

## THE SANITARY SEWER SYSTEM

KC Water is entrusted with the strategic planning and implementation of wastewater infrastructure, including collection systems, pump stations, and treatment facilities, spanning Kansas City and its adjacent areas. The organization assumes responsibility for the ongoing operation and maintenance of all wastewater facilities, ensuring compliance with municipal wastewater discharge permits in alignment with state and federal environmental regulations. Additionally, it oversees an industrial wastewater treatment program, regulating the quality of wastewater from specific industrial and commercial sites.

The Kansas City Sanitary Sewer System, encompassing approximately 320 square miles, delivers wastewater collection and treatment services to approximately 172,000 customers within the city and thousands more customers are provided service through retail agreements and contractual arrangements with 27 neighboring communities and sewage districts. KC Water manages an extensive network, maintaining around 2,300 miles of sanitary sewers, approximately 600 miles of combined sewers, 39 wastewater pumping stations, 15 flood pumping stations, 3 effluent pumping stations, and 6 wastewater treatment plants. The combined sewers play a crucial role in transporting both sanitary and stormwater flows during rainfall events across an area of approximately 58 square miles south of the Missouri River. All wastewater reaching the city's treatment plants undergoes secondary treatment to adhere to federal and state environmental regulations, ensuring compliance with specified limits for organic and inorganic constituents to achieve water quality.

Biosolids, the stabilized by-products resulting from wastewater treatment, constitute approximately half of the production and are utilized in land application at a City-owned facility for the cultivation of non-food agricultural products. The remaining biosolids are made available to agricultural landowners. These practices adhere to the United States Environmental Protection Agency's (EPA) treatment and pollutant content criteria (40 CFR Part 503.13), enabling safe recycling and application as a soil amendment. This sustainable approach serves to enhance and maintain productive soils, promoting plant growth. Biosolids, acting as a natural fertilizer, contribute to improving land quality for agriculture, with the harvested crops, such as soybeans and corn, often utilized as sources of alternative energy, specifically biodiesel and ethanol.

The wastewater treatment plants operated by the City are summarized in the following table:

### ***Existing Wastewater Treatment Facilities***

Treatment Facility	Approximate First Year of Operation	Current Design Capacity (mgd)	Average Flow(mgd) <sup>(a)</sup>
Blue River <sup>(b)</sup>	1964/1985	105.00	53.11
Westside <sup>(c)</sup>	1977	22.50	14.68
Birmingham <sup>(c)</sup>	1977	20.00	6.92
Todd Creek <sup>(c)</sup>	1999	3.40	2.07
Fishing River <sup>(c)</sup>	2000	2.00	1.12
Rocky Branch <sup>(c)</sup>	2005	2.80	0.53
<b>TOTAL</b>		<b>155.70</b>	<b>78.43</b>

(a) Average flow for fiscal year 2025 in mgd – million gallons per day

(b) Secondary treatment provided by trickling filters.

(c) These facilities provide secondary treatment using an activated sludge treatment process.

The following table shows revenues generated by customer class for the Sanitary Sewer System over the past five years.

### *Sanitary Sewer Revenues*

	2021	2022	2023	2024	2025
Residential*	\$ 101,305,387	\$ 115,115,447	\$ 110,063,896	\$ 117,592,508	\$ 126,706,595
Commercial/Industrial**	\$ 88,610,557	\$ 100,048,388	\$ 110,510,794	\$ 119,231,848	\$ 126,670,327
Inter-jurisdictional	\$ 46,891,933	\$ 43,241,268	\$ 33,614,745	\$ 34,407,435	\$ 32,643,175
Other Operating Revenue	\$ 6,099,567	\$ 5,603,003	\$ 4,614,769	\$ 5,755,755	\$ 5,098,189
Total Revenue***	\$ 242,907,444	\$ 264,008,106	\$ 258,804,204	\$ 276,887,546	\$ 291,118,285

\*Residential revenue is net of bad debt, but includes duplicate payments & refunds, returned checks & ACH chargebacks.

\*\*Commercial revenues include septic tank dump charges.

\*\*\*Total Revenue excludes interest income which can be found in the Statement of Revenues, Expenses and Charges in Fund Net Position in the annual audit.

The following table shows the number of retail and wholesale Sanitary Sewer System customers over the past five years.

### *Number of Sanitary Sewer Customers*

	2021	2022	2023	2024	2025
Residential	152,669	153,354	154,073	154,624	155,215
Commercial/Industrial	16,873	16,899	16,902	16,964	17,012
Wholesale/Inter-jurisdictional*	27	27	27	27	27
Total Revenue	169,569	170,280	171,002	171,615	172,254

\*Includes 20 inter-jurisdictional provided on a wholesale basis, 6 on a retail basis and 1 that provides services to Kansas City.

## Management Initiatives

KC Water stands as one of the nation's largest public water and wastewater utilities, having undergone a transformation in the past several years by enhancing its focus on employees, customers, and value within the organization. The KC Water management team continues to work to streamline processes and remove overhead. These efforts are helping the utilities better align with their core mission of investing in the future of the water and wastewater systems to provide high quality products and services and an excellent customer experience.

