2025 Bond Resolution

Authorization for Capital Expenditure on Sanitary Sewers to Comply with 2018 Unified Consent Order from CT DEEP

Financial Analysis of a YES Vote

Join the online forum discussion.

Email your questions to bond2025@oldlymeshores.org
(emails will automatically post to the forum)

Prepared by John Cunningham
WPCA Treasurer ('23-24), WPCA ('16-23), & BOG ('10-18)

This analysis is based on the best available information at the time of writing and is subject to change.

Setting the Context

- **OLSBA signed a Consent Order in 2018 to install sanitary sewers**
    - All parties (OLSBA, OCBA, MBA, & SV) are *joint and severally liable* to implement
    - CT DEEP reiterated at our 05-13-2025 WPCA meeting that all enforcement options remain on the table should we fail to proceed
    - DEEP stated no satisfactory alternatives (advanced treatment options) exist
- **State of Connecticut generously offers substantial funding subsidies to incentivize compliance with the consent order and reduce OLS burden; *matching our spending nearly dollar for dollar***
- **Voting NO *does not* offer a "cost free" alternative – *delays increase costs, risk losing state subsidies – thus acts as a self-defeating strategy presented as a false choice***
- **Voting YES moves us to obtain actual cost information and compliance, while still safeguarding our economic interests in an effective, affordable solution**

Our 2025 Bond Resolution

- **Our [2025 Supplemental Bond Resolution] authorizes an addition $13M, on top of the already approved $9.7M for capital improvements**
    - Authorizes up to **$18.7M** for sanitary sewers (shared and internal)
    - Segments up to **$4M** for stormwater and roadway improvements
    - Actual spending is contingent on 1. Board of Governors approvals, 2. state subsidies, and 3. updating our Cost Sharing Agreement
- **This Bond Resolution represents a best guess at costs & sets a cap**
- **DEEP requires passage to obtain actual cost numbers through bids**

Bond Spending Safeguards for OLSBA

- **Signed, updated Cost Sharing Agreement (CSA)**
  - Joins OLSBA, OCBA, MBA, & SV in cost sharing & subsidy terms
  - OLSBA responsible for 21.2% of cost, receives 21.2% of joint subsidy
- **State subsidies valued at ~$8.8M**
  - $15M in principal forgiveness with 21.2% **(~$3.2M)**
  - Clean Water Funds Grant at 25% of project cost **(~$4.5M)**
  - Clean Water Funds Loan on eligible balance at 2% for 20 years **(~$1.1M)**
- **Board of Governors voting approval on all agreement and spending**

What Spending Cap Does a YES Vote Authorize?

What is the proposed bond resolution sewer cap?	Aggregate	per EDU	%
2025 Bond Proposal for Sewers	**$ 18,700,000**	**$ 96,891**	*100.0%*
Inter Municipal Agreement Buy-ins (Ineligible)	$ (700,000)	$ (3,627)	*-3.7%*
2025 Eligible CapEx for DEEP Subsidies	**$ 18,000,000**	**$ 93,264**	*96.3%*
What subsidies has the state offered?	Aggregate	per EDU	%
OLS Principal Forgiveness	$ (3,181,319)	$ (16,484)	*-17.0%*
CWF Fund Grant	$ (4,500,000)	$ (23,316)	*-24.1%*
CWF Loan Terms	$ (1,085,048)	$ (5,622)	*-5.8%*
Total of State Subsidies	**$ (8,766,366)**	**$ (45,422)**	*-46.9%*
How much does that leave OLSBA responsible to pay?	Aggregate	per EDU	%
2025 Bond Proposal for Sewers	$ 18,700,000	$ 96,891	*100.0%*
Total of State Subsidies	$ (8,766,366)	$ (45,422)	*-46.9%*
Net Payable by OLSBA	**$ 9,933,634**	**$ 51,470**	*53.1%*

Costs Doubled! *Or Is The Dollar is Just Worth Less?*

- In 2012, we estimated sewers would cost **$25k/EDU**
- In 2025, this would be equivalent to:
  - **$35k/EDU** using the Department of Labor Inflation Calculator
  - **$66k/EDU** using historically (1991 formula) inflation data from shadowstats.com
  - **$50k/EDU** would be the average of the two inflation models
- Assume we invested those funds instead of spending on sewers
  - **$25k** invested as follows, would be worth ***$80k*** today
    - **$12.5K** in S&P Index Fund (SPY) → **$62k** today
    - **$12.5k** in Vanguard Bond Fund (BND) → **$18k** today
  - Alternatively, **$25k** invested in gold → ***$47k*** today
- ***The $25k spend in 2012 is the same $35-80k ($57k avg) you would spend today***

What is the Benefit of Sewers?

