

**Alternative Plans for Water and Sewer Funding
September 10, 2024**

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Water													
Burns & McDonnell Rate Plan	50.00%	50.00%	12.00%	12.00%	12.00%								
Cumulative Rate Increase	50.00%	125.00%	152.00%	182.24%	216.11%								
Projected Revenue	\$30,500,000	\$45,750,000	\$52,240,000	\$58,508,800	\$65,529,856								
Alternative Rate Plan A - PFM & BMcD	50.00%	50.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Cumulative Rate Increase	50.00%	125.00%	132.88%	141.03%	149.46%	158.19%	167.23%	176.58%	186.26%	196.28%	206.65%	217.38%	228.49%
Projected Revenue	\$30,500,000	\$45,750,000	\$48,351,250	\$50,043,544	\$51,795,068	\$53,607,895	\$55,484,171	\$57,426,117	\$59,436,032	\$61,516,293	\$63,669,363	\$65,897,791	\$68,204,213
Alternative Rate Plan B - Mentioned by Lavon	50.00%	33.00%	16.73%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Cumulative Rate Increase	50.00%	99.50%	132.88%	141.03%	149.46%	158.19%	167.23%	176.58%	186.26%	196.28%	206.65%	217.39%	228.50%
Projected Revenue	\$30,500,000	\$40,565,000	\$48,351,525	\$50,043,828	\$51,795,362	\$53,608,199	\$55,484,486	\$57,426,444	\$59,436,369	\$61,516,642	\$63,669,724	\$65,898,165	\$68,204,601
Alternative Rate Plan C - Mentioned by Lavon - Modified	50.00%	26.85%	9.95%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Cumulative Rate Increase	50.00%	90.28%	109.21%	116.54%	124.11%	131.96%	140.08%	148.48%	157.18%	166.18%	175.49%	185.14%	195.12%
Projected Revenue from Rate Increase		\$38,690,000	\$44,601,525	\$50,043,828	\$51,795,362	\$53,608,199	\$55,484,486	\$57,426,444	\$59,436,369	\$61,516,642	\$63,669,724	\$65,898,165	\$68,204,601
0.125% New SUT to Offset Part of the Rate Increase		\$1,875,000	\$3,750,000	\$3,750,000	\$3,750,000	\$3,750,001	\$3,750,002	\$3,750,003	\$3,750,004	\$3,750,005	\$3,750,006	\$3,750,007	\$3,750,008
Total Projected Revenue	\$30,500,000	\$40,565,000	\$48,351,525	\$53,793,828	\$55,545,362	\$57,358,200	\$59,234,488	\$61,176,447	\$63,186,373	\$65,266,647	\$67,419,730	\$69,648,172	\$71,954,609

Burns & McDonnell's original rate plan was for five years, the timeline for water rate studies to be competed according to Act 605. I recommend that we only consider water rate increases through 2028 and no further. That is the reason for the vertical black line after 2028. The reduced increases will affect the funding of the CIP.

The percent increase is based on the revenue generated by the new rates compared to the revenue of the existing rates. Contract users as well as commercial and industrial users inside the City experienced higher increases than in City residential users.

In alternative plan C with the 1/8% sales tax, the cumulative rate increase through 2028 is reduced by 25%. If the Board agrees to the increase in the sales tax for the consent decree by 3/8ths, the total sales tax will equal 10%. This alternative has not been reviewed by PFM or Burns McDonnell to determine whether it is feasible.

In 2026, the water revenues are projected to grow by \$1.0 million due to growth, which will be compounded thereafter.

