

SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

I N T E R O F F I C E C O R R E S P O N D E N C E

DATE: August 27, 2013
TO: Jeffrey W. Szabo, Chief Executive Officer
FROM: Larry B. Kulick, Chief Financial Officer
SUBJECT: **YEAR END REVIEW – MAY 31, 2013**

The Water Authority has completed its audit for the fiscal year ending May 31, 2013.

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2013**.

	<u>Actual</u>	Adopted <u>Budget</u>	<u>Variance</u>
Water Revenues	\$135,563	\$134,672	\$891
Miscellaneous Revenues	\$39,671	\$33,336	\$6,335
Interest Income	<u>\$783</u>	<u>\$3,000</u>	<u>(\$2,217)</u>
Total Revenues	\$176,017	\$171,008	\$5,009
Operating & Maintenance Expenses	<u>\$113,092</u>	<u>\$116,652</u>	<u>(\$3,560)</u>
Net Revenues Available for Debt Service	<u>\$62,925</u>	<u>\$54,356</u>	<u>\$8,569</u>
Debt Service	<u>\$29,699</u>	<u>\$29,879</u>	
Debt Service Coverage (all debt)	<u>2.12</u>	<u>1.82</u>	

Revenue

The budget for water sales is predicated on average historical usage of a typical customer using 160,000 gallons annually. This equates to an overall budget of 63 billion gallons for fiscal year 2013. This methodology attempts to eliminate potential financial consequences of weather variations. System wide water pumped was 68.2 billion gallons, a decrease of 2.5 billion gallons over fiscal year ending May 31, 2012. Actual water billed was approximately 62 billion gallons. The difference of 6.2 billion gallons consists of water used for non-metered services such as firelines, hydrants, flushing programs, and pump station uses. The remaining unbilled water pumped from leaks and non-metered water, which we estimate at approximately 4.5%, is within industry standards. Minimal customer growth of 741 customers amounted to slightly below 2/10%. On April 1, 2012 a rate increase of approximately 4% was put into effect, which mitigated the financial effects of the reduced water consumed. On April 1, 2013 a rate increase of another 4% was put into effect, the results of which will be realized in fiscal year 2014. These two increases were the 2nd and 3rd increases proposed in the five-year cost of service and rate study prepared by Black and Veatch in January 2011.

Miscellaneous revenues consist of antenna leases, managed water district fees, capital reimbursement fees, customer-related charges and fees, and other post-employee benefits. These revenues were budgeted at \$33.3 million. Actual revenues were \$39.7 million. The antenna leases' budget was based on existing leases in service at the time of budget preparation, including built-in percentage increases. Additional leases and reimbursements for work performed in connection with the leases resulted in \$11.2

million or \$.9 million of revenue over budget. Customer Service fees, including \$1 million of late charges were \$2.1 million or \$.5 million over budget. The construction contract revenue, which represents the money paid by developers for water main installation, is initially recorded as a deposit. When the project is completed it is recorded as revenue. Construction revenues totaled \$1.4 million or \$.1 million below budget. Tapping fees, surcharge revenue, and miscellaneous construction fees were \$5.1 million or \$.1 million over budget. Other miscellaneous revenue consisting of, but not limited to sale of scrap materials, FEMA/SEMA and other damage reimbursements, and rental income amounted to \$1.3 million or \$.6 million over budget. Additional unbudgeted monies from legal settlements (\$.6 million) and reimbursement of monies previously escrowed in connection with the SCWA 1988 Water Revenue Bonds Refunding (\$1.2 million).

In accordance with FASB No. 71, SCWA is permitted to record deferred revenue equal to the annual required contribution (other than retirement Post Employment Benefits "OPEB".) The Authority established a non-dedicated reserve and recorded an expenditure of \$2 million towards this potential liability. The balance of the current year expenditure in the amount of \$12.2 million was recorded as a deferred revenue and asset. The total amount reflected in this non-dedicated reserve at May 31, 2013 is \$3 million.

Operating and Maintenance Expenses

Operating and maintenance expenses were \$113.1 million, \$3.6 million below the adopted budget of \$116.7 million.

GASB Statement No. 45, "Post Employment Benefits Other than Pensions" calls for the Authority to record during the employees working career the potential cost of benefits employees will receive upon retirement. The total future cost and therefore the annual required contribution ("ARC") are annually revised with the latest available information. As a result of actual results and updates of these estimates the Authority recorded \$14.2 million of which \$2 million was set aside in a non-dedicated reserve account, as the annual required contribution ("ARC"). This represented a \$1.6 million reduction from the ARC for fiscal year ending May 31, 2012.

The Authority's single largest paying vendor is Long Island Power Authority (LIPA). Payments to them totaled \$19 million, approximately \$2.2 million below budget. This is attributable to less than anticipated water pumpage and reductions in varied components of the electric bills.

