

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

**PRELIMINARY RATE AND FINANCING REPORT**

May 14, 2010



**Crowe Horwath™**

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

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**Crowe Horwath LLP**  
Independent Member Crowe Horwath International

10 West Market Street, Suite 2000  
Indianapolis, Indiana 46204-2975  
Tel 317.632.1100  
Fax 317.635.6127  
[www.crowehorwath.com](http://www.crowehorwath.com)

## **SOUTH BEND MUNICIPAL SEWAGE WORKS**

South Bend, Indiana

### **PURPOSE OF THE REPORT**

Crowe Horwath LLP ("Crowe") has performed a study and analysis of the operating and financial reports, budgets and other data pertaining to the City of South Bend Municipal Sewage Works ("Utility"). The results of our analysis are contained in this Preliminary Rate and Financing Report ("Report").

The purpose of this Report is to estimate the Utility's cash flow and financial capacity to meet its on-going revenue requirements for operation and maintenance expenses, current and proposed debt service and to make capital improvements to the Utility's system. This Report is based on data for the twelve months ended December 31, 2009. The historical information used in this Report was taken from the books and records of the Utility, adjusted as necessary for fixed, known and measurable items as disclosed in the Exhibits and Schedules of this Report.

In the course of preparing this Report, we have not conducted an audit of any financial or supplemental data used in the accompanying Exhibits and Schedules. We have made certain projections that may vary from actual results because events and circumstances frequently do not occur as estimated and such variances may be material. We have no responsibility to update this Report for events and circumstances occurring after the date of this Report.

If you have any questions regarding this Report, please call John Skomp at (317) 269-6699 or Jennifer Wilson at (317) 269-6696.



**Crowe Horwath LLP**  
Independent Member Crowe Horwath International

10 West Market Street, Suite 2000  
Indianapolis, Indiana 46204-2975  
Tel 317.632.1100  
Fax 317.635.6127  
[www.crowehorwath.com](http://www.crowehorwath.com)

## **SOUTH BEND MUNICIPAL SEWAGE WORKS** South Bend, Indiana

### **EXECUTIVE SUMMARY**

Crowe Horwath LLP (“Crowe”) has performed a study and analysis of the operating and financial reports, budgets and other data pertaining to the City of South Bend Municipal Sewage Works (“Utility”). The results of our analysis are contained in this Preliminary Rate and Financing Report (“Report”). This Executive Summary (“Summary”) is provided to highlight key information contained with the Report. This Summary is not intended to be comprehensive and should only be considered in conjunction with the Report. The Report provides the detail and analysis to support this Summary.

While the Report provides three possible scenarios for proposed rate changes over the next few years, the Report truly should be viewed as a continuation of an effort the Utility started to undertake back in 2005. At that point in time, the Utility had identified that it had a significant combined sewer overflow (CSO) problem and had begun to develop plans for how to address this problem over the course of many years. These initial plans indicated that the Utility would need almost \$450 million over the course of twenty years to address and resolve the CSO problem. Due to the significant amount of improvements that would be necessary, the Utility determined that the best approach would be to address the situation in phases. In order to address the first phase of the CSO project, the Common Council (“Council”) of the City of South Bend (“City”) adopted a rate ordinance which allowed for incremental rate increases from 2006 through 2009. These rate increases were designed to allow the Utility to issue debt each year to provide funding for the necessary improvements while minimizing the impact to ratepayers each year.

Since the adoption of the 2005 rate ordinance, the Utility has issued four pieces of debt, totaling over \$44 million to provide funding for CSO improvements as well as other ongoing extensions and replacements for the Utility. This funding has allowed the Utility to keep on track with its originally proposed twenty-year long-term control plan.

The purpose of this Report is to explore the second phase of the long-term control plan and provide possible approaches for continuing to successfully implement the needed CSO improvements. Therefore, much of the focus of the Report and the Summary is to consider the proposed capital improvement plan for the next four years and identify potential levels of funding for this plan. However, the proposed rate increases in each scenario also considers the changes to operation and maintenance expenses that have occurred over time. Since 2007, operation and maintenance expenses have increased by almost fifty percent (50%), as shown on

## **SOUTH BEND MUNICIPAL SEWAGE WORKS**

South Bend, Indiana

### **EXECUTIVE SUMMARY (Continued)**

Exhibit D of the Report. While this seems like a significant increase in expenses, the two main categories of increases have occurred within collection system expenses and treatment plant expenses. Other operation and maintenance expenses such as administration and customer accounts have declined over time.

In addition to these increases in operation and maintenance expenses, the Utility has also experienced increases in the contribution it makes to the City each year. The Payment in Lieu of Taxes (PILOT) is provided to the City to account for the assets of the Utility being exempt from property taxes, which impacts the amount of property taxes collected by the City. To account for this, the City requires the Utility to pay a PILOT each year out of its revenues. The PILOT is calculated based on the amount of utility plant assets of the Utility and the City's corporate tax rate. The PILOT paid by the Utility over the last few years has increased by approximately \$300,000. Again, this can be directly attributable to the increase in Utility assets as it has been placing new improvements into service to address its CSO plan and other needed extensions and replacements. Going forward, the PILOT is expected to continue to increase as the Utility continues to improve its system.

In order to consider the funding of these capital improvements, the Utility has asked Crowe to prepare three scenarios. The first scenario assumes that the proposed capital improvements are fully funded through the Utility's rates. The second scenario assumes that the proposed rate increases are held to a specific level, allowing funding for a portion of the capital improvements with the remainder of the improvements being funded through other revenue sources. The final scenario assumes the proposed rate increases are established only to meet operating expenses and have sufficient coverage on the Utility's existing debt. Any capital improvements not funded under these rate increases would need to be funded through other revenue sources. The remainder of this Summary describes these three scenarios in more detail.

#### **Scenario 1 - Fully Funded Capital Improvement Plan**

Under the first scenario provided, the Utility would raise its rates to a level where it could accomplish all of the capital improvements currently anticipated. Over the next four years, the currently anticipated funding level required is as follows:

- 2010 - \$24,068,367
- 2011 - \$25,340,336
- 2012 - \$32,361,323
- 2013 - \$25,395,155

The total amount of proposed capital improvements over this time period is just over \$107 million. The full detail of these proposed projects can be found on Exhibit F of the Report. To do so, the Utility would issue bonds for the purposes of funding \$90,444,828 in capital improvements. In total, Crowe estimates the Utility to issue over \$100 million in bonds from 2010 through the end of 2012. The bond issue at the end of 2012 would fund the capital improvements anticipated to be completed in 2013. The remainder of the capital improvements

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
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EXECUTIVE SUMMARY (Continued)

(\$16,720,353) would be paid for through annual extensions and replacements funding. This funding has been designed to equal approximately 40% of the outstanding debt (both current and proposed) to allow the Utility to have sufficient coverage on its bonds.

In order to fund the proposed bond issues, the currently outstanding debt and operating expenses, the Utility would step in rate increases over the next three-and-a-half years. For the purposes of the operating expenses, Crowe has made certain assumptions regarding annual increases to these expenses and taxes. For the purposes of estimating PILOT, the City has indicated that the annual increase in PILOT funding could be held to 5% in order to allow for lower necessary rate increases. For this first scenario, the first rate increase of 16% would be effective in July 2010. The remaining rate increases would go into effective on January 1 of each year. For 2011, the rate increase would be eighteen percent (18%). In 2012 and 2013, the rate increases would be twelve percent (12%) and eight percent (8%) respectively. The detail supporting these calculations can be found on Exhibit G of the Report.

The table below, summarizing data from Exhibit I of the Report, provides a comparison of that how monthly bills would be impacted over time due to these rate increases. Two types of users are shown in this table. The first, using 300 cubic feet on a monthly basis, would be considered a minimal residential user. The other user, shown at 700 cubic feet per month, would be considered a more typical residential user. As the table demonstrates, the minimum user would receive an increase in their monthly bill of \$15.51 over the course of the next three years. The typical residential user would receive an increase in their monthly bill of \$20.07 over the same time period.

<u>Usage</u>	<u>Present Monthly Charge</u>	<u>Proposed 2010 Monthly Charge</u>	<u>Proposed 2011 Monthly Charge</u>	<u>Proposed 2012 Monthly Charge</u>	<u>Proposed 2013 Monthly Charge</u>	<u>Difference</u>
300 cubic feet	\$ 23.68	\$ 27.47	\$ 32.40	\$ 36.30	\$ 39.19	\$ 15.51
700 cubic feet	30.64	35.55	41.92	46.98	50.71	20.07

**Scenario 2 - Maximum Rate Increase of 9%**

Scenario 1 focused on the Utility's priority of funding the necessary capital improvements in order to resolve the CSO problems and to maintain a working system. For Scenario 2, this priority is considered in the context of one of the Utility's additional priorities - looking out for the well-being of the Utility's customers in regards to the monthly rates and charges. The Utility understands that any rate increase places an additional burden on its users and so, in Scenario 2, the Utility is considering options to reduce the impact to the users while still working towards accomplishing its capital improvement plan. For this scenario, the Utility asked Crowe to consider nine percent (9%) the maximum allowable rate increase on an annual basis. By setting a maximum allowable rate increase, the Utility is looking to identify the

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
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EXECUTIVE SUMMARY (Continued)

portion of its capital improvement plan that would need to be funded through revenue sources other than the Utility's revenues.

Schedule J-1 of the Report shows the impact to the capital improvement plan under this scenario. As can be seen on this Schedule, the maximum allowable rate increase would not provide the Utility enough revenue to support additional debt for the purposes of funding the 2010 capital improvements. For this year, the two funding sources available would be the annual extensions and replacements amount, which is calculated to provide coverage on the Utility's existing bonds, and cash on hand above required operating balances. The remainder of the capital improvements would need to be funded through other revenue sources in these years. For 2011 through 2013, the Utility would be able to issue some debt to pay for capital improvements. In total, the Utility could issue an additional \$48.9 million in debt to support just over \$44 million in capital improvements in these years. When considering this proposed debt, the remainder of the proposed capital improvements would be funded as follows: \$10.7 million from annual extensions and replacements, \$4.4 million from available cash and \$47.9 million from other revenue sources.

As Exhibit J in the Report shows, assuming the Utility received these additional revenues for some other source, the rate increase could be held to nine percent (9%) for each year. In 2010, the rate increase is slightly less at eight percent (8%) to account for the rate increase going in place halfway through the year. The impact to the minimum residential user and typical residential user, as discussed above, is shown in the following table. As the table demonstrates, the overall impact to these users is approximately half of what it would have been under Scenario 1.

