs	927,533	178,497
Connection Fee	750,000	-
	<hr/>	<hr/>
Total Estimated Construction Costs	<u>\$6,918,096</u>	<u>\$1,187,004</u>
 <u>ESTIMATED PROJECT FUNDING:</u>		
Proposed Sewage Works Bonds	\$6,918,096	\$187,004
Huntertown Connection Fees (2)		1,000,000
		<hr/>
Total Estimated Project Funding	<u>\$6,918,096</u>	<u>\$1,187,004</u>

(1) Per Consulting Engineer. Assumes infrastructure improvements and capital buy in capacity to accommodate 1.5 MGD in 2013 and 3.0 MGD in 2022 and beyond.

(2) Ft. Wayne would assess an area assessment fee to each developed lot beyond the 1,101 that have been platted. The Town of Huntertown will assess a \$500 connection fee for each of the 2,000 new connections.

(Subject to the attached letter dated August 1, 2011)
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HUNTERTOWN (INDIANA) MUNICIPAL SEWAGE WORKS

CALCULATION OF RATES AND CHARGES - OPTION #1
(New WWTP)

	Proposed Rate		
	2013	2022	2032
User Charge:			
OM&R (1)	\$396,276	\$824,819	\$1,568,060
O&M collection system (2)	364,974	490,495	659,184
Subtotal	761,250	1,315,314	2,227,244
Divided by annual connections (1)	36,288	57,888	81,888
Subtotal	20.98	22.72	27.20
Debt Service:			
Average annual debt service - 2013 Bonds (3)	900,604	900,604	900,604
Average annual debt service - 2022 Bonds (4)	-	220,275	220,275
Debt Service Reserve and Capital Allowance (5)	225,151	280,220	280,220
Subtotal	1,125,755	1,401,099	1,401,099
Divided by annual connections (1)	36,288	57,888	81,888
Subtotal	31.02	24.20	17.11
Proposed rate per connection	<u>\$52.00</u>	<u>\$46.92</u>	<u>\$44.31</u>

(1) Per consulting engineer.

(2) Per calendar year ending December 31, 2010, O&M less Ft. Wayne treatment charges, increased 3% annually for inflation (see page 8).

(3) Assumes \$11,223,522 principal amount over 20 years at an assumed 5% interest rate.

(4) Assumes \$2,745,117 principal amount over 20 years at an assumed 5% interest rate.

(5) Assumed at 25% of annual debt service.

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HUNTERTOWN (INDIANA) MUNICIPAL SEWAGE WORKS

CALCULATION OF RATES AND CHARGES - OPTION #2
(CFW Upper Ely Connection (1) Forcemain + Equalization Basin)

	Proposed Rate		
	2013	2022	2032
User Charge:			
Operation and maintenance - Ft. Wayne Treatment (1)	\$752,834	\$1,516,207	\$2,870,178
OM&R - Transportation (2)	95,000	123,953	166,583
O&M collection system (3)	364,974	490,495	659,184
Subtotal	1,212,808	2,130,655	3,695,945
Divided by annual connections (2)	36,288	57,888	81,888
Subtotal	33.42	36.81	45.13
Debt Service:			
Average annual debt service - 2013 Bonds (4)	555,126	555,126	555,126
Average annual debt service - 2022 Bonds (5)	-	15,006	15,006
Debt Service Reserve and Capital Allowance (6)	138,782	142,533	142,533
Subtotal	693,908	712,665	712,665
Divided by annual connections (2)	36,288	57,888	81,888
Subtotal	19.12	12.31	8.70
Proposed rate per connection (7)	<u>\$52.54</u>	<u>\$49.12</u>	<u>\$53.83</u>

- (1) Assumes Fort Wayne treatment costs would increase 6% every other year after 2013, per consulting engineer.
- (2) Per consulting engineer.
- (3) Per calendar year ending December 31, 2010, O&M less Ft. Wayne treatment charges, increased 3% annually for inflation (see page 8).
- (4) Assumes \$6,918,096 principal amount over 20 years at an assumed 5% interest rate.
- (5) Assumes \$187,004 principal amount over 20 years at an assumed 5% interest rate.
- (6) Assumed at 25% of annual debt service.
- (7) Does not include the area connection fee that would be charged to all lots beyond the 1,101 currently platted.

