



City of Annapolis

FY 2026 Enterprise Fund Rate Studies

April 29, 2025

Agenda

1 Water and Sewer Fund

2 Stormwater Fund

3 Refuse Fund



Financial Plan Development

1) Revenue Requirements

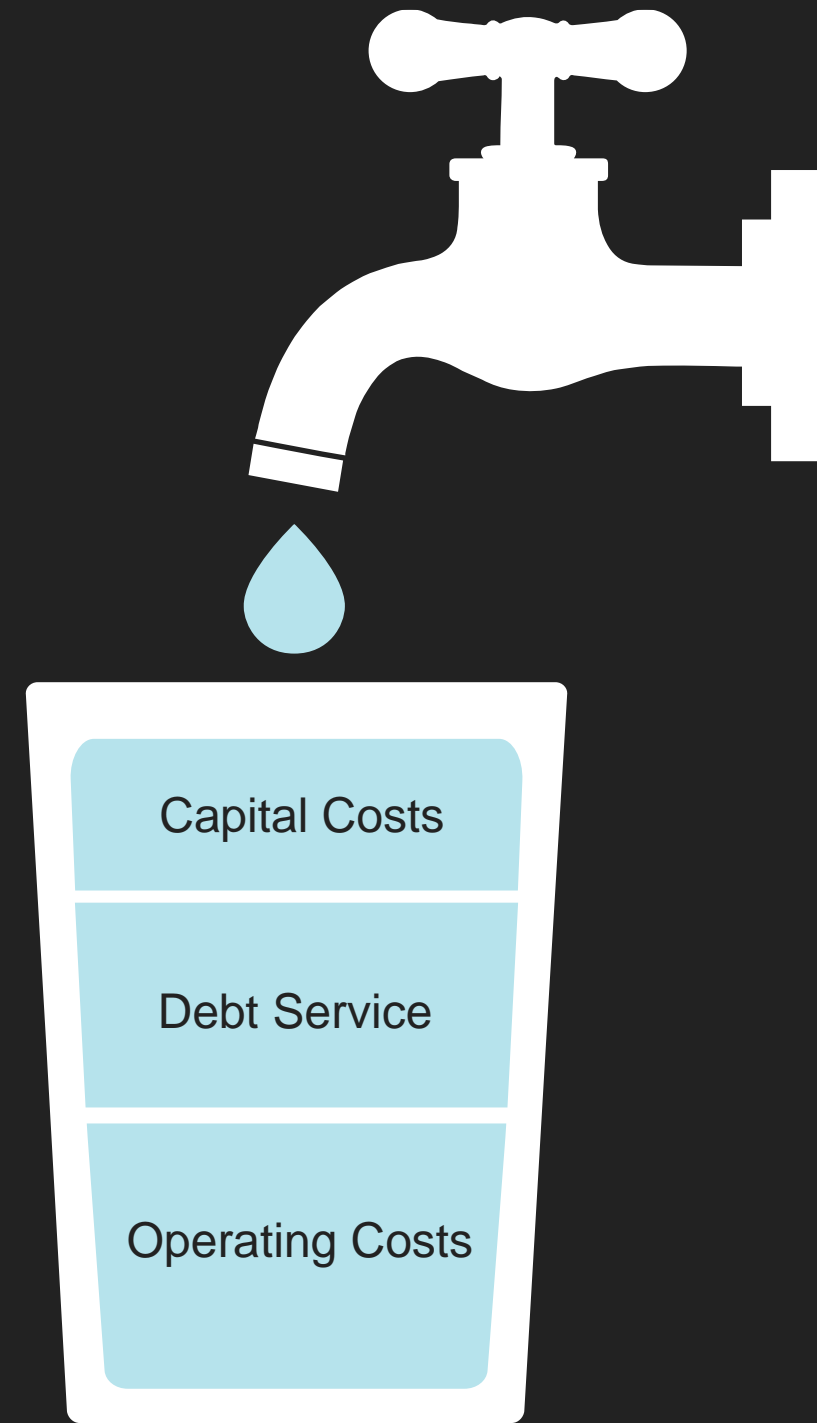
- Expenses based on FY26 proposed budget escalated at line-item level using cost indices and staff input
- Existing debt and capital improvement plan (CIP)

2) Revenue Forecast

- Forecast of system demands and customer counts
- Development of revenue forecast with existing rates and fees

3) Evaluate Key Metrics

- Establish/maintain minimum reserve balances

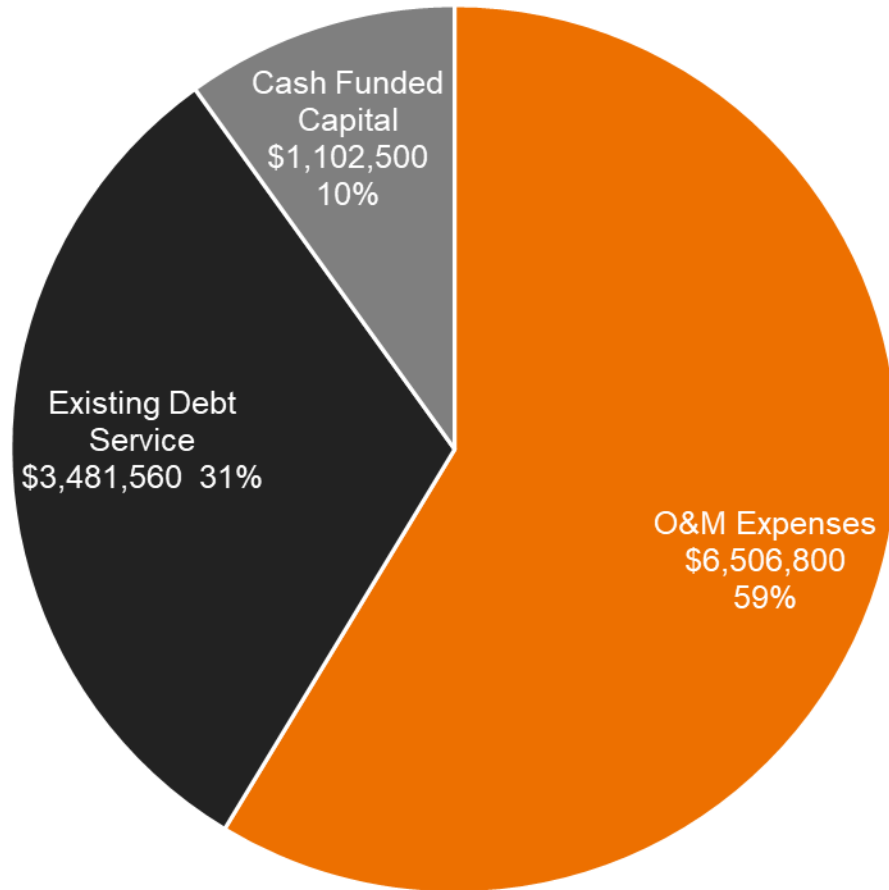




1 Water and Sewer Enterprise Fund



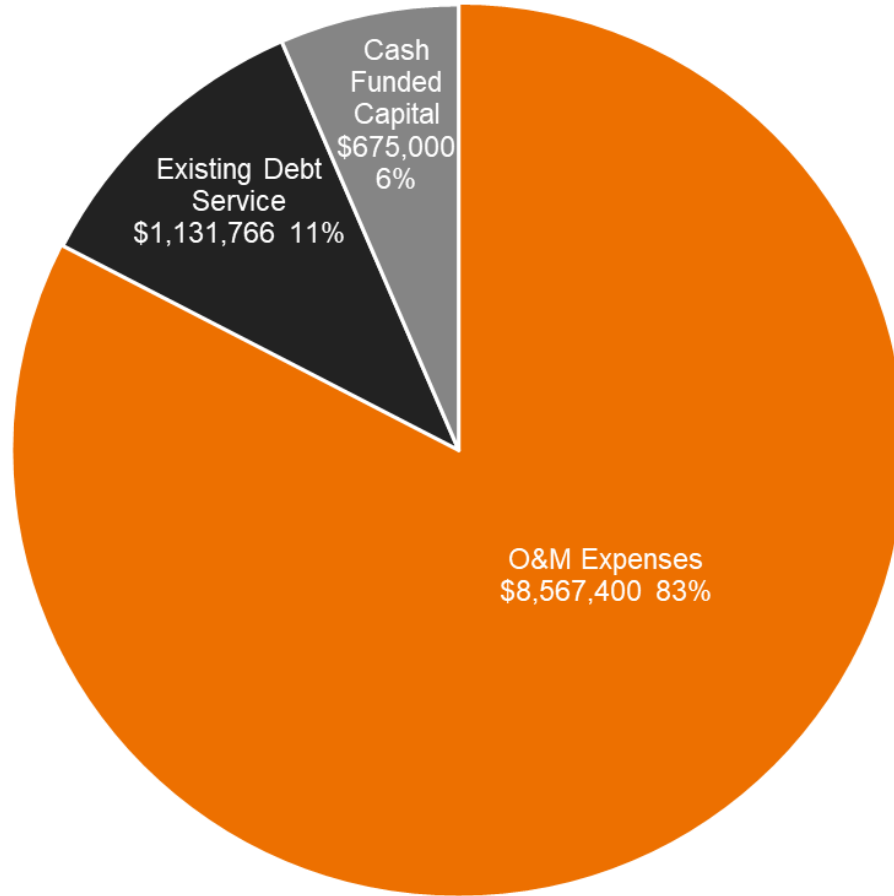
FY 2026 Water Revenue Requirements



- FY26 Total water salaries increased 13% over the FY25 budget to \$2.4M
- FY26 Admin charges increased 43% to \$0.84M
- Overall budget increase 4.5%



FY 2026 Sewer Revenue Requirements



- Sewer treatment contract cost increased from \$3.8M to \$5.0M in FY26, a 33% increase
- Overall budget increase of 17%



Water Revenue Sufficiency Analysis

(\$ millions)	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34	FY 35
Total Operating Expenses	\$6.51	\$6.80	\$7.04	\$7.30	\$7.57	\$7.84	\$8.13	\$8.42	\$8.73	\$9.05
Capital Expenses										
Cash Funded Capital	\$1.10	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47
Existing Debt Service	\$3.48	\$3.49	\$3.48	\$3.49	\$3.45	\$3.45	\$3.54	\$3.53	\$3.49	\$3.49
Projected Debt Service	\$0.23	\$0.46	\$0.68	\$0.91	\$1.14	\$1.37	\$1.59	\$1.82	\$2.05	\$2.28
Total Capital Expenses	\$4.81	\$5.42	\$5.64	\$5.87	\$6.06	\$6.29	\$6.60	\$6.83	\$7.01	\$7.23
Total Water Expenses	\$11.32	\$12.22	\$12.68	\$13.17	\$13.63	\$14.13	\$14.73	\$15.25	\$15.74	\$16.28
Current Water Revenues*	\$9.30	\$9.32	\$9.35	\$9.19	\$9.19	\$9.19	\$9.19	\$9.19	\$9.19	\$9.19

