

# INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK

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## 2009 CONTINUING DISCLOSURE

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### DESCRIPTION OF THE SANITARY DISTRICT

#### General Description

Under the operation of the City of Indianapolis Department of Public Works (the “Department”), the Sanitary District serves nearly all of the territory of the City, providing sanitary sewer service to over 220,000 customers and seven (7) satellite communities including the City of Beech Grove, the City of Lawrence, Ben Davis Conservancy District, South Whitestown Utilities, Tri-County Conservancy District, the City of Greenwood, and Hamilton Southeastern Utilities.

#### Management and Oversight

The Board of Public Works is the governing body of the Sanitary District and consists of seven (7) members; three (3) members appointed by the Mayor of the City and three (3) members appointed by the City-County Council to one-year terms. The Director of the Department serves as presiding officer of the Board of Public Works. The Board of Public Works, which meets twice monthly, holds any hearings required by law, and approves the awarding of contracts and bid authorizations and the issuance of revenue bonds under bond resolutions related to such issuance.

The City-County Council is the legislative body with oversight authority for fiscal matters pertaining to the Sanitary District, including approving its rates and charges and the issuance of debt, and annually appropriates the revenues allocated for the operational, maintenance and capital requirements of the Sanitary District. Because the Sanitary District is not subject to the Indiana Utility Regulatory Commission (“IURC”) jurisdiction, no additional approval is required to increase rates and charges.

There are numerous affinity and stakeholder groups with which the Sanitary District and Department interact. While these groups are not officially in a management or oversight role, their input is sought on a variety of environmental, legal and technical matters that involve the Sanitary District and its facilities.

#### The Wastewater System

The Sanitary District’s sanitary sewer system (the “Wastewater System”) is supported by mains and laterals which generally converge through a combined storm and wastewater collection system prior to being transported to two treatment plants. Treatment is provided through two wastewater treatment plants, known collectively as the Advanced Wastewater Treatment (“AWT”) facilities, consisting of the Belmont Advanced Wastewater Treatment Plant, the Belmont Solids Handling Facilities and the Southport Advanced Wastewater Treatment Plant.

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The AWT facilities utilize a treatment process with a total average treatment capacity of 300 million gallons per day (“MGD”). The facilities include preliminary treatment, primary clarification, and biological treatment via bio-roughing and oxygen nitrification, followed by secondary clarification, effluent filtration and ozone disinfection prior to effluent discharge to the White River. Solids handling facilities include thickening, dewatering and incineration.

The Sanitary District’s storm and wastewater collection system is made up of:

- over 10.5 million lineal feet of sewers up to 24 inches in diameter;
- over 1 million lineal feet of sewers greater than 24 inches in diameter and up to 36 inches in diameter;
- over 1 million lineal feet of sewers greater than 36 inches in diameter;
- over 51,500 combined/sanitary manholes,
- over 4 million main and subline storm sewers;
- over 22,000 storm sewer manholes;
- over 200 lift stations, 6 of which are considered major lift stations, and associated force mains;
- over 22,000 basins / inlets to combined or storm sewers;
- over 150 diversions/outfalls;
- approximately 35 siphons;
- over 45 installed flow meters;
- approximately 25 rain gauges;
- and related equipment and inventory.

The average daily flow in 2009 was approximately 200 MGD and the dry sludge processed daily was 130 tons at 24% solids.

Operation and management of the storm and wastewater collection system and the AWT facilities are managed under agreements between the City and United Water Services Indiana (UWS). The contract started January 1, 2008 and runs through December 31, 2016 with options for extension for an additional 6-year term (Extended Term) and for a second additional 5-year term (Second Extended Term), for a combined total of 20 years.

