

**SUFFOLK COUNTY WATER AUTHORITY**  
**Oakdale, Long Island, New York**

**INTEROFFICE CORRESPONDENCE**

DATE: August 21, 2014  
 TO: Jeffrey W. Szabo, Chief Executive Officer  
 FROM : Larry B. Kulick, Chief Financial Officer *Larry B. Kulick*  
 SUBJECT: **YEAR END REVIEW – MAY 31, 2014**

The Water Authority has completed its audit for the fiscal year ending May 31, 2014.

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2014**.

	<u>Actual</u>	Adopted <u>Budget</u>	<u>Variance</u>
Water Revenues	\$143,108	\$141,353	\$1,755
Miscellaneous Revenues	\$25,565	\$20,197	\$5,368
Deferred OPEB	\$11,406	\$14,000	(\$2,594)
Interest Income	<u>\$1,992</u>	<u>\$1,500</u>	<u>\$492</u>
Total Revenues	<u>\$182,071</u>	<u>\$177,050</u>	<u>\$5,021</u>
Operating and Maintenance Expenses	\$107,794	\$108,711	(\$917)
Deferred OPEB	<u>\$11,406</u>	<u>\$14,000</u>	<u>(\$2,594)</u>
Operating & Maintenance Expenses	<u>\$119,200</u>	<u>\$122,711</u>	<u>(\$3,560)</u>
Net Revenues Available for Debt Service	<u>\$62,871</u>	<u>\$54,339</u>	<u>\$8,581</u>
Debt Service	<u>\$30,962</u>	<u>\$30,118</u>	
Debt Service Coverage (all debt)	<u>2.03</u>	<u>1.80</u>	

**Revenue**

The budget for water sales is predicated on average historical usage of a typical customer using 160,000 gallons annually. This equates to an overall budget of 61 billion gallons for fiscal year 2013. This methodology attempts to eliminate potential financial consequences of weather variations. System-wide water pumped was 69.3 billion gallons, an increase of 1.1 billion gallons over fiscal year ending May 31, 2013. Actual water billed was approximately 62 billion gallons. Minimal customer growth of 408 customers amounted to approximately 1/10%. On April 1, 2013 an average rate increase of approximately 4.2% was put into effect. On April 1, 2014 a proposed rate increase of another 4.2% was mitigated by the establishment of a one-year rate stabilization fund utilizing proceeds from the sale of property deemed surplus. This resulted in a 1.2% increase in the general water rates. The results of this will be realized in fiscal year 2015. These two increases were the 3<sup>rd</sup> and 4<sup>th</sup> increases proposed in the five-year cost of service and rate study prepared by Black and Veatch in January 2011.

Miscellaneous revenues consist of antenna leases, managed water district fees, capital reimbursement fees, customer-related charges and fees, and other post-employee benefits. These revenues were budgeted at \$20.2 million. Actual revenues were \$25.6 million. The antenna leases' budget of \$10.6 million was based on existing leases in service at the time of budget preparation. Additional leases and reimbursements for work performed in connection with the leases resulted in \$11.3 million or \$.7 million of revenue over budget. Customer Service

fees, including \$1 million of late charges were \$2.0 million or \$.2 million over budget. The construction contract revenue, which represents the money paid by developers for water main installation, is initially recorded as a deposit. When the project is completed it is recorded as revenue. Construction revenues totaled \$3.9 million or \$2.4 million over budget. Tapping fees, surcharge revenue, and miscellaneous construction fees were \$5.8 million or \$.1 million over budget. Other miscellaneous revenue consisting of, but not limited to sale of scrap materials, FEMA/SEMA and other damage reimbursements, and rental income amounted to \$.9 million or \$.1 million over budget. Additional unbudgeted monies recorded included legal settlements (\$.6 million) and sale of property in exchange for the acquisition of other property recorded in the Authority's Capital Budget (\$1.3 million).

In accordance with FASB No. 71, SCWA is permitted to record deferred revenue equal to the annual required contribution (other than retirement Post Employment Benefits "OPEB".) The Authority established a non-dedicated reserve and recorded an expenditure of \$3 million towards this potential liability. The balance of the current year expenditure in the amount of \$11.4 million was recorded as a deferred revenue and asset.

**Operating and Maintenance Expenses**

Operating and maintenance expenses were \$107.8 million which is \$.9 million below the adopted budget of \$108.7 million. The Authority's single largest paying vendor is PSE&G (formerly Long Island Power Authority). Payments to them totaled \$21.7 million, approximately \$.1 million below budget. This is attributable to a slight increase in water pumped combined with lower than expected variable surcharges within components of the electric bills. The remaining \$.8 million is the result of lower than budgeted payroll expenditures.