**Revenues at current rates with no increases*



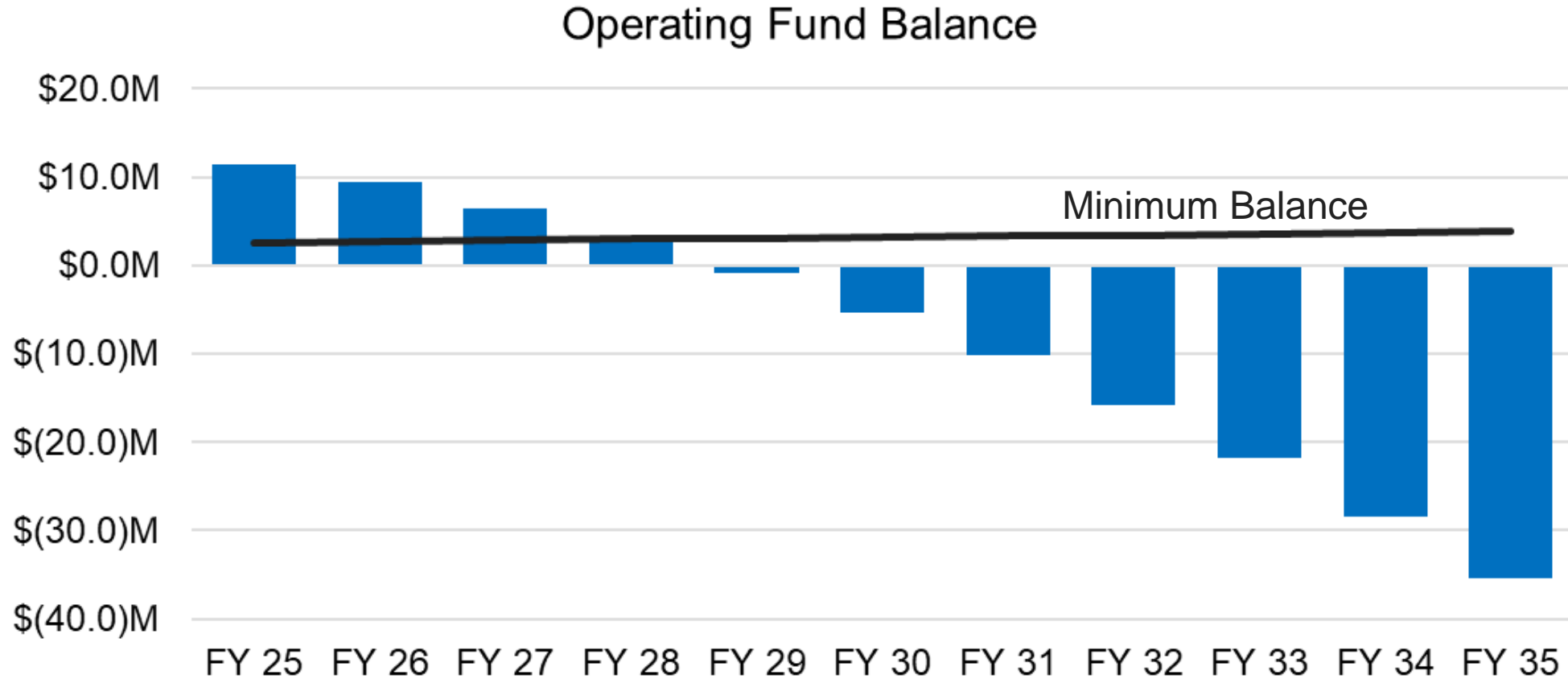
Sewer Revenue Sufficiency Analysis

(\$ millions)	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34	FY 35
Total Operating Expenses	\$8.57	\$8.94	\$9.33	\$9.74	\$10.17	\$10.61	\$11.08	\$11.57	\$12.08	\$12.61
Capital Expenses										
Cash Funded Capital	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Existing Debt Service	\$1.13	\$1.12	\$1.06	\$1.06	\$1.10	\$1.09	\$1.03	\$1.03	\$1.05	\$1.05
Projected Debt Service	\$0.10	\$0.21	\$0.31	\$0.42	\$0.52	\$0.63	\$0.73	\$0.84	\$0.94	\$1.05
Total Capital Expenses	\$1.91	\$2.00	\$2.05	\$2.16	\$2.30	\$2.39	\$2.44	\$2.54	\$2.67	\$2.77
Total Sewer Expenses	\$10.48	\$10.94	\$11.38	\$11.90	\$12.46	\$13.00	\$13.52	\$14.11	\$14.74	\$15.38
Current Sewer Revenues*	\$8.42	\$8.44	\$8.47	\$8.38	\$8.38	\$8.38	\$8.38	\$8.38	\$8.38	\$8.38

**Revenues at current rates with no increases*

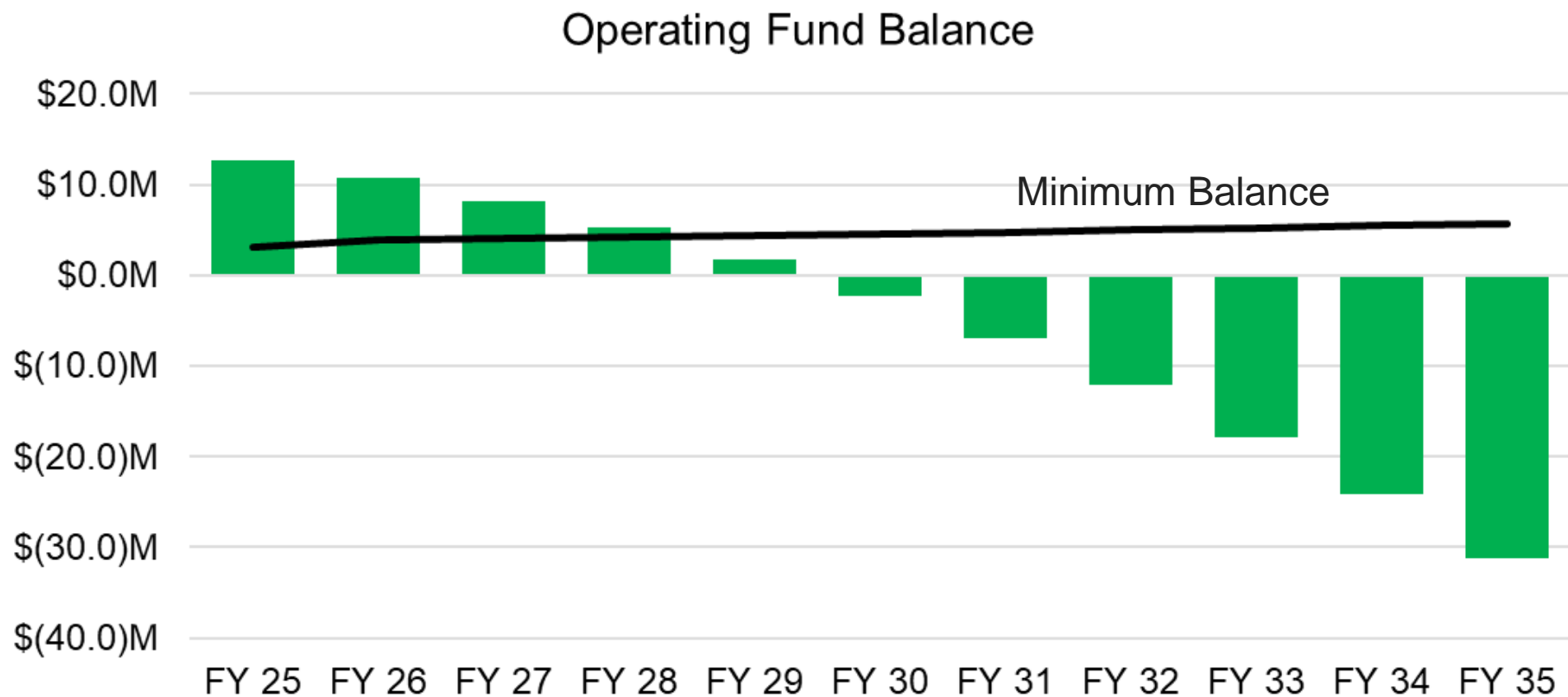


Water Fund Forecast - No Rate Increases





Sewer Fund Forecast - No Rate Increases





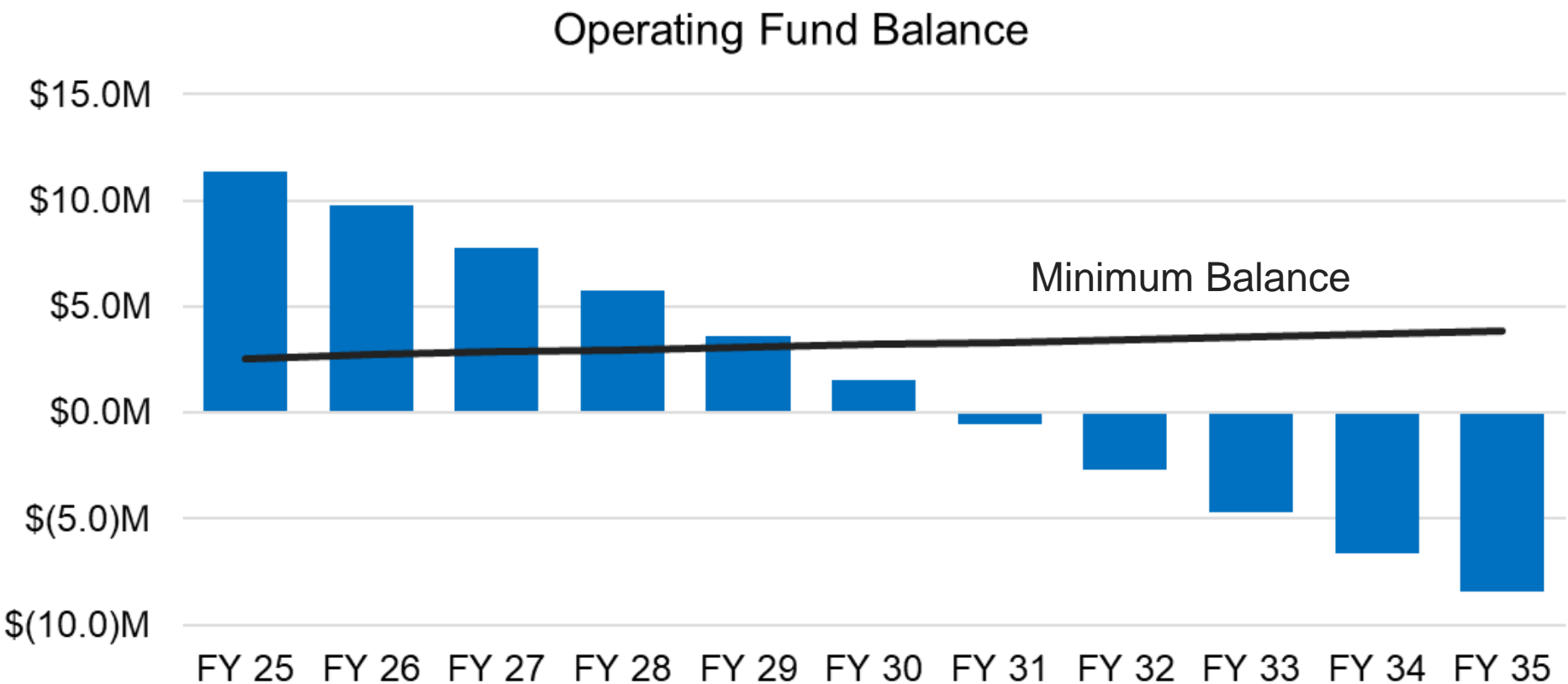
Financial Plan Recommendation

Rate Adjustments	FY 26	FY 27	FY 28	FY 29
Water	4.75%	4.75%	4.75%	4.75%
Sewer	4.75%	4.75%	4.75%	4.75%

- Water rate adjustments consistent with last years plan
- Sewer rate adjustments higher than last years plan given treatment increases
- Future increases will be necessary beyond FY 29
 - Assuming 4.75% annually
 - If spending occurs as forecasted higher rate adjustments will be required in future years

