Financial Management Plan

August 20, 2026

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Key Takeaways

This Financial Management Plan (the "Plan") lays out how JXN Water can reach financial sustainability. The most important points for readers are summarized below; the full report provides the supporting detail.

- **A rate increase of approximately 10% is needed in Spring 2027.** This is the Plan's most immediate step. The rate increase approved in March 2026 (about 12%) improved the System's finances but does not eliminate the need for continued annual increases.

- **Stringent collections are working, but near-term cash flow remains challenged.** Enforcement has lifted collections to about 82% year-to-date (targeting 85% for the year), and in the first half of 2026 operating revenues exceeded operating expenses for the first time since 2020. Even so, once debt service is included, the System still faces a near-term cash deficit that has been covered by rapidly diminishing federal grant funds.

- **Continued collections enforcement and grant funding remain critical.** The System will maintain its stringent collection efforts — including an aggressive severance-of-service strategy — and will continue to seek additional grant funding.

- **The Plan balances multiple goals:** Meeting the System's financial targets (i.e., debt service coverage and liquidity); satisfying required debt covenants; and reinvesting in the System, where roughly $767 million of capital needs have been identified over the next 25 years – all while keeping rates as affordable as possible.

This Plan includes financial projections under an updated base case scenario. This Plan also introduces an alternative scenario that includes the use of a financial strategy called "**acquisition financing"** under which a newly governed JXN Water entity would purchase the System's assets from the City, allowing the City to pay off the System's existing debt.

Compared with the updated base case, acquisition financing would deliver these benefits:

	2028 & 2029 rate increases	Capital funded through 2029	Capital deferred through 2029	Financial goals reached
Base case	9% / 8%	~$20M	~$66M	2029–2030
With acquisition financing	**5% / 5%**	**$113M**	**$0**	**2028–2029**

Executive Summary

The Interim Third-Party Manager ("ITPM") has prepared this update to the Financial Management Plan in accordance with paragraph 5. V. of the Stipulated Order on the Sewer System dated October 5, 2023, requiring the Financial Management Plan be "updated as warranted." The Plan presented herein includes the following key findings:

- Current cashflow remains challenged, though improving. In 2025, operating expenses exceeded operating revenues by approximately $30.9 million. For the first time since 2020, in the first six months of 2026, average revenues exceeded operating expenses. This improvement is in part driven by the recent rate increase and concerted efforts to improve the collection rate. Despite the recent improvement, JXN Water is still experiencing a cash flow deficit when factoring debt service payments, which is currently being met with rapidly diminishing federal grant funds.
- Additionally, the City of Jackson had fully depleted the required reserve funds (below) prior to transferring the Water and Sewer Enterprise to the ITPM in accordance with the sewer order entered on September 30, 2023. *(See "Cash Flow Challenges" on page 14)*
    - Operations and Maintenance Fund (1/12th of annual budget)
    - Contingent Fund (2/12th of annual budget)
    - Depreciation Fund (minimum of $100,000)
- All avenues to reduce costs by restructuring debt service have proven to be unsuccessful.
- JXN Water must replenish and maintain adequate reserves. *(See "Historical Financial Challenges" on page 7 and "Cash Flow Challenges" on page 14)*
- The need for capital to advance critical sewerage projects remains and, without any other source of one-time revenues to support the sewerage system, JXN Water will continue to explore financing options for these projects.
- The recently approved rates increase of approximately 12% in aggregate (originally proposed in Spring 2025) will not absolve the need for future rate increases. Additional consumption and billing historical data provide enhanced reliability as to the level of future rate increases needed to meet financial objectives. *(See "Financial Modeling" on page 23)*
- Even with the 2026 rate increase, the financial projections indicate the System will continue to face acute financial challenges in the near-term. In the absence of additional financial relief (grant, loans, reduced debt service, etc.), JXN Water will need to chart a new path towards financial, operational and governance sustainability. Continued improvement to the System's collection rate is critical for both the short and long-term financial health of the System.
- JXN Water has identified approximately $767 million of additional capital needs for the System ($404 million of water and $364 million for sewer) over the next 25 years, requiring significant reinvestment into the System and revenue generation to support the projects.
- In light of the enhanced historical billing data collected during 2025 and the newly identified capital needs of the System, the previously anticipated rate increase schedule will not be sufficient to fund improvements needed and achieve the financial goals established. A revised rate increase schedule is proposed in this Plan (see *"Financial Modeling" on page 23).*

Introduction

The Plan for the City of Jackson Mississippi's (the "City") Water and Sewer System (the "System") was originally developed in accordance with paragraph 6.p. of the Interim Stipulated Order (the "Water Order") entered on November 29, 2022, in case 3:22-cv-00686-HTW-LGI, the United States of America v. the City of Jackson, Mississippi and updated in January 2024 in accordance with paragraph 5.v. of the Stipulated Order on Sewer System (the "Sewer Order" and collectively with the Water Order, the "Orders") entered on October 5, 2023, in case no. 3:12-cv-790-HTW-LGI, the United States of America v the City of Jackson, Mississippi. The Orders appoint an Interim Third-Party Manager to stabilize the System, build confidence in the System's ability to supply reliable and safe drinking water to customers, and address problems plaguing the City's sewer system.

The Order requires the Plan to include short-term, mid-term, and long-term funding needs; identify possible sources for those needs; opportunities for debt-restructuring; suggested rate structure changes, including the mechanism for assessing customers for water and sewage uses; and alternative governance options.

The Sewer Order was entered effectively at the end of the City's fiscal year, October 5, 2023. In accordance with the Sewer Order, billing and collection of all funds generated through the operation of the System were assumed by JXN Water (rather than the City) beginning October 5, 2023. Similarly, all indebtedness and related responsibilities were transferred to JXN Water as of October 5, 2023. JXN Water elected for its fiscal year to end on December 31. As such, JXN Water's first fiscal year included approximately three months (October – December 2023) and the first full fiscal year ended December 31, 2024.

The Plan has been prepared by the ITPM, in consultation with PFM Financial Advisors LLC ("PFM"), one of the largest financial advisory firms in the nation, and Stantec Consulting Services Inc., with engineering and rate consulting expertise in the water and sewer industry. The analyses presented herein include projected revenues and revenue requirements for fiscal year 2026 through fiscal year 2046 (the "Planning Period"). Specifically, this Financial Management Plan addresses the following elements:

- Assesses the financial capability of the System to meet current and future anticipated financial obligations,
- Evaluates various funding strategies, including rate structure and rate changes needed to meet financial objectives,
- Develops a financial plan through fiscal year 2046 sufficient to fund System operations and capital financing needs, and
- Establishes minimum financial goals for the System to provide for future financial stability.

The Plan reflects budgeted operating expenses and revenues, along with planned capital needs. The Plan was developed based upon the information available to the ITPM at the time of this report.

Background

The water system failed in the summer of 2022 due to unanticipated treatment challenges created by severe flooding. A Federal disaster was declared on August 30, 2022, as water pressures and water quality had been impacted across the City and access to safe, reliable drinking water was disrupted for the people that live and work in the City.

The City, like many older core municipalities, has experienced a loss in population over the past decades, leaving a smaller number of customers to pay to maintain an oversized and aging water system. The loss of customers does not reduce the costs of operating and maintaining a drinking water system, as those costs are largely fixed and are only incrementally impacted by reduced consumption. Plant sizes remain unchanged, requiring the same staffing. The size of the distribution system and related storage facilities do not change with population loss. The only savings of a reduced population is found in the incremental reduction in chemicals and power used to treat and distribute the water, a very small percentage of the cost of providing reliable and safe drinking water to a city of 141,000 population[1] spread over more than 100 square miles.

Since 2013, the sewer system has been under a federal consent decree to undertake, among other things, the evaluation and rehabilitation of certain infrastructure; the development of numerous programs to ensure proper capacity, management, operations and maintenance; and the implementation of certain work required by two prior administrative orders between the City and the Mississippi Department of Environmental Quality. The City failed to achieve significant progress under the consent decree. As a result, the sewer system experienced recurring sewer failures that spilled raw sewage into homes, businesses, streets, yards, waterways, and other properties. Additionally, the sewer system released untreated or under-treated wastewater into the Pearl River in response to certain wet weather events.

The System is also stressed with aging infrastructure and escalating costs of repair and replacement. The loss of revenue caused by a shrinking population and the escalating costs of infrastructure and maintenance must be made up with increases in rates.

In the City's case, the issue is complicated by its high poverty rate with over one-quarter of the population at or below the Federal poverty level[1] (27.9% per U.S. Census Bureau). Unwilling to raise rates, the City was unable to generate the needed funds for operations, maintenance, and regular reinvestment, resulting in a System that had suffered from underinvestment and minimal maintenance. The result was a system that had little to no capacity to overcome any interruption like source water changes, or large or numerous (due to cold weather) pipe breaks. Without adequate revenues, staffing levels could not be maintained at necessary levels and the existing staff were overworked.

This Plan was developed with a focus on getting the System onto a path to sustainable, affordable operation that can reliably provide safe drinking water to all current users of the System and can provide a more safe and reliable wastewater system. Through advocates for the City across all levels of government, business, non-profits, foundations, and community organizations, significant funding was provided to the City from the Federal government to get the drinking water portion of the System's infrastructure back to a stable and reliable condition.

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[1] Source: US Census Bureau population estimates, July 1, 2025

Historical Financial Challenges

In 1971, the City's water and sewer systems were separated, and, over time, the City established separate funds to account for the different operations of the systems: the Water Fund, the Jackson Disposal System Fund, the Rankin Sewage Disposal System Fund, and the Madison Sewage Disposal System Fund. Following the issuance of the Water & Sewer Revenue Refunding Bonds, Series 1993-A and pursuant to the General Bond Resolution adopted March 11, 1993 (the "General Bond Resolution"), and as amended, the Water System and the Jackson Sewage Disposal System, along with the Water Fund and the Sewer Fund, were combined[2]. As such, holders of bonds issued under the General Bond Resolution are legally entitled to the net revenues of the combined System for payment of their bonds. Currently, $140 million of bonds are outstanding under the General Bond Resolution and are payable through December 2040.