To assess the impact of management's efforts and community expectations, KC Water conducts quarterly customer satisfaction surveys. Currently the utility is actively engaged in:

- Infrastructure Modernization: Leveraging technologies such as smart metering, sensors, data analytics, SCADA systems, GIS, remote sensing, and mobile technologies to optimize resource utilization and minimize environmental impact. This includes the incorporation of pressure monitoring sensors and an outage map in modernization efforts. These new technologies aid in our desire to cost-effectively manage the assets that provide industry standard services our customers expect.
- Sustainability and Environmental Stewardship: Prioritizing sustainability by implementing innovative and eco-friendly practices that exceed regulatory standards, including energy-efficient technologies, water conservation programs, and measures that reduce our carbon footprint. Several of these practices have the benefit of providing operational enhancements as well.
- Resilience Planning: Developing robust contingency plans and emergency response strategies to ensure uninterrupted service delivery. This involves critical infrastructure analysis, risk assessment utilizing

total risk scores, redundancy and diversity measures, and ongoing infrastructure upgrades through a 5-year Capital Improvement Plan (CIP) for the water and wastewater systems. Some of the ongoing wastewater capital projects include an upgrade to our SCADA system.

- *Community Engagement and Outreach:* Cultivating robust connections with communities, KC Water has spearheaded numerous initiatives. This includes visiting schools and classrooms throughout the service area where educational programs are conducted to enlighten and engage students in water conservation efforts, environmental stewardship, and sustainable water and wastewater management practices. Additionally, KC Water actively hosts tours to its water and wastewater treatment facilities, providing the public with valuable insights into the crucial processes that contribute to a responsible and sustainable water and wastewater infrastructure. These efforts underscore KC Water's commitment to fostering awareness and collaboration for the betterment of wastewater-related initiatives.
- *Financial Transparency and Accountability:* Implementing rigorous financial reporting and auditing practices to ensure transparency and accountability in capital and operating plans, which in turn, demonstrates how the utilities are optimizing costs without compromising service quality.
- *Innovation and Technology Adoption:* Leveraging technology such as PowerBI to extract data from the utilities systems and enabling real-time insights into ongoing preventative maintenance and repair of operations. The utilities dedication to progress and adoption of technology has enabled the integration of innovative solutions such as smart metering, data analytics, and predictive maintenance systems. These advancements not only enhance operational efficiency but also contribute to substantial long-term cost savings.
- *Employee Development and Training:* Evaluating existing employee training to improve consistency in response to customer concerns as it relates to asset repair and replacement. This includes the development of training associated with industry-standard processes to guarantee the safety and efficiency of the workforce as well as improved focus on the reliability of system assets.

## **Anticipated Future Revenue Bond Financings**

At an election held on April 5, 2022, 79% of the qualified voters of the City authorized an additional \$750 million principal amount of Sanitary Sewer system revenue bonds for the purpose of rehabilitating, improving and extending the Sanitary Sewer System of the City. Prior to that election, the City had previously issued all \$500 million of Sanitary Sewer system revenue bonds authorized by voters at the 2012 election. Under Missouri law, in order for the City to issue additional Sanitary Sewer revenue bonds to finance Sanitary Sewer capital improvements, the City had to call an election at which at least a majority of the qualified voters of the City had to vote on the question to approve the issuance of additional Sanitary Sewer system revenue bonds for the purpose of financing Sanitary Sewer System capital improvements. This new Sanitary Sewer revenue bond authorization measure passed with a large majority of voters. The City sold its first sewer revenue bond issue against this authorization in January 2023 and sold its second sewer revenue bond issue against this authorization in January 2024. There is currently \$554 million left in sewer revenue bond authorization and the City anticipates issuing this remaining authorization in multiple series over the next 3 years as deemed appropriate in accordance with the City's Capital Improvement Program for the Sanitary Sewer System.

## **Qualifications for National Association of Clean Water Agencies Peak Performance Awards**

The following table shows the NACWA performance awards received by KC Water for the calendar years 2020 to 2024. 2025 awards have not been determined as of the publishing of this report.

## National Association of Clean Water Agencies Peak Performance Awards

Facility	2020	2021	2022	2023	2024
Blue River				Silver	Silver
Birmingham	Gold	Gold	Gold	Platinum	Silver
Fishing River	Platinum	Platinum	Platinum	Silver	Gold
Rocky Branch	Platinum	Platinum	Platinum	Silver	Gold
Todd Creek	Silver	Gold	Silver		Gold
Westside			Silver	Gold	Silver

Platinum = Five consecutive Gold Awards.

Gold = No National Pollutant Discharge Elimination System (NPDES) exceedances in the year.

Silver = Five or less NPDES exceedances in the year.

Blank cell = No award was received for the associated year.

Source: [https://www.nacwa.org/index.php?option=com\\_content&view=article&id=1030&Itemid=63](https://www.nacwa.org/index.php?option=com_content&view=article&id=1030&Itemid=63)

Note: 2025 Awards have not yet been determined.

## Security of the System

KC Water continues to evaluate and address Sanitary Sewer System security matters in accordance with requirements of the EPA and other applicable federal regulations.

## Capital Improvement Program

KC Water has developed the Capital Improvement Program (“CIP”), which is intended to maintain and expand the Sanitary Sewer System’s capability of collecting and treating wastewater in a manner that meets or exceeds existing and anticipated federal and state water quality standards. This plan is updated on a yearly basis. KC Water’s Engineering Division has engaged in planning a multi-phase Wastewater System Master Plan that analyzes the performance, condition, hydraulic capacities, and improvements needed within the utility’s existing wastewater system to meet current and projected future needs.