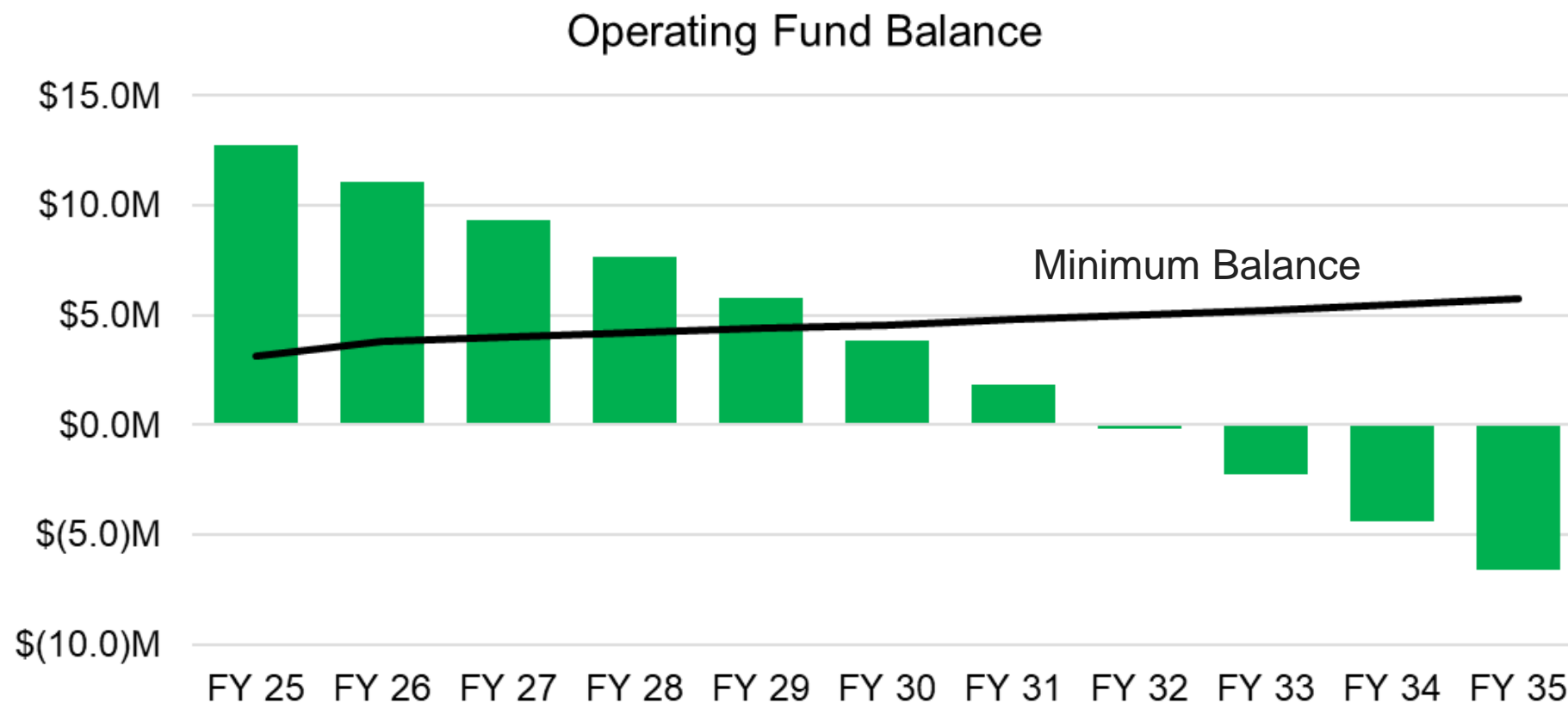


Water Fund Forecast - With Rate Increases



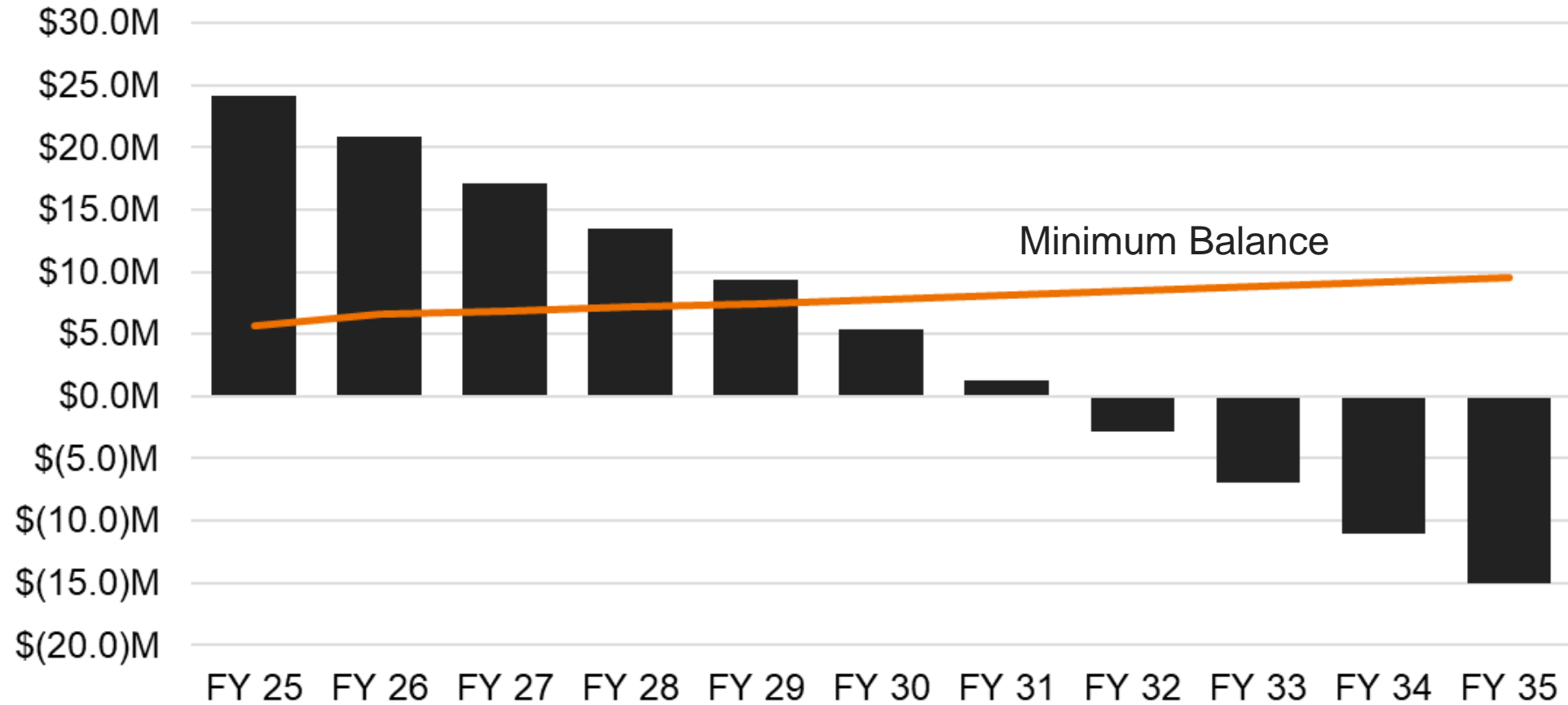


Sewer Fund Forecast - With Rate Increases





Combined Fund Forecast - With Rate Increases





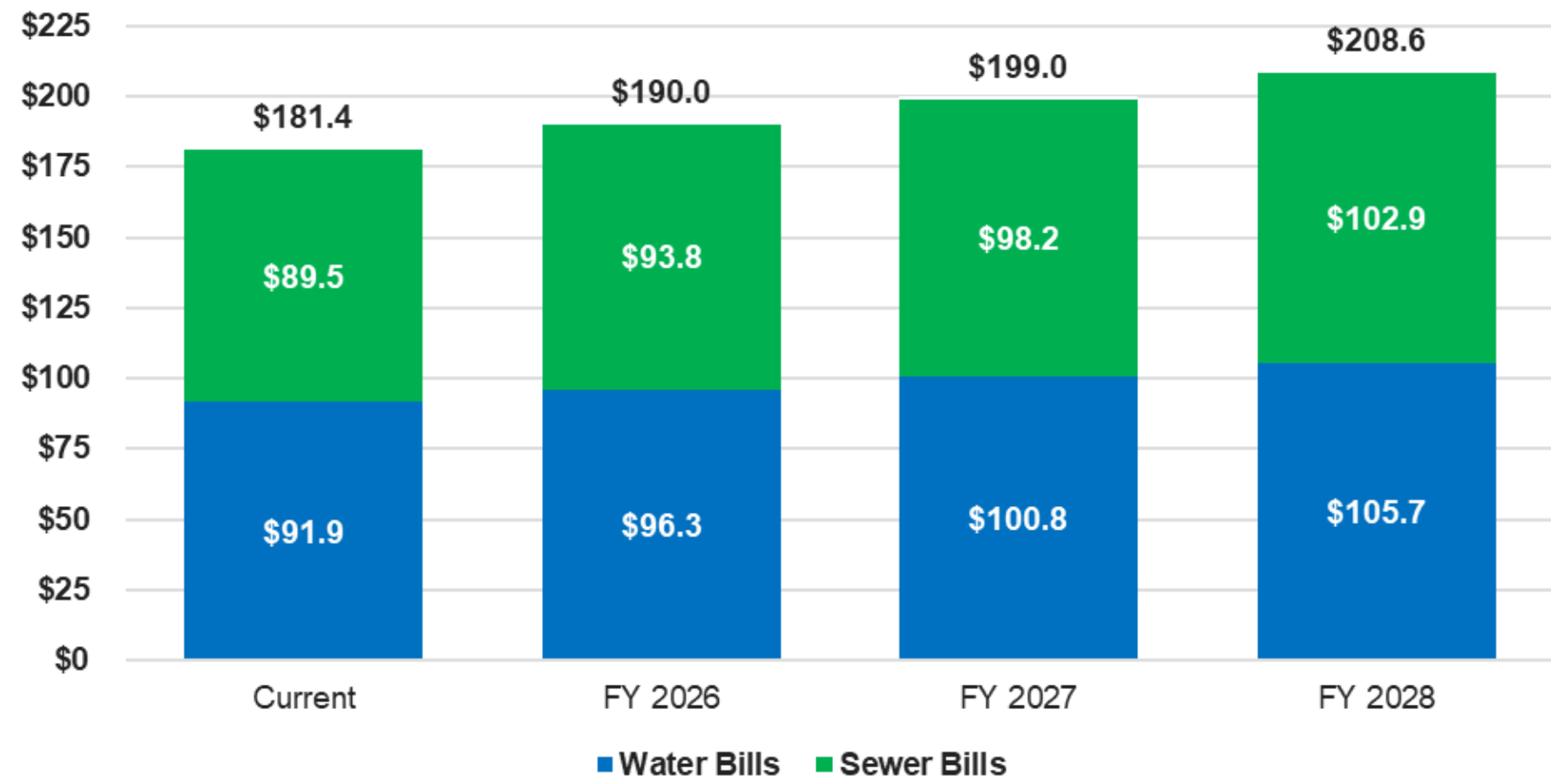
Recommended FY 26 Water and Sewer Rates

Meter Size	Water Fixed Charge	Sewer Fixed Charge
1" or Less	\$15.12	\$14.94
1 ½"	\$75.60	\$74.69
2"	\$120.95	\$119.49
3"	\$241.91	\$238.97
4"	\$377.98	\$373.39
6"	\$755.97	\$746.70

Type	Usage Charge (per 1,000 gallons)
Residential	
Tier 1: 0 - 7,000 gallons	\$4.77
Tier 2: 7,000 - 20,000 gallons	\$9.55
Tier 3: Over 20,000 gallons	\$14.31
Non-Residential Water	\$7.10
Sewer Usage Rates	\$6.57