Like many other communities which sought to upgrade their metering technology, the City experienced persistent challenges with its billing system (i.e., unbilled revenue) and the implementation of its new metering system in 2015. Aging receivables, or uncollected revenues, exceeded $56 million from known customer accounts, through the City's fiscal year ending September 30, 2021. A review of water accounts as compared with assessor data indicated over 6,500 parcels in the City had improvements but no corresponding water accounts. While there may have been valid reasons for this discrepancy, the majority were believed to be receiving water services without an account and would not be included in the $56 million.

Due to these challenges, the System was transferred to JXN Water with uncertainty regarding consumption patterns and, consequently, the ability to collect adequate operating revenues. The City implemented a rate increase that went into effect in 2021, however, the expected revenue increase was hampered due to the challenges with billing and collections.

The City had a unique and challenged history with metering water for billing purposes. The City entered into a contract with Siemens in 2013 to replace their existing meters with advanced metering infrastructure ("AMI") and integrate the AMI with a completely new billing system. That contract failed to result in an operable metering and billing system. The City and its attorneys successfully sued Siemens and recovered the $90 million spent on the contract less 30 percent in attorney's fees. The balance was not used to pay off debt or fund capital improvements to the System.

As a result of the failed contract and the delays in getting a replacement metering and billing system installed, thousands of customers went years without a functioning meter and without a bill for services. Bills that were produced were often in question as the Siemens meters were subject to any number of failures and issues. Most bills were based on estimated consumption and due to the lack of confidence in the system (and the COVID 19 pandemic), shutoff for non-payment was suspended, allowing customers to receive services without payment and without consequence.

A new AMI metering contract was awarded in 2020 and meters were installed in the City in accordance with the contract. The new meter replacement project was substantially completed in 2024. In conjunction with the new meter installations, JXN Water has taken several steps intended to increase

[2] *Source: City of Jackson, Mississippi, Water & Sewer System Revenue Refunding Bonds, Series 2016 – Official Statement, Appendix B.*

the collection rate, which is critical to improving the financial stability of the System. Those steps include, but are not limited to, the implementation of a billing system upgrade, the creation of a new customer call center, focused outreach to customers regarding billing system changes, water turnoffs for nonpayment, revising billing and collection policies/practices, and the creation of a new customer assistance fund.

Historical strains on finances described above eroded the System's liquidity, creating a need for support from the City's General Fund and 1% infrastructure tax funds.[3] S&P Global Ratings ("S&P"), in a report dated September 1, 2022, noted transfers of $14.5 million from the General Fund from fiscal years 2018 to 2020 and the City's issuance of an "emergency" general obligation note of $7 million in fiscal year 2020 to support utility operations.

As a result of these financial challenges, the System failed to meet several General Bond Resolution requirements in the fiscal years prior to JXN Water's appointment as ITPM. The General Bond Resolution requirements include, but are not limited to, the following:

- The "Rate Covenant," (Section 6.01 of the General Bond Resolution) which requires Net Revenues of the System in each fiscal year must be:
    - 120% of the sum of the annual debt service requirement on the bonds in each fiscal year, and
    - 100% of the sum of:
        - The annual debt service requirement on all bonds (including all indebtedness payable from Net Revenues) in each fiscal year,
        - The amounts required to be paid during the fiscal year into any debt service reserve fund and contingent fund, and
        - The amount of all other charges and liens payable out of the revenues during each fiscal year.
- The "Additional Bonds Test" (Section 3.02 of the General Bond Resolution) to issue additional new money bonds requires a certificate of the City and an Independent Consulting Engineer [or Engineering Firm] that asserts that no Event of Default has occurred and is continuing. A failure to comply with any of the covenants in the General Bond Resolution or any Series Resolution is considered an "Event of Default."
- The "Debt Service Reserve Account" (Section 6.03 of the General Bond Resolution) or subaccount must be equal to an amount which is the lesser of (1) 10% of the lesser of the par amount or the proceeds of such bond, (2) maximum annual debt service requirement for all outstanding bonds, and (3) 125% of the annual debt service requirement for all outstanding bonds; but not exceeding the maximum amount of Bond proceeds which may be deposited to the Account.

[3] To the best knowledge of JXN Water, based on the City's audited financial statements through FY 2022.

- Establishment and Maintenance of Certain Funds (Section 6.03 of the General Bond Resolution) – The City shall establish and maintain, among other funds and accounts,
    - Operation and Maintenance ("O&M") Fund equal to one month (1/12th) of operating expenses;
    - A Bond Fund where it shall deposit on a monthly basis one-sixth (1/6th) of the next interest payment due on all outstanding bonds and one-twelfth (1/12th) of the next principal payment due on all outstanding bonds (together, the "1/6th and 1/12th payments");
    - A Contingent Fund equal to two months ($2/12^{th}$) of operating expenses; and
    - A Depreciation Fund equal to an amount as determined to be appropriate, but not less than $100,000.

In December 2023 and May 2024, respectively, Moody's and S&P withdrew their credit rating on System debt due to insufficient financial information. Both reports cited the lack of timely fiscal year-end 2022 financial statements from the City. Prior to the ratings withdrawals, System debt was rated 'Ba2' by Moody's and 'BB-' by S&P, which were non-investment grade and considered to have "major ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments"[4]. The lack of credit ratings and the continued failure to meet the existing General Bond Resolution requirements, severely impair the System's ability to access the municipal bond market to support its capital program and refinance existing debt.

To secure investment grade credit ratings in the future, the System will need to meet its various General Bond Resolution requirements, demonstrate steady growth of cash and reserve balances, and further strengthen revenue collections.

Financial Tenets

Several financial tenets are foundational to the Financial Management Plan's development:

- One-time funding should be used for one-time expenses such as, capital improvement and debt prepayment, or as a "bridge" for operation and maintenance until a recurring and sustainable revenue stream can be developed.
- Rates for services must be equitable, affordable, and sustainable.
- Rates should be set at a level that will support the total annual revenue requirements of the System (i.e. operations, debt service and capital reinvestment) and adjusted periodically to keep up with inflationary cost increases.
- Estimates for mid-term and long-term revenues and expenditures should be realistic but on the conservative side because of the significant unknowns and uncertainties regarding the future of the System.

[4] S&P Global Ratings Definitions

- When possible, large capital investments should be supported by the benefiting users over the life of the assets. In other words, the System should strategically use financing to ensure future generations of users pay their fair share of long-life assets.

- Annual reinvestment should be at or above 2% of the plant value. See Appendix A for the calculation for the System included in this Plan.

Summary of the Financial Management Plan's Action Items

The Plan is based upon several imperative actions in the short, medium, and long-term designed to meet the System's needs.

To the extent possible, the short-term goals that were established in the first Financial Management Plan, dated January 27, 2023, were achieved. JXN Water implemented a new billing rate structure effective February 1, 2024, produced audited financial statements for the fiscal year ended 2023, and established policies and procedures related to billing. JXN Water has been unable to use federal funding to retire a meaningful portion of the existing debt, which remains a significant financial burden on the System.

Short-Term (January 2024 – June 2025)

- Implement new billing rate structure for customers by Q1 2024. **ACCOMPLISHED.**

- Produce audited financial statements. **ACCOMPLISHED.**

- Establish operations policies, including billing, collections, and billing dispute policies. **CONTINUING.**

- Retire outstanding debt using a portion of the $450 million provided through the Consolidated Appropriations Act, 2023. **PARTIALLY ACCOMPLISHED** – JXN Water was able to retire the System's Drinking Water State Revolving Loans, however, there is no path forward to retire any other outstanding debt with these funds.

Medium-Term (June 2025 – 2029)

- Significantly improve and stabilize collections from the System's users. **IN PROGRESS.**

- Lower debt service on the outstanding debt.

- Establish written financial goals as governing principles establishing (i) minimum days cash on hand (e.g., 90 days), (ii) targeted debt service coverage (e.g., 1.30x), (iii) full funding plan of capital program, and (iv) establishment of cash fund capital / pay-go target of $20 million per year to align with rating agency metrics for water and sewer utilities rated in the 'A' category.

- Develop a new governance structure for the utility management.

Long-Term (2030 and Beyond)

- Build to an investment grade credit that is sustainable and affordable for the users of the System.

- Fund portions of the capital improvement plan with current revenues, ramping up to the policy target of $20 million per year by FY 2035.

- Look for opportunities to consolidate water treatment plants and sewer treatment facilities.

Basis of Rate Design

JXN Water's rate structure is founded on three critical public policy needs of (1) ensuring safe drinking water is available to everyone, all the time, (2) increasing revenue to ensure the revenues are sufficient at all times to pay the expenses of operating and maintaining the System, while (3) removing barriers for all users to pay for these services.

In recognition of the income disparity that exists among JXN Water's users, JXN Water maintains a customer classification with lower rates for System users that qualify for the long-standing Supplemental Nutrition Assistance Program ("SNAP") to assist with food costs.

As implemented beginning in early 2024, JXN Water user classifications for water and sewer services are as follows:

- Commercial User – Connections with meters 1 ½ inch and larger
- Residential User – Connections with meters less than 1 ½ inch
- SNAP User – Customers who receive SNAP benefits from the State of Mississippi

Like other water and sewer service providers in the U.S., the majority of JXN Water's service costs are *fixed* in nature and associated with the infrastructure operation and maintenance, the labor, capital investment, and debt the system is carrying. The variable costs associated with the amount of water consumed (used) is limited to the chemicals used to treat the water and/or wastewater and the energy (electricity) needed to move it through a distribution or collection system. The fixed costs are high; the variable costs are low. Accordingly, JXN Water's rate structure includes a fixed "availability fee" based on meter size, plus a volumetric fee component based on customer consumption.

Effective March 23, 2026, JXN Water's rate structure includes the following volumetric and availability fee components:

- A Volumetric Component applied to all customers' actual water use in an inclining block structure as follows:

    - Consumption of the first 50 CCF — $ 7.48 per CCF
    - Consumption of between 51 CCF and 150 CCF — $14.96 per CCF
    - Consumption of between 151 and 350 CCF — $17.45 per CCF
    - Consumption of more than 350 CCF — $19.95 per CCF

    Note, this volumetric component is *not* limited to the variable costs only. Instead, it seeks to defray both the variable costs and some portion of the fixed costs across all classifications.

