DAVENPORT & COMPANY

Town of Herndon, VA

Water & Sewer Fund Capital Planning Update

February 24, 2026

Member NYSE|FINRA|SIPC

Background

- Davenport & Company LLC ("Davenport") serves as Financial Advisor to the Town of Herndon (the "Town").

- In our capacity as Financial Advisor, Davenport routinely assists in Multi-Year Capital Planning for both General Government and Enterprise Funds.

- The Town operates a Water and Sewer Utility Enterprise System (the "Water and Sewer System"). The Water and Sewer System has historically been self-supporting and has not relied on support from the General Fund.

  - A self-supporting Water and Sewer System is viewed as a "Best Practice" by the National Credit Rating Agencies and an expectation of 'Aaa/AAA/AAA' local governments.

- Davenport presented a Multi-Year Financial Plan during the FY 2026 Budget Process, which aimed to maintain financial strength and sustainability in the Town's Water and Sewer System. Updates to the Multi-Year Financial Plan are contained herein.

Goals and Objectives

1) Review the Water and Sewer System's historical financial results, key financial metrics, and comparative utility rates;

2) Update the current Multi-Year Financial Plan to produce sufficient positive annual cash-flow while developing a funding approach that fairly and equitably spreads the cost of capital needs over time - such that today's users of the system are not over-burdened with the cost of capital that will benefit users of the system for years to come; and

3) Maintain critical financial metrics at/or above Rating Agency best practices for 'Aaa/AAA/AAA' rated local governments.

Initial Observations

- The Town's Water and Sewer System has historically been self-supporting and has not relied on support from the General Fund. This is an important "Best Practice" that should be continued as it ensures that the users of the system pay for the system and the system is not a drain on the resources of the General Fund.

- The Water and Sewer System's revenues have demonstrated solid growth, reflecting the rate increases implemented during the prior year's budget processes.

- The Water and Sewer System continues to be pressured by expenditures:
  - Operationally the Town is impacted by general inflation and added staff to facilitate regulatory requirements and testing.
  - The Water and Sewer System maintains a robust capital program that includes maintenance/replacement, regulatory-related, and capacity-related projects.

- The Water and Sewer System currently has substantial aggregate cash reserves. This is a strength for the Town as it insulates the Water and Sewer System from uncertainty related to growth, capital cost, and inflationary pressure on the operating budget.

- The typical quarterly bill for a residential customer in the Town continues to be amongst the lowest in the region.

Water & Sewer System Financial Policies

- The Town maintains two key critical financial policies related to the Water and Sewer System (*please refer to Appendix A for Adopted Policy descriptions*):

1) Days Cash on Hand:

   - Maintain at least 250 Days Cash on Hand.
   - This policy is a measurement of the Water and Sewer System's cash reserves in proportion to operating expenses and debt service. 250 Days Cash on Hand translates to roughly $7.1 million based upon FY 2025 Audited numbers.

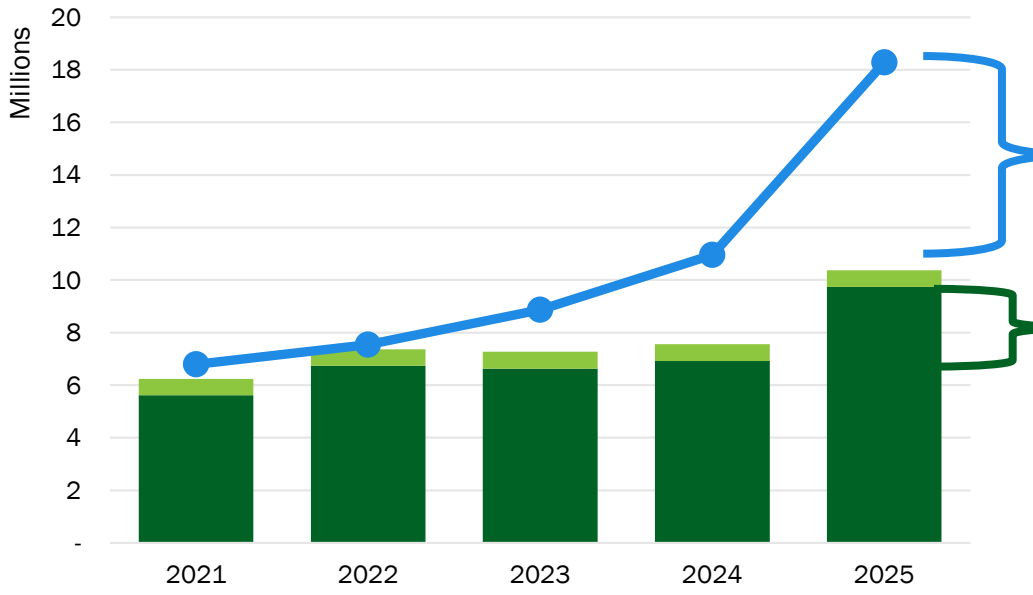
2) Debt Service Coverage:

   - Maintain at least 1.70x the annual debt service in Net Revenues.
   - This policy is a measurement of annual cash-flow and budgetary flexibility. It compares revenues after the payment of operating expenditures vs. annual debt service. At 1.70x Debt Service Coverage, the Water and Sewer System has $1.70 for every $1.00 of debt service for the current fiscal year.

Water & Sewer System Historical Financials

- The Water and Sewer System's financial results for the last five fiscal years are summarized below:

Historical Financial Performance



Over $6.2 million in availability fees collected in FY 2025. These revenues are nonrecurring, and the timing of collection is uncertain.

Operating Expenditures increased roughly 40% from FY 2024 to FY 2025, largely attributable to the Town's sewer service contract. A portion of the increase in the sewer service contract is tied to capital (~$2.6M).

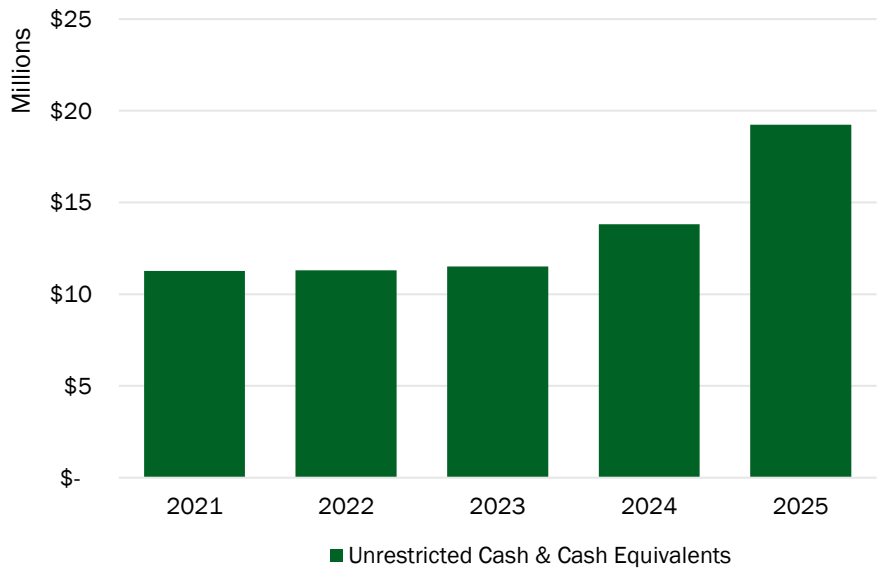
FY	2021	2022	2023	2024	2025
Total Operating Revenues	$ 6,710,552	$ 7,329,578	$ 8,323,110	$ 9,077,719	$ 10,193,617
Availability Fees & Non-Operating Income	84,058	215,367	552,735	1,881,727	8,090,138
Total Operating Expenditures	(5,615,114)	(6,741,392)	(6,637,788)	(6,926,277)	(9,748,120)
Debt Service	(624,456)	(629,902)	(638,700)	(639,737)	(629,510)
Net Income	**$ 555,040**	**$ 173,651**	**$ 1,599,357**	**$ 3,393,432**	**$ 7,906,125**