Average Residential Customer (12 Kgal) Quarterly Bill Projection

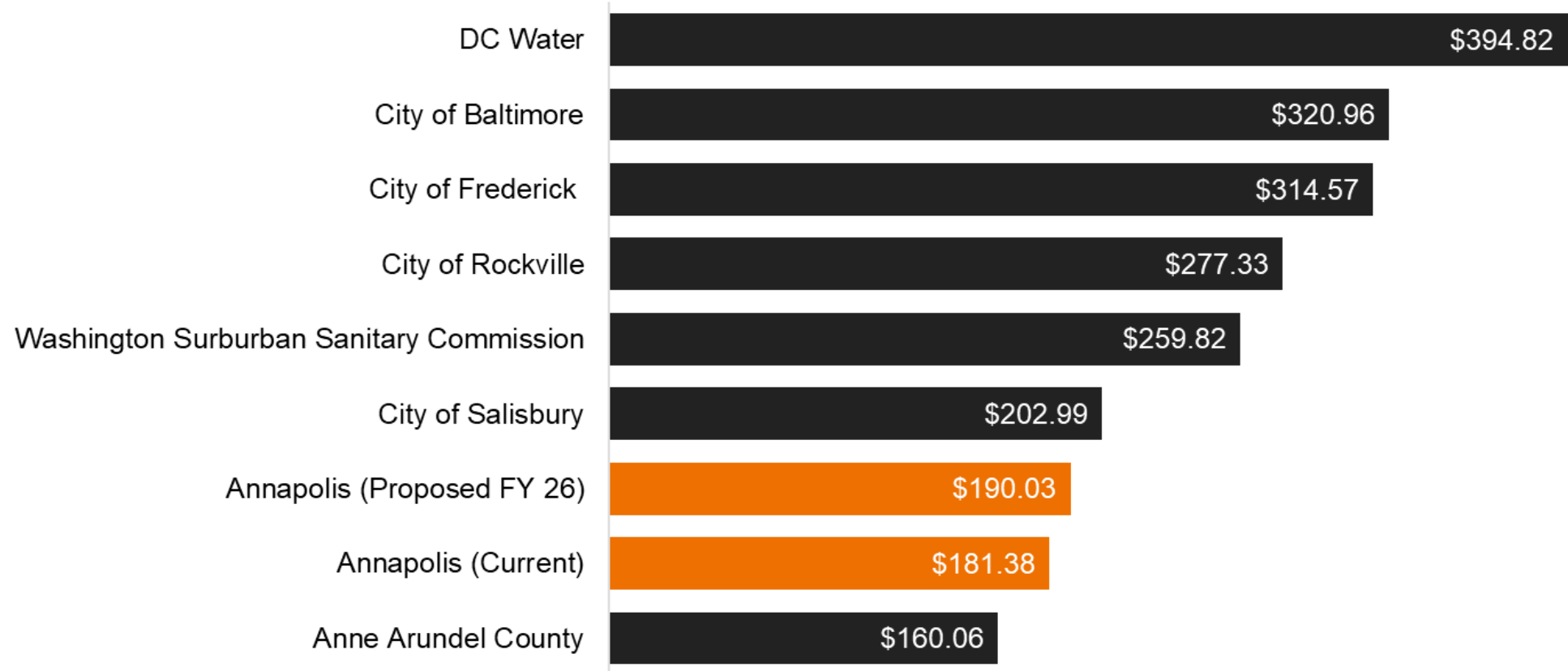


\$8.65 per quarter increase in average customer bill in FY26



Water and Sewer Bill Comparison

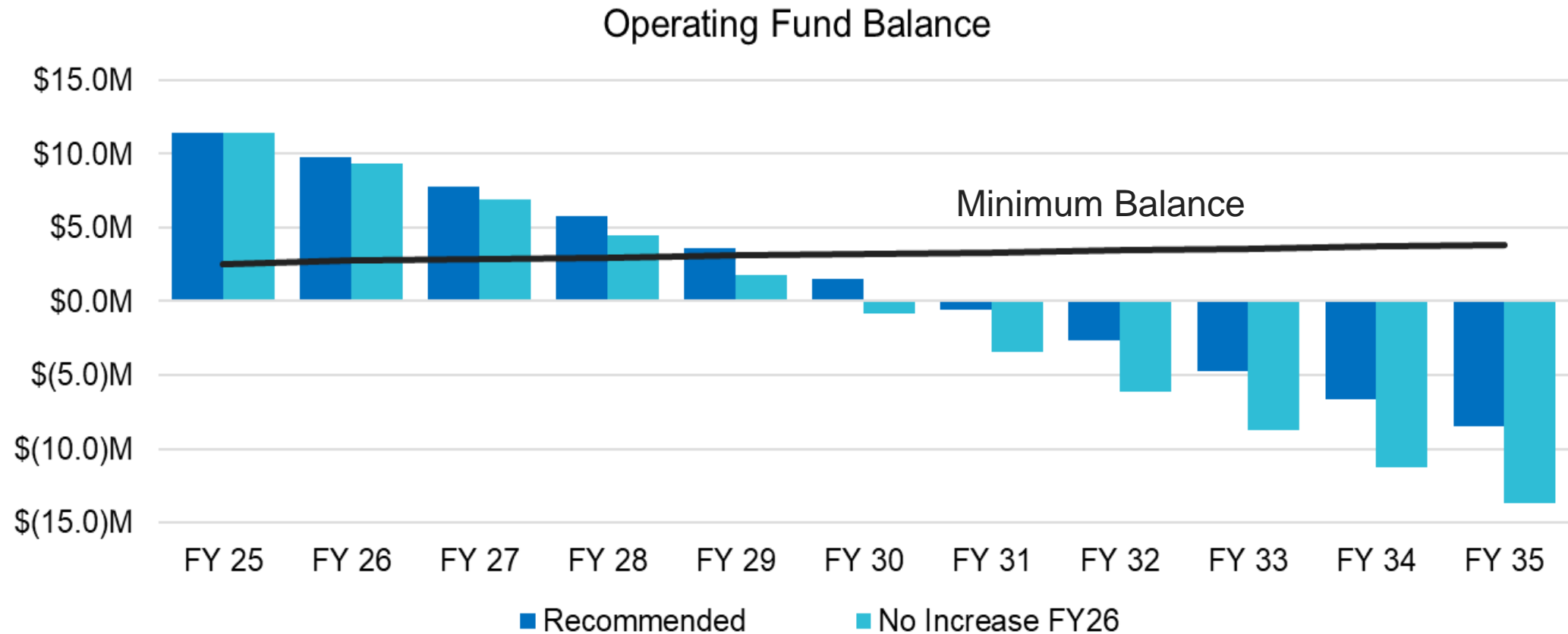
Single Family Residential Quarterly Bill (12,000 gallons)





Water Fund Scenario: No FY 26 Rate Increase

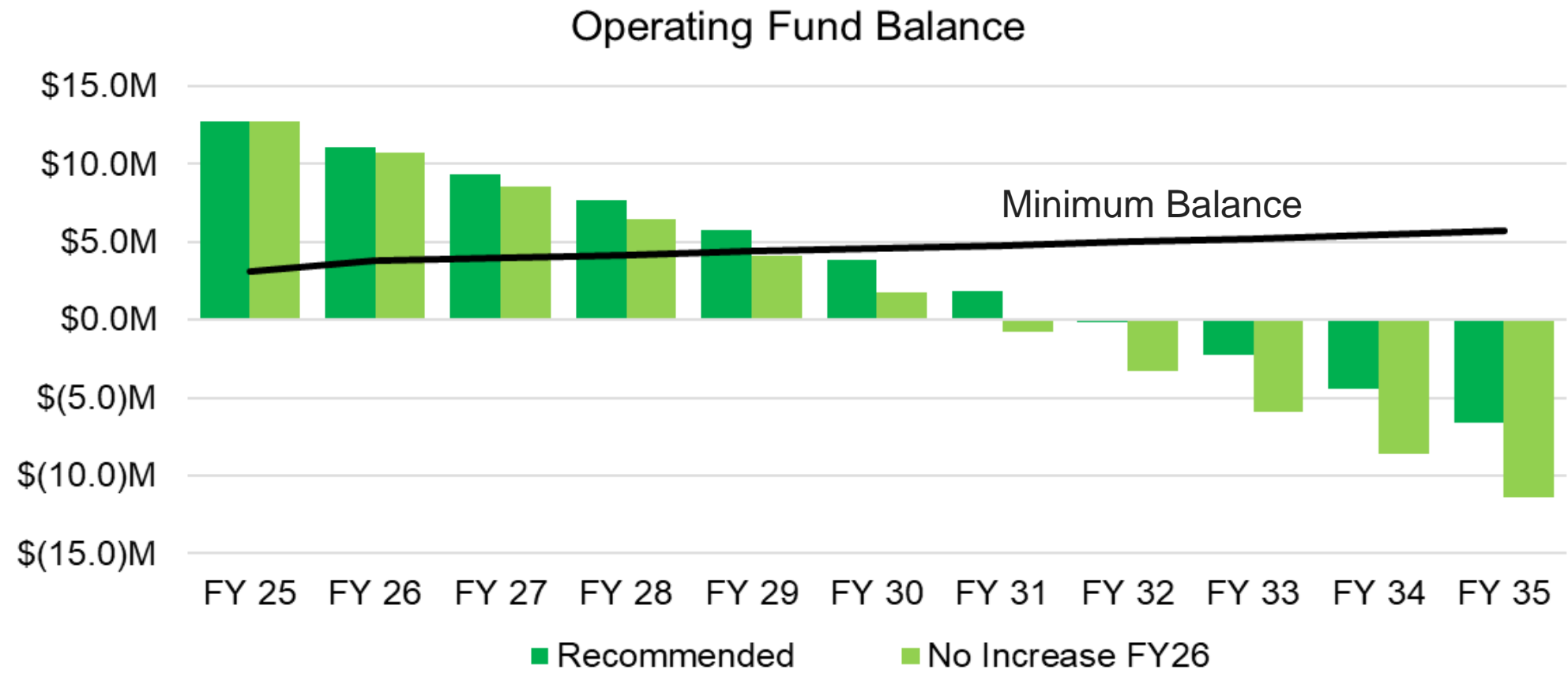
No increases in FY 2026 followed by recommended financial plan (4.75% annually)





Sewer Fund Scenario: No FY 26 Rate Increase

No increases in FY 2026 followed by recommended financial plan (4.75% annually)





Scenario: No FY 2026 Rate Increase

	FY 26	FY 27	FY 28	FY 29
Scenario: Water Increase	<i>0.00%</i>	7.25%	7.25%	7.25%
Scenario: Sewer Increase	<i>0.00%</i>	7.00%	7.00%	7.00%
Recommended: Water Increase	<i>4.75%</i>	4.75%	4.75%	4.75%
Recommended: Sewer Increase	<i>4.75%</i>	4.75%	4.75%	4.75%

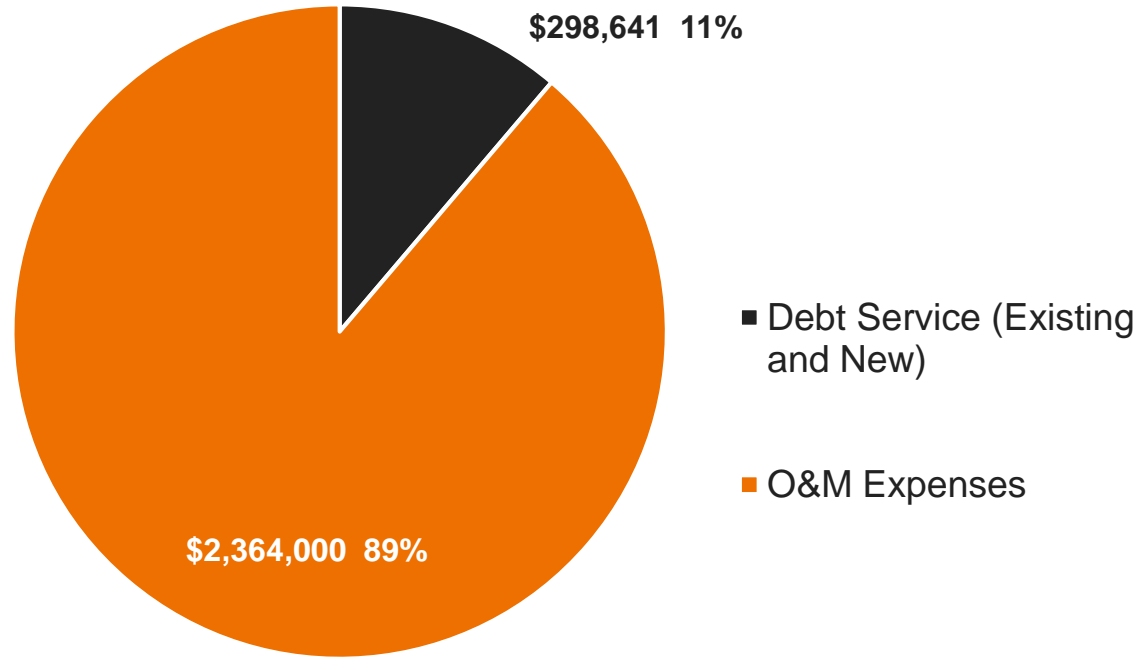
- Rate plan will need to increase in magnitude between FY 27-29 to achieve similar results to recommended plan
- Future increases still necessary beyond FY 29