- A monthly Availability Fee to cover costs of system operations, maintenance, capital, and debt service for both the water and sewer systems is applied as follows:

Residential and Commercial Customer Classifications

▪ 5/8-inch meter	$ 40.00
▪ 1-inch meter	$ 60.00
▪ 1 ½ inch meter	$ 200.00
▪ 2-inch meter	$ 320.00
▪ 4-inch meter	$ 640.00
▪ 6-inch meter	$ 1,280.00
▪ 8-inch	$ 2,560.00

SNAP Customer Classification $ 10.00

Under the rate structure implemented March 23, 2026, the average residential customer using 6 CCF with a 5/8-inch meter is estimated to have a monthly water & sewer combined bill (on average) of $88.

Though JXN Water implemented a rate structure with the new SNAP Customer Classification, the majority of SNAP beneficiaries that are also users of the System are not receiving the benefit of this lower rate. To date, JXN Water has not been able to obtain a list of current SNAP beneficiaries. As such, these customers cannot be automatically enrolled in this rate classification. JXN Water has provided SNAP beneficiaries with a process to enroll in this rate classification, but uptake to date has been limited. As of July 2026, approximately 650 accounts are in the SNAP Customer Classification.

Privately Funded Customer Assistance - JXN Water has worked with the Mississippi Community Foundation to create a donor-supported fund to assist customers with paying their bills during personal financial crisis. This customer assistance program is starting during the third quarter of 2026 and will be administered by the Salvation Army.

Payment plans are also available to assist all customers.

Introduction to Financial Plan Analysis

The primary issue addressed in the analysis is revenue sufficiency. The results are meant to provide a framework to achieve the System's financial goals in light of the new rate structure, cost of operating and capital improvement needs and determine the future levels of revenues required to sustain financial stability. The Plan also looks to address opportunities to reduce costs, such as the existing debt service costs of the System.

It was previously determined that the rate structure that existed when the System was transferred to the ITPM, and the revenues being generated with that rate structure, were not sufficient to meet the System's operating and capital costs. As a result, the ITPM implemented a new rate structure that was expected to generate sufficient revenues in the short-term (see "Basis of Rate Design" herein) assuming collection levels increase to near industry standards, 95 percent or greater.

The ITPM through PFM, prepared a financial projection of revenues and expenditures for the System. A comparison of projected revenues and expenditures provides insight into the adequacy of overall revenue levels to meet current and future needs.

The Plan evaluates the following basic metrics:

- Projection of operating expenses and capital improvement plan costs.

- Projection of revenues under the new rate structure.
- Forecast of potential additional needed revenue increases.

The financial performance of the scenarios modeled was evaluated based on the following requirements:

- Collect revenues sufficient to meet annual operating expenses by FY 2027.
- Meet the Rate Covenant under the General Bond Resolution by FY 2028.
- Reach targeted minimum debt service coverage of 1.30x for all outstanding debt by FY 2029.
- Fund the Operating and Maintenance Fund to the minimum required under the General Bond Resolution (i.e., 1 month of budgeted operating expenses) by FY 2029.
- Fund the Contingent Fund to the minimum required under the existing General Bond Resolution (i.e., 2 months of budgeted operating expenses) by FY 2030.
- Provide $20 million per year of sustainable capital improvement plan, pay-as-you-go funds annually by FY 2031.

Collection Rates

A critical component of improving the System's financial performance is increasing the System's collection efforts. Under leadership of the ITPM, once the operations of the System were restored such that customers were receiving clean, reliable water and sewer services, JXN Water began focusing on increasing the collection rate, which is critical to the System's financial sustainability. Collection efforts are a primary focus of JXN Water, with account severance of services for residential and commercial properties in full effect.

JXN Water has substantially resolved legacy metering and billing issues that have hampered collection of revenues. Bills are now accurately and timely being sent out to customers monthly. During 2025 and into 2026, JXN Water made improvements to the billing workflow management system to ensure a smooth process for severance of service for non-payment and reconnection once adequate payment is made. Since then, JXN Water has increased its public awareness campaigns regarding keeping customer accounts current, drastically increased the average weekly severances for non-payment, and has been able to quickly restore services once payment is made. Additionally, judicial action has been taken on accounts maintaining high unpaid balances, including several apartment complexes.

These efforts have improved the System's overall collections from approximately 50% in 2022 (prior to JXN Water's appointment as ITPM) to over 80% as of June 2026. The table below summarizes the collection trends from 2023 to 2026 YTD.

	2023*	2024	2025	2026 (thru Q2)
Billed	$19,203,352	$107,445,906	$110,777,437	$56,396,937
Collections	$11,588,464	$66,657,481	$83,008,410	$46,183,271
Collections Rate	60%	62%	75%	82%

**Represents billing and collections beginning October 2023, after the ITPM assumed responsibility for billing and collections. Average YTD collections were approximately 55% prior to this date.*

A critical assumption to this Plan is the collection rate going forward. Based on recent trends, the Plan assumes the collection rate reaches 85% (on average) in 2026, 90% in 2027, and 95% in 2028 and beyond.

Operating Results & Cash Management

A major component in JXN Water's short-term financial management is managing the budget and cash position of the System. Both provide the basis for the multi-year financial analysis.

Fiscal year 2025 ended with an estimated net income of -$20.7 million and a cash position estimated at $11.7 million, while carrying accounts payable of approximately $42 million. Projected deficits for 2026 (when accounting for debt service) signaled that the System would run out of cash at some point during 2026. As such, JXN Water worked with Congress and the U.S. Environmental Protection Agency ("EPA") to re-allocate $54 million of the awarded Section 1452(d) capital grant (see "Capital Funding and Project Program") to fund eligible water operations and maintenance contracts. This capital will enable JXN Water to maintain a positive cash position and remain current with its vendors until another rate increase can be implemented in 2027 and collections reach the 95% mark.

As of the date of this Plan, JXN Water does not receive additional operating support from the City of Jackson, State of Mississippi or any other entity.

Funding Requirements

Operating expenses consist of all costs that are necessary and appropriate for the operation, maintenance, and administration of the System during each year.

Projections of operating expenses include expenses such as contracts, personal services, supplies, and other services and charges. Projected operation and maintenance expenses for the System increase from $114 million in FY 2026 to more than $186 million in FY 2046. The operating expense projections in this Plan were updated and refined (compared to the February 2025 Plan) based on the past year of experience and negotiated operating contracts. There is a relatively optimistic estimate of flat operating expenses in FY 2026 through FY 2029, then a 2% increase in FY 2030, and 3% per year of increase applied to operating expenses thereafter. The optimism is based on having a national utility operator contracted to operate and maintain the System, as well as cost efficiencies from upgrades made to the System – See JXN Water's Water Quarterly Report for Q1 2026, dated April 30, 2026 for more information about JXN Water's cost control efforts and other O&M improvements. The growth of 3% annually beginning in FY 2031 is based on historical, long-term inflation averages.

Current annual debt service, including principal and interest payments on all existing debt, for the System is approximately $19.5 million for FY 2026. Debt service remains relatively level until FY 2035 when it decreases to $9.7 million assuming no additional debt.

Cash Flow Challenges

In October 2023, when JXN Water assumed responsibility from the City for billing and collection of all funds generated through the operation of the System, the Sewer Order required the City to transfer all System revenues, including existing balances and reserves in System accounts to JXN Water. The transfer included the following:

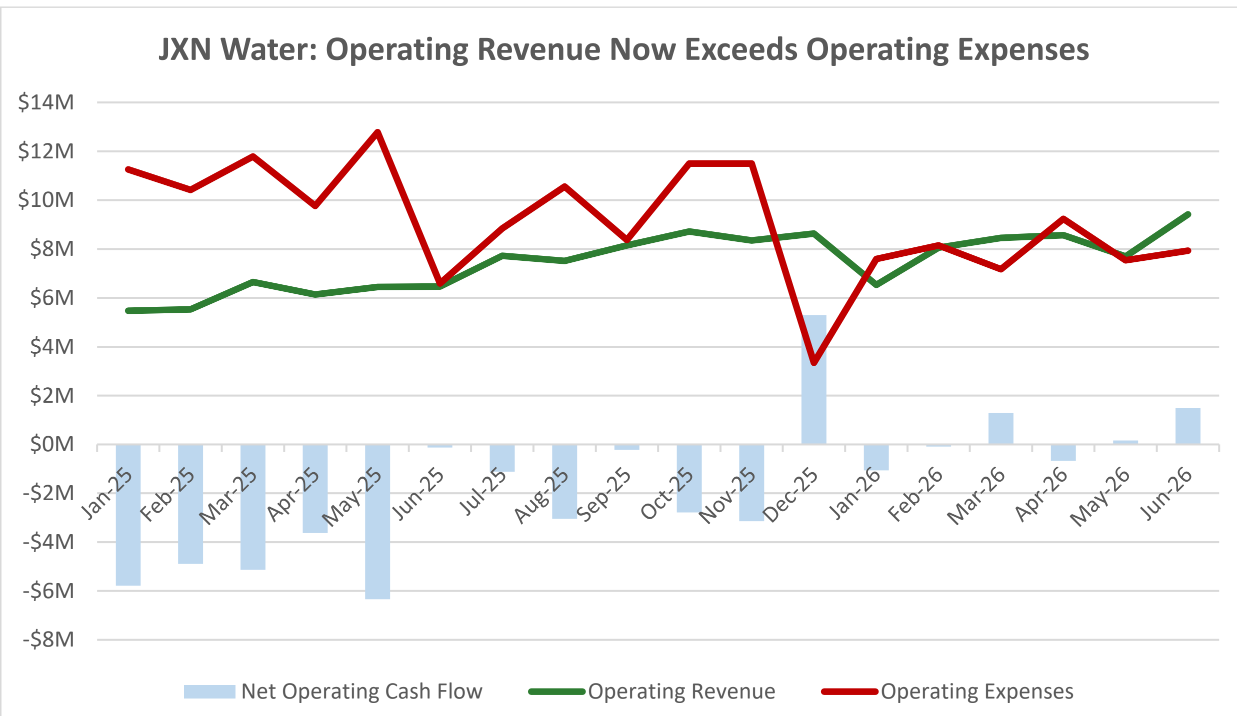
- Balance in the Consent Decree Supplemental Environmental Project fund $ 651,327.24
- ARPA Local Match Funds for Sewer $8,828,041.00

Balances (if any) in the following funds (as established in the General Bond Resolution) were not transferred and as such, the ITPM assumes these funds were totally depleted by the City prior to the Sewer Order taking effect on October 5, 2023.