Source: Town Audits

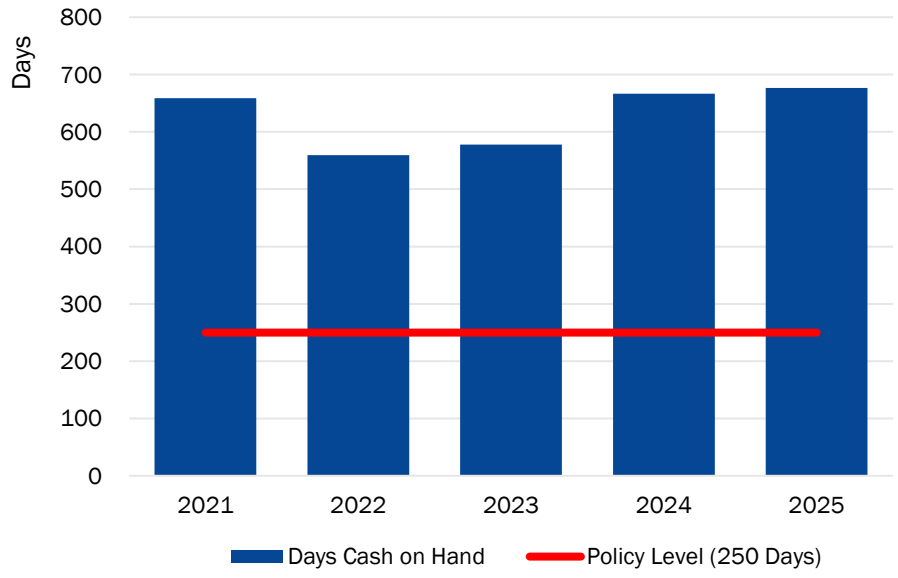
Water & Sewer System Financial Metrics

- The Water and Sewer System's historical cash reserves and Days Cash on Hand Ratio are summarized below.

Cash Reserves



Days Cash on Hand



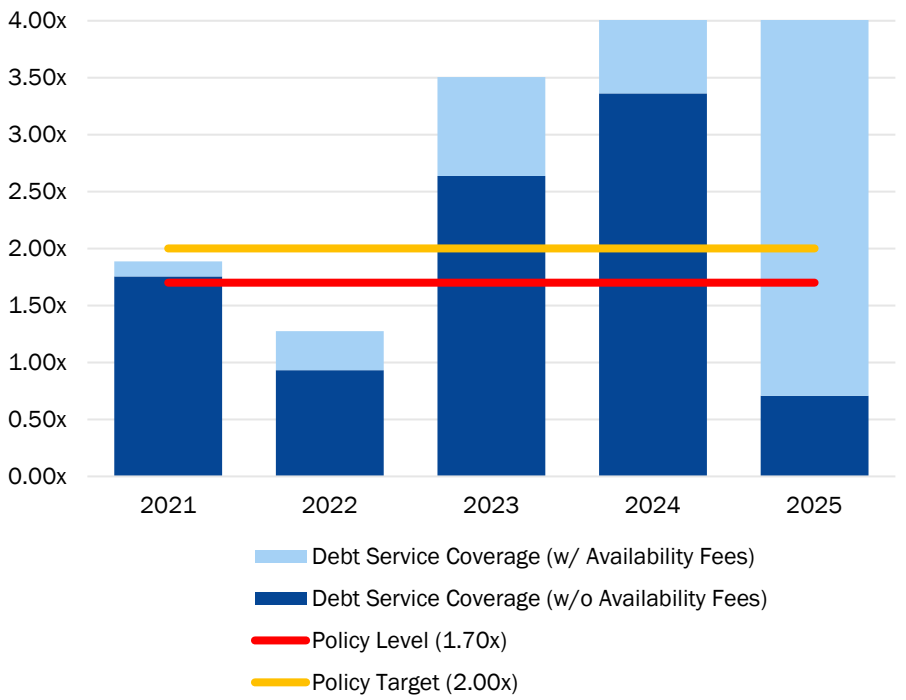
FY	2021	2022	2023	2024	2025
Unrestricted Cash & Cash Equivalents	$ 11,266,338	$ 11,294,664	$ 11,517,440	$ 13,813,966	$ 19,235,557
Days Cash on Hand	659	559	578	666	677
Policy Level (250 Days)	250	250	250	250	250

Source: Town Audits

Water & Sewer System Financial Metrics (cont.)

- The Water and Sewer System's historical debt service coverage ratio is shown below.
- Availability Fees in FY 2025 temporarily increased debt service coverage above policy levels; however, these revenues are one-time in nature.
- Debt service has remained generally level due to the Town's practice of cash-funding capital projects.

Debt Service Coverage Ratio



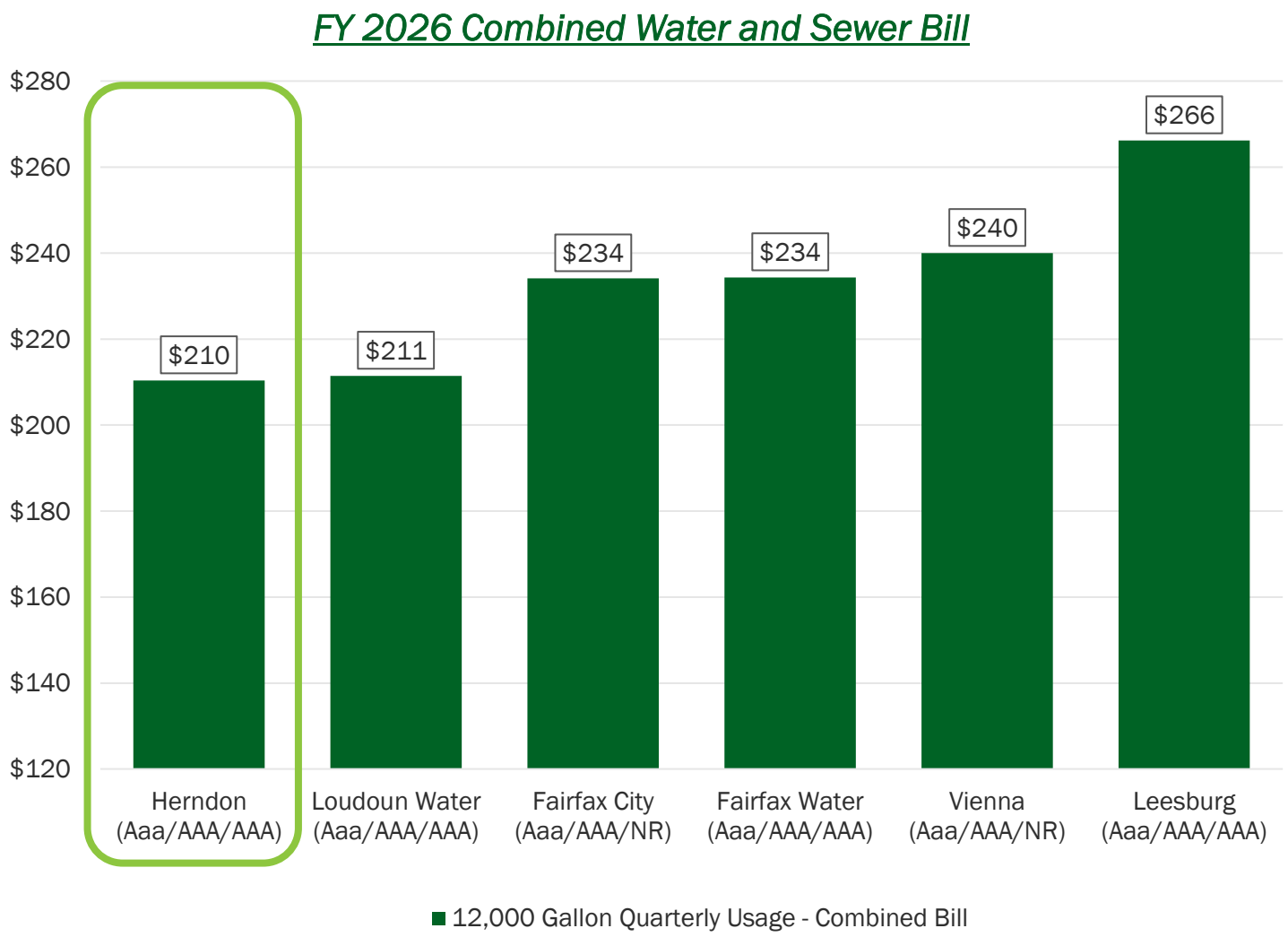
FY	2021	2022	2023	2024	2025
Operating Income (Loss)	$ 1,095,438	$ 588,186	$ 1,685,322	$ 2,151,442	$ 445,497
Availability Fees & Non-Operating Income	84,058	215,367	552,735	1,881,727	8,090,138
Debt Service	624,456	629,902	638,700	639,737	629,510
Debt Service Coverage without Availability Fees[(1)]	1.75x	0.93x	2.64x	3.36x	0.71x
Debt Service Coverage with Availability Fees	1.89	1.28	3.50	6.30	13.56

