Cumberland Plateau Water Authority

Merger Analysis — Presentation Package

City of Crossville Merging Into CPWA

Financial Impact Analysis | 6-Year CIP & Debt Plan | FY2026–FY2031

Entity	Revenue	Customers	Long-Term Debt	Equity
CPWA (Surviving Entity)	$9.3M/yr	16,978 water	$0 — Debt Free ★	$39.2M
City of Crossville (Joining)	$14.0M/yr	14,409 water 5,582 sewer	$29.4M	$70.3M
Combined Entity	$23.3M/yr	31,387 water	$29.4M (City only)	$109.5M

Prepared for City Council Discussion

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Section 1 — Purpose & The Four Scenarios

This analysis evaluates the financial implications of merging City of Crossville water and wastewater operations into Cumberland Plateau Water Authority (CPWA), the surviving entity. Four scenarios are modeled over a 6-year horizon (FY2026–FY2031) using the City's audited FY2025 financials and the most recent audited financials for the three entities that have merged into CPWA as the starting point.

Background

- The City of Crossville operates two utility funds: Catoosa Water Fund and Crossville Water/Sewer Fund, with combined FY2025 revenue of $14.0M serving 14,409 water customers and 5,582 sewer customers.
- CPWA is the result of the merger of West Cumberland Utility District (WCUD), South Cumberland Utility District (SCUD), and Crab Orchard Utility District (COUD). It serves 16,978 water customers with $9.3M in annual revenue.
- CPWA carries no long-term debt. All legacy district obligations have been fully retired using cash reserves.
- The City of Crossville faces a $131.2M capital program over 6 years (FY2026–FY2031) driven by water plant improvements, sewer expansion, dam mitigation, and reservoir expansion.

The Core Question

★ Can the City of Crossville execute its $131M capital program independently — and if so, at what cost to customers and financial ratios? Or does merging with CPWA offer a materially better path?

Scenario	Entity	CIP Scope	Key Variable
S1: No Merger / Full CIP	City standalone	$131.2M — all projects	Worst case — maximum rate pressure
S2: Merger / Deferred CIP	CPWA merged	$71.2M — dam/res deferred	RECOMMENDED — best outcomes
S3: No Merger / No Dam+Res	City standalone	$71.2M — dam/res deferred	Middle ground — no merger benefit
S4: Merger / Full CIP	CPWA merged	$131.2M — all projects	Full CIP affordable via merger

Starting Point — CPWA Assumptions

The S2 and S4 scenarios use CPWA planning workbooks to establish the starting point data and combined the City of Crossville 06/30/2025 audited financial statements. Key inputs:

