




**Budgets for the
Fiscal Year Ending
May 31, 2014**

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**SUFFOLK COUNTY WATER AUTHORITY
OAKDALE, NEW YORK**

INTEROFFICE CORRESPONDENCE

DATE: March 12, 2013
TO: Jeffrey W. Szabo, Chief Executive Officer
FROM: Larry B. Kulick, C.P.A., Chief Financial Officer 
SUBJECT: **BUDGETS – FISCAL YEAR ENDING MAY 31, 2014**

I respectfully enclose the Suffolk County Water Authority Budgets for the fiscal year ending May 31, 2014. In accordance with Public Authorities Law, these budgets must be approved by the Board and submitted to applicable agencies by March 31, 2013.

OPERATIONS & MAINTENANCE BUDGET HIGHLIGHTS

One of two budgets included is the Operating & Maintenance Revenue and Expense Budget. This reflects the Authority's activities as it relates to revenues and day-to-day operational and maintenance costs. The following summarizes the proposed budget for fiscal year ending May 31, 2014:

Operating & Other Revenue	\$163,050,000
Operating & Maintenance Expense	<u>108,711,000</u>
Revenues Available for Debt Service	<u>54,339,000</u>
Debt Service	<u>30,118,000</u>
Debt Coverage	<u>1.80</u>

Revenues

The Authority's tax-exempt status and its ability to issue tax-exempt debt rests with the sale of water within the boundaries of Suffolk County. The composition of Suffolk County Water Authority's Revenue Budget for fiscal year May 31, 2014 is as follows:

- 1) **Water Sales** (\$130.8 million) – This amount is conservatively based on the projected number of customers through May 2013, customer growth of ¼% and an average annual usage of 160,000 gallons per customer. Guided by information and discussions with rate study consultants, using this level of consumption is conservative because it minimizes weather variances. The budget includes approximately \$4.5 million in revenues to be generated by the recently enacted rate increase.

- 2) **Wholesale Water Sales** – (\$1.7 million) – Suffolk County Water Authority previously eliminated the wholesale water rate. Effective June 1, 2013 the Authority and Town of Brookhaven, on behalf of Stony Brook Water District entered into a 40 year Operating Agreement. The three (3) remaining municipalities who were either “grandfathered” in or under special agreement are Smithtown, St. James, and Village of Greenport Water Districts. The recently approved rate increase includes an adjustment to the rate for these three municipalities from \$1.199 to \$1.319 per thousand gallons effective January 1, 2014.

- 3) **Hydrants and Firelines** – (\$8.3 million) – Suffolk County Water Authority has approximately 35,200 public hydrants and 2,000 private hydrants. Public hydrants are billed at a rate of \$160.20 per year, a rate which has not changed since 1994. Private hydrant rates are billed \$184.20 per year. Effective April 1, 2013 rates for private hydrants will increase to \$192.00 per hydrant per year. There are approximately 562 additional hydrants within the Shorewood Water Company service area, which are billed at an annual rate of \$312 per hydrant. Generally, the respective fire districts throughout Suffolk County pay for the public hydrants located within their districts. In some circumstances, the hydrants are paid directly by the towns’ special district. The budget reflects a ¼% growth. Firelines are billed by size ranging from \$170 (2”) to \$2,104 (12”). There are currently 4,079 in the system and the budget reflects a ¼ % growth.

- 4) **Miscellaneous Fees** – (\$22.4 million)
 - a. Water Related – (\$5.5 million) - These include customer late charges, reconnect fees, inter-municipal operating & maintenance agreements, rental agreements, etc.
 - b. Capital Reimbursements – (\$6.3 million) – Suffolk County Water Authority pays for the first 75 feet of main installed for each homeowner. Residential homeowners will pay the Authority for the costs in excess of 75 feet. Developers typically pay 100% of the cost. To help residents to become SCWA customers, standard cost per foot and regional fixed fees have been established. Based on reduced customer growth estimates, budgeted revenues from developer contracts have been reduced to \$1.5 million.
 - c. Non-Water-Related Revenues – (\$10.6 million) – Consisting of antenna leases the proposed budget is comprised of existing leases plus 3% (standard built in clause of existing contracts). Renewed leases are reflecting 3.5% annual increases. Conservatively, no new antenna leases are budgeted.

- 5) **Interest Income** – (\$1.5 million) – Current market conditions continue to be very low, with expectations of a continued low interest environment into the later part of 2014. The proposed budget conservatively reflects an average interest rate of .15%.
- 6) **Deferred Revenue – OPEB** – (\$12 million) – In order to comply with GASB 45, the Authority has reflected on its financial records a deferred revenue for the unfunded portion of this cost in the amount of \$14 million. See Deferred Expenses – OPEB for additional information.

In addition to the necessary expenses to continue providing safe, pure and constantly tested drinking water at the lowest possible cost, costs associated employee development, emergency management, and developing a long-term plan for information technology development are included within the submitted Operating and Maintenance Budget. Major components of the submitted budget for fiscal year May 31, 2014 are as follows:

Expenses

- 1) **Payroll** – (\$35.4 million) – As a service providing organization, payroll is the single biggest Authority cost. In fiscal year 2011, the Authority was able to reduce staff by participating in the New York State Retirement Incentive program. Since then, the Authority constantly reviews each position, which becomes available to ensure positions are filled when and where necessary. Current base payroll is budgeted at \$42.5 million. Overtime is budgeted in the amount of \$1.5 million, approximately \$100,000 less than the current year and \$600,000 less than 4 -5 years ago. The budget includes the addition of an entry level engineer and temporary accountant as well as the elimination of a customer service clerk position. In total, the Authority payroll for fiscal year ending May 31, 2014 is estimated at \$44 million. In accordance with Generally Accepted Accounting Principles (GAAP), costs incurred in the course of purchasing or constructing a capital asset must be recorded as a portion of the capital asset. Therefore, costs incurred by SCWA, principally payroll and benefits, must be allocated. Based on updated information, 80% of payroll costs are attributable to operations & maintenance and 20% to capital. Consequently, \$35.4 million of payroll is reflected in the proposed operating and maintenance budget.
- 2) **Benefits** – (\$22.1 million) – As previously indicated, in accordance with GAAP and analysis of historical information,

80% of all benefit costs are reflected in the operation & maintenance budget and 20% in the capital budget. These costs include health, dental, optical, social security, workers' compensation insurance, etc. New York State Retirement System establishes the final contribution rates 17 months in advance. We have been advised that the rates for the period April 1, 2013 through March 31, 2014 will average approximately 20% of payroll or \$8 million, which represents an increase of approximately 11% over the current year. Health insurance costs continue to rise and this budget proportionately reflects a 6% increase in related premiums. Life, optical, and dental insurance is budgeted at an approximate 10% increase.

- 3) **OPEB** – (\$3 million – actual; \$14 million deferred) In 2008, GASB Statement No. 45 was established, requiring state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits “OPEB”. Employers are required to account for and report the annual cost in similar fashion as currently done for pensions. This annual amount pursuant to an actuarial review update done last year reflects an annual cost of \$17 million. There is currently no requirement to fund this liability. In preparation of the fiscal year ending May 31, 2012 budget I recommended the Authority begin systematically funding a portion of the calculated OPEB figure, beginning with \$1 million and each year adding an additional \$1 million in funding. Consequently, I have included \$3 million in the proposed budget for this purpose. In order to comply with GASB 45, the Authority must reflect, on its financial records the total annual cost. Therefore, the Authority reflects \$14 million as a deferred expense. In accordance with Financial Accounting Standards No. 71, the Authority reflects \$14 million as a deferred revenue to counter the unfunded portion.
- 4) **Power** – (\$21.9 million) – Based on all water pumped, consumption billed as well as unbilled (hydrants, fire-lines, main flushing, etc.), power used on buildings and structures, and an estimated customer growth of ¼%, \$21.9 million is reflected in the proposed budget. Components of LIPA's rate structure include demand charges, fuel surcharges, and consumption rates. Whereas, LIPA is currently unable to provide any firm rate projections, this budget conservatively has included a 3% increase.
- 5) **Administrative Operations** – (\$10.3 million) Major functional components of the Authority's operations include customer billing and collecting (\$1.9 million), computer supplies and

expenses (\$.7 million), telecommunication services (\$1.0 million), communications (\$.2 million), safety (\$.1 million), office and warehouse supplies (\$.2 million), consultants (\$.8 million), risk management (\$2.8 million), personnel services and training (\$.4 million), facilities & general services (\$1.2 million) and other operating expenses (\$1.2).

- 6) **System Operations & Maintenance** – (\$7.3 million) Major functional components of the Authority's maintenance program include water mains (\$2.4 million), hydrants (\$.8 million), meters & services (\$.8 million), wells & tanks (\$.5 million), consultants (\$.6 million), pumping equipment (\$1.1 million), computer maintenance (\$.4 million), and general maintenance of facilities (\$.7 million).
- 7) **Treatment** – (\$6.6 million) - This includes chemicals (\$2.5 million), carbon replacement (\$2.7 million), other treatment systems, including perchlorate, nitrates, and iron (\$.8 million), laboratory expenses (\$.6 million).
- 8) **Transportation** – (\$1.9 million) – The transportation department maintains approximately 320 vehicles and 130 in support equipment (trailers, cranes, backhoes, compressors, etc.). The Authority budgets approximately \$3.3 million annually to keep this equipment on the road, including payroll and benefits. \$1.1 million (33.7%) of the transportation budget is spent on gasoline. Whereas, the fleet and related equipment is used in connection with both the Operating & Maintenance and Capital Budgets, the costs are allocated to both budgets in accordance with Generally Accepted Accounting Principles (GAAP). Consequently, \$1.9 million, excluding payroll and benefits (included in #1 and 2 above) is reflected in this budget.

