

SCWA BUDGET HIGHLIGHTS - 2008

Operating and Maintenance Budget -

1) Revenue –

- a. Water Revenue – includes the last of a three-year rate increase, effective April 1st of approximately \$12 annually for the average customer with an annual consumption of 160,000 gallons. Customer growth is estimated at slightly below 1%. Projected water use does not take into account any weather-related variations.
- b. Construction Fees – includes tapping fees, construction surcharges, and fully-reimbursed construction fees. A gradual decline in customer growth (.8%) results in budgeted construction fees of \$10 million, a reduction of by approximately \$.6 million from the current year.
- c. Antenna Leases – Demand for new leases is in a slight incline and in conjunction with escalation clauses in existing contracts, allows us to budget annual revenues from antenna leases in the amount of \$6.6 million.
- d. Customer Related Fees – includes late charges, reconnect fees, water district management fees, etc. The amount reflected in the proposed budget is \$4.2 million.
- e. Investment Income – The average amount of the Authority's investment portfolio is expected to be \$147 million, consisting of various United States Securities (US Treasuries, Discount Notes, etc.), Certificates of Deposits, and Money Market Accounts. All investments are in accordance with Suffolk County Water Authority's Investment Guidelines. Utilizing available information for current and anticipated market conditions, investment income is estimated to be \$6.6 million for fiscal year 2008.

2) Expenses –

Operating and Maintenance (O&M) expenses are comprised of five general areas: payroll, benefits, power, system & general maintenance, and system & general operating costs.

- a) Payroll – The budgets are prepared utilizing the full complement of approved positions, which is 617. This reflects a reduction of 16 from the current budget. Business operations dictate actual staff levels at any point in time to be somewhat less, which has remained constant, averaging 570. Based on 617 positions, the Authority has budgeted salary cost at \$41.8 million, of which \$29.3 million is charged to the Operating and Maintenance budget. The remainder is charged to the Capital Budget. As the enclosed budget reflects, O&M payroll represents 35% of the total budget.
- b) Benefits – Health care costs continue to escalate. As participants in the New York State Employees Health Care system, we have seen double-digit annual increases over the past several years. The proposed budget reflects current rates to rise an additional 5% in January 2008. Health Insurance premiums are estimated at \$10.7 million of which \$7.3 million is included in the operating and maintenance budget. Benefits represent 17% of the total Operating and Maintenance Budget.
- c) Power – Since 1998, when LIPA took over operations from the Long Island Lighting Company and reduced rates, the cost of power has

continually increased by the implementation of “power supply surcharge” formerly called “fuel surcharge”. LIPA has recently announced a reduction in the “power supply surcharge” of approximately 4%. Based on the average annual consumption of 160,000 gallons per customer and the proposed “power supply surcharge” reduction of 4%, the budget reflects \$18.6 million in power costs. Power cost represents 22% of the total Operating and Maintenance Budget.

Capital Budget –

Since 2000, the Water Authority has made a conscious effort to maintain a stable capital budget of \$50 million, net of any fully reimbursable construction contracts and water system acquisitions. To facilitate this, certain repetitive components (fleet roll-over, lab equipment upgrades, IT improvements, tank maintenance, etc.) are assigned fixed amounts each year. Other investments vary based on planned priorities.

As SCWA enters its 57th year of operation, certain water main, either acquired through acquisition or installed by Authority contractors, is showing its age, resulting in higher than normal maintenance costs in certain geographical areas. It is important that the Authority accelerate the installation of replacement main. Consequently, the proposed budget includes an additional \$4 million for infrastructure replacement than reported in previous budgets.

The proposed Capital Budget of \$56.7 million less \$3 million in fully reimbursable construction contracts and an additional \$4 million in main replacement result in a balance of \$49.7 million, consistent and in line with our self-imposed level. Other items of note include \$2.5 million to complete the installation of the core modules of the integrated software SAP. Budget in future years will reflect a level \$1.5 million for Information Technological enhancements, as detailed in the Ten-year Strategic Business Plan prepared by IBM on our behalf.

The proposed budget continues to provide for the Authority’s modest growth, replacement of necessary infrastructure, and handling of future technological enhancements.

Debt Service Coverage –

In October 2005 Fitch and Standard & Poors, two major rating agencies, issued Suffolk County Water Authority ratings of AA+ and AA, respectively. The Authority continues to maintain these ratings today. A primary benchmark for an entity to achieve and maintain an excellent rating is their level of debt service coverage. Although, the Authority Bond Resolution requires a minimum of 1.10 coverage, the Authority seeks to maintain average debt service coverage of 1.75 on all debt in order to maintain its excellent rating. As Schedule 1 of the enclosed budget reflects, we anticipate debt service coverage of 1.87, on all debt, which is more than sufficient to maintain our strong standing in the financial community.

For more information on 2008 budget go to <http://www.scwa.com/about/budget2008.pdf>