

TO: CITY OF SHELBYVILLE
FROM: REEDY FINANCIAL GROUP, PC
SUBJECT: ACCOUNTANT'S REPORT RE: SEWER & STORMWATER RATES
DATE: FEBRUARY 2, 2026

Introduction

In connection with our engagement with the City of Shelbyville (the "City"), we have prepared rate reports for Sewer and Stormwater accompanied to this Accountant's Report (the "Report"). Within this Report, you will find an explanation of our systematic approach and outcomes in addition to considerations.

The rate report is based on the Fiscal Year End June 2025. This is the **year** we are **testing** current rates and charges to prove, or disprove, that current rates, and therefore revenues, are sufficient to fund all necessary revenue requirements. In this instance, current rates disprove adequate, and an increase for Sewer and Stormwater is recommended. A one phase approach is proposed to implement the full rate increase. Due to the current financial state of the utilities, this is the best approach to maintain adequate cash flow.

Disclaimer

In the preparation of the Report, assumptions were made regarding future events. As in the case with assumptions regarding future events and transactions, some or all may not occur as expected and the resulting variances could be material. We have not examined the underlying assumptions, nor have we audited or reviewed historical data. Consequently, we express no opinion or any other form of assurance thereon nor do we have the responsibility to subsequently update this Report.

What is the rate increases funding?

The sequence of the revenue requirements outlined below is by funding necessity (i.e. the utility revenues should first fund O&M, then debt service obligations, then E&R, and then finally PILOT).

Operation and Maintenance (O&M) expenses are the day-to-day expenses required to **operate** and **maintain** exceptional service to rate payers. The annual budget should be consistent with the forecasted O&M expenses, as well as anticipated cash flows, as this is what rates are calculated to fund.

Considerations:

Sewer & Stormwater

1. Salaries and wages adjusted by 2%; FICA and PERF adjusted according to anticipated salaries & wages.
2. Health insurance and rent adjusted by the average annual historical increase from 2022 to 2025.
3. Capital expenses removed from O&M expenses and reclassified as appropriate Extensions & Replacements.

Debt Service is the necessary funds to pay principal and interest on outstanding debt obligations. **Debt service coverage ratio** is the margin associated with bonded indebtedness comparing actual or projected net revenues available for debt service to annual debt-service payments. It is a requirement included in the bond covenants specific to the revenue bonds, typically ranging from 115 percent to 125 percent.

Considerations:

Sewer

1. Outstanding debt obligations: Refunding Revenue Bonds, Series 2016, matures January 1, 2027

- a. Bond is remitted 69.37%, Sewer and 30.63%, Stormwater.
2. Proposed debt obligations: Revenue Bonds, Series 2026, matures January 1, 2046
3. 5-Year Average Annual Debt Service (for cash flow and necessary rate analysis): \$1,435,245

Stormwater

1. Outstanding debt obligations: Refunding Revenue Bonds, Series 2016, matures January 1, 2027
 - a. Bond is remitted 69.37%, Sewer and 30.63%, Stormwater.
2. Maximum Annual Debt Service (for debt service coverage ratio): \$140,158

Extensions and Replacements (E&R) is a funding mechanism to fund capital needs; funding is typically based on one of three methods: (1) composite depreciation factor, (2) Capital Improvement/Master Plan, or (3) a “plug” to debt service coverage and/or net income. The composite depreciation factor is 2.5% of Sewer and Stormwater assets, or a 40-year average asset life. This essentially means if a utility elects the composite depreciation factor method, it could continuously replace those assets as they fully depreciate, and the life is expired.

The Depreciation Fund would be the holding fund of E&R. A monthly, quarterly or annual transfer from Operating Funds to the Depreciation Funds would be necessary. The Depreciation Fund is where capital expenses will be expensed, rather than the Operating Fund.

Considerations:

Sewer

1. RFG recommends a one-time transfer of \$1,350,000 to E&R in 2025 due to excessive cash reserves.
2. In subsequent years, RFG recommends annual funding to be \$230,500 based on the Capital Improvement Plan.

Stormwater

1. Beginning in 2026, RFG recommends annual funding to be \$454,778 based on the Capital Improvement Plan.

Payment in Lieu of Taxes (PILOT) is a payment made to a governmental entity by the government-owned utility instead of taxes. A PILOT is fundamentally a calculated tax bill that can help alleviate restrictions on the City’s General Fund or other levy funds. The calculation of Maximum PILOT is Netbook Depreciated Value divided by (/) 100 multiplied by (x) the City’s Tax Rate.