Capital Budget

	Capital Budget		
	<u>Original</u>	<u>Amended</u>	<u>Authorized</u>
Water Mains	\$18,900,000	\$20,725,000	\$20,667,898
Hydrants	1,305,000	1,405,000	1,394,334
Meters and Services	13,849,000	13,849,000	13,772,568
New & Replaced Wells and Tanks	11,025,000	11,025,000	11,001,417
Treatment	4,300,000	3,790,000	3,728,561
Pump Station Infrastructure	4,755,000	4,755,000	4,648,583
Computer Equipment	403,500	395,000	395,000
Transportation	924,000	1,040,000	1,039,500
Laboratory Equipment	325,000	325,000	325,000
Land	500,000	354,000	223,602
Other	404,000	416,252	382,852
Site Work	<u>286,500</u>	<u>682,748</u>	<u>376,789</u>
	<u>\$56,977,000</u>	<u>\$58,762,000</u>	<u>\$57,956,104</u>

The Capital Budget for fiscal year ending May 31, 2013, adopted March 2012 amounted to \$56.977 million. Subsequently, the Board authorized increases in the capital budget totaling \$1.785 million. The principal Increase, \$1.3 million was providing for the replacement of water main in Stony Brook in connection with the Authority's 40-year Operating Agreement of the Stony Brook Water District. The Town of Brookhaven, on behalf of the Stony Brook Water District will reimburse the Authority for the cost of this replacement with interest. Other increases included providing for water main extensions (\$.135 million) and site improvements for Authority property (\$.350 million). Subsequently, anticipated relocation of the Engineering Department did not occur, thereby resulting in \$.250 million of this increase not being authorized or used. During the course of the fiscal year, departments "draw down" on this budget through an authorization process. This year \$57.956 million was authorized. The Authority incurred \$50.3 million on work authorized during the fiscal year ending May 31, 2013 and prior.

Payroll

The Authority maintains a Baseline Payroll report, which identifies staffing levels for each department by position. Modifications to staffing levels must be approved by the CEO and the Board where applicable. During the budget process staffing levels are reviewed and requests from departments are submitted, reviewed, and either accepted or rejected. In addition, an ongoing concerted effort is made to review how the Authority does business, particularly with overtime. The overtime budget was \$1.6 million. The Authority continues to make a concerted effort to limit the use of overtime. In most instances, due to the nature of the Authority being a 24/7 operation, overtime occurs due to the necessity to provide staffing due to absenteeism due to sick, vacation, holidays, and the union bidding process. Accordingly and as further explained in my year-end payroll memo of July 29th the Authority incurred overtime in the amount of \$2.2 million of which approximately \$.300 was the result of Hurricane Sandy in October and the major snow storm in February. Regular payroll budgeted at \$41.1 million as compared to actual payroll of \$40.3 million. This resulted in the Authority's total payroll being under budget by \$.2 million.

At May 31, 2013, the Authority employed 568 as compared to 569 at May 31, 2012. In addition there were 25 vacant positions at May 31, 2013 as compared to 18 at May 31, 2012.

Financing

The Authority issues Water System Revenue Bonds to finance improvements and additions to the water system as well as to refund previously issued higher interest bonds or previously

issued Bond Anticipation Notes. During the fiscal year ended May 31, 2013, the Authority issued \$80 million Suffolk County Water Authority Senior Lien Water System Revenue Bonds, Series 2012A, for the purpose of retiring \$70 million of its Variable Rate Bond Anticipation Notes, Series 2008 and \$62.4 million Senior Lien Water System Revenue Bonds, Series 2013 (Refunding) to provide for the advance refunding of \$60 million Senior Lien Water System Revenue Bonds, Series 2005C.

From time to time, the Authority has issued Bond Anticipation Notes to finance improvements and additions to the water system. During the fiscal year ended May 31, 2013 the Authority issued \$100 million Suffolk County Water Authority Bond Anticipation Notes, consisting of \$50 million Suffolk County Water Authority Bond Anticipation Renewal Notes, 2013A and \$50 million Bond Anticipation Notes 2013B. The BAN's 2013B were issued to provide for the improvements and additions to the water system.

The Authority has worked with the NYS Environmental Facilities Corporation "EFC" since 1988 for the purpose of issuing Bonds through the State Drinking Water Revolving Fund, at a subsidized interest rate. As of May 31, 2013, SCWA has \$36.4 million SDWRF Bonds outstanding. In June, 2012 the Authority, in conjunction with the EFC, utilizing available funds and the issuance of \$4.5 million EFC Series 2012B, refinanced \$6.5 million of outstanding 2002A SDWRF Bonds. This transaction resulted in a net present value savings of approximately \$1.4 million over the remaining average life of the Bonds.

Debt service coverage represents revenues divided by debt service (principal and interest). The Authority's bond covenant requires minimum debt service coverage of 1.1. In order to maintain a strong position in the marketplace when issuing debt (resulting in lower interest cost), it is recommended coverage remain higher than 1.5. The Authority's debt service coverage for the fiscal year ending May 31, 2013 was 2.12 on all debt.

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

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

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E. Vassallo

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