

*In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, under existing statutes, interest on the Series 2020 Refunding Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). See “TAX MATTERS” in this Official Statement.*



**SUFFOLK COUNTY WATER AUTHORITY  
NEW YORK**

**\$88,280,000**

**Water System Revenue Bonds,  
Series 2020 Refunding (Taxable)**

**Dated:** Date of Delivery

**Due:** June 1, as shown on the inside cover

The \$88,280,000 Water System Revenue Bonds, Series 2020 Refunding (Taxable) (the “Series 2020 Refunding Bonds”) are being issued to (i) provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) fund a deposit to the Reserve Account, Series 2020 Refunding and (iii) pay costs of issuance relating to the Series 2020 Refunding Bonds. The Series 2020 Refunding Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. Interest (due each June 1 and December 1, commencing December 1, 2020) on the Series 2020 Refunding Bonds will be payable by The Bank of New York Mellon, New York, New York, the Bond Fund Trustee and Paying Agent, to the registered owners thereof as more fully described herein.

The Series 2020 Refunding Bonds will be issued initially under a book-entry only system, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of beneficial interests in the Series 2020 Refunding Bonds may only be made in such book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2020 Refunding Bonds, payments of the principal of and interest on such Series 2020 Refunding Bonds will be made by wire transfer directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See “APPENDIX D — Book-Entry Only System” hereto.

The Series 2020 Refunding Bonds are payable as to both interest and principal solely from the Net Revenues (as defined herein) on a parity with other outstanding Senior Lien Bonds (as defined herein) heretofore or hereafter issued by the Authority, all as set forth in the Resolution authorizing and securing the Series 2020 Refunding Bonds. See “SECURITY FOR THE SERIES 2020 REFUNDING BONDS” herein.

**The Series 2020 Refunding Bonds are limited obligations of the Authority and are not a debt of the State of New York or of Suffolk County or of any municipality therein and none of the State of New York, Suffolk County or any municipality therein shall be liable thereon. The Authority has no taxing power.**

The Series 2020 Refunding Bonds are subject to optional redemption prior to their stated maturity date as more fully described herein. See “DESCRIPTION OF THE SERIES 2020 REFUNDING BONDS — Redemption Provisions” herein.

The Series 2020 Refunding Bonds are offered when, as and if issued and received by the Purchaser and subject to the approval of legality by Harris Beach PLLC, New York, New York, Bond Counsel. Goldman Sachs & Co. LLC is serving as Financial Consultant to the Authority in connection with the issuance of the Series 2020 Refunding Bonds. It is expected that the Series 2020 Refunding Bonds will be available for delivery through the facilities of DTC on or about June 23, 2020.

Dated: June 10, 2020

**\$88,280,000**  
**Water System Revenue Bonds,**  
**Series 2020 Refunding**

<u>Maturity</u> <u>June 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>1</sup>
2021	\$1,720,000	0.390%	0.390%	100%	864784GN7
2022	8,780,000	0.490	0.490	100	864784GP2
2023	13,675,000	0.570	0.570	100	864784GQ0
2024	12,630,000	0.750	0.750	100	864784GR8
2025	17,005,000	0.910	0.910	100	864784GS6
2026	7,105,000	1.190	1.190	100	864784GT4
2027	175,000	1.300	1.300	100	864784GU1
2028	180,000	1.490	1.490	100	864784GV9
2029	180,000	1.590	1.590	100	864784GW7
2030	185,000	1.690	1.690	100	864784GX5
2031	190,000	1.740	1.740	100	864784GY3
2032	2,400,000	1.790	1.790	100	864784GZ0
2033	2,455,000	1.840	1.840	100	864784HA4
2034	2,505,000	1.890	1.890	100	864784HB2
2035	2,550,000	1.930	1.930	100	864784HC0
2036	2,615,000	2.000	2.000	100	864784HD8
2037	2,680,000	2.080	2.080	100	864784HE6
2038	2,750,000	2.180	2.180	100	864784HF3
2039	2,825,000	2.310	2.310	100	864784HG1
2040*	5,675,000	2.430	2.430	100	864784HH9

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\* Final Maturity.

<sup>1</sup>Copyright 2009, American Bankers Association. CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2020 Refunding Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Series 2020 Refunding Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2020 Refunding Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2020 Refunding Bonds.

## **Suffolk County Water Authority**

Sunrise Highway at Pond Road  
Oakdale, New York 11769  
Telephone: (631) 563-0264  
Facsimile: (631) 218-1156

### **Members of the Board**

<b>Patrick G. Halpin</b>	<b>Chairman</b>
<b>Jane R. Devine</b>	<b>Secretary</b>
<b>Mario R. Mattera</b>	<b>Member</b>
<b>Timothy H. Bishop</b>	<b>Member</b>
<b>Elizabeth Mercado</b>	<b>Member</b>

### **Executive Staff**

<b>Jeffrey W. Szabo</b>	<b>Chief Executive Officer</b>
<b>Elizabeth K. Vassallo</b>	<b>Chief Financial Officer</b>
<b>Janice E. Tinsley, Esq.</b>	<b>Deputy Chief Executive Officer for Customer Service</b>
<b>Joseph M. Pokorny, P.E.</b>	<b>Deputy Chief Executive Officer for Operations</b>
<b>Timothy J. Hopkins, Esq.</b>	<b>General Counsel</b>
<b>Donna Mancuso</b>	<b>Chief Human Resources Officer</b>
<b>Michael A. Litka</b>	<b>Chief Technology Officer</b>
<b>Kevin P. Durk</b>	<b>Director of Water Quality and Laboratory Services</b>

### **Authority Advisors**

<b>Bond Counsel</b>	<b>Harris Beach PLLC, New York, New York</b>
<b>Financial Consultant</b>	<b>Goldman Sachs &amp; Co. LLC, New York, New York</b>
<b>Bond Fund Trustee and Paying Agent</b>	<b>The Bank of New York Mellon, New York, New York</b>
<b>Tank Consultants</b>	<b>Gannett Fleming, PC, Woodbury, New York</b>
<b>Labor Counsel</b>	<b>Putney, Twombly, Hall &amp; Hirson, LLP, New York, New York</b>
<b>Consulting Ground Water Geologist for the Authority</b>	<b>Leggette, Brashears &amp; Graham of Wilton, Connecticut</b>
<b>Consulting Engineer</b>	<b>H2M Architects and Engineers, Melville, New York</b>

## **REGARDING THIS OFFICIAL STATEMENT**

The Suffolk County Water Authority has executed and issued this as its Official Statement with respect to its Series 2020 Refunding Bonds, has authorized the initial purchaser (the “Purchaser”) to offer the Series 2020 Refunding Bonds for sale to the public by means of this Official Statement and has approved the inclusion of information within this Official Statement as being, as of the date hereof, in full disclosure of all material facts of interest to prospective purchasers contemplating purchase of the Series 2020 Refunding Bonds.

No purchaser, dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations with respect to the Series 2020 Refunding Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2020 Refunding Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and it is not to be construed as a representation of the Authority. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or of Suffolk County or the other matters described herein since the date hereof.

The Purchaser has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Purchaser does not guarantee the accuracy or completeness of such information.

This Official Statement should be considered in its entirety and no one factor considered less important than any other by reason of its location herein. Where agreements, reports or other documents are referred to herein, reference should be made to such agreements, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority’s financial results could cause actual results to differ materially from those stated in the forward-looking statements.

A wide variety of other information, including financial information, concerning the Authority is available from the Authority’s website [www.scwa.com](http://www.scwa.com). Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2020 REFUNDING BONDS, THE PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2020 REFUNDING BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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This Table of Contents does not list all of the subjects contained in this Official Statement and in all instances reference should be made to the complete Official Statement to determine all of the subjects set forth therein.

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**OFFICIAL STATEMENT**  
**Relating to**  
**SUFFOLK COUNTY WATER AUTHORITY**  
**NEW YORK**

**\$88,280,000**  
**Water System Revenue Bonds,**  
**Series 2020 Refunding (Taxable)**

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**INTRODUCTION**

The purpose of this Official Statement is to set forth certain information pertaining to the Suffolk County Water Authority (the “Authority”), its water supply and distribution system and the revenues generated by it, the Authority’s \$88,280,000 Water System Revenue Bonds, Series 2020 Refunding (Taxable) (the “Series 2020 Refunding Bonds”), and the resolutions pursuant to which they were issued, and other related matters in connection with the sale of the Series 2020 Refunding Bonds. Capitalized terms used but not otherwise defined in this Official Statement have the meanings given them in the section entitled “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definition of Certain Terms” in Appendix A hereto.

The Authority, a body corporate and politic constituting a public benefit corporation organized and existing under the Suffolk County Water Authority Act, as amended (the “Act”), was created for the purpose of acquiring, constructing, maintaining and operating a water supply and distribution system within the territorial boundaries of Suffolk County, New York (the “Water System” or “System,” as more particularly described in the section entitled “SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY”).

The Authority is issuing \$88,280,000 aggregate principal amount of its Series 2020 Refunding Bonds dated their date of delivery, pursuant to the Act, the General Resolution, a supplemental resolution adopted by the Authority on February 27, 2020 (the “Series 2020 Refunding Supplemental Resolution” and together with the Series 2020B Supplemental Resolution and together with the General Resolution, collectively, the “Resolution”). The Series 2020 Refunding Bonds will be the forty-fifth series of Senior Lien Bonds issued under the General Resolution. The Series 2020 Refunding Bonds are being issued to (i) provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) fund a deposit to the Reserve Account, Series 2020 Refunding and (iii) pay costs of issuance relating to the Series 2020 Refunding Bonds. See “CAPITAL IMPROVEMENT PLAN” herein.

**The Series 2020 Refunding Bonds shall not constitute a general obligation of the Authority. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof are pledged for the payment of the principal of, premium, if any, or interest on the Series 2020 Refunding Bonds, and no holder of the Series 2020 Refunding Bonds shall have the right to compel the exercise of the taxing power of the State of New York or of any political subdivision thereof in connection with any default with respect to the Series 2020 Refunding Bonds. The Series 2020 Refunding Bonds are not a debt of the State of New York or of Suffolk County or of any municipality in Suffolk County, neither the State nor Suffolk County nor any municipality in Suffolk County is liable for the payment of the Series 2020 Refunding Bonds, nor are the Series 2020 Refunding Bonds payable out of any funds other than those of the Authority pledged for the payment of the Series 2020 Refunding Bonds under the Resolution.**

The Resolution requires the Authority to fix, establish and collect (or cause to be fixed, established and collected) rates, rents and other charges for the water distributed by it and for any services or facilities sold, furnished or supplied by the Water System, which will be sufficient in each

Fiscal Year to produce revenues which, together with other moneys lawfully available, will be equal to at least the sum of (A) Debt Service for such Fiscal Year on all Bonds of the Authority, (B) the necessary expenses of operating, maintaining, renewing and replacing the Water System and maintaining required Reserve Accounts and Secondary Reserve Accounts and (C) the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the Revenues in such Fiscal Year.

The Act expressly declares that neither the Public Service Commission of New York (the “PSC”) nor any other board or commission of like character has jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of rates fixed or charges collected by the Authority.

The Authority has never defaulted in the payment of maturing principal of or interest on any of its bonds or notes.

The Bank of New York Mellon is the Bond Fund Trustee appointed under the Resolution to assume and perform the obligations and duties imposed on the Bond Fund Trustee by provisions of the Resolution and is herein called the “Bond Fund Trustee.”

The Series 2020 Refunding Bonds are authorized and secured in accordance with the provisions of the Act and the Resolution. Notwithstanding that certain provisions of the Resolution are summarized hereinafter in this Official Statement, reference should be made by investors and other interested parties to the complete Resolution and any and all modifications and amendments thereof for a description of the nature and extent of (i) the security for the Series 2020 Refunding Bonds, and of any additional parity bonds heretofore and hereafter issued under the General Resolution (all of such bonds being herein collectively called the “Senior Lien Bonds”), (ii) the funds and revenues pledged to the payment of the Series 2020 Refunding Bonds, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of such Series 2020 Refunding Bonds with respect thereto, (iv) the terms and conditions upon which such Series 2020 Refunding Bonds are issued and (v) a statement of rights, duties, immunities and obligations of the Authority.

Copies of the General Resolution and the Supplemental Resolutions are available for inspection in the offices of the Authority.

This Official Statement contains certain “forward-looking statements” concerning the Authority’s operations and financial condition. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of the Authority. The words “may,” “would,” “could,” “will,” “expect,” “anticipate,” “believe,” “intend,” “plan,” “estimate” and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

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## DESCRIPTION OF THE SERIES 2020 REFUNDING BONDS

### The Series 2020 Refunding Bonds

The Series 2020 Refunding Bonds shall be dated their date of delivery, and shall bear interest at the rates and shall mature as set forth on the inside cover of this Official Statement.

The Series 2020 Refunding Bonds shall be issued in fully registered form without interest coupons appurtenant thereto in the denomination of \$5,000 or any integral multiple of \$5,000.

Principal of the Series 2020 Refunding Bonds shall be payable at The Bank of New York Mellon, the Bond Fund Trustee, also designated as the Paying Agent and Registrar for the Series 2020 Refunding Bonds by the Series 2020 Refunding Supplemental Resolution. Interest on the Series 2020 Refunding Bonds is payable by check mailed by the Paying Agent to the holder of such Series 2020 Bond in whose name such Series 2020 Refunding Bonds are registered upon the bond registration books as of the fifteenth day (whether or not a business day) of the calendar month next preceding each June 1 and December 1 (the “Record Date”) at the holder’s address as it appears on the bond registration books. However, the Series 2020 Refunding Bonds shall initially be issued in book-entry form only and during all such times principal of and interest on the Series 2020 Refunding Bonds shall be payable by wire transfer by the Bond Fund Trustee to The Depository Trust Company, New York, New York. See APPENDIX D — Book-Entry Only System.

### Redemption Provisions

Optional Redemption. The Series 2020 Refunding Bonds shall be subject to redemption at the option of the Authority, prior to their stated maturities, in whole or in part, on any date, at the “Series 2020 Refunding Make-Whole Redemption Price.” The “Series 2020 Refunding Make-Whole Redemption Price” is a redemption price equal to the greater of: (i) 100% of the principal amount of such Series 2020 Refunding Bonds to be redeemed, plus accrued and unpaid interest on such Series 2020 Refunding Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Series 2020 Refunding Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (defined below) plus 25 basis points.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2020 Refunding Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price. Additional relevant terms are defined as follows:

“Comparable Treasury Issue” means the U.S. Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining weighted average life of the applicable Series 2020 Refunding Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining weighted average life of such Series 2020 Refunding Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Series 2020 Refunding Bond, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (b) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the Authority.

“Reference Treasury Dealer” means each of not less than four firms, specified by the Authority from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2020 Refunding Bond, the average, as determined by the Independent Investment Banker and communicated to the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker and communicated to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the tenth day (or, if such day is not a business day, the next preceding business day) preceding such redemption date.

### **Notice of Redemption**

In the event any Series 2020 Refunding Bonds shall be called for redemption, notice of redemption thereof shall be given by publication not less than thirty (30) days prior to the date fixed for redemption in a newspaper of general circulation printed in the English language published in Suffolk County, New York, and in The Bond Buyer, New York, New York, or in lieu of publication therein, in some other newspaper specializing in financial matters printed in the English language and customarily published on each business day and of general circulation in The City of New York, New York. Notice of the redemption of any Series 2020 Bond shall be mailed not less than thirty (30) days before the redemption date, to the registered owners as of the forty-fifth (45th) day (whether or not a business day) next preceding the redemption date of any of the Series 2020 Refunding Bonds which are to be redeemed at their last known addresses appearing on the bond register, but failure to mail any such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of said Series 2020 Refunding Bonds.

Any notice of optional redemption for the Series 2020 Refunding Bonds may state that it is conditional upon receipt by the Bond Fund Trustee of monies sufficient to pay the redemption price of the Series 2020 Refunding Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event. Any such conditional notice may be rescinded at any time before payment of the redemption price if any specified condition is not satisfied or any specified event occurs. Notice of such rescission shall be given by the Bond Fund Trustee to affected Bondholders as promptly as practicable upon the failure of such condition or the occurrence of such event in the same manner as the notice of optional redemption was originally given.

### **Selection for Redemption**

If less than all of the Series 2020 Refunding Bonds are to be redeemed, the Authority may select the maturity or maturities to be redeemed. Any redemption of less than all of the Series 2020 Refunding Bonds maturing on a particular date shall be allocated among registered holders of the Series 2020 Refunding Bonds maturing on such date as nearly as practicable in proportion to the principal amounts of the Series 2020 Refunding Bonds maturing on such date owned by each registered holder, subject to the authorized denominations for the Series 2020 Refunding Bonds. Subject to the foregoing, the Series 2020 Refunding Bonds maturing on a particular date to be redeemed shall be determined by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate.

So long as DTC or a successor securities depository is the sole registered holder of the Series 2020 Refunding Bonds, it is the Authority's intent that redemption allocations made by DTC and Direct Participants and Indirect Participants (as such terms are defined under "Book-Entry Only System" below) and such other intermediaries that may exist between the Authority and the Beneficial Owners (as such term is defined under "Book-Entry Only System" in Appendix D, hereto) be made in accordance with these same proportional provisions. Neither the Authority nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See "Book-Entry Only System" in Appendix D, hereto.

### **Purchase of Series 2020 Refunding Bonds**

The Authority may direct the Bond Fund Trustee to purchase Series 2020 Refunding Bonds out of any moneys of the Authority available therefor, at prices not exceeding the redemption price at which Series 2020 Refunding Bonds may be redeemed at the next ensuing redemption date, plus accrued interest to the date of purchase. The amount of the Series 2020 Refunding Bonds required to be redeemed in any year from moneys credited to the Bond Retirement Account pursuant to the Resolution shall be reduced to the extent that such Series 2020 Refunding Bonds are purchased from moneys credited to said Bond Retirement Account.

## **REFUNDING PLAN**

The Series 2020 Refunding Bonds are being issued in part to provide sufficient moneys to effect a refunding of the Refunded Bonds set forth in Appendix E hereto.

Simultaneously with the issuance of the Series 2020 Refunding Bonds, a portion of the proceeds from the sale of the Series 2020 Refunding Bonds will be used to purchase obligations of the type described in items (i) and (ii) and (iii) of the definition of Investment Securities (the "Federal Securities"), in an amount sufficient, together with the interest to accrue thereon, to pay the principal of, redemption premium, if any, and interest on the Refunded Bonds, as the same become due and payable. The Federal Securities will be deposited with The Bank of New York Mellon, New York, New York as Escrow Agent under a certain Escrow Agreement (the "Escrow Agreement") with the Authority to be applied solely to the payment of the principal of, redemption premium, if any, and interest on the Refunded Bonds, as the same become due and payable. Upon the deposit of the Federal Securities in the Escrow Fund established by the Escrow Agreement, the Refunded Bonds will no longer be deemed to be outstanding and the obligations of the Authority under the Resolution and the liens, pledges, charges, trusts, covenants and agreements of the Authority made in the Resolution or provided for, shall be fully discharged and satisfied as to the Refunded Bonds. See APPENDIX E — Table of Refunded Bonds.

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## SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2020 Refunding Bonds are estimated to be applied as follows:

### Sources of Funds

Principal Amount of Series 2020 Refunding Bonds .....	\$ 88,280,000
Release of Reserve Funds (Series 2011Ref. and 2012 Ref.) .....	\$ 231,086
Release of Debt Service Funds (Series 2011Ref. and 2012 Ref.) .....	<u>\$ 11,895,298</u>
Total Sources .....	\$100,406,384

### Use of Funds

Deposit to Escrow Fund .....	\$ 94,161,446
Deposit to Reserve Account, Series 2020 Refunding.....	\$ 5,000,255
Deposit to Bond Fund for Series 2020 Refunding Bonds .....	\$ 767,692
Costs of Issuance <sup>1</sup> .....	<u>\$ 476,991</u>
Total Uses .....	\$100,406,384

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<sup>1</sup>Includes Underwriter's Discount and Contingency.

## SECURITY FOR THE SERIES 2020 REFUNDING BONDS

The Series 2020 Refunding Bonds are authorized and will be issued in accordance with the Constitution and statutes of the State of New York (the "State"), and will constitute valid and legally binding obligations of the Authority.

The Series 2020 Refunding Bonds are payable on a parity with all other Outstanding Senior Lien Bonds heretofore and hereafter issued under the Resolution solely from Net Revenues of the Water System and other funds pledged therefor under the Resolution, subject to the provisions of the Resolution permitting the application of Net Revenues and other funds for the purposes and on the terms and conditions set forth in the Resolution.

The rights of the holders of the Series 2020 Refunding Bonds under the Constitution, the statutes, other applicable law and the Resolution and the enforceability of the Series 2020 Refunding Bonds under the same may be subject to judicial discretion, the exercise of the sovereign police powers of the State and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

The Bond Fund Trustee under the Resolution holds the monies and investments deposited in the Bond Fund and the Secondary Bond Fund for the benefit of the holders of the Bonds of the Authority.

### Flow of Funds

The Authority has covenanted that it will pay or cause to be paid into the Water Revenue Fund, as promptly as practicable after receipt thereof, all of the Revenues and all other moneys required to be paid into the Water Revenue Fund pursuant to the Resolution. Moneys in the Water Revenue Fund shall be applied monthly in the following order of priority:

1. to the Operating Fund, the amounts required to pay Operation and Maintenance expenses;
2. to the Interest Account of the Bond Fund, not later than the 25th day of the sixth month prior to the date upon which an installment of interest is due and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, an amount equal to one-sixth of the interest coming due on Senior Lien Bonds;
3. to the Principal Account of the Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which an installment of principal is due and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the principal coming due on Senior Lien Bonds;
4. to the Bond Retirement Account of the Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which a Sinking Fund Installment is due and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the Sinking Fund Installment coming due on Senior Lien Bonds;
5. to the Interest Account of the Secondary Bond Fund, not later than the 25th day of the sixth month prior to the date upon which an installment of interest is due and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, an amount equal to one-sixth of the interest coming due on Subordinate Lien Bonds;
6. to the Principal Account of the Secondary Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which an installment of principal is due and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the principal coming due on Subordinate Lien Bonds;
7. to the Bond Retirement Account of the Secondary Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which a Sinking Fund Installment is due and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the Sinking Fund Installment coming due on Subordinate Lien Bonds;
8. to the Reserve Accounts of the Bond Fund and the Secondary Reserve Accounts of the Secondary Bond Fund, the amounts, if any, required so that the balances on deposit therein are equal to the Reserve Account Requirements applicable to each Series of Bonds; and
9. the balance remaining in the Water Revenue Fund at the end of each month, after making the transfers set for the above, shall be deposited in the General Fund to be used for any lawful purpose of the Authority.

### **Reserve Account**

Under the General Resolution, the Authority is required to maintain a Reserve Account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the Reserve Account Requirement for such Series of Bonds, if any, established in each resolution authorizing a Series of Bonds.

No Bonds other than the Series of Bonds for which such account has been created shall have any right to be paid from such Reserve Account. Therefore, the Series 2020 Refunding Bonds are not secured by or entitled to any reserve other than the Reserve Account established for each respective Series of Bonds and no other Series of Bonds shall be entitled thereto. No assurance can be given as to the amount of the reserve requirement, if any, established for any future Series of additional Bonds issued on parity with the Series 2020 Refunding Bonds.

The Supplemental Resolutions permit the Authority to deposit a letter of credit, surety agreement, insurance agreement or other type of agreement or arrangement with an entity whose obligations are rated in one of the two (2) highest rating categories by Standard & Poor's Ratings Services or Moody's Investors Service in the Reserve Account for each respective Series of Bonds in order to satisfy the Reserve Account Requirement for the Bonds.

### **Reserve Account, Series 2020 Refunding.**

The Series 2020 Refunding Supplemental Resolution has established a Reserve Account Requirement for the Series 2020 Refunding Bonds (the "2020 Refunding Bonds Reserve Account Requirement"), as that amount which is the average of the annual installments of Debt Service with respect to all Series 2020 Refunding Bonds outstanding for the then current and all future Fiscal Years or if funded from the proceeds of the Series 2020 Refunding Bonds the lesser of: (i) 10% of the proceeds of the Series 2020 Refunding Bonds, (ii) the maximum Debt Service due on the Series 2020 Refunding Bonds in any Fiscal Year, (iii) 100% of the average of the annual installments of Debt Service with respect to all Series 2020 Refunding Bonds for the current and all future Fiscal Years. The monies in the Reserve Account for the Series 2020 Refunding Bonds (the "Reserve Account, Series 2020 Refunding") shall be used and applied solely for the purpose of paying the principal of and the interest on the Series 2020 Refunding Bonds, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient monies on credit to the Interest Account, Principal Account, or Bond Retirement Account for such purposes.

### **Additional Bonds**

The Authority may issue additional Bonds under the Resolution which may be Senior Lien Bonds on a parity with the Series 2020 Refunding Bonds, at any time and from time to time, for any corporate use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Cost of Acquisition and Construction, subject to the limitations set forth in the Resolution.

The Resolution provides that the Authority may not issue an additional Series of Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the Water System unless, among other conditions precedent, there shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds:

(1) a certificate signed by an Authorized Officer of the Authority showing that the average of the Net Revenues for any consecutive 24-month period out of the 36-months immediately preceding the month in which such Authorized Series of Bonds are to be issued were equal to not less than one hundred ten percent (110%) of the average annual Debt Service on all outstanding Bonds of the Authority (including the Series of Bonds then being issued) for the then current and all future Fiscal Years; or

(2) a certificate of the Consulting Engineer showing that the estimated Net Revenues together with other moneys lawfully available therefor as estimated by such Consulting Engineer as provided in the Resolution for each of the five Fiscal Years commencing with the Fiscal Year in which the Series of Bonds then being issued is delivered will be at least equal to 1.25 times the Debt Service for such Fiscal Year on all outstanding Bonds, including the Series of Bonds then being issued.

The Resolution provides that the Authority may issue any Series of Bonds issued for the purpose of refunding all or any portion of outstanding Authority Bonds without delivering the certificates described above to the Bond Fund Trustee.

The Authority will deliver to the Bond Fund Trustee the certificate referenced in clause (1) above upon the issuance and delivery of the Series 2020 Refunding Bonds to the purchasers thereof.

For a more extensive discussion of the terms and provisions of the Resolution, including the security for the Series 2020 Refunding Bonds, the funds and accounts established by the Resolution and the purposes to which moneys in such funds and accounts may be applied, see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION” in Appendix A hereto.

#### **State of New York and Political Subdivisions not Liable**

Neither the members of the Authority nor any person executing the Series 2020 Refunding Bonds will be liable personally on such Series 2020 Refunding Bonds by reason of the issuance thereof. The Series 2020 Refunding Bonds will not be a debt of the State or of Suffolk County or any municipality or governmental entity (other than the Authority) therein, and neither the State nor Suffolk County nor any municipality or governmental entity (other than the Authority) therein will be liable thereon.

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## AUTHORITY DEBT

The following table sets forth the Authority's outstanding Bonds as of May 31, 2020\*:

<u>Senior Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding at May 31, 2020 (unaudited)</u>
Water System Revenue Bonds, Series 2009B (Federally Taxable-Build America Bonds), Dated November 16, 2009	\$100,000,000	\$100,000,000
Water System Revenue Bonds, Series 2011 (Refunding), Dated April 6, 2011	24,930,000	24,930,000
Water System Revenue Bonds, Series 2011A (EFC Series), Dated March 15, 2011	4,945,284	867,611
Water System Revenue Bonds, Series 2011C (EFC Series), Dated July 21, 2011	10,946,917	2,790,128
Water System Revenue Bonds, Series 2012 (Refunding), Dated January 24, 2012	83,635,000	64,640,000
Water System Revenue Bonds, Series 2012B (EFC Series), Dated June 21, 2012	4,523,189	1,282,117
Water System Revenue Bonds, Series 2012A, Dated October 4, 2012	80,000,000	80,000,000
Water System Revenue Bonds, Series 2013, (Refunding), Dated March 5, 2013	62,380,000	62,380,000
Water System Revenue Bonds, Series 2013B, (EFC Series), Dated August 1, 2013	4,088,936	1,586,417
Water System Revenue Bonds, Series 2014B, (EFC Series), Dated July 2, 2014	3,947,820	1,997,820
Water System Revenue Bonds, Series 2014A, Dated October 23, 2014	65,000,000	45,065,000
Water System Revenue Bonds, Series 2014B, Dated October 23, 2014	50,000,000	50,000,000
Water System Revenue Bonds, Series 2015D, (EFC Series), Dated August 20, 2015	4,039,184	2,379,184
Water System Revenue Bonds, Series 2015A, Dated November 17, 2015	49,105,000	49,105,000
Water System Revenue Bonds, Series 2015, (Refunding) Dated November 17, 2015	116,660,000	114,000,000
Water System Revenue Bonds, Series 2016A, Dated November 15, 2016.	84,280,000	84,280,000
Water System Revenue Bonds, Series 2016B, Dated November 15, 2016.	40,000,000	40,000,000
Water System Revenue Bonds, Series 2016, (Refunding) Dated November 15, 2016.	53,825,000	52,415,000
Water System Revenue Bonds, Series 2018A, Dated August 2, 2018	100,000,000	100,000,000
Water System Revenue Bonds, Series 2020A, (EFC Series), Dated February 6, 2020	10,255,297	9,875,467
Water System Revenue Bonds, Series 2020B, Dated May 12, 2020	87,000,000	<u>87,000,000</u>
 Total Outstanding Senior Lien Bonds		 <u>\$974,593,744</u>

\*On or about June 23, 2020, from a portion of the proceeds of the Series 2020 Refunding Bonds, and other sources, and other sources, the Authority expects to defease, to their earliest call date, the Water System Revenue Bonds, Series 2011 Refunding maturing June 1, 2032 through 2040, inclusive and Water System Revenue Bonds Series 2012 Refunding maturing June 1, 2022 through 2026, inclusive, See APPENDIX E — Table of Refunded Bonds.



## **Bond Anticipation Notes**

From time to time, the Authority issues Bond Anticipation Notes to finance improvements and additions to the Water System. These notes are redeemed from the proceeds of Bonds in anticipation of which they are issued and/or from available monies in the General Fund. In July 2015, in connection with the Authority's participation in the New York Environmental Facilities Corporation Storm Mitigation Loan Program, the Authority issued its EFC Drinking Water Facility Note-2015A (Bond Anticipation Note) with a maximum advance amount of \$16.5 million. The Authority completed three projects under the Storm Mitigation Loan Program and was advanced a total of \$10.3 million as proceeds of the E.F.C 2015A Notes. Effective February 6, 2020, the Authority redeemed the E.F.C 2015A Notes from the proceeds of the Authority's E.F.C. Water System Revenue Bond Series 2020A, issued in the principal amount of \$10,255,297, bearing interest at zero percent and maturing on May 24, 2046.

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## DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements for the Authority's Bonds for each Fiscal Year ending May 31\*:

<u>Date</u>	<u>Prior Senior Debt Service**</u>	<u>Plus: 2020 Refunding Debt Service</u>	<u>Less: Defeased Bonds Debt Service***</u>	<u>Pro Forma Total Debt Service</u>
2021	\$41,875,128	\$ 968,740	\$ 3,617,000	\$39,226,868
2022	38,807,303	2,745,087	3,617,000	37,935,390
2023	46,540,613	9,762,065	10,581,800	45,720,878
2024	55,155,234	14,579,117	15,306,300	54,428,051
2025	56,249,617	13,439,392	14,096,300	55,592,709
2026	58,108,238	17,659,647	18,216,600	57,551,284
2027	57,998,536	7,675,097	17,644,300	48,029,333
2028	61,000,336	742,822	1,234,300	60,508,858
2029	61,181,036	745,140	1,234,300	60,691,876
2030	61,026,136	742,278	1,234,300	60,534,114
2031	60,835,336	744,152	1,234,300	60,345,188
2032	60,776,986	745,846	1,234,300	60,288,532
2033	63,224,036	2,912,886	3,390,800	62,746,122
2034	63,669,444	2,922,714	3,392,513	63,199,645
2035	63,618,798	2,925,369	3,384,000	63,160,167
2036	63,553,611	2,921,154	3,373,250	63,101,515
2037	62,373,749	2,933,854	3,366,000	61,941,603
2038	64,616,949	2,943,110	3,357,000	64,203,059
2039	64,488,893	2,953,160	3,350,750	64,091,303
2040	64,512,693	2,962,903	3,346,750	64,128,845
2041	64,493,993	5,675,000	3,335,000	66,833,993
2042	56,439,618	-	-	56,439,618
2043	60,232,330	-	-	60,232,330
2044	57,989,830	-	-	57,989,830
2045	45,184,830	-	-	45,184,830
2046	43,879,830	-	-	43,879,830
Totals:†	<u>\$1,497,833,104</u>	<u>\$99,699,529</u>	<u>\$119,546,863</u>	<u>\$1,477,985,771</u>

\* Debt Service amounts reflect the principal payment due on June 1 of each Fiscal Year, plus interest payments due on December 1 of such Fiscal Year and June 1 of the next succeeding Fiscal Year.

\*\* Senior Debt Service is net of interest subsidy received on the Authority's \$100,000,000 Water System Revenue Bonds, Series 2009B (Federally Taxable – Build America Bonds). The interest subsidy paid by the Federal Government, is reflected at the current reduced rate of 5.9% as imposed by the Budget Control Act of 2011, also known as sequestration. This rate is subject to change.

\*\*\*Reflects (i) expected defeasance on or about June 23, 2020, from a portion of the proceeds of the Series 2020 Refunding Bonds, and other sources, to their earliest call date, the Water System Revenue Bonds, Series 2011 Refunding maturing June 1, 2032 through 2040, inclusive and Water System Revenue Bonds Series 2012 Refunding maturing June 1, 2022 through 2026, inclusive, See APPENDIX E — Table of Refunded Bonds.

† Totals may not add due to rounding.

## **THE AUTHORITY**

### **Certain Powers**

The powers of the Suffolk County Water Authority (“Authority”) are enumerated in the Suffolk County Water Authority Act codified in New York Public Authorities Law Article 5, Title 4 (Sections 1074 through 1092) (hereinafter “Act”). The Authority has the power, under the Act, to fix, alter, charge and collect rates and other charges for the use of water by the inhabitants of Suffolk County or other consumers thereof, at reasonable rates to be determined by the Authority for the purpose of providing for the payment of the expenses of the Authority, the construction, improvement, repair, maintenance and operation of the Water System, the payment of the principal and interest on the obligations of the Authority and to fulfill the terms and provisions of any agreements made with the purchasers or holders of any such obligations.

No governmental board, agency, corporation or officer of the State has jurisdiction of, or control over, or is required to approve any water rates or charges for services or facilities of the Authority except the Authority itself. The Act expressly declares that neither the PSC nor any other board or commission of like character will have jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of rates fixed or charges collected by the Authority.

The drilling of wells and acquisition otherwise of water are subject to the jurisdiction of the Department of Environmental Conservation of the State (the “Department”). The powers of the Department in this respect are part of its statewide powers, extending to all internal waters within the State, which have been exercised by the Department and its predecessors for many years. The Act does not alter or abridge the powers and duties, present or future, of the Department, the State Department of Health or the State over water supply or distribution.

The Authority is empowered within its geographical area to acquire by purchase or condemnation, construct, develop, hold, maintain and dispose of, in its name, real property (or rights or easements therein) and personal property necessary for its corporate purposes. The Authority may not, however, condemn property the legal title to which is vested in a municipal corporation without the consent of such municipality, sell water in any area which is served by a water system owned or operated by a municipality unless the governing board of such municipality requests the Authority to sell water in such area, purchase all of the stock of any existing privately owned water corporation or company without the approval of the PSC, or acquire by purchase or condemnation any existing water supply and distribution system without the approval of the Suffolk County Legislature and, in the case of a system owned by a municipality may not so acquire, unless the governing board thereof requests the Authority to make such acquisition.

### **Members**

Under the Act, the five members of the Authority, who must be residents of Suffolk County, are appointed by the Suffolk County Legislature for five-year overlapping terms. Vacancies, other than by expiration of term, are filled by the Suffolk County Legislature by appointment for the unexpired term. The Chairman of the Authority is also appointed by the Suffolk County Legislature.

The present members of the Authority and the dates of expiration of their terms as members are as follows:

PATRICK G. HALPIN, Chairman, term as member expires on March 2023. Mr. Halpin currently serves as Managing Director in the New York office of Mercury Public Affairs. Mr. Halpin served for nearly two decades as Executive Vice President for External Affairs for the Institute for

Student Achievement, beginning in 1994. Mr. Halpin also had an extensive career in local and state politics, which began in 1979 when he was elected to the Suffolk County Legislature. In 1982 he was elected to the New York State Assembly and served three terms in that office. In 1987, Mr. Halpin was elected to the office of Suffolk County Executive, and at age 34 became the youngest ever elected to that office. He served as County Executive from 1988 through 1991, managing a budget of more than \$1.4 billion and supervising more than 12,000 employees. During his tenure, Mr. Halpin instituted a comprehensive anti-domestic violence program, a nationally recognized open space and environmental protection program and an extensive affordable housing initiative. He also persuaded Computer Associates International Inc. to establish its worldwide headquarters in Suffolk, creating more than 10,000 jobs. Mr. Halpin, the host of Cablevision's Meet the Leaders television program, serves as a director with the Long Island Housing Partnership, Vision Long Island and the advisory board of the Long Island Index. Mr. Halpin received a Bachelor of Arts degree in Political Science and Economics from Old Dominion University. He is a member of the Long Island Hall of Fame.