Considerations:

Sewer

1. Sewer is currently paying a PILOT of \$232,500 to the City.
2. RFG recommends Sewer pay an annual PILOT to the City in the amount of \$150,000.

Stormwater

1. Stormwater is not currently paying a PILOT to the City.
2. RFG recommends that Stormwater pays the Maximum PILOT to the City in the amount of \$123,170 annually.

What will an average residential bill look like?

Sewer

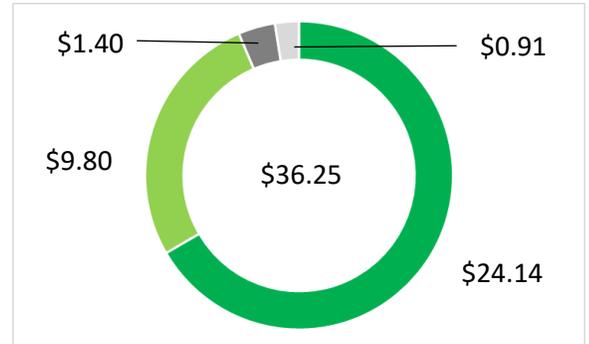
After implementation of rates, assuming average usage of 4,000 gallons, the monthly residential bill will be \$36.25. The annual bill impact under the same assumption will be \$84.84.

	<u>Current Rate</u>	<u>Rate Increase</u>	<u>Proposed Rate</u>
Average Residential Bill Assuming 4,000 Gallon Usage:	\$ 29.18	\$ 7.07	\$ 36.25

never an easy topic of discussion but if communicated correctly, the new rate can be enacted less controversial.

A resident can break down their bill in the categories discussed above:

- **O&M (67%)** – necessary to provide day-to-day excellent service as expected by resident
- **MADS & DSR (26%)** – Max Debt Service is \$1,435,245 and Debt Service Reserve is \$172,049
- **E&R (4%)** – necessary to plan for future improvements to maintain excellent service
- **PILOT (3%)** – funding mechanism for the City, in which the resident is a part of the community



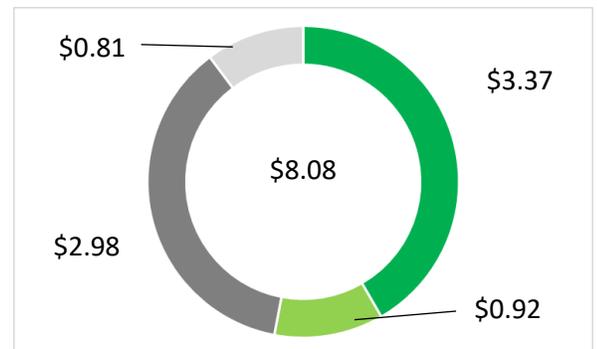
Stormwater

After implementation of rates, assuming a developed residential customer, the monthly bill will be \$8.08. The annual impact under the same assumption will be \$24.96.

	<u>Current Rate</u>	<u>Rate Increase</u>	<u>Proposed Rate</u>
Developed Residential Bill:	\$ 6.00	\$ 2.08	\$ 8.08

Like Sewer, a resident can break down their bill into these categories:

- **O&M (42%)** – necessary to provide day-to-day excellent service as expected by resident
- **MADS (11%)** – Max Debt Service is \$140,158
- **E&R (37%)** – necessary to plan for future improvements to maintain excellent service
- **PILOT (10%)** – funding mechanism for the City, in which the resident is a part of the community



What does all this mean to the City and to the residents?

Rate increases are inevitable in every community and Shelbyville is no exception. The City is being proactive by adopting these new rates and acting in the best interests of their residents. As with everything else, the cost to treat sewage and collect stormwater is only increasing. The most recent rate increases for the City occurred in 2013. Recently, the Sewer Treatment Plant has been experiencing failing systems that can no longer be ignored or temporarily corrected. The proposed bond mentioned above will allow the Plant to more efficiently and effectively treat the City's sewage. Below are Unit Rate Comparisons to show the current and proposed rates of the City compared to 20 other cities in Indiana with a similar population.

