

FINAL

REVENUE SUFFICIENCY STUDY

BLACK & VEATCH PROJECT NO. 424807

PREPARED FOR

St. Louis Water Division, MO

4 MAY 2026



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Legal Notice or Executive Summary

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1.0 Introduction

The City of St. Louis, Missouri (City) engaged Black & Veatch to conduct a Revenue Sufficiency Study (Study) for the Water Division to determine if the water utility's projected annual revenues could provide sufficient funding for the projected annual operating and capital expenses while maintaining targeted levels of annual reserve balances and meeting financial metrics. The Study Period is from July 1, 2026, through June 30, 2032, comprising the Fiscal Years (FY) 2027 to 2032. The purpose of this report (Report) is to summarize the study approach and findings and provide recommendations regarding the estimated annual revenue increases needed to meet the Water Division's projected annual revenue requirements and other financial criteria discussed in the Report.

Based on discussions with the Water Division, the following key financial objectives were defined for the Study:

- Enable annual revenue self-sufficiency for the Water Fund, such that the total projected annual water revenues are sufficient to meet the projected annual revenue requirements, including operation and maintenance (O&M), debt service, cash financing for capital projects, and reserve needs.
- Provide for basic level of annual reserves by defining a targeted Operations and Maintenance Reserve ("O&M Reserve") of 45 days for FY 2027 and 90 days for FY 2028 and beyond.
- Maintain a minimum annual debt service coverage of 1.10. However, per industry's best financial practice, a target debt service coverage of 1.50 or above is necessary to sustain higher credit ratings for the Water Division.

Black & Veatch conducted its analysis and developed the six-year financial plan with the goal of achieving these key objectives.

1.1 Primary Assumptions

The following are primary assumptions used in the forecast of annual revenues and expenses during the study period:

1. The Water Division's estimates of projects, scheduling, and cost of the ten-year capital improvement program (CIP) present a reasonable projection of the future capital program.
2. Debt service for the proposed revenue bonds and State Revolving Fund (SRF) bonds and loans are based on capital projects assumed to be financed through these bonds and loans, and the associated assumed timing of issuance.
3. The six-year financial plan is designed to provide for a minimum annual O&M reserve balance equal to 90 days of annual O&M expenditure, by the end of the Study Period.
4. There will be no significant changes in annual water sales volume from the projections assumed for the study period.
5. There will be no material changes in federal and state laws or regulations that would adversely affect the Water Division's ability to secure tax-exempt financing, place more stringent limitations on water quality, materially increase the cost of constructing or operating the water system, or otherwise adversely affect operating of the water system.
6. Local and regional economic conditions will remain relatively stable over the Study Period.

7. Water Division staff will recommend the indicated multi-year revenue increases to the Board of Aldermen in time to support the implementation of the proposed annual revenue increases.
8. The Board of Aldermen will approve the indicated annual revenue increases and the issuance of the proposed debt required to finance the CIP.

2.0 Methodology

Black & Veatch developed the financial plan based on the “Cash-Needs” approach, as outlined in the American Water Works Association’s (AWWA) Manual of Water Supply Practice *M1: Principles of Water Rates, Fees, and Charges*. The objective of this approach is to project operating and capital expenditures based on budgeted expenditures, project revenue under existing rates based on anticipated revenue receipts, and project revenue adjustments necessary to generate annual revenues that are sufficient to cover the annual revenue requirements for the Study Period.

Figure 2-1 provides graphical representation of the approach taken to execute the financial plan. The Study Period for this financial plan is FY 2027 to 2032.

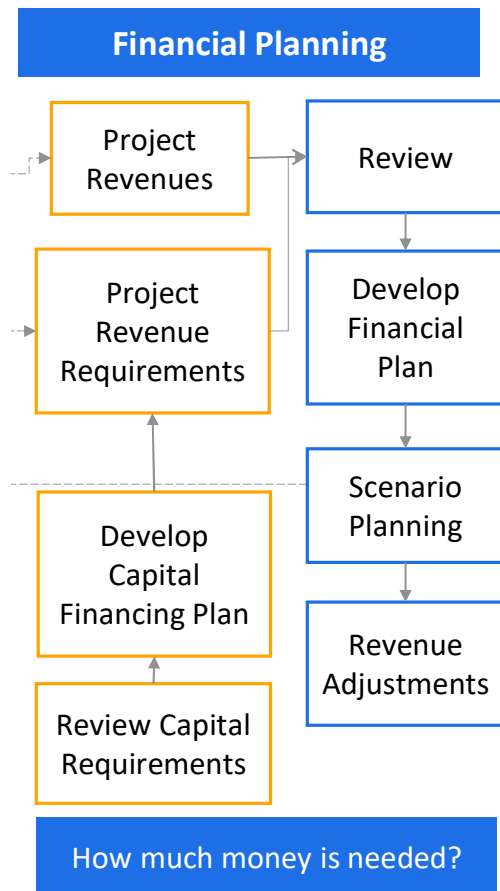


Figure 2-1 Study Approach

The data and assumptions utilized in the development of the six-year financial plan and results are discussed in the following sections of the Report.