Debt Service

As required by SCWA's bond indenture, revenues available after the payment of its operating and maintenance expenses are to be applied to the payment of its debt service (principal and interest of its outstanding debt). The Authority's capital budget is funded from the issuance of bonds and net revenues remaining after the payment of its operating & maintenance expenses and debt service. The bonds issued are secured against the revenues generated. In February 2013, the Authority refinanced approximately \$64 million of existing outstanding debt resulting in net present value savings of approximately \$7 million. The Authority's Capital Program, the structure of its existing debt, the funding relationship of its capital expenditures between revenue and financing, and the importance placed by management to maintain strong debt coverage has allowed SCWA to be held in highest regard within the financial community as evidenced by its current rating on outstanding senior lien debt of AAA and AA+

from Fitch, Inc. and Standard and Poors Rating Services. Debt Service of \$30.1 million is budgeted for 2014.

CAPITAL BUDGET HIGHLIGHTS

The Authority formulates the capital budget based on information provided by its Construction-Maintenance, Engineering, Production Control, Laboratory, Information Technology, General Services, Customer Service, and Administrative Departments. The proposed 2014 capital budget of \$61.9 million begins to incorporate information technological and energy efficient initiatives.

The following components are part of the proposed capital budget.

Water Main Installations

There are four components to the Authority's water main installation program: (1) the installation of new water mains to serve communities that were previously served by private wells (\$4 million), (2) the replacement of existing water mains (\$14 million), (3) installation of new water mains paid by developers (\$1.5 million), and (4) improvements to the distribution system to provide better service within existing service areas (\$2 million). With respect to the first component, fear of private well contamination, the security of having water that is constantly tested, and the safety offered by the presence of public fire hydrants drives the demand for public water. Projected customer growth is ¼%. The selection of water mains targeted for replacement is based on its repair history and the age of the water main. Development has decreased in recent years and therefore this component is budgeted at \$1.5 million. Whereas, this component is paid 100% by the developer and is reflected as revenue, should the need arise, a budget revision would be proposed and welcomed because the cost would be fully paid and there is expectation of additional water revenues from the homeowners within these developments.

Point of Service Distribution

The proposed budget reflects additional hydrants at ¼% as well as replacements of existing hydrants in an amount of \$1.3 million. To avoid disruption of roadways and reduce the costs of connecting future customers to new pipes installed underground, the Authority is providing easy connections to the water supply ("stub services") where existing homes do not immediately connect to the water supply system but are expected to in the future (\$5.2 million).

Meter replacement for automatic meter reading is done internally as well as by an outside contractor. During the course of the year, the Authority responds to customers for repair or replacement of the meter. The Authority has determined that for efficiency, in lieu of repairing a meter, the meter will be changed out.

This has resulted in the annual replacement of approximately 11,000 meters by Authority personnel. The proposed budget includes \$2.2 million for this purpose.

The current budget reflects a continuation of the Authority's planned ten-year AMR implementation program. The current contractor agreement expires May 31, 2016. The budget calls for installation of approximately 27,000 meters and is reflected with a cost of \$5.8 million. This program was initiated based on the continued systematic reduction in 42-meter reader positions and support staff over the ten-year period. The Customer Service Department continues to be on-target with this plan,

Treatment Facilities

In order to provide water that meets regulations and the Authority's standard, the Authority, from time to time, has to treat water to remove volatile organic chemicals, pesticides, herbicides and other contaminants through the utilization of filtration systems, such as granular activated carbon or ion exchange. It is anticipated that water treatment will be ongoing since, contamination, inevitably, will be detected for the first time each year in a few wells and new contaminants may be added and/or the level of the standard requiring remediation may be changed in the regulations of the EPA and the New York State Department of Health. The Authority also utilizes filtration systems to remove excess iron primarily for aesthetic reasons (the presence of iron in drinking water poses no known health hazard). Included within this budget is installation of a state of the art, full scale Advanced Oxidation Treatment system to treat 1,4 dioxane and other contaminants that are not adequately remediated by granulated active carbon or air stripping. Four million dollars has been budgeted in treatment facilities.

Other Equipment

In recent years, the transportation department has examined the condition of its fleet and in conjunction with the various user departments assessed the manner in which the fleet is utilized. This has resulted in recent year transportation budgets to be at levels as low as \$100,000. After review and extensive discussion, this years' budget begins to replace the aging fleet of vehicles at a budgeted amount of \$1.5 million. In addition, in an effort to provide for a new fleet of vehicles operated with natural gas, this budget includes funds to build a 24 vehicle CNG fueling station in Oakdale at an approximate cost of \$600,000.

To assist in the operation of the water system SCWA needs to add or replace certain support equipment in the information technology, laboratory and clerical areas. This includes the upgrading of computer equipment, field and office equipment, and various site improvements. \$1.9 million has been included in the proposed budget. The budget also includes \$1 million towards an annual long-term plan to implement technological initiatives.

During Hurricane Sandy, the Authority initiated a response team to ensure prompt handling of any and all issues which may arise. In connection with this

emphasis, \$60,000 has been budgeted for improved mobile radio equipment. Also included in the fiscal year 2014 budget are replacement and/or new generators and uninterrupted power systems for designated pump stations and administrative facilities in the amount of \$1.3 million.

Additional Facilities – Storage, New Wells, Replacement Wells, Tanks

The Water System operates approximately 44 separate and distinct pressure distribution zones. The wells have a capacity to pump approximately 844,000,000 gallons of water per day. To meet system demands, the proposed budget includes \$16.8 million for new well and tank construction, replacement of wells, pump station infrastructure, land acquisition, and painting of tanks.

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THE AUTHORITY

Certain Powers

The Authority has the power, under the Act, to fix, alter, charge and collect rates and other charges for the use of water by the inhabitants of Suffolk County or other consumers thereof, at reasonable rates to be determined by the Authority for the purpose of providing for the payment of the expenses of the Authority, the construction, improvement, repair, maintenance and operation of the Water System, the payment of the principal of and interest on the obligations of the Authority and to fulfill the terms and provisions of any agreements made with the purchasers or holders of any such obligations.

No governmental board, agency, corporation or officer of the State has jurisdiction of, or control over, or is required to approve any water rates or charges for services or facilities of the Authority except the Authority itself. The Act expressly declares that neither the PSC nor any other board or commission of like character will have jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of rates fixed or charges collected by the Authority.

The drilling of wells and acquisition otherwise of water are subject to the jurisdiction of the Department of Environmental Conservation of the State (the "Department"). The powers of the Department in this respect are part of its statewide powers, extending to all internal waters within the State, which have been exercised by the Department and its predecessors for many years. The Act does not alter or abridge the powers and duties, present or future, of the Department, the State Department of Health or the State over water supply or distribution.

The Authority is empowered within its geographical area to acquire by purchase or condemnation, construct, develop, hold, maintain and dispose of, in its name, real property (or rights or easements therein) and personal property necessary for its corporate purposes. The Authority may not, however, condemn property the legal title to which is vested in a municipal corporation without the consent of such municipality; sell water in any area which is served by a water system owned or operated by a municipality unless the governing board of such municipality requests the Authority to sell water in such area; purchase all of the stock of any existing privately owned water corporation or company without the approval of the PSC; or acquire by purchase or condemnation any existing water supply and distribution system without the approval of the Suffolk County Legislature and, in the case of a system owned by a municipality may not so acquire, unless the governing board thereof requests the Authority to make such acquisition.

Members

Under the Act, the five members of the Authority, who must be residents of Suffolk County, are appointed by the Suffolk County Legislature for five-year overlapping terms. Vacancies, other than by expiration of term, are filled by the Suffolk County Legislature by appointment for the unexpired term. The Chairman of the Authority is also appointed by the Suffolk County Legislature.

The present members of the Authority and the dates of expiration of their terms as members are as follows:

JAMES F. GAUGHRAN, Chairman, term as member expires in March 2018. Mr. Gaughran is an attorney in private practice, having begun his practice in 1984. He is admitted to practice in the New York State and U.S. Eastern District of NY Courts. Mr. Gaughran has held a number of public sector appointments over the years including service as counsel to the Huntington Community

Development Agency, Village of Northport, Town of Babylon and staff service to Congressman Gary Ackerman and the New York State Senate. From 1984-1987 he was an elected member of the Huntington Town Board, which included service as a Commissioner of the Dix Hills Water District. From 1988–1993 Mr. Gaughran was an elected member of the Suffolk County Legislature, representing the 17th District, during which time the Legislature aggressively supported and funded the Suffolk County Drinking Water Protection Program. Mr. Gaughran received a Bachelor of Arts degree in Political Science from Stony Brook University and a Juris Doctor degree from Hofstra University School of Law.

PATRICK G. HALPIN, Secretary, term as member expires on March 2016. Mr. Halpin is Executive Vice President for External Affairs for the Institute for Student Achievement (ISA). Mr. Halpin has been with ISA since 1994. Prior to joining the ISA, Mr. Halpin had an extensive career in local and state politics, which began in 1979 when he was elected to the Suffolk County Legislature. In 1982 he was elected to the New York State Assembly and served three terms in that office. In 1988, Mr. Halpin was elected to the office of County Executive of Suffolk County, serving in that role until 1992. Mr. Halpin currently serves as a trustee of the Long Island Chapter of the Nature Conservancy and is Director of the Long Island Housing Partnership, Vision Long Island and the advisory board of the Long Island Index. Mr. Halpin received a Bachelor of Arts degree in Political Science and Economics from Old Dominion University.