JANE R. DEVINE, Secretary, term as member expires May 2022. Ms. Devine has held a variety of positions in public service both on the town and county level. Most recently, she has served on the Town of Huntington Planning Board and from 1988-1991, she served as commissioner of Consumer Affairs for Suffolk County. From 1978-1987 she represented the former 17<sup>th</sup> Legislative District as an elected Suffolk County Legislator and, for a portion of that tenure, was the first female leader of the minority caucus. Ms. Devine's professional career spans a wide range of posts dedicated to education and protection of consumers, including Director of Consumer Education and a member of the Consumer Protection Board for the Town of Huntington, and consultant to the New York State Consumer Protection Board. She was a founding partner of a small public relations company and served for a time as pastoral consultant to a Long Island AIDS-care organization. In addition to graduate work at the Fordham University School of Law, studies in sociology and a Certificate in Clinical Pastoral Education from the Nassau County Medical Center, Ms. Devine holds a Bachelor of Arts degree from the College of New Rochelle and a Master of Arts degree from the C.W. Post - Long Island University, College of Management.

MARIO R. MATTERA, term as member expires in March 2024. Mr. Mattera is a St. James resident and currently serves as business agent for Plumbers Local Union #200 of Ronkonkoma. In that capacity, Mr. Mattera serves as trustee for union funds and is responsible for the management of \$150 million in pension funds, welfare and annuity. He provides management and supervision over more than 1,100 members, 80 signatory contractors and 100 general contractors. Mr. Mattera also served as the union's Executive Board Officer from 1999-2003, Examining Board Officer from 1996-1998, Sentry Officer from 1994-1996, and General Foreman from 1994-2003. Mr. Mattera also has numerous business affiliations. He has served on the Suffolk County Workforce Housing Committee since 2008; the Suffolk County Consumer Affairs Plumbing Licensing and Fire Protection Board since 2009, the Riverhead Empire Zone since 2010; the Apprenticeship Board since 2003; and Helmets to Hardhats for returning veterans since 2007. Additionally, Mr. Mattera was named 2012 Labor Leader of the Year for PBA Columbia and volunteers for the Hallockville Museum Farm in Riverhead and the Long Island Partnership for Hurricane Sandy Relief Program for Boilers and Water Heaters.

TIMOTHY H. BISHOP, term as member expires May of 2025. A Southampton resident and former member of the U.S. House of Representatives, serving from 2003-2015, representing New York's 1<sup>st</sup> Congressional district. As a Congressman, Mr. Bishop served on the Education and Workforce Committee and Transportation and Infrastructure Committee. He supported numerous pieces of landmark legislation and sponsored legislation that blocked a plan to dump twenty million cubic yards of contaminated dredge waste in the Long Island Sound. Prior to his service in the House, Mr. Bishop served as provost of Southampton College for sixteen years. As provost, Mr. Bishop served as Chief Executive Officer in charge of the campus's day-to-day management. During his tenure at the college, Mr. Bishop oversaw the addition of four graduate programs, construction of a new academic center and development of the award-winning Cooperative Education and Freshman Programs. Since leaving the

House, Mr. Bishop has served as Director of the Center for Community Solutions and visiting professor at St. Joseph's College. Mr. Bishop received a Bachelor's degree in History from the College of the Holy Cross and a Master's degree in Public Administration from Long Island University.

ELIZABETH MERCADO, term as member expires in March of 2021. Ms. Mercado is a Brentwood resident and is currently employed as a customer care representative for Verizon, a position she's held for more than 20 years. Ms. Mercado also currently serves as Business Agent on the Executive Board of Communications Workers of America Local 1105, representing members of offices between Brooklyn and Suffolk County. She also serves on CWA's National Women's Committee. As former President of the Brentwood Union Free School District Board of Education, Ms. Mercado collaborated with other trustees to establish the district's vision and goals and oversees an annual budget of approximately \$400 million. She is a member of the Islip Town Branch of the National Association for the Advancement of Colored People (NAACP), the Coalition of Labor Union Women (CLUW) and the National Association of Latino elected officials (NALEO). Ms. Mercado received a Bachelor of Science degree in Business Management from SUNY College at Old Westbury and an Associate of Applied Science degree in Business Administration from Suffolk County Community College's Grant Campus in Brentwood.

The powers of the Authority are vested in and exercised by a majority of the members then in office and may be delegated to one or more members, agents or employees. The members of the Authority receive compensation for their services as fixed by the Suffolk County Legislature and are also reimbursed for all necessary expenses incurred in connection with their duties.

#### **Executive Staff**

The executive staff of the Authority consists of a Chief Executive Officer, a Chief Financial Officer, a Deputy Chief Executive Officer for Customer Service, a Deputy Chief Executive Officer for Operations, a General Counsel, a Chief Human Resources Officer, a Chief Technology Officer, and a Director of Water Quality and Laboratory Services.

JEFFREY W. SZABO, Chief Executive Officer. Mr. Szabo was named Suffolk County Water Authority CEO in May 2010. Since that time, he has led an effort to reposition the organization to meet future challenges by creating an Authority that is more accountable to its customers, more efficient, more environmentally conscious and more transparent. Among his notable achievements to date are the development of the Authority's first long-term strategic business plan, which identifies ten key objectives to transform Authority operations over the course of the next decade, and the creation of the Long Island Commission for Aquifer Protection, the first bi-county effort to identify threats to our aquifer system and share information pertaining to the preservation of Long Island's groundwater resources. Mr. Szabo has also conducted a comprehensive review of overtime practices that resulted in substantial savings, incorporated vehicles into the fleet that use renewable fuels such as compressed natural gas and reduced the Authority's workforce through the creation of hybrid positions and a detailed analysis of current staffing needs. Prior to joining the Authority, Mr. Szabo served as Deputy County Executive and Chief of Staff for Suffolk County Executive, where he played a significant role in the management of more than 11,000 employees and a \$2.5 billion annual operating budget with direct oversight of fifteen departments. Mr. Szabo holds a Bachelor of Arts degree from Long Island University.

ELIZABETH K. VASSALLO, Chief Financial Officer. Ms. Vassallo joined the Authority in 1994, starting as an Accountant in the Finance Department. She subsequently served as Budget Analyst, Budget Manager, Director of Finance and Acting Chief Financial Officer. In 2018, she became the first female Chief Financial Officer in SCWA's nearly 70 years of operation. In this capacity, she oversees SCWA's financial operations, including an operating budget of \$138.1 million and a capital budget of \$82.8 million. Ms. Vassallo earned a Bachelor of Business Administration Accounting degree from Dowling College.

JANICE E. TINSLEY, Esq., Deputy Chief Executive Officer for Customer Service. Ms. Tinsley was appointed by the Authority in April 2008 as Deputy Chief Executive Officer for Customer Service. She is responsible for all facets of the Customer Service Division, which include Metering, Field Service, Workforce Technology and Call Center Operations. For eight years, Ms. Tinsley served as Town Clerk for the Town of Babylon. Prior to serving in this elected position, she was Special Assistant to the Babylon Town Supervisor concentrating on constituent services. In her current position, Ms. Tinsley oversaw the change out of more than 395,000 traditional style water meters to AMR meters. In addition, her department has transformed from a paper-centric department to a largely paperless environment utilizing newly installed mobile workforce management technology. Before entering public service, Ms. Tinsley was employed in various positions with Northwest Airlines for over 18 years. Ms. Tinsley received her Bachelor of Arts degree in Political Science from Lycoming College and her Juris Doctor in 1992 from Brooklyn Law School. Ms. Tinsley is admitted to practice law in the State of New York.

JOSEPH M. POKORNY, P.E., Mr. Pokorny was appointed Deputy Chief Executive Officer for Operations, effective September 2013. He has been employed by the Suffolk County Water Authority since 1995. His employment began in the Production Control Department overseeing maintenance operations on all the Authority's water production and storage facilities. In 1997, Mr. Pokorny was promoted to Chief Engineer responsible for the budgeting, planning, design and construction of all the Authority's production, storage and treatment facilities. He then served as Acting Director of Distribution in the Construction and Maintenance Department where he oversaw the installation of all pipeline construction, rehabilitation and repair work associated with the Authority's 5,900 mile distribution system. Prior to working for the Authority, Mr. Pokorny worked for eight years for the Long Island Lighting Company in its Electrical Engineering Department, where he worked on a variety of projects from fossil and nuclear power plants to small wastewater treatment plants. He also worked for five years as Engineering Manager for two systems integration companies designing various automation systems for water, wastewater and transportation systems throughout the Northeast United States. Mr. Pokorny has served as the Chairman of the Long Island Water Conference and has previously served as an Executive Board Member for that same organization. He is also a member of the American Water Works Association (AWWA) Water Utility Council. Mr. Pokorny earned a Bachelor of Science degree in Electrical Engineering from Manhattan College, a Masters in Business Administration from St. John's University and is a licensed professional engineer in the State of New York.

TIMOTHY J. HOPKINS, Esq., General Counsel. Mr. Hopkins joined the Authority in 1992. He is responsible for managing the Authority's Legal Department and Risk Management Department. Mr. Hopkins provides counsel on all legal issues for the Authority. He is responsible for drafting a variety of legal documents and conducting a variety of legal transactions including contracts, real property, labor, tort, land use, regulatory, administrative and corporate governance. He is also responsible for labor relations and negotiations, a variety of outside counsel, and Authority litigation. Prior to joining the Authority Mr. Hopkins was an associate of Farrell Fritz of Uniondale, New York where he was a member of the municipal litigation department. While attending law school, Mr. Hopkins was employed by the New York State Attorney General's Office. Mr. Hopkins received his Juris Doctor in 1992 from Touro College Jacob D. Fuchsberg Law Center and his Bachelor of Science degree in Industrial Economics in 1986 from Union College. Mr. Hopkins is admitted to practice in the State of New York, the Eastern and Northern Districts of New York of the United States District Court and the United States Court of Appeals for the Second Circuit. Mr. Hopkins has played important roles in issues ranging from the creation of transferable development rights programs to Federal multidistrict MTBE contamination litigation.

DONNA MANCUSO, Chief Human Resources Officer. Ms. Mancuso has been with the Authority since 1985. She began her career as a customer service clerk in the Babylon Office and then transferred to a position in the Engineering Department. In 1995, she was selected by the Members of the Board to hold the position of Secretary to the Board. Ms. Mancuso implemented and is responsible for

the Authority's successful educational outreach program. She was appointed Director of Administration in December 2010, overseeing Human Resources, Information Technology and General Services. In April 2016, Ms. Mancuso was promoted to Chief Human Resources Officer, focusing on the long-term goals and ambitions of Authority employees through the Authority's own Employee Development Program. She holds a Bachelor of Arts degree in Music from California Lutheran University and has completed graduate studies toward a Master of Science degree in Education, and an MBA in Public Management at Dowling College. Ms. Mancuso is a member of the Long Island Chapter of the Society for Human Resource Management and has attained the certification of Senior Certified Professional (SHRM-SCP). She is the current Chair of the American Water Works Association's Workforce Strategies Committee.

MICHAEL A. LITKA – Chief Technology Officer. Mr. Litka has been employed by the Suffolk County Water Authority since 1989, where he began his service as a programmer in the Laboratory. He was appointed Deputy Director of Information Services in 1998 and Director of Information Technology in 2002. In 2016, he was appointed Chief Technology Officer, where he provides direction and support for Information Technology solutions that enhance mission-critical business operations and strategic goals for the Authority. He also oversees, directs, coordinates and organizes all operational information technology activities for the Information Technology department. Mr. Litka received his Bachelor of Business Administration degree in 1984 from Hofstra University.

KEVIN P. DURK, Director of Water Quality and Laboratory Services. Mr. Durk has been employed by the Suffolk County Water Authority since 1990 when he began work as a chemist. He has held the titles of Section Leader and Inorganic Laboratory Manager and in 2003 was promoted to Laboratory Manager. In 2014, he was appointed Director of Water Quality and Laboratory Services. Mr. Durk has a B.S. in Engineering Chemistry from Stony Brook University. He is licensed through the New York State Department of Health Environmental Laboratory Approval Program. This national certification allows SCWA's in-house laboratory to perform chemical and bacteriological testing. He oversees the water quality of nearly 600 wells. With his staff of 48 water quality professionals, Mr. Durk works with the U.S. Environmental Protection Agency, the State Department of Health and Suffolk County Department of Health Services to ensure that drinking water quality and the source water monitoring program meet the highest standards. His working relationship with the Environmental Protection Agency has resulted in the SCWA participating in multiple method validation studies and performing peer review of methods prior to them being published. This had led to SCWA being acknowledged in published EPA methodology. Mr. Durk is a member of the American Water Works Association's Water Quality Laboratory Committee.

#### **Authority Advisors**

Bond Counsel	Harris Beach PLLC, New York, New York
Financial Consultant	Goldman Sachs & Co. LLC, New York, New York
Bond Fund Trustee and Paying Agent	The Bank of New York Mellon, New York, New York
Tank Consultants	Gannett Fleming, PC, Woodbury, New York
Labor Counsel	Putney, Twombly, Hall & Hirson, LLP, New York, New York
Consulting Ground Water Geologist for the Authority	Leggette, Brashears & Graham of Wilton, Connecticut
Consulting Engineer	H2M Architects and Engineers, Melville, New York

## CAPITAL IMPROVEMENT PLAN

Each year the Authority's management staff prepares a five-year forecast of its projected capital improvement requirements. The Authority's Board does not formally adopt a five-year capital improvement plan. The Authority formulates this forecast primarily based upon information provided by its Construction Maintenance, Engineering and Production Control Departments. The Authority's Laboratory, Information Technology, General Services, Customer Service and Administration Departments provide supplemental information. The Authority finances the costs of these capital expenditures with a combination of revenues, notes and/or bonds.

The following is management's forecast of capital expenditures for the 2021 through 2025 Fiscal Years, the average of which is \$117.1 million per year:

	Forecasted Capital Costs				
	Fiscal Years Ending May 31,				
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
<b>Water Main Installations</b>	\$39,870,000	\$41,600,000	\$44,255,000	\$45,968,000	\$47,741,000
<b>Meters, Services, and Hydrants</b>	12,620,000	12,070,000	12,070,000	12,070,000	12,116,000
<b>Treatment and Remediation</b>	2,940,000	4,880,000	7,865,000	4,940,000	5,390,000
<b>Plant Facilities</b>	22,700,000	25,955,000	24,995,000	26,490,000	18,935,000
<b>Miscellaneous / Equipment /Facilities</b>	6,747,000	4,929,000	3,775,000	4,229,000	5,429,000
<b>Water Quality Treatment Systems</b>	<u>30,900,000</u>	<u>26,000,000</u>	<u>26,000,000</u>	<u>26,000,000</u>	<u>26,000,000</u>
	<u>\$115,777,000</u>	<u>\$115,434,000</u>	<u>\$118,960,000</u>	<u>\$119,697,000</u>	<u>\$115,611,000</u>

### 2020 Capital Budget

Management annually prepares a Capital Budget for the next Fiscal Year. This budget is based on the Authority's five-year forecasted capital improvement requirements and incorporates the latest available information and needs of the Construction Maintenance, Engineering and Production Control Departments. The Authority's Laboratory, Information Technology, General Services, Customer Service and Administration Departments provide supplemental information. The annual Capital Budget is then submitted to the Authority's Board in March for its approval. For the twelve months ending May 31, 2020, (the "2020 Fiscal Year") the Authority has approved, adopted and amended a capital budget totaling \$82,798,000 (the "2020 Capital Budget").

The construction and improvements funded by these expenditures enabled the Authority to maintain its high standards of water quality, to fulfill its legal obligations and apply state-of-the-art technology in a cost-effective manner. The Authority financed the costs of these capital expenditures with the proceeds of notes and bonds issued for such purposes as well as net revenues from operations.

Any project included in the 2020 Capital Budget that was subject to review pursuant to the New York State Environmental Quality Review Act ("SEQRA") was reviewed in accordance with SEQRA and its implementing regulations prior to adoption of any decisions, orders or resolutions committing the Authority to undertake any such improvement.

The following is a comparison of the authorized adopted and amended 2020 Capital Budget for the 2020 Fiscal Year and the final amended 2019 Capital Budget for the fiscal year ended May 31, 2019 (the "2019 Fiscal Year").



	<u>Amended</u>	<u>Final</u>
	<u>2020 Fiscal Year</u>	<u>2019 Fiscal Year</u>
Water Main Installations	\$37,250,000	\$40,105,000
Meters, Services and Hydrants	12,194,000	16,576,000
Plant Facilities	22,145,000	19,785,000
Treatment and Remediation	4,965,000	4,585,000
Misc / Equipment / Facilities	<u>6,244,000</u>	<u>6,359,000</u>
TOTAL	<u>\$82,798,000</u>	<u>\$87,410,000</u>

### **Water Main Installations**

There are four components to the Authority's water main installation program: (1) the installation of new water mains to serve communities that were previously served by private wells, (2) the replacement of existing water mains, (3) the installation of new water mains paid for by developers, and (4) improvements to the distribution system to provide better service within existing service areas.

With respect to the first component, the issues that drive the demand for public water include: private well contamination, the security of having water that is regularly tested and the safety offered by the presence of public fire hydrants. The amount of \$6.5 million was provided for new water mains in the fiscal year 2020 Capital Budget.

The second component of the water main installation program relates to the replacement of existing water mains. Incorporated in the 2020 Capital Budget was a portion of a long-term program of pipeline replacement to improve pressure and volume distribution, to improve fire protection and to reduce the number of water main breaks. Water mains are targeted for replacement based upon such factors as repair history, age, material type, hydraulic capacity and pipe diameter. While most of the Authority's distribution system is relatively young, there are several areas where the water mains are nearing the end of their useful lives and should be replaced. Water mains typically have an average life of approximately 100 years or more. However, certain environmental factors can shorten the life of a water main. The Authority committed \$16.5 million in the 2020 Capital Budget for the replacement of water mains.

The third component of the program relates to the installation of new water mains paid for by developers and the amount included in the 2020 amended Capital Budget for this component is \$4.5 million.

The fourth component of the water main installation program relates to improvements to the distribution system in order to provide enhanced service within existing service areas. This would include such things as installing larger diameter water mains to increase flow, eliminating dead-ends and interconnecting water supply facilities to provide redundancy. The amount included in the 2020 Capital Budget for this component was \$9.8 million.

The Authority has extended water mains to most areas previously served by private wells so that there are only a few locations in Suffolk County that do not have access to water mains. As a result, the Authority anticipates that in the future the water main installation program will focus more on water main replacement and less on the installation of new water mains as more of the existing water mains reach the end of their useful lives.

Fiscal Year 2019 included 18 miles of new water mains. The Water Main Installation Budget totals \$27.5 million dollars for the 2020 Fiscal Year for the installation of approximately thirty-one (31) miles of new and replacement water mains.

## **Meters, Services, and Hydrants**

The Authority completed its conversion to Automated Meter Reading (AMR) devices in 2018. Since completion, the Authority has continued to enhance the reliability of the system by installing antennas in hard to read areas and upgrading the reading software and hardware. Additionally, the Authority integrated the meter reading technology with the mobile workforce management system and is able to transmit reads obtained in the field to our SAP system in real time. Moving forward, over the next few years, the Authority will focus on inspecting and replacing larger size meters.

Normal replacement and upgrades of its residential customers will continue to be reflected in the Authority's annual capital improvement budget in future years. For the 2020 Fiscal Year, the Authority has budgeted \$2.3 million for new and replacement meters and AMR endpoints.

Critical for fire protection are properly functioning fire hydrants. The Authority has over 35,000 hydrants, and the Authority prides itself on very short turn-around time (less than 1 day) to restore out of service hydrants back to service. There is an active program of hydrant replacement for hydrants that cannot be repaired or where repair is no longer cost effective. In fiscal year 2020 \$1.75 million was budgeted for hydrants with the bulk of funds (\$1.1 million) dedicated to sole replacement of existing hydrants on existing water main.

When the Authority installs a water main for new customers along a particular street, it often includes stub services for properties that do not immediately hookup when the main is installed. This avoids the future disruption of roadways and reduces future costs when those properties eventually become customers. Working with the New York State, Suffolk County, and the Town of East Hampton and Southampton, the Authority has connected approximately 400 new customers in the Hamlets of Wainscot (East Hampton) and East Quogue (Southampton) affected by PFOA and PFOS contamination of their private wells. It is anticipated that in future fiscal years the Authority will be hooking up approximately 200 more customers with similar contamination problems within these communities, and possibly more in other areas with this issue. For the 2020 Fiscal Year, the Authority's budget includes an aggregate amount of \$9.9 million for new customer services.

## **Treatment and Remediation**

Water quality regulations are promulgated by the United States Environmental Protection Agency ("EPA") and the New York State Department of Health. In addition, in some instances the Authority has adopted its own water quality standards that are more stringent than regulatory requirements. In order to provide water that meets these regulations and standards, the Authority often treats water to remove volatile organic chemicals, pesticides, herbicides and other contaminants through the utilization of filtration systems, such as granular activated carbon ("GAC") or ion exchange. It is anticipated that the installation of new water treatment units will be ongoing since contamination continues to be detected at a few additional wells each year and new contaminants may be regulated and/or the level of the standard requiring remediation may be changed. The Authority also utilizes filtration systems to remove excess iron, primarily for aesthetic reasons (the presence of naturally occurring iron in drinking water is not considered a health risk). Currently, the Authority has over 160 filtration treatment systems including GAC, resin, ion exchange, iron removal and advanced oxidation process (AOP) in operation. For the 2020 Fiscal Year, the Authority adopted and amended a budget of \$5.0 million for Treatment facilities.

In July 2019, the New York State Department of Health proposed regulations to set new maximum contaminant levels (MCLs) for the emerging contaminants, perfluorooctanoic acid (PFOA), perfluorooctanesulfonic acid (PFOS), and 1,4-dioxane. The regulations could become finalized in early 2020. The Authority estimates that it will have to install an additional 20 GAC systems for PFOA and PFOS and an additional 31 AOP systems for 1,4-dioxane at wells that exceed the proposed MCLs. The Authority estimates that it will take two to three years to install the GAC systems and five to six years to

install the AOP systems. The total capital cost for these systems is estimated at \$114 million, and the operation and maintenance costs are estimated to be \$22 million over the next six years. Effective January 1, 2020 the Authority has implemented a new quarterly water quality treatment charge of \$20.00 to provide funding for these costs. The Authority has also commenced litigation against the manufacturers of the contaminants to try to recover the costs of treatment.

#### **Additional Plant Facilities – Storage, New Wells, Replacement Wells, Tanks**

The Authority's Water System includes 51 separate and distinct pressure distribution zones. Each pressure zone has a number of wells that provide water to that particular pressure zone. All the wells in the Water System have a capacity to pump in excess of 870 million gallons of water per day. (For a more detailed description of the wells in the Water System, see the subsection entitled "Physical Plant" below.) On July 6, 2010, the Authority set its peak single day pumpage record of 538,033,000 gallons. In July 2010, the Authority set its peak monthly pumpage record of 12,760,000,000 gallons. During these peak events, the Water System provided all the water needed by Authority customers and still had appropriate reserves for firefighting needs. The Authority's engineering staff believes the demand for water will increase, both from existing customers and through expansion of the Water System to serve additional customers. In order to meet this future demand, the Authority has budgeted for new well construction and replacement of wells that are reaching the end of their useful lives. The Authority budgeted \$22.1 million for the 2020 Fiscal Year, as amended, of which new and replacement wells totaled \$11.5 million.

#### **Miscellaneous/Equipment/Facilities**

To operate the Water System, the Authority must continually add or replace certain support equipment in the information technology, transportation, facilities, and clerical areas. This includes the upgrading of computer equipment, vehicles, field and office equipment, and the undertaking of various site improvements. For the 2020 Capital Budget, the Authority has budgeted \$6.2 million

### **SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY**

The Authority currently serves approximately 85% of the total population of Suffolk County. The remaining population is served by other municipal water districts (12%) or private wells (3%). The population served by the Water System is estimated by the Authority to be approximately 1.2 million. The Authority projects an annual growth rate of approximately one-third percent over the next several years.

The Water System serves, at retail, areas in the Towns of Babylon, Brookhaven, East Hampton, Huntington, Islip, Smithtown, Southampton, and Southold, including numerous villages and unincorporated communities. Wholesale service is provided to two water districts and the incorporated Village of Greenport.

#### **Customer Count**

The Authority supplies water to its customers in one of the three following ways: (1) direct service to retail customers through facilities owned and operated by the Authority, (2) direct service to retail customers through facilities that are lease-managed by the Authority, and (3) wholesale service to other municipal water systems.

The percentage of total sales (based on total number of customers) to each of the aforementioned customers are as follows:

Facilities owned and operated by the Authority	94.4%
Facilities lease-managed by the Authority	3.0%
Wholesale service to other systems	2.6%

As of May 31, 2019, a total of 397,296 retail and wholesale customers were served by the Authority, compared to 395,291 at May 31, 2018, an increase of 2,005 customers. The following table provides a breakdown of the number of customers served directly by the Authority by region, customers served through operating agreements and customers served through wholesale service, as well as their respective percentage growth over the two most recent Fiscal Years.

<u>Customers served</u>	<u>Fiscal Year Ended May 31,</u>		
<u>Region</u>	<u>2019</u>	<u>2018</u>	<u>% Growth</u>
Western	172,846	172,412	0.25%
Central	130,660	130,066	0.46
Eastern	<u>71,728</u>	<u>70,798</u>	1.31
Subtotal	<u>375,234</u>	<u>373,276</u>	0.52%
<u>Customers Served through</u>			
<u>Operating Agreements</u>			
Brentwood Water District	6,589	6,557	0.49%
Fair Harbor Water District	475	477	(0.42)
Stony Brook Water District	1,640	1,639	0.06
Riverside Water District	602	595	1.18
East Farmingdale Water District	<u>2,431</u>	<u>2,412</u>	0.79
Subtotal	<u>11,737</u>	<u>11,680</u>	0.49%
Subtotal SCWA Customers	<u>386,971</u>	<u>384,956</u>	0.52%
<u>Wholesale Customers<sup>†</sup></u>			
St. James Water District	3,380	3,379	0.03%
Smithtown Water District	5,890	5,883	0.12
Village of Greenport	<u>1,055</u>	<u>1,073</u>	(1.68)
Wholesale Subtotal	<u>10,325</u>	<u>10,335</u>	(0.10%)
TOTAL	<u>397,296</u>	<u>395,291</u>	0.51%

<sup>†</sup> The number of customers served by the Authority's Wholesale Customers is derived from information provided by the respective Districts and Village of Greenport as of May 31, 2019. Effective January 1, 2019, the wholesale rate increased from \$1.45 to \$1.50 per one thousand gallons. Effective January 1, 2020, the wholesale rate increased from \$1.50 to \$1.56 per thousand gallons.

The number of customers served as of May 31, 2015 through May 31, 2019 is presented below.

<u>Year</u>	<u>Number of Customers</u>
2019	397,296
2018	395,291
2017	394,024
2016	392,550
2015	391,391

The Authority's customers are approximately 94% residential and 6% commercial and municipal. The following chart lists the top ten metered account users of water and their corresponding water consumption for the 2019 Fiscal Year. The customers listed below and their corresponding usage, reflect individual metered accounts; each such customer may have more than one account with the Authority.

	<u>User</u>	<u>Consumption (gallons)</u>
1	Smithtown Water District <sup>1</sup>	939,230,770
2	St. James Water District <sup>1</sup>	500,317,071
3	State University of New York at Stony Brook <sup>2</sup>	274,002,872
4	National Grid <sup>2</sup>	142,247,160
5	County of Suffolk, Operating Funds Acct.	137,934,940
6	State University of New York at Stony Brook <sup>2</sup>	118,135,380
7	National Grid <sup>2</sup>	109,481,020
8	Greenport Water District	97,159,964
9	Suffolk County Comptroller	83,001,820
10	State University of New York at Stony Brook <sup>2</sup>	73,621,900

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1. Effective January 1, 2020, the wholesale rate was increased to \$1.56 per one thousand gallons from \$1.50 per thousand gallons. Effective April 1, 2019, all other accounts, except where noted are billed at \$2.028 per thousand gallons under Tier 1. Effective April 1, 2020, a new tier2 rate of \$2.925 per thousand gallons was established for all consumption over 78,540 gallons.
  2. Consumption reflects activity for one metered account. User has multiple accounts at different locations.

Acquisitions of water systems, creation of lease-managed systems, expansion onto the North Fork of Long Island and special contractual arrangements with Federal and State agencies have resulted in average customer growth of approximately one-third of one percent each year over the last four (4) years. The Authority estimates customer growth at approximately one-tenth percent per year for budgeting purposes.

According to the five-year engineer's report (the "Engineer's Report") issued in June 2019 by the Authority's consulting engineers, H2M Architects and Engineers (the "Consulting Engineer"), the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water.

## Physical Plant

The following table presents certain data relating to the major physical properties of the Authority as of May 31, 2019:

<u>Town</u>	<u>Wells</u>		<u>Pumping Plants</u>		<u>Storage Facilities</u>	
	<u>Active</u>	<u>Inactive</u>	<u>No.</u>	<u>Capacity</u> <u>(gpm)</u>	<u>No.</u>	<u>Capacity*</u>
Babylon	51	6	23	67,838	8	8.22
Brookhaven	173	9	73	206,797	20	21.91
East Hampton	42	2	18	22,850	3	3.42
Huntington	51	4	25	51,238	10	12.52
Islip	102	9	40	118,223	11	11.89
Riverhead	9	0	2	1,900	0	0.00
Shelter Island	2	0	1	400	1	.12
Smithtown	51	0	22	67,450	5	3.50
Southampton	59	4	19	47,588	6	6.35
Southold	<u>53</u>	<u>1</u>	<u>16</u>	<u>8,700</u>	<u>3</u>	<u>2.80</u>
Totals	<u>593</u>	<u>35</u>	<u>239</u>	<u>592,984</u>	<u>67</u>	<u>70.73</u>

\* Millions of gallons

As of May 31, 2019, there were a total of 6,001 miles of water mains in use, an increase of 18 miles since May 31, 2018, and there were 35,887 fire hydrants in-service, an increase of 102 hydrants of which does not include approximately 2,212 hydrants used for private and SCWA pump stations.

The 2020 Capital Budget included provisions for additional wells, pumping equipment and storage capacity amounting to approximately 27% of the total amount budgeted in the Authority's capital improvement budget. (See "CAPITAL IMPROVEMENT PLAN – Plant Facilities, above.) Additional wells under construction, not classified as "In Service" as of May 31, 2019, is expected to increase the capacity of major facilities over the next twelve months as follows:

<u>Site Locations</u>	<u>Wells and Pumping</u> <u>Equipment</u> <u>Gallons per Day</u>
Brookhaven	1,872,000
East Hampton	3,744,000
Islip	3,744,000
Southampton	1,872,000
Southold	<u>720,000</u>
TOTAL	<u>11,952,000</u>

## **Source of Supply**

The Authority is one of the largest municipal groundwater suppliers in the nation. All water that the Authority sells is pumped from large reserves of water located underground called aquifers. Aquifers are large geologic sand and gravel formations saturated with groundwater. There are three major aquifers beneath Long Island. The deepest aquifer is called the Lloyd Aquifer, and it holds water that is thousands of years old. New York State established a moratorium in 1986 on new wells in the Lloyd except in coastal communities. The Authority only has three wells that utilize the Lloyd. The middle aquifer, called the Magothy Aquifer, holds water that can be several hundred years old in its deepest layers. The Authority draws the majority of its water from this aquifer. The third and shallowest aquifer is called the Upper Glacial Aquifer, which may be up to several hundred feet deep in some locations. In areas on both the North Fork and South Fork, the Upper Glacial Aquifer is the sole source of freshwater supply.

Hydrogeological studies have determined that significantly more water enters the aquifer system than is removed each year. The United States Geological Survey reports that there is over 70 trillion gallons of water are stored within these underground aquifers in Suffolk County. The Authority pumps approximately 70 billion gallons per year. Studies indicate this level of pumpage is not impacting the aquifers significantly due to the replacement of water annually by rain and snow percolating into the aquifers. Since 1987, the County of Suffolk has been acquiring and preserving thousands of acres of land specifically for drinking water protection purposes, using funds generated by quarter percent sales and use tax. In 2010, the Authority completed a transaction with the County of Suffolk that gives the Authority easement rights to drill wells on 34 separate sites of up to five acres apiece from 18,871 acres that were acquired in the aforementioned original 1987 drinking water protection program. This transaction gives the Authority access to new well sites for the future. New well sites in protected lands should result in lower costs because it is less likely to require filtration. In early 2005, the Authority began operating its first pump station on County Drinking Water Protection lands. Other facilities are in various stages of planning and development.

## **Water Quality**

The quality of the drinking water provided by the Water System surpasses accepted standards for physical, chemical and bacteriological content. According to the Five-Year Engineer's Report, the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water. Approximately 27% of the Authority's wells are treated using GAC to remove contaminants such as volatile organic compounds, pesticides and herbicides. Approximately 13% of the Authority's wells are filtered to remove naturally occurring iron and manganese. Other treatment technologies, such as air strippers, ion exchange, reverse osmosis and advanced oxidation (AOP) process units are used as needed. Due to standards regulating organic compounds, nitrates, pesticides and herbicides, it is necessary at times for the Authority to take wells out of service. As a result of treatment practices put in place by the Authority, drinking water quality meets and exceeds all regulatory standards. Bacterial contamination of Authority wells is rare. Chlorine is added to the water as required by the New York State Department of Health as precautionary protection against any bacterial contamination that might result from repairs or additions to the distribution system. Groundwater in Suffolk County is naturally slightly acidic, so the water is buffered to guard against possible corrosion of lead and copper in home plumbing systems. The high standards of design, construction and quality control employed by the Authority's staff ensure the production of an adequate quantity of potable water conforming to regulatory requirements.

The Authority has taken major steps in watershed protection and stewardship. The Authority has participated with the Pine Barrens Commission to oversee vast tracts of sparsely developed land in the center of Suffolk County to ensure that the water recharging the aquifer system remains uncontaminated. The Authority was the 2006 recipient of the nationally prestigious "Exemplary Source

Water Protection Award,” given annually by the American Water Works Association, for the work the Authority has done preserving County lands.

The Authority has successfully brought suit against identified polluters whose activities or products have resulted in contamination of Authority wells. The Authority is also a financial sponsor of the United States Geological Survey which researches issues related to the management and protection of the aquifers. Recently, the Authority updated its Water Conservation Program and adopted an official Source Water Protection Program to further ensure the protection of the aquifer system. The Authority led the charge to create the newly formed Long Island Commission for Aquifer Protection whose mission is to provide a coordinated, regional approach to groundwater resources management. It is coordinating the production of the inaugural State of the Aquifer report and website as well as the first Long Island Groundwater Resource Management Plan in nearly 30 years.

The Authority operates a groundwater testing laboratory that is certified by New York State and the EPA. The Authority’s laboratory has approximately 49 employees, including chemists, technicians, and support staff, with an annual operating cost of \$6.9 million for the 2019 Fiscal Year. Last year, the laboratory staff conducted approximately 167,000 tests, from over 55,000 water samples. The water samples were collected from Authority wells and from over 5,900 miles of water main making up the water distribution system. Water quality tests are performed for over 400 chemical constituents, more than twice the number required by regulations. The laboratory has developed specialized testing methodologies that have been adopted by the EPA and published in the Federal Register for use by laboratories throughout the United States. In order to maintain its certifications, the laboratory must pass rigorous proficiency tests twice each year. It is also subject to an audit of its quality assurance program and quality control data every other year. Sophisticated laboratory equipment allows the Authority to measure some contaminants to levels as low as 2.00 parts per trillion. The laboratory, which encompasses 28,000 square feet, is highly automated and operates 24 hours a day, seven days a week.

The Suffolk County Department of Health Services has electronic access to the laboratory’s water quality data and audits this information to ensure that the Authority is in compliance with all applicable water quality standards and monitoring requirements. To ensure the precision and accuracy of the water quality data generated, additional tests are performed by the laboratory for quality control and quality assurance purposes on approximately 40% of the total number of water samples tested.

In the Engineer’s Report, the Consulting Engineer discusses five rules that have been promulgated by the EPA. The Authority believes that as a result of the quality of its groundwater source and existing Authority standards and procedures, compliance with any or all of these rules, if implemented as described in the Engineers Report, would have a minimal financial impact on the Authority.

The EPA has promulgated the Groundwater Rule (“GWR”) which is designed to provide protection from microbial pathogens where a well is vulnerable to such contamination. The GWR requires increased chlorine contact time, referred to as “4-log treatment” for wells with positive fecal indicator results. The Authority routinely chlorinates all raw water and maintains a free chlorine residual of 1.0 part per million (ppm) in water leaving the pump station. There have been no confirmed fecal results for any of the Authority’s wells. Under the GWR, a total coliform-positive result from a routine sample collected for the Revised Total Coliform Rule (“RTCR”) will trigger source water monitoring. GWR source water monitoring requires a sample be collected from any well running in the pressure zone 24-hours prior to sample collection for the RTCR coliform-positive sample along with the repeat samples required for TCR compliance. The Authority has determined the well(s) from which samples will be collected for all GWR source water triggered monitoring events. This information is part of the TCR GWR monitoring plan submitted to the Suffolk County Department of Health Services. A coliform-positive sample result from a well will require corrective action, which most likely will result in taking the well out of service and disinfecting it before returning it to routine operation.