3.0 Revenue under Existing Rates

This section provides a discussion of the data and assumptions utilized for projection of Water Division revenues under existing rates.

3.1 Water Division Revenues

The revenues for the Water Division are derived from the following categories.

3.1.1 Retail Revenues

Retail revenue for the Water Division comes principally from charges for potable water service, which includes metered and flat-rate water sales. Historically, metered water sales were the largest source of water revenue for the Water Division, but beginning in 2009, flat-rate water sales has exceeded metered water sales. This trend is due partly to declining water usage of metered water customers.

In this analysis, projected metered and flat rate retail annual revenues for the Study Period are based on historical annual revenues received. Historical trends in billed water sales volumes and customer accounts from customer billing information indicated no material increase in sales volume and/or customer accounts. Aligned with this observation, retail annual revenue from metered and flat-rate customers is projected to remain at the FY 2026 level over the Study Period.

In FY 2025, the Water Division had 94,578 accounts and pumped 46.9 billion gallons of water.

The revenue projection in Figure 3-1 shows the change in revenue primarily due to rate increases that were implemented in FY's 2023, 2024, and 2026 and the projection of revenues under the existing rates from FY's 2027 to 2032.

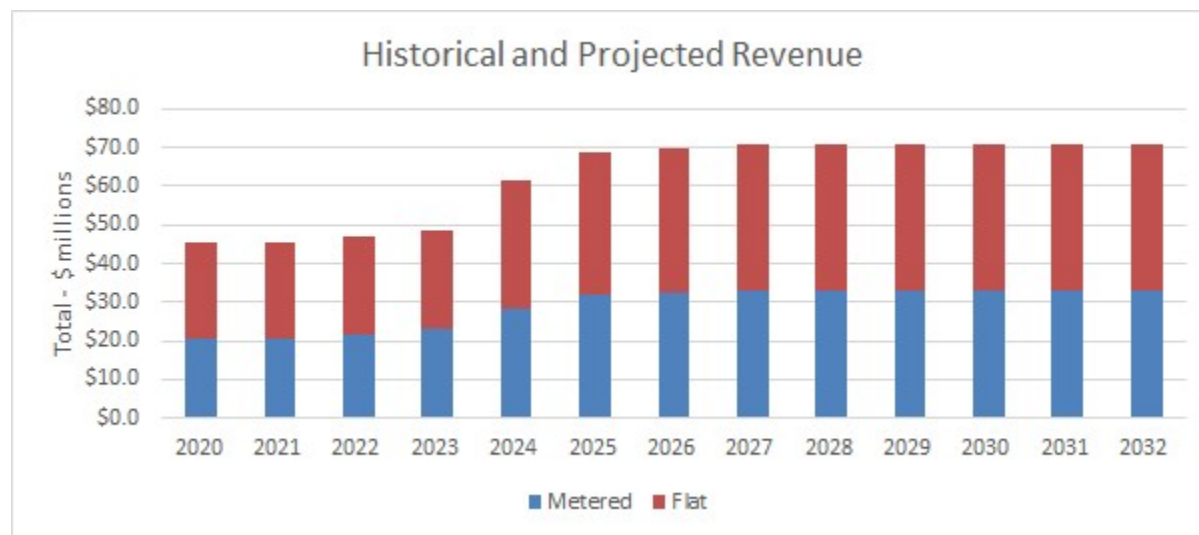


Figure 3-1 Projected Flat and Metered Water Sales (Existing Rates)

Table 3-1 presents the historical water rate increases during the last 16 years.

