

FY 2026 Stress Test for the FY 2026 – 2031 Long-Term Financial Plan

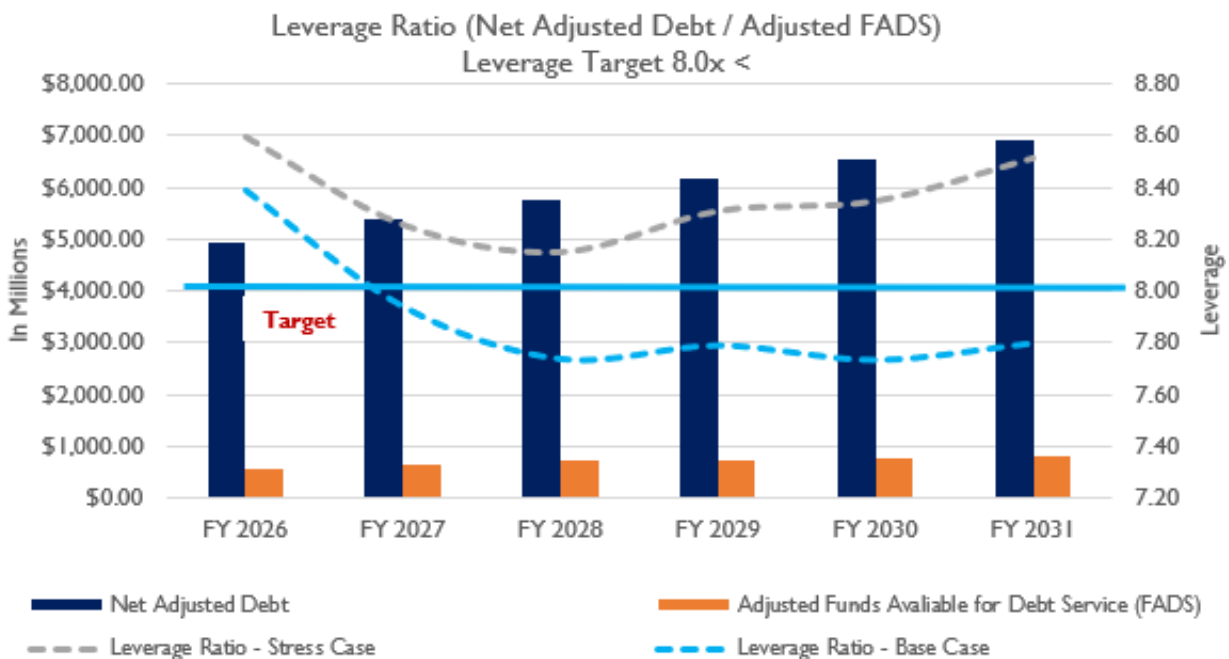
Financial Metrics and Cash Position (Base Case and Stress Case)

The following charts reflect critical metric that are evaluated each fiscal year by the three credit rating agencies. Each chart includes metric calculation, target, and results both Base Case and Stress Case during the six-year period.

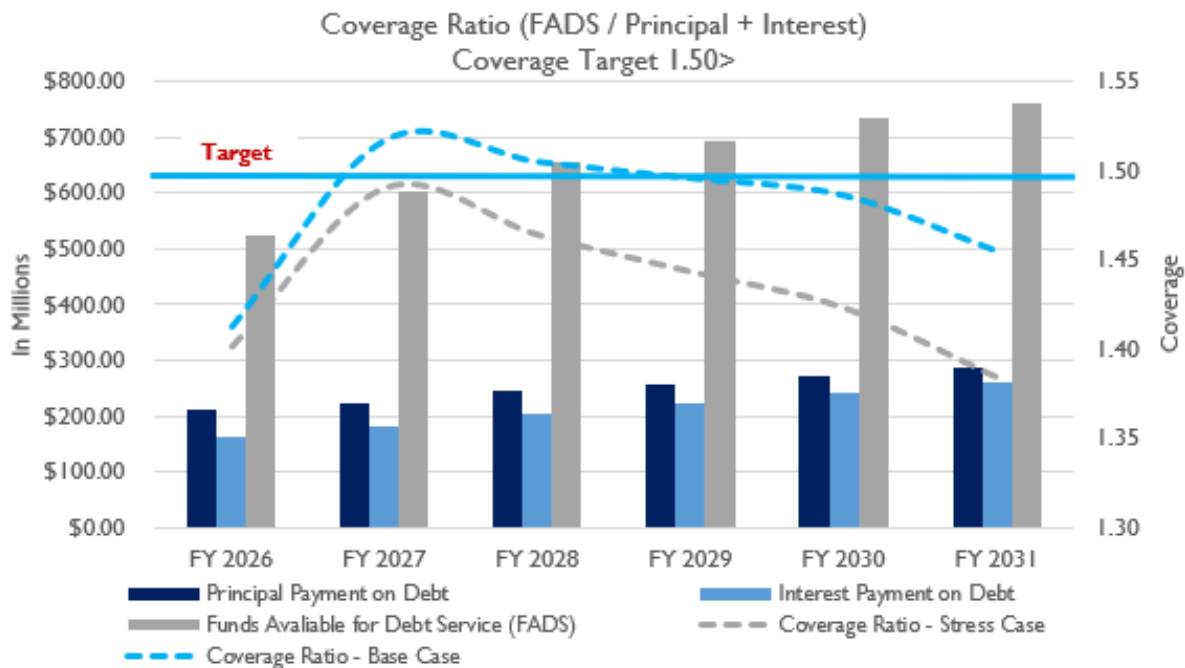
COVID-19 pandemic showed the impact of a real world stress event which had major implications. Without proper safeguards to react, an organization can be left vulnerable to credit risk and operational risk. The use of stress testing within the long-term plan helps inform management as to potential financial risk. The use of a “Stress Case” as part of the financial planning process provides this view.