The Authority began testing for 1,4-dioxane in 2003, and tests reveal that this chemical was detected in approximately 44% of Suffolk County Authority wells. 1,4-dioxane is a synthetic chemical used as a solvent and a chlorinated solvent stabilizer for industrial chemicals, predominantly 1,1,1- trichloroethane (TCA). Apart from its use as a stabilizer, it is used in a variety of applications as a solvent, such as inks and adhesives. It is also found in some cosmetics, certain laundry detergents, and a variety of other household products. There is currently no chemical-specific federal or New York State drinking water standard for 1,4-dioxane. However, New York State Department of Health has proposed a maximum contaminant level (“MCL”) of 1.0 parts per billion. The Authority has installed a new type of treatment system that utilizes technology known as Advanced Oxidation Process (“AOP”) that will effectively remove 1,4-dioxane from any contaminated source water. This new type of treatment system was approved by the New York State Department of Health in early 2018. As indicated above, the Authority is installing an additional 31 AOP systems to meet the proposed MCL for 1,4-dioxane.

Since January 2013, the SCWA Laboratory has been testing for PFOA and PFOS. These compounds are fluorinated organic chemicals that are part of a larger group of chemicals referred to as perfluoroalkyl substances (PFASs). PFOA and PFOS have been the most extensively produced and studied of these chemicals. They have been used to make carpets, clothing, fabrics for furniture, paper packaging for food and other materials that are resistant to water, grease or stains such as non-stick cookware. They are also used for firefighting at airfields and in a number of industrial processes. To provide Americans, including the most sensitive populations, with a margin of protection from a lifetime of exposure to PFOA and PFOS from drinking water, EPA established the health advisory levels at 70 parts per trillion on May 19, 2016. New York State Department of Health has proposed MCLs for PFOA and PFOS of 10 parts per trillion for each chemical. Approximately 40% of Suffolk County Water Authority wells have detections at 2 parts per trillion or greater. Where positive detections were found, the Authority has been very proactive with treatment. As indicated above, the Authority is installing an additional 20 GAC filters to meet the proposed MCLs for PFOA and PFOS.

The Authority anticipates installing the new treatments systems for 1,4-dioxane, PFOA and PFOS in accordance with the time requirements of the proposed regulations.

### **Protection of Water System**

The Authority has taken a number of steps to enhance the security of the Water System, including more frequent monitoring of the water supply for contaminants, restricting access to certain facilities, installing additional fencing, upgrading locks and alarming entry points within the Water System. In 2002, the Authority contracted with an EPA approved consultant to perform a vulnerability assessment on the Water System in accordance with EPA protocols. The report was completed in March 2003 and identified certain Water System vulnerabilities. The report provided a prioritized plan for security upgrades, modifications of operational procedures and policy changes to mitigate risks to critical assets. The assessment also provided a basis for comparing the cost of protection against the risks posed. The Authority uses these recommendations to establish cost effective and balanced security upgrades to its system. The assessment has been updated twice since its original completion. Based on the findings of the report, the Authority originally estimated that it would cost approximately \$2.0 million to implement the report’s recommendations. In 2012, the Authority completed a comprehensive Cyber Resilience Review with the United States Department of Homeland Security and assessed key facilities by utilizing the New York State Department of Homeland Security and Emergency Services Enhanced Visual Assessment Program. To date, the Authority has spent over \$2.0 million incorporating the recommendations in the report.

To protect against severe weather conditions, the Authority has refined its Emergency Response Plan to address severe damage scenarios. The Emergency Response Plan and Vulnerability Study were updated in 2017 as mandated by the EPA. The Authority has also taken steps to secure its information technology assets from potential cyber attacks and continues to upgrade its systems in order to ensure that these assets continue to remain secure. The Authority has established an internal Office of

Emergency Management consisting of emergency managers specially trained and designated to address issues related to security and emergency preparedness. These emergency managers' report directly to the CEO and are the point persons for developing contingency plans and interfacing with emergency planners and responders from other agencies.

The Authority participates in the Suffolk County Emergency Operations Center for the purposes of coordinating emergency response. The Authority has also adopted the National Incident Management System as its method to incident management. This is consistent with most public agencies and many private organizations in Suffolk County and New York State. It provides for a comprehensive and coordinated approach to incident command and management resources communications and support efforts during any significant incident or event.

The Authority maintains and periodically updates its Emergency Response Plan procedures, which are utilized for instances such as Hurricane Sandy in 2012. As part of these procedures, preparations were made to ensure its water supply facilities would be ready to continue to provide water to its customers during and after a storm. Preparations include ensuring that the automatic back-up generators were operational and that their fuel supply tanks were full. In addition, steps were also taken to ensure that there would be adequate staffing available to operate and maintain the water system through the potentially lengthy recovery period.

The main concern, as with any situation that could disrupt the electric supply, is getting the emergency generators fuel supply replenished. The Authority was able to work with fuel suppliers before and after the Hurricane Sandy ensuring fuel to run generators. Most all of the generators utilized by the Authority turn on automatically when the electric supply is lost and keep running until the electric power has been restored. At the worst period of the storm, 196 out of 287 pump and booster stations were without power. At the same time there were 78 generators running to provide power to operate the pumps. This was sufficient to ensure continued water flow to all customers with exception to the remote communities within the Authority's Fire Island service area.

During Hurricane Sandy, the Fire Island area served by the Authority had the most severe impacts. The Long Island Power Authority, ("LIPA") shut off electric power to all facilities on the island the day before the storm hit and there was a mandatory evacuation for Fire Island residents. The Authority's generators came on and provided water for drinking and fire protection for all communities it served. However, since there was no access to Fire Island immediately after the storm, all of the back-up generators eventually shut down when they ran out of fuel. This shut all water pumps down as well. Once access to Fire Island was reinstated to the Authority, water for fire protection for all the communities served was restored within five days. Since the system was de-pressurized when the pumps were shut off, the Authority needed to disinfect the distribution system and get satisfactory water quality samples before the water could be approved for drinking purposes. System-wide, the Authority only sustained a moderate amount of downed trees on its property and very limited damage to its infrastructure.

In 2013 and 2014, the Authority submitted grant proposals to the Hazard Mitigation Grant Program and to the Storm Mitigation Loan Program to facilitate improvements to the water system's resiliency during severe storm events. The Hazard Mitigation Grant Program application was not awarded and withdrawn.

In fiscal year 2015, the Authority was approved and awarded \$22.0 million from the Storm Mitigation Loan Program through the NYSEFC. This Storm Mitigation Loan Program award is comprised of a maximum cost disbursement loan from a \$16.5 million Bond Anticipation Note that closed on July 30, 2015, with zero percent interest and up to \$5.5 million in grant monies. The program allows 75% loan and 25% grant money of the total eligible project costs. Work on the eligible projects consisting of water main extensions and replacement of generators began during fiscal year 2016, are now completed as of May 31, 2019. The total amount advanced to the Authority as of May 31, 2019 is \$12.7

million which has been re-sized upon conversion to long-term debt resulting in the recognition of an additional \$2.5 million in grant funding. In February 2020, the Environmental Facilities Corporation closed on the conversion of the Authority's \$16.5 million Bond Anticipation Note to long-term debt in the advanced amount of \$10.2 million.

In June 2017, the Authority applied to the Environmental Facilities Corporation (NYSEFC) for the New York State Water Infrastructure Improvement Act (WIIA) Grant for five projects costing approximately \$8.0 million. The proposed projects included the construction of an Advanced Oxidation Process (AOP) System to treat 1,4-dioxane at the Authority's Smith Street, East Farmingdale well field site, a water main installation to improve service in East Farmingdale, a water main replacement along Montauk Highway in Amagansett, a well replacement at the Blue Point Road well field in Holtsville, and a well replacement at the Brook Avenue well field in Deer Park. In October 2017, the Authority was awarded grant money for two of the five projects: \$0.7 million for the Smith Street Advanced Oxidation Process System and \$1.4 million for the East Farmingdale well field site water main installation. Work on the East Farmingdale water main project was completed in July, 2019.

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains at various sites in the hamlet of Wainscott and new water service lines in East Hampton where private wells have been contaminated with perfluorinated 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. To lessen the financial burden on local residents, the Authority and the town have decided to pursue joint inter-municipal state grant to secure funding from the previous year's \$2.5 billion Water Infrastructure Improvement Act. In September 2018, the Authority has taken the lead in applying for Inter-municipal Grant (IMG) funding program from the Environmental Facilities Corporation (NYSEFC).

In September 2019, the Authority applied to the Environmental Facilities Corporation (NYSEFC) for the 2019 Water Infrastructure Improvement Act (WIIA) Grant for the construction of twelve (12) AOP systems with an estimated total cost of \$25.5 million at various Authority sites. In December 2019, the Authority was awarded \$12.6 million in WIIA Grant for nine of the twelve sites.

### **Water Plant Account**

The Authority carries its water plant on its Statement of Net Position at cost and includes costs arising from the acquisition of properties. Provision for depreciation is made monthly on a straight-line basis at the composite rate of 2.84% annually, upon the depreciable properties of the Authority. The current provision for depreciation is intended to represent a proper portion of the cost of the depreciable assets allocated to the period of the earnings statement. The Authority's accounting policy with respect to depreciation is in conformity with generally accepted accounting principles.

A comparative statement of the combined water plant account, including construction work in progress, and the accumulated depreciation thereon, as of May 31 in each of the past five fiscal years, is as follows:

<u>Water Plant Account</u>					
(in thousands)					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Water Plant at Cost	\$1,923,789	\$1,860,074	\$1,805,656	\$1,743,298	\$1,688,611
Less: Accumulated					
Depreciation	<u>750,857</u>	<u>710,586</u>	<u>673,858</u>	<u>635,583</u>	<u>598,593</u>
Net Water Plant	<u>\$1,172,932</u>	<u>\$1,149,488</u>	<u>\$1,131,798</u>	<u>\$1,107,715</u>	<u>\$1,090,018</u>

According to the Resolution, after allowance for (1) payment of operating and maintenance expenses, (2) payments on Outstanding Senior Lien Bonds issued under the Resolution, and (3) payments on Outstanding Subordinate Lien Bonds issued under the Resolution, Revenues of the Water System are paid to the General Fund. Amounts in the General Fund may be transferred to the New Construction Fund from time to time as desired by the Authority.

The sources of funds providing the growth in the water plant account reflected in the preceding table were primarily Net Revenues deposited in the New Construction Fund, tapping fees for service connections, certain proceeds of Bonds, Bond Anticipation Notes and other obligations, and moneys obtained by the Authority from advances under construction contracts. (See "Construction Contracts" below).

In June 2019, the Authority, in accordance with the requirements of Section 8.5 of the General Resolution, filed with the Bond Fund Trustee, the Engineer's Report on the properties and operations of the Water System. A copy of this report is available for inspection, upon request, during regular business hours at the offices of the Authority. It is the policy of the Authority, after the acquisition of any water system to extend to new customers the Authority's uniform, system-wide rate schedules for water service. Such rates generally have been lower than those which had been charged by the former water companies. The Authority intends to continue this policy. However, from time to time, the Authority has found and may in the future find it necessary to create rate structures for new service areas that are different from the Authority's uniform, system-wide rate schedules for water service. See "WATER RATES" herein.

### **Construction Contracts**

Authority rules and regulations provide the terms and conditions upon which it will install, at the expense of a real estate developer, the necessary mains to provide for a water supply within a designated area. Such terms and conditions are also set forth in a construction contract between the developer and the Authority, which may be supplemented by additional provisions relating to transmission mains. Such construction contracts provide that the Authority will receive certain advances of moneys from developers requiring construction of mains. When these mains are placed in service, these advances are reflected as Construction Reimbursement Fees.

At the request of homeowners currently serviced by private wells, the Authority will extend main water service to provide public water. Generally, each extension requires no less than 40%

of the homeowners on the extension to convert to public water. The Authority is reimbursed for the cost of the extension in excess of 75 feet per homeowner. The homeowner agrees to pay for this cost in full or in installments for a period not to exceed ten years. This cost is reflected as Construction Reimbursement Fees.

## WATER RATES

The Authority covenants that it will furnish no free service by the Water System to any person, firm or corporation, public or private. The Authority has a uniform water rate schedule for all residential, commercial, industrial and certain public users for approximately 96% of its service area. The rest of its service territory has different rate schedules. Upon the recommendation of the CFO, the Authority adopted certain changes in the rate schedules for the Water System effective January 1, 2020 for the water quality and treatment charge and April 1, 2020, for the Tier II increase. The current rates include the establishment of a new tiered structure that is dependent upon consumption in an effort to promote conservation. In July 2015, the Board authorized the proposal of Municipal Financial Service Group of Annapolis, Maryland to provide a five-year Cost of Service and Rate Study which was finalized and approved by the Board in May, 2016. On April 1, 2016, as part of the Cost of Service and Rate Study, the Greenport, Shorewood and Bridgehampton Surfside service area rates were consolidated into the General rates. Copies of the Authority's Rules and Regulations setting forth all of its present rate schedules are available for inspection, upon request, during regular business hours at the offices of the Authority. They are also available on the Authority's website – [www.scwa.com](http://www.scwa.com).

### General Rates

Water Quality & Treatment Charge

Quarterly -\$20.00

Service Classification No. 1 Quarterly  
Service Charge - \$27.91

Service Classification No. 1A Monthly  
Service Charge - \$9.30

### Tier I

Commodity Charge – \$1.518/hundred cubic ft  
or \$2.028/thousand gallons.

Commodity Charge - \$1.518/hundred cubic ft.  
or \$2.028/thousand gallons.

### Tier II\*

Conservation Rate - \$2.190/hundred cubic ft.  
or \$2.925/thousand gallons.

Conservation Rate – \$2.190/hundred cubic ft  
or \$2.925/thousand gallons.

\*Customers will be subject to the Conservation Rate if they exceed a certain utilization threshold as determined by quarterly consumption and meter size. See [scwa.com](http://scwa.com) for threshold information.

Service Classification No. 1 relates to residential, commercial and industrial customers (other than those who consume large volumes of water). Service Classification No. 1A relates to customers who consume large volumes of water.

Service Classification No. 1B relates to water provided on a wholesale basis to municipal water systems within Suffolk County. Effective January 1, 2020, the following municipal water systems are provided water at the wholesale rate: Village of Greenport, St. James Water District, and Smithtown

Water District are billed at the rate of \$1.56 per one thousand gallons, an increase from \$1.50 per one thousand gallons, payable monthly. Service Classification No. 1C relates to water provided on a stand-by wholesale basis to private water utilities interconnected with the Authority's service facilities, provided adequate capacity is available. The rate applicable to such service includes a service charge of \$5.40 per gallon per minute (gpm) of delivery capability, as determined by the Authority, but not less than 500 (gpm) and \$802 per one million gallons, payable monthly.

In addition, there is also a separate rate schedule for customers on Fire Island. The Authority has been acquiring various water systems on Fire Island since 1994. For the most part these systems had unmetered flat rates based on various factors including number of rooms in the premise or water-using devices. Over time, meters were installed, and a rate structure created, including an annual minimum and consumption charge. In connection with the aforementioned rate study, effective April 1, 2019, the Authority increased the annual minimum from \$203.00 to \$233.45 and the consumption rate from \$2.72 to \$2.829 per thousand gallons.

Effective April 1, 2020, the Tier II conservation increased from \$1.752 per hundred cubic feet to \$2.190 hundred cubic feet.

Effective April 1, 2019, the commodity charge for Service Classification No. 1 and 1A increased from \$1.46 to \$1.518 per hundred cubic feet. Previous rate increases occurred in each of the Fiscal Years from 2013 through 2018. An increase in the general rate quarterly service charge for Service Classification No. 1 from \$24.27 to \$27.91 and in the monthly service charge for Service Classification No. 1A from \$8.09 to \$9.30 became effective April 1, 2019.

The Authority's financial division analyzes pertinent information and prepares applicable reports and forecasts for the purpose of evaluating water rates and service classifications. When appropriate, recommendations are made to adjust the rates charged by the Authority to remain in compliance with the Rate Covenant established under the Resolution.

The minimum bill is charged to each of the Authority's customers in advance and any excess consumption is billed following the end of the period of service. Bills are rendered for the net amount and are payable within fifteen days after presentation. A late charge of one and one-half percent (1½%) per month is applied to all outstanding water bills rendered in excess of 45 days.

Sales to the preceding classifications of consumers are made only on a metered basis, except in the case of private fire lines for sprinkler lines.

Rates for fire protection, for the most part, include rentals for public hydrant service which are billed semi-annually following the period of service. The Authority's system-wide uniform rate schedule for public fire protection service is \$160.20 per hydrant per annum effective July 1, 1994. The rate schedule for the private Shorewood service area has been consolidated into the system-wide uniform Private Hydrant Rate schedule. The category Private Hydrant Rates was extracted from the system-wide uniform rate schedule and an increase in the rate from \$226.20 to \$235.25 per hydrant per annum became effective as of April 1, 2019.

As security for the payment of its bills, the Authority generally requires a deposit from each new commercial customer. The amount of the deposit required from a commercial user varies according to the nature and size of the establishment. The Authority may on occasion require, primarily from rental tenants, deposits from residential customers.

### **Comparative Rates**

The following table compares the estimated amount that will be charged by the Authority (during the 2019 Calendar Year) for customers who use an average of 40,000 gallons per quarter with

approximate amounts charged by several other public water suppliers that do not derive any of their revenue from real property taxes.

Suffolk County Water Authority <sup>1</sup>	\$ 436
Water Authority of Great Neck North	1,011
Erie County Water Authority	633
Monroe County Water Authority	606
Onondaga County Water Authority	705

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Source: Comparative rates from the web site of each respective public water supplier are as of June 1, 2019. The annual amount is based on standard residential water consumption rates.

## **REVENUES AND OPERATING EXPENSES**

### **Revenues, Operating and Maintenance Expense**

The revenues, expenses of operation and maintenance and the resulting net revenues of the Authority for the five most recent fiscal years and the 8-month ended January 31, 2020 are set forth in the following table. After provision for the stated debt service charges, the remaining revenues are available for new construction and other corporate purposes of the Authority. The table sets forth the application of the revenues of the Water System in accordance with the provisions of the Resolution. For a discussion of the Authority's 2019 Fiscal Year results, see "Management's Discussion and Analysis" in the Authority's Financial Statements attached hereto as Appendix B.

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## **HISTORICAL FINANCIAL DATA\***

(000's omitted)	Fiscal Year Ended May 31,					8-months ended January	
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2020</b>	<b>2019</b>
	(audited)	(audited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue:							
Operating Revenue							
Residential & Commercial	\$148,437	\$143,185	\$149,576	\$140,736	\$133,829	\$123,979	\$111,841
Public & Private Fire Protection	8,409	8,171	8,205	8,157	8,231	5,817	5,905
Public Authority & Water Districts	6,956	6,256	6,643	6,586	5,855	5,215	5,535
Miscellaneous	25,904	21,379	19,691	20,042	22,449	19,464	15,046
Total Operating Revenue <sup>(i)</sup>	189,706	178,991	184,116	175,521	170,364	154,475	138,327
Other Revenue**	14,093	14,736	20,694	20,752	20,909	6,686	4,158
Total Revenue	\$203,799	\$193,727	\$204,810	\$196,273	\$191,273	\$161,161	\$142,485
Operating Expenses:							
Operations <sup>(i)</sup>	92,328	97,812	98,411	94,074	91,496	70,736	68,197
Maintenance <sup>(i)</sup>	32,042	31,134	29,820	27,718	28,732	24,123	21,754
Total Operating and Maintenance Expenses	\$124,370	\$128,946	\$128,231	\$121,792	\$120,228	\$94,859	\$89,951
Net Revenues Before Debt Service	\$79,429	\$64,781	\$76,579	\$74,481	\$71,045	\$66,302	\$52,534
Debt Service:							
Interest on Bonds & Notes	\$30,819	\$27,881	\$28,863	\$29,271	\$28,080		
Principal of Bonds <sup>(i)</sup>	4,097	4,212	5,617	6,060	5,445		
Total Debt Service	\$34,916	\$32,093	\$34,480	\$35,331	\$33,525		
Available for New Construction Fund, Fund and general corporate purposes	\$44,513	\$32,688	\$42,099	\$39,150	\$37,520		
Senior Lien Bond Debt Service Coverage (Times)	2.27	2.02	2.34	2.32	2.23		
Total Debt Service Coverage (Times)	2.27	2.02	2.22	2.11	2.12		

\* Information in this table marked with (i) is derived from the Authority's audited financial statements from fiscal year ended May 31, 2015 through fiscal year ended May 31, 2019.

\*\*Other Revenue consists of income from investments, costs to be recovered from future revenues and capital reimbursement fees. For fiscal year 2019 and 2018, costs to be recovered from future revenues related to OPEB are no longer recognized as non-operating revenues as a result of the adoption of GASB 75, Accounting for Post Employment Benefits Other than Pensions in 2019. See note 1(v) to the Authority's audited financial statements as of and for the years ended May 31, 2019 and 2018 attached hereto as Appendix B.

A preponderant part of the operating revenue is derived from residential and commercial service, from fees and charges for public and private fire protection and from charges to public bodies and water districts. Traditionally these are the most stable sources of operating revenue for any water system.

In recent years the Authority has taken great strides in reviewing its procedures and making changes to streamline operations with the ultimate goal of providing quality water to its customers at the most reasonable cost possible. Enhanced purchasing and bidding procedures have



allowed the Authority to maintain minimal increases, and at times, reductions in costs on various aspects of operations.

The accounts of the Authority are maintained in accordance with the Uniform System of Accounts prescribed by the PSC, although the Authority is not subject to PSC rules and regulations. Rates established by the Authority do not require PSC or Suffolk County Legislative approval.

Expenses incurred include all proper and necessary costs to satisfactorily operate and maintain a water system that includes 6,001 miles of water main, 35,887 SCWA hydrants, and 397,296 customers as of May 31, 2019 and generates approximately 70 billion gallons of water annually. Major components of these expenses are discussed below.

### **Power Costs**

The cost of purchasing electrical power is the Authority's third highest single operating expense, representing approximately 16.0% of the Authority's total operating and maintenance budget for the 2020 budget year. The Authority is the second largest power user in Suffolk County.

The Public Service Electric and Gas Company ("PSEG"), operates the electric system for the Long Island Power Authority ("LIPA"), and is the power provider to the Authority. PSEG recoups increased fuel and purchased power costs through a purchased power and fuel adjustment clause in the rate tariff. In June 2019, the Authority enrolled in a South Fork Peak Savers Program whereby its stand-by generators can be utilized to shed load off the electric grid when requested by PSEG. The enrollment incentive from this program will provide performance payments and fuel stipends to the Authority annually. For the 2020 Fiscal Year the Authority has budgeted, based on average consumption, power costs of \$22.0 million.

### **Wages and Employees**

The Authority employed 570 full time employees as of May 31, 2019. Total payroll for the 2020 Fiscal Year is budgeted at \$50,102,000 of which approximately \$40,082,000 is charged to the operation and maintenance of the Water System and the remaining capitalized across Authority projects. The Authority has made a conscious effort over the past decade to control payroll costs since wages represent approximately 29% of the operating and maintenance budget.

The Authority has employees that are members of two collective bargaining units that are represented by the Utility Workers Union of America A.F.L. C.I.O., Local 393 ("Local 393"), a main bargaining unit of approximately 330 employees and a laboratory bargaining unit of approximately 28 employees. The collective bargaining agreements for both bargaining units expire June 30, 2023.

### **Pension System**

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25, and Statement No. 68, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 27. These statements change how governments calculate and report the costs and obligations associated with pensions, improve the decision usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information. GASB Statement No. 67 took effect for periods beginning after June 15, 2013. GASB Statement No. 68 took effect for periods beginning after June 15, 2014. GASB Statement No. 68 requires governmental entities to recognize its proportional share of the difference between the net position liability and fiduciary plan position of each pension plan that the entity participates in. Beginning with Fiscal Year 2016, the Authority adopted and applied the provisions of Government Accounting Standards Board Statement No. 68, Statement No. 71, *Pension Transition for Contributions Made Subsequent to the*

*Measurement Date* – an amendment of GASB Statement No. 68 and Statement No. 82, *Pension Issues* – an Amendment of GASB Statement No. 67, No 68, and No. 73.

The Authority makes annual contributions to the State and Local Employees Retirement System (the “Retirement System”) to provide retirement benefits for its employees as determined by the State. All personnel employed before July 27, 1976 are on a non-contributory basis, with the total retirement expense funded by the Authority. Those employees hired after July 27, 1976 are required to contribute 3% of their gross salaries and wages to partially offset the Authority’s cost. Employees in Tier III and Tier IV (hired on or after July 27, 1976), achieving ten years of service in the Retirement System are no longer required to contribute 3% of their gross salaries and wages. Tier V employees (hired on or after January 1, 2010) are required to contribute 3% of their gross salaries and wages for the entire length of their public service. Tier VI employees (hired on or after April 1, 2012) were required to contribute 3% of their gross salaries and wages from April 1, 2012 through March 31, 2013. Beginning April 1, 2013, Tier VI members are required to contribute the contribution rate based on their annual wage. Those employees earning \$45,000 or less will contribute 3%, \$45,000 to \$55,000 will contribute 3.5%, \$55,000 to \$75,000 will contribute 4.5%, \$75,000 to \$100,000 will contribute 5.75% and those earning in excess of \$100,000 will contribute 6% of their gross salaries and wages.

The Authority’s contributions in connection with the Retirement System are funded on an actuarial basis determined by the State. The Authority is assessed on an annual basis for its share of the Retirement System’s pension and group term life insurance costs. The amounts of the Authority’s contributions for the Fiscal Years 2015 through 2019 are shown on the following schedule.

<b>Payments to Employees’ Retirement System Fiscal Year ended May 31,</b>					
	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Regular Pension and Group Term Life Insurance Contribution	\$6,624,542	\$6,902,988	\$6,325,481	\$7,161,091	\$7,813,370

Effective May 14, 2003, legislation was passed allowing the Office of the State Comptroller to establish contribution rates for a given fiscal year based on the value of the pension fund as of the prior April 1. The legislation also establishes a minimum 4.5% payment. The Authority has been advised that the contribution rates for the period April 1, 2019 through March 31, 2020 (payment due February 1, 2020) and April 1, 2020 through March 31, 2021 (payment due February 1, 2021) are as follows:

<b><u>Tiers</u></b>	<b><u>Years</u></b>	<b><u>March 31, 2020</u></b>	<b><u>March 31, 2021</u></b>
Tier II	Employees who joined on or after 7/1/73 and prior to 7/27/76	19.5	19.5
Tier III and Tier IV	Employees who joined on or after 7/27/76	15.8	15.8
Tier V	Employees who joined on or after 01/01/10	13.2	13.2
Tier VI	Employees who joined on or after 4/1/12	9.3	9.3

Based on the contribution rate for the twelve-month period ended March 31, 2020, the Authority estimates the cost to fund the payment to the Retirement System to be approximately \$6.5 million.

## **Other Post-Employment Benefits**

In fiscal year 2019, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting for Postemployment Benefits Other than Pensions* (GASB 75). The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local government employers. GASB 75 establishes guidance for the financial reporting of OPEB costs over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Additionally, GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources and deferred inflows of resources. The adoption of GASB 75 was done retrospectively for the fiscal year ended May 31, 2018.

Whereas no legislation has been enacted to establish a dedicated trust for these funds, the accrued liability remains unfunded. However, during 2012, in an effort to mitigate future rate impact related to any enacted legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2019, and 2018, the undedicated reserve is \$54.2 million and \$35.2 million, respectively.

The Authority's total OPEB liability of \$282.5 million and \$305.9 million was measured as of May 31, 2019 and 2018, respectively and was determined by an actuarial valuation as of that date.

## **Insurance**

The Authority renewed its insurance coverage on April 1, 2019. It maintains commercial general liability (CGL), commercial auto liability and excess liability policies layered with aggregate limits totaling \$53.0 million dollars. The Authority is responsible for any claim settlements or judgment award up to the deductible amount of \$100,000 per occurrence under the primary CGL and auto liability policies. Claims handling fees and legal defense charges are included in the premium and assumed by the Authority's insurance company.

Property insurance with a per occurrence blanket limit of \$75.0 million dollars and no aggregate policy limit, provides coverage for buildings and contents, boiler and machinery, contractor's equipment, inventory and loss of revenue due to a covered loss.

The Authority self-insured its workers compensation coverage in accordance with New York statutory regulations effective April 1, 2016. Excess insurance is purchased to cover any liability associated with any claim(s) that exceeds \$750,000 per occurrence. A national third-party claims administrator, Sedgwick Claims Management Services, Inc. is retained to administer claims along with assistance from an Authority staff member.

The Authority maintains Cyber Insurance to cover: 1) Privacy Liability, the costs associated with an inability to protect personal identifiable information, 2) Network Security liability, liability associated with the inability to prevent a computer attack, 3) regulatory fines, 4) Payment Card industry costs associated with any written demand for monetary assessment in connection with non-compliance with PCI Data Security Standards, and other liability coverage and mitigation costs. The limit is \$3.0 million dollars which is consistent with entities of a similar size.

The Authority also maintains directors' and officers', commercial crime, and disability insurance in commercially reasonable amounts. The Authority continues to review its insurance needs annually in an effort to manage its risk while at the same time managing its costs.

## Collections

The Authority's collection activities have resulted in a collection rate on revenues (revenues less uncollectible accounts net of Third-Party collections) of 99.9% in the 2019 Fiscal Year. Total revenues, uncollectible accounts and collection percentage for each of the Fiscal Years 2015 through 2019 are set forth below:

<u>Fiscal Year</u>	<u>Water Service Revenues</u>	<u>Uncollectible Accounts</u>	<u>Collection Percentage</u>
2019	\$163,802,000	\$ 21,517	99.9%
2018	157,612,000	158,403	99.9
2017	164,425,000	247,547	99.8
2016	155,479,000	610,252	99.6
2015	147,915,000	635,299	99.6

Authority rules and regulations state that all bills are due and payable, net cash, 12 working days from date of bill. A late charge of 1½% per month is applied to all outstanding bills in excess of 45 days. The Authority's regulations also provide for discontinuance of water service, in conformance with law, when necessary. The Authority establishes a reserve for accounts deemed uncollectible. The reserve as of May 31, 2019 was \$1,552,564.

In fiscal year 2017, Property Tax Lien Legislation passed by the New York State Legislature was signed into law by the Governor granting the Authority collection powers similar to those possessed by municipal water districts. This enables the Authority the ability to fully collect the rates, fees and charges for services it has rendered to its customers but was not paid for and will reduce the amount of unpaid rates, fees, and charges written off as uncollectible.

The outbreak of the novel coronavirus ("COVID-19") has affected travel, commerce and financial markets globally, and is widely expected to affect national, state and local economies. The degree of any such impact to the Authority's operations and finances is extremely difficult to predict due to the dynamic nature of the COVID-19 outbreak, including uncertainties relating to its (i) duration, (ii) severity and (iii) ultimate geographic spread, as well as with regard to what actions may be taken by governmental authorities to contain or mitigate its impact. Nonetheless, there can be no assurances that the spread of COVID-19 will not materially adversely impact the financial condition of the Authority.

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**Operating and Maintenance FY 2019 Actual Comparison to the FY 2020 Fiscal Year Budget**

	<b>2019</b>	<b>2020</b>
<u>Category</u>	<u>Actual</u>	<u>Budget</u>
Payroll	\$40,329,100	\$40,082,000
Benefits	33,608,000	44,738,000
Communications	36,800	30,000
Construction Maintenance	8,727,000	6,382,000
Customer Service	266,500	247,000
Education Awareness	5,600	20,000
Emergency Management	7,400	28,000
Engineering	2,989,800	3,839,000
Facilities Management	1,333,800	1,557,500
Finance	986,200	2,454,000
Human Resources.	238,100	290,000
Information Technology & G.I.S.	2,342,400	1,800,000
Laboratory	761,900	750,000
Production Control	4,586,600	4,944,000
Risk Management	3,780,000	5,497,000
Safety	151,700	142,500
Stores	198,900	230,000
Strategic Initiatives	431,000	478,500
Telecommunications	1,284,900	850,000
Power Purchase	21,137,200	22,150,500
Transportation	1,167,400	1,566,000
TOTAL	<u>\$124,370,000</u>	<u>\$138,076,000</u>

The Authority has budgeted \$138,076,000 in operation and maintenance expenses for Fiscal Year 2020. This figure represents an increase of 11.02% or \$13.7 million over the operating and maintenance actual expenses for the 2019 Fiscal Year. The Fiscal Year 2020 Budget increase is mainly attributable to an increase in benefit costs of \$11.1 million due to a GAAP adjustment that reduced benefits expense in the 2019 Fiscal Year as a result of the required conversion from GASB 45 to GASB 75 (*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*), an increase in wells, pumping and treatment expense of \$1.2 million, an increase in power costs of \$1.0 million and an increase in administrative expenses of \$2.7 million, offset by a decrease in maintenance of mains expense of \$2.3 million. The above schedule reflects the line item breakdown of the Authority's operation and maintenance actual expenses for the 2019 Fiscal Year compared to operation and maintenance budget for the 2020 Fiscal Year.

**Investment Policy**

The Resolution imposes restrictions on the Authority's ability to invest moneys on deposit in the Funds created by the Resolution. On January 26, 1999, the Authority adopted comprehensive investment guidelines with additional restrictions on the investment of all moneys of the Authority. These guidelines were amended on June 30, 2009 and August 19, 2013.

## **INCORPORATION BY REFERENCE OF SUFFOLK COUNTY'S MOST RECENT OFFICIAL STATEMENT**

The Series 2020 Refunding Bonds are not a debt of Suffolk County, nor is Suffolk County in any way, directly or indirectly, obligated for the repayment thereof. However, the service area of the Authority is generally coterminous with the geographical area of Suffolk County and therefore certain demographic, economic and statistical information relating to Suffolk County may be relevant to prospective purchasers of the Series 2020 Refunding Bonds. Therefore, the Official Statement of the County of Suffolk, dated April 2, 2020, relating to the County of Suffolk New York \$104,170,000 Revenue Anticipation Notes – 2020 and \$30,000,000 Bond Anticipation Notes – 2020 Series A, filed with the Municipal Securities Rulemaking Board (the “MSRB”), but only to the extent of the information contained in “APPENDIX A – THE COUNTY OF SUFFOLK” under the captions and subcaptions entitled “THE COUNTY OF SUFFOLK—Economic Indicators,” “—Transportation,” “—Education Facilities” and “—Tourism & Recreation,” “REAL PROPERTY TAXES” and “STATISTICAL INFORMATION,” is hereby incorporated by reference herein and made a part hereof. Such information may be reviewed at MSRB’s website through its Electronic Municipal Market Access (“EMMA”) system. Such information is not guaranteed as to its accuracy or completeness by the Authority and is not to be construed as a representation by the Authority.

## **TAX MATTERS**

### ***Federal Income Taxes***

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, interest on the Series 2020 Refunding Bonds is NOT excluded from gross income for federal income tax purposes.

### **General**

The following discussion summarizes certain United States (“U.S.”) federal tax considerations generally applicable to holders of the Series 2020 Refunding Bonds that acquire the Series 2020 Refunding Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, and any such change could have retroactive effect. Prospective investors should also note that no rulings have been or are expected to be sought from the Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, financial institutions, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, persons holding the Series 2020 Refunding Bonds as a hedge against currency risks or as a position in a “straddle” for tax purposes, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire the Series 2020 Refunding Bonds pursuant to this initial offering for the issue price that is applicable to such Bonds (i.e., the price at which a substantial amount of the Series 2020 Refunding Bonds are sold to the public) and who will hold the Series 2020 Refunding Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof

(including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust).

As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2020 Refunding Bonds (including their status as U.S. Holders or Non-U.S. Holders).

## **U.S. Holders**

**Interest on the Series 2020 Refunding Bonds.** Payments of interest on the Series 2020 Refunding Bonds will be included in gross income for U.S. federal income tax purposes by a U.S. Holder as ordinary income at the time the interest is paid or accrued in accordance with the U.S. Holder's regular method of accounting for tax purposes, provided such interest is “qualified stated interest,” as defined below.

**Original Issue Discount.** The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of bonds issued with original issue discount (“OID Bonds”) for U.S. federal income tax purposes. The following summary is based upon final Treasury regulations (the “OID Regulations”) released by the Internal Revenue Service (“IRS”) under the original issue discount provisions of the Code.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a bond over its issue price, if such excess equals or exceeds a specified de minimis amount (generally 1/4 of 1% of the bond's stated redemption price at maturity (i) multiplied by the number of complete years to its maturity from its issue date or, (ii) in the case of a bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such bond). The issue price of each maturity of substantially identical bonds equals the first price at which a substantial amount of such maturity of bonds has been sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a bond is the sum of all payments provided by the bond other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the Authority) at least annually at a single fixed rate.

A U.S. Holder of an OID Bond must include original issue discount in income as ordinary interest for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of an OID Bond is the sum of the daily portions of original issue discount with respect to such OID Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such OID Bond. The “daily portion” of original issue discount on any OID Bond is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An “accrual period” may be of any length and the accrual periods may vary in length over the term of the OID Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the OID Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of

compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. Original issue discount allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules apply for calculating original issue discount for an initial short accrual period. The “adjusted issue price” of an OID Bond at the beginning of any accrual period is the sum of the issue price of the OID Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the OID Bond that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder who purchases an OID Bond for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to the sum of all amounts payable on the OID Bond after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the OID Bond at an “acquisition premium.” Under the acquisition premium rules, the amount of original issue discount which such U.S. Holder must include in its gross income with respect to such OID Bond for any taxable year (or portion thereof in which the U.S. Holder holds the OID Bond) will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period.