2 Stormwater Enterprise Fund





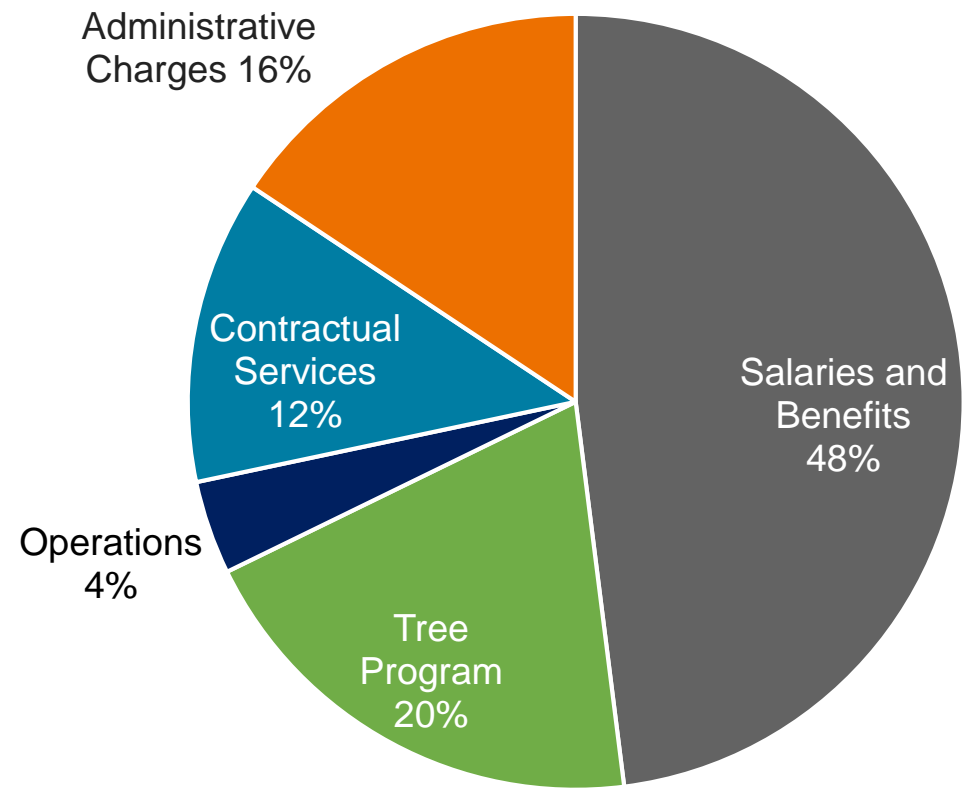
FY 2026 Stormwater Revenue Requirements



- CIP spending has increased over the past couple years utilizing existing reserves
- CIP will be funded by the capital fund and debt in FY 26
- Future CIP will be funded primarily with borrowing



FY 2026 Operating Expenditures



Expenditure	Amount
Salaries and Benefits	\$1,250,000
Tree Program	\$515,000
Operations	\$101,500
Contractual Services	\$329,500
Administrative Charges	\$408,000
Total	\$2,604,000

- O&M Expenses increased 17% over FY25 Budget
- Tree program included and **held constant** at \$515k (baseline)
- Budget includes 9.5 FTEs



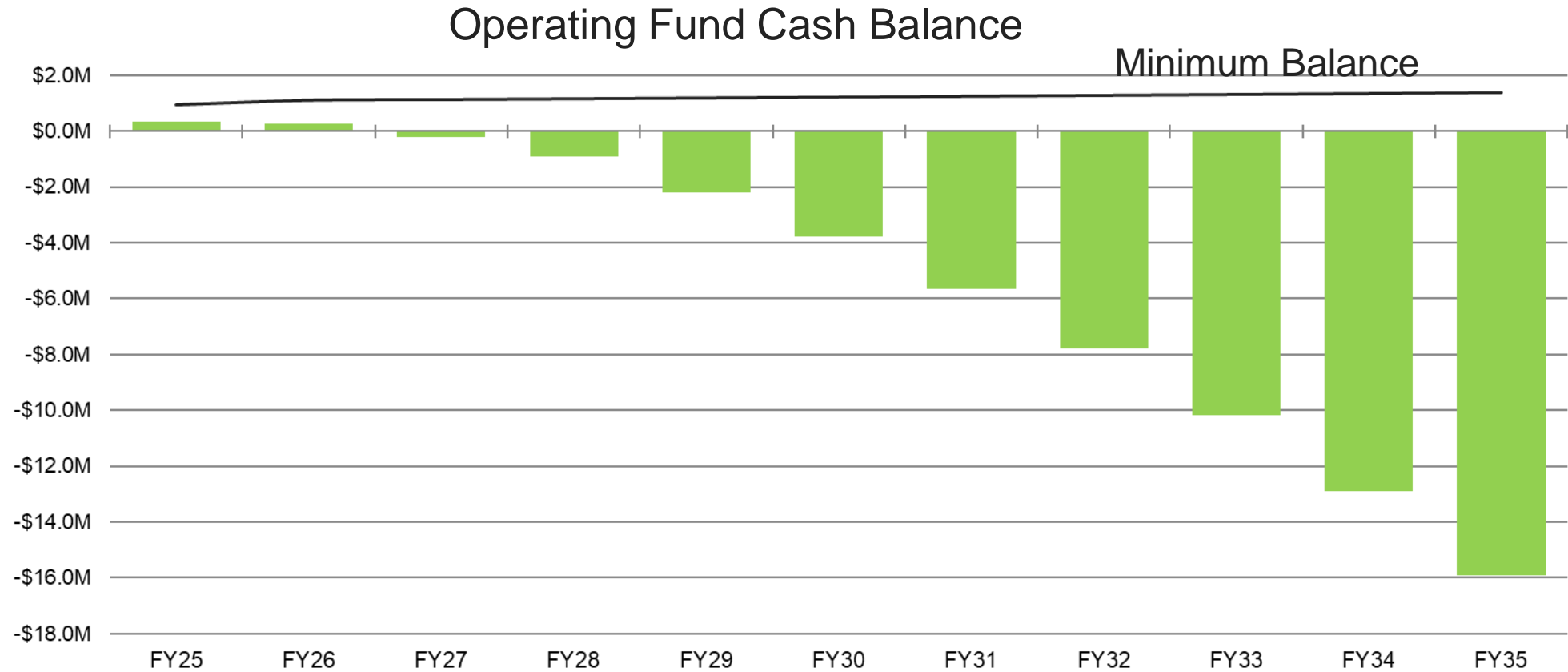
Stormwater Revenue Sufficiency

(\$ Million)	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34	FY 35
Total Operating Expenses	\$2.61	\$2.68	\$2.75	\$2.82	\$2.89	\$2.96	\$3.04	\$3.12	\$3.20	\$3.29
Cash Funded Capital	\$0.00	\$0.00	\$0.00	\$0.34	\$0.43	\$0.45	\$0.46	\$0.47	\$0.49	\$0.50
Existing and Future Debt Service	\$0.30	\$0.43	\$0.58	\$0.74	\$0.91	\$1.09	\$1.28	\$1.47	\$1.67	\$1.87
Total Capital Expenses	\$0.30	\$0.43	\$0.58	\$1.09	\$1.34	\$1.53	\$1.74	\$1.94	\$2.16	\$2.38
Total Stormwater Expenses	\$2.91	\$3.11	\$3.33	\$3.90	\$4.23	\$4.50	\$4.78	\$5.07	\$5.36	\$5.67
Revenues from Existing Stormwater Fees*	\$2.61	\$2.62	\$2.62	\$2.63	\$2.64	\$2.64	\$2.65	\$2.65	\$2.66	\$2.66

**Assumes no increases in stormwater fees*



Stormwater Fund Forecast - No Increases





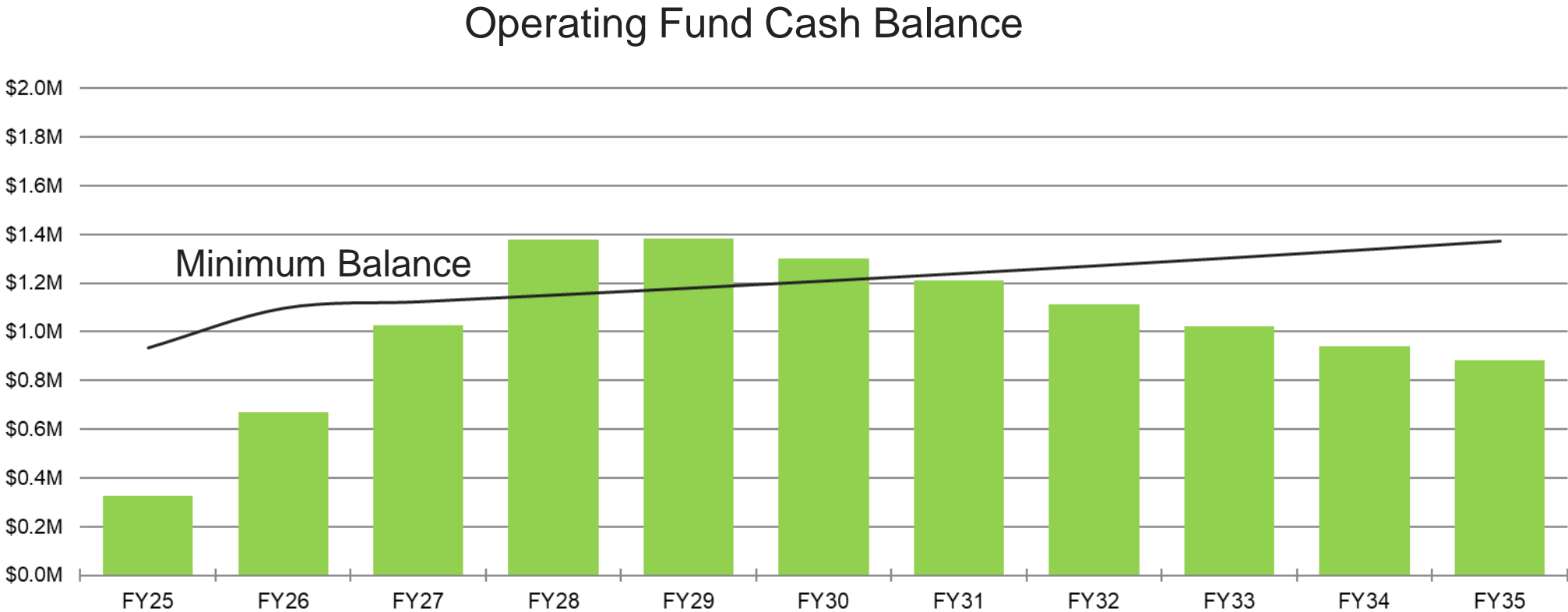
Financial Plan Considerations

- The City will need to continue to escalate stormwater fees to meet capital needs and restore cash balance.
- Magnitude of adjustments
 - 1) Capital funding plan (cash and bond)
 - 2) Capital execution schedule
- 15% increases in stormwater fees are necessary to meet funding needs of stormwater system and restore balances (similar plan presented last year)

	<i>FY 26</i>	<i>FY 27</i>	<i>FY 28</i>	<i>FY 29</i>
Stormwater Fee Increase	<i>15.0%</i>	15.0%	6.0%	6.0%



Stormwater Fund Forecast – With Increases



**Assumes annual increases in stormwater fees, 15% FY 26 – FY 27, followed by 6% increases from FY 2028 to FY 2035*



Stormwater Fees (Current Structure)