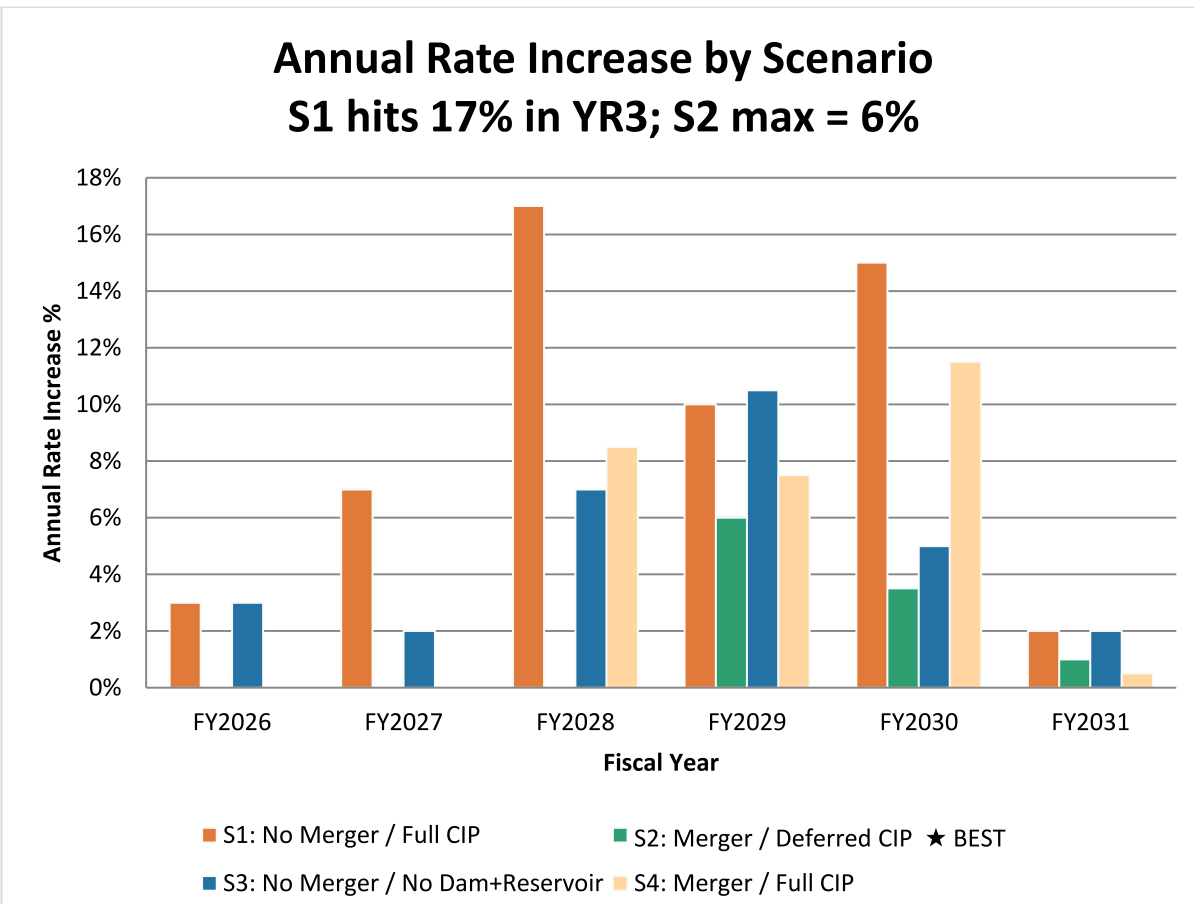
- CPWA YR1 combined operating revenue: $20.39M (CPWA $6.43M + City $13.96M)
- CPWA brings $0 long-term debt to the merger — all legacy district debt fully retired
- Combined entity customer base YR1: 31,387 water customers (growing to 34,662 by YR6 at +480/yr)
- S2 rate increases: 0% / 0% / 0% / 6% / 3.5% / 1% — substantially lower than any standalone scenario
- S4 rate increases: 0% / 0% / 8.5% / 7.5% / 11.5% / 0.5% — full CIP requires higher rates but still reflects the merger advantage

Section 2 — Rate Impact: All Four Scenarios

Customer rate increases are the most visible impact of the capital program. The table below shows annual and cumulative rate increases for all four scenarios, derived directly from the rate assumption inputs in each planning workbook with the objective to maintain a positive change in net position of approximately 200k.

