



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

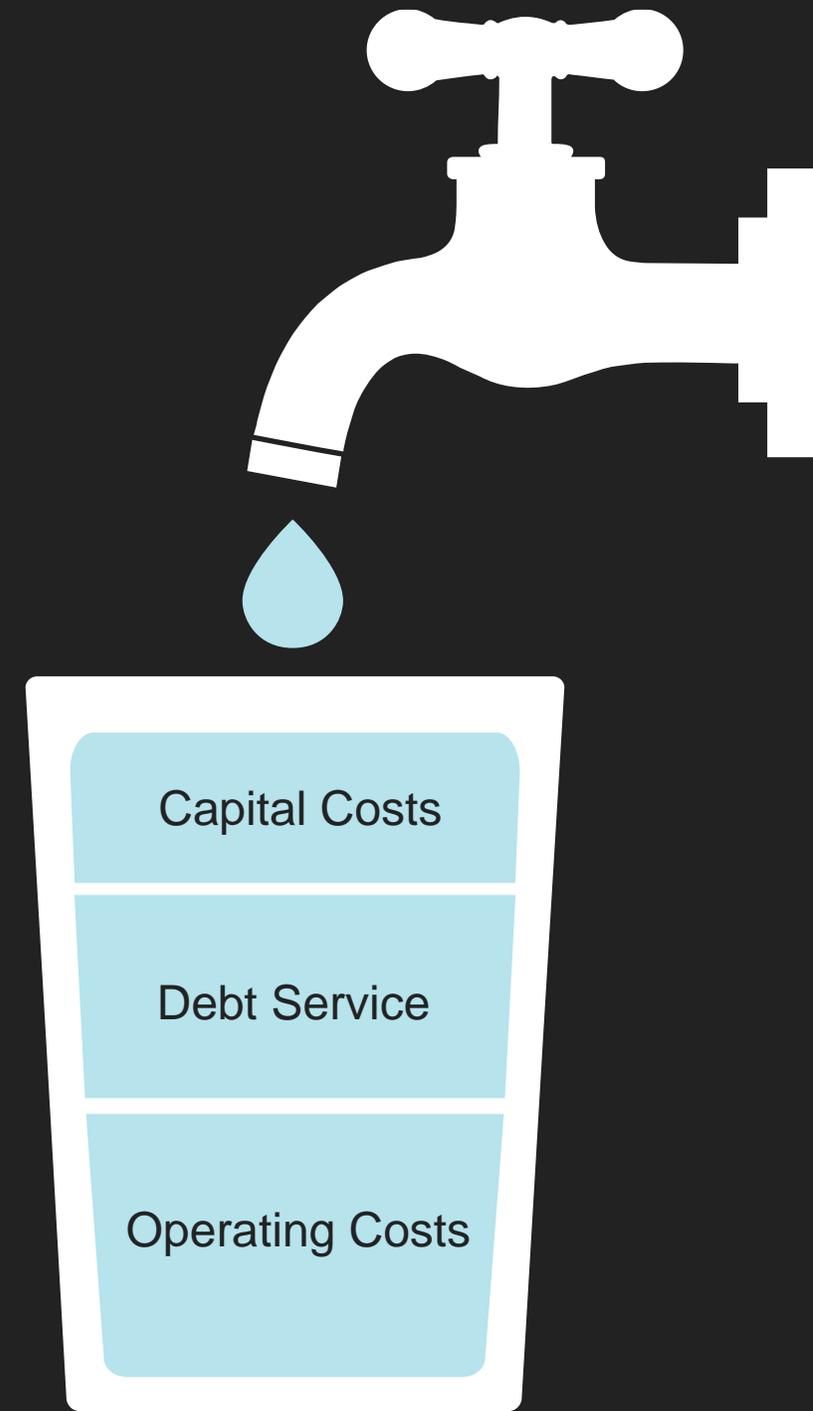
- Expenses based on FY26 proposed budget escalated at line-item level using cost indices and staff input
- Existing debt and capital improvement plan (CIP)