JANE R. DEVINE, term as member expires May 2017. Ms. Devine has held a variety of positions in public service. Most recently, she has served on the Town of Huntington Planning Board. Other positions held include, Commissioner of Consumer Affairs for Suffolk County and Suffolk County Legislator. Ms. Devine holds a Bachelor of Arts degree from the College of New Rochelle and a Master of Arts degree from Long Island University, College of Management.

FRANK J. PELLEGRINO, term as member expires in March 2014. Mr. Pellegrino currently serves as the Funds Administrator of Plumbers Union Local 200, with jurisdiction in both Nassau and Suffolk Counties. Mr. Pellegrino oversees a staff of field representatives covering all construction sites in both counties, and negotiates both special and general labor agreements with the Plumbing Contractors Association and with a variety of large development companies and agencies. Mr. Pellegrino is conversant with all aspects of state and federal labor law, collective bargaining, benefit fund administration and the oversight of consultants retained for the furtherance of legal, accounting, investment and insurance services related to the conduct of union business. Mr. Pellegrino has experience as both Chair of the apprenticeship training committee and as an Instructor in the Apprenticeship Training Program.

ERROL D. TOULON, Jr. Ed.D., term as member expires May 2015. Dr. Toulon is a retired New York City Correction Captain. During his twenty-two year career with the New York City Department of Correction, Dr. Toulon was assigned as a captain to the Emergency Service Unit and the Firearms & Tactics Unit. During the final year of his law enforcement career, Dr. Toulon was assigned to an independent unit that reported directly to a federal court judge monitoring environmental issues in the city's jails. Dr. Toulon is certified through the Department of Homeland Security in Emergency Planning, Radiological Emergency Management, Incident Response to Terrorist Bombing, Weapons of Mass Destruction Threat and Risk Assessment and State Disaster Management. In addition, Dr. Toulon is certified to teach Weapons of Mass Destruction Awareness, National Incident Management System, and Domestic Terrorism and Hate Crimes. Dr. Toulon received his Master's degree in Business Administration from Dowling College, and Advanced Certificate in Homeland Security Management from Long Island University and recently completed his Doctorate in Educational Administration.

The powers of the Authority are vested in and exercised by a majority of the members then in office and may be delegated to one or more members, agents or employees. The members of the Authority receive compensation for their services as fixed by the Suffolk County Legislature, and are also reimbursed for all necessary expenses incurred in connection with their duties.

Executive Staff

The executive staff of the Authority consists of a Chief Executive Officer, a Chief Financial Officer, a Deputy Chief Executive Officer for Customer Service, and a Deputy Chief Executive Officer for Operations, General Counsel, Director of Administration and a Chief Sustainability Officer.

JEFFREY W. SZABO, Chief Executive Officer. Prior to being named Suffolk County Water Authority CEO in May 2010, Mr. Szabo served as Special Projects Coordinator beginning in July 2009. In this capacity he was involved in every aspect of the Authority's operation and management. Prior to joining the Authority, Mr. Szabo served as Deputy County Executive and Chief of Staff for Suffolk County, New York. Mr. Szabo was an integral part of the administration's successful management of a county with an annual operating budget of \$2.5 billion and an employee base that exceeds 11,000 individuals. He is credited with implementing many of the administration's successful reform measures. As a Deputy County Executive, Mr. Szabo oversaw the departments of Public Works, Police, Parks, Probation, Civil Service, Fire, Rescue and Emergency Services, Information Technology, Labor, Women Services, Handicapped Services, Youth, Aging, Veterans, Consumer Affairs and Minority Affairs. Mr. Szabo also oversaw personnel and human resources for the County Executive's Office. Mr. Szabo holds a Bachelor of Arts degree from Long Island University.

LARRY B. KULICK, CPA, CGMA, Chief Financial Officer. Mr. Kulick was appointed Chief Financial Officer in April 2006. Mr. Kulick is a graduate of the University of Miami, with a Bachelor of Science degree in Accounting. A Certified Public Accountant, he is a member of the American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants, and New York State Government Financial Officers Association. After working in public accounting for four years, he has been employed with the Authority since 1982 serving in various capacities including Accounting Department Manager, Assistant Director of Finance, and Director of Finance.

JANICE E. TINSLEY, Esq., Deputy Chief Executive Officer for Customer Service. Ms. Tinsley joined the Authority in April 2008 as Deputy Chief Executive Officer for Customer Service. She is responsible for all facets of the Customer Service Division. For eight years, Ms. Tinsley served as Town Clerk for the Town of Babylon. Prior to that, she served as Special Assistant to the Babylon Town Supervisor, concentrating on constituent services. Before entering public service, Ms. Tinsley was employed in various positions with Northwest Airlines for over 18 years. Ms. Tinsley received her Bachelor of Arts degree in Political Science from Lycoming College and her Juris Doctor in 1992 from Brooklyn Law School. Ms. Tinsley is admitted to practice law in the State of New York.

HERMAN J. MILLER, P.E., Deputy Chief Executive Officer for Operations. Mr. Miller has been with the Authority since 1972 and has held numerous positions with increasing responsibility in the operations area. In 1993, Mr. Miller was promoted to his current position of Deputy Chief Executive Officer for Operations. In this capacity, Mr. Miller has overall responsibility for the Operations Division of the Authority which includes the Engineering, Construction and Maintenance, and Production Control Departments. Mr. Miller is a 1972 graduate of Manhattan College where he received his Bachelor of Science degree in Electrical Engineering, and is a licensed Professional Engineer in the State.

TIMOTHY J. HOPKINS, Esq., General Counsel. Mr. Hopkins joined the Authority in 1992. He is responsible for managing the Authority's Legal Department and outside counsel, and conducts litigation for the Authority. Prior to joining the Authority Mr. Hopkins was an associate of Farrell Fritz of Uniondale, New York where he was a member of the municipal litigation department. Mr. Hopkins received his Juris Doctor in 1992 from Touro College Jacob D. Fuchsberg Law Center and his Bachelor of Science degree in Industrial Economics in 1986 from Union College. Mr. Hopkins is admitted to practice in the State of New York, the Eastern and Northern Districts of New York of the United States District Court and the United States Court of Appeals for the Second Circuit.

DONNA MANCUSO, Director of Administration. Ms. Mancuso has been with the Authority since 1985. She began her career as a customer service clerk in the Babylon Office and then transferred to a position in the Engineering Department. In 1995, she was selected by the Members of the Board to hold the position of Secretary to the Board. Ms. Mancuso implemented and is responsible for the Authority's successful educational outreach program. She was appointed Director of Administration in December 2010, overseeing Human Resources, Information Technology and General Services. She holds a Bachelor of Arts degree in Music from California Lutheran University, has completed graduate studies toward a Master of Science degree in Education, and is currently working toward an MBA in Public Management at Dowling College.

CARRIE MEEK GALLAGHER, Chief Sustainability Officer. Ms. Gallagher joined the Authority in January 2011. She is responsible for implementing a sustainability program, including source water protection, water quality improvement, water conservation, energy efficiency, renewable energy, recycling, green buildings and procurement, waste reduction, and environmental education. Previously, she served as Suffolk County Commissioner of the Department of Environment and Energy, Deputy Director of Planning for Suffolk County; inaugural director of the Long Island Index, an indicators project that measures the region's progress toward improving the quality of life for all Long Islanders; headed the Nassau County Economic Development Resource Center under County Executive Tom Suozzi; and developed Sustainable Long Island's Brownfields Redevelopment program. Ms. Gallagher earned a Bachelor of Arts in Sustainable Development and Latin American Studies from Amherst College, a Master of Science in Conservation Biology and Sustainable Development from the University of Maryland at College Park and an MBA from the Frank G. Zarb School of Business at Hofstra University. She is also a LEED AP, BD+C.

Authority Advisors

Bond Counsel to the Authority is Harris Beach PLLC, New York, New York.

Tank Consultants - Dvirka and Bartilucci, Woodbury, New York.

Labor Counsel - Putney, Twombly, Hall, & Hirson, LLP, New York, New York.

Consulting Ground-Water Geologist for the Authority is Leggette, Brashears & Graham of Wilton, Connecticut.

Bond Fund Trustee under the Resolution is The Bank of New York Mellon, New York, New York.

Financial Consultant to the Authority for long-term bond issues is Goldman, Sachs & Co., New York, New York

Communication Consultants - Zimmerman\Edelson, Inc., Great Neck, New York.

SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY

The Authority currently serves approximately 85% of the total population of Suffolk County. The remaining population is served by other municipal water districts (12%) or private wells (3%). The population served by the Water System is estimated by the Authority to be approximately 1.2 million. The Authority projects an annual growth rate of approximately one-quarter percent over the next several years.

The Water System serves, at retail, areas in the Towns of Babylon, Brookhaven, East Hampton, Huntington, Islip, Smithtown, Southampton, and Southold, including numerous villages and unincorporated communities. Wholesale service is provided to two water districts and the incorporated Village of Greenport.

Customer Count

The Authority supplies water to its customers in one of the three following ways: (i) direct service to retail customers through facilities owned and operated by the Authority, (ii) direct service to retail customers through facilities that are lease-managed by the Authority, and (iii) wholesale service to other water distribution systems.

The percentage of total sales (based on total number of customers) to each of the aforementioned customers are as follows:

Facilities owned and operated by the Authority	94.4%
Facilities lease-managed by the Authority	3.0%
Wholesale service to other systems	2.6%

As of May 31, 2012, 389,724 customers were served by the Authority, compared to 389,191 at May 31, 2011, an increase of 533 customers. The following table details the number of customers, by region, served directly by the Authority, customers served through operating agreements and customers served through wholesale service as well as their respective percentage growth over the two most recent Fiscal Years.