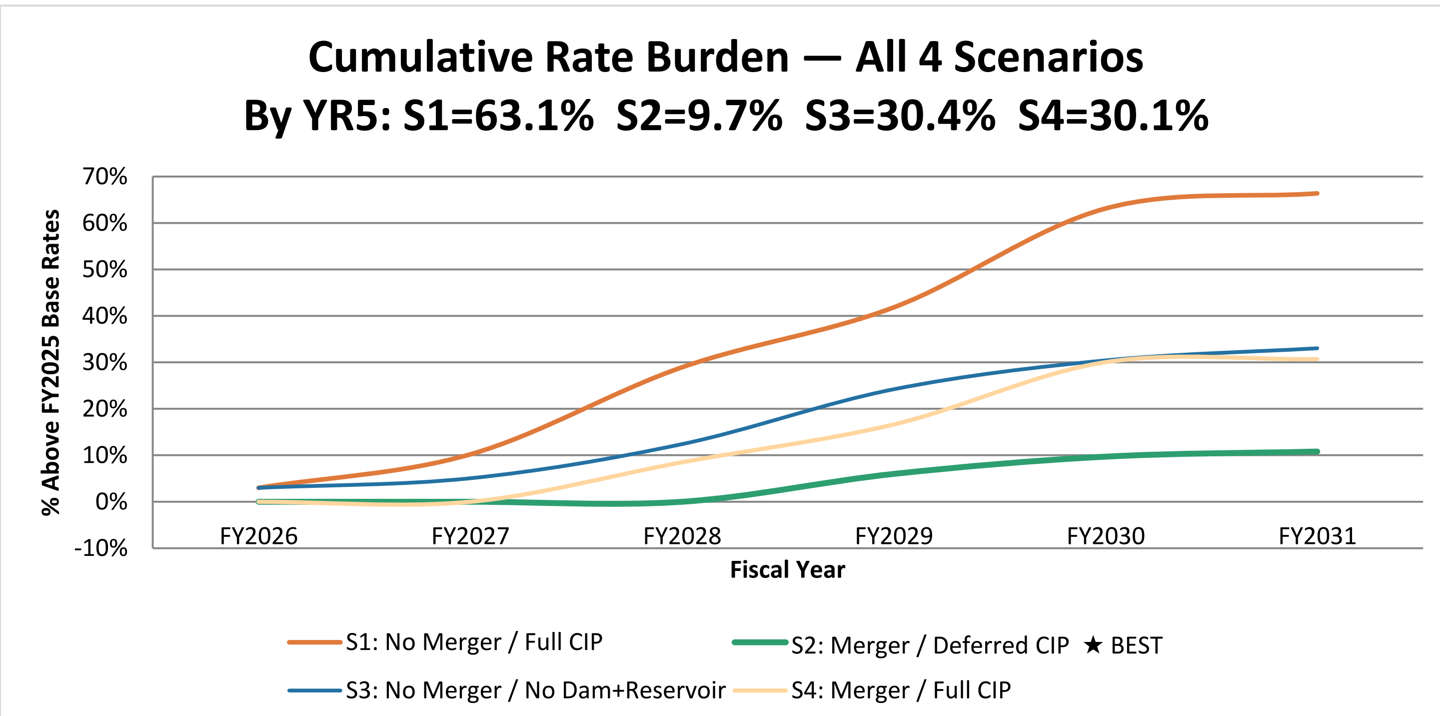
Scenario	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	Cumul. YR5
S1: No Merger / Full CIP	+3.0%	+7.0%	+17.0%	+10.0%	+15.0%	+2.0%	+63.1%
S2: Merger / Deferred CIP	+0.0%	+0.0%	+0.0%	+6.0%	+3.5%	+1.0%	+9.7%
S3: No Merger / No Dam & Reservoir	+3.0%	+2.0%	+7.0%	+10.5%	+5.0%	+2.0%	+30.4%
S4: Merger / Full CIP	+0.0%	+0.0%	+8.5%	+7.5%	+11.5%	+0.5%	+30.1%

★ S2 (Merger / Deferred CIP) requires ZERO rate increases in YR1-YR3, then 6%, 3.5%, and 1% in YR4-YR6. Cumulative YR5 burden = 9.7% vs 63.1% for S1. The merger delivers 53.4 percentage points of rate relief over 5 years.



What the Rate Difference Means for Customers

Scenario	YR1 Rate	Worst Single Year	Cumul. YR5	On $50/mo bill by YR5
S1: No Merger / Full CIP	+3.0%	+17% (YR3) ★	+63.1%	~$31.56/mo extra
S2: Merger / Deferred CIP	+0.0%	+6% (YR4) ★	+9.7%	~$4.86/mo extra
S3: No Merger / No Dam & Reservoir	+3.0%	+10.5% (YR4)	+30.4%	~$15.22/mo extra
S4: Merger / Full CIP	+0.0%	+11.5% (YR5) ★	+30.1%	~$15.03/mo extra