<u>Usage</u>	<u>Present Monthly Charge</u>	<u>Proposed 2010 Monthly Charge</u>	<u>Proposed 2011 Monthly Charge</u>	<u>Proposed 2012 Monthly Charge</u>	<u>Proposed 2013 Monthly Charge</u>	<u>Difference</u>
300 cubic feet	\$ 23.68	\$ 25.58	\$ 27.88	\$ 30.38	\$ 33.11	\$ 9.43
700 cubic feet	30.64	33.10	36.08	39.30	42.83	12.19

**Scenario 3 – Rate Increase Required to Maintain Sufficient Coverage on Existing Bonds**

The final scenario provided assumes that the Utility considers only the minimum rate increase necessary to cover its operations and existing debt. In this scenario, the Utility would not bond for any new capital improvements proposed for 2010 through 2013. While the goal of this scenario is to provide as minimal a rate increase necessary to the ratepayers, the Utility must also be cognizant of keeping a good credit evaluation by maintaining adequate coverage on its existing debt. Since the Utility will need to issue debt to fund Phase II of the CSO plan, it is imperative that the Utility maintain a minimum coverage of one hundred twenty-five percent (125%) on its existing debt. Future purchasers of the Utility's debt will look to its historical coverage ratios to evaluate the Utility's creditworthiness. In this scenario, the minimum

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EXECUTIVE SUMMARY (Continued)

coverage recommended is one hundred thirty percent (130%) while one hundred forty percent (140%) is preferred.

Exhibit M of the Report shows the minimum rate increases necessary to fund operations, pay debt service and allow for coverage on the bonds. As this Exhibit shows, in 2010, the rate increases are the same as proposed in Scenario 2. This is due to the fact that the Utility is currently not meeting its coverage requirements. At present time, revenues are providing a coverage percentage of approximately one hundred four percent (104%) of the Utility's current operation and maintenance expenses, taxes due and debt service. Crowe recommends that the Utility should have at least one hundred thirty percent (130%) coverage. Therefore, for this scenario, the Utility would be implementing rate increases of eight percent (8%) in 2010, five percent (5%) in 2011, two percent (2%) in 2012 and one percent (1%) in 2013.

Schedule M-1 of the Report then shows the impact of these rate increases to the funding of the Utility's capital improvement plan. In total, the Utility is looking to fund approximately \$107 million in capital improvements over the next few years. The coverage amount calculated into the minimum rate increases in this scenario as annual extensions and replacement funding would allow for just under \$8 million of these improvements to be funded through the Utility's revenues. As in Scenario 2, the Utility would contribute currently available cash in the amount of \$4.4 million. The remainder, almost \$95 million, would need to be funded through other revenue sources if the Utility is to stay on track in addressing its CSO issues.

The table below provides the minimum impact to the ratepayers currently allowable to support the Utility's operations and existing debt. For both the minimum residential user and the typical residential user, the overall impact would be less than \$5.15 per month from 2010 to 2013.

<u>Usage</u>	<u>Present Monthly Charge</u>	<u>Proposed 2010 Monthly Charge</u>	<u>Proposed 2011 Monthly Charge</u>	<u>Proposed 2012 Monthly Charge</u>	<u>Proposed 2013 Monthly Charge</u>	<u>Difference</u>
300 cubic feet	\$ 23.68	\$ 25.58	\$ 26.85	\$ 27.39	\$ 27.66	\$ 3.98
700 cubic feet	30.64	33.10	34.73	35.43	35.78	5.14

This Summary has been provided for the purposes of highlighting key parts of the analysis contained within the attached Reports. The attached Reports should be reviewed for further detail on the proposed rate increases for each of the Utilities. If you have any questions regarding this Summary or the attached Reports, please call John Skomp at (317) 269-6699 or Jennifer Wilson at (317) 269-6696.

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Balance Sheets as of December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS AND OTHER DEBITS</b>			
<u>Utility Plant</u>			
Utility Plant in Service	\$150,706,203	\$140,826,985	\$138,375,986
Less: Accumulated Depreciation	<u>(56,862,732)</u>	<u>(57,842,278)</u>	<u>(54,634,014)</u>
Net Utility Plant in Service	93,843,471	82,984,707	83,741,972
Add: Construction Work in Progress	8,596,989	14,428,585	7,067,365
Net Utility Plant	<u>102,440,460</u>	<u>97,413,292</u>	<u>90,809,337</u>
<u>Restricted Assets</u>			
Operating Reserve Fund	2,750,653	3,177,653	3,177,653
Depreciation Fund	613,196	142,731	132,437
Bond Sinking Fund	44,710	59,489	89,846
Debt Service Reserve Fund	4,541,322	-	-
Building Corporation Cash Reserve	130,516	95,663	96,989
Construction Fund	<u>13,037,434</u>	<u>22,867,616</u>	<u>31,520,046</u>
Total Restricted Assets	<u>21,117,831</u>	<u>26,343,152</u>	<u>35,016,971</u>
<u>Current and Accrued Assets</u>			
Operating Fund	6,154,642	9,493,614	10,167,941
Sewer Insurance Fund	330,963	295,206	287,129
Accounts Receivable - Net	1,498,440	1,493,679	1,239,425
Accounts Receivable - Associated Co.	-	178,118	142,023
Accounts Receivable - Sewer Insurance Fund	80,855	94,125	91,790
Interest Receivable	5,671	98,729	89,323
Prepaid Expenses	3,758	-	-
Materials and Supplies	360,730	259,340	264,578
Total Current and Accrued Assets	<u>8,435,059</u>	<u>11,912,811</u>	<u>12,282,209</u>
<u>Deferred Debits</u>			
Unamortized Bond Issuance Costs	733,497	663,695	714,456
Loss on Refunding	-	-	22,698
Total Deferred Debits	<u>733,497</u>	<u>663,695</u>	<u>737,154</u>
Total Assets and Other Debits	<u>\$132,726,847</u>	<u>\$136,332,950</u>	<u>\$138,845,671</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Balance Sheets as of December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>LIABILITIES AND OTHER CREDITS</b>			
<u>Equity Capital</u>			
Retained Earnings	<u>\$ 68,614,791</u>	<u>\$ 68,486,126</u>	<u>\$ 66,729,306</u>
<u>Long Term Debt</u>			
State Revolving Fund Loan 1998	13,732,993	14,987,993	16,130,831
Refunding Revenue Bonds of 2001	-	-	850,000
Sewage Works Portion of Building Corporation Bonds	829,020	878,835	926,805
2003 Lease	-	-	43,581
Sewage Works Revenue Bonds of 2004	9,380,000	9,815,000	10,235,000
Sewage Works Revenue Bonds of 2006	7,345,000	7,620,000	7,625,000
Sewage Works Revenue Bonds of 2007	15,500,000	16,060,000	16,600,000
Sewage Works Revenue Bonds of 2007 B	15,425,000	15,980,000	16,515,000
Sewage Works Revenue Bonds of 2009	471,960	-	-
2006 Lease	66,923	109,443	161,978
Total Long Term Debt	<u>62,750,896</u>	<u>65,451,271</u>	<u>69,088,195</u>
<u>Current and Accrued Liabilities</u>			
Accounts Payable	626,504	1,604,558	2,348,916
Accounts Payable - Sewer Insurance Fund	8,886	52,149	28,704
Accounts Payable to Associated Co.	1,343	96,996	78,028
Accrued Payroll	398,208	341,947	287,882
Interest Payable	228,844	232,353	232,156
Net Unamortized Bond Premium/Discount	97,375	67,550	52,484
Total Current and Accrued Liabilities	<u>1,361,160</u>	<u>2,395,553</u>	<u>3,028,170</u>
Total Liabilities and Other Credits	<u>\$132,726,847</u>	<u>\$136,332,950</u>	<u>\$138,845,671</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Estimated Combined Amortization Schedule

Year	Estimated	2004	2006	2007	2007B	Estimated	Total
	1998	Bonds	Bonds	Bonds	Bonds	2009	
	SRF Loan					SRF Loan	
2010	\$ 1,739,110	\$ 845,830	\$ 611,986	\$ 1,248,148	\$ 1,230,142	\$ 220,276	\$ 5,895,492
2011	1,735,106	847,330	611,070	1,249,748	1,231,942	226,570	5,901,766
2012	1,735,086	852,218	614,632	1,250,348	1,227,742	226,570	5,906,596
2013	1,738,906	855,242	617,472	1,249,948	1,232,742	226,571	5,920,881
2014	1,736,420	862,568	619,492	1,253,548	1,231,542	226,571	5,930,141
2015	1,737,776	867,692	620,492	1,255,948	1,234,342	226,570	5,942,820
2016	1,737,826	871,326	620,892	1,257,148	1,235,942	226,572	5,949,706
2017	1,736,570	878,126	624,932	1,262,148	1,241,342	226,570	5,969,688
2018	1,739,010	883,726	627,932	1,260,748	1,245,342	226,570	5,983,328
2019		884,926	630,082	1,267,332	1,247,942	226,572	4,256,854
2020		884,776	630,282	1,265,996	1,254,142	226,571	4,261,767
2021		891,526	629,582	1,272,726	1,262,636	226,571	4,283,041
2022		891,376	632,982	1,270,650	1,263,110	226,571	4,284,689
2023		894,562	630,256	1,271,776	1,271,400	226,569	4,294,563
2024		900,850	636,632	1,270,876	1,276,776	226,571	4,311,705
2025			635,962	1,272,950	1,278,626	226,571	3,414,109
2026			659,138	1,277,776	1,283,226	226,570	3,446,710
2027				1,280,126	1,285,350	226,571	2,792,047
2028						226,570	226,570
Totals	\$ 15,635,810	\$ 13,112,074	\$ 10,653,816	\$ 22,737,940	\$ 22,534,286	\$ 4,298,547	\$ 88,972,473

Estimated Combined Maximum Annual Debt Service

\$ 5,983,328

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

**Sewage Works Revenue Bonds of 1998**  
**State Revolving Fund (SRF) Loan**  
**Estimated Amortization Schedule**

<u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
6/1/10			\$ 197,055	\$ 197,055	
12/1/10	\$ 1,345,000	2.9 %	197,055	1,542,055	\$ 1,739,110
6/1/11			177,553	177,553	
12/1/11	1,380,000	2.9	177,553	1,557,553	1,735,106
6/1/12			157,543	157,543	
12/1/12	1,420,000	2.9	157,543	1,577,543	1,735,086
6/1/13			136,953	136,953	
12/1/13	1,465,000	2.9	136,953	1,601,953	1,738,906
6/1/14			115,710	115,710	
12/1/14	1,505,000	2.9	115,710	1,620,710	1,736,420
6/1/15			93,888	93,888	
12/1/15	1,550,000	2.9	93,888	1,643,888	1,737,776
6/1/16			71,413	71,413	
12/1/16	1,595,000	2.9	71,413	1,666,413	1,737,826
6/1/17			48,285	48,285	
12/1/17	1,640,000	2.9	48,285	1,688,285	1,736,570
6/1/18			24,505	24,505	
12/1/18	<u>1,690,000</u>	2.9	<u>24,505</u>	<u>1,714,505</u>	1,739,010
<b>Totals</b>	<b><u>\$ 13,590,000</u></b>		<b><u>\$ 2,045,810</u></b>	<b><u>\$ 15,635,810</u></b>	