- The 2024 Town of Old Lyme reassessment shows $152M in appraised value of properties with domiciles in OLSBA
- The aggregate benefit exceeds the cost of installing sewers
  - *A recent study commissioned by Sound View shows a 7% appreciation in property values by adding sewers;* ***that would be ~$10.6M***
  - *Our net cost for sewers would be* ***~$9.9M***
- Financial benefit exceeds (marginally) the cost *(**$10.6M > $9.9M**)*
- Non-financial benefits also accrue
  - *Cleaner and safer beach for the future*
  - *Positive, collaborative relationships with CSA parties and the State*

Summary Takeaways Before Voting

- **We are not voting YES or NO on whether we will have sewers**
  - DEEP made it clear that ship has sailed – *the ONLY acceptable solution is sanitary sewers*
  - The 2018 Consent Order obligates us to participate in the sewer installation
- **A NO vote constitutes a self-defeating choice of false economy**
  - DEEP stated at our 05-13-25 meeting that they <u>will</u> pursue enforcement actions
  - Exposes us to potential fines of $25k/day and legal fees
  - Ultimately the State *could* file an Administrative Order to enforce compliance
  - Likely lose at least the Principal Forgiveness ($3.2M) subsidy, adds >$16k/EDU
  - *Delays in the project result in higher project costs – the very reason for objecting*
- **A YES vote moves things forward, but still provides protections to membership**
  - Enables us to get actual bid/cost numbers to <u>stop guessing</u> and <u>assess real affordability</u>
  - Places financial safeguards regarding CSA, State subsidies, and BOG oversight
  - Protects access to the principal forgiveness funding ($3.2M) offered by DEEP in 2023
  - Removes the threat of defending lawsuits from CSA partners (joint & severally liable)

Appendix A:
Deep Dive on the Numbers

A more detailed explanation of the numbers

(*source spreadsheet here*)

Explain Principal Forgiveness Subsidy of $3.18M

- In 2023, the State offered the CSA parties an additional **$15M** to relieve the escalation in costs since the original 2018 Consent Order
- Apportionment between the parties relies on EDU counts
  - 193 in OLSBA
  - 910 in total
  - OLSBA is 21.2% of total
  - 21.2% of $15M is $3.18M

OLSBA Share of Shared Cost/Benefit	
EDU Count in OLSBA	193
EDU Count in All Parties	910
OLSBA Share	***21.21%***

OLSBA Share of Principal Forgiveness	
Total Available Funds	$15M
OLSBA Share (%)	*21.21%*
OLSBA Share ($)	**$3.18M**

Explain Clean Water Funds Grant Subsidy of $4.675M

- The Clean Water Funds offer a grant of 25% on eligible costs
- Grant valuation
  - $18M cost basis
  - 25% CWF grant funding
  - 25% of $18M is $4.5M

Clean Water Funds Grant	
Maximum Authorization	$18.0M
CWF Grant (%)	*25%*
CWF Grant ($)	**$4.5M**

Explain the CWF Loan – Principal

- The CWF Loan would be the amount remaining after subtracting the subsidies applied at t_0
  - Total Eligible cost of $18M
  - Total subsidies at “time zero” is **~$7.7M** ($3.2M in principal forgiveness and $4.5M in CWF grant
- Balance to be financed is **$10.3**M or $53.5k/EDU

Please explain the CWF Loan Principal Basis		
Total Project Eligible Cost	$ 18,000,000	$ 93,264
OLS Principal Forgiveness	$ (3,181,319)	$ (16,484)
CWF Fund Grant	$ (4,500,000)	$ (23,316)
Net Cost Financed with CWF Loan	**$ 10,318,681**	**$ 53,465**

Explain the CWF Loan – CWF Payments *(20 years @ 2.0%)*

- Clean Water Funds offer a loan at 2% for 20 years with biannual (2x/year) payments
- Like a mortgage, we can calculate the amount of the payments that combine principal and interest components
- We can see how much principal we paid back and how much we paid in interest (cost of using someone else's money)

CWF Loan Calculations		
CWF Principal	$ 10,318,681	*The loan principal*
CWF Loan Term	$ 20	*The loan term*
CWF Loan Rate	2.00%	*The loan rate*
Payments per Year	2	*Payments per year*

	Aggregate	**per EDU**
Biannual Payment Amount	$ 314,262	$ 1,628
Annual Payment	**$ 628,523**	**$ 3,257**
Total of Payments (40 payments)	$ 12,570,464	$ 65,132
Principal Financed	$ 10,318,681	$ 53,465
Interest Paid (Nominal)	**$ 2,251,783**	**$ 11,667**

$$P = \frac{r \cdot PV}{1-(1+r)^{-n}}$$

- $PV = 10,843,681$ (present value or loan amount)
- $r = \frac{0.02}{2} = 0.01$ (biannual interest rate, since 2% annual rate divided by 2 periods per year)
- $n = 20 \cdot 2 = 40$ (total number of biannual payments)

Explain Muni Bonding – Muni Payments *(20 years @ 6.5%)*

- The CWF loan calculation does not tell us the true value of our cost
  - How much would it cost us to fund that principal amount at prevailing rates without this special financing?
  - How much would the payments be under muni funding terms?
- We assume a muni bond rate of 6.5%
  - Risk free 20 year US Treasury yield is currently 5.00% (source: Federal Reserve Bank of St. Louis on 05-15-2025)
  - Muni risk premium typically ranges between 1-2%, *use midpoint of 1.5%*