(1) Coverage is impacted by the capital component of the sewer service contract being included in Operating Expenses.

Source: Town Audits

Water and Sewer Rates – Peer Comparison

- Following the Town's adopted FY 2026 rate increases, the combined Water & Sewer Quarterly Bill for a typical residential user remains amongst the lowest in the region.



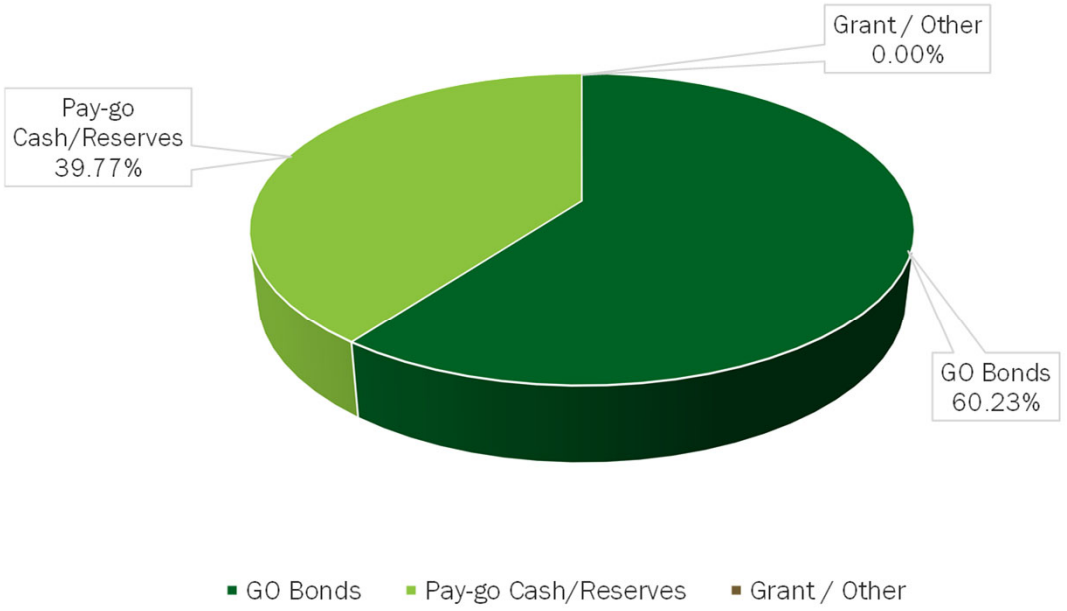
Source: Respective Locality/Authority website. See Appendix for additional detail.
Rating Key: (Moody's/S&P/Fitch). NR = Not Rated.

Multi-Year Financial Plan Update

Multi-Year Financial Plan Update
Capital Improvement Plan

- The Town's CIP contemplates roughly $147 million of funding between FY 2026 – FY 2031.

- The current estimated ratio of funding is approximately 60% Debt vs. 40% Equity.



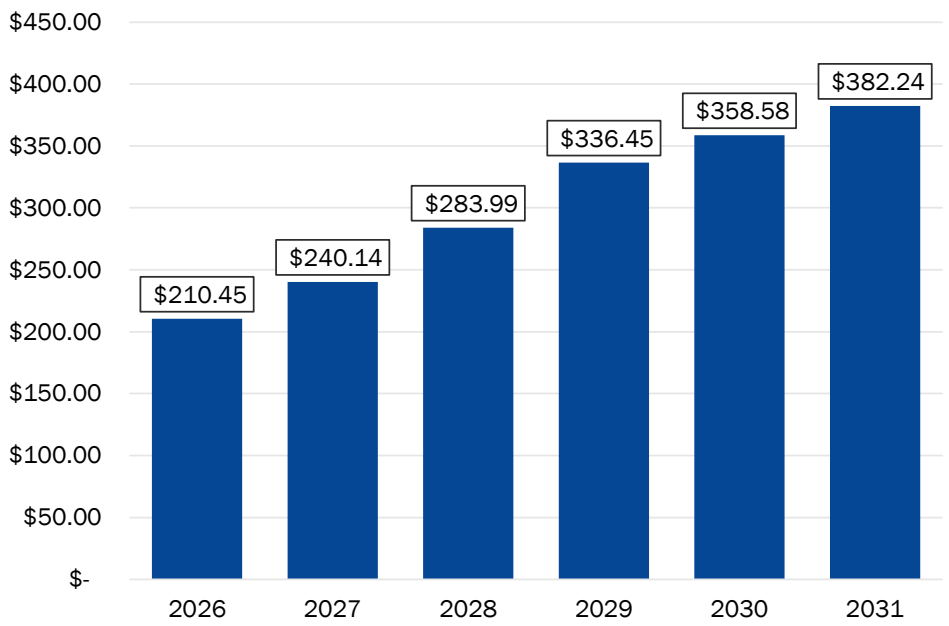
Combined Water & Sewer CIP

FY	2026	2027	2028	2029	2030	2031	Total
GO Bonds	$ -	$ 13,900,000	$ 51,550,000	$ 16,150,000	$ 6,844,000	$ -	$ 88,444,000
Pay-go Cash/Reserves	12,217,003	5,499,019	10,877,658	13,462,912	8,084,345	8,270,838	58,411,775
Grant / Other	-	-	-	-	-	-	-
Total	**$ 12,217,003**	**$ 19,399,019**	**$ 62,427,658**	**$ 29,612,912**	**$ 14,928,345**	**$ 8,270,838**	**$ 146,855,775**

Source: Expenditures from Town Staff.
Note: Includes Capital Portion of Sewer Service Contract and Capital Portion of Water Service Contract.