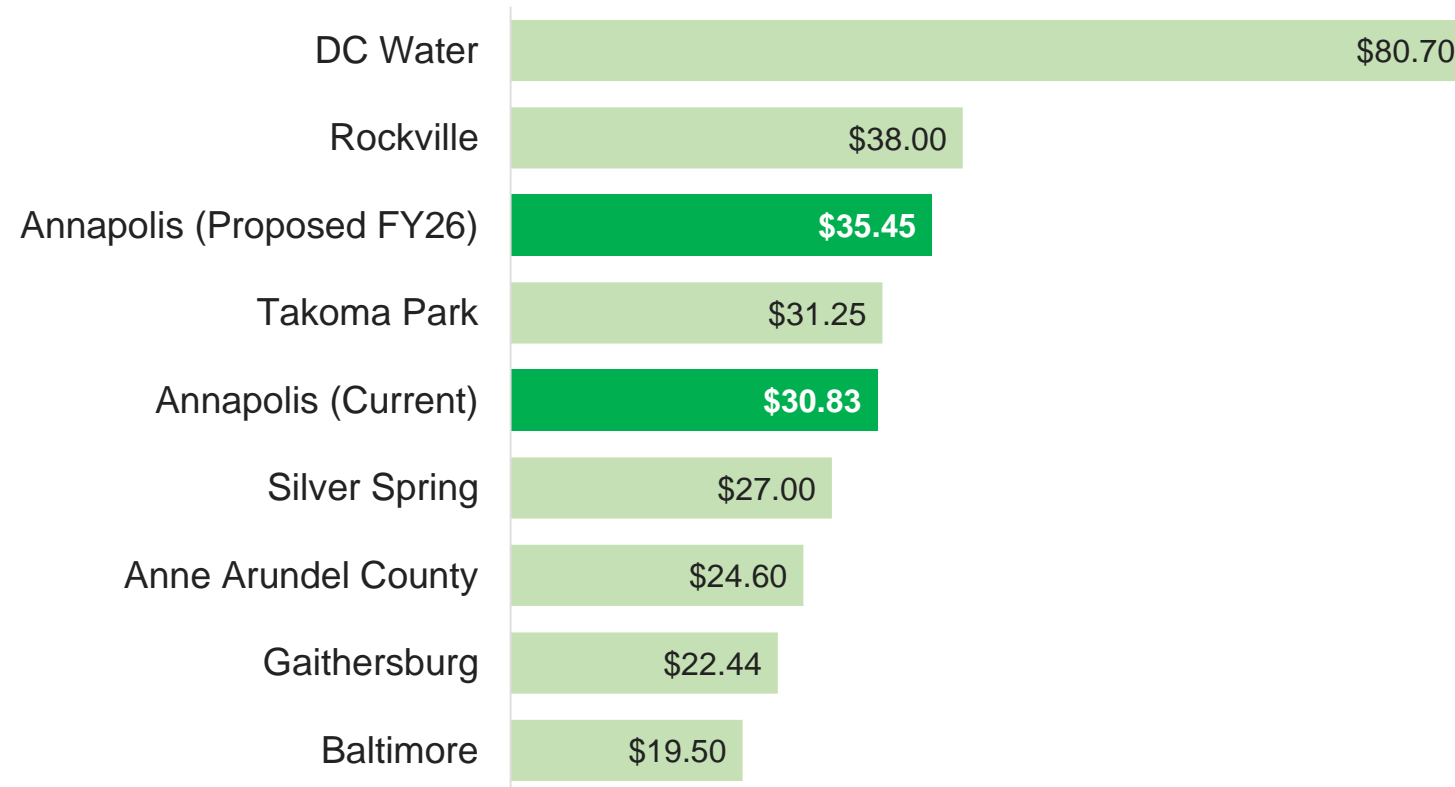
Quarterly Stormwater Fees

Residential	Current	FY 26
Single Family	\$30.83	\$35.45
Multi-Family (per unit)	\$15.41	\$17.73
Non-Residential (Impervious Area)	Current	FY 26
Tier 1: 0 - 5,000 sq. ft.	\$30.83	\$35.45
Tier 2: 5,001 - 25,000 sq. ft.	\$152.55	\$175.43
Tier 3: 25,001 - 80,000 sq. ft.	\$644.29	\$740.93
Over 80,000 sq. ft	\$1,992.92	\$2,291.86



Stormwater Fee Comparison

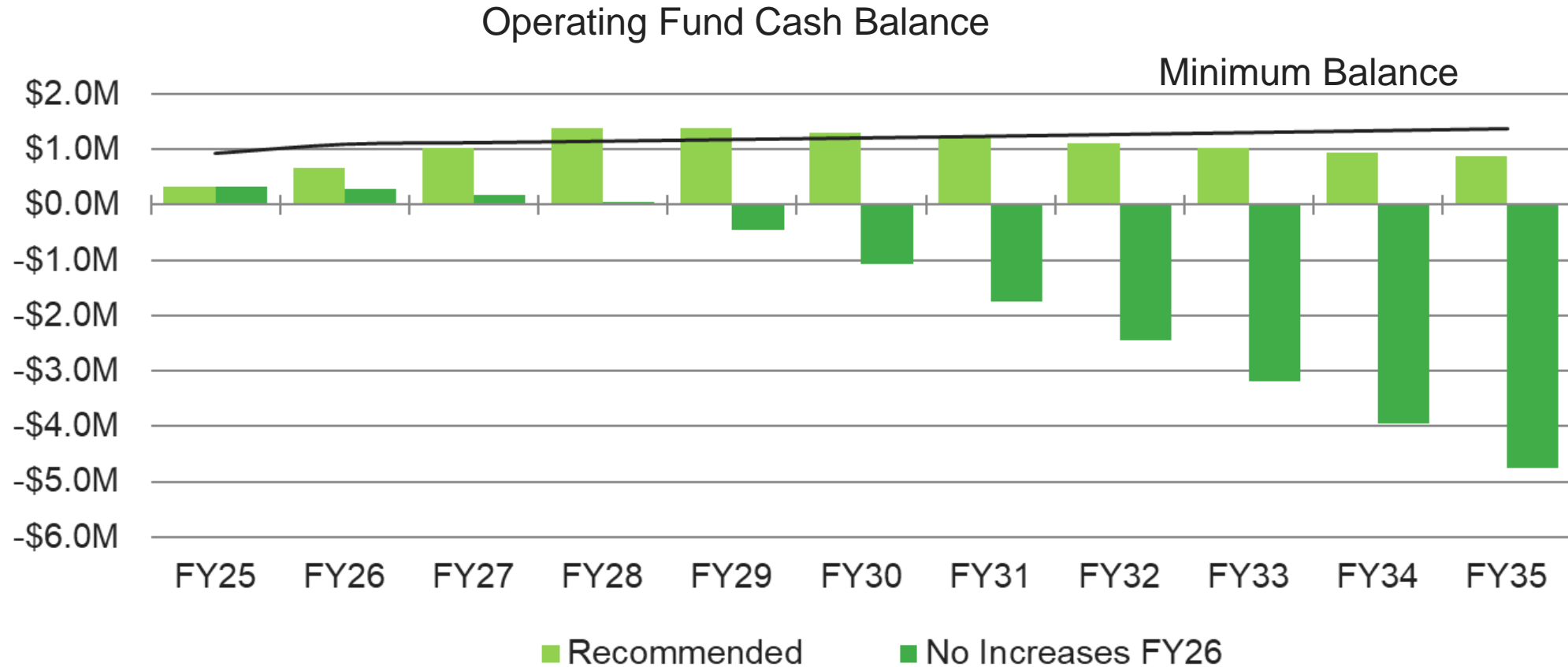
Quarterly Stormwater Bill Comparison - Single Family Residential





Stormwater Fund Scenario: No Increases FY26

No increases in FY26 followed by recommended plan (15% in FY 27 followed by 6% increases annually)





Scenario: No FY26 Rate Increase

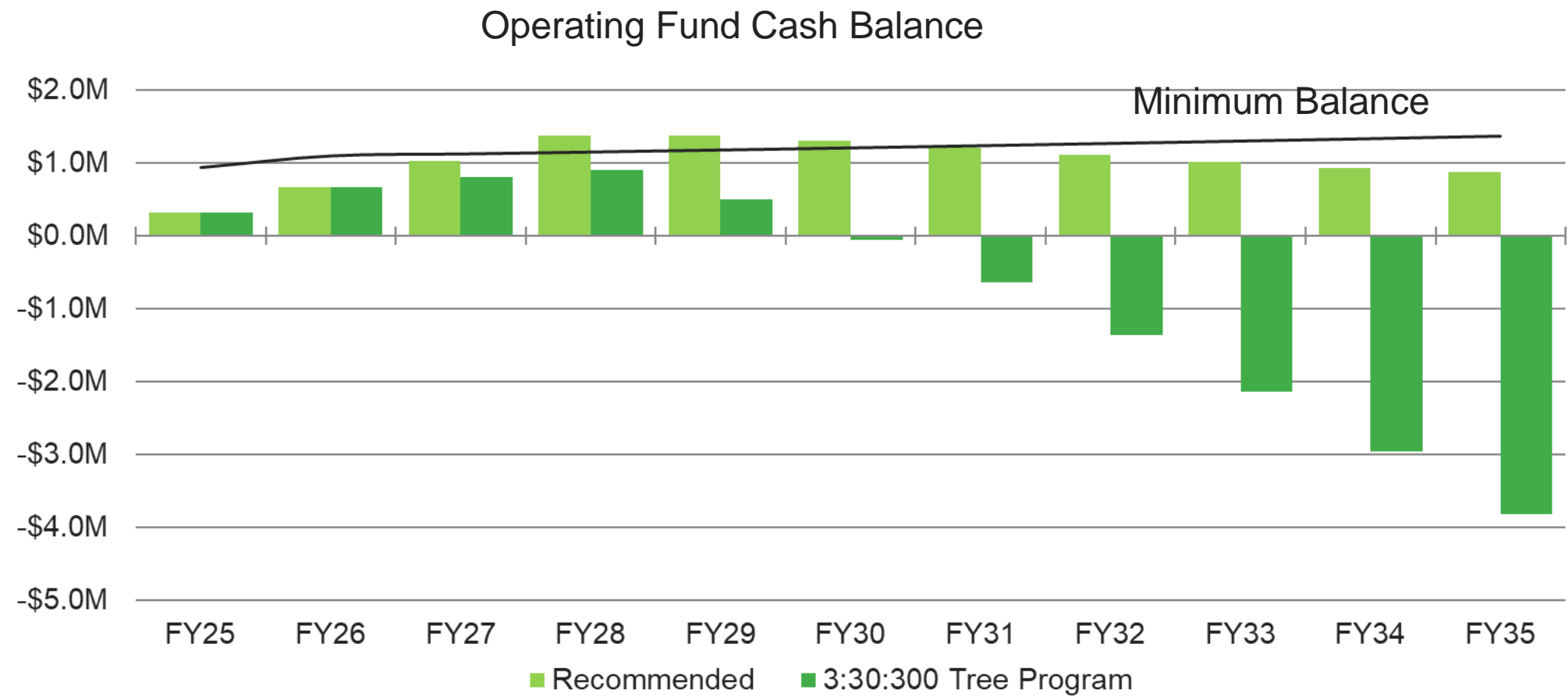
- Plan will not achieve target minimum balance or sustain balance without larger increases in future
- Rate plan will need to increase in magnitude between FY 27- 29 to achieve similar results to recommended plan

	FY 26	FY 27	FY 28	FY 29
Scenario: Stormwater Fee Increase	0%	25%	18%	5%
Recommended Stormwater Fee Increase	15%	15%	6%	6%



Stormwater Fund Scenario: Fund 3:30:300 Tree Program

Recommended financial plan with funding of 3:30:300 tree program





Scenario: 3:30:300 Tree Program Rule

- Tree Program annual budget to increase up to \$1.14M by FY 2032, planting a total of 6,500 trees
- Tree Program will account for approximately 36% of budget by FY 2032
- Rate plan will need to increase in total magnitude in order to maintain balances similar to recommended plan

	FY 26	FY 27	FY 28	FY 29
Scenario: Fund 3:30:300 Tree Program	20%	12%	12%	9%
Recommended Stormwater Fee Increase	15%	15%	6%	6%



Current Stormwater Fee Structure

Residential	Median Impervious Area (sq. ft)	ERUs
Single Family	2,100	1.0
Multi-Family	1,050	0.5

City’s approach to charging for residential is common, limited variations in impervious and provides administrative simplicity

Non-Residential (Impervious Area)	Median Impervious Area (sq. ft)	ERUs
Tier 1: 0 - 5,000 sq. ft.	2,100	1.0
Tier 2: 5,001 - 25,000 sq. ft.	10,500	5.0
Tier 3: 25,001 - 80,000 sq. ft.	44,100	21.0
Over 80,000 sq. ft	136,500	65.0

City’s approach to charging for non-residential is less common. There are significant variations with non-residential impervious area.



