



BUDGETS FOR THE FISCAL YEAR ENDING MAY 31st

2015

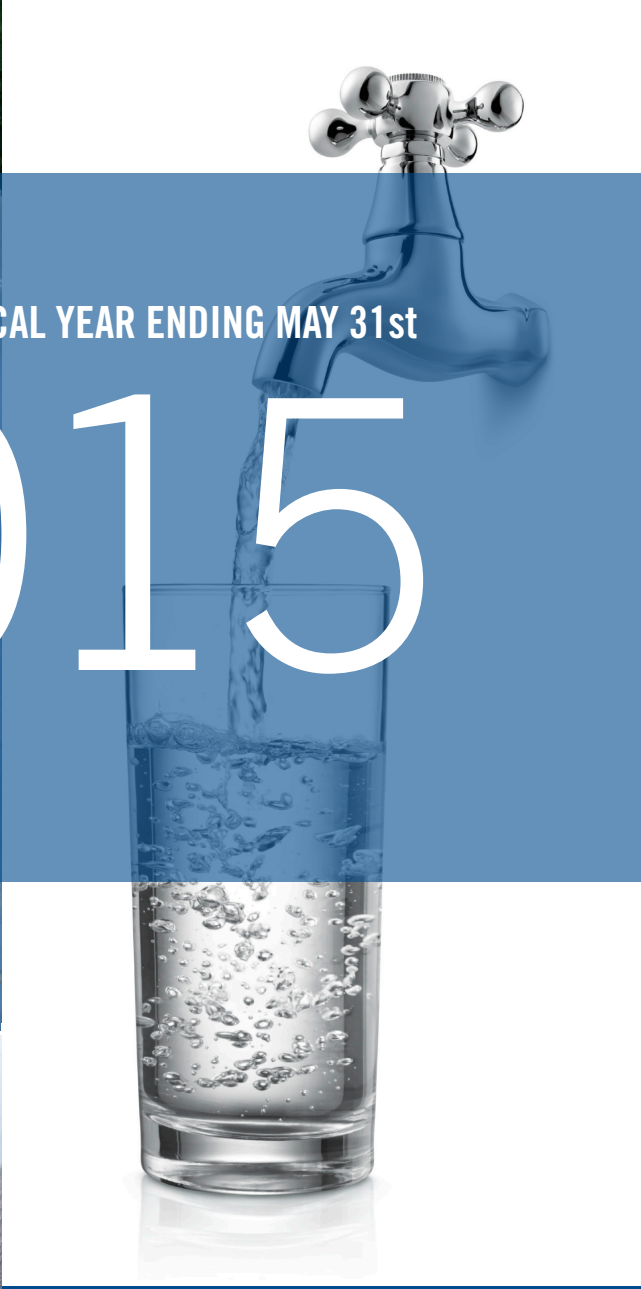


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A MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In the following pages, you'll find a revamped and redesigned presentation of our annual operating and capital budgets. We hope you'll find the new design easy to navigate and informative about all aspects our budgets and overall operations.

These budgets demonstrate our continued efforts to provide safe drinking water while also keeping rates in check and investing in vital infrastructure replacement.

This year's capital budget increases expenditures by \$5 million for water main replacement. Utilizing our historical statistical information, we intend to over time replace those pipes which have been most susceptible to breaking, resulting in operational maintenance savings in the long term.

This year, our customers will also see the first tangible financial benefits from the sale of surplus land, the result of a comprehensive review of our property holdings. This year, we sold in excess of \$3 million in surplus property, enabling us to reduce a projected 4.2% rate increase to a 1.2% increase. As a result, we will continue to offer some of the lowest rates in the New York metropolitan area.

We're extremely proud of the water we supply and the people who supply it to our customers. Should you have any questions about the contents of this document or any aspect of our operations, please do not hesitate to contact us.

Sincerely,

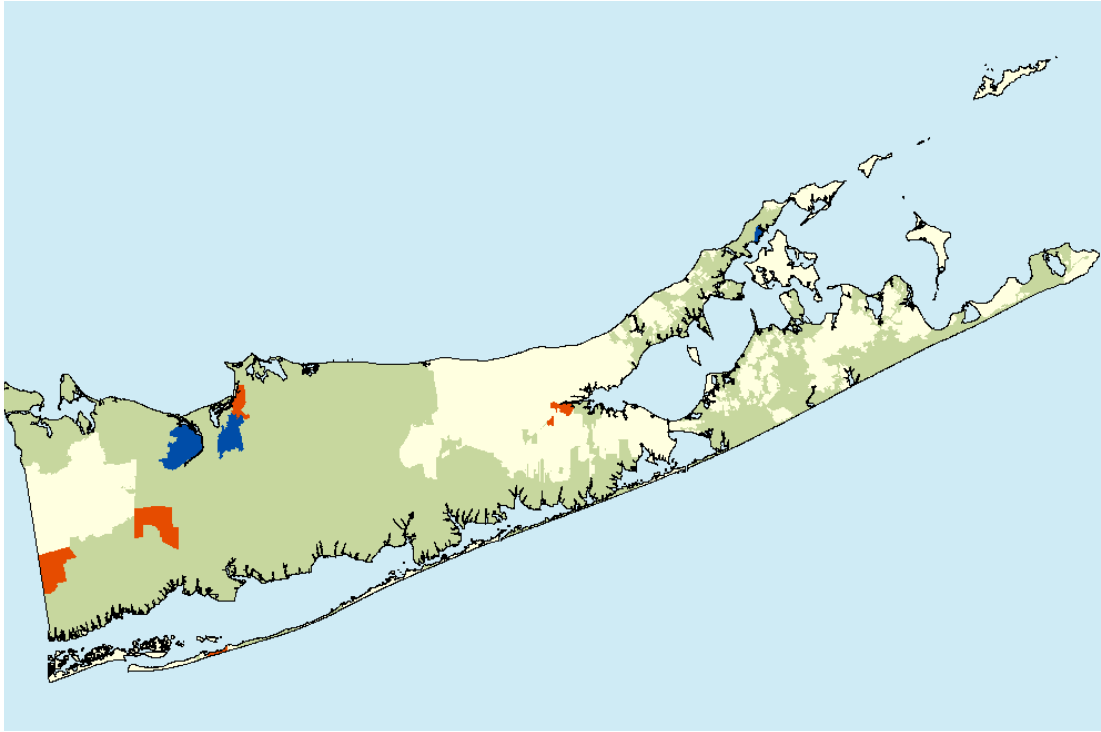


James F. Gaughran, Chairman
Suffolk County Water Authority



Jeffrey W. Szabo, Chief Executive Officer
Suffolk County Water Authority

SERVICE TERRITORY



■ Areas served by SCWA

■ Areas not served by SCWA

■ Water districts managed by SCWA (Brentwood, East Farmingdale, Fair Harbor, Riverside, Stony Brook)

■ SCWA wholesale water customers (Greenport, Saint James, Smithtown)

The Suffolk County Water Authority serves approximately 1.2 million Suffolk residents, which is approximately 85% of the county's population. SCWA also sells water wholesale to the Smithtown, St. James and Village of Greenport Water Districts. SCWA supplies water to and operates five public water districts in Suffolk. They are: Brentwood, Fair Harbor, Stony Brook, East Farmingdale and Riverside.

HISTORY

The Suffolk County Water Authority is New York State's first public benefit corporation for water service and began operations on June 1, 1951, with 21,159 customers, when the SCWA acquired the South Bay Consolidated Water Company. The new not-for-profit entity, which has since become the model for numerous other water authorities, was serving 83,313 customers by 1961.