Muni Loan Calculations		
Muni Bond Principal	$ 10,318,681	*The loan principal*
Muni Loan Term	20	*The loan term*
Muni Loan Rate	6.50%	*The loan rate*
Payments per Year	2	*Payments per year*

	Aggregate	per EDU
Biannual Payment Amount	$ 464,629	$ 2,407
Annual Payment	$ 929,258	$ 4,815
Total of Payments (40 payments)	$ 18,585,159	$ 96,296
Principal Financed	$ 10,318,681	$ 53,465
Interest Paid (Nominal)	**$ 8,266,477**	**$ 42,831**

$$P = \frac{r \cdot PV}{1 - (1 + r)^{-n}}$$

- $PV = 10,843,681$ (present value or loan amount)
- $r = \frac{0.02}{2} = 0.01$ (biannual interest rate, since 2% annual rate divided by 2 periods per year)
- $n = 20 \cdot 2 = 40$ (total number of biannual payments)

Explain the CWF Interest Subsidy of $1.14M

- What is the present value cost of payment stream?
- The difference between the two represents the effective subsidy on interest offered by CWF lending terms
- We assume a discount rate equivalent to the 20-year US Treasury (risk free)

- **Present Value of Annuity Formula:**

$$PV = PMT \times \frac{1-(1+r)^{-n}}{r}$$

Where:

- (PMT) = payment per period ($488,269),
- (r) = discount rate per period (0.025),
- (n) = number of periods (40).

Present Value Comparisons		
Discount Rate	5.00%	*20yr US Treasury*
Discount Period	20	*years*
Payments per Year	2	*Payments per year*
	Aggregate	**per EDU**
Biannual Payment (Muni Bond)	$ 464,629	$ 2,407
Present Value of Payments (Muni Bond)	$ 11,663,476	$ 60,433
Principal Repaid	$ 10,318,681	$ 53,465
Present Value of Interest Paid (Muni Bond)	**$ 1,344,795**	**$ 6,968**
Biannual Payment (CWF Loan)	$ 314,262	$ 1,628
Present Value of Payments (CWF Loan)	**$ 7,888,839**	**$ 40,875**
Principal Repaid	$ 10,318,681	$ 53,465
Present Value of Interest Paid (CWF Loan)	**$ (2,429,843)**	**$ (12,590)**
Interest Savings from CWF Interest Rate	**$ (1,085,048)**	**$ (5,622)**

Appendix B:
Adjacent Issues

Addressing Several Issues
Adjacent to the Bond Resolution Vote

What about Other Capital Expenses (CapEx)?

- **The bond resolution sets a total $18.7M capital expenditure <u>limit</u>**
- **All capital expenditures must full under that number, including**
    - **~$1M for the Design Phase and Accrued Interest already incurred under the Interim Financing Obligation**
    - **$621k IMA buy-ins with financing terms comparable to CWF terms**
        - **East Lyme: 2% for 20 years**
        - **New London: 2.5% for 20 years**

What about Operating Expenses (OpEx)?

- Generally Accepted Accounting Principles (GAAP) prohibit including operating costs in the capitalization of a capital infrastructure project
    - ***FASB ASC 360-10***: *Property, Plant, and Equipment – Rules for capitalizing costs and depreciation.*
    - ***FASB ASC 835-20***: *Interest – Capitalization of interest costs during construction.*
    - ***FASB ASC 720-15***: *Other Expenses – Treatment of start-up and operating costs.*
    - ***GASB Statement No. 34*** *(for governmental entities): Capitalization and reporting of infrastructure assets.*
- Only costs directly related to acquisition, construction, or installation, including certain indirect costs and interest during construction, can be capitalized
- Operating costs incurred after the asset is placed in service must be expensed

What about Other One-Time Costs?

- This WPCA elected to exclude these one-time costs from the scope of the bond resolution:
  - Sewer lateral connection (est. $5,000-20,000)
  - Water lateral connection (est. $3,000-20,000)
  - Septic system abandonment (est. $1,000-5,000 in place, $3,000-$10,000 for removal)
  - *Well abandonment (optional: est. $500-$2,000)*
  - *Well retention (optional: est. $1,000-3,000)*
- Original WPCA intent was to aggregate, capitalize, and bond all of the above, except well expenses
  - Maximize EDU compliance with connecting to water and sewer
  - Lighten the impact of compliance by distributing cost over 20 years, rather than at t_0
  - Minimize or even eliminate the liens on member properties
  - Minimize damaging/disrupting/endangering the community with later parcel construction
- Each member now responsible for carrying costs individually, which are unique to each parcel

What about Stormwater & Road Costs?

