



TOWN OF WATERTOWN CONNECTICUT


OFFICE OF THE TOWN MANAGER

Watertown Town Hall • 61 Echo Lake Road • Watertown, CT 06795

Tel: 860.945.5255 • Fax: 860.945.4974 • www.watertownct.org

MEMORANDUM

To: Watertown Water and Sewer Authority

From: Mark A. Raimo, Town Manager 

Date: February 18, 2026

Re: Executive Summary – Rate Setting

Executive Summary

Information Framework to Support Future Rate-Setting Parameters

The Watertown Water and Sewer Authority is entering a transitional financial period in which near-term budget controls, recent rate actions, infrastructure reinvestment needs, and future debt obligations must be evaluated together to establish clear and defensible rate-setting parameters. This executive summary is intended to frame the information-gathering process necessary to support upcoming Authority discussions and long-term financial planning.

Near-Term Financial Controls and Available Resources

In February 2026, the Authority implemented a budget freeze as a temporary fiscal control measure. This action, together with reserves carried forward from 2025, has created a limited pool of funds that can be strategically deployed to manage near-term financial pressures. Based on current projections, these resources may be sufficient to support the **initial interest-only payment associated with the Bond Anticipation Note (BAN)**, allowing the Authority to mitigate immediate rate impacts related specifically to this cost.

Additionally, the **August 2025 rate increase** generated incremental revenue that is now fully reflected in the **FY 2026–2027 budget cycle**. This additional revenue provides short-term operating stability and supports continued system operations while longer-term rate and debt analyses are developed.

Infrastructure Reinvestment as a Core Rate-Setting Consideration

In parallel with debt planning, the Authority must consider ongoing infrastructure repair and replacement needs. Industry best practices for enterprise water and sewer utilities indicate that

annual infrastructure reinvestment should generally equal 8%–15% of total operating revenues once systems are mature and fully inventoried.

For a **\$10 million combined water and sewer operating budget**, this equates to an annual reinvestment target of approximately **\$800,000–\$1.5 million**. This benchmark range is widely cited in GFOA guidance, EPA asset-management frameworks, and state utility oversight practices as necessary to sustain system reliability and avoid accelerated asset deterioration.

Because Watertown purchases water from an external supplier, water-side infrastructure exposure is lower than that of a fully independent system, allowing water reinvestment to trend toward the lower end of the benchmark range if assets are well documented and maintained. Additionally, external supplier metered sewer system carries medium long-term risk due to underground asset aging, inflow and infiltration exposure, and regulatory compliance obligations, indicating a need for reinvestment levels closer to the mid-range of the benchmark range.

Medium- and Long-Term Debt Considerations

While the budget freeze, reserves, and incremental revenue provide short-term flexibility, it is anticipated that the **full cost of debt service will be realized beginning in 2028**, following bond conversion and the transition from interest-only payments to full principal and interest obligations. This represents a structural change to the Authority's cost profile and must be explicitly incorporated into future rate modeling.

Bond proceeds are appropriately used for major capital investments but do not replace the need for ongoing infrastructure reinvestment funded through operations. As debt service increases, the Authority must ensure that rates support **both long-term debt obligations and annual reinvestment targets**, rather than allowing one to crowd out the other.

Purpose of Information Gathering

To support informed and transparent decision-making, upcoming Authority discussions should focus on assembling and validating information related to:

- Projected debt service schedules following BAN conversion, including timing of full principal and interest payments
- Duration and appropriate use of budget-freeze capacity and reserves without undermining long-term stability
- Alignment of operating budgets with infrastructure reinvestment benchmarks

References:

1. U.S. EPA, *Asset Management: A Best Practices Guide* (Office of Water, 2008).
2. AWWA, *Principles of Water Rates, Fees, and Charges* (AWWA Manual M1, 6th ed., 2012).
3. Utility Rate Setting Best Practices (CGFOA, 2020).

- Development of rate-setting parameters that balance near-term mitigation strategies with long-term financial sustainability

Methodology Note – Percentage Allocation

- The percentage calculations shown are the result of a **preliminary, cursory analysis** prepared solely to help frame and begin discussion regarding potential rate changes. These figures are provided **for informational purposes only** and should not be relied upon for decision-making.
- Any future rate adjustments for the Watertown Water and Sewer Authority will be guided by the formal **Rate Study prepared by NewGen Strategies**, which serves as the Authority’s primary analytical and policy document. The Rate Study evaluates system costs, debt obligations, infrastructure needs, and long-term financial sustainability in a comprehensive and methodologically sound manner.
- The preliminary calculations presented here are intended to illustrate general concepts and order-of-magnitude impacts only and do not represent final recommendations, adopted rates, or official Authority action.

Conclusion

The combined effect of the February 2026 budget freeze, revenue from the August 2025 rate adjustment, and available reserves provides the Authority with a **limited but meaningful planning window** to sequence future rate adjustments responsibly. However, as full debt service obligations are expected to materialize in 2028 and infrastructure reinvestment requirements persist annually, proactive information gathering and scenario analysis are essential.

This executive summary is intended to serve as the foundation for Authority discussion and direction regarding the scope, timing, and priorities of the information needed to establish future rate-setting parameters that are equitable, sustainable, and consistent with enterprise-fund best practices.

References:

1. U.S. EPA, *Asset Management: A Best Practices Guide* (Office of Water, 2008).
2. AWWA, *Principles of Water Rates, Fees, and Charges* (AWWA Manual M1, 6th ed., 2012).
3. Utility Rate Setting Best Practices (CGFOA, 2020).