In SCWA's second decade, a newly constructed control center in Bay Shore enabled us to monitor pump stations through telemetered circuits. SCWA engineers also designed a new type of well in Commack that was the largest well ever drilled on Long Island up to that time. SCWA during this decade also played a major role in conducting the "Comprehensive Water Supply Study" authorized by the Suffolk County Board of Supervisors.

By the end of the 1970s, SCWA supplied 38,756,000,000 gallons of water to 238,958 customers and had introduced automated chlorinating equipment as well as new lab equipment such as an Atomic Absorption Spectrophotometer, enabling us to upgrade our ability to conduct in-house water analyses. Our Production Control Department replaced a manually-controlled system for monitoring pump stations with a sensor-based, automated computer system.

As water quality standards became more stringent in the 1980s, we installed water treatment facilities to meet and surpass the new standards, maintaining our record of having never violated a health standard. In subsequent years, SCWA leaders took an active part in the enactment of the Pine Barrens Preservation Act, creating the largest groundwater protection program in the country. SCWA also sued polluters and increased educational outreach and was designated as the largest supplier of drinking water in the country supplying only groundwater by the American Water Works Association.

New leadership in the first decade of the 21st century put an increased emphasis on building a more efficient organization that embraced transparency, accountability and sustainability. In this decade, SCWA also passed the stern test of a massive electrical blackout that crippled much of Long Island and implemented the SAP data processing system and centralized its Customer Service operations.

Recent years have seen SCWA employees successfully keep water flowing during significant weather emergencies, such as Superstorm Sandy. SCWA also was honored in many ways for its exemplary business model. In 2012, SCWA was presented a Gold Award from the Association of Metropolitan Water Authorities for exceptional utility performance. The same year, SCWA won the Suffolk division of the Long Island Water Conference's Best-Tasting Water Contest. In 2013, the Greater Long Island Clean Cities Coalition honored SCWA for its commitment to alternatively fueled vehicles, and SCWA was named by LIWC as the best tasting water on all of Long Island.

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 SCWA'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.

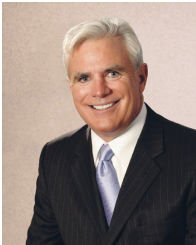
SUFFOLK COUNTY WATER AUTHORITY BOARD

The Suffolk County Water Authority has a five-member board. Each Board member and a chairman are appointed by the Suffolk County Legislature and serve a five-year term. The term of the current Chairman, James F. Gaughran, expires in March of 2018. The other four Board members and the expiration of their current terms of office are as follows: Patrick G. Halpin, March of 2016; Jane R. Devine, June of 2017; Mario Mattera, March of 2019; and Errol D. Toulon, Jr., Ed D, June of 2015.

All powers of the Suffolk County Water Authority are vested in the Board. The Board's responsibilities include providing direct oversight of SCWA's Chief Executive Officer and management employees; establishing policies and procedures; and monitoring financial and management controls and operational decisions.



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. He 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 he 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 in March 2016. Mr. Halpin served for nearly two decades as Executive Vice President for External Affairs for the Institute for Student Achievement, beginning in 1994. Mr. Halpin also 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 Suffolk County Executive. He served in that role until 1992. Mr. Halpin serves as a trustee of the Long Island Chapter of the Nature Conservancy and is a director with 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 June 2017. Ms. Devine has held a variety of positions in public service both on the town and county level. Most recently, she has served on the Town of Huntington Planning Board and from 1988-1991, she served as Commissioner of Consumer Affairs for Suffolk County. From 1978-1987 she represented the former 17th Legislative District as an elected Suffolk County Legislator and, for a portion of that tenure, was the first female leader of the minority caucus.

Ms. Devine's professional career spans a wide range of posts dedicated to education and protection of consumers, including Director of Consumer Education and a member of the Consumer Protection Board for the Town of Huntington, and consultant to the New York State Consumer Protection Board. She was a founding

partner of a small public relations company and served for a time as pastoral consultant to a Long Island AIDS- care organization. In addition to graduate work at the Fordham University School of Law, studies in sociology and a Certificate in Clinical Pastoral Education from the Nassau County Medical Center, Ms. Devine holds a Bachelor of Arts degree from the College of New Rochelle and a Master of Arts degree from the C.W. Post - Long Island University College of Management.



MARIO R. MATTERA, term as member expires March 2019. Mr. Mattera is a St. James resident and currently serves as business agent for Plumbers Local Union #200 of Ronkonkoma. In that capacity, Mr. Mattera serves as trustee for union funds and is responsible for the management of \$150 million in pension funds, welfare and annuity. He provides management and supervision over more than 1,100 members, 80 signatory contractors and 100 general contractors. Mr. Mattera also served as the union's Executive Board Officer from 1999-2003; Examining Board Officer from 1996-1998; Sentry Officer from 1994-1996; and General Foreman from 1994-2003.

Mr. Mattera also has numerous business affiliations. He has served on the Suffolk County Workforce Housing Commission since 2008; the Suffolk County Consumer Affairs Plumbing Licensing and Fire Protection Board since 2009; the Riverhead Empire Zone since 2010; the Apprenticeship Board since 2003; and Helmets to Hardhats for our returning Veterans since 2007. Additionally, Mr. Mattera was named 2012 Labor Leader of the Year for PBA Columbia and volunteers for the Hallockville Museum Farm in Riverhead and the Long Island Partnership for Hurricane Sandy Relief Program for Boilers and Water Heaters.



ERROL D. TOULON, Jr. Ed.D., term as member expires June 2015. Dr. Toulon is a Lake Grove resident, currently serves as Assistant Deputy County Executive for Public Safety for Suffolk County. He is a retired NYC Correction Captain. During his twenty-two year career with the NYC Department of Correction, Mr. Toulon was assigned as a captain to the Emergency Service Unit and the Firearms & Tactics Unit. During the final year of his 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, WMD Threat and Risk Assessment and State Disaster Management. In addition, Dr. Toulon is certified to teach Weapons of Mass Destruction Awareness, NIMS, Domestic Terrorism and Hate Crimes.

Dr. Toulon received his Master's degree in Business Administration from Dowling College, an Advanced Certificate in Homeland Security Management from Long Island University and recently completed his Doctorate in Educational Administration.

The powers of SCWA 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 SCWA 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 SCWA consists of a Chief Executive Officer; a Chief Financial Officer; a Deputy Chief Executive Officer for Customer Service; a Deputy Chief Executive Officer for Operations; General Counsel; Director of Administration; a Chief Sustainability Officer; a Director of Communications; a Government Affairs and Efficiency Management Director and a Director of Water Quality and Laboratory Services.



JEFFREY W. SZABO, Chief Executive Officer. Mr. Szabo was named Suffolk County Water Authority CEO in May 2010. Since that time he has led an effort to reposition the organization to meet future challenges by creating a water authority that is lean, efficient, more accountable to its customers, more environmentally-conscious and more transparent. Among his more notable achievements to date are a line-by-line review of overtime records and practices that has resulted in substantial savings; a comprehensive review of SCWA property holdings that determined hundreds of areas were not needed for future operations and thus could be sold to raise substantial new revenues; the substantial reduction of the vehicle fleet via an enhanced vehicle utilization initiative; greening the vehicle fleet through the use of hybrid and compressed natural gas vehicles; and staff reductions achieved by a meticulous analysis of staffing needs and through the creation of hybrid positions.

