

Exhibit No.:
Issue(s):
Witness/Type of Exhibit:
Sponsoring Party:
Case No.:

Response to Neosho
Marke/Surrebuttal
Public Counsel
WA-2026-0072

SURREBUTTAL TESTIMONY

OF

GEOFF MARKE

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

FILE NO. WA-2026-0072

** _____ **
Denotes Confidential Information that has been redacted

May 29, 2026

PUBLIC

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1 **I. INTRODUCTION**

2 **Q. Please state your name, title and business address.**

3 A. Geoff Marke, PhD, Chief Economist, Office of the Public Counsel (OPC or Public Counsel),
4 P.O. Box 2230, Jefferson City, Missouri 65102.

5 **Q. Are you the same Geoff Marke who filed direct testimony in WA-2026-0072?**

6 A. I am.

7 **Q. What is the purpose of your surrebuttal testimony?**

8 A. I am responding to the rebuttal testimony of the City of Neosho witness Richard Davidson.

9 **Q. Please summarize Mr. Davidson’s rebuttal testimony.**

10 A. Mr. Davidson’s rebuttal testimony is filed as a response to my assertion that this transaction
11 should not be approved as it is not in the public interest. In general, Mr. Davidson is very
12 critical of my professional judgment, citing, among other things, my lack of municipal
13 governing experience as grounds for dismissing my position.

14 My testimony will attempt to address the assertions put forward by Mr. Davidson and provide
15 clearer context for the economics of this transaction and why I continue to maintain the position
16 that this transaction should be rejected, as it is not in the public interest. Above and beyond the
17 lack of a clear public interest standard being met, it is highly debatable whether or not this
18 transaction is in the best interest for Neosho citizens. I will expound on exactly why with the
19 rest of my testimony.

20 My silence in regard to any issue I do not address should not be construed as an endorsement
21 of the Missouri American Water Company (“MAWC”) or the City of Neosho’s position.

1 **II. Response to Mr. Davidson of the City of Neosho**

2 **Q. Mr. Davidson suggests you were attempting to have it both ways—claiming the system**
3 **was both not distressed and losing water. What is your response?**

4 A. Mr. Davidson does not appear to understand my argument. I agree that Neosho’s water and
5 wastewater system has not performed well. No one contests that. Years (decades?) of neglect
6 will induce that. Admittedly, the term “distressed” is normative in nature, so let me be clear
7 why high water loss alone does not make a system “distressed”.¹

8 A “distressed” system is typically reserved for private water or wastewater systems that have
9 been abandoned, have exhausted all available options to secure capital, and/or pose a health
10 risk to their customers that cannot be rectified under their existing operating model.
11 Importantly, I reserve the designation of “distressed” for private systems because they do not
12 have access to government grants and lower-cost financing.²

13 As my direct testimony suggested, and my surrebuttal testimony will expound on, the City of
14 Neosho has more cost-effective options available to them to make the necessary repairs—they
15 have just elected not to pursue them. Neosho leadership wants to sell its assets and exit the
16 water and wastewater business, but when that transaction inflates rate base for existing
17 ratepayers,³ perpetuates overstated appraisal values, and further deviates from cost-causative
18 principles, the public interest is not being served, and everyone but MAWC will be worse off.

19 I have never suggested that Neosho’s water and wastewater system are highly rated—however
20 that is defined. It’s clear it has not been performing at an ideal operational level (at least as it
21 pertains to water loss) for some time. What I did positively assert is that the City of Neosho

¹ I would consider a municipality that files for Chapter 9 municipal bankruptcy for possible inclusion into the “distressed” category. However, this is exceedingly rare. In fact, I am only aware of one city in Missouri’s history that has filed for Chapter 9, the City of Reed Springs in 2013. The unique circumstances surrounding that situation are captured in the following hyperlink: <https://www.finneynjurylaw.com/blog/how-a-small-town-went-bankrupt-over-a-pothole-our-blog.cfm>.

² Missouri’s state revolving fund interest rate is at 1.57% which is 70% below the market rate of the Bond Buyer’s 25-year Revenue Bond Index.

³ See also the surrebuttal testimony of Angela Schaben in this docket for more details on this.

1 has the same overarching credit rating for both its general government and its water and
2 wastewater assets. The city maintains a Standard & Poor’s (S&P) rating of ‘A’, which is
3 equivalent to an A+ rating if the City were to issue General Obligation Debt. My point is that
4 the City has the means and the strong credit rating to make the needed repairs at a lower cost
5 than what will occur if this transaction is approved. There may very well be compelling reasons
6 for the City of Neosho to continue to sell these assets despite the bad economics for its citizens,
7 but the City cannot argue that it is insolvent or incapable of securing a cheaper cost of capital
8 than MAWC. As such, I cannot call this system “distressed.”