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

**Public Works Building Corporation**  
**Sewage Works Portion of Bonds**  
**Amortization Schedule**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
2/1/10	\$ 52,275	\$ 21,177	\$ 73,452	
8/1/10		19,935	19,935	\$ 93,387
2/1/11	54,735	19,935	74,670	
8/1/11		18,635	18,635	93,305
2/1/12	57,195	18,635	75,830	
8/1/12		17,248	17,248	93,078
2/1/13	59,655	17,248	76,903	
8/1/13		15,772	15,772	92,675
2/1/14	62,730	15,772	78,502	
8/1/14		14,203	14,203	92,705
2/1/15	65,805	14,203	80,008	
8/1/15		12,558	12,558	92,566
2/1/16	69,495	12,558	82,053	
8/1/16		10,751	10,751	92,804
2/1/17	73,185	10,751	83,936	
8/1/17		8,830	8,830	92,766
2/1/18	76,875	8,830	85,705	
8/1/18		6,812	6,812	92,517
2/1/19	81,180	6,812	87,992	
8/1/19		4,661	4,661	92,653
2/1/20	85,485	4,661	90,146	
8/1/20		2,396	2,396	92,542
2/1/21	90,405	2,396	92,801	92,801
<b>Totals</b>	<b>\$ 829,020</b>	<b>\$ 284,779</b>	<b>\$ 1,113,799</b>	

Note: The Sewage Works portion of the Public Works Building Corporation Bonds is not parity to the 1998 Bonds, the 2004 Bonds, the 2006 Bonds, the 2007 Bonds, the 2007B Bonds, or the 2009 Bonds.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Sewage Works Revenue Bonds of 2004  
Amortization Schedule

<u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
6/1/10			\$ 197,915	\$ 197,915	
12/1/10	\$ 450,000	3.00 %	197,915	647,915	\$ 845,830
6/1/11			191,165	191,165	
12/1/11	465,000	3.25	191,165	656,165	847,330
6/1/12			183,609	183,609	
12/1/12	485,000	3.50	183,609	668,609	852,218
6/1/13			175,121	175,121	
12/1/13	505,000	3.50	175,121	680,121	855,242
6/1/14			166,284	166,284	
12/1/14	530,000	3.75	166,284	696,284	862,568
6/1/15			156,346	156,346	
12/1/15	555,000	3.85	156,346	711,346	867,692
6/1/16			145,663	145,663	
12/1/16	580,000	4.00	145,663	725,663	871,326
6/1/17			134,063	134,063	
12/1/17	610,000	4.00	134,063	744,063	878,126
6/1/18			121,863	121,863	
12/1/18	640,000	4.50	121,863	761,863	883,726
6/1/19			107,463	107,463	
12/1/19	670,000	4.50	107,463	777,463	884,926
6/1/20			92,388	92,388	
12/1/20	700,000	4.75	92,388	792,388	884,776
6/1/21			75,763	75,763	
12/1/21	740,000	4.75	75,763	815,763	891,526
6/1/22			58,188	58,188	
12/1/22	775,000	4.75	58,188	833,188	891,376
6/1/23			39,781	39,781	
12/1/23	815,000	4.75	39,781	854,781	894,562
6/1/24			20,425	20,425	
12/1/24	860,000	4.75	20,425	880,425	900,850
<b>Totals</b>	<b>\$ 9,380,000</b>		<b>\$ 3,732,074</b>	<b>\$ 13,112,074</b>	

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

SCHEDULE B-4

Sewage Works Revenue Bonds of 2006  
 Amortization Schedule

<u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
6/1/10			\$ 158,493	\$ 158,493	
12/1/10	\$ 295,000	3.700 %	158,493	453,493	\$ 611,986
6/1/11			153,035	153,035	
12/1/11	305,000	3.750	153,035	458,035	611,070
6/1/12			147,316	147,316	
12/1/12	320,000	3.800	147,316	467,316	614,632
6/1/13			141,236	141,236	
12/1/13	335,000	3.875	141,236	476,236	617,472
6/1/14			134,746	134,746	
12/1/14	350,000	4.000	134,746	484,746	619,492
6/1/15			127,746	127,746	
12/1/15	365,000	4.000	127,746	492,746	620,492
6/1/16			120,446	120,446	
12/1/16	380,000	4.200	120,446	500,446	620,892
6/1/17			112,466	112,466	
12/1/17	400,000	4.250	112,466	512,466	624,932
6/1/18			103,966	103,966	
12/1/18	420,000	4.250	103,966	523,966	627,932
6/1/19			95,041	95,041	
12/1/19	440,000	4.500	95,041	535,041	630,082
6/1/20			85,141	85,141	
12/1/20	460,000	4.500	85,141	545,141	630,282
6/1/21			74,791	74,791	
12/1/21	480,000	4.500	74,791	554,791	629,582
6/1/22			63,991	63,991	
12/1/22	505,000	4.500	63,991	568,991	632,982
6/1/23			52,628	52,628	
12/1/23	525,000	4.500	52,628	577,628	630,256
6/1/24			40,816	40,816	
12/1/24	555,000	4.625	40,816	595,816	636,632
6/1/25			27,981	27,981	
12/1/25	580,000	4.625	27,981	607,981	635,962
6/1/26			14,569	14,569	
12/1/26	630,000	4.625	14,569	644,569	659,138
	<u>\$ 7,345,000</u>		<u>\$ 3,308,816</u>	<u>\$ 10,653,816</u>	

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

Sewage Works 2006 Lease  
 Amortization Schedule

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
6/16/10	\$ 23,571	\$ 1,399	\$ 24,970	
12/16/10	24,029	941	24,970	\$ 49,940
6/16/11	<u>24,495</u>	<u>475</u>	<u>24,970</u>	24,970
Totals	<u>\$ 72,095</u>	<u>\$ 2,815</u>	<u>\$ 74,910</u>	

Note: The Sewage Works 2006 Lease is not parity to the 1998 Bonds, the 2004 Bonds, the 2006 Bonds, the 2007 Bonds, the 2007B Bonds, or the 2009 Bonds.

The 2006 Lease pays for a Front End Loader.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

SCHEDULE B-6

Sewage Works Revenue Bonds of 2007  
 Amortization Schedule

<u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
6/1/10			\$ 331,574	\$ 331,574	
12/1/10	\$ 585,000	4.00 %	331,574	916,574	\$ 1,248,148
6/1/11			319,874	319,874	
12/1/11	610,000	4.00	319,874	929,874	1,249,748
6/1/12			307,674	307,674	
12/1/12	635,000	4.00	307,674	942,674	1,250,348
6/1/13			294,974	294,974	
12/1/13	660,000	4.00	294,974	954,974	1,249,948
6/1/14			281,774	281,774	
12/1/14	690,000	4.00	281,774	971,774	1,253,548
6/1/15			267,974	267,974	
12/1/15	720,000	4.00	267,974	987,974	1,255,948
6/1/16			253,574	253,574	
12/1/16	750,000	4.00	253,574	1,003,574	1,257,148
6/1/17			238,574	238,574	
12/1/17	785,000	4.00	238,574	1,023,574	1,262,148
6/1/18			222,874	222,874	
12/1/18	815,000	4.10	222,874	1,037,874	1,260,748
6/1/19			206,166	206,166	
12/1/19	855,000	4.25	206,166	1,061,166	1,267,332
6/1/20			187,998	187,998	
12/1/20	890,000	4.30	187,998	1,077,998	1,265,996
6/1/21			168,863	168,863	
12/1/21	935,000	4.50	168,863	1,103,863	1,272,726
6/1/22			147,825	147,825	
12/1/22	975,000	4.50	147,825	1,122,825	1,270,650
6/1/23			125,888	125,888	
12/1/23	1,020,000	4.50	125,888	1,145,888	1,271,776
6/1/24			102,938	102,938	
12/1/24	1,065,000	4.50	102,938	1,167,938	1,270,876
6/1/25			78,975	78,975	
12/1/25	1,115,000	4.50	78,975	1,193,975	1,272,950
6/1/26			53,888	53,888	
12/1/26	1,170,000	4.50	53,888	1,223,888	1,277,776
6/1/27			27,563	27,563	
12/1/27	<u>1,225,000</u>	4.50	<u>27,563</u>	<u>1,252,563</u>	1,280,126
<b>Totals</b>	<u><u>\$ 15,500,000</u></u>		<u><u>\$ 7,237,940</u></u>	<u><u>\$22,737,940</u></u>	

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Sewage Works Revenue Bonds of 2007 B  
Amortization Schedule

<u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
6/1/10			\$ 325,071	\$ 325,071	
12/1/10	\$ 580,000	4.000 %	325,071	905,071	\$ 1,230,142
6/1/11			313,471	313,471	
12/1/11	605,000	4.000	313,471	918,471	1,231,942
6/1/12			301,371	301,371	
12/1/12	625,000	4.000	301,371	926,371	1,227,742
6/1/13			288,871	288,871	
12/1/13	655,000	4.000	288,871	943,871	1,232,742
6/1/14			275,771	275,771	
12/1/14	680,000	4.000	275,771	955,771	1,231,542
6/1/15			262,171	262,171	
12/1/15	710,000	4.000	262,171	972,171	1,234,342
6/1/16			247,971	247,971	
12/1/16	740,000	4.000	247,971	987,971	1,235,942
6/1/17			233,171	233,171	
12/1/17	775,000	4.000	233,171	1,008,171	1,241,342
6/1/18			217,671	217,671	
12/1/18	810,000	4.000	217,671	1,027,671	1,245,342
6/1/19			201,471	201,471	
12/1/19	845,000	4.000	201,471	1,046,471	1,247,942
6/1/20			184,571	184,571	
12/1/20	885,000	4.125	184,571	1,069,571	1,254,142
6/1/21			166,318	166,318	
12/1/21	930,000	4.250	166,318	1,096,318	1,262,636
6/1/22			146,555	146,555	
12/1/22	970,000	4.300	146,555	1,116,555	1,263,110
6/1/23			125,700	125,700	
12/1/23	1,020,000	4.375	125,700	1,145,700	1,271,400
6/1/24			103,388	103,388	
12/1/24	1,070,000	4.500	103,388	1,173,388	1,276,776
6/1/25			79,313	79,313	
12/1/25	1,120,000	4.500	79,313	1,199,313	1,278,626
6/1/26			54,113	54,113	
12/1/26	1,175,000	4.500	54,113	1,229,113	1,283,226
6/1/27			27,675	27,675	
12/1/27	1,230,000	4.500	27,675	1,257,675	1,285,350
Totals	<u>\$ 15,425,000</u>		<u>\$ 7,109,286</u>	<u>\$ 22,534,286</u>	