Multi-Year Financial Plan Update
Projected Customer Quarterly Bill

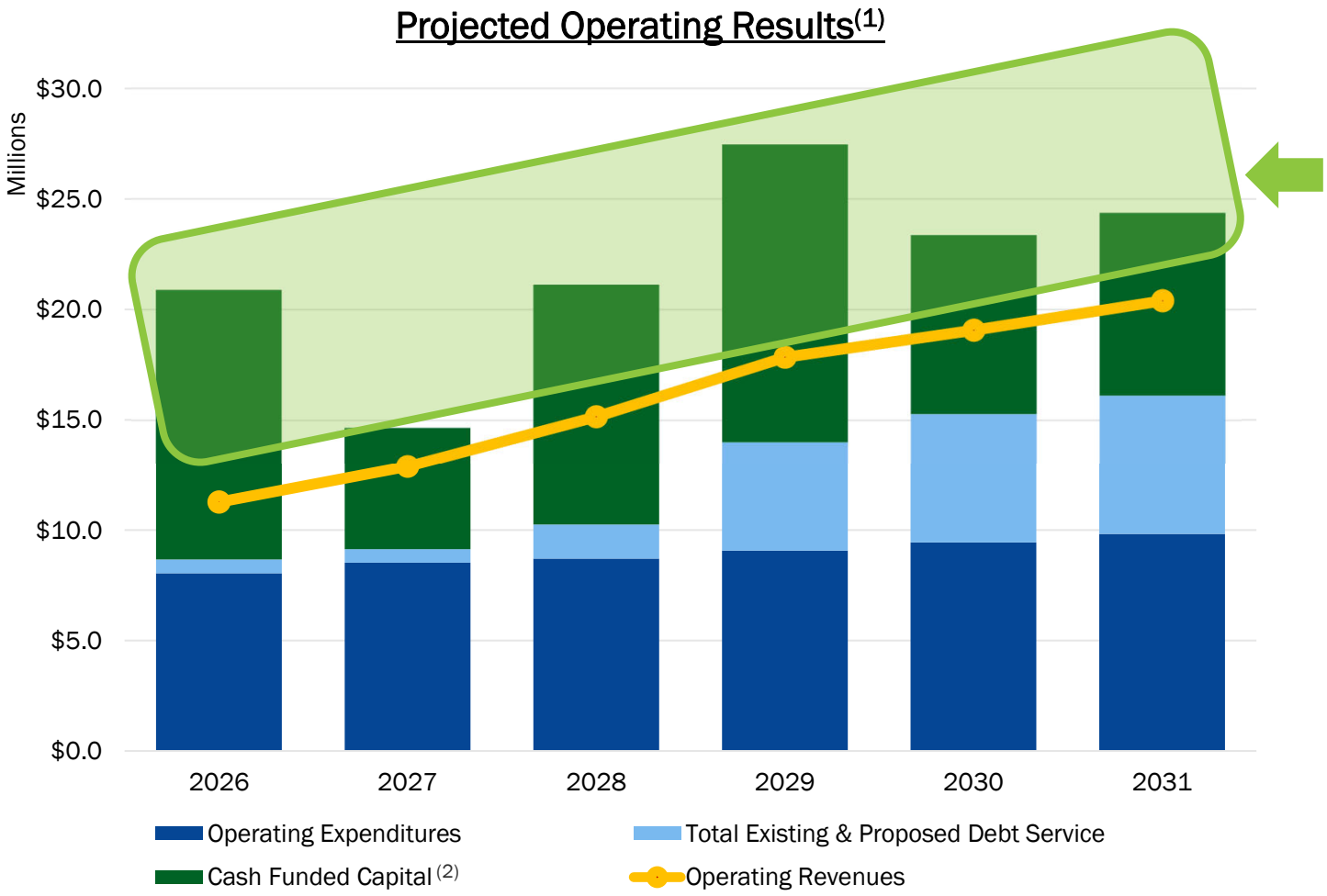
Projected Typical Customer Quarterly Bill ($)



Fiscal Year	2026	2027	2028	2029	2030	2031
Water Rate Increases						
Customer Quarterly Bill - 12,000 Gallons (No Peak)	$ 78.77	$ 95.21	$ 115.32	$ 139.99	$ 147.58	$ 155.58
Annual % Change	N/A	20.9%	21.1%	21.4%	5.4%	5.4%
Sewer Rate Increases						
Customer Quarterly Bill - 12,000 Gallons (No Peak)	$ 131.68	$ 144.93	$ 168.66	$ 196.45	$ 211.00	$ 226.66
Annual % Change	N/A	10.1%	16.4%	16.5%	7.4%	7.4%
Combined Rate Increases						
Customer Quarterly Bill - 12,000 Gallons (No Peak)	$ 210.45	$ 240.14	$ 283.99	$ 336.45	$ 358.58	$ 382.24
Annual % Change	N/A	14.1%	18.3%	18.5%	6.6%	6.6%

Note: Results are preliminary, and subject to change. Actual results may vary from these estimates.

Multi-Year Financial Plan Update
Projected Operating Results

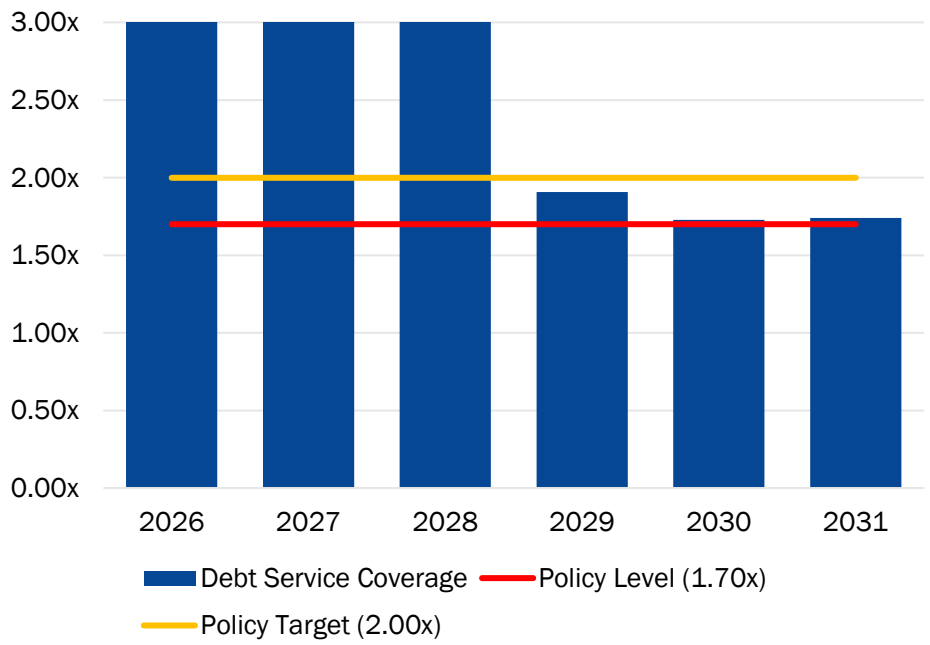


Reserves are deployed to cover deficits caused by capital expenditures.

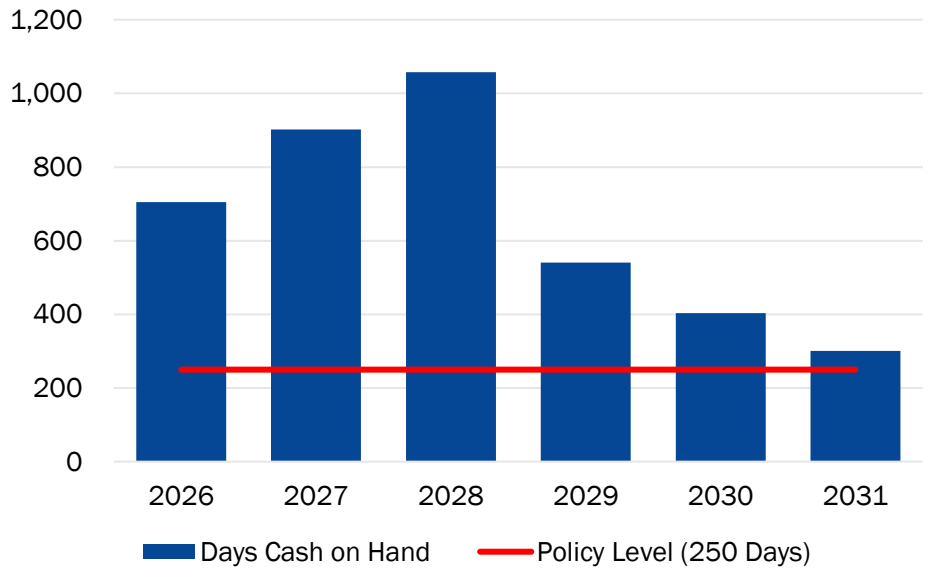
(1) See Appendix for additional detail. Operating Revenues do not include Availability Fees.
(2) Cash Funded capital includes pay-go from the Availability Fee Fund.