- Since neither stormwater nor road costs are mandated by the Consent Order, they are not included in the analysis.
- OLSBA roads are in disrepair and need to be replaced, regardless of sewers
    - DEEP has indicated that 50% of eligible road costs qualify for CWF Grant/Loan terms
    - That means we receive meaningful costs subsidies that would otherwise not be available
    - The State has deferred paving Route 156, which saves us ~$1M in cost
- OLSBA stormwater remediation is considered optional
    - DEEP did offer to increase CWF eligibility for this work from 20% to **40-60%**
    - This increases state subsidies from marginal to meaningful
    - Stormwater remediation benefits a minority of the members and there has been discussion of defunding this to contain costs, but we should take advantage of the available subsidies
- Including both with sewers only reduces their costs through subsidies

Appendix C:
The 2018 Consent Order

Inadvisable to play chicken with the State of CT

DEEP Unambiguously States They Will Enforce

- The Consent Order states plainly:

  "Noncompliance. This consent order is a final order of the Commissioner with respect to the matters addressed herein, and is ***non-appealable and immediately enforceable****. Failure to comply with this consent order may* ***subject the beach associations to an injunction and penalties.****"*

- DEEP reasserted its intent to enforce the Unified Consent Order (2018)
  - 2023 Letter to the Sound View Coalition
  - 2024 Letter to the Old Lyme Shores Beach Association
  - Presentation at OLSBA WPCA Meeting (May 13, 2025)

CSA Parties Joint & Severally Liable

With respect to the other beach association, section B.17, "Joint and several liability," holds that the beach associations are **jointly and severally liable** for compliance with the Consent Order. Therefore, if one member fails to abide by the Consent Order:

- **The Commissioner can hold all associations accountable:** DEEP can pursue enforcement actions (injunctions and penalties) against any or all of the associations, regardless of which specific association failed to comply.

- **Other associations may face consequences:** Even if two associations are compliant, they could still be subject to penalties or legal action due to the noncompliance of the third association.

- **Internal recourse:** The compliant associations might have legal recourse against the non-compliant association to recover any costs, penalties, or damages they incur due to the non-compliance. This would likely involve internal agreements or legal action between the associations themselves, outside of the Consent Order with DEEP.

In essence, "joint and several liability" creates a situation where all associations are responsible for each other's compliance, and the failure of one can have repercussions for all.

The 2024 OLSBA letter strongly advises OLSBA to obtain its bond authorization as soon as possible. Noncompliance will necessitate payback of the loan portion at the current IFO beginning September 30, 2025. <u>Access to additional principal forgiveness, worth $3.2M to OLSBA, will be jeopardized</u>. OLSBA will be considered in violation of Consent Order No. COWRMU18001, and DEEP may pursue further enforcement action, including <u>penalties of $25,000/day</u>.

What Failure to Pass the Bond Resolution Look Like?

- Further delays that escalate mandated costs and add new costs
- Legal action by the State of Connecticut against OLSBA, ultimately *could* result in an Administrative Order
- Lawsuits against OLSBA from Old Colony, Miami Beach, Town of Old Lyme, Town of East Lyme, and/or City of New London
- Penalty assessments of $25,000/day by the State of Connecticut
- Significant costs to defend against aforementioned lawsuits and penalty avoidance
- Ultimate enforcement of the Consent Order – installation of sewers with less financial assistance from the State of Connecticut

Appendix D:
Sewer Cost/Benefit Analysis

Benefits Exceed Costs

What Benefits Accrue from Sewer Connections?

- Financial benefits derive from home appreciation resulting from connecting to sewers
  - One-time initial valuation increase from connecting a home to sewers
  - Compound growth of that increased valuation in subsequent years
- In 2020, the Sound View Sewer Coalition (who oppose sewers), commissioned a study, An Analysis of Public Sewer Benefit, finding home values increase 7%
- Case Shiller Home Price Index
- In 2024, Old Lyme reappraisal resulted in OLS domiciled property valued at **$152M**
- Maturity matching capital project period (20 years) yields a ***30.5% ROI***:
  - **Aggregate: $13M** in valuation increases (exceeds **$9.9M** cost)
  - **Per EDU: $67k** in valuation increases (exceeds **$51k** cost)
- This analysis excludes the non-financial benefits of a cleaner environment, avoidance of DEEP enforcement actions, fines, and/or lawsuits.

Explain the Valuation *(+7% at t_0, then 1.5% CAGR for 20 years)*

- First, we calculate the immediate impact of the addition of sewers at 7%
- Then, the Case Shiller real compound annual growth rate for home values (long term) is 1%
  - We simply calculate the future value

$$FV = PV \cdot (1 + r)^n$$

Property Value Increases (One Time + Real Compound Annual Growth)