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Sewage Works Revenue Bonds of 2009  
State Revolving Fund (SRF) Loan  
Estimated Amortization Schedule

<u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
6/1/10			\$ 43,749	\$ 43,749	
12/1/10	\$ 130,205	2.81 %	46,322	176,527	\$ 220,276
6/1/11			44,493	44,493	
12/1/11	137,584	2.81	44,493	182,077	226,570
6/1/12			42,560	42,560	
12/1/12	141,450	2.81	42,560	184,010	226,570
6/1/13			40,573	40,573	
12/1/13	145,425	2.81	40,573	185,998	226,571
6/1/14			38,530	38,530	
12/1/14	149,511	2.81	38,530	188,041	226,571
6/1/15			36,429	36,429	
12/1/15	153,712	2.81	36,429	190,141	226,570
6/1/16			34,270	34,270	
12/1/16	158,032	2.81	34,270	192,302	226,572
6/1/17			32,049	32,049	
12/1/17	162,472	2.81	32,049	194,521	226,570
6/1/18			29,766	29,766	
12/1/18	167,038	2.81	29,766	196,804	226,570
6/1/19			27,420	27,420	
12/1/19	171,732	2.81	27,420	199,152	226,572
6/1/20			25,007	25,007	
12/1/20	176,557	2.81	25,007	201,564	226,571
6/1/21			22,526	22,526	
12/1/21	181,519	2.81	22,526	204,045	226,571
6/1/22			19,976	19,976	
12/1/22	186,619	2.81	19,976	206,595	226,571
6/1/23			17,353	17,353	
12/1/23	191,863	2.81	17,353	209,216	226,569
6/1/24			14,658	14,658	
12/1/24	197,255	2.81	14,658	211,913	226,571
6/1/25			11,887	11,887	
12/1/25	202,797	2.81	11,887	214,684	226,571
6/1/26			9,037	9,037	
12/1/26	208,496	2.81	9,037	217,533	226,570
6/1/27			6,108	6,108	
12/1/27	214,355	2.81	6,108	220,463	226,571
6/1/28			3,096	3,096	
12/1/28	<u>220,378</u>	2.81	<u>3,096</u>	<u>223,474</u>	226,570
<b>Totals</b>	<b><u>\$ 3,297,000</u></b>		<b><u>\$1,001,547</u></b>	<b><u>\$ 4,298,547</u></b>	

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Statement of Fund Balances as of December 31, 2009  
and Calculation of Required Fund Balances

Operating Fund	\$ 6,154,642
Operating Reserve Fund	2,750,653
Bond Sinking Fund	44,710
Debt Service Reserve Fund	4,541,322
Building Corporation Cash Reserve	130,516
Depreciation Fund	613,196
	<hr/>
Total Cash and Investments	<u>\$ 14,235,039</u>

**Operating Fund**

<u>Calculation of Required Operating Fund Balance</u>	
Adjusted Operation and Maintenance Expenses (Exhibit E)	\$ 15,361,293
Adjusted Taxes Other Than Income Taxes (Exhibit E)	2,504,848
Subtotal	<u>17,866,141</u>
Divide by: Twelve Months	<u>12</u>
Monthly Operation and Maintenance Expenses and Taxes Other Than Income Taxes	1,488,845
Times: Two Months	<u>2</u>
	<hr/>
Minimum Required Balance - Bond Ordinance	<u>\$ 2,977,690</u>
	<hr/>
City Policy on Required Balance - 25% of Subtotal	<u>\$ 4,466,535</u>
	<hr/>
Compare to Net Current Operating Fund <u>and Operating Reserve Fund Balance</u>	<u>\$ 8,905,295</u>
	<hr/>
Amount Available for Capital Improvements	<u>\$ 4,438,760</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Statement of Fund Balances as of December 31, 2009  
and Calculation of Required Fund Balances

**Bond Sinking Fund**

**Calculation of Required Bond Sinking Fund Balance**

1998, 2004, 2006, 2007, 2007 B and 2009	
Principal Payment due December 1, 2010	\$ 3,385,205
Divide by: Twelve Months	<u>12</u>
Monthly Transfer for Principal Payment	282,100
Times: One Month Since Last Principal Payment	<u>1</u>
Required Principal in Bond and Interest Fund Balance	<u>282,100</u>
1998, 2004, 2006, 2007, 2007 B and 2009	
Interest Payment due June 1, 2010	\$ 1,253,857
Divide by: Six Months	<u>6</u>
Monthly Transfer for Interest Payment	208,976
Times: One Month Since Last Interest Payment	<u>1</u>
Required Interest in Bond and Interest Fund Balance	<u>208,976</u>
Minimum Bond Sinking Fund Required Balance	<u>\$ 491,076</u>
<b><u>Compare to Current Bond Sinking Fund Balance</u></b>	<b><u>\$ 44,710</u></b>

**Debt Service Reserve Fund**

**Calculation of Required Combined Debt Service Reserve**

Debt Service Reserve Fund	Required Reserve	Number of Months	12/31/09 Required Reserve
1998 Bonds	\$ 1,739,010	60	\$ 1,739,010
2004 Bonds	883,725	60	883,725
2006 Bonds	627,931	43	450,017
2007 Bonds	1,260,748	31	651,386
2007B Bonds	1,245,341	24	498,136
2009 Bonds	<u>226,571</u>	1	<u>3,776</u>
Total	<u>\$ 5,983,326</u>		<u>\$ 4,226,050</u>
<b><u>Compare to Current Debt Service Reserve Fund Balance</u></b>			<b><u>\$ 4,541,322</u></b>

Note: See Schedule C-1 for the Debt Service Reserve funding requirements.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

**Calculation of Debt Service Reserve Account Requirement**

<b>Debt Service Reserve (DSR) Requirement</b>					
1998 Bonds, 2004 Bonds, 2006 Bonds, 2007 Bonds, 2007B Bonds and 2009 Bonds (Maximum Annual Debt Service)					<u>\$ 5,983,328</u>
<b>Current Debt Service Reserve Account</b>					
Balance as of December 31, 2009					<u>\$ 4,541,322</u>
<b>Debt Service Reserve Required Balance as of June 2010</b>					
1998 Bonds - Fully Funded		Portion of DSR Requirement	Number of Months	Required DSR Balance June '10	
2004 Bonds - Fully Funded	\$ 1,739,010.00		60	\$ 1,739,010.00	
2006 Bonds	883,725.00		60	883,725.00	
2007 Bonds	627,931.26		49	512,810.53	
2007 B Bonds	1,260,747.50		37	777,460.96	
2009 Bonds	1,245,341.26		30	622,670.63	
	226,570.92		7	26,433.27	
<b>Total Required Balance</b>	<u>\$ 5,983,325.94</u>			<u>\$ 4,562,110.39</u>	
<b>Transfer Required June 2010</b>				<u>\$ 20,788.39</u>	

				Total Monthly Transfer	
<u>Required Monthly Transfers</u>					
June '10		2006 Bonds	2007 Bonds	2009 Bonds	\$ 20,788.39
July '10 to May '11	\$ 10,465.52	\$ 21,012.46	\$ 20,755.69	\$ 3,776.18	
June '11 to May '12		21,012.46	20,755.69	3,776.18	
June '12 to December '12			20,755.69	3,776.18	
January '13 to November '14				3,776.18	

Note: The Utility has 60 months to fund the debt service reserve requirement (DSR) for the 2006 Bonds, 2007 Bonds, 2007 B Bonds, and 2009 bonds. The 2006 Bonds were issued June 2006 and is required to have a fully funded debt service reserve by May 2011. The 2007 Bonds were issued June 2007 and is required to have a fully funded debt service reserve by May 2012. The 2007 B Bonds were issued December 2007 and is required to have a fully funded debt service reserve by December 2012. The 2009 Bonds Debt Service Reserve Requirement will need to be fully funded by November 2014. When the balance of the Debt Service Reserve Account equals \$5,982,181.04, the Utility can discontinue making monthly transfers.

Since the Utility has additional cash than required in the DSR, the Utility will not be required to start funding the DSR on a monthly basis until June '10.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Statements of Income for the Twelve Months  
Ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Operating Revenues</u>			
Metered Residential Sales	\$11,871,575	\$10,589,397	\$10,129,521
Metered Commercial Sales	5,037,762	4,413,623	3,765,665
Metered Industrial Sales	3,304,212	3,530,893	3,374,372
Metered Sales to Multi-Family Dwellings	1,747,950	1,778,502	1,603,266
Metered Institutional Sales	200,571	175,409	158,775
Metered Sales to Public Authorities	775,918	716,716	669,234
Sales for Resale	150,525	674,878	73,166
Forfeited Discounts	270,397	217,419	230,126
Miscellaneous Operating Revenues	838,229	641,724	570,510
Total Operating Revenues	<u>24,197,139</u>	<u>22,738,561</u>	<u>20,574,635</u>
<u>Operating Expenses</u>			
<u>Operation and Maintenance Expenses</u>			
Collection System Expenses	5,095,474	3,510,093	2,665,513
Treatment Plant Expenses	9,758,486	9,666,941	6,900,203
Administration and General	397,402	537,336	514,679
Customer Accounts Expenses	80,750	101,636	58,124
Management Fees	643,816	643,816	643,813
Total Operation and Maintenance Expenses	<u>15,975,928</u>	<u>14,459,822</u>	<u>10,782,332</u>
Depreciation Expense	<u>3,533,633</u>	<u>3,396,258</u>	<u>3,259,904</u>
Amortization of Bond Issuance Costs	<u>38,875</u>	<u>50,761</u>	<u>36,677</u>
<u>Taxes Other Than Income Taxes</u>			
FICA Tax	298,099	263,048	244,697
Payment in Lieu of Property Taxes	1,909,830	1,791,351	1,592,979
Total Taxes Other Than Income Taxes	<u>2,207,929</u>	<u>2,054,399</u>	<u>1,837,676</u>
Total Operating Expenses	<u>21,756,365</u>	<u>19,961,240</u>	<u>15,916,589</u>
Net Operating Income	<u>2,440,774</u>	<u>2,777,321</u>	<u>4,658,046</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Statements of Income for the Twelve Months  
Ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Other Income</u>			
Sewer Line Insurance Revenue	\$ 699,016	\$ 618,790	\$ 663,911
Interest Income	206,089	1,211,098	906,290
Salt Reimbursements	-	162,955	90,048
Gain on Sale of Fixed Assets	58,190	8,051	-
Miscellaneous Other Income	57,819	39,618	20,807
Total Other Income	<u>1,021,114</u>	<u>2,040,512</u>	<u>1,681,056</u>
<u>Other Expenses</u>			
Sewer Line Insurance Expense	603,231	619,561	496,940
Interest Expense	2,335,740	2,439,504	1,838,333
Loss on Sale of Fixed Assets	392,967	-	-
Miscellaneous Other Expenses	1,300	700	42,706
Total Other Expenses	<u>3,333,238</u>	<u>3,059,765</u>	<u>2,377,979</u>
Net Income	<u>\$ 128,650</u>	<u>\$1,758,068</u>	<u>\$ 3,961,123</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Adjusted Statement of Income

