

Draft Report | April 7, 2026

Water and Wastewater Rate Study

Navajo Tribal Utility Authority
Fort Defiance, Arizona

Prepared by:

NewGen
Strategies & Solutions

April 7, 2026

Mr. Walter W. Haase, PE

General Manager, Navajo Tribal Utility Authority
P.O. Box 170
Fort Defiance, AZ 86504

Subject: Water and Wastewater Rate Study – Draft Report

Dear Mr. Haase:

NewGen Strategies and Solutions, LLC (NewGen) was engaged by the Navajo Tribal Utility Authority (NTUA) to conduct a Water and Wastewater Rate Study (Study). The attached draft report presents our findings and recommendations based on our analysis.

We appreciate the opportunity to provide our professional services to NTUA and would like to express our sincere appreciation for supplying the needed information and data, and for assisting us in completing the Study.

Should you or any of the Board members require additional information or clarification regarding the enclosed report, please do not hesitate to contact me at (972) 528-7158 or via email at rcampbell@newgenstrategies.net.

Very truly yours,

NewGen Strategies and Solutions, LLC

Richard Campbell
Principal and Managing Director - Water

Table of Contents

Executive Summary

Section 1 Scope.....

Section 2 Project Information.....

Section 3 Revenue Requirement.....

Section 4 Recommended Rate Structure.....

Section 5 Recommendations.....

List of Tables

Table 3-1 Forecasted Water Net Revenue Requirement.....

Table 3-2 Forecasted Wastewater Net Revenue Requirement.....

Table 4-1 Projected Water Financial Performance Under Current Rates.....

Table 4-2 Projected Wastewater Financial Performance Under Current Rates.....

Table 4-3 Recommended Water Rate Adjustments – Scenario 1.....

Table 4-4 Recommended Wastewater Rate Adjustments – Scenario 1.....

Table 4-5 Projected Water Rates – Scenario 1.....

Table 4-6 Projected Wastewater Rates – Scenario 1.....

Table 4-7 Projected Water Financial Performance Under Projected Rates.....

Table 4-8 Projected Wastewater Financial Performance Under Projected Rates.....

Table 4-9 Monthly Bill Impact of Projected Residential Rates.....

EXECUTIVE SUMMARY

NewGen Strategies and Solutions, LLC (NewGen) was engaged by the Navajo Tribal Utility Authority (NTUA) to conduct a Water and Wastewater Rate Study (Study). The purpose of the Study is to evaluate the financial condition of NTUA's Water and Wastewater (W&WW) Utility (Utility) and to develop a rate plan that ensures long-term financial sustainability. NTUA provides water and wastewater services to communities across the Navajo Nation's geographic service territory spanning portions of Arizona, New Mexico, and Utah.

NewGen analyzed NTUA's financial and operational data, reviewed the existing rate structure, assessed current and future capital needs, evaluated debt obligations, and developed a financial plan covering FY 2026 through FY 2031. The analysis confirms that NTUA's W&WW Utility, under current rates, faces substantial and worsening revenue deficiencies that, if unaddressed, will continue to require subsidization from other NTUA enterprise funds and ultimately threaten the long-term reliability and sustainability of W&WW service.

Under the rate study process, NewGen analyzed historical financial and capital data, assessed the customer billing determinants through the most recent period available, and evaluated projected revenue sufficiency based upon expected cost increases, projected capital needs, and proposed reserve policies. As a result, NewGen produced a financial plan forecasting future needs and the rate path necessary to recover sufficient revenues to fund these projected future needs. In this Study, NewGen has provided a forecast of revenue requirements and the corresponding rate requirements from FY 2026 through FY 2031.

As with any forecast, assumptions must be made and NTUA should be aware that the actual rates required may be different from the proposed rates outlined in this report due to unforeseen changes, such as system growth, inflation, budget changes, capital cost escalation, and changes in federal funding availability. It should be noted that this analysis is based on data provided by NTUA. While this data has been reviewed and tested for accuracy to the extent possible, if the data relied on by NewGen's project team is inaccurate and not reflective of the actual operation and/or financial condition of the W&WW Utility, then the results of this analysis may merit revision.

In conducting this analysis, NewGen reviewed NTUA's adopted budget, capital plan, historical billing data, and existing debt obligations. NewGen also held several discussions with NTUA staff to better understand the data provided, refine future projections, and receive further direction on rate design options. The Project Team reviewed historical consumption data and applied the anticipated zero-growth factor to project consumption over the planning period.

