City of Cave Springs
Arkansas

City of Cave Springs

Water Cost of Service Study and Financial Projection Report

April 2026

UTILITY FINANCIAL SOLUTIONS, LLC

Corporate location:
Utility Financial Solutions, LLC
185 Sun Meadow Court
Holland, MI USA 49424
(616) 393-9722
Fax (888) 566-4430

Submitted Respectfully by:
Daniel Kasbohm, Manager
Utility Financial Solutions, LLC
dkasbohm@ufsweb.com
(616) 402-7045

UTILITY FINANCIAL SOLUTIONS, LLC

April 2026

Mayor Randall Noblett
City Mayor
City of Cave Springs
134 N. Main Street
Cave Springs, AR 72718

Dear Mr. Noblett:

We are pleased to present this Report for the water cost of service, financial projection and rate study for the City of Cave Springs (Cave Springs). This report was prepared to provide Cave Springs with a comprehensive examination of its financial projection and existing rate structure by an outside party in conformance with Act 605 from the Arkansas Department of Agriculture. Please note other specific requirements in Act 605 that relate to the City of Cave Springs as well as its asset management plan for the sewer department.

The specific purposes of this rate study are:

- Determine water utility's revenue requirements for fiscal year 2026
- Identify cross-subsidies that may exist between rate classes
- Suggest rate adjustments needed to meet targeted revenue requirements
- Identify the appropriate monthly customer charge for each customer class

This report includes results of the water cost of service, financial projection and rate study and suggestions on future rate designs.

This report is intended for information and use by the utility and management for the purposes stated above and is not intended to be used by anyone except the specified parties.

Sincerely,



Utility Financial Solutions, LLC
Mark Beauchamp
CPA, MBA, CMA
185 Sun Meadow Ct
Holland, MI 49424

TABLE OF CONTENTS

1. Introduction 2
2. Financial Projection Summary 3
Utility Rate Process 3
Utility Revenue Requirements 3
Projected Cash Flow 5
Minimum Cash Reserve 6
Debt Coverage Ratio 7
Optimal Rate Funded Capital (Target Operating Income) 8
Projected Rate Track 9
3. Cost of Service Summary 10
Cost of Service Components 11
4. Significant Assumptions 13
5. Considerations and Additional Information 15
6. Optional Sewer Rate Design 16
7. Sewer Asset Management Plan 21
8. Approved Provider Statement for Utility Financial Solutions, LLC 22

LIST OF TABLES

Table 1 – Projected Financial Statements 4
Table 2 – Projected Cash Flows (without rate adjustments) 5
Table 3 – Minimum Cash Reserves (without rate adjustments) 6
Table 4 – Projected Debt Coverage Ratios (without rate adjustments) 7
Table 5 – Target Operating Income Calculation (without rate adjustments) 8
Table 6 – Summary of Financials without Rate Adjustment 9
Table 7 – Projected Revenue Adjustments 9
Table 8 – Cost of Service Summary 10
Table 9 – Comparison of Current Flat Charge (Fixed) with Cost of Service 11
Table 10 – Comparison of Current Volume Charge (Variable) with Cost of Service 12
Table 11 – Projected Operating Revenue & Expenses 13
Table 12 – Bonding Assumptions for ARDOT and Scissortail Connection Capital Projects 14

Table 13 – Capital Improvements Projection.....14

1. Introduction

This report was prepared to provide the City of Cave Springs (Cave Springs) with a water cost of service, financial projection and rate study and a comprehensive examination of its existing rate structure by an outside party.

The specific purposes of the study are identified below:

1. ***Determine water utility's revenue requirements for fiscal year 2026.*** Cave Springs's revenue requirements were projected for the period from 2026 – 2030 and included adjustments for the following:
    a. Projected costs
    b. Capital improvement plan projected over next five years

2. ***Suggest rate adjustments needed to meet targeted revenue requirements.*** The primary purpose of this study is to identify appropriate revenue requirements and the rate adjustments needed to meet targeted revenue requirements. The report includes a long-term rate track for Cave Springs to help ensure the financial stability of the utility in future years.

3. ***Identify the appropriate monthly customer charge for each customer class.*** The monthly customer charge consists of fixed costs to service customers.

2. Financial Projection Summary

Utility Rate Process

Cave Springs retained Utility Financial Solutions to review utility rates and cost of service and make suggestions on the appropriate course of action. This report includes results of the water cost of service and unbundling study and suggestions on future rate designs.

The assumptions used to develop the expense projection are described in greater detail in the "Significant Assumptions" section of this report and were developed collaboratively with staff.

Utility Revenue Requirements

To determine revenue requirements, the revenues and expenses for Fiscal Years 2023 and 2024, and 2025 & 2026 budget were analyzed with adjustments made to reflect projected operating characteristics. ***The projected financial statements are for cost of service purposes only.***

Table 1 is the projected financial statement for the Water Department from 2026 – 2030.

The following pages review cash flow, debt coverage ratio, and rate of return which are important indicators of financial health.

Table 1 – Projected Financial Statements

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Operating Revenues:					
Total Water Sales	$ 1,859,320	$ 2,456,932	$ 2,554,105	$ 2,656,085	$ 2,763,268
Water Connection Fees	23,375	30,888	32,110	33,392	34,739
Penalties	2,282	3,016	3,135	3,260	3,392
Miscellaneous	30,000	30,000	30,000	30,000	30,000
Total Operating Revenue	**$ 1,914,977**	**$ 2,520,836**	**$ 2,619,350**	**$ 2,722,737**	**$ 2,831,399**
Operating Expenses:					
Water Purchases	$ 1,327,975	$ 1,782,593	$ 1,954,017	$ 2,143,422	$ 2,358,407
Salaries, Wages & Benefits	167,634	172,663	177,843	183,178	188,674
Retirement - APERS	24,470	25,204	25,961	26,739	27,542
Payroll taxes	11,673	12,023	12,384	12,755	13,138
Employee benefits	24,121	24,844	25,590	26,357	27,148
Repairs and Maintenance	605,006	623,156	641,851	661,106	680,939
Fuel	7,053	7,264	7,482	7,707	7,938
Dues and Subscriptions	15,918	16,396	16,888	17,395	17,916
Bank Fees	3,621	3,729	3,841	3,956	4,075
Office Supplies	26,297	27,086	27,899	28,736	29,598
Computer Software	8,158	8,402	8,654	8,914	9,181
Professional Fees	162,572	167,450	172,473	177,647	182,977
Insurance	4,152	4,276	4,405	4,537	4,673
Miscellaneous Exp	22,216	22,882	23,569	24,276	25,004
Training	5,078	5,231	5,387	5,549	5,716
Utility permits and locates	2,360	2,431	2,504	2,579	2,656
Utilites	3,553	3,660	3,769	3,883	3,999
Bad Debt Expense(Income)	5,000	5,150	5,305	5,464	5,628
Depreciation Expense	163,962	176,846	239,487	287,051	763,205
Total Annual Operating Expense	**$ 2,590,819**	**$ 3,091,288**	**$ 3,359,308**	**$ 3,631,251**	**$ 4,358,413**
Other Income / (Expense):					
Interest and Other Income	$ 25,948	$ 5,536	$ 15,842	$ (12,455)	$ (30,031)
Interest on Long Term Debt	(14,654)	(64,288)	(110,884)	(107,315)	(483,572)
Non Operating Income/Expense	**$ 11,294**	**$ (58,752)**	**$ (95,042)**	**$ (119,770)**	**$ (513,603)**
Net Income	$ (664,547)	$ (629,204)	$ (835,000)	$ (1,028,284)	$ (2,040,618)
Adjusted Operating Income [1]	**$ (675,842)**	**$ (570,452)**	**$ (739,958)**	**$ (908,514)**	**$ (1,527,015)**

[1] Water impact fees removed from "Adjusted Operating Revenue"

Please reference the Assumptions section of this report for historical revenues and expenses

Note 1: Arkansas Department of Agriculture Act 605 requires the City to maintain a refurbishment and replacement account (depreciation expense) that is used for capital (asset) replacement projects greater than $1,000 [Act. 605 of 2021 : III.4]

Note 2: Arkansas Department of Agriculture Act 605 requires the City to maintain an asset management plan on essential assets of the department. This analysis included a 5-year capital program based on the results of the City's 2026 asset management analysis [Act. 605 of 2021 : IV.3.a.ii.1]

Projected Cash Flow

Table 2 is the projected cash flow for 2026 – 2030, including projections of capital improvements as provided by Cave Springs. To project actual cash flow the following adjustments are made:

- Depreciation expense (a non-cash item) is added back since it reduces net income on the income statement but doesn't involve an actual cash outflow.
- Debt principal payments are subtracted. These are actual cash outflows, but they are not treated as expenses on the income statement above under accrual accounting.
- Capital Expenditures are subtracted. Like principal repayments, these are actual cash outflows that are not treated as expenses on the income statement above.
- Bond Sales are added in 2025 to fund a WWTP capital project that will conclude in 2026 when bond payments are assumed to begin.

The projection starts with the actual cash balances from year end 2025. It's important to note that changes in the capital improvement plan can have a significant impact on projected cash balances, as they involve large expenditures.

- If new projects are added, or if existing projects become more expensive than anticipated, this can significantly reduce projected future cash balances.
- Conversely, delaying or scaling back capital projects can help preserve cash.

The cash balance for 2026 is projected at $369k and $-3.5M in 2030. The suggested minimum cash reserve level for 2026 is $770k and $1.6M for 2030.

Table 2 – Projected Cash Flows (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Projected Cash Flows					
Net Income	$ (664,547)	$ (629,204)	$ (835,000)	$ (1,028,284)	$ (2,040,618)
Depreciation Expense/Amortization	163,962	176,846	239,487	287,051	763,205
Subtract Debt Principal	(9,874)	(10,240)	(74,129)	(77,698)	(81,441)
Add Bond Sale Proceeds	-	2,000,000	-	-	15,200,000
Cash Available from Operations	$ (510,459)	$ 1,537,402	$ (669,642)	$ (818,931)	$ 13,841,146
Estimated Annual Capital Additions	(850,350)	(850,350)	(1,216,800)	(352,800)	(15,360,300)
Net Cash From Operations	$ (1,360,809)	$ 687,052	$ (1,886,442)	$ (1,171,731)	$ (1,519,154)
Beginning Cash Balance	$ 1,729,877	$ 369,068	$ 1,056,120	$ (830,323)	$ (2,002,054)
Ending Cash Balance	**$ 369,068**	**$ 1,056,120**	**$ (830,323)**	**$ (2,002,054)**	**$ (3,521,208)**
Recommended Minimum Cash Reserve	$ 770,139	$ 891,772	$ 1,040,480	$ 1,077,064	$ 1,634,179

Cash balances decrease throughout the projection period.

Minimum Cash Reserve

Table 3 details the minimum level of cash reserves required to help ensure timely replacement of assets and to provide financial stability of the utility. The methodology used to establish this target is based on the following assumptions.

Allocator	Risk Factor Assigned
Operation & Maintenance Less Depreciation Expense	45 day working capital lag = 12.3% factor
Purchased Water	Highest monthly water bill = 11.5% factor
Historical Rate Base	Greater than 50% Depreciated = 3.0% factor
Current Portion of Debt Service Payment	Highest annual debt payment
Five Year Capital Improvements – Net of Bond Proceeds	20% of five year capital plan

Based on these assumptions, Cave Springs should maintain a minimum of $770k in cash reserves for 2026 and $1.6M in 2030.

Table 3 – Minimum Cash Reserves (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Minimum Cash Reserve Levels Determinants					
O&M Less Depreciation & Water Expense	$ 1,098,882	$ 1,131,848	$ 1,165,804	$ 1,200,778	$ 1,236,801
Purchased Water Expense	1,327,975	1,782,593	1,954,017	2,143,422	2,358,407
Historical Rate Base	5,895,113	6,745,463	7,962,263	8,315,063	23,675,363
Current Portion of Debt Service Payment	24,528	74,528	185,013	185,013	565,013
Five Year Capital Improvements - Net of bond proceeds	1,430,600	1,430,600	1,430,600	1,430,600	1,430,600
Minimum Cash Reserve Allocation					
Operation & Maintenance Less Depreciation Expense	12.3%	12.3%	12.3%	12.3%	12.3%
Purchased Water Expense	11.5%	11.5%	11.5%	11.5%	11.5%
Historical Rate Base	3%	3%	3%	3%	2%
Current Portion of Debt Service Payment	80%	80%	80%	80%	80%
Next Years Capital Improvements - Net of bond proceeds	0%	0%	0%	0%	0%
Five Year Capital Improvements - Net of bond proceeds	20%	20%	20%	20%	20%
% Plant Depreciated	30%	29%	27%	30%	14%
Calculated Minimum Cash Level					
Operation & Maintenance Less Depreciation Expense	$ 135,479	$ 139,543	$ 143,729	$ 148,041	$ 152,482
Purchased Water Expense	152,065	204,123	223,752	245,441	270,058
Historical Rate Base	176,853	202,364	238,868	249,452	473,507
Current Portion of Debt Service Reserve	19,622	59,622	148,011	148,011	452,011
Five Year Capital Improvements - Net of bond proceeds	286,120	286,120	286,120	286,120	286,120
Recommended Minimum Cash Reserve Levels	**$ 770,139**	**$ 891,772**	**$ 1,040,480**	**$ 1,077,064**	**$ 1,634,179**
Projected Cash Reserves	$ 369,068	$ 1,056,120	$ (830,323)	$ (2,002,054)	$ (3,521,208)

Projected cash balances are below the suggested minimums during the projection period under current rates.

Debt Coverage Ratio

Table 4 is the projected debt coverage ratios with capital additions as provided by Cave Springs. Debt coverage ratio is a measurement of debt affordability and measures the cash flow from operations in that fiscal year. A ratio of 1, indicates there was enough cash flow from operations to pay the debt payment one time. The minimum suggested debt coverage ratio for prudent financial planning purposes is 1.40.

Maintaining a 1.40 debt coverage ratio is good business practice and helps to achieve the following:

a. Helps to ensure debt coverage ratios are met in years when sales are low due to cold or wet summers or loss of a major customer(s).

b. When debt coverage ratios are consistently met, it may help obtain a higher bond rating if revenue bonds are sold in the future, to lower interest cost.

Table 4 – Projected Debt Coverage Ratios (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Debt Coverage Ratio					
Net Income	$ (664,547)	$ (629,204)	$ (835,000)	$ (1,028,284)	$ (2,040,618)
Add Depreciation/Amortization Expense	163,962	176,846	239,487	287,051	763,205
Add Interest Expense	14,654	64,288	110,884	107,315	483,572
Cash Generated from Operations	$ (485,931)	$ (388,070)	$ (484,629)	$ (633,918)	$ (793,840)
Debt Principal and Interest	$ 24,528	$ 74,528	$ 185,013	$ 185,013	$ 565,013
Projected Debt Coverage Ratio (Covenants)	**(19.81)**	**(5.21)**	**(2.62)**	**(3.43)**	**(1.40)**
Minimum Debt Coverage Ratio	1.4	1.4	1.4	1.4	1.4
Bond agreement: 3% of revenue depreciation reserve					
Total Water Sales	$ 1,859,320	$ 2,456,932	$ 2,554,105	$ 2,656,085	$ 2,763,268
Bond agreement	3%	3%	3%	3%	3%
Bond agreed annual reserve	$ 55,780	$ 73,708	$ 76,623	$ 79,683	$ 82,898
Annual reserve included as depreciation expense	**$ 163,962**	**$ 176,846**	**$ 239,487**	**$ 287,051**	**$ 763,205**

Debt coverage is below the minimum beginning in 2026 without changes in rates.

Note: Arkansas Department of Agriculture Act 605 requires a minimum debt coverage ratio of 1.1

Optimal Rate Funded Capital (Target Operating Income)

The optimal rate-funded capital target, or target operating income, is an essential concept in utility finance. It ensures the utility can meet its current financial obligations, plan for future capital needs, and operate in a financially sustainable and responsible manner. This concept is central to rate setting and is designed to balance the need for financial sustainability with the goal of fair and equitable rates for customers.

The operating income target aims to address several key financial needs for the utility.

A. Funding of Interest Expense on Outstanding Debt Principal – Utilities often take on debt to fund major capital projects. The interest on this debt is a recurring expense that must be paid to keep the utility in good financial standing. By setting rates to achieve a target operating income, the utility ensures it has enough revenue to cover these interest payments.

B. Funding of Inflationary Increase on Assets Invested in the System – As time passes and inflation occurs, the cost to replace or upgrade the utility's assets (e.g., pipes, treatment plants) increases. Target operating income should be sufficient to cover these increased costs, ensuring that the utility can continue to maintain and replace its infrastructure as needed without placing a financial burden on future generations.

Maintaining an ideal operating income helps ensure that current customers are paying for the full cost of the services they are receiving, rather than deferring these costs to future generations. This is a key principle of intergenerational equity and ensures the utility remains financially viable. Table 5 identifies the utility basis target established for 2026 is $180,343 and increases to $593,351 in 2030.