Prior to joining SCWA, Mr. Szabo served as Deputy County Executive and Chief of Staff for the Suffolk County Executive, where he played a significant role in the management of more than 11,000 employees and a \$2.5 billion annual operating budget, with direct oversight of fifteen departments. Mr. Szabo holds a Bachelor of Arts degree from Long Island University.

Mr. Szabo currently serves as Chairman of the Association of Metropolitan Water Agencies Legislative Committee.



JOSEPH M. POKORNY, P.E. Deputy Chief Executive Officer for Operations. Mr. Pokorny has been employed by the Suffolk County Water Authority since 1995. Starting in the Production Control department overseeing maintenance operations on all SCWA water production and storage facilities, Mr. Pokorny was promoted in 1997 to Chief Engineer, responsible for the budgeting, planning, design and construction of all of SCWA's production, storage and treatment facilities. He then served as Acting Director of Distribution in the Construction and Maintenance department where he oversaw the installation of all pipeline construction, rehabilitation and repair work associated with SCWA's 5900-mile distribution system. Prior to working for SCWA, Mr. Pokorny worked for eight years for the Long Island Lighting Company. Mr. Pokorny has served as the Chairman of the Long Island Water conference and currently serves as an Executive Board member for that same organization. He is also a member of the AWWA Water Utility Council. Mr. Pokorny earned a Bachelor of Science degree in Electrical Engineering from Manhattan College, a Masters in Business Administration from St. John's University and is a licensed professional engineer in the State of New York.



TIMOTHY J. HOPKINS, Esq., General Counsel. Mr. Hopkins joined the Suffolk County Water Authority in 1992. He is responsible for managing the Water Authority's Legal Department and outside counsel, and conducts litigation for the Authority. Prior to joining the Water Authority, Hopkins was an associate of Farrell Fritz of Uniondale, NY where he was a member of the municipal litigation department. While attending law school Hopkins was employed by the New York State Attorney General's Office. 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. Hopkins is admitted to practice in the State of New York and in the Eastern and Northern Districts of New York of the United States District Court. Hopkins has played important roles in issues ranging from the creation of transferable development rights programs to Federal multidistrict MTBE contamination litigation.



LARRY B. KULICK, CPA, CGMA, Chief Financial Officer. Mr. Kulick was appointed Chief Financial Officer of the Suffolk County Water Authority in April 2006. Mr. Kulick has been employed by the Water Authority since 1982 during which time he has served in various capacities including Accounting Department Manager, Assistant Director of Finance and Director of Finance. 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. Since becoming CFO, his fiscal leadership has resulted in the Authority's strong financial standing in the community, evidenced by its consistently high bond ratings.



CARRIE MEEK GALLAGHER, Chief Sustainability Officer. Ms. Gallagher 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. Prior to becoming Chief Sustainability Officer, she was the Suffolk County Commissioner of the Department of Environment and Energy. Previously she also served as Deputy Director of Planning for Suffolk County; the inaugural director of the Long Island Index; headed the Nassau County Economic Development Resource Center under County Executive Tom Suozzi; and developed Sustainable Long Island's Brownfields Redevelopment program. She holds a B.A. in Sustainable Development and Latin American Studies from Amherst College, an M.S. 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.



JANICE E. TINSLEY, Esq., Deputy Chief Executive Officer for Customer Service. Ms. Tinsley joined the Authority in April 2008 as Deputy Chief Executive Officer of Customer Service. She is responsible for all facets of the Customer Service Division, which include: Metering, Field Service, Workforce Technology, and Call Center operations. Before joining SCWA, Ms. Tinsley was elected to four terms as the Town Clerk for the Town of Babylon. Additionally, she served as Special Assistant to the Babylon Town Supervisor, concentrating on constituent services. Prior to entering public service, Ms. Tinsley was employed in various positions with Northwest Airlines for 18 years. Ms. Tinsley received her Bachelor of Arts degree in Political Science from Lycoming College and her Juris Doctor from Brooklyn Law School. Ms. Tinsley is admitted to practice law in the State of New York.



DONNA MANCUSO, Ms. Mancuso has been with the Suffolk County Water 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. She created an educational outreach program in 2003 for schools in Suffolk County, which has grown to reach over 10,000 students each year in the elementary and middle schools. In 2007, she was promoted to her current position as Director of Administration, overseeing Human Resources, Information Technology, General Services and Transportation. 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.



TIMOTHY M. MOTZ, Director of Communications, Government Affairs and Efficiency Management. Mr. Motz has been with the Suffolk County Water Authority since November of 2010. In addition to overseeing all aspects of communications and government relations, Mr. Motz oversees the Authority's Management Unit, which analyzes Authority operations and recommends efficiency measures. Prior to joining SCWA, Mr. Motz served as the spokesperson for the Suffolk County Police Department, overseeing the department's public information office and facilitating relations between the department and the county executive's office. Before working at SCPD, Mr. Motz was an aide to several county legislators and subsequently director of special projects for the Legislature's presiding officer before being hired as speechwriter/deputy director of communications for the Suffolk County executive.



KAREN A. RANDAZZO – Director of Water Quality & Laboratory Services. Ms. Randazzo has been employed by the Suffolk County Water Authority since 1981 when she started as an entry level chemist. In 1988, Ms. Randazzo became the Laboratory Manager, and in 1995 she was appointed the Laboratory Director. In 2005, Ms. Randazzo's duties were expanded to Director of Water Quality. She has B.S. Degrees in Chemistry and Biochemistry from Stony Brook University. Randazzo is licensed through the NYS Department of Health Environmental Laboratory Approval Program. This national certification allows the SCWA's in-house laboratory to perform chemical and bacteriological testing. She oversees the water quality of the Authority's nearly 600 wells, the largest ground water system in the nation. With her staff of 45 water quality professionals, she works with the USEPA, NYS Department of Health, and Suffolk County Department of Health Services to ensure the drinking water quality and source water monitoring program meet the highest standards. Randazzo is a member of the Drinking Water Committee of the Long Island Water Conference, a member of the AWWA and the American Chemical Society.

BUDGETS FISCAL YEAR MAY 31, 2015

OPERATING & MAINTENANCE BUDGET HIGHLIGHTS



Larry B. Kulick
Chief Financial Officer

The Operating & Maintenance Revenue and Expense Budget reflects SCWA'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, 2015:

Operating & Other Revenue	\$166,313,000
Operating & Maintenance Expense	\$107,483,000
Revenues Available for Debt Service	\$58,830,000
Debt Service	\$31,956,000
Debt Coverage	\$1.84

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, 2015 is as follows:

1. **Water Sales (\$136.4 million)** – This amount is conservatively based on the projected number of customers through May 2014, customer growth of .2% 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 \$1.6 million in revenues to be generated by the recently enacted rate increase. In addition, a rate stabilization fund was established and funded by the sale of property deemed surplus at an amount of \$3.7 million. These monies are supplementing the aforementioned revenues generated by the rate increase.
2. **Wholesale Water Sales – (\$1.9 million)** – Suffolk County Water Authority previously eliminated the wholesale water rate. The three (3) municipalities who are “grandfathered” in are Smithtown and St. James Water Districts as well as the Village of Greenport. The recently approved rate increase includes an adjustment to the rate for these three municipalities from \$1.25 to \$1.265 per thousand gallons effective January 1, 2015.
3. **Hydrants and Firelines – (\$8.4 million)** – Suffolk County Water Authority has approximately 37,200 public hydrants and 2,200 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 \$192 per year. Effective April 1, 2014 rates for private hydrants will increase to \$194.20 per hydrant per year. There are approximately 565 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 4,281 in the system and the budget reflects a ¼ % growth.

