


SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

INTEROFFICE CORRESPONDENCE

DATE: August 25, 2017
 TO: Jeffrey W. Szabo, Chief Executive Officer
 FROM : Douglas Celiberti, Chief Financial Officer 
 SUBJECT: **YEAR END REVIEW – MAY 31, 2017**

The Water Authority has completed its audit for the fiscal year ending May 31, 2017.

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2017**.

	<u>Actual</u>	Adopted <u>Budget</u>	<u>Variance</u>
Water Revenues	\$169,700	\$156,500	\$13,200
Miscellaneous Revenues	\$23,900	\$20,300	\$3,600
Deferred OPEB	\$9,800	\$6,500	\$3,300
Interest Income	<u>\$1,400</u>	<u>\$1,000</u>	<u>\$400</u>
Total Revenues	<u>\$204,800</u>	<u>\$184,300</u>	<u>\$20,500</u>
Operating & Maintenance Expenses	\$118,400	\$116,800	\$1,600
Deferred OPEB	<u>\$9,800</u>	<u>\$6,500</u>	<u>\$3,300</u>
Operating & Maintenance Expenses	<u>\$128,200</u>	<u>\$123,300</u>	<u>\$4,900</u>
Net Revenues Available for Debt Service	<u>\$76,600</u>	<u>\$61,000</u>	<u>\$15,600</u>
Debt Service	<u>\$34,500</u>	<u>\$34,100</u>	
Debt Service Coverage (all debt)	<u>2.22</u>	<u>1.79</u>	

Revenue

Budgeted consumption is based on an average usage for a typical customer of 160,000 gallons annually. This equates to an overall budget of 61 billion gallons annually. This conservative approach minimizes consumption fluctuations year-to-year due to weather. Total water billed was approximately 67.6 billion gallons, an increase of 6.7 billion gallons from budget. Minimal customer growth of 1,435 amounted to approximately 4/10%. On April 1, 2016 a 4.2% general rate increase was put into effect. On April 1, 2017 a 4% general rate increase was put into effect. The results of this will be more fully realized in fiscal year 2018.

Miscellaneous revenues consist of antenna leases, capital reimbursement fees, customer-related charges and fees. These revenues were budgeted at \$20.3 million. Actual revenues were \$23.9 million. Actual antennae lease revenue of \$10.7 million was more than the budgeted amount of \$10 million due to the annual increase net of the consolidation of some antenna leases. Actual construction-related revenue was \$9.5 million, a \$2.5 million increase from budgeted, as a result of an increase in projects placed in service. Customer Service related and other revenue was \$3.7 million, an increase of .4 million over a budget of \$3.3 million. This is mostly a result of favorable variances in flow tests, various charges and fees.

In accordance with ASC 980, SCWA is permitted to record deferred revenue equal to the annual required contribution (Other Post Employment Benefits "OPEB".) The Authority established a non-dedicated reserve and recorded an expenditure of \$8 million towards this potential liability. The balance of the current year (ARC) Annual Required Contribution in the amount of \$9.8 million was recorded as a deferred revenue and asset.

Operating and Maintenance Expenses

Operating and Maintenance expenses were \$128.2 million, \$4.9 million above the budget amount of \$123.3 million. Material variances that compose much of this difference are as follows: Power was \$.3 million and Laboratory expenses \$.4 million over budget due to an increase in consumption. Other increases were Maintenance of Mains & Services, and Fire Protection which were \$1.9 million over budget. In addition Health Insurance of \$.4 million and Social Security of \$.3 million exceeded budget. OPEB costs based on our Actuarial report and further explained below was \$3.8 million over budget. In 2016 the SCWA implemented GASB 68 which addresses accounting and financial reporting of pensions. In accordance to the provisions of GASB 68 and based on actuarial calculations provided by the NYSLRS, the SCWA reported its proportionate share of pension contributions resulting in a net decrease of \$.3 million under budget. Other offsets to the increases were Insurance and Damage Claims & Payments of \$.4 million. Operations Payroll of \$.6 million, Fleet of \$.4 million, GAC replacement of \$.3 million and Facilities Management of \$.2 million.

GASB Statement No. 45, "Post Employment Benefits Other than Pensions" calls for the Authority to record during the employees working career the potential cost of benefits employees will receive upon retirement. The total future cost and the annual required contribution ("ARC") are revised annually with the latest available information. The budget included \$14 million of which \$7.5 million was to be funded from current year revenues. The balance of \$6.5 million recorded as a deferred expense. As a result of actual results and updates of these estimates the Authority recorded \$17.8 million; 9.8 million was recorded as deferred OPEB and \$8 million was expensed and set aside, in a non-dedicated reserve account. The total amount in this non-dedicated reserve at May 31, 2017 is \$25.2 million.

Capital Budget

	<i>Capital Budget</i>		
	<u>Original</u>	<u>Amended</u>	<u>Authorized</u>
Water Mains	\$24,643,000	27,775,000	27,668,222
Hydrants	1,500,000	1,225,000	1,176,976
Meters and Services	17,193,000	17,423,000	17,423,000
New & Replaced Wells and Tanks	10,933,000	12,235,000	12,235,000
Treatment	3,740,000	4,120,000	4,119,587
Pump Station Infrastructure	3,740,000	4,120,000	4,119,587
Computer Equipment/Technological Improvements	1,944,000	1,941,000	1,941,000
Transportation	3,367,000	5,206,000	5,197,488
Laboratory Equipment	429,000	429,000	429,000
Land	475,000	475,000	1
Site Work	532,000	817,400	816,649
Other	<u>725,000</u>	<u>729,600</u>	<u>729,600</u>
Total SCWA	<u>69,771,000</u>	<u>74,697,000</u>	<u>74,055,230</u>

The Capital Budget for fiscal year ending May 31, 2017, adopted March 2016 totaled \$69.8 million. Subsequently, the Board amended the capital budget, for construction contracts including the Yaphank Phase I project of \$3.1 million. During the course of the fiscal year, departments draw down on this budget through an authorization process. This fiscal year \$74.1 million was authorized. In fiscal year 2016 \$68 million was authorized.