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

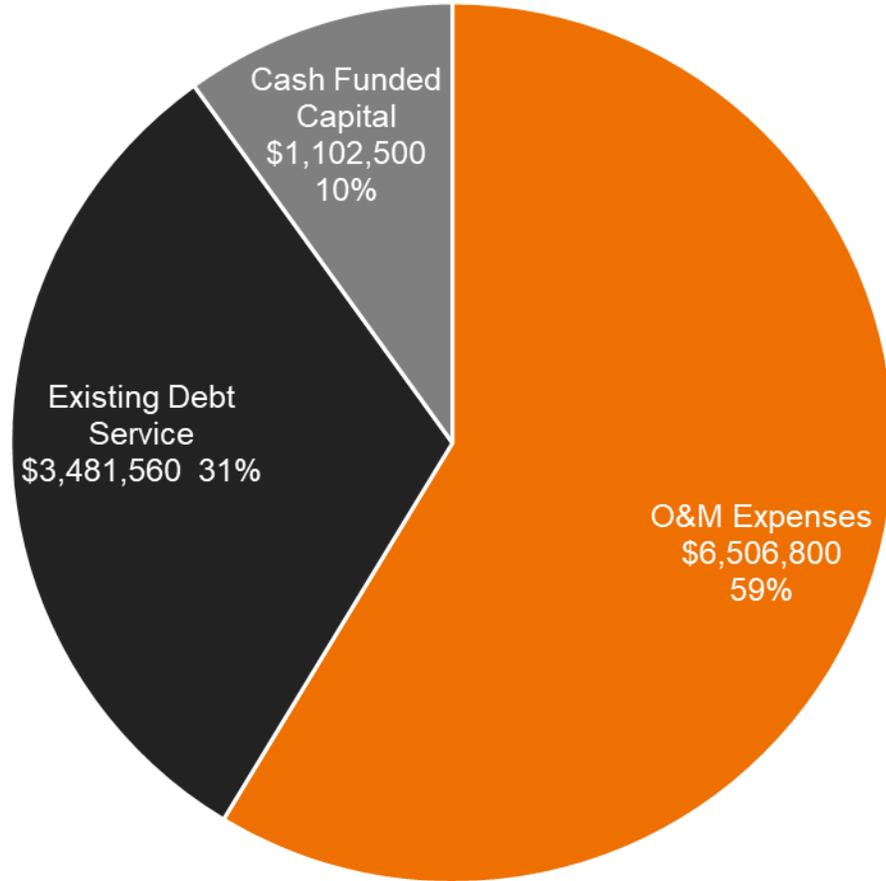


1 Water and Sewer Enterprise Fund





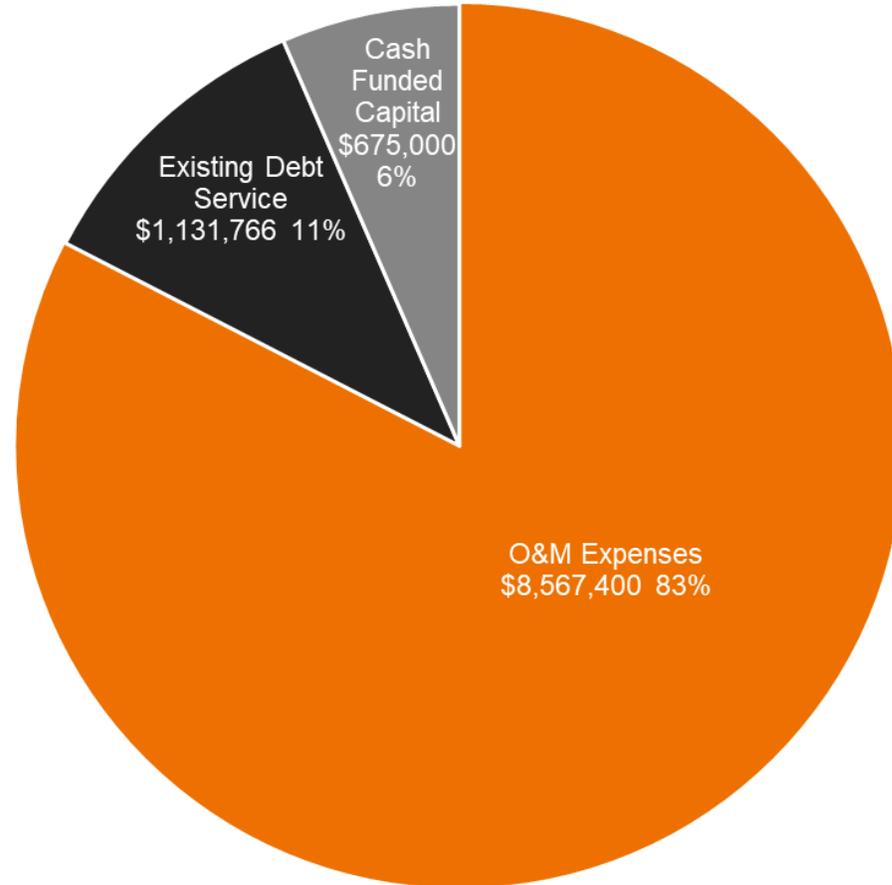
FY 2026 Water Revenue Requirements



- 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						

**Revenues at current rates with no increases*



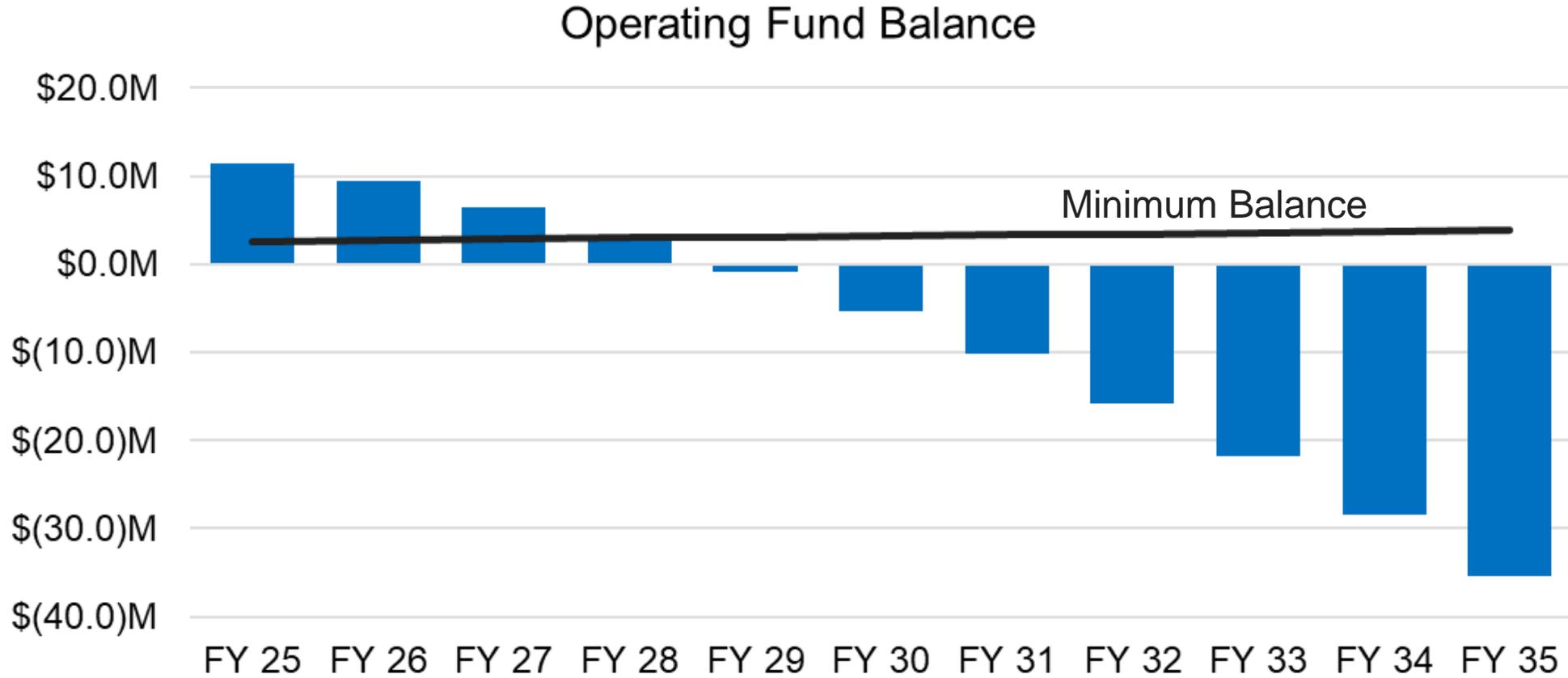
Sewer Revenue Sufficiency Analysis

(\$ 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						

**Revenues at current rates with no increases*

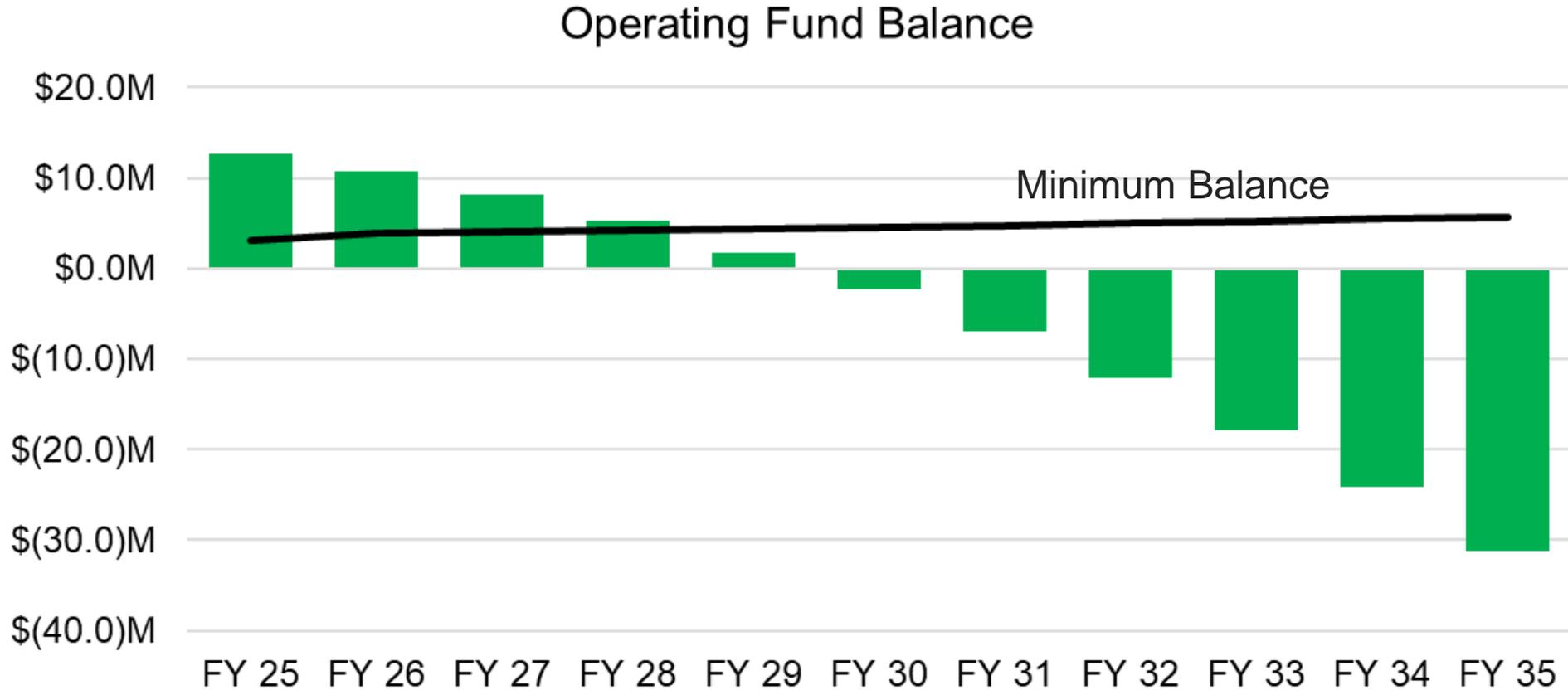


Water Fund Forecast - No Rate Increases





Sewer Fund Forecast - No Rate Increases