4. **Miscellaneous Fees – (\$18.6 million)**

- a. Water Related – (\$4.2 million) - These include customer late charges, reconnect fees, inter-municipal operating & maintenance agreements, rental agreements, interest income, etc.
 - b. Capital Reimbursements – (\$5.3 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 become SCWA customers, standard cost per foot and regional fixed fees have been established. Developer contracts in which the developer pays based on actual costs is budgeted at \$1.5 million.
 - c. Non-Water-Related Revenues – (\$10.1 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. **Deferred Revenue – OPEB** – In order to comply with GASB 45, the Authority is reflecting in the current budget deferred revenue for the unfunded portion of this cost in the amount of \$10 million. See Deferred Expenses – OPEB for additional information.

Major components of the submitted Operating and Maintenance budget for fiscal year May 31, 2015 are as follows:

EXPENSES

1. **Payroll – (\$35.1 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. Through this ongoing process, the proposed budget includes three (3) new positions in Production Control, Engineering, and the Laboratory while eliminating a comparable number of positions elsewhere in the Authority. Consequently, budgeted positions remain at 591. Current base payroll is budgeted at \$42.5 million. Overtime is budgeted in the amount of \$1.3 million. In total, the Authority payroll for fiscal year ending May 31, 2015 is estimated at \$43.8 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, \$35.0 million of payroll is reflected in the proposed operating and maintenance budget.

2. **Benefits – (\$21.8 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, 2014 through March 31, 2015 will average approximately 20% of payroll or \$8.1 million, which represents a slight decrease of approximately \$.2 million over the current year. Health insurance cost increased approximately 2% in January 2014 and is estimated to increase 5% in January 2015. This budget proportionately reflects a 3.5% increase in related premiums. Life, optical, and dental insurance is budgeted at an approximate 10% decrease.
3. **OPEB – (\$4 million – actual; \$10 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 a cost of \$14 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 \$4 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 an additional \$10 million as a deferred expense. In accordance with Financial Accounting Standards No. 71, the Authority reflects \$10 million as deferred revenue to counter the unfunded portion.
4. **Power – (\$20.1 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%, \$20.1 million is reflected in the proposed budget. Components of LIPA's rate structure include demand charges, fuel surcharges, and consumption rates. Whereas, PSEG is currently unable to provide any firm rate projections, this budget conservatively has included a 2% increase.
5. **Administrative Operations & Maintenance – (\$9.9 million)** Major functional components of the Authority's operations include customer billing and collecting (\$1.6 million), computer supplies and expenses (\$.7 million), communications (\$.1 million), safety (\$.3 million), office and warehouse supplies (\$.2 million), consultants (\$1.1 million), risk management (\$2.8 million), personnel services and training (\$.3 million), and facilities & general services (\$1.2 million) and other expenses (.8 million).

6. **System Operations & Maintenance – (\$7.7 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 (\$.9 million), computer maintenance (\$.2 million), communications (\$1.0 million) and general maintenance of facilities (\$.5 million).
7. **Treatment – (\$7.1 million)** - This includes chemicals (\$2.6 million), carbon replacement (\$3.4 million), and other treatment systems, including perchlorate, nitrates, and iron (\$.5 million), laboratory expenses (\$.7 million).
8. **Transportation – (\$1.8 million)** – The Transportation Department maintains approximately 320 vehicles and 130 in support equipment (trailers, cranes, backhoes, compressors, etc.). The Authority budgets approximately \$3.4 million annually to keep this equipment on the road. 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, \$1.8 million, 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. 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 \$31.956 million is budgeted for 2015.

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 2015 capital budget of \$66.0 million begins to incorporate information technological, energy efficient initiatives, and increased emphasis on water main replacement.

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 (\$5 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 (\$3 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 .2%. Water main typically has an average life of 75 – 100 years. The rate at which we have been replacing water main has been closer to a 200 year replacement period. Accelerating water main replacement on par with the industry average is not considered prudent based on the specific facts and circumstances. However, by increasing the amount of water main by a reasonable amount over an extended period based on its repair history and the age of the water main can result in a long-term decrease in the maintenance of the distribution system. 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 \$1.5 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 (\$5.0 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. Staff reallocation within customer service is further increasing the number of meters being changed internally. This has resulted in the annual replacement of approximately 17,000 meters by Authority personnel. The proposed budget includes \$3.4 million for this purpose.

The current budget reflects a continuation of the Authority's planned 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.

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. \$3.9 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. Initiated in the current budget year and continuing with the proposed budget, the Authority is continuing to replace its aging fleet of vehicles at a budgeted amount of \$2.5 million. In addition, management has deemed it necessary to provide for a larger and more modern facility in which to maintain its transportation and related equipment. The estimated cost of this facility is \$1.5 million of which \$.5 million is included in the proposed budget.

To assist in the operation of the water system SCWA needs to add or replace certain support equipment in the information technology, laboratory, communications, 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.

After extensive discussions, the Information Technology Committee has recommended \$.65 million to proceed with two technological projects:

1. Accounts Payable/Purchasing Document Imaging and Workflow - \$.2 million. Upon completion, it is expected that the entire process will be paperless and be a model for further development in other Authority operations.
2. Workforce Technology - \$.45 million. This amount represents funds necessary to retain the services of an independent third-party to assist us in the request for proposal, selection of a system, and implementation process to ensure satisfactory completion of the project within budget.

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 \$17.4 million for new well and tank construction, replacement of wells, pump station infrastructure, land acquisition, and painting of tanks.

FROM THE DEPARTMENTS: BUDGET PRIORITIES

CONSTRUCTION MAINTENANCE

Construction Maintenance, which is responsible for the design, construction and maintenance of water mains as well as the installation and maintenance of fire hydrants, is looking forward this year to replacing/rehabilitating more than 30 miles of water mains, particularly at a new development in North Haven which will deliver water to almost 100 new customers and allow us to add another water main to further improve system reliability. The department will also focus on improvements with town and county paving projects, including those in Huntington and Babylon that will eliminate older water mains that are more susceptible to water main breaks.

CUSTOMER SERVICE

The Customer Service department consists of our call center, metering, collections and field services. The department seeks to provide the best service possible in responding to the needs of our customer base. The department's top budget priority is acceleration of the implementation of Automated Meter Reading technology. Though full implementation of the technology was originally scheduled to be completed in 2019, the increased use of SCWA employees to change out old meters has the department on target to finish the project one year earlier, an effort that could lead to substantial savings.

EMERGENCY MANAGEMENT

Created in 2013, the Office of Emergency Management is responsible for supporting SCWA operations in regard to emergency response. The office is preparing numerous training initiatives for departments for the coming year, including exercises involving an active shooter, a tabletop continuity of operations initiative, and a suspicious package exercise and various facility vulnerability assessments.

ENGINEERING

The Engineering Department is responsible for designing, improving, constructing and delivering all aspects of SCWA water supply infrastructure facilities (excluding water mains and hydrants) and SCWA employee facility needs. In 2014, additional capital budget funds for tank painting will enable the department to address significant improvements to existing infrastructure. This shift from reactive to proactive maintenance will pay great dividends in the years to come. Additional water supply needs on the North and South Forks will also be a priority, as will additional GAC systems to ensure SCWA's ability to provide adequate water supply that meets or exceeds water quality standards.

INFORMATION TECHNOLOGY

The Information Technology department is charged with serving and empowering SCWA by providing the most innovative, high quality technology-based services in the most cost-effective manner. The department in 2014 will continue to achieve its goals by implementing a document imaging solution by reducing redundant tasks and effectively streamlining current business processes. In addition, the department will continue to strengthen and improve the network connectivity throughout SCWA.