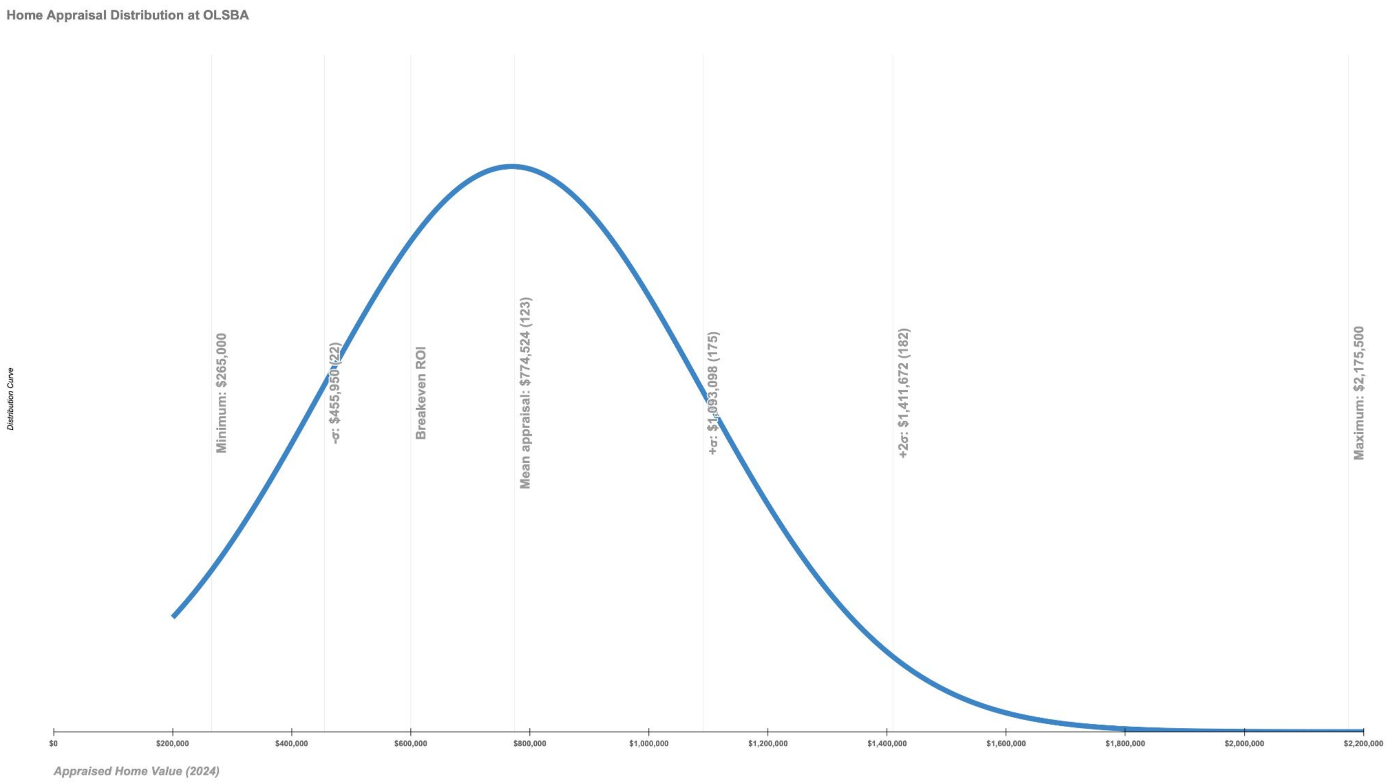
7.00%	*sewer bump*
1.00%	*Real CAGR*
20	*years*

	Aggregate	**per EDU**
Property Appraisal	$ 151,806,700	$ 786,563
Increase from Sewers (%)	7.00%	7.00%
Increase from Sewers ($)	**$ 10,626,469**	**$ 55,059**
Compounding Baseline	$ 10,626,469	$ 55,059
Real Compund Annual Growth Rate	1.00%	1.00%
Total Financial Benefit Received	**$12,966,312**	**$67,183**
Project Capital Cost	$9,933,634	$51,470
Return on Investment (ROI)	*30.5%*	*30.5%*

What About Lower Valued Homes?

- Financial ROI – All homes appraised >$600k will break even or better
  - 48 (~25%) homes fall below the threshold
  - Totals 15% of aggregate value / contribution to annual budget
- Higher value homes contribute more to our annual budget
  - Top 10% of homes cover 20%
  - Top 25% of homes cover 40%
  - Top 50% of homes cover 64%
  - Top 75% of homes cover 85%