<u>Customers served directly</u>	<u>Fiscal Year Ended May 31,</u>		
<u>Region</u>	<u>2012</u>	<u>2011</u>	<u>% Growth</u>
Western	172,133	172,106	.02%
Central	128,985	128,885	.08
Eastern	<u>66,948</u>	<u>66,551</u>	<u>.60</u>
Subtotal	<u>368,066</u>	<u>367,542</u>	<u>.14</u>
<u>Customers Served through Operating Agreements</u>			
Brentwood Water District	6,475	6,475	.00
Fair Harbor Water District	487	488	(.20)
Stony Brook Water District*	1,624	1,621	.19
Riverside Water District	588	585	.51
East Farmingdale Water District	<u>2,400</u>	<u>2,396</u>	<u>.17</u>
Subtotal	<u>11,574</u>	<u>11,565</u>	<u>.08</u>
<u>Wholesale Customers[†]</u>			
St. James Water District	3,220	3,220	0.00
Smithtown Water District	5,824	5,824	0.00
Village of Greenport	<u>1,040</u>	<u>1,040</u>	<u>0.00</u>
Subtotal	<u>10,084</u>	<u>10,084</u>	<u>0.00</u>
TOTAL	<u>389,724</u>	<u>389,191</u>	<u>0.14%</u>

* Effective June 1, 2012, the Town of Brookhaven, on behalf of the Stony Brook Water District, entered into a forty (40) year lease agreement with the Authority, whereby the Authority agrees to operate, construct, maintain, and repair, at its own expense, the entire operating plant. The Town of Brookhaven, on behalf of the District agreed to lease to the Authority all of the rights, title, and interest in the entire operations, plant, hydrants, and distribution system, real property, of the District, and all extensions thereto. Previously, Stony Brook Water District purchased water from the Authority under the Wholesale Water Rate Category and contracted with the Authority to operate and maintain its water supply system and customers.

† The number of customers served by the Authority's Wholesale Customers is derived from information provided by the respective Districts and Village of Greenport.

The number of customers served as of May 31, 2008 through May 31, 2012 is presented below.

<u>Year</u>	<u>Number of Customers</u>
2012	389,724
2011	389,191
2010	388,660
2009	385,450
2008	384,738

The Authority's customers are approximately 95% residential and 5% commercial and municipal. The following chart lists the top ten metered account users of water and their corresponding water consumption for the 2012 Fiscal Year. The customers listed below and their corresponding usage, reflect individual metered accounts; each such customer may have more than one account with the Authority.

	<u>User</u>	<u>Consumption (gallons)</u>
1	Smithtown Water District ¹	802,135,004
2	State University of New York at Stony Brook ²	370,470,188
3	St. James Water District ¹	178,258,565
4	Town of Brookhaven	161,948,732
5	Department of Public Works (County of Suffolk)	120,757,120
6	National Grid	107,865,340
7	State University of New York at Stony Brook ²	95,104,460
8	Bretton Woods Home Owners Association	78,000,692
9	Greenport Water District	59,834,016
10	Waterways/Fairfield	57,805,440

Acquisitions of water systems, creation of lease-managed systems, expansion onto the North Fork of Long Island and special contractual arrangements with Federal and State agencies have resulted in average customer growth of approximately one-third of one percent each year over the last five (5) years. The Authority also anticipates customer growth at approximately one-quarter percent each year for budgeting purposes.

According to the Five Year Engineer's Report issued in June 2009 by the Authority's consulting engineers, Hazen & Sawyer, PC (the "Engineer's Report"), the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water.

Physical Plant

The following table presents certain data relating to the major physical properties of the Authority as of May 31, 2012:

<u>Town</u>	<u>Wells</u>		<u>Pumping Plants</u>		<u>Storage Facilities</u>	
	<u>Active</u>	<u>Inactive</u>	<u>No.</u>	<u>Capacity (gpm)</u>	<u>No.</u>	<u>Capacity*</u>
Babylon	56	4	24	72,930	8	8.22
Brookhaven	171	7	72	200,743	19	21.89
East Hampton	38	2	17	19,330	3	3.42
Huntington	51	2	24	50,988	10	12.52
Islip	106	11	42	118,477	11	12.19
Riverhead	4	0	1	1,150	0	0.00
Smithtown	50	0	22	67,400	5	3.50
Southampton	56	6	19	45,188	5	4.75
Southold	<u>46</u>	<u>1</u>	<u>16</u>	<u>7,800</u>	<u>3</u>	<u>1.95</u>
Totals	<u>578</u>	<u>33</u>	<u>237</u>	<u>584,006</u>	<u>64</u>	<u>68.44</u>

* Millions of gallons

As of May 31, 2012, there were a total of 5,920 miles of water mains in use, an increase of 20 miles since May 31, 2011, and there were 36,748 fire hydrants in service, an increase of 34 hydrants since May 31, 2011.

Additional wells under construction, not classified as "In Service" as of May 31, 2012, is expected to increase the capacity of major facilities over the next twelve months as follows:

<u>Site Locations</u>	<u>Wells and Pumping Equipment Gallons per Day (in thousands)</u>
Patchogue	1,999,000
West Hampton	<u>3,223,000</u>
TOTAL	<u>5,222,000</u>

Source of Supply

Management believes the Authority is the largest groundwater-based water purveyor in the United States. All water that the Authority sells is pumped from large reserves of water located underground called aquifers. Aquifers are large geologic sand and gravel formations saturated with groundwater. There are three aquifers beneath Long Island. The deepest aquifer is called the Lloyd Aquifer, and it holds water that can be as old as 1,000 years. The Authority draws very little water from this aquifer. The middle aquifer, called the Magothy Aquifer, holds water that may be as much as 500 years old in its deepest layers. The Authority draws the majority of its water from this Aquifer. The third and shallowest aquifer is called the Upper Glacial Aquifer, which may be up to several hundred feet deep in some locations. Approximately 44% of Authority wells draw from this aquifer.

Hydrogeological studies have determined that significantly more water enters the aquifer system than is removed. The United States Department of Interior's United States Geological Survey reports that there is over 70 trillion gallons of water stored within these underground aquifers. The Authority pumps about 70 billion gallons per year. Studies indicate this level of pumpage is not reducing

the level of water in the aquifers due to the replacement of water annually by rain and snow absorbed into the aquifers. Since 1987, the County of Suffolk has been acquiring and preserving thousands of acres specifically for drinking water protection purposes, using funds generated by one-quarter of one percent of the local sales and use tax. In 2010 the Authority completed a transaction with the County of Suffolk that gives the Authority easement rights to drill wells on 36 separate sites of up to five acres a piece from 18,871 acres that were ultimately acquired in the aforementioned original 1987 drinking water protection program. This transaction gives the Authority access to new well sites for the future. New well sites in protected lands should result in lower costs, since the cost to remediate older wells is becoming more expensive than pumping water from new uncontaminated sites. Large expanses of watershed protection areas are preserved for future use. The Authority accesses these lands through an easement given in perpetuity for drinking water purposes in exchange for a modest one-time payment. Raw water quality in these areas is expected to be very good requiring minimal treatment measures. In early 2005, the Authority began operating its first pump station on County Drinking Water Protection lands. Other facilities are in various stages of planning and development. The Authority is the 2006 recipient of the nationally prestigious "Exemplary Source Water Protection Award," given annually by the American Water Works Association ("AWWA").

Water Quality

The quality of the drinking water provided by the Water System surpasses accepted standards for physical, chemical and bacteriological content. According to the Engineers Report, the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water. Approximately 22% of the Authority's wells are treated using granular activated carbon to remove contaminants such as volatile organic compounds, pesticides and herbicides. Approximately 12% of the Authority's wells are filtered to remove iron and manganese. Other treatment technologies, such as air strippers, ion exchange and reverse osmosis units are used as needed. Due to standards imposed which regulate organic compounds, nitrates, pesticides and herbicides, it is necessary for the Authority to periodically take wells out of service. The Authority has been able to remediate numerous wells, allowing these wells to be placed back on line for routine service. Bacterial contamination in water from wells of the type constructed by the Authority is rare. A small amount of chlorine is added to the water as required by the State Department of Health as precautionary protection against any bacterial contamination that might result from repairs or additions to the distribution system. The acidity of the water is buffered to guard against possible corrosion of the lead and copper in home plumbing systems. The high standards of design, construction and quality control employed by the Authority's staff assure the production of an adequate quantity of potable water conforming to the requirements of the State Department of Environmental Conservation, State and County Departments of Health, and the EPA.

The Authority has taken major steps in watershed protection and stewardship. The Authority has participated with the Pine Barrens Commission to oversee vast tracts of undeveloped land in the center of Suffolk County to ensure that the water recharging the aquifer system remains uncontaminated. The Authority has aggressively and successfully brought suit against identified polluters whose activities or products have resulted in contamination of Authority wells. The Authority is also a financial sponsor of the United States Geological Survey and of the Long Island Groundwater Research Institute at the State University of New York at Stony Brook, both of which researches issues related to the management and protection of the aquifers. Recently, the Authority updated its Water Conservation Program and is currently developing an official Source Water Protection Program to further ensure the protection of the aquifers.

The Authority in January 2010 commenced an action in state court against the manufacturers of dry cleaning equipment and dry cleaning chemicals (perchloroethylene and related

solvents). The legal action is currently ongoing. The Authority's Board approved a settlement with one minor defendant in October 2012.