Sewer													
Agency #1 - DOJ/EPA - Rates only with Debt	0.00%	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	19.00%	19.00%	15.00%	12.00%	11.00%	8.00%
Cumulative Rate Increase	0.00%	0.00%	3.50%	7.12%	10.87%	14.75%	18.77%	41.33%	68.19%	93.42%	116.63%	140.46%	159.69%
Projected Revenue	\$29,700,000	\$29,700,000	\$32,339,500	\$33,471,383	\$34,642,881	\$35,855,382	\$37,110,320	\$44,161,281	\$52,551,924	\$60,434,713	\$67,686,878	\$75,132,435	\$81,143,030
Agency #1 - City Modified - Rates only with Debt	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	19.00%	19.00%	15.00%	12.00%	11.00%	8.00%
Cumulative Rate Increase	0.00%	3.50%	7.12%	10.87%	14.75%	18.77%	22.93%	46.28%	74.07%	100.19%	124.21%	148.87%	168.78%
Projected Revenue	\$29,700,000	\$30,412,800	\$33,077,248	\$34,234,952	\$35,433,175	\$36,673,336	\$37,956,903	\$45,168,714	\$53,750,770	\$61,813,386	\$69,230,992	\$76,846,401	\$82,994,113
Modified Alternative Rate Plan #1 - Mentioned by Lavon with Debt	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Cumulative Revenue Deficit	0.00%	3.50%	7.12%	10.87%	14.75%	18.77%	22.93%	27.23%	31.68%	36.29%	41.06%	46.00%	51.11%
Projected Sewer Revenue - Modif. Alternative Rate Plan	\$29,700,000	\$30,412,800	\$33,077,248	\$34,234,952	\$35,433,175	\$36,673,336	\$37,956,903	\$39,285,394	\$40,660,383	\$42,083,497	\$43,556,419	\$45,080,894	\$46,658,725
Annual Revenue Deficit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,883,320	\$13,090,387	\$19,729,889	\$25,674,573	\$31,765,507	\$36,335,388
Cumulative Revenue Deficit		\$0	\$0	\$0	\$0	\$0	\$0	\$5,883,320	\$18,973,707	\$38,703,596	\$64,378,169	\$96,143,676	\$132,479,064

The earliest the 3.5% sewer rate increase can take effect is June 1, 2025. Therefore, the effective sewer rate increase for 2025 will be 2.04%. The voter approved SUT Ordinance limits sewer rate increases to 0% between

June 1, 2022 and June 1, 2025. Beginning June 1, 2025 through the end of the SUT in 2030, annual rate increases of 3.5% may be approved.

Passing the sewer rate increases through 2030 may generate goodwill with DOJ and EPA. This is the reason for the vertical black line after 2030. We do not want rate increase guarantees in the modified consent decree. We will request revenue guarantees so we have the flexibility to refinance debt, receive grants, request a sales tax, or raise rates.

Lavon alternative plan to hold sewer rate increases to 3.5% through 2036 results in a revenue deficit that would need to be funded by refinancing debt, a sales tax, securing grants and/or other funding streams. The annual and cumulative deficits are shown on the bottom two lines above. This deficit will continue past 2036 and may affect the funding of ongoing operations.

This alternative has not been reviewed by PFM or Burns McDonnell to determine whether it is feasible.

In 2026, the sewer revenues are projected to grow by \$1.6 million due to growth, which will be compounded thereafter.

Modified Alternative Rate Plan #2 - Reconfigure Current SUT	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Cumulative Rate Increase	0.00%	3.50%	7.12%	10.87%	14.75%	18.77%	22.93%	27.23%	31.68%	36.29%	41.06%	46.00%	51.11%
Projected Sewer Revenue - Modif. Alternative Rate Plan	\$29,700,000	\$30,412,800	\$33,077,248	\$34,234,952	\$35,433,175	\$36,673,336	\$37,956,903	\$39,285,394	\$40,660,383	\$42,083,497	\$43,556,419	\$45,080,894	\$46,658,725
0.25% from 1.0% Streets SUT and Assign to CD at Renewal		\$3,777,880	\$7,631,320	\$7,707,640	\$7,784,720	\$7,862,560	\$7,941,200	\$8,020,612	\$8,100,818	\$8,181,826	\$8,263,645	\$8,346,281	\$8,429,744
Current 0.625% SUT Funds, increase to 1.0% in 2031	\$18,702,400	\$18,889,400	\$19,078,300	\$19,269,100	\$19,461,800	\$19,656,400	\$19,853,000	\$32,082,400	\$32,403,224	\$32,727,256	\$33,054,529	\$33,385,074	\$33,718,925
Total SUT Funds	\$18,702,400	\$22,667,280	\$26,709,620	\$26,976,740	\$27,246,520	\$27,518,960	\$27,794,200	\$40,103,012	\$40,504,042	\$40,909,083	\$41,318,173	\$41,731,355	\$42,148,669
\$300 million debt at 4.5% for 30 years, 10 year call - 2025		(\$9,208,731)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)
Remaining SUT Funds for paygo/add'l debt in 2031	\$18,702,400	\$13,458,549	\$8,292,157	\$8,559,277	\$8,829,057	\$9,101,497	\$9,376,737	\$21,685,549	\$22,086,579	\$22,491,620	\$22,900,710	\$23,313,892	\$23,731,206
\$325 million debt at 4.5% for 30 years, 10 year call - 2031								(\$19,952,251)	(\$19,952,251)	(\$19,952,251)	(\$19,952,251)	(\$19,952,251)	(\$19,952,251)
Remaining SUT Funds for pay as you go work								\$1,733,298	\$2,134,328	\$2,539,368	\$2,948,459	\$3,361,641	\$3,778,954
Total SUT Rate for Consent Decree Debt and Paygo	0.625%	0.875%	0.875%	0.875%	0.875%	0.875%	0.875%	1.250%	1.250%	1.250%	1.250%	1.250%	1.250%
Fort Smith SUT Rate, assuming renewals are approved	9.500%	9.500%	9.500%	9.500%	9.500%	9.500%	9.500%	9.8750%	9.8750%	9.8750%	9.8750%	9.8750%	9.8750%
Annual Funds for Consent Decree Work & Operations	\$18,702,400	\$313,458,549	\$8,292,157	\$8,559,277	\$8,829,057	\$9,101,497	\$9,376,737	\$326,733,298	\$2,134,328	\$2,539,368	\$2,948,459	\$3,361,641	\$3,778,954
Cumulative Funds for Consent Decree Work & Ops	\$18,702,400	\$332,160,949	\$340,453,106	\$349,012,383	\$357,841,440	\$366,942,937	\$376,319,674	\$703,052,972	\$705,187,300	\$707,726,668	\$710,675,127	\$714,036,768	\$717,815,722