LABORATORY

The Laboratory, which maintains an aggressive and comprehensive approach to water quality testing, is responsible for ensuring that the highest quality drinking water is provided to our customers. The Lab, which tests for far more chemicals than required by state and federal regulations and at a far greater frequency, has kept its budget constant for many years due to efficient practices, even as costs have risen. The addition of a weekend shift has enabled the Lab to steadily cut overtime over the past few years. An additional Technician has been budgeted for this year to perform the sample collection for two new groups of chemicals, synthetic hormones and perfluorinated compounds. Funding for a planned computer upgrade is included in the operating and maintenance budget.

PRODUCTION CONTROL

The Production Control department is responsible for operating our. In the coming year the department will be stepping up its activities involving replacement of aging infrastructure like outdated electrical switchgear and automatic transfer switches that operate generators. The department will also be placing in service new generators for better resiliency in power outages and evaluating options for replacing its SCADA communications infrastructure used to communicate and control its pumps. Doing so will lay the groundwork for migrating this equipment to new technology over multiple years in the future to lessen the impact of the cost.

FLEET SERVICES

The Fleet Services department is responsible for the acquisition, maintenance and disposal of vehicles and equipment utilized in SCWA's daily operations. In 2014, the department will replace seven or eight trucks, some of which are 15 years old, and replace them with Ford F-650 trucks that run on compressed natural gas, which will dramatically cut fuel costs and also greatly improve the fleet's carbon footprint. (The department hopes that technology will be available that will enable the trucks to operate on both gasoline and compressed natural gas, which would double the range of the trucks between refueling.) The department will also oversee the construction in Oakdale of a compressed natural gas refueling station, which will be partially funded by federal grant money, and which, once in operation, will refuel vehicles automatically overnight, thereby eliminating the time wasted during manual refueling.

SCWA HIGHLIGHTS OF BUDGET DATA

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

	Budget	Projection	Budget	Actual
Authority Budgets	2015	2014	2014	2013
Operating Revenues and Other Income	\$166,313,000	\$163,098,000	\$163,050,000	\$163,846,000
Operation and Maintenance Expense	107,483,000	108,409,000	108,711,000	100,921,000
Deferred Income - OPEB	10,000,000	13,170,000	14,000,000	12,170,000
Deferred Expense - OPEB	(10,000,000)	(13,170,000)	(14,000,000)	(12,170,000)
Operating Income Available	\$ 58,830,000	\$ 54,689,000	\$ 54,339,000	\$ 62,925,000
Capital Budget	\$ 66,031,000	\$ 62,858,000	\$ 61,978,000	\$ 58,627,000
Debt-Service	\$ 31,956,000	\$ 30,091,000	\$ 30,118,000	\$ 29,699,000
Debt Coverage				
Senior Debt	2.25	2.09	2.07	2.60
All Debt	1.84	1.82	1.80	2.12

Projection May 31, 2014

Revenues -Actual for 7 months and estimated for 5 months

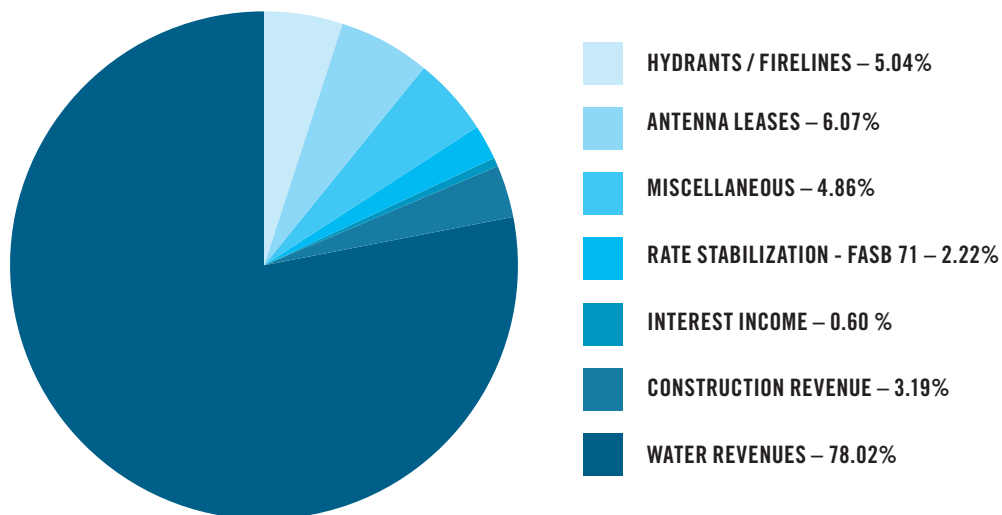
Expenses -Actual for 7 months and estimated for 5 months

Capital -Figures are based on the latest available information

SCWA REVENUE

	Budget Year Ending 2015	Actual Year Ending 2014	Budget Year Ending 2014	Actual Year Ending 2013
Water Revenues	\$ 129,757,000	\$ 128,467,000	\$ 130,817,000	\$ 127,501,000
Hydrants /Firelines	8,379,000	8,250,000	8,256,000	8,061,000
Antenna Leases	10,100,000	11,046,000	10,630,000	11,008,000
Miscellaneous	8,077,000	6,842,000	5,518,000	10,211,000
Total Operating Revenues	156,313,000	154,605,000	155,221,000	156,781,000
Rate Stabilization - FASB 71	3,700,000	-	-	-
Interest Income	1,000,000	1,500,000	1,500,000	782,000
Construction Revenue	5,300,000	6,993,000	6,329,000	6,283,000
Total Revenues	\$ 166,313,000	\$ 163,098,000	\$ 163,050,000	\$ 163,846,000

SUFFOLK COUNTY WATER AUTHORITY REVENUE COMPONENTS:

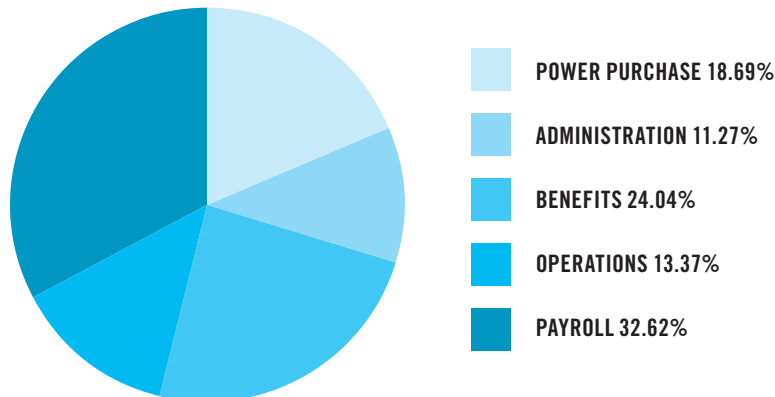


REVENUE BUDGET FOR F/Y/E MAY 31, 2015: \$166,313,000

SCWA OPERATING AND MAINTENANCE BUDGET

	2015	2014
Construction Maintenance	\$3,975,000	\$3,985,000
Customer Service	165,000	227,000
Engineering	5,185,000	4,678,000
Facilities Management	1,143,000	1,122,000
Finance	3,084,000	3,025,500
Benefits	25,834,000	25,134,000
Education Awareness	10,000	11,000
Information Technology	850,000	995,000
Laboratory	715,000	600,000
Stores	125,000	175,000
Payroll	35,064,000	35,448,000
Emergency Management	19,000	12,000
Transportation	1,744,000	1,912,000
Meter Shop	100,000	150,000
Communications	100,000	117,000
Power Purchase	20,092,000	21,909,000
Production Control	4,500,000	4,625,000
Risk Management & Human Resources	3,701,000	3,395,000
Safety	127,000	144,500
Sustainability	50,000	54,000
Telecommunications	900,000	992,000
	\$ 107,483,000	\$ 108,711,000

SUFFOLK COUNTY WATER AUTHORITY O&M COMPONENTS:



O&M BUDGET FOR F/Y/E MAY 31, 2015: \$107,483,000.