Multi-Year Financial Plan Update
Projected Financial Policies

Debt Service Coverage Ratio



Days Cash on Hand

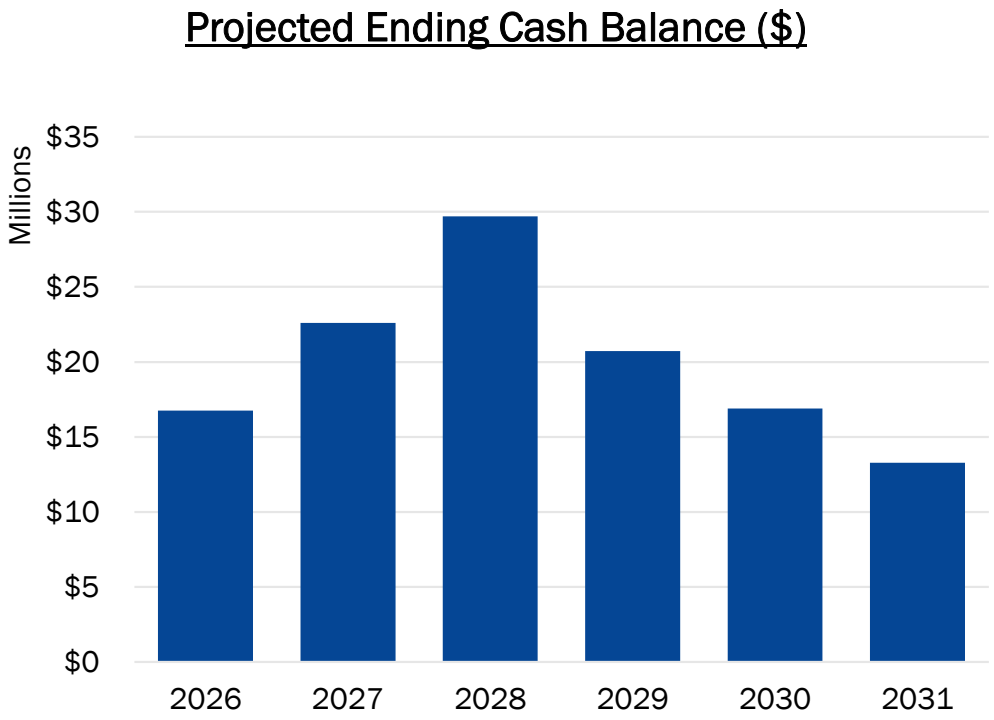


Water and Sewer System Financial Policies

FY	2026	2027	2028	2029	2030	2031
Debt Service Coverage	16.63	19.28	12.71	1.91	1.73	1.74
Days Cash on Hand	705	902	1,058	540	404	301

Note: Results are preliminary, and subject to change. Actual results may vary from these estimates.

Multi-Year Financial Plan Update
Projected Ending Cash Balance



Water and Sewer System Projected Cash Balance

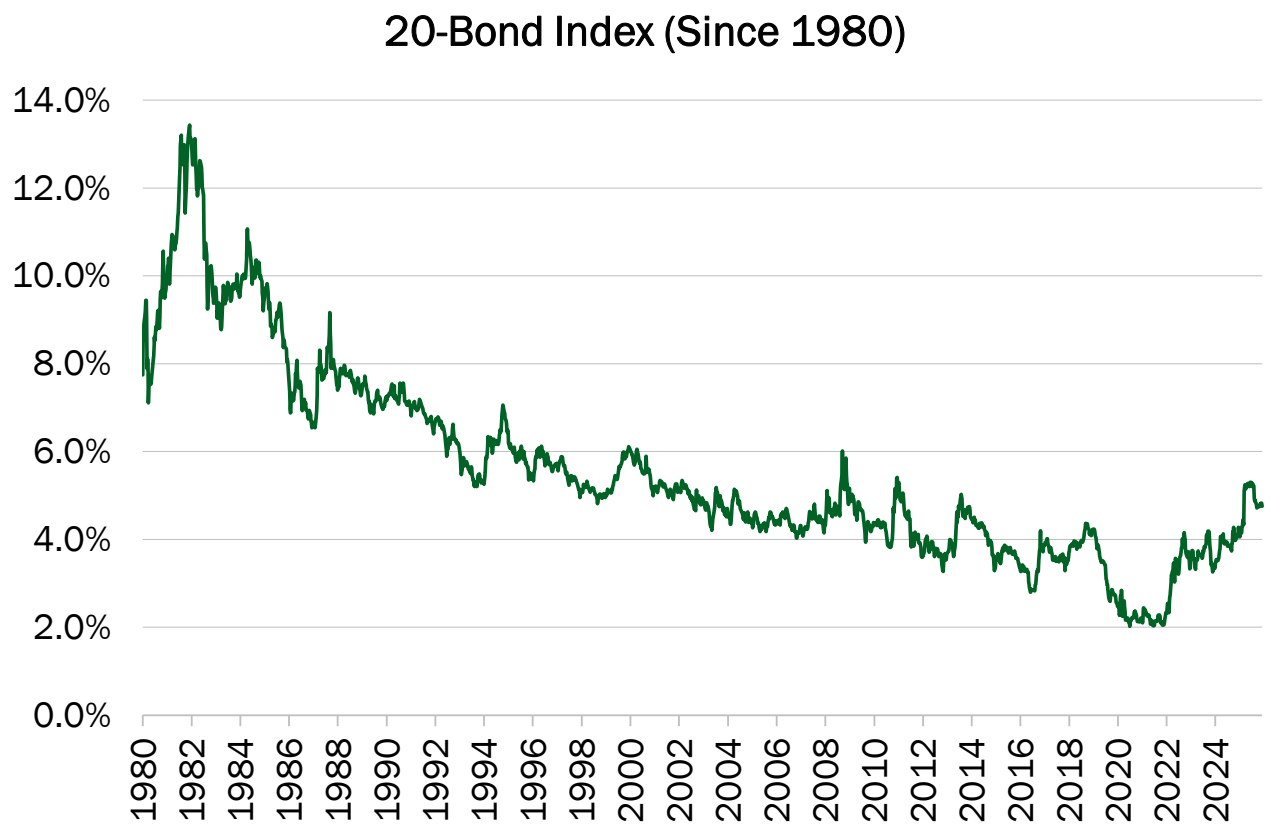
FY	2026	2027	2028	2029	2030	2031
Ending Cash Balance	$16,752,384	$22,601,134	$29,713,880	$20,726,777	$16,889,519	$13,272,984

Note: Results are preliminary, and subject to change. Actual results may vary from these estimates.

Concluding Observations

- The Town's Water and Sewer System is currently in a strong financial position.
- The Town's typical residential bill continues to be at or amongst the lowest in the region.
- Inflationary pressures on both operating expenditures (recurring) as well as capital projects (one-time) will continue to be a challenge into the future.
- This analysis focuses on the cash-flow expenditures of the Town's Water and Sewer System CIP. To the extent project execution is accelerated or delayed, the amount and timing of debt issuances will need to be revisited.
- Davenport would recommend a general update of this plan/model annually (*at a minimum*) to re-evaluate and reassess the Multi-Year Financial Plan with the most up-to-date assumptions.
- Following the adoption of the FY 2027 Budget, Davenport can work alongside Town Staff to develop a specific Plan of Finance in order to fund ongoing Water and Sewer System Capital Projects.