The Authority operates a groundwater testing laboratory which is both state and nationally certified. The Authority's laboratory employs over 45 chemists, technicians, and support staff, with an annual operating budget of \$5.04 million. The laboratory staff conducted approximately 182,800 tests, from over 56,000 water samples. The water samples were collected from the wells operated countywide and from over 5,920 miles of water main making up the water distribution system. Reflecting the Authority's conservative approach to water quality and safety, tests are done for over 304 chemical constituents, nearly twice the number required by federal or state regulation. The laboratory has developed specialized testing methodologies that have been adopted by the EPA and published in the Federal Register for use by laboratories throughout the United States. In order to maintain its certifications, the laboratory must pass rigorous proficiency tests twice each year and is subject to an audit of its Quality Assurance Program and quality control data every other year. Sophisticated laboratory equipment allows the Authority to measure some contaminants to levels as low as 2 parts per trillion. The laboratory, which encompasses 28,000 square feet, is highly automated and operates 24 hours a day, seven days a week.

The Suffolk County Department of Health Services has electronic access to the laboratory's water quality data and audits this information to ensure that the Authority is in compliance with all applicable water quality standards and monitoring requirements. To ensure the precision and accuracy of the water quality data generated, additional tests are performed by the laboratory for quality control and quality assurance purposes on approximately 40% of the total number of water samples tested.

In the Engineers Report, the Consulting Engineer discusses five rules that have been proposed by the EPA. The Authority believes that as a result of the quality of its groundwater source and existing Authority standards and procedures, compliance with any or all of these rules, if implemented as described in the Engineers Report, would have a minimal financial impact on the Authority.

The EPA has promulgated the Groundwater Rule ("GWR") which is designed to provide protection from microbial pathogens where a well is vulnerable to such contamination. The GWR requires increased chlorine contact time, referred to as "4-log treatment" for wells with positive fecal indicator results. The Authority routinely chlorinates all raw water and maintains a free chlorine residual of 1.0 ppm leaving the pump station. There have been no confirmed fecal results for any of the Authority's wells. Therefore, a total coliform-positive result from a routine sample collected for the Total Coliform Rule ("TCR") will trigger GWR source water monitoring. GWR source water monitoring requires a sample be collected from any well running in the pressure zone 24-hours prior to sample collection for the TCR coliform-positive sample along with the repeat samples required for TCR compliance. The Authority has determined the well(s) from which samples will be collected for all GWR source water triggered monitoring events. This information is part of the TCR monitoring plan update submitted to the Suffolk County Department of Health Services. A coliform-positive sample result from a well will require corrective action, which most likely will result in taking the well out of service and disinfecting it before returning it to routine operation.

The EPA has recently reversed a decision made by their previous administration and plans to move forward with the development of a regulation for the chemical perchlorate. This could result in a maximum contaminant level standard lower than the current interim drinking water health advisory level of fifteen (15) parts per billion. Perchlorate is both a naturally occurring and a man made chemical. Several years ago the Authority began testing for perchlorate and tests revealed low levels of this chemical in wells located primarily in the northwest area of Suffolk County and in the Town of

Southold, located on the east end of Suffolk County. The perchlorate found is believed to be the result of past farming practices which included the use of certain fertilizers (perchlorate is found in fertilizer mined in Chile). It can now be found in numerous “organic” fertilizers. Currently all but one of the affected wells has levels of perchlorate well below the current New York State Health Department and EPA standard. The one affected well is currently being treated with resin.

If the EPA reduces the acceptable level of perchlorate in a new standard, the Authority may be required to install treatment facilities or pipe-in additional water to the impacted areas. The new standard would likely be put into effect after providing affected water systems with some period of time to install the necessary facilities/equipment to meet the new standard. The precise timing of these new standards or the exact financial impact on the Authority are unknown at this time and will depend on, among other things, the specific standard chosen by the EPA. Based on currently available information, the Authority believes any additional costs which may result from a stricter standard will not have a material impact on future budgets of the Authority.

Protection of Water System

In recent years, the Authority has taken a number of steps to enhance its security arrangements to protect the Water System, including more frequent monitoring of the water supply for contaminants, severely restricting access to certain facilities, additional fencing installations, upgrading locks and alarming entry points within the Water System. In addition, during 2002 the Authority contracted with an EPA approved consultant to perform a vulnerability assessment on the Water System, in accordance with EPA protocols. The report was completed in March 2003 and identified the Water System’s vulnerabilities. The report provides a prioritized plan for security upgrades, modifications of operational procedures and/or policy changes to mitigate risks to critical assets. The assessment also provides a basis for comparing the cost of protection against the risks posed. The Authority is using these recommendations to establish a cost effective, balanced security protection system. To protect against potentially severe weather conditions, the Authority has refined its Emergency Preparedness Plan to contemplate and plan for severe damage scenarios. Based on the findings of the report the Authority estimated that it would cost approximately \$2.0 million to implement the report’s recommendations. The Authority continues to include approximately \$150,000 annually in order to continue the implementation of the report’s recommendations. By the end of the 2013 Fiscal Year the Authority expects to have spent approximately \$1,200,000 incorporating the recommendations in the report.

The Authority participates in the Suffolk County Emergency Operations Center (“EOC”) for the purposes of coordinating emergency response. The Authority has also adopted the National Incident Management System as its method to incident management. This is consistent with most public agencies and many private organizations in Suffolk County and New York State. It provides for a comprehensive and coordinated approach to incident command and management resources communications and support efforts during any significant incident or event.

The Authority maintains and periodically updates its Emergency Preparedness Plan procedures, which are utilized for instances such as Hurricane Sandy. As part of these procedures, preparations were made to ensure its water supply facilities would be ready to continue to provide water to its customers during and after the storm. Preparations included ensuring that the automatic back-up generators were operational and that their fuel supply tanks were full. In addition, steps were also taken to ensure that there would be adequate staffing available to operate and maintain the water system through the potentially lengthy recovery period.

The main concern, as with any situation that could disrupt the electric supply, is getting the emergency generators fuel supply replenished. The Authority was able to work with fuel suppliers

before and after the storm ensuring fuel to run generators as needed. Most all of the generators utilized by the Authority turn on automatically when the electric supply is lost and keep running until the electric power has been restored. At the worst period of the storm, 196 out of 287 pump and booster stations were without power. At the same time there were 78 generators running to provide power to operate the pumps. This was sufficient to ensure continued water flow to all customers with exception to the remote communities within the Authority's Fire Island service area.

The Fire Island area served by the SCWA had the most severe problems. The electric power was shut off to all facilities on the island the day before the storm hit. SCWA's generators came on and provided water for drinking and fire protection for all communities it served. However, since there was no access to Fire Island immediately after the storm, all of the back-up generators eventually shut down when they ran out of fuel. This shut all water pumps down as well. Once access to Fire Island was reinstated to the Authority, water for fire protection for all the communities served was restored within 5 days. Since the system was de-pressurized when the pumps were shut off, SCWA needed to disinfect the distribution system and get satisfactory water quality samples before the water could be approved for drinking purposes.

System wide, the Authority only sustained a moderate amount of downed trees on its property and very limited damage to our infrastructure.

Water Plant Account

The Authority carries its water plant on its balance sheet at cost and includes costs arising from the acquisition of properties. Provision for depreciation is made monthly on a straight-line basis at the composite rate of 2.84% annually, upon the depreciable properties of the Authority. The current provision for depreciation is intended to represent a proper portion of the cost of the depreciable assets allocated to the period of the earnings statement. The Authority's accounting policy with respect to depreciation is in conformity with generally accepted accounting principles.

A comparative statement of the combined water plant account, including construction work in progress, and the accumulated depreciation thereon, as of May 31 in each of the past five fiscal years, is as follows:

	<u>Water Plant Account</u> (in thousands)				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Water Plant at Cost	\$1,557,977	\$1,521,642	\$1,468,931	\$1,405,632	\$1,352,269
Less: Accumulated Depreciation	<u>500,514</u>	<u>468,371</u>	<u>437,658</u>	<u>407,978</u>	<u>377,011</u>
Net Water Plant	<u>\$1,057,463</u>	<u>\$1,053,271</u>	<u>\$1,031,273</u>	<u>\$997,654</u>	<u>\$975,258</u>

In June 2009, the Authority, in accordance with the requirements of Section 8.5 of the General Resolution, filed with the Bond Fund Trustee, the Engineers Report on the properties and operations of the Water System. A copy of this report is available for inspection, upon request, during regular business hours at the offices of the Authority. It is the policy of the Authority, after the acquisition of any properties, to extend to new customers the Authority's uniform, system-wide rate schedules for water service. Such rates generally have been lower than those which had been charged by the former water companies. The Authority intends to continue this policy. However, from time to time, the Authority has, and may in the future find it necessary to create rate structures for new service areas which

are different from the Authority’s uniform, system-wide rate schedules for water service. See “WATER RATES” herein.

Construction Contracts

In its rules and regulations, the Authority has provided terms and conditions upon which it will install, at the expense of a real estate developer, the necessary mains to provide for a water supply within a designated area. Such terms and conditions are set forth in a construction contract between the developer and the Authority, which, in some cases, is supplemented by additional provisions relating to transmission mains. Such construction contracts provide that the Authority will receive certain advances of moneys from developers requiring construction of mains. When these mains are placed in service, these advances are reflected as Construction Reimbursement Fees.

At the request of homeowners currently serviced by private wells, the Authority will extend main water service to provide public water. Generally, each extension requires no less than 40% of the homeowners on the extension to convert to public water. The Authority is reimbursed for the cost of the extension in excess of 75 feet per homeowner. The homeowner agrees to pay for this cost in full or installments of not to exceed ten years. This cost is reflected as Construction Reimbursement Fees.