Table 3-1 Historical Water Rate Increases

Historical Rate Increases			Historical Rate Increases		
Fiscal Year	Increase	Cumulative Increase	Fiscal Year	Increase	Cumulative Increase
2011	12.0%	12.0%	2019	0.0%	12.0%
2012	0.0%	12.0%	2020	0.0%	12.0%
2013	0.0%	12.0%	2021	0.0%	12.0%
2014	0.0%	12.0%	2022	0.0%	12.0%
2015	0.0%	12.0%	2023	20.0%	34.4%
2016	0.0%	12.0%	2024	20.0%	61.3%
2017	0.0%	12.0%	2025	0.0%	61.3%
2018	0.0%	12.0%	2026	3.0%	66.1%
			<i>Annual Avg.</i>		4.1%

3.1.2 Wholesale Revenues

Wholesale revenue for the Water Division comes from charges for treated water service to three wholesale customers: the City of St. Charles and St. Peters, Missouri American Water, and Water District #2. Similar to retail revenues, wholesale revenues are projected based on historical revenues received with an assumption of no growth in billed water sales volumes. Wholesale revenue is projected to remain at the FY 2026 level, over the Study Period. The annual wholesale revenue is estimated at \$5.6 million.

In FY 2025, the Water Division had three wholesale accounts and sold 4.45 billion gallons of water.

3.1.3 Other Revenue

Other revenue consists of other operating and non- operating revenues including primarily interest, investment earnings, grants and other fees. Total other revenue in FY 2027 is estimated at \$2.75 million composed of other operating revenue, interest income, and other non-operating revenues. The other operating and non-operating annual revenues are projected to remain at the FY 2027 budget levels, over the study period. Table 3-2 Lines 5, 6 and 7 show the projected other revenue components for the Study Period.

3.1.4 Bad Debt

Bad debt provides an allowance for potential revenue reduction due to uncollected customer delinquencies. The bad debt is currently around 5.87% of water billed revenues for FY 2026. The Water Division expects the annual bad debt to decrease during the Study Period as the City has recently changed its shut-off policy to allow all water accounts to be turned off for non-payment. Therefore, the projected bad debt is expected to decrease to 3.50% in FY 2027 and FY 2028 and 3.0% in FY 2029 and beyond. Table 3-2 Line 3 presents the total water bad debt associated with billed revenues under existing and proposed rates for the Study Period.

3.2 Revenue Projections

Table 3-2 presents the total projected revenues under existing rates for the various categories of revenues, and the aggregate annual revenue is projected to increase from \$76.9 million in FY 2027 to \$78.0 million in FY 2032, as presented in Line 8. The projected retail and wholesale revenues under existing rates are adjusted for anticipated bad debt. The total Water Division rate revenues based on

existing FY 2026 rates are projected to increase from \$74.2 million in FY 2027 to \$74.6 million in FY 2032, as indicated in Line 4, in Table 3-2.

Table 3-2 Revenues Under Existing Rates

o.		2027	2028	2029	2030	2031	2032
		\$	\$	\$	\$	\$	\$
Water Sales Revenue at Existing Rates							
1	Retail (a)	71,092,700	71,092,700	71,092,700	71,092,700	71,092,700	71,092,700
2	Wholesale (b)	5,590,000	5,590,000	5,590,000	5,590,000	5,590,000	5,590,000
3	Bad Debt Expense (c)	(2,488,200)	(2,488,200)	(2,132,800)	(2,132,800)	(2,132,800)	(2,132,800)
4	Total Water Sales Revenue	\$74,194,500	\$74,194,500	\$74,549,900	\$74,549,900	\$74,549,900	\$74,549,900
Other Revenue							
5	Other Operating Revenue	1,312,000	1,312,000	1,312,000	1,312,000	1,312,000	1,312,000
6	Interest Income (d)	178,800	539,100	866,000	899,000	785,100	833,100
7	Net Other Nonoperating Revenues (e)	1,259,500	1,259,500	1,259,500	1,259,500	1,259,500	1,259,500
8	Total Revenue	\$76,944,800	\$77,305,100	\$77,987,400	\$78,020,400	\$77,906,500	\$77,954,500

- (a) Includes net revenue from metered and flat rate customers. Revenue is projected to change at an average annual rate of 0.0 percent per year for metered customers and 0.0 percent for flat rate customers.
- (b) Revenue increases for the wholesale customers is expected to remain flat.
- (c) Bad debt expense set at 3.5 percent in 2027 & 2028, then 3 percent for the remainder of the financial plan.
- (d) Interest income is based on the average balance of funds available for investment and an average annual interest rate of 3.0 percent. Also includes interest earned on the Bond and Interest Account.
- (e) Includes net miscellaneous nonoperating revenue and interest expense on consumer deposits.

4.0 Revenue Requirements

The revenue required to provide for the continued operation of the Water Division must be sufficient to meet the revenue requirements for system operation. Revenue requirements include: (1) O&M expenses; (2) gross receipts taxes paid to the City; (3) debt service payments on revenue bonds and SRF bonds and loans; and (4) expenditures for routine and major capital improvements that are cash-financed from annual revenues. Projections of the annual revenue requirements of the water system for the Study Period are discussed in this section.