	December 31, <u>2009</u>	<u>Adjustments</u>		<u>Adjusted</u>
		<u>Amount</u>	<u>Ref.</u>	
<u>Operating Revenues</u>				
Metered Residential Sales	\$11,871,575			\$ 11,871,575
Metered Commercial Sales	5,037,762			5,037,762
Metered Industrial Sales	3,304,212			3,304,212
Metered Sales to Multi-Family Dwellings	1,747,950			1,747,950
Metered Institutional Sales	200,571			200,571
Metered Sales to Public Authorities	775,918			775,918
Sales for Resale	150,525			150,525
Interfund Revenue	-	\$ 186,967	(1)	186,967
Forfeited Discounts	270,397			270,397
Miscellaneous Operating Revenues	838,229			838,229
Total Operating Revenues	<u>24,197,139</u>	<u>186,967</u>		<u>24,384,106</u>
<u>Operating Expenses</u>				
Operation and Maintenance Expenses	15,975,928	82,835	(2)	15,361,293
		21,278	(3)	
		280,461	(4)	
		(1,239,209)	(5)	
		240,000	(6)	
Depreciation Expense	3,533,633	439,842	(7)	3,973,475
Amortization of Bond Issuance Costs	38,875			38,875
Taxes Other Than Income Taxes	2,207,929	25,081	(8)	2,504,848
		271,838	(9)	
Total Operating Expenses	<u>21,756,365</u>	<u>122,126</u>		<u>21,878,491</u>
Net Operating Income	<u>\$ 2,440,774</u>	<u>\$ 64,841</u>		<u>\$ 2,505,615</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

Detail of Adjustments

(1)

To adjust "Operating Revenues" for new interfund revenue associated with a concrete crew added in 2010.

Adjustment - Increase	<u>\$ 186,967</u>
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(2)

To adjust "Operation and Maintenance Expenses" for increases in salaries and wages effective January 2010.

Test Year Salaries and Wages	\$ 4,141,740
Times: Percentage Increase	<u>2%</u>
Adjustment - Increase	<u>\$ 82,835</u>

(3)

To adjust "Operation and Maintenance Expenses" for 2010 PERF Contribution Rate.

Pro Forma Salaries and Wages	\$ 4,224,575
Times: 2010 PERF Contribution Rate	<u>6.25%</u>
Pro Forma PERF Expense	264,036
Less: Test Year	<u>(242,758)</u>
Adjustment - Increase	<u>\$ 21,278</u>

(4)

To adjust "Operation and Maintenance Expenses" for new expenses associated with the concrete crew added in 2010 including wages, benefits, materials supplies and other expenses.

Adjustment - Increase	<u>\$ 280,461</u>
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**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Detail of Adjustments

(5)

To adjust "Operation and Maintenance Expenses" for non-recurring and capital expenses.

<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
Abonmarche Consultants	Construction bidding and inspection	\$ 30,869
American Electric Power Co.	Damage reimbursement	46,026
Barnes & Thornburg LLP	Legal - Water permit advice	79,934
Barnes & Thornburg LLP	Legal - 2009 Revenue Bonds	13,037
Crowe Horwath LLP	Financial - 2009 Revenue Bonds	11,740
Crowe Horwath LLP	Financial - Long Term Control Plan	20,226
Elkhart Department of Public Works	Final payment of interlocal agreement	50,000
Greeley & Hansen	Engineering services	486,405
Jones & Henry Engineers Ltd	Engineering - pump station improvements	38,825
Malcolm Pirnie	Engineering services	426,011
Symbiont	Engineering - grease concentrator upgrade	36,136
	Adjustment - Decrease	<u>\$ (1,239,209)</u>

(6)

To adjust "Operation and Maintenance Expenses" for planned increases in engineering expenses.

Adjustment - Increase	<u>\$ 240,000</u>
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(7)

To adjust "Depreciation Expense" for utility plant in service as of December 31, 2009.

Utility Plant in Service	\$ 150,706,203
Add: Construction Work in Progress	8,596,989
Less: Land and Land Rights	<u>(364,208)</u>
Depreciable Utility Plant in Service	158,938,984
Times: Depreciation Rate	<u>2.5%</u>
Pro Forma Depreciation Expense	3,973,475
Less: Test Year	<u>(3,533,633)</u>
Adjustment - Increase	<u>\$ 439,842</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Detail of Adjustments

(8)

To adjust "Taxes Other Than Income Taxes" for FICA tax expense.

Pro Forma Salaries and Wages	\$ 4,224,575	
Times: FICA Rate	<u>7.65%</u>	
Pro Forma FICA Expense	323,180	
Less: Test Year	<u>(298,099)</u>	
Adjustment - Increase		<u>\$ 25,081</u>

(9)

To adjust "Taxes Other Than Income Taxes" for the budgeted 2010 Payment in Lieu of Taxes (PILOT) payment.

Budgeted 2010 PILOT Payment	\$ 2,181,668	
Less: Test Year	<u>(1,909,830)</u>	
Adjustment - Increase		<u>\$ 271,838</u>

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Four-Year Capital Improvement Plan  
Provided by Greeley & Hansen

<u>Project</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Sewer Separation - Lawson Fisher Master Plan	\$ 7,965,370	\$ 8,184,962	\$ 22,458,896	\$ 13,031,928	\$ 51,641,156
Other Projects	3,003,963	3,003,963	3,003,963	3,003,963	12,015,852
Wastewater Treatment Plant Projects					
Phase 1 Projects					
Package 1	7,592,750	7,592,750	-	-	15,185,500
Package 2	2,750,000	2,750,000	-	-	5,500,000
Package 3	-	802,500	4,413,750	4,413,750	9,630,000
Package 4	-	-	185,000	2,035,000	2,220,000
Package 5	-	-	-	512,500	512,500
Phase 2 Projects	522,866	-	-	-	522,866
Total Capital Improvements (1)	\$ 21,834,949	\$ 22,334,175	\$ 30,061,609	\$ 22,997,141	\$ 97,227,874
Estimated Engineering Expense (2)	2,233,418	3,006,161	2,299,714	2,398,014	9,937,307
Total Capital Improvements with Estimated Engineering Expense	<u>\$ 24,068,367</u>	<u>\$ 25,340,336</u>	<u>\$ 32,361,323</u>	<u>\$ 25,395,155</u>	<u>\$107,165,181</u>

(1) Provided by Greeley & Hansen.

(2) Estimated to be 10% of capital improvements anticipated for the following year.

**SCENARIO 1:  
FULLY FUNDED CAPITAL IMPROVEMENT PLAN**

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Statement of Revenue Requirements

	Adjusted <u>2010</u>	<u>2011</u>	Projected <u>2012</u>	<u>2013</u>
Operation and Maintenance Expenses (A)	\$ 15,361,293	\$ 15,822,132	\$ 16,296,796	\$ 16,785,700
Taxes Other Than Income Taxes (B)	2,504,848	2,623,626	2,748,150	2,878,700
Sewage Works Portion of Public Works Building Corporation Debt Service (Schedule B-2)	93,387	93,305	93,078	92,675
Sewage Works Portion of 2006 Lease (Schedule B-5)	49,940	24,970	-	-
Estimated Combined Annual Debt Service (Schedule G-1)	6,862,616	9,745,788	12,198,418	13,976,836
Annual Debt Service Reserve Funding (Schedule C-1)	356,847	598,860	399,445	45,314
Annual Extensions and Replacements (Schedule G-1)	<u>2,745,046</u>	<u>3,898,315</u>	<u>4,879,367</u>	<u>5,590,735</u>
Total Revenue Requirements	27,973,977	32,806,996	36,615,254	39,369,960
Less: Operating Revenues (C)	<u>(24,384,106)</u>	<u>(28,078,268)</u>	<u>(32,899,150)</u>	<u>(36,691,577)</u>
Revenue Increase Required	3,589,871	4,728,728	3,716,104	2,678,383
Divide by: Adjustable Operating Revenues	<u>23,088,513</u>	<u>26,782,675</u>	<u>31,603,557</u>	<u>35,395,984</u>
Percent Rate Increase Required	<u>16%</u>	<u>18%</u>	<u>12%</u>	<u>8%</u>
 <b>(A) Operation and Maintenance Expenses</b>				
Prior Year Operation and Maintenance Expenses		\$ 15,361,293	\$ 15,822,132	\$ 16,296,796
Times: Estimated Increase		<u>3%</u>	<u>3%</u>	<u>3%</u>
Total Estimated Operation and Maintenance Expenses		<u>\$ 15,822,132</u>	<u>\$ 16,296,796</u>	<u>\$ 16,785,700</u>
 <b>(B) Taxes Other Than Income Taxes</b>				
<b>FICA Tax</b>				
Prior Year Adjusted FICA Tax		\$ 323,180	\$ 332,875	\$ 342,861
Times: Estimated Increase		<u>3%</u>	<u>3%</u>	<u>3%</u>
Total Estimated FICA Tax		<u>332,875</u>	<u>342,861</u>	<u>353,147</u>
 <b>Payment in Lieu of Taxes</b>				
Prior Year Payment in Lieu of Taxes		\$ 2,181,668	\$ 2,290,751	\$ 2,405,289
Times: 5% Increase		<u>5%</u>	<u>5%</u>	<u>5%</u>
Total Estimated Payment in Lieu of Taxes		<u>2,290,751</u>	<u>2,405,289</u>	<u>2,525,553</u>
Total Estimated Taxes Other Than Income Taxes		<u>\$ 2,623,626</u>	<u>\$ 2,748,150</u>	<u>\$ 2,878,700</u>
 <b>(C) Operating Revenues</b>				
Prior Year Adjustable Operating Revenues		\$ 23,088,513	26,782,675	31,603,557
Times: Proposed Rate Increase		<u>16%</u> (3)	<u>18%</u>	<u>12%</u>
Total Adjustable Operating Revenues		26,782,675	31,603,557	35,395,984
Plus: Other Operating Revenue		<u>1,295,593</u>	<u>1,295,593</u>	<u>1,295,593</u>
Total Operating Revenues		<u>\$ 28,078,268</u>	<u>\$ 32,899,150</u>	<u>\$ 36,691,577</u>

(1) Assumes construction work in progress from prior year has been completed and included as utility plant in service.