The annual payment to issue \$300 million of debt is simplified, but it assumes the debt will be issued after the water and sewer rates are approved. The rate approvals are needed to project debt service coverage over 130%.

The two, debt issuances cover the nominal (current) cost of the consent decree, but may not cover the inflated cost of the consent decree. The inflated cost is due to the impact of inflation, supply chain issues, etc. It is better to begin the work sooner in order to reduce the impact of inflation on the cost.

This alternative has not been reviewed by PFM or Burns McDonnell to determine whether it is feasible.

The benefits of reassigning part of the Streets, Bridges, and Associated Drainage SUT to the consent decree are maintaining the current sales tax at 9.5% and being able to fund \$300 million of the consent decree work upfront. This is something DOJ and EPA want.

The voters will need to approve the use of the current and newly allocated SUT to be used to issue debt and to be used for operational costs.

The sales tax revenues for Streets, Bridges, and Associated Drainage will be reduced from \$30 million annually to \$22.5 million annually, similar to the revenue received in 2018.

Total funds available for consent decree work is \$717,815,722

**Alternative Plans for Water and Sewer Funding
September 10, 2024**

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Modified Alternative Rate Plan #3 - Reconfigure Current SUT	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Cumulative Rate Increase	0.00%	3.50%	7.12%	10.87%	14.75%	18.77%	22.93%	27.23%	31.68%	36.29%	41.06%	46.00%	51.11%
Projected Sewer Revenue - Modif. Alternative Rate Plan	\$29,700,000	\$30,412,800	\$33,077,248	\$34,234,952	\$35,433,175	\$36,673,336	\$37,956,903	\$39,285,394	\$40,660,383	\$42,083,497	\$43,556,419	\$45,080,894	\$46,658,725
0.50% from 1.0% Streets SUT and Assign to CD at Renewal		\$7,555,760	\$15,262,640	\$15,415,280	\$15,569,440	\$15,725,120	\$15,882,400	\$16,041,224	\$16,201,636	\$16,363,653	\$16,527,289	\$16,692,562	\$16,859,488
Current 0.625% SUT Funds, increase to 1.0% in 2031	\$18,702,400	\$18,889,400	\$19,078,300	\$19,269,100	\$19,461,800	\$19,656,400	\$19,853,000	\$32,082,400	\$32,403,224	\$32,727,256	\$33,054,529	\$33,385,074	\$33,718,925
Total SUT Funds	\$18,702,400	\$26,445,160	\$34,340,940	\$34,684,380	\$35,031,240	\$35,381,520	\$35,735,400	\$48,123,624	\$48,604,860	\$49,090,909	\$49,581,818	\$50,077,636	\$50,578,412
\$300 million debt at 4.5% for 30 years, 10 year call - 2025		(\$9,208,731)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)	(\$18,417,463)
Remaining SUT Funds for paygo/add'l debt in 2031	\$18,702,400	\$17,236,429	\$15,923,477	\$16,266,917	\$16,613,777	\$16,964,057	\$17,317,937	\$29,706,161	\$30,187,397	\$30,673,446	\$31,164,355	\$31,660,173	\$32,160,950
\$325 million debt at 4.5% for 30 years, 10 year call - 2031								(\$19,952,251)	(\$19,952,251)	(\$19,952,251)	(\$19,952,251)	(\$19,952,251)	(\$19,952,251)
Remaining SUT Funds for pay as you go work								\$9,753,910	\$10,235,146	\$10,721,195	\$11,212,104	\$11,707,922	\$12,208,698
Total SUT Rate for Consent Decree Debt and Paygo	0.625%	1.125%	1.125%	1.125%	1.125%	1.125%	1.125%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%
Fort Smith SUT Rate, assuming renewals are approved	9.500%	9.500%	9.500%	9.500%	9.500%	9.500%	9.500%	9.8750%	9.8750%	9.8750%	9.8750%	9.8750%	9.8750%
Annual Funds for Consent Decree Work & Operations	\$18,702,400	\$317,236,429	\$15,923,477	\$16,266,917	\$16,613,777	\$16,964,057	\$17,317,937	\$334,753,910	\$10,235,146	\$10,721,195	\$11,212,104	\$11,707,922	\$12,208,698
	\$18,702,400	\$335,938,829	\$351,862,306	\$368,129,223	\$384,743,000	\$401,707,057	\$419,024,994	\$753,778,904	\$764,014,050	\$774,735,244	\$785,947,348	\$797,655,270	\$809,863,968