NTUA's actual experienced water consumption should be compared annually to the figures utilized and projected within this Study. To the extent significant variances exist, the rates presented herein may need to be amended.

The Project Team understands that NTUA's primary objective is to provide safe and reliable W&WW service to all customers across the Navajo Nation. To achieve this objective, NTUA must ensure that sufficient revenue is recovered annually to support the operation of the W&WW Systems, based on projected

expenses and NTUA’s funding goals. Based upon current conditions and assuming the maintenance of current rates, the W&WW Utility is projected to have insufficient revenues in every year of the planning period from FY 2026 through FY 2031.

NewGen has developed a proposed rate plan for FY 2026 through FY 2031 that will move the W&WW Utility toward financial self-sufficiency. The Project Team reviewed the existing rates and evaluated two scenarios for achieving full cost recovery. The recommended approach – Scenario 1, a three-year plan – accelerates NTUA’s path to financial self-sufficiency through higher initial rate increases, while maintaining consideration of customer affordability. The proposed rate increases, shown below, will ensure NTUA can cover projected operating expenses, fund renewal and replacement capital investment, and service its existing debt obligations throughout the planning period.

Recommended Water Rate Adjustments – Scenario 1

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Monthly Service Charge							
All Customers	15.0%	10.0%	10.0%	7.5%	5.0%	5.0%	5.0%
Consumption Charge							
All Customers	15.0%	10.0%	10.0%	7.5%	5.0%	5.0%	5.0%

Recommended Wastewater Rate Adjustments – Scenario 1

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Monthly Service Charge							
All Customers	40.0%	40.0%	30.0%	20.0%	12.0%	5.0%	5.0%
Consumption Charge							
All Customers	40.0%	40.0%	30.0%	20.0%	12.0%	5.0%	5.0%

Section 1 SCOPE

NewGen Strategies and Solutions, LLC (NewGen) was engaged by the Navajo Tribal Utility Authority (NTUA) to conduct a Water and Wastewater Rate Study (Study) for NTUA's Water and Wastewater (W&WW) Utility (Utility) and is pleased to provide this summary of our results. The purpose of this Study is to evaluate the Utility's financial condition, identify revenue deficiencies, and develop a long-term financial and rate plan that supports the Utility's mission to provide safe, reliable, and sustainable W&WW service to its customers across the Navajo Nation.

Under the rate study process, NewGen analyzed NTUA's historical financial and capital data up to the most recent fiscal year (FY), assessed the customer billing data through the most recent period available, and evaluated projected revenue sufficiency based upon expected cost increases, projected capital needs, and proposed reserve policies. As a result, NewGen produced a financial plan forecasting future needs and the rate path necessary to recover sufficient revenues to fund these projected future needs. In this Study, NewGen provides a forecast of revenue requirements and the corresponding rate requirements from FY 2026 through FY 2031.

This draft report describes the analysis performed for the Utility and makes recommendations with respect to rates to be charged to the Utility's customers. The report consists of five sections and an Executive Summary, supplemented by appendices that include the full ten-year rate and financial schedules.

The analysis performed by NewGen is designed to consider the foreseeable changes over the Study's planning horizon. The goal is to develop a planning tool with which the Utility can gain an understanding of the issues that need to be addressed and make informed decisions. A critical benefit is the quantification of the long-range financial impact of decisions to be made. As with any forecast, assumptions must be made, and the Utility should be aware that the actual rates required may be different from the projected rates outlined in this report due to unforeseen changes such as system growth, inflation, changes in capital needs, or other factors. It should be noted that this analysis is based on data provided by the Utility. While this data has been reviewed and tested for accuracy to the extent possible, if the data relied on by the Project Team is inaccurate and not reflective of the actual operation and/or financial condition of the Utility, the results of this analysis may merit revision.

Regular reviews of the performance of a utility's rates are an integral part of sound utility management. Failure to monitor rates can result in the need for significant rate actions. NewGen recommends that NTUA regularly monitor and review the performance of its adopted rates and perform rate adjustments in a timely manner to preserve the financial integrity of the Utility.

Section 2 PROJECT INFORMATION

A utility is essentially a business run by a Board of Directors (Board) and should therefore operate in a fiscally sound and prudent manner. Based upon our analysis, the Board must currently contend with several significant issues which are impacting on the financial integrity and stability of the W&WW Utility.