4.1 Operations and Maintenance Expenses

O&M expenses for the Water Division include the annual expenses associated with supply and treatment, transmission and distribution, power and pumping, administrative and general, and customer accounting. These cost categories include salaries and wages, materials and supplies, support services, and other services.

Projection of O&M costs for FY's 2028 to 2032 are based on the Water Division's FY 2027 Board of Alderman approved budget and escalated using an assumed annual inflation allowance ranging between 2.9% and 4.7% per year based on the expenditure category. The result of these projections is an average annual increase in total O&M expenses of approximately 3.2% per year over the Study Period.

4.1.1 O&M Assumptions

Table 4-1 presents the annual escalation factors based on regional O&M cost indices.

Table 4-1 Operations and Maintenance Escalation Factors

Cost Category	Annual Escalation Factor
Salaries and Wages	2.9%
Purchased Power	3.1%
Support Services	4.7%
Other Services	4.7%

The chemical cost category has seen significant fluctuation in recent years, due to the pandemic, but chemical costs have stabilized now as indicated by recent cost indices. Therefore, the annual chemical costs are expected to remain at the FY 2027 level over the Study Period.

4.1.2 O&M Expense

The Water Division approved budgeted O&M for FY 2027 is \$77.6 million an increase of 3.8% from FY 2026 budget. Table 4-2 presents a summary of the projected O&M expenses for the Study Period. The O&M expenses are projected to increase from \$77.6 million in FY 2027 to \$90.8 million in FY 2032.

Table 4-2 Operations and Maintenance Expenses

Line No.		2027	2028	2029	2030	2031	2032
		\$	\$	\$	\$	\$	\$
O&M Expense (a)							
1	Salaries and Wages	35,684,200	36,720,000	37,784,000	38,880,000	40,008,000	41,168,000
2	Purchased Power	4,500,000	4,640,000	4,784,000	4,932,000	5,085,000	5,243,000
3	Chemicals	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
4	Other Services	21,918,200	23,040,000	24,215,000	25,446,000	26,734,000	28,082,000
5	Materials and Supplies	4,669,200	4,804,000	4,943,000	5,086,000	5,233,000	5,385,000
6	Collector of Revenue's Fee	837,000	858,000	879,000	901,000	924,000	947,000
7	Cost of Community Service	13,000	13,000	13,000	13,000	13,000	13,000
8	Total	\$77,621,600	\$80,075,000	\$82,618,000	\$85,258,000	\$87,997,000	\$90,838,000

(a) Excludes depreciation expense.

4.2 Gross Receipts Tax

Gross receipts tax payable to the City’s General Fund by the Water Division is equal to 6% of annual gross water revenue. Gross water revenue equals total retail water sales revenue, wholesale water sales revenue, interest income, and all other operating and non-operating revenue. An additional 4.0% gross receipts tax, which is shown as a separate line item on each water bill, is paid directly to the City’s General Fund and does not affect the rate design process of the Water Division. Based on the total projected annual gross water revenues, gross receipts tax payments are projected to increase from \$4.2 million in FY 2026 to \$8.0 in FY 2032.

4.3 Routine Annual Capital Outlay

Routine annual capital outlay are costs that the water division is anticipated to incur each year for ongoing improvements or repairs as well as normal replacements such as vehicles and office equipment. Since the costs of these improvements are a continuing expense to be met each year, the Water Division appropriately finances these expenditures from current water revenues. These expenditures are originally recorded as operating and maintenance expenses but are capitalized each year and deducted from the Water Division’s annual operation and maintenance expenses. Routine annual improvements are projected to remain at about \$2.0 million throughout the Study Period.

4.4 Capital Improvement Program (CIP)

Through CIP workshops with the Water Division, staff determined the projected capital improvements required over the Study Period. The projects identified are based on needs to replace aging infrastructure, and upgrades to facilities to meet regulatory compliance throughout the water system. Table 4-3 shows the planned CIP by function for the Study Period.