Alternative Stormwater Fee Structure

- Consider transition from tiers for non-residential properties to actual measured impervious area as multiples of ERUs

Example Property (Impervious 21,000 sq. ft.)	Number of ERUs	Stormwater Charge
Current Approach	Tier 2 (5 ERUs)	\$155.52
Alternative Approach	$21,000 / 2,100 = 10$ ERUs	\$308.30

- Approach would address wide range of impervious area within non-residential category
- As result of change in approach some non-residential properties would experience decreases and some would experience increases



Recommendations for FY 2026

- Budget for FY 2026 based on current stormwater fee structure.
- City staff to provide amendment proposing alternative fee structure for non-residential properties for adoption prior to start of FY26.
- City staff to provide accompanying non-residential stormwater fee credit program.
- Six-month grace period from July 2025 to December 31, 2025 to allow for credit applications.
- Alternative fee structure effective January 1, 2026.



3 Refuse Enterprise Fund

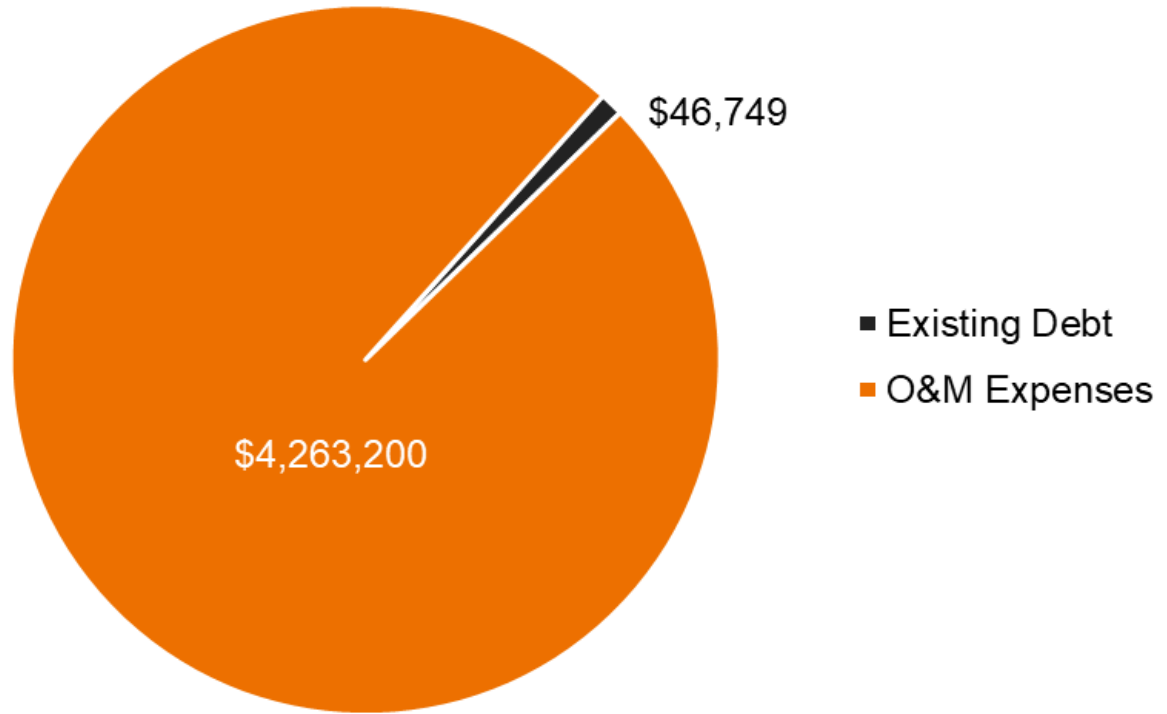


Refuse Background

- City contracts out majority of the services provided within the refuse program
- As result majority of Refuse Fund expenditures are outside the control of the City
- Contracts have escalators based on fuel and with recent inflation contract costs have increased substantially



FY26 Refuse Revenue Requirements



Key Drivers

- 81% of O&M Expenses are related to contracted services
- O&M Expenses have increased 25% over the past 3 years (FY23 Actual - FY26 Budget) due to increases on contract services



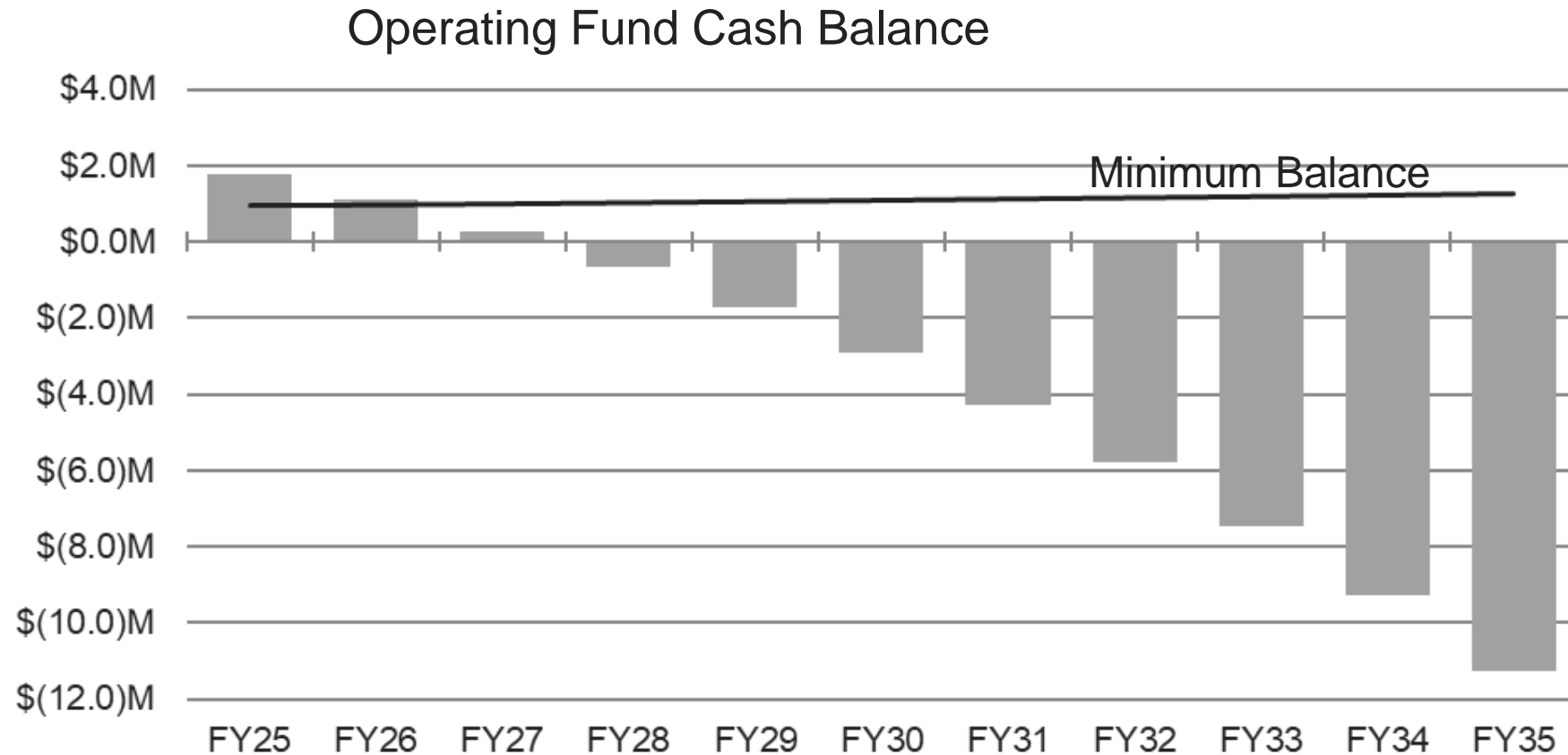
Refuse Revenue Sufficiency

(\$ Million)	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34	FY 35
Operating Expenses	\$4.26	\$4.39	\$4.53	\$4.67	\$4.81	\$4.96	\$5.11	\$5.27	\$5.43	\$5.60
Existing Debt Service	\$0.05	\$0.05	\$0.05	\$0.05	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Total Refuse Expenses	\$4.31	\$4.44	\$4.58	\$4.71	\$4.84	\$4.99	\$5.14	\$5.30	\$5.46	\$5.63
Revenues from Existing Refuse Fees*	\$3.63	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64

**Assumes no increases in refuse fees*



Refuse Fund Balance – No Fee Increases





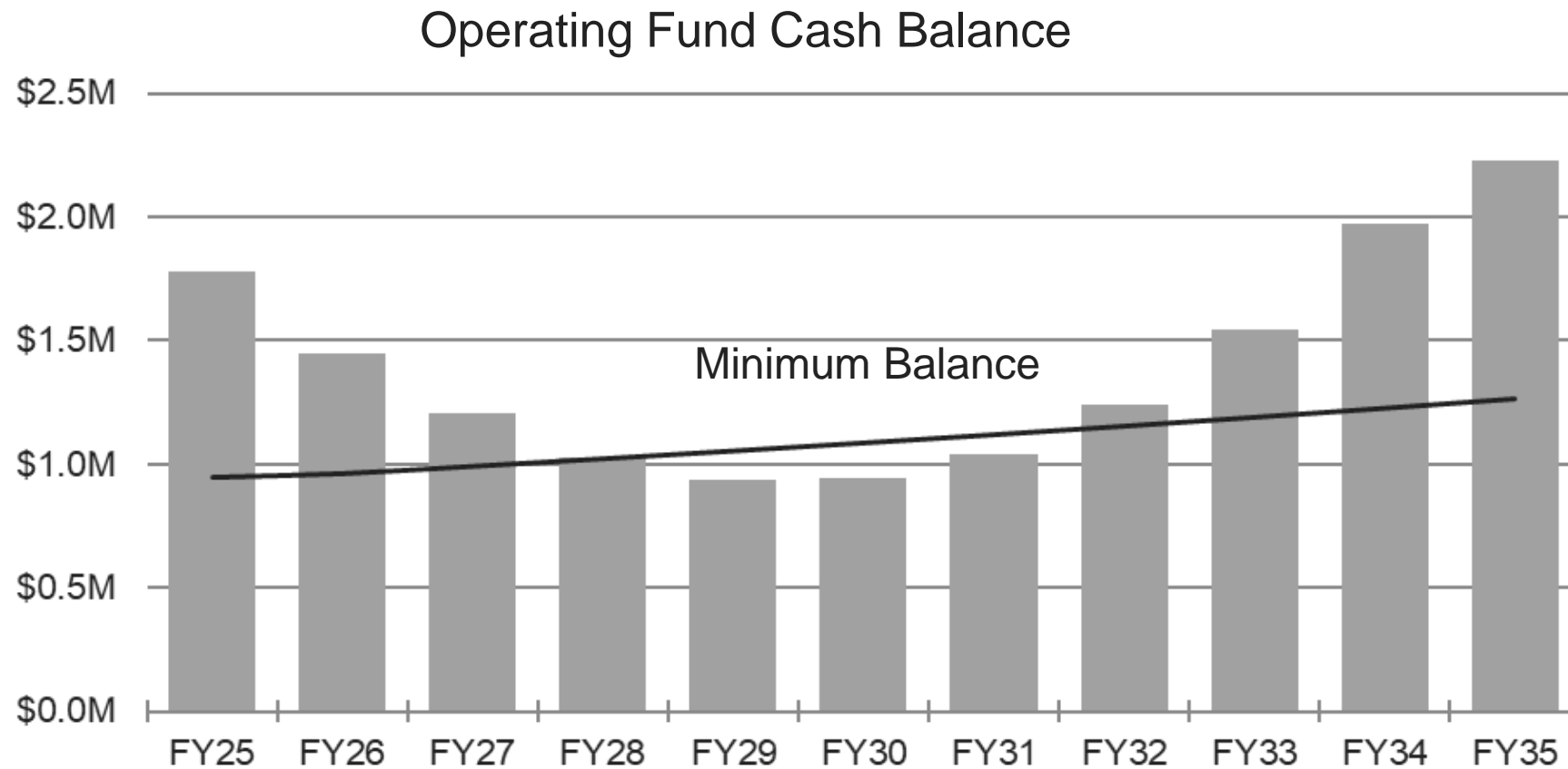
Financial Plan Considerations

- Refuse program expenditures currently exceed the program revenues
- Program expenditures are anticipated to continue to escalate
- To ensure sustainability within the refuse program annual fee adjustments will be necessary (similar plan as recommended last year)