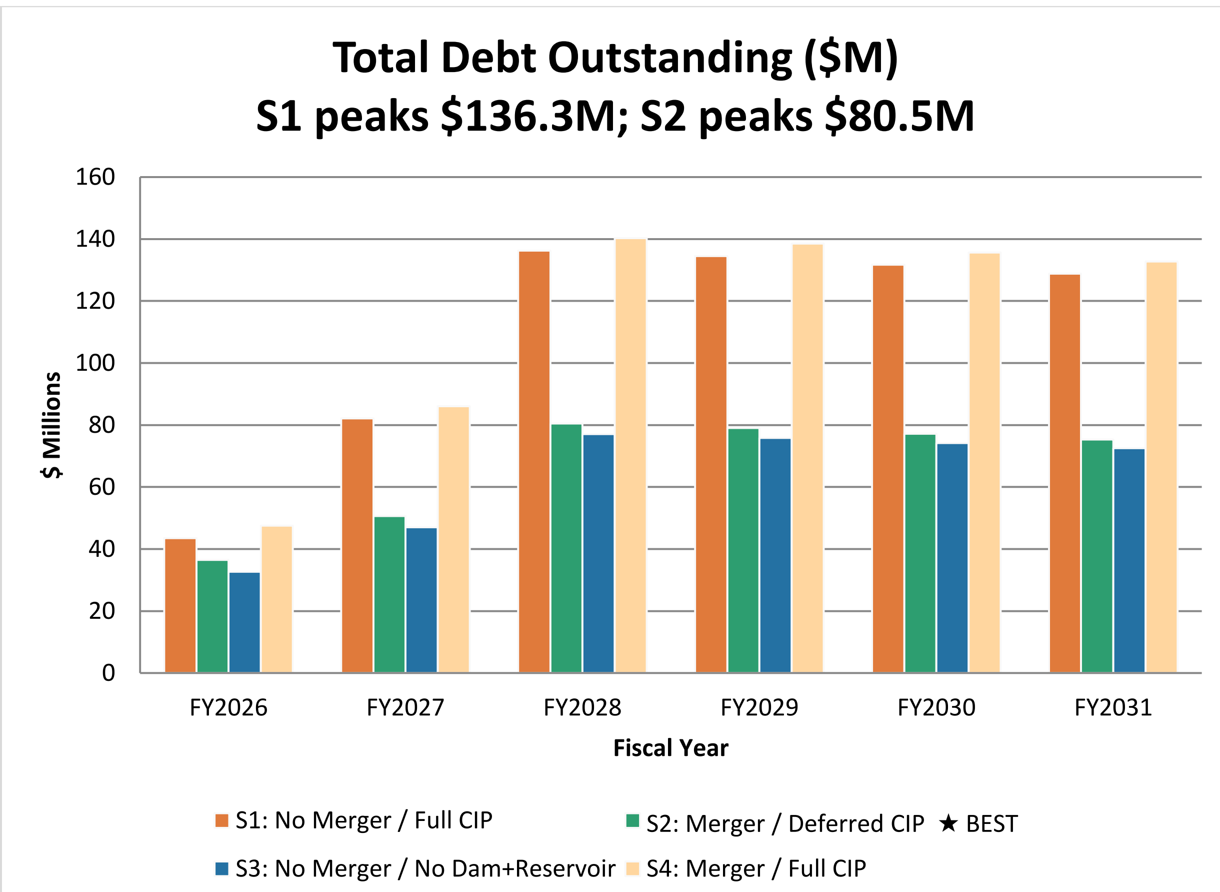
Section 3 — Debt Trajectory

The capital improvement program requires significant new borrowing over the first three years. How that debt is structured — and across how many customers — determines long-term financial health.

3.1 Total Debt Outstanding ($M)

Scenario	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
S1: No Merger / Full CIP	$43.5M	$82.1M	$136.3M	$135.3M	$132.7M	$130.0M
S2: Merger / Deferred CIP	$36.5M	$50.6M	$80.5M	$49.5M	$47.7M	$45.9M
S3: No Merger / No Dam & Reservoir	$32.7M	$47.0M	$77.1M	$75.8M	$74.2M	$72.5M
S4: Merger / Full CIP	$47.5M	$86.1M	$140.3M	$109.1M	$106.3M	$103.4M