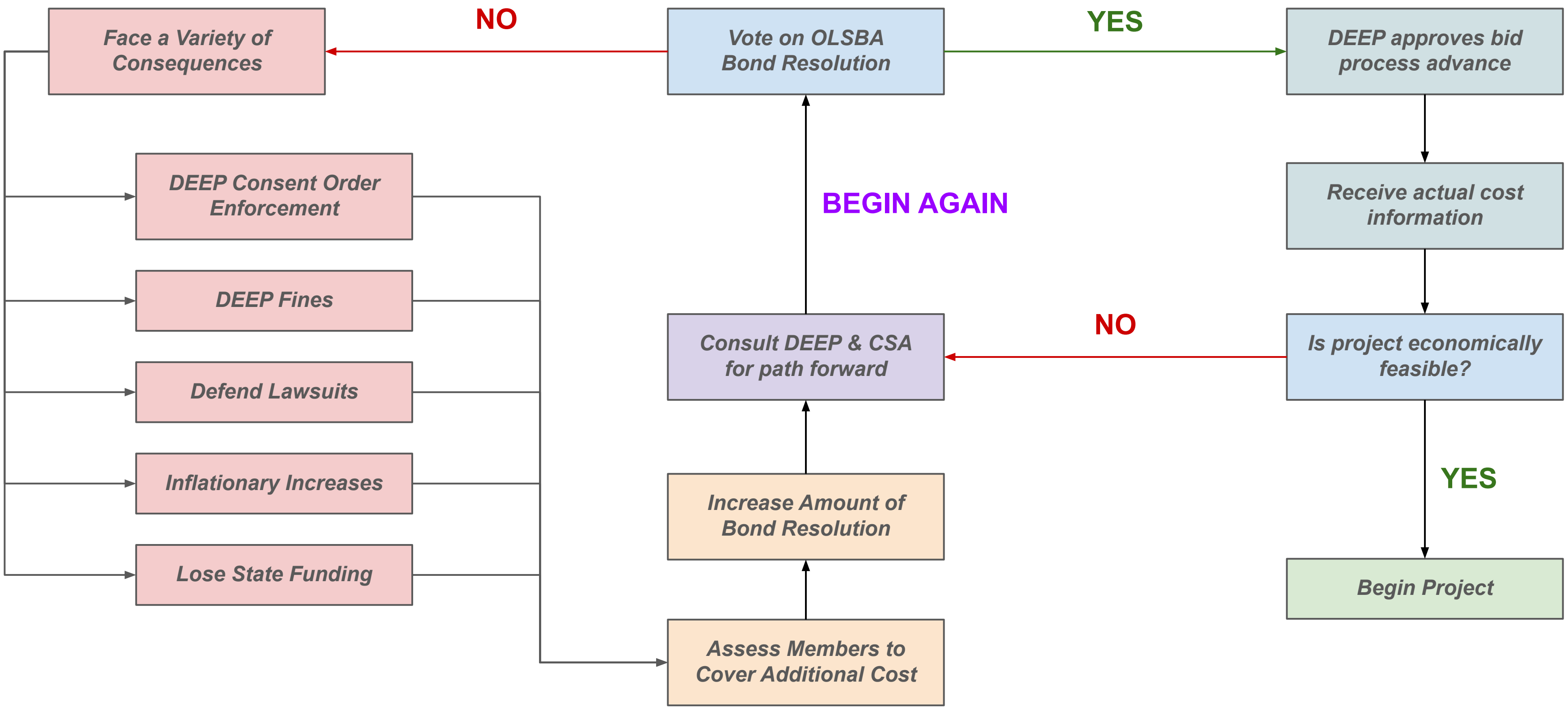
What Is the Property Valuation Distribution?



Appendix E:
Process Moving Forward

What is the Process Before Us Based on Outcomes of Bond Vote on May 24th?

Explain the Process Ahead of Us *(Draft Only)*



Appendix E:
OLS Financial Capability is Strong

[Clean Water Act Capability Assessment Guidance]()

(March 2024 Revision)

Environmental Protection Agency

Financial Capability Assessment – Objectives

- The FCA Guidance sets forth two alternatives that communities can choose to employ to assess financial capability when negotiating compliance schedules.
    - **Alternative 1** (recommended) considers metrics that measure the financial impact of the current and proposed CWA controls on residential users, the financial capability of the community, and the lowest quintile income and poverty prevalence within the community's service area.
    - **Alternative 2** utilizes dynamic financial and rate models that evaluate the impacts of debt service on customer bills.
- Conclusions
    - Under **Alternative 1**, OLSBA is in a **STRONG** financial position to undertake the project
    - Under **Alternative 2**, CT DEEP has provided **SIGNIFICANT SUBSIDY** to relieve hardship

Financial Capability Assessment – Considerations

- "When used for schedule development, EPA does not view or use the FCA Guidance as a rigid metric that points to a given schedule length or threshold over which the costs are deemed unaffordable." *(p.5)*
- "It is a common misconception that the FCA Guidance can be used to cap spending on CWA programs or projects at a percentage of MHI." *(p.5)*
- "The FCA Guidance does not remove obligations to comply with the CWA nor does it reduce regulatory requirements." *(p.5)*
- "Rather, EPA uses the FCA Guidance to assess a community's financial capability for the purpose of developing a reasonable implementation schedule for necessary improvements." *(p.5)*

Financial Capability Assessment – Alternative 1

- Residential Index (RI)
- Lowest Quintile Poverty Indicator (LQPI)
- Financial Capabilities Index (FCI)
  - Debt Indicators
    - *Bond Rating*
    - *Overall Net Debt as a Percent of Full Market Property Value (ND/FMV)*
  - Socioeconomic Indicators
    - *Unemployment Rate*
    - *Median Household Income*
  - Financial Management Indicators
    - *Property Tax Revenues as a Percent of Full Market Property Value*
    - *Property Tax Revenue Collection Rate*

Residential Indicator (RI) – High

- Annual CapEx cost of principal and interest after state subsidies is $3,432/yr per EDU
- Annual OpEx cost of operations and maintenance estimated to be $550/yr per EDU
- Using either 06371 or 06376 yields a High Impact cost to the community – but it is not considered *TOO high*!

