
Brownsburg Municipal Sewage Works - Summary of Financing Analysis

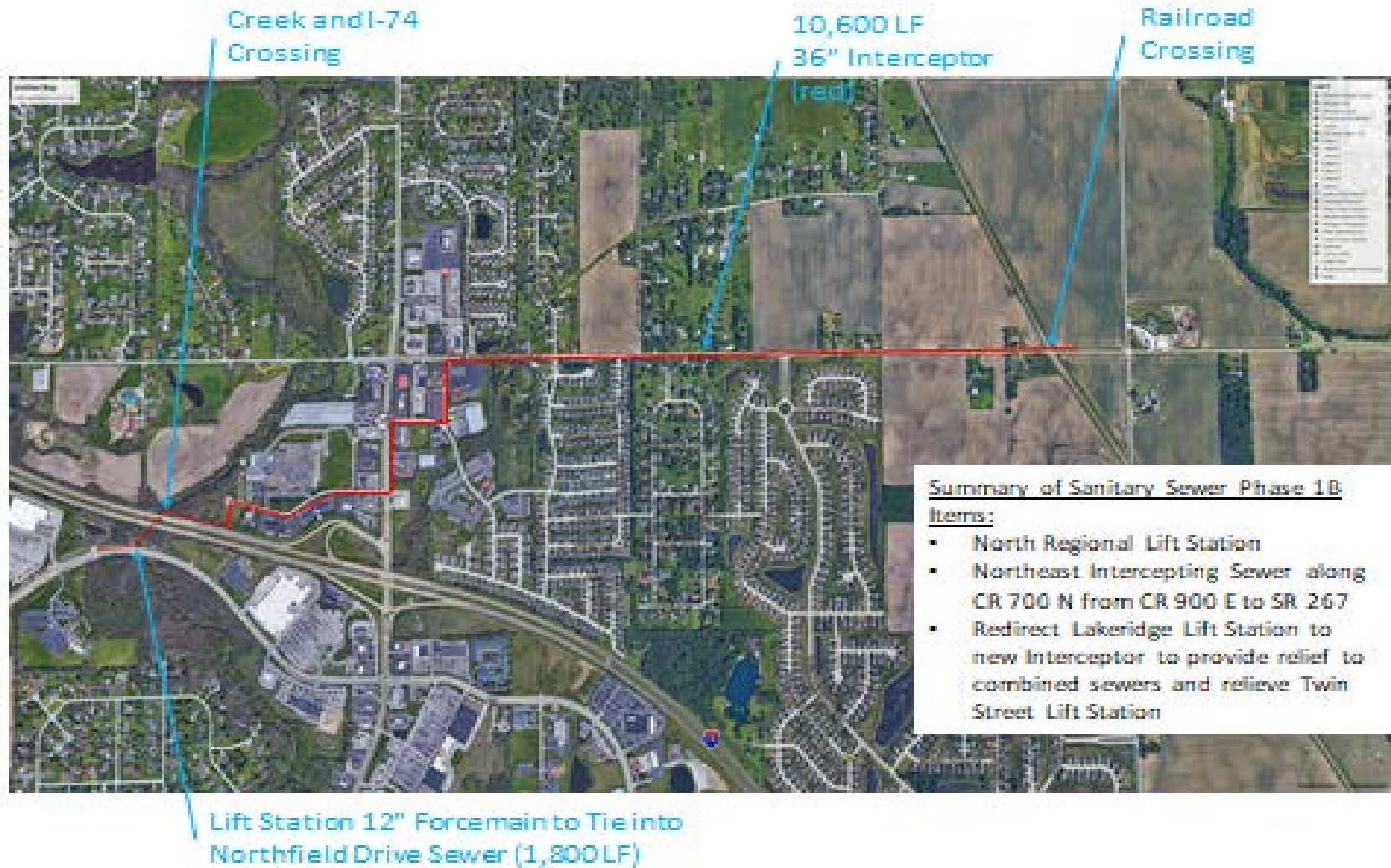
February 25, 2021



Why are we here?

