

SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

INTEROFFICE CORRESPONDENCE

DATE: August 22, 2019
TO: Jeffrey W. Szabo, Chief Executive Officer
FROM : Elizabeth K. Vassallo, Chief Financial Officer
SUBJECT: YEAR END REVIEW – MAY 31, 2019



During September 2018, Governor Cuomo announced the availability of \$2.5 billion Clean Water Infrastructure Improvement Act (WIIA) and Inter-municipal Water Infrastructure Grant (IMG) programs. This funding is to assist communities in addressing emerging containments in drinking water. IMG grants are available for both drinking water and sewage treatment works (clean water) projects that serve multiple municipalities, such as a shared water quality infrastructure project or the interconnection of multiple municipal water systems. Cooperating municipalities with an eligible project may be awarded an IMG grant up to \$10 million or 40% of net eligible project costs, whichever is less. Part of grant funding was made available to the Wainscott community of East Hampton.

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains and new water service lines in East Hampton where private wells have been contaminated with per-fluorinated compounds or PFCs. To address the situation, the Town of East Hampton decided to pursue the creation of a water supply district to pay for the cost of connecting to Suffolk County Water Authority water.

The Capital Budget for fiscal year ending May 31, 2019, adopted March 2018 totaled \$73.8 million. Subsequently, the Board amended the capital budget to \$87.4 million. This amended construction budget is a result of the IMG grant for Wainscott in the amount of \$10.7 million with the balance of transfers for reimbursable construction contracts and water main.

In August 2018 (fiscal year 2019), the Authority issued \$100.0 million in Series 2018A Senior Lien Water System Revenue Bonds. The Series 2018A Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system. The proceeds from the issuance of the Series 2018A Bonds were used to fund the reserve account in the amount of \$9.3 million, pay cost of issuance in the amount of \$0.9 million, and to fund the Construction Fund in the amount of \$91.8 million. The Series 2018A Bonds bear interest rates ranging from 3.25% to 5.00% and a final maturity date of June 1, 2043.

Debt service coverage reflects revenues, less operating and maintenance expenses, divided by debt service, which includes principal and interest. The Authority's bond covenant requires minimum debt service coverage of 1.1. To maintain a strong position in the marketplace when issuing debt, it is recommended that coverage remain greater than 1.6 to guarantee a more favorable interest rate. The Authority's debt service coverage for the fiscal year ending May 31, 2019 was 2.27 on all debt. The budgeted debt coverage for 2019 was 1.74.

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2019**.

		Adopted	
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Water Revenues	\$163,802	\$162,197	1,605
Revenues - other	32,077	31,514	563
Interest Income	<u>7,920</u>	<u>1,000</u>	<u>6,920</u>
Total Revenues	<u>203,799</u>	<u>\$194,711</u>	<u>9,088</u>
Operating & Maintenance Expenses	124,370	\$133,346	(8,976)
Net Revenues Available for Debt Service	<u>79,429</u>	<u>\$61,365</u>	
Debt Service	<u>34,916</u>	<u>\$35,268</u>	
Debt Service Coverage (all debt)	<u>2.27</u>	<u>1.74</u>	

Revenue

Budgeted consumption for 2019 was based on an average usage for all customers of 160,000 gallons annually. This equates to an overall budget of 61 billion gallons. Total water billed was approximately 67.7 billion gallons, an increase of 6.7 billion gallons from budget. Minimal customer growth of 1,958 customers amounted to approximately half of one percent.

On April 1, 2018, a 3.75% general rate increase was put into effect. On April 1, 2019, 4.0% and 15.0% rate increases were put into effect on consumption and service charges, respectively. A new tier structure has been implemented to help offset the burden of rate increases on residential customers

Revenues—other consist of antenna leases, capital reimbursement fees, and customer-related charges and fees. Revenues-other are budgeted at \$25.5 million. Revenues recorded are \$32.1 million, which is an increase of \$6.5 million for 2019. The increase was the result of a \$2.3 million increase in Antenna lease revenue due to the 2018 restructuring of lease agreements, a \$2.1 million increase in EFC – SMLP and WIIA grant revenue, and a \$0.5 million increase due to the recognition of deferred revenues from the sale of property in the previous year. The remaining increase is due to various fee revenue increases.

Operating and Maintenance Expenses

Operating and Maintenance expenses were \$124.4, which is \$8.9 million below budget. For the 2019 fiscal year the Authority adopted Statement No 75, Accounting for Postemployment Benefits Other than Pensions (GASB 75). The restatement of balances due to actuarial changes in tables, rates, and assumptions resulted in a reduction of expenses in the amount of \$8.0 million.

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. Throughout the year, the Authority continues to make a concerted effort to optimize the use of overtime. In most instances, overtime becomes necessary to meet staffing needs for absenteeism due to sick, vacation, holidays, the union bidding process, and emergency work.

Base payroll is \$45.0 million, with additional overtime spent of \$2.0 million. This is \$1.0 million less than overall budgeted base payroll and overtime of \$48.0 million.

At May 31, 2019, the Authority employed 570 employees, as compared to 583 budgeted at May 31, 2018; there were 13 vacant positions as of May 31, 2019.

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, the Authority is required to submit 180 days after fiscal year end the Audited Financial Statements, Annual Disclosure report, and any Bond issuance related documents by November to the Electronic Municipal Market Access (EMMA) database, operated by the Municipal Securities Rulemaking Board (MSRB).

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/>).

c: C. Cecchetto
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