Table 4-3 Capital Improvement Program by Function

o.		2027	2028	2029	2030	2031	2032
		\$	\$	\$	\$	\$	\$
Capital Improvement Program							
1	Pumping	7,000,000	11,250,000	7,500,000	10,750,000	11,750,000	6,000,000
2	Transmission & Distribution	12,150,000	18,950,000	19,000,000	16,000,000	12,000,000	19,500,000
3	Water Treatment Plant	14,050,000	26,750,000	52,350,000	39,125,000	54,525,000	49,025,000
4	Storage	150,000	0	0	0	0	200,000
5	Hydrants	750,000	750,000	750,000	750,000	750,000	750,000
6	Meters	3,000,000	3,000,000	3,000,000	3,000,000	0	0
7	General	2,850,000	3,000,000	2,000,000	4,000,000	10,000,000	16,000,000
8	Total	\$39,950,000	\$63,700,000	\$84,600,000	\$73,625,000	\$89,025,000	\$91,475,000

The following are key CIP projects to be executed in the Study Period:

- Clarifier Replacement - Chain of Rocks WTP (\$17.95 million)
- Finished Water Pump/Motor/Valve Replacement - Chain of Rocks WTP (\$33.25 million)
- Engine House Water Pump/Motor/Valve Replacement - Howard Bend WTP (\$21.0 million)
- Lime System Improvements – Chain of Rocks WTP (\$15.25 million)
- Small Diameter Main Replacement (\$49.5 million)
- Filter Plant Improvements - Chain of Rocks WTP (\$122.0 million)
- Water Meter Replacement Program (\$12.0 million)

4.4.1 Capital Improvement Plan Financing

The Water Division funds CIP from a combination of funding sources including cash financing, debt financing, and other available funds on hand. Table 4-4 shows the capital financing plan over the Study Period. The capital financing plan anticipates that proposed CIP will be financed using a combination of cash financing, revenue bonds, SRF Bonds, other sources, and interest income.

Total cash financing of CIP from annual revenues is anticipated to total \$58.0 million. Total revenue bonds are anticipated to total \$239.8 million with issuances of \$39.1 million in FY 2027, \$93.1 million in FY 2029 and \$107.5 million in FY 2031. Total SRF bonds are anticipated to total \$144.3 million.

Table 4-4 Capital Financing Plan

Line No.		2027	2028	2029	2030	2031	2032
		\$	\$	\$	\$	\$	\$
Source of Funds							
1	Beginning of Year Balance	0	25,615,200	963,900	49,197,100	2,929,000	64,335,600
2	Cash Financing of Improvements	4,505,000	4,020,000	5,815,000	7,340,000	18,280,000	18,075,000
3	Proposed Revenue Bonds	39,100,000	0	93,100,000	0	107,550,000	0
4	SRF Bonds	21,145,000	34,630,000	32,735,000	19,235,000	23,095,000	13,500,000
5	Other Sources	250,000	0	0	0	0	0
6	Interest Income	956,200	398,700	2,114,200	781,900	2,582,100	1,047,300
7	Total	\$65,956,200	\$64,663,900	\$134,728,100	\$76,554,000	\$154,436,100	\$96,957,900
Application of Funds							
8	Major Capital Improvements	39,950,000	63,700,000	84,600,000	73,625,000	89,025,000	91,475,000
9	Revenue Bond Issuance Cost	391,000	0	931,000	0	1,075,500	0
10	SRF Backed Bonds Issuance Cost	0	0	0	0	0	0
11	Purchase of Surety Bond	0	0	0	0	0	0
12	Transfers Out	0	0	0	0	0	0
13	Total	\$40,341,000	\$63,700,000	\$85,531,000	\$73,625,000	\$90,100,500	\$91,475,000
14	End of Year Balance	\$25,615,200	\$963,900	\$49,197,100	\$2,929,000	\$64,335,600	\$5,482,900

4.5 Debt Service

Debt service projections for the Study Period include existing and future debt service. Table 4-5 shows the summary of projected existing, future and total debt service. Total annual debt service is projected to increase from \$2.4 million in FY 2027 to \$23.2 million by FY 2032

Table 4-5 Debt Service Payments

Line No.		2027	2028	2029	2030	2031	2032
		\$	\$	\$	\$	\$	\$
Capital Improvement Program							
1	Existing SRF Loans	594,200	593,700	594,000	594,100	593,900	593,600
2	Proposed Revenue Bonds	1,502,900	3,005,900	6,584,400	10,163,000	14,297,000	18,431,100
3	Proposed SRF Bonds	323,300	1,176,100	2,206,000	3,000,700	3,647,900	4,207,400
4	Total	\$2,420,400	\$4,775,700	\$9,384,400	\$13,757,800	\$18,538,800	\$23,232,100

Existing debt service is based on the Water Division’s existing debt service schedule for the water fund. The Water Division currently has one outstanding SRF loan, the Series 2013 loan from the Missouri Department of Natural Resources (DNR), with an initial principal amount of \$9.5 million.