WATER RATES

The Authority covenants that it will furnish no free service by the Water System to any person, firm or corporation, public or private. The Authority’s water rate schedules applicable to residential, commercial, industrial and certain public users are uniform for approximately 96% of its service areas. In addition, the Authority charges certain customers pursuant to different rate schedules. In 2010, the Authority retained Black & Veatch Corporation for the purpose of preparing a rate study for the Authority. After considering this study, in January 2011 the Authority adopted the final report. On February 27, 2012 and February 25, 2013 the Authority adopted certain changes in the rate schedules. Rates for the Water System effective April 1, 2013 are set forth in the table below. Copies of the Authority’s Rules and Regulations setting forth all of its present rate schedules are available for inspection, upon request, during regular business hours at the offices of the Authority.

General Rates

Service Classification No. 1 Quarterly

Service Charge - \$20.49

Commodity Charge - \$1.234/hundred cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$6.83

Commodity Charge – \$1.234/hundred cubic ft.

Bridgehampton/Surfside Service Area Rates

Service Classification No. 1 Quarterly

Service Charge - \$16.74

Commodity Charge - \$1.234/hundred cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$5.58

Commodity Charge – \$1.234/hundred cubic ft.

Shorewood Service Area Rates

<u>Service Classification No. 1 Quarterly</u>	<u>Service Classification No. 1A Monthly</u>
Service Charge – \$16.47	Service Charge - \$5.49
Commodity Charge - \$1.3464/hundred cubic ft.	Commodity Charge - \$1.3464/hundred cubic ft.

Greenport Service Area Rates

<u>Service Classification No. 1 Quarterly</u>	<u>Service Classification No. 1A Monthly</u>
Service Charge - \$18.60	Service Charge - \$6.20
Commodity Charge - \$1.3464/hundred cubic ft.	Commodity Charge - \$1.3464/hundred cubic ft.

Service Classification No. 1 relates to residential, commercial and industrial customers (other than those who consume large volumes of water). Service Classification No. 1A relates to customers who consume large volumes of water.

Service Classification No. 1B relates to water provided on a wholesale basis to water districts within the Authority's service area. The following water districts within the service area of the Authority: Village of Greenport, St. James Water District, and Smithtown Water District are billed at the rate of \$1,199 per one million gallons, payable monthly. In February 2013, the Authority adopted an increase in this rate classification to \$1,319 per million gallons effective January 1, 2014.

Service Classification No. 1C relates to water provided on a stand-by wholesale basis to private water utilities interconnected with the Authority's service facilities, provided adequate capacity is available. The rate applicable to such service includes a service charge of \$5.40 per gallon per minute (gpm) of delivery capability, as determined by the Authority, but not less than 500 gpm and \$802 per one million gallons, payable monthly.

In addition, there is also a separate rate schedule for customers on Fire Island. The Authority has been acquiring various water systems on Fire Island since 1994. For the most part these systems had unmetered flat rates based on various factors including number of rooms in the premise or water-using devices. Over time, meters were installed and a rate structure created, including an annual minimum and consumption charge. In connection with the aforementioned rate study, effective April 1, 2013, the Authority increased the annual minimum from \$162 to \$171 and the consumption rate from \$1.646 to \$1.713 per hundred cubic feet.

Effective April 1, 2013, the commodity charge for Service Classification No. 1 and 1A increased from \$1.182 to \$1.234 per hundred cubic feet. Previous rate increases became effective in 1973, 1975, 1977, 1980, 1985, 1986, 1989, 1992, 1994, 1995, 1997, 1999, 2001, 2005, 2006, 2007, 2011, and 2012. An increase in the general rate quarterly service charge for Service Classification No. 1 from \$19.77 to \$20.49 and in the monthly service charge for Service Classification No. 1A from \$6.59 to \$6.83 became effective April 1, 2013.

The Authority's financial division analyzes pertinent information and prepares applicable reports and forecasts for the purpose of evaluating water rates and service classifications. When appropriate, recommendations are made to adjust the rates charged by the Authority to remain in compliance with the Rate Covenant established under the Resolution.

The minimum bill is charged to each of the Authority's customers in advance and any excess consumption is billed following the end of the period of service. Bills are rendered for the net amount and are payable within fifteen days after presentation. A late charge of one and one-half percent (1½%) per month is applied to all outstanding water bills rendered in excess of 45 days. The Authority establishes a reserve for accounts deemed uncollectible. The reserve as of May 31, 2012 was \$1,467,702.

Sales to the preceding classifications of consumers are made only on a metered basis, except in the case of private fire lines for sprinkler lines.

Rates for fire protection, for the most part, include rentals for public hydrant service which are billed semi-annually following the period of service. The Authority's system-wide uniform rate schedule for public fire protection service is \$160.20 per hydrant per annum effective July 1, 1994 except for the Shorewood service area where it is \$312.00 per hydrant per annum. The category Private Hydrant Rates was extracted from the system-wide uniform rate schedule and the rate of \$184.20 per hydrant per annum became effective as of March 1, 2011. The Authority has increased the rates for Private Hydrants effective April 1, 2013 from \$184.20 to \$192.00 per hydrant per annum.

As security for the payment of its bills, the Authority generally requires a deposit from each new commercial customer. The amount of the deposit required from a commercial user varies according to the nature and size of the establishment. The Authority may on occasion require, primarily from rental tenants, deposits from residential customers.

A preponderant part of the operating revenue is derived from residential and commercial service, from fees and charges for public and private fire protection and from charges to public bodies and water districts. Traditionally these are the most stable sources of operating revenue for any water system.

In recent years the Authority has taken great strides in reviewing its procedures and making changes to streamline operations with the ultimate goal of providing quality water to its customers at the most reasonable cost possible. Enhanced purchasing and bidding procedures have allowed the Authority to maintain minimal increases, and at times reductions in costs on various aspects of operations.

The accounts of the Authority are maintained in accordance with the Uniform System of Accounts prescribed by the PSC, although the Authority is not subject to PSC rules and regulations. Rates established by the Authority do not require PSC or Suffolk County Legislative approval.

Expenses incurred include all proper and necessary costs to satisfactorily operate and maintain a water system that as of May 31, 2012 includes 5,920 miles of water main, 36,748 hydrants, and 389,724 customers and generates approximately 70 billion gallons of water annually.

Collections

The Authority's collection activities have resulted in a collection rate on revenues (revenues less uncollectible accounts) of 99.6% in the 2012 Fiscal Year. Total revenues, uncollectible accounts and collection percentage for each of the Fiscal Years 2008 through 2012 are set forth below:

<u>Fiscal Year</u>	<u>Water Service Revenues</u>	<u>Uncollectible Accounts</u>	<u>Collection Percentage</u>
2012	\$131,293,000	\$587,004	99.6%
2011	131,860,000	559,696	99.6
2010	114,579,000	609,110	99.5
2009	119,241,000	567,008	99.5
2008	127,686,000	477,483	99.6

Authority rules and regulations state that all bills are due and payable, net cash, 12 working days from date of bill. A late charge of 1½% per month is applied to all outstanding bills in excess of forty-five (45) days. The Authority's regulations also provide for discontinuance of water service, in conformance with law, when necessary.

After extensive efforts to collect on any outstanding bills, account information is forwarded to the Authority's in house counsel for action.

Investment Policy

The Resolution imposes restrictions on the Authority's ability to invest moneys on deposit in the Funds created by the Resolution. On January 26, 1999, the Authority adopted comprehensive investment guidelines with additional restrictions on the investment of all moneys of the Authority. These guidelines were amended on June 30, 2009.

RATINGS

Standard & Poor's Rating Services ("S&P") and Fitch, Inc. ("Fitch") have assigned their long-term municipal ratings of "AA+" and "AAA," respectively, to the Authority's Outstanding Senior Lien Bonds and Outstanding Subordinate Lien Bonds. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from: Standard & Poor's Rating Services, 25 Broadway, New York, New York 10004 and Fitch, Inc., One State Street Plaza, New York, New York 10004. Generally, each rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised, suspended or withdrawn entirely by such rating agency if in its judgment circumstances so warrant.

SCHEDULE 1

**SUFFOLK COUNTY WATER AUTHORITY
HIGHLIGHTS OF BUDGET DATA
FOR FISCAL YEAR ENDING MAY 31,**

	Budget <u>2014</u>	Projection <u>2013</u>	Budget <u>2013</u>	Actual <u>2012</u>
Authority Budgets				
Operating Revenues and Other Income	\$ 163,050,000	\$ 157,650,000	\$ 159,008,000	\$ 162,584,000
Operation and Maintenance Expense	<u>108,711,000</u>	<u>103,431,000</u>	<u>104,652,000</u>	<u>98,659,000</u>
Deferred Income - OPEB	14,000,000	13,045,000	12,000,000	14,629,000
Deferred Expense - OPEB	<u>(14,000,000)</u>	<u>(13,045,000)</u>	<u>(12,000,000)</u>	<u>(14,629,000)</u>
Operating Income Available	<u>\$ 54,339,000</u>	<u>\$ 54,219,000</u>	<u>\$ 54,356,000</u>	<u>\$ 63,925,000</u>
Capital Budget	<u>\$ 61,978,000</u>	<u>\$ 58,627,000</u>	<u>\$ 56,977,000</u>	<u>\$ 58,664,750</u>
Debt-Service	<u>\$ 30,118,000</u>	<u>\$ 29,647,000</u>	<u>\$ 29,879,000</u>	<u>\$ 28,109,000</u>
Debt Coverage				
Senior Debt	2.07	2.09	2.12	2.70
All Debt	1.80	1.83	1.82	2.27