- Continuation of the Sewer Master Plan
- Expansion project to Ronald Regan Corridor
 - Economic Development and Customer Growth
- Phased Project Approach
 - Project 1A - Complete (2017)
 - Project 1B - Split into 2 Phases (current funding request)
- Council Approvals
 - Wastewater Dept Budget (Incl. Project Design Estimate) - 2018
 - Project Design and Preliminary Engineering Report (PER) Development - 1/2019
 - PER submitted to Indiana Financing Authority (SRF) - 6/2020
 - PER approval - 11/2020
 - Project Bids accepted and awarded (Proj. 1B Phase I) - 2/2021

Project Map - Phase 1B



Financing Plan Objectives

Continue the Directive of Council

- Small annual rate increases – COLA
- Phased-in will avoid *“rate shock”*
- Project funded at very low borrowing costs through the State

Annual Capital Improvements

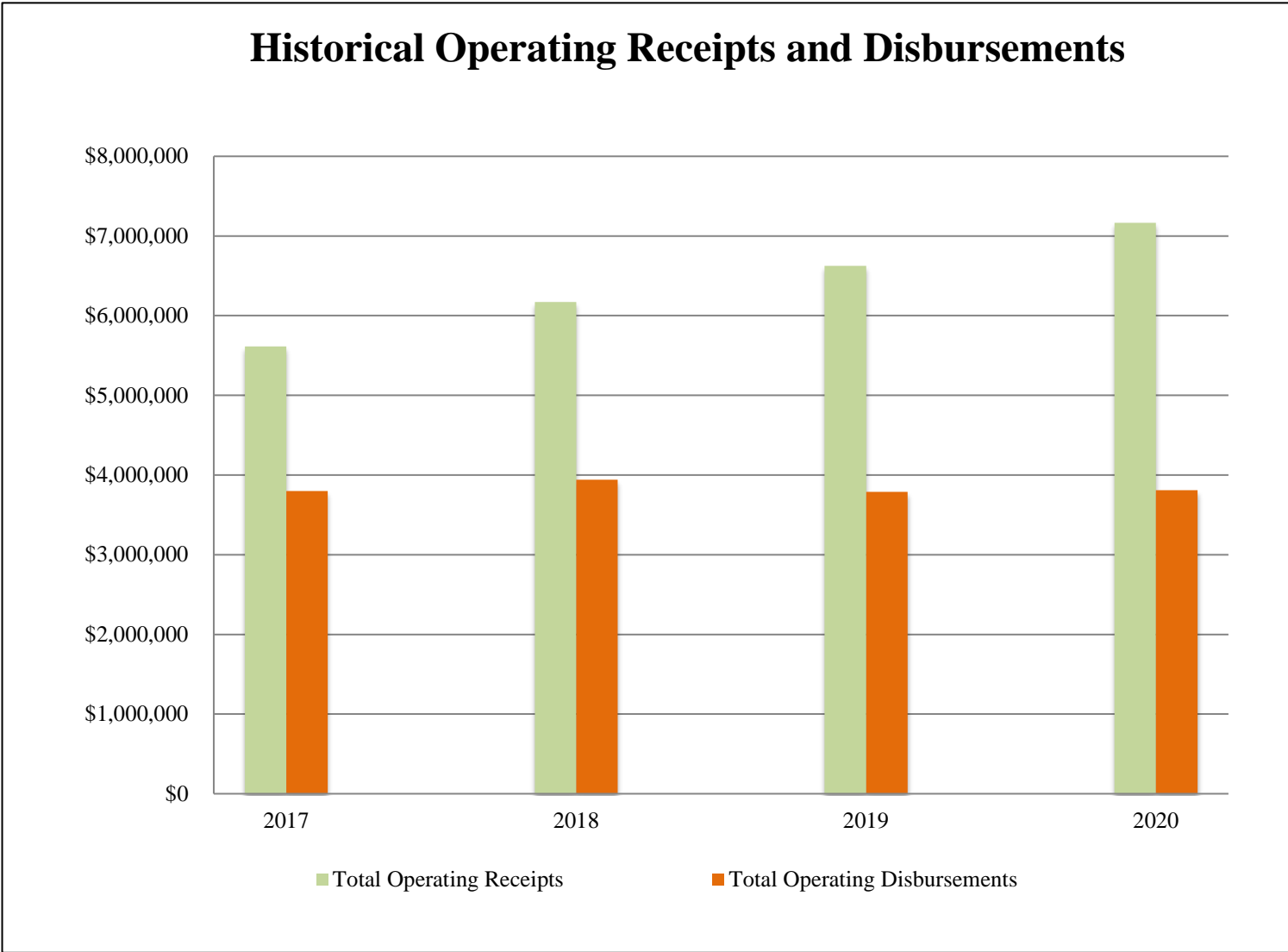
- Continues funding of Capital Improvement Plan (CIP)
- Several projects allow for expansion and economic development