Table 5 – Target Operating Income Calculation (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Optimal Operating Income Determinants					
Net Book Value/Working Capital	$ 4,129,351	$ 4,802,855	$ 5,780,168	$ 5,845,917	$ 20,443,012
Outstanding Principal on Debt	385,470	2,375,230	2,301,101	2,223,402	17,385,257
System Equity	$ 3,743,881	$ 2,427,625	$ 3,479,067	$ 3,622,514	$ 3,057,755
Debt:Equity Ratio	9%	49%	40%	38%	85%
Optimal Operating Income Allocation					
Interest on Debt	3.71%	4.67%	4.67%	4.66%	4.66%
System Equity	4.43%	4.35%	4.27%	4.41%	3.59%
Optimal Operating Income					
Interest on Debt	$ 14,654	$ 64,288	$ 110,884	$ 107,315	$ 483,572
System Equity	165,689	105,695	148,566	159,729	109,778
Optimal Operating Income	**$ 180,343**	**$ 169,983**	**$ 259,450**	**$ 267,044**	**$ 593,351**
Projected Adjusted Operating Income	$ (675,842)	$ (570,452)	$ (739,958)	$ (908,514)	$ (1,527,015)
Rate of Return in %	4.4%	3.5%	4.5%	4.6%	2.9%

Projected operating income shows losses throughout the projection period.

Projected Rate Track

Increasing rates require balancing the financial health of the utility with the financial impact on customers and cost of service results. Table 6 is the summary financial projection without any rate changes. Operating income is negative and continues to fall to $-1.5M in 2030.

Table 6 – Summary of Financials without Rate Adjustment

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Total Capital Plans	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues 20Yr @ 5%
2026	*Jul. 1, 2026*	0.0%	0.0%	$ 850,350	$ (675,842)	$ 180,343	$ 369,068	$ 770,139	(19.81)	$ -
2027	*Jan. 1, 2027*	0.0%	0.0%	850,350	(570,452)	169,983	1,056,120	891,772	(5.21)	2,000,000
2028	*Jan. 1, 2028*	0.0%	0.0%	1,216,800	(739,958)	259,450	(830,323)	1,040,480	(2.62)	-
2029	*Jan. 1, 2029*	0.0%	0.0%	352,800	(908,514)	267,044	(2,002,054)	1,077,064	(3.43)	-
2030	*Jan. 1, 2030*	0.0%	0.0%	15,360,300	(1,527,015)	593,351	(3,521,208)	1,634,179	(1.40)	15,200,000

The study identifies increasing current revenues throughout the projection period to keep operating income positive. Table 7 is a summary of the financial results detailing the projected revenue adjustments.

Table 7 – Projected Revenue Adjustments

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Total Capital Plans	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues 20Yr @ 5%
2026	*Jul. 1, 2026*	20.0%	10.0%	$ 850,350	$ (489,910)	$ 180,343	$ 555,000	$ 770,139	(12.23)	$ -
2027	*Jan. 1, 2027*	20.0%	20.0%	850,350	221,944	169,983	2,037,237	891,772	5.46	2,000,000
2028	*Jan. 1, 2028*	5.5%	5.5%	1,216,800	271,325	259,450	1,176,794	1,040,480	2.93	-
2029	*Jan. 1, 2029*	5.5%	5.5%	352,800	348,910	267,044	1,292,593	1,077,064	3.53	-
2030	*Jan. 1, 2030*	5.5%	5.5%	15,360,300	6,990	593,351	1,356,864	1,634,179	1.40	15,200,000

3. Cost of Service Summary

A cost of service study was completed to determine the cost of providing service to each class of customers and to assist in designing water rates for customers. A cost of service study consists of the following general steps:

1. Determine utility revenue requirement for test year 2026.
2. Classify utility expenses into common cost pools.
3. Compare revenues received to the cost of service.

The cost of service summary is included as Table 8 which compares the projected cost to serve with the revenue received. The "% change" column is the revenue adjustment necessary to meet projected cost of service requirements. The cost of service summary uses the current rates, including any adjustment factors.

Table 8 – Cost of Service Summary

Customer Class	Cost of Service ($)	Projected Revenues ($)	% Change
Water Sales	$ 1,997,515	$ 1,200,157	66.4%
Customer Service Charges	717,990	659,162	8.9%
Total	$ 2,715,504	$ 1,859,320	46.0%

Cost of Service Components

The cost of service study is a critical tool in utility finance and management. It ensures that rates are set based on actual costs, and it helps to distribute those costs fairly among customers, based on how they use the service. It provides guidance for setting rates that support the utility's financial health and its capacity to provide reliable service in the long-term.

The purpose of a cost of service study is to allocate costs to customer classes, identify costs related to the flow component (Volume Costs) and customer service costs based on the size of meter installed to serve the customer location. The cost of service study was based on recognized procedures from the Water Environment Federation (WEF).

The two main billing components of water rates are described below.

Customer Costs (Fixed) are costs associated with serving customers regardless of volume or demand characteristics. Expenses related to minimum distribution system size, services, billing, and collection costs were allocated on the relative size of meters and number of customers. Meter sizes are used as a proxy for each customer's potential impact on the distribution system.

Volume Costs (Variable) are costs that tend to vary with the quantity of water distributed, including costs associated with treatment, chemicals, electricity, pumping, transmission, and distributing water to customers.

Table 9 details the current minimum bill and provides a comparison with the cost of service. The rates below are not the suggested rates. They are used as a guide to move toward cost of service slowly over time.

Table 9 – Comparison of Current Flat Charge (Fixed) with Cost of Service

Customer Class	Cost of Service Meter $/Month	Current Meter $/Month	Variance
5/8" Meter - Residential	20.91	$ 19.80	6%
5/8" Meter - Irrigation	20.91	19.80	6%
1" Meter - Commercial & City	33.85	21.58	57%

Table 10 outlines the cost of service volume rates compared to the current volume charge. The rates below are not the suggested rates. They are used as a guide to move toward cost of service slowly over time.

Table 10 – Comparison of Current Volume Charge (Variable) with Cost of Service

Customer Class	Cost of Service Commodity by Class	Current Commodity Charge	Variance
Residential Usage (01)	$ 10.46	$ 7.48	40%
Irrigation Usage (06,07)	10.46	7.48	40%
Commercial Usage (05)	10.46	8.10	29%

4. Significant Assumptions

This section outlines the procedures used to develop the cost of service for Cave Springs and the related significant assumptions.

Rate Implementation

Anticipated rate adjustments are modeled to take place on July 1st 2026, and each January 1st thereafter.

Forecasted Operating Revenue & Expenses

Forecasted expenses were based on 2023 and 2024, and 2025 & 2026 budget and adjusted for inflation. Table 11 is a summary of the expenses used in the analysis.

Table 11 – Projected Operating Revenue & Expenses

Description	Actual 2023	Actual 2024	Actual 2025	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Operating Revenues:								
Total Water Sales	$1,538,092	$1,674,026	$1,812,419	$ 1,859,320	$ 2,456,932	$ 2,554,105	$ 2,656,085	$ 2,763,268
Water Connection Fees	82,490	32,756	23,375	23,375	30,888	32,110	33,392	34,739
Penalties	20,201	14,975	2,282	2,282	3,016	3,135	3,260	3,392
Miscellaneous	109,345	67,664	23,542	30,000	30,000	30,000	30,000	30,000
Total Operating Revenue	**$1,863,428**	**$1,816,321**	**$1,861,619**	**$ 1,914,977**	**$ 2,520,836**	**$ 2,619,350**	**$ 2,722,737**	**$ 2,831,399**
Operating Expenses:								
Water Purchases	$ 954,159	$ 994,677	$1,136,509	$ 1,327,975	$ 1,782,593	$ 1,954,017	$ 2,143,422	$ 2,358,407
Salaries, Wages & Benefits	182,601	150,780	162,752	167,634	172,663	177,843	183,178	188,674
Retirement - APERS			23,758	24,470	25,204	25,961	26,739	27,542
Payroll taxes			11,333	11,673	12,023	12,384	12,755	13,138
Employee benefits			23,418	24,121	24,844	25,590	26,357	27,148
Repairs and Maintenance	269,644	646,297	587,384	605,006	623,156	641,851	661,106	680,939
Fuel	5,146	4,943	6,847	7,053	7,264	7,482	7,707	7,938
Dues and Subscriptions	26,612	28,721	15,455	15,918	16,396	16,888	17,395	17,916
Bank Fees	2,557	3,747	3,515	3,621	3,729	3,841	3,956	4,075
Office Supplies	21,670	28,671	25,532	26,297	27,086	27,899	28,736	29,598
Computer Software	12,251	11,008	7,920	8,158	8,402	8,654	8,914	9,181
Professional Fees	67,601	127,955	157,837	162,572	167,450	172,473	177,647	182,977
Insurance	3,962	832	4,031	4,152	4,276	4,405	4,537	4,673
Miscellaneous Exp	72,940	68,619	21,569	22,216	22,882	23,569	24,276	25,004
Training	32,684	1,715	4,930	5,078	5,231	5,387	5,549	5,716
Utility permits and locates	2,900	2,572	2,291	2,360	2,431	2,504	2,579	2,656
Utilites	1,873	4,396	3,450	3,553	3,660	3,769	3,883	3,999
Bad Debt Expense(Income)	9,198	(861)	10,957	5,000	5,150	5,305	5,464	5,628
Depreciation Expense	133,423	136,780	163,962	163,962	176,846	239,487	287,051	763,205
Total Annual Operating Expense	**$1,799,221**	**$2,210,852**	**$2,373,449**	**$ 2,590,819**	**$ 3,091,288**	**$ 3,359,308**	**$ 3,631,251**	**$ 4,358,413**
Other Income / (Expense):								
Interest and Other Income	$ 4,235	$ 10,838	$ 2,511	$ 25,948	$ 5,536	$ 15,842	$ (12,455)	$ (30,031)
Interest on Long Term Debt	(16,014)	(15,689)	(15,171)	(14,654)	(64,288)	(110,884)	(107,315)	(483,572)
Non Operating Income/Expense	**$ 26,097**	**$ (9,944)**	**$ (12,661)**	**$ 11,294**	**$ (58,752)**	**$ (95,042)**	**$ (119,770)**	**$ (513,603)**
Net Income	$ 90,304	$ (404,475)	$ (524,491)	$ (664,547)	$ (629,204)	$ (835,000)	$ (1,028,284)	$ (2,040,618)
Adjusted Operating Income [1]	**$ (49,093)**	**$ (421,431)**	**$ (511,831)**	**$ (675,842)**	**$ (570,452)**	**$ (739,958)**	**$ (908,514)**	**$ (1,527,015)**

[1] Water impact fees removed from "Adjusted Operating Revenue"

Unit Sales

Growth projections used for 2026 – 2030 based on discussions with management.

Fiscal Year	Annex Area # Meters	Current Area # Meters	Total Meter Counts	Total Meter Growth	Est. Sales Flow	Commodity Sales Flow Growth
2026	-	2,765	2,765	2.3%	190,900	
2027	755	2,903	3,658	32.3%	252,258	32.1%
2028	755	3,049	3,804	4.0%	262,235	4.0%
2029	755	3,201	3,956	4.0%	272,705	4.0%
2030	755	3,361	4,116	4.0%	283,710	4.0%

Inflation

Inflation was assumed at 3.0% annually.

Depreciation Expense

Depreciation expense was projected based on historical capital additions and discussions with management on future capital additions.

Interest Income

Interest income was forecasted based on projected cash balances and an interest rate of 1.5%.

Bonding

Cave Springs anticipates bonding for a large ARDOT and water tower projects planned in 2026 and 2030.

Table 12 – Bonding Assumptions for ARDOT and Water Tower Capital Projects

Fiscal Year	Bond Issues 20Yr @ 5%	Period	Rate
2026	$ -	20	5.00%
2027	2,000,000	20	5.00%
2028	-	20	5.00%
2029	-	20	5.00%
2030	15,200,000	20	5.00%

Capital Improvements

The capital improvement projections were provided by Cave Springs. Projections for 2026 – 2030 are outlined in Table 13.

Table 13 – Capital Improvements Projection

Fiscal Year	Water System CIP	MCE Projects CIP	Total Capital Plans
2026	$ 156,300	$ 694,050	$ 850,350
2027	156,300	694,050	850,350
2028	156,300	1,060,500	1,216,800
2029	156,300	196,500	352,800
2030	156,300	15,204,000	15,360,300

5. Considerations and Additional Information

1. Cave Springs is projected to require an increase in rates charged to customers. This rate track will increase the operating income and help to stabilize cash balances.

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Total Capital Plans	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues 20Yr @ 5%
2026	*Jul. 1, 2026*	20.0%	10.0%	$ 850,350	$ (489,910)	$ 180,343	$ 555,000	$ 770,139	(12.23)	$ -
2027	*Jan. 1, 2027*	20.0%	20.0%	850,350	221,944	169,983	2,037,237	891,772	5.46	2,000,000
2028	*Jan. 1, 2028*	5.5%	5.5%	1,216,800	271,325	259,450	1,176,794	1,040,480	2.93	-
2029	*Jan. 1, 2029*	5.5%	5.5%	352,800	348,910	267,044	1,292,593	1,077,064	3.53	-
2030	*Jan. 1, 2030*	5.5%	5.5%	15,360,300	6,990	593,351	1,356,864	1,634,179	1.40	15,200,000

2. Unknown events can occur that affect a utility's financial plan. It is recommended that Cave Springs have the financial projection study updated annually to ensure the utility can meet revenue requirements with the current rate plan. Cost of service studies are separate from the financial projection and can be refreshed every 3-5 years.

6. Optional Sewer Rate Design

Rate Summary:

City of Cave Springs Water Department
Water Rate Design Summary

			20.91		
Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028	
Monthly Meter Charge					
Meter Size					
Residential Base Charge	$ 19.80	$ 23.00	$ 26.00	$ 30.00	
Irrigation Base Charge	$ 19.80	$ 23.00	$ 26.00	$ 30.00	
Commercial Base Charge	$ 21.58	$ 28.00	$ 36.00	$ 45.00	
City Base Charge	$ -	$ 28.00	$ 36.00	$ 45.00	
Usage Charge Per 1,000 Gallons					
Res (Excess Usage 01)	$ 7.48	$ 9.08	$ 11.20	$ 11.23	
Irrigation (All Usage 06,07)	$ 7.48	$ 9.08	$ 11.20	$ 11.23	
Com (Excess Usage 05)	$ 8.10	$ 9.39	$ 11.20	$ 11.23	
City (Excess Usage 03)	$ -	$ 9.39	$ 11.20	$ 11.23	
Res - 1st 1,000	$ -	$ -	$ -	$ -	
Irr - No free units	$ 7.48	$ 9.08	$ 11.20	$ 11.23	
Com - 1st 1,000	$ -	$ -	$ -	$ -	
City - 1st 1,000	$ -	$ -	$ -	$ -	
Revenue from Rate	$ 1,859,320	$ 2,231,588	$ 2,678,268	$ 2,825,573	
Change from Previous	-	**20.0%**	**20.0%**	**5.5%**	

Average $ Change per Month	Usage (x1,000)	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Residential Base Charge	5.7	$ 19.84	$ 15.13	$ 4.19
Irrigation Base Charge	6.6	$ 35.58	$ 21.96	$ 9.22
Commercial Base Charge	4.8	$ 71.40	$ 18.13	$ 9.16
City Base Charge	11.6	$ 18.53	$ 24.55	$ 0.38

City of Cave Springs Water Department

Effect of Rate Design

Residential Customer

Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Monthly Meter Charge	$ 19.80	$ 23.00	$ 26.00	$ 30.00
Usage Charge per 1,000 Gallons				
1st 1,000 gallons	$ -	$ -	$ -	$ -
All Excess (x1,000 gallons)	$ 7.48	$ 9.08	$ 11.20	$ 11.23

Average $ Change per Month

Usage (x1,000)		Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
2.9		$ 6.18	$ 6.95	$ 4.06
3.6		$ 7.32	$ 8.46	$ 4.09
4.3		$ 8.47	$ 9.98	$ 4.11
5.0		$ 9.61	$ 11.50	$ 4.13
5.7	*Avg. Usage*	$ 10.76	$ 13.01	$ 4.16
6.4		$ 11.90	$ 14.53	$ 4.18
7.2		$ 13.05	$ 16.05	$ 4.20
7.9		$ 14.19	$ 17.56	$ 4.23
8.6		$ 15.34	$ 19.08	$ 4.25

Monthly Bill By Usage

Usage (x1,000)	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
2.9	$ 33.73	$ 39.90	$ 46.85	$ 50.91
3.6	$ 39.08	$ 46.40	$ 54.86	$ 58.95
4.3	$ 44.43	$ 52.90	$ 62.88	$ 66.99
5.0	$ 49.78	$ 59.39	$ 70.89	$ 75.02
5.7	$ 55.13	$ 65.89	$ 78.90	$ 83.06
6.4	$ 60.48	$ 72.38	$ 86.91	$ 91.09
7.2	$ 65.83	$ 78.88	$ 94.93	$ 99.13
7.9	$ 71.18	$ 85.38	$ 102.94	$ 107.17
8.6	$ 76.54	$ 91.87	$ 110.95	$ 115.20

City of Cave Springs Water Department

Effect of Rate Design

Irrigation Customer

Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Monthly Meter Charge	$ 19.80	**$ 23.00**	**$ 26.00**	**$ 30.00**
Usage Charge per 1,000 Gallons				
All Usage (x1,000 gallons)	$ 7.48	**$ 9.08**	**$ 11.20**	**$ 11.23**