U.S. Holders may generally, upon election, include in income all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions. This election will generally apply only to the debt instrument with respect to which it is made and may be revoked only with the consent of the IRS.

**Premium.** If a U.S. Holder purchases a Bond for an amount that is greater than the sum of all amounts payable on such Bond after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased such Bond with “amortizable bond premium” equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of such Bond and may offset interest otherwise required to be included in respect of such Bond during any taxable year by the amortized amount of such premium for the taxable year. Bond premium on a Bond held by a U.S. Holder that does not make such an election will decrease the amount of gain or decrease the amount of loss otherwise recognized on the disposition of such Bond. However, if a Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules will apply that could result in a deferral of the amortization of a portion of the bond premium until later in the term of such Bond (as discussed in more detail below). Any election to amortize bond premium applies to all taxable debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

**Disposition of Series 2020 Refunding Bonds.** Except as discussed above, upon the sale, exchange, redemption or retirement of a Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (other than amounts representing accrued and unpaid interest) of such Bond and such U.S. Holder's adjusted tax basis in such Bond. A U.S. Holder's adjusted tax basis in a Bond generally will equal such U.S. Holder's initial investment in the Bond increased by accrued market discount, if any, if the U.S. Holder has included such market discount in income, and decreased by the amount of any payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Bond. Such gain or loss generally will be long-term capital gain or loss if the Bond has been held by the U.S. Holder at the time of disposition for more than one year. If the U.S. holder is an individual,



long-term capital gain will be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

### **Non-U.S. Holders**

A Non-U.S. Holder who is an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Bonds on its own behalf will not be subject to U.S. federal income tax on payments of principal of, or premium (if any), or interest (including original issue discount, if any) on Bonds, unless the Non-U.S. Holder is a bank receiving interest described in Section 881(c)(3)(A) of the Code. To qualify for the exemption from taxation, the Withholding Agent, as defined below, must have received a statement from the individual or corporation that:

- (a) is signed under penalties of perjury by the beneficial owner of the Series 2020 Refunding Bonds,
- (b) certifies that the owner is not a U.S. holder, and
- (c) provides the beneficial owner's name and permanent residence address.

A "Withholding Agent" is the last U.S. payor (or non-U.S. payor who is a qualified intermediary, U.S. branch of a foreign person or withholding foreign partnership) in the chain of payment prior to payment to a non-U.S. holder (which itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN ("W-8BEN"), which is effective for the remainder of the year of signature plus three full calendar years thereafter, unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a Form W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of any change and furnish a new Form W-8BEN. A Non-U.S. Holder that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Bonds on its own behalf may have substantially increased reporting requirements. In particular, in the case of Series 2020 Refunding Bonds held by a foreign partnership or foreign trust, the partners or beneficiaries rather than the partnership or trust will be required to provide the certification discussed above, and the partnership or trust will be required to provide certain additional information.

A Non-U.S. Holder of Series 2020 Refunding Bonds whose income from such Bonds is effectively connected with the conduct of a U.S. trade or business generally will be taxed as if the holder were a U.S. Holder, provided the holder furnishes to the Withholding Agent a Form W-8ECI.

Certain securities clearing organizations and other entities that are not beneficial owners may be able to provide a signed statement to the Withholding Agent. In that case, however, the signed statement may require a copy of the beneficial owner's Form W-8BEN (or substitute form).

Generally, a Non-U.S. Holder will not be subject to U.S. federal income tax on any amount that constitutes capital gain upon retirement or disposition of Series 2020 Refunding Bonds, unless the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the retirement or disposition of such Bonds, and that gain is derived from sources within the United States. Certain other exceptions may apply, and a Non-U.S. Holder in these circumstances should consult his or her tax advisor.

Bonds will not be includible in the estate of a Non-U.S. Holder unless, at the time of the decedent's death, income from such Bonds was effectively connected with the conduct by the decedent of a trade or business in the United States.

ALL PROSPECTIVE PURCHASERS OF THE SERIES 2020 REFUNDING BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE AS TO THESE AND OTHER FEDERAL AND STATE TAX CONSEQUENCES, AS WELL AS ANY LOCAL TAX CONSEQUENCES, OF PURCHASING OR HOLDING THE SERIES 2020 REFUNDING BONDS.

### ***State Income Taxes***

In the opinion of Bond Counsel, under existing statutes, interest on the Series 2020 Refunding Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof, including The State of New York

Bond Counsel expresses no opinion regarding any other state or local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2020 Refunding Bonds.

Interest on the Series 2020 Refunding Bonds may or may not be subject to state or local income taxes in jurisdictions other than the State of New York under applicable state or local tax laws. Bond Counsel expresses no opinion, however, as to the tax treatment of the Series 2020 Refunding Bonds under other state or local jurisdictions. Each purchaser of the Series 2020 Refunding Bonds should consult his or her own tax advisor regarding the taxable status of the Series 2020 Refunding Bonds in a particular state or local jurisdiction other than the State of New York.

## **COVENANT BY THE STATE OF NEW YORK**

Under the Act, the State covenants with the purchasers and with all subsequent holders and transferees of bonds and notes issued by the Authority that such bonds and notes and the income therefrom and all moneys, funds and revenues pledged to pay or secure the payment of such bonds and notes, shall at all times be free from taxation, except for transfer and estate taxes. Under the Act, the State also pledges to and agrees with the holders of bonds or notes issued by the Authority (including the Series 2020 Refunding Bonds) that the State will not limit or alter the rights thereby vested in the Authority to acquire, construct, maintain, operate, reconstruct and improve the properties, to establish and collect the revenues, rates, rentals, fees and other charges referred to in the Act and to fulfill the terms of any agreements made with the holders of such bonds or notes, or in any way impair the rights and remedies of the holders thereof, until the bonds, together with interest thereon, interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of the holders thereof, are fully met and discharged.

## **LEGALITY FOR INVESTMENT**

The Act provides that bonds and notes issued by the Authority (including the Series 2020 Refunding Bonds) are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business and all other persons whomsoever, except as hereinafter provided, who are now or may hereafter be authorized to invest funds including capital in their control or belonging to them. Such bonds or notes, however, shall not be eligible for the investment of funds including capital, of trusts, estates or guardianships under the control of individual administrators, guardians, executors, trustees and other individual fiduciaries.

The bonds and notes issued by the Authority are also, by the Act, made securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

## **LEGAL MATTERS**

Harris Beach PLLC, New York, New York, Bond Counsel to the Authority, will render its approving opinion as to the validity and legality of the Series 2020 Refunding Bonds, copies of which will be available at the time of delivery of the Series 2020 Refunding Bonds and the form of which is annexed hereto in Appendix C. Said Bond Counsel has not assumed responsibility for the preparation of this Official Statement and is not rendering any opinions as to the accuracy or completeness of the Official Statement.

In the opinion of Timothy J. Hopkins, Esq., General Counsel to the Authority, the Authority is vested with the title or right and interest in all the properties constituting the Water System, including plants, works, instrumentalities or parts thereof and appurtenances thereto, lands, easements, rights in land and water rights, rights-of-way, contract rights, approaches, connections, storage tanks, water mains and pipe lines, pumping stations and equipment and any other property incidental to and included in the Water System or part thereof and any improvements, extensions and betterments thereof, all of which are located in Suffolk County. Such counsel is of the opinion that substantially all parcels of land included in the Water System are owned in fee or by long-term easement agreements, and the transmission and distribution mains are located on land with respect to which the Authority has rights-of-way or easements, or along public streets and roadways, and with respect to such rights-of-way or easements, the Authority is not obligated to pay any rental charges for the use thereof. The small numbers of parcels not owned in fee are operated by the Authority under long-term contractual arrangements or easement agreements. Such counsel is of the opinion that, so far as legal matters are concerned, such properties, interests and rights vested in the Authority are sufficient to authorize the use and operation of the Water System as now being used and operated; and is also of the opinion that the aforesaid properties, interests and rights held by the Authority in the Water System are held free and clear of any mortgages, liens, or other encumbrances which might affect the same to the extent of interfering with the operations of the Water System; nor has the Authority assumed the obligation of any such mortgages, liens, or encumbrances or the payment of any interest charges thereunder.

## **LITIGATION**

There is not now pending or, to the best of the Authority's knowledge, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2020 Refunding Bonds or questioning or affecting the validity of the Series 2020 Refunding Bonds or the proceedings and authority under which they are to be issued, nor is the creation, organization, or existence of the Authority being contested.

There is no litigation pending or, to the best of the Authority's knowledge, threatened which in any manner questions the right of the Authority to operate the Water System or its right to conduct its activities in accordance with the provisions of the Act and of the Resolution. Any other litigation pending is generally of a routine nature which does not affect the right of the Authority to conduct its business or affect the validity of its obligations, or which in the judgment of the Authority, due to the nature of such claims and/or the availability of insurance as described above under "REVENUES AND OPERATING EXPENSES - Insurance," would not have a material adverse effect on the financial condition or operations of the Authority if adversely determined.

## CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12

In order to assist the Purchasers in complying with Rule 15c2-12, as it may be amended (the “Rule”) promulgated by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended, the Authority, to the extent the Rule requires, will agree for the benefit of the beneficial owners from time to time of the Series 2020 Refunding Bonds (the “Authority Undertaking”) to provide to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system, in electronic format and accompanied by such identifying information as is prescribed by the MSRB, an Annual Report, containing the information set forth in clause (1) below and with notices of events set forth in clauses (2) and (3) below:

(1) within 180 days after the end of the 2020 Fiscal Year and each subsequent Fiscal Year, core financial information and operating data for the prior Fiscal Year, including (i) the Authority’s audited financial statements, if available, prepared in accordance with generally accepted accounting principles in effect from time to time, or, if such annual audited financial statements are not available, annual unaudited financial statements of the Authority shall be so provided and such annual audited financial statements shall be so delivered within 60 days after they become available and in no event later than 360 days after the end of each Fiscal Year, and (ii) material historical financial and operating data concerning the System and the Revenues of the Authority generally of the type included under the captions “Debt Service Requirements,” “Capital Improvement Plan,” “Service Areas, Plant Facilities and Water Supply” and “Revenues and Operating Expenses”;

(2) to file in a timely manner, not in excess of 10 business days, of the occurrence of any of the following events with respect to the Series 2020 Refunding Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2020 Refunding Bonds, or other material events affecting the tax-exempt status of the Series 2020 Refunding Bonds;
- (g) modifications to rights of the holders (including Beneficial Owners) of the Series 2020 Refunding Bonds, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Series 2020 Refunding Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar events;
- (m) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions other than pursuant to its terms, if material; and

- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material; and
  - (o) incurrence of a financial obligation by any obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect security holders, if material; and
  - (p) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of any obligated person, any of which reflect financial difficulties.
- (3) to file in a timely manner notice of any failure by the Authority to comply with clause (1) above.

The provisions of the Authority Undertaking inure solely to the benefit of the beneficial owners from time to time of the Series 2020 Refunding Bonds who will be third-party beneficiaries of the Authority Undertaking.

With respect to event (d) and (e) listed above, the Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Authority applies for or participates in obtaining the enhancement.

With respect to event (f) listed above, and the tax status of the Bonds, see TAX MATTERS.

With respect to event (h) listed above, the Authority does not undertake to provide notice of a mandatory scheduled redemption not otherwise contingent upon the occurrence of an event if (i) the terms, dates and amounts of redemption are set forth in detail in this Official Statement under Redemption under DESCRIPTION OF THE SERIES 2020 REFUNDING BONDS - Redemption above, (ii) the only open issue is which Series 2020 Refunding Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Beneficial Owners as required under the terms of the Series 2020 Refunding Bonds, (iv) public notice of the redemption is given pursuant to the Release Number 34-23856 of the SEC under the 1934 Act, even if the originally scheduled amounts are reduced by prior optional redemptions or bond purchases.

For purposes of events identified in clauses (o) and (p) above, the term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

The Authority may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Authority, such other event is material with respect to the Series 2020 Refunding Bonds, but the Authority does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The obligations of the Authority to comply with the provisions of the Authority Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any owner of outstanding Series 2020 Refunding Bonds, or by the Bond Fund Trustee on behalf of the owners of outstanding Series 2020 Refunding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Bond Fund Trustee on behalf of the owners of outstanding Series 2020 Refunding Bonds; provided, however, that the Bond Fund Trustee shall not be required to take any enforcement action except at the direction of the owners of not less than a majority in aggregate principal amount of the Series 2020 Refunding Bonds at the time outstanding who shall have provided the Bond Fund Trustee with adequate security and indemnity. Neither the Authority nor its

directors, officers or employees shall have any liability under the Authority Undertaking for any act or failure to act under the Authority Undertaking. The owners and Bond Fund Trustee's sole remedy with respect to enforcement of the provisions of the Authority Undertaking shall be a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Authority Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Series 2020 Refunding Bonds pursuant to the Authority Undertaking, beneficial owners shall be deemed to be owners of Series 2020 Refunding Bonds for purposes of enforcement of the Authority Undertaking. All proceedings may be instituted only as specified herein, in the Federal or State courts located in the County of Suffolk, State of New York, and for the equal benefit of all holders of the outstanding Series 2020 Refunding Bonds.

The Authority Undertaking provides that the Authority's and the Bond Fund Trustee's obligations thereunder will terminate upon a legal defeasance pursuant to the Resolution, prior redemption or payment in full of all of the Series 2020 Refunding Bonds. Upon any legal defeasance, the Authority Undertaking provides that the Authority shall give notice of such defeasance to the MSRB. The Authority Undertaking further provides that if all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Authority Undertaking, insofar as the provision of the Rule no longer in effect required the providing of such information, shall no longer be required to be provided.

Copies of the Authority Undertaking when executed by the parties thereto on the date of the initial delivery of the Series 2020 Refunding Bonds will be on file at the office of the Bond Fund Trustee.

In connection with the issuance of prior series of Bonds and Notes, the Authority entered into agreements to provide continuing disclosure for the benefit of the beneficial owners of such Bonds, which agreements are substantially similar to the Authority Undertaking. In 2015, the Authority has undertaken the defeasances of certain of its Bonds. In connection with such defeasance, material event notices were not timely filed. However, the Authority has timely filed material event notices, if applicable, for the early redemption of such defeased Bonds. The Authority has reviewed and modified its continuing disclosure practices to ensure that all material event notices are filed in a timely manner. The Authority has also posted a notice on EMMA disclosing such prior defeasances. Except as disclosed above, in the previous five years, the Authority has not failed to comply, in all material respects, with such prior agreements to provide continuing disclosure.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Samuel Klein and Company, Certified Public Accountants, a firm of independent public accountants, will deliver to the Authority and the successful underwriting bidder on or before the delivery date of the Series 2020 Refunding Bonds its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Authority and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of the mathematical computations (i) of the adequacy of the cash, the maturing principal amounts and the interest on the Federal Securities deposited with the Trustee to pay the principal, interest and redemption price coming due on the Refunded Bonds on and prior to their respective maturity or redemption dates as described in "REFUNDING PLAN".

## **FINANCIAL CONSULTANT**

Pursuant to a written agreement between the Authority and Goldman Sachs & Co. LLC (the "Financial Consultant Agreement"), Goldman Sachs & Co. LLC, serves as financial consultant to the

Authority and provides recommendations and other financial guidance to the Authority with respect to the sale and issuance of its long-term obligations, including the Series 2020 Refunding Bonds, timing of sale, tax-exempt bond market conditions and other factors related to the sale and issuance of such obligations. The Financial Consultant Agreement provides that Goldman Sachs & Co. LLC will not serve as underwriter unless the procedures contained in Municipal Securities Rulemaking Board Rule G-23 have been complied with, if applicable. The Financial Consultant has not audited, authenticated or otherwise verified the information set forth in this Official Statement, or any other information that may be available to the Authority, with respect to appropriateness, accuracy and completeness of disclosure of such information or other information, and no guaranty, warranty or other representation is made by the Financial Consultant respecting such accuracy and completeness of information or any other matter related to such information and the Official Statement.

## **RATINGS**

Standard & Poor's Rating Services ("S&P") and Fitch, Inc. ("Fitch") have assigned their long-term municipal ratings of "AAA" and "AAA," respectively, to the Series 2020 Refunding Bonds and have affirmed their respective "AAA" and "AAA" ratings to the Authority's Outstanding Senior Lien Bonds. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from: Standard & Poor's Rating Services, 25 Broadway, New York, New York 10004 and Fitch, Inc., One State Street Plaza, New York, New York 10004. Generally, each rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised, suspended or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. A revision, suspension or withdrawal of any such ratings may have an effect on the market price of the Series 2020 Refunding Bonds.

## **INDEPENDENT AUDITORS**

The financial statements of the Authority as of and for the fiscal years ended May 31, 2019 and 2018, which are included as Appendix B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report which appears therein, which includes an emphasis of matter paragraph regarding the Authority's adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

KPMG LLP, our independent auditors, has not been engaged to perform and has not performed any procedures on any financial statements of the County of Suffolk, New York or on any Official Statement of the County of Suffolk, including the Official Statement of the County of Suffolk, dated April 2, 2020, relating to the County of Suffolk New York \$104,170,000 Revenue Anticipation Notes – 2020 and \$30,000,000 Bond Anticipation Notes – 2020 Series A (Suffolk County Official Statement) that has been incorporated by reference into this Official Statement.

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## **CERTIFICATION AS TO OFFICIAL STATEMENT**

The Authority will confirm to the successful underwriting bidders of the Series 2020 Refunding Bonds, by a certificate signed on its behalf by its Chairman and dated and delivered on the date of delivery of and payment of the Series 2020 Refunding Bonds, that on the date of this Official Statement and on the date of such certificate (i) the descriptions and statements of or pertaining to the Authority contained in this Official Statement were and are true and correct in all material respects; and (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made as to statements in this Official Statement ascribed to sources other than the Authority, although the Authority has no reason to believe and does not believe that such information is materially inaccurate or misleading.

The references herein to the Act, the General Resolution, the Supplemental Resolutions and the Series 2020 Refunding Bonds are made subject to all of the respective provisions thereof, to which reference is hereby made for further information. The references thereto in this Official Statement do not purport to be complete statements thereof. The agreement of the Authority with the holders of the Series 2020 Refunding Bonds is fully set forth in the Resolution, and neither any advertisement of such Series 2020 Refunding Bonds nor this Official Statement is to be construed as a contract with the purchasers of such Series 2020 Refunding Bonds. All appendices to this Official Statement are hereby incorporated as integral parts of this Official Statement. So far as any statements are made in the Official Statement involving matters of opinion or estimate, whether or not expressly so stated, they are intended merely as such and not as presentations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Bond Fund Trustee.

This Official Statement is being issued by the Authority in two editions: (1) a preliminary edition dated May 29, 2020 and issued for purposes of public sale of all of the Series 2020 Refunding Bonds on June 10, 2020 pursuant to the Authority's Official Notices of Sale requesting electronic bids and (2) a final edition dated June 10, 2020 and issued, in connection with the public sale, to contain the actual interest rates to be borne by the Series 2020 Refunding Bonds upon issuance thereof and the resulting annual debt service.

**SUFFOLK COUNTY WATER AUTHORITY**

By: /s/ Patrick G. Halpin  
Patrick G. Halpin  
Chairman



## **APPENDIX A**

### **SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

The following is a summary of certain provisions contained in the Resolution which does not purport to be complete. This summary is qualified by reference to the Resolution copies of which may be examined at the offices of the Authority and the Bond Fund Trustee. In particular, investors and other interested parties, should refer to the complete Resolution for a description of the nature and extent of (i) the security for the Series 2020 Refunding Bonds, and of any bonds heretofore and hereafter issued under the General Resolution (all of such bonds being herein collectively called the “Bonds”), (ii) the revenues pledged to the payment of the Series 2020 Refunding Bonds, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of the Series 2020 Refunding Bonds with respect thereto, (iv) the terms and conditions upon which the Series 2020 Refunding Bonds are issued, and (v) a statement of rights, duties, immunities and obligations of the Authority.

The following are definitions of certain terms contained in the Resolution and used herein.

#### **Definitions of Certain Terms**

“Additional Security” means a letter of credit, line of credit, insurance policy, standby purchase agreement or similar obligation or instrument or any combination of the foregoing.

“Authorized Denominations means a minimum of \$5,000 and any \$5,000 integral multiple thereof.

“Authorized Officer” when used with reference to the Authority means the Chairman, the Secretary, the Director of Finance, the Assistant Secretary, the Executive Director thereof or other officer designated by resolution of the Authority.

“Bond Anticipation Notes” means obligations issued pursuant to Section 3.7 of the Resolution.

“Bond Counsel” means Harris Beach PLLC, or such other attorney or firm of attorneys, designated by the Authority, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Bond Fund” means the Bond Fund created in Section 6.4 of the Resolution and to be held and administered by the Bond Fund Trustee.

“Bond Fund Trustee” means the trustee appointed pursuant to Section 7.1 of the Resolution and its successor or successors and any other corporation which may be substituted in its place pursuant to the Resolution.

“Bonds” means Water System Revenue Bonds issued from time to time pursuant to and under authority of Section 3.1 of the Resolution and which shall be designated by the Supplemental Resolution authorizing the issuance thereof as either Senior Lien Bonds or Subordinate Lien Bonds.

“Capital Appreciation Bonds” means Bonds issued pursuant to Section 3.10 of the Resolution.

“Certificate of Determination” means the certificate or certificates of the Chairman of the Authority, dated June 23, 2020, determining certain terms of the Series 2020 Refunding Bonds.

“Compound Accreted Value” means an amount determined in accordance with Section 3.11 of the Resolution.

“Compounded Amount” means, as of any date of computation, the principal amount of any Capital Appreciation Bond plus the interest accrued on such Bond compounded on the interest payment dates and at the rate provided in the applicable Supplemental Resolution to such date of computation, if an interest payment date, or otherwise to the next preceding interest payment date.

“Construction Fund” means any Construction Fund created pursuant to Section 6.5 of the Resolution.

“Construction Fund Trustee” means a construction fund trustee appointed pursuant to Section 7.1 of the Resolution, its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

“Consulting Engineer” means the engineer or engineering firm or corporation retained by or on behalf of the Authority pursuant to Section 8.5 of the Resolution to perform the acts and carry out the duties provided for such Consulting Engineer in the Resolution.

“Cost of Acquisition and Construction” means all costs of determining the feasibility of, and acquiring, constructing, financing, carrying out and placing in operation additions, improvements, enlargements, extensions, expansions and betterments to the Water System, and shall include, but shall not be limited to, moneys required for:

(i) working capital and reserves in such amounts as may be deemed necessary by the Authority;

(ii) interest accruing in whole or in part on Bonds after the date such Bonds are issued, but only if, and to such extent as, the Authority may reasonably determine;

(iii) deposits from the proceeds of Bonds in any fund or account established pursuant to the Resolution to meet reserve requirements for Bonds;

(iv) deposits from the proceeds of Bonds in any funds or accounts established pursuant to the Resolution as reserves for renewals, repairs, replacements, modifications, betterments, additions and contingencies; and

(v) preliminary survey, investigation and development costs, engineering fees, contractors’ fees, cost of permits, licenses and approvals, labor, materials, equipment, lands, rights of way, franchises, easements and other interests in land, utility services and supplies, payments to other public agencies, training and testing costs, insurance premiums, principal of and interest on notes issued in anticipation of Bonds, fees and expenses of trustees and paying agents, legal and financing costs, administrative and general costs, and all other costs incurred by the Authority and properly allocable to the Water System.

“Debt Service” means, as of any particular date of computation, with respect to any Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside in such period for the payment (or retirement) of the principal of, premium, if any, and interest (to the extent not capitalized) on such Bonds.

“Direct Participant” has the meaning given such term in the letter of representations between the Authority and DTC.

“Favorable Opinion of Bond Counsel” means an opinion of Harris Bach PLLC, or other Bond Counsel, addressed to the Authority, the Paying Agent, to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of New York and the United States, the General Resolution and the Supplemental Resolutions.

“Fiscal Year” means the twelve month period established by the Authority or provided by law from time to time as its fiscal year, and which, as of the date of adoption of the Resolution, is the twelve month period commencing on June 1 of any year and ending on May 31 of the following year.

“Fitch” means Fitch Inc., its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P) designated by the Authority, by notice to the Paying Agent.

“General Fund” means the General Fund created in Section 6.4 of the Resolution and to be held and administered by the Authority.

“Investment Securities” means any of the following, if and to the extent that the same are legal for the investment of funds of the Authority:

- (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

- (ii) bonds, debentures, notes, participation certificates or other evidences of indebtedness issued or guaranteed by the Bank for Cooperatives; Federal Intermediate Credit Bank; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; Federal National Mortgage Association; United States Postal Service; Government National Mortgage Association; Federal Financing Bank, Farmers Home Administration, Federal Home Loan Mortgage Association or any agency or instrumentality of the United States of America or any other corporation wholly-owned by the United States of America;

- (iii) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or any agency thereof; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America or any agency thereof;

(iv) direct and general obligations, to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged, of any of the following: any state of the United States, or any political subdivision of any such state; provided that (a) as to such obligations of a political subdivision, all the taxable real property within such political subdivision shall be subject to taxation thereby to pay such obligations and the interest thereon, without limitation as to the rate or amount, and (b) at the time of their purchase under the Resolution, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies;

(v) bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company (which may include the Bond Fund Trustee or any Construction Fund Trustee) which is a member of the Federal Deposit Insurance Corporation, provided that such time deposits and bankers' acceptances (a) do not exceed at any one time in the aggregate five percent (5%) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (i), (ii) or (iii) of this definition of Investment Securities, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such time deposits so secured;

(vi) repurchase agreements with any bank or trust company (which may include the Bond Fund Trustee or any Construction Fund Trustee) which is a member of the Federal Deposit Insurance Corporation, which such agreements are secured by securities which are obligations described in items (i), (ii) or (iii) of this definition of Investment Securities provided that each such repurchase agreement (A) is in commercially reasonable form and is for a commercially reasonable period, and (B) results in transfer to the Bond Fund Trustee or the Authority of legal title to, or the grant to the Bond Fund Trustee or the Authority of a prior perfected security interest in, identified securities referred to in items (i), (ii) or (iii) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Bond Fund Trustee or the Authority; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement;

(vii) obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the United States or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies;

(viii) certificates or other obligations that evidence ownership of the right to payments of principal of or interest on obligations of the United State of America or any state of the United States of America or any political subdivision thereof or any agency or instrumentality of the United States of America or any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Bond Fund Trustee under Section 7.1 of the Resolution, and provided further that, in the case of certificates or other obligations of a state or political subdivision, the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit

support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation; and

(ix) investment agreements rated or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies and if rated by Moody's Investors Service or Standard & Poor's Corporation such investment agreements or the long term unsecured debt obligations of the issuer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements.

"Net Revenues" means, with respect to any period, the Revenues during such period less the Operation and Maintenance Expenses during such period.

"New Construction Fund" means the New Construction Fund created in Section 6.9 of the Resolution and to be held and administered by the Authority.

"Operating Fund" means the Operating Fund created in Section 6.2 of the Resolution and to be held and administered by the Authority.

"Operation and Maintenance Expenses" means the cost and expenses of operating and maintaining the Water System, including, without limiting the generality of the foregoing, (i) all expenses includable in the operation and maintenance expense accounts of the Authority relating to the Water System according to generally accepted accounting principals, exclusive of depreciation and amortization of property values or losses, and (ii) to the extent not included in the preceding clause (i) or paid from Bond proceeds or otherwise, the Authority's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others.

"Original Issue Discount Bonds" means Bonds of a Series which are originally reoffered to the public at a price (excluding accrued interest) of less than 98% of their principal amount.

"Outstanding" or "outstanding" means, (i) when used with reference to Bonds as of any date, Bonds theretofore or thereupon issued or authorized pursuant to the Resolution, except: (a) any Bonds cancelled by a Paying Agent or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Resolution; and (c) Bonds deemed to be no longer outstanding as provided in Section 13.1 of the Resolution and (ii) when used with reference to Notes, or "Notes Outstanding" means all Notes which have been issued and delivered by the Paying Agent under the Supplemental Resolution, except: (a) Notes canceled or purchased by or delivered to the Paying Agent for cancellation, (b) Notes that have become due (at maturity or on redemption) the payment, including interest accrued to the due date, of which sufficient moneys have been set aside by the Authority, and (c) Notes in lieu of which others have been issued hereunder.

"Paying Agent" means, (i) as to the Series 2020 Refunding Bonds, The Bank of New York Mellon, or any successor thereto, as paying agent and registrar for the Series 2020 Refunding Bonds under the Series 2020 Refunding Supplemental Resolution relating to the Series 2020 Refunding Bonds and (ii) as to Bonds of any particular Series, the bank or trust company designated for the payment of the

principal of, premium, if any, and interest on the Bonds of such Series in the Supplemental Resolution providing for the issuance of such Series of Bonds.

“Projects” means the Cost of Acquisition and Construction of improvements and additions to the Water System.

“Rebate Fund” means any Rebate Fund created pursuant to Section 6.8 of the Resolution.

“Record Date” means the last Business Day prior to each Interest Payment Date on the Series 2020 Refunding Bonds.

“Refunded Municipal Obligations” means obligations of any state, the District of Columbia or possession of the United States or any political subdivision thereof which obligations are rated in the highest rating category by Moody’s Investor’s Service and Standard & Poor’s Corporation and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of direct obligations of the United States of America, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which direct obligations of the United States of America when due and payable shall be sufficient to pay when due the principal of and interest on such obligations of such state, the District of Columbia, possession, or political subdivision.

“Reserve Account Requirement” means, with respect to a Series of Bonds, the amount, if any, prescribed by the Supplemental Resolution authorizing such Series of Bonds.

“Resolution” means the Authority’s Water System Revenue Bonds Bond Resolution, adopted by the Authority on September 27, 1988, as amended on October 27, 1988 and as further amended on March 30, 1993 and November 29, 1994 and from time to time supplemented by one or more Supplemental Resolutions.

“Revenues” means and includes all income, fees, charges, receipts, profits and other moneys derived by the Authority from its ownership or operation of the Water System, including, without limiting the generality of the foregoing, (i) all income, fees, charges, receipts, profits and other moneys derived from the sale of water and from the furnishing or supplying of the services, facilities and commodities through the Water System; and (ii) all income from investments of moneys held under the Resolution including investment income on any Construction Fund but not including any earnings on the Rebate Fund. “Revenues” shall not include deposits subject to refund until such deposits have become the property of the Authority; and income, fees, charges, receipts, profits or other moneys derived by the Authority from its ownership or operation of any separate utility system or any gifts, grants, donations or other moneys received by the Authority from any State or Federal agency or other person if such gifts, grants, donations or other money are the subject of any limitation or reservation (i) imposed by the donor or grantor or (ii) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds.

“S&P” means Standard & Poor’s Ratings Services, a division of McGraw Hill Incorporated, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch) designated by the Authority, by notice to the Paying Agent.

“Secondary Bond Fund” means the Secondary Bond Fund created in Section 6.11 of the Resolution and to be held and administered by the Bond Fund Trustee.

“Secondary Revenues” means all Revenues, after taking into account all transfers and deductions required by Sections 6.1 (1), (2) and (3), 6.2 and 6.3 of the Resolution.

“Senior Lien Bonds” means the Outstanding Water System Revenue Bonds, Series 1988 Refunding, dated October 1, 1988, Water System Revenue Bonds, Series 1989, dated November 1, 1989, Water System Revenue Bonds, Series 1990, dated June 1, 1990, Water System Revenue Bonds, Series 1991, dated March 15, 1991, Water System Revenue Bonds, Series 1992A, dated July 15, 1992, Water System Revenue Bonds, Series 1992B, dated July 15, 1992 and Water System Revenue Bonds, Series 1992C, dated September 15, 1992 and any and all other Bonds issued from time to time and designated by a Supplemental Resolution authorizing the issuance thereof as Senior Lien Bonds.

“Serial Bonds” means Bonds which are not Term Bonds.

“Series of Bonds” or “Bonds of a Series” means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

“Series 2020 Refunding Supplemental Resolution” means, that certain supplemental resolution adopted by the Authority on February 27, 2020, authorizing and providing for certain terms and provisions of the Series 2020 Refunding Bonds.

“Subordinate Lien Bonds” means all Bonds other than Senior Lien Bonds.

“Supplemental Resolution” means any resolution adopted by the Authority pursuant to and in compliance with the provisions of Article III of the Resolution providing for the issuance of Bonds, and shall also mean any other resolution adopted by the Authority pursuant to and in compliance with the provisions of Article X of the Resolution which amends or supplements the provisions of the Resolution. When used with reference to this Official Statement, Supplemental Resolution shall mean the Series 2020 Refunding Supplemental Resolution.

“Water Revenue Fund” means the Water Revenue Fund created in Section 6.1 of the Resolution to be held and administered by the Authority.

“Water System” means all plants and properties, both real and personal and tangible and intangible, now or hereafter existing, of the Authority, used for or pertaining to the supplying, purification, filtration, transmission and distribution of water or incidental or necessary to the preservation of the Authority’s wells and water supply and the integrity thereof. Without limiting the generality of the foregoing, said term shall include: (1) the existing plants and properties comprising the Water System of the Authority, as of the date of adoption of the Resolution; and (2) all additions, improvements, enlargements, extensions, expansions, and betterments to the Water System of the Authority hereafter constructed or otherwise acquired, including, without limitation, water properties acquired by annexations or water properties acquired through the Authority’s participation in any regional water system, purchase of water, conservation projects and appliances.

**Pledge of Revenues, Funds and Other Moneys.** The Bonds are payable solely from and secured by the funds pledged therefor.

(a) The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Senior Lien Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (i) the proceeds of sale of the Senior Lien Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) the Revenues, and (iii) all funds and accounts established by the Resolution other than the Rebate Fund, including the investments, if any, thereof; and the Senior Lien Bondholders shall have a lien on, and a security interest in, such proceeds, Revenues and funds and accounts for such purpose and subject to such provisions of the Resolution. Such pledge and the Senior Lien Bonds shall be subordinate to and inferior to the cost of operation and maintenance of the Water System.

The Senior Lien Bonds of each Series issued under the Resolution shall be equally and ratably payable and secured under the Resolution without priority by reason of date of adoption of the Supplemental Resolution providing for their issuance or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise.

(b) The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (i) the proceeds of sale of the Subordinate Lien Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) the Secondary Revenues, and (iii) all funds and accounts established by the Resolution other than the Bond Fund and the Rebate Fund, including the investments, if any, thereof; and the Subordinate Lien Bondholders shall have a lien on, and a security interest in, such proceeds, Secondary Revenues and funds and accounts for such purpose and subject to such provisions of the Resolution. Such pledge and the Subordinate Lien Bonds shall be subordinate to and inferior to the cost of operation and maintenance of the Water System and the Resolution in favor of the Senior Lien Bonds.

The Subordinate Lien Bonds of each Series issued under the Resolution shall be equally and ratably payable and secured under the Resolution without priority by reason of date of adoption of the Supplemental Resolution providing for their issuance or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise.

(c) (i) The principal of, premium, if any, and interest on the Senior Lien Bonds shall not be payable from any funds of the Authority other than the Bond Fund nor shall the Senior Lien Bonds create a charge upon any other revenues of the Authority, except the Revenues and other moneys and securities pledged under the Resolution.

(ii) The principal of, premium, if any, and interest on the Subordinate Lien Bonds shall not be payable from any funds of the Authority other than the Secondary Bond Fund nor shall the Subordinate Lien Bonds create a charge upon any other revenues of the Authority, except the Secondary Revenues and other moneys and securities pledged under the Resolution.

The Bonds shall not constitute a general obligation of the Authority. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of New York or of any political subdivision thereof in connection with any default with respect to the Bonds. The Bonds are not a debt of the State of New York or of Suffolk County or of any municipality in Suffolk County, neither the State nor Suffolk County nor any municipality in Suffolk County is liable for the payment of



the Bonds, nor are the Bonds payable out of any funds other than those of the Authority pledged for the payment of the Bonds under the Resolution. (Res. Section 3.2)

**Issuance of Bonds Other Than Refunding Bonds.** Bonds may be issued under the Resolution at any time and from time to time for any corporate use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Cost of Acquisition and Construction, subject to the following limitations:

A. The first installment of principal of such Series of Bonds shall be payable at such time as the Authority shall determine in accordance with the Resolution.

B. An Authorized Officer of the Authority shall certify at the time of issuance of such Series of Bonds that there does not exist an Event of Default as defined in the Resolution.

C. There shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds a certificate signed by an Authorized Officer based (i) on audited figures or (ii) to the extent audited figures are not available on figures taken by an independent certified public accountant from the Authority's books and records, showing that:

(1) the average of the Net Revenues for any consecutive twenty-four months' period out of thirty-six months immediately preceding the month in which such Bonds are issued were equal to not less than one hundred ten per cent (110%) of the average annual Debt Service on the Bonds (including the Series of Bonds then being issued) for the then current and all future Fiscal Years; or

(2) there shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds a certificate of the Consulting Engineer showing that the estimated Net Revenues of the Water System together with other moneys lawfully available therefor as estimated by the Consulting Engineer (as provided in the Resolution) for each of the five Fiscal Years, commencing with the first Fiscal Year in which the Series of Bonds then being issued is delivered, shall be at least equal to one and twenty-five hundredths (1.25) times the Debt Service for such Fiscal Year on all outstanding Bonds, including the Bonds then being issued.

The term "Debt Service" shall not include interest on Bonds to the extent it is to be paid from amounts on deposit in the Construction Interest Account in the Construction Fund, amounts on deposit in the Interest Account in the Bond Fund or any other provisions made for the payment of interest.