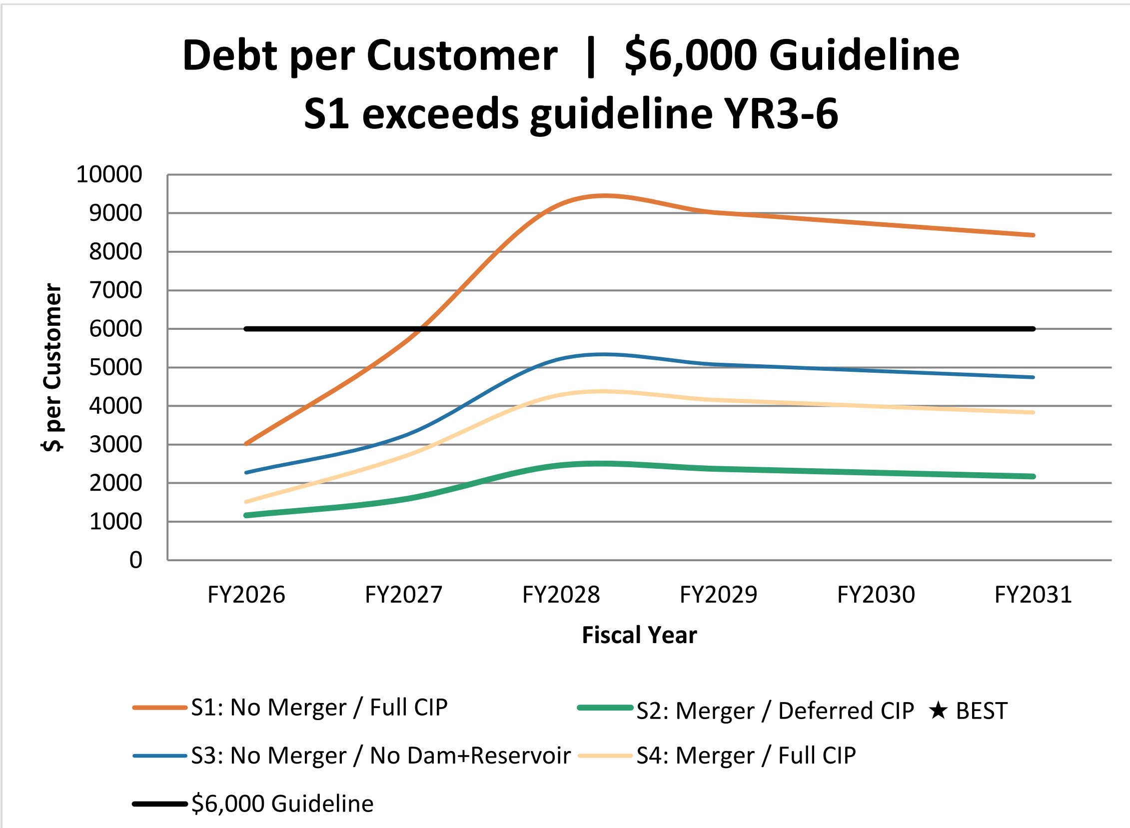
★ S2 peak debt of $80.5M (YR3) is $55.8M less than S1 peak debt because CPWA brings $0 debt and the dam/reservoir is deferred.



3.2 Debt per Customer — $6,000 Maximum Guideline

Scenario	FY2026	FY2027	FY2028 ★	FY2029	FY2030	FY2031
S1: No Merger / Full CIP	$3,035	$5,627	$9,237	$9,062	$8,785	$8,508
S2: Merger / Deferred CIP	$1,163	$1,578	$2,462	$1,476	$1,395	—
S3: No Merger / No Dam & Reservoir	$2,271	$3,222	$5,225	$5,074	$4,909	$4,744
S4: Merger / Full CIP	$1,514	$2,686	$4,291	$3,252	$3,108	—

★ S2 Debt per customer peaks at $2,462 for the combined customers vs $9,237 or 3.75 times that amount if no merger & full CIP.



3.3 New Debt Issued Each Year ($M) — CIP Funding Plan

Scenario	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	Total New Debt
S1: No Merger / Full CIP	$15.2M	$39.7M	$55.7M	—	—	—	$110.6M
S2: Merger / Deferred CIP	$4.2M	$15.2M	$31.2M	—	—	—	$50.6M
S3: No Merger / No Dam & Reservoir	$4.2M	$15.2M	$31.2M	—	—	—	$50.6M
S4: Merger / Full CIP	$15.2M	$39.7M	$55.7M	—	—	—	$110.6M