## City of Kansas City Missouri Overflow Control Program

In 2003, the City Council directed the City Manager to prepare a long-range plan to manage wet weather flow in both the separate and combined sewer systems within the city. In response, KC Water prepared an Overflow Control Plan (the “Plan”). Creation of the Plan was driven by requirements of the federal Clean Water Act and by policies of the EPA and the Missouri Department of Natural Resources (“MDNR”) related to sewer infrastructure. The Plan is structured to prevent as much stormwater as practicable from entering both the combined and separate sewer systems to reduce sewer overflows and provide a platform to facilitate implementation of a comprehensive green solutions initiative in the City.

The program to implement the City’s Plan, called the Smart Sewer Program, was developed to meet regulatory requirements related to reducing wet-weather overflows from the stormwater system and preventing overflows from the separate Sanitary Sewer System. The City and its regulatory partners originally agreed to meet those objectives over a 25-year time period by completing a planned list of improvements targeted at capturing for treatment 88 percent of combined sewer flows, and eliminating sanitary sewer overflows during a five-year, twenty-four hour rainfall event. Individual elements of the City’s Overflow Control Program (OCP) became part of an enforceable document on September 27, 2010, with the entry of a Consent Decree in United States District Court for the Western District of Missouri (the “Original Consent Decree,” as subsequently amended by the First Amended Consent Decree on January 9, 2015, by the Second Amended Consent Decree on November 9, 2017,

and by the Third Amended Consent Decree on March 3, 2021, collectively , the “Consent Decree”). To date, the City has fulfilled all requirements set forth in the Consent Decree.

Beginning in 2013, KC Water and its OCP team members worked with the EPA to modify specific components of the control measure implementation schedule to allow sufficient time for the City to better determine the sizing of any necessary infrastructure investments for control of sewer overflows in the Blue River South Basin prior to initiating construction. The EPA approved these changes in the fall of 2014 and the Court approved an amended Consent Decree on January 9, 2015. The modifications also resulted in the strategic advancement of several other projects that were intended to reduce the frequency of overflow events in the combined sewer system and to reduce the amount of excessive inflow and infiltration into the City’s separate Sanitary Sewer System. Subsequently, in 2016 KC Water approached the EPA to modify the scope and timing of six control measures required by the Consent Decree (as amended) to enhance the efficient deployment of funding and personnel, adjust construction sequencing, to modify facility sizing, and to leverage opportunities to simultaneously improve and protect other City infrastructure (drinking water infrastructure and storm sewers). The EPA approved these changes in the Fall of 2017, and the Court approved a second amended Consent Decree in January 2018.

On January 15, 2021, the Department of Justice lodged a proposed Third Amended Consent Decree with the Court. Under the proposed Third Amended Consent Decree, the City has agreed to achieve a series of interim overflow reductions culminating in achievement of at least 85 percent reduction of overflow volume no later than December 31, 2040. The interim milestones require capture of specified percentages of overflows and implementation of specified control measures by December 31, 2024, December 31, 2030, and December 31, 2035. In addition, the Third Amended Consent Decree incorporates adaptive management concepts intended to allow the parties expeditiously to agree upon reordering of substitution of projects in a manner that does not impact achievement of interim or final flow capture requirements. The Court approved the Third Amended Consent Decree on March 3, 2021. In pursuit of any future modifications to the Consent Decree, the City will prioritize amendments that are designed to ensure the continued sustainability of the OCP implementation and to meet other compliance obligations.

The current estimated capital cost of this control plan through the year 2035 is projected to be approximately \$2.3 billion (adjusted for inflation) and \$3.8 billion (adjusted for inflation) through the year 2040 at the end of the 30-year period. In addition, there is expected to be an approximately \$30 million increase in annual expenditure for operation and maintenance related to the Plan. It is anticipated that the Plan will be funded primarily from the City’s sewer fund, which is separate from the City’s general fund. The City does not anticipate that the City’s general fund will be relied upon to assist in the financing of the Plan. As implementation of the Plan continues, specific financing strategies to offset the cost will be evaluated and implemented, which could include appropriation of monies from the City’s general fund.

The City has met all deadlines and requirements of our Federal Consent Decree with the Environmental Protection Agency including completing 79 projects with 30 more projects currently underway. The program is on budget and on schedule to be completed by 2040.

The consent decree can be found at:

<https://www.epa.gov/enforcement/consent-decree-city-kansas-city-missouri>.

## **Regulatory Requirements**

### General

KC Water’s Sanitary and Combined Sewer System operations are subject to regulatory requirements. Chiefly, the sewer system is regulated pursuant to the authorities contained in the Federal Water Pollution Control Act, as amended (commonly referred to as the “Clean Water Act”) and the Federal Air Pollution Prevention and Control Act, as amended (commonly referred to as the “Clean Air Act”). These regulatory requirements are administered cooperatively by the EPA and the State of Missouri, through the state’s delegated agency, the Missouri Department

of Natural Resources (“MDNR”). The regulations govern the collection and treatment of wastewater discharged into the collection system, including but not limited to, the management of overflows from the combined (sanitary/storm) sewer system, the quality of effluent discharged from the wastewater treatment facilities into receiving streams, the quality of air emissions, and the use or disposal of residual solids generated by the wastewater treatment plants. As a condition of having received federal EPA grant funds under the Clean Water Act for planning, design, and construction of various wastewater projects, the utility is subject to additional requirements. Among the grant-related requirements are guidelines that must be followed concerning planning methodologies, design criteria, procurement, construction activities, and financing of facilities.