Residential Indicator			
Annual CapEx (P+I) per EDU	$ 3,432		**<1%** *Low Impact*
Annual OpEx (O&M) per EDU	$ 550		**1-2%** *Mid-Range Impact*
Cost Per Household (CPH)	**$ 3,982**		**>2%** *High Impact*

	Town of Old Lyme (06371)	Point O'Woods (06376)
Residential Indicator (RI)	**3.13%** ***High***	**2.17%** ***High***
Median Household Income (MHI)	$ 127,429	$ 183,625

Lowest Quintile Poverty Indicator (LQPI)

- Accounts for the variability of income distribution
- Assesses the severity and prevalence of poverty in a community
- 2025 Federal Poverty Guidelines
  - $21,150 for 2 people
  - $32,150 for 4 people
- *What percentage of our community has income < 200% of these values?*
- Since most homes are second home, we likely have a **Strong score of 3**.

INDICATOR (CENSUS DATA CODE)	STRONG (SCORE = 3)	MID-RANGE (SCORE = 2)	WEAK (SCORE = 1)	WEIGHT	ACTUAL VALUE	SCORE
LQPI #1 Upper Limit of Lowest Quintile Income (B19080)	More than **25%** above national LQI	**±25%** of national LQI	More than **25%** below national LQI	50%		
LQPI #2 Percentage of Population with Income Below 200% of Federal Poverty Level (S1701)	More than **25%** below national value	**±25%** of national value	More than **25%** above national value	10%		
LQPI #3 Percentage of Households Receiving Food Stamps/SNAP Benefits (S2201)	More than **25%** below national value	**±25%** of national value	More than **25%** above national value	10%		
LQPI #4 Percentage of Vacant Housing Units (B25002)	More than **25%** below national value	**±25%** of national value	More than **25%** above national value	10%		
LQPI #5 Trend in Household Growth (B25002)	>1%	0%-1%	<0%	10%		
LQPI #6 Percentage of Unemployed Population 16 and Over in Civilian Labor Force[14] (DP03)	More than **25%** below national value	**±25%** of national value	More than **25%** above national value	10%		
Score for LQPI #1						
Average Score for LQPI #2 to #6 (Sum of 2 through 6 divided by 5)						
Lowest Quintile Poverty Indicator Score (Sum of two lines above divided by 2)						
Lowest Quintile Poverty Indicator Benchmarks Low Impact (Above 2.5) Medium Impact (1.5 to 2.5) High Impact (Below 1.5)						

Bond Rating – n/a

- We have no debt; ***we have no rating***.
- Assessment of community credit capacity
- <u>General obligation</u> bonds are bonds issued by a local government and repaid with taxes (usually property taxes)
- <u>Revenue bond</u> ratings reflect financial conditions and management capability of the wastewater utility. They are repaid with revenues generated from user fees.

		LINE NUMBER
Most Recent General Obligation Bond Rating		
Date		
Rating Agency		
Rating		301
Most Recent Revenue (Water/Sewer or Sewer) Bond		
Date		
Rating Agency		
Bond Insurance (Yes/No)		
Rating		302
Summary Bond Rating		303

Not Available

Overall Net Debt as a Percent of Full Market Property Value – *Strong*

- Measure the debt burden on residents within the permittee service area and measures the ability of local governmental jurisdictions to issue additional debt
- Our aggregate appraised (2024) property value is **$152M**
- We have no debt; ***we have capacity***
- ***$0/$152M yields 0%***

		LINE NUMBER
Direct Net Debt (G.O. Bond Excluding Double-Barreled Bonds)	$0	401
Debt of Overlapping Entities (Proportionate Share of Multijurisdictional Debt)	$0	402
Overall Net Debt (Lines 401 + 402)	$0	403
Full Market Value of Property	$152,000,000	404
Overall Net Debt as a Percent of Full Market Property Value (Line 403 divided by Line 404 x 100)	0%	405

Benchmarks

- Weak: Above 5%
- Mid-range: 2-5%
- Strong: Below 2%

Unemployment Rate – *n/a*

- Compare the permittee unemployment values with the national average values

		LINE NUMBER
Unemployment Rate – Permittee		501
Source		
Unemployment Rate – County (use if permittee's rate is unavailable)		502
Source		
Benchmark		
Average National Unemployment Rate		503
Source		

Not Available

- Weak: More than 1 percentage point above the National Average
- Mid-range: ± 1 percentage point of the National Average
- Strong: More than 1 percentage point below National Average

Median Household Income (MHI) – *Strong*

- Most recent US Census Data (2023) puts:
    - National median household income at $80,610
    - Old Lyme (06371) median household income at $127,429
- Source: U.S. Census Bureau’s American Community Survey 2023 5-year estimates.