Average $ Change per Month

Usage (x1,000)		Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
3.3		$ 8.47	$ 9.98	$ 4.11
4.1		$ 9.78	$ 11.72	$ 4.14
4.9		$ 11.10	$ 13.47	$ 4.16
5.8		$ 12.42	$ 15.21	$ 4.19
6.6	*Avg. Usage*	$ 13.73	$ 16.96	$ 4.22
7.4		$ 15.05	$ 18.70	$ 4.24
8.2		$ 16.37	$ 20.45	$ 4.27
9.1		$ 17.68	$ 22.19	$ 4.30
9.9		$ 19.00	$ 23.93	$ 4.33

Monthly Bill By Usage

Usage (x1,000)	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
3.3	$ 44.42	$ 52.89	$ 62.87	$ 66.97
4.1	$ 50.58	$ 60.36	$ 72.08	$ 76.22
4.9	$ 56.73	$ 67.83	$ 81.30	$ 85.46
5.8	$ 62.89	$ 75.30	$ 90.52	$ 94.71
6.6	$ 69.04	$ 82.78	$ 99.73	$ 103.95
7.4	$ 75.20	$ 90.25	$ 108.95	$ 113.19
8.2	$ 81.35	$ 97.72	$ 118.16	$ 122.44
9.1	$ 87.51	$ 105.19	$ 127.38	$ 131.68
9.9	$ 93.66	$ 112.66	$ 136.60	$ 140.92

City of Cave Springs Water Department

Effect of Rate Design

Commercial Customer

Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Monthly Meter Charge	$ 21.58	$ 28.00	$ 36.00	$ 45.00
Usage Charge per 1,000 Gallons				
1st 1,000 gallons	$ -	$ -	$ -	$ -
All Excess (x1,000 gallons)	$ 8.10	$ 9.39	$ 11.20	$ 11.23

Average $ Change per Month

Usage (x1,000)		Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
2.4		$ 8.21	$ 10.52	$ 9.05
3.0		$ 8.98	$ 11.60	$ 9.07
3.6		$ 9.75	$ 12.68	$ 9.09
4.2		$ 10.53	$ 13.76	$ 9.11
4.8	*Avg. Usage*	$ 11.30	$ 14.84	$ 9.12
5.4		$ 12.07	$ 15.92	$ 9.14
6.0		$ 12.84	$ 17.01	$ 9.16
6.6		$ 13.61	$ 18.09	$ 9.18
7.2		$ 14.38	$ 19.17	$ 9.20

Monthly Bill By Usage

Usage (x1,000)	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
2.4	$ 32.84	$ 41.05	$ 51.57	$ 60.61
3.0	$ 37.68	$ 46.66	$ 58.26	$ 67.33
3.6	$ 42.52	$ 52.27	$ 64.95	$ 74.04
4.2	$ 47.36	$ 57.89	$ 71.65	$ 80.75
4.8	$ 52.20	$ 63.50	$ 78.34	$ 87.46
5.4	$ 57.04	$ 69.11	$ 85.03	$ 94.17
6.0	$ 61.88	$ 74.72	$ 91.72	$ 100.89
6.6	$ 66.72	$ 80.33	$ 98.41	$ 107.60
7.2	$ 71.56	$ 85.94	$ 105.11	$ 114.31

City of Cave Springs Water Department

Effect of Rate Design

City Customer

Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Monthly Meter Charge	$ -	$ 28.00	$ 36.00	$ 45.00
Usage Charge per 1,000 Gallons				
1st 1,000 gallons	$ -	$ -	$ -	$ -
All Excess (x1,000 gallons)	$ -	$ 9.39	$ 11.20	$ 11.23

Average $ Change per Month

Usage (x1,000)		Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
5.8		$ 72.97	$ 16.67	$ 9.16
7.2		$ 86.56	$ 19.29	$ 9.21
8.7		$ 100.15	$ 21.91	$ 9.25
10.1		$ 113.74	$ 24.53	$ 9.30
11.6	*Avg. Usage*	$ 127.33	$ 27.15	$ 9.35
13.0		$ 140.92	$ 29.77	$ 9.40
14.5		$ 154.52	$ 32.39	$ 9.45
15.9		$ 168.11	$ 35.01	$ 9.49
17.4		$ 181.70	$ 37.63	$ 9.54

Monthly Bill By Usage

Usage (x1,000)	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
5.8	$ -	$ 72.97	$ 89.64	$ 98.80
7.2	$ -	$ 86.56	$ 105.85	$ 115.06
8.7	$ -	$ 100.15	$ 122.06	$ 131.32
10.1	$ -	$ 113.74	$ 138.27	$ 147.57
11.6	$ -	$ 127.33	$ 154.48	$ 163.83
13.0	$ -	$ 140.92	$ 170.69	$ 180.09
14.5	$ -	$ 154.52	$ 186.90	$ 196.35
15.9	$ -	$ 168.11	$ 203.11	$ 212.61
17.4	$ -	$ 181.70	$ 219.32	$ 228.86

7. Water Asset Management Plan

Note: Replacement costs stated in 2025 dollars

City of Cave Springs
Asset Management Plan
Water Asset Inventory
Prepared by McClelland Consulting Engineers, Inc.
March 31, 2026

McCLELLAND CONSULTING ENGINEERS, INC.
DESIGNED TO SERVE

Water						
Asset Name	Annual Maintenance Costs	Quantity	Unit Cost	Multiplier	Replacement Cost	Projected Consequence of Failure
Water Conveyance		(Linear Feet)				
Water Piping: 1"	$ 800	2,331	$ 30	2.5	$ 174,825	Unable to bring water to customers, water leakage
Water Piping: 1.25"	$ 200	494	$ 30	2.5	$ 37,050	Unable to bring water to customers, water leakage
Water Piping: 1.5"	$ 1,000	5,770	$ 30	2.5	$ 432,750	Unable to bring water to customers, water leakage
Water Piping: 2"	$ 3,000	12,319	$ 40	2.5	$ 1,231,900	Unable to bring water to customers, water leakage
Water Piping: 3"	$ 200	48	$ 40	2.5	$ 4,800	Unable to bring water to customers, water leakage
Water Piping: 4"	$ 2,000	12,181	$ 60	2.5	$ 1,827,150	Unable to bring water to customers, water leakage
Water Piping: 6"	$ 8,000	34,798	$ 75	2.5	$ 6,524,625	Unable to bring water to customers, water leakage
Water Piping: 8"	$ 45,000	145,924	$ 110	2.5	$ 40,129,100	Unable to bring water to customers, water leakage
Water Piping: 12"	$ 15,000	44,202	$ 145	2.5	$ 16,023,225	Unable to bring water to customers, water leakage
Water Piping: 14"	$ 800	271	$ 150	2.5	$ 101,625	Unable to bring water to customers, water leakage
Water Conveyance Sub-Total	$ 76,000				$ 66,487,050	
Water Fixtures & Metering		(Each)				
Water Meters	$ 3,000	2,398	$ 1,000	2.5	$ 5,995,000	Unable to accurately measure water usage and charge customers
Fire Hydrants	$ 3,000	25	$ 9,500	2.5	$ 593,750	Loss of fire suppressant
Water Valves	$ 10,000	382	$ 6,500	2.5	$ 6,207,500	Unable to control water flow
Air Release Valves	$ 3,000	1	$ 10,000	2.5	$ 25,000	
Water Fixtures & Metering Sub-Tota	$ 19,000				$ 12,821,250	
Water Total	$ 95,000				$ 79,308,300	

8. Approved Provider Statement for Utility Financial Solutions, LLC

Sarah Huckabee Sanders
Governor

ARKANSAS DEPARTMENT OF AGRICULTURE

Natural Resources Division
10421 West Markham Street, Little Rock, AR 72205
agriculture.arkansas.gov
(501) 682-1611

Wes Ward
Secretary of Agriculture

November 7, 2023

Delivery via email to Mark Beauchamp at mbeauchamp@ufsweb.com

Mark Beauchamp, President
Utility Financial Solutions, LLC
185 Sun Meadow Ct.
Holland, MI 49424

Subject: Retail Water Provider – Rate Study Provider Application

Mr. Beauchamp,

Per Act 605 of 2021 (Act), the Arkansas Natural Resources Commission maintains an approved list of entities to conduct rate studies for water service providers. The Department received your application for inclusion on the list of approved rate study providers. Upon review of your application, we have determined that **Utility Financial Solutions, LLC** meets the requirements for inclusion on the approved list.

As acknowledged on your application, all rate studies performed by an approved rate study provider shall be an objective and unbiased review of the water service provider's fiscal status. Any rate studies you complete for entities subject to the Act must include a certification that such study complies with the Act and the Rules implementing the Act. Please note that the Arkansas Natural Resources Commission may remove an approved rate study provider from its list of approved entities if it determines that an entity violated Arkansas law or Commission rules in performing a rate study.

Please do not hesitate to call me at (501) 682-3977 or via email at darla.brooks@agriculture.arkansas.gov if you have any questions or need additional information.

Sincerely,

Darla S. Brooks
Audit Coordinator – Act 605 Compliance

City of Cave Springs
Arkansas

City of Cave Springs

Wastewater Cost of Service Study and Financial Projection Report

April 2026

UFS UTILITY FINANCIAL SOLUTIONS, LLC

Corporate location:
Utility Financial Solutions, LLC
185 Sun Meadow Court
Holland, MI USA 49424
(616) 393-9722
Fax (888) 566-4430

Submitted Respectfully by:
Daniel Kasbohm, Manager
Utility Financial Solutions, LLC
dkasbohm@ufsweb.com
(616) 402-7045

UTILITY FINANCIAL SOLUTIONS, LLC

April 2026

Mayor Randall Noblett
City Mayor
City of Cave Springs
134 N. Main Street
Cave Springs, AR 72718

Dear Mr. Noblett:

We are pleased to present this Report for the wastewater cost of service, financial projection and rate study for the City of Cave Springs (Cave Springs). This report was prepared to provide Cave Springs with a comprehensive examination of its financial projection and existing rate structure by an outside party in conformance with Act 605 from the Arkansas Department of Agriculture. Please note other specific requirements in Act 605 that relate to the City of Cave Springs as well as its asset management plan for the sewer department.

The specific purposes of this rate study are:

- Determine wastewater utility's revenue requirements for fiscal year 2026
- Identify cross-subsidies that may exist between rate classes
- Suggest rate adjustments needed to meet targeted revenue requirements
- Identify the appropriate monthly customer charge for each customer class

This report includes results of the wastewater cost of service, financial projection and rate study and suggestions on future rate designs.

This report is intended for information and use by the utility and management for the purposes stated above and is not intended to be used by anyone except the specified parties.

Sincerely,

Utility Financial Solutions, LLC
Mark Beauchamp
CPA, MBA, CMA
185 Sun Meadow Ct
Holland, MI 49424

TABLE OF CONTENTS

1. Introduction 2
2. Financial Projection Summary 3
Utility Rate Process 3
Utility Revenue Requirements 3
Projected Cash Flow 5
Minimum Cash Reserve 6
Debt Coverage Ratio 7
Optimal Rate Funded Capital (Target Operating Income) 8
Projected Rate Track 9
3. Cost of Service Summary 10
Cost of Service Components 11
4. Significant Assumptions 13
5. Considerations and Additional Information 16
6. Optional Sewer Rate Design 17
7. Sewer Asset Management Plan 20
8. Approved Provider Statement for Utility Financial Solutions, LLC 22

LIST OF TABLES

Table 1 – Projected Financial Statements 4
Table 2 – Projected Cash Flows (without rate adjustments) 5
Table 3 – Minimum Cash Reserves (without rate adjustments) 6
Table 4 – Projected Debt Coverage Ratios (without rate adjustments) 7
Table 5 – Target Operating Income Calculation (without rate adjustments) 8
Table 6 – Summary of Financials without Rate Adjustment 9
Table 7 – Projected Revenue Adjustments 9
Table 8 – Cost of Service Summary 10
Table 9 – Comparison of Current Flat Charge (Fixed) with Cost of Service 11
Table 10 – Comparison of Current Volume Charge (Variable) with Cost of Service 12
Table 11 – Projected Operating Revenue & Expenses 13
Table 12 – Bonding Assumptions for ARDOT and Scissortail Connection Capital Projects 14
Table 13 – Capital Improvements Projection 15

1. Introduction

This report was prepared to provide the City of Cave Springs (Cave Springs) with a wastewater cost of service, financial projection and rate study and a comprehensive examination of its existing rate structure by an outside party.

The specific purposes of the study are identified below:

1. ***Determine wastewater utility's revenue requirements for fiscal year 2026.*** Cave Springs's revenue requirements were projected for the period from 2026 – 2030 and included adjustments for the following:
    a. Projected costs
    b. Capital improvement plan projected over next five years

2. ***Suggest rate adjustments needed to meet targeted revenue requirements.*** The primary purpose of this study is to identify appropriate revenue requirements and the rate adjustments needed to meet targeted revenue requirements. The report includes a long-term rate track for Cave Springs to help ensure the financial stability of the utility in future years.

3. ***Identify the appropriate monthly customer charge for each customer class.*** The monthly customer charge consists of fixed costs to service customers.

2. Financial Projection Summary

Utility Rate Process

Cave Springs retained Utility Financial Solutions to review utility rates and cost of service and make suggestions on the appropriate course of action. This report includes results of the wastewater cost of service and unbundling study and suggestions on future rate designs.

The assumptions used to develop the expense projection are described in greater detail in the "Significant Assumptions" section of this report and were developed collaboratively with staff.

Utility Revenue Requirements

To determine revenue requirements, the revenues and expenses for Fiscal Years 2023 and 2024, and 2025 & 2026 budget were analyzed with adjustments made to reflect projected operating characteristics. ***The projected financial statements are for cost of service purposes only.***

Table 1 is the projected financial statement for the Wastewater Department from 2026 – 2030.

The following pages review cash flow, debt coverage ratio, and rate of return which are important indicators of financial health.

Table 1 – Projected Financial Statements

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Operating Revenues:					
Total Wastewater Sales	$ 878,507	$ 921,887	$ 967,435	$ 1,015,261	$ 1,513,651
Minimum Charge Revenue	2,685	2,818	2,957	3,103	4,626
Miscellaneous	15,000	15,000	15,000	15,000	15,000
Total Operating Revenues	**$ 896,192**	**$ 939,704**	**$ 985,392**	**$ 1,033,364**	**$ 1,533,277**
Operating Expenses:					
Treatment NACA Expense	$665,540	$ 685,506	$ 706,071	$ 727,253	$ 749,071
Treatment Plant Expense	-	-	-	-	-
Salaries/wages	110,085	113,387	116,789	120,292	123,901
Retirement - APERS	16,857	17,363	17,884	18,420	18,973
Payroll taxes	8,095	8,338	8,588	8,846	9,111
Employee benefits	29,410	30,292	31,201	32,137	33,101
Contract labor	70,306	72,415	74,588	76,825	79,130
Dues & subscriptions	60,348	62,159	64,023	65,944	67,922
Office supplies	4,887	5,033	5,184	5,340	5,500
Computer software	9,536	9,822	10,117	10,420	10,733
Plant materials and supplies	12,920	13,308	13,707	14,118	14,542
Professional fees	60,029	61,830	63,685	65,595	67,563
Repairs & maintenance	169,830	174,925	180,172	185,577	191,145
Fuel	5,239	5,396	5,558	5,725	5,897
Insurance	5,651	5,821	5,996	6,175	6,361
Miscellaneous	4,300	4,429	4,562	4,699	4,840
Small equipment	2,405	2,477	2,551	2,628	2,707
Utilities	39,503	40,688	41,909	43,166	44,461
Depreciation Expense	190,040	211,520	224,060	228,560	272,710
Total Operating Expenses	**$ 1,464,981**	**$ 1,524,709**	**$ 1,576,645**	**$ 1,621,722**	**$ 1,707,667**
Other Income & (Expense)					
Interest and Other Income	$ 10,332	$ 7,749	$ (10,248)	$ (21,715)	$ (33,919)
Interest On Long Term Debt	(156,200)	(151,859)	(147,400)	(142,818)	(198,109)
Tapping/connection fees	20,000	20,000	20,000	20,000	20,000
Impact fees	58,000	58,000	58,000	58,000	58,000
Non Operating Income/(Expense)	**$ (67,868)**	**$ (66,110)**	**$ (79,648)**	**$ (86,534)**	**$ (154,028)**
Net Income	$ (636,657)	$ (651,115)	$ (670,900)	$ (674,891)	$ (328,418)
Adjusted Operating Income[1]	**$ (490,788)**	**$ (507,004)**	**$ (513,252)**	**$ (510,358)**	**$ (96,390)**

Note: Adjusted operating income includes revenue from tap and reconnection fees

Please reference the Assumptions section of this report for historical revenues and expenses

Note 1: Arkansas Department of Agriculture Act 605 requires the City to maintain a refurbishment and replacement account (depreciation expense) that is used for capital (asset) replacement projects greater than $1,000 [Act. 605 of 2021 : III.4]

Note 2: Arkansas Department of Agriculture Act 605 requires the City to maintain an asset management plan on essential assets of the department. This analysis included a 5-year capital program based on the results of the City's 2026 asset management analysis [Act. 605 of 2021 : IV.3.a.ii.1]

Projected Cash Flow

Table 2 is the projected cash flow for 2026 – 2030, including projections of capital improvements as provided by Cave Springs. To project actual cash flow the following adjustments are made:

- Depreciation expense (a non-cash item) is added back since it reduces net income on the income statement but doesn't involve an actual cash outflow.
- Debt principal payments are subtracted. These are actual cash outflows, but they are not treated as expenses on the income statement above under accrual accounting.
- Capital Expenditures are subtracted. Like principal repayments, these are actual cash outflows that are not treated as expenses on the income statement above.
- Bond Sales are added in 2025 to fund a WWTP capital project that will conclude in 2026 when bond payments are assumed to begin.