	FY 26	FY 27	FY 28	FY 29
Refuse Fee Increase	10.0%	5.0%	5.0%	5.0%

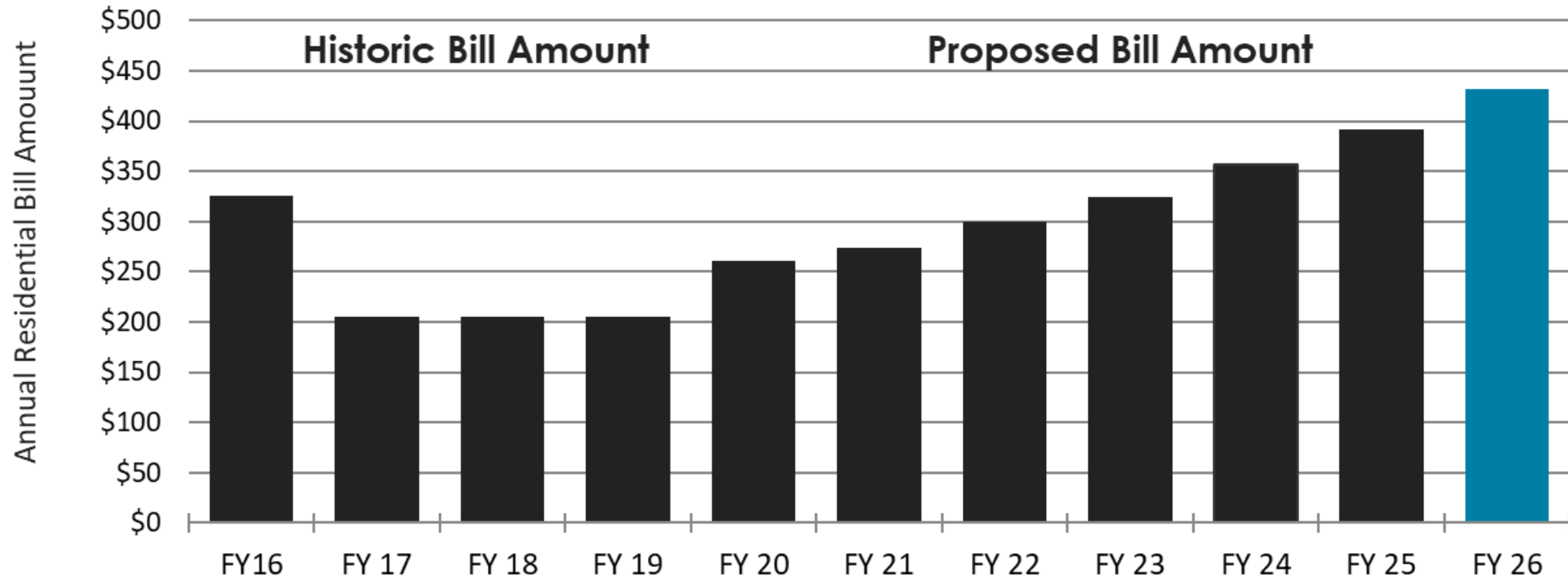


Refuse Fund Balance – With Increases





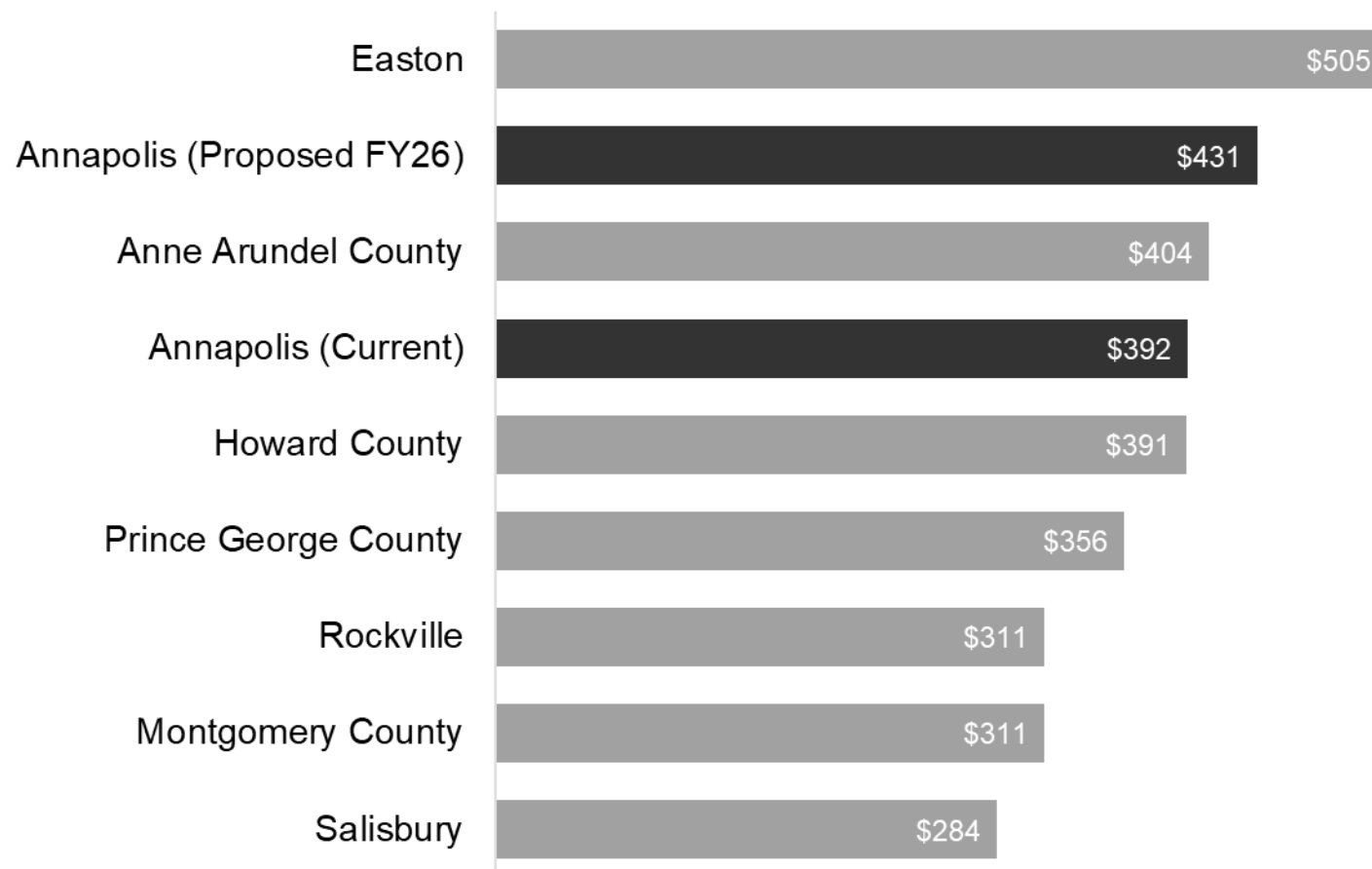
Historical and Recommended FY26 Refuse Fee





Refuse Fee Comparison

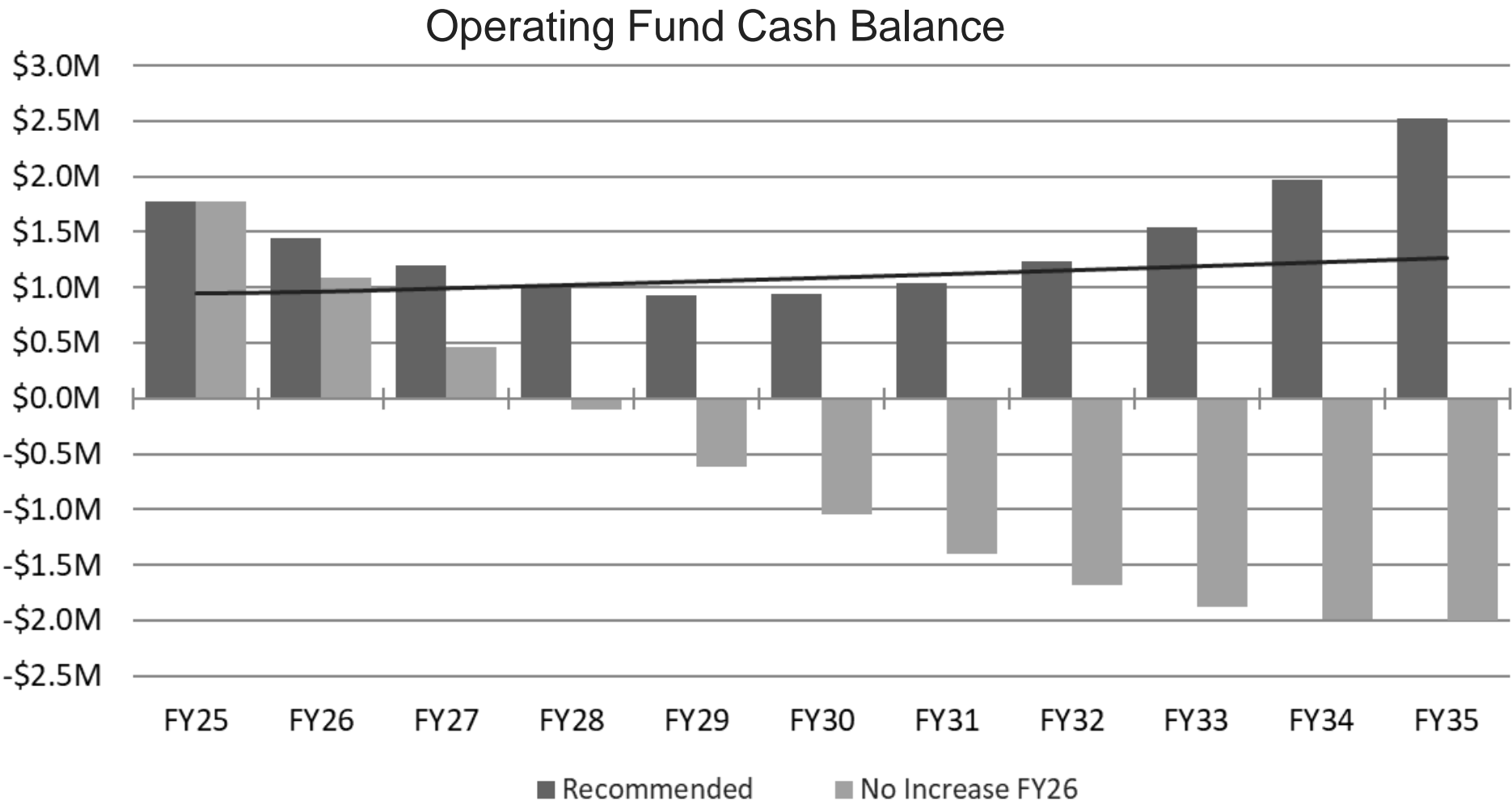
Annual Refuse Fee Comparison - Single Family Residential





Refuse Fund Scenario: No FY26 Fee Increase

No increases in FY26 followed by recommended plan (10% FY 27, followed by 5% increases annually)





Scenario: No FY26 Fee Increase

- Plan will not achieve target minimum balance or sustain balance without larger increases
- Rate plan will need to increase in magnitude between FY 27- 29 to achieve similar results to recommended plan

	FY 26	FY 27	FY 28	FY 29
Scenario: Refuse Fee Increase	0.0%	20.0%	4.0%	4.0%
Recommended Reuse Fee Increase	10.0%	5.0%	5.0%	5.0%



Questions / Discussion