TOWN OF WATERTOWN

WATER & SEWER AUTHORITY

Cash Flow, Reserve Risk & Financing Options

Plain-Language Summary for the August 26, 2026 Public Hearing

Purpose of this review: The five-year plan intentionally uses a portion of existing Water and Sewer reserves during the early years to phase in rate increases. Because those are the tightest cash years, the Authority is also evaluating whether the financing structure should preserve additional liquidity for emergencies and other unplanned costs.

Five-Year Rate and Reserve Plan

If rates follow the projected five-year path, Water increases are 25.5%, 25.5%, 25.5%, 3.0%, and 3.0%; Sewer increases are 31.0%, 31.0%, 31.0%, 3.0%, and 3.0%. The model draws down reserves in the first two years and rebuilds them in years three through five.

By FY2031, projected cash is approximately $1.7 million for Water and $2.1 million for Sewer - roughly today's estimated balances - and both projected ending balances are above the 90-day cash-on-hand targets. Later-year rates remain planning assumptions subject to annual review and Authority action.

Why Additional Liquidity Matters During the Tight Years

The planned drawdown helps limit immediate rate shock, but a smaller cash cushion also reduces the Authority's flexibility if actual conditions differ from the forecast.

- Emergency water-main, sewer, pump, equipment, or other system repairs can require significant expenditures with little advance notice.
- Significant rain or other weather events can increase sewer flows through inflow and infiltration (I&I), causing wastewater-treatment usage and related costs to vary from projections.
- Actual customer usage, operating costs, capital needs, or final financing costs may also differ from the assumptions used in the five-year model.

Why the Hybrid Financing Option Is Being Considered

The level-principal hybrid does not reduce the $30.6 million Waterbury judgment obligation and does not create new revenue. It changes the timing of principal payments so that more cash can remain available during the early years when projected reserves are under the greatest pressure.

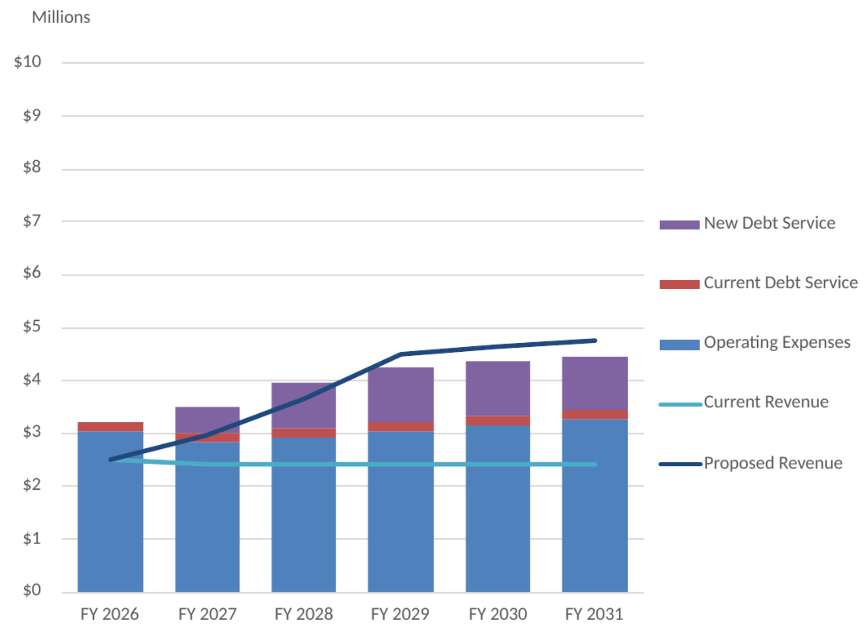
Measure	Level Principal	Hybrid / Effect
FY2028 debt service	$2,797,988	$2,328,188 | $469,800 lower
FY2029 debt service	$2,732,963	$2,528,250 | $204,713 lower
Two-year cash-flow capacity	-	Approximately $674,513 preserved
Full-term debt service	$45,557,162	$45,899,287 | about $342,125 higher

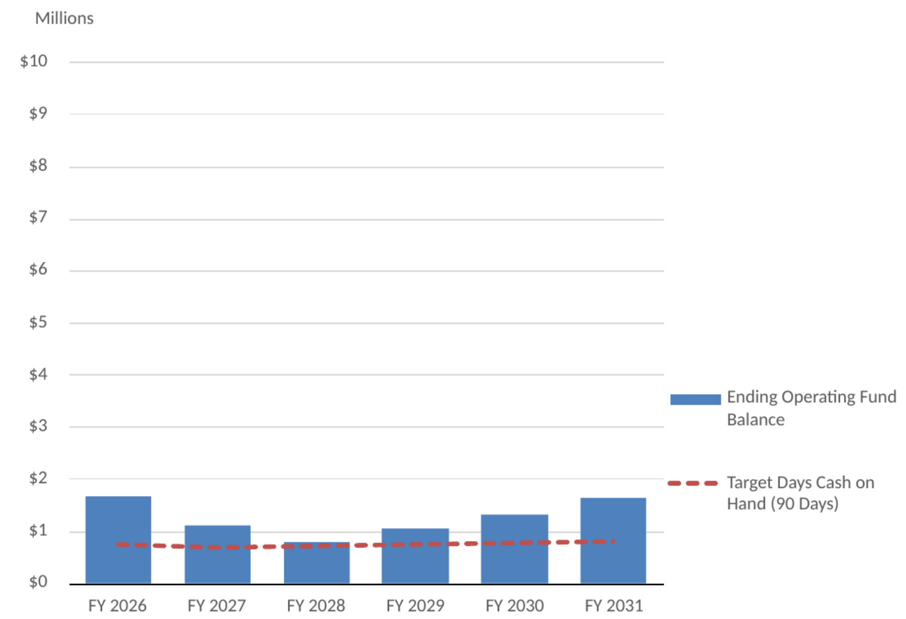
Decision tradeoff: The hybrid preserves approximately $674,500 of additional cash-flow capacity in FY2028-FY2029, when liquidity is most constrained, in exchange for approximately $342,000 of additional modeled debt service over the full financing term.