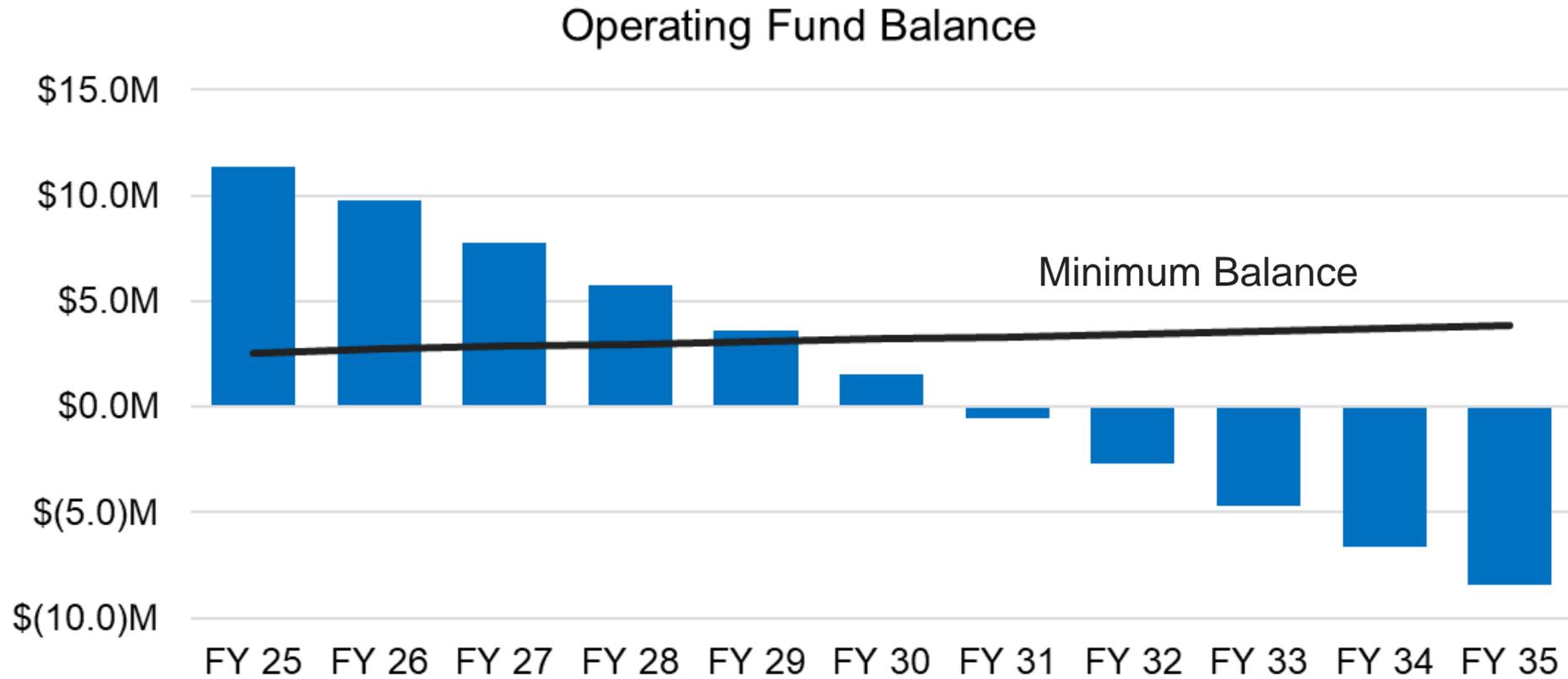
Financial Plan Recommendation

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

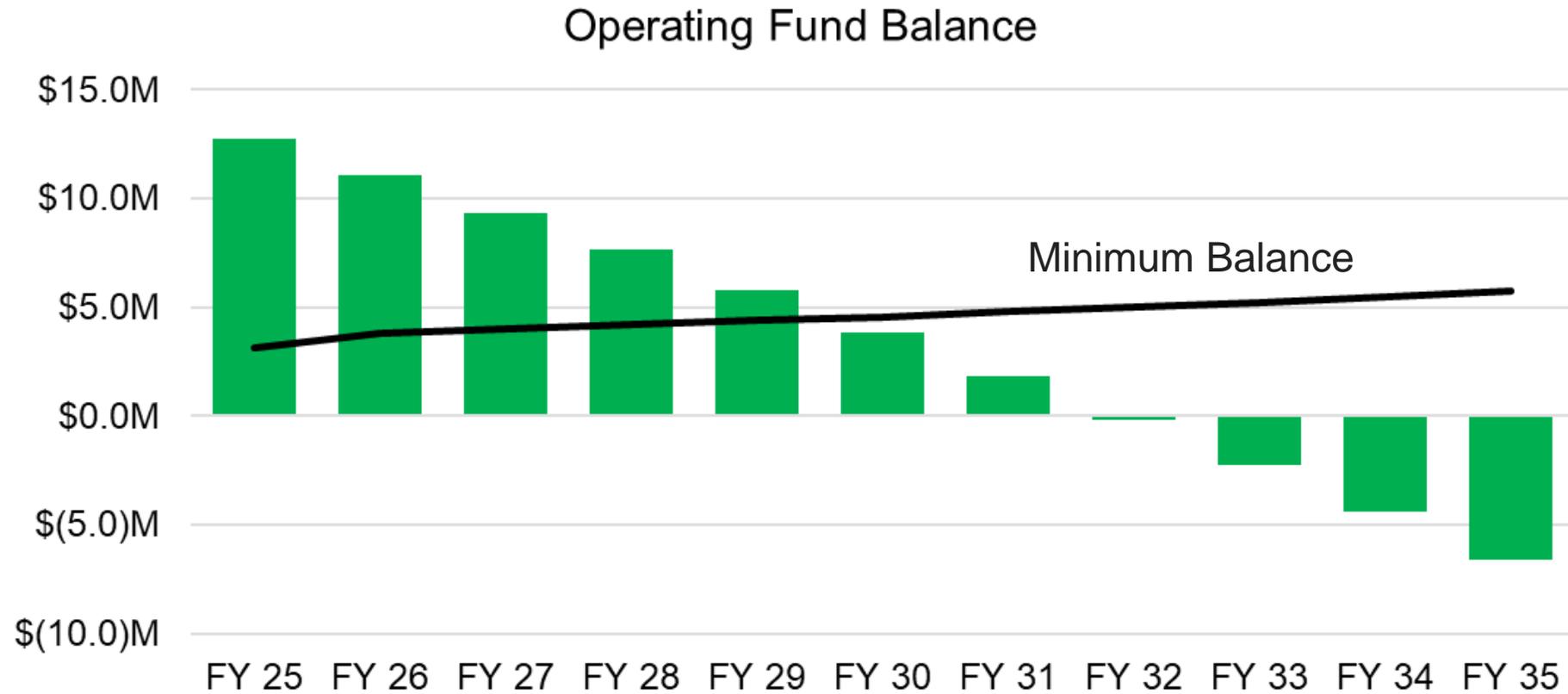


Water Fund Forecast - With Rate Increases



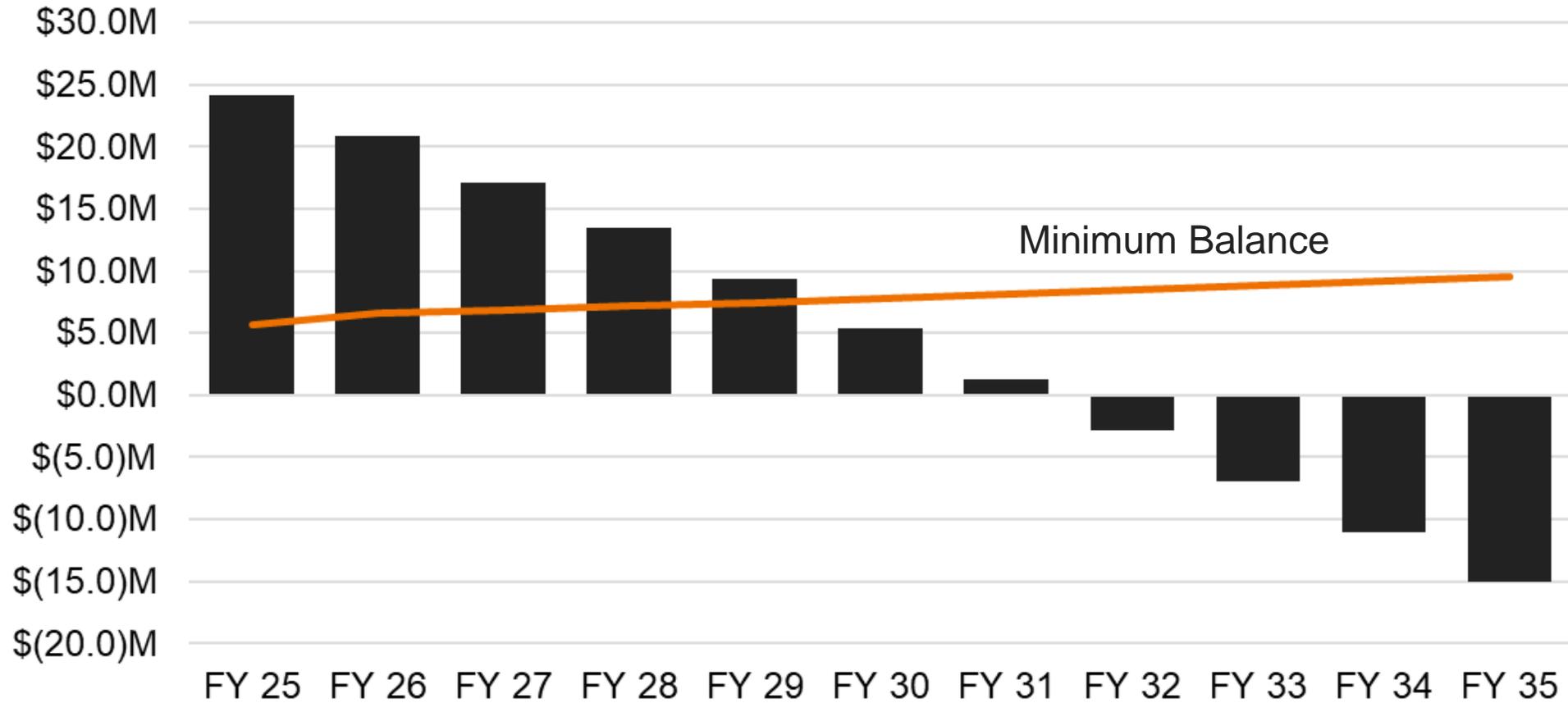


Sewer Fund Forecast - With Rate Increases





Combined Fund Forecast - With Rate Increases





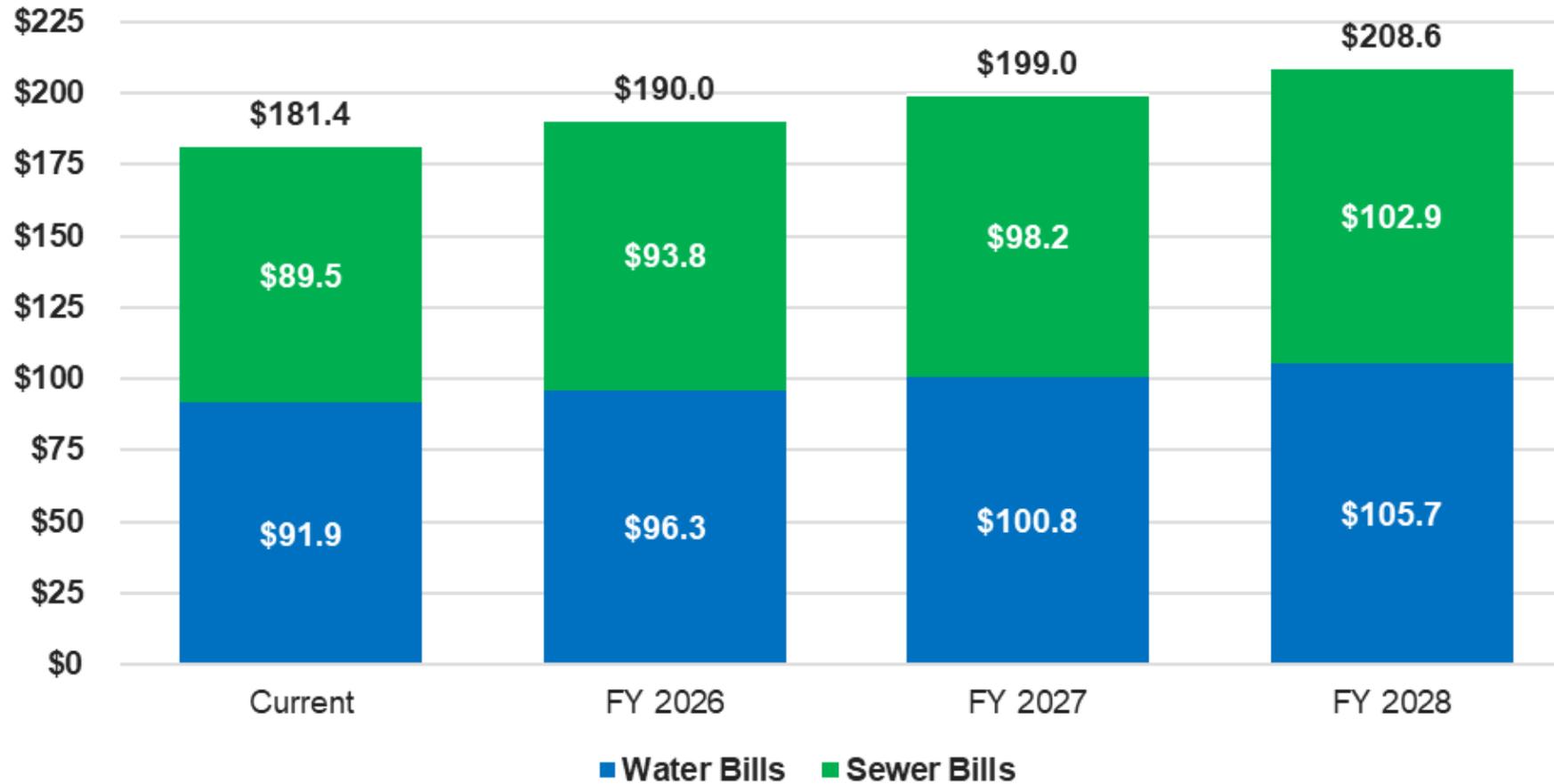
Recommended FY 26 Water and Sewer Rates

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

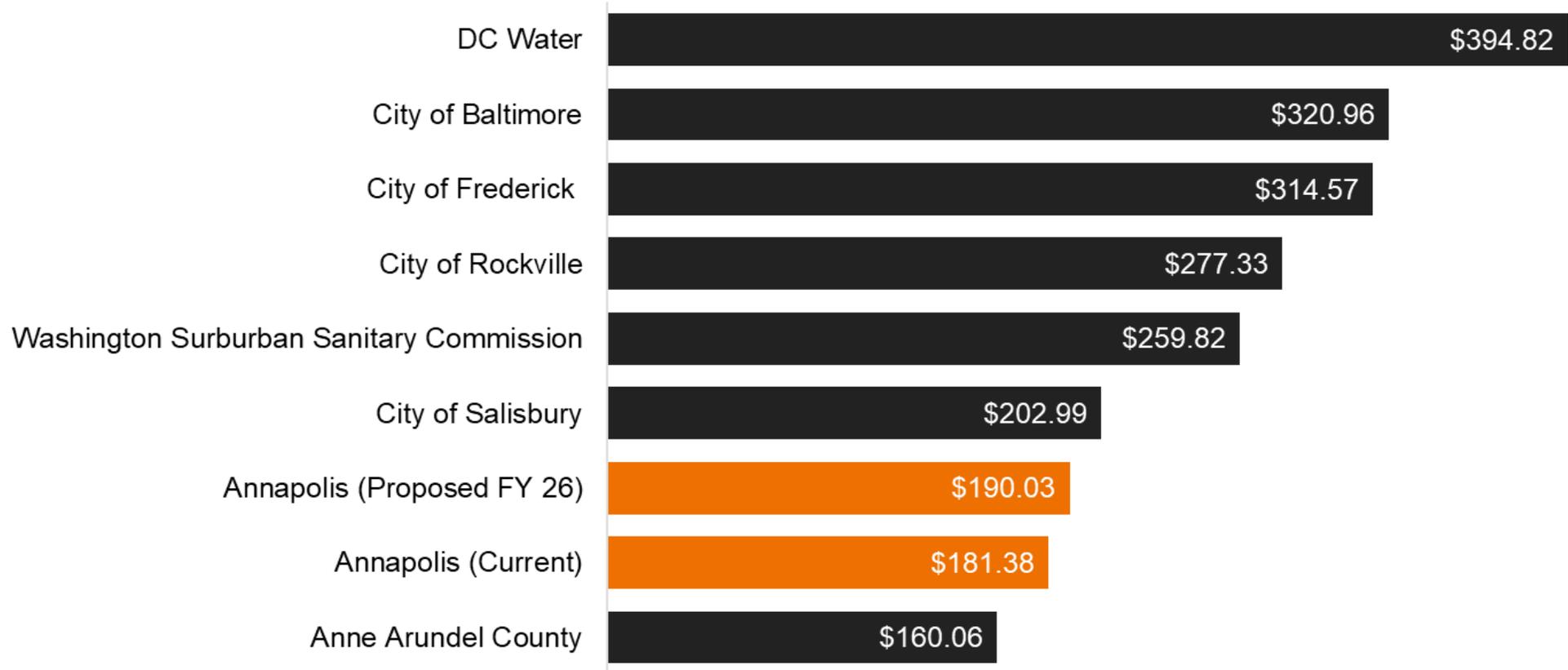


\$8.65 per quarter increase in average customer bill in FY26



