



MICHIGAN CITY SANITARY DISTRICT

Executive Summary of:

RATE PLAN – WASTEWATER UTILITY OPERATIONS

The City of Michigan City’s Sanitary Sewage Utility is requesting a retail rate adjustment to provide for increases in operating expenses, retire outstanding bonds, and to provide for depreciation, debt coverage and working capital. The Sanitary District is also recommending consideration of proposed System Development Charges and Inspection & Permitting Fees to ensure that new development is “paying its way” to enjoy the existing facilities they will utilize, as well as to cover their fair share of the costs of expansions and extensions necessary to serve their proposed new developments. The City wants “Growth to pay for the cost of Growth”. With many capital projects under study right now, it is imperative to ensure the Sanitary District’s financial credibility and to be able to secure future investment grade bond ratings.

Changes in Operating Costs

- Sewage Works Utility has not increased rates since 2012
- Operating costs have increased significantly since the last rate increase was adopted
- Allowances for depreciation and future debt service are needed to begin funding anticipated capital improvements

	Actual 2011	Actual 2024	Projected 2026-2028
Operating Expenses	\$ 5,088,226	\$ 8,684,428	\$ 9,635,000
Allowance for Working Capital	-	-	1,250,000
Debt Service on Outstanding Bonds	-	475,000	475,000
Debt Service on Proposed Bonds or BANs	-	-	2,500,000
Debt Service Reserve Funding	-	-	500,000
Depreciation, Bond Coverage, Working Capital	2,417,023	2,488,096	1,174,000
Total Revenue Requirements	\$ 7,505,249	\$ 11,647,524	\$ 15,534,000



Debt Service on Outstanding Bonds

- Sewage Utility Outstanding Bonds:
 - Sewage Works Revenue Bonds, Series 2013
 - Sewage Works Revenue Bonds, Series 2014A
 - Sewage Works Revenue Bonds, Series 2014B
- Total Annual Principal + 0% Interest Payment = \$475,000
- Major Sewage Works Projects Funded (\$9M Total)
 - Greenwood Sanitary System (\$1.3M)
 - IN Prison Bar Screen (\$1.5M)
 - Sheridan Beach (\$3.1M)
 - US Hwy 12/Meer Road (\$0.9M)

Phase-In Approach

- Rate Advisory Team recommending to “phase-in” proposed rate increases to reduce impact on ratepayers while maintaining financial integrity of the Utility
- Estimated sewage bill (based on 4,000 gallon Avg User or 2,000 gallon Minimum User)