Tax-Exempt Borrowing Rates



Interest rates for highly rated local governments like the Town are at historically favorable levels.

The 20-year interest rates above show the Bond Buyer's "20-Bond Index" which consists of 20 tax-exempt bonds with an average rating of 'Aa2'/'AA' (Moody's / S&P) that mature in 20 years. The 20-Bond Index serves as a general indicator of prevailing interest rates for tax-exempt borrowers. Updated as of 01/15/2026.

Next Steps

Timing	Action
Tuesday, February 24	**Town Council Regular Meeting:** ▪ Davenport presents Water & Sewer Fund Capital Planning Update.
Late February / Early March	▪ Town Council requests any additional follow-up information (as necessary).
Late Spring	▪ Town Council adopts FY 2027 Budget, including updated Water and Sewer System Rates, as well as the CIP.
Summer	▪ Davenport, in concert with Town Staff, develops Plan of Finance for a Water and Sewer System borrowing based upon estimated capital expenditures.

Appendix

Appendix A

Water & Sewer Enterprise Fund Policies

- The Town maintains two key critical financial policies related to the Water and Sewer Enterprise Fund:

1) Days Cash on Hand:

   - "It is the intent of the Water & Sewer Enterprise Fund to have adequate cash reserves to provide for at least 250 days of operating expenses and debt service as measured at the end of a fiscal year. If the unrestricted cash and long-term investments balance fall below the target level as measured at the completion of the annual audit, the Town will develop a plan to bring reserves back in line with the policy target within two budget cycles."

2) Debt Service Coverage:

   - "Net Revenues should be at least 1.70 times the annual debt service requirement of long-term Water & Sewer Enterprise Fund debt service with a goal of maintaining 2.0 times annual debt service requirements. Net Revenues shall be defined as operating revenues plus availability charges plus interest income less operating expenses net of depreciation."

Source: Town Budget

Historical Financials (Water & Sewer System)
Detailed

TOWN OF Herndon VIRGINIA

Water and Sewer Fund						
Fiscal Year	**2021**	**2022**	**2023**	**2024**	**2025**	**5-Year CAGR**
Revenues						
Sale of Water	$2,794,320	$2,961,349	$3,161,715	$3,358,546	$4,029,871	*9.59%*
Sewer Service Charges	3,490,334	3,821,190	4,626,020	5,202,386	5,627,021	*12.68%*
Late Payment Charges	-	75,512	81,540	98,296	103,784	*N/A*
Sale of Commodities	8,917	3,836	4,729	9,129	17,442	*18.26%*
Rents and Leases	405,143	448,159	431,500	389,394	393,424	*-0.73%*
Miscellaneous	11,838	19,532	17,606	19,968	22,075	*16.86%*
Total Operating Revenues	**$6,710,552**	**$7,329,578**	**$8,323,110**	**$9,077,719**	**$10,193,617**	*11.02%*
Annual Growth	*-7.0%*	*9.2%*	*13.6%*	*9.1%*	*12.3%*	
Expenditures						
Finance	$212,830	$248,423	$228,162	$333,522	$381,000	*15.67%*
Water Main Maintenance	1,462,027	1,592,290	2,166,166	2,473,651	2,656,824	*16.11%*
Sewer Service Charge	3,370,015	4,331,091	3,664,078	3,442,549	6,002,751	*15.53%*
Contractual Services	530,094	530,094	530,094	631,639	659,851	*5.63%*
Miscellaneous	40,148	39,494	49,288	44,916	47,694	*4.40%*
Total Operating Expenditures	**$5,615,114**	**$6,741,392**	**$6,637,788**	**$6,926,277**	**$9,748,120**	*14.79%*
Annual Growth	*-5.9%*	*20.1%*	*-1.5%*	*4.3%*	*40.7%*	
Operating Income (Loss)	**$1,095,438**	**$588,186**	**$1,685,322**	**$2,151,442**	**$445,497**	
Availability Fees & Non-Operating Income	$ 84,058	$ 215,367	$ 552,735	$ 1,881,727	$ 8,090,138	
Debt Service	$ 624,456	$ 629,902	$ 638,700	$ 639,737	$ 629,510	
Debt Service Coverage (w/o Availability Fees)	**1.75**	**0.93**	**2.64**	**3.36**	**0.71**	
Debt Service Coverage (w/ Availability Fees)	**1.89**	**1.28**	**3.50**	**6.30**	**13.56**	
Unrestricted Cash & Cash Equivalents	$ 11,266,338	$ 11,294,664	$ 11,517,440	$ 13,813,966	$ 19,235,557	
Days Cash on Hand	**659**	**559**	**578**	**666**	**677**	

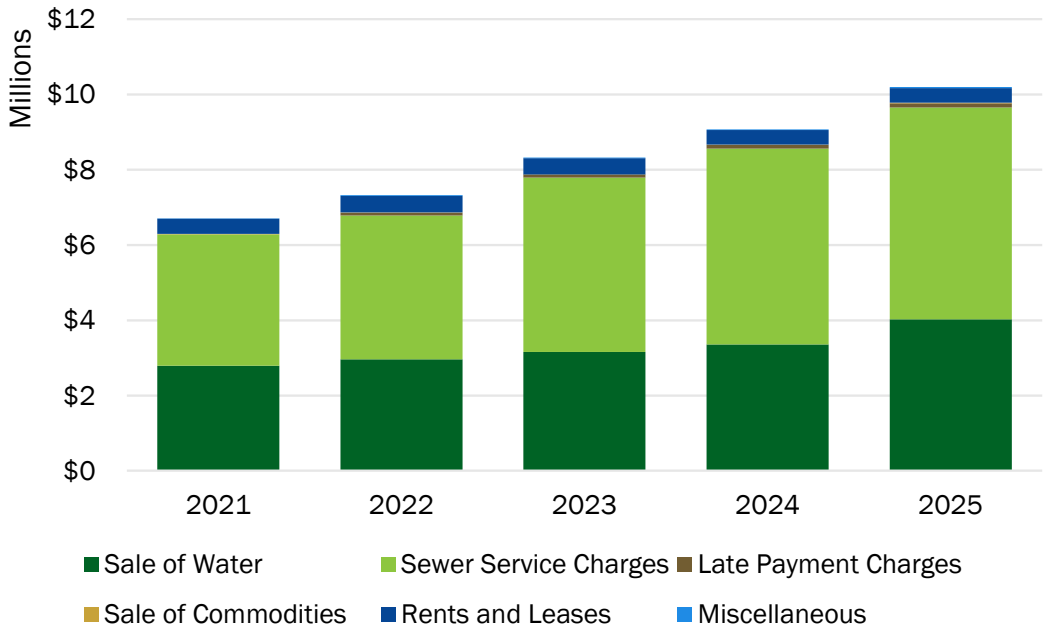
(1) Net of Depreciation.
(2) Days Cash on Hand is equal to Unrestricted Cash & Cash Equivalents divided by Operating Expenditures and Debt Service, multiplied by 365.