To comply with mandated effluent quality and disposal criteria, the Utility must operate its wastewater treatment facilities according to discharge limitations and reporting requirements set forth in National Pollutant Discharge Elimination System (“NPDES”) discharge permits issued by MDNR. While occasionally the Utility’s wastewater treatment plants (“WWTP”) experience incidences of noncompliance, all of the WWTPs consistently meet or exceed the requirements of their individual NPDES permits.

To comply with other federal regulations concerning the discharge of waste materials into the combined and sanitary sewer systems, the Utility must administer and enforce industrial pretreatment standards upon identified users of the system. The Utility has been approved by MDNR to administer its own industrial pretreatment program. In addition, any other authority contributing wastewater to the Utility’s wastewater collection and treatment system is required by an inter-jurisdictional agreement to either (i) permit and monitor all industries within its respective service area, or (ii) allow KC Water to do so.

In addition to KC Water’s compliance with all federal laws and regulations, it must comply with all applicable State laws and regulations. The primary State laws concerned with the control of wastewater operations are the Missouri Clean Water Law, Chapter 644, RSMo, and corresponding regulations, and the Missouri Air Conservation Law, Chapter 643, RSMo, along with corresponding regulations.

### Evolving Regulations

As described above, Kansas City is subject to a Consent Decree mandating certain injunctive measures intended to reduce or eliminate sewerage overflows from its sewer system. In addition to the Plan, the Consent Decree provides for the resolution of past Clean Water Act violations, and the imposition of a penalty and the provision for a Supplemental Environmental Project. The Consent Decree was entered by the United States District Court for the Western District of Missouri on September 27, 2010, amended first in January 2015, amended a second time in January 2018, and most recently amended in January 2021 by the Third Amended Consent Decree which was approved by the Court on March 3, 2021. While the Plan in its current form complies with current EPA and MDNR regulations, it is possible that new EPA or MDNR regulations or changes in permitting may require additional improvements which could result in additional expenses to the Sanitary or Combined Sewer System.

### **Largest Users of the System**

The following table sets forth the ten largest users of the City’s Sanitary Sewer System and the percentage of total wastewater service charges for Fiscal Year 2025. These customers represent just under 14% of total wastewater revenues.

<u>User</u>	<u>Approximate Percentage of Total Wastewater Revenue</u>
Johnson County, KS	4.2%
North Kansas City, MO	2.2%
Gladstone, MO	2.1%
Vicinity Energy – KC	1.8%
Ford Motor Company	1.2%

Roberts Dairy	0.5%
Raytown, MO	0.5%
Cargill	0.5%
Independence, MO	0.4%
St. Luke's Hospital	0.4%

Approximately 87% of the sewer service charge revenues of KC Water are derived from charges for retail service provided to customers located inside the City limits. Additionally, 1% of the sewer service charge revenues are billed directly by KC Water on a retail basis outside of the City limits. The remaining sewer service charge revenues are for collection, transport, and treatment services provided on a wholesale basis under inter-jurisdictional agreements with 27 surrounding cities and sewer districts. The rates charged to each of the wholesale customers are based on a flat rate house count, commercial customer count with water usage, or metered sewer flow. The rates for each agreement are established in the sewer rate ordinance or as set out in individual agreements. These rates are reviewed annually but can be changed by the City Council at any time.

### **Billing Procedures and Collections**

Wastewater rates are reviewed annually by the City to determine if rate adjustments are required. Charges are based on the estimated volume of wastewater discharged into the Sanitary Sewer System or by actual measurement for certain inter-jurisdictional customers. Billable wastewater volume charges for one- and two-family dwellings are based on water used during the winter period, which is defined as the billing periods most closely corresponding to the months of January through April. Billed wastewater volume for all other customers is equal to actual metered water usage less any approved exemption allowances for water that does not enter the Sanitary Sewer System. In addition, all customers pay a monthly service charge. Commercial and industrial users that discharge wastewater having a high biochemical oxygen demand, high concentrations of suspended solids, or oil and grease pay additional charges to recover the added costs required.

Charges for wastewater collection and treatment services are combined on a single bill with applicable water and stormwater charges. A past due payment service charge of 6% of the unpaid delinquent balance is applied to all metered water service, sanitary sewer service and stormwater fee bills remaining unpaid after the delinquent date. Water and wastewater services are subject to termination without further notice if a bill remains unpaid 20 days after the delinquent date. For one- and two-family dwellings, unpaid charges may become a lien on the property if the account is three or more months delinquent or the total amount of the delinquency is \$500 or more. For all other property classifications, unpaid charges may become a lien on the property if the account is three or more months delinquent or the total amount of the delinquency is \$1,000 or more.

The table below reflects the bad debt percentage history for the City's Sanitary Sewer System as of the end of each of the City's Fiscal Years ended April 30, 2021, through April 30, 2025, which represents the amount of wastewater service charge revenue that the City has determined is uncollectible.