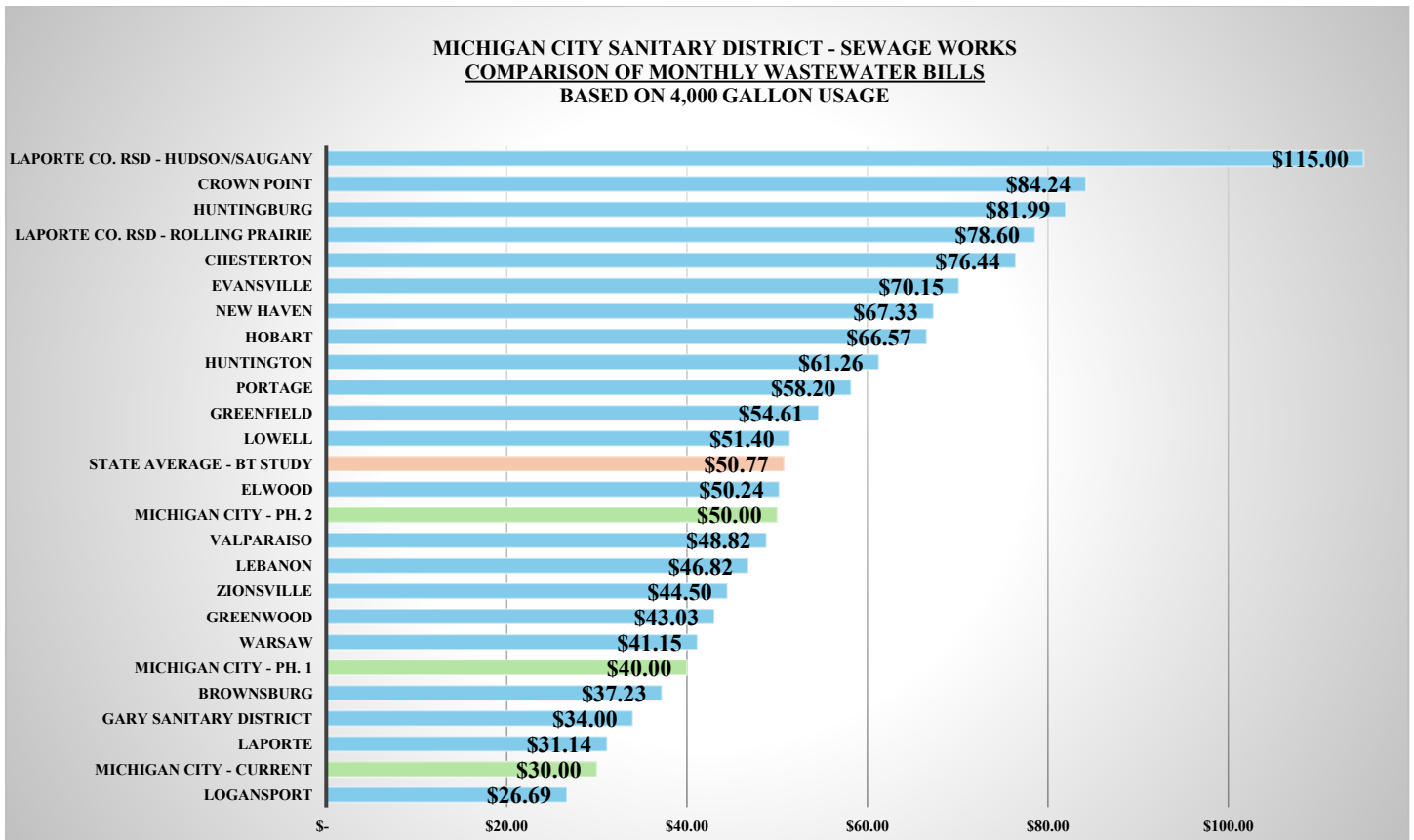
<u>4,000 Gallon Avg User</u>	<u>2,000 Gallon Minimum User</u>
○ 2012: Current bill = \$30.00	<i>Current bill = \$23.00</i>
○ 2026: Phase 1 bill = \$40.00	<i>Phase 1 bill = \$30.60</i>
○ 2028: Phase 2 bill = \$50.00	<i>Phase 2 bill = \$38.25</i>

- Additional Phases are likely to be necessary after the District evaluates and prioritizes the recommendations from their consulting engineers over the next couple of years.
- Proposed rates are absolutely necessary to generate needed working capital and to restore appropriate debt coverage ratios (net operating revenues divided by annual debt service payments (Principal and Interest))
 - Current Administration inherited a Sanitary District that had been neglected both physically and financially
 - City is facing major upgrades and capital improvement needs
 - Must improve financial condition to become credit-worthy
 - Need to obtain investment grade bond rating for future financing needs
 - Michigan City’s wastewater rates are too low to address its financial needs



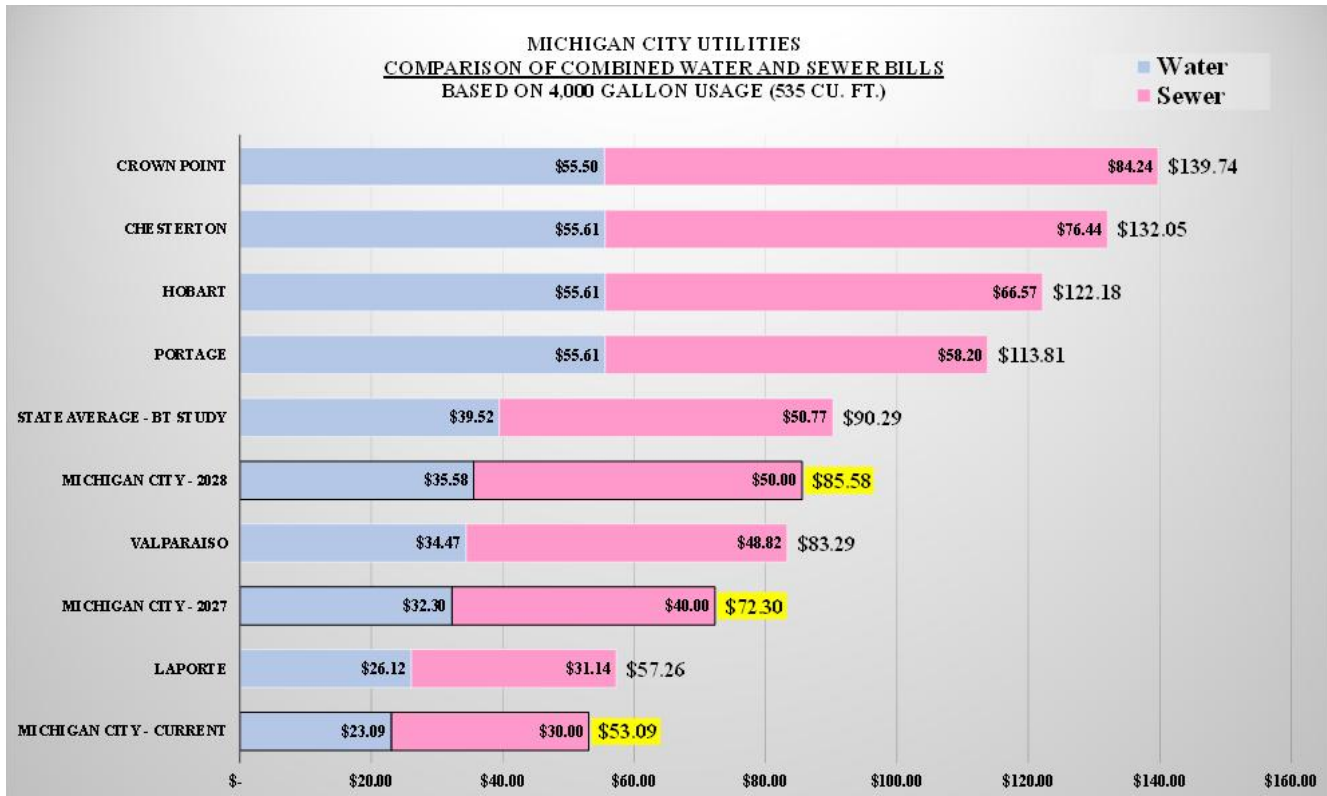
Sewer Bill Comparisons with Other Communities