9 Taking it a step further, here’s the financial reality of the transaction Neosho has agreed to.
10 Transferring Neosho’s water and wastewater assets to a regulated natural monopoly does not
11 erase the capital debt; it multiplies and hides it within the monthly utility rate base. Corporate
12 capital tracking, paired with MAWC’s authorized return on equity, as well as additional
13 corporate taxes, means the citizens of Neosho will almost certainly pay more for these upgrades
14 over time than they would via municipal financing.

15 **Q. Can you provide a simple analogy?**

16 A. Sure. Imagine you own a home that needs a new roof and updated plumbing. You are
17 worried about the cost, so a corporate landlord offers you a deal. “Sell me your house for
18 cash. I will take over the deed, pay for the new roof and plumbing, and you can live here
19 forever as a renter.”

20 The appeal of this sales pitch is that you get that roof and plumbing repaired and an
21 immediate cash windfall. However, now you are a tenant. The landlord can and will raise
22 the rent—to cover the roof, to fix the plumbing, to pay the property taxes, to ensure
23 corporate investors make healthy profits, and to use that money to buy more homes and
24 repeat that process.

25 Today, Neosho functions more like a homeowner paying off their mortgage. Once the
26 infrastructure is paid off, that specific debt expense disappears from the residents’ bills.

1 What Neosho leadership has agreed to do with this transaction is become permanent renters.
2 Which effectively means that residents will never stop paying a premium to MAWC, never
3 stop paying corporate taxes on that premium, and (under today’s current tariff make-up)
4 will have to absorb the costs of all future inflated acquisitions and subsequent capital
5 investments that have nothing to do with the cost of providing service to Neosho citizens.

6 **Q. How exactly is it cheaper to repair the Neosho water leaks as a municipal utility rather**
7 **than as an investor-owned utility?**

8 A. Putting aside the specific nuances of the Neosho systems for a second, municipal financing
9 will almost always be fundamentally cheaper than MAWC ownership. Allow me to explain:

10 **First**, there is the “return-on-equity” feature inherent in the cost of service for regulated
11 investor-owned utilities. MAWC is legally entitled to the opportunity to earn a profit margin—
12 typically around 9 to 10% on all capital investments. If MAWC executes \$35M in system
13 upgrades, ratepayers will need to pay back the \$35M plus the corporate profit markup of 9 to
14 10%, which immediately inflates the total cost compared to Neosho keeping its non-profit
15 municipal model.

16 **Second**, low-interest state revolving funds offer substantially lower, subsidized, fixed-rate
17 loans at 1.57%, much cheaper than MAWC’s **_____** pre-tax weighted average cost of
18 capital return.⁴ That’s an immediate **__** interest premium that Neosho and most likely the
19 rest of MAWC’s non-STL customers will not be putting back into the local economy but will
20 instead be going to pay Wall Street investors.

21 **Third**, private debt doesn’t clear off the books when a project ends—because it is in rate
22 base—ratepayers will pay that**_____** (or similar number based on future rate case
23 outcomes) financing cost for the entire depreciable lifetime of the assets (often 30 to 50 years
24 for water mains). Under municipal ownership, once a bond is paid off, the debt service
25 disappears from residents’ bills. Under MAWC’s ownership, these capital improvement plans

⁴ OPC Data Request Response 1200 from Case No. (WR-2025-0345). See GM-1.

1 will remain anchored in the utility's rate base, meaning consumers will continue to pay
2 depreciation and profit returns on that infrastructure indefinitely.

3 **Fourth**, Neosho could issue tax-free municipal bonds to spread out the infrastructure costs
4 over 20 to 30 years. Because the interest earned by investors on these bonds is exempt from
5 federal and state taxes, the city will pay a much lower interest rate than an investor-owned
6 utility who is required to pay corporate debt rates. In fact, for every dollar of net profit
7 MAWC promises its shareholders, it is effectively costing customers roughly \$1.30 to \$1.35
8 to recoup federal and state corporate income taxes. Restated, under MAWC ownership, a
9 sizeable percentage of every bill is unnecessarily inflated just to satisfy tax collectors and
10 out-of-state investors.

11 **Fifth**, there is the markup of the asset acquisition premium of **_____**. MAWC is
12 purchasing Neosho's system for \$34.5M and wants to place that into its rate base. If
13 approved, that means before MAWC spends even a single dollar of the estimated \$35M in
14 physical repairs, ratepayers will be paying a massive premium profit to service the
15 acquisition debt.