Water and Sewer Bill Comparison

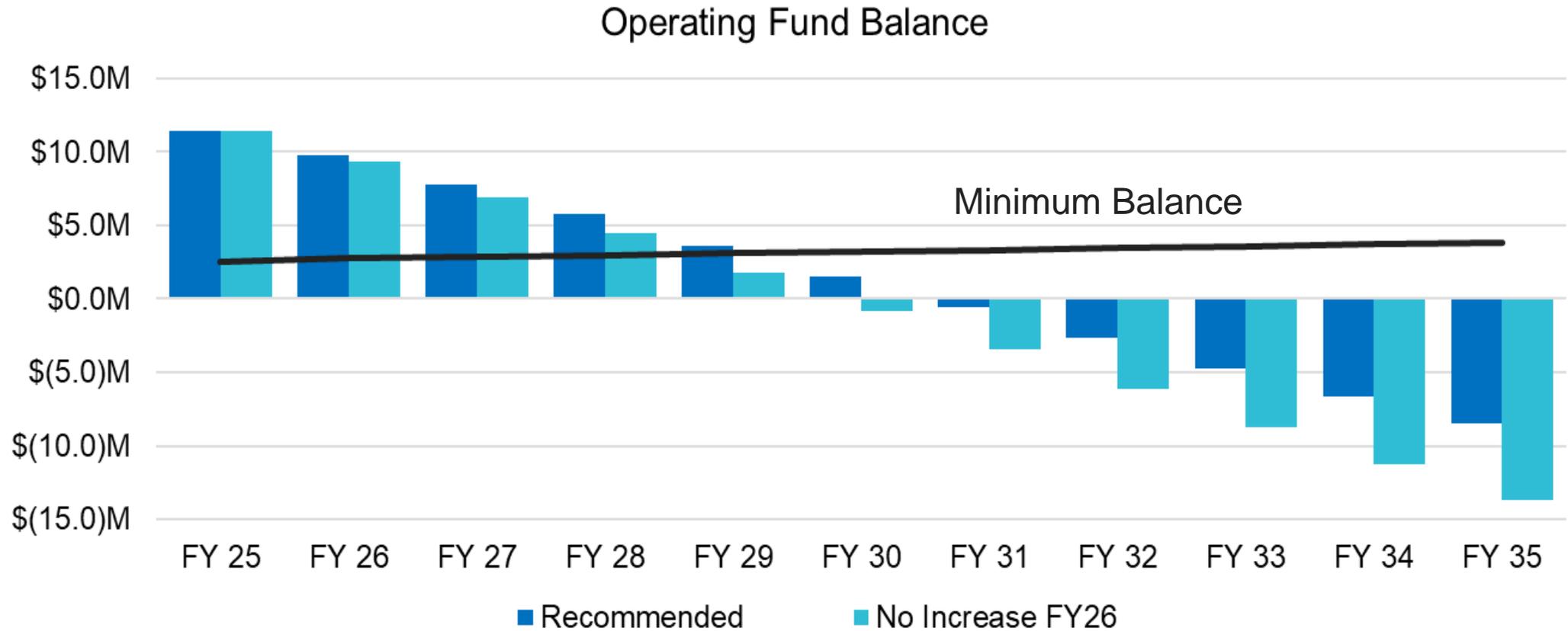
Single Family Residential Quarterly Bill (12,000 gallons)





Water Fund Scenario: No FY 26 Rate Increase

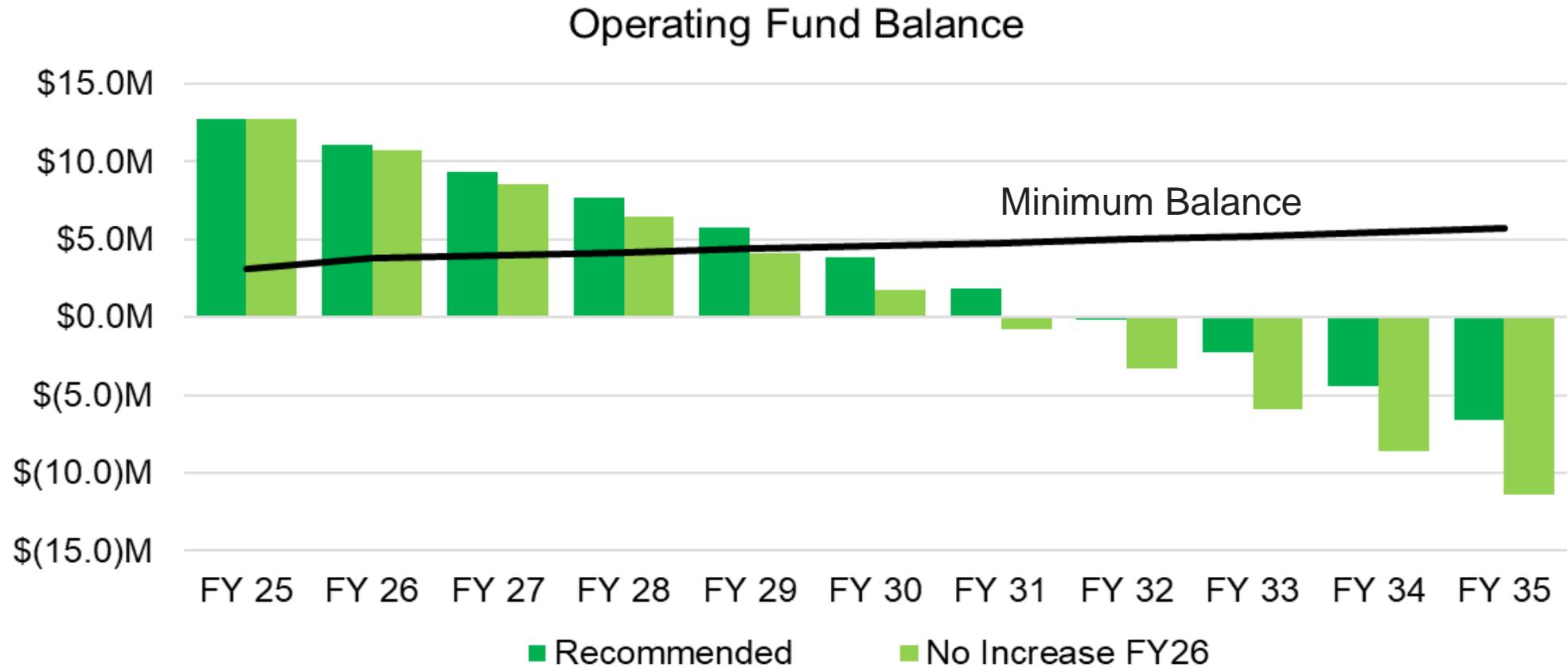
No increases in FY 2026 followed by recommended financial plan (4.75% annually)





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	4.75%	4.75%	4.75%	4.75%
Recommended: Sewer Increase	4.75%	4.75%	4.75%	4.75%

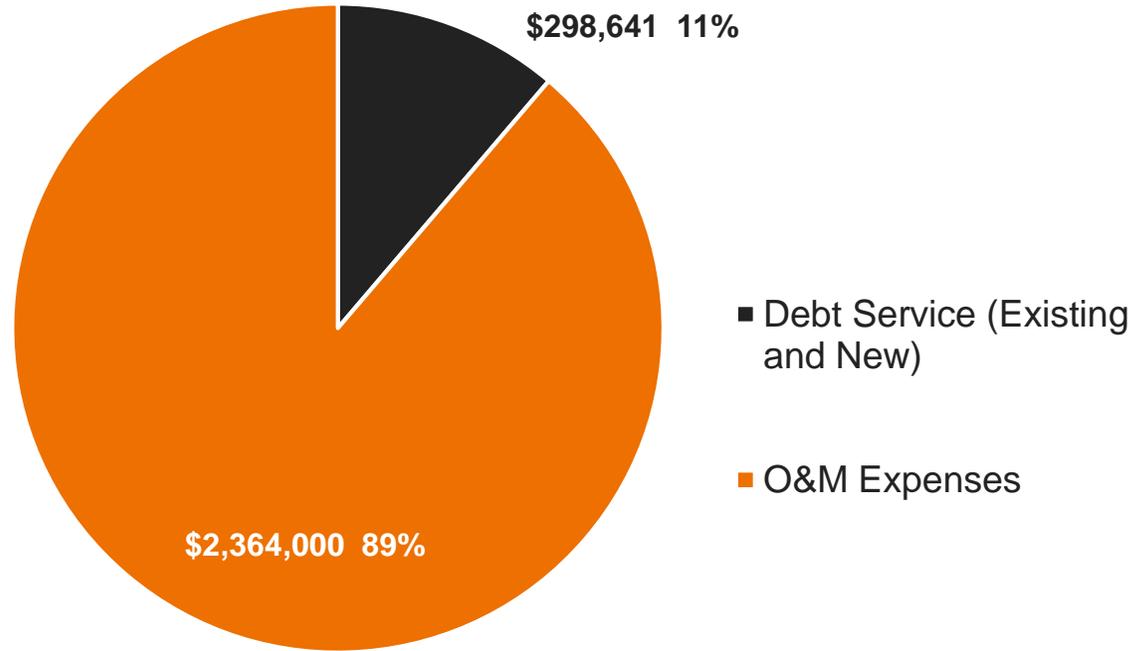
- Rate plan will need to increase in magnitude between FY 27-29 to achieve similar results to recommended plan
- Future increases still necessary beyond FY 29