Helps to Maintain Strong Bond Rating

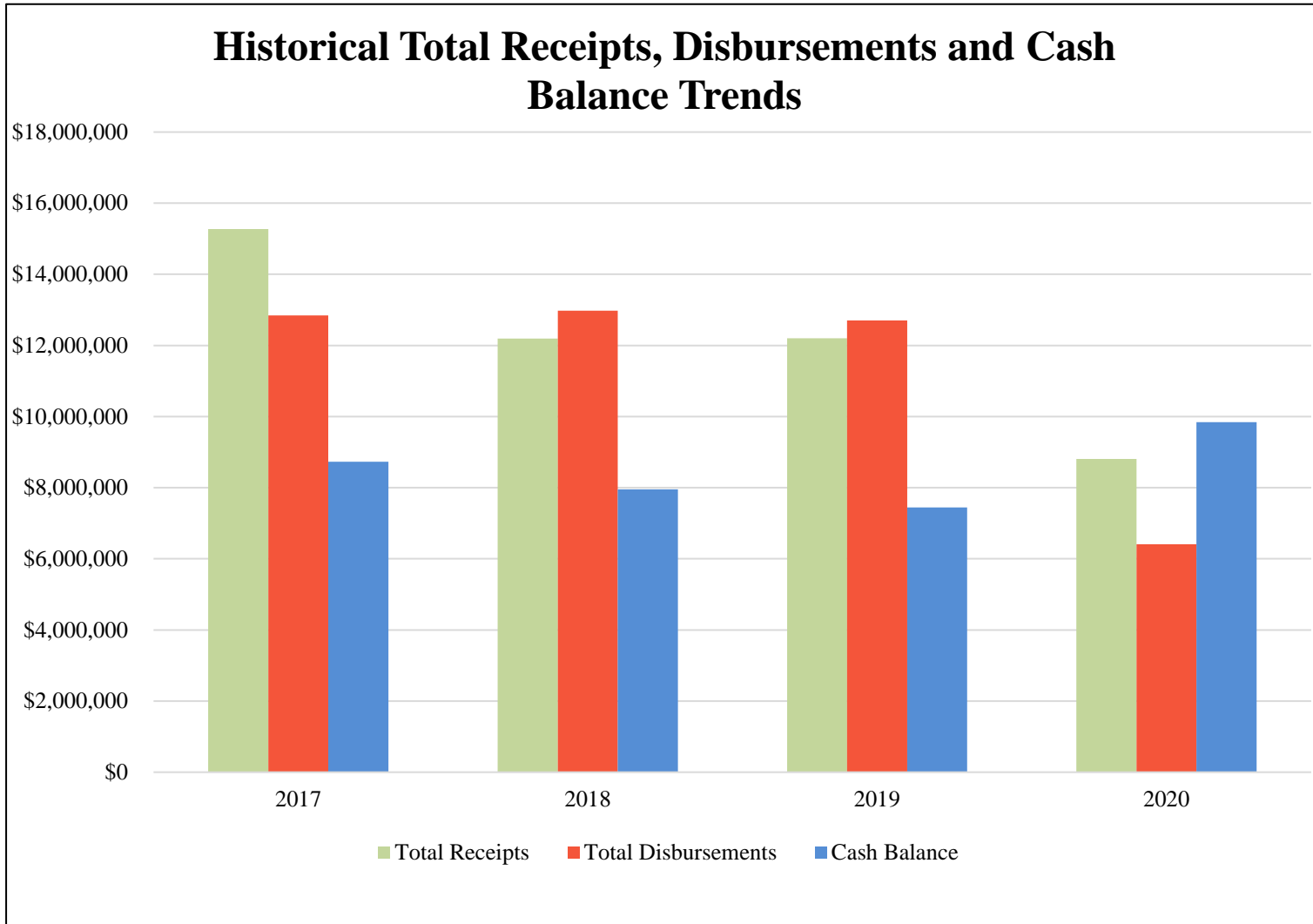
- Debt Service Coverage (without availability fees)
- Liquidity (days cash on hand)