Payroll

The Authority maintains a Baseline Payroll report, which identifies staffing levels for each department by position. Modifications to staffing levels must be approved by the CEO and the Board where applicable. During the budget process staffing levels are reviewed and requests from departments are submitted for consideration. In addition throughout the year the Authority continues to make a concerted effort to optimize the use of overtime. In most instances, because of the Authority being a 24/7 operation, overtime becomes necessary to provide staffing for absenteeism due to sick, vacation, holidays, the union bidding process, and emergency work.

In Fiscal year 2017, a collective bargaining settlement was reached which included retroactive pay. As a result actual Payroll of \$46.1 million, with actual Overtime of \$1.9 million were \$2.6 million more than overall budgeted Payroll and Overtime of \$44.1 million and \$1.32 million respectively. The SCWA prudently accrued estimated funding for this settlement over a multiyear period preceding the settlement which decreased the impact in the 2017 Operating budget.

At May 31, 2017, the Authority employed 567 as compared to 582 budgeted at May 31, 2017, resulting in 15 vacant positions as of May 31, 2017.

Financing

The Authority routinely issues debt to fund portions of improvements and additions to its water plant system. The debt issued is in the form of Bond Anticipation Notes (BAN's) and Water Revenue Bonds, as well as in conjunction with the NYS Environmental Facilities Corporation (EFC).

During the fiscal year ended May 31, 2017, the Authority entered into the following bond transactions:

- In October 2016, the Authority implemented a cash defeasance to defease \$45.5 million Senior Lien Water System Revenue Bonds consisting of \$0.7 million of Senior Lien Water System Revenue Bonds Series 2007A, \$4.5 million of Series 2009A, \$3.9 million of 2009 (Refunding), \$19.0 million of 2012 (Refunding), \$15.5 million of 2014A, and \$1.9 million of 2015 (Refunding), utilizing a total of \$51.0 million in General Fund money in addition to Debt Service and Reserve Funds on hand totaling \$1.6 million. The bonds defeased had maturity dates ranging from June 1, 2017 through June 1, 2022 and interest rates ranging from 2.75% to 5.00%
- In November 2016, the Authority implemented a second cash defeasance to defease \$5.0 million Senior Lien Revenue Bonds consisting of \$4.5 million of Series 2014A and \$0.5 million of Series 2015 (Refunding) utilizing a total of \$5.4 million in General Fund monies. The bonds had maturity dates of June 1, 2018 and an interest rate of 5.00%.
- In November 2016, the Authority issued \$178.1 million Senior Lien Water System Revenue bonds, consisting of \$84.3 million of Series 2016A, \$40.0 million of 2016B and \$53.8 million of Series 2016 (Refunding Bonds).

- The Series 2016A Bonds were issued to provide for the advance refunding of \$75.0 million of the Authority's outstanding Bond Anticipation Note, 2015B, the proceeds from Series 2016A were used to fund the escrow account for \$78.3 million, fund the Reserve Account for \$7.0 million and \$1.1 million to pay cost of issuance. The 2016A Bonds bear interest rates ranging from 3.00% to 5.00% and have a final maturity date of June 1, 2042.
- The Series 2016B Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system, fund the Reserve Account and to pay cost of issuance. The Series 2016B Bonds bear an interest rate of 3.25% and have a final maturity date of June 1, 2042.
- The Series 2016 (Refunding Bonds) were issued to provide for the advance refunding of \$49.0 million of Series 2009A and \$6.6 million of Series 2009 (Refunding Bonds). The proceeds of the 2016 (Refunding Bonds) were used to fund the escrow account for \$62.0 million, along with \$1.0 million in existing Debt Service funds on hand and \$7.3 million of existing Reserve funds on hand and to fund the 2016 (Refunding Bond) Reserve account for \$4.5 million and pay cost of issuance of \$0.4 million. This refunding resulted in a net present value savings of approximately \$4.9 million and the Authority recognized a loss on bond refunding in the amount of \$3.4 million which was recorded as a deferred outflow on bond refunding. The 2016 (Refunding Bonds) bear interest rates ranging from 3.00% to 5.00% and have a final maturity date of June 1, 2035.

During the fiscal year ended May 31, 2017, The Authority entered into NYSEFC BAN transactions:

- During the fiscal year ended May 31, 2017 the authority received \$2.3 million in advances against its EFC Bond Anticipation Note, 2015A for eligible projects related to main extensions under the Storm Mitigation Loan Program.

Debt service coverage represents revenues divided by debt service including principal and interest. The Authority's bond covenant requires minimum debt service coverage of 1.1. In order to maintain a strong position in the marketplace when issuing debt, it is recommended coverage remain higher than 1.5 to result in lower interest cost. The Authority's debt service coverage for the fiscal year ending May 31, 2017 was 2.22 on all debt. The budgeted debt coverage for 2017 was 1.79.

In accordance with the New York State Authority Budget Office these documents are required to be accepted and included in the submission of the Public Authority Reporting Information System "PARIS" by August 31st. In accordance with the Authority Bond Covenant such documents are included in the submission to EMMA in November.

In accordance with the Authorities Budget Office (ABO), all required information will be reflected on the ABO web site (<http://www.abo.state.ny.us/>).

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c: E. Vassallo
D. Malone

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