

Suffolk County Water Authority

FINANCE COMMITTEE

DATE: January 10, 2012 and January 18, 2012

LOCATION: Administration Building, Oakdale, New York

ATTENDEES: James Gaughran, Chairman
Jane Devine, Member
Patrick Halpin, Member
Jeffrey W. Szabo, CEO
Larry Kulick CFO
Timothy Hopkins, General Counsel
Donna Mancuso, Director of Administration
Douglas Celiberti, Director of Accounting
Elizabeth Vassallo, Accounting Manager
Herman Miller, Deputy CEO of Operations
Timothy Motz, Director of Management Efficiency and Communications
Matthew Zotter, Management Analyst

The meeting was called to order by James Gaughran at 3:05 p.m. upon two of three Members of the Committee being present.

The Members reviewed the minutes of the last Finance Committee meeting, held on March 15, 2011.

On motion made by Mr. Gaughran, duly seconded by Mr. Halpin, it was unanimously carried to:

Approve the minutes of the Finance Committee meeting held on March 15, 2011.

Mr. Kulick distributed a print-out of the power point presentation. He stated Black & Veatch performed a rate study last year and at the conclusion of their study they recommended a five-year rate increase. The Board adopted the first year and asked to have them come back to the Board with an update annually and that is what the purpose of today's meeting is.

Mr. Kulick went on to explain some of the steps taken to substantiate the 4.2% increase for the customer who uses 160,000 gallons of water annually. One was the utilization of \$75,000,000 of MTBE Settlement money, and we did receive another \$3,000,000 at a later date, totaling \$78,000,000. We reduced the Capital Budget to maintain a level of \$57,000,000 through 2015. We accepted the New York State Retirement Incentive program and reduced as much staff as possible. We also had a reduction in the 2011 Operating Budget.

Mr. Kulick discussed the Capital Budget. It is the major force in dictating rate increases for the Authority. The way the Authority operates, the revenues pay operating expenses and then pays the debt service on our Bonds and anything that is left is used for any corporate purpose such as funding our capital program. That number is approximately \$25,000,000 per year. Over a seven year period we averaged \$56,500,000 per year in capital and the only way to fund the other approximately \$30,000,000

is through financing as well as some fees from customers. Therefore, we will always have financing – and with that, there is interest costs, which is what drives the raising of rates to maintain approximate levels of debt service coverage.

The Authority was able to freeze rates seven times in the first decade of the 21st Century. The principal way that was done was by restructuring our debt, thereby easing the burden of debt by increased borrowing and controlling cost in other areas as well. In 2003, we had approximately \$425,000 of outstanding debt. Since that time, we borrowed another \$225,000, net of any retirements or refunding of debt. Logically, you would think that the level of interest and principle that we were to pay would have been considerably higher if we had structured out comparable to how we structured debt previously, by pushing it out, the levels are almost identical. The average life during this last decade went from approximately 13 to 17, which is still adequate for rating for the financial community.

Mr. Halpin asked how much debt does the Authority pay off each year – Mr. Kulick stated we pay off approximately between \$8,000,000 and \$10,000,000 per year.

During the last decade as it relates to revenue, we picked up other revenues which became a major factor in our revenue stream and as it relates to looking at debt service coverage. Miscellaneous revenues consists of antennae leases, construction fees and customers service fees. Two major things happened – one was a change in accounting practice governed by the generally accepted accounting principles which said that the those construction fees which we always received before and recorded as equity is now revenue stream and has to be recorded as a revenue. We did not increase any money coming into the Authority, but it was on our P&L Statement which eased the debt service coverage.

The second thing is antennae leases. We are up to over \$10,000,000 in antennae leases. Mr. Miller stated that Sprint is trying to take advantage of Nextel and put their equipment in Nextel properties. A new player has come in with Microwave Dishes which will be discussed further.

Mr. Gaughran asked what accounts have dropped from total revenues. Mr. Kulick stated that this is a percentage of total revenues – so if we have a good pumpage year, the percentage will be small. Mr. Szabo indicated that the percentage overall, anything other than water revenue continues to go up.

Mr. Kulick then explained the operating and maintenance area of the Authority. He stated that 73% of our operating budget consists of payroll, benefits and power costs and we paid anywhere from \$20,000,000 to \$23,000,000 per year in power costs. The biggest is our payroll. The number of people that were on the payroll, after the retirement incentive, dropped down to 563 and is currently 567. We are going to start looking at the benchmarks in the coming years regarding the early retirement incentive.

Mr. Halpin stated we should look to benchmark some of the anticipated savings from the labor agreement .

Mr. Kulick then went on to discuss payroll. With the retirement incentive, payroll went down slightly, but not the amount that we saw in reduction because it is eaten away by the annual increases of the employees.

The New York State Retirement is steadily going up and the current rates for next year are approximately 18.5% on payroll, which is estimated to be approximately \$7,100,000.

The health insurance costs has increased 3.5% for 2012 - there were some changes in the plan and a letter went out to all employees explaining same.

With regard to the AMR, we have a ten year program, based on return on investment and staffing levels for that has gone down. Once the ten year mark is met, we have a ten year window for replacement of the AMR's.

Mr. Kulick stated that Standard & Poors quoted "Water authorities need to raise their rates to maintain coverage near current levels due to increasing debt service requirements. . ."

Mr. Kulick proposed a 4.2% increase which is what was proposed last year, which reflects a \$1.08 per month increase for each customer.

A discussion was commenced regarding hydrant fees.

Our operating expenses are projected to be over budget at this time.

Mr. Kulick further explained coverage and annual water bill comparisons. The Authority is still one of the lowest.

Mr. Kulick is proposing that if acceptable to the Board, we will hold a Public Hearing on the afternoon of February 27, the day of the Board meeting, preferably at 4:00 p.m. He will then propose it to the full Board that evening and the rates will go into effect on April 1, 2012.

Mr. Gaughran and Mr. Halpin thanked Mr. Kulick and commended him and his staff on a job well done.

The meeting was adjourned at 4:15 p.m.

Respectfully submitted by:

Maria Trupia

Executive Assistant