Suffolk County Water Authority

FINANCE COMMITTEE

DATE: February 27, 2012

LOCATION: Administration Building, Oakdale, New York

ATTENDEES: James Gaughran, Chairman
Patrick Halpin, Member
Jane Devine, Member
Jeffrey W. Szabo, CEO
Larry Kulick CFO
Timothy Hopkins, General Counsel
Douglas Celiberti, Director of Accounting
Elizabeth Vassallo, Accounting Department Manager

The meeting was called to order by James Gaughran at 9:00 a.m. upon all Members of the Committee being present.

The Members reviewed the minutes of the last Finance Committee meeting, held on January 10, 2012, and January 18, 2012.

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

> **Approve the minutes of the Finance Committee meeting held on January 10, 2012, and January 18, 2012.**

Mr. Kulick distributed documentation from rating agencies which reconfirmed our ratings with regard to the BAN sale which is taking place on Tuesday, March 20, 2012. He also stated he received some phone calls last week, from institutions that hold our bonds, after the news broke about Suffolk County's deficit. Mr. Kulick assured these institutions this had nothing at all to do with the Authority.

Mr. Gaughran explained that the purpose of this meeting is to review the proposed operating and capital budget and make a recommendation to the full board.

Jeff Szabo explained how Mr. Kulick, Mr. Celiberti and Ms. Vassallo and their staff, as well as every department and division here at the Authority has spent the last six or eight weeks working on this budget and Mr. Szabo and Mr. Gaughran thanked them for a job well done.

Mr. Kulick stated that the budget in total and the projections are in line with the rate study that was discussed.

Mr. Kulick distributed the Capital Budget for fiscal year ending May 31, 2013. He reviewed each item with the Board, as well as answered questions and addressed concerns of the Board.

Mr. Kulick then reviewed the Transportation Debt Budget Request, which was also distributed to the Board. He stated that when the budget process started, Transportation had two planned lists, one had alternative fuel vehicles and one did not. It was decided there would be some cutting and it was also decided that four vehicles would be hybrid vehicles. Those vehicles run approximately $7,000 more than regular vehicles.

Mr. Halpin suggested looking into more fuel efficient vehicles that were not hybrids, thereby lowering the Authority's cost. Mr. Szabo mentioned that Steve Monahan has repeatedly stated that the industry is changing so fast and there could be Federal Regulations and Federal Requirements coming down and he is cognizant of becoming more fuel efficient, whether it be CNG or hybrids. We do want to make sure we have adequate fueling stations and agreements in place and that the Authority is a priority so it does not cause a problem with productivity.

Mr. Kulich continued reviewing the capital budget, discussing, among other items, AMR Meters and the RFP's in connection therewith. Mr. Szabo indicated that we are ahead of the Authority's 10-year plan to have the AMR's installed. He also explained how attrition is always being watched and perhaps an in-house workforce employee development could be developed, although many things will be in play to develop this.

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Mr. Halpin asked what Mr. Kulick thought the rates could be today – Mr. Kulick stated that for this type of issue it can be about 1.1 or 1.2%. Mr. Kulick informed the Board that BAN'S have been issued for no more than five (5) years, these are being issued for three (3) years. The sale will be on the 30th of March, 2011, and close on or about the 7th of April, 2011.

On motion made by Mr. Halpin, duly seconded by Ms. Devine, the following resolution was unanimously carried for recommendation to the full board:

> **RESOLVED, To amend the Financing Resolution (previously approved by Board Resolution No. 465-12-2010), as attached hereto and made a part hereof.**

Mr. Kulick distributed a copy of the Standard & Poors rating to the Board, stating they have reaffirmed our rating of AA+ and he expects to receive our rating from Fitch which he feels will remain at AAA.

The Authority's budgets (Capital and Operating and Maintenance) consist substantially of payroll, benefits and the vendor payments. We deal with each budget separately and in regards to the O&M Budget, have asked each department to review their vendor payments and have cut a lot of these expenses.

Mr. Kulick referred to the transportation report. He noted that besides having a capital budget, they maintain our fleet. A separate report was created for that department, since those costs show up in both budgets, i.e. Capital Budget and Operations and Maintenance. They review it on a total basis and it's allocated afterwards.

With regard to the Capital Budget, Mr. Kulick reviewed the following:

Payroll – with the retirement incentive, we eliminated approximately 28 positions. The annual estimated savings from that will be approximately $1,900,000.

The staff level for the proposed budget is 576 employees. Mr. Szabo pointed out that three additional positions were requested by the department heads and although these three positions are funded, it has not been finalized that the positions will be filled. Mr. Kulick clarified that even though we have the funds in our budget, the departments must still go through the process of obtaining authorization to spend it.

Overtime – In 2008/09 time range we were budgeting, as well as incurring approximately $2,100,00 - $2,200,000 in overtime. Since Mr. Szabo joined the Authority, we have taken a hard line look at overtime. The current budget is slightly below the projected budget for this year. Mr. Gaughran indicated that while it's important to reduce overtime, it is important to be able to handle situations, especially weather related ones. He added this is good management, but may fluctuate with regard to different situations.