### Rate of Delinquent Bad Debt

<u>FY Ended April 30</u>	<u>Delinquency Percentage</u>
2025	1.2%
2024	1.9%
2023	1.7%
2022	0.3%
2021	2.7%

### **Rate Structure**

In 1972, the City adopted a policy of annually reviewing the adequacy of its wastewater rates and adjusting them as required. Wastewater rates are developed for retail and interjurisdictional contract customers by determining the total costs of service and service requirements. On March 20, 2025, the City Council approved Committee Substitute for Ordinance No. 250172, which established sewer rates effective as of May 1, 2025 (Fiscal Year 2026), and represented an approximate 6.0% sewer rate increase over the City's previous sewer rates for Fiscal Year 2025. Rate increases over the past five years have occurred each May 1st and have averaged 6%. Rate increases implemented at the beginning of each fiscal year from FY 2022 to FY 2026 are shown in the table below:

<u>FY</u>	<u>% of Rate Increase</u>
2026	6.0%
2025	6.0%
2024	6.0%
2023	6.0%
2022	6.0%

On March 20, 2025, the City Council approved Ordinance No. 250172 which established the following wastewater rates effective May 1, 2025:

Inside City Rates	
Monthly Service Charge	\$30.21 per month
Volume Charge	\$12.20 per hundred cubic feet
Excess Strength Surcharges	
Biochemical Oxygen Demand Over 250 mg/l	\$0.571 per pound
Suspended Solids Over 250 mg/l	\$0.277 per pound
Oil & Grease Over 30 mg/l	\$0.280 per pound
Outside City Rates	
Metered Wastewater Connections	
Volume Charge	\$4.35 per hundred cubic feet
Unmetered Connections with Water Records	
Monthly Service Charge	\$19.27 per bill
Volume Charge	\$6.60 per hundred cubic feet
Unmetered Connections without Water Records	
Monthly Service Charge	\$65.00 per month
Individual Customers Billed Directly by the City	
Monthly Service Charge	\$42.55 per bill
Volume Charge	\$16.20 per hundred cubic feet
Excess Strength Surcharges	
Biochemical Oxygen Demand Over 250 mg/l	\$0.648 per pound
Suspended Solids Over 250 mg/l	\$0.301 per pound
Oil & Grease Over 30 mg/l	\$0.295 per pound

Any change in rates requires City Council approval, though the City is not required to adjust rates annually. The City makes no representation as to whether (i) a rate increase will be approved in any future Fiscal Year, or, (ii) if a rate increase is approved in any Fiscal Year, the nature and extent of any such rate increase or changes in customer base and resulting revenues. Nevertheless, the City's debt service coverage requirement will be maintained. The most recent wastewater rate schedule above went into effect on May 1, 2025, for Fiscal Year 2026.

Stormwater charges are based on the impervious area of each property within the City. Stormwater revenues are not available to pay debt service on any Parity Bonds (defined in the various bond ordinances).

## **Sanitary Sewer System Financial Information and Coverage Statement**

### Operating Revenues and Expenses

Approximately 87% of KC Water's sanitary sewer service charge revenues are derived from charges for retail service provided to customers located inside the city limits and approximately 1% of the sewer service charge revenues of the Sanitary Sewer System are derived from charges for retail service provided to customers located outside the City limits. The remaining 12% of sewer service charge revenues are for collection, transport, and treatment services provided on a wholesale basis under inter-jurisdictional agreements with 27 surrounding cities and sewer districts. The total number of retail customers in Fiscal Year 2025 is approximately 172,000.

Annual operation and maintenance expenses of the Sanitary Sewer System are shown in the "Debt Service Coverage" table at the end of this document. These expenses consist of sewage treatment and pumping, wastewater collection system maintenance, administrative and general, and hazardous waste control. The wastewater utility's total operation and maintenance expenses for the recent historical five-year period are as follows:

<u>FY</u>	<u>Expenses</u>
2021	\$101,780,194
2022	\$106,890,554
2023	\$108,625,579
2024	\$113,199,833
2025	\$123,042,431

On August 14, 2008, the City Council adopted KC Water's Statement of Policy for Operating and Renewal and Replacement Reserves (Reserve Policy). The Reserve Policy establishes target reserve levels for operating and renewal and replacement reserves, establishes annual contribution levels, and provides for the annual review and modification of the reserve targets and funding requirements. Reserve targets established for the Sanitary Sewer System are as follows:

- Operating reserves have been established in an amount equal to 20 percent of budgeted annual operating and maintenance expenses, plus budgeted administrative fees; and
- A renewal and replacement reserve has been established in an amount equal to the prior year's annual depreciation. Minimum annual contributions of \$1,000,000 shall be budgeted and transferred until the required amount is established. Once the required funding level is met, annual contributions may be adjusted to amounts consistent with growth in annual depreciation. To the extent that balances are drawn down and used to fund emergency capital replacements or for other authorized purposes, annual contributions shall resume until the required funding level is met.

As of the end of FY2025, KC Water's Renewal and Replacement Reserves for the sanitary sewer utility remain fully funded at \$41,000,000.

### **Accounting, Budgeting and Auditing Procedures**

KC Water is an enterprise activity whose financial records are audited annually and reported in conformity with generally accepted accounting principles for government owned wastewater utilities. KC Water operates the Sanitary Sewer System on the accrual method of accounting, where revenues are recorded when earned and expenses are recorded when incurred. An annual budget of estimated receipts and disbursements for the coming Fiscal Year is prepared by the Director of KC Water, under the direction of the City Manager, and is presented to the City Council every year in March for approval after a public hearing. The Fiscal Year of the Sanitary Sewer System is May 1 through April 30. The budget lists estimated receipts by funds and sources, estimated disbursements by funds and purposes, and includes a statement of the rates required to raise each amount shown on the budget as coming from Sanitary Sewer System revenues.