**Issuance of Refunding Bonds.** Without complying with the provisions set forth above under "Issuance of Bonds Other Than Refunding Bonds," the Authority by means of a Supplemental Resolution may issue refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of Bonds outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding Bonds and effecting such refunding. (Res. Section 3.6)

**Bond Anticipation Notes.** Bond anticipation notes may be issued by the Authority at such time as the Authority shall have by resolution authorized the issuance of bonds under the Act. Such note or notes may bear interest at a fixed, variable, adjustable, convertible or other similar rate or rates as may be determined by the Authority. If the Authority determines to issue bond anticipation notes with variable, adjustable, convertible or other similar rate or rates of interest, the Authority shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at which the Notes may bear interest, (3) the interest payment dates or the manner of determining interest payment dates and (4) provisions, if any, with respect to the conversion of such

Notes to Notes bearing a fixed rate of interest and the reconversion of such Notes to bear interest at a variable rate. The method or methods for determining the interest rates on Notes bearing interest at variable, adjustable, convertible or other similar rates of interest may include the selection of such rates by a rate determination agent as may be provided in an agreement between the Authority and such agent, the utilization of an index or indices as may be determined by the Authority, or such other standard or combination of standards as may be determined by the Authority. The Authority may provide the holders of the Notes with rights to tender the Notes for purchase, and may require the holders of the Notes to tender the same for purchase, the purchase price in each case to be provided from the proceeds of the remarketing of the Notes so tendered; the Authority may enter into one or more agreements with banks, investment banks, insurance companies or other financially responsible parties to provide letters of credit, insurance policies, standby note purchase agreements or other similar commitments or liquidity facilities the proceeds of which will be available to purchase Notes tendered for purchase or required to be tendered for purchase in the event that proceeds of remarketing such Notes are not available in amounts sufficient or timely to pay the purchase price of such Notes. The maximum maturity of such bond anticipation notes, including the renewals thereof, shall not exceed five years from the date of the original bond anticipation note. Such note or notes may be secured in the manner provided by the Act; provided that such bond anticipation note or notes shall be secured by a lien and pledge on the Revenues junior and inferior and subject to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds, and any resolution authorizing the issuance of such bond anticipation notes shall provide for the payment thereof after the required payments to the Operating Fund, to the Bond Fund and the Secondary Bond Fund. Such bond anticipation note or notes shall be discharged and paid through the issuance of bonds in anticipation of which they were issued, or, subject to rights of the holders of any Bonds Outstanding, from the proceeds of Bonds of the Authority. The principal amount of any bond anticipation notes may not exceed the principal amount of the series of bonds in anticipation of which said notes are to be issued. (Res. Section 3.7)

**Subordinate Lien Obligations.** Nothing contained in the Resolution shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority from authorizing and issuing bonds, notes, certificates, warrants or other evidences of indebtedness for any corporate use or purpose relating to the Water System payable as to principal and interest from the Revenues subject and subordinate to the deposits and credits required to be made to the Operating Fund, and to the Bond Fund, or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Revenues junior and inferior to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds. (Res. Section 3.8)

**Separate Utility Systems.** Nothing contained in the Resolution shall prevent the Authority from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, other than Bonds, to acquire or construct facilities for the collection, treatment or disposal of sewage, and any incidental properties to be constructed or acquired in connection therewith, which facilities shall be a separate utility system and which bonds or other obligations or evidences of indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate system; provided, however, that the Authority will not issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness for the purpose of acquiring or constructing such a separate utility system unless and until a report of the Consulting Engineer shall be delivered to the Bond Fund Trustee to the effect that (i) the plan for developing the separate utility system is consistent with sound planning, and the separate utility system is of such character that it would be useful to the Authority, (ii) the separate utility system can be economically and effectively utilized by the Authority, (iii) the cost of the services of the separate utility system is reasonable in comparison to alternative sources and (iv) in the opinion of the Consulting Engineer, the acquisition, construction or operation of such separate utility system will not result in a reduction of the Revenues below the amount covenanted by Section 8.2 of the Resolution to be maintained. (Res. Section 3.9)

**Capital Appreciation Bonds.** A Supplemental Resolution providing for the issuance of a Series of Bonds may provide that the payment of interest on any specified Bonds of the Series shall only be made at maturity or at a specified time or times prior to maturity or upon earlier redemption, by sinking fund installment or otherwise. Any such Supplemental Resolution shall specify the Compounded Amount of such Bonds as of each interest payment date on the Bonds from the date of issue to maturity. The principal of any such Capital Appreciation Bonds shall be deemed to be their Compounded Amount for all purposes of the Resolution, including, for purposes of determining the Reserve Account Requirement and the provisions relating to redemption, acceleration and actions by Bondholders (Res. Section 3.10)

**Original Issue Discount Bonds.** A Supplemental Resolution providing for the issuance of a Series of Bonds may provide that specified Bonds of the Series be originally reoffered to the public as Original Issue Discount Bonds. For the purposes of provisions of the Resolution relating to redemption, acceleration and actions by Bondholders, the principal amount of Original Issue Discount Bonds shall be deemed to be their Compound Accreted Value, whether or not expressly stated in such provisions. For all other purposes of the Resolution, the principal amount of Original Issue Discount Bonds shall be deemed to be their face amount. Compound Accreted Value shall be determined as follows: the original offering price of an Original Issue Discount Bond is its initial Compound Accreted Value. On each interest payment date, until the Bond comes due, there will be a new Compound Accreted Value, equal to the prior Compound Accreted Value plus an accretion from the date as of which the prior Compound Accreted Value was calculated at a rate per annum equal to the yield to maturity on the original offering price, less the interest coming due on the interest payment date. Between interest payment dates (or prior to the first interest payment date) the difference between the most recent Compound Accreted Value and the next Compound Accreted Value will accrue linearly in the same manner as interest accrues and, if it becomes necessary to determine the Compound Accreted Value in the interim, it will include the accrual. From and after the date on which an Original Issue Discount Bond comes due, whether at maturity or by acceleration or redemption, its Compound Accreted Value will remain constant. The original offering price, the date as of which it was calculated and the yield to maturity (compounded on the interest payment dates) shall be established by a certificate of the underwriters for the Series of Bonds filed with the Bond Fund Trustee which, upon acceptance by the Bond Fund Trustee, shall be conclusive. (Res. Section 3.11)

**Put Bonds.** A Supplemental Resolution providing for the issuance of a Series of Bonds may provide for their repurchase or redemption, at the option of the holders, by the Authority or its designee or by the Bond Fund Trustee on a date or dates and with such notice as specified in the applicable Supplemental Resolution. A repurchase or redemption pursuant to such provision shall not cause any bond so repurchased or redeemed to lose the benefit of any security under the Resolution or to be no longer deemed to be outstanding pursuant to the Resolution. The repurchase or redemption price shall be financed by the proceeds of resale of the repurchased Bonds, by the issuance of refunding Bonds, by using moneys available therefor in the Bond Retirement Account, or by any other lawful means, or by a combination of the foregoing. To the extent permitted by law and the Supplemental Resolution, the Authority, the Bond Fund Trustee or an agent appointed by the Authority for such purpose may resell the repurchased bonds and the Authority may issue Bonds (which shall be treated under the Resolution as refunding Bonds) for the purpose of financing any loss incurred by the repurchase and resale. The repurchase or redemption price shall not be treated as Debt Service for the purpose of calculating payments into the Bond Fund but shall be treated as principal, interest or redemption price, as the case may be, for the purposes of certain provisions of the Resolution. If Bonds of a Series are made subject to repurchase or redemption pursuant to Section 3.12 of the Resolution, Debt Service shall be calculated by using the schedule of Debt Service which would apply if the option were not exercised except to the extent the option has been exercised and the option price has been paid (or provision for payment has been made pursuant to the Resolution). Nothing in this paragraph shall be deemed to preclude any

repurchase or redemption of Bonds otherwise required or permitted by the terms of the Resolution. (Res. Section 3.12)

**Variable Rate Bonds.** A Supplemental Resolution providing for the issuance of a Series of Bonds may provide for the Bonds to bear interest at a variable, adjustable, convertible or other similar rate or rates of interest. Any such Supplemental Resolution shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at which the Bonds may bear interest and (3) provisions, if any, with respect to the conversion of such Bonds to Bonds bearing a fixed rate of interest and the reconversion of such Bonds to bear interest at a variable rate. The method or methods for determining the interest rate on Bonds bearing interest at a variable or similar rate of interest may include the selection of such rate by a rate determination agent as provided in an agreement between the Authority and such agent, the utilization of an index or indices as described in the applicable Supplemental Resolution, or such other standard or combination of standards set forth in the Supplemental Resolution.

In connection with the issuance of any Bonds bearing interest at a variable, adjustable, convertible or similar rate, the Authority shall obtain a certificate from the underwriters for such Bonds setting forth the Certified Interest Rate, which means the rate of interest which would have been borne by such Bonds had they been issued at a fixed interest rate, assuming the same maturity dates, terms and provisions (other than interest rate or any repurchase or redemption by the Authority at the option of the holder) as the Bonds assuming the same credit rating or ratings of the Authority and making any other assumptions deemed necessary and proper, as determined by the underwriters. Such certificate shall contain or have attached thereto data and factual information supporting such Certified Interest Rate; and such certificate, when accepted by the Authority, shall be conclusive.

Debt Service for any Variable Rate Bonds shall be calculated for purposes of the definition of Reserve Account Requirement by using the Certified Interest Rate. For purposes of calculating the payments into the Interest Account in the Bond Fund the interest accrued or estimated to accrue during the calendar month in which the payment is to be made shall be the amount of the required payment, subject in the case of an estimate to an adjustment at the end of the month. (Res. Section 3.13)

**Additional Security.** To the extent permitted by law, a Supplemental Resolution providing for the issuance of a Series of Bonds may provide that the Authority obtain or cause to be obtained Additional Security providing for payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such Series, or providing for the purchase of such Bonds or a portion thereof by the issuer of the Additional Security, or providing, in whole or in part, for the funding of the Reserve Account. In connection therewith, the Authority may enter into agreements with the issuer of the Additional Security to provide the terms and conditions thereof, including the security, if any, to be provided to the issuer. The Authority may secure the Additional Security by an agreement providing for the purchase of the Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified in the Supplemental Resolution. Debt Service with respect to any Bonds so secured shall be calculated for purposes of the definition of Reserve Account Requirement by using the rate of interest or Certified Interest Rate, if applicable, on the Bonds prior to adjustment under such agreement. The Authority may also agree to reimburse directly the issuer of the Additional Security for any amounts paid thereunder together with interest thereon. (Res. Section 3.14)

**Revenue Fund.** The Resolution establishes a special fund of the Authority to be maintained in trust by the Authority and to be known as the "Water Revenue Fund." The Authority will pay or cause to be paid into the Water Revenue Fund, as promptly as practicable after receipt thereof, all of the Revenues and all other moneys required to be paid into the Water Revenue Fund pursuant to the

Resolution (other than the Revenues and other amounts expressly required or permitted by the Resolution to be credited to, or deposited in, any other fund or account).

Moneys in the Water Revenue Fund shall be applied in the following order of priority:

1. The amounts required to pay Operation and Maintenance Expenses shall be transferred to the Operating Fund as required by Section 6.2 of the Resolution;
2. The amounts required to be deposited to the Bond Fund shall be transferred as set forth in Section 6.3 of the Resolution;
3. The amounts required to be deposited to the Secondary Bond Fund shall be transferred as set forth in Section 6.11 of the Resolution;
4. The balance remaining in the Water Revenue Fund at the end of each month, after making the transfers and allocations set forth above, shall be deposited into the General Fund, established pursuant to Section 6.4 of the Resolution. (Res. Section 6.1)

**Operating Fund.** The Resolution establishes a special fund of the Authority to be maintained in trust by the Authority, as long as any Bonds issued under the Resolution are outstanding, and to be known as the "Operating Fund." All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operating Fund as the same become due and payable after transfers from the Water Revenue Fund and prior to any payment to other funds and accounts. (Res. Section 6.2)

**Bond Fund.** The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee as long as any Senior Lien Bonds issued under the Resolution are outstanding and unpaid, and to be known as the "Bond Fund." The Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds, and of retiring the Senior Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund, the Authority shall transfer, to the extent not otherwise provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Bond Fund amounts as follows and in the following order of priority:

A. **Interest Account.** Not later than the twenty-fifth (25<sup>th</sup>) day of the sixth (6<sup>th</sup>) month prior to the date upon which an installment of interest falls due on the Senior Lien Bonds of a Series, or if the first installment of interest on the Senior Lien Bonds of such Series shall fall due in less than six months, then on the twenty-fifth (25<sup>th</sup>) day of the month immediately succeeding the month in which the Senior Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of interest falls due, and on or before the twenty-fifth day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Interest Account an amount such that, if the same amount were so credited to the Interest Account on the twenty-fifth (25<sup>th</sup>) day of each calendar month thereafter prior to the next date upon which an installment of interest falls due on the Senior Lien Bonds of such Series, the aggregate of the amount so credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Senior Lien Bonds of such Series. In order to provide for the payment of the interest on the Senior Lien Bonds of a Series with any frequency other than semi-annually, the Authority shall pay or cause to be paid from the Water Revenue Fund amounts in accordance with the provisions of the Supplemental Resolution pursuant to which such Series of Senior Lien Bonds is issued. Interest capitalized from the proceeds of the Senior Lien Bonds of a Series and any

other transfers and credits otherwise made or required to be made to said Account shall be taken into consideration and allowed for in making the payments into the Interest Account.

B. Principal Account. Not later than the twenty-fifth (25<sup>th</sup>) day of the twelfth (12<sup>th</sup>) month prior to the date upon which an installment of principal of Serial Bonds of each Series of Senior Lien Bonds falls due, or if the first installment of principal of Serial Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth (25<sup>th</sup>) day of the month immediately succeeding the month in which the Senior Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of principal falls due, and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Principal Account an amount such that, if the same amount were so credited to the Principal Account on the twenty-fifth (25<sup>th</sup>) day of each calendar month thereafter, prior to the next date upon which an installment of principal falls due on the Serial Bonds of such Series of Senior Lien Bonds, the aggregate of the amounts so credited to the Principal Account would on such date be equal to the installment of principal then falling due on the Serial Bonds of such Series of Senior Lien Bonds. Any earnings on moneys in said Account shall be taken into consideration and allowed for in making payments into the Principal Account.

C. Bond Retirement Account. Not later than the twenty-fifth (25<sup>th</sup>) day of the twelfth (12<sup>th</sup>) month prior to the date upon which a sinking fund installment of Term Bonds of each Series of Senior Lien Bonds falls due, or if the first sinking fund installment of the Term Bonds of such Series of Senior Lien Bonds shall fall due in less than twelve months, then on the twenty-fifth (25<sup>th</sup>) day of the month immediately succeeding the month in which the Bonds of such Series of Senior Lien Bonds are delivered to the initial purchasers, and in any event prior to the date upon which such Sinking Fund Installment falls due, and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Bond Retirement Account an amount such that, if the same amount were so credited to the Bond Retirement Account on the twenty-fifth (25<sup>th</sup>) day of each calendar month thereafter, prior to the next date upon which a Sinking Fund Installment falls due on the Term Bonds of such Series of Senior Lien Bonds, the aggregate of the amounts so credited to the Bond Retirement Account for the purpose of retiring the Term Bonds of such Series of Senior Lien Bonds would on such date be equal to the Sinking Fund Installment then falling due on the Term Bonds of such Series of Senior Lien Bonds. In making the credits to the Bond Retirement Account, any earnings on moneys in said Account shall be taken into consideration and allowed for.

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Senior Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Bond Retirement Account on such sinking fund installment dates by the Supplemental Resolution providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Principal Account for the payment of Serial Bonds at maturity. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Senior Lien

Bonds to the purchase of such Senior Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Senior Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the principal amount of such Senior Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Senior Lien Bonds so purchased; provided, however, that no Senior Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Senior Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Senior Lien Bonds so purchased are Senior Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Bond Retirement Account with respect to Sinking Fund Installments.

In the event that moneys in the Bond Retirement Account, other than moneys credited thereto as Sinking Fund Installments pursuant to a Supplemental Resolution, are to be applied to the retirement of a Series of Senior Lien Bonds, the Authority may direct the Bond Fund Trustee within thirty (30) days of the deposit of such moneys to apply such moneys to the purchase of Senior Lien Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Senior Lien Bonds, plus accrued interest. Any such moneys not applied to the purchase of Senior Lien Bonds shall be applied to the redemption of Senior Lien Bonds of each Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of Senior Lien Bonds of such Series then outstanding and unpaid and so subject to redemption bears to the total principal amount of Senior Lien Bonds then outstanding and unpaid and so subject to redemption.

Except for the redemption of Term Bonds from moneys credited to the Bond Retirement Account as sinking fund installments, not less than One Hundred Thousand Dollars (\$100,000) aggregate principal amount of Senior Lien Bonds shall be called for redemption at any one time pursuant to part C of Section 6.3 of the Resolution unless the Authority directs the purchase or redemption of a lesser amount. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the provisions of the Resolution.

Any purchase of Senior Lien Bonds as described herein may be made with or without tenders of Senior Lien Bonds and at either public or private sale. All Senior Lien Bonds purchased, redeemed or retired as described herein shall be cancelled and shall not be reissued. The accrued interest to be paid on the purchase or redemption of Senior Lien Bonds shall be paid from the Interest Account.

In the event of the purchase or redemption of Term Bonds of a particular Series of Senior Lien Bonds as described herein or otherwise, except from moneys credited to the Bond Retirement Account as Sinking Fund Installments, or if such Term Bonds to be so redeemed are deemed to be no longer outstanding and unpaid pursuant to the Resolution, the amount required to be credited to the Bond Retirement Account on such Sinking Fund Installment date thereafter, as specified in the Supplemental Resolution providing for the issuance thereof, shall be reduced in the proportion, as nearly as practicable, which the principal amount of such Sinking Fund Installment bears to the total principal amount of all Sinking Fund Installments so specified for the Term Bonds of such Series of Senior Lien Bonds.

All expenses in connection with the purchase, redemption or payment of Senior Lien Bonds as described herein shall be paid by the Authority from the Water Revenue Fund.

D. Reserve Account. The Bond Fund Trustee shall create a separate Account for each series of Senior Lien Bonds. The Reserve Account Requirement for each Series of Senior Lien Bonds shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds. In the event a Reserve Account Requirement is prescribed, the

Supplemental Resolutions providing for the issuance of a Series of Senior Lien Bonds shall provide either (i) for deposits from the moneys in the Water Revenue Fund into the Bond Fund for credit to the appropriate Reserve Account, (ii) for payments into the Bond Fund for credit to the appropriate Reserve Account from the proceeds of Senior Lien Bonds or from any moneys lawfully available therefor, or (iii) for deposit with the Bond Fund Trustee of a surety bond, an insurance policy or letter of credit unconditionally payable on demand to or for the benefit of the Bond Fund Trustee for the benefit of the holders of the Series of Senior Lien Bonds for which the Reserve Account was created, all as shall be determined and provided in the Supplemental Resolution. The moneys in the Bond Fund on credit to a Reserve Account shall be used and applied solely for the purpose of paying the principal of, premium, if any, and interest on the respective Series of Senior Lien Bonds for which the account was created when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Bond Retirement Account, and shall be so used and applied whenever there are insufficient moneys on credit to the Interest Account, Principal Account and Bond Retirement Account for such purposes. No Senior Lien Bonds other than the Series of Senior Lien Bonds for which such account has been created shall have any right to be paid from such account.

When a Series of Senior Lien Bonds is refunded in whole or in part or is otherwise paid within the meaning of the Resolution, moneys may be withdrawn from the Reserve Account for such Series to pay or provide for the payment of such Senior Lien Bonds or refunded Senior Lien Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the refunding bonds issued to refund such refunded Senior Lien Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Reserve Account for those Senior Lien Bonds of the Series of Senior Lien Bonds not refunded an amount equal to the Reserve Account Requirement for such Series.

E. Moneys on deposit in the Bond Fund shall be transmitted by the Bond Fund Trustee to any Paying Agent at such times as shall be necessary prior to the date upon which any installment of interest or principal is due on the Senior Lien Bonds (either at the maturity date thereof or redemption date prior to maturity), and in amounts sufficient to meet such installments of, principal of, premium, if any, and interest on the Senior Lien Bonds, then due. In the event that there shall be a deficiency in the Interest Account, Principal Account or Bond Retirement Account three business days before any interest, principal or sinking fund payment is due on a Series of Senior Lien Bonds, the Bond Fund Trustee shall promptly make up such deficiency from the Reserve Account for such Series by the withdrawal of cash therefrom for that purpose or by the sale or redemption of Investment Securities held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency or by the transfer of Investment Securities (or undivided interests therein) in which moneys in the Interest Account, Principal Account or Bond Retirement Account, as the case may be, may be invested, or by taking such steps as may be necessary to realize the benefit of any surety bond, insurance policy or letter of credit deposited in the Reserve Account for such Series.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds shall be held in trust for the holders of the Senior Lien Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the holders of all Senior Lien Bonds at the time outstanding, equally and ratably.

Whenever the amounts on deposit in the Bond Fund (regardless of the account therein to which such amounts are credited) shall be sufficient to provide moneys to retire all Senior Lien Bonds then Outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further deposits need be made by the Authority into the Bond Fund, and without further authorization or direction the Bond Fund Trustee shall call, except in the event



of the final maturity of all Senior Lien Bonds then Outstanding, all Senior Lien Bonds which may be redeemed by their terms, for redemption on the next succeeding redemption date for which the required notice of redemption can practicably be given, and shall apply such moneys to such retirement or redemption. (Res. Section 6.3)

**General Fund.** The Resolution establishes a special fund of the Authority to be maintained by the Authority, as long as any Bonds are Outstanding, and to be known as the "General Fund." Moneys in the General Fund may be used for any lawful purpose of the Authority, including transfers from time to time to the New Construction Fund. (Res. Section 6.4)

**Construction Fund.** The Supplemental Resolution providing for the issuance of any Series of Bonds (exclusive of refunding Bonds) may create and establish (unless theretofore created and established with respect to such purpose) a separate special trust fund to be known as the "Construction Fund, \_\_\_\_\_," or such other designation as may be appropriate (the blank to be completed with the year in which the fund is created). The Construction Fund may be held in trust by the Authority or by a Construction Fund Trustee for the benefit of the Authority and the holders of the Bonds, as their interests may appear, pending application thereof. In the event any interest on such Bonds is to be capitalized from the proceeds of such Bonds, there shall be created in the Construction Fund a special account to be known as the "Construction Interest Account," or such other designation as may be appropriate.

A. From the proceeds derived from the sale of such Bonds there shall be deposited:

1. With the Authority or the Construction Fund Trustee, as the case may be, for credit to the Construction Interest Account (if any, otherwise with the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account), an amount equal to the accrued interest on the Bonds paid as part of the purchase price;

2. With the Authority or the Construction Fund Trustee, as the case may be, for credit of such Construction Interest Account if any, otherwise with the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account, the amount, if any, equal to the interest on the Bonds being capitalized from the proceeds thereof;

3. With the Bond Fund Trustee for payment into the Bond Fund for credit to the applicable Reserve Account the amount prescribed in the applicable Supplemental Resolution;

4. With the Authority or the Construction Fund Trustee, as the case may be, for credit to the applicable Construction Fund the balance of the Bond proceeds which shall be applied to the payment of the cost as shall be specified in the applicable Supplemental Resolution. Any balance remaining in such Construction Fund upon completion of payment of such costs shall be deposited in the New Construction Fund or used for any lawful purpose of the Authority, provided that in either event the Authority shall have obtained a written opinion of nationally recognized bond counsel acceptable to the Bond Fund Trustee that such application will not impair the exemption from federal income taxation of interest on any of the Bonds.

B. Moneys credited to the Construction Interest Account shall be used for the purpose of paying interest on the Bonds. On or before the 25th day of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to the Construction Interest Account, the Authority or the Construction Fund Trustee, as the case may be, shall transfer from the Construction Interest Account to the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account an amount which, together with any moneys theretofore received

or held by the Bond Fund Trustee for that purpose, shall be sufficient to pay such next maturing installment of interest. (Res. Section 6.5)

**Lien on Moneys in the Construction Fund.** The proceeds of Bonds in any Construction Fund, pending their application as provided in the Resolution and Supplemental Resolution, shall be subject to a prior and paramount lien and charge in favor of the holders of the Bonds, and the holders of the Bonds shall have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Resolution. (Res. Section 6.7)

**Rebate Fund.** If and to the extent necessary to comply with any covenant established in a Supplemental Resolution with respect to a Series of Bonds regarding maintaining the exemption of interest on such Bonds from federal income taxation, the Authority shall establish in the Supplemental Resolution providing for the issuance thereof of a Rebate Fund and an account in the Rebate Fund with respect to such Series of Bonds. The Authority shall establish in said Supplemental Resolution such terms and provisions regarding deposits or credits to and withdrawals from said account, the calculation of amounts to be deposited or credited thereto, investment of amounts on deposit therein, if any, and such other terms and provisions the Authority deems necessary to ensure compliance with the provisions of any such covenant. The Authority shall establish separate accounts in the Rebate Fund for each subsequent Series of Bonds, if required for such Series of Bonds. Moneys in the Rebate Fund and the accounts therein are not available for the benefit of the holders of the Bonds and are not pledged to payment of the Bonds or the interest thereon. (Res. Section 6.8)

**New Construction Fund.** The Resolution establishes a special fund of the Authority to be maintained by the Authority and to be known as the "New Construction Fund." Moneys in the New Construction Fund may be used to finance the Cost of Acquisition and Construction of improvements to the Water System or the payment of notes in respect of which renewal notes are issued. Any non-exempt project for which moneys in such Construction Fund, may be applied shall be reviewed under the New York State Environmental Quality Review Act (Article Eight of the Environmental Conservation Law) ("SEQRA"), prior to adoption of any decision, order or resolution committing the Authority or applicable agency to undertake such project. The Authority's authorizations contained herein are predicated on compliance with SEQRA and are limited to conducting contemporaneous environmental, engineering, economic, feasibility and other studies and preliminary planning and budgetary processes necessary to formulate a proposal for action. Notwithstanding any authorization included above, the activities so authorized do not commit the Authority to commence, engage in or approve the Projects. No final action may be taken before the Authority has complied with the requirements of SEQRA. (Res. Section 6.9)

**Investment of Funds.** Moneys in the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund and moneys in the Secondary Interest Account, Secondary Principal Account and Secondary Bond Retirement Account in the Secondary Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Bond Fund Trustee (at the direction of the Authority) in investments specified in items (i), (ii), (iii), (iv), (v)(b) and (vi) of the definition of Investment Securities and which shall mature or be subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in such accounts will be required for the purposes intended. Moneys in each of the Reserve Account of the Bond Fund and the Secondary Reserve Account of the Secondary Bond Fund not required for immediate disbursement for the purpose for which said Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Bond Fund Trustee at the direction of the Authority in investments specified in items (i), (ii), (iii), (iv), (v)(b) and (vi) of the definition of Investment Securities and which shall mature at or prior to ten years from the date of investment thereof. The Bond Fund Trustee shall not be liable for any depreciation in the value of any such investments.

Moneys in the Water Revenue Fund not required for immediate disbursement for the purpose for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Authority, to the extent allowed by law, in Investment Securities which shall mature or be subject to redemption at the option of the holder thereof, not later than such times as shall be necessary to provide moneys when needed to provide payment from such Fund.

Moneys in the Construction Fund, including a Construction Interest Account therein not required for immediate disbursement for the purposes for which said Fund and Account is created, shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Authority or the Construction Fund Trustee, as the case may be, for such Fund and Account, to the extent allowed by law, in Investment Securities which shall mature or be subject to redemption at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund and Account.

To the extent permitted in the Resolution, all income received from the investment or reinvestment of moneys in the Funds established thereunder shall be deposited in the respective Funds from which such investments are made to the extent of any deficiencies therein and otherwise to the Water Revenue Fund; provided, however, that, at the direction of the Authority, all or a portion of the income received from the investment or reinvestment of moneys in any such Fund may be deposited in the Construction Fund, including the Construction Interest Account therein. All income received from the investment or reinvestment of moneys in a Construction Fund shall be deposited in said Fund.

Nothing in the Resolution shall prevent any Investment Securities acquired as investments of funds held under the Resolution from being issued or held in book-entry form. (Res. Section 6.10)

**Secondary Bond Fund.** The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee, as long as any Subordinate Lien Bonds issued under the Resolution are Outstanding and unpaid, and to be known as the "Secondary Bond Fund." The Secondary Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Subordinate Lien Bonds, and of retiring the Subordinate Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund and to the Bond Fund, the Authority shall transfer, to the extent not otherwise provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Secondary Bond Fund amounts as follows and in the following order of priority, to wit:

A. **Secondary Interest Account.** Not later than the twenty-fifth (25<sup>th</sup>) day of the sixth (6<sup>th</sup>) month prior to the date upon which an installment of interest falls due on the Subordinate Lien Bonds of a Series, or if the first installment of interest on the Subordinate Lien Bonds of such Series shall fall due in less than six months, then on the twenty-fifth (25<sup>th</sup>) day of the month immediately succeeding the month in which the Subordinate Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of interest falls due, and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Interest Account an amount such that, if the same amount were so credited to the Secondary Interest Account on the twenty-fifth (25<sup>th</sup>) day of each calendar month thereafter prior to the next date upon which an installment of interest falls due on the Subordinate Lien Bonds of such Series, the aggregate of the amounts so credited to the Secondary Interest Account would on such date be equal to the installment of interest then falling due on all Subordinate Lien Bonds of such Series. In order to provide for the payment of the interest on the Subordinate Lien Bonds of a Series with any frequency other than semi-annually, the Authority shall pay

or cause to be paid from Secondary Revenues, amounts in accordance with the provisions of the Supplemental Resolution pursuant to which such Series of Subordinate Lien Bonds is issued. Interest capitalized from the proceeds of the Subordinate Lien Bonds of a Series and any other transfers and credits otherwise made or required to be made to said Account shall be taken into consideration and allowed for.

B. Secondary Principal Account. Not later than the twenty-fifth (25<sup>th</sup>) day of the twelfth (12<sup>th</sup>) month prior to the date upon which an installment of principal of Serial Bonds of each Series of Subordinate Lien Bonds falls due, or if the first installment of principal of Serial Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth (25<sup>th</sup>) day of the month immediately succeeding the month in which the Subordinate Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of principal falls due, and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Principal Account an amount such that, if the same amount were so credited to the Secondary Principal Account on the twenty-fifth (25<sup>th</sup>) day of each calendar month thereafter, prior to the next date upon which an installment of principal falls due on the Serial Bonds of such Series of Subordinate Lien Bonds, the aggregate of the amounts so credited to the Secondary Principal Account would on such date be equal to the installment of principal then falling due on the Serial Bonds of such Series of Subordinate Lien Bonds. Any earnings on moneys in said Account shall be taken into consideration and allowed for.

C. Secondary Bond Retirement Account. Not later than the twenty-fifth (25<sup>th</sup>) day of the twelfth (12<sup>th</sup>) month prior to the date upon which a Sinking Fund Installment of Term Bonds of each Series of Subordinate Lien Bonds falls due, or if the first Sinking Fund Installment of the Term Bonds of such Series of Subordinate Lien Bonds shall fall due in less than twelve months, then on the twenty-fifth (25<sup>th</sup>) day of the month immediately succeeding the month in which the Bonds of such Series of Subordinate Lien Bonds are delivered to the initial purchasers, and in any event prior to the date upon which such Sinking Fund Installment falls due, and on or before the twenty-fifth (25<sup>th</sup>) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Bond Retirement Account an amount such that, if the same amount were so credited to the Secondary Bond Retirement Account on the twenty-fifth (25<sup>th</sup>) day of each calendar month thereafter, prior to the next date upon which a Sinking Fund Installment falls due on the Term Bonds of such Series of Subordinate Lien Bonds, the aggregate of the amounts so credited to the Secondary Bond Retirement Account for the purpose of retiring the Term Bonds of such Series of Subordinate Lien Bonds would on such date be equal to the Sinking Fund Installment then falling due on the Term Bonds of such Series of Subordinate Lien Bonds. In making the credits required by this paragraph any earnings on moneys in said Account shall be taken into consideration and allowed for.

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Secondary Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Subordinate Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Subordinate Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Secondary Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Secondary Bond Retirement Account on such Sinking Fund Installment dates by the Supplemental Resolution, providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Secondary Principal Account for the payment of Serial Bonds at maturity.

The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Secondary Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Subordinate Lien Bonds to the purchase of such Subordinate Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Subordinate Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the principal amount of such Subordinate Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Subordinate Lien Bonds so purchased; provided, however, that no Subordinate Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Subordinate Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Subordinate Lien Bonds so purchased are Subordinate Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Secondary Bond Retirement Account with respect to Sinking Fund Installments.

In the event that moneys in the Secondary Bond Retirement Account, other than moneys credited thereto as Sinking Fund Installments pursuant to a Supplemental Resolution, are to be applied to the retirement of a Series of Subordinate Lien Bonds, the Authority may direct the Bond Fund Trustee within thirty days of the deposit of such moneys to apply such moneys to the purchase of Subordinate Lien Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Subordinate Lien Bonds, plus accrued interest. Any such moneys not applied to the purchase of Subordinate Lien Bonds shall be applied to the redemption of Subordinate Lien Bonds of each Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of Subordinate Lien Bonds of such Series then outstanding and unpaid and so subject to redemption bears to the total principal amount of Subordinate Lien Bonds then outstanding and unpaid and so subject to redemption.

Except for the redemption of Term Bonds from moneys credited to the Secondary Bond Retirement Account as Sinking Fund Installments, not less than One Hundred Thousand Dollars (\$100,000) aggregate principal amount of Subordinate Lien Bonds shall be called for redemption at any one time pursuant to this part unless the Authority directs the purchase or redemption of a lesser amount. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the provisions of the Resolution.

Any purchase of Subordinate Lien Bonds as described herein may be made with or without tenders of Subordinate Lien Bonds and at either public or private sale. All Subordinate Lien Bonds purchased, redeemed or retired as described herein shall be cancelled and shall not be reissued. The accrued interest to be paid on the purchase or redemption of Subordinate Lien Bonds shall be paid from the Secondary Interest Account.

In the event of the purchase or redemption of Term Bonds of a particular Series of Subordinate Lien Bonds as described herein or otherwise, except from moneys credited to the Secondary Bond Retirement Account as Sinking Fund Installments, or if such Term Bonds to be so redeemed are deemed to be no longer outstanding and unpaid pursuant to the Resolution, the amount required to be credited to the Secondary Bond Retirement Account on such Sinking Fund Installment date thereafter, as specified in the Supplemental Resolution providing for the issuance thereof, shall be reduced in the proportion as nearly as practicable, which the principal amount of such Sinking Fund Installment bears to the total principal amount of all Sinking Fund Installments so specified for the Term Bonds of such Series.

All expenses in connection with the purchase, redemption or payment of Subordinate Lien Bonds as described herein shall be paid by the Authority from the Water Revenue Fund.

D. Secondary Reserve Account. The Bond Fund Trustee shall create a separate Account in the Secondary Bond Fund for each Series of Subordinate Lien Bonds. The Reserve Account Requirement for each Series of Subordinate Lien Bonds shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Subordinate Lien Bonds. In the event a Reserve Account Requirement is prescribed, the Supplemental Resolution providing for the issuance of a Series of Subordinate Lien Bonds shall provide either (i) for deposits from Secondary Revenues into the Secondary Bond Fund for credit to the appropriate Secondary Reserve Account, (ii) for payments into the Secondary Bond Fund for credit to the appropriate Secondary Reserve Account from the proceeds of Subordinate Lien Bonds or from any moneys lawfully available therefor, or (iii) for deposit with the Bond Fund Trustee of a surety bond, an insurance policy or letter of credit unconditionally payable on demand to or for the benefit of the Bond Fund Trustee for the benefit of the holders of the Series of Subordinate Lien Bonds for which the Secondary Reserve Account was created, all as shall be determined and provided in the Supplemental Resolution. The moneys in the Secondary Bond Fund on credit to a Secondary Reserve Account shall be used and applied solely for the purpose of paying the principal of, premium, if any, and interest on the respective Series of Subordinate Lien Bonds for which the account was created when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Secondary Bond Retirement Account, and shall be so used and applied whenever there are insufficient moneys on credit to the Secondary Interest Account, Secondary Principal Account and Secondary Bond Retirement Account for such purposes. No Subordinate Lien Bonds other than the Series of Subordinate Lien Bonds for which such account has been created shall have any right to be paid from such account.

When a Series of Subordinate Lien Bonds is refunded in whole or in part or is otherwise paid within the meaning of the Resolution, moneys may be withdrawn from the Secondary Reserve Account for such Series to pay or provide for the payment of such Subordinate Lien Bonds or refunded Subordinate Lien Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the refunding bonds issued to refund such refunded Subordinate Lien Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Secondary Reserve Account for those Subordinate Lien Bonds of the Series of Subordinate Lien Bonds not refunded an amount equal to the Reserve Account Requirement for such Series.