First, the W&WW Utility's current revenues do not cover the cost of service. Under current rates, the Water Utility is projected to under-recover its costs in every year of the planning period, with the annual deficit growing from approximately \$7.1 million in FY 2026 to over \$10.6 million by FY 2031. The Wastewater Utility faces an even more severe revenue imbalance, with projected annual deficits of approximately \$6.8 million in FY 2026 growing to approximately \$7.6 million by FY 2031. On a combined basis, the W&WW Utility is projected to have a deficit of approximately \$13.9 million in FY 2026 without rate adjustments.

Second, the W&WW Utility is currently being subsidized by other NTUA enterprise funds rather than operating as a self-sufficient utility. For the Utility to achieve true financial independence and ensure long-term sustainability, rates should be adjusted to recover the full cost of service from W&WW ratepayers.

Third, NTUA's W&WW Utility carries substantial existing debt service obligations from past capital investments. Total debt service payments over the FY 2026–FY 2031 planning period are projected to be approximately \$26.53 million. The Wastewater system bears the larger share at approximately \$19.36 million, while the Water system carries approximately \$7.18 million. These are fixed obligations that must be funded through utility revenues.

Fourth, the W&WW Utility faces significant renewal and replacement (R&R) capital needs totaling approximately \$63.3 million over the planning period of FY 2025–FY 2032. These needs do not include several major infrastructure projects currently underway or planned, including the Navajo Gallup Water Supply Project (expected completion 2028), the Chinle Water Treatment Facility (expected completion 2026), and EPA-mandated wastewater treatment improvements at Tuba City, Chinle, Kayenta, Shiprock, and Ganado Lagoon. Additional cost increases associated with these projects are expected to begin impacting the budget in FY 2027 and FY 2028.

Finally, regular review and revision of the Utility's rates is necessary to ensure that sufficient funds are available to meet the financial requirements of the Utility. Currently, the Utility's W&WW rates are projected to be insufficient and will not recover the revenue required by the Utility in any year of the planning period without adjustment.

Existing Debt Service

Table 2-1 presents the existing debt service schedule for the W&WW Utility over the FY 2026–FY 2032 planning period. The largest single debt obligation is the Sihasiin series, which carries [combined](#)

annual payments exceeding \$4 million in FY 2026 and declining slightly thereafter. The Wastewater fund bears the majority of all debt service obligations. These obligations are fully fixed and must be covered through rate revenues.

Table 2-1 Existing Debt Service Obligations (FY 2026–FY 2032)

(\$ Millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
Water	\$1.24	\$1.19	\$1.19	\$1.19	\$1.19	\$1.19	\$7.19
Wastewater	\$3.33	\$3.20	\$3.20	\$3.20	\$3.20	\$3.20	\$19.33
Total	\$4.57	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$26.52

The Water System’s existing annual debt service begins at approximately \$1.24 million in FY 2026 and decreases to approximately \$1.19 million annually thereafter through FY 2032. The Wastewater System carries the larger debt burden, with annual debt service beginning at approximately \$3.33 million in FY 2026 and decreasing to approximately \$3.20 million annually thereafter. These obligations should be funded through utility rate revenues and represent a significant driver of the revenue insufficiency projected under current rates.

Renewal and Replacement Capital Needs

The W&WW Utility must fund ongoing renewal and replacement of its aging infrastructure assets. The level of annual R&R spending incorporated into this Study is set at the calculated asset depreciation for FY 2026 and held constant throughout the planning period, providing a systematic and financially defensible approach to infrastructure reinvestment. Table 2-2 presents the projected R&R capital spending schedule.

Table 2-2 Renewal and Replacement Capital Spending (FY 2026–FY 2031)

(\$ Millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
Water	\$5.52	\$5.72	\$5.72	\$5.72	\$5.72	\$5.72	\$34.12
Wastewater	\$2.21	\$2.21	\$2.21	\$2.21	\$2.21	\$2.21	\$13.26
Total	\$7.73	\$7.93	\$7.93	\$7.93	\$7.93	\$7.93	\$47.38

These R&R projections do not include the costs associated with the Navajo Gallup Water Supply Project, the Chinle Water Treatment Facility, or the EPA-mandated improvements to wastewater treatment facilities at Tuba City, Chinle, Kayenta, Shiprock, and Ganado Lagoon. These major projects will place additional financial demands on the Utility beginning in FY 2027 and FY 2028 and will require updated financial planning once project cost estimates are finalized.