The financial records of the Sanitary Sewer System are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. The annual audit is performed by Allen, Gibbs & Houlik, LC, Wichita, Kansas ("AGH"). The City did not ask AGH to perform any additional work or any post-audit procedures more recently than the April 30, 2025, audit with respect thereto. Copies of the audit reports for the past five years are on file in the Director's Office of KC Water and are available for review.

### **Financial Statements**

The tables on the following pages provide the Sanitary Sewer Fund's statement of net position, statement of revenues, expenses and change in fund net position, and debt coverage table for the Fiscal Years ended April 30,

2021, through April 30, 2025. The City did not ask AGH, LC, to perform any additional work or any post-audit procedures more recently than the April 30, 2025 audit with respect thereto.

**KC Water - Sewer Fund**  
**Statement of Net Position**  
**Audited Fiscal Years ending April 30, 2021-2025**

<b>Assets</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 6,095,784	\$ 17,426,933	\$ 23,231,287	\$ 34,773,856	\$ 27,204,916
Investments	\$ 30,473,256	\$ 14,361,782	\$ 19,508,192	\$ 24,923,503	\$ 10,670,269
Accounts receivable, net	\$ 39,765,214	\$ 40,477,356	\$ 41,199,962	\$ 42,282,954	\$ 47,668,481
Accrued interest receivable	\$ 1,759,010	\$ 1,395,939	\$ 2,496,193	\$ 3,270,728	\$ 3,248,011
Inventories	\$ 522,308	\$ 495,967	\$ 844,841	\$ 580,788	\$ 321,986
Prepaid Expense	\$ 2,276	\$ -	\$ 14,825	\$ -	\$ -
Due from funds	\$ 8,771	\$ 587,556	\$ 545,988	\$ 161,299	\$ 180,037
<b>Total unrestricted current assets</b>	<b>\$ 78,626,618</b>	<b>\$ 74,745,533</b>	<b>\$ 87,841,287</b>	<b>\$ 105,993,127</b>	<b>\$ 89,293,700</b>
<b>Restricted Assets:</b>					
Cash and cash equivalents	\$ 1,139,312	\$ 3,245,504	\$ 3,955,087	\$ 4,209,131	\$ 9,569,817
Investments	\$ 28,840,572	\$ 2,651,870	\$ 47,319,454	\$ 95,310,573	\$ 40,928,915
Accrued interest receivable	\$ 464,153	\$ 257,737	\$ 961,955	\$ 1,687,469	\$ 2,076,919
<b>Total restricted current assets</b>	<b>\$ 30,444,038</b>	<b>\$ 6,155,111</b>	<b>\$ 52,236,496</b>	<b>\$ 101,207,173</b>	<b>\$ 52,575,651</b>
<b>Total current assets</b>	<b>\$ 109,070,656</b>	<b>\$ 80,900,644</b>	<b>\$ 140,077,783</b>	<b>\$ 207,200,301</b>	<b>\$ 141,869,351</b>
Investments	\$ 341,526,850	\$ 385,339,479	\$ 411,338,265	\$ 448,498,175	\$ 558,989,309
Restricted assets-investments	\$ 69,895,804	\$ 71,152,023	\$ 123,055,548	\$ 161,524,894	\$ 174,083,854
Capital Assets, depreciable, net	\$ 1,245,879,404	\$ 1,312,840,713	\$ 1,360,933,462	\$ 1,358,256,117	\$ 1,342,795,552
Capital Assets, nondepreciable, net	\$ 120,090,577	\$ 110,687,081	\$ 131,264,798	\$ 222,638,224	\$ 319,028,445
<b>Total assets</b>	<b>\$ 1,886,463,291</b>	<b>\$ 1,960,919,939</b>	<b>\$ 2,166,669,856</b>	<b>\$ 2,398,117,710</b>	<b>\$ 2,536,766,511</b>
<b>Deferred Outflows of Resources</b>	<b>\$ 12,504,679</b>	<b>\$ 5,595,790</b>	<b>\$ 9,244,777</b>	<b>\$ 12,068,853</b>	<b>\$ 11,482,036</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,898,967,970</b>	<b>\$ 1,966,515,729</b>	<b>\$ 2,175,914,633</b>	<b>\$ 2,410,186,563</b>	<b>\$ 2,548,248,547</b>

**KC Water - Sewer Fund**  
**Statement of Net Position (Continued)**  
**Audited Fiscal Years ending April 30, 2021-2025**