- Chart below compares Michigan City’s monthly sewer bills with various other communities in Indiana, including Cities located in the northwest region:





★ The chart below compares the combined monthly water & sewer bills for Michigan City with other communities in northwest Indiana. Keeping in mind that the Michigan City monthly bill projections between now and 2028 are being compared with current monthly bills within the other communities noted below.



Capital Planning Currently Being “Engineered”

The District’s consulting engineers are updating Master Plans for the Collection System and Wastewater Treatment Plant. Studies include prioritizing areas throughout the collection system for slip-lining & repairs, replacements, upsizing & expansion. Technological improvements at the Wastewater Treatment Plant are also under study to comply with IDEM requirements. While these engineering studies are still in their infancy, it is likely that the District could face ~\$100M of improvements over the next 5 to 10 years.





Long-Term Funding Plans

While the issuance of Sewage Works Revenue Bonds is the most common means of funding capital projects, such as those facing the District, it is imperative to maintain the Sanitary Sewer Utility Operations in a sound physical and financial condition. Initial projects that need to move forward right away (Primary Clarifier Rehabilitation and Engineering Planning / Design) amount to \$15M. That is the impetus for the proposed “2 phased rate adjustments”. The proposed System Development Charges and Inspection Fees that will come from new development is a means of generating capital and ensuring that new developments pay their fair share of towards the Sanitary District’s infrastructure and cover all costs of connection and inspection. These “non-recurring” charges will not impact any existing customer already served by the Sanitary District. However, these new revenue streams, over time, will help to mitigate the amount of future bond issuances in the years to come. The goal is to have “Growth pay for Growth”.

The District will also pursue forgivable funding, grants and below market financing to fund needed capital investments. However, we cannot assume that we will qualify for grants. As indicated in the rate comparison chart above, the current sewer rates in Michigan City are among the lowest in the State. The rate threshold for the primary Federally Funded Programs is 3 to 4 times the District’s current rates. And the District is facing major Wastewater Treatment Plant (WWTP) upgrades to comply with current NPDES Standards. Capital costs are estimated to exceed \$100M. It is imperative that MCSD begin “getting its financial health in order” so that the District can obtain an investment grade bond rating for its upcoming substantial financing needs. We have about 2 years to show the bond rating agencies that Michigan City is serious about becoming creditworthy. That is the best means of keeping user fees lower. Higher creditworthiness equals lower interest costs equals lower user fees for the District’s residents and ratepayers.

Goals & Objectives

- Accumulate needed Working Capital and maintain reasonable debt coverage requirements
- Obtain interim financing to immediately upgrade WWTP Primary Clarification, as well as to conduct engineering planning and design
- Issue \$15M Bond Anticipation Note (BAN)
- Build creditworthiness to be in position to issue long-term bonds on the Open Market in 2028