Sewer

Rank	Unit	Rate (4,000 gls)	Population	County
1	Munster	\$ 17.64	23,731	Lake
2	East Chicago	\$ 22.45	26,363	Lake
3	St. John	\$ 25.04	20,727	Lake
4	La Porte	\$ 26.11	22,409	LaPorte
5	Franklin	\$ 27.29	26,073	Johnson
6	Shelbyville (Current Rates)	\$ 29.18	19,678	Shelby
7	Crawfordsville	\$ 32.30	16,335	Montgomery
8	Logansport	\$ 32.59	18,166	Cass
9	Shelbyville (Proposed Rates)	\$ 36.25	19,678	Shelby
10	Seymour	\$ 36.34	21,373	Jackson
11	Dyer	\$ 36.47	16,407	Lake
12	Highland	\$ 38.66	23,794	Lake
13	Vincennes	\$ 39.30	16,715	Knox
14	Warsaw	\$ 41.15	16,473	Kosciusko
15	Griffith	\$ 41.32	16,182	Lake
16	Avon	\$ 45.00	21,783	Hendricks
17	Lebanon	\$ 46.81	17,277	Boone
18	Clarksville	\$ 47.20	22,087	Clark
19	Jasper	\$ 48.04	16,488	Dubois
20	Greenfield	\$ 61.36	23,669	Hancock
21	New Castle	\$ 63.24	17,413	Henry
22	Huntington	\$ 75.01	17,017	Huntington

Stormwater

Rank	Unit	Rate (per EDU)	Population	County
1	Vincennes	\$ 3.00	16,588	Knox
2	Greenfield	\$ 4.00	23,488	Hancock
3	Plainfield	\$ 4.00	34,625	Hendricks
4	Frankfort	\$ 4.83	16,715	Clinton
5	Franklin	\$ 5.00	25,313	Johnson
6	Jasper	\$ 5.00	16,703	Dubois
7	Seymour	\$ 5.33	21,569	Jackson
8	La Porte	\$ 5.49	22,444	LaPorte
9	Lebanon	\$ 5.75	16,662	Boone
10	Crawfordsville	\$ 6.00	16,594	Montgomery
11	Shelbyville (Current)	\$ 6.00	20,609	Shelby
12	Dyer	\$ 6.00	16,517	Lake
13	Avon	\$ 6.00	24,735	Hendricks
14	New Castle	\$ 6.00	17,329	Henry
15	Clarksville	\$ 7.39	22,041	Clark
16	Griffith	\$ 7.50	16,222	Lake
17	St. John	\$ 8.00	20,303	Lake
18	Warsaw	\$ 8.00	16,097	Kosciusko
19	Shelbyville (Proposed)	\$ 8.08	20,609	Shelby
20	Highland	\$ 16.00	23,525	Lake
21	Munster	\$ 23.29	23,634	Lake
22	Logansport	\$ 26.77	18,366	Cass

Capacity Fees

A charge for public facilities in existence at the time a charge is imposed, or for new facilities to be constructed in the future, that provides a proportional benefit to the person or property being charged. This charge covers the “right” to use a portion of the treatment plant’s total capacity.

	Current	Proposed
Residential	\$ 750.00	\$ 1,210.00
Industrial/Commercial - 5/8" meter	\$ 750.00	\$ 1,210.00
Industrial/Commercial - 1 inch meter	\$ 1,875.00	\$ 3,025.00
Industrial/Commercial - 1 1/2 inch meter	\$ 4,350.00	\$ 6,050.00
Industrial/Commercial - 2 inch meter	\$ 7,500.00	\$ 9,680.00
Industrial/Commercial - 3 inch meter	\$ 17,250.00	\$ 19,360.00
Industrial/Commercial - 4 inch meter and above	\$ 30,000.00	\$ 30,250.00
Trailer	\$ 300.00	-
Apartments (First Two)	\$ 750.00	-
Apartments (Each Additional)	\$ 300.00	-

Septic Hauling Fees

Costs associated with the disposal of waste from septic tanks hauled by outside vendors to the City’s treatment facilities. This fee is currently **\$0.01** and proposed to **increase to \$0.08 per 1 gallon**.

FOG Tipping Fees

Costs associated with the disposal of Fats, Oils and Grease (FOG) hauled by outside vendors to the City’s treatment facilities. This fee is currently **\$0.05** and proposed to **increase to \$0.25 per 1 gallon**.

Inspection Fees

Costs associated with inspecting new connections to the sewer system or line repairs. This fee is currently **\$25** and proposed to **increase to \$112.00**.