Source: Town Audits

Historical Financials (Water & Sewer System)

Operating Revenues

Historical Operating Revenues



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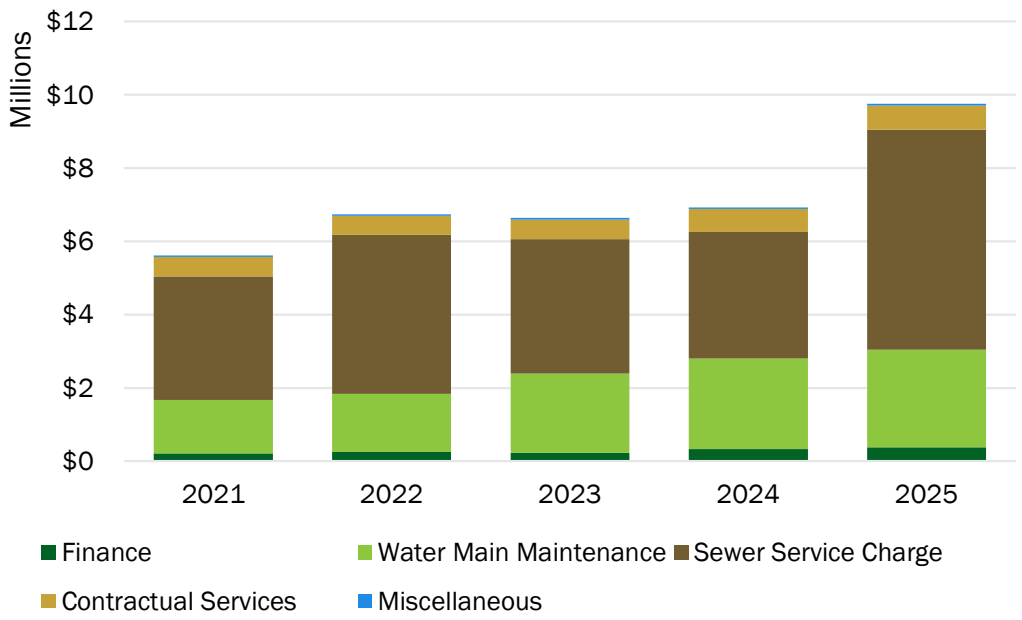
Annual Growth	*-7.0%*	*9.2%*	*13.6%*	*9.1%*	*12.3%*	

Source: Town Audits

Historical Financials (Water & Sewer System)
Operating Expenditures

Historical Operating Expenditures



Fiscal Year	2021	2022	2023	2024	2025	5-Year CAGR
Expenditures						
Finance	$212,830	$248,423	$228,162	$333,522	$381,000	***15.67%***
Water Main Maintenance	1,462,027	1,592,290	2,166,166	2,473,651	2,656,824	***16.11%***
Sewer Service Charge	3,370,015	4,331,091	3,664,078	3,442,549	6,002,751	***15.53%***
Contractual Services	530,094	530,094	530,094	631,639	659,851	***5.63%***
Miscellaneous	40,148	39,494	49,288	44,916	47,694	***4.40%***
Total Operating Expenditures	**$5,615,114**	**$6,741,392**	**$6,637,788**	**$6,926,277**	**$9,748,120**	***14.79%***
Annual Growth	*-5.9%*	*20.1%*	*-1.5%*	*4.3%*	*40.7%*	

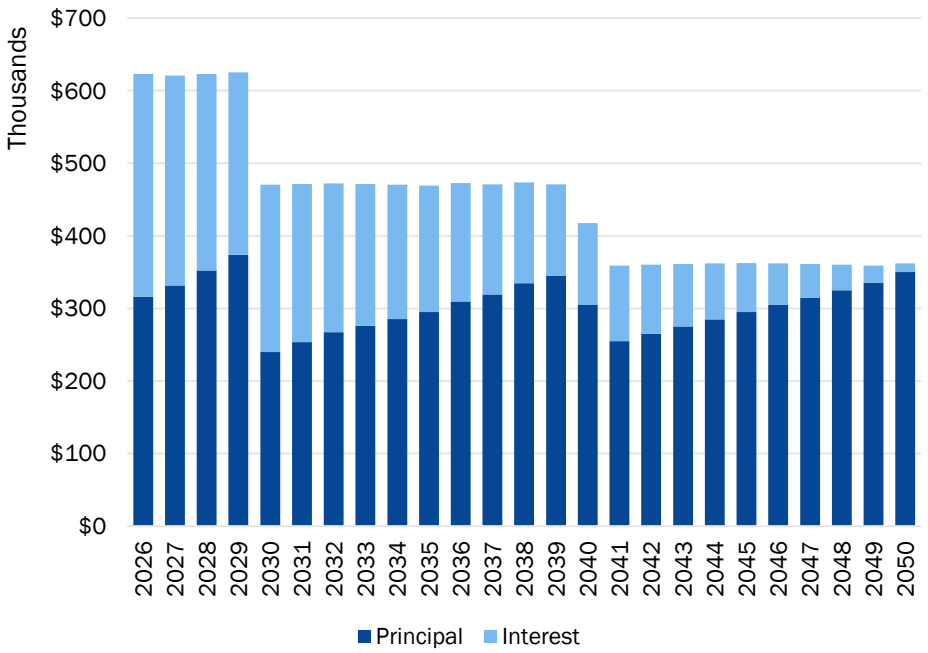
(1) Net of Depreciation.

Source: Town Audits

Historical Financials (Water & Sewer System)

Existing Debt Profile

Water and Sewer System Debt Service



Water & Sewer System Debt

Series/Project	Outstanding 6/30/25
Series 2018B Bonds	$5,970,000
1994 Fairfax Water Agreement	522,178
1999 Fairfax Water Agreement	1,117,860
Total	**$7,610,038**

Water & Sewer System Debt Service

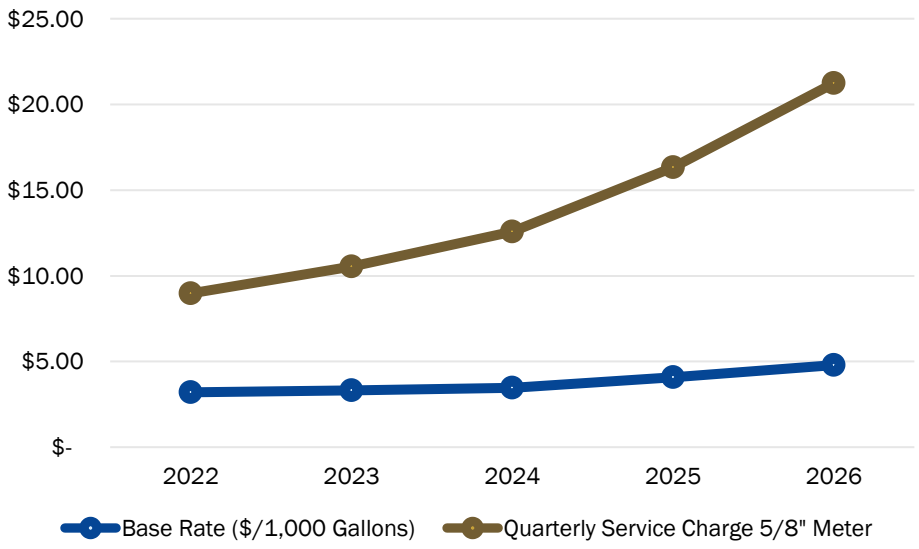
FY	Principal	Interest	Total
Total	**$7,610,038**	**$3,622,821**	**$11,746,639**
2026	316,360	306,597	622,957
2027	331,624	289,083	620,707
2028	352,505	270,702	623,207
2029	374,040	251,166	625,207
2030	239,879	230,436	470,315
2031	253,455	218,110	471,565
2032	267,227	205,087	472,315
2033	276,208	195,256	471,465
2034	285,408	185,056	470,465
2035	294,840	174,475	469,315
2036	309,516	163,236	472,752
2037	319,449	151,428	470,877
2038	334,655	138,910	473,565
2039	345,147	125,780	415,339
2040	304,727	112,811	361,950
2041	255,000	103,825	358,825
2042	265,000	95,219	360,219
2043	275,000	86,275	361,275
2044	285,000	76,994	361,994
2045	295,000	67,375	362,375
2046	305,000	57,050	362,050
2047	315,000	46,375	361,375
2048	325,000	35,350	360,350
2049	335,000	23,975	358,975
2050	350,000	12,250	362,250

Source: Davenport Debt Model & Town Info.