- Operations and Maintenance Fund (1/12th of annual budget)
- Contingent Fund (2/12th of annual budget)
- Depreciation Fund (minimum of $100,000)

Additionally, establishing water accounts required customers to make a deposit at the time the account opened. Prior to October 2023, the City of Jackson collected those deposits. At the time of the transfer of full responsibility for revenue and debt of the water system to JXN Water in October 2023, the liability for deposits totaled $5,549,011.02.

As discussed previously, the $778 million in federal funding that has been allocated to the System is subject to a number of limitations regarding its use. As collections of the System's revenues have increased substantially since 2023, in part due to the new rate structure, recent rate increases, and improved collections rate, monthly operating revenues have begun to exceed monthly operating expenses, as shown in the graph below.



Notably, in 2025, operating expenses exceeded operating revenues (without accounting for operating grants) by approximately $30.9 million. In 2026, through the end of June, that trend had reversed, with operating revenues exceeding operating expenses by approximately $1.1 million. Note, this does not include the System's debt service expense.

Revenues need to exceed all expenses – including debt service – before the System can begin to build up its fund balances and reserves. To meet current needs, in 2026, the ITPM is relying on re-allocated federal grant funds to support eligible expenses under the Water System's operating and maintenance contract. Approx. $43.5 million of the $54 million Section 1452 funds being re-allocated and the $16 million of ARPA reimbursements are expected to be applied during 2026, with the remaining $10.5 million of the Section 1452 funds to be applied in 2027. This will skew debt service coverage figures during both years. Without taking into account the re-allocated federal grant funds and including payments for debt service, the System is currently experiencing a financial deficit of approximately $1.5 million per month, or $17.4 million annualized. Based on the System's current collections, monthly expenses, and grant funds available the System's reserves will be sufficient until another rate increase can be implemented in 2027 at the proposed levels and collections reach the 95% mark. A failure to implement a rate increase in 2027 would cause reserves to be depleted before the end of 2027.

JXN Water has identified the debt service as a crippling factor to the System's financial stability. Prior efforts to pay off or refinance/restructure the existing debt proved to be unsuccessful.

Overview of Existing Debt

The System's outstanding debt includes:

- Water and Sewer Revenue bonds, issued under the General Bond Resolution ("GBR") adopted March 11, 1993 ("GBR Debt"). The GBR Debt is secured by a pledge of net revenues of the combined System. This debt was issued in the capital markets, with the most recent bond issuance in 2016 (which has since matured). As of August 1, 2026, there will be approximately $140 million of GBR Debt outstanding. It is important to note that 99% of the GBR Debt can be prepaid at any time, with no penalty. This is because the System has reached the optional redemption (or call) dates on the bonds but has been unable to refinance them because the System has not been and is not currently in compliance with its General Bond Resolution. For FY 2026 and 2027, debt service on the GBR Debt totals approximately $17 million each year.

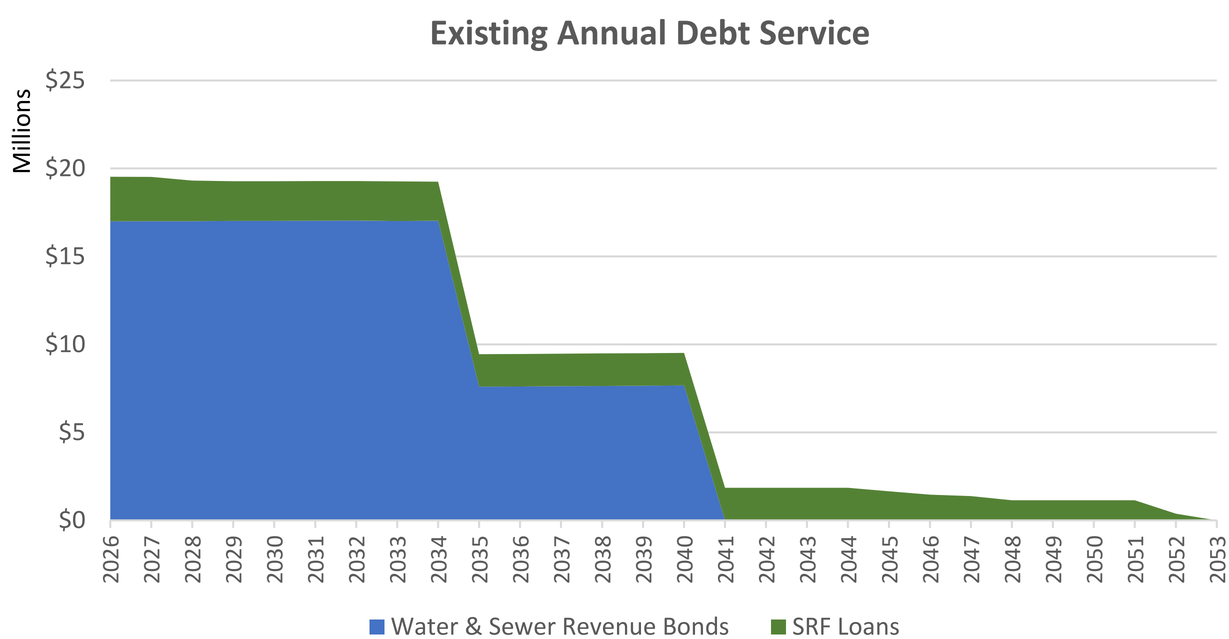
Series	Original Issue Size	Delivery Date	Final Maturity	Outstanding Par*	Next Call Date
2011A	$46,720,000	8/18/11	9/1/34	$21,305,000	Anytime
2011B	2,565,000	8/18/11	9/1/34	1,380,000	N/A
2012A	63,045,000	8/29/12	9/1/34	47,485,000	Anytime
2013	89,990,000	6/27/13	12/1/40	69,615,000	Anytime
Totals	**$202,320,000**			**$139,785,000**	

*Outstanding as of August 1, 2026

- Clean Water Revolving Loan Fund ("CWRLF") loans. This debt was not issued under the General Bond Resolution, rather, it is paid from the City's sales tax reimbursement payments before they are distributed to the City. The System then reimburses the City's General Fund for that sales tax reduction. During 2025, JXN Water worked with Mississippi Department of Environmental Quality ("MSDEQ") to restructure its existing CWRLF loans and thus reducing the annual debt service obligations. As of August 1, 2026, there will be approximately $39 million of this type of debt outstanding. For FY 2026 and 2027, debt service on these loans totals approximately $2.5 million each year.

In November 2024, JXN Water defeased (or retired) all of its outstanding Drinking Water Revolving Loan Fund debt, totaling $28.4 million using a portion of its $450 million Section 1452 capitalization grant. This was the only debt eligible for retirement using this grant funding. This debt generated approximately $52k per month, or $624k annually, in debt service savings.

For FY 2026 and FY 2027, debt service for the combined System totals approximately $19.5 million each year. The System's aggregate debt service including full year FY 2026 to final maturity in FY 2052 is approximately $248 million, of which $183 million will be paid over the next 10 years (thru FY 2035).



Debt Restructuring Options

The financial projections included within this Plan do not assume any refinancing or restructuring of the System's debt.

Debt Restructuring Challenges

As described under "Historical Financial Challenges," the System has not complied with all of the covenants under the General Bond Resolution for several years, particularly its Rate Covenant. As such, it appears that an Event of Default has occurred and is continuing. As a result, without a waiver or curing the defaults, the System is legally prohibited from refinancing its debt through the issuance of bonds under the existing General Bond Resolution. To date, Assured Guaranty, which guarantees all of the existing GBR Debt, has been unwilling to provide the required waivers.

Additionally, to date, the City has been unable to provide records needed to establish the actual use of the proceeds of the System's previously issued bonds. Since federal income tax rules place the burden of proof on the bond issuer to establish facts sufficient to support a tax-exemption opinion, as long as the City is the owner of the System, existing tax-exempt debt cannot be refinanced on a tax-exempt basis.

As outlined in the original Financial Management Plan dated January 2023, JXN Water intended to use a portion of the $450 million provided under Section 1452 of the Safe Drinking Water Act to retire all debt; however, JXN Water was prohibited from implementing the plan due to the lack of available documentation from the City regarding the use of the original bond proceeds. Specifically, JXN Water was unable to ensure that through a restructuring, the federal funds would be limited to use on eligible water projects, except for the Drinking Water Revolving Fund Loans, which were clearly used for water projects and therefore, were retired in November 2024. JXN Water also sought federal legislative amendments that would provide more flexibility for the use of the $450 million, but these amendments were not approved.

Proposed Acquisition Financing

JXN Water has identified a path to refinance the System's existing debt, which would accelerate the financial recovery of the System and help alleviate the magnitude of future rate increases. Under this path, commonly referred to as "acquisition financing", the City would receive funds (e.g., sufficient to pay off the System's outstanding GBR Debt) in exchange for System assets.

Under its current legal structure, JXN Water, Inc. does not have the legal authority to pursue the acquisition financing. Under a new governance structure, JXN Water or its successor could potentially purchase System assets from the City with the City, in turn, using the purchase price to discharge outstanding GBR Debt. Such purchase cost would be funded through the issuance of new bonds.

Critically, by purchasing System assets, the Internal Revenue Code allows the bonds issued to finance the acquisition price to be issued on a tax-exempt basis, as long as JXN Water (or its successor) is not related to the City for federal tax purposes. To opine regarding whether a new governance structure of JXN Water (or its successor) and the City are related for federal tax purposes, tax counsel will review the extent of the City's control in appointing members of the JXN Water (or its successor's) governing body. Tax-exempt bonds carry, on average, interest rates that are approximately 25 – 30% below the interest rates on taxable bonds.[5] Assuming an acquisition financing is executed in July 2028, the amount required to pay off all outstanding GBR Debt would be approximately $120.8 million. By funding this $120.8 million on a tax-exempt basis rather than a taxable basis, debt service would be lower by approximately $31.8 million, or approximately $1.4 million per year for twenty years.