### **Customer Base**

The Sanitary District provides sewer service to most of the developed areas within the City and to certain areas outside the City’s boundaries, including wholesale satellite customers and certain industrial customers. The Sanitary District treats wastewater from over 200,000 residential customers, seven (7) wholesale customers and approximately 17,000 commercial, industrial and institutional customers. The revenue received from and the billed flow of the Sanitary District’s customers as of December 31, 2009 was as follows:

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	<b>Billed Revenue (in \$000 dollars)</b>	<b>% of Total Revenue</b>	<b>Consumption (in Million Gallons)</b>	<b>% of Total Consumption</b>
<b>Residential</b>	\$49,698	43.17%	13,094	35.02%
<b>Commercial/Institutional</b>	\$31,603	27.45%	11,969	32.01%
<b>Industrial</b>	\$15,618	13.57%	5,538	14.81%
<b>Industrial Surcharges</b>	\$11,976	10.40%	-	
<b>Satellite</b>	\$4,704	4.09%	6,788	18.16%
<b>Miscellaneous</b>	\$1,523	1.32%	-	
<b>Total</b>	<b>\$115,122</b>	<b>100%</b>	<b>37,389</b>	<b>100%</b>

Source: Compiled from monthly “Revenue Summary by Rate and Class” reports prepared by Veolia Water Indianapolis.

The City has identified approximately 18,000 residences with failing septic systems that are expected to be connected to the Wastewater System over the next twenty (20) years through the Septic Tank Elimination Program (“STEP”).

**Rates and Charges**

On January 22, 2001, the City-County Council approved and increased the average sewer user rate from \$5.43 to \$6.40. This initial rate increase was projected to fund roughly \$200 million in capital projects. Again, on November 7, 2005 the City-County Council approved a phased, three-year increase in sewer user rates and initiated a new one-time fee of \$2,500 for each unit connecting to the sewer. This series of rate increases was sufficient to fund over \$320 million in new capital improvement projects. In April of 2009, the Council approved a phased, five-year rate increase (10.75% increase in each year) for all classes of user groups (See Table below). These new rates are expected to raise the average household user’s sewer bill from \$17.96 a month for 5,400 gallons of water use to \$19.89 a month in 2009, \$22.02 in 2010, \$24.40 in 2011, \$27.02 in 2012, and \$29.92 in 2013. The Council also approved a new Fats, Oil, and Grease charge to be assessed of all licensed food and cooking establishments beginning in 2010 and an adjustment to the method of calculating the credit given to residential customers during the summer watering months.

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### CITY OF INDIANAPOLIS - DEPARTMENT OF PUBLIC WORKS SEWER USER RATES

	5/1/2009	1/1/2010	1/1/2011	1/1/2012	1/1/2013
<b>NON-INDUSTRIAL</b>					
<b>Metered Monthly Rates</b>					
Minimum Charge (per month)	\$ 15.22	\$ 16.86	\$ 18.67	\$ 20.68	\$ 22.90
Base Charge (per month)	\$ 5.68	\$ 6.29	\$ 6.97	\$ 7.72	\$ 8.55
<b>Treatment Charges / 1,000 Gallons</b>					
First 7,500 Gallons	\$ 2.6312	\$ 2.9141	\$ 3.2274	\$ 3.5743	\$ 3.9585
Over 7,500 Gallons	\$ 2.7661	\$ 3.0635	\$ 3.3928	\$ 3.7575	\$ 4.1614
<b>INDUSTRIAL</b>					
<b>Metered Monthly Rates</b>					
Minimum Charge (per month)	\$ 15.67	\$ 17.35	\$ 19.22	\$ 21.29	\$ 23.58
Base Charge (per month)	\$ 5.68	\$ 6.29	\$ 6.97	\$ 7.72	\$ 8.55
Treatment Charges / 1,000 Gallons	\$ 2.7661	\$ 3.0635	\$ 3.3928	\$ 3.7575	\$ 4.1614
Industrial Surveillance Rate - Per 1,000 Gallons	\$ 0.1317	\$ 0.1459	\$ 0.1616	\$ 0.1790	\$ 0.1982
Total Treatment & Surveillance Rate / 1,000 Gallons	\$ 2.8978	\$ 3.2094	\$ 3.5544	\$ 3.9365	\$ 4.3596
<b>Excessive Strength Surcharges (Per lb)</b>					
BOD in excess of 250 mg/l	\$ 0.1795	\$ 0.1988	\$ 0.2202	\$ 0.2439	\$ 0.2701
TSS in excess of 300 mg/l	\$ 0.2028	\$ 0.2246	\$ 0.2487	\$ 0.2754	\$ 0.3050
NH <sup>3</sup> in excess of 20 mg/l	\$ 0.9348	\$ 1.0353	\$ 1.1466	\$ 1.2699	\$ 1.4064
<b>Septic Hauler Rates</b>					
In County Septic: Per 1,000 Gallons	\$ 55.51	\$ 61.48	\$ 68.09	\$ 75.41	\$ 83.52
In County Grease Waste: Per 1,000 Gallons	\$ 280.56	\$ 310.72	\$ 344.12	\$ 381.11	\$ 422.08
Out of County Septic: Per 1,000 Gallons	\$ 83.17	\$ 92.11	\$ 102.01	\$ 112.98	\$ 125.13
Out of County Grease Waste: Per 1,000 Gallons	\$ 308.34	\$ 341.49	\$ 378.20	\$ 418.86	\$ 463.89
<b>FOG-Licensed Food - Cooking Facilities</b>					
All Licensed Food/Cooking Facilities - Monthly Charge	\$ 15.00	\$ 20.00	\$ 25.00	\$ 30.00	