Operating Expenses

- Keep up with cost increases in electric, gas and other inflationary factors
- Continue to meet staffing needs



12 months ended December 31, 2020 = Test Year



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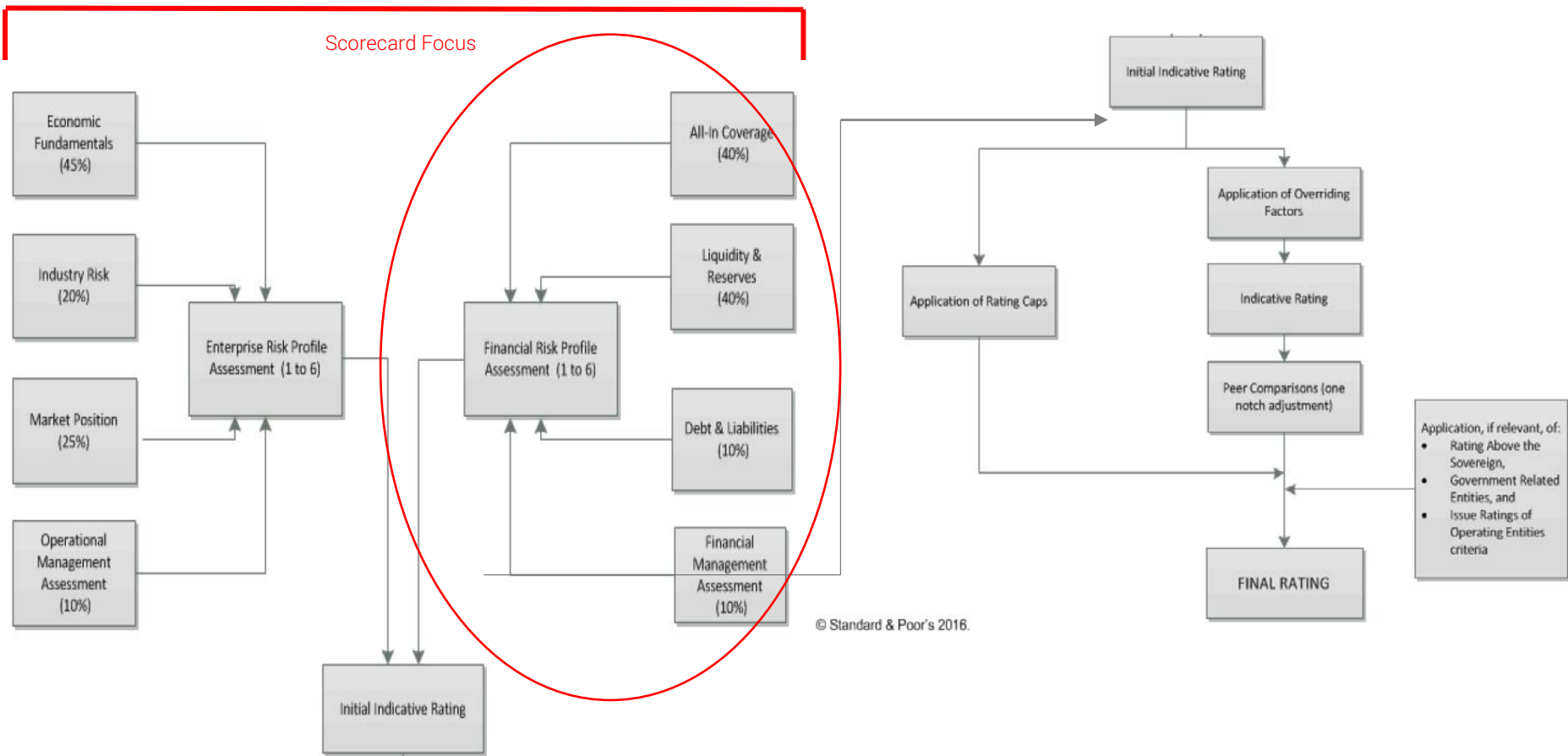
Bond Rating Metrics