The projection starts with the actual cash balances from year end 2025. It's important to note that changes in the capital improvement plan can have a significant impact on projected cash balances, as they involve large expenditures.

- If new projects are added, or if existing projects become more expensive than anticipated, this can significantly reduce projected future cash balances.
- Conversely, delaying or scaling back capital projects can help preserve cash.

The cash balance for 2026 is projected at $517k and $-3.5M in 2030. The suggested minimum cash reserve level for 2026 is $983k and $1.2M for 2030.

Table 2 – Projected Cash Flows (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Projected Cash Flows					
Net Income	$ (636,657)	$ (651,115)	$ (670,900)	$ (674,891)	$ (328,418)
Depreciation Expense/Amortization	190,040	211,520	224,060	228,560	272,710
Subtract Debt Principal	(188,606)	(223,190)	(227,649)	(232,231)	(273,231)
Add Bond Sale Proceeds	1,000,000	-	-	-	1,200,000
Cash Available from Operations	$ 364,777	$ (662,785)	$ (674,490)	$ (678,562)	$ 871,061
Estimated Annual Capital Additions	537,000	537,000	90,000	135,000	2,072,500
Net Cash From Operations	$ (172,223)	$ (1,199,785)	$ (764,490)	$ (813,562)	$ (1,201,439)
Beginning Cash Balance	$ 688,799	$ 516,576	$ (683,209)	$ (1,447,698)	$ (2,261,261)
Ending Cash Balance	**$ 516,576**	**$ (683,209)**	**$ (1,447,698)**	**$ (2,261,261)**	**$ (3,462,700)**
Recommended Minimum	$ 982,638	$ 1,022,966	$ 1,028,723	$ 1,035,076	$ 1,157,245

Cash balances decrease throughout the projection period.

Minimum Cash Reserve

Table 3 details the minimum level of cash reserves required to help ensure timely replacement of assets and to provide financial stability of the utility. The methodology used to establish this target is based on the following assumptions.

Allocator	Risk Factor Assigned
Operation & Maintenance Less Depreciation Expense	45 day working capital lag = 12.3% factor
Historical Rate Base	Less than 50% Depreciated = 1.0% factor
Current Portion of Debt Service Payment	Highest annual debt payment
Five Year Capital Improvements – Net of Bond Proceeds	20% of five year capital plan

Based on these assumptions, Cave Springs should maintain a minimum of $983k in cash reserves for 2026 and $1.2M in 2030.

Table 3 – Minimum Cash Reserves (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Minimum Cash Reserve Levels Determinants					
Operation & Maintenance Less Depreciation Expense	$ 1,274,941	$ 1,313,189	$ 1,352,585	$ 1,393,162	$ 1,434,957
Historical Rate Base	24,634,737	25,171,737	25,261,737	25,396,737	27,469,237
Current Portion of Debt Service Payment	344,806	375,049	375,049	375,049	471,340
Five Year Capital Improvements - Net of bond proceed	1,171,500	1,171,500	1,171,500	1,171,500	1,171,500
Minimum Cash Reserve Allocation					
Operation & Maintenance Less Depreciation Expense	12.3%	12.3%	12.3%	12.3%	12.3%
Historical Rate Base	1%	1%	1%	1%	1%
Current Portion of Debt Service Payment	100%	100%	100%	100%	100%
Five Year Capital Improvements - Net of bond proceed	20%	20%	20%	20%	20%
% Plant Depreciated	16%	17%	17%	18%	18%
Calculated Minimum Cash Level					
Operation & Maintenance Less Depreciation Expense	$ 157,184	$ 161,900	$ 166,757	$ 171,760	$ 176,913
Historical Rate Base	246,347	251,717	252,617	253,967	274,692
Current Portion of Debt Service Reserve	344,806	375,049	375,049	375,049	471,340
Five Year Capital Improvements - Net of bond proceed	234,300	234,300	234,300	234,300	234,300
Minimum Cash Reserve Levels	**$ 982,638**	**$ 1,022,966**	**$ 1,028,723**	**$ 1,035,076**	**$ 1,157,245**
Projected Cash Reserves	$ 516,576	$ (683,209)	$ (1,447,698)	$ (2,261,261)	$ (3,462,700)

Projected cash balances are below the suggested minimums during the projection period under current rates.

Debt Coverage Ratio

Table 4 is the projected debt coverage ratios with capital additions as provided by Cave Springs. Debt coverage ratio is a measurement of debt affordability and measures the cash flow from operations in that fiscal year. A ratio of 1, indicates there was enough cash flow from operations to pay the debt payment one time. The minimum suggested debt coverage ratio for prudent financial planning purposes is 1.40.

Maintaining a 1.40 debt coverage ratio is good business practice and helps to achieve the following:

a. Helps to ensure debt coverage ratios are met in years when sales are low due to cold or wet summers or loss of a major customer(s).

b. When debt coverage ratios are consistently met, it may help obtain a higher bond rating if revenue bonds are sold in the future, to lower interest cost.

Table 4 – Projected Debt Coverage Ratios (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Debt Coverage Ratio					
Net Income	$ (636,657)	$ (651,115)	$ (670,900)	$ (674,891)	$ (328,418)
Add Depreciation/Amortization Expense	190,040	211,520	224,060	228,560	272,710
Add Interest Expense	156,200	151,859	147,400	142,818	198,109
Cash Generated from Operations	$ (290,417)	$ (287,736)	$ (299,441)	$ (303,513)	$ 142,401
Debt Principal and Interest	$ 344,806	$ 375,049	$ 375,049	$ 375,049	$ 471,340
Projected Debt Coverage Ratio (Covenants)	**(0.84)**	**(0.77)**	**(0.80)**	**(0.81)**	**0.30**
Minimum Debt Coverage Ratio	1.4	1.4	1.4	1.4	1.4

Debt coverage is below the minimum beginning in 2026 without changes in rates.

Note: Arkansas Department of Agriculture Act 605 requires a minimum debt coverage ratio of 1.1

Optimal Rate Funded Capital (Target Operating Income)

The optimal rate-funded capital target, or target operating income, is an essential concept in utility finance. It ensures the utility can meet its current financial obligations, plan for future capital needs, and operate in a financially sustainable and responsible manner. This concept is central to rate setting and is designed to balance the need for financial sustainability with the goal of fair and equitable rates for customers.

The operating income target aims to address several key financial needs for the utility.

A. Funding of Interest Expense on Outstanding Debt Principal – Utilities often take on debt to fund major capital projects. The interest on this debt is a recurring expense that must be paid to keep the utility in good financial standing. By setting rates to achieve a target operating income, the utility ensures it has enough revenue to cover these interest payments.

B. Funding of Inflationary Increase on Assets Invested in the System – As time passes and inflation occurs, the cost to replace or upgrade the utility's assets (e.g., pipes, treatment plants) increases. Target operating income should be sufficient to cover these increased costs, ensuring that the utility can continue to maintain and replace its infrastructure as needed without placing a financial burden on future generations.

Maintaining an ideal operating income helps ensure that current customers are paying for the full cost of the services they are receiving, rather than deferring these costs to future generations. This is a key principle of intergenerational equity and ensures the utility remains financially viable. Table 5 identifies the utility basis target established for 2026 is $628,549 and increases to $742,914 in 2030.

Table 5 – Target Operating Income Calculation (without rate adjustments)

Description	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Optimal Operating Income Determinants					
Net Book Value/Working Capital	$20,686,245	$21,011,726	$20,877,666	$20,784,106	$22,583,896
Outstanding Principal on Debt	7,891,415	7,668,225	7,440,576	7,208,345	8,135,114
System Equity	$12,794,831	$13,343,501	$13,437,090	$13,575,761	$14,448,782
Debt:Equity Ratio	38%	36%	36%	35%	36%
Optimal Operating Income Allocation					
Interest on Debt	1.98%	1.98%	1.98%	1.98%	2.44%
System Equity	3.69%	3.71%	3.75%	3.79%	3.77%
Optimal Operating Income					
Interest on Debt	$ 156,200	$ 151,859	$ 147,400	$ 142,818	$ 198,109
System Equity	$ 472,348	$ 495,545	$ 504,020	$ 514,248	$ 544,804
Optimal Operating Income	**$ 628,549**	**$ 647,404**	**$ 651,420**	**$ 657,066**	**$ 742,914**
Projected Operating Income	$ (490,788)	$ (507,004)	$ (513,252)	$ (510,358)	$ (96,390)
Rate of Return in %	3.0%	3.1%	3.1%	3.2%	3.3%

Projected operating income shows losses throughout the projection period.

Projected Rate Track

Increasing rates require balancing the financial health of the utility with the financial impact on customers and cost of service results. Table 6 is the summary financial projection without any rate changes. Operating income is negative and continues to fall to $-96,390 in 2030.

Table 6 – Summary of Financials without Rate Adjustment

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Capital Improvement Plan	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues (20Yr @ 5%)
2026	*Jul. 1, 2026*	0.0%	0.0%	$ 537,000	$ (490,788)	$ 628,549	$ 516,576	$ 982,638	(0.84)	$ 1,000,000
2027	*Jan. 1, 2027*	0.0%	0.0%	537,000	(507,004)	647,404	(683,209)	1,022,966	(0.77)	-
2028	*Jan. 1, 2028*	0.0%	0.0%	90,000	(513,252)	651,420	(1,447,698)	1,028,723	(0.80)	-
2029	*Jan. 1, 2029*	0.0%	0.0%	135,000	(510,358)	657,066	(2,261,261)	1,035,076	(0.81)	-
2030	*Jan. 1, 2030*	0.0%	0.0%	2,072,500	(96,390)	742,914	(3,462,700)	1,157,245	0.30	1,200,000

The study identifies increasing current revenues throughout the projection period to keep operating income positive. Table 7 is a summary of the financial results detailing the projected revenue adjustments.

Table 7 – Projected Revenue Adjustments

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Capital Improvement Plan	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues (20Yr @ 5%)
2026	*Jul. 1, 2026*	50.0%	25.0%	$ 537,000	$ (271,162)	$ 628,549	$ 736,203	$ 982,638	(0.21)	$ 1,000,000
2027	*Jan. 1, 2027*	50.0%	50.0%	537,000	301,055	647,404	347,772	1,022,966	1.40	-
2028	*Jan. 1, 2028*	4.0%	4.0%	90,000	407,467	651,420	519,467	1,028,723	1.70	-
2029	*Jan. 1, 2029*	4.0%	4.0%	135,000	535,262	657,066	781,032	1,035,076	2.06	-
2030	*Jan. 1, 2030*	4.0%	4.0%	2,072,500	1,585,610	742,914	1,307,228	1,157,245	3.97	1,200,000

3. Cost of Service Summary

A cost of service study was completed to determine the cost of providing service to each class of customers and to assist in designing wastewater rates for customers. A cost of service study consists of the following general steps:

1. Determine utility revenue requirement for test year 2026.
2. Classify utility expenses into common cost pools.
3. Compare revenues received to the cost of service.

The cost of service summary is included as Table 8 which compares the projected cost to serve with the revenue received. The "% change" column is the revenue adjustment necessary to meet projected cost of service requirements. The cost of service summary uses the current rates, including any adjustment factors.

Table 8 – Cost of Service Summary

Customer Class	Cost of Service ($)	Projected Revenues ($)	% Change
Customer Service Charges	$ 454,384	$ 878,507	-48.3%
Wastewater Sales	1,543,461	-	0.0%
Total	$ 1,997,844	$ 878,507	127.4%

Cost of Service Components

The cost of service study is a critical tool in utility finance and management. It ensures that rates are set based on actual costs, and it helps to distribute those costs fairly among customers, based on how they use the service. It provides guidance for setting rates that support the utility's financial health and its capacity to provide reliable service in the long-term.

The purpose of a cost of service study is to allocate costs to customer classes, identify costs related to the flow component (Volume Costs) and customer service costs based on the size of meter installed to serve the customer location. The cost of service study was based on recognized procedures from the Water Environment Federation (WEF).

The two main billing components of wastewater rates are described below.

Customer Costs (Fixed) are costs associated with serving customers regardless of volume or demand characteristics. Expenses related to minimum collection system size, services, billing, and collection costs were allocated on the relative size of meters and number of customers. Meter sizes are used as a proxy for each customer's potential impact on the collection system.

Volume Costs (Variable) are costs that tend to vary with the quantity of wastewater collected, including costs associated with treatment, chemicals, electricity, pumping, transmission, and collecting wastewater from customers.

Table 9 details the current minimum bill and provides a comparison with the cost of service. The rates below are not the suggested rates. They are used as a guide to move toward cost of service slowly over time.

Table 9 – Comparison of Current Flat Charge (Fixed) with Cost of Service

Customer Class	Cost of Service Meter $/Month	Current Meter $/Month	Variance
Residential & Condo Meter	$ 25.79	$ 50.00	-48%
Commercial Meter	32.27	55.00	-41%

Table 10 outlines the cost of service volume rates compared to the current volume charge. The rates below are not the suggested rates. They are used as a guide to move toward cost of service slowly over time.

Table 10 – Comparison of Current Volume Charge (Variable) with Cost of Service

Customer Class	Cost of Service Volume by Class	Current Volume Charge	Variance
Residential User Usage	$ 18.94	$ -	0%
Commercial User Usage	18.60	-	0%

4. Significant Assumptions

This section outlines the procedures used to develop the cost of service for Cave Springs and the related significant assumptions.

Rate Implementation

Anticipated rate adjustments are modeled to take place on July 1st 2026, and each January 1st thereafter.

Forecasted Operating Revenue & Expenses

Forecasted expenses were based on 2023 and 2024, and 2025 & 2026 budget and adjusted for inflation. Table 11 is a summary of the expenses used in the analysis.

Table 11 – Projected Operating Revenue & Expenses

Description	Actual 2023	Actual 2024	Actual 2025	Projected 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030
Operating Revenues:								
Total Wastewater Sales	$ 795,469	$ 835,070	$ 854,232	$ 878,507	$ 921,887	$ 967,435	$ 1,015,261	$ 1,513,651
Minimum Charge Revenue	-	380	-	2,685	2,818	2,957	3,103	4,626
Miscellaneous	-	-	55,895	15,000	15,000	15,000	15,000	15,000
Total Operating Revenues	**$ 795,469**	**$ 835,070**	**$ 910,127**	**$ 896,192**	**$ 939,704**	**$ 985,392**	**$ 1,033,364**	**$ 1,533,277**
Operating Expenses:								
Treatment NACA Expense	$ -	$ -	218,499	$665,540	$ 685,506	$ 706,071	$ 727,253	$ 749,071
Treatment Plant Expense			121,737	-	-	-	-	-
Salaries/wages	83,659	84,159	106,878	110,085	113,387	116,789	120,292	123,901
Retirement - APERS			16,366	16,857	17,363	17,884	18,420	18,973
Payroll taxes	6,141	5,874	7,859	8,095	8,338	8,588	8,846	9,111
Employee benefits	30,259	32,086	23,316	29,410	30,292	31,201	32,137	33,101
Contract labor	81,600	86,400	36,775	70,306	72,415	74,588	76,825	79,130
Dues & subscriptions	10,772	156,810	8,189	60,348	62,159	64,023	65,944	67,922
Office supplies	4,015	4,822	5,396	4,887	5,033	5,184	5,340	5,500
Computer software	12,347	11,008	4,420	9,536	9,822	10,117	10,420	10,733
Plant materials and supplies	-	33,174	4,457	12,920	13,308	13,707	14,118	14,542
Professional fees	71,273	124,297	154,112	60,029	61,830	63,685	65,595	67,563
Repairs & maintenance	257,265	116,996	120,389	169,830	174,925	180,172	185,577	191,145
Fuel	3,701	4,770	6,789	5,239	5,396	5,558	5,725	5,897
Insurance	4,824	4,774	6,862	5,651	5,821	5,996	6,175	6,361
Miscellaneous	163,807	14,184	4,343	4,300	4,429	4,562	4,699	4,840
Small equipment	4,466	1,157	1,382	2,405	2,477	2,551	2,628	2,707
Utilities	37,700	39,242	29,668	39,503	40,688	41,909	43,166	44,461
Depreciation Expense	180,920	180,421	182,474	190,040	211,520	224,060	228,560	272,710
Total Operating Expenses	**$1,187,154**	**$1,145,514**	**$1,167,714**	**$ 1,464,981**	**$ 1,524,709**	**$ 1,576,645**	**$ 1,621,722**	**$ 1,707,667**
Other Income & (Expense)								
Interest and Other Income	$ 2,113	$ 6,130	$ 679	$ 10,332	$ 7,749	$ (10,248)	$ (21,715)	$ (33,919)
Interest On Long Term Debt	$ (327)	$ (48,122)	(48,122)	(156,200)	(151,859)	(147,400)	(142,818)	(198,109)
Tapping/connection fees	37,500	2,500	22,420	20,000	20,000	20,000	20,000	20,000
Impact fees	178,000	34,000	58,000	58,000	58,000	58,000	58,000	58,000
Non Operating Income/(Expense)	**$2,160,201**	**$3,038,374**	**$ 32,977**	**$ (67,868)**	**$ (66,110)**	**$ (79,648)**	**$ (86,534)**	**$ (154,028)**
Net Income	$ 1,768,516	$ 2,728,310	$ (224,610)	$ (636,657)	$ (651,115)	$ (670,900)	$ (674,891)	$ (328,418)
Adjusted Operating Income[1]	**$ (176,185)**	**$ (273,564)**	**$ (177,168)**	**$ (490,788)**	**$ (507,004)**	**$ (513,252)**	**$ (510,358)**	**$ (96,390)**

Note: Adjusted operating income includes revenue from tap and reconnection fees

Unit Sales

Growth projections used for 2026 – 2030 based on discussions with management.