Future debt service is based on the planned magnitude and timing of debt financing of the CIP through the issuance of revenue bonds and SRF bonds. The revenue bonds are assumed to have the following terms: interest rate at 4.5%, bond issuance costs at 1.0% of issuance amount, and a 20-year term with equal annual principal and interest payments. The SRF bonds are assumed to have the following terms: interest rate of 2.0%, and a 20-year term with equal annual principal and interest payments.

4.6 Reserves

4.6.1 O&M Reserve

The O&M reserve is a cash balance that is usually maintained in the operating fund primarily to provide funds for managing unforeseen situations such as lower-than-expected water sales revenue, operational emergencies, and unforeseen cost increases. The Water Division currently does not have a defined financial policy on the level of annual O&M reserve that the water enterprise fund needs to maintain.

Therefore, it is recommended that the Water Division establish a policy to require a minimum operating reserve equal to 90 days of annual O&M expenses. To mitigate the level of rate revenue increase needed in FY 2027 and beyond, a gradual approach is recommended for building the O&M reserve, beginning with 45-days of O&M reserve in FY 2027 and 90-days of annual O&M reserve during FY 2028 through 2032. This recommended level of operating reserve is consistent with the median operating reserve level recommended by rating agencies and with utility industry’s best practices.

4.6.2 Rate Stabilization Reserve (RSR)

The Rate Stabilization Reserve (RSR) is usually an unrestricted operating fund reserve which some utilities maintain in addition to the O&M reserve discussed in section 4.6.1. The RSR provides a funding mechanism to help utilities mitigate year-over-year volatility in the level of annual revenue adjustments that may be necessary to meet the utility’s annual revenue requirement obligations. In addition, any projected residual amounts from current year revenues, which are available after meeting all the projected annual obligations including O&M and debt service expenditures, O&M reserve requirements and cash financing of the CIP, can be transferred to and reflected in the RSR fund balance. If a reasonable annual RSR fund balance is built and maintained, then the level of annual revenue increases needed can be optimized by either withdrawing from or depositing to the RSR.

Currently, the City does not have a Rate Stabilization Reserve (RSR) and/or a defined financial policy on the level of annual RSR balance. Therefore, in this six-year financial plan, the cash flow analysis is designed to build a modest balance of \$2.4 million in the RSR in FY 2028 and then continue to build that fund balance to \$19.0 million by FY 2030. This balance is then drawn down during FY 2031 and FY 2032

to meet the significant increases in debt service costs and thus maintain steady levels of annual rate increases during FY 2028 through FY 2032.

Table 4-6 presents the transfers into the RSR in Line 2 (from current year revenues) and transfers out from RSR in Line 5 (to operating funds). Line 7 presents the projected cumulative RSR balance during each year of the Study Period. By FY 2032 it is estimated that the balance in the RSR would be \$7.3 million.

Table 4-6 Rate Stabilization Reserve

Line No.		2027	2028	2029	2030	2031	2032
		\$	\$	\$	\$	\$	\$
Source of Funds							
1	Beginning of Year Balance	0	0	2,436,500	12,358,400	19,841,400	14,557,400
2	Transfers In from Operating	0	2,400,000	9,700,000	7,000,000	0	0
3	Interest Income	0	36,500	221,900	483,000	516,000	327,600
4	Total	\$0	\$2,436,500	\$12,358,400	\$19,841,400	\$20,357,400	\$14,885,000
Application of Funds							
5	Transfers Out to Operating	0	0	0	0	5,800,000	7,600,000
6	Total	\$0	\$0	\$0	\$0	\$5,800,000	\$7,600,000
7	End of Year Balance	\$0	\$2,436,500	\$12,358,400	\$19,841,400	\$14,557,400	\$7,285,000

5.0 Financial Plan

The annual revenue adjustments that are needed to achieve the defined financial performance objectives are determined by evaluating the funding gap between the projected annual revenue requirements and the projected revenues under existing rates, during the Study Period.

5.1 Financial Plan under Proposed Rates

Table 5-1 shows the forecasted total cash flow for the Water Division's operating fund for the Study Period under the proposed series of revenue adjustments.

- Lines 1 and 2 present projected revenues under existing rates. The revenues under existing rates are projected to remain constant at \$76.7 million during the Study Period.
- Lines 3 to 8 present the projected revenue adjustment. The proposed revenue increases are 40.0% for FY 2027, 6.0% for FY 2028, 2029, and 2030 and 5.0% for FY 2031 and 2032.