(2) 2010 Certified Corporate Tax Rate has been assumed to be held constant over time.

(3) Although the 2010 rates will only be effective for one-half of a year, the amount shown reflects a full year of increase since rates are designed to collect at a full year.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

Calculation of Estimated Combined Maximum Annual Debt Service  
 and Annual Extensions and Replacements

	2010	2011	2012	2013	Total
Total Capital Improvements with Estimated Engineering Expense	\$ 24,068,367	\$ 25,340,336	\$ 32,361,323	\$ 25,395,155	\$ 107,165,181
Capital Improvements Estimated to be Funded through Proposed Revenue Bonds	21,716,431	21,442,021	27,481,956	19,804,420	90,444,828
Proposed Revenue Bonds Par Amount (1)	24,105,000	23,800,000	30,505,000	21,985,000	
Estimated Maximum Annual Debt Service of Proposed Revenue Bonds (2)	967,124	1,934,248	1,934,248	1,934,248	1,934,248
2010 Bonds		1,909,774	1,909,774	1,909,774	1,909,774
2011 Bonds			2,447,800	2,447,800	2,447,800
2013 Bonds				1,764,133	1,764,133
Plus: Estimated Annual Debt Service of Currently Outstanding Bonds (Exhibit B)	5,895,492	5,901,766	5,906,596	5,920,881	
Total Estimated Combined Maximum Annual Debt Service	\$ 6,862,616	\$ 9,745,788	\$ 12,198,418	\$ 13,976,836	
Estimated Annual Extensions and Replacements (40% of Total Estimated Combined Annual Debt Service)	\$ 2,745,046 (3)	\$ 3,898,315	\$ 4,879,367	\$ 5,590,735	\$ 16,720,353
Estimated 2010 Extensions and Replacements Actual Funding	\$ 2,351,936 (3)				

(1) Includes capital improvements to be funded through the bonds, funding of the debt service reserve fund, and costs of issuance including underwriter's discount, bond counsel, financial advisor, ratings, registrar and paying agent and other miscellaneous expenses. Proposed bonds are anticipated to be issued late in the year prior to the year in which the bond proceeds are required except for the 2010 Bonds which are anticipated to be sold in June.

(2) Assumes a 20 year bond issue at an estimated interest rate of five percent (5%).

(3) Since the rate increase is not assumed to be implemented until July, only one-half of the proposed increase has been applied for the funding of extensions and replacements. The remainder has been funded through the proposed bond issuance.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Schedule of Present and Proposed Rates and Charges

	Present Rates (1)	Proposed 2010 Rates	Proposed 2011 Rates	Proposed 2012 Rates	Proposed 2013 Rates
<u>Treatment Rate</u>					
Per 100 Cubic Feet of Metered Water Usage	\$ 1.74	\$ 2.02	\$ 2.38	\$ 2.67	\$ 2.88
<u>Base Monthly Charge</u>					
<u>Based on Meter Size</u>					
5/8 inch meter	\$ 18.46	\$ 21.41	\$ 25.26	\$ 28.29	\$ 30.55
3/4 inch meter	24.88	28.86	34.05	38.14	41.19
1 inch meter	42.54	49.35	58.23	65.22	70.44
1 1/2 inch meter	95.45	110.72	130.65	146.33	158.04
2 inch meter	162.78	188.82	222.81	249.55	269.51
3 inch meter	371.58	431.03	508.62	569.65	615.22
4 inch meter	660.19	765.82	903.67	1,012.11	1,093.08
6 inch meter	1,478.13	1,714.63	2,023.26	2,266.05	2,447.33
8 inch meter	2,633.72	3,055.12	3,605.04	4,037.64	4,360.65
10 inch meter	4,108.36	4,765.70	5,623.53	6,298.35	6,802.22
12 inch meter	5,919.48	6,866.60	8,102.59	9,074.90	9,800.89
<u>Unmetered Monthly Rate</u>					
Per Single Family Residential Dwelling Unit	\$ 30.59	\$ 35.48	\$ 41.87	\$ 46.89	\$ 50.64
<u>Excess Strength of Waste Surcharges</u>					
- Suspended Solids (Per Pound) (Concentration Limit 250 mg/l)	\$ 0.135	\$ 0.157	\$ 0.185	\$ 0.207	\$ 0.224
- Biochemical Oxygen Demand (Per Pound) (Concentration Limit 250 mg/l)	0.179	0.208	0.245	0.274	0.296
- Ammonia Nitrogen (Per Pound) (Concentration Limit 25 mg/l)	0.934	1.083	1.278	1.431	1.545
- Phosphorous (Per Pound) (Concentration Limit 10 mg/l)	1.592	1.847	2.179	2.440	2.635

(1) Rates were adopted in November 2005.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Typical Monthly Bill Analysis  
for 5/8 Inch Meter User

<u>Cubic Feet</u>	<u>Present Charge</u>	<u>Proposed 2010 Charge</u>	<u>Proposed 2011 Charge</u>	<u>Proposed 2012 Charge</u>	<u>Proposed 2013 Charge</u>
100	\$ 20.20	\$ 23.43	\$ 27.64	\$ 30.96	\$ 33.43
200	21.94	25.45	30.02	33.63	36.31
300	23.68	27.47	32.40	36.30	39.19
400	25.42	29.49	34.78	38.97	42.07
500	27.16	31.51	37.16	41.64	44.95
600	28.90	33.53	39.54	44.31	47.83
700	30.64	35.55	41.92	46.98	50.71
800	32.38	37.57	44.30	49.65	53.59
900	34.12	39.59	46.68	52.32	56.47
1,000	35.86	41.61	49.06	54.99	59.35
1,100	37.60	43.63	51.44	57.66	62.23
1,200	39.34	45.65	53.82	60.33	65.11
1,300	41.08	47.67	56.20	63.00	67.99
1,400	42.82	49.69	58.58	65.67	70.87
1,500	44.56	51.71	60.96	68.34	73.75
1,600	46.30	53.73	63.34	71.01	76.63
1,700	48.04	55.75	65.72	73.68	79.51
1,800	49.78	57.77	68.10	76.35	82.39
1,900	51.52	59.79	70.48	79.02	85.27
2,000	53.26	61.81	72.86	81.69	88.15

SCENARIO 2:  
MAXIMUM RATE INCREASE OF 9%

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Statement of Revenue Requirements

	Adjusted	Projected		
	2010	2011	2012	2013
Operation and Maintenance Expenses (A)	\$ 15,361,293	\$ 15,822,132	\$ 16,296,796	\$ 16,785,700
Taxes Other Than Income Taxes (B)	2,504,848	2,623,626	2,748,150	2,878,700
Sewage Works Portion of Public Works Building				
Corporation Debt Service (Schedule B-2)	93,387	93,305	93,078	92,675
Sewage Works Portion of 2006 Lease (Schedule B-5)	49,940	24,970	-	-
Estimated Combined Annual Debt Service (Schedule J-1)	5,895,492	6,651,633	8,131,322	9,846,750
Annual Debt Service Reserve Funding (Schedule C-1)	356,847	598,860	399,445	45,314
Extensions and Replacements (Schedule J-1)	1,768,648	2,660,653	3,252,529	3,938,700
<b>Total Revenue Requirements</b>	<b>26,030,455</b>	<b>28,475,179</b>	<b>30,921,320</b>	<b>33,587,839</b>
Less: Operating Revenues (C)	(24,384,106)	(26,231,187)	(28,475,390)	(30,921,572)
<b>Revenue Increase Required</b>	<b>1,646,349</b>	<b>2,243,992</b>	<b>2,445,930</b>	<b>2,666,267</b>
Divide by: Adjustable Operating Revenues	23,088,513	24,935,594	27,179,797	29,625,979
<b>Percent Rate Increase Required</b>	<b>8%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>
<b>(A) Operation and Maintenance Expenses</b>				
Prior Year Operation and Maintenance Expenses		\$ 15,361,293	\$ 15,822,132	\$ 16,296,796
Times: Estimated Increase		3%	3%	3%
<b>Total Estimated Operation and Maintenance Expenses</b>		<b>\$ 15,822,132</b>	<b>\$ 16,296,796</b>	<b>\$ 16,785,700</b>
<b>(B) Taxes Other Than Income Taxes</b>				
<b>FICA Tax</b>				
Prior Year Adjusted FICA Tax		\$ 323,180	\$ 332,875	\$ 342,861
Times: Estimated Increase		3%	3%	3%
<b>Total Estimated FICA Tax</b>		<b>332,875</b>	<b>342,861</b>	<b>353,147</b>
<b>Payment in Lieu of Taxes</b>				
Prior Year Payment in Lieu of Taxes		\$ 2,181,668	\$ 2,290,751	\$ 2,405,289
Times: 5% Increase		5%	5%	5%
<b>Total Estimated Payment in Lieu of Taxes</b>		<b>2,290,751</b>	<b>2,405,289</b>	<b>2,525,553</b>
<b>Total Estimated Taxes Other Than Income Taxes</b>		<b>\$ 2,623,626</b>	<b>\$ 2,748,150</b>	<b>\$ 2,878,700</b>
<b>(C) Operating Revenues</b>				
Prior Year Adjustable Operating Revenues		\$ 23,088,513	24,935,594	27,179,797
Times: Proposed Rate Increase		8% (3)	9%	9%
<b>Total Adjustable Operating Revenues</b>		<b>24,935,594</b>	<b>27,179,797</b>	<b>29,625,979</b>
Plus: Other Operating Revenue		1,295,593	1,295,593	1,295,593
<b>Total Operating Revenues</b>		<b>\$ 26,231,187</b>	<b>\$ 28,475,390</b>	<b>\$ 30,921,572</b>

(1) Assumes construction work in progress from prior year has been completed and included as utility plant in service.

(2) 2010 Certified Corporate Tax Rate has been assumed to be held constant over time.

(3) Although the 2010 rates will only be effective for one-half of a year, the amount shown reflects a full year of increase since rates are designed to collect at a full year.