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 therefore the annual required contribution ("ARC") are annually revised with the latest available information. The budget included \$17 million of which \$3 million was to be funded from current year revenues. The balance of \$14 million recorded as a deferred expense. As a result of actual results and updates of these estimates the Authority recorded \$14.4 million of which \$3 million was set aside in a non-dedicated reserve account, as the annual required contribution ("ARC"). The total amount reflected in this non-dedicated reserve at May 31, 2013 is \$6 million.

**Capital Budget**

	Capital Budget		
	<u>Original</u>	<u>Amended</u>	<u>Authorized</u>
Water Mains	\$21,700,000	\$22,180,000	\$22,034,454
Hydrants	1,305,000	1,625,000	1,513,201
Meters and Services	13,016,000	14,941,000	14,941,000
New & Replaced Wells and Tanks	10,968,000	10,918,000	10,885,774
Treatment	4,050,000	3,950,000	4,211,345
Pump Station Infrastructure	5,330,000	4,980,000	4,619,434
Computer Equipment	1,618,000	1,218,000	1,218,000
Transportation	2,053,000	2,453,000	2,440,474
Laboratory Equipment	325,000	325,000	325,000
Land	500,000	500,000	499,155
Other	568,000	568,000	566,722
Site Work	<u>545,000</u>	<u>545,000</u>	<u>522,537</u>
	<u>\$61,978,000</u>	<u>\$64,203,000</u>	<u>\$63,777,096</u>

The Capital Budget for fiscal year ending May 31, 2014, adopted March 2013 amounted to \$61.978 million. Subsequently, the Board authorized increases in the capital budget totaling \$2.225 million. The principal Increase, \$1.9 million was providing for the acceleration of the automatic meter reading change-out program. An increase in transportation equipment of \$.4 million was associated with the cost to construct a CNG fueling station utilizing an available grant for some of the cost. Additional water main for potential new customers of \$3.7 million, related meters and services of \$.4 million, and hydrants of \$.3 million was offset by the reduction in replacement of water main of \$4.4 million. During the course of the fiscal year, departments "draw down" on this budget through an authorization process. This year \$63.777 million was authorized. The Authority incurred \$52.2 million on work authorized during the fiscal year ending May 31, 2013 and prior.

### **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, reviewed, and either accepted or rejected. In addition, an ongoing concerted effort is made to review how the Authority does business, particularly with overtime. The overtime budget was \$1.49 million. The Authority continues to make a concerted effort to limit the use of overtime. In most instances, due to the nature of the Authority being a 24/7 operation, overtime occurs due to the necessity to provide staffing due to absenteeism due to sick, vacation, holidays, and the union bidding process. Accordingly, the Authority incurred overtime in the amount of \$1.85 million. Regular payroll budgeted at \$42.82 million as compared to actual payroll of \$40.5 million. This resulted in the Authority's total payroll being under budget by \$1.85 million, of which approximately \$1.3 million is reflected within the Operating and Maintenance Budget.

At May 31, 2014, the Authority employed 560 as compared to 563 at May 31, 2013. In addition there were 26 vacant positions at May 31, 2014 as compared to 23 at May 31, 2013.

### **Financing**

The Authority routinely issues debt to fund portions of improvements and additions to its water plan 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, 2014, the Authority did not issue any BAN's or Water Revenue Bonds. In April, 2014 the Authority utilized a portion of its unrestricted cash to retire \$50 million of its BAN's 2011B.

The Authority has worked with the NYS Environmental Facilities Corporation "EFC" since 1988 for the purpose of issuing Bonds through the State Drinking Water Revolving Fund, at a subsidized interest rate. During the fiscal year ending May 31, 2014 the Authority, in conjunction with the EFC, issued Series 2013B in the amount of \$4.1 million and along with unspent proceeds and debt service reserve funds in the amount of \$1.3 million refinance \$5.4 million of 2002A Suffolk County Water Authority (EFC Series) Revenue Bonds. The issuance of \$4.5 million EFC Series 2012B, refinanced \$6.5 million of outstanding 2002A.

Debt service coverage represents revenues divided by debt service (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 (resulting in lower interest cost), it is

recommended coverage remain higher than 1.5. The Authority's debt service coverage for the fiscal year ending May 31, 2014 was 2.04 on all debt.

In accordance with the Authority's Bond Covenant and 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 31<sup>st</sup>.

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

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