2 Stormwater Enterprise Fund





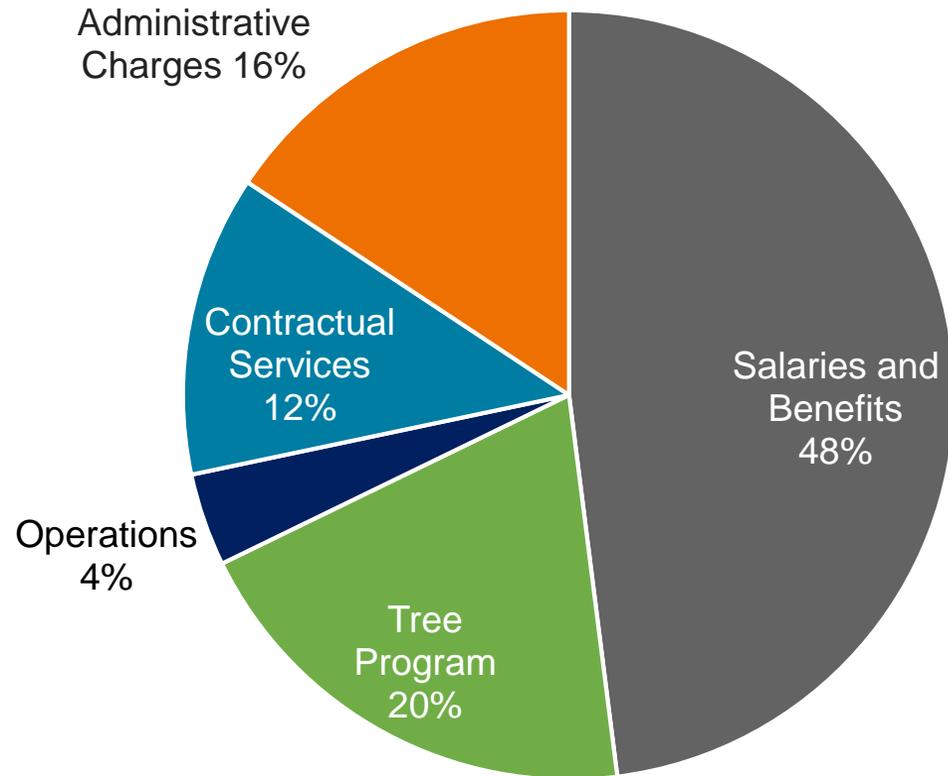
FY 2026 Stormwater Revenue Requirements



- 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



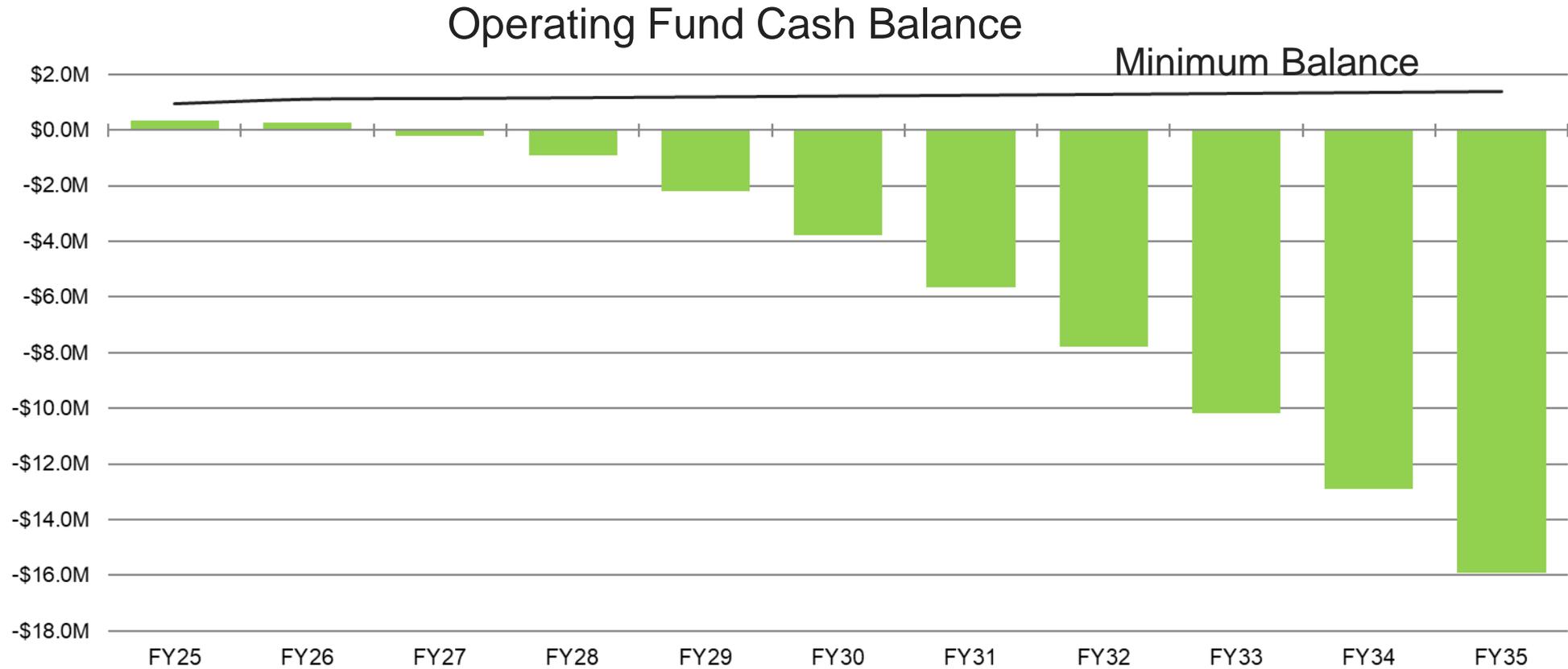
Stormwater Revenue Sufficiency

(\$ 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

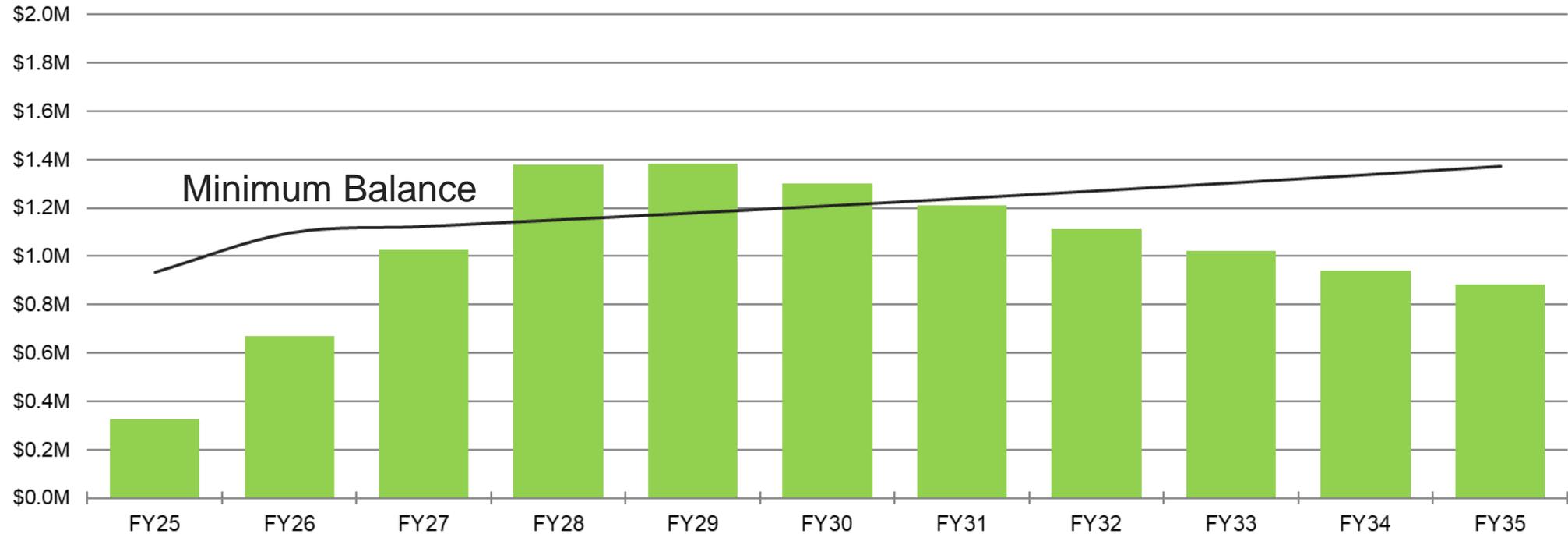
- The City will need to continue to escalate stormwater fees to meet capital needs and restore cash balance.
- Magnitude of adjustments
 - 1) Capital funding plan (cash and bond)
 - 2) Capital execution schedule
- 15% increases in stormwater fees are necessary to meet funding needs of stormwater system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