Note: A 9% maximum across-the-board rate increase will not fully fund the capital improvements identified on Exhibit F. The Utility would need to identify other revenue sources as shown on Schedule J-1.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Calculation of Estimated Combined Maximum Annual Debt Service and Annual Extensions and Replacements

	2010	2011	2012	2013
Total Capital Improvements with Estimated Engineering Expense	\$ 24,068,367	\$ 25,340,336	\$ 32,361,323	\$ 25,395,155
Capital Improvements Estimated to be Funded through Proposed Revenue Bonds	-	8,420,608	16,560,577	19,099,678
Proposed Revenue Bonds Par Amount (1)	-	9,345,000	18,380,000	21,200,000
Estimated Maximum Annual Debt Service of Proposed Revenue Bonds (2)				
2010 Bonds	-	749,867	-	-
2011 Bonds	-	-	749,867	749,867
2012 Bonds	-	-	1,474,859	1,474,859
2013 Bonds	-	-	-	1,701,143
Plus: Estimated Annual Debt Service of Currently Outstanding Bonds (Exhibit B)	5,895,492	5,901,766	5,906,596	5,920,881
Total Estimated Combined Maximum Annual Debt Service	\$ 5,895,492	\$ 6,651,633	\$ 8,131,322	\$ 9,846,750
Estimated Annual Extensions and Replacements (40% of Total Estimated Combined Annual Debt Service)	\$ 1,768,648 (3)	\$ 2,660,653	\$ 3,252,529	\$ 3,938,700
Capital Improvements Funded with Cash on Hand	\$ 4,438,760	\$ -	\$ -	\$ -
Remaining Capital Improvements to be Funded Through Other Available Revenues	\$ 18,745,283 (4)	\$ 14,259,075	\$ 12,548,217	\$ 2,356,777

(1) Includes capital improvements to be funded through the bonds, funding of the debt service reserve fund, and costs of issuance including underwriter's discount, bond counsel, financial advisor, ratings, registrar and paying agent and other miscellaneous expenses. Proposed bonds are anticipated to be issued late in the year prior to the year in which the bond proceeds are required.

(2) Assumes a 20 year bond issue at an estimated interest rate of five percent (5%).

(3) For 2010, extensions and replacements have been assumed to be 30% of existing debt service.

(4) Since the rate increase is not assumed to be implemented until July, only one-half of the proposed increase has been applied for the funding of extensions and replacements. The remainder of the capital improvements have been assumed to be funded through other revenue sources.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

Schedule of Present and Proposed Rates and Charges

<u>Treatment Rate</u>	<u>Present Rates (1)</u>	<u>Proposed 2010 Rates</u>	<u>Proposed 2011 Rates</u>	<u>Proposed 2012 Rates</u>	<u>Proposed 2013 Rates</u>
Per 100 Cubic Feet of Metered Water Usage	\$ 1.74	\$ 1.88	\$ 2.05	\$ 2.23	\$ 2.43
<u>Base Monthly Charge</u>					
<u>Based on Meter Size</u>					
5/8 inch meter	\$ 18.46	\$ 19.94	\$ 21.73	\$ 23.69	\$ 25.82
3/4 inch meter	24.88	26.87	29.29	31.93	34.80
1 inch meter	42.54	45.94	50.07	54.58	59.49
1 1/2 inch meter	95.45	103.09	112.37	122.48	133.50
2 inch meter	162.78	175.80	191.62	208.87	227.67
3 inch meter	371.58	401.31	437.43	476.80	519.71
4 inch meter	660.19	713.01	777.18	847.13	923.37
6 inch meter	1,478.13	1,596.38	1,740.05	1,896.65	2,067.35
8 inch meter	2,633.72	2,844.42	3,100.42	3,379.46	3,683.61
10 inch meter	4,108.36	4,437.03	4,836.36	5,271.63	5,746.08
12 inch meter	5,919.48	6,393.04	6,968.41	7,595.57	8,279.17
<u>Unmetered Monthly Rate</u>					
Per Single Family Residential Dwelling Unit	\$ 30.59	\$ 33.04	\$ 36.01	\$ 39.25	\$ 42.78
<u>Excess Strength of Waste Surcharges</u>					
- Suspended Solids (Per Pound) (Concentration Limit 250 mg/l)	\$ 0.135	\$ 0.146	\$ 0.159	\$ 0.173	\$ 0.189
- Biochemical Oxygen Demand (Per Pound) (Concentration Limit 250 mg/l)	0.179	0.193	0.210	0.229	0.250
- Ammonia Nitrogen (Per Pound) (Concentration Limit 25 mg/l)	0.934	1.009	1.100	1.199	1.307
- Phosphorous (Per Pound) (Concentration Limit 10 mg/l)	1.592	1.719	1.874	2.043	2.227

(1) Rates were adopted in November 2005.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Typical Monthly Bill Analysis  
for 5/8 Inch Meter User

<u>Cubic Feet</u>	<u>Present Charge</u>	<u>Proposed 2010 Charge</u>	<u>Proposed 2011 Charge</u>	<u>Proposed 2012 Charge</u>	<u>Proposed 2013 Charge</u>
100	\$ 20.20	\$ 21.82	\$ 23.78	\$ 25.92	\$ 28.25
200	21.94	23.70	25.83	28.15	30.68
300	23.68	25.58	27.88	30.38	33.11
400	25.42	27.46	29.93	32.61	35.54
500	27.16	29.34	31.98	34.84	37.97
600	28.90	31.22	34.03	37.07	40.40
700	30.64	33.10	36.08	39.30	42.83
800	32.38	34.98	38.13	41.53	45.26
900	34.12	36.86	40.18	43.76	47.69
1,000	35.86	38.74	42.23	45.99	50.12
1,100	37.60	40.62	44.28	48.22	52.55
1,200	39.34	42.50	46.33	50.45	54.98
1,300	41.08	44.38	48.38	52.68	57.41
1,400	42.82	46.26	50.43	54.91	59.84
1,500	44.56	48.14	52.48	57.14	62.27
1,600	46.30	50.02	54.53	59.37	64.70
1,700	48.04	51.90	56.58	61.60	67.13
1,800	49.78	53.78	58.63	63.83	69.56
1,900	51.52	55.66	60.68	66.06	71.99
2,000	53.26	57.54	62.73	68.29	74.42

**SCENARIO 3:  
RATE INCREASE REQUIRED TO MAINTAIN  
SUFFICIENT COVERAGE ON EXISTING BONDS**

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Statement of Revenue Requirements

	Adjusted	Projected		
	2010	2011	2012	2013
Operation and Maintenance Expenses (A)	\$ 15,361,293	\$ 15,822,132	\$ 16,296,796	\$ 16,785,700
Taxes Other Than Income Taxes (B)	2,504,848	2,623,626	2,748,150	2,878,700
Sewage Works Portion of Public Works Building				
Corporation Debt Service (Schedule B-2)	93,387	93,305	93,078	92,675
Sewage Works Portion of 2006 Lease (Schedule B-5)	49,940	24,970	-	-
Estimated Combined Annual Debt Service (Schedule M-1)	5,895,492	5,901,766	5,906,596	5,920,881
Annual Debt Service Reserve Funding (Schedule C-1)	356,847	598,860	399,445	45,314
Extensions and Replacements (Schedule M-1)	1,768,648	2,360,706	2,362,638	2,368,352
<b>Total Revenue Requirements</b>	<b>26,030,455</b>	<b>27,425,365</b>	<b>27,806,703</b>	<b>28,091,622</b>
Less: Operating Revenues (C)	(24,384,106)	(26,231,187)	(27,477,967)	(28,001,614)
Revenue Increase Required	1,646,349	1,194,178	328,736	90,008
Divide by: Adjustable Operating Revenues	23,088,513	24,935,594	26,182,374	26,706,021
Percent Rate Increase Required	<u>8%</u>	<u>5%</u>	<u>2%</u>	<u>1%</u>
<b>(A) Operation and Maintenance Expenses</b>				
Prior Year Operation and Maintenance Expenses		\$ 15,361,293	\$ 15,822,132	\$ 16,296,796
Times: Estimated Increase		<u>3%</u>	<u>3%</u>	<u>3%</u>
<b>Total Estimated Operation and Maintenance Expenses</b>		<b>\$ 15,822,132</b>	<b>\$ 16,296,796</b>	<b>\$ 16,785,700</b>
<b>(B) Taxes Other Than Income Taxes</b>				
<u>FICA Tax</u>				
Prior Year Adjusted FICA Tax		\$ 323,180	\$ 332,875	\$ 342,861
Times: Estimated Increase		<u>3%</u>	<u>3%</u>	<u>3%</u>
<b>Total Estimated FICA Tax</b>		<b>332,875</b>	<b>342,861</b>	<b>353,147</b>
<u>Payment in Lieu of Taxes</u>				
Prior Year Payment in Lieu of Taxes		\$ 2,181,668	\$ 2,290,751	\$ 2,405,289
Times: 5% Increase		<u>5%</u>	<u>5%</u>	<u>5%</u>
<b>Total Estimated Payment in Lieu of Taxes</b>		<b>2,290,751</b>	<b>2,405,289</b>	<b>2,525,553</b>
<b>Total Estimated Taxes Other Than Income Taxes</b>		<b>\$ 2,623,626</b>	<b>\$ 2,748,150</b>	<b>\$ 2,878,700</b>
<b>(C) Operating Revenues</b>				
Prior Year Adjustable Operating Revenues		\$ 23,088,513	24,935,594	26,182,374
Times: Proposed Rate Increase		<u>8% (3)</u>	<u>5%</u>	<u>2%</u>
<b>Total Adjustable Operating Revenues</b>		<b>24,935,594</b>	<b>26,182,374</b>	<b>26,706,021</b>
Plus: Other Operating Revenue		1,295,593	1,295,593	1,295,593
<b>Total Operating Revenues</b>		<b>\$ 26,231,187</b>	<b>\$ 27,477,967</b>	<b>\$ 28,001,614</b>

(1) Assumes construction work in progress from prior year has been completed and included as utility plant in service.

(2) 2010 Certified Corporate Tax Rate has been assumed to be held constant over time.

(3) Although the 2010 rates will only be effective for one-half of a year, the amount shown reflects a full year of increase since rates are designed to collect at a full year.