Section 3 REVENUE REQUIREMENT

There are two primary ratemaking methodologies employed in the utility industry: the utility basis and the cash basis. The utility basis, most commonly used by investor-owned utilities, includes depreciation and return on invested capital, but excludes cash-funded capital and debt service from the revenue requirement determination. The cash basis, which is the most common method used by governmental and tribal utilities, includes cash-funded capital and debt service, but excludes depreciation and return on invested capital. The cash basis focuses on meeting the actual cash demands of the utility and is generally more easily understood by governing boards and ratepayers since it attempts to match revenues to cash expenditures. In performing this analysis, the Project Team utilized the cash basis to develop the Utility's revenue requirements.

Test Year Revenue Requirement

To develop the Test Year Revenue Requirement (i.e., the first year for which rates are developed), NewGen utilized NTUA's adopted FY 2025 budget to project FY 2026 expenses. To ensure the Utility's budget accurately reflects the cost of providing service, the FY 2025 budget was reviewed to determine if any adjustments were needed. Discussions were held with NTUA staff to identify the known and measurable modifications described below.

Budget Adjustments

The Project Team reviewed the FY 2025 budget to determine what adjustments, if any, needed to be made to reflect a normal operating fiscal year. A review of historical budgeted dollars, as compared to actual expenses, illustrates trends and is one method used in determining necessary adjustments to the budget. Adjustments to expenses include any costs that are not reflective of future costs, such as one-time expenses or capitalized items. Capital expenditures, including renewal and replacement capital and debt service on existing obligations, were also incorporated into the revenue requirement.

After consideration of all revenues and expenses, the following budget framework was incorporated into the FY 2026 revenue requirement: Water O&M expenses totaling approximately \$22.8 million (inclusive of water purchase costs of approximately \$2.5 million); Water renewal and replacement capital of approximately \$5.7 million annually; and existing Water debt service of approximately \$1.24 million in FY 2026. For Wastewater, O&M expenses totaling approximately \$6.0 million; Wastewater renewal and replacement capital of approximately \$2.2 million annually; and existing Wastewater debt service of approximately \$3.33 million in FY 2026.

Development of Financial Plan and Escalation Assumptions

In determining the financial plan of the Utility, the Project Team projected the revenue requirement from FY 2026 through FY 2031 by applying recognized industry escalation indices to each budget line item. To project the revenue requirement, the Project Team either held the budget line item flat or applied one of the escalation factors described below:

SECTION 3 REVENUE REQUIREMENT

- Municipal Cost Index (MCI): Calculated to be approximately 2.98%, based on the twenty-year average MCI from American City and County (2004–2024). Applied to general O&M categories including salaries, benefits, professional services, insurance, and administrative expenses.
- Construction Cost Index (CCI): Calculated to be approximately 3.87%, based on the twenty-year average CCI from Engineering News-Record (ENR). Applied to capital-related cost categories.
- Chemicals Inflation: Calculated to be approximately 7.64%, applied to chemical treatment compound line items.
- Electricity Inflation: Calculated to be approximately 1.38%, based on projected EIA electricity price outlook applied to utility consumption expenses.
- Natural Gas: Calculated to be approximately 1.75%, applied to natural gas-related expenses.
- Automotive Fuel: Calculated to be approximately 2.07%, applied to fuel-related expenses.
- Customer Growth: Assumed at 0% over the planning period, consistent with NTUA’s stable service area population and information provided by NTUA staff.

Table 3-1 presents the projected Water System net revenue requirement for FY 2026 through FY 2031.

Table 3-1 Forecasted Water Net Revenue Requirement

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
REVENUES						
Rate Revenues (Current Rates)	\$22.2M	\$22.2M	\$22.2M	\$22.2M	\$22.2M	\$22.2M
Other Revenues	\$0.4M	\$0.4M	\$0.4M	\$0.4M	\$0.4M	\$0.4M
Total Revenues	\$22.7M	\$22.7M	\$22.7M	\$22.7M	\$22.7M	\$22.7M
EXPENSES						
O&M Expenses	\$20.3M	\$20.9M	\$21.5M	\$22.1M	\$22.7M	\$23.4M
Water Purchases	\$2.5M	\$2.6M	\$2.7M	\$2.8M	\$2.9M	\$3.0M
Cash Capital (R&R)	\$5.6M	\$5.7M	\$5.7M	\$5.7M	\$5.7M	\$5.7M
Existing Debt Service	\$1.2M	\$1.2M	\$1.2M	\$1.2M	\$1.2M	\$1.2M
Total Expenses	\$29.8M	\$30.4M	\$31.1M	\$31.8M	\$32.5M	\$33.3M
Change in Fund Balance	(\$7.1M)	(\$7.7M)	(\$8.4M)	(\$9.1M)	(\$9.9M)	(\$10.6M)

As shown in Table 3-1, the Water System’s total expenses are projected to grow from approximately \$29.8 million in FY 2026 to approximately \$33.3 million by FY 2031, driven primarily by escalating O&M expenses and increasing water purchase costs as the Navajo Gallup Water Supply Project comes online. Under current rates, rate revenues remain flat at approximately \$22.4 million, resulting in a growing annual deficit throughout the planning period.