Savings from the acquisition financing would be based on market conditions at the time of the sale and upon investors' assessment of JXN Water's ability to repay the debt. Preliminarily, without extending final maturity of the existing debt, the acquisition financing could generate approximately $19 million of debt service savings in the near-term.[6] This savings would be very beneficial to the System, allowing it to meet its stated financial goals sooner and create capacity to fund additional capital projects, while also reducing the magnitude of future rate increases needed.

[5] Government Finance Officers Association, Municipal Bond FAQ (gfoa.org), noting that tax-exempt municipal bonds save an average of 25 to 30 percent on interest costs compared to taxable bonds.
[6] Savings analysis includes preliminary assumptions regarding structure of refinancing debt, with targeted goal of generating debt service savings through 2031.

The benefits of the proposed acquisition financing include:

- Contrasted to the System's debt that, to date, has been issued by the City, the acquisition financing could be issued by a new JXN Water entity (or a successor) with appropriate legal authority, with **no ongoing legal or moral obligation for the City to fund shortfalls in debt service** payments.

- Assuming all GBR Debt is discharged, allows the System to close the existing General Bond Resolution. This would cure the covenant breaches that are currently present. This would also allow the System to **establish a new General Bond Resolution** to govern the issuance of future debt. Such new resolution could modernize the covenants that currently date back to 1993. By discharging all GBR Debt, this would also eliminate the need to rely on waivers from Assured Guaranty to issue future debt, which Assured has been unwilling to provide to date.

- **Create cash flow savings** by lowering the System's debt service payments, which would more quickly re-establish the financial solvency and creditworthiness of the System. The cash flows savings would also reduce the magnitude of future rate increases necessary and create capacity to fund identified capital projects which are critical to maintaining System reliability.

- **Restoration of capital market access** resulting from a new legal, governance and financial structure would allow the System to raise the capital necessary to continue to improve service quality and reliability.

To get to this point of refinancing all of the GBR Debt, the refinancing would need to be issued on the strength of the System (or on the strength of any credit enhancement, if available).

Capital Funding and Project Program

A significant amount of Federal grant funding has been provided to the System. This includes:

<u>Water Funds</u>

- $150 million for technical assistance and grants under Section 1442(b) of the Safe Drinking Water Act (42 U.S.C. 300j–1(b)) with up to 3% reserved for EPA and MSDH administrative costs. The awarded grant initially totaled $145,961,591 ($150M less EPA and MSDH administrative costs). In 2024, working closely with MSDH and EPA, JXN Water was able to "reimburse" the Section 1442(b) grant for SRF eligible expenses paid for with the Section 1442(b) grant funds. This resulted in transferring $27,944,104.07 of SRF funding (Section 1452) to this Section 1442(b) grant, making the total available $173,905,695.07. As of the end of 2025, all Section 1442(b) grant funding had been spent.

  In 2026, JXN Water again worked with Congress, MSDH and EPA to reallocate another $54 million of SRF funding (Section 1452) to this Section 1442(b) grant, making the total awarded $227,905,695.07. These funds are expected to continue supporting the Water System through 2027.

- $450 million to remain available until expended, for capitalization grants under Section 1452 of the Safe Drinking Water Act (42 U.S.C. 300j–12). The requirements of Section 1452(d) of the Safe Drinking Water Act, for the funds appropriated under this paragraph in this Act, each State shall use 100% of the amount of its capitalization grants to provide additional subsidization to eligible recipients in the form of forgiveness of principal, grants, negative interest loans, other loan forgiveness, and through buying, refinancing, or restructuring debt or any combination. (Consolidated Appropriations Act 2023).

  In 2026, MSDH approved JXN Water's revised intended use plan authorizing the use of $417 million of this grant. Of this, $28 million was utilized to retire existing drinking water SRF loans and $54 million was reallocated to Section 1442(b) for use towards eligible water operating and maintenance contract expenses as noted above. The reallocated funds are expected to be used over the course of the next 12 – 18 months. The balance of the Section 1452 funds are committed to 13 approved loans ($291 million) and 6 projects that have been submitted and are in progress ($43 million). JXN Water has identified additional projects to be funded from this grant with current estimated project costs of $40 million.

Description	SRF Loan Amount	Amount Reimbursed	Remaining Amount
Approved Project Loan Requests	291,379,992	128,709,377	162,670,615
Submitted Project Loan Requests	43,227,269	-	43,227,269
Debt Retirement	28,416,978	28,416,978	-
Authorized Reallocation of Funds	54,000,000	18,000,000	36,000,000
Estimated Amounts to be Requested	40,095,250	-	40,095,250
Total	**$457,119,489**	**$175,126,355**	**$281,993,134**

- In 2026, JXN Water received $2.8 million through an EPA State and Tribal Assistance Grant ("STAG") included in the Congressional-directed spending portion of the Consolidated Appropriations Act 2023. In 2024 JXN Water requested this appropriation be redirected. The request to change the $2.8 million "City of Jackson—General Filter Repairs at the J.H. Fewell Water Treatment Plant" allocation to "City of Jackson for Savanna Wastewater Treatment Plant Improvements" was approved on December 11, 2024. $4.8 million through an EPA STAG included in the Congressional-directed spending portion of the CAA 2023. In 2024, JXN Water requested to change the $4.8 million "City of Jackson for Savanna Wastewater Treatment Plant Phase 1B Improvements" allocation to "City of Jackson for Savanna Wastewater Treatment Plant Improvements." That request was approved on February 21, 2025. Approximately $4.4 million of the combined total of $7.6 million has been spent to date[7].

- $4 million through an EPA Community Grant. The initial award was made under this grant in 2024. $1.3 million was awarded to JXN Water for the purchase of the administrative facility at 1054 Greymont Avenue in Jackson. Approximately $1.3 million of these funds have been spent to date[7].

[7] As of July 27, 2026.

- $2 million through a FEMA/MEMA Building Resilient Infrastructure and Communities (BRIC) Grant. JXN Water is using these funds for a water system master plan. Approximately $0.8 million of these funds have been spent to date[7].

Water and Sewer Funds

- $125 million originally was authorized, which amount was increased to $139 million in 2024 to design and construct improvements to the Sewer System and Water System through the US Army Corps of Engineers under the Water Resources Development Act Section 219 program. These funds require an appropriation as well as a match component in order to unlock funding. To date, JXN Water has unlocked $9.3 million of these funds requiring $3.1 million local match.
- $46 million in ARPA funds, $23 million of which the City received in a direct allocation from the COVID-19 relief measure, and an equal amount it may receive through a matching grant program established by the State of Mississippi[8]. This funding was fully obligated as of the August 30, 2024, in compliance with the Mississippi Municipal and County Water Infrastructure Program ("MCWI"). JXN Water has two active grants under this program, one for the water system (Filters and other improvements at the OB Curtis WTP) and the other for sewer system repairs and improvements (3 term contracts awarded in 2024). Approximately $35 million of these funds have been spent to date with pending reimbursements for the balance under review with the MCWI program managers.

Each of these funding streams comes with restrictions on the permitted uses. Importantly, many of these funds are currently restricted for use on the Water System only. As described further under "Debt Restructuring Options," this limits the ability to restructure debt that was issued for both water and sewer purposes. Furthermore, this limitation imposes an additional burden of reporting and allocating funds when the System accounting, as required under the existing General Bond Resolution, is based on a combined water and sewer system. As such, JXN Water sought additional flexibility to use the federal funds for either or both water or sewer purposes through a legislative amendment; however, those efforts were unsuccessful in 2024. Furthermore, not all of the federal funds are available immediately. The Plan incorporates the use of these funds and the permitted uses, as the funds become available.

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[8] *Reported: https://www.wlbt.com/2023/01/05/800m-federal-funding-secured-shore-up-jacksons-water-system/*

A summary of available grant funding for capital is below:

Capital Funding Summary ($ millions)			
Water Funds	**Amount**	**Spent to Date[2]**	**Remaining**
Section 1452 of the Safe Drinking Water Act (42 U.S.C. 300j–12)	$457.1	$218.8	$238.3
EPA State and Tribal Assistance Grant	7.6	4.4	3.2
EPA Community Grant	4.0	0.8	3.2
FEMA/MEMA	2.0	1.2	0.8
Water & Sewer Funds			
USACE Water Resources Development Act Section 219 Program[1]	139.0	9.3	129.7
ARPA Funds (Spent to Date with pending reimbursements)	46.0	46.0	0
TOTAL	**$655.7**	**$280.5**	**$375.2**

1) Authorized only – not appropriated
2) As of July 27, 2026

Though significant progress has been made, there are still significant capital needs to make the System sustainable into the future. The Water Order includes 13 priority projects and the Sewer Order includes 11 priority projects as well as fixing emergency sewer failures at more than 200 locations. These are in addition to other needs already identified during the ARPA process and with the USCOE 219 funding. To date, 6 of the 13 priority projects in the Water Order have been completed, with the remaining 7 priority projects expected to be completed by the end of 2027. Of the 11 priority projects in the Sewer Order, 4 have been completed, with the remaining 7 priority projects either in progress or awaiting dedicated funding.

JXN Water has completed its initial, comprehensive capital improvement needs assessment for both the Water and Sewer systems. Between the two systems, an estimated total of $767 million of additional capital expenditures will be needed over the next 25 years, $404 million for water and $364 million for sewer projects. Of the approximately $391.9 million of remaining capital grant funding listed above, all but the $129.7 million authorization (not appropriated) from the USACE is already earmarked for other projects, leaving only those funds as available to fund these newly identified capital needs. Based on the remaining grant capital funding available, this leaves approximately $637.4 million in capital expenditure that will need to be funded from System revenues.