- Cash Balance History (in Millions)
 - 2017 - \$2.53M
 - 2018 - \$3.44M
 - 2019 - \$5.77M
 - 2020 - \$8.10M
- S&P Global Ratings Liquidity Ratios
 - Very Strong: > 776 days cash on hand / \$5M to \$20M in reserves
- 2019 S&P Global Ratings
 - Sewage Works – AA-/Stable
 - One of strongest in the state for a utility
- Interest Rate Differential



S&P Global Ratings:

U.S. Public Finance Waterworks, Sanitary Sewer and Drainage Systems: Rating Methodology



Financial Risk Profile Overview

Description Of Financial Risk Profile Factors

All-In-Coverage (40% of Financial Risk Profile assessment)

Analysis includes examination of historical and preferably GAAP-based results, the current financial condition of the utility, and projected scenarios for the next one to three fiscal years. The focus is on total financial capacity versus total revenue requirements.

Liquidity and Reserves (40%)

This factor incorporates all lawfully available cash reserves and external working capital or liquidity sources, including bank lines in force within the life of any short-term obligations.

Debt and Liabilities (10%)

This factor incorporates mainly quantitative, but also qualitative, analyses about not just the absolute measure of the utility's indebtedness but also the capacity to incur and support additional debt, especially in relation to maintaining any minimum financial metrics as covenanted to bondholders. Measurable liabilities such as pension and postemployment benefits can lead to adjustments to this initial factor.

Financial Management Assessment (10%)

Analysis includes an evaluation of ongoing management practices and policies that can be supportive of financial performance and continuity, as well as internal controls and reporting. Examples include establishing a minimum level of acceptable working capital, predictability of cash transfers from the utility system, and creating and perpetually updating a long-term financial forecast.

2019 S&P Global Ratings – Ratings Report Comments (Excerpts)

- Very strong liquidity position, with about \$3.4 million of unrestricted cash for fiscal 2018, equivalent to about 307 days of operating expenses, which we expect will be drawn down to fund the system's capital plan from cash on hand;

bonds, we expect debt service obligations to rise to about \$1.4 million in 2020. Although coverage metrics may decline somewhat due to higher annual debt payments, we expect all-in coverage will exceed 1.6x, which we consider extremely strong, unless there is a material, unexpected rise in operating expenses.

Outlook

Upside scenario

We could raise the rating if unrestricted cash rises and is sustained at levels consistent with the higher rating level and if all-in coverage is sustained at a consistently extremely strong level.

Downside scenario

We could lower the rating if management does not continue to increase rates in a timely way to support a strong financial profile. If management issues a significant amount of debt and does not offset higher debt service payments with increased rates, leading to lower all-in coverage metrics, we could lower the rating. In addition, if management draws down cash to a materially lower level to fund its capital plan, we could lower the rating.

SCHEDULE OF ESTIMATED PROJECT COSTS AND FUNDING
 (Per Consulting Engineers and Utility Management)