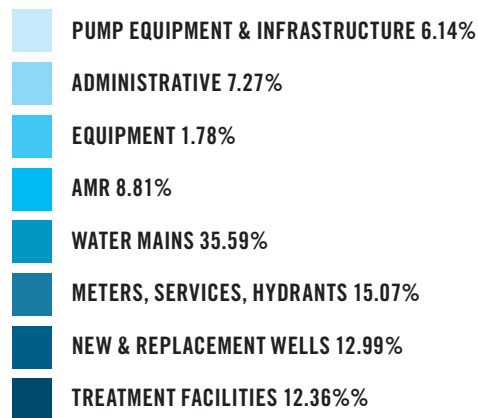
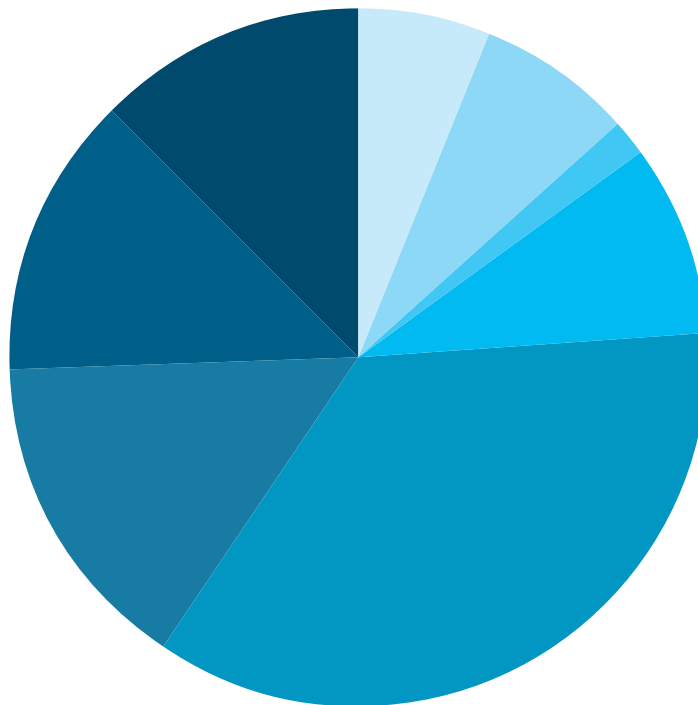
SUFFOLK COUNTY WATER AUTHORITY CAPITAL BUDGET

AMENDED BUDGET

BUDGET LINE	PROJECT	AMENDED 2014	BUDGET 2015
005-15	EXTENSION OF WATER MAINS FOR NEW CUSTOMERS	\$7,000,000	\$5,000,000
010-15	REPLACEMENT OF WATER MAIN	9,955,000	14,000,000
015-15	DISTRIBUTION SYSTEM IMPROVEMENTS	2,000,000	3,000,000
020-15	BLOWOFFS & VAULT CONVERSIONS	200,000	200,000
025 & 026-15	HYDRANTS - CREW JOBS	1,625,000	1,305,000
030-15	SERVICES	5,475,000	5,000,000
035-15	CONSTRUCTION CONTRACTS	1,680,000	1,500,000
040-15	NEW WELLS	4,493,000	4,603,000
045-15	REPLACEMENT OF EXISTING WELLS	2,600,000	3,975,000
050-15	TANK MAINTENANCE AND CONSTRUCTION	3,825,000	3,975,000
055-15	MISCELLANEOUS TREATMENT FACILITIES TOTAL	3,950,000	3,885,000
060-15	INSTRUMENTATION REPLACEMENT	300,000	300,000
065-15	NEW MISCELLANEOUS PUMP STATION INFRASTRUCTURE	1,300,000	780,000
070-15	REPLACEMENT OF PUMP STATION INFRASTRUCTURE	2,875,000	2,420,000
075-15	SUPERVISORY CONTROL AND DATA ACQUISITION SYSTEM	505,000	855,000
085-15	FIELD COMMUNICATIONS	100,000	100,000
086-15	EMERGENCY MGMT	60,000	13,000
095-15	TRANSPORTATION	2,053,000	3,042,000
100-15	GENERAL SERVICES	545,000	474,000
120-15	LAB EQUIPMENT	325,000	383,500
125-15	OFFICE EQUIPMENT AND FURNITURE	19,000	20,200
130-15	METERS	3,666,000	3,444,000
135-15	TECHNOLOGICAL DEVELOPMENT	1,000,000	650,000
140-15	IT EQUIPMENT	618,000	369,200
145-15	DEPARTMENT EQUIPMENT	93,000	109,500
146-15	EMPLOYEE DEVELOPMENT CENTER - EQUIPMENT	10,000	-
150-15	ACQUISITION OF LAND FOR WELL AND TANK SITES	500,000	500,000
155-15	FIELD EQUIPMENT	263,000	291,300
160-15	RIVERSIDE WATER DISTRICT	23,000	21,000
170-15	AMR	5,800,000	5,815,300
TOTAL		\$62,858,000	\$66,031,000

CAPITAL COMPONENTS

SUFFOLK COUNTY WATER AUTHORITY CAPITAL COMPONENTS:



CAPITAL BUDGET FOR F/Y/E MAY 31, 2015: \$66,031,000

SCWA OPERATING CASH FLOW

	Budget 2015	Projection 2014	Budget 2014	Actual 2013
Operating Revenue	\$ 156,313,000	\$ 154,605,000	\$ 155,221,000	\$156,781,000
Rate Stabilization - FASB 71	3,700,000	-	-	-
Investment Earnings	1,000,000	1,500,000	1,500,000	782,000
Construction Revenue	5,300,000	6,993,000	6,329,000	6,283,000
Total Revenue:	166,313,000	163,098,000	163,050,000	163,846,000
Less:				
Operating and Maintenance Expense	107,483,000	108,409,000	108,711,000	100,921,000
Net Operating Income				
Available for Debt Service	58,830,000	54,689,000	54,339,000	62,925,000
Less:				
Debt Service				
a) Interest on Long-Term Debt	26,152,000	26,336,000	25,877,000	24,179,000
b) Bond Principal	5,445,000	3,135,000	3,254,000	3,254,000
c) Interest on Notes	359,000	620,000	987,000	2,266,000
Total Debt Service:	31,956,000	30,091,000	30,118,000	29,699,000
Operating Funds				
Available for Capital	\$ 26,874,000	\$ 24,598,000	\$ 24,221,000	\$ 33,226,000