Table 3-2 presents the projected Wastewater System net revenue requirement.

Table 3-2 Forecasted Wastewater Net Revenue Requirement

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
REVENUES						
Rate Revenues (Current Rates)	\$4.7M	\$4.7M	\$4.7M	\$4.7M	\$4.7M	\$4.7M
Other Revenues	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$0.1M
Total Revenues	\$4.8M	\$4.8M	\$4.8M	\$4.8M	\$4.8M	\$4.8M
EXPENSES						
O&M Expenses	\$6.0M	\$6.2M	\$6.4M	\$6.6M	\$6.8M	\$7.0M
Cash Capital (R&R)	\$2.2M	\$2.2M	\$2.2M	\$2.2M	\$2.2M	\$2.2M
Existing Debt Service	\$3.3M	\$3.2M	\$3.2M	\$3.2M	\$3.2M	\$3.2M
Total Expenses	\$11.6M	\$11.6M	\$11.8M	\$12.0M	\$12.2M	\$12.4M
Change in Fund Balance	(\$6.8M)	(\$6.8M)	(\$7.0M)	(\$7.2M)	(\$7.4M)	(\$7.6M)

The Wastewater System’s revenue insufficiency is more severe as a percentage of total expenses. Current wastewater rate revenues of approximately \$4.8 million per year cover less than half of the Utility’s total expenses of approximately \$11.6 million in FY 2026. The Wastewater System’s large existing debt service obligations – totaling approximately \$3.33 million in FY 2026 alone – are a primary driver of this structural imbalance. Correcting the Wastewater System’s revenue shortfall requires aggressive rate action concentrated in the early years of the planning period.

Section 4 RECOMMENDED RATE STRUCTURE

After establishing the net revenue requirement, the projected revenue is analyzed to determine if sufficient revenue is recovered through the current rates to equitably recover the cost of providing service. The Utility's rates must be sufficient to maintain the financial integrity of the W&WW systems and to meet NTUA's financial policies.

Rate Structure Design

Water rates are typically comprised of a two-part design consisting of a monthly minimum charge (or service charge) and a volumetric rate. The monthly minimum charge is most often escalated based on the size of a customer's water meter. This is because the potential demand for service for larger meters is greater, and therefore the Utility must have the capacity available for each meter size. As a result, there is typically a higher minimum charge for larger meters. The American Water Works Association (AWWA), a commonly used resource in rate setting, has published standard meter equivalency factors recommended in designing the minimum bill charge.

The volumetric rates established by utilities range from uniform rates for all usage to tiered rates by consumption blocks. NTUA's current residential water rate structure employs a two-tiered volumetric approach: a lower Tier 1 rate of \$4.59 per 1,000 gallons for the first 3,000 gallons per month, and a higher Tier 2 rate of \$7.11 per 1,000 gallons for all usage above 3,000 gallons. This tiered structure provides a conservation pricing signal by charging customers more per unit for higher levels of consumption.

Wastewater rates are typically comprised of the same two-part design as water rates, as described by the Water Environment Federation (WEF). NTUA's current wastewater rate structure consists of a monthly minimum charge of \$10.74 per month for all residential customers, plus a uniform volumetric rate of \$1.75 per 1,000 gallons. General Service customers pay minimum charges that vary by meter size. The Project Team notes that while the existing rate structure is generally consistent with current industry standards, the rate levels are significantly below what is required to cover the full cost of service.

Current Rates

NTUA's current water rate structure consists of a two-part rate design with minimum monthly charges that vary by meter size and a two-tiered volumetric rate. The minimum monthly charge for a residential 1-inch meter customer is \$11.62 per month; for a 2-inch meter it is \$33.64 per month. General Service customers are billed minimum charges scaled to their meter size, ranging from \$35.17 per month for a 1-inch meter to \$519.84 per month for a 6-inch meter. The residential volumetric rates are \$4.59 per 1,000 gallons for the first 3,000 gallons and \$7.11 per 1,000 gallons for usage above 3,000 gallons. General Service customers pay a uniform volumetric rate of \$7.95 per 1,000 gallons.