Fiscal Year	Annex Area # Meters	Current Area # Meters	Total Meter Counts	Total Meter Growth	Est. Sales Flow	Commodity Sales Flow Growth
2026		1,462	1,462	2.3%	81,590	3.4%
2027		1,535	1,535	5.0%	85,619	4.9%
2028		1,611	1,611	5.0%	89,849	4.9%
2029		1,692	1,692	5.0%	94,291	4.9%
2030	755	1,777	2,532	49.6%	140,578	49.1%

Billed commodity units are not available currently for specific customer meters with sewer. This study based available commodity units for each sewer customer class based on average monthly water consumption per meter using 2024 water billing statistics. It is recommended that the first year of billed sewer commodity be reviewed with assumptions used in this analysis for reasonableness.

Residential class units based on average water commodity per meter in:

- Non-summer (Nov-Apr) : based on water consumption in billing period
- Summer (May-Oct) : based on average monthly water consumption in non-summer season

Commercial class units based on water consumption in billing period

Inflation

Inflation was assumed at 3.0% annually.

Depreciation Expense

Depreciation expense was projected based on historical capital additions and discussions with management on future capital additions.

Interest Income

Interest income was forecasted based on projected cash balances and an interest rate of 1.5%.

Bonding

Cave Springs anticipates bonding for a large WWTP capital project planned in 2025 and 2026.

Table 12 – Bonding Assumptions for ARDOT and Scissortail Connection Capital Projects

Fiscal Year	Bond Issues (20Yr @ 5%)	Period (years)	Rate
2026	$ 1,000,000	20	5.00%
2027	-	20	5.00%
2028	-	20	5.00%
2029	-	20	5.00%
2030	1,200,000	20	5.00%

Capital Improvements

The capital improvement projections were provided by Cave Springs. Projections for 2026 – 2030 are outlined in Table 13.

Table 13 – Capital Improvements Projection

Fiscal Year	MCE Projects CIP	Sewer System CIP	Capital Improvement Plan
2026	$ 501,000	$ 36,000	$ 537,000
2027	501,000	36,000	537,000
2028	-	90,000	90,000
2029	-	135,000	135,000
2030	1,937,500	135,000	2,072,500

5. Considerations and Additional Information

1. Cave Springs is projected to require an increase in rates charged to customers. This rate track will increase the operating income and help to stabilize cash balances.

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Capital Improvement Plan	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues (20Yr @ 5%)
2026	*Jul. 1, 2026*	50.0%	25.0%	$ 537,000	$ (271,162)	$ 628,549	$ 736,203	$ 982,638	(0.21)	$ 1,000,000
2027	*Jan. 1, 2027*	50.0%	50.0%	537,000	301,055	647,404	347,772	1,022,966	1.40	-
2028	*Jan. 1, 2028*	4.0%	4.0%	90,000	407,467	651,420	519,467	1,028,723	1.70	-
2029	*Jan. 1, 2029*	4.0%	4.0%	135,000	535,262	657,066	781,032	1,035,076	2.06	-
2030	*Jan. 1, 2030*	4.0%	4.0%	2,072,500	1,585,610	742,914	1,307,228	1,157,245	3.97	1,200,000

2. Unknown events can occur that affect a utility's financial plan. It is recommended that Cave Springs have the financial projection study updated annually to ensure the utility can meet revenue requirements with the current rate plan. Cost of service studies are separate from the financial projection and can be refreshed every 3-5 years.

6. Optional Sewer Rate Design

Rate Summary:

Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Monthly Meter Charge				
Meter Size				
Residential Base Charge	$ 50.00	$ 38.00	$ 25.00	$ 25.00
Residential Minimum Charge	$ 15.00	$ 21.00	$ 29.00	$ 30.00
Commercial Base Charge	$ 55.00	$ 45.50	$ 35.00	$ 35.00
Condo User Base Charge	$ 50.00	$ 38.00	$ 25.00	$ 25.00
Condo User x5 Base Charge	$ 50.00	$ 38.00	$ 25.00	$ 25.00
Usage Charge Per 1,000 Gallons				
All Units [1]	$ -	$ 7.96	$ 18.82	$ 19.80
Revenue from Rate	$ 881,192	$ 1,321,757	$ 1,982,636	$ 2,062,463
Change from Previous	(0)	**50.0%**	**50.0%**	**4.0%**

Average $ Change per Month	Usage (x1,000)	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Residential Base Charge	4.5	$ 23.80	$ 35.90	$ 4.39
Commercial Base Charge	4.8	$ 28.53	$ 41.45	$ 4.67
Condo User Base Charge	4.5	$ 23.80	$ 35.90	$ 4.39
Condo User x5 Base Charge	4.5	$ 23.80	$ 35.90	$ 4.39

City of Cave Springs Wastwater Department

Effect of Rate Design

Residential Customer

Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Monthly Meter Charge	$ 50.00	**$ 38.00**	**$ 25.00**	**$ 25.00**
Usage Charge per 1,000 Gallons				
All Units [1]	$ -	**$ 7.96**	**$ 18.82**	**$ 19.80**

Note [1]: Commodity in May through Oct billed based on average water consumption in Nov through Ap

Average $ Change per Month

Usage (x1,000)		Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
0.5		$ (8.02)	$ (7.57)	$ 0.49
1.5		$ (0.07)	$ 3.30	$ 1.46
2.5		$ 7.89	$ 14.17	$ 2.44
3.5		$ 15.85	$ 25.04	$ 3.42
4.5	*Avg. Usage*	$ 23.80	$ 35.90	$ 4.39
5.5		$ 31.76	$ 46.77	$ 5.37
6.5		$ 39.72	$ 57.64	$ 6.35
7.5		$ 47.67	$ 68.50	$ 7.32
8.5		$ 55.63	$ 79.37	$ 8.30

Monthly Bill By Usage

Usage (x1,000)	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
0.5	$ 50.00	$ 41.98	$ 34.41	$ 34.90
1.5	$ 50.00	$ 49.93	$ 53.24	$ 54.70
2.5	$ 50.00	$ 57.89	$ 72.06	$ 74.50
3.5	$ 50.00	$ 65.85	$ 90.88	$ 94.30
4.5	$ 50.00	$ 73.80	$ 109.71	$ 114.10
5.5	$ 50.00	$ 81.76	$ 128.53	$ 133.90
6.5	$ 50.00	$ 89.72	$ 147.35	$ 153.70
7.5	$ 50.00	$ 97.67	$ 166.18	$ 173.50
8.5	$ 50.00	$ 105.63	$ 185.00	$ 193.30

Note: For customers with wells and are only provided with a sewer service, the commodity charge will be based on 4,500 gallons, the average residential class, non-summer water consumption.

City of Cave Springs Wastwater Department

Effect of Rate Design

Commercial Customer

Rates	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Monthly Meter Charge	$ 55.00	**$ 45.50**	**$ 35.00**	**$ 35.00**
Usage Charge per 1,000 Gallons				
All Units [1]	$ -	**$ 7.96**	**$ 18.82**	**$ 19.80**
Average Monthly Bill ($)	$ 55.00	$ 83.53	$ 124.98	$ 129.65

Note [1]: Commodity billed based on water consuption in billing period

Average $ Change per Month

Usage (x1,000)		Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
2.4		$ 9.52	$ 15.47	$ 2.33
3.0		$ 14.27	$ 21.97	$ 2.92
3.6		$ 19.03	$ 28.46	$ 3.50
4.2		$ 23.78	$ 34.95	$ 4.08
4.8	*Avg. Usage*	$ 28.53	$ 41.45	$ 4.67
5.4		$ 33.29	$ 47.94	$ 5.25
6.0		$ 38.04	$ 54.43	$ 5.83
6.6		$ 42.80	$ 60.93	$ 6.42
7.2		$ 47.55	$ 67.42	$ 7.00

Monthly Bill By Usage

Usage (x1,000)	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
2.4	$ 55.00	$ 64.52	$ 79.99	$ 82.32
3.0	$ 55.00	$ 69.27	$ 91.24	$ 94.15
3.6	$ 55.00	$ 74.03	$ 102.49	$ 105.99
4.2	$ 55.00	$ 78.78	$ 113.73	$ 117.82
4.8	$ 55.00	$ 83.53	$ 124.98	$ 129.65
5.4	$ 55.00	$ 88.29	$ 136.23	$ 141.48
6.0	$ 55.00	$ 93.04	$ 147.48	$ 153.31
6.6	$ 55.00	$ 97.80	$ 158.72	$ 165.14
7.2	$ 55.00	$ 102.55	$ 169.97	$ 176.97

7. Sewer Asset Management Plan

Note: Replacement costs stated in 2025 dollars

City of Cave Springs
Asset Management Plan
Sewer Asset Inventory
Prepared by McClelland Consulting Engineers, Inc.
February 5, 2026

MCE McCLELLAND CONSULTING ENGINEERS, INC.

Sewer										
Asset Name	Annual Maintenance Costs	Year Installed	Useful Life	Replacement Date	Quantity	Unit Cost	Multiplier	Replacement Cost	Projected Consequence of Failure
Sewer Lift Stations									
Cave Springs Main LS	$ 2,000	2025						$ 4,561,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 45 hp		2025	10	2035	3	$ 400,000	2.5	$ 3,000,000	
Controls		2025	10	2035	1	$ 14,500	2.5	$ 36,250	
Structure		2025	50	2075	1	$ 610,000	2.5	$ 1,525,000	
Hillcrest East	$ 2,000	2025						$ 338,750	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 12hp		2025	10	2035	2	$ 30,000	2.5	$ 150,000	
Controls		2025	10	2035	1	$ 15,500	2.5	$ 38,750	
Structure		2025	30	2055	1	$ 60,000	2.5	$ 150,000	
Hillcrest West	$ 3,000	2025						$ 886,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 6 hp		2025	10	2035	2	$ 100,000	2.5	$ 500,000	
Controls		2026	10	2035	1	$ 14,500	2.5	$ 36,250	
Structure		2025	30	2055	1	$ 100,000	2.5	$ 250,000	
Solids Holding Tanks		2025	30	2055	2	$ 20,000	2.5	$ 100,000	
LS #1	$ 2,000	2007						$ 2,411,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 30 hp		2007	10	2017	2	$ 250,000	2.5	$ 1,250,000	
Controls		2007	10	2017	1	$ 14,500	2.5	$ 36,250	
Structure		2007	30	2037	1	$ 450,000	2.5	$ 1,125,000	
LS #2	$ 2,000	2015						$ 236,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 3 hp		2015	10	2025	2	$ 20,000	2.5	$ 100,000	
Controls		2016	10	2025	1	$ 14,500	2.5	$ 36,250	
Structure		2015	30	2045	1	$ 40,000	2.5	$ 100,000	
LS #3	$ 2,000	2015						$ 236,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 3 hp		2015	10	2025	2	$ 20,000	2.5	$ 100,000	
Controls		2015	10	2025	1	$ 14,500	2.5	$ 36,250	
Structure		2015	30	2045	1	$ 40,000	2.5	$ 100,000	
LS #4	$ 2,000	2015						$ 411,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 5 hp		2015	10	2025	2	$ 40,000	2.5	$ 200,000	
Controls		2015	10	2025	1	$ 14,500	2.5	$ 36,250	
Structure		2015	30	2045	1	$ 70,000	2.5	$ 175,000	
LS #5	$ 3,000	2015						$ 498,750	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 5 hp		2015	10	2025	2	$ 40,000	2.5	$ 200,000	
Controls		2015	10	2025	1	$ 14,500	2.5	$ 36,250	
Structure		2015	30	2045	1	$ 70,000	2.5	$ 175,000	
Solids Holding Tanks		2015	30	2045	1	$ 35,000	2.5	$ 87,500	
Allen's Mill LS #1	$ 3,000	2019						$ 436,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 1.5 hp		2019	10	2029	2	$ 30,000	2.5	$ 150,000	
Controls		2019	10	2029	1	$ 14,500	2.5	$ 36,250	
Structure		2019	30	2049	1	$ 60,000	2.5	$ 150,000	
Solids Holding Tanks		2019	30	2049	2	$ 20,000	2.5	$ 100,000	
Allen's Mill LS #2	$ 3,000	2022						$ 336,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 1 hp		2022	10	2032	2	$ 20,000	2.5	$ 100,000	
Controls		2022	10	2032	1	$ 14,500	2.5	$ 36,250	
Structure		2022	30	2052	1	$ 40,000	2.5	$ 100,000	
Solids Holding Tanks		2022	30	2052	2	$ 20,000	2.5	$ 100,000	
Fairway Valley	$ 3,000	2018						$ 296,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - 1.5 hp		2018	10	2028	2	$ 20,000	2.5	$ 100,000	
Controls		2018	10	2028	1	$ 14,500	2.5	$ 36,250	
Structure		2018	30	2048	1	$ 40,000	2.5	$ 100,000	
Solids Holding Tanks		2018	30	2048	2	$ 12,000	2.5	$ 60,000	
Scissortail	$ 2,000	2017						$ 1,536,250	Unable to pump sewage to treatment plant. Sanitary sewer overflow at lift station.
Pumps - XX hp		2017	10	2027	2	$ 175,000	2.5	$ 875,000	
Controls		2017	10	2027	1	$ 14,500	2.5	$ 36,250	
Structure		2017	30	2047	1	$ 250,000	2.5	$ 625,000	
Sewer Lift Stations Sub-Total	$ 18,000							$ 12,186,000	

Note: Replacement costs stated in 2025 dollars (page 2 of 2)

City of Cave Springs
Asset Management Plan
Sewer Asset Inventory
Prepared by McClelland Consulting Engineers, Inc.
February 5, 2026

MCE McCLELLAND CONSULTING ENGINEERS, INC.

Sewer										
Asset Name	Annual Maintenance Costs	Year Installed	Useful Life	Replacement Date	Quantity	Unit Cost	Multiplier	Replacement Cost	Projected Consequence of Failure
Sewer Conveyance					(Linear Feet)				
Sewer Piping: 1" - 4"	$ 10,000	1990	15	2005	82,150	$ 50	2.5	$ 10,268,750	Unable to bring sewer to lift stations and treatment facility, sewer leakage
Sewer Piping: 6"	$ 1,500	1980	20	2000	3,600	$ 120	2.5	$ 1,080,000	Unable to bring sewer to lift stations and treatment facility, sewer leakage
Sewer Piping: 8"	$ 6,000	1975	30	2005	28,860	$ 120	2.5	$ 8,658,000	Unable to bring sewer to lift stations and treatment facility, sewer leakage
Sewer Piping: 10"	$ 2,500	1970	40	2010	9,330	$ 150	2.5	$ 3,498,750	Unable to bring sewer to lift stations and treatment facility, sewer leakage
Sewer Piping: 12"	$ 3,500	2025	40	2065	7,812	$ 100	2.5	$ 1,953,000	Unable to bring sewer to lift stations and treatment facility, sewer leakage
Sewer Piping: 24"	$ 6,000	2025	50	2075	9,389	$ 190	2.5	$ 4,459,775	Unable to bring sewer to lift stations and treatment facility, sewer leakage
Sewer Conveyance Sub-Total	**$ 29,500**							**$ 29,918,275**	
Sewer Manholes & Metering					(Each)				
Manholes	$ 2,500		30	30	113	$ 9,000	2.5	$ 2,542,500	Unable to bring sewer to lift stations and treatment facility, sewer leakage
Sewer Meters	$ -			0	0	$ 1,000	2.5	$ -	Unable to accurately measure sewer usage and charge customers
Sewer Manholes & Metering Sub-Total	**$ 2,500**							**$ 2,542,500**	
Sewer Total	**$ 50,000**							**$ 44,645,775**	

8. Approved Provider Statement for Utility Financial Solutions, LLC

Sarah Huckabee Sanders
Governor

ARKANSAS DEPARTMENT OF AGRICULTURE

Natural Resources Division
10421 West Markham Street, Little Rock, AR 72205
agriculture.arkansas.gov
(501) 682-1611

Wes Ward
Secretary of Agriculture

November 7, 2023

Delivery via email to Mark Beauchamp at mbeauchamp@ufsweb.com

Mark Beauchamp, President
Utility Financial Solutions, LLC
185 Sun Meadow Ct.
Holland, MI 49424

Subject: Retail Water Provider – Rate Study Provider Application

Mr. Beauchamp,

Per Act 605 of 2021 (Act), the Arkansas Natural Resources Commission maintains an approved list of entities to conduct rate studies for water service providers. The Department received your application for inclusion on the list of approved rate study providers. Upon review of your application, we have determined that **Utility Financial Solutions, LLC** meets the requirements for inclusion on the approved list.