SCWA PROJECTED EARNINGS

	Budget Year Ending 2015	Budget Year Ending 2014	Actual Year Ending 2013
REVENUES:			
Operating	\$ 156,313,000	\$ 155,221,000	\$ 156,781,000
Construction	5,300,000	6,329,000	6,283,000
Deferred Revenue - OPEB	10,000,000	14,000,000	12,170,000
Rate Stabilization - FASB 71	3,700,000	-	-
Interest	1,000,000	1,500,000	782,000
Total Revenues:	176,313,000	177,050,000	176,016,000
OPERATING & MAINTENANCE EXPENSE:			
Operating & Maintenance Expenses	107,483,000	108,711,000	100,921,000
Deferred Expenses - OPEB	10,000,000	14,000,000	12,170,000
Total O&M:	117,483,000	122,711,000	13,091,000
Net earnings before Interest and Depreciation (Available for Debt-Service)	58,830,000	54,339,000	62,925,000
Operating Ratio	66.6%	69.3%	64.3%
OTHER DEDUCTIONS:			
Interest on Long-Term Debt	26,152,000	25,877,000	24,179,000
Interest on Notes	359,000	987,000	2,266,000
	26,511,000	26,864,000	26,445,000
PROJECTED EARNINGS	\$ 32,319,000	\$ 27,475,000	\$ 36,480,000
DEPRECIATION & AMORTIZATION	\$ 40,000,000	\$ 41,847,000	\$ 39,041,000

SUFFOLK COUNTY WATER AUTHORITY ADVISORS

Bond Counsel	Harris Beach PLLC, New York, New York
Financial Consultant	Goldman, Sachs & Co., New York, New York
Bond Fund Trustee and Paying Agent	The Bank of New York Mellon, New York, New York
Consulting Engineers	Holzmaacher, McLendon & Murrell, P.C., Melville, New York

SUFFOLK COUNTY WATER AUTHORITY DEBT

THE FOLLOWING TABLE SETS FORTH SCWA'S OUTSTANDING BONDS AS OF MAY 31, 2013:

Senior Lien Bonds	Original Principal Amount	Principal Outstanding at May 31, 2013
Water System Revenue Bonds, Series 2003 (Refunding), dated June 19, 2003	\$67,395,000	\$7,000,000
Water System Revenue Bonds, Series 2003B (EFC Series), dated July 24, 2003	9,130,775	5,405,000
Water System Revenue Bonds, Series 2004A (EFC Series), dated July 22, 2004	6,605,448	4,515,000
Water System Revenue Bonds, Series 2005B (EFC Series), dated July 28, 2005	7,047,361	4,950,000
Water System Revenue Bonds, Series 2006A, dated May 23, 2006	70,000,000	70,000,000
Water System Revenue Bonds, Series 2007A, dated December 20, 2007	45,000,000	45,000,000
Water System Revenue Bonds, Series 2009, (Refunding), dated November 16, 2009	13,415,000	10,635,000
Water System Revenue Bonds, Series 2009A, dated November 16, 2009	66,395,000	57,740,000
Water System Revenue Bonds, Series 2009B (Federally Taxable-Build America Bonds), dated November 16, 2009	100,000,000	100,000,000
Water System Revenue Bonds, Series 2010C (EFC Series), dated June 24, 2010	2,902,750	2,115,000
Water System Revenue Bonds, Series 2011 (Refunding), dated April 6, 2011	24,930,000	24,930,000

Senior Lien Bonds	Original Principal Amount	Principal Outstanding at May 31, 2013
Water System Revenue Bonds, Series 2011A (EFC Series), dated March 15, 2011	7,384,173	5,888,747
Water System Revenue Bonds, Series 2011C (EFC Series), dated July 21, 2011	10,946,917	9,335,207
Water System Revenue Bonds, Series 2012 (Refunding), dated January 24, 2012	83,635,000	83,635,000
Water System Revenue Bonds, Series 2012B (EFC Series), dated June 21, 2012	4,523,189	4,159,269
Water System Revenue Bonds, Series 2012A, dated October 4, 2012	80,000,000	80,000,000
Water System Revenue Bonds, Series 2013, (Refunding), dated March 5, 2013	62,380,000	62,380,000
Total Outstanding Senior Lien Bonds		\$577,688,223

Subordinate Lien Bonds	Original Principal Amount	Principal Outstanding May 31, 2013
Water System Revenue Bonds, Series 1994 Subordinate Lien Refunding, dated February 15, 1994	\$38,135,000	\$695,000
Water System Revenue Bonds, Series 2005 Subordinate Lien Refunding, dated December 1, 2005	71,905,000	71,905,000
Total Outstanding Subordinate Lien Bonds		\$72,600,000

Suffolk County Water Authority has issued from time to time bond anticipation notes to finance improvements and additions to the Water System. These notes are redeemed from the proceeds of the Bonds in anticipation of which they are issued. As of May 31, 2013, the Authority had the following bond anticipation notes outstanding:

Bond Anticipation Notes	Original Principal Amount	Principal Outstanding May 31, 2013
Variable SIFMA Rate Bond Anticipation Notes, 2011B, dated April 6, 2011, maturing April 1, 2014	\$50,000,000	\$50,000,000
Fixed Rate Bond Anticipation Renewal Notes, 2013A, dated January 15, 2013, maturing January 15, 2016.	\$50,000,000	\$50,000,000
Fixed Rate Bond Anticipation Notes, 2013B, dated January 15, 2013, maturing January 15, 2015.	\$50,000,000	\$50,000,000
Total Outstanding Bond Anticipation Notes		\$150,000,000

SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY

SCWA 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. SCWA 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 three water districts and the incorporated Village of Greenport.

CUSTOMER COUNT

SCWA 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 SCWA 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, 2013, 390,054 customers were served by SCWA, compared to 389,724 at May 31, 2012, an increase of 330 customers. The following table details the number of customers, by region, served directly by SCWA, 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.

CUSTOMERS SERVED DIRECTLY

Region	Fiscal Year Ended May 31,	
	2013	2012
Western	171,966	172,133
Central	128,985	128,985
Eastern	67,432	66,948
Subtotal	368,383	368,066

CUSTOMERS SERVED THROUGH OPERATING AGREEMENTS

Brentwood Water District	6,489	6,475
Fair Harbor Water District	485	487
Stony Brook Water District	1,625	1,624
Riverside Water District	588	588
East Farmingdale Water District	2,400	2,400
Subtotal	11,587	11,574

WHOLESALE CUSTOMERS†

St. James Water District	3,220	3,220
Smithtown Water District	5,824	5,824
Village of Greenport	1,040	1,040
Subtotal	10,084	10,084
TOTAL	390,054	389,724

† 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, 2009 THROUGH MAY 31, 2013 IS PRESENTED BELOW.

Year	Number of Customers
2013	390,054
2012	389,724
2011	389,191
2010	388,660
2009	385,450

SCWA'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 2013 Fiscal Year. The customers listed below and their corresponding usage, reflect individual metered accounts; each such customer may have more than one account with SCWA.

User	Consumption (gallons)
1. Smithtown Water District	974,879,620
2. St. James Water District	379,804,300
3. State University of New York at Stony Brook ¹	365,979,196
4. Department of Public Works (County of Suffolk)	128,814,576
5. National Grid	113,471,600
6. State University of New York at Stony Brook ¹	108,811,560
7. Pinelawn Power LLC	107,667,120
8. Greenport Water District	84,153,740
9. Bretton Woods Home Owners Association	78,947,660
10. State University of New York at Stony Brook ¹	63,583,740

¹ Consumption reflects activity for one metered account. User has multiple accounts at different locations.