The current wastewater rate structure consists of a two-part rate design with a monthly minimum charge and a uniform volumetric rate. The residential minimum charge is \$10.74 per month for all customers,

SECTION 4 RECOMMENDED RATE STRUCTURE

regardless of meter size, with a volumetric rate of \$1.75 per 1,000 gallons. General Service minimum charges range from \$29.97 to \$273.27 per month depending on meter size, with a volumetric rate of \$1.95 per 1,000 gallons. The Project Team has noted that the current rate structure adequately meets current industry standards as published by the AWWA and WEF.

Consumption Projections and Customer Growth Estimates

In evaluating the performance of existing rates and projecting future rates, some estimation of billed water consumption is required. For the purposes of this Study, the Project Team reviewed the billing determinants provided by NTUA and selected a representative test year period to reflect normal system operation. Customer growth was assumed at 0% over the projection period based on information provided by NTUA staff. The growth and escalation factors used in this Study are derived from widely recognized industry indices, specifically the Municipal Cost Index (MCI) for O&M-related items and the Construction Cost Index (CCI) from ENR for capital-related costs. Any proposed FY 2026 rate increases are projected to generate only three months of additional rate revenue during FY 2026, reflecting the anticipated effective date of the new rates.

Projected Rates

In calculating projected W&WW rates, the Project Team considered not only the cost of providing service but also NTUA’s financial policies and customer affordability. NewGen developed two rate adjustment scenarios for NTUA’s consideration.

Scenario 1 – Three-Year Self-Funding Plan (Recommended): Scenario 1 achieves full financial self-sufficiency within three years through higher initial rate increases. Water rates increase by 15% in FY 2026, 10% in FY 2027 and FY 2028, followed by 7.5% in FY 2029 and 5.0% annually thereafter. Wastewater rates increase by 40% in FY 2026 and FY 2027, 30% in FY 2028, and reduced rate increases thereafter. While Scenario 1 achieves self-sufficiency more quickly, the larger near-term increases may present affordability challenges for NTUA’s customers.

Scenario 2 – Five-Year Self-Funding Plan: Scenario 2 achieves financial self-sufficiency within five years while providing a more gradual rate path that strives to balance financial recovery with customer affordability.

Tables 4-3 and 4-4 present the recommended annual rate adjustments under Scenario 1.

Table 4-3 Recommended Water Rate Adjustments – Scenario 1

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Monthly Service Charge							
All Customers	15.0%	10.0%	10.0%	7.5%	5.0%	5.0%	5.0%
Consumption Charge							
All Customers	15.0%	10.0%	10.0%	7.5%	5.0%	5.0%	5.0%

SECTION 4 RECOMMENDED RATE STRUCTURE

Table 4-4 Recommended Wastewater Rate Adjustments – Scenario 1

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Monthly Service Charge							
All Customers	40.0%	40.0%	30.0%	20.0%	12.0%	5.0%	5.0%
Consumption Charge							
All Customers	40.0%	40.0%	30.0%	20.0%	12.0%	5.0%	5.0%

Wastewater rate adjustments are substantially higher than Water rate adjustments, particularly in the early years of the plan, because current wastewater revenues cover less than 45% of total Wastewater expenses. The Wastewater System requires front-loaded increases to close the larger revenue gap in a reasonable timeframe. Tables 4-5 and 4-6 present the resulting Water and Wastewater rate schedules for FY 2026 through FY 2031 under Scenario 1.

Table 4-5 Projected Water Rates – Scenario 1

Rate Component	Current	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Minimum Charges (\$/month)							
Residential - 1" Meter	\$11.62	\$13.36	\$14.70	\$16.17	\$17.38	\$18.25	\$19.16
Residential - 2" Meter	\$33.64	\$38.68	\$42.56	\$46.82	\$50.32	\$52.84	\$55.47
General Service - 1"	\$35.17	\$40.45	\$44.50	\$48.95	\$52.62	\$55.25	\$58.01
General Service - 2"	\$70.33	\$80.89	\$88.99	\$97.89	\$105.23	\$110.49	\$116.01
Volumetric Charges (\$/kgal)							
Residential: 0–3,000 gals	\$4.59	\$5.28	\$5.81	\$6.39	\$6.87	\$7.21	\$7.57
Residential: 3,001+ gals	\$7.11	\$8.18	\$9.00	\$9.90	\$10.64	\$11.17	\$11.73
General Service: All Usage	\$7.95	\$9.14	\$10.05	\$11.06	\$11.89	\$12.48	\$13.10
Rate Adjustment	—	+15%	+10%	+10%	+7.5%	+5%	+5%

