Town of Watertown Connecticut
Office of the Town Manager
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MEMORANDUM

To: Watertown Town Council and Water & Sewer Authority

From: Mark A. Raimo, Town Manager

Date: August 17, 2026

Re: WSA Financial Review and Financing Strategy

Purpose

As the Water & Sewer Authority approaches the August 26 public hearing, staff continues to evaluate the WSA's cash position, proposed permanent financing, existing fund structure, and infrastructure needs.

This continuing review is intended to ensure that the Authority and Town Council have the best available information before final decisions are made and that sufficient cash remains available to operate the water and sewer systems, meet debt obligations, respond to emergencies, and continue necessary infrastructure investment.

Level Principal Hybrid Option

The Town is evaluating Phoenix Advisors' Level Principal Hybrid option (Option #1A) as an alternative to the original level-principal repayment structure.

The hybrid option reduces principal payments during the first years of the financing and shifts a portion of those payments to later years.

Fiscal Year	Level Principal	Hybrid Option #1A	Cash Preserved
FY2027-28	$2.798M	$2.328M	~$470,000
FY2028-29	$2.733M	$2.528M	~$205,000
Two-Year Benefit			~$675,000

The hybrid structure is estimated to result in approximately $342,000 of additional interest over the life of the bonds, but it would preserve approximately $675,000 during the period when WSA cash flow is expected to be most constrained.

The hybrid option is being evaluated based on its own cash-flow benefits and should not depend upon receipt of a bond premium.

Bond Premium and Financing Resources

Phoenix Advisors has advised that the permanent financing may generate a bond premium at the time of sale. The premium is not guaranteed and will depend upon market conditions and final bond pricing. Based on current planning assumptions, a premium could be approximately 5% of the bond amount, or roughly $1.5 million.

Because the premium is not guaranteed, it is not being relied upon as part of the base financial plan.

If a premium is realized, the Town will evaluate its permitted use with Phoenix Advisors and bond counsel, including whether it can be used to reduce early-year debt-service pressure and preserve WSA operating cash.

Other available WSA and financing-related resources will similarly be evaluated based upon their legal and accounting treatment and the overall financial needs of the Water and Sewer systems. No such resources are being committed in advance to a specific purpose.

Existing WSA Funds

The most recent analysis identified approximately $4.0 million across WSA operating, extension, and capital funds. This amount should not presently be viewed as $4.0 million of unrestricted operating cash.

During FY2026-27, WSA will work with the Town's auditors and legal counsel to review the existing fund structure and determine whether balances should be realigned where legally and financially appropriate.

Any realignment will be completed in accordance with applicable law, GAAP, financing requirements, and restrictions applicable to individual funds.

The objective is to establish a clear and defensible structure for:

Operating Reserves | Capital Reserves | Debt-Service Reserves | Restricted or Dedicated Funds

This review will provide a clearer basis for determining the financial position of the Water and Sewer systems and the amount that can prudently be committed to future infrastructure needs.

Public Hearing and Continuing Review

The August 26 public hearing remains an important part of the rate-setting process. The proposed multi-year financial plan is intended to address WSA operations, debt service, infrastructure, and reserves, with future years subject to annual review as actual financial results become available.

The continued evaluation of financing alternatives does not represent a new rate proposal immediately before the hearing. It is part of the Town's responsibility to evaluate reasonable financial options before committing the WSA to long-term financing.

If additional analysis identifies a financing structure or use of available resources that better protects operating cash or reduces financial pressure during the transition period, that information should be considered before a final decision is made.

Conclusion

The purpose of this work is straightforward:

> Maintain sufficient cash to operate the WSA, meet its financial obligations, continue necessary infrastructure investment, and provide the Authority and Town Council with the strongest available options before making long-term decisions.

Continuing to evaluate reasonable financing alternatives and the WSA's overall financial structure before final action is part of responsible financial management and supports the long-term stability of the Water and Sewer Authority.

Sewer Judgement Debt Issuance Options

Based on Interest Rates as of August 2026

Dated: October 2026 with 1st interest payment due 4/15/27 and 1st principal payment due 10/15/27

==> *Town issues $30.6 million of bonds and keeps the projected bond premium of $1,500,000*

==> *The town uses the premium to help mitigate debt service impact in the early years*

	OPTION #1			***OPTION #1A***		
	Bonds issued $30,600,000 Estimated rate of 4.25% *Level Principal*			**Bonds issued $30,600,000 Estimated rate of 4.25% *Level Principal Hybrid***		
Fiscal Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2026-27	0	1,952,162	**1,952,162**	0	1,952,162	**1,952,162**
2027-28	1,530,000	1,267,988	**2,797,988**	1,050,000	1,278,188	**2,328,188**
2028-29	1,530,000	1,202,963	**2,732,963**	1,300,000	1,228,250	**2,528,250**
2029-30	1,530,000	1,137,938	**2,667,938**	1,500,000	1,168,750	**2,668,750**
2030-31	1,530,000	1,072,913	**2,602,913**	1,550,000	1,103,938	**2,653,938**
2031-32	1,530,000	1,007,888	**2,537,888**	1,575,000	1,037,531	**2,612,531**
2032-33	1,530,000	942,863	**2,472,863**	1,575,000	970,594	**2,545,594**
2033-34	1,530,000	877,838	**2,407,838**	1,575,000	903,656	**2,478,656**
2034-35	1,530,000	812,813	**2,342,813**	1,575,000	836,719	**2,411,719**
2035-36	1,530,000	747,788	**2,277,788**	1,575,000	769,781	**2,344,781**
2036-37	1,530,000	682,763	**2,212,763**	1,575,000	702,844	**2,277,844**
2037-38	1,530,000	617,738	**2,147,738**	1,575,000	635,906	**2,210,906**
2038-39	1,530,000	552,713	**2,082,713**	1,575,000	568,969	**2,143,969**
2039-40	1,530,000	487,688	**2,017,688**	1,575,000	502,031	**2,077,031**
2040-41	1,530,000	422,663	**1,952,663**	1,575,000	435,094	**2,010,094**
2041-42	1,530,000	357,638	**1,887,638**	1,575,000	368,156	**1,943,156**
2042-43	1,530,000	292,613	**1,822,613**	1,575,000	301,219	**1,876,219**
2043-44	1,530,000	227,588	**1,757,588**	1,575,000	234,281	**1,809,281**
2044-45	1,530,000	162,563	**1,692,563**	1,575,000	167,344	**1,742,344**
2045-46	1,530,000	97,538	**1,627,538**	1,575,000	100,406	**1,675,406**
2046-47	1,530,000	32,513	**1,562,513**	1,575,000	33,469	**1,608,469**
2047-48	-	-	**-**	-	-	**-**
2048-49	-	-	**-**	-	-	**-**
Total	**30,600,000**	**14,957,162**	**45,557,162**	**30,600,000**	**15,299,287**	**45,899,287**