16 **Sixth**, once privatized, Neosho's ability to set its future water and wastewater rates will be
17 severely compromised as the system will be socialized with other non-St. Louis County
18 systems. Under the current tariff make-up, the City of Neosho will now also help pay for
19 every future acquisition—literally any other system acquired in Missouri outside of St.
20 Louis County. It will also no longer have the ability to set its future water and wastewater
21 rates.

1 **Q. Mr. Davidson counters by suggesting you have ignored the economies of scale that can**
2 **be achieved by having Neosho’s systems absorbed by MAWC? Did you ignore that?**

3 A. I did not. Mr. Davidson may have recalled my suggestions that consolidated opportunities also
4 exist with publicly operated nearby water and wastewater systems. I suggested several.

5 The consolidation of municipal systems is a well-known cost-saving feature for small
6 municipal systems and can be executed at multiple levels or functions of scale, including joint
7 purchasing and operations, shared administrative costs, or access to capital.⁵

8 More to the point, economies of scale are not limited to large multi-state utilities, nor are they
9 guaranteed or infinite.⁶

10 **Q. Mr. Davidson claims that you wrongfully asserted that Neosho’s current rates are 21%**
11 **lower than MAWC’s non-STL county residential customer tariff. Is this true?**

12 A. Mr. Davidson is correct. I did say that and was wrong.

13 Neosho’s current water rates are actually lower than what I had believed.

14 Today, Neosho residents actually pay a 26.5% lower bill for an equivalent amount of water
15 usage compared to an MAWC non-St. Louis County residential customer. Figure 3 provides
16 that breakdown, assuming a residential average of 5,000 gallons over a month:

⁵ See also: Missouri Department of Natural Resources. Wastewater Consolidation and Regionalization – PUB2819.
<https://dnr.mo.gov/document-search/wastewater-consolidation-regionalization-pub2819> or GM-2.

⁶ See also, Klien, M. & D. Michaud (2019) Water utility consolidation: Are economies of scale realized? Utilities
Policy. Volume 61. <https://www.sciencedirect.com/science/article/abs/pii/S095717871930325X>

1 Figure 3: What 5,000 gallons costs between the two utilities (5/29/2026)

Missouri American Water (non-STL) Residential Tariff⁷	@ 5,000 gallons		Neosho Residential Tariff⁸	@ 5,000 gallons
Customer Charge	\$11.00		Customer Charge	\$13.97
Volumetric Charge	\$56.01 (\$11.2023 per 1,000 gallons x5)		Volumetric Charge	\$ 38.85 (\$7.77 per 1,000 gallons x5)
WSIRA Surcharge	\$4.91 (0.9825 per 1,000 gallons x5)		-	-
Total	\$71.92		Total	\$52.82

2
 3 My understanding is that MAWC has also filed its sixty-day notice for its next rate case,
 4 which means this 26.5% cost delta will likely be much greater in the near future.

5 **Q. Mr. Davidson suggests that you have oversold the likelihood of obtaining subsidized**
 6 **federal/state funding and undersold the complexity involved in obtaining these**
 7 **favorable lending terms?**

8 A. I don't believe I have. Based on my discussions with the Missouri Department of Natural
 9 Resources ("MO DNR") Financial Assistance Center, the entity charged with administering
 10 the State Revolving Fund, there is no reason to believe that the City of Neosho could not take
 11 advantage of lower interest federally/state subsidized financing. To date, every loan

⁷ Missouri American Water Tariffed Water Rates: 6th Revised Sheet No. RT 1.2 Rate A Meter Rate – Residential, Commercial and Other <https://amwater.com/moaw/resources/PDF/Customer-Service/Water-Sewer-Rates/missouri-amwater-water-rates-schedule.pdf> See also GM-3

⁸ City of Neosho (2025) Council Bill No. 2025-55, Ordinance No. 644-2025: An Ordinance of the City of Neosho amending Chapter 705 Sewers and Sewage Disposal, by repealing and replacing Section 705.450 Classification of Users—Monthly Services Charges, Paragraph B. User Rate Structure, to modify the rates for sewer service use for the City of Neosho. <https://www.neoshomo.gov/DocumentCenter/View/1415/Water-Rates> . See also GM-4.