<b>Liabilities and Net Assets</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Current Liabilities:</b>					
Accounts payable	\$ 28,192,777	\$ 18,889,792	\$ 24,887,670	\$ 19,747,316	\$ 24,675,462
Current portion of compensated absences	\$ 687,469	\$ 591,701	\$ 576,686	\$ 626,538	\$ 728,250
Accrued payroll and related expenses	\$ 549,632	\$ 433,105	\$ 271,480	\$ 888,964	\$ 937,591
Contract retainage payable	\$ 1,941,780	\$ 1,829,860	\$ 2,963,229	\$ 3,341,561	\$ 2,240,143
Other liabilities	\$ -	\$ 140,000	\$ 140,000	\$ 140,000	\$ -
Current portion of claims liability	\$ 3,320,045	\$ 3,758,908	\$ 3,592,603	\$ 2,685,056	\$ 2,017,668
Current portion of due to other funds	\$ -	\$ 38,729	\$ 78,754	\$ 90,263	\$ 672,083
Current portion of OPEB	\$ -	\$ -	\$ -	\$ 324,163	\$ 488,952
Total current liabilities payable from unrestricted assets	\$ 34,691,702	\$ 25,682,094	\$ 32,510,422	\$ 27,843,861	\$ 31,760,149
<b>Liabilities payable from restricted assets:</b>					
Accrued interest and fiscal agent fees	\$ 7,528,422	\$ 7,216,942	\$ 7,740,419	\$ 8,732,992	\$ 8,909,675
Current portion of revenue bonds and notes payable	\$ 24,943,000	\$ 24,049,600	\$ 25,751,700	\$ 29,821,678	\$ 31,466,662
Contract retainage payable	\$ 4,847,982	\$ 3,427,107	\$ 2,770,784	\$ 4,731,910	\$ 5,392,998
Total liabilities payable from restricted assets	\$ 37,319,404	\$ 34,693,649	\$ 36,262,903	\$ 43,286,580	\$ 45,769,335
Total current liabilities	\$ 72,011,106	\$ 60,375,743	\$ 68,773,325	\$ 71,130,441	\$ 77,529,484
Compensated absences	\$ 1,952,355	\$ 1,755,249	\$ 1,922,423	\$ 2,023,890	\$ 2,456,779
Claims liability	\$ 10,955,990	\$ 11,903,207	\$ 11,376,576	\$ 8,502,677	\$ 6,389,279
Other post-employment benefit obligation	\$ 4,697,245	\$ 5,443,271	\$ 4,166,574	\$ 3,766,916	\$ 7,283,655
Pension liability	\$ 27,934,451	\$ 9,344,462	\$ 22,076,076	\$ 28,625,495	\$ 31,133,622
Revenue bonds and notes payable	\$ 557,240,523	\$ 546,756,945	\$ 645,869,459	\$ 755,472,139	\$ 733,793,821
Total liabilities	\$ 674,791,670	\$ 635,578,878	\$ 754,184,432	\$ 869,521,558	\$ 858,586,640
<b>Net Position</b>					
Net investment in capital assets	\$ 820,004,230	\$ 860,928,944	\$ 925,640,937	\$ 983,319,842	\$ 1,041,001,405
Restricted	\$ 50,704,755	\$ 49,785,811	\$ 50,437,799	\$ 52,041,492	\$ 53,201,626
Unrestricted	\$ 350,986,623	\$ 401,148,047	\$ 435,472,323	\$ 496,551,556	\$ 587,394,411
Total net position	\$ 1,221,695,608	\$ 1,311,862,801	\$ 1,411,551,059	\$ 1,531,912,890	\$ 1,681,597,442
Deferred Inflow of Resources	\$ 2,480,691	\$ 19,074,050	\$ 10,179,142	\$ 8,752,115	\$ 8,074,465
Total liabilities and net position	\$ 1,898,967,970	\$ 1,966,515,729	\$ 2,175,914,633	\$ 2,410,186,563	\$ 2,548,258,547

**KC Water - Sewer Fund**  
**Statement of Revenues, Expenses, and Change in Fund Net Position**  
**Audited for Fiscal Years Ending April 30, 2021-2025**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Operating revenues:</b>					
Retail sewer charges	\$ 189,915,943	\$ 215,163,835	\$ 220,574,690	\$ 236,824,356	\$ 253,376,921
Inter-jurisdictional sewer charges	\$ 46,891,933	\$ 43,241,268	\$ 33,614,745	\$ 34,407,435	\$ 32,643,175
Other operating revenues	<u>\$ 6,099,567</u>	<u>\$ 5,603,003</u>	<u>\$ 4,614,769</u>	<u>\$ 5,755,755</u>	<u>\$ 5,098,189</u>
Total operating revenues	<u>\$ 242,907,443</u>	<u>\$ 264,008,106</u>	<u>\$ 258,804,204</u>	<u>\$ 276,987,546</u>	<u>\$ 291,118,285</u>
<b>Operating expenses:</b>					
Sewage treatment and pumping	\$ 38,011,768	\$ 42,989,025	\$ 45,088,161	\$ 46,782,100	\$ 49,958,529
Sewer maintenance	\$ 26,256,707	\$ 24,539,890	\$ 25,440,984	\$ 27,740,642	\$ 30,176,770
Administrative and general	\$ 36,233,300	\$ 37,886,393	\$ 36,640,966	\$ 36,997,105	\$ 41,088,890
Industrial and household hazardous waste	\$ 1,278,419	\$ 1,475,246	\$ 1,455,468	\$ 1,679,986	\$ 1,818,242
Depreciation and amortization	<u>\$ 34,156,413</u>	<u>\$ 36,199,007</u>	<u>\$ 38,683,619</u>	<u>\$ 40,124,769</u>	<u>\$ 40,784,920</u>
Total operating expenses	<u>\$ 135,936,607</u>	<u>\$ 143,089,561</u>	<u>\$ 147,309,198</u>	<u>\$ 153,324,602</u>	<u>\$ 163,827,351</u>
Operating income	<u>\$ 106,970,836</u>	<u>\$ 120,918,545</u>	<u>\$ 111,495,006</u>	<u>\$ 123,662,944</u>	<u>\$ 127,290,934</u>
<b>Nonoperating revenues (expenses):</b>					
Interest income	\$ 3,068,566	\$ (16,319,934)	\$ 8,735,145	\$ 19,744,140	\$ 47,178,726
Interest expense and fiscal agent fees	\$ (21,047,373)	\$ (17,689,941)	\$ (18,399,392)	\$ (21,707,162)	\$ (23,925,942)
Other	<u>\$ 259,548</u>	<u>\$ 366,158</u>	<u>\$ 249,423</u>	<u>\$ (50,072)</u>	<u>\$ 46,007</u>
Total non-operating expenses, net	<u>\$ (17,719,259)</u>	<u>\$ (33,643,717)</u>	<u>\$ (9,414,824)</u>	<u>\$ (2,013,094)</u>	<u>\$ 23,298,791</u>
<b>Excess of Revenues over Expenses</b>	<b>\$ 89,251,577</b>	<b>\$ 87,274,828</b>	<b>\$ 102,080,182</b>	<b>\$ 121,649,850</b>	<b>\$ 150,589,725</b>
Capital Contributions	\$ 10,623,566	\$ 6,203,757	\$ 2,475,320	\$ 3,622,999	\$ 4,185,321
Payment in Lieu of Taxes (PILOT)	\$ (3,883,215)	\$ (3,164,800)	\$ (4,469,543)	\$ (4,768,418)	\$ (5,090,499)
Transfers to Other Funds	<u>\$ -</u>	<u>\$ (146,606)</u>	<u>\$ (397,697)</u>	<u>\$ (142,600)</u>	<u>\$ -</u>
Increase in net position	<u>\$ 95,991,928</u>	<u>\$ 90,167,179</u>	<u>\$ 99,688,262</u>	<u>\$ 120,361,831</u>	<u>\$ 149,684,547</u>
Net position - beginning of year	<u>\$ 1,125,703,695</u>	<u>\$ 1,221,695,623</u>	<u>\$ 1,311,862,802</u>	<u>\$ 1,411,551,064</u>	<u>\$ 1,531,912,895</u>
Adjustment for Restatement (GASB #68 and #71)	<u>\$ -</u>				
Increase in net position	<u>\$ 95,991,928</u>	<u>\$ 90,167,179</u>	<u>\$ 99,688,262</u>	<u>\$ 120,361,831</u>	<u>\$ 149,684,547</u>
Net position - end of year	<u>\$ 1,221,695,623</u>	<u>\$ 1,311,862,802</u>	<u>\$ 1,411,551,064</u>	<u>\$ 1,531,912,895</u>	<u>\$ 1,681,597,442</u>

