

SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

INTEROFFICE CORRESPONDENCE

DATE: August 20, 2015

TO: Jeffrey W. Szabo, Chief Executive Officer

FROM : Douglas Celiberti, Chief Financial Officer

SUBJECT: **YEAR END REVIEW – MAY 31, 2015**

The Water Authority has completed its audit for the fiscal year ending May 31, 2015.

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2015**.

	<u>Actual</u>	<u>Adopted Budget</u>	<u>Variance</u>
Water Revenues	\$152,800	\$143,000	\$9,800
Miscellaneous Revenues	\$21,600	\$18,600	\$3,000
Sale of Property	3,300	\$3,700	(\$400)
Deferred OPEB	\$11,800	\$10,000	\$1,800
Interest Income	<u>\$1,800</u>	<u>\$1,000</u>	<u>\$800</u>
Total Revenues	<u>\$191,300</u>	<u>\$176,300</u>	<u>\$15,000</u>
Operating & Maintenance Expenses	\$108,400	\$107,500	\$900
Deferred OPEB	<u>\$11,800</u>	<u>\$10,000</u>	<u>\$1,800</u>
Operating & Maintenance Expenses	<u>\$120,200</u>	<u>\$117,500</u>	<u>\$2,700</u>
Net Revenues Available for Debt Service	<u>\$71,100</u>	<u>\$58,800</u>	<u>\$12,300</u>
Debt Service	<u>\$33,500</u>	<u>\$32,000</u>	
Debt Service Coverage (all debt)	<u>2.12</u>	<u>1.84</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 65.6 billion gallons, an increase of 4.6 billion gallons from budget. Minimal customer growth of 735 amounted to approximately 2/10%. On April 1, 2014 a 1.2% general rate increase was put into effect. On April 1, 2015 a 4.2% general rate increase was put into effect. The results of this will be more fully realized in fiscal year 2016. The two increases were the 4th & 5th increase as part of the five-year Cost of Service and Rate Study prepared by Black and Veatch in January 2011. A new five-year Cost of Service and Rate Study will be completed in fiscal year 2016. In 2015 revenue of 3.3 million was recognized as part of the sale of surplus property.

Miscellaneous revenues consist of antenna leases, capital reimbursement fees, customer-related charges and fees, and deferred revenue relating to OPEB. These revenues were budgeted at \$18.6 million. Actual revenues were \$21.6 million. Actual antennae lease revenue of \$9.9 million was less than the budgeted amount of \$10.1 due to the consolidation of antenna leases. Actual construction-related revenue was \$7.3 million, a \$1.8 million increase from

budgeted. Customer Service-related and other fee revenue was \$4.4 million, an increase of \$.2 million from budgeted. Revenues from legal settlements and reimbursements for damages, which was non-budgeted was \$1 million

In accordance with ASC 980, 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 \$4 million towards this potential liability. The balance of the current year expenditure in the amount of \$11.8 million was recorded as a deferred revenue and asset.

Operating and Maintenance Expenses

Operating and Maintenance expense was \$108.4 million, .9 million above budget amount of \$107.5 million. The material variances that compose this difference are as follows: The Authority's single highest paying vendor is PSEG. Payments totaled \$20.7 million, an increase of \$.6 million from budget due to above-average pumping. Other variances were Maintenance of Mains, Services and Meters, which were approximately \$2 million above budget. This was due to mitigation of infrastructure damage caused by calamitous weather events that occurred this past winter. A favorable transportation cost variance of \$.4 million was mainly due to a decrease in fuel costs. Also a favorable variance relating to Granulated Activated Carbon replacement of \$1.3 million is mainly attributed to a change from bituminous to coconut carbon.

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 \$4 million was to be funded from current year revenues. The balance of \$10 million recorded as a deferred expense. As a result of actual results and updates of these estimates the Authority recorded \$15.8 million of which \$4 million was set aside in a non-dedicated reserve account, as the annual required contribution ("ARC"). The total amount in this non-dedicated reserve at May 31, 2015 is \$10 million.