As acknowledged on your application, all rate studies performed by an approved rate study provider shall be an objective and unbiased review of the water service provider's fiscal status. Any rate studies you complete for entities subject to the Act must include a certification that such study complies with the Act and the Rules implementing the Act. Please note that the Arkansas Natural Resources Commission may remove an approved rate study provider from its list of approved entities if it determines that an entity violated Arkansas law or Commission rules in performing a rate study.

Please do not hesitate to call me at (501) 682-3977 or via email at darla.brooks@agriculture.arkansas.gov if you have any questions or need additional information.

Sincerely,

Darla S. Brooks
Audit Coordinator – Act 605 Compliance

UFS UTILITY FINANCIAL SOLUTIONS, LLC

City of Cave Springs

Cost of Service Study Results for Water & Sewer Departments

for City Council Meeting 04/14/2026

Discussion for each Department

Asset Management Plan

- Act 605 requirements

Financial Projection & Cost of Service

- Revenue requirements of ACT 605
- Cost of Service based on AWWA industry standards
- Proposed revenue adjustments and example rate design

Arkansas Act 605 of 2021

Established in 2021 for retail providers of water/sewer utilities to ensure utilities charge enough to cover full costs of operations.

1. Mandatory COS & financial audit every 5 years (minimum)
   - Rates achieve full-cost pricing (O&M, CIP, Debt)
   - Recommended adjustments are to be made in one-year or two if >50%
2. Utility demonstrates financial sustainability and meet financial benchmarks
   - 5% of gross revenues towards funding R&R, debt coverage >1.1x
   - Each utility is self-supporting (one doesn't subsidize the other)
3. Requires an Asset Management Plan (McClelland assembled this document)
   - Documented plan for managing assets over time (not reacting to failures)
4. Training Requirements for governing bodies

Water Department



Assumptions

Fiscal Year	General Inflation	Bever Water District Inflation	Bentonville Water Inflation	Overall Water Inflation	Annex Area # Meters	Current Area # Meters	Total Meter Counts	Total Meter Growth	Commodity Sales Flow Growth	Investment Income
2026	3.0%	8.5%	3.0%	6.4%	-	2,765	2,765	2.3%		1.5%
2027	3.0%	8.5%	3.0%	6.3%	755	2,903	3,658	32.3%	32.1%	1.5%
2028	3.0%	8.5%	3.0%	6.7%	755	3,049	3,804	4.0%	4.0%	1.5%
2029	3.0%	8.5%	3.0%	6.6%	755	3,201	3,956	4.0%	4.0%	1.5%
2030	3.0%	8.5%	3.0%	6.8%	755	3,361	4,116	4.0%	4.0%	1.5%

Fiscal Year	Water System CIP	MCE Projects CIP	Total Capital Plans	Bond Issues 20Yr @ 5%
2026	$ 156,300	$ 694,050	$ 850,350	$ -
2027	156,300	694,050	850,350	2,000,000
2028	156,300	1,060,500	1,216,800	-
2029	156,300	196,500	352,800	-
2030	156,300	15,204,000	15,360,300	15,200,000

Capital Project Notes:

2026/2027 CIP Project: Utility responsibility towards ARDOT Utility Relocations for Highway 112 ($1.4M split over 2 years)

2028 CIP Project: 12" connection to Scissortail of $1.1M

2029 CIP Project: Emergency Connection RWU of $200k

2030 CIP Project: Water tower construction of $15.2M

UFS UTILITY FINANCIAL SOLUTIONS, LLC

Financial Projection Summary

No change to revenue and with proposed bond issues

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues 20Yr @ 5%
2026	*Jul. 1, 2026*	**0.0%**	**0.0%**	$ 1,914,977	$ 2,590,819	$ (675,842)	$ 180,343	$ 369,068	$ 770,139	(19.81)	$ -
2027	*Jan. 1, 2027*	**0.0%**	**0.0%**	2,520,836	3,091,288	(570,452)	169,983	1,056,120	891,772	(5.21)	2,000,000
2028	*Jan. 1, 2028*	**0.0%**	**0.0%**	2,619,350	3,359,308	(739,958)	259,450	(830,323)	1,040,480	(2.62)	-
2029	*Jan. 1, 2029*	**0.0%**	**0.0%**	2,722,737	3,631,251	(908,514)	267,044	(2,002,054)	1,077,064	(3.43)	-
2030	*Jan. 1, 2030*	**0.0%**	**0.0%**	2,831,399	4,358,413	(1,527,015)	593,351	(3,521,208)	1,634,179	(1.40)	15,200,000

With proposed revenue adjustments

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues 20Yr @ 5%
2026	*Jul. 1, 2026*	**20.0%**	**10.0%**	$ 2,100,909	$ 2,590,819	$ (489,910)	$ 180,343	$ 555,000	$ 770,139	(12.23)	$ -
2027	*Jan. 1, 2027*	**20.0%**	**20.0%**	3,313,232	3,091,288	221,944	169,983	2,037,237	891,772	5.46	2,000,000
2028	*Jan. 1, 2028*	**5.5%**	**5.5%**	3,630,633	3,359,308	271,325	259,450	1,176,794	1,040,480	2.93	-
2029	*Jan. 1, 2029*	**5.5%**	**5.5%**	3,980,161	3,631,251	348,910	267,044	1,292,593	1,077,064	3.53	-
2030	*Jan. 1, 2030*	**5.5%**	**5.5%**	4,365,403	4,358,413	6,990	593,351	1,356,864	1,634,179	1.40	15,200,000

Target One

Debt Coverage Ratio – less adjustments

Description		Projected 2026
Debt Coverage Ratio		
Net Income	$	(664,547)
Add Depreciation/Amortization Expense		163,962
Add Interest Expense		14,654
Cash Generated from Operations	$	(485,931)
Debt Principal and Interest	$	24,528
Projected Debt Coverage Ratio (Covenants)		**(19.81)**
Minimum Debt Coverage Ratio		**1.4**
Bond agreement: 3% of revenue depreciation reserve		
Total Annual Water Sales	$	1,859,320
Bond agreement		3%
Bond agreed annual reserve	$	55,780
Annual reserve included as depreciation expense	**$**	**163,962**

Target Two

Optimal Operating Income - less adjustments

Description		Projected 2026
Optimal Operating Income Determinants		
Net Book Value/Working Capital	$	4,129,351
Outstanding Principal on Debt		385,470
System Equity	$	3,743,881
Debt:Equity Ratio		9%
Optimal Operating Income Allocation		
Interest on Debt		3.71%
System Equity		4.43%
Optimal Operating Income		
Interest on Debt	$	14,654
System Equity		165,689
Optimal Operating Income	**$**	**180,343**
Projected Adjusted Operating Income	**$**	**(675,842)**
Rate of Return in %		**4.4%**

Projection Target Three

Minimum Cash Reserve Level - less adjustments and with proposed bonding

Description	Allocation	Projected 2026
Minimum Cash Reserve Levels Determinants		
O&M Less Depreciation & Water Expense		$ 1,098,882
Purchased Water Expense		1,327,975
Historical Rate Base		5,895,113
Current Portion of Debt Service Payment		24,528
Five Year Capital Improvements - Net of bond proceeds		1,430,600
% Plant Depreciated		30%
Calculated Minimum Cash Level		
Operation & Maintenance Less Depreciation Expense	12.3%	$ 135,479
Purchased Water Expense	11.5%	152,065
Historical Rate Base	3.0%	176,853
Current Portion of Debt Service Reserve	80.0%	19,622
Five Year Capital Improvements - Net of bond proceeds	20.0%	286,120
Recommended Minimum Cash Reserve Levels		**$ 770,139**
Projected Cash Reserves		**$ 369,068**

Reasons for Minimum Cash

- Pay bills
- Catastrophic or unplanned events
- Capital costs
- Debt Payments
- Ability to phase in adjustments

Cost of Service Summary

Cost of Service Summary

Customer Class	Cost of Service ($)	Projected Revenues ($)	% Change
Water Sales	$ 1,997,515	$ 1,200,157	66.4%
Customer Service Charges	717,990	659,162	8.9%
Total	$ 2,715,504	$ 1,859,320	46.0%

Commodity cost of service by class

Customer Class	Cost of Service Commodity by Class	Current Commodity Charge	Variance
Residential Usage (01)	$ 10.46	$ 7.48	40%
Irrigation Usage (06,07)	10.46	7.48	40%
Commercial Usage (05)	10.46	8.10	29%

Monthly customer charge cost of service by class

Customer Class	Number of Customers/Meters (Monthly)	Cost of Service Meter $/Month	Current Meter $/Month	Variance
5/8" Meter - Residential	2,380	20.91	$ 19.80	6%
5/8" Meter - Irrigation	230	20.91	19.80	6%
1" Meter - Commercial & City	155	33.85	21.58	57%

Sewer Department



UFS UTILITY FINANCIAL SOLUTIONS, LLC

Assumptions

Fiscal Year	General Inflation	Treatment Cost Inflation	Annex Area # Meters	Current Area # Meters	Total Meter Counts	Total Meter Growth	Commodity Sales Flow Growth	Investment Income	MCE Projects CIP	Sewer System CIP	Capital Improvement Plan	Bond Issues (20Yr @ 5%)
2026	3.0%	1.0%		1,462	1,462	2.3%	3.4%	1.5%	$ 501,000	$ 36,000	537,000	$ 1,000,000
2027	3.0%	1.0%		1,535	1,535	5.0%	4.9%	1.5%	501,000	36,000	537,000	-
2028	3.0%	1.0%		1,611	1,611	5.0%	4.9%	1.5%	-	90,000	90,000	-
2029	3.0%	1.0%		1,692	1,692	5.0%	4.9%	1.5%	-	135,000	135,000	-
2030	3.0%	1.0%	755	1,777	2,532	49.6%	49.1%	1.5%	1,937,500	135,000	2,072,500	1,000,000

City of Cave Springs
Asset Management Plan
5-Year CIP
Prepared by McClelland Consulting Engineers, Inc.
March 17, 2026

SEWER 5-YEAR CIP SUMMARY

ITEM		ESTIMATED COST TO CITY
Highway 112 Utility Relocations (Assuming ARDOT 72% reimbursen	*2026 & 2027*	$752,000
LS #1 Bypass	*2026 & 2027*	$250,000
Scissortail Connection (to Annexed area of Rogers)	*2030*	$1,937,500
Construction Subtotal		$2,939,500

Capital Project Notes:

2026/2027 CIP Project: Utility responsibility towards ARDOT Utility Relocations for Highway 112 and LS #1 Bypass ($1.2M split over 2 years)

2030 CIP Project: Utility cost to connect the Annex area

Financial Projection Summary

No change to revenue and with proposed bond issues

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues (20Yr @ 5%)
2026	*Jul. 1, 2026*	**0.0%**	**0.0%**	$ 896,192	$ 1,464,981	$ (490,788)	$ 628,549	$ 516,576	$ 982,638	(0.84)	$ 1,000,000
2027	*Jan. 1, 2027*	**0.0%**	**0.0%**	939,704	1,524,709	(507,004)	647,404	(683,209)	1,022,966	(0.77)	-
2028	*Jan. 1, 2028*	**0.0%**	**0.0%**	985,392	1,576,645	(513,252)	651,420	(1,447,698)	1,028,723	(0.80)	-
2029	*Jan. 1, 2029*	**0.0%**	**0.0%**	1,033,364	1,621,722	(510,358)	657,066	(2,261,261)	1,035,076	(0.81)	-
2030	*Jan. 1, 2030*	**0.0%**	**0.0%**	1,533,277	1,707,667	(96,390)	742,914	(3,462,700)	1,157,245	0.30	1,200,000

With proposed revenue adjustments

Fiscal Year	Rates Effective on:	Projected Rate Adjustments	Effective Rate Adjustments	Projected Revenues	Projected Expenses	Adjusted Operating Income	Optimal Operating Income	Projected Cash Balances	Recommended Minimum Cash Reserve	Debt Coverage Ratio	Bond Issues (20Yr @ 5%)
2026	*Jul. 1, 2026*	**50.0%**	**25.0%**	$ 1,115,819	$ 1,464,981	$ (271,162)	$ 628,549	$ 736,203	$ 982,638	(0.21)	$ 1,000,000
2027	*Jan. 1, 2027*	**50.0%**	**50.0%**	1,747,764	1,524,709	301,055	647,404	347,772	1,022,966	1.40	-
2028	*Jan. 1, 2028*	**4.0%**	**4.0%**	1,906,112	1,576,645	407,467	651,420	519,467	1,028,723	1.70	-
2029	*Jan. 1, 2029*	**4.0%**	**4.0%**	2,078,984	1,621,722	535,262	657,066	781,032	1,035,076	2.06	-
2030	*Jan. 1, 2030*	**4.0%**	**4.0%**	3,215,278	1,707,667	1,585,610	742,914	1,307,228	1,157,245	3.97	1,200,000

Cost of Service Summary

Residential estimate for sewer commodity

(Utility records are not available to identify water consumption to customers with sewer service and estimates below were utilized in the cost of service and rate design. Summer sewer commodity will be based on customers average water consumption in the six non-summer months)

From Water Historic Billing Details Provided

Year	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	Summer	Winter
Season	W	W	W	W	S	S	S	S	S	S	W	W	A	S	W
Water Residential Usage (01)															
Meters	2,097	2,120	2,122	2,131	2,131	2,131	2,135	2,135	2,136	2,140	2,144	2,145	25,567	12,808	12,759
All Usage	11,169	8,126	8,620	8,510	10,054	13,774	16,483	17,618	16,081	14,493	11,439	9,962	146,329	88,503	57,827
Avg/Mtr	5.33	3.83	4.06	3.99	4.72	6.46	7.72	8.25	7.53	6.77	5.34	4.64	5.72	**6.91**	**4.53**
Sewer Residential Usage (based on average residential water billed)															
Meters	1,291	1,302	1,314	1,325	1,333	1,335	1,343	1,342	1,339	1,341	1,342	1,344			
Avg. W. Billed	4.53	4.53	4.53	4.53	6.91	6.91	6.91	6.91	6.91	6.91	4.53	4.53			
Est Flows	5,851	5,901	5,955	6,005	9,211	9,225	9,280	9,273	9,252	9,266	6,082	6,091	**5,981**	**Avg Winter Flow**	
Est Billed Flow	**5,851**	**5,901**	**5,955**	**6,005**	**5,981**	**5,981**	**5,981**	**5,981**	**5,981**	**5,981**	**6,082**	**6,091**			

UFS UTILITY FINANCIAL SOLUTIONS, LLC

Cost of Service Summary

Commercial estimate for sewer commodity

(Utility records are not available to identify water consumption to customers with sewer service and estimates below were utilized in the cost of service and rate design.
Sewer commodity will be based on customers monthly water consumption)

From Water Historic Billing Details Provided

Year	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	Summer	Winter
Season	W	W	W	W	S	S	S	S	S	S	W	W	A	S	W
Water Commercial Usage (05)															
Meters	147	147	144	147	147	147	147	147	144	150	150	150	1,767	882	885
All Usage	921	508	522	460	612	667	549	749	950	779	726	1,004	8,447	4,306	4,141
Avg/Mtr	6.27	3.45	3.62	3.13	4.16	4.54	3.73	5.09	6.60	5.19	4.84	6.69	**4.78**	4.88	4.68
Sewer Commercial Usage (based on average commercial water billed)															
Meters	25	26	26	26	26	26	26	26	26	27	27	27			
Avg. W. Billed	4.78	4.78	4.78	4.78	4.78	4.78	4.78	4.78	4.78	4.78	4.78	4.78			
Est Billed Flow	**120**	**124**	**124**	**124**	**124**	**124**	**124**	**124**	**124**	**129**	**129**	**129**			

UFS UTILITY FINANCIAL SOLUTIONS, LLC

Cost of Service Summary

Cost of Service Summary

Customer Class	Cost of Service ($)	Projected Revenues ($)	% Change
Customer Service Charges	$ 454,384	$ 878,507	-48.3%
Wastewater Sales	1,543,461	-	0.0%
Total	$ 1,997,844	$ 878,507	127.4%

Commodity cost of service by class

Customer Class	Cost of Service Volume by Class	Current Volume Charge	Variance
Residential User Usage	$ 18.94	$ -	0%
Commercial User Usage	18.60	-	0%

Monthly customer charge cost of service by class

Customer Class	Number of Customers/Meters (Monthly)	Cost of Service Meter $/Month	Current Meter $/Month	Variance
Residential & Condo Meter	1,435	$ 25.79	$ 50.00	-48%
Commercial Meter	26	32.27	55.00	-41%

Water & Sewer Recommendations



UFS UTILITY FINANCIAL SOLUTIONS, LLC

Summary of Recommendations

UFS Recommendations

Water Recommendations

Revenue adjustments:

- Revenue increases over next 3 years
  - 20% on July 1, 2026
  - 20% on January 1, 2027
  - 5.5% on January 1, 2028

Rate design adjustments:

- Adjust monthly charges towards COS
- Add charge for City facilities
- **(See following slides for example rates)**

Sewer Recommendations

Revenue adjustments:

- Revenue increases over next 3 years
  - 50% on July 1, 2026
  - 50% on January 1, 2027
  - 4% on January 1, 2028

Rate design adjustments:

- Add commodity charges
- Adjust monthly charges towards COS
- Add charge for City facilities
- **(See following slides for example rates)**

Three-Year Water Rate Design

RESIDENTIAL (01)

	Gallons (x1,000)	Current	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Residential					
Monthly Base Charge		$ 19.80	**$ 23.00**	**$ 26.00**	**$ 30.00**
Commodity Volume Charge					
1st 1,000 gallons		$ -	**$ -**	**$ -**	**$ -**
Excess (x1,000 gallons)		$ 7.48	**$ 9.08**	**$ 11.20**	**$ 11.23**
Monthly Bill Total ($)					
Low Use	2.9	$ 33.73	$ 39.90	$ 46.85	$ 50.91
Avg Impact	5.7	55.13	65.89	78.90	83.06
High Use	8.6	76.54	91.87	110.95	115.20
Monthly Bill Change ($)					
Low Use			$ 6.18	$ 6.95	$ 4.06
Avg Impact			10.76	13.01	4.16
High Use			15.34	19.08	4.25

IRRIGATION (06,07)

	Gallons (x1,000)	Current	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Irrigation					
Monthly Base Charge		$ 19.80	**$ 23.00**	**$ 26.00**	**$ 30.00**
Commodity Volume Charge					
All (x1,000 gallons)		$ 7.48	**$ 9.08**	**$ 11.20**	**$ 11.23**
Monthly Bill Total ($)					
Low Use	3.3	$ 44.42	$ 52.63	$ 63.15	$ 72.20
Avg Impact	6.6	$ 69.04	$ 82.78	$ 99.73	$ 103.95
High Use	9.9	$ 93.66	$ 108.04	$ 127.21	$ 136.41
Monthly Bill Change ($)					
Low Use			$ 8.21	$ 10.52	$ 9.05
Avg Impact			$ 13.73	$ 16.96	$ 4.22
High Use			$ 14.38	$ 19.17	$ 9.20

Three-Year Water Rate Design

COMMERCIAL (05)

	Gallons (x1,000)	Current	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Commercial					
Monthly Base Charge		$ 21.58	$ 28.00	$ 36.00	$ 45.00
Commodity Volume Charge					
1st 1,000 gallons		$ -	$ -	$ -	$ -
Excess (x1,000 gallons)		$ 8.10	$ 9.39	$ 11.20	$ 11.23
Monthly Bill Total ($)					
Low Use	2.4	$ 32.84	$ 41.05	$ 51.57	$ 60.61
Avg Impact	4.8	$ 52.20	$ 63.50	$ 78.34	$ 87.46
High Use	7.2	$ 71.56	$ 85.94	$ 105.11	$ 114.31
Monthly Bill Change ($)					
Low Use			$ 8.21	$ 10.52	$ 9.05
Avg Impact			$ 11.30	$ 14.84	$ 9.12
High Use			$ 14.38	$ 19.17	$ 9.20

CITY FACILITIES (03)

	Gallons (x1,000)	Current	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
City Facilities					
Monthly Base Charge		$ -	$ 28.00	$ 36.00	$ 45.00
Commodity Volume Charge					
1st 1,000 gallons		$ -	$ -	$ -	$ -
Excess (x1,000 gallons)		$ -	$ 9.39	$ 11.20	$ 11.23
Monthly Bill Total ($)					
Low Use	5.8	$ -	$ 72.97	$ 89.64	$ 98.80
Avg Impact	11.6	$ -	$ 127.33	$ 154.48	$ 163.83
High Use	17.4	$ -	$ 181.70	$ 219.32	$ 228.86
Monthly Bill Change ($)					
Low Use			$ 72.97	$ 16.67	$ 9.16
Avg Impact			$ 127.33	$ 27.15	$ 9.35
High Use			$ 181.70	$ 37.63	$ 9.54

Three-Year Sewer Rate Design

RESIDENTIAL / CONDO UNIT

	Gallons (x1,000)	Current	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Residential					
Monthly Base Charge		$ 50.00	**$ 38.00**	**$ 25.00**	**$ 25.00**
Commodity Volume Charge					
All (x1,000 gallons)		$ -	**$ 7.96**	**$ 18.82**	**$ 19.80**
Monthly Bill Total ($)					
Low Use	0.5	$ 50.00	$ 41.98	$ 34.41	$ 34.90
Avg Impact	4.5	50.00	73.80	109.71	114.10
High Use	8.5	50.00	105.63	185.00	193.30
Monthly Bill Change ($)					
Low Use			$ (8.02)	$ (7.57)	$ 0.49
Avg Impact			23.80	35.90	4.39
High Use			55.63	79.37	8.30

COMMERCIAL / CITY FACILITY

	Gallons (x1,000)	Current	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Commercial					
Monthly Base Charge		$ 55.00	**$ 45.50**	**$ 35.00**	**$ 35.00**
Commodity Volume Charge					
All (x1,000 gallons)		$ -	**$ 7.96**	**$ 18.82**	**$ 19.80**
Monthly Bill Total ($)					
Low Use	2.4	$ 55.00	$ 64.52	$ 79.99	$ 82.32
Avg Impact	4.8	55.00	83.53	124.98	129.65
High Use	7.2	55.00	102.55	169.97	176.97
Monthly Bill Change ($)					
Low Use			$ 9.52	$ 15.47	$ 2.33
Avg Impact			28.53	41.45	4.67
High Use			47.55	67.42	7.00

Overall Revenue Change by Department

WATER REVENUE CHANGES

Water Class	Avg Usage	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Residential Customer	5.7	$ 1,574,365	$ 1,881,557	$ 2,253,170	$ 2,371,873
Irrigation Customer	6.6	190,865	228,829	275,705	287,364
Commercial Customer	4.8	94,090	114,452	141,206	157,653
City Customer	11.6	-	6,749	8,188	8,683
Total Sales Revenue		$ 1,859,320	$ 2,231,588	$ 2,678,268	$ 2,825,573
Annual Change (%)			**20.0%**	**20.0%**	**5.5%**

SEWER REVENUE CHANGES

Sewer Class	Avg Usage	Current	Jun. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Residential Customer	4.5	$ 863,922	$ 1,294,715	$ 1,941,470	$ 2,019,733
Commercial Customer	4.8	17,270	27,042	41,165	42,730
Total Sales Revenue		$ 881,192	$ 1,321,757	$ 1,982,636	$ 2,062,463
Annual Change (%)			**50.0%**	**50.0%**	**4.0%**

Combined Residential Bill Change

	Gallons (x1,000)	Current	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028
Combined Monthly Residential Water & Sewer Bill Total ($)					
Low Use	0.5	$ 73.54	$ 69.52	$ 66.01	$ 70.52
	2.9	$ 83.73	$ 100.67	$ 125.72	$ 132.57
Avg Impact	4.5	$ 95.98	$ 128.58	$ 174.91	$ 183.42
	5.7	$ 105.13	$ 149.43	$ 211.64	$ 221.38
High Use	8.5	$ 125.90	$ 196.73	$ 295.00	$ 307.55
Combined Monthly Residential Water & Sewer Bill Change ($)					
Low Use	0.5		$ (4.02)	$ (3.51)	$ 4.50
	2.9		$ 16.95	$ 25.05	$ 6.86
Avg Impact	4.5		$ 32.60	$ 46.32	$ 8.51
	5.7		$ 44.30	$ 62.21	$ 9.74
High Use	8.5		$ 70.83	$ 98.27	$ 12.55

Questions?

UFS UTILITY FINANCIAL SOLUTIONS, LLC



Act. 605 of 2001

Rate Studie shall include	
Costs to include	
O&M	Act. 605 of 2001 : IV.3.a.i.1.a
Debt	Act. 605 of 2001 : IV.3.a.i.1.b
Restricted cash held	Act. 605 of 2001 : IV.3.a.i.1.c
R&R (Depreciation)	Act. 605 of 2001 : IV.3.a.i.1.d
5 year CIP	Act. 605 of 2001 : IV.3.a.i.1.e
Expenses for annual audit & report	Act. 605 of 2001 : IV.3.a.i.1.f
Expenses for rate studies	Act. 605 of 2001 : IV.3.a.i.1.g
Revenue to include	
Available cash	Act. 605 of 2001 : IV.3.a.i.2.a
Non-rate revenue	Act. 605 of 2001 : IV.3.a.i.2.b
Revenue from current rates	Act. 605 of 2001 : IV.3.a.i.2.c
Revenue from 5 year increases	Act. 605 of 2001 : IV.3.a.i.3
Debt coverage Ratios	Act. 605 of 2001 : IV.3.a.i.4
Days cash on hand (less increases)	Act. 605 of 2001 : IV.3.a.i.5
Annualized revenue requirement	Act. 605 of 2001 : IV.3.a.i.6
Rate changes should be based on achieving & maintaining	
Debt coverage Ratio >1.1	Act. 605 of 2001 : IV.3.a.iii
Explanation of chosen rate design	Act. 605 of 2001 : IV.3.a.iv
Plan on how changes to be implemented	Act. 605 of 2001 : IV.3.a.v
Certification by entity performing rate study	Act. 605 of 2001 : IV.3.a.vi
Objective and unbiased rate study	Act. 605 of 2001 : IV.5

Asset management plan (BHMG)	
Inventory of essential assets	Act. 605 of 2001 : IV.3.a.ii.1
Asset type	
Annual maintenance costs	
Year installed	
Useful life / date of replacement	
Projected consequence of failure	

UFS UTILITY FINANCIAL SOLUTIONS, LLC

Water and Sewer Rate Study Fact Sheet

City of Cave Springs

Arkansas law requires the rate study to be performed and rate increases to be implemented:

- Act 605 of 2021 requires a rate study every 5 years for all retail water providers in the state.
- Act 925 of 2025 requires a rate study every 5 years for sewer collection and sewer treatment providers in the state.
- Both Act 605 of 2021 and Act 925 of 2025 require the city to implement of each study's recommended rate increases. The rate studies are required to be filed with Arkansas Legislative Audit and the Arkansas Department of Agriculture's Natural Resources Division
- Both Act 605 of 2021 and Act 925 of 2025 state that the failure of a water or sewer provider to perform the rate studies, or to implement recommended rate increases, will put the utility provider in "fiscal distress"
- The water and sewer rates studies are based on current and future obligations and projections.

The City of Cave Springs Water and Sewer Department has been able to absorb rate increases and increasing costs for over 10 years without a rate increase:

- The last water rate increase was adopted on October 12, 2015 by Ordinance No. 2015-09
- The last water rate change was actually a small rate reduction that was adopted on June 28, 2022 by Ordinance No. 2022-16.
- For the past 10 years, the City of Cave Springs Water and Sewer Department has been able to absorb increases in water purchase costs and increasing costs without passing these costs on to the users.

The current sewer rate was based on a monthly flat fee that has to change in order to reflect usage:

- The residential sewer rates has always been charged a $50.00 monthly flat rate that was put into place through a previous sewer system that has been discontinued. The city's new system connection is billed based on usage.
- With the flat monthly rate, low use customers have subsidized high volume users.
- Sewer billing based on use is the standard and promotes equity and pay for use.

State of Arkansas *As Engrossed: H3/11/21*
93rd General Assembly **A Bill**
Regular Session, 2021 SENATE BILL 386

By: Senator A. Clark
By: Representative Love

For An Act To Be Entitled

AN ACT TO AMEND THE LAW CONCERNING RETAIL WATER PROVIDERS AND RELATED SERVICE; AND FOR OTHER PURPOSES.

Subtitle

TO AMEND THE LAW CONCERNING RETAIL WATER PROVIDERS AND RELATED SERVICE.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Arkansas Code Title 14, Chapter 234, is amended to add an additional subchapter to read as follows:

Subchapter 8 — Oversight of Retail Water Providers

14-234-801. Findings — Definitions.

(a) The General Assembly finds that:

(1) Oversight of providers in the state is primarily handled by *the Arkansas Natural Resources Commission and the Department of Health;*

(2) The oversight of these providers is spread out and results in the inability of a single state entity to monitor and help initiate necessary changes in public access of water, rate structures, the sustainability of the providers, and the protection of consumer rights;

(3) While local control is important, the current landscape of providers has the potential to create inefficiencies in service and instability in fiscal management;

(4) Combining smaller providers may be necessary in some areas

in order to guarantee dependable and plentiful provision of water and to avoid unsustainable rate increases;

(5) Many providers have an aging workforce, and there is a need for education of the governing bodies of these providers concerning the importance of recruiting and retaining an expert workforce; and

(6) Training of local, state, and federal leaders on issues surrounding provider personnel, finances, compliance, and environmental factors is needed.

(b) As used in this subchapter:

(1) "Commission" means the Arkansas Natural Resources Commission;

(2) "Provider" means any provider of retail water service; and

(3) "Provider board" means the governing body of a provider, whether the governing body is organized as a board, commission, committee, council, or other type of entity.

14-234-802. Fiscal distress — Improvement plans — Rates and rate studies.

(a)(1) For the purposes of this section, a provider is in fiscal distress if the provider:

(A) Fails to obtain a rate study as required under this section;

(B) Fails to implement a completed rate study required under this section; or

(C) Has been found by the commission to be in significant noncompliance with rules of the commission because of inadequate funds for operation and maintenance or inadequate compliance with rules of the commission.

(2) A provider may be found by the commission to be subject to this section if a member of the provider's board does not receive the training required under § 14-234-805.

(b) The commission shall maintain and publish on the commission's website a list of providers in fiscal distress.

(c)(1) A provider shall obtain a rate study on the following schedule:

(A) By July 1, 2024, and every five (5) years thereafter for a provider that serves five hundred (500) or fewer customers;

(B) By July 1, 2025, and every five (5) years thereafter for a provider that serves five hundred one (501) to one thousand (1,000) customers; and

(C) By July 1, 2026, and every five (5) years thereafter for a provider that serves more than one thousand (1,000) customers.

(2)(A) Rates shall adequately address costs for:

(i) Operation and maintenance;

(ii) Debt service;

(iii) Required reserves;

(iv) Depreciation;

(v) Future capital expenses;

(vi) An annual audit or agreed-upon procedures and compilation report; and

(vii) Other expenses as necessary.

(B)(i) The rates recommended in the rate study that is obtained and chosen by the provider shall be implemented by the provider in the manner provided under the applicable law for modifying rates.

(ii) Except as provided in subdivision (c)(2)(B)(iii) of this section, an increase in rates recommended in the rate study shall be implemented within one (1) year of the receipt of the rate study.

(iii) If recommended rates increase the provider's rates by fifty percent (50%) or more from the fiscal year before the rate study was completed, the provider may phase in the rate increase over a two-year period.

(d)(1) The commission shall determine by rule the requirements of the rate study, including without limitation a review of the provider's refurbishment and replacement account and asset management plan.

(2)(A) The rate study shall use as its basis the guidelines of the American Water Works Association and the Water Environment Federation.

(B) The commission shall determine by rule an appropriate entity to provide guidelines for the rate study to use as its basis if guidelines of the American Water Works Association and the Water Environment Federation are unavailable.

(e) A provider shall deposit a minimum of five percent (5%) per annum of gross revenues in a dedicated refurbishment and replacement account within

twelve (12) months of implementation of the rate, unless a different amount is determined by a rate study.

(f)(1) The commission shall maintain an approved list of entities to conduct rate studies required by this section, including without limitation the Arkansas Rural Water Association, professional engineers, certified public accountants, economists, and actuaries.

(2) If a provider chooses an entity to conduct the rate study that is not on the approved list of entities, the entity is required to have conducted at least one (1) rate study in the state in the previous five-year period.

(g)(1) To ensure fiscal soundness, the commission shall consider and approve a new provider with fewer than three hundred (300) customers within the proposed service area only if:

(A) The commission determines that public health or the environment is threatened without the approval of the new provider; or

(B) There is no other viable alternative.

(2) A new provider with fewer than three hundred (300) customers seeking approval shall:

(A) Be organized through a political subdivision, including without limitation an improvement district, a county, or a municipality;

(B) Demonstrate the ability to remain fiscally sustainable; and

(C) Complete a technical, financial, and managerial capacity review conducted by the commission.

(h)(1) A provider that plans to undertake a major development project shall obtain a rate study or amend the provider's existing rate study before beginning the major development project to include consideration of the financial impact of the major development project on the fiscal sustainability of the provider.

(2) As used in this subsection, "major development project" means a project that exceeds twenty percent (20%) of gross revenues of the provider for the immediately preceding fiscal year.

(i) A provider shall file its most recent rate study annually with Arkansas Legislative Audit at the same time the provider files its audit report or agreed-upon procedures and compilation report as required under §

14-234-120.

(j)(1) The commission shall annually identify and notify a provider if the provider is in fiscal distress.

(2) The provider may appeal the finding to the Pulaski County Circuit Court.

(k)(1) A provider found to be in fiscal distress shall file an improvement plan with the commission, including without limitation specific action to be taken to correct financial, technical, and managerial deficiencies, within ninety (90) days of the finding of fiscal distress.

(2)(A) Upon receipt of the improvement plan under this subsection, the commission shall review the improvement plan and:

(i) Approve the improvement plan in whole or in part;

(ii) Modify the improvement plan; or

(iii) Deny the improvement plan.