E. Moneys on deposit in the Secondary Bond Fund shall be transmitted by the Bond Fund Trustee to any Paying Agent at such times as shall be necessary prior to the date upon which any installment of interest or principal is due on the Subordinate Lien Bonds (either at the maturity date thereof or redemption date prior to maturity) and in amounts sufficient to meet such installments of, principal of, premium, if any, and interest on the Subordinate Lien Bonds, then due. In the event that there shall be a deficiency in the Secondary Interest Account, Secondary Principal Account or Secondary Bond Retirement Account three business days before any interest, principal or sinking fund payment is due on a Series of Subordinate Lien Bonds, the Bond Fund Trustee shall promptly make up such deficiency from the Secondary Reserve Account for such Series by the withdrawal of cash therefrom for that purpose or by the sale or redemption of Investment Securities held in the Secondary Reserve Account, if necessary, in such amounts as will provide cash in the Secondary Reserve Account sufficient to make up any such deficiency or by the transfer of Investment Securities (or undivided interests therein) in which moneys in the Secondary Interest Account, Secondary Principal Account or Secondary Bond Retirement Account, as the case may be, may be invested, or by taking such steps as may be necessary to realize the benefit of any surety bond, insurance policy or letter of credit deposited in the Secondary Reserve Account for such Series.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal of, premium, if any, and interest on the Subordinate Lien Bonds shall be held in trust for the holders of the Subordinate Lien Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Secondary Bond Fund shall be held in trust for the benefit of the holders of all Subordinate Lien Bonds at the time outstanding, equally and ratably.

Whenever the amounts on deposit in the Secondary Bond Fund (regardless of the account therein to which such amounts are credited) shall be sufficient to provide moneys to retire all Subordinate Lien Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further deposits need be made by the Authority into the Secondary Bond Fund, and without further authorization or direction the Bond Fund Trustee shall call, except in the event of the final maturity of all Subordinate Lien Bonds then Outstanding, all Subordinate Lien Bonds which may be redeemed by their terms, for redemption on the next succeeding redemption date for which the required notice of redemption can practicably be given, and shall apply such moneys to such retirement or redemption. (Res. Section 6.11)

**Covenants.** The Authority covenants and agrees, among other covenants and agreements, in the Resolution as follows:

Rate Covenant. The Authority will fix, establish and collect, or cause to be fixed, established and collected, rates, tolls, rents and other charges for the water distributed by it and for any services or facilities sold, furnished or supplied by the Water System or any part thereof, which rates, tolls, rents and charges shall be sufficient in each Fiscal Year to produce revenues in such Fiscal Year which together with other moneys which lawfully may be applied to the purpose, will be equal to at least the sum of (A) Debt Service for such Fiscal Year on all Bonds, (B) the necessary expenses of operating, maintaining, renewing and replacing the Water System and maintaining the Reserve Accounts and the Secondary Reserve Accounts and (C) the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the Revenues in such Fiscal Year. (Res. Section 8.2)

To Maintain the Properties of the Water System; To Keep the System in Good Repair. The Authority will (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Water System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted, and (iii) comply, or cause to be complied with the terms and conditions of any permit or license for the Water System or any part thereof issued by any federal or state governmental agency or body and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Water System or requiring a license, permit or approval thereof. (Res. Section 8.1)

Sale, Lease or Other Disposition of Properties of the Water System. The Authority will not sell, mortgage, lease or otherwise dispose of the properties of the Water System except as provided below.

- (1) The Authority may sell, lease, or otherwise dispose of the properties comprising the Water System if simultaneously with such sale or other disposition thereof provision is made for the payment of all Bonds then outstanding and such Bonds are no longer deemed outstanding within the meaning of the Resolution.

(2) The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water System having a value of \$1,000,000 or less on such terms and conditions as may be prescribed by the Authority. The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water System having a value in excess of \$1,000,000 if the Consulting Engineer shall certify to the Authority in writing that such terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Water System after taking into consideration the use by the Authority of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the Authority to comply with all covenants and conditions of the Resolution. A copy of such certificate shall be filed with the Bond Fund Trustee at least ten (10) days prior to any such transfer and the Bond Fund Trustee, in the absence of bad faith, shall be protected in relying thereon. Proceeds of any sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid: (i) if such proceeds are not in excess of \$100,000, into the Water Revenue Fund, (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Water Revenue Fund and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water System, as the Authority shall determine.

(3) The Authority may sell, lease, or otherwise dispose of surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of the Water System and real and personal property comprising a part thereof, which, in the opinion of the Authority, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Water System, or no longer necessary, material to, or useful in such operation. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid into the Water Revenue Fund.

(4) If permitted by the laws of the State of New York, the Authority may transfer without consideration the properties comprising the Water System to a public corporation or political subdivision of the State of New York, provided such corporation or subdivision assumes all of the Authority's obligations and duties under the Resolution.

(5) In the event that any part of the properties comprising the Water System shall be transferred from the Authority through the operation of law (including condemnation), any moneys received by the Authority as a result thereof shall be paid (i) if such proceeds are not in excess of \$100,000, into the Water Revenue Fund, or (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Water Revenue Fund and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water System, as the Authority shall determine. (Res. Section 8.3)

Insurance. (A) Except as provided in paragraph (B) below, the Authority will keep, or cause to be kept, the works, plants and facilities comprising the properties of the Water System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the Authority, against risks of direct physical loss, damage to or destruction of the Water System, or any part thereof, at least to the extent that similar insurance is usually carried by utilities operating like properties against accidents, casualties or negligence, including liability insurance and



employer's liability; provided, however, that any time while any contractor engaged in constructing any part of the Water System shall be fully responsible therefor, the Authority shall not be required to keep such part of the Water System insured. All policies of insurance shall be for the benefit of the holders of the Bonds and the Authority as their respective interests may appear.

In the event of any loss or damage to the properties of the Water System covered by insurance, the Authority (1) with respect to each such loss, shall promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the Water System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless, in case of loss or damage involving \$100,000 or more, the Authority shall determine that such repair and reconstruction not be undertaken, and (2) if the Authority shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, shall be paid into the Water Revenue Fund.

(B) If the Authority elects to self-insure or fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Water System, it must secure the concurrence of the Consulting Engineer. In making its decision whether to concur in such self-insurance, the Consulting Engineer shall (i) make an estimate of the added financial risks, if any, assumed by the Authority as a result of the self-insurance, (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the Authority's costs and charges for its services, (iii) determine whether the added financial risk, if any, being assumed by the Authority is prudent in light of the savings to be realized from such self-insurance or in light of the general availability of insurance. (Res. Section 8.4)

Consulting Engineer. The Authority will retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill, knowledge and experience in analyzing the operations of water utility systems, preparing rate analyses, forecasting the loads and revenues of water utility systems, preparing feasibility reports respecting the financing of water utility systems and advising on the operation of water facilities, who shall be available to advise the Authority, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Resolution. In addition to the other duties of the Consulting Engineer pursuant to the Resolution, the Consulting Engineer shall not later than 180 days following the end of every fifth calendar year from the date of the last such examination and report make an examination of and report on the properties and operations of the Water System. Each such report shall be in sufficient detail to show whether the Authority has satisfactorily performed and complied with the covenants, agreements and conditions set forth in the Resolution with respect to the management of the business of the Water System, the sufficiency of the amount being charged and collected for services under the requirements of the Resolution, the proper maintenance of the Water System, and the making of repairs, renewals, replacements, modifications, additions and betterments necessary or desirable to improve operating reliability or reduce costs and recommendations thereof. A copy of each such report shall be filed with the Authority and the Bond Fund Trustee and sent to any Bondholder filing with the Bond Fund Trustee a written request for a copy thereof. On the filing of such report, the Authority shall undertake a review of the management of the business of the Water System and shall cause the prompt taking of such action as shall be necessary to fully perform and comply with the covenants, agreements and conditions as to which the report specified such failure of performance or compliance. (Res. Section 8.5)

Books of Account; Annual Audit. The Authority will maintain and keep proper books of account relating to the Water System and in accordance with generally accepted accounting principles. Within one hundred twenty (120) days after the end of each Fiscal Year, the Authority will cause such

books of account to be audited by an independent certified public accountant. A copy of each audit report and financial statements prepared in conformity with generally accepted accounting principles will be filed promptly with the Bond Fund Trustee and sent to any Bondholder filing with the Bond Fund Trustee a written request for a copy thereof. (Res. Section 8.6)

Not to Furnish Free Service; Enforcement of Accounts Due. So long as any Bonds issued pursuant to the Resolution are outstanding and unpaid, the Authority will not furnish or supply water or any other commodity, service or facility furnished by it or in connection with the operation of the Water System, free of charge to any person, firm or corporation, public or private, and the Authority will promptly enforce the payment of any and all accounts owing to the Authority by reason of the ownership and operating of the Water System. (Res. Section 8.12)

Arbitrage Covenant. The Authority covenants with the holders from time to time of the Bonds that (i) throughout the term of the Bonds and (ii) through the date that the final rebate, if any, must be made to the United States in accordance with Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), it will comply with the provisions of Section 103 and 141 through 150 of the Code and all regulations proposed and promulgated thereunder that must be satisfied in order that interest on the Bonds shall be and continue to be excluded from gross income for federal income tax purposes under said Section 103. (Res. Section 8.15)

**Events of Default; Remedies.** Each of the following events constitutes an "Event of Default" under the Resolution:

(a) if payment of the principal of or premium, if any, on any Bond shall not punctually be made when due and payable, whether at the stated maturity thereof or upon proceedings for the redemption thereof (whether by voluntary redemption or a mandatory sinking fund redemption or otherwise);

(b) if payment of the interest on any Bond shall not punctually be made when due;

(c) if the provisions of any Supplemental Resolution with respect to mandatory sinking fund installment payments or the redemption of Term Bonds therefrom, as the case may be, shall not punctually be complied with at the time and in the manner specified in such Supplemental Resolution;

(d) if the Authority shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Resolution or in the Bonds, on the part of the Authority to be performed, and such failure shall continue for ninety (90) days after written notice thereof from the Bond Fund Trustee or the holders of not less than twenty percent (20%) of the Bonds then outstanding; provided that, if such failure shall be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(e) if an order, judgment, or decree shall be entered by any court of competent jurisdiction, with the consent or acquiescence of the Authority, or if such order, judgment or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or set aside or discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within ninety (90) days after the entry thereof, and if appealed, shall not

thereafter be vacated or discharged; (i) appointing a receiver, trustee or liquidator for the Authority or for the Water System or any part of the Water System; or (ii) assuming custody or control of the Water System or any part thereof under the provisions of any law for the relief or aid of debtors; or (iii) approving a petition filed against the Authority under provisions of Chapter IX of an Act to Establish a Uniform Law on the Subject of Bankruptcies II USC 901-946; or (iv) granting relief to the Authority under any amendment to said Bankruptcy Act, or under any other applicable Bankruptcy Act, which shall give relief substantially similar to that afforded by said Chapter IX; and

(f) if the Authority shall (i) admit in writing its inability to pay its debts generally as they become due; or (ii) file a petition in bankruptcy or seeking a composition of indebtedness; or (iii) make an assignment for the benefit of its creditors; or (iv) file a petition or any answer seeking relief under the Bankruptcy Act referred to in the preceding clause, or under any amendment thereto, or under any other applicable bankruptcy act which shall save relief substantially the same as that afforded by Chapter IX of said act; or (v) consent to the appointment of a receiver of the whole or any substantial part of the Water System; or (vi) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the Authority or of the whole or any substantial part of the Water System. (Res. Section 9.2)

Notice to Bondholders of Event of Default. The Bond Fund Trustee, within ninety (90) days after the occurrence of an Event of Default, shall give to the Bondholders, notice of all defaults known to the Bond Fund Trustee, unless such defaults shall have been cured before the giving of such notice (the term “default” or “defaults” for the purpose of this paragraph being defined to be any Event or Events of Default specified in the Resolution; provided that, except in the case of an Event of Default as described in subparagraphs (a) through (c) above, the Bond Fund Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or a trust committee of other responsible officers or a trust committee of directors and other responsible officers of the Bond Fund Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders). (Res. Section 9.3)

Inspection of Books and Records. If an Event of Default (as defined in Section 9.2 of the Resolution) shall have happened and shall not have been remedied, the books of record and account of the Authority relating to the Water System and all other records relating thereto shall at all times be subject to the inspection and use of the Bond Fund Trustee and any persons holding at least twenty-five percent (25%) of the principal amount of Bonds outstanding and of their respective agents and attorneys or of any committee therefor. (Res. Section 9.4)

Payment of Funds to the Bond Fund Trustee; Application of Revenues in an Event of Default. If an Event of Default shall have happened and shall not have been remedied, upon demand of the Bond Fund Trustee, the Authority shall pay over to the Bond Fund Trustee and cause any Construction Fund Trustee to pay over to the Bond Fund Trustee (i) forthwith, all moneys, securities and funds then held by the Authority and pledged under the Resolution, and moneys, securities and funds then held by any Construction Fund Trustee, and (ii) as promptly as practicable after receipt thereof, all Revenues. (Res. Section 9.5)

During the continuance of an Event of Default as defined in items (a) through (c) above or of any other Event of Default resulting in an Event of Default as defined in said items (a) through (c), the Revenues received by the Bond Fund Trustee or by a Bondholders’ Committee pursuant to the provisions of the Resolution as the result of the taking of possession of the business and properties of the

Water System, shall be applied by the Bond Fund Trustee or by the Bondholders' Committee, as the case may be, firstly to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or by the Bondholders' Committee, as the case may be; secondly, to the then due and overdue payments into the Bond Fund, including the making up of deficiencies therein; and lastly, for any lawful purpose in connection with the Water System. (Res. Section 9.4)

In the event that at any time the funds held by the Bond Fund Trustee or the Bondholders' Committee pursuant to the preceding paragraph shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons) and all Revenues of the Authority and other of its moneys received or collected for the benefit or for the account of holders of the Bonds by the Bond Fund Trustee shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become due and payable,  
First, to the payment of all necessary and proper operating expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or by the Bondholders' Committee, as the case may be;

Second, with respect to the Senior Lien Bonds, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Third, with respect to the Senior Lien Bonds, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Senior Lien Bonds at the time of such payment without preference or priority of any Senior Lien Bond over any other Senior Lien Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference;

Fourth, with respect to the Subordinate Lien Bonds, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Sixth, with respect to the Subordinate Lien Bonds, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Subordinate Lien Bonds at the time of such payment without preference or priority of any Subordinate Lien Bond over any other Subordinate Lien Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference;

(2) If the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper operating expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or the Bondholders' Committee, as the case may be;

Second, to the payment of the principal and interest then due and unpaid upon the Senior Lien Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Lien Bond over any other Senior Lien Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

Third, to the payment of the principal and interest then due and unpaid upon the Subordinate Lien Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Subordinate Lien Bond over any other Subordinate Lien Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the holders of the Bonds, their respective agents and attorneys, and all other sums payable by the Authority under the Resolution including the principal of and premium, if any, on all Bonds which shall then be payable, shall either be paid in full by or for the account of the Authority or provisions satisfactory to the Bond Fund Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good and secured to the satisfaction of the Bond Fund Trustee or provision deemed by the Bond Trustee to be adequate therefor, the Bond Fund Trustee or the Bondholders' Committee, as the case may be, shall pay over to the Authority all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bond Fund Trustee or the Bondholders' Committee, as the case may be (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Bond Fund Trustee or a Construction Fund Trustee), control of the business and possession of the property of the Authority shall be restored to the Authority, and thereupon the Authority and the Bond Fund Trustee shall be restored to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in the Resolution. (Res. Section 9.5)

Possession of System by Bond Fund Trustee or Bondholders' Committee; Appointment of a Receiver. Upon the occurrence of an Event of Default and while such Event of Default shall be continuing, the Bond Fund Trustee or a Bondholders' Committee representing the holders of not less than a majority of the Bonds at the time outstanding, as a matter of right against the Authority, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law be entitled to take possession and control of the business and properties of the Water System. Upon taking such possession, the Bond Fund Trustee or such Bondholders' Committee shall operate and maintain the Water System, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for water distributed through the facilities of the Water System and collect the Revenues of the Water System. (Res. Section 9.6)

Upon the occurrence of an Event of Default and at any time while such Event of Default shall be continuing, the Bond Fund Trustee or the holders of twenty-five percent (25%) or more in principal amount of the Bonds then Outstanding or at any committee therefor shall, but only if and to the extent then permitted by law, be entitled to the appointment of a receiver to take possession of the Water

System, to manage, and receive and apply the Revenues. Notwithstanding the appointment of any receiver, the Bond Fund Trustee shall be entitled to retain possession and control of and to collect and receive income from any moneys, securities, funds and Revenues deposited or pledged with it under the Resolution or agreed or provided to be delivered to or deposited or pledged with it under the Resolution. (Res. Section 9.6)

Certain Powers and Rights of the Bond Fund Trustee. The Bond Fund Trustee is empowered to proceed forthwith to institute such suits, actions and proceedings to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution or, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Bond Fund Trustee and of the holders of the Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings. (Res. Section 9.7)

Bondholders' Committee. Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the holders of not less than twenty percent (20%) in principal amount of the Bonds then Outstanding may call a meeting of the holders of Bonds for the purpose of electing a Bondholders' Committee. At such meeting the holders of not less than a majority of the principal amount of the Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the holders of a majority in principal amount of the Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholder's Committee may, with the consent of the holders of not less than fifty percent (50%) of the principal amount of Bonds outstanding, remove the Bond Fund Trustee. After the removal of the Bond Fund Trustee and prior to the appointment of a successor Bond Fund Trustee the members of the Bondholders' Committee will be deemed to be trustees for the holders of all the Bonds then Outstanding, and may exercise in the name of the Bondholders' Committee, as trustee, all the rights and powers conferred on the Bond Fund Trustee or any Bondholder. (Res. Section 9.8)

Bondholders May Direct Proceedings; Suits by Individual Bondholders. The holders of not less than a majority in principal amount of the Bonds at the time outstanding shall be authorized and empowered (1) to direct the time, method, and place of conducting any proceeding for any remedy available to the holder of the Bonds or to the Bond Fund Trustee therefor, or of exercising any trust or power conferred upon the Bond Fund Trustee under the Resolution; or (2) on behalf of the holders of the Bonds then outstanding, to consent to the waiver of any Event of Default or its consequences, and the Bond Fund Trustee shall waive any Event of Default and its consequences upon the written request of the holders of such majority.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Bond Fund Trustee written notice of the happening of an Event of Default and the holders of at least twenty percent (20%) in principal amount of the Bonds then Outstanding shall have filed a written request with the Bond Fund Trustee and shall have offered it reasonable opportunity either to exercise the power granted under the Resolution or to institute such action, suit or proceeding in its own name and unless such Bondholder shall have offered to the Bond Fund Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Fund Trustee for a period of sixty (60) days after the receipt by it of such notice, request and an offer of indemnity against costs shall have refused to comply with such request. (Res. Sections 9.9, 9.10)

**Amending and Supplementing of Resolution.** The Authority, at any time and without the consent or concurrence of any holder of any Bond, may adopt a resolution amendatory of, or supplemental to, the Resolution (herein a "Supplemental Resolution"), (i) for the purpose of issuing Additional Bonds; or (ii) if the rights of the holders of the Bonds then outstanding are not adversely affected, for any one or more of the following purposes: (1) to make any changes or corrections in the Resolution as to which the Authority shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or mistake contained in the Resolution, arising under the Resolution as are necessary or desirable; (2) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds; (3) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution; (4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Resolution; and (5) to grant or to confer upon the holders of the Bonds or to confer upon the Bond Fund Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them. (Res. Section 10.1)

With the consent of the holders of not less than a majority of the Bonds then Outstanding, the Authority may adopt a Supplemental Resolution for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Resolution, or modifying or amending the rights and obligations of the Authority thereunder, or modifying or amending in any manner the rights of the holders of the Bonds then Outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof; or (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Resolution; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Resolution; or (4) authorize the creation of any pledge of the Revenues and other moneys pledged under the Resolution, prior, superior or equal to the pledge of and lien and charge thereon created in the Resolution for the payment of the Bonds except to the extent provided in Article III of the Resolution; or (5) deprive any holder of the Bonds in any material respect of the security afforded by the Resolution; provided, further, however, that without the specific consents of the holders of not less than a majority in principal amount of the Term Bonds then Outstanding and affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution shall (a) change the amount of any sinking fund installments for the retirement of Term Bonds or the due dates of such installments or the terms for the purchase or redemption thereof from such installments or (b) reduce the aforesaid percentage of Term Bonds, the holders of which are required to consent to any such Supplemental Resolution. (Res. Section 10.2)

**Defeasance.** The obligations of the Authority under the Resolution and the liens, pledges, charges, trusts, covenants and agreements of the Authority therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding thereunder, (i) when such Bond shall have been cancelled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by the Bond Fund Trustee from moneys held under the Resolution; or (ii) when payment of the principal of and premium, if any, on such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with the Bond Fund Trustee or a Paying Agent for such Bonds, in trust, and irrevocably appropriating and setting

aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Refunded Municipal Obligations or Investment Securities (which shall include only those obligations described in items (i), (ii) and (iii) of the definition of Investment Securities) maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, whichever the Authority deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Bond Fund Trustee and the Paying Agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Bond Fund Trustee and said Paying Agents and proper notice of such redemption or prepayment shall have been previously published in accordance with the Resolution or provision satisfactory to the Bond Fund Trustee shall have been irrevocably made for the giving of such notice. (Res. Section 13.1)



## **APPENDIX B**

Financial Statements of Authority with accompanying Independent Auditors' Report

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**SUFFOLK COUNTY WATER AUTHORITY**

Financial Statements and  
Required Supplementary Information

May 31, 2019 and 2018

(With Independent Auditors' Reports Thereon)

## SUFFOLK COUNTY WATER AUTHORITY

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KPMG LLP  
Suite 200  
1305 Walt Whitman Road  
Melville, NY 11747-4302

## **Independent Auditors' Report**

The Members  
Suffolk County Water Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Suffolk County Water Authority (the Authority), which comprise the statements of net position as of May 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Suffolk County Water Authority as of May 31, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



#### *Emphasis of Matter*

As discussed in notes 1(v) and 9, during the year ended May 31, 2019, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

#### *Other Matter - Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 15 and the Schedule of Employer Contributions – New York State and Local Employees' Retirement System, Schedule of Proportionate Share of the Net Pension Liability – New York State and Local Employees' Retirement System, and Schedule of Changes in the Authority's Total OPEB liability and Related Ratios on pages 47, 48, and 49, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

August 29, 2019

**SUFFOLK COUNTY WATER AUTHORITY**  
Management's Discussion and Analysis (Unaudited)  
May 31, 2019 and 2018

Suffolk County Water Authority (SCWA or the Authority) is a public benefit corporation, created by resolution of the Suffolk County Board of Supervisors in 1937, with a twofold purpose. The first was to acquire, construct, maintain, and operate a public water supply for Suffolk County. The second was to develop a single, integrated public water supply and distribution system to serve all of Suffolk County. The accounts of the Authority are maintained generally in accordance with the *Uniform System of Accounts* prescribed by the New York State Public Service Commission (PSC), although the Authority is not subject to PSC rules and regulations. Board members are appointed by the Suffolk County Legislature for five-year overlapping terms. Vacancies, other than by expiration of term, are filled by the Suffolk County Legislature by appointment for the unexpired term. The chairman of the Authority is also appointed by the Suffolk County Legislature. The rates established by the Authority do not require PSC or Suffolk County legislative approval.

**The Financial Statements**

The statements of net position provide information about the nature and amounts of investments in resources (assets), obligations to the Authority's creditors (liabilities) as well as the deferred outflows and inflows of resources, with the difference between these amounts reported as net position.

The statements of revenues, expenses, and changes in net position report how the Authority's net position changed during each year presented. The statement accounts for all of the revenues and expenses for the year, measures the financial results of the Authority's operations for the year, and can be used to determine how the Authority has funded its costs.

The statements of cash flows provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operating activities, investing activities, and capital and related financing activities.

The notes to the financial statements contain information that is essential to understanding the financial statements, such as the Authority's accounting methods and policies.

In 2019, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting for Postemployment Benefits Other Than Pensions* (GASB 75). The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the financial statements, in addition to requiring more extensive note disclosures and required supplementary information. The adoption of GASB 75 was done retrospectively and resulted in an adjustment of \$268.9 million to beginning net position for the fiscal year ended May 31, 2018.

**SUFFOLK COUNTY WATER AUTHORITY**  
Management's Discussion and Analysis (Unaudited)  
May 31, 2019 and 2018

Management provides the following discussion and analysis of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2019 and 2018 with comparative information for the year ended May 31, 2017. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements. The financial statements as of and for the years ended May 31, 2019 and 2018 follow this narrative on the subsequent pages.

**Summary of Revenues, Expenses, and Changes in Net Position**

	<b>Year ended May 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017 <sup>(1)</sup></b>
		<b>(as adjusted)</b>	
		<b>(In thousands)</b>	
Operating revenues:			
Water service	\$ 163,802	157,612	164,425
Other	25,904	21,379	19,691
Total operating revenues	189,706	178,991	184,116
Operating expenses:			
Operations and maintenance	124,370	128,946	128,231
Depreciation and amortization	50,207	48,752	46,131
Total operating expenses	174,577	177,698	174,362
Operating income	15,129	1,293	9,754
Nonoperating revenues and expenses:			
Interest expense, net	(29,694)	(25,906)	(27,408)
Amortization of deferred amounts on refinancing	(1,453)	(1,462)	(4,001)
Income from investments	7,920	2,041	1,359
Costs to be recovered from future revenues	—	—	9,802
Capital reimbursement fees	6,173	12,695	9,533
Total nonoperating revenues and expenses, net	(17,054)	(12,632)	(10,715)
Change in net position	(1,925)	(11,339)	(961)
Net position, beginning of year	334,552	614,796	615,757
Cumulative effect of adoption of GASB 75 <sup>(1)</sup>	—	(268,905)	—
Net position, end of year	\$ 332,627	334,552	614,796

(1) GASB 75 was adopted, effective June 1, 2017. The 2017 figures have not been restated to reflect the adoption of GASB 75.



**SUFFOLK COUNTY WATER AUTHORITY**  
Management's Discussion and Analysis (Unaudited)  
May 31, 2019 and 2018

**Operating Revenues**

Water service revenues increased \$6.2 million in 2019. This was the result of 4.0% and 15.0% rate increases on consumption and service charges, respectively, which were effective April 1, 2019, these increases were offset by a 1.5% decrease in annual consumption.

Water service revenues decreased \$6.8 million in 2018 as a result of a decrease in annual pumpage of 8.6% due to higher rainfall, causing customers to use less water, mitigated by a rate increase of 3.75% effective April 1, 2018.

Other operating revenues increased \$4.5 million in 2019. This increase is primarily attributable to \$2.1 million recognized in Environmental Facilities Corporation (EFC) – Storm Mitigation Program and EFC Water Infrastructure Improvement Act (WIIA) grant revenue, a \$1.3 million increase in antennae lease revenue, a \$0.5 million increase due to the recognition of the rate stabilization reserve relating to the sale of property in the previous year, a \$0.1 million increase in East Farmingdale Water District revenue, and a \$0.5 million increase in late charge revenue, initiation fee revenue, minor upgrade surcharge revenue and reimbursed damages revenue.

Other operating revenues increased \$1.7 million in 2018. This increase is primarily attributable to \$1.0 million more in Environmental Facilities Corporation (EFC) – Storm Mitigation Program grant money, a \$0.5 million increase in antennae lease revenue, and a \$0.3 million increase due to the sale of vehicle equipment. This was offset by a decrease of \$0.1 million in late charge revenue, reduced pressure zone (RPZ) fee revenue, and wasted water credit revenue.

**Operating Expenses**

Operations and maintenance expense decreased \$4.6 million or 3.6% from \$128.9 million in 2018 to \$124.3 million in 2019. The decrease is mainly attributable to decreases in accounting and collecting cost of \$0.2 million, workers' compensation expense of \$2.2 million, and a decrease of \$5.3 million due to the impact of the GASB 75 adjustments to postemployment benefit other than pension (OPEB) expense. These decreases were offset by increases in wells, pumping and treatment expense of \$0.4 million, transmission and distribution expense of \$1.4 million and administrative and special services expense of \$1.3 million.

Operations and maintenance expense increased \$0.7 million or 0.5% from \$128.2 million in 2017 to \$128.9 million in 2018. The increase is mainly attributable to increases in wells and pumping cost of \$0.4 million, transmission and distribution cost of \$0.9 million, administrative and special services cost of \$1.9 million, benefits costs of \$2.2 million and workers' compensation of \$1.0 million. These increases were partially offset by decreases in treatment expense of \$0.3 million, accounting and collecting cost of \$0.7 million, power purchase of \$0.3 million, and \$4.4 million due to the adoption of GASB 75.

Depreciation and amortization expenses were \$50.2 million in 2019, an increase of \$1.4 million or 3.0% from 2018. The increase is attributable to a 4.1% increase in water plant.

Depreciation and amortization expenses were \$48.8 million in 2018, an increase of \$2.6 million or 5.7% from 2017. The increase is attributable to a 5.6% increase in water plant.

**SUFFOLK COUNTY WATER AUTHORITY**  
Management's Discussion and Analysis (Unaudited)  
May 31, 2019 and 2018

**Nonoperating Revenues and Expenses**

Interest expense was \$29.7 million in 2019, an increase of \$3.8 million from 2018. The increase is mainly attributable to a \$2.9 million increase in interest paid net of subsidy on bonds payable related to additional debt issued in August 2018 and a \$1.0 million increase in issuance cost expense, offset by a \$0.1 million net increase in debt premium expense.

Interest expense was \$25.9 million in 2018, a decrease of \$1.5 million from 2017. The decrease is mainly attributable to a \$1.0 million decrease in interest paid net of subsidy on bonds and notes payable and a \$1.7 million decrease in issuance cost expense offset by a \$1.2 million net decrease in discount and premium expense.

Income from investments was \$7.9 million in 2019, an increase of \$5.9 million from 2018. The change in investment earnings was a result of a more favorable interest rate environment than the previous fiscal year combined with the utilization of additional funds invested in fiscal year 2019.

Income from investments was \$2.0 million in 2018, an increase of \$0.7 million from 2017. The change in investment earnings was a result of a slightly more favorable interest rate environment than the previous fiscal year.

Capital reimbursement fees were \$6.2 million in 2019, a decrease of \$6.5 million or 51.4% during the current year. The decrease in 2019 was due to increased activity in 2018, primarily related to projects that provided connections to individuals with private wells in Westhampton, funded by the New York State Department of Environmental Conservation (NYSDEC).

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Capital reimbursement fees were \$12.7 million in 2018, an increase of \$3.2 million or 33.7% over 2017. These fees were related to a 2018 project as described above.

**Statement of Net Position Summary**

		<b>May 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2017 <sup>(1)</sup></b>
		<b>(as adjusted)</b>	
		<b>(In thousands)</b>	
Assets:			
Capital assets (water plant), net	\$ 1,172,932	1,149,488	1,131,798
Current assets	287,159	261,183	219,145
Other noncurrent assets	170,623	110,736	288,755
Total assets	<u>\$ 1,630,714</u>	<u>1,521,407</u>	<u>1,639,698</u>
Deferred outflows of resources	\$ 23,253	25,341	29,196
Liabilities:			
Current liabilities	\$ 60,809	54,938	52,191
Other long-term liabilities	300,644	316,091	165,152
Long-term debt, net of current portion	919,399	827,188	833,484
Total liabilities	<u>\$ 1,280,852</u>	<u>1,198,217</u>	<u>1,050,827</u>
Deferred inflows of resources	\$ 40,488	13,979	3,271
Net position:			
Net investment in capital assets	\$ 327,419	341,949	371,607
Restricted for debt service	105,885	92,821	92,848
Unrestricted <sup>(1)</sup>	(100,677)	(100,218)	150,341
Total net position	<u>\$ 332,627</u>	<u>334,552</u>	<u>614,796</u>

(1) GASB 75 was adopted, effective June 1, 2017. The 2017 figures have not been restated to reflect the adoption of GASB 75.

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**Capital Assets (Water Plant), Net**

	<u>May 31, 2018</u>	<u>Additions/ reclassifications</u>	<u>Deletions/ reclassifications</u>	<u>May 31, 2019</u>
		(In thousands)		
Water plant in service	\$ 1,759,586	82,609	(9,785)	1,832,410
Less accumulated depreciation	<u>(710,586)</u>	<u>(50,056)</u>	<u>9,785</u>	<u>(750,857)</u>
Net water plant in service	1,049,000	32,553	—	1,081,553
Construction in progress	<u>100,488</u>	<u>73,500</u>	<u>(82,609)</u>	<u>91,379</u>
Water plant	<u>\$ 1,149,488</u>	<u>106,053</u>	<u>(82,609)</u>	<u>1,172,932</u>

  

	<u>May 31, 2017</u>	<u>Additions/ reclassifications</u>	<u>Deletions/ reclassifications</u>	<u>May 31, 2018</u>
		(In thousands)		
Water plant in service	\$ 1,665,618	105,504	(11,536)	1,759,586
Less accumulated depreciation	<u>(673,858)</u>	<u>(48,264)</u>	<u>11,536</u>	<u>(710,586)</u>
Net water plant in service	991,760	57,240	—	1,049,000
Construction in progress	<u>140,038</u>	<u>65,954</u>	<u>(105,504)</u>	<u>100,488</u>
Water plant	<u>\$ 1,131,798</u>	<u>123,194</u>	<u>(105,504)</u>	<u>1,149,488</u>

There was a net increase in water plant in fiscal year 2019 of \$23.3 million comprising an increase of \$63.6 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of \$40.3 million. The additions to gross water plant during 2019 comprised of the following: construction projects of \$29.5 million, EFC Storm Mitigation Program of \$13.3 million, wells \$7.5 million, equipment \$4.2 million, meters \$3.9 million, services \$3.9 million, treatment facilities \$2.9 million, pump stations \$2.8 million, fleet \$2.7 million, hydrants \$1.3 million, and other projects of \$1.2 million.

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There was a net increase in water plant in fiscal year 2018 of \$17.7 million comprising an increase of \$54.4 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of \$36.7 million. The additions to gross water plant during 2018 comprised of the following: construction projects of \$32.4 million, engineering \$14.8 million, production control \$1.7 million, customer service \$8.4 million, general services \$0.1 million, EFC Storm Mitigation Program \$6.3 million, and other projects of \$2.3 million.

**Current Assets**

		<b>May 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>
		(In thousands)	
Increases (decreases):			
Cash and cash equivalents	\$ (7,469)	33,165	8,981
Restricted cash – escrow	240	—	—
Investments	31,168	7,926	(29,580)
Accounts receivables, net	3,647	2,504	1,863
Accrued water services and fire protection revenues	(501)	(26)	(628)
Interest and other receivables	261	60	(71)
Materials and supplies	(1,465)	(1,701)	672
Prepayments and other current assets	95	110	470
Net change in current assets	\$ 25,976	42,038	(18,293)

**Current Assets**

The Authority's investment policy complies with the New York State Comptroller's guidelines for investments. The investment policy permits investments in, among others, obligations of the U.S. Treasury, U.S. government, any state of the United States or any political subdivision, sponsored entity securities, and repurchase agreements backed by such obligations. Authority investments are generally reported at fair value.

The Authority's investments, net of the change in cash and cash equivalents, increased by \$23.9 million at May 31, 2019, from May 31, 2018. The increase is primarily attributable to an increase in the frequency of investment purchases.

The Authority's investments, net of the change in cash and cash equivalents, increased by \$41.1 million at May 31, 2018, from May 31, 2017. The increase is primarily attributable to funds generated from excess revenues.

Accounts Receivable, net increased by \$3.6 million at May 31, 2019 from May 31, 2018. This increase is due to the recognition of a grant receivable of \$3.1 million from the Environmental Facilities Corporation Storm Mitigation Loan program (SMLP) and the Water Infrastructure Improvement Act (WIIA) grant and a \$2.2 million increase in customer water receivables. This increase was offset by a \$1.3 million decrease in construction contracts receivable and a \$0.4 million decrease in other receivables.

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Materials and supplies at May 31, 2019 are valued at \$7.7 million. The \$1.5 million decrease from May 31, 2018 is attributed to reduced purchases of meters and components in the amount of \$1.1 million due to the completion of the Automated Meter Reading (AMR) installation program. There was also a \$0.4 million reduction of the value of inventory on hand.

Materials and supplies at May 31, 2018 are valued at \$9.2 million. The \$1.7 million decrease from May 31, 2017 is attributed to reduced purchases of meters and components in the amount of \$0.6 million due to the deceleration of the meter installation program. There was also a \$1.1 million reduction of the value of inventory on hand, including adjustments.

**Other Noncurrent Assets**

Other noncurrent assets increased by \$59.9 million as of May 31, 2019. This was the result of an increase in restricted investments of \$68.4 million from bond construction proceeds and debt service reserve funds. This increase was offset by a decrease in Environmental Facilities Corporation Storm Mitigation Loan Program bond anticipation notes receivable of \$8.1 million, and a decrease in goodwill and other assets of \$0.4 million.

Other noncurrent assets decreased by \$178.0 million as of May 31, 2018. This was the result of a \$119.5 million write off of costs to be recovered from future revenues due to the adoption of GASB 75, a decrease in restricted investments of \$52.1 million due to spend down of bond proceeds for construction, a decrease in Bond Anticipation Note 2015A receivable of \$6.1 million, and a decrease in goodwill and other assets of \$0.3 million.

**Liabilities**

**Current Liabilities**

	<b>2019</b>	<b>May 31 2018</b>	<b>2017</b>
		(In thousands)	
Increases (decreases):			
Current maturities of bonds payable	\$ (452)	(115)	(1,405)
Current maturities of bond anticipation notes payable	110	224	—
Accounts payable	5,732	(3,114)	2,099
Accrued interest	1,813	(315)	318
Accrued employee welfare costs	188	(826)	(2,168)
Rate stabilization reserve	(2,760)	2,760	—
Other accrued liabilities	1,240	4,133	1,584
Net change in current liabilities	\$ 5,871	2,747	428

**Current Liabilities**

The \$5.7 million increase and \$3.1 million decrease in accounts payable in 2019 and 2018, respectively, is attributable to the timing of processing invoices for work performed, completed, and paid for subsequent to May 31, 2019 and 2018, respectively.