Projection May 31, 2013

Revenues	-Actual for 7 months and estimated for 5 months
Expenses	-Actual for 7 months and estimated for 5 months
Capital	-Figures are based on the latest available information

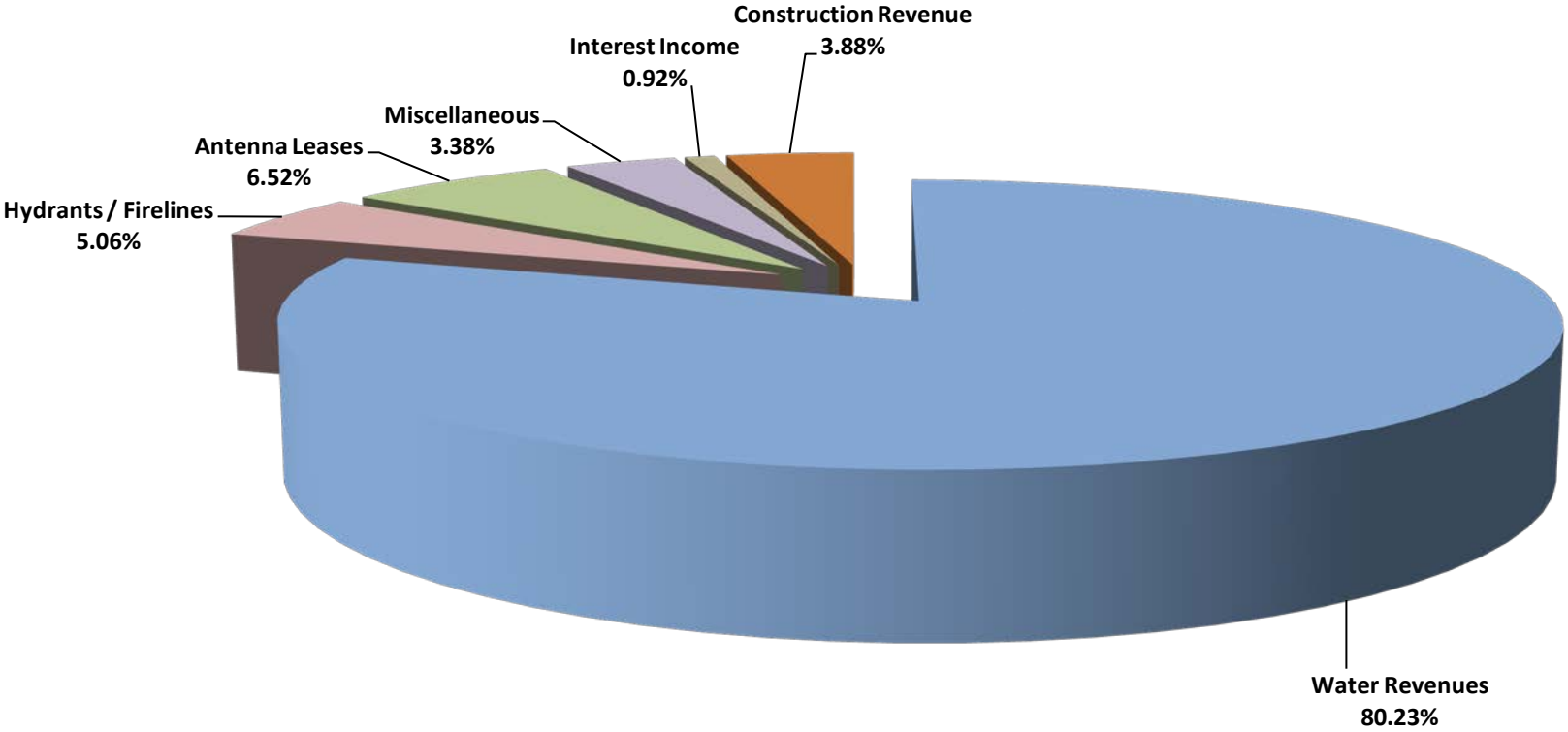
SCHEDULE 2

**SUFFOLK COUNTY WATER AUTHORITY
REVENUE
FOR FISCAL YEAR ENDED MAY 31,**

	Budget Year Ending 2014	Projected Year Ending 2013	Budget Year Ending 2013	Actual Year Ending 2012
Water Revenues	\$ 130,817,000	\$ 121,642,000	\$ 126,431,000	\$ 123,334,000
Hydrants / Firelines	8,256,000	8,133,000	8,241,000	8,130,000
Antenna Leases	10,630,000	9,837,000	10,320,000	10,449,000
Miscellaneous	<u>5,518,000</u>	<u>10,271,000</u>	<u>4,591,000</u>	<u>9,082,000</u>
Total Operating Revenues	<u>155,221,000</u>	<u>149,883,000</u>	<u>149,583,000</u>	<u>150,995,000</u>
Interest Income	1,500,000	1,494,000	3,000,000	2,066,000
Construction Revenue	<u>6,329,000</u>	<u>6,273,000</u>	<u>6,425,000</u>	<u>9,523,000</u>
Total Revenues	<u>\$ 163,050,000</u>	<u>\$ 157,650,000</u>	<u>\$ 159,008,000</u>	<u>\$ 162,584,000</u>

SUFFOLK COUNTY WATER AUTHORITY

Revenue Components:



Revenue Budget for f/y/e May 31, 2014: \$163,050,000

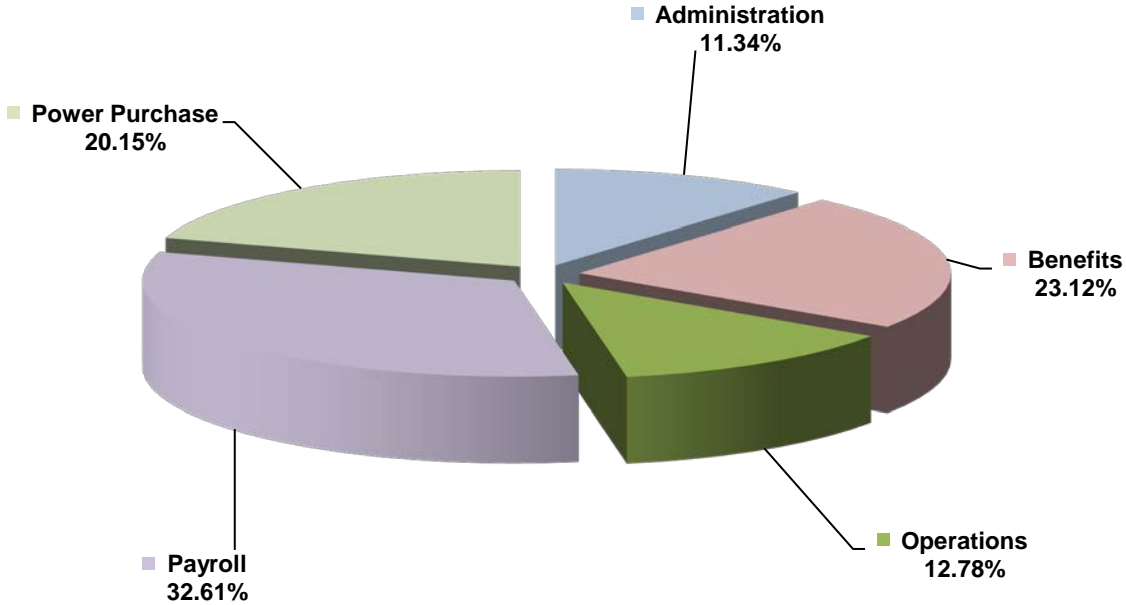
SCHEDULE 3

**SUFFOLK COUNTY WATER AUTHORITY
OPERATING AND MAINTENANCE BUDGET
FOR FISCAL YEAR ENDING MAY 31,**

	<u>2014</u>	<u>2013</u>
Construction Maintenance	\$ 3,985,000	\$ 3,798,000
Customer Service	227,000	215,000
Engineering	4,678,000	3,829,000
Facilities Management	1,122,000	1,314,000
Finance	3,025,500	3,620,000
Benefits	25,134,000	22,717,000
Education Awareness	11,000	11,000
Information Technology	995,000	995,000
Laboratory	600,000	600,000
Stores	175,000	200,000
Payroll	35,448,000	34,200,000
Emergency Management	12,000	-
Transportation	1,912,000	2,247,000
Meter Shop	150,000	150,000
Communications	117,000	201,000
Power Purchase	21,909,000	21,287,000
Production Control	4,625,000	4,760,000
Risk Management & Human Resources	3,395,000	3,349,000
Safety	144,500	132,000
Sustainability	54,000	63,000
Telecommunications	992,000	964,000
	<u>\$ 108,711,000</u>	<u>\$ 104,652,000</u>

SUFFOLK COUNTY WATER AUTHORITY

O&M Components:



O&M Budget For f/y/e May 31, 2014: \$108,711,000.