		LINE NUMBER
Median Household Income – Permittee (Line 203, Worksheet 2)	$127,429	601
Source	census.gov	
Benchmark		
National MHI	$80,610	602
Source	census.gov	
Relationship to Benchmark		
Permittee MHI Relationship to National MHI ((Line 601-Line 602)/Line 602)	58%	603

Benchmarks

Compare the permittee's MHI to the adjusted national MHI:

- Weak: More than 25% below National MHI
- Mid-Range: ± 25% of the National MHI
- Strong: More than 25% above National MHI

Property Tax Revenues at Percent of Full Market Value – *Strong*

- Appraised property values total $152M
- Town of Old Lyme uses a 70% assessment value, so $106M
- The mill rate is 24.40
- That results in estimated property tax revenue of $2.6M
- $2.6/$152 = 1.71%

		LINE NUMBER
Full Market Value of Real Property (Line 404)	$152,000,000	701
Total Property Tax Revenues	$2,596,160	702
Property Tax Revenue as a Percent of Full Market Property Value (702 ÷ 701 × 100)	1.71%	703

Benchmarks

- Weak: Above 4%
- Mid-range: 2-4%
- Strong: Below 2%

Property Tax Revenue Collection Rate – *Strong*

- We can use OLSBA association dues as a proxy for property tax collection rates
- Budget assessed was $194k
- Collection was ~$190k (est.)
- $190/$194 = 98%

		LINE NUMBER
Property Tax Revenue Collected (Line 702)	$190,000	801
Property Taxes Levied	$194,049	802
Property Tax Revenue Collection Rate (Line 801 ÷ Line 802 × 100)	98%	803

Benchmarks

- Weak: Below 94%
- Mid-range: 94-98%
- Strong: Above 98%

Summary of Financial Capability Benchmarks

INDICATOR	STRONG	MID-RANGE	WEAK
Bond Rating	AAA – A (S&P) or Aaa – A (Moody's) or AAA – A (Fitch Ratings)	BBB (S&P) or BAA (Moody's) or BBB (Fitch Ratings)	BB - D (S&P) or Ba – C (Moody's) or BB - D (Fitch Ratings)
Overall Net Debt as a Percent of Full Market Property Value	Below 2%	2% - 5%	Above 5%
Unemployment Rate	More than 1 Percentage Point Below the National Average	± 1 Percentage Point of National Average	More than 1 Percentage Point Above the National Average
Median Household Income	More than 25% Above National MHI	± 25% of National MHI	More than 25% Below National MHI
Property Tax Revenues as a Percent of Full Market Property Value	Below 2%	2% - 4%	Above 4%
Property Tax Collection Rate	Above 98%	94% - 98%	Below 94%

Summary of Financial Capability Indicators

INDICATOR	COLUMN A: ACTUAL VALUE	COLUMN B: SCORE	LINE NUMBER
Bond Rating (Line 303)	n/a	-	901
Overall Net Debt as a Percent of Full Market Property Value (Line 405)	STRONG	3	902
Unemployment Rate (Line 501)	n/a	-	903
Median Household Income (Line 601)	STRONG	3	904
Property Tax Revenues as a Percent of Full Market Property Value (Line 703)	STRONG	3	905
Property Tax Revenue Collection Rate (Line 803)	STRONG	3	906
Permittee Indicators Score (Sum of Column B ÷ Number of Entries)		3	907
Financial Capability Indicators Rating		STRONG	

Benchmarks	**Score**
• Weak:	1
• Mid-Range:	2
• Strong:	3

FINANCIAL CAPABILITY INDICATORS RATING	SOCIOECONOMIC, DEBT, AND FINANCIAL INDICATORS
Weak	Below 1.5
Mid-Range	1.5 to 2.5
Strong	Above 2.5

Alternative Analysis – State Subsidies

- **Grants: *~$4.5M***
  - **YES:** DEEP CWF is paying for 25% of eligible costs at time incurred
  - This covers 25% of the $18M cap in our bond resolution
- **Flexible loan terms: *~$3.2M***
  - **YES:** DEEP Forgivable loan with principal forgiveness
  - *Offered $15M of total CSA cost, with 21.2% allocated to OLSBA*
- **Low interest rate terms: *~$1M***
  - **YES:** DEEP CWF loan on 75% of eligible costs at 2% for 20 years
  - *This covers <u>70% of our interest cost</u> if municipal bonded at 6.5%*

Alternative Analysis – Parallel Private Funding

- **Other revenue sources can be pursued to reduce cost burden**
  - Taxes
    - Special Assessment Districts
    - Property Taxes
  - Municipal Bonds
  - Utility Revenue Sources
    - Rental Income from Cell Phone Tower Leases
    - Water & Wastewater Line Protection Services
- **There is no limit to being creative to reduce the cost burden**