Based on the financial analysis, the Water Division would require a 40% rate increase in FY 2027. Given the magnitude of this increase and its potential impact on ratepayers, the increase could be implemented in two equal 18% adjustments within the fiscal year to help mitigate the effect. These adjustments would take effect on July 1, 2026, and January 1, 2027. While the two adjustments result in different financial outcomes, they would provide the Water Division with the revenue needed to meet its operating and capital requirements.

- Line 9 indicates the additional projected retail revenues based on the projected revenue adjustments in Lines 3 through 8. The additional projected revenues are anticipated to increase from \$26.1 million in FY 2027 to \$59.1 million in FY 2032.
- Line 11 presents the total projected revenues from water sales less the bad debt expense shown in Line 10. The total projected revenues from water sales are expected to increase from \$99.4 million in FY 2027 to \$131.9 million in FY 2032.
- Lines 12 to 14 present the other operating and non-operating revenues which are projected to increase from \$2.8 million in FY 2027 to \$3.4 million in FY 2032.
- Line 15 presents the total projected water revenues. The total projected water revenues are anticipated to increase from \$102.1 million in FY 2027 to \$135.3 million in FY 2032.
- Line 16 presents the projected annual water O&M expenses. The total projected O&M expenses are anticipated to increase from \$77.6 million in FY 2027 to \$90.8 million in FY 2032.
- Line 17 indicates that based on the gross water revenue the gross receipt tax would increase from \$6.1 million in FY 2027 to \$8.1 million in FY 2032.
- Line 22 indicates the total projected debt service for the water fund. The total projected debt service is anticipated to increase from \$2.4 million in FY 2027 to \$23.2 million in FY 2032.
- Lines 23 and 25 presents the routine capital outlay expense and the cash financing of CIP in the Study Period.
- Lines 27 through Line 30 present the operating fund balances and the transfers to or withdrawal from the RSR balance. In FY 2032 the O&M reserve balance is estimated to be \$22.3 million.
- Lines 33, 34 and 35 present the financial metrics of debt service coverage and O&M Reserve. The debt service coverage target is 1.50, and O&M Reserve target is 90 days.

The financial plan provides a pragmatic pathway to achieve the Water Division’s objectives of building long-term financial resilience; establishing industry best practice financial reserves; maintaining lower level of annual revenue increases after the inevitable one-time significant increase in FY 2027, while supporting the desired debt service coverage ratio and reserve balance targets.

Table 5-1 Six-year Financial Plan (FY 2027 – FY 2032)