	FY 26	FY 27	FY 28	FY 29
Stormwater Fee Increase	15.0%	15.0%	6.0%	6.0%



Stormwater Fund Forecast – With Increases

Operating Fund Cash Balance



**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

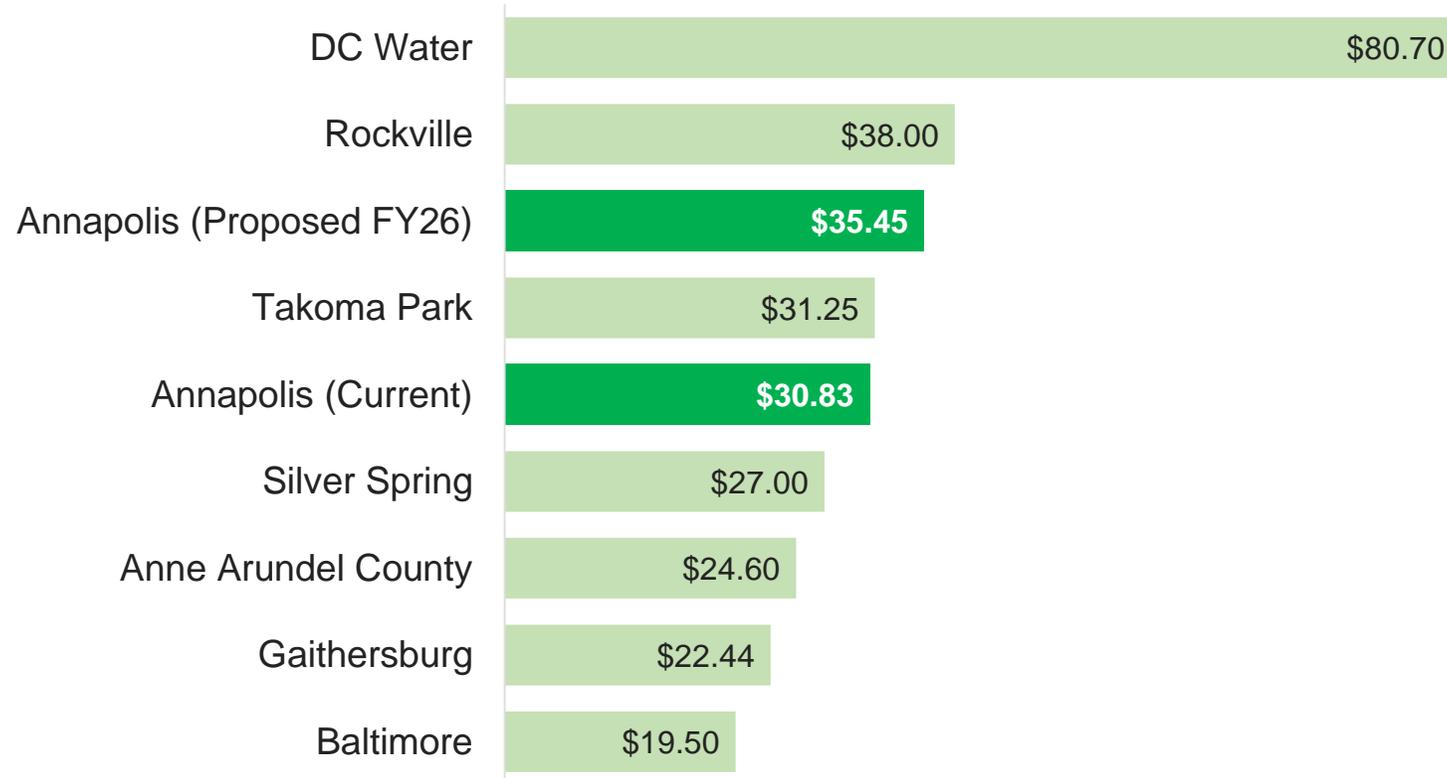
Residential	Current	FY 26
Single Family	\$30.83	\$35.45
Multi-Family (per unit)	\$15.41	\$17.73

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

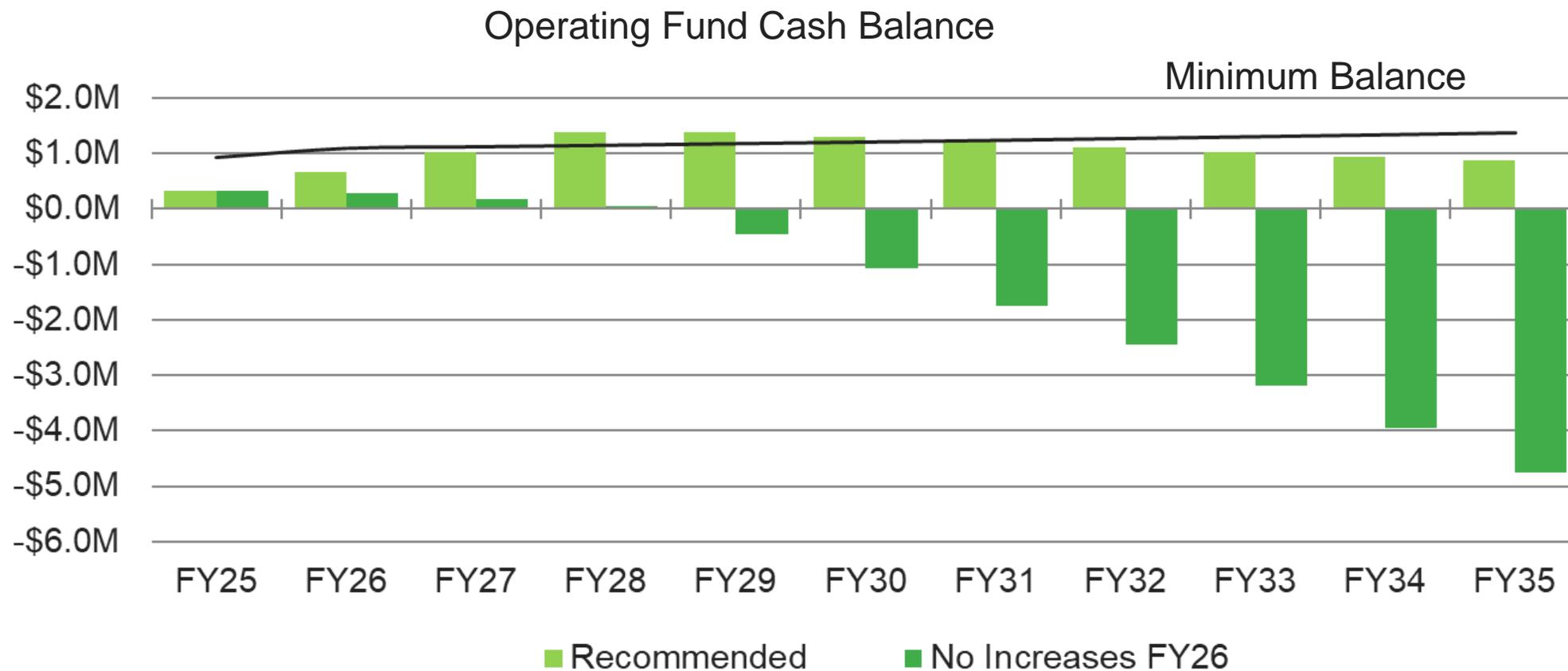
Quarterly Stormwater Bill Comparison - Single Family Residential





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

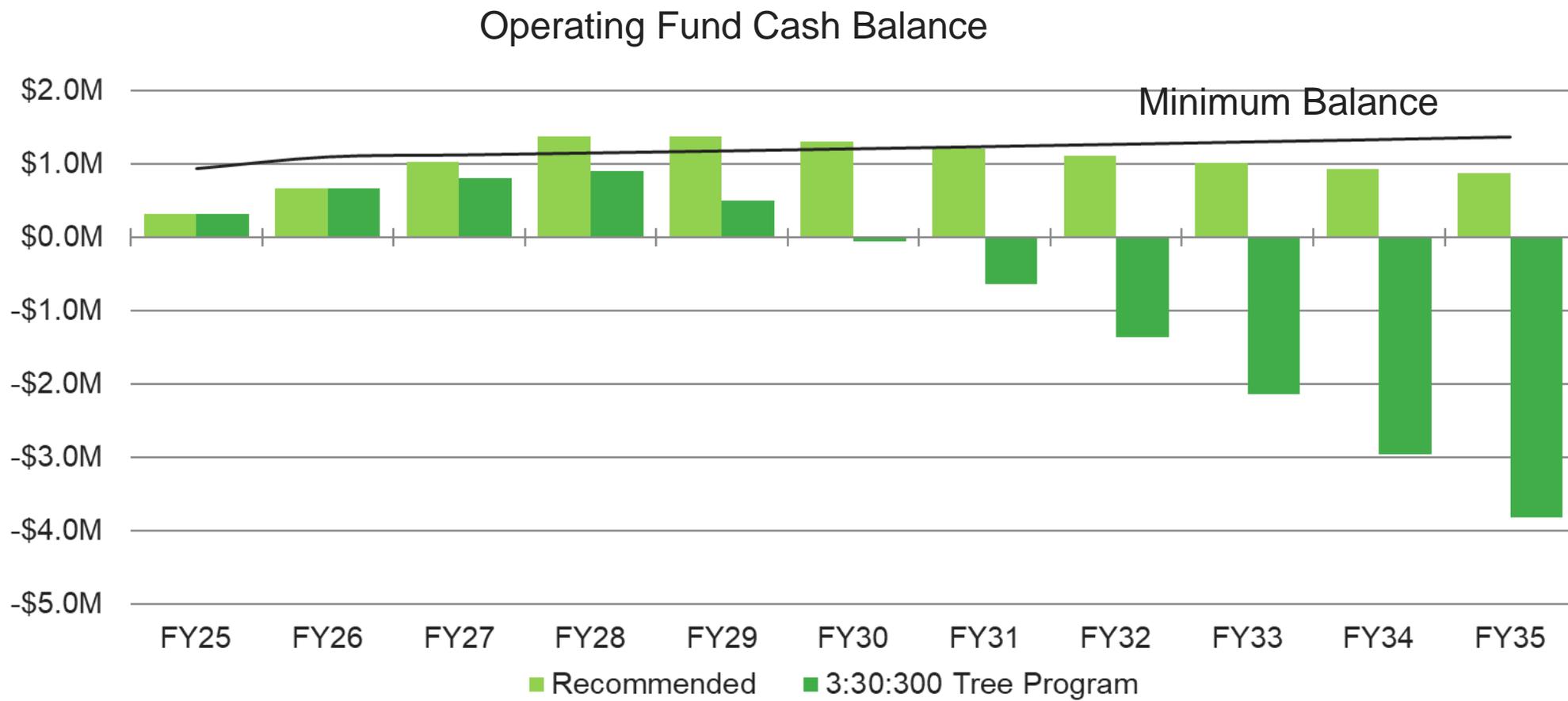
- Plan will not achieve target minimum balance or sustain balance without larger increases in future
- Rate plan will need to increase in magnitude between FY 27- 29 to achieve similar results to recommended plan

	FY 26	FY 27	FY 28	FY 29
Scenario: Stormwater Fee Increase	<i>0%</i>	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