SECTION 4 RECOMMENDED RATE STRUCTURE

Table 4-6 Projected Wastewater Rates – Scenario 1

Rate Component	Current	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Minimum Charges (\$/month)							
Residential - All Sizes	\$10.74	\$15.04	\$21.06	\$27.38	\$32.89	\$36.80	\$38.64
Res. Without W Meter	\$14.25	\$19.95	\$27.93	\$36.31	\$43.57	\$48.80	\$51.24
General Service - 1"	\$29.97	\$41.96	\$58.74	\$76.36	\$91.63	\$102.63	\$107.76
Volumetric Charges (\$/kgal)							
Residential - All	\$1.75	\$2.45	\$3.43	\$4.46	\$5.35	\$5.99	\$6.29
General Service - All	\$1.95	\$2.73	\$3.82	\$4.97	\$5.96	\$6.68	\$7.01
Rate Adjustment	—	+40%	+40%	+30%	+20%	+12%	+5%

Projected Rate Revenues

The proposed rate increases are recommended to maintain an acceptable level of affordability to customers. At the existing Tier 1 water rate of \$4.59 per 1,000 gallons, customers receive 1,000 gallons of safe, potable water delivered to their home – enough to fill 200 five-gallon bottles – for less than the cost of one and a half gallons of gasoline. Even under the proposed rates, W&WW service from NTUA will continue to represent extraordinary value to its customers.

Tables 4-7 and 4-8 illustrate the W&WW financial performance projected under the recommended Scenario 1 rates. Appendices G and H show the full seven-year projected W&WW revenue performance.

Table 4-7 Projected Water Financial Performance Under Projected Rates – Scenario 1

Financial Summary	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Projected Rate Revenue	\$23.1M	\$28.3M	\$31.2M	\$33.5M	\$35.2M	\$36.9M
Projected Net Rev. Requirement	\$29.8M	\$30.4M	\$31.1M	\$31.8M	\$32.5M	\$33.3M
Over/(Under) Recovery	(\$6.4M)	(\$1.9M)	\$0.8M	\$2.4M	\$3.4M	\$4.4M
Beginning Fund Balance	(\$6.3M)	(\$12.7M)	(\$14.6M)	(\$13.8M)	(\$11.3M)	(\$7.9M)
Ending Fund Balance	(\$12.7M)	(\$14.6M)	(\$13.8M)	(\$11.3M)	(\$7.9M)	(\$3.5M)

SECTION 4 RECOMMENDED RATE STRUCTURE

Table 4-8 Projected Wastewater Financial Performance Under Projected Rates – Scenario 1

Financial Summary	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Projected Rate Revenue	\$5.2M	\$9.3M	\$12.1M	\$14.5M	\$16.2M	\$17.1M
Projected Net Rev. Requirement	\$11.6M	\$11.6M	\$11.8M	\$12.0M	\$12.2M	\$12.4M
Over/(Under) Recovery	(\$6.3M)	(\$2.3M)	\$0.3M	\$2.6M	\$4.1M	\$4.7M
Beginning Fund Balance	(\$6.7M)	(\$13.0M)	(\$15.3M)	(\$15.0M)	(\$12.4M)	(\$8.3M)
Ending Fund Balance	(\$13.0M)	(\$15.3M)	(\$15.0M)	(\$12.4M)	(\$8.3M)	(\$3.6M)

Under the recommended Scenario 1 rates, the Wastewater System is projected to achieve positive annual over-recovery by FY 2028, with the annual surplus growing to approximately \$4.7 million by FY 2031. The Water System approaches self-sufficiency by FY 2028, with the annual over/(under) recovery narrowing from approximately (\$6.4 million) in FY 2026 to approximately \$4.4 million by FY 2031. Both systems will continue to require inter-utility support during the early years of the transition period. Going forward, NTUA should monitor fund performance and adjust rates, as necessary, to ensure each Utility maintains sufficient revenues to recover costs.

Table 4-9 presents the projected monthly bill impact on a typical residential customer under the proposed Scenario 1 rates, assuming consumption of 4,700 gallons of water per month (1-inch meter) and 1,800 gallons of wastewater per month.