Line No.		2027	2028	2029	2030	2031	2032
		\$	\$	\$	\$	\$	\$
Water Sales Revenue at Existing Rates							
1	Retail (a)	71,092,700	71,092,700	71,092,700	71,092,700	71,092,700	71,092,700
2	Wholesale (b)	5,590,000	5,590,000	5,590,000	5,590,000	5,590,000	5,590,000
Additional Retail Water Sales Revenue:							
	Year	Proposed Retail Rate Increase	Months Effective				
3	2027	40.0%	12	26,099,800	28,437,100	28,437,100	28,437,100
4	2028	6.0%	12		5,481,000	5,971,800	5,971,800
5	2029	6.0%	12		5,809,800	6,330,100	6,330,100
6	2030	6.0%	12			6,158,400	6,709,900
7	2031	5.0%	12			5,439,900	5,927,100
8	2032	5.0%	12				5,711,900
9	Total Additional Water Sales Revenue	26,099,800	33,918,100	40,218,700	46,897,400	52,888,800	59,087,900
10	Bad Debt Expense (c)	(3,401,700)	(3,675,400)	(3,339,300)	(3,539,700)	(3,719,400)	(3,905,400)
11	Total Water Sales Revenue	\$99,380,800	\$106,925,400	\$113,562,100	\$120,040,400	\$125,852,100	\$131,865,200
Other Revenue							
12	Other Operating Revenue	1,312,000	1,312,000	1,312,000	1,312,000	1,312,000	1,312,000
13	Interest Income (d)	178,800	539,100	866,000	899,000	785,100	833,100
14	Net Other Nonoperating Revenues (e)	1,259,500	1,259,500	1,259,500	1,259,500	1,259,500	1,259,500
15	Total Revenue	\$102,131,100	\$110,036,000	\$116,999,600	\$123,510,900	\$129,208,700	\$135,269,800
16	Operation and Maintenance Expense (f)	77,621,600	80,075,000	82,618,000	85,258,000	87,997,000	90,838,000
17	Gross Receipts Tax (g)	6,117,000	6,570,000	6,968,000	7,357,000	7,705,000	8,066,000
18	Net Revenue	\$18,392,500	\$23,391,000	\$27,413,600	\$30,895,900	\$33,506,700	\$36,365,800
Debt Service Deposits (h)							
19	Existing	594,200	593,700	594,000	594,100	593,900	593,600
20	Proposed Revenue Bonds	1,502,900	3,005,900	6,584,400	10,163,000	14,297,000	18,431,100
21	Proposed SRF Bonds	323,300	1,176,100	2,206,000	3,000,700	3,647,900	4,207,400
22	Total Debt Service Deposits	\$2,420,400	\$4,775,700	\$9,384,400	\$13,757,800	\$18,538,800	\$23,232,100
23	Routine Annual Improvements	1,970,000	1,971,000	1,971,000	1,971,000	1,971,000	1,971,000
24	Transfer in from Ordinance Funds	0	0	0	0	0	0
25	Transfers out to Construction Funds	4,505,000	4,020,000	5,815,000	7,340,000	18,280,000	18,075,000
26	Net Annual Balance	\$9,497,100	\$12,624,300	\$10,243,200	\$7,827,100	(\$5,283,100)	(\$6,912,300)
27	Balance Available at Beginning of Year	0	9,497,100	19,721,400	20,264,600	21,091,700	21,608,600
28	Balance Available at End of Year	9,497,100	22,121,400	29,964,600	28,091,700	15,808,600	14,696,300
29	Transfer to/from Rate Stab Reserve	0	(2,400,000)	(9,700,000)	(7,000,000)	5,800,000	7,600,000
30	Updated Balance Available at End of Year	9,497,100	19,721,400	20,264,600	21,091,700	21,608,600	22,296,300
31	O&M Reserve Amount Target	9,569,800	19,744,500	20,371,600	21,022,500	21,697,900	22,398,400
32	Debt Service Payments (i)	2,420,400	4,775,700	9,384,400	13,757,800	18,538,800	23,232,100
33	Debt Service Coverage Ratio (j)	760%	490%	292%	225%	181%	157%
34	Days Cash/O&M Reserve	45	90	90	90	90	90
35	Days Cash/O&M Reserve Target	45	90	90	90	90	90

- (a) Includes net revenue from metered and flat rate customers. Revenue is projected to change at an average annual rate of 0.0 percent per year for metered customers and 0.0 percent for flat rate customers.
- (b) Revenue increases for the wholesale customers is expected to remain flat.
- (c) Bad debt expense set at 3.5 percent in 2027 & 2028, then 3 percent for the remainder of the financial plan.
- (d) Interest income is based on the average balance of funds available for investment and an average annual interest rate of 3.0 percent. Also includes interest earned on the Bond and Interest Account.
- (e) Includes net miscellaneous nonoperating revenue and interest expense on consumer deposits.
- (f) Excludes depreciation expense.
- (g) Equal to 6.0 percent of gross operating revenue.
- (h) Deposits to the Bond and Interest Account.
- (i) Actual payments to the bondholders.
- (j) Net revenue (Line 18) divided by debt service payments made to bondholders (Line 32).

6.0 Revenue Sufficiency

The results of the financial analysis based on the existing FY 2026 rates, as provided in Table 3-2, indicate that under the assumptions stated in the Report the current rates do not generate sufficient annual revenues to meet all the annual revenue requirements inclusive of O&M expenses, debt service requirements, and maintaining an O&M reserve equal to 90 days of annual O&M expenses.

In addition, as of beginning of FY 2027, the water enterprise fund is not projected to have any O&M reserve balance or capital fund balance. Therefore, based on the annual projected revenue requirements, the projected annual revenues, under existing rates, are estimated to result in negative net annual balances, causing an undesirable operating deficit fiscal situation.

The proposed series of annual revenue increases is designed to provide sufficient annual revenues to meet the annual revenue requirements and to help meet the defined O&M reserve, RSR balance, and debt service coverage ratio targets.

It is important to note that the significant increase in revenue adjustment that is proposed for FY 2027, as indicated in Table 5-1, only helps build a 45-day O&M reserve, after meeting all other revenue requirement obligation. The subsequent series of annual increases proposed for FY 2028 through FY 2032 is essential to meet the projected annual revenue requirements in each of those years and to build and maintain only a **minimum** O&M reserve balance equivalent to 90 days of annual O&M expenditure. However, the proposed series of increases during FY 2028 through FY 2032 would also enable the Water Division to establish a RSR with reasonable levels of reserve and thus contribute to setting a stronger path to long-term financial resilience.