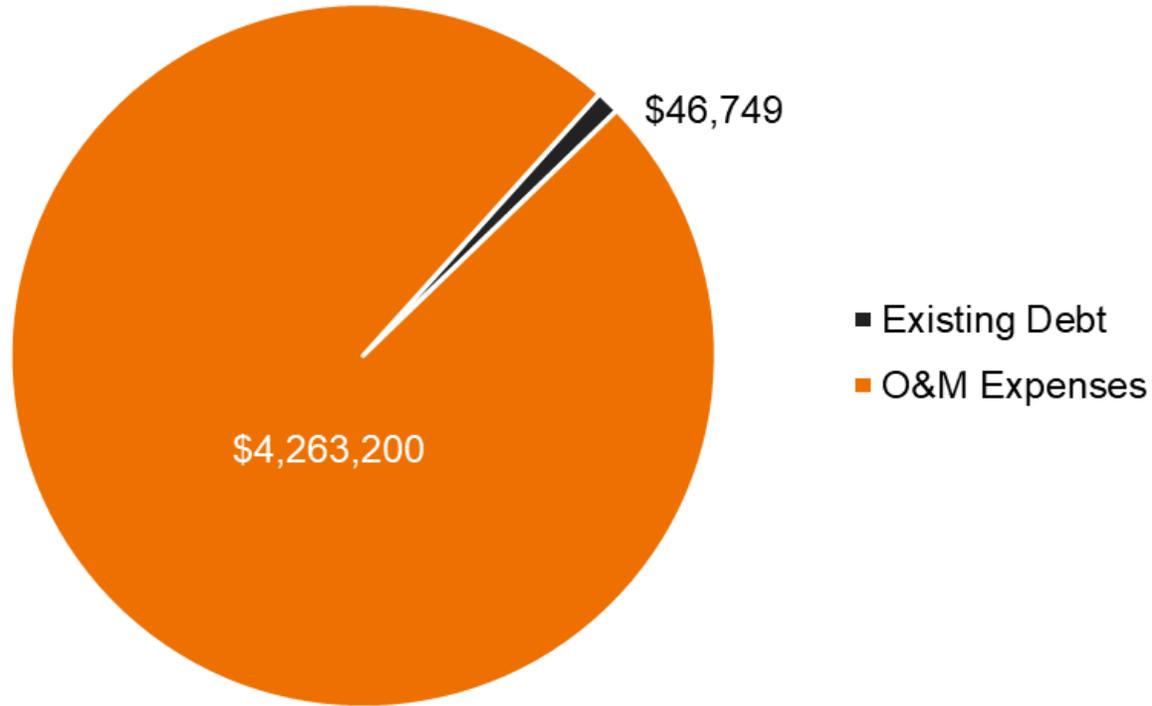


Refuse Background

- 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



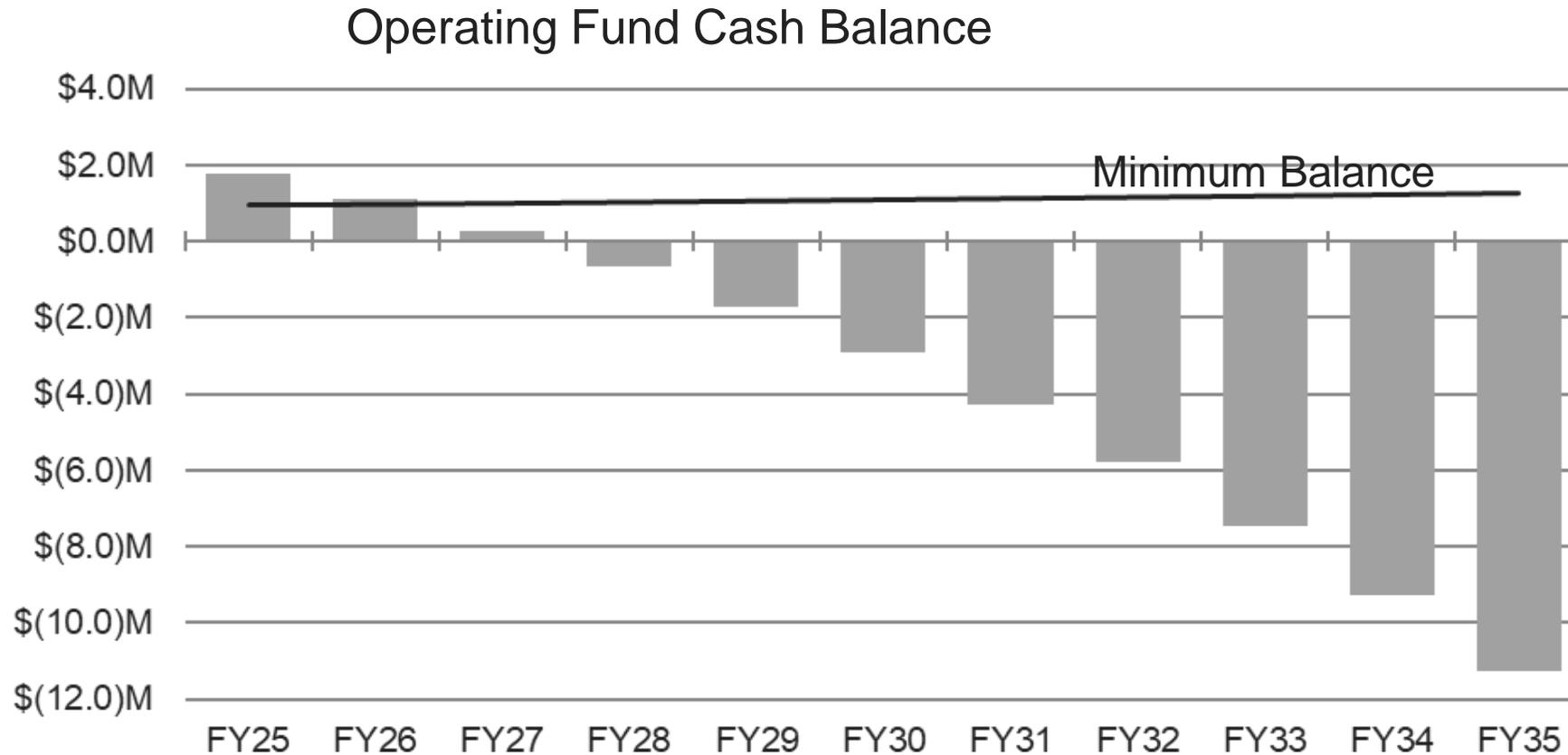
Refuse Revenue Sufficiency

(\$ 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								

**Assumes no increases in refuse fees*



Refuse Fund Balance – No Fee Increases





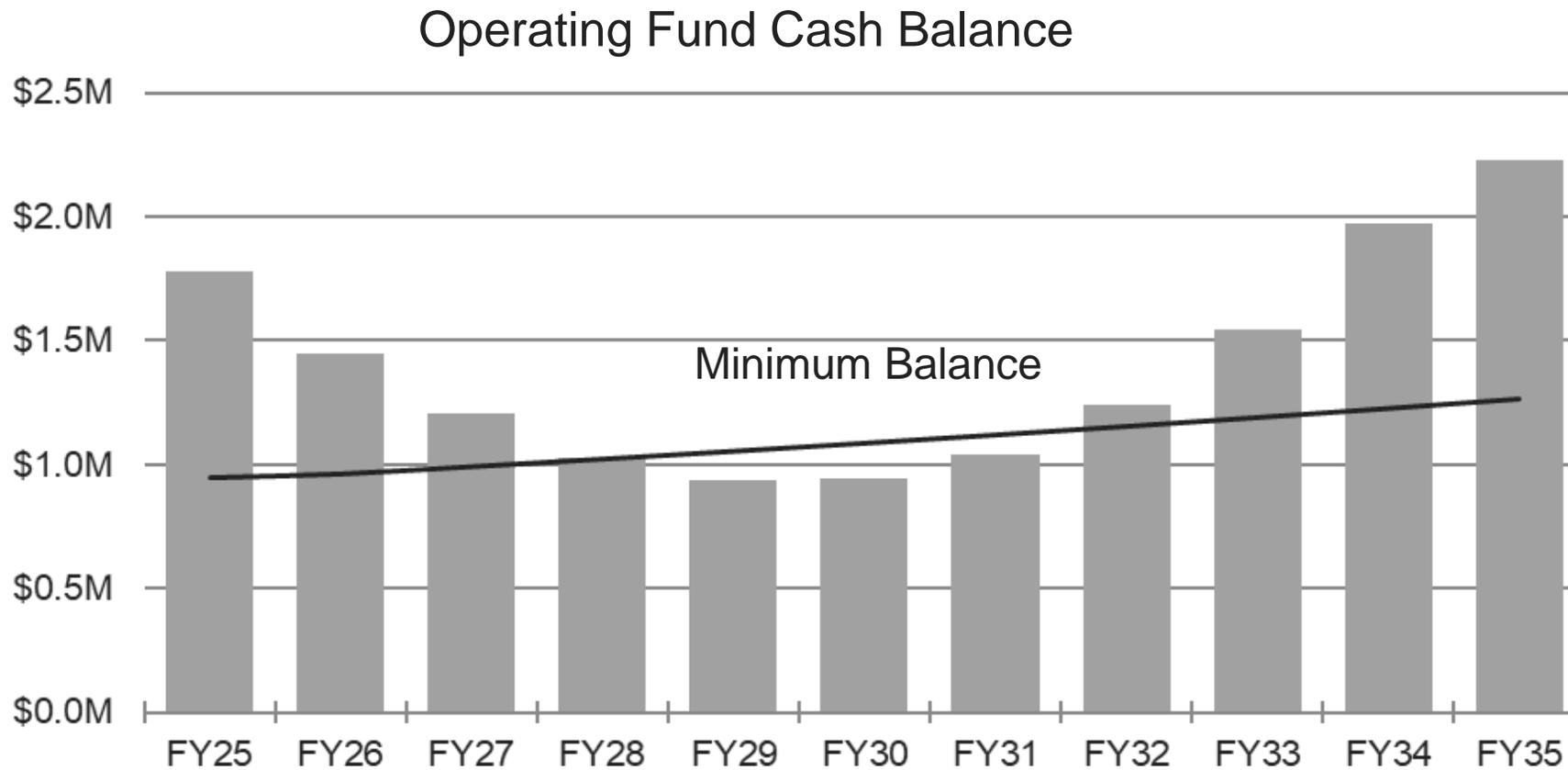
Financial Plan Considerations

- 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%