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The increase in accrued interest of \$1.8 million in 2019 from 2018 is attributable to the August 2018 issuance of Water System Revenue Bond Series 2018A.

The decrease in the rate stabilization reserve of \$2.8 million in fiscal year 2019 is due to the Authority fully amortizing these reserves throughout 2019. These reserves, established in 2018, were comprised of income from the sale of properties no longer needed for water supply purposes of \$0.5 million and revenues received from the settlement of antenna lease agreements due to a merger of cellular telecommunications companies of \$2.3 million.

The increase in other accrued liabilities of \$1.2 million in 2019 compared to 2018 is attributable to a \$0.9 million increase in workers' compensation due to the natural progression of outstanding claims under the self insured program and a \$0.3 million increase to the customer deposit account.

The increase in other accrued liabilities of \$4.1 million in 2018 compared to 2017 is attributable to a \$3.3 million increase in workers' compensation due to the natural progression of outstanding claims under the self insured program and a \$0.8 million increase to the customer deposit account.

**Other Long-Term Liabilities**

Other long-term liabilities decreased by \$15.4 million at May 31, 2019 as a result of a decrease in postemployment benefit other than pension (OPEB) of \$23.4 million offset by the net pension liability increase of \$5.9 million and a \$2.1 million increase in advances for construction.

Other long-term liabilities increased by \$7.8 million at May 31, 2018 as a result of an increase in postemployment benefit other than pension (OPEB) of \$18.0 million offset by the net pension liability decrease of \$9.8 million and a \$0.4 million decrease in advances for construction.

In accordance with GASB 75, the financial statements at May 31, 2019 and 2018 include a liability for postemployment benefits other than pension in the amount of \$282.5 million and \$305.9 million, respectively.

GASB 75 does not require that the unfunded liability actually be funded, only that the Authority account for the unfunded accrued liability. However, beginning in 2012, in an effort to mitigate possible future rate impacts related to any expected legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2019 and 2018, the undedicated reserve is \$54.2 million and \$35.2 million, respectively. During the fiscal years ended May 31, 2019 and 2018 the Authority contributed \$19.0 million and \$10.0 million to this reserve, respectively.

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**Long-Term Debt**

The Authority's long-term debt (including current maturities, excluding unamortized discounts and deferred amounts) increased in fiscal year 2019 by \$95.9 million, and decreased in fiscal year 2018 by \$4.2 million.

**Water System Revenue and  
Environmental Facilities Corporation Revenue Bonds**

		<b>May 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>
		(In thousands)	
Balance, beginning	\$ 785,460	789,672	723,369
New issues:			
SCWA 2016A	—	—	84,280
SCWA 2016B	—	—	40,000
SCWA 2016 Refunding	—	—	53,825
SCWA 2018A	100,000	—	—
	<u>100,000</u>	<u>—</u>	<u>178,105</u>

**Water System Revenue and  
Environmental Facilities Corporation Revenue Bonds**

		<b>May 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>
		(In thousands)	
Maturities, retirements, and defeasances:			
SCWA	\$ (510)	(620)	(108,295)
EFC	(3,587)	(3,592)	(3,507)
	<u>(4,097)</u>	<u>(4,212)</u>	<u>(111,802)</u>
Net changes in long-term debt	<u>95,903</u>	<u>(4,212)</u>	<u>66,303</u>
Balance, ending	<u>\$ 881,363</u>	<u>785,460</u>	<u>789,672</u>

Investment ratings on debt issued by the Authority given by Standard and Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) at May 31, 2019 and at May 31, 2018 were AAA.

As a result of legislation initiated by New York State and enacted by the U.S. Congress, a Drinking Water State Revolving Fund (DWSRF) was created to provide financial incentive for public and private water systems to finance drinking water infrastructure improvements in the form of subsidized low interest rate loans and grants for qualified projects. The New York State Environment Facilities Corporation (NYS EFC) administers the financial aspects of the DWSRF. The Authority has participated in this program since 1998.



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The Authority did not enter into any NYS EFC bond transactions during fiscal years ended May 31, 2019 and 2018.

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains at various sites in Wainscott, New York, 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 Authority water. To lessen the financial burden on local residents, the Authority and the town have decided to pursue a joint inter-municipal state grant to secure funding from the previous year's \$2.5 billion Water Infrastructure Improvement Act. In September, 2018, the Authority has taken the lead in applying for Inter-municipal Grant funding from the Environmental Facilities Corporation's NYS Inter-municipal Water Infrastructure Grant (IMG) Program. The work for the Wainscott Project was in its final stages of completion as of May 31, 2019 and the amount of the grant is estimated at approximately \$4.9 million. As of May 31, 2019, the Grant Agreement between the NYS EFC and the Authority has not been executed. Upon the execution of the IMG Grant Agreement, the Authority will submit the request for Grant funding and will subsequently bill the Town of East Hampton for the costs of Construction and Services net of the grant money.

In October 2017, the Authority was awarded \$2.1 million in grants from the Environmental Facilities Corporation (NYS EFC) New York State Water Infrastructure Improvement Act (WIIA) Grant. Grants were awarded for two of the five proposed projects that the Authority applied for in June 2017. The \$2.1 million in grants is comprised of \$1.4 million for the water main installation to improve service in East Farmingdale and \$0.7 million for the construction of an Advanced Oxidation Process (AOP) System to treat 1, 4-dioxane at the Authority's Smith Street, East Farmingdale well field site. Work on the water main improvement project has begun in the spring of fiscal year ending May 31, 2019. Work on the construction of an Advanced Oxidation Process (AOP) System is expected to begin during fiscal year 2020. As of fiscal year ended May 31, 2019, the Authority has not received any grant funding for these projects, but has recognized \$0.7 million in grant revenue on the completed water main projects costs as of May 31, 2019.

During the fiscal year ended May 31, 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, fund the reserve account and to pay cost of issuance. The Series 2018A bonds bear interest rates ranging from 3.25% to 5.00% and have a final maturity date of June 1, 2043.

During the fiscal year ended May 31, 2018, the Authority did not enter into any bond issues.

During the fiscal year ended May 31, 2017, the Authority issued an aggregate of \$178.1 million in Water System Senior Lien Revenue bonds consisting of \$84.3 million Water System Revenue Bonds, Series 2016A; \$40.0 million Water System Revenue Bonds, Series 2016B; and \$53.8 million Water System Revenue Bonds, Series 2016 (Refunding). The Series 2016A bonds were issued for the purpose of retiring \$75.0 million of the Authority's outstanding Bond Anticipation Notes, 2015B, and to fund a deposit to the 2016A reserve account and to pay cost of issuance. The Series 2016B Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the Water System and to fund a deposit to the reserve account and pay costs of issuance for Series 2016B. The Series 2016 (Refunding) were issued to advance refund all of the Authority's outstanding \$49.0 million 2009A Bonds and \$6.6 million 2009 Bonds (Refunding) and to fund a deposit to the reserve account and pay costs of issuance.

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**Short-Term Debt**

The Authority, from time to time, issues Bond Anticipation Notes to finance improvements and additions to the water system.

In July 2015, as part of the participation in the Storm Mitigation Loan Program through the NYS EFC, the Authority closed on its EFC Bond Anticipation Note, 2015A with a maximum advance amount of \$16.5 million. The eligible projects are related to main extensions and generators. The Storm Mitigation Loan Program consists of two components; 75% interest free loan and 25% in grant monies of which the Authority is eligible to receive up to \$5.5 million.

During the fiscal years ended May 31, 2019 and May 31, 2018, the Authority received \$4.3 million and \$6.1 million, respectively, in advances against its EFC Bond Anticipation Note, 2015A for eligible projects related to main extensions and generators under the Storm Mitigation Loan Program. As of May 31, 2019, total EFC advances against the \$16.5 million 2015A Bond Anticipation Note amounted to \$12.7 million. The total Storm Mitigation Loan program grants received was \$1.0 million against the \$5.5 million awarded. According to the terms of the EFC 2015A Bond Anticipation Note Financing Agreement, which matures July 30, 2020, the Authority has made a principal payment of \$0.2 million as of May 31, 2019 and is required to make an estimated principal payment of \$0.3 million in May 2020 which is based on a percentage of the amount drawn down to date less any previously paid principal amounts. As of May 31, 2019, all projects have been completed and the 2015A Note Payable account balance has been reduced by \$3.8 million to reflect the total amount of draws to date of \$12.7 million offset by the principal payment made in May 2019. Upon the re-sizing of the loan and the conversion of the Note to long-term debt, the amount of grant funds is expected to increase by approximately \$2.5 million.

In November 2016, the Authority advance refunded \$75.0 million its Suffolk County Water Authority Bond Anticipation Notes, Series 2015B with the issuance of \$84.3 million Water System Revenue Bonds, Series 2016A.

**Deferred Outflows and Deferred Inflows of Resources**

Deferred outflows related to bond refunding decreased \$1.5 million at May 31, 2019 from May 31, 2018. The decrease is due to the annual amortization of the deferred loss on refunding.

Deferred outflows related to bond refunding decreased \$1.5 million at May 31, 2018 from May 31, 2017. The decrease is due to the annual amortization of the deferred loss on refunding.

In 2019, deferred outflows of resources related to pensions decreased \$.6 million and deferred inflows of resources related to pensions decreased \$5.8 million as a result of the recognition of the net pension liability adjustments in accordance with GASB 68.

In 2018, deferred outflows of resources related to pensions decreased \$2.4 million and deferred inflows of resources related to pensions increased \$7.2 million as a result of the recognition of the net pension liability adjustments in accordance with GASB 68.

In 2019, deferred inflows of resources related to other postemployment benefits increased \$32.3 million as a result of the recognition of the net OPEB liability adjustments in accordance with GASB 75.

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In 2018, deferred inflows of resources related to other postemployment benefits increased \$3.5 million as a result of the recognition of the net OPEB liability adjustments in accordance with GASB 75.

**Net Position – Net Investment in Capital Assets**

Net investment in capital assets represents the Authority's total investment in capital assets net of related long-term debt. The decrease of \$14.5 million from May 31, 2018 is the result of an increase in water plant expenditures, an increase in funds available for construction, offset by the net increase in debt balances.

The decrease of \$29.7 million from May 31, 2017 is the result of depreciation expense exceeding water plant expenditures funded through operations.

**Net Position – Restricted for Debt Service**

Net position restricted for debt service includes monies held in the reserve accounts by the bond trustee as established by bond resolution for the purpose of security as it pertains to the respective bond issue. Restricted for debt service also represents the proportional amount of principal and interest as prescribed by bond resolution due bondholders on the next prescribed payment date.

The increase of \$13.1 million at May 31, 2019, is the result of an increase of \$2.9 million in the Senior Lien Bond Fund and a net increase in the Reserve Funds of \$10.2 million, which is mainly attributable to the issuance of the Authority's Series 2018A Water System Revenue Bonds.

**Net Position – Unrestricted**

In 2019, net position – unrestricted decreased \$0.5 million from May 31, 2018 as a result of operations, net of those changes that impact investments in capital assets and net position restricted for debt service.

**Contacting the Authority's Financial Management**

This financial report is designed to provide the customers, clients, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Public Information Officer, Suffolk County Water Authority, 4060 Sunrise Highway, Oakdale, New York 11769.

**SUFFOLK COUNTY WATER AUTHORITY**

Statements of Net Position

May 31, 2019 and 2018

(In thousands)

		<b>2019</b>	<b>2018</b> <b>(as adjusted)</b>
	<b>Assets</b>		
Current assets:			
Cash and cash equivalents	\$	167,178	174,647
Restricted cash		240	—
Investments		69,552	38,384
Accounts receivable, less allowance for doubtful accounts of \$945 and \$1,184, respectively		22,440	18,793
Accrued water services and fire protection revenues		17,286	17,787
Interest and other receivables		418	157
Materials and supplies, at average cost		7,737	9,202
Prepayments and other current assets		2,308	2,213
Total current assets		287,159	261,183
Restricted investments		167,419	98,997
Bond anticipation note receivable		—	8,123
Goodwill		2,275	2,426
Other assets		929	1,190
Capital assets, net		1,172,932	1,149,488
Total noncurrent assets		1,343,555	1,260,224
Total assets	\$	1,630,714	1,521,407
	<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources:			
Pension	\$	6,922	7,546
Deferred amounts due to bond refunding		16,331	17,795
Total deferred outflows of resources	\$	23,253	25,341
	<b>Liabilities</b>		
Current liabilities:			
Current maturities of bonds payable	\$	3,645	4,097
Current maturities of bond anticipation notes payable		334	224
Accounts payable		12,286	6,554
Accrued interest		17,193	15,380
Accrued employee welfare costs		8,140	7,952
Rate stabilization reserve		—	2,760
Other accrued liabilities		19,211	17,971
Total current liabilities		60,809	54,938
Bond anticipation notes payable		12,185	16,314
Bonds payable, less current portion and unamortized discounts		907,214	810,874
Net pension liability		11,658	5,733
Postemployment benefits other than pension		282,452	305,896
Advances for construction		6,534	4,462
Total liabilities	\$	1,280,852	1,198,217
	<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources:			
Pension	\$	4,659	10,460
Other postemployment benefits (OPEB)		35,823	3,502
Deferred amounts due to bond refunding		6	17
Total deferred inflows of resources	\$	40,488	13,979
	<b>Net Position</b>		
Net position:			
Net investment in capital assets	\$	327,419	341,949
Restricted for debt service		105,885	92,821
Unrestricted		(100,677)	(100,218)
Total net position	\$	332,627	334,552

See accompanying notes to financial statements.

# SUFFOLK COUNTY WATER AUTHORITY

## Statements of Revenues, Expenses, and Changes in Net Position

Years ended May 31, 2019 and 2018

(In thousands)

	2019	2018 (as adjusted)
Operating revenues:		
Water service	\$ 163,802	157,612
Other	25,904	21,379
Total operating revenues	189,706	178,991
Operating expenses:		
Operations	92,328	97,812
Maintenance	32,042	31,134
Depreciation and amortization	50,207	48,752
Total operating expenses	174,577	177,698
Operating income	15,129	1,293
Nonoperating revenues and expenses:		
Interest and other bond expense, net	(29,694)	(25,906)
Amortization of deferred amounts on refinancing	(1,453)	(1,462)
Income from investments	7,920	2,041
Capital reimbursement fees	6,173	12,695
Total nonoperating revenues and expenses, net	(17,054)	(12,632)
Change in net position	(1,925)	(11,339)
Net position:		
Beginning of year	334,552	345,891
End of year	\$ 332,627	334,552

See accompanying notes to financial statements.

# SUFFOLK COUNTY WATER AUTHORITY

## Statements of Cash Flows

Years ended May 31, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Cash receipts from customers	\$ 163,181	155,276
Other operating cash receipts	22,120	25,512
Cash payments to employees for services and benefits	(75,100)	(76,087)
Cash payments to suppliers of goods and services	(36,739)	(40,099)
Net cash provided by operating activities	73,462	64,602
Cash flows from capital and related financing activities:		
Additions to water plant	(67,777)	(67,318)
Proceeds from sale of land	—	2,760
Proceeds from bond anticipation note receivable	4,327	6,084
Proceeds from issuance of long-term debt	102,082	—
Repayment of bond anticipation notes payable	(224)	—
Repayment of current maturities of bonds payable	(4,097)	(4,212)
Cost of issuance	(972)	—
Interest paid	(30,344)	(28,195)
Grants received	—	1,025
Proceeds from advances for construction, net of refunds	8,245	12,267
Net cash provided by (used in) capital and related financing activities	11,240	(77,589)
Cash flows from investing activities:		
Purchase of investments	(303,475)	(254,827)
Proceeds from sales and maturities of investments	206,761	298,766
Interest received	4,783	2,213
Net cash (used in) provided by investing activities	(91,931)	46,152
Net (decrease) increase in cash and cash equivalents	(7,229)	33,165
Cash and cash equivalents at beginning of year	174,647	141,482
Cash and cash equivalents at end of year	\$ 167,418	174,647
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 15,129	1,293
Depreciation and amortization expense	50,207	48,752
Decrease (increase) in operating assets:		
Accounts receivable	(3,647)	(2,504)
Accrued water services and fire protection revenues	501	26
Materials and supplies and prepayments	1,370	1,591
Other assets	261	142
Increase (decrease) in operating liabilities:		
Accounts payable	1,347	(3,114)
Accrued employee welfare costs	188	(826)
Rate stabilization reserve	(2,760)	2,760
Postemployment benefits other than pension	8,877	15,293
Other accrued liabilities	1,241	1,373
Net pension liability, net of deferred amounts	748	(184)
Net cash provided by operating activities	\$ 73,462	64,602
Noncash investing activities:		
Change in the fair value of investments	\$ 2,876	(232)
Amortization of deferred amounts on refinancing	1,453	1,462
NYS EFC BAN adjustment	3,796	—

See accompanying notes to financial statements.

## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

#### **(1) Summary of Significant Accounting Policies**

Suffolk County Water Authority (the Authority) is a public benefit corporation created by resolution of the Suffolk County Board of Supervisors in 1937, with a twofold purpose. The first was to acquire, construct, maintain, and operate a public water supply for Suffolk County. The second was to develop a single, integrated public water supply and distribution system to serve all of Suffolk County. The accounts of the Authority are maintained generally in accordance with the *Uniform System of Accounts* prescribed by the New York State Public Service Commission (PSC), although the Authority is not subject to PSC rules and regulations. The rates established by the Authority do not require PSC or Suffolk County legislative approval.

##### **(a) Basis of Presentation**

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. As required by GASB standards, the transactions of the Authority are accounted for on a flow of economic resources measurement focus and accrual basis of accounting.

##### **(b) Water Plant (Capital Assets)**

Water plant is recorded at historical cost. The capitalized cost of additions to water plant includes charges for ancillary construction costs such as construction period interest, engineering, supervision, payroll taxes, and pension benefits. The original cost of property replaced, retired, or otherwise disposed of in ordinary retirements is deducted from plant accounts and together with costs to remove, less any salvage, is charged to accumulated depreciation. The costs of repairs, minor betterments, and renewals are charged to maintenance expense as incurred.

##### **(c) Depreciation**

The provisions for depreciation for water plant result from the application of straight-line rates by groups of depreciable properties in service. The rates are determined by age-life studies performed on depreciable properties. The most recent rate study, done in November 2003, established the composite depreciation rate of 2.84%. The Authority reviews the composition of its fixed assets annually in order to determine the appropriateness of this depreciation rate. The Authority determined that the depreciation rate of 2.84% is appropriate at May 31, 2019 and 2018.

##### **(d) Capitalized Interest**

The Authority capitalizes interest on constructed assets during the period of construction. Interest cost capitalized during the years ended May 31, 2019 and 2018 was approximately \$1.3 million in both years.

##### **(e) Cash and Cash Equivalents and Investments**

Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Certain investments and cash and cash equivalents have been designated by the Authority's board of trustees to be used for specific purposes, including rate stabilization, debt service, and capital expenditures.

## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

Investments with original maturities of 90 days or less are considered cash equivalents.

All investments with original maturities of longer than 90 days are reported as investments and are carried at fair value, except for investment agreements and certificates of deposit. Investment agreements, which can take the form of open time deposits or fixed repurchase agreements, are reported at an amount equal to principal and accrued interest. Certificates of deposit are valued at cost, which approximates fair value.

**(f) *Investments Held for Debt Service***

In accordance with the 1988 General Bond Resolution, as amended (the Resolution), the Authority maintains a debt service reserve. This reserve is held by a fiscal agent.

Investments held for debt service reserve and bond funds are used solely for the purpose of paying the principal and interest on the bonds, and for retiring the bonds prior to maturity and are reported as restricted investments in the accompanying statements of net position. Amounts in the debt service and bond funds are invested in U.S. Treasury notes and U.S. government-sponsored entity securities.

**(g) *Investments Held for Construction***

In accordance with the Resolution, investments held for construction in the construction fund are for the costs of acquiring, constructing, and replacing the water system and are reported as restricted investments in the accompanying statements of net position.

**(h) *Goodwill***

Goodwill was derived from the Authority's acquisition of various private water purveyors where the purchase price paid exceeded the net position acquired. The Authority amortizes goodwill over a 40-year period.

**(i) *Advances for Construction and Capital Reimbursement Fees***

Under current standard construction contracts with residential real estate developers and others, the developer advances to the Authority the cost of new main installations based on a flat cost per foot. Upon completion of construction, the moneys are recognized as capital reimbursement fees in the statements of revenues, expenses, and changes in net position.

There exist certain construction contracts with residential real estate developers and others, whereby the developer advances to the Authority the cost of new main installations based on actual costs. Upon completion of construction, the developer is either billed (not to exceed 10% of original estimate) or refunded the difference between the advance and actual cost. The moneys paid by the developer are recognized as capital reimbursement fees in the statements of revenues, expenses, and changes in net position when the construction is completed.

Capital reimbursement fees also include service, tapping, and other fees.



## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

#### **(j) Managed Water Districts**

The Towns of Islip, Babylon, Brookhaven, and Southampton (collectively the Towns), on behalf of the Brentwood, East Farmingdale, Stony Brook, and Riverside Water Districts, respectively, have entered into 40-year lease agreements with the Authority, whereby the Authority agrees to operate, construct, maintain, and repair, at its own expense, the entire operating plant in exchange for an agreed upon fee. The Towns, on behalf of the respective districts, agree to lease all of the rights, title, and interest to the entire operations, plant, hydrants, and distribution system, real property, of the districts, and all extensions thereto. These leases expire between 2040 and 2050.

#### **(k) Water District Contracts**

The Authority has entered into a number of contracts with various municipalities throughout Suffolk County for the purpose of installing water mains within the related municipality's created water district. Under the terms of these contracts, the municipality agrees to pay for the installation of the water main, plus interest over a 38-year period. The Authority agrees to provide a credit against the annual payment due equal to a percentage of the water revenues collected from customers within the designated water improvement area. The amount of the credit cannot exceed the gross payments due.

As of May 31, 2019, the Authority had 9 active contracts where the credit did not equal the gross amount due. Annual gross payments for these contracts range from \$1,800 to \$377,000 with final maturity dates through 2032. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2019 and 2018 amount to approximately \$3.9 million and \$7.0 million, respectively. The Authority has determined that it has the right to offset the asset and liability created from these contracts and therefore, these amounts are not reflected on the statements of net position as of May 31, 2019 and 2018.

The cost of these installations has been paid for and capitalized through the Authority's capital budget.

#### **(l) Net Position**

The Authority's net position represents the excess of assets over liabilities and is categorized as follows:

*Net investment in capital assets* are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation, and related debt.

*Restricted net position* is the net position that has been restricted as to use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* is the remaining net position, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to the Authority's policy and/or board directives. Designated assets include funds and assets committed to working capital. The Authority's designated assets include fixed assets – net and unspent bond proceeds used for the cost and acquisition of the water system.

## **SUFFOLK COUNTY WATER AUTHORITY**

### **Notes to Financial Statements**

May 31, 2019 and 2018

#### **(m) Bond Discounts and Premiums**

Discounts and premiums are amortized over the life of the related bond issues. Deferred bond refunding costs are amortized to expense over the shorter of the life of the refunding bonds or the refunded bonds and are reported as deferred outflows and inflows of resources in the accompanying statements of net position.

#### **(n) Accrued Employee Welfare Costs**

The Authority permits employees to accumulate a limited amount of earned but unused leave benefits, which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability in the accompanying statement of net position. As of May 31, 2019 and 2018, the amounts of accrued employee welfare costs are \$8.1 million and \$8.0 million, respectively.

#### **(o) Net Pension Liability and Related Pension Amounts**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Employees' Retirement System (the System), and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the statutes governing the System. Investments of the System are reported at fair value.

#### **(p) Revenues**

The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Authority's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **(q) Use of Resources**

Pursuant to the Resolution, revenues received are used as follows: (1) payment of operations and maintenance expenses, (2) payment of debt service, and (3) any lawful purpose of the Authority, including use by the construction fund. The payment of capital expenditures is generally done with restricted bond proceeds, other restricted resources, and by funds previously transferred to the general fund.

#### **(r) Income Taxes**

As a public benefit corporation of the State of New York, the Authority is exempt from federal, state, and local income taxes.

## **SUFFOLK COUNTY WATER AUTHORITY**

### **Notes to Financial Statements**

May 31, 2019 and 2018

#### **(s) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of capital assets, the valuation of accounts receivable, inventory, financial instruments other than cash, accrued water services and fire protection revenues, accrued employee welfare costs, workers' compensation and postemployment benefits, pension benefits, and other uncertainties and other contingencies.

#### **(t) Workers' Compensation**

The Authority self-insured its workers' compensation coverage in accordance with New York statutory regulations effective April 1, 2016. Excess insurance was purchased to cover any liability that exceeds \$650,000 per claim. Effective April 1, 2017, the retention per claim was increased to \$750,000. A national third party claims administrator (TPA) was retained to administer claims.

#### **(u) Fair Value Measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categories the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – unadjusted quoted prices for identical assets or liability in active markets that a government can access at the measurement date
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

#### **(v) New Accounting Standards Adopted**

In 2019, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting for Postemployment Benefits Other Than Pensions* (GASB 75), retroactively effective June 1, 2017. The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the financial statements, in addition to requiring more extensive note disclosures and required supplementary information.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

Adoption of GASB 75 resulted in the restatement of various 2018 financial statement amounts, summarized as follows (dollars in thousands):

		2018	
	As previously reported	GASB 75 restatement	Adjusted 2018
Statement of net position:			
Costs to be recovered from future revenues	\$ 127,512	(127,512)	—
Postemployment benefits than pension	(162,712)	(143,184)	(305,896)
Total deferred inflows	(10,477)	(3,502)	(13,979)
Total net position	(608,750)	274,198	(334,552)
Statement of revenues, expenses and changes in net position:			
Total operating expenses	180,371	(2,673)	177,698
Nonoperating revenues – costs to be recovered	(7,966)	7,966	—
Change in net position	(6,046)	(5,293)	(11,339)
Net position, beginning of year	(614,796)	268,905	(345,891)
Net position, end of year	(608,750)	274,198	(334,552)

### (w) Accounting Pronouncements Applicable to the Authority, Issued but Not Yet Effective

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). The statement addresses accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases and recognized as inflows of resources or outflows of resources. GASB 87 establishes the lessee's requirement to recognize a lease liability and an intangible right-to-use lease asset. Additionally, GASB 87 establishes the lessor's requirement to recognize a lease receivable and a deferred inflow of resources. GASB 87 will be effective for the Authority for the fiscal year ending May 31, 2020. The Authority is currently assessing the impact of GASB 87 on its financial statements.

In June, 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). The requirements of this statement are effective for reporting periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred. Effective in fiscal year 2020, the Authority will no longer capitalize interest cost on capital assets.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

### (2) Capital Assets, Net

	May 31, 2018	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2019
		(In thousands)		
Land and land rights	\$ 27,015	12	—	27,027
Distribution systems	1,032,344	43,155	(4,965)	1,070,534
Wells, reservoirs, and structures	338,955	20,971	(591)	359,335
Pumping and purification equipment	159,817	5,302	(228)	164,891
Meters	88,434	4,017	(3,014)	89,437
Compressors/backhoes	4,495	558	—	5,053
Computer equipment	27,504	3,351	—	30,855
Equipment	33,154	1,803	(29)	34,928
Hydrants	47,868	3,440	(958)	50,350
Water plant in service	1,759,586	82,609	(9,785)	1,832,410
Less accumulated depreciation	(710,586)	(50,056)	9,785	(750,857)
Net water plant in service	1,049,000	32,553	—	1,081,553
Construction in progress	100,488	73,500	(82,609)	91,379
Water plant	\$ 1,149,488	106,053	(82,609)	1,172,932

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

In 2019, the additions to construction in progress are comprised of the following: construction projects of \$29.5 million, EFC Storm Mitigation Program of \$13.3 million, wells \$7.5 million, equipment \$4.2 million, meters \$3.9 million, services \$3.9 million, treatment facilities \$2.9 million, pump stations \$2.8 million, fleet \$2.7 million, hydrants \$1.3 million, and other projects \$1.2 million.

	<u>May 31, 2017</u>	<u>Additions/ reclassifications</u>	<u>Deletions/ reclassifications</u>	<u>May 31, 2018</u>
		(In thousands)		
Land and land rights	\$ 27,511	(496)	—	27,015
Distribution systems	980,394	57,090	(5,140)	1,032,344
Wells, reservoirs, and structures	310,910	28,366	(321)	338,955
Pumping and purification equipment	152,476	7,465	(124)	159,817
Meters	85,330	8,705	(5,601)	88,434
Compressors/backhoes	4,495	—	—	4,495
Computer equipment	26,491	1,013	—	27,504
Equipment	31,350	1,804	—	33,154
Hydrants	46,661	1,557	(350)	47,868
Water plant in service	1,665,618	105,504	(11,536)	1,759,586
Less accumulated depreciation	<u>(673,858)</u>	<u>(48,264)</u>	<u>11,536</u>	<u>(710,586)</u>
Net water plant in service	991,760	57,240	—	1,049,000
Construction in progress	<u>140,038</u>	<u>65,954</u>	<u>(105,504)</u>	<u>100,488</u>
Water plant	<u>\$ 1,131,798</u>	<u>123,194</u>	<u>(105,504)</u>	<u>1,149,488</u>

In 2018, the additions to construction in progress comprised of the following: construction projects \$32.4 million, engineering \$14.8 million, production control \$1.7 million, customer service \$8.4 million, general services \$0.1 million, EFC Storm Mitigation Program \$6.3 million, and transportation/tech/equipment/other \$2.3 million.

Depreciation and amortization expenses amounted to approximately \$50.2 million and \$48.8 million for the years ended May 31, 2019 and 2018, respectively.

### (3) Cash and Cash Equivalents and Investments

#### (a) Cash and Cash Equivalents

Cash consists of deposits insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized deposits that have carrying values of approximately \$167.4 million and \$174.6 million and bank balances of approximately \$169.2 million and \$176.0 million at May 31, 2019 and 2018, respectively. Collateral for deposits is held by a third-party bank in the name of the Authority.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

### (b) Investments

Investments, including restricted investments, at May 31, 2019 and 2018, consist of the following (dollars in thousands):

	May 31, 2019			
	Investment maturities			
	(in years)			
	Fair value	Less than 1	1 to 5	Greater than 5
Certificates of deposit	\$ 2,010	—	2,010	—
U.S. Treasury notes (1)	64,892	—	64,488	404
U.S. Treasury bonds (1)	1,023	47	581	395
FNMA notes (1)	17,993	5,978	12,015	—
FHLB notes (1)	46,469	33,955	12,514	—
FHLMC notes (1)	27,502	6,472	21,030	—
FFCB notes (1)	14,013	1,995	12,018	—
NYS municipal bonds	507	—	507	—
Money market	61,534	61,534	—	—
Guaranteed investment contracts (1)	1,028	1,028	—	—
Total investments	\$ 236,971	111,009	125,163	799

(1) Includes approximately \$105.9 million of investments, including cash, held by a fiscal agent in the Authority's name at May 31, 2019

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

May 31, 2018				
Investment maturities (in years)				
	Fair value	Less than 1	1 to 5	Greater than 5
U.S. Treasury notes (1)	\$ 2,517	290	1,823	404
U.S. Treasury bonds (1)	1,023	—	628	395
FNMA notes (1)	5,970	5,970	—	—
FHLB notes (1)	76,264	66,838	9,426	—
FHLMC notes (1)	21,405	13,997	7,408	—
FFCB notes (1)	5,951	1,990	3,961	—
NYS municipal bonds	489	—	—	489
Money market	6,176	6,176	—	—
Guaranteed investment contracts (1)	17,586	17,586	—	—
Total investments	\$ 137,381	112,847	23,246	1,288

(1) Includes approximately \$92.8 million of investments, including cash, held by a fiscal agent in the Authority's name at May 31, 2018

	2019	2018
Investment breakdown:		
Restricted for:		
Debt service	\$ 105,885	92,821
Construction	61,534	6,176
Unrestricted	69,552	38,384
Total investments	\$ 236,971	137,381

Accrued interest on investments other than guaranteed investment contracts is included in interest and other receivables on the statements of net position. Investments bear interest at rates that range from 0.01% to 3.50%.

The Authority's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. All investments are either insured or registered and held by the Authority or its agent in the Authority's name.

Money markets, U.S. Treasury notes and bonds are considered Level 1 in the fair value hierarchy. All other investments are considered Level 2 in the fair value hierarchy due to the fair value being determined through matrix pricing or quoted prices for identical securities in markets not considered active.

*Interest Rate Risk:* The Authority's investment policy does not include limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



## **SUFFOLK COUNTY WATER AUTHORITY**

### **Notes to Financial Statements**

**May 31, 2019 and 2018**

*Credit Risk:* It is part of the Authority's investment policy to safeguard the principal of its investments while obtaining the highest interest rate possible that is consistent with this and other components of its policy. Toward that end, permitted investments include but are not limited to federally backed securities or obligations of any state of the United States of America or any political subdivision rated by at least two nationally recognized bond-rating agencies. As of May 31, 2019, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank Notes, and the Federal Home Loan Mortgage Corporation were rated AAA by Moody's Investors Service and AA+ by Standard & Poor's Ratings Services and Fitch Ratings.

*Concentration of Credit Risk:* The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in U.S. Treasury Notes (\$64.9 million or 27.4% of investment), Federal National Mortgage Association (\$18.0 million or 7.6% of investment), Federal Home Loan Bank (\$46.5 million or 19.6% of investments), Federal Farm Credit Bank (\$14.0 million or 6.0% of investment), and Federal Home Loan Mortgage Corporation (\$27.5 million or 11.6% of investments) at May 31, 2019. As of May 31, 2018, the Authority invested more than 5% in Federal Home Loan Bank (\$76.3 million or 55.5% of investments) and Federal Home Loan Mortgage Corporation (\$21.4 million or 15.6% of investments).

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

### (4) Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest rate(s)	Final maturity date	May 31, 2018	Issued	Matured/ refunded (In thousands)	May 31, 2019	Due within one year
Water System Revenue Bonds:							
2009 B Senior Lien	5.50%	2035	\$ 100,000	—	—	100,000	—
2011 Senior Lien	4.75–5.00%	2040	24,930	—	—	24,930	—
2012 Senior Lien	3.00–5.00%	2026	64,640	—	—	64,640	—
2012 A Senior Lien	3.00–3.75%	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00%	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00%	2040	45,065	—	—	45,065	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	114,000	—	—	114,000	—
2015 A Senior Lien	4.00–5.25%	2040	49,105	—	—	49,105	—
2016 A Senior Lien	3.00–5.00%	2042	84,280	—	—	84,280	—
2016 B Senior Lien	3.25%	2042	40,000	—	—	40,000	—
2016 Senior Lien	3.00–5.00%	2035	53,455	—	(510)	52,945	530
2018A Senior Lien	3.25–5.00%	2043	—	100,000	—	100,000	—
Environmental Facilities Corporation Revenue Bonds:							
2010 C	3.155%	2019	615	—	(615)	—	—
2011 A	3.570–3.989%	2021	1,911	—	(487)	1,424	556
2011 C	2.745–3.570%	2022	4,828	—	(1,002)	3,826	1,037
2012 B	4.912–5.000%	2022	2,165	—	(436)	1,729	447
2013 B	4.315–4.500%	2023	2,344	—	(377)	1,967	380
2014 B	4.670–4.960%	2024	2,668	—	(330)	2,338	340
2015 D	3.785–4.020%	2025	3,074	—	(340)	2,734	355
Total bonds outstanding			785,460	100,000	(4,097)	881,363	\$ 3,645
				Additions	Amortization/ payments		
Unamortized premium (discount), net				29,511	2,082	(2,097)	29,496
Current maturities payable				(4,097)	(3,645)	4,097	(3,645)
				<u>\$ 810,874</u>	<u>98,437</u>	<u>(2,097)</u>	<u>907,214</u>

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

Series	Interest rate(s)	Final maturity date	May 31, 2017	Issued	Matured/ refunded (In thousands)	May 31, 2018	Due within one year
Water System Revenue Bonds:							
2009 B Senior Lien	5.50%	2035	\$ 100,000	—	—	100,000	—
2011 Senior Lien	4.75–5.00%	2040	24,930	—	—	24,930	—
2012 Senior Lien	3.00–5.00%	2026	64,640	—	—	64,640	—
2012 A Senior Lien	3.00–3.75%	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00%	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00%	2040	45,065	—	—	45,065	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	114,250	—	(250)	114,000	—
2015 A Senior Lien	4.00–5.25%	2040	49,105	—	—	49,105	—
2016 A Senior Lien	3.00–5.00%	2042	84,280	—	—	84,280	—
2016 B Senior Lien	3.25%	2042	40,000	—	—	40,000	—
2016 Senior Lien	3.00–5.00%	2035	53,825	—	(370)	53,455	510
Environmental Facilities Corporation Revenue Bonds:							
2010 C	3.155%	2019	935	—	(320)	615	615
2011 A	3.283–3.989%	2021	2,760	—	(849)	1,911	487
2011 C	2.424–3.570%	2022	5,793	—	(965)	4,828	1,002
2012 B	4.862–5.000%	2022	2,597	—	(432)	2,165	436
2013 B	4.196–4.500%	2023	2,715	—	(371)	2,344	377
2014 B	4.586–4.960%	2024	2,993	—	(325)	2,668	330
2015 D	3.755–4.020%	2025	3,404	—	(330)	3,074	340
Total bonds outstanding			789,672	—	(4,212)	785,460	\$ 4,097
				Additions	Amortization/ payments		
Unamortized premium (discount), net				31,485	(1,974)	29,511	
Current maturities payable				(4,212)	4,212	(4,097)	
\$ 816,945				(4,097)	(1,974)	810,874	

In accordance with bond covenants, the Authority is required to guarantee the payment of principal and interest by establishing a reserve fund for each bond issue and funding the reserve account with a portion of the proceeds from the respective bond issue or from the Authority's unrestricted funds.