Note: The rate increases necessary to provide sufficient coverage will not fully fund the capital improvements identified on Exhibit F. The Utility would need to identify other revenue sources as shown on Schedule M-1.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
 South Bend, Indiana

**Calculation of Estimated Combined Maximum Annual Debt Service  
 and Annual Extensions and Replacements**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total Capital Improvements with Estimated Engineering Expense	\$ 24,068,367	\$ 25,340,336	\$ 32,361,323	\$ 25,395,155
Estimated Annual Debt Service of Currently Outstanding Bonds (Exhibit B)	\$ 5,895,492	\$ 5,901,766	\$ 5,906,596	\$ 5,920,881
Estimated Annual Extensions and Replacements (40% of Total Estimated Combined Annual Debt Service)	\$ 1,768,648 (1)	\$ 2,360,706	\$ 2,362,638	\$ 2,368,352
Capital Improvements Funded with Cash on Hand	\$ 4,438,760	\$ -	\$ -	\$ -
Remaining Capital Improvements to be Funded Through Other Available Revenues	\$ 18,745,283 (2)	\$ 22,979,630	\$ 29,998,685	\$ 23,026,803

(1) For 2010, extensions and replacements have been assumed to be 30% of existing debt service.

(2) Since the rate increase is not assumed to be implemented until July, only one-half of the proposed increase has been applied for the funding of extensions and replacements. The remainder of the capital improvements have been assumed to be funded through other revenue sources.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Schedule of Present and Proposed Rates and Charges

	Present Rates (1)	Proposed 2010 Rates	Proposed 2011 Rates	Proposed 2012 Rates	Proposed 2013 Rates
<u>Treatment Rate</u>					
Per 100 Cubic Feet of Metered Water Usage	\$ 1.74	\$ 1.88	\$ 1.97	\$ 2.01	\$ 2.03
<u>Base Monthly Charge</u>					
<u>Based on Meter Size</u>					
5/8 inch meter	\$ 18.46	\$ 19.94	\$ 20.94	\$ 21.36	\$ 21.57
3/4 inch meter	24.88	26.87	28.21	28.77	29.06
1 inch meter	42.54	45.94	48.24	49.20	49.69
1 1/2 inch meter	95.45	103.09	108.24	110.40	111.50
2 inch meter	162.78	175.80	184.59	188.28	190.16
3 inch meter	371.58	401.31	421.38	429.81	434.11
4 inch meter	660.19	713.01	748.66	763.63	771.27
6 inch meter	1,478.13	1,596.38	1,676.20	1,709.72	1,726.82
8 inch meter	2,633.72	2,844.42	2,986.64	3,046.37	3,076.83
10 inch meter	4,108.36	4,437.03	4,658.88	4,752.06	4,799.58
12 inch meter	5,919.48	6,393.04	6,712.69	6,846.94	6,915.41
<u>Unmetered Monthly Rate</u>					
Per Single Family Residential Dwelling Unit	\$ 30.59	\$ 33.04	\$ 34.69	\$ 35.38	\$ 35.73
<u>Excess Strength of Waste Surcharges</u>					
- Suspended Solids (Per Pound) (Concentration Limit 250 mg/l)	\$ 0.135	\$ 0.146	\$ 0.153	\$ 0.156	\$ 0.158
- Biochemical Oxygen Demand (Per Pound) (Concentration Limit 250 mg/l)	0.179	0.193	0.203	0.207	0.209
- Ammonia Nitrogen (Per Pound) (Concentration Limit 25 mg/l)	0.934	1.009	1.059	1.080	1.091
- Phosphorous (Per Pound) (Concentration Limit 10 mg/l)	1.592	1.719	1.805	1.841	1.859

(1) Rates were adopted in November 2005.

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Typical Monthly Bill Analysis  
for 5/8 Inch Meter User

<u>Cubic Feet</u>	<u>Present Charge</u>	<u>Proposed 2010 Charge</u>	<u>Proposed 2011 Charge</u>	<u>Proposed 2012 Charge</u>	<u>Proposed 2013 Charge</u>
100	\$ 20.20	\$ 21.82	\$ 22.91	\$ 23.37	\$ 23.60
200	21.94	23.70	24.88	25.38	25.63
300	23.68	25.58	26.85	27.39	27.66
400	25.42	27.46	28.82	29.40	29.69
500	27.16	29.34	30.79	31.41	31.72
600	28.90	31.22	32.76	33.42	33.75
700	30.64	33.10	34.73	35.43	35.78
800	32.38	34.98	36.70	37.44	37.81
900	34.12	36.86	38.67	39.45	39.84
1,000	35.86	38.74	40.64	41.46	41.87
1,100	37.60	40.62	42.61	43.47	43.90
1,200	39.34	42.50	44.58	45.48	45.93
1,300	41.08	44.38	46.55	47.49	47.96
1,400	42.82	46.26	48.52	49.50	49.99
1,500	44.56	48.14	50.49	51.51	52.02
1,600	46.30	50.02	52.46	53.52	54.05
1,700	48.04	51.90	54.43	55.53	56.08
1,800	49.78	53.78	56.40	57.54	58.11
1,900	51.52	55.66	58.37	59.55	60.14
2,000	53.26	57.54	60.34	61.56	62.17

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
**South Bend, Indiana**

**Survey of Combined Water and Sewer Rates**  
**Indiana Cities and Towns Over 30,000 Population**

<u>City/Town</u>	<u>2000 Census Population</u>	<u>County</u>	<u>Residential 5/8" Meter Monthly Billing for 6.68 CCF or 5,000 Gallons</u>
Kokomo (1)	46,113	Howard	\$ 66.10
New Albany (1)	37,603	Floyd	65.20
Anderson (2)	59,734	Madison	62.15
Mishawaka (1)	46,557	St. Joseph	59.39
Gary (1) (2)	102,746	Lake	57.83
Richmond (1) (2)	39,124	Wayne	57.53
Lawrence	38,915	Marion	56.55
Muncie (1) (2)	67,430	Delaware	51.40
Portage (1)	33,496	Porter	51.20
Columbus	39,059	Bartholomew	50.85
Fishers (1)	37,835	Hamilton	48.57
Terre Haute (1) (2)	59,614	Vigo	48.25
Greenwood (1)	36,037	Johnson	47.04
Michigan City	32,900	LaPorte	45.25
Indianapolis (1) (2)	781,870	Marion	43.43
<b>South Bend - Current</b>	<b>107,789</b>	<b>St. Joseph</b>	<b>43.41</b>
Fort Wayne (1)	205,727	Allen	40.52
Bloomington	69,291	Monroe	40.26
Evansville	121,582	Vanderburgh	38.42
Marion	31,320	Grant	37.52
Lafayette	56,397	Tippecanoe	37.14
Elkhart (1)	51,874	Elkhart	36.99
Carmel	37,733	Hamilton	33.19
Hammond (2)	83,048	Lake	16.38

(1) Rate increase expected

(2) Subsidized by property tax

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Survey of Water Rates  
Indiana Cities and Towns Over 30,000 Population

<u>City/Town</u>	<u>2000 Census Population</u>	<u>County</u>	<u>Private or Municipal Ownership</u>	<u>Effective Date of Water Rate</u>	<u>Residential 5/8" Meter Monthly Water Billing for 6.68 CCF or 5,000 Gallons</u>
Kokomo (1)	46,113	Howard	Private	2007	\$ 36.15
Terre Haute (1)	59,614	Vigo	Private	2007	31.68
Richmond (1)	39,124	Wayne	Private	2007	31.64
New Albany (1)	37,603	Floyd	Private	2007	31.53
Greenwood (1)	36,037	Johnson	Private	2007	31.49
Muncie (1)	67,430	Delaware	Private	2007	28.89
Portage (1)	33,496	Porter	Private	2007	27.70
Marion	31,320	Grant	Municipal	2005	27.01
Lawrence	38,915	Marion	Municipal	2008	26.13
Gary (1)	102,746	Lake	Private	2007	25.33
Fishers (1)	37,835	Hamilton	Municipal	2009	22.57
Indianapolis (1)	781,870	Marion	Municipal	2009	22.57
Michigan City	32,900	LaPorte	Municipal	2007	20.92
Anderson	59,734	Madison	Municipal	2007	18.98
Fort Wayne	205,727	Allen	Municipal	2006	17.25
Bloomington	69,291	Monroe	Municipal	2005	15.20
Mishawaka	46,557	St. Joseph	Municipal	2002	15.13
Carmel	37,733	Hamilton	Municipal	2008	15.05
Elkhart	51,874	Elkhart	Municipal	2007	14.97
Evansville	121,582	Vanderburgh	Municipal	2009	14.75
South Bend	107,789	St. Joseph	Municipal	2006	13.33
Columbus	39,059	Bartholomew	Municipal	1992	13.08
Lafayette	56,397	Tippecanoe	Municipal	2007	12.13
Hammond	83,048	Lake	Municipal	1985	3.00

(1) Rate increase expected

**SOUTH BEND MUNICIPAL SEWAGE WORKS**  
South Bend, Indiana

Survey of Sewer Rates  
Indiana Cities and Towns Over 30,000 Population

<u>City/Town</u>	<u>2000 Census Population</u>	<u>County</u>	<u>Private or Municipal Ownership</u>	<u>Effective Date of Sewer Rate</u>	<u>Residential 5/8" Meter Monthly Sewer Billing for 6.68 CCF or 5,000 Gallons</u>
Mishawaka (1)	46,557	St. Joseph	Municipal	2010	\$ 44.26
Anderson (2)	59,734	Madison	Municipal	2009	43.17
Columbus	39,059	Bartholomew	Municipal	2009	37.77
New Albany	37,603	Floyd	Municipal	2009	33.67
Gary (2)	102,746	Lake	Municipal	2008	32.50
Lawrence	38,915	Marion	Municipal	2009	30.42
South Bend	107,789	St. Joseph	Municipal	2009	30.08
Kokomo	46,113	Howard	Municipal	2006	29.95
Fishers	37,835	Hamilton	Municipal	2000	26.00
Richmond (2)	39,124	Wayne	Municipal	2009	25.89
Bloomington	69,291	Monroe	Municipal	2005	25.06
Lafayette	56,397	Tippecanoe	Municipal	2008	25.01
Michigan City	32,900	LaPorte	Municipal	2005	24.33
Evansville	121,582	Vanderburgh	Municipal	2008	23.67
Portage	33,496	Porter	Municipal	2009	23.50
Fort Wayne (1)	205,727	Allen	Municipal	2009	23.27
Muncie (1) (2)	67,430	Delaware	Municipal	2010	22.51
Elkhart (1)	51,874	Elkhart	Municipal	2010	22.02
Indianapolis (1) (2)	781,870	Marion	Municipal	2010	20.86
Carmel	37,733	Hamilton	Municipal	2009	18.14
Terre Haute (2)	59,614	Vigo	Municipal	2005	16.57
Greenwood	36,037	Johnson	Municipal	1998	15.55
Hammond (2)	83,048	Lake	Municipal	2008	13.38
Marion	31,320	Grant	Municipal	1992	10.51

(1) Rate increase expected

(2) Subsidized by property tax