The Sanitary District's retail customers are split into two major user rate categories, industrial and non-industrial.

*Non-Industrial Users.* The non-industrial group includes residential, commercial, institutional and governmental. Non-industrial customers are charged a fixed monthly base fee plus a treatment charge per thousand gallons of metered water usage.

*Industrial Users.* Industrial customers pay the same fixed base fee per connection as the non-industrial users. The industrial treatment charge is per thousand gallons and includes a component for the additional cost of the industrial surveillance program. In addition, industrial users may be assessed excessive strength surcharges for biochemical oxygen demand, suspended solids and ammonia.

*Wholesale Customers.* The Sanitary District has separate wholesale service agreements with seven (7) neighboring communities and/or utility service territories which are referred to as "Satellite Customers."

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### Sanitary Operating and Maintenance Expenditures

The following table provides a five (5) year summary of the Sanitary District's operating and maintenance expenditures including historical data for the years ended December 31, 2007 and 2008, Year End projections for 2009, budgeted 2010, and Pro-forma projections for 2011.

Annual Operating and Maintenance Expenditures:

	Actual			Projected	
	2007	2008	2009	2010	2011
<b>Policy and Planning</b>	\$1,141,484	\$1,147,463	\$1,382,510	\$1,160,851	\$925,285
<b>Engineering</b>	\$1,412,373	\$1,310,092	\$1,799,081	\$1,439,962	\$1,268,047
<b>Operations</b>	\$48,016,400	\$51,935,230	\$55,934,313	\$59,365,615	\$61,792,201
<b>TOTAL:</b>	<b>\$50,570,256</b>	<b>\$54,392,785</b>	<b>\$59,115,904</b>	<b>\$61,966,428</b>	<b>\$63,985,533</b>

Source: City of Indianapolis CAFRs for years ending December 31, 2007, 2008 and 2009, Department of Public Works estimates and Budgeted amounts for 2010 and 2011.

### Largest Sanitary District Customers (2009)

The following table provides unaudited revenue and consumption data for the Sanitary District's ten (10) largest customers for the year ended December 31, 2009:

Top Industrial Customers	Revenue (in dollars)	% of Total Revenue (all customers)	Consumption (in gallons)	% of Total Consumption (all customers)
National Starch	\$ 12,021,324	10.44%	1,133,384,444	3.03%
Eli Lilly	2,324,366	2.02%	718,415,306	1.92%
Vertellus Specialties, Inc	1,452,944	1.26%	240,933,562	0.64%
Quaker Oats Co/SVC Manufacturing	1,106,479	0.96%	243,355,323	0.65%
Indianapolis Airport Authority	1,064,698	0.92%	240,396,829	0.64%
Conagra Dairy Foods	586,510	0.51%	112,783,351	0.30%
Covanta Indianapolis, Inc	535,160	0.46%	192,115,751	0.51%
Citizens Thermal Energy	519,020	0.45%	183,377,866	0.49%
Clarian Health Partners	394,006	0.34%	138,886,127	0.37%
Automotive Components Holdings	374,796	0.33%	135,719,364	0.36%
<b>Total</b>	<b>\$ 20,379,303</b>	<b>17.70%</b>	<b>3,339,367,923</b>	<b>8.93%</b>

Source: Veolia Water

Collectively, the ten largest customers of the Sanitary District account for 17.70% of the Sanitary District's total revenue and 8.93% of the total consumption.