The annual payment to issue \$300 million of debt is simplified, but it assumes the debt will be issued after the water and sewer rates are approved. The rate approvals are needed to project debt service coverage over 130%.

The two, debt issuances cover the nominal (current) cost of the consent decree, but may not cover the inflated cost of the consent decree. The inflated cost is due to the impact of inflation, supply chain issues, etc. It is better to begin the work sooner in order to reduce the impact of inflation on the cost.

This alternative has not been reviewed by PFM or Burns McDonnell to determine whether it is feasible.

The benefits of reassigning part of the Streets, Bridges, and Associated Drainage SUT to the consent decree are maintaining the current sales tax at 9.5% and being able to fund \$300 million of the consent decree work upfront. This is something DOJ and EPA want.

The voters will need to approve the use of the current and newly allocated SUT to be used to issue debt and to be used for operational costs.

The sales tax revenues for Streets, Bridges, and Associated Drainage will be reduced from \$30 million annually to \$15 million annually.

Total funds available for consent decree work is \$809,863,968

Modified Alternative Rate Plan #4 - Rates & 0.625% SUT for Paygo	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	60.00%	60.00%	60.00%	60.00%	50.00%	40.00%
Cumulative Rate Increase	0.00%	3.50%	7.12%	10.87%	14.75%	18.77%	22.93%	96.68%	214.69%	403.50%	705.60%	1108.41%	1591.77%
Projected Sewer Revenue - Modif. Alternative Rate Plan	\$29,700,000	\$30,412,800	\$33,077,248	\$34,234,952	\$35,433,175	\$36,673,336	\$37,956,903	\$60,731,045	\$97,169,671	\$155,471,474	\$248,754,359	\$373,131,538	\$522,384,153
Current 0.625% SUT Funds, Renewed in 2031	\$18,702,400	\$18,889,400	\$19,078,300	\$19,269,100	\$19,461,800	\$19,656,400	\$19,853,000	\$20,051,530	\$20,252,045	\$20,454,566	\$20,659,111	\$20,865,703	\$21,074,360
Annual Funds for Consent Decree Work & Operations	\$18,702,400	\$18,889,400	\$19,078,300	\$19,269,100	\$19,461,800	\$19,656,400	\$19,853,000	\$41,686,965	\$54,868,741	\$75,841,278	\$109,277,852	\$139,024,023	\$162,864,344
Cumulative Funds for Consent Decree Work & Ops	\$18,702,400	\$37,591,800	\$56,670,100	\$75,939,200	\$95,401,000	\$115,057,400	\$134,910,400	\$176,597,365	\$231,466,105	\$307,307,384	\$416,585,235	\$555,609,258	\$718,473,602

This alternative plan assumes the 0.625% sales tax is renewed in 2031 and no new sales taxes are approved. This plan also assumes that the entire consent decree is paid for through pay as you go with no debt.

This alternative plan assumes that 95% of the revenue generated by the rate increases after 2031 is used for pay as you go capital.

This alternative has not been reviewed by PFM or Burns McDonnell to determine whether it is feasible.

The voters will need to approve the use of the current and newly allocated SUT to be used to issue debt and to be used for operational costs.

Total funds available for consent decree work is \$718,473,602