(B) At the time the commission determines that the provider is no longer in fiscal distress, the commission shall remove the fiscal distress designation and notify the provider.

(l) If a provider is found to be in fiscal distress, the provider shall not receive state financial assistance for water operations until an improvement plan that has been approved by the commission is in place, unless the financial assistance is immediately necessary to ensure preservation of the public peace, health, and safety, as determined by the commission.

(m) If the provider is found to be in fiscal distress, the provider shall obtain written authorization from the commission to:

(1) Incur additional debt;

(2) Accept assistance for the refurbishment or replacement of facilities or construction of facilities not within the provider's improvement plan; or

(3) Transfer assets to another entity.

14-234-803. Workforce recruitment and retention — Education.

A provider shall:

(1) Work with the Association of Arkansas Counties and the Arkansas Municipal League to develop training for leaders of the county or municipality;

(2) Provide suitable compensation and incentives to encourage individuals to consider a career with the provider; and

(3) Promote the recruitment, education, and licensing of employees of the provider.

14-234-804. Municipal providers — Provision of water to nonresident customers — Advisory committee.

(a)(1) If a municipal provider is unable or unwilling to provide service to a nonresident property owner residing in the provider's service area, the commission may require the municipal provider to release the nonresident property owner to a willing provider.

(2) If required by the willing provider, a nonresident property owner may be required to pay the costs of necessary extensions to connect to the willing provider.

(3) A municipal provider shall not release a service area of the municipal provider if the release would invalidate or encumber the issuance or retirement of a bond, promissory note, or certificate of indebtedness related to the service area.

(b)(1) A municipal provider that is willing to provide service to areas outside the municipal boundaries and within its service area shall do so through an application made by the affected property owner or through an agreement executed by the municipal provider and the affected property owner.

(2) If the municipal provider has a prerequisite that the affected property owner annex into the municipal boundaries before providing service, the prerequisite shall be clearly defined in an application or agreement.

(3) Failure to clearly define any annexation requirement within the application or agreement prohibits the municipal provider from requiring annexation in exchange for service for those areas without agreement from the affected property owner.

(c)(1) If a municipal provider services customers outside the municipal boundaries of the municipal provider and the number of those customers outside the municipal boundaries and in unincorporated areas equals or exceeds twenty percent (20%) of the total customer base of the municipal provider, a nonvoting advisory committee to the municipal provider board shall be created by the governing body of the municipality in which the

municipal provider is located.

(2) The makeup and duties of an advisory committee created under subdivision (c)(1) of this section shall be determined by the governing body of the municipality that creates the advisory committee.

(3) Two (2) nonresident customers from the area served outside the municipal boundaries and in unincorporated areas shall serve on the advisory committee.

(d) The commission shall intervene if a municipal provider:

(1) Is prohibited from providing water to potential customers within the municipal provider's service area by the political subdivision under which the municipal provider is organized;

(2) Practices business irresponsibly in relation to consumer rights; or

(3) Is not following best management practices in providing water service.

(e) Except as otherwise provided in this section, a consumer shall not be denied access to service if suitable distribution and collection infrastructure already exists or if the consumer is willing to pay for suitable distribution and collection infrastructure, unless:

(1) A municipal provider has made the decision not to extend service outside the municipal boundaries of the municipal provider;

(2) An engineering, capacity, physical feasibility, or fiscal feasibility issue exists as determined by a professional engineer or certified public accountant; or

(3) A consumer does not submit an application or enter into an agreement under subsection (b) of this section.

14-234-805. Training.

(a)(1)(A) Within one (1) year of election or appointment, a majority of the members of a provider board shall receive a minimum of eight (8) hours of provider training as promulgated by rule of the commission.

(B) A member of a provider board as of January 1, 2021, shall receive the training required under this section by December 31, 2022.

(2) If a majority of the members of a provider board do not receive the training required under this section, the commission may find the provider is subject to § 14-234-802.

(3) This section does not apply to a member of a provider board who has served on the provider board for ten (10) years or more.

(b) The commission shall consult with an advisory training board for the development of the training required under this section, whose members shall include without limitation:

(1) The Secretary of the Department of Health or his or her designee;

(2) The Director of the Arkansas Natural Resources Commission or his or her designee;

(3) The State Director of the United States Department of Agriculture Rural Development in Arkansas or his or her designee;

(4) The Chief Executive Officer of the Arkansas Rural Water Association or his or her designee;

(5) The Executive Director of the Association of Arkansas Counties or his or her designee;

(6) The Executive Director of the Arkansas Municipal League or his or her designee;

(7) The Chief Executive Officer of Central Arkansas Water or his or her designee;

(8) The Chair of the Board of Directors of Communities Unlimited, Inc. or his or her designee;

(9) The Chair of the Arkansas Water Works and Water Environment Association, Inc. or his or her designee;

(10) The Director of the Arkansas Environmental Training Academy or his or her designee;

(11) The Chair of the House Committee on City, County, and Local Affairs;

(12) The Vice Chair of the House Committee on City, County, and Local Affairs;

(13) The Chair of the Senate Committee on City, County, and Local Affairs;

(14) The Vice Chair of the Senate Committee on City, County, and Local Affairs; and

(15) The President of the Arkansas Water and Wastewater Managers Association.

14-234-806. Rules.

The commission shall promulgate rules necessary to implement this subchapter.

14-234-807. Applicability.

This subchapter does not apply to:

(1) A water system regulated by the Arkansas Public Service Commission as a public utility under § 23-1-101(9);

(2) A municipal utility system owned or operated by a municipality that provides electric service to retail customers in addition to water service, including an electric system:

(A) Managed or operated by a nonprofit corporation under § 14-199-701 et seq.; or

(B) Owned or operated by a municipality or by a consolidated utility district under the General Consolidated Public Utility System Improvement District Law, § 14-217-101 et seq.;

(3) A privately owned provider that supplies the majority of its retail water service to nonresidential customers; or

(4) A water system operated jointly between two (2) municipalities in which each municipality is located in a different state.

SECTION 2. TEMPORARY LANGUAGE. DO NOT CODIFY. Rules.

(a) When adopting the initial rules to implement this act, the commission shall file the final rules with the Secretary of State for adoption under § 25-15-204(f):

(1) On or before January 1, 2022; or

(2) If approval under § 10-3-309 has not occurred by January 1, 2022, as soon as practicable after approval under § 10-3-309.

(b) The commission shall file the proposed rules with the Legislative Council under § 10-3-309(c) sufficiently in advance of January 1, 2022, so that the Legislative Council may consider the rules for approval before January 1, 2022.

/s/A. Clark

APPROVED: 4/5/21

State of Arkansas *As Engrossed: H3/20/25 S4/7/25*
95th General Assembly **A Bill**
Regular Session, 2025 HOUSE BILL 1701

By: Representatives Gonzales, L. Johnson
By: Senator G. Stubblefield

For An Act To Be Entitled

AN ACT TO AMEND THE LAW CONCERNING SEWER COLLECTION AND SEWER TREATMENT PROVIDERS AND RELATED SERVICES; AND FOR OTHER PURPOSES.

Subtitle

TO AMEND THE LAW CONCERNING SEWER COLLECTION AND SEWER TREATMENT PROVIDERS AND RELATED SERVICES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Arkansas Code Title 14, Chapter 239, is amended to add an additional subchapter to read as follows:

Subchapter 1 — Oversight of Wastewater and Sewer Retail Providers

14-239-101. Legislative findings.

The General Assembly finds that:

(1) Oversight of providers in the state is primarily handled by the Arkansas Natural Resources Commission and the Division of Environmental Quality;

(2) Wastewater and sewer systems need to have rates that support capital improvement needs; and

(3) It is necessary to improve the operations and infrastructures of wastewater and sewer systems in the state similar to the reform of retail water providers by Acts 2021, No. 605.

14-239-102. Definitions.

As used in this subchapter:

(1) "Provider" means any public or private provider of a sewage collection service or sewage treatment service; and

(2) "Provider's board" means the governing body of a provider, whether the governing body is organized as a board, commission, committee, council, or other type of entity.

14-239-103. Fiscal distress — Improvement plans — Rates and rate studies — Definition.

(a)(1) For the purposes of this section, a provider is in fiscal distress if the provider:

(A) Fails to obtain a rate study as required under this section;

(B) Fails to implement a completed rate study required under this section; or

(C) Has been found by the Arkansas Natural Resources *Commission* to be in significant noncompliance with rules of the commission because of inadequate funds for operation and maintenance or inadequate compliance with rules of the commission.

(2) A provider may be found by *the commission* to be subject to this section if a member of the provider's board does not receive the training required under § 14-239-105.

(b) The commission shall maintain and publish on the commission's website a list of providers in fiscal distress.

(c)(1) A provider shall obtain a rate study on the following schedule:

(A) By July 1, 2028, and every five (5) years thereafter for a provider that serves five hundred (500) or fewer customers;

(B) By July 1, 2029, and every five (5) years thereafter for a provider that serves not less than five hundred one (501) and not more than one thousand (1,000) customers; and

(C) By July 1, 2030, and every five (5) years thereafter for a provider that serves more than one thousand (1,000) customers.

(2)(A) Rates and other revenue dedicated to the support of the provider's wastewater and sewer systems shall adequately address costs for:

(i) Operation and maintenance;

(ii) Debt service;

(iii) Required reserves;

(iv) Depreciation;

(v) Future capital expenses;

(vi) Preparation and publication of an annual financial report as currently required by law; and

(vii) Other expenses as necessary.

(B)(i) The rates recommended in the rate study that is obtained and chosen by the provider shall be implemented by the provider in the manner provided under the applicable law for modifying rates.

(ii) Except as provided in subdivision (c)(2)(B)(iii) and (c)(2)(B)(iv) of this section, an increase in rates recommended in the rate study shall be implemented within one (1) year of the receipt of the rate study.

(iii) Except as provided in subdivision (c)(2)(B)(iv) of this section, if recommended rates increase the provider's rates by fifty percent (50%) or more from the fiscal year before the rate study was completed, the provider may phase in the rate increase over a two-year period.

(iv) If, through the rate study, it is recommended that a series of rate increases be implemented over a period of time that exceeds the periods of time required in subdivisions (c)(2)(B)(ii) and (c)(2)(B)(iii) of this section, the provider may implement the series of rate increases without regard to the limitations of subdivisions (c)(2)(B)(ii) and (c)(2)(B)(iii) of this section, provided that the series of rate increases conform with the recommendations of the rate study.

(d)(1) The commission shall determine by rule the requirements of the rate study, including without limitation a review of the provider's refurbishment and replacement account and asset management plan.

(2)(A) The rate study shall use as its basis the guidelines of the American Water Works Association and the Water Environment Federation.

(B) The commission shall determine by rule an appropriate entity to provide guidelines for the rate study to use as its basis if guidelines of the American Water Works Association and the Water Environment Federation are unavailable.

(e)(1) A provider shall deposit a minimum of five percent (5%) per annum of gross revenues in a dedicated refurbishment and replacement account.

(2) The provider may spend any amount of the provider's cash savings referenced in subdivision (e)(1) of this section at any time for refurbishment and replacement of the provider's *wastewater system* facilities and other real property.

(3) If a different amount to be deposited per annum is determined by a rate study, then the amount determined by the rate study shall be deposited into a dedicated refurbishment and replacement account.

(f)(1) The commission shall maintain an approved list of entities to conduct rate studies required by this section, including without limitation the Arkansas Rural Water Association, professional engineers, certified public accountants, economists, and actuaries.

(2) If a provider chooses an entity to conduct the rate study that is not on the approved list of entities, the entity shall have conducted at least one (1) rate study in the state in the previous five-year period.

(g)(1) To ensure fiscal soundness, the commission shall consider and approve a new provider with fewer than three hundred (300) customers within the proposed service area only if:

(A) The commission determines that public health or the environment is threatened without the approval of the new provider; or

(B) There is no other viable alternative.

(2) A new provider with fewer than three hundred (300) customers seeking approval shall:

(A) Be organized through a political subdivision, including without limitation an improvement district, a county, or a municipality;

(B) Demonstrate the ability to remain fiscally sustainable; and

(C) Complete a technical, financial, and managerial capacity review conducted by the commission.

(h) A provider shall file its most recent rate study annually with Arkansas Legislative Audit at the same time the provider files its audit report or agreed-upon procedures and compilation report as required under § 14-234-120.

(i)(1) The commission shall annually identify and notify a provider if the provider is in fiscal distress.

(2) The provider may appeal the finding to Pulaski County

Circuit Court.

(j)(1) A provider found to be in fiscal distress shall file an improvement plan with *the Division of Environmental Quality and the commission*, including without limitation specific action to be taken to correct financial, technical, and managerial deficiencies, within ninety (90) days of the finding of fiscal distress.

(2)(A) Upon receipt of an improvement plan under this subsection, the *division and the commission* shall review the improvement plan and:

(i) Approve the improvement plan in whole or in part;

(ii) Modify the improvement plan; or

(iii) Deny the improvement plan.

(B) At the time the commission determines that the provider is no longer in fiscal distress, the commission shall remove the fiscal distress designation and notify the provider.

(k) If a provider is found to be in fiscal distress, the provider shall not receive state financial assistance for sewage collection or sewage treatment operations until an improvement plan that has been approved by the commission is in place, unless the financial assistance is immediately necessary to ensure preservation of the public peace, health, and safety, as determined by the commission.

(l) If the provider is found to be in fiscal distress, the provider shall obtain written authorization from the commission to:

(1) Incur additional debt;

(2) Accept assistance for the refurbishment or replacement of facilities or construction of facilities not within the provider's *improvement plan; or*

(3) Transfer assets to another entity.

14-239-104. Workforce recruitment and retention – Education.

A provider shall:

(1) Work with the Association of Arkansas Counties and the Arkansas Municipal League to develop training for leaders of the county or municipality that the provider serves;

(2) Provide suitable compensation and incentives to encourage individuals to consider a career with the provider; and

(3) Promote the recruitment, education, and licensing of employees of the provider.

14-239-105. Training.

(a)(1)(A) Within one (1) year of election or appointment, a majority of the members of a provider's board shall receive a minimum of eight (8) hours of provider training as promulgated by rule of the Arkansas Natural Resources *Commission.*

(B) A member of a provider's board as of January 1, 2025, shall receive the training required under this section by December 31, 2026.

(2) If a majority of the members of a provider's board do not receive the training required under this section, the commission may find the provider is subject to § 14-239-103.

(3) This section does not apply to a member of a provider's board who has served on the provider's board for ten (10) years or more.

(b) The commission shall consult with an advisory training board for the development of the training required under this section, whose members shall include without limitation:

(1) The Secretary of the Department of Health or his or her designee;

(2) The Director of the *Division of Environmental Quality* or his or her designee;

(3) The State Director of the United States Department of Agriculture Rural Development in Arkansas or his or her designee;

(4) The Chief Executive Officer of the Arkansas Rural Water Association or his or her designee;

(5) The Executive Director of the Association of Arkansas Counties or his or her designee;

(6) The President of the Arkansas Municipal League or his or her designee;

(7) The Chair of the Board of Directors of Communities Unlimited, Inc., or his or her designee;

(8) The Chair of the Arkansas Water Works and Water Environment Association, Inc., or his or her designee;

(9) The Director of the Arkansas Environmental Training Academy or his or her designee;

(10) The Chair of the House Committee on City, County, and Local Affairs;

(11) The Vice Chair of the House Committee on City, County, and Local Affairs;

(12) The Chair of the Senate Committee on City, County, and Local Affairs;

(13) The Vice Chair of the Senate Committee on City, County, and Local Affairs; and

(14) The President of the Arkansas Water and Wastewater Managers Association, Inc.

14-239-106. Applicability.

This subchapter does not apply to:

(1) A wastewater system regulated by the Arkansas Public Service Commission as a public utility under § 23-1-101 et seq.;

(2) A municipal utility system owned or operated by a municipality that provides electric service to retail customers in addition to wastewater service, including without limitation an electric system:

(A) Managed or operated by a nonprofit corporation under § 14-199-701 et seq.; or

(B) Owned or operated by a municipality or by a consolidated utility district under the General Consolidated Public Utility System Improvement District Law, § 14-217-101 et seq.;

(3) A privately owned provider that supplies the majority of its wastewater service to nonresidential customers;

(4) A wastewater system operated jointly between two (2) municipalities in which each municipality is located in a different state;

(5) A provider during the time that the provider is subject to a federal court decree or judgment for remediation efforts related to the provider's water system or wastewater system, or both, for the purpose of compliance with federal law; or

(6) An individual homeowner.

14-239-107. Rules.

The Arkansas Natural Resources Commission shall promulgate rules to implement this subchapter.

SECTION 2. TEMPORARY LANGUAGE. DO NOT CODIFY. Rules.

(a) When adopting the initial rules to implement this act, the Arkansas Natural Resources Commission shall file the final rules with the Secretary of State for adoption under § 25-15-204(f):

(1) On or before January 1, 2026; or

(2) If approval under § 10-3-309 has not occurred by January 1, 2026, as soon as practicable after approval under § 10-3-309.

(b) *The commission* shall file the proposed rules with the Legislative Council under § 10-3-309(c) sufficiently in advance of January 1, 2026, so that the Legislative Council may consider the rules for approval before January 1, 2026.

/s/Gonzales

APPROVED: 4/21/25