Water System Capital Improvement Plan	
Short-Term (2025 - 2030) Projects	$45,877,000
Mid-Term (2030 - 2040) Projects	$88,233,000
Long-Term (Beyond 2040) Projects	$269,517,000
TOTAL	**$403,627,000**

Wastewater Capital Improvement Plan	
Short-Term (2026 - 2030) Projects	$68,404,868
Mid-Term (2030 - 2040) Projects	$107,401,915
Long-Term (Beyond 2040) Projects	$187,717,560
TOTAL	**$363,524,343**

Capital Expenditures - Sources and Uses ($ millions)	
Total Water & Sewer Capital Needs	$767.1
Available Authorized Grant Funding	$129.7
Funding Needed from System Revenues	**$637.4**

On an annual basis, this translates to an average of $28.6 million ($11.5 million for water projects and $17.1 million for sewer projects) in the short-term (over the next four years thru 2030), then an average of $19.6 million thru 2040. The short-term projects are critical to the operational and financial stability of the System. Particularly, certain short-term projects are essential to achieving the operating efficiencies needed to maintain operating expenses low during the same period. In other words, the System needs the short-term capital funding in order for the permanent cost savings to materialize.

Financial Modeling

With the new rate structure in place, JXN Water established a solid foundation for the long-term sustainability of the System. In spring of 2025, the ITPM sought approval of a rate increase of approximately 25% of the volumetric rate across all tiers, representing an increase of approximately 12% for the average monthly residential bill. The rate increase was not approved until 11 months later, going into effect in March 2026. See "Basis of Rate Design" above. Further, now with significantly more billing and consumption data from the new meters, JXN Water is able to better estimate the baseline for billed sales to customers. The financial modeling in this Plan has been updated to account for the almost one year delay in the rate increase taking effect and the revised baseline for customer billings.

The second critical variable in the financial projections is the collections rate assumptions. As noted above in "Introduction to Financial Plan Analysis – Collection Rate," collections have improved dramatically over the last three years since the appointment of JXN Water as ITPM. Since the beginning of 2026 through June 30, collections have averaged 82% which, with continued collections enforcement, can improve to over 85% for the year (above the target from the previous Financial Management Plan update of 80%). For modeling purposes, JXN Water is estimating 85% average collections for the year in 2026 – a rate that is achievable but not guaranteed. The assumed collections rate then increases to 90% in 2027 and 95% by 2028 and beyond. As the collections rate increases above 90%, JXN Water expects the collections rate to continue to increase, but at a slower pace. This will be the subject of future Financial Management Plan updates.

Despite the recent rate increase and increased collection rate to 85% for the year, 2026 operating revenues are estimated to be approximately $102.0 million based on the adjusted baseline for total billings. Assuming operating expenses for 2026 end as budgeted, this would result in an operating deficit of approximately $11.8 million. Adding the System's debt service of $19.5 million results in a total projected deficit of $31.3 million. With a full year of collections at the current rates and collections approaching 90%, the revenue generation of the System would be sufficient to cover operations, however, the System's debt service continues to be a heavy burden. Further, the System will need to generate additional revenues to support the necessary capital improvements identified for the System. To meet the financial goals and objectives stated herein and remain sustainable throughout the planning period, further adjustments (e.g., additional revenue, reduced debt service costs, and/or additional grant or loan funding) are required.

Prior Financial Model Assumptions

In prior financial projections, JXN Water had been assuming future rate increases of 6% in 2027, 6% in 2028 and 5% in 2029. In light of a new, more accurate baseline for billed revenues and the additional capital project identified in the recently completed needs assessment, rate increases in this range will not be sufficient to achieve the financial and operational goals of the System. Specifically, projections with this level of rate increases would result in the System:

- Running out of cash and becoming insolvent towards the end of 2027 / beginning of 2028;
- Not reaching 90 days cash on hand threshold until 2032 or later;
- Not achieving the minimum debt service coverage requirement until 2029 and target debt service coverage by 2030;
- Not being able to access the capital markets until 2032 (meeting both minimum coverage and having minimum days cash on hand are pre-requisites to being able to borrow for future capital needs);
- Deferring the additional capital projects identified as necessary in the short-term until 2030, underfunding capital needs through that period by $94 million.
- Not achieving the operational efficiencies critical to realizing the operating expense savings needed to accomplish the financial goals of the System.

For these reasons, revised financial projections with higher rate increases must be pursued.

<u>Updated "Base Case" Financial Model</u>

JXN Water has developed an updated "base case" financial model which calls for a 10% rate increase in Spring of 2027, a 9% increase in Spring of 2028, then 8% annual increase in Spring of 2029. After that, annual 3% inflationary rate increases are modeled through the projection period. The financial projections indicate that the System, with timely annual rate increases, could achieve financial solvency and reach its debt service coverage target by 2029. Until financial solvency is achieved, however, cash will continue to be a challenge for the System. The recent $54 million re-allocation of Section 1452 grant funds, along with a $16 million reimbursement from ARPA funds for previously spent dollars will provide the System with enough liquidity to sustain itself over the next 12 – 18 months. If a rate increase is not implemented timely at the appropriate levels, the System will be unable to continue paying its obligations.

The base case financial model balances multiple variables, such as a) meeting debt service coverage and liquidity goals, b) meeting minimum legal requirements for debt (such as funding a minimum level of reserves, and c) investing in the System through the execution of capital projects – all while keeping rates as affordable as possible. As described under "Summary of the Financial Management Plan's Action Items," JXN Water's medium-term goal is to reach total debt service coverage (i.e., net revenues divided by debt service) of at least 1.3x by 2029. Higher debt service coverage is better. Notably, the projections indicate the System can meet its legally required minimum coverage beginning in 2028 and each year thereafter. This, however, is based on the annual rate increases described above. In the projections, liquidity is measured by days cash on hand (i.e., unrestricted cash and investments expressed relative to days of operating expenses). Higher days cash on hand is better. The projected days cash on hand is extremely slim in the near-term. The Government Finance Officers Association ("GFOA") recommends that enterprise funds maintain a baseline minimum of 90 days of working capital, which JXN Water is projected to reach in 2030 based on the updated base case.

The updated base case still does not fund all of the newly identified capital requirements of the System but rather defers the identified short-term projects (2025 – 2030) to begin being funded in 2029. It does, however, put the System in good financial standing (cash above 90 days and debt service coverage above 1.30x) by 2030, allowing the System to access state revolving loan financing as early as 2029 and capital markets financing in 2030. Actual future rate increases pursued may differ from those assumed in the updated base case financial model as JXN Water continues to look for ways to advance these short-term projects sooner. Implementing annual rate increases in a timely manner and pushing collections upwards will be critical to generating sufficient revenues to support the additional capital projects.

Impact of Delayed Rate Increase

No water and sewer system can survive for long without a rate increase. It will be important to regularly adjust water and sewer rates in order to diminish the impact to ratepayers in any single year. As an example, to illustrate the effect of a delayed rate increase, the table that follows shows the projected revenues, assuming the only change is a delay in implementing a rate increase in 2027 for one year. A delay in implementing a rate increase in 2027 for one year results in total lost revenues of over $62 million through 2035.

Baseline	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total
Rate Increases (%)		10%	9%	8%	3%	3%	3%	3%	3%	3%	
Collections Rate	85%	90%	95%	95%	95%	95%	95%	95%	95%	95%	
Total Revenues ($ MM)	102.0	119.1	137.6	149.3	157.3	162.0	166.9	171.9	177.1	182.4	1,525.6
versus											
No 2027 Rate Increase	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total
Rate Increases (%)		0%	10%	9%	8%	3%	3%	3%	3%	3%	
Collections Rate	85%	90%	95%	95%	95%	95%	95%	95%	95%	95%	
Total Revenues ($ MM)	102.0	113.4	125.7	137.6	149.3	157.3	162.0	166.9	171.9	177.1	1,463.2
Difference ($ MM)		(5.67)	(11.91)	(11.67)	(8.07)	(4.72)	(4.86)	(5.01)	(5.16)	(5.31)	(62.37)

Alternative Solution – Acquisition Financing

Recognizing the need to minimize the impact of rate increases on customers, JXN Water has identified the acquisition financing described in section "Debt Restructuring Options – Proposed Acquisition Financing" as a way to reduce the burden on customers, while accelerating the System's operational and financial goals. The acquisition financing would allow the System to have smaller rate increases, achieve financial solvency quicker, and restore its ability to access the capital markets sooner compared to the updated base case.

The acquisition financing would be similar to a tax-exempt refinancing, something that could not otherwise be done given current tax regulations, and could be structured in a way that would generate immediate and significant debt service relief for the System. While the acquisition financing could provide short-term savings in the form of debt service relief if executed at any time in the future, the System and its customers would benefit most from executing this strategy as soon as possible. The sooner the acquisition financing is executed, the sooner the System will be able to achieve its financial and, in turn, operational goals. The analysis herein assumes the acquisition financing is executed in Q2 2028.

Implementing this alternative solution by Q2 2028, the System could:

- Reduce the financial burden on customers, targeting rate increases of 5% in 2028 and 2029 (as opposed to 9% and 8% respectively)
- Achieve target debt service coverage of 1.3x in 2028 (as opposed to 2029)
- Begin accessing the capital market and other low-cost loans to support the capital needs as early as 2028 (as opposed to 2029)
- Achieve its cash reserves goal of 90 days in 2029 (as opposed to 2030)

JXN Water views this as the optimal solution to achieving the System's operational and financial goals, while minimizing the impact to the community, however, its implementation will require planning, coordination and collaboration from stakeholders.

Scenario Comparison — Base Case vs. Acquisition Financing

	Updated Base Case	Acquisition Financing
Annual Rate Increase (Spring)		
2027	10%	10%
2028	9%	5%
2029	8%	5%
Thereafter	3% / yr	3% / yr
Year Financial Goal Is Achieved		
Total debt service coverage target (≥1.30×)	2029	2028
Liquidity goal — 90 days cash on hand	2030	2029
Regain capital-market access	2030	2029
Begin funding deferred short-term CIP	2029	2028
Cumulative capital funded through 2029 (pay-go + bond proceeds + matching grants)	~$20M	~$113M
Cumulative deferred capital improvements through 2029	~($66M)	$0

Green shading marks the scenario with the lower rate burden or earlier goal achievement.

Future Governance Model

Because of its incorporation status as a private corporation, JXN Water, Inc. does not have the same rights as other state and local government entities. For example, JXN Water, Inc. cannot access tax-exempt financing nor can it issue debt through a negotiated sale process, both of which pose a significant challenge to successfully execute any refinancing of the System's debt. A new governance model must be implemented to pursue the acquisition financing described herein.