ESTIMATED PROJECT COSTS

	<u>Total</u>	<u>Sanitary Sewer Phase 1B</u>	
		<u>Phase I</u>	<u>Phase II</u>
Estimated Construction and contingencies:			
North regional lift station	\$774,000	\$774,000	
North regional force main	1,473,000	1,473,000	
Lake ridge force main	424,000	424,000	
36" gravity sewer	<u>2,200,000</u>		<u>\$2,200,000</u>
Sub-totals	4,871,000	2,671,000	2,200,000
Construction contingencies	<u>840,000</u>	<u>400,000</u>	<u>440,000</u>
 Total Construction and contingencies	<u>5,711,000</u>	<u>3,071,000</u>	<u>2,640,000</u>
 Estimated Non-Construction Costs:			
Engineering:			
Design	606,310	561,310	45,000
Construction administration	228,400	122,800	105,600
Construction inspection	300,000	150,000	150,000
Construction - Geotech / soils testing	60,000	30,000	30,000
Right of way/property acquisition	571,100	307,100	264,000
Legal, bond counsel, financial advisory and contingencies	<u>249,290</u>	<u>124,890</u>	<u>124,400</u>
 Total Non-Construction Costs	<u>2,015,100</u>	<u>1,296,100</u>	<u>719,000</u>
 Total Project Costs	<u>\$7,726,100</u>	<u>\$4,367,100</u>	<u>\$3,359,000</u>

ESTIMATED PROJECT FUNDING

Sewage Works Revenue Bonds	\$7,155,000	\$4,060,000	\$3,095,000
Cash on Hand	<u>571,100</u>	<u>307,100</u>	<u>264,000</u>
 Total Project Funding	<u>\$7,726,100</u>	<u>\$4,367,100</u>	<u>\$3,359,000</u>

Summary of Revenue Requirements

	Alternatives					
	SRF 20 Yr Bonds		SRF 20/35 Yr Bonds		SRF 35/35 Yr Bonds	
	Phase 1	Phase 2	Phase 1	Phase 2	Phase 1	Phase 2
Net Revenue Requirement	<u>\$7,496,000</u>	<u>\$7,948,300</u>	<u>\$7,496,000</u>	<u>\$7,877,700</u>	<u>\$7,412,500</u>	<u>\$7,793,900</u>
Wastewater User Fees	\$5,859,000	\$5,859,000	\$5,859,000	\$5,859,000	\$5,859,000	\$5,859,000
Stormwater User Fees	1,318,400	1,318,400	1,318,400	1,318,400	1,318,400	1,318,400
Availability Fees	484,400	512,000	484,400	512,000	484,400	512,000
Less Summer Sprinkling Credit	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)
Increased Revenues From Phase I	-	84,200	-	84,200	-	-
Available Revenues	<u>\$7,411,800</u>	<u>\$7,523,600</u>	<u>\$7,411,800</u>	<u>\$7,523,600</u>	<u>\$7,411,800</u>	<u>\$7,439,400</u>
Shortfall	<u>\$84,200</u>	<u>\$424,700</u>	<u>\$84,200</u>	<u>\$354,100</u>	<u>\$700</u>	<u>\$354,500</u>
Increase in Average Bill	<u>\$0.55</u>	<u>\$2.81</u>	<u>\$0.55</u>	<u>\$2.32</u>	<u>\$0.00</u>	<u>\$2.32</u>
Debt Service Coverage (w/ Avail Fee)	<u>169%</u>	<u>166%</u>	<u>169%</u>	<u>168%</u>	<u>171%</u>	<u>169%</u>
Debt Service Coverage (wo/ Avail Fee)	<u>141%</u>	<u>140%</u>	<u>141%</u>	<u>140%</u>	<u>141%</u>	<u>141%</u>