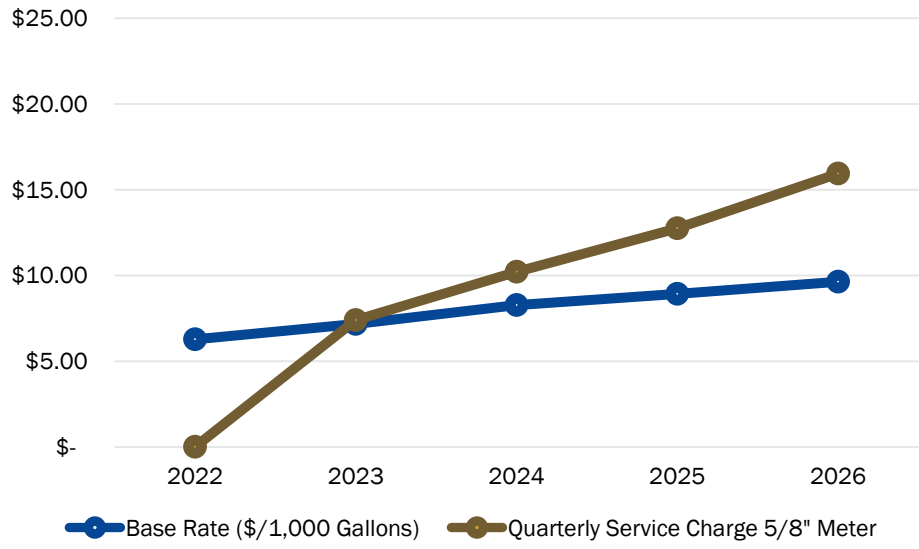
Historical Financials (Water & Sewer System)

Water and Sewer Rates

Water Rates



Sewer Rates



Fiscal Year		2022	2023	2024	2025	2026
Water Rates						
Base Rate ($/1,000 Gallons)		$ 3.21	$ 3.31	$ 3.47	$ 4.08	$ 4.79
	% Change	N/A	3.1%	4.8%	17.6%	17.4%
Quarterly Service Charge 5/8" Meter		$ 8.97	$ 10.54	$ 12.57	$ 16.34	$ 21.24
	% Change	N/A	17.5%	19.3%	30.0%	30.0%
Sewer Rates						
Base Rate ($/1,000 Gallons)		$ 6.28	$ 7.16	$ 8.27	$ 8.93	$ 9.64
	% Change	N/A	14.0%	15.5%	8.0%	8.0%
Quarterly Service Charge 5/8" Meter		$ -	$ 7.40	$ 10.21	$ 12.76	$ 15.95
	% Change	N/A	N/A	38.0%	25.0%	25.0%

Source: Town Budgets

Water and Sewer Rates
Peer Comparison Detail

Locality	Herndon	Loudoun Water	Fairfax City[1]	Fairfax Water[2]	Vienna[3]	Leesburg[4]
FY 2026 Water Rates						
Base Rate ($/1,000 Gallons)	4.79	3.37	4.35	4.35	7.55	5.86
Quarterly Service Charge 5/8" Meter	21.24	45.97	17.55	17.55	0.00	41.41
12,000 Gallon Quarterly Usage - Water Bill	**$78.72**	**$86.41**	**$69.75**	**$69.75**	**$92.70**	**$120.67**
FY 2026 Sewer Rates						
Base Rate ($/1,000 Gallons)	9.64	6.59	13.07	9.33	12.00	9.15
Quarterly Service Charge 5/8" Meter	15.95	45.92	72.85	52.62	0.00	35.74
12,000 Gallon Quarterly Usage - Sewer Bill	**$131.63**	**$125.00**	**$164.34**	**$164.58**	**$147.30**	**$145.54**
12,000 Gallon Quarterly Usage - Combined Bill	**$210.35**	**$211.41**	**$234.09**	**$234.33**	**$240.00**	**$266.21**

Notes:
1. Fairfax City residents are provided water and charged at the rates and fees of Fairfax Water. Fairfax City Sewer Base Rate only applicable to usage above 5,000 gallons. Includes $4.50 Wastewater Lateral Charge billed quarterly.
2. Fairfax Water Rates display approved rates that will be effective April 1, 2026. The rates assume Single/Family Townhouse Customer whose accounts were in existence during the whole of the preceding winter quarter billing period.
3. Vienna rates applicable to first 9,000 Gallons. The following 3,000 Gallons are charged at the rate of $8.25 per 1,000 gallons (Water) and $13.10 per 1,000 gallons (Sewer).
4. Leesburg Water rates applicable to the first 6,000 gallons. The following 6,000 gallons are charged at the rate of $7.35 per 1,000 gallons.

Source: Respective Locality/Authority website.

Water Rates
Additional Peer Comparisons

Comparison of Local Water Rates Effective January 1, 2026

Jurisdiction/Agency	Basic Water Service Charge
City of Manassas Park	$ 222.96
Town of Leesburg (Outside)	184.36
Virginia-American Water Company (Prince William County)	175.10
Virginia-American Water Company (City of Alexandria)	173.90
DC Water	172.74
City of Rockville, Maryland	157.28
Washington Suburban Sanitary Commission (Montgomery / Prince George's Counties, MD)	145.71
City of Bowie, Maryland	145.09
Town of Leesburg (Inside)	142.72
Town of Vienna	136.35
Arlington County	101.30
Loudoun Water	96.52
Town of Herndon	**93.09**
City of Manassas	92.61
Prince William Water	92.40
Fairfax Water (Effective April 1, 2026)	82.80
Fairfax Water	77.00

Note: This comparison is based on 15,000 gallons of residential water use by an established customer over a three-month winter period.

Source: Fairfax Water.

Appendix B: Multi-Year Financial Plan

- Detailed Cash-Flows

Projected Operating Results (*Detailed*)
Recommendation (With Availability Fees)

TOWN OF Herndon VIRGINIA

Projected Operations

	FY	2026	2027	2028	2029	2030	2031
A	Operating Revenues	$ 11,265,424	$ 12,889,957	$ 15,149,609	$ 17,843,798	$ 19,071,788	$ 20,390,980
B	Operating Expenditures	8,047,509	8,524,254	8,717,246	9,073,880	9,444,655	9,828,971
C = A - B	Net Operating Income	$ 3,217,915	$ 4,365,703	$ 6,432,364	$ 8,769,918	$ 9,627,133	$ 10,562,009
D	Existing Debt Service	$ 622,957	$ 620,707	$ 623,207	$ 625,207	$ 470,315	$ 471,565
E	Proposed Debt Service	-	-	913,257	4,300,193	5,361,279	5,810,943
F = D + E	Total Existing & Proposed Debt Service	$ 622,957	$ 620,707	$ 1,536,464	$ 4,925,399	$ 5,831,594	$ 6,282,508
G = C - F	Net Income After Debt Service	$ 2,594,959	$ 3,744,997	$ 4,895,900	$ 3,844,519	$ 3,795,540	$ 4,279,501
H	Availability Fees & Non-Operating Revs.	$ 7,138,871	$ 7,602,772	$ 13,094,505	$ 631,290	$ 451,548	$ 374,802
I	Cash Funded Capital	$ 12,217,003	$ 5,499,019	$ 10,877,658	$ 13,462,912	$ 8,084,345	$ 8,270,838
J = G + H - I	Surplus / Deficit	$ (2,483,173)	$ 5,848,750	$ 7,112,747	$ (8,987,104)	$ (3,837,258)	$ (3,616,535)
K	Beginning Cash Balance	$ 19,235,557	$ 16,752,384	$ 22,601,134	$ 29,713,880	$ 20,726,777	$ 16,889,519
L	Ending Cash Balance	$ 16,752,384	$ 22,601,134	$ 29,713,880	$ 20,726,777	$ 16,889,519	$ 13,272,984

Note: Results are preliminary, and subject to change. Actual results may vary from these estimates.

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