Another challenge with JXN Water, Inc.'s current structure is that it does not have clear legal authority to finance working capital needs.

Recommendations

Based upon this Plan, the following actions will be undertaken by the ITPM after further consultation with key stakeholders:

- Pursue its annual rate increase in Spring 2027 of approximately 10% as discussed in the updated base case financial projections herein.
- Continue stringent collection efforts, including an aggressive severance of service strategy.

- Continue efforts to address the System’s near-term cash flow challenges, including seeking additional grant funding.
- Facilitate the acquisition financing strategy in order to reduce future rate increases and accelerate facility improvements.
- Refine and update this Plan as new information becomes available.

APPENDIX A - Calculation of Recurring Re-investment Needs Based on Plant Value

From the City's FY 2023 Annual Comprehensive Financial Report (latest available data):

Property, plant, and equipment at cost

• Land	$1,780,576
• Buildings	1,523,256
• Water plant, distribution system and equipment	<u>890,700,821</u>
	$894,004,653

Minimum goal is 2% reinvestment per year = ~$17,900,000
Financial Plan target = $20,000,000 per year or 2.2%

APPENDIX B-1 – Long-term Financial Model Outputs (Prior Modeling Assumptions)

	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Water & Sewer Rate Increases (%)		6%	6%	5%	4%	4%	4%	4%	4%	4%
Collections Rate	85%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Total Operating Revenues	**102,000,000**	**116,802,000**	**130,688,460**	**137,857,293**	**144,044,059**	**149,805,822**	**155,798,055**	**162,029,977**	**168,511,176**	**175,251,623**
Operating Expenditures — Growth Rate >>	0.00%	0.00%	0.00%	0.00%	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Water Operating Contracts	56,700,000	56,700,000	56,700,000	56,700,000	57,834,000	59,569,020	61,356,091	63,196,773	65,092,677	67,045,457
Sewer Operating Contracts	33,702,000	33,702,000	33,702,000	33,702,000	34,376,040	35,407,321	36,469,541	37,563,627	38,690,536	39,851,252
Customer Service (Billing, Call Center, Metering)	15,360,000	15,360,000	15,360,000	15,360,000	15,667,200	16,137,216	16,621,332	17,119,972	17,633,572	18,162,579
JXN Water Payroll	3,816,000	3,816,000	3,816,000	3,816,000	3,892,320	4,009,090	4,129,362	4,253,243	4,380,840	4,512,266
JXN Water Operating	4,170,000	4,170,000	4,170,000	4,170,000	4,253,400	4,381,002	4,512,432	4,647,805	4,787,239	4,930,856
Depreciation	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756
Total Operating Expenditures	**113,842,756**	**113,842,756**	**113,842,756**	**113,842,756**	**116,117,716**	**119,598,405**	**123,183,514**	**126,876,177**	**130,679,620**	**134,597,166**
Net Operating Income (Loss)	**(11,842,756)**	**2,959,244**	**16,845,704**	**24,014,537**	**27,926,343**	**30,207,417**	**32,614,540**	**35,153,800**	**37,831,556**	**40,654,457**
Contributions & Operating Grants	43,500,000	10,500,000	-	-	-	-	-	-	-	-
Net Income Available for Debt Service	**31,752,000**	**13,554,000**	**16,940,460**	**24,109,293**	**28,021,099**	**30,302,173**	**32,709,296**	**35,248,556**	**37,926,312**	**40,749,213**
Total Existing Debt Service	19,528,650	19,522,774	19,314,798	19,273,980	19,271,988	19,282,200	19,288,898	19,264,530	19,248,201	9,659,138
Total Projected Debt Service	-	-	-	-	-	422,100	1,844,410	4,278,410	4,276,490	4,277,650
Total Existing & Projected Debt Service	**19,528,650**	**19,522,774**	**19,314,798**	**19,273,980**	**19,271,988**	**19,704,300**	**21,133,308**	**23,542,940**	**23,524,691**	**13,936,788**
Total Debt Service Coverage	**1.63**	**0.69**	**0.88**	**1.25**	**1.45**	**1.54**	**1.55**	**1.50**	**1.61**	**2.92**
Days Cash on Hand										
Beginning Unrestricted Cash & Investments	(21,027,640)	7,229,001	1,293,517	(1,047,532)	3,821,071	12,603,472	23,234,635	32,843,913	39,582,818	49,017,729
Net Cash Flow After Operations & Debt Service	(31,243,360)	(16,435,484)	(2,341,048)	4,868,603	8,782,401	10,631,162	11,609,278	11,738,905	14,434,911	26,845,715
Cash Funding of Capital (Pay-Go)	-	-	-	-	-	-	2,000,000	5,000,000	5,000,000	15,000,000
Total Contributions & Grants	59,500,000	10,500,000	-	-	-	-	-	-	-	-
Ending Unrestricted Cash & Investments	**7,229,001**	**1,293,517**	**(1,047,532)**	**3,821,071**	**12,603,472**	**23,234,635**	**32,843,913**	**39,582,818**	**49,017,729**	**60,863,444**
Days Cash on Hand	**23**	**4**	**(3)**	**12**	**40**	**71**	**97**	**114**	**137**	**165**

	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Total CIP Projects (Uses)	-	28,570,467	28,570,467	28,570,467	28,570,467	19,562,492	19,562,492	19,562,492	19,562,492	19,562,492
CIP Funding (Source)										
Pay-Go	-	-	-	-	-	-	2,000,000	5,000,000	5,000,000	15,000,000
Capital Grants	-	-	-	-	-	-	85,470,000	15,000,000	15,000,000	14,230,000
Revenue Bond	-	-	-	-	-	-	26,490,000	-	-	-
SRF	-	-	-	-	19,900,000	19,900,000	-	-	-	-
Total CIP Funding (Source)	-	-	-	-	19,900,000	19,900,000	113,960,000	20,000,000	20,000,000	29,230,000
CIP Overfunded (Underfunded)	-	(28,570,467)	(28,570,467)	(28,570,467)	(8,670,467)	337,508	94,397,508	437,508	437,508	9,667,508
Cumulative Overfunded (Underfunded)	-	(28,570,467)	(57,140,934)	(85,711,401)	(94,381,868)	(94,044,360)	353,149	790,657	1,228,166	10,895,674

APPENDIX B-2 – Long-term Financial Model Outputs (Updated Base Case)

	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Water & Sewer Rate Increases (%)		10%	9%	8%	3%	3%	3%	3%	3%	3%
Collections Rate	85%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Total Operating Revenues	**102,000,000**	**119,070,000**	**137,595,150**	**149,261,112**	**157,326,953**	**162,046,761**	**166,908,164**	**171,915,409**	**177,072,871**	**182,385,058**
Operating Expenditures **Growth Rate >>**	0.00%	0.00%	0.00%	0.00%	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Water Operating Contracts	56,700,000	56,700,000	56,700,000	56,700,000	57,834,000	59,569,020	61,356,091	63,196,773	65,092,677	67,045,457
Sewer Operating Contracts	33,702,000	33,702,000	33,702,000	33,702,000	34,376,040	35,407,321	36,469,541	37,563,627	38,690,536	39,851,252
Customer Service (Billing, Call Center, Metering)	15,360,000	15,360,000	15,360,000	15,360,000	15,667,200	16,137,216	16,621,332	17,119,972	17,633,572	18,162,579
JXN Water Payroll	3,816,000	3,816,000	3,816,000	3,816,000	3,892,320	4,009,090	4,129,362	4,253,243	4,380,840	4,512,266
JXN Water Operating	4,170,000	4,170,000	4,170,000	4,170,000	4,253,400	4,381,002	4,512,432	4,647,805	4,787,239	4,930,856
Depreciation	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756
Total Operating Expenditures	**113,842,756**	**113,842,756**	**113,842,756**	**113,842,756**	**116,117,716**	**119,598,405**	**123,183,514**	**126,876,177**	**130,679,620**	**134,597,166**
Net Operating Income (Loss)	**(11,842,756)**	**5,227,244**	**23,752,394**	**35,418,356**	**41,209,237**	**42,448,357**	**43,724,650**	**45,039,232**	**46,393,252**	**47,787,892**
Contributions & Operating Grants	43,500,000	10,500,000	-	-	-	-	-	-	-	-
Net Income Available for Debt Service	**31,752,000**	**15,822,000**	**23,847,150**	**35,513,112**	**41,303,993**	**42,543,113**	**43,819,406**	**45,133,988**	**46,488,008**	**47,882,648**
Total Existing Debt Service	19,528,650	19,522,774	19,314,798	19,273,980	19,271,988	19,282,200	19,288,898	19,264,530	19,248,201	9,659,138
Total Projected Debt Service	-	-	-	-	422,100	2,557,800	2,554,990	2,556,070	2,555,740	2,554,195
Total Existing & Projected Debt Service	**19,528,650**	**19,522,774**	**19,314,798**	**19,273,980**	**19,694,088**	**21,840,000**	**21,843,888**	**21,820,600**	**21,803,941**	**12,213,333**
Total Debt Service Coverage	**1.63**	**0.81**	**1.23**	**1.84**	**2.10**	**1.95**	**2.01**	**2.07**	**2.13**	**3.92**
Days Cash on Hand										
Beginning Unrestricted Cash & Investments	(21,027,640)	7,229,001	3,561,517	8,127,158	24,399,580	40,042,775	55,779,177	72,787,985	86,134,663	100,852,020
Net Cash Flow After Operations & Debt Service	(31,243,360)	(14,167,484)	4,565,642	16,272,422	21,643,195	20,736,402	22,008,808	23,346,678	24,717,357	35,702,605
Cash Funding of Capital (Pay-Go)	-	-	-	-	6,000,000	5,000,000	5,000,000	10,000,000	10,000,000	15,000,000
Total Contributions & Grants	59,500,000	10,500,000	-	-	-	-	-	-	-	-
Ending Unrestricted Cash & Investments	**7,229,001**	**3,561,517**	**8,127,158**	**24,399,580**	**40,042,775**	**55,779,177**	**72,787,985**	**86,134,663**	**100,852,020**	**121,554,624**
Days Cash on Hand	**23**	**11**	**26**	**78**	**126**	**170**	**216**	**248**	**282**	**330**