Mr. Halpin stated, fortunately, we have a lot of flexibility to cover different shifts. Mr. Szabo indicated that the overtime report specifies explanations for the overtime. The internal auditor is going back and performing an audit of those overtime requests to ensure that it was necessary. Upon completion of the current overtime audit, the Audit Committee will determine the appropriate frequency of future overtime audits.

Benefits – The two major items that continue to rise are health insurance and the New York State Retirement Program. Built into the budget is the cost to pay for the early retirement incentive program as well as the 40% increase in the normal retirement cost for the next year. Mr. Halpin noted that our increase is approximately $3,800,000 in retirement expenses. Mr. Kulick stated that these get allocated between the capital and O&M budgets.

Mr. Kulick then went on to discuss OPEB (Other Post Employment Benefits). As it relates to us, health insurance is the number one cost. He stated that GASB (Government Accounting Standards Board) is accepted in the industry by governmental agencies and the capital markets, but they have no enforcement powers. They create the rule and that rule is enforced by the auditors and the reports they issue. If you don't follow that rule, you would not get an opinion by any auditing firm. Mr. Celeberti stated GASB would create the mandate to fund OPEB, and the State Comptroller would create legislation to enable us to set up an irrevocable trust.

Mr. Kulick further explained that GASB started addressing OPEB because health insurance costs were escalating and from a transparency standpoint, no one was aware of the potential cost. Mr. Kulick stated that what is required is that we get an actuarial done every two years, updating in the interim year and to record that cost. The accounting profession has another guideline - Financial Accounting Standard No. 71 which states that a utility such as ours can record a corresponding deferred revenue to offset that cost. Mr. Kulick suggests we begin to fund OPEB. He advises a reserve account to avoid a major impact to the rate payer if this does eventually need to be funded. Ms. Devine stated that something should be set up in this budget year. Mr. Kulick stated we should start an account with what we feel comfortable with and then add to it. This could be discussed at our rate increase Board meeting in December.

Mr. Halpin advised that the Authority should have a formal policy in terms of liquidity.

Debt Service – Mr. Kulick informed the Board that in the course of completing the recently approved four-year Cost of Service and Rate Study, it had been determined that it would be most advantageous to utilize approximately $75 million of its unrestricted funds for the purpose of reducing sufficient outstanding debt over the next five years in order to reduce its debt service by approximately $15 million per year. The refunding will be expanded into years 6, 7 and 8 so we will not have a wall that we're hitting and have a large increase in debt service.

Mr. Kulick stated that the 2012 Capital Budget is slightly lower than the current budget. Some items did increase, such as transportation – we only had $100,000 in the current budget, the new budget reflects an amount of $500,000 for transportation. Ms. Gallagher and Mr. Monahan are working on a grant for approximately $400,000, but we did not include this in the budget. If we do receive this grant, Mr. Kulilck will bring it before the Board to increase the budget. Mr. Szabo explained to the Board that in the past, the Authority has spent $1,000,000 a year for transportation - last year we put a hold on that and spent approximately $100,000 for the year and were able to get a little more "life" out of our vehicles, but we didn't think we could do that for a second year.

Mr. Kulick then discussed land acquisitions – initially, at the start of this budget, we only had a few hundred thousand of dollars in the budget for land. In the last few months, transfers were made, but going into the budget, we allocated a million dollars for land acquisitions for the 2012 budget.
Mr. Szabo stated that at the last Board meeting, we authorized some of the funding for the demolition of the Spring Road, Huntington, building and used those funds for property acquisition on the east end.

Mr. Kulick further stated that forecasting will be implemented Authority-wide. It was typically done in the confines of the Accounting Department. We will develop a 5-year plan and will discuss this in December.

Mr. Kulick stated that we are looking at revenues in the amount of $168,000,000. After expenses, the result will be approximately $60,000,000 available for debt service, so our coverage is going to be quite strong for the budget.

Ms. Devine thanked Larry Kulick for a "job well done" and Mr. Szabo noted that preparing the budget is a long process, involving the Accounting Department led by Beth Vassallo and Doug Celiberti, going over every expense line by line with each department, and he also stated that this was well done.

Mr. Gaughran stated that we are getting significant interest in our Southampton and East Hampton parcels. Ms. Devine feels that if we do have some land sales, we should allocate it to the Reserve Fund that is to be set up for OPEB.

Mr. Kulick advised he would revise the budget in accordance with their recommendations and forward to the Members for approval at the March meeting.

Mr. Kulick advised the Board of a previous Resolution calling for financial reports to be issued on a monthly basis. Mr. Kulick indicated the reports could be more informative if the requirement was for quarterly reports.

On motion made by Mr. Halpin, duly seconded by Ms. Devine, the following resolution was unanimously carried for recommendation to the full board:

> **RESOLVED, That Resolution No. 330-08-2007 requiring monthly financial statements to the Board, be amended to require statements issued on a quarterly basis.**

On motion made by Mr. Halpin, duly seconded by Ms. Devine, the following resolution was unanimously carried for recommendation to the full board:

> **RESOLVED, To approve the recommended Budget, with revisions to be made as recommended by the Finance Committee.**

The meeting was adjourned at 11:50 a.m.
Respectfully submitted by:
Maria Trupia
Executive Assistant