For the Stress Case performed for each metric, the annual capital expense in the CIP was increased by 10 percent. This provides a view for management in how each metric would be impacted if an event/shock were to occur forcing expenses to increase while holding rate revenue at planned levels. While only one “Stress Case” scenario is published, WSSC Water does perform additional risk scenarios: higher borrowing costs, lower annual rate increases, volumetric revenue declines, and unforeseen increases to operating costs.

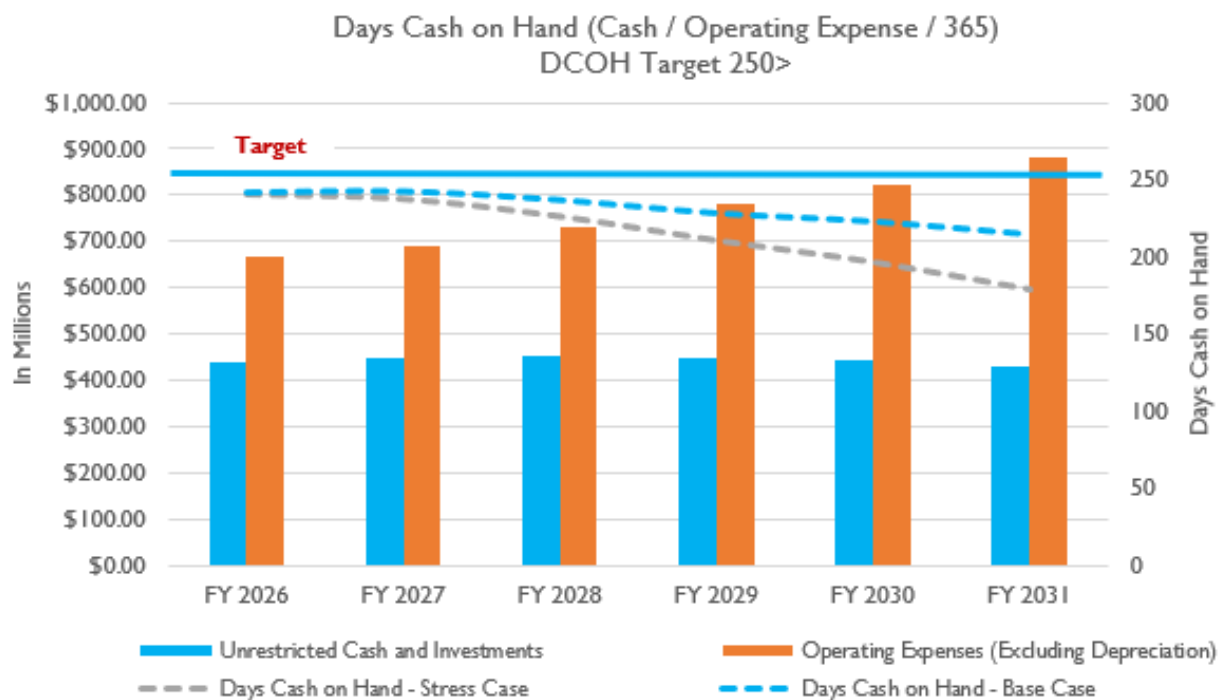
For simplification, WSSC Water uses the Fitch Ratings’ methodology for the following metrics.



- Although expected to decline over the six-year period to about 7.8x, leverage has been over 10x in recent history. While the Stress Case reflects some vulnerability, management will continue to monitor closely to ensure that leverage remains comfortably at or near 8.0x.



- WSSC Water's guideline is to target coverage at 1.50x. The combined coverage for FY 2026 through FY 2031 ranges from 1.41 to 1.50 for Base Case and 1.40 to 1.49 for Stress Case.



- Days of cash-on-hand (DCOH) which is an important measure of short- and long-term liquidity typically exceeds 250 days of cash throughout the fiscal year. WSSC Water's guideline requires a minimum of 250 days of cash-on-hand. Results against targets are calculated using year-end financial data. This can distort liquidity position. In FY 2026, WSSC Water will be reviewing the current DCOH target, as well as initiating a contingency reserve.