For every \$1 Million of cash applied reduced the rate \$.33

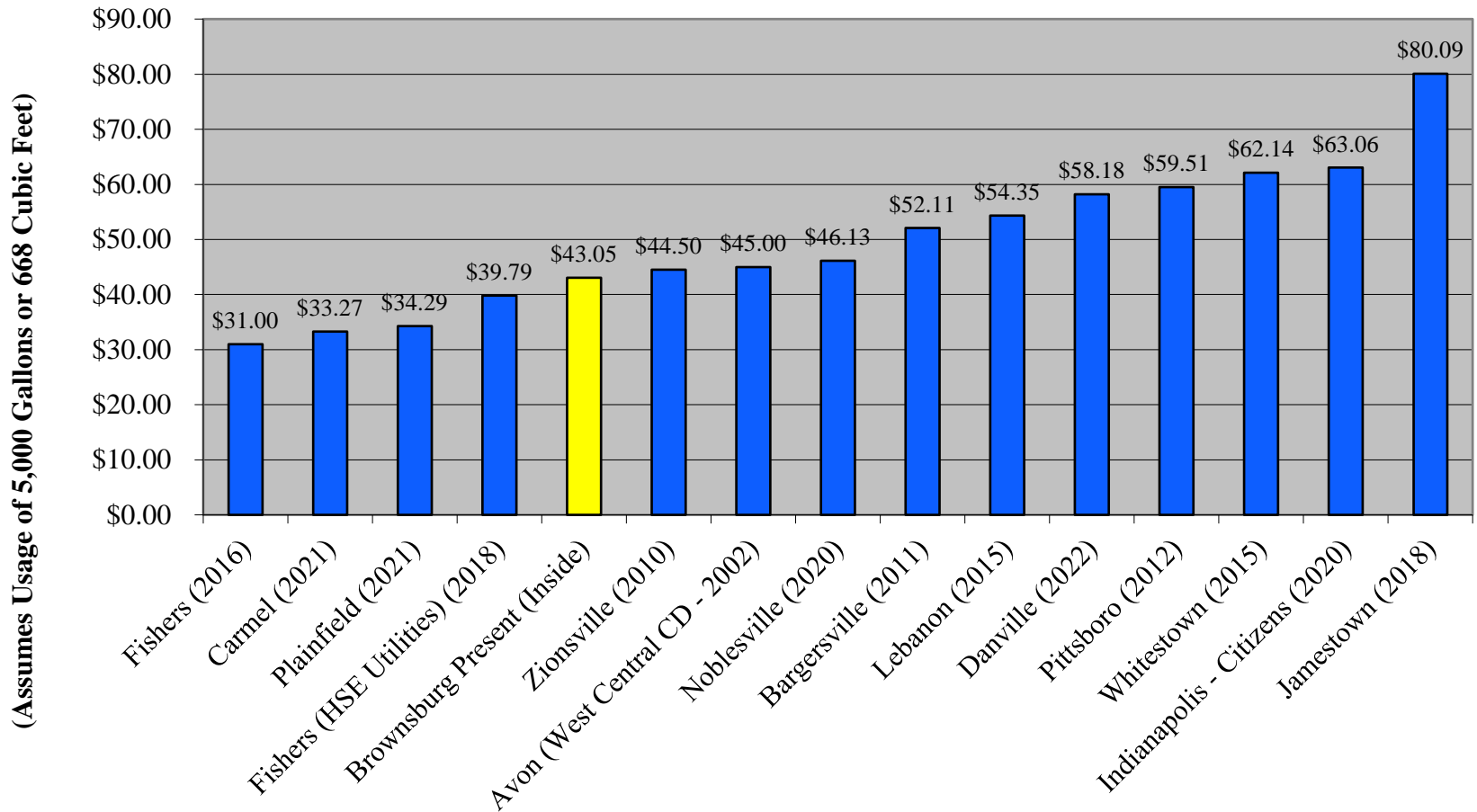
Drivers – Additional Sewer Revenues Needed

By: SRF 35/35 YR Bonds (Phase II)



Drivers	Annual Requirement
O&M Increases	\$93,200
Debt Service	47,500
Additional Debt Service - Proposed	139,600
Additional DSR - Proposed	63,600
Replacements & Improvements	10,600
Total	<u>\$354,500</u>

COMPARISON OF LOCAL OR SIMILAR SIZED INDIANA COMMUNITIES



User Rate Comparisons



- 390 Indiana communities included in the study *
- Monthly Sewer Rates **
 - Brownsburg– current rate \$43.05
 - Brownsburg – proposed \$45.77
 - State-Wide Average (25,000+ pop.) \$40.96*
 - State-Wide Average \$48.79*

* Based on the Indiana Comparative Study – Sewer of Baker Tilly dated May 2019

** Average based on a 5/8" meter at 5,000 gallons used per month

Requested Council Actions/Next Steps

At Next Council Meeting

- Council direction on preparation of a Bond Ordinance and Rate Ordinance

End of March

- Rate and Bond Process must begin by March 25th to close with SRF by end of May to secure guaranteed low-cost funding