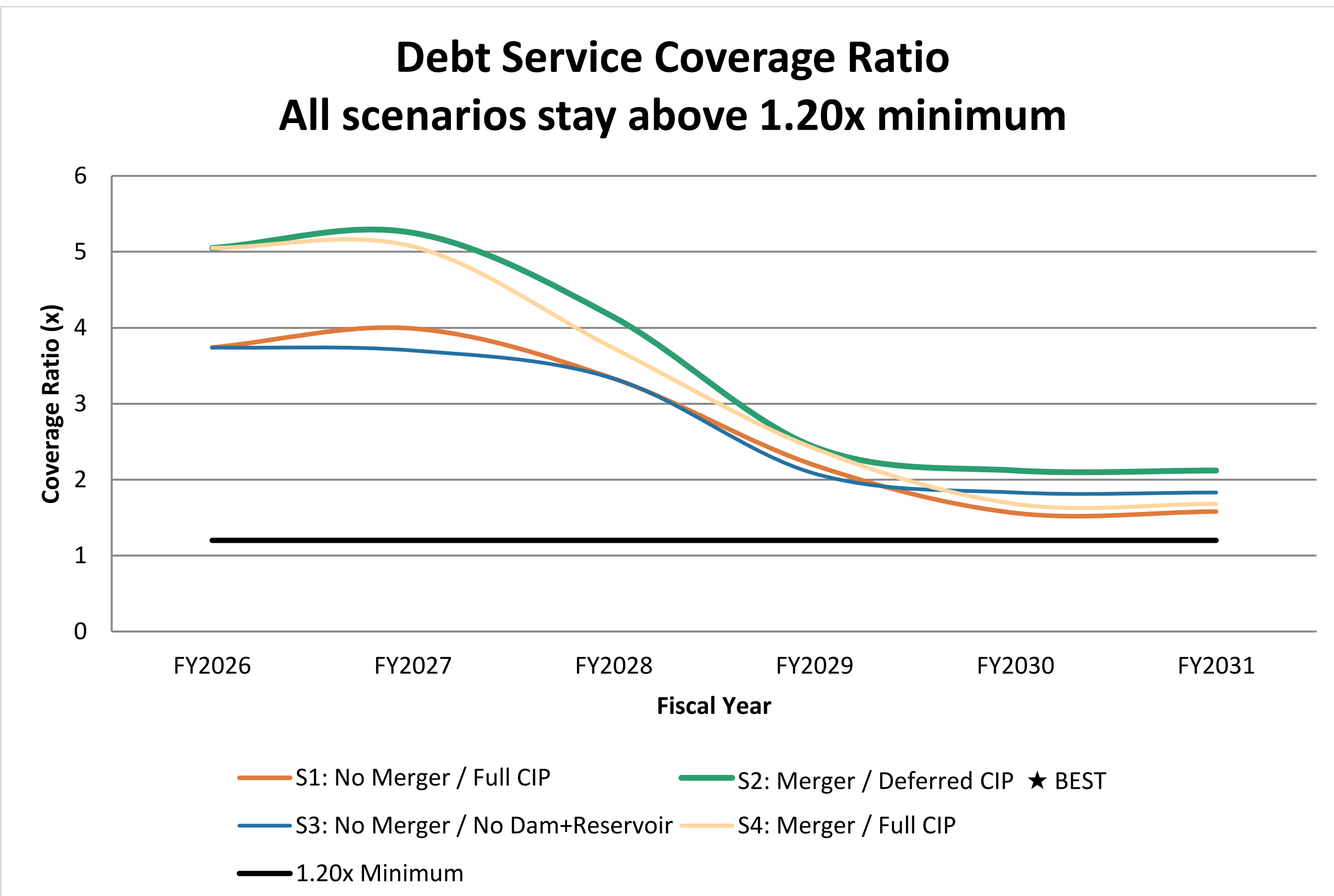
Section 4 — Debt Service Coverage & Financial Ratios

Debt service coverage ratio (DSCR = EBITDA ÷ Total Debt Service) measures the ability to meet debt obligations. Bond covenants and lender requirements typically set a 1.20x minimum. All four scenarios remain above this floor throughout the planning period based on the projected rate increases noted earlier.

DSCR	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
S1: No Merger / Full CIP	3.74x	3.99x	3.33x	2.19x	1.54x	1.56x
S2: Merger / Deferred CIP	5.05x	5.25x	4.14x	2.43x	2.12x	2.12x
S3: No Merger / No Dam & Reservoir	3.74x	3.70x	3.41x	2.08x	1.89x	1.89x
S4: Merger / Full CIP	5.05x	5.07x	3.73x	2.41x	1.68x	1.63x

1.20x Minimum Required — all scenarios remain compliant throughout.