In satisfaction of the reserve account requirements of each Water System Revenue Bond Issue, the Authority may provide a letter of credit, surety agreement, insurance agreement, or other type of agreement with any entity whose obligations are rated in one of the two highest rating categories by Standard & Poor's Ratings Services or Moody's Investors Service. If, at any time, the rating issued by Standard & Poor's Ratings Services or Moody's Investors Service falls below such two highest ratings, then within 12 months thereafter, the Authority shall use its best efforts to either, at its option, replace such a credit agreement with an entity whose obligations are rated with such two highest ratings or deposit into the reserve account sufficient moneys in accordance with the respective bond resolution to replace such credit agreement.

## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

For the fiscal years 2019 and 2018, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of \$87.2 million and \$77.0 million from bond proceeds, respectively.

#### **(a) Water System Revenue Bonds**

The Water System Revenue Bonds are issued to finance the cost of acquisition and construction of improvements and additions to the water system. The Senior Lien Water System Revenue Bonds are payable solely from net revenues of the Authority's water system. The Water System Subordinate Revenue Bonds are payable solely from net revenues available after payment of debt service on Senior Lien Revenue Bonds issued by the Authority.

In August 2018, 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 have a final maturity date of June 1, 2043.

During fiscal year ended May 31, 2018, the Authority did not enter into any bond transactions.

#### **(b) Environmental Facilities Corporation Revenue Bonds (EFC Revenue Bonds)**

The State of New York has established a State Drinking Water Program, which includes a state drinking water revolving fund (the Revolving Fund) to be used for purposes of the Safe Drinking Water Act. The New York State Environmental Facilities Corporation (NYS EFC) is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. NYS EFC issues bonds, the proceeds of which are used to fund the Revolving Fund, which then provides loans to the private water companies, political subdivisions, and public benefit corporations of the State of New York. The Authority has been issued a portion of the total bond proceeds in the amounts stated in the table above to finance safe drinking water projects.

Since June 2010, the Authority has participated in the NYS EFC Refunding Program initiated by the NYS EFC on behalf of the municipalities that initially financed projects through the State Clean Water and Drinking Water Revolving Funds as more fully described below. The NYS EFC refunded certain Suffolk County Water Authority NYS EFC Bond Series with new bonds issued at lower current-market interest rates, thus passing the interest savings net of NYS EFC financing costs along to the Authority in the form of reduced debt service bills.

In fiscal years ended 2019 and 2018, the Authority has not participated in any new NYS EFC bond issues.

In prior years, the Authority defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At May 31, 2019, the amount of defeased debt obligation outstanding was approximately \$95.6 million, a decrease of \$78.4 million from May 31, 2018, which represents the amount of defeased debt fully redeemed after May 31, 2018.

## **SUFFOLK COUNTY WATER AUTHORITY**

### **Notes to Financial Statements**

**May 31, 2019 and 2018**

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains at various sites in Wainscott, New York, 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. To lessen the financial burden on local residents, the Authority and the town have decided to pursue joint inter-municipal state grant to secure funding from the previous year's \$2.5 billion Water Infrastructure Improvement Act. In September 2018, the Authority has taken the lead in applying for Inter-municipal Grant funding from the Environmental Facilities Corporation's NYS Inter-municipal Water Infrastructure Grant (IMG) Program. As of May 31, 2019, the Grant Agreement between the Authority and the Environmental Facilities Corporation has not yet been executed.

In June 2017, the Authority applied to the NYSEFC for the New York State Water Infrastructure Improvement Act (WIIA) Grant for five projects costing approximately \$8.0 million. The proposed projects included the construction of an Advanced Oxidation Process (AOP) System to treat 1, 4-dioxane at the Authority's Smith Street, East Farmingdale well field site, a water main installation to improve service in East Farmingdale, a water main replacement along Montauk Highway in Amagansett, a well replacement at the Blue Point Road well field in Holtsville, and a well replacement at the Brook Avenue well field in Deer Park. In October 2017, the Authority was awarded grant money for two of the five projects: \$0.7 million for the Smith Street Advanced Oxidation Process System and \$1.4 million for the East Farmingdale well field site water main installation. Work on the water main project has been completed in the spring of Fiscal Year 2019 and the Authority has not received any grant funds as of May 31, 2019. Therefore, the Authority recognized 60.0% of the construction costs as grant revenue in accordance with the Grant Agreement on the water main project and expects to receive grant disbursement funds in fiscal year 2020. Construction of the Advanced Oxidation Process (AOP) System is expected to begin in Fiscal Year 2020.

Interest expense, net of debt discount and premium and costs of issuance on the bonds was \$29.7 million and \$25.9 million for the years ended May 31, 2019 and 2018, respectively.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

Bond maturities payable, including mandatory sinking fund redemptions, over the next five fiscal years and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		(In thousands)	
Fiscal years ending:			
2020	\$ 3,645	34,711	38,356
2021	6,218	34,479	40,697
2022	3,355	34,274	37,629
2023	11,559	33,804	45,363
2024	21,275	32,702	53,977
2025–2029	140,652	147,994	288,646
2030–2034	187,360	115,698	303,058
2035–2039	236,955	67,374	304,329
2040–2044	270,344	18,374	288,718
	<u>\$ 881,363</u>	<u>519,410</u>	<u>1,400,773</u>

### (5) Debt Service Requirements

As prescribed in the Authority's Bond Resolution, the Authority is required to maintain a reserve account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) 125% of the average of the annual installments of debt service with respect to all current and future years of the particular bond issue. The Resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement, or other type of agreement or arrangement with an entity whose obligations are rated in one of the two highest rating categories by Standard and Poor's Ratings Services or Moody's Investors Service in order to satisfy the reserve account requirements. At May 31, 2019, the debt service reserve funds were approximately \$87.2 million. In addition, there is \$18.7 million in the Senior Lien Bond Fund.

Revenue before interest expense and depreciation and amortization was equivalent to 2.27 times (2.18 in 2018) the debt service requirement on all outstanding debt. The minimum debt service requirement on all bonds is 1.10.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

### (6) Notes Payable

Outstanding bond anticipation notes payable are summarized as follows:

<u>Series</u>	<u>Final maturity date</u>	<u>Balance at May 31, 2018</u>	<u>Issued</u>	<u>Redeemed</u> (In thousands)	<u>Balance at May 31, 2019</u>	<u>Due within one year</u>
2015 A EFC	July 30, 2020	\$ 16,539	—	(4,020)	12,519	334
Total notes outstanding		<u>\$ 16,539</u>	<u>—</u>	<u>(4,020)</u>	<u>12,519</u>	<u>334</u>

<u>Series</u>	<u>Final maturity date</u>	<u>Balance at May 31, 2017</u>	<u>Issued</u>	<u>Redeemed</u> (In thousands)	<u>Balance at May 31, 2018</u>	<u>Due within one year</u>
2015 A EFC	July 30, 2020	\$ 16,539	—	—	16,539	224
Total notes outstanding		<u>\$ 16,539</u>	<u>—</u>	<u>—</u>	<u>16,539</u>	<u>224</u>

These notes are issued in anticipation of the issuance of long-term revenue bonds, the proceeds of which will be used to repay the notes payable. The notes were issued to fund construction activities.

In July 2015, the Authority closed on its NYS EFC Bond Anticipation Note 2015A with a maximum advance amount of \$16.5 million as part of the Storm Mitigation Loan Program through the NYS EFC. The Note has a maturity date of July 30, 2020. The Storm Mitigation Loan Program comprises a \$16.5 million 0% interest free loan and \$5.5 million in grant monies. The eligible projects are related to main extensions and generators. Work on eligible projects began in fiscal years 2019 and 2018.

As of May 31, 2019, the Authority received a total of \$12.7 million in advances against the EFC Storm Mitigation Loan note receivable of \$16.5 million pertaining to its NYS EFC Bond Anticipation Note 2015A. The advances received were for eligible projects related to main extensions and generators. Work on these projects has been completed by Spring of 2019 and the note payable balance was decreased by \$3.8 million to reflect the total draws to date. The Authority was required to make an estimated principal payment of \$0.2 million, which is based upon the amount of funds drawn down on the note. A second principal payment is due in May 2020 in the approximate amount of \$0.3 million. The total amount of grant funds received to date on this EFC Storm Mitigation Loan Program is \$1.0 million. Grant receivable of \$2.5 million has been recognized upon completion of the generator project.

During the fiscal year ended May 31, 2018, the Authority received a total of \$8.4 million in advances against the EFC Storm Mitigation Loan note receivable of \$16.5 million. At May 31, 2018, the Note Receivable balance was \$8.1 million.

## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

#### (7) Pension Plan

The Authority participates in the New York State and Local Employees' Retirement System (the System), a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System.

System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Authority also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in New York State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at [www.osc.state.ny.us/retire/about\\_us/financial\\_statements\\_index.php](http://www.osc.state.ny.us/retire/about_us/financial_statements_index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

##### (a) Contributions

The System is contributory, employees contribute 3% of their salary for the first 10 years of membership, and employees who joined on or after January 1, 2010 contribute throughout employment. Under the authority of the RSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31. The System offers a range of programs and benefits that vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, disability benefits, and optional methods of benefit payments. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows (dollars in thousands):

2017	\$	6,325
2018		6,902
2019		6,624

##### (b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At May 31, 2019 and 2018, the Authority reported a liability of \$11.7 million and \$5.7 million for its proportionate share of the System's net pension liability, respectively. The net pension liability reported by the Authority at May 31, 2019 and 2018 was measured as of March 31, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of April 1, 2018 and April 1, 2017, respectively. The Authority's proportion of the System's net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.



# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

At May 31, 2019 and 2018, the Authority's proportion was 0.1645388% and 0.1776255%, respectively.

For the years ended May 31, 2019 and 2018, the Authority recognized pension expense of \$7.3 million and \$6.7 million, respectively. At May 31, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<b>2019</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 2,296	783
Changes of assumptions	2,930	—
Net difference between projected and actual investment earnings on pension plan investments	—	2,992
Changes in proportion and differences between employer contributions and proportionate share of contributions	591	884
Contributions made subsequent to the measurement date	1,105	—
<b>Total</b>	<b>\$ 6,922</b>	<b>4,659</b>

  

	<b>2018</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 2,045	1,690
Changes of assumptions	3,801	—
Net difference between projected and actual investment earnings on pension plan investments	—	8,110
Changes in proportion and differences between employer contributions and proportionate share of contributions	550	660
Contributions made subsequent to the measurement date	1,150	—
<b>Total</b>	<b>\$ 7,546</b>	<b>10,460</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

Year ended May 31:	
2020	\$ 2,267
2021	(2,365)
2022	(207)
2023	1,463

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

### (c) Actuarial Assumptions

The total pension liability at March 31, 2019 and 2018 was determined by using an actuarial valuation as of April 1, 2018 and 2017, with update procedures used to roll forward the total pension liability to March 31, 2019 and 2018, respectively.

Significant actuarial assumptions used in the April 1, 2018 and 2017 valuations were as follows:

Investment rate of return	7.0 %
Salary scale	4.2 % (2019), 3.8 % (2018)
Inflation rate	2.5 %
Cost of living adjustments	1.3% annually
Decrements	Developed from the System's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best-estimates of arithmetic real rates of return for each major asset class as of April 1, 2018 and 2017 are summarized as follows:

Asset class	2019 and 2018	
	Target allocation	Long-term expected real rate
Domestic equity	36 %	4.55 %
International equity	14	6.35
Private equity	10	7.50
Real estate	10	5.55
Absolute return strategies	2	3.75
Opportunistic portfolio	3	5.68
Real assets	3	5.29
Bonds and mortgages	17	1.31
Cash	1	(0.25)
Inflation indexed bonds	4	1.25
	100 %	

### (d) Discount Rate

The discount rate used to measure the total pension liability as of April 1, 2018 and 2017 was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

made at statutorily required rates, actuarially. Based upon these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### (e) *Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate*

The following presents the Authority's proportionate share of the net pension liability at May 31, 2019 and 2018 calculated using the discount rate assumption of 7.0%, as well as what the Authority's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate (dollars in thousands):

<b>2019</b>			
	<b>1% Decrease</b>	<b>Current assumption</b>	<b>1% Increase</b>
Authority's proportionate share of the net pension liability (asset)	\$ 50,971	11,658	(21,368)

<b>2018</b>			
	<b>1% Decrease</b>	<b>Current assumption</b>	<b>1% Increase</b>
Authority's proportionate share of the net pension liability (asset)	\$ 43,376	5,733	(26,112)

### (f) *Pension Plan Fiduciary Net Positions*

The components of the current-year net pension liability of the System as of March 31, 2019 and 2018, were as follows (dollars in thousands):

	<b>2019</b>	<b>2018</b>
Employers' total pension liability	\$ 189,803,429	183,400,590
System's fiduciary net position	182,718,124	180,173,145
Employers' net pension liability	\$ 7,085,305	3,227,445
System fiduciary net position as percentage of total pension liability	96.3 %	98.2 %

## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

#### **(8) Deferred Compensation**

All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax-deferred basis, to group variable annuity contracts. The assets and related liabilities of the plan are recorded at the assets' market values and are excluded from the Authority's statements of net position. The Authority has no obligation to make contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to approximately \$57.4 million and \$58.0 million at May 31, 2019 and 2018, respectively.

#### **(9) Postemployment Benefits Other than Pensions**

The Authority's employees participate in the New York State Health Insurance Plan. The State administers NYSHIP and has the authority under Article XI of Civil Service Law to establish and amend the benefit provisions offered. NYSHIP is considered a single employer defined benefit plan offered by the Authority to its participants. There is no statutory requirement for the Authority to continue in this plan for future Authority employees. The Authority sponsors a single-employer dental and optical plan and provides dental and optical benefits for eligible retirees and their spouses. Substantially all of the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. A publicly available financial report for the plan is not issued.

The health, dental, and optical plans for employees hired after January 1, 2017 contribute 15% through payroll deduction; for employees hired prior to January 1, 2017 the plan is noncontributory for active employees, with all payments for plan benefits being funded by the Authority. Upon retirement, the cost of the dental and optical plans is partially funded by the Authority and the balance by the retiree. During fiscal year 2019, there were 1,009 participants (576 active and 433 inactive) that were eligible to receive benefits.

GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes guidance for the financial reporting of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Whereas, no legislation has been enacted to establish a dedicated trust for these funds, the accrued liability remains unfunded. However, during 2012, in an effort to mitigate possible future rate impact related to any enacted legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2019 and 2018, the undedicated reserve is \$54.2 million and \$35.2 million, respectively.

#### **(a) Total OPEB Liability**

The Authority's total OPEB liability of \$282.5 million and \$305.9 was measured as of May 31, 2019 and 2018, respectively, and was determined by an actuarial valuation as of that date.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

The following table shows the changes in the Authority's total OPEB obligation for the years ended May 31, 2019 and 2018 (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Total OPEB Liability:		
Service cost	\$ 12,319	12,157
Interest	11,878	11,167
Changes in assumptions	(12,186)	(4,201)
Differences between expected and actual experience	(27,441)	—
Benefit payments	<u>(8,014)</u>	<u>(7,332)</u>
Net changes	(23,444)	11,791
Total OPEB Liability, beginning of year	<u>305,896</u>	<u>294,105</u>
Total OPEB Liability, end of year	<u>\$ 282,452</u>	<u>305,896</u>

There were no changes to benefit terms in 2019 and 2018.

### (b) *Actuarial Assumptions and Other Inputs*

The total OPEB liability at May 31, 2019 and 2018 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Payroll growth	Ranged from 3.0% to 9.4%, based on years of service
Discount rate	3.56% as of May 31, 2019 and 3.78% as of May 31, 2018.
Retiree Contributions	Assumed to increase according to health care trend rates.

The discount rate was based on a range of indices: Bond Buyer 20-Bond GO Index, Fidelity GO AA – 20 Yrs, and S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates were based on Pub-2010 General Employee Total Dataset, Headcount Weighted Mortality Table fully generational using Scale MP-2018.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

For the May 31, 2019 actuarial valuation, the Entry Age Normal Level Percentage of Salary method was used. The actuarial assumptions included a 3.56% discount rate for the unfunded portion, and annual cost trend rates, as listed in the table below.

Fiscal year ended	Healthcare annual cost trend rates		
	Medical/Rx	Dental	Medicare Part B
2020	8.00 %	4.75 %	4.00 %
2021	7.50	4.50	4.50
2022	7.00	4.25	5.00
2023	6.50	4.00	5.00
2024	6.00	4.00	5.00
2025	5.50	4.00	5.00
2026	5.00	4.00	5.00
2027+	4.50	4.00	5.00

Vision trend rate is assumed to be 3% for all years.

The total OPEB liability in the May 31, 2018 actuarial valuation was determined using the same actuarial assumptions, except for payroll growth rate (ranged from 3.0% to 8.0%, based on years of service), discount rate (3.78% as of May 31, 2018 and 3.69% as of May 31, 2017), and health care trend rates as listed in the table below.

Fiscal year ended	Healthcare annual cost trend rates		
	Medical/Rx	Dental	Medicare Part B
2019	8.00 %	4.25 %	5.00 %
2020	7.50	4.00	5.00
2021	7.00	4.00	5.00
2022	6.50	4.00	5.00
2023	6.00	4.00	5.00
2024	5.50	4.00	5.00
2025+	5.00	4.00	5.00

Vision trend rate is assumed to be 3% for all years.

The initial healthcare trend rate was based on a combination of employer history, national trend surveys, and professional judgment. The ultimate trend rate was selected based on historical medical CPI information.

The actuarial assumptions used in the May 31, 2019 valuation were based on the results of an actuarial experience study for the period May 31, 2014 through May 31, 2019.

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

### (c) *Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The following presents the total OPEB liability of the Authority as of May 31, 2019 and 2018, calculated using the discount rate assumed (3.56% and 3.78%, respectively) and what it would be using a 1% lower and 1% higher discount rate (dollars in thousands):

	<u>1% Decrease</u>	<u>Current discount rate</u>	<u>1% Increase</u>
2019 Total OPEB Liability	\$ 328,895	282,452	245,137
2018 Total OPEB Liability	357,816	305,896	264,429

### (d) *Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the net OPEB liability as of May 31, 2019 and 2018, using the health care trend rates assumed (8.00% decreasing to 4.50%) and what it would be using 1% lower and 1% higher health care trend rates (dollars in thousands):

	<u>1% Decrease</u>	<u>Current discount rate</u>	<u>1% Increase</u>
2019 Total OPEB Liability	\$ 243,260	282,452	332,300
2018 Total OPEB Liability	259,260	305,896	365,922

### (e) *OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended May 31, 2019 and 2018, the Authority recognized OPEB expense of \$16.89 million and \$22.6 million, respectively. At May 31, 2019, the Authority reported deferred inflows of resources related to OPEB from the following sources:

	<u>2019</u>	<u>2018</u>
Differences between expected and actual experience	\$ (22,867)	—
Changes of assumptions or other inputs	(12,956)	(3,502)
Total	<u>\$ (35,823)</u>	<u>(3,502)</u>

# SUFFOLK COUNTY WATER AUTHORITY

## Notes to Financial Statements

May 31, 2019 and 2018

The balances as of May 31, 2019 and 2018 of the deferred inflows of resources will be recognized in OPEB expense in the future fiscal years as noted below (in thousands):

	<u>2019</u>		<u>2018</u>
Year ended May 31:			
2020	\$ (7,305)	2019	(700)
2021	(7,305)	2020	(700)
2022	(7,305)	2021	(700)
2023	(7,305)	2022	(700)
2024	(6,603)	2023	(702)

### (10) Commitments and Contingencies

#### (a) *Wireless Cell Rental Income*

Various wireless cell carriers desire to use the Authority owned premises for the construction, installation, maintenance, and operation of radio transmitting and receiving equipment and other associated equipment as approved by the Authority in connection with its wireless communications business. The Authority receives in the form of monthly payments a fee for providing such use. Rental fees range from \$4,030 to \$9,330, per month and have terms ranging from five to 15 years, multiple five-year renewals, and 3.0% to 3.5% annual rental increases. The Authority currently has 146 lease agreements with five different wireless carriers. Annual lease income from these agreements for the next five years is expected to be the following:

2020	\$ 10.8 million
2021	11.1 million
2022	11.5 million
2023	11.8 million
2024	12.2 million
Thereafter	70.0 million

Annual lease income that is included in other operating revenue for the fiscal years ended May 31, 2019 and 2018 was \$10.5 million and \$11.2 million, respectively.

#### (b) *Legal*

The Authority is involved in various litigations resulting from the ordinary course of business. In the opinion of management, and based on advice of legal counsel, the ultimate liability, if any, to the Authority will not have a material effect on the Authority's financial position and changes in net position.



## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

#### (c) *Risk Management*

Due to the nature of the Authority's operations, it is exposed to various risks of loss relating to property damage, property damage liability, bodily injury liability and employment practices. Where appropriate, claims are resolved through settlements. When it is the Authority's position that it is not liable for a claim, it will be denied. Any further action taken by a claimant will be resolved through the judicial system.

The Authority is self-insured for workers' compensation claims. Claims are administered through a third-party administrator. There is insurance in place that will limit the Authority's exposure of individual claims to \$750,000.

For general liability and automobile claims, the Authority is insured to an aggregate limit of \$53 million subject to a \$100,000 deductible per occurrence.

For damage to Authority owned property, the Authority is insured to a limit of \$75 million per occurrence subject to a \$50,000 deductible. Various sub-limits and deductibles apply depending on the particular property that is damaged.

For Directors & Officers Liability and Employment Practices Liability claims, the Authority maintains insurance for both coverage's with a shared limit of \$5 million subject to a \$50,000 self-insured retention.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims. That liability, which is for workers' compensation, general, and automobile claims, was approximately \$9.0 million and \$8.2 million at May 31, 2019 and 2018.

Changes in the Authority's workers' compensation claims liability amount in fiscal years 2019 and 2018 were as follows (dollars in thousands):

	<b>2019</b>	<b>2018</b>
Unpaid claims, beginning of fiscal year	\$ 6,756	3,440
Changes in the estimate for claims of all years	3,159	3,795
Claim payments	(2,160)	(479)
Unpaid claims, end of fiscal year	<u>\$ 7,755</u>	<u>6,756</u>

## SUFFOLK COUNTY WATER AUTHORITY

### Notes to Financial Statements

May 31, 2019 and 2018

Changes in the Authority's general and automobile claims liability amount in fiscal years 2019 and 2018 were as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Unpaid claims, beginning of fiscal year	\$ 1,429	1,589
Changes in the estimate for claims of all years	401	347
Claim payments	<u>(609)</u>	<u>(507)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,221</u>	<u>1,429</u>

The Authority has included the above amounts under the caption "Other accrued liabilities" in the statements of net position.

#### (11) Subsequent Events

The Authority has evaluated subsequent events through August 29, 2019, the date the financial statements were available to be issued.

**SUFFOLK COUNTY WATER AUTHORITY**

Required Supplementary Information (Unaudited)

## Schedule of Employer Contributions – New York State and Local Employees' Retirement System

May 31, 2019

(Dollars in thousands)

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually required contribution	\$ 6,624	6,902	6,325	7,161
Contributions in relation to the contractually required contribution	6,624	6,902	6,325	7,161
Contribution deficiency (excess)	\$ —	—	—	—
Authority covered-employee payroll (Authority year end)	\$ 45,492	45,119	46,952	40,686
Contributions as a percentage of covered-employee payroll	14.56 %	15.30 %	13.47 %	17.60 %

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

**SUFFOLK COUNTY WATER AUTHORITY**  
Required Supplementary Information (Unaudited)  
Schedule of Proportionate Share of the Net Pension Liability –  
New York State and Local Employees' Retirement System

May 31, 2019

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Authority's share of the net pension liability	0.1645388 %	0.1776255 %	0.1651319 %	0.1703727 %
Authority's proportionate share of the net pension liability	\$ 11,658	5,733	15,516	27,345
Authority's covered-employee payroll (measurement date as of March 31)	45,236	45,088	45,695	41,422
Authority's proportionate share of the net pension liability as a percentage of the covered-employee payroll	25.77 %	12.72 %	33.96 %	66.02 %
Plan fiduciary net position as a percentage of the total pension liability	96.30 %	98.24 %	94.70 %	90.70 %

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

**SUFFOLK COUNTY WATER AUTHORITY**

Required Supplementary Information (Unaudited)

Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios

May 31, 2019

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Total OPEB Liability:		
Service cost	\$ 12,319	12,157
Interest	11,878	11,167
Changes in assumptions	(12,186)	(4,201)
Differences between expected and actual experience	(27,441)	—
Benefit payments	<u>(8,014)</u>	<u>(7,332)</u>
Net Change in OPEB Liability	(23,444)	11,791
Total OPEB Liability, beginning of year	<u>305,896</u>	<u>294,105</u>
Total OPEB Liability, end of year	\$ <u><u>282,452</u></u>	<u><u>305,896</u></u>
Covered-employee payroll	\$ 45,591	43,978
Total OPEB Liability as a percentage of covered-employee	619.53%	695.57%
Notes to schedule:		
Changes in benefit terms	N/A	N/A
Changes of assumptions:		
Discount rate	3.56%	3.78%
Undedicated reserve (see note 9 to the financial statements)	\$ 54,200	35,200

Note: This schedule is required to present information for 10 years. Additional years will be presented as they become available.

See accompanying independent auditors' report.



KPMG LLP  
Suite 200  
1305 Walt Whitman Road  
Melville, NY 11747-4302

**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Members  
Suffolk County Water Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Suffolk County Water Authority (the Authority), which comprise the statements of net position as of May 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated, August 29, 2019.

*Internal Control Over Financial Reporting*

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

August 29, 2019

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## **APPENDIX C**

Proposed Form of Opinion of Bond Counsel

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Upon delivery of the Series 2020 Refunding Bonds,  
Harris Beach PLLC, Bond Counsel,  
proposes to render an opinion in  
substantially the following form:

June \_\_, 2020

Suffolk County Water Authority  
Oakdale, New York

Re: \$88,280,000 Water System Revenue Bonds, Series 2020 Refunding (Taxable)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance of the \$88,280,000 principal amount of Water System Revenue Bonds, Series 2020 Refunding (Taxable) (the "Series 2020 Refunding Bonds"), of the Suffolk County Water Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"). The Series 2020 Refunding Bonds are authorized under and pursuant to the Suffolk County Water Authority Act, as amended, being Title 4 of Article 5 of the Public Authorities Law of the State (the "Act") and the bond resolution of the Authority, adopted on September 27, 1988, as amended on October 27, 1988, March 30, 1993 and November 29, 1994 (the "Resolution"), and as further amended and supplemented by a supplemental resolution adopted by the Authority on February 27, 2020 (the "Supplemental Resolution").

The Series 2020 Refunding Bonds are dated June 23, 2020, shall mature on June 1 in the years and in the principal amounts, and shall bear interest, payable on December 1, 2020, June 1, 2021 and each December 1 and June 1 thereafter through and including the respective maturity dates thereof, at the respective rates per annum, as are set forth in Certificate of Determination executed by the Chairman, dated June 23, 2020 in connection with the Series 2020 Refunding Bonds (the "Certificate of Determination"). The Series 2020 Refunding Bonds are subject to such other terms as are set forth in the Supplemental Resolution and the Certificate of Determination.

The Series 2020 Refunding Bonds are being issued to (i) provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) fund a deposit to the Reserve Account, Series 2020 Refunding and (iii) pay costs of issuance relating to the Series 2020 Refunding Bonds. All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Resolution.

We have examined the Constitution and statutes of the State, certified copies of proceedings of the Authority authorizing the issuance of the Series 2020 Refunding Bonds and such other proceedings as we have considered necessary or advisable to render the following opinions. As to matters of fact, we have relied upon certain representations and certifications of the Authority. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as certified, conformed or photostatic copies.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation, duly created and validly existing under the laws of the State, including particularly the Act.
2. The Authority has the corporate power and authority to adopt the Supplemental Resolutions and to issue and sell the Series 2020 Refunding Bonds.

3. Both the Resolution and the Supplemental Resolutions have been duly and lawfully adopted by the Authority and are presently in full force and effect.

4. The Series 2020 Refunding Bonds are valid and legally binding obligations of the Authority as provided in the Resolution and the Supplemental Resolutions, enforceable against the Authority in accordance with their terms and the terms of the Resolution and the Supplemental Resolutions and have been duly and validly authorized and issued in accordance with the Act, the Resolution and the Supplemental Resolutions, and are payable on a parity with all other outstanding Senior Lien Bonds heretofore and hereafter issued under the Resolution solely from the Net Revenues of the Water System of the Authority, and the Authority has the power and is obligated to fix and collect rates and other charges for the water, services and facilities sold, furnished or supplied by the Water System sufficient to provide for the payment of the principal of and interest on all Bonds issued and to be issued under the Resolution, including the Series 2020 Refunding Bonds, as the same respectively mature and to comply in all other respects with the provisions of the Resolution and Supplemental Resolutions.

5. Interest on the Series 2020 Refunding Bonds is NOT excluded from gross income for federal income tax purposes.

6. Under statutes existing as of the date hereof, interest on the Series 2020 Refunding Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York).

Except for the opinions as set forth in paragraphs 5 and 6 above, we express no opinion regarding any other federal, state or local income tax consequences arising with respect to the purchase or ownership of the Series 2020 Refunding Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Resolution, the Supplemental Resolution, the Series 2020 Refunding Bonds and any other document executed in connection therewith may be limited by any applicable bankruptcy, insolvency or other similar law or equitable principle now or hereafter enacted by the State of New York or the federal government or pronounced by a court having proper jurisdiction, affecting the enforcement of creditors' rights generally.

We have not been requested to examine and have not examined any documents or information relating to the Authority other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial information, or the adequacy thereof, which has been or may be supplied to the Trustee, the initial purchaser of the Series 2020 Refunding Bonds or any other person.

This opinion is given as of the date hereof, and we disclaim any obligation to update this opinion letter for events occurring after the date of this opinion letter. We express no opinion herein except as to the laws of the State of New York and the federal laws of the United States.

Very truly yours,

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## **APPENDIX D**

### **Book-Entry Only System**

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series 2020 Refunding Bonds. The Series 2020 Refunding Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2020 Refunding Bond certificate will be issued for each maturity of the Series 2020 Refunding Bonds, in denominations equal to the aggregate principal amount of the Series 2020 Refunding Bonds, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2020 Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Refunding Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2020 Refunding Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Refunding Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2020 Refunding Bonds, except in the event that use of the book-entry system for the Series 2020 Refunding Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Refunding Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such

other name as may be requested by an authorized representative of DTC. The deposit of the Series 2020 Refunding Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Refunding Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Refunding Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2020 Refunding Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2020 Refunding Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, interest payments and redemption proceeds on the Series 2020 Refunding Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2020 Refunding Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall affect delivery of such Series 2020 Refunding Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2020 Refunding Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 2020 Refunding Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2020 Refunding Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of the Series 2020 Refunding Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2020 Refunding Bonds at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2020 Refunding Bond certificates are required to be printed and delivered. In addition, the Authority may decide to discontinue



use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2020 Refunding Bond certificates will be printed and delivered to DTC. See “Transfers and Exchanges of Series 2020 Refunding Bonds Upon Discontinuance of Book-Entry System” herein.

The above information concerning DTC and DTC’s book-entry system has been obtained from sources that the Authority and the Purchaser believe to be reliable, but neither the Authority nor the Purchaser makes any representations concerning these matters and neither the Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the Participants, as the case may be.

NEITHER THE AUTHORITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON THE SERIES 2020 REFUNDING BONDS; (3) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; AND (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2020 REFUNDING BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE SERIES 2020 REFUNDING BOND OWNERS OR REGISTERED OWNERS OF THE SERIES 2020 REFUNDING BONDS SHALL (OTHER THAN UNDER THE SECTION “TAX MATTERS” HEREIN) MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2020 REFUNDING BONDS.

For every transfer and exchange of the Series 2020 Refunding Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

### **Transfers and Exchanges of Series 2020 Refunding Bonds Upon Discontinuance of Book-Entry System**

In the event that the book-entry only system is discontinued and the Beneficial Owners become registered owners of the Series 2020 Refunding Bonds, the following provisions applicable to registered owners would apply: (i) Series 2020 Refunding Bonds may be exchanged for an aggregate principal amount of Series 2020 Refunding Bonds in authorized denominations of the same maturity and interest rate, upon surrender thereof at the principal corporate trust office of the Paying Agent; (ii) the transfer of any Series 2020 Refunding Bonds may be registered on the books maintained by the Paying Agent for such purpose only upon the surrender thereof to the Paying Agent together with a duly executed assignment in form satisfactory to the Authority and the Paying Agent; (iii) for every exchange or registration of transfer of Series 2020 Refunding Bonds, the Paying Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Series 2020 Refunding Bonds; and (iv) the Paying Agent will not be required (a) to issue, transfer or exchange any Series 2020 Refunding Bonds during the fifteen (15) days preceding the day of mailing of a notice of redemption of Series 2020 Refunding Bonds selected for redemption, or (b) to transfer or exchange any Series 2020 Refunding Bonds so selected for redemption in whole or in part.

In the event that the book-entry-only system is discontinued, principal and Purchase Price and interest will be payable upon surrender of the Series 2020 Refunding Bonds at the corporate trust office of the Paying Agent; interest will be payable by check or draft mailed to the Bondholders at their addresses as shown on the Series 2020 Refunding Bond registration books held by the Paying Agent on the Record Date; or at the request of a Bondholder of at least \$1,000,000 in principal amount of the Series 2020 Refunding Bonds, by wire transfer.

During any and all times that the Series 2020 Refunding Bonds are maintained in a book-entry only system the following transfer and exchange provisions shall not be applicable.

In the event the book-entry-only system is discontinued for any reason, each Series 2020 Refunding Bond shall be transferable or exchangeable only upon the Series 2020 Refunding Bond registration books by the registered holder thereof or by his attorney duly authorized in writing, upon presentation and surrender of such Series 2020 Refunding Bond to the Paying Agent, together with a written instrument of transfer satisfactory in form to the Paying Agent, duly executed by the registered holder or his duly authorized attorney. Upon the surrender of any Series 2020 Refunding Bond or Series 2020 Refunding Bonds for transfer or exchange, the Paying Agent shall redeliver in the name of the transferee or exchange one or more new Series 2020 Refunding Bond or Series 2020 Refunding Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Series 2020 Refunding Bond or Series 2020 Refunding Bonds, in any denomination authorized by the Supplemental Resolution and in the manner and subject to the conditions set forth in the Supplemental Resolution. All transfers and exchanges shall be made without expense to the registered holder of such Series 2020 Refunding Bond, except that the Paying Agent may require the payment by the registered holder of the Series 2020 Refunding Bond requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange. All transfers or exchanges of Series 2020 Refunding Bonds shall be subject to such provisions as may be prescribed from time to time by the Authority and the Paying Agent. The Authority and the Paying Agent may deem and treat the person in whose name a Series 2020 Refunding Bond is registered upon the Series 2020 Refunding Bond registration books as the absolute owner of such Series 2020 Refunding Bonds for the purpose of receiving payment of the principal of and interest on the Series 2020 Refunding Bond and for all other purposes, and they shall not be affected by any notice to the contrary.

## APPENDIX E

### Table of Refunded Bonds

The Series 2020 Refunding Bonds are being issued for the purpose of refunding the following Outstanding Senior Lien Bonds of the Authority:

Authority's Water Systems Revenue Bonds, Series 2011 Refunding, as follows:

Principal Amount Outstanding	Principal Amount to be Refunded	Interest Rate	Maturity Date (June 1)	Redemption Date (June 1)	Redemption Price (% of Par)
\$2,270,000.00	\$2,270,000.00	5.000%	2032	2021	100
2,385,000.00	2,385,000.00	4.750	2033	2021	100
2,495,000.00	2,495,000.00	4.750	2034	2021	100
2,615,000.00	2,615,000.00	5.000	2035	2021	100
2,745,000.00	2,745,000.00	5.000	2036	2021	100
2,880,000.00	2,880,000.00	5.000	2037	2021	100
3,025,000.00	3,025,000.00	5.000	2038	2021	100
3,180,000.00	3,180,000.00	5.000	2039	2021	100
3,335,000.00	3,335,000.00	5.000	2040	2021	100

Authority's Water Systems Revenue Bonds, Series 2012 Refunding, as follows:

Principal Amount Outstanding	Principal Amount to be Refunded	Interest Rate	Maturity Date (June 1)	Redemption Date (December 1)	Redemption Price (% of Par)
\$ 7,255,000.00	\$ 7,255,000.00	4.000%	2022	2021	100
12,610,000.00	12,610,000.00	5.000	2023	2021	100
11,875,000.00	11,875,000.00	4.000	2024	2021	100
16,490,000.00	16,490,000.00	3.000	2025	2021	100
16,410,000.00	16,410,000.00	3.000	2026	2021	100

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