**Debt Service Coverage**  
**KC Water - Sewer Fund**  
**For Fiscal Years Ending April 30, 2021 through April 30, 2025**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b><u>Revenue:</u></b>					
Sewer charges	\$ 236,807,876	\$ 258,405,103	\$ 254,189,435	\$ 271,231,791	\$ 286,020,096
Other operating income	\$ 6,099,567	\$ 5,603,003	\$ 4,614,769	\$ 5,755,755	\$ 5,098,189
Interest income	\$ 3,068,566	\$ (16,319,934)	\$ 8,735,145	\$ 19,744,140	\$ 47,178,726
<b>Total Revenues</b>	<b>\$ 245,976,009</b>	<b>\$ 247,688,172</b>	<b>\$ 267,539,349</b>	<b>\$ 296,731,686</b>	<b>\$ 338,297,011</b>
<b><u>Less Expense:</u></b>					
Sewage treatment and pumping	\$ 38,011,768	\$ 42,989,025	\$ 45,088,161	\$ 46,782,100	\$ 49,958,529
Sewer maintenance	\$ 26,256,707	\$ 24,539,890	\$ 25,440,984	\$ 27,740,642	\$ 30,176,770
Administrative and general	\$ 36,233,300	\$ 37,886,393	\$ 36,640,966	\$ 36,997,105	\$ 41,088,890
Industrial and household hazardous waste	\$ 1,278,419	\$ 1,475,246	\$ 1,455,468	\$ 1,679,986	\$ 1,818,242
<b>Total Expenses*</b>	<b>\$ 101,780,194</b>	<b>\$ 106,890,554</b>	<b>\$ 108,625,579</b>	<b>\$ 113,199,833</b>	<b>\$ 123,042,431</b>
<b>Net Revenues Available for Debt Service</b>	<b>\$ 144,195,815</b>	<b>\$ 140,797,618</b>	<b>\$ 158,913,770</b>	<b>\$ 183,531,853</b>	<b>\$ 215,254,580</b>
Gross current year debt service	\$ 49,094,164	\$ 47,498,880	\$ 45,099,446	\$ 49,979,660	\$ 58,047,888
<b>Debt Service Coverage (Gross)</b>	<b>2.94</b>	<b>2.96</b>	<b>3.52</b>	<b>3.67</b>	<b>3.71</b>
Less: (SRF Subsidy)**	\$ (300,786)	\$ (163,424)	\$ (95,641)	\$ (35,698)	\$ (35,000)
<b>Net Current Year Debt Service</b>	<b>\$ 48,793,378</b>	<b>\$ 47,335,456</b>	<b>\$ 45,003,805</b>	<b>\$ 49,943,962</b>	<b>\$ 58,012,888</b>
<b>Debt Service Coverage (Net)</b>	<b>2.96</b>	<b>2.97</b>	<b>3.53</b>	<b>3.67</b>	<b>3.71</b>

\*Does not include depreciation, interest expense and fiscal agent fees.

\*\*City Ordinance allows interest earnings on SRF loan reserves to be applied to the debt service requirement for purposes of calculating annual debt service coverage.