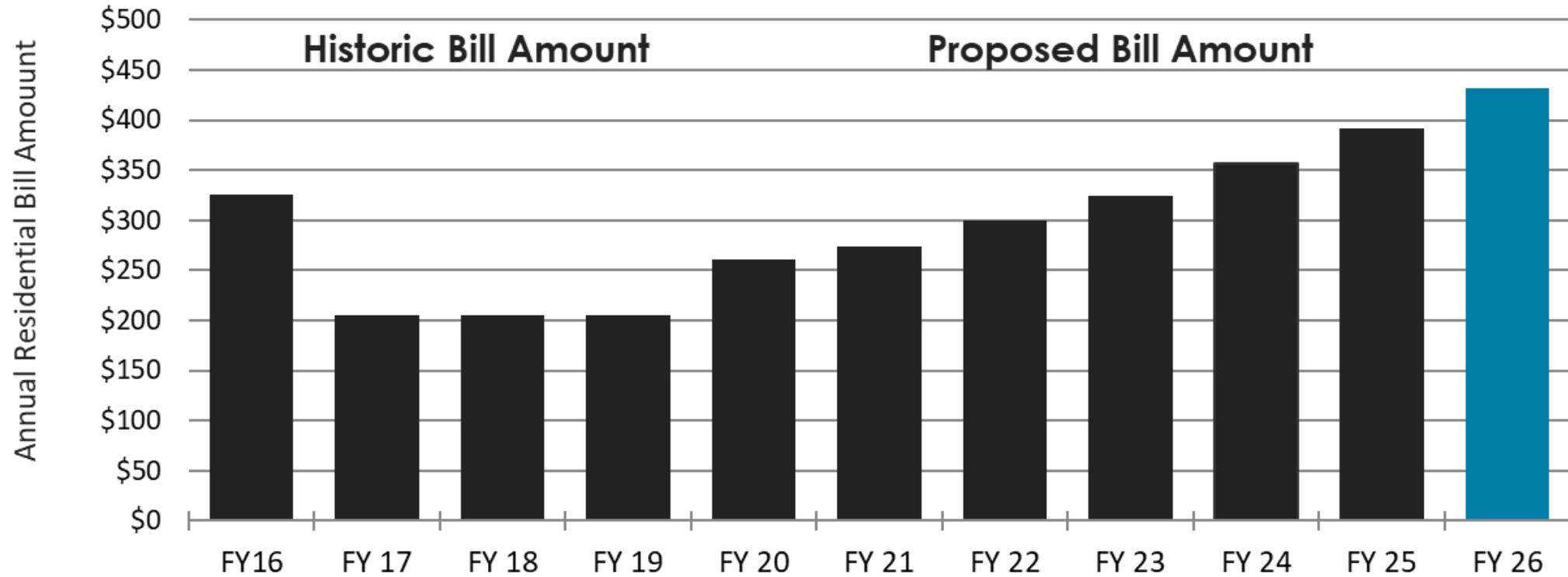


Refuse Fund Balance – With Increases





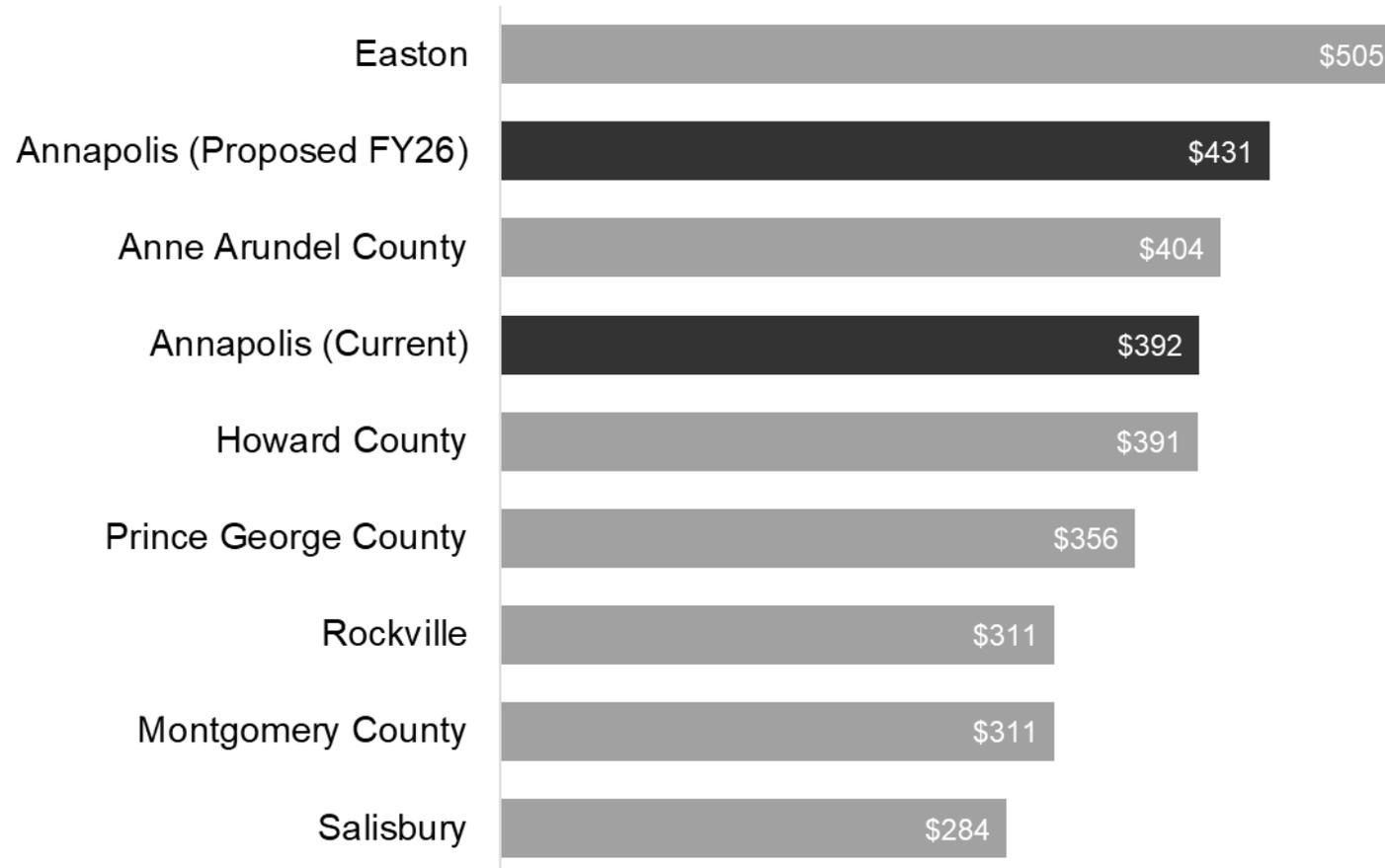
Historical and Recommended FY26 Refuse Fee





Refuse Fee Comparison

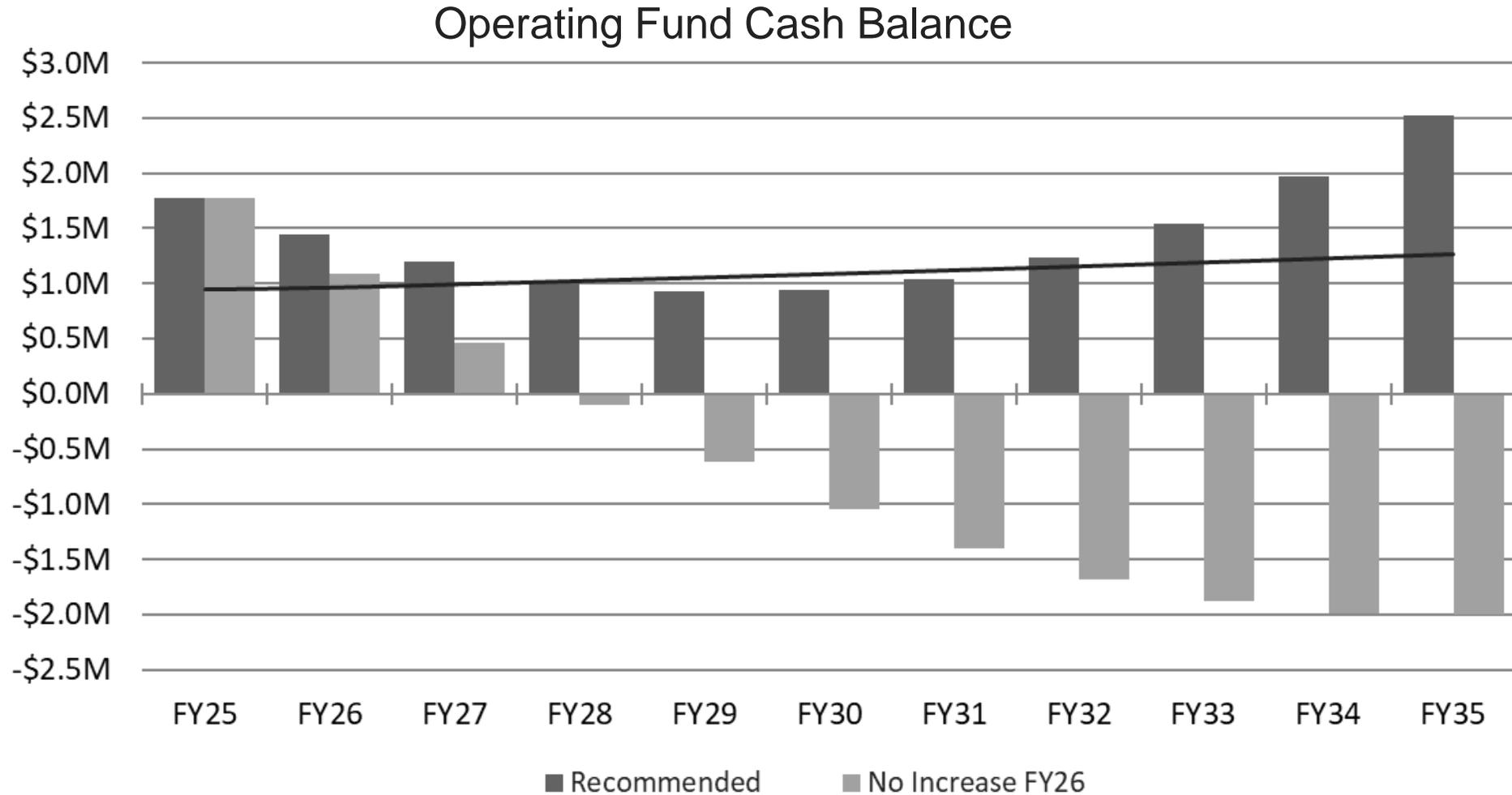
Annual Refuse Fee Comparison - Single Family Residential





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	<i>0.0%</i>	20.0%	4.0%	4.0%
Recommended Reuse Fee Increase	<i>10.0%</i>	5.0%	5.0%	5.0%



Questions / Discussion