	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Total CIP Projects (Uses)	-	28,570,467	28,570,467	28,570,467	28,570,467	19,562,492	19,562,492	19,562,492	19,562,492	19,562,492
CIP Funding (Source)										
Pay-Go	-	-	-	-	6,000,000	5,000,000	5,000,000	10,000,000	10,000,000	15,000,000
Capital Grants	-	-	-	-	70,980,000	15,000,000	15,000,000	28,720,000	-	-
Revenue Bond	-	-	-	-	17,660,000	-	-	-	-	-
SRF	-	-	-	19,900,000	-	-	-	-	-	-
Total CIP Funding (Source)	-	-	-	19,900,000	94,640,000	20,000,000	20,000,000	38,720,000	10,000,000	15,000,000
CIP Overfunded (Underfunded)	-	(28,570,467)	(28,570,467)	(8,670,467)	66,069,533	437,508	437,508	19,157,508	(9,562,492)	(4,562,492)
Cumulative Overfunded (Underfunded)	-	(28,570,467)	(57,140,934)	(65,811,401)	258,132	695,640	1,133,149	20,290,657	10,728,166	6,165,674

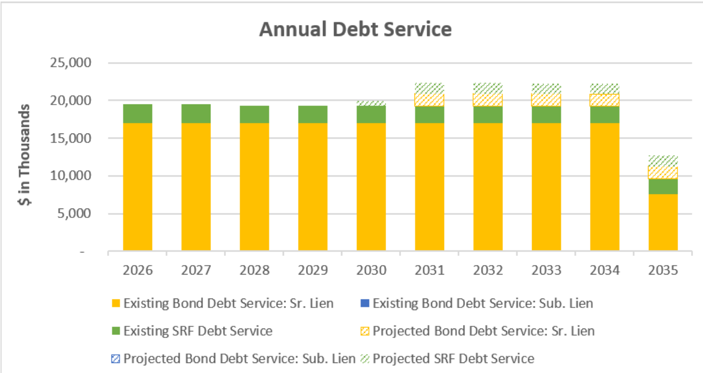
APPENDIX B-3 – Long-term Financial Model Outputs (Acquisition Financing)

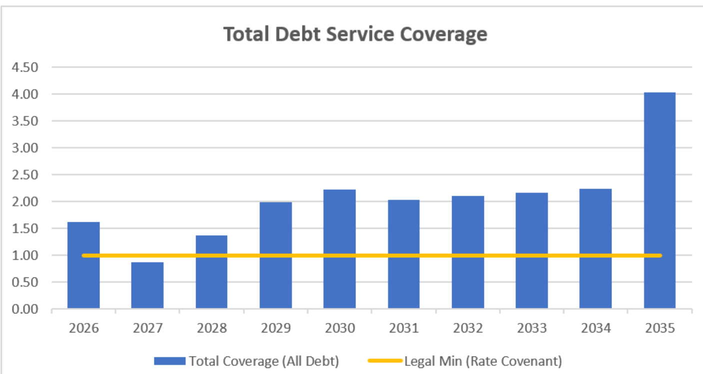
	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Water & Sewer Rate Increases (%)		10%	5%	5%	3%	3%	3%	3%	3%	3%
Collections Rate	85%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Total Operating Revenues	**102,000,000**	**119,070,000**	**134,961,750**	**141,709,838**	**147,343,668**	**151,763,978**	**156,316,897**	**161,006,404**	**165,836,596**	**170,811,694**
Operating Expenditures Growth Rate >>	0.00%	0.00%	0.00%	0.00%	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Water Operating Contracts	56,700,000	56,700,000	56,700,000	56,700,000	57,834,000	59,569,020	61,356,091	63,196,773	65,092,677	67,045,457
Sewer Operating Contracts	33,702,000	33,702,000	33,702,000	33,702,000	34,376,040	35,407,321	36,469,541	37,563,627	38,690,536	39,851,252
Customer Service (Billing, Call Center, Metering)	15,360,000	15,360,000	15,360,000	15,360,000	15,667,200	16,137,216	16,621,332	17,119,972	17,633,572	18,162,579
JXN Water Payroll	3,816,000	3,816,000	3,816,000	3,816,000	3,892,320	4,009,090	4,129,362	4,253,243	4,380,840	4,512,266
JXN Water Operating	4,170,000	4,170,000	4,170,000	4,170,000	4,253,400	4,381,002	4,512,432	4,647,805	4,787,239	4,930,856
Depreciation	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756	94,756
Total Operating Expenditures	**113,842,756**	**113,842,756**	**113,842,756**	**113,842,756**	**116,117,716**	**119,598,405**	**123,183,514**	**126,876,177**	**130,679,620**	**134,597,166**
Net Operating Income (Loss)	**(11,842,756)**	**5,227,244**	**21,118,994**	**27,867,082**	**31,225,952**	**32,165,573**	**33,133,383**	**34,130,227**	**35,156,976**	**36,214,528**
Contributions & Operating Grants	43,500,000	10,500,000	-	-	-	-	-	-	-	-
Net Income Available for Debt Service	**31,752,000**	**15,822,000**	**21,213,750**	**27,961,838**	**31,320,708**	**32,260,329**	**33,228,139**	**34,224,983**	**35,251,732**	**36,309,284**
Total Existing Debt Service	19,528,650	19,522,774	5,677,423	16,271,258	17,828,858	17,824,258	19,386,058	19,385,583	19,347,736	20,743,976
Total Projected Debt Service	-	-	-	316,365	2,732,165	2,727,780	2,727,090	2,724,990	2,726,285	2,730,870
Total Existing & Projected Debt Service	**19,528,650**	**19,522,774**	**5,677,423**	**16,587,623**	**20,561,023**	**20,552,038**	**22,113,148**	**22,110,573**	**22,074,021**	**23,474,846**
Total Debt Service Coverage	**1.63**	**0.81**	**3.74**	**1.69**	**1.52**	**1.57**	**1.50**	**1.55**	**1.60**	**1.55**
Days Cash on Hand										
Beginning Unrestricted Cash & Investments	(21,027,640)	7,229,001	3,561,517	19,131,133	28,038,638	36,331,613	45,073,193	51,221,474	57,369,174	58,580,175
Net Cash Flow After Operations & Debt Service	(31,243,360)	(14,167,484)	15,569,617	11,407,505	10,792,975	11,741,581	11,148,281	12,147,700	13,211,001	12,867,729
Cash Funding of Capital (Pay-Go)	-	-	-	2,500,000	2,500,000	3,000,000	5,000,000	6,000,000	12,000,000	20,000,000
Total Contributions & Grants	59,500,000	10,500,000	-	-	-	-	-	-	-	-
Ending Unrestricted Cash & Investments	**7,229,001**	**3,561,517**	**19,131,133**	**28,038,638**	**36,331,613**	**45,073,193**	**51,221,474**	**57,369,174**	**58,580,175**	**51,447,904**
Days Cash on Hand	**23**	**11**	**61**	**90**	**114**	**138**	**152**	**165**	**164**	**140**

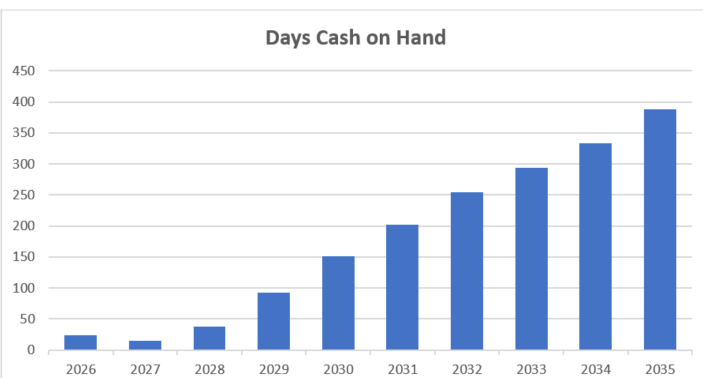
	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Total CIP Projects (Uses)	-	28,570,467	28,570,467	28,570,467	28,570,467	19,562,492	19,562,492	19,562,492	19,562,492	19,562,492
CIP Funding (Source)										
Pay-Go	-	-	-	2,500,000	2,500,000	3,000,000	5,000,000	6,000,000	12,000,000	20,000,000
Capital Grants	-	-	-	73,725,000	7,500,000	9,000,000	15,000,000	18,000,000	6,475,000	-
Revenue Bond	-	-	-	22,075,000	-	-	-	-	-	-
SRF	-	-	14,925,000	-	-	-	-	-	-	-
Total CIP Funding (Source)	-	-	14,925,000	98,300,000	10,000,000	12,000,000	20,000,000	24,000,000	18,475,000	20,000,000
CIP Overfunded (Underfunded)	-	(28,570,467)	(13,645,467)	69,729,533	(18,570,467)	(7,562,492)	437,508	4,437,508	(1,087,492)	437,508
Cumulative Overfunded (Underfunded)	-	(28,570,467)	(42,215,934)	27,513,599	8,943,132	1,380,640	1,818,149	6,255,657	5,168,166	5,605,674

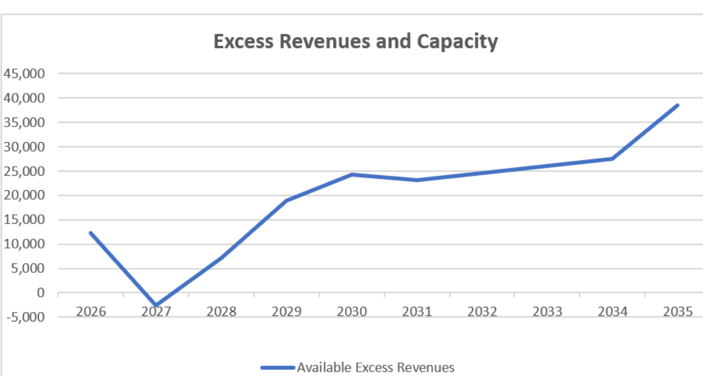
APPENDIX C– Financial Model Updated Base Case vs Acquisition Financing Graphs

UPDATED BASE CASE SCENARIO
(Rate Increases: 10% in 2027, 9% in 2028, 8% in 2029)









ACQUISITION FINANCING SCENARIO
(Rate Increases: 10% in 2027, 5% in 2028, 5% in 2029)