(Subject to the attached letter dated August 1, 2011)
(Preliminary - Subject to Change)
(Internal Use Only)

HUNTERTOWN (INDIANA) MUNICIPAL SEWAGE WORKS

CALCULATION OF RATES AND CHARGES - OPTION #3
(CFW Upper Ely Connection (1) Forcemain + Equalization Basin)

	Proposed Rate		
	2013	2022	2032
User Charge:			
Operation and maintenance - Ft. Wayne Treatment (1)	\$752,834	\$2,459,349	\$5,433,712
OM&R - Transportation (2)	95,000	123,953	166,583
O&M collection system (3)	364,974	490,495	659,184
Subtotal	1,212,808	3,073,797	6,259,479
Divided by annual connections (2)	36,288	57,888	81,888
Subtotal	33.42	53.10	76.44
Debt Service:			
Average annual debt service - 2013 Bonds (4)	555,126	555,126	555,126
Average annual debt service - 2022 Bonds (5)	-	15,006	15,006
Debt Service Reserve and Capital Allowance (6)	138,782	142,533	142,533
Subtotal	693,908	712,665	712,665
Divided by annual connections (2)	36,288	57,888	81,888
Subtotal	19.12	12.31	8.70
Proposed rate per connection (7)	\$52.54	\$65.41	\$85.14

- (1) Assumes Fort Wayne treatment costs would increase 8% annually after 2013, per consulting engineer.
- (2) Per consulting engineer.
- (3) Per calendar year ending December 31, 2010, O&M less Ft. Wayne treatment charges, increased 3% annually for inflation (see page 8).
- (4) Assumes \$6,918,096 principal amount over 20 years at an assumed 5% interest rate.
- (5) Assumes \$187,004 principal amount over 20 years at an assumed 5% interest rate.
- (6) Assumed at 25% of annual debt service.
- (7) Does not include the area connection fee that would be charged to all lots beyond the 1,101 currently platted.

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HUNTERTOWN (INDIANA) MUNICIPAL SEWAGE WORKS

COMPARATIVE SCHEDULE OF SELECTED FINANCIAL
INFORMATION ARISING FROM CASH TRANSACTIONS

(Unaudited)

<u>Cash and Investments</u>	As of	
	<u>12/31/09</u>	<u>12/31/10</u>
Operation and Maintenance Fund - Cash	\$192,199	
Operation and Maintenance Fund - Investments	400,000	
Sinking Fund:		
Bond and Interest Account	-	
Debt service reserve account	2,015	
Depreciation Fund - Cash	34,675	
Depreciation Fund - Investments	185,000	
Construction Fund	3,021	
	<u> </u>	<u> </u>
Total Cash and Investments	<u>\$816,910</u>	<u>\$693,653</u>

(Subject to the attached letter dated August 1, 2011)

(Preliminary - Subject to Change)

(Internal Use Only)

HUNTERTOWN (INDIANA) MUNICIPAL SEWAGE WORKS

**COMPARATIVE SCHEDULE OF
CASH RECEIPTS AND DISBURSEMENTS**

(Unaudited)

	Calendar Year	
	2009	2010
Operating Receipts:		
Collections	\$733,769	\$775,387
Penalties	12,402	12,458
Total operating receipts	<u>746,171</u>	<u>787,845</u>
Operating Disbursements:		
Salaries and wages	164,186	165,834
PERF	8,203	11,202
FICA	14,071	14,991
Insurance	26,990	21,651
Uniforms	2,896	3,237
Materials and supplies	26,325	30,835
Office supplies	10,984	10,285
Postage	7,903	7,629
Telephone	2,109	1,747
Fort Wayne treatment charges	425,137	464,977
Transportation	4,414	1,362
Fuel or power	24,624	23,392
Purchased water	274	254
Repairs and maintenance	22,653	16,556
Engineering and legal services	12,472	230,745
Miscellaneous	10,526	17,831
Total operating disbursements	<u>763,767</u>	<u>1,022,528</u>
Net operating receipts	<u>(17,596)</u>	<u>(234,683)</u>
Non-Operating Receipts:		
Interest income	11,816	6,414
Tap fees	81,925	94,525
Reimbursements	6,370	6,061
Miscellaneous	4,844	4,426
Total non-operating receipts	<u>104,955</u>	<u>111,426</u>
Increase (decrease) in cash	87,359	(123,257)
Beginning cash balance	<u>729,551</u>	<u>816,910</u>
Ending cash balance	<u><u>\$816,910</u></u>	<u><u>\$693,653</u></u>

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