Capital Budget

	<u>Original</u>	<i>Capital Budget</i> <u>Amended</u>	<u>Authorized</u>
Water Mains	\$23,700,000	\$20,950,950	\$20,703,849
Hydrants	1,305,000	1,682,000	1,626,236
Meters and Services	14,259,300	15,281,350	15,281,350
New & Replaced Wells and Tanks	12,553,000	12,153,000	12,153,000
Treatment	3,885,000	3,276,000	3,276,000
Pump Station Infrastructure	4,355,000	4,599,000	4,579,451
Computer Equipment/Technological Improvements	1,019,200	1,019,200	1,019,200
Transportation	3,042,000	3,120,000	3,092,247
Laboratory Equipment	383,500	383,500	383,500
Land	500,000	865,000	846,400
Site Work	474,000	474,000	473,965
Other	<u>555,000</u>	<u>477,000</u>	<u>472,210</u>
Total SCWA	<u>66,031,000</u>	<u>64,281,000</u>	<u>63,907,408</u>
EFC Storm Mitigation Loan Program		<u>24,700,000</u>	<u>24,641,184</u>
TOTAL	<u>\$66,031,000</u>	<u>\$88,981,000</u>	<u>\$88,548,592</u>

The Capital Budget for fiscal year ending May 31, 2015, adopted March 2014 totaled \$66 million. Subsequently, the Board amended the capital budget, which included new main construction of \$3.7 million. In addition, an amendment of \$24.7 was also adopted to recognize our application and approval for grant funding and 0% financing through the NYS Environmental Facilities Corporation Storm Mitigation Loan Program. This grant includes three (3) main projects in Huntington, Sag Harbor and Cherry Grove, as well as generators. To partially offset this amendment, \$1.75 million reduction in the original capital budget was adopted. During the course of the fiscal year, departments draw down on this budget through an authorization process. This fiscal year \$63.9 million was authorized with an additional \$24.6 million authorized for the projects relating to the Storm Mitigation Loan Program. In fiscal year 2014 \$63.8 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. The overtime budget was \$1.3 million. 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, and the union bidding process. In addition, calamitous weather events in 2015 affecting mains and infrastructure necessitated a higher frequency for overtime. Accordingly, the Authority incurred overtime in the amount of \$1.97 million. Regular payroll budgeted at \$42.6 million as compared to actual payroll of \$39.9 million. This resulted in the Authority's total payroll being under budget by \$2 million, of which approximately \$1.6 million is reflected within the Operating and Maintenance Budget.

At May 31, 2015, the Authority employed 563 as compared to 560 at May 31, 2014. In addition there were 21 vacant positions at May 31, 2015 as compared to 26 at May 31, 2014.

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 fiscal year ended May 31, 2015, the Authority entered into the following bond transactions:

- \$65 million Senior Lien Water System Revenue Bonds, Series 2014A. The Series 2014A Bonds were issued to finance the Cost of Acquisition and Construction of improvements and additions to the Water System, fund the Reserve Account and pay cost of issuance.
- \$50 million Senior Lien Water System Revenue Bonds, Series 2014B. The proceeds from the issuance of Series 2014B Bonds including an equity contribution from the Authority's General Fund of \$1.5 million and the release of Series 2003 (Refunding) Reserve funds of \$1.7 million were used to provide funding for the retirement of the Authority's \$50 million Bond Anticipation Notes, 2013B. The proceeds from the issuance of the Series 2014B were also used to fund the Reserve Account and pay cost of issuance on Series 2014B.
- The Authority funded an escrow account for the defeasance of \$7.2 million of the remaining outstanding bonds, Series 2003 with existing Reserve Fund monies in the amount of \$7.1 million and existing Debt Service interest in the amount of \$.1 million.

- The Authority funded an escrow account for \$75.1 million for the defeasance of all outstanding Series Subordinate Lien Reserve Bond Series 2005, consisting of \$67.4 million from the General Fund monies, \$6.7 million from the release of the 2005 Debt Service Reserve Fund and \$1.0 million from the Debt Service Fund for interest.

During the fiscal year ended May 31, 2015, The Authority entered into the following EFC bond transactions:

- In July 2014 the Authority participated in the EFC Series 2014B which refinanced \$4.2 million Suffolk County Water Authority Water System Revenue Bonds EFC Series 2004A along with Debt Service Reserve Funds in the amount of \$0.3 million. This refunding resulted in a net present value savings net of reserve funds on hand of approximately \$.4 million.

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, 2015 was 2.12 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 31st.

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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