★ S2 best DSCR = 5.25x. S2 worst = 2.12x — still well above minimum versus very slim margin that S1 provides.



Section 5 — What CPWA Brings to the Merger

CPWA is not simply a passive counterpart — it brings specific financial and operational strengths that directly improve the combined entity's financial position regardless of which capital scenario is pursued.

5.1 Clean Balance Sheet — $0 Debt

- CPWA has retired all long-term debt from its constituent districts (WCUD, SCUD, COUD). Total LTD = $0.
- Annual interest savings going forward: approximately $224,000/year previously paid by CPWA entities.
- Combined equity base: $109.5M ($70.3M City + $39.2M CPWA).

★ CPWA brings $39.2M in equity and $0 in debt; a highly desirable position for a merger partner.

5.2 Revenue Base Expansion

- CPWA adds $9.3M in annual operating revenue to the combined entity immediately upon merger.
- Year 1 combined revenue: $23.7M vs. $14.5M standalone — a 63% larger revenue base.
- Larger revenue base supports better DSCR without requiring additional rate increases.
- Combined water customer base: 31,387 vs. 14,409 — 2.2× more customers to share debt burden.

5.3 Capital Deferral — $60M in Projects Not Needed Immediately

- CPWA is actively advancing alternative regional water supply solutions intended to alleviate the near-term need for the Dam Mitigation and Reservoir Expansion projects.
- Progress will be monitored and the capital program timeline adjusted as milestones are achieved.

5.4 Regionalization

- Regionalization is a focus of the Tennessee Comptroller.
- Any grants received directly reduce the capital program's debt requirement — improving all projected financial ratios beyond what this model shows.
- Cost savings from administrative consolidation are NOT included in the financial projections — actual merger performance will exceed the modeled results.

Section 6 — Complete Scenario Scorecard

All four scenarios compared across every key financial metric. Green = better outcome. Red = worst.

Metric	S1: No Merger Full CIP	S2: Merger Deferred CIP ★	S3: No Merger No Dam+Res	S4: Merger Full CIP	Guideline
Peak Annual Rate	+17% ★	+6% ★	+10.5%	+11.5%	Lower = better
Cumulative Rates YR5	+63.1%	+9.7%	+30.4%	+30.1%	Lower = better
Peak Debt	$136.3M	$80.5M	$77.1M	$140.3M	Lower = less risk
Peak Debt/Customer	$9,237 ★ OVER	$2,462	$5,225	$4,291	Max $6,000
Worst DSCR	1.56x (lowest)	2.12x ★	1.83x	1.68x	Min 1.20x
YR1 Revenue Base	$14.3M	$20.4M (+67%) ★	$14.3M	$20.4M (+67%)	More = stronger
Customer Base YR1	14,409	31,387 ★	14,409	31,387 ★	More = better sharing

★ S2 (Merger / Deferred CIP) is the best financial outcome under every metric tested. Zero rate increases YR1-YR3, lowest peak debt, lowest debt per customer, and strongest DSCR throughout.

Section 7 — Conclusion and Recommendation

The financial and strategic case for merger makes financial sense by reducing risk and costs across more customers and providing operational efficiencies that will benefit the region. The four independently-modeled scenarios make that clear. The analysis demonstrates clear benefits under every metric — lower debt, lower rates, stronger coverage ratios, and no new debt obligations from CPWA. The following action item is recommended for placement on the City Council agenda for the meeting of June 9, 2026.

★ A vote to authorize a public referendum on the merger of City of Crossville water and wastewater operations into Cumberland Plateau Water Authority.

This analysis was prepared for City Council discussion purposes. All projections are estimates for planning purposes based on the assumptions described and are subject to change. Sources: Conversations with Nathan Clouse to understand the City's upcoming capital and debt needs, conversations with Jeff Dyer to understand CPWA upcoming capital and debt needs, the Audited Financial Statements for City of Crossville at 06/30/2025, South Cumberland Utility District at 12/31/2024, West Cumberland Utility District at 06/30/2025, Crab Orchard Utility District at 05/26/2025, Cumberland Plateau Water Authority at 06/30/2025, combined with proprietary worksheets and documents developed by Daniel E. Peterson, CPA.