### Long Term Control Plan

The Sanitary District has a combined sewer and stormwater system, and has received approval of a Long Term Control Plan that will reduce the number of combined sewer overflow (CSO) events during wet weather periods.

The Long Term Control Plan will require extensive capital outlays which the Sanitary District intends to finance with bond and other capital financing, through the Indiana State

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Revolving Fund Loan Program and the open market. The financings, which support the CSO capital needs as well as the ongoing capital for the sanitary sewer facilities, will be secured with the pledge of user revenues.

Through implementation of the LTCP, the City is seeking to restore beneficial uses of streams and to protect waterways from sewer overflows when people are most likely to use them. The City's goals include:

- Reducing sewer overflows
- Improving water quality in streams to support fish and other aquatic wildlife
- Improving the quality of life in neighborhoods by reducing odors and capturing the unsightly materials found in overflowing sewers
- Complying with State and Federal Clean Water Act permit requirements.

To fulfill its goals, the City will build storage and conveyance facilities designed to capture ninety-seven (97%) percent of wet-weather sewer flows and two overflow events per year on Fall Creek and ninety-five (95%) percent and four overflow events per year on White River, Pogues Run, Pleasant Run, and Bean Creek. This will capture all but a few large storms in a typical year. Major components of the LTCP include completion of the following projects:

- Deep, underground tunnels starting at the Southport advanced wastewater treatment plant along White River, Fall Creek, Pogues Run and Pleasant Run will capture, store and convey sewage to the City's Southport advanced wastewater treatment plant;
- A new relief interceptor sewer along the existing Belmont North Interceptor system that will carry wet weather flows to the Belmont AWT plant;
- Upgrades to an existing storage facility and pumping station at Riviera Club to capture and store overflows from the upper White River;
- Inflatable dams and pinch valves at key points in the Sewer System to use existing lines to maximize in-system storage and conveyance to contain and reduce raw sewage overflows;
- Local sewer separation projects to eliminate isolated overflows on White River, State Ditch, Lick Creek and the upstream ends of Fall Creek, Pogues Run, and Bean Creek;
- Significant improvements to both Belmont and Southport AWT plants to increase their ability to store and treat incoming flows during wet weather.

Because the Long Term Control Plan will take 20 years to implement (through 2025) the EPA required the City to enter into a consent decree. The final Consent Decree was lodged in the United States District Court for the Southern District of Indiana on October 4, 2006, and entered by the Court on December 19, 2006 (the "Consent Decree"). The Consent Decree was subsequently amended twice, with the second amendment at the agreement in principle stage, subject to full approval of the U.S. Department of Justice, which will modify specific control measures but keep performance criteria the same.

Overview of Consent Decree Requirements. Under the Consent Decree, the City has agreed to:

- achieve full operational status to implement thirty two (32) CSO control measures along five (5) waterways designed to significantly reduce raw sewage overflows from the combined Sewer System and achieve full operational status by December 31, 2025;
- to eliminate chronic overflows (SSDs) from seven (7) locations in the separated sanitary Sewer System by December 31, 2015;

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- and to eliminate septic systems in the Epler-Meridian and Banta-Southport neighborhoods by December 31, 2010 on supplemental environmental projects (SEP projects).

When expressed in 2004 dollars, the projected cost of the modified Consent Decree, including capital and operation and maintenance costs, is estimated to cost approximately \$1.4 billion.

### **Sale of City's Water and Sewer Utilities**

The City is in negotiations with Citizens Energy Group to sell the City's water and sewer utilities. The primary assets to be sold include the Waterworks production and distribution systems, and the wastewater collection and treatment system, including the advanced wastewater treatment facilities. The anticipated transaction would also contemplate the assumption of related sewer and water utility outstanding debt by Citizens Energy Group. Citizens Energy Group is governed by a five-member board of trustees and seven-member board of directors. The board of directors and trustees are fully accountable to state and local elected officials, and regulators including the Indiana Utility Regulatory Commission and the Indiana Department of Environmental Management. On April 14, 2010, the Board of Public Works approved the sale of the assets of the Sanitary District. The final vote for sale of the city's water and sewer utilities is scheduled for consideration by the City-County Council on July 26, 2010.

Questions regarding the Sanitary District should be directed to the Indianapolis Local Public Improvement Bond Bank at 317-327-4220.