SCHEDULE 4

**SUFFOLK COUNTY WATER AUTHORITY
Capital Budget**

<u>BUD LINE</u>	<u>PROJECT</u>	AMENDED <u>2013</u>	BUDGET <u>2014</u>
005-14	EXTENSION OF WATER MAINS FOR NEW CUSTOMERS	\$4,000,000	\$4,000,000
010-14	REPLACEMENT OF WATER MAIN	12,665,000	14,000,000
015-14	DISTRIBUTION SYSTEM IMPROVEMENTS	2,500,000	2,000,000
020-14	BLOWOFFS & VAULT CONVERSIONS	200,000	200,000
025-14	HYDRANTS	1,205,000	1,305,000
026-14	HYDRANTS - CREW JOBS	100,000	
030-14	SERVICES	5,000,000	5,000,000
035-14	CONSTRUCTION CONTRACTS	1,525,000	1,500,000
040-14	NEW WELLS	4,710,000	4,493,000
045-14	REPLACEMENT OF EXISTING WELLS	2,815,000	2,600,000
050-14	TANK MAINTENANCE AND CONSTRUCTION	3,500,000	3,875,000
055-14	MISCELLANEOUS TREATMENT FACILITIES TOTAL	3,790,000	4,050,000
060-14	INSTRUMENTATION REPLACEMENT	675,000	500,000
065-14	NEW MISCELLANEOUS PUMP STATION INFRASTRUCTURE	1,200,000	1,350,000
070-14	REPLACEMENT OF PUMP STATION INFRASTRUCTURE	1,925,000	2,925,000
075-14	SUPERVISORY CONTROL AND DATA ACQUISITION SYSTEM	555,000	555,000
080-14	BAY SHORE- NEW PUMP STATION, SHAPE UP AND TECH AREA	400,000	0
085-14	FIELD COMMUNICATIONS	100,000	100,000
086-14	EMERGENCY MGMT	0	60,000
095-14	TRANSPORTATION	1,040,000	2,053,000
100-14	GENERAL SERVICES	677,748	545,000

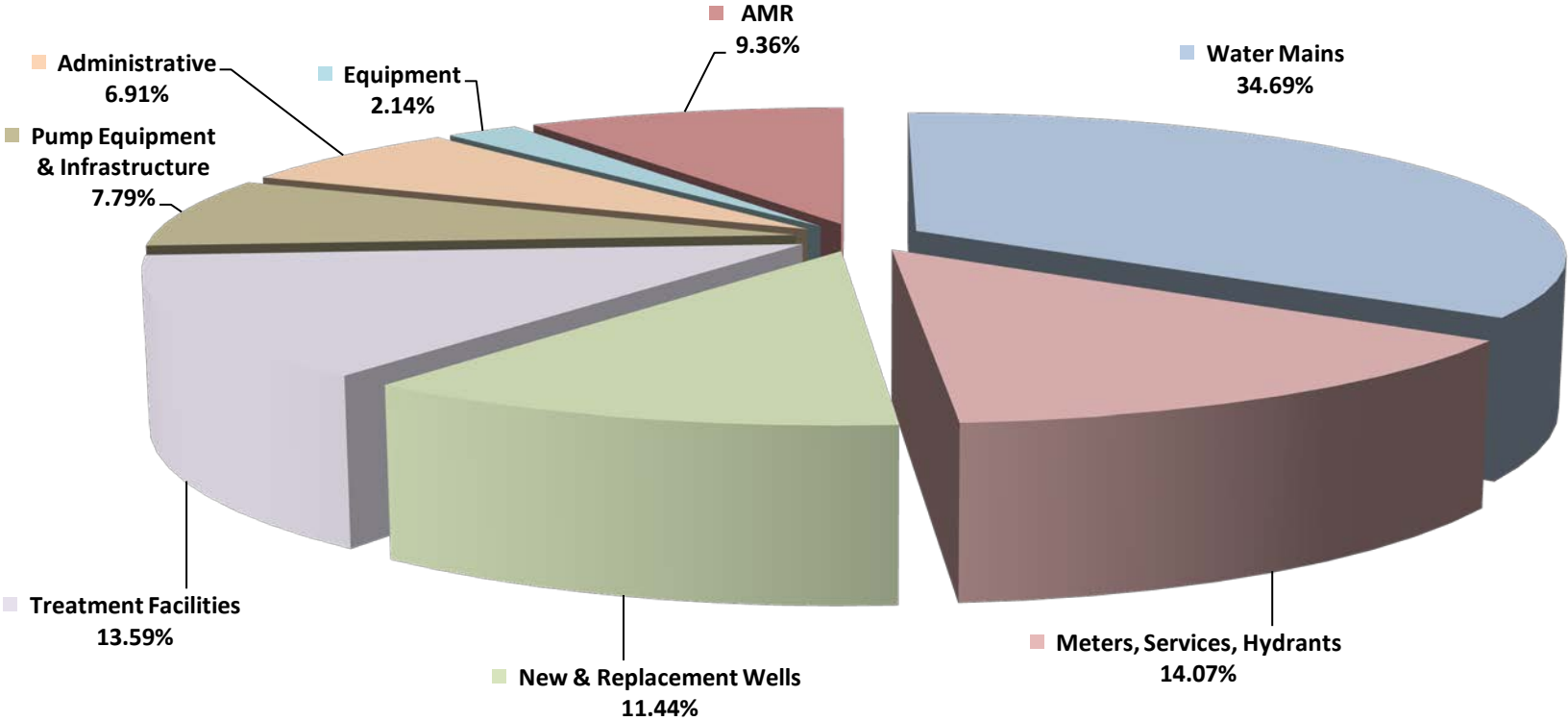
SCHEDULE 4

**SUFFOLK COUNTY WATER AUTHORITY
Capital Budget**

<u>BUD LINE</u>	<u>PROJECT</u>	AMENDED <u>2013</u>	BUDGET <u>2014</u>
110-14	LANDSCAPING	5,000	0
120-14	LAB EQUIPMENT	325,000	325,000
125-14	OFFICE EQUIPMENT AND FURNITURE	27,000	19,000
130-14	METERS	2,649,000	2,216,000
135-14	TECHNOLOGICAL DEVELOPMENT	0	1,000,000
140-14	IT EQUIPMENT	395,000	618,000
145-14	DEPARTMENT EQUIPMENT	70,252	93,000
146-14	EMPLOYEE DEVELOPMENT CENTER - EQUIPMENT	0	10,000
150-14	ACQUISITION OF LAND FOR WELL AND TANK SITES	354,000	500,000
155-14	FIELD EQUIPMENT	194,000	263,000
160-14	RIVERSIDE WATER DISTRICT	25,000	23,000
170-14	AMR	<u>6,000,000</u>	<u>5,800,000</u>
	TOTAL	<u>\$58,627,000</u>	<u>\$61,978,000</u>

SUFFOLK COUNTY WATER AUTHORITY

Capital Components:



Capital Budget for f/y/e May 31, 2014: \$61,978,000

SCHEDULE 5

**SUFFOLK COUNTY WATER AUTHORITY
OPERATING - CASH FLOW
FOR FISCAL YEAR ENDING MAY 31,**

	Budget	Projection	Budget	Actual
	<u>2014</u>	<u>2013</u>	<u>2013</u>	<u>2012</u>
Operating Revenue	\$ 155,221,000	\$ 149,883,000	\$ 149,583,000	\$ 150,995,000
Investment Earnings	1,500,000	1,494,000	3,000,000	2,066,000
Construction Revenue	<u>6,329,000</u>	<u>6,273,000</u>	<u>6,425,000</u>	<u>9,523,000</u>
Total Revenue:	163,050,000	157,650,000	159,008,000	162,584,000
 <u>Less:</u>				
Operating and Maintenance Expense	<u>108,711,000</u>	<u>103,431,000</u>	<u>104,652,000</u>	<u>98,659,000</u>
 Net Operating Income Available for Debt Service				
	54,339,000	54,219,000	54,356,000	63,925,000
 <u>Less:</u>				
Debt Service				
a) Interest on Long-Term Debt	25,877,000	25,976,000	25,638,000	23,487,000
b) Bond Principal	3,254,000	3,138,000	3,254,000	3,490,000
c) Interest on Notes	<u>987,000</u>	<u>533,000</u>	<u>987,000</u>	<u>1,132,000</u>
Total Debt Service:	<u>30,118,000</u>	<u>29,647,000</u>	<u>29,879,000</u>	<u>28,109,000</u>
 Operating Funds Available for Capital				
	<u>\$ 24,221,000</u>	<u>\$ 24,572,000</u>	<u>\$ 24,477,000</u>	<u>\$ 35,816,000</u>

**SUFFOLK COUNTY WATER AUTHORITY
PROJECTED EARNINGS
FOR FISCAL YEAR ENDING MAY 31,**

	<u>Budget Year Ending 2014</u>	<u>Budget Year Ending 2013</u>	<u>Actual Year Ending 2012</u>
REVENUES:			
Operating	\$ 155,221,000	\$ 149,583,000	\$ 150,995,000
Construction	6,329,000	6,425,000	9,523,000
Deferred Revenue - OPEB	14,000,000	12,000,000	14,629,000
Interest	<u>1,500,000</u>	<u>3,000,000</u>	<u>2,066,000</u>
Total Revenues:	177,050,000	171,008,000	177,213,000
OPERATING & MAINTENANCE EXPENSE:			
Operating & Maintenance Expenses	108,711,000	104,652,000	98,659,000
Deferred Expenses - OPEB	<u>14,000,000</u>	<u>12,000,000</u>	<u>14,629,000</u>
Total O&M:	<u>122,711,000</u>	<u>116,652,000</u>	<u>113,288,000</u>
Net earnings before Interest and Depreciation (Available for Debt-Service)	54,339,000	54,356,000	63,925,000
Operating Ratio	69.3%	68.2%	63.9%
OTHER DEDUCTIONS:			
Interest on Long-Term Debt	25,877,000	25,638,000	28,501,000
Interest on Notes	<u>987,000</u>	<u>987,000</u>	<u>309,000</u>
	<u>26,864,000</u>	<u>26,625,000</u>	<u>28,810,000</u>
PROJECTED EARNINGS	<u>\$ 27,475,000</u>	<u>\$ 27,731,000</u>	<u>\$ 35,115,000</u>
DEPRECIATION & AMORTIZATION	\$ 41,847,000	\$ 40,147,000	\$ 38,413,000