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. SCWA 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 SCWA'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 SCWA AS OF MAY 31, 2013:

Town	Wells		Pumping Plants		Storage Facilities	
	Active	Inactive	No.	Capacity(gpm)	No.	Capacity*
Babylon	56	3	23	72,930	8	8.22
Brookhaven	173	7	72	204,457	19	21.89
East Hampton	38	2	17	19,630	3	3.42
Huntington	51	2	24	50,938	10	12.52
Islip	106	9	40	119,127	11	12.19
Riverhead	4	0	1	1,150	0	0.00
Smithtown	50	0	22	67,500	5	3.50
Southampton	57	6	19	45,188	6	6.35
Southold	48	0	16	8,000	1	.30
Totals	583	29	234	588,920	63	68.39

* Millions of gallons

As of May 31, 2013, there were a total of 5,944 miles of water mains in use, an increase of 24 miles since May 31, 2012, and there were 37,303 fire hydrants in service.

The capital improvement budget for the Water System for the 2014 Fiscal Year included provisions for additional wells, pumping equipment and storage capacity amounting to approximately 28% of the total amount budgeted in SCWA's capital improvement budget. (See "CAPITAL IMPROVEMENT PLAN – Additional Facilities – Storage, New Wells, Replacement Wells, and Tanks" herein.)

ADDITIONAL WELLS UNDER CONSTRUCTION, NOT CLASSIFIED AS "IN SERVICE" AS OF MAY 31, 2013, IS EXPECTED TO INCREASE THE CAPACITY OF MAJOR FACILITIES OVER THE NEXT TWELVE MONTHS AS FOLLOWS:

Site Locations	Wells and Pumping Equipment Gallons per Day (in thousands)
Patchogue	1,998,720
Port Jefferson	1,998,720
East Hampton	1,152,000
West Hampton	2,808,000
Huntington	432,000
TOTAL	8,389,440

HISTORICAL REVENUE AND OPERATING EXPENSES

REVENUES, OPERATING AND MAINTENANCE EXPENSE

The revenues, expenses of operation and maintenance and the resulting net revenues of SCWA for the five most recent fiscal years ended May 31, 2013 through fiscal year ending 2009 are set forth in the following table. After provision for the stated debt service charges, the remaining revenues are available for new construction and other corporate purposes of SCWA. The table sets forth the application of the revenues of the Water System in accordance with the provisions of the Resolution.

HISTORICAL FINANCIAL DATA

(000's omitted)	Fiscal Year Ended May 31,				
	2013 (audited)	2012 (audited)	2011 (audited)	2010 (audited)	2009 (audited)
Revenue:					
Operating Revenue					
Residential & Commercial	\$121,612	\$117,798	\$118,019	\$101,750	\$106,160
Public & Private Fire Protection	8,061	7,959	7,822	7,789	7,773
Public Authority & Water Districts	5,890	5,536	6,019	5,040	5,308
Miscellaneous	20,358	18,953	16,800	14,663	14,306
Total Operating Revenue	155,921	150,246	148,660	129,242	133,547
Other Revenue	20,095	26,966	22,059	24,736	106,316 ¹
Total Revenue	\$176,016	\$177,212	\$170,719	\$153,978	\$239,863
Operating Expenses:					
Operations	87,235	89,754	83,228	76,654	83,579
Maintenance	25,857	23,534	19,746	20,417	19,897
Total Operating and Maintenance Expenses	\$113,092	\$113,288	\$102,974	\$97,071	\$103,476
Net Revenues Before Debt Service	\$62,924	\$63,924	\$67,745	\$56,907	\$136,387
Debt Service:					
Interest on Bonds & Notes	\$26,445	\$24,619	\$26,981	\$24,853	\$24,184
Principal of Serial Bonds	3,254	3,490	6,159	9,755	10,968
Total Debt Service	\$29,699	\$28,109	\$33,140	\$34,608	\$35,152
Available for New Construction Fund, General Fund and general corporate purposes, subject to the provisions of the Original Resolution	\$33,225	\$35,815	\$34,605	\$22,299	\$101,235
Senior Lien Bond Debt Service Coverage (Times)	2.60	2.70	2.55	2.01	4.71 ²
Total Debt Service Coverage (Times)	2.12	2.27	2.04	1.64	3.88 ²

¹ In November of 2008, the Authority received a settlement of \$78.5 million dollars (net of legal fees) as a result of MTBE litigation.

² Excluding the \$78.5 million MTBE settlement, the Senior Lien Bond Debt Service Coverage and Total Debt Service Coverage equals 2.0x and 1.65x respectively.

WATER RATES

SCWA covenants that it will furnish no free service by the Water System to any person, firm or corporation, public or private. SCWA's water rate schedules applicable to residential, commercial, industrial and certain public users are uniform for approximately 96% of its service areas. In addition, SCWA charges certain customers pursuant to different rate schedules. In 2010, SCWA retained Black & Veatch Corporation for the purpose of preparing a rate study for SCWA. After considering this study, in January 2011 SCWA adopted the final report. On February 27, 2012, February 25, 2013 and February 24, 2014 SCWA adopted certain changes in the rate schedules. Rates for the Water System effective April 1, 2014 are set forth in the table below. Copies of SCWA'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 SCWA.

GENERAL RATES

GENERAL RATES

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
Service Charge - \$20.73	Service Charge - \$6.91
Commodity Charge - \$1.249/hundred cubic ft.	Commodity Charge \$1.249/hundred cubic ft.

BRIDGEHAMPTON/SURFSIDE SERVICE AREA RATES

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
Service Charge - \$16.95	Service Charge - \$5.65
Commodity Charge - \$1.249/hundred cubic ft.	Commodity Charge - \$1.249/hundred cubic ft.

SHOREWOOD SERVICE AREA RATES

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
Service Charge - \$16.95	Service Charge - \$5.65
Commodity Charge - \$1.3464/hundred cubic ft.	Commodity Charge - \$1.3464/hundred cubic ft.

GREENPORT SERVICE AREA RATES

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
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 SCWA's service area. The following water districts within the service area of SCWA: Village of Greenport, St. James Water District, and Smithtown Water District are billed at the rate of \$1,250 per one million gallons, payable monthly. In February 2014, SCWA adopted an increase in this rate classification to \$1,265 per million gallons effective January 1, 2015.

In addition, there is also a separate rate schedule for customers on Fire Island. SCWA 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, 2014, SCWA increased the annual minimum from \$171 to \$173 and the consumption rate from \$1.713 to \$1.7135 per hundred cubic feet.

Effective April 1, 2014, the commodity charge for Service Classification No. 1 and 1A increased from \$1.234 to \$1.249 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, 2012 and 2013. An increase in the general rate quarterly service charge for Service Classification No. 1 from \$20.49 to \$20.73 and in the monthly service charge for Service Classification No. 1A from \$6.83 to \$6.91 became effective April 1, 2014.

SCWA'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 SCWA to remain in compliance with the Rate Covenant established under the Resolution.

The minimum bill is charged to each of SCWA'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. SCWA establishes a reserve for accounts deemed uncollectible. The reserve as of May 31, 2013 was \$1,497,219.

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. SCWA'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 an increase in the rate from \$192.00 to \$194.40 per hydrant per annum became effective as of April 1, 2014.

MISSION

“We pledge to provide the customers of Suffolk County Water Authority safe, pure and constantly tested drinking water at the lowest possible cost with exemplary customer service”

PROFILE

The Suffolk County Water Authority is a self-supporting, public benefit corporation operating under the authority of the Public Authorities Law of the State of New York. It is without taxing power and operates as a business enterprise. It is neither an agency of New York State nor Suffolk County government.

The majority of revenue the Suffolk County Water Authority receives is obtained from the sale of water to its customers. SCWA is non-profit: all revenue received must be used for operating expenses, construction costs and paying outstanding debts.