Bottom line: The hybrid is not a substitute for the proposed rate plan. It is a risk-management option that could preserve more cash during the planned reserve drawdown, giving the WSA additional flexibility if emergency repairs, weather-related sewer flows, or other unplanned costs occur before reserves are rebuilt.

Sources: NewGen Strategies & Solutions, Study Findings and Recommendations (June 17, 2026); Sewer Judgment Debt Issuance Options (August 2026). I&I/weather-risk discussion reflects WSA operating considerations provided for this summary. Projections are estimates and remain subject to annual review, actual results, final financing terms, and Authority action.

Expenses/Revenues & Cash Balance- Water (Level Cash)



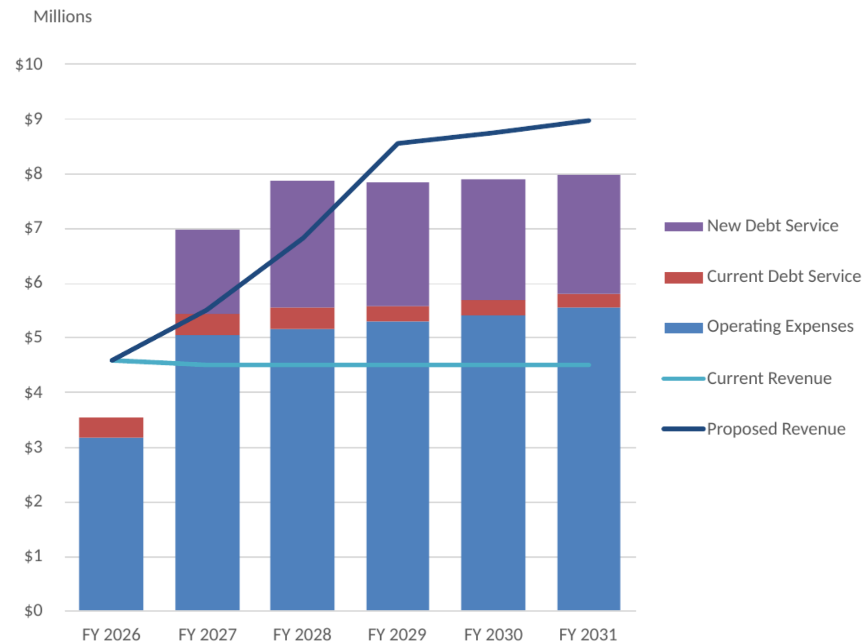


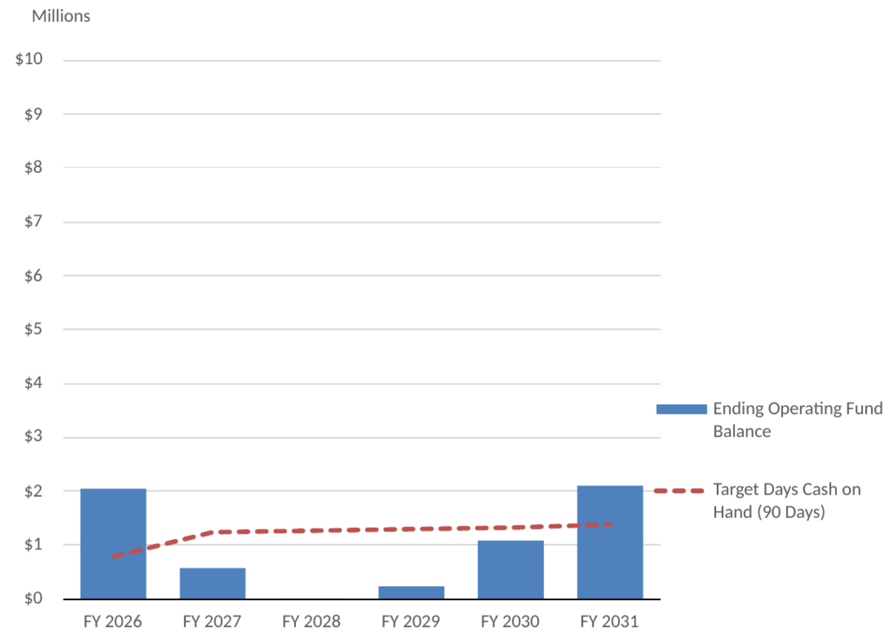
Proposed Revenue reflects a 25.5% increase in water revenue in FY 2027, FY 2028, and FY 2029 and 3% in FY 2030 and FY 2031

The red line represents target equal to operating fund balance of 90 days (25%) of operating expenses

Figure 1. NewGen Water Level Cash scenario. The chart shows the planned early reserve drawdown and rebuilding through FY2031.

Expenses/Revenues & Cash Balance- Sewer (Level Cash)





Proposed Revenue reflects a 31% increase in sewer revenue in FY 2027, FY 2028, and FY 2029 and 3% in FY 2030 and FY 2031

The red line represents target equal to operating fund balance of 90 days (25%) of operating expenses

Figure 2. NewGen Sewer Level Cash scenario. The chart shows the tighter early-year cash position and rebuilding through FY2031.