Table 4-9 Monthly Bill Impact of Projected Residential Rates – Scenario 1

	Current	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Water (4,700 gal/mo, 1" meter)							
Monthly Bill	\$37.48	\$43.11	\$47.43	\$52.17	\$56.08	\$58.87	\$61.81
Wastewater (1,800 gal/mo)							
Monthly Bill	\$13.89	\$19.45	\$27.23	\$35.41	\$42.49	\$47.58	\$49.96
Combined Water & Wastewater							
Monthly Bill	\$51.37	\$62.56	\$74.66	\$87.58	\$98.57	\$106.45	\$111.77
Variance (\$)	—	\$11.19	\$12.11	\$12.91	\$10.99	\$7.88	\$5.32

The combined monthly residential bill is projected to increase from \$51.37 under current rates to \$62.56 in FY 2026 – an increase of approximately \$11.19 per month. This initial increase reflects the urgent need to begin correcting the revenue shortfall in both systems. By FY 2031, the combined monthly bill is projected to reach \$111.77, representing the cost of providing fully self-funded, sustainable W&WW service across the Navajo Nation.

Section 5 RECOMMENDATIONS

Based on our analysis of NTUA's Water and Wastewater Utility, NewGen makes the following recommendations:

- 1. Implement the Scenario 1 Rate Adjustments.** NewGen recommends that NTUA implement the Scenario 1 – Five-Year Plan rate adjustments for both the Water and Wastewater Systems. Water rates should increase by 15% beginning in FY 2026, with continued annual increases as specified in Tables 4-3 and 4-4. Wastewater rates should increase by 40% beginning in FY 2026, with continued annual increases as specified. These adjustments represent the increases necessary to place the Utility on a path toward financial self-sufficiency within three to five years and to progressively eliminate the current dependence on cross-subsidies from other NTUA enterprise funds.
- 2. Establish a Formal Rate Monitoring Program.** To assist in maintaining the financial stability of the Utility's operating funds, sufficient rates must be in place to ensure full cost recovery through user rate revenue. NewGen recommends that NTUA implement a formal annual rate review process to monitor actual versus projected financial performance. Rates should be adjusted in a timely manner, as necessary, to maintain the financial stability of the Utility. Further, NewGen recommends that the Utility continuously monitor the financial performance of the operating fund and adjust rates as necessary to maintain financial stability.
- 3. Fund the Renewal and Replacement Capital Program.** NTUA should ensure that the recommended R&R capital funding levels are incorporated into annual budgets and reflected in rates. The R&R program, totaling approximately \$63.3 million over the planning period, is critical to maintaining the long-term reliability and safety of NTUA's W&WW infrastructure. Failure to fund this program adequately will result in accelerating infrastructure deterioration, unplanned emergency replacement costs, and ultimately higher costs to ratepayers.
- 4. Establish an Operating Reserve Fund.** NewGen recommends that NTUA work toward establishing an Operating Reserve Fund for both the Water and Wastewater Systems. A reserve equal to at least 25% of annual operating expenses is recommended as a financial policy target. This reserve will provide a financial buffer against unexpected events and revenue shortfalls, and will serve as an indicator of financial health for bond rating agencies and federal funding programs.
- 5. Plan for Major Capital Projects.** The Navajo Gallup Water Supply Project, Chinle Water Treatment Facility, and EPA-mandated wastewater treatment improvements represent major capital investments that will impact NTUA's finances beginning in FY 2027 and FY 2028. NewGen recommends that NTUA update its financial plan when project cost estimates are finalized to assess whether additional rate adjustments will be required. These costs are not reflected in the current Study projections and will add to the revenue requirement.
- 6. Communicate Rate Changes to Customers.** NTUA should proactively communicate with its customers regarding the reasons for rate adjustments, the significant infrastructure investments being made, and the extraordinary value of safe and reliable W&WW service. Transparent

communication about the true costs of providing water and wastewater service will help customers understand and accept the necessary rate changes. The rate comparisons developed as part of this Study – such as the cost of 1,000 gallons of tap water versus bottled water or gasoline – can be effective tools in this communication.

7. **Update the Rate Study Periodically.** NewGen recommends that NTUA engage in a comprehensive rate study update every three to five years, or sooner if significant changes in the Utility’s financial condition, capital program, or operating environment occur. The financial landscape for NTUA’s W&WW Utility is expected to change materially as major capital projects are completed and their associated costs are incorporated into the rate base. Early and regular rate reviews allow for smaller, more manageable adjustments rather than large disruptive increases.

Important Note Regarding Projections

The financial projections contained in this report are based on data and assumptions available at the time of the Study. NTUA should be aware that actual financial results may differ materially from these projections due to changes in operating costs, capital project timing and costs, consumption patterns, federal funding availability, and other factors outside of NewGen’s control. The rate path presented in this report should be reviewed and updated annually in conjunction with NTUA’s budget process.