1 application filed for the program has been funded. Overall, 2025 funding exceeded \$136M (or
2 400% greater than the first year of funding in 2020) and the average interest rate is currently at
3 1.57%. For an application to receive funding, an engineering report needs to be submitted with
4 an acceptable debt instrument (e.g., revenue bonds). That's it.⁹

5 **Q. Did Mr. Davidson claim that the City of Neosho would not need to raise rates following**
6 **this transaction to fund its capital improvements?**

7 A. I am not entirely sure. The text is as follows:

8 Dr. Marke's testimony seems to assume these needed improvements, for the systems
9 he boldly claims are not distressed, must be funded only by increases above existing
10 rates. He, again, avoids readily available facts. The Neosho City Council passed by
11 ordinance on August 19, 2025, a sewer service volumetric rate increase under
12 Ordinance 644-2025 calculated to generate \$27 million over twenty (20) years to make
13 improvements in the wastewater system. **Though this rate increase is in effect, no**
14 **work has begun, nor has Neosho received any borrowed monies for the project or**
15 **sent the project out for bid, as Neosho anticipated the closing of this transaction**
16 **in the spring of 2026.** In the event the sale was not approved or failed to close, the
17 current City Council passed the appropriate rate increase. Unfortunately, Neosho's past
18 history does not guarantee that future councils will dedicate this rate increase to the
19 project and also continue to raise rates as needed for ongoing maintenance and other
20 repairs. This is another factor not included in Mr. Marke's assessment. He makes no
21 reference, nor appears to acknowledge the way a political subdivision's leadership
22 changes with new members elected to a governing body, that then react to the pressures
23 of their constituency. (emphasis added)¹⁰

24 As I understand this block text:

⁹ See also GM-5: for the Drinking Water State Revolving Fund Loan Program and Set-Aside Programs for Federal Fiscal Year 2026; GM-6 for the Clean Water State Revolving Fund Intended Use Plan and Project Priority Lists for Federal Fiscal Year 2026; and GM-7 a flowchart articulating "what to expect from the state revolving fund process."

¹⁰ WA-2026-0072 Rebuttal Testimony of Richard Davidson, p 2, 14-23 & p. 3, 1-5.

- 1 • Neosho raised rates in August for capital improvements it has not and does not
2 anticipate making.
- 3 • If this sale falls through, presumably the additional funds that have accumulated
4 since August would be used towards these needed improvements;
- 5 • I am less clear what happens or what the significance of the rate increase in August
6 means if the sale does not fall through.
 - 7 ○ If Mr. Davidson is suggesting the August 2025 Neosho rate increase alone
8 should cover the future repairs—does he intend to provide the funding that
9 was collected from its citizens but not spent? Will those unspent funds be
10 refunded to citizens? Put towards something else? I am not sure.
 - 11 ○ If Mr. Davidson believes the Neosho rates are “good enough” to cover its
12 needed expenses and do not need additional costs layered on its citizens
13 bills—I would direct him back to the earlier parts of my testimony that
14 explains why an investor-owned utility has additional costs for its service.

15 Further inquiry is needed to clarify exactly how Neosho’s system will be repaired without
16 increases above existing rates.

17 As to the charge that I don’t understand the pressures of local government and changing
18 political priorities, I would say my depth of expertise on that topic is irrelevant insofar as it
19 pertains to the economic realities of this transaction. Moreover, according to the US
20 Environmental Protection Agency (“EPA”) there are over 148,000 public water systems
21 nationwide that are apparently navigating the pressures of local government and providing
22 water and wastewater service.¹¹

¹¹ United States Environmental Protection Agency (2026) Information about Public Water Systems.
<https://www.epa.gov/dwreginfo/information-about-public-water-systems>

1 **Q. In light of Mr. Davidson’s rebuttal testimony, do you have any additional comments to**
2 **make on this topic?**

3 A. I do. There is clearly a communication breakdown between parties in this case and what
4 appears to be a great deal of misinformation or at least omitted information regarding how
5 rates are set and how costs may or may not be allocated. I can’t help but believe that much
6 of these problems could have been alleviated if there was a proper venue for OPC and/or
7 Staff to serve as sanity checks earlier in this process with the City. As such, I will be
8 recommending that the Commission order MAWC to extend an invitation to field questions
9 with elected representatives and/or the public at large in any future municipal acquisitions
10 in MAWC’s upcoming rate case. Hopefully, open and honest dialogue on the front-end of
11 this transaction can mitigate expensive, contentious filings on the back-end.

12 To be clear, at a fundamental level, I am not opposed to MAWC acquiring the Neosho water
13 and wastewater systems, especially if, as Mr. Davidson suggests, political realities make
14 operating the system untenable. I am opposed to acquiring the systems under these terms,
15 which I believe make both non-Neosho and Neosho citizens worse off as a result and will
16 make all future acquisitions more expensive moving forward.

17 **Q. What is your recommendation?**

18 A. If affordability and accountability are a priority for the Commission and Missouri citizens, then
19 I struggle to see how this application is in the public interest. Therefore, I recommend that it
20 be rejected.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

