

SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

INTEROFFICE CORRESPONDENCE

DATE: August 23, 2016
 TO: Jeffrey W. Szabo, Chief Executive Officer
 FROM : Douglas Celiberti, Chief Financial Officer
 SUBJECT: **YEAR END REVIEW – MAY 31, 2016**

The Water Authority has completed its audit for the fiscal year ending May 31, 2016.

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2016**.

	<u>Actual</u>	<u>Adopted Budget</u>	<u>Variance</u>
Water Revenues	\$160,700	\$149,500	\$11,200
Miscellaneous Revenues	\$24,200	\$19,600	\$4,600
Deferred OPEB	\$10,100	\$9,000	\$1,100
Interest Income	<u>\$1,300</u>	<u>\$1,000</u>	<u>\$300</u>
Total Revenues	<u>\$196,300</u>	<u>\$179,100</u>	<u>\$17,200</u>
Operating & Maintenance Expenses	\$111,700	\$108,800	\$2,900
Deferred OPEB	<u>\$10,100</u>	<u>\$9,000</u>	<u>\$1,100</u>
Operating & Maintenance Expenses	<u>\$121,800</u>	<u>\$117,800</u>	<u>\$4,000</u>
Net Revenues Available for Debt Service	<u>\$74,500</u>	<u>\$61,300</u>	<u>\$13,200</u>
Debt Service	<u>\$35,300</u>	<u>\$34,900</u>	
Debt Service Coverage (all debt)	<u>2.11</u>	<u>1.76</u>	

Revenue

Budgeted consumption is based on an average usage for a typical customer of 160,000 gallons annually. This equates to an overall budget of 61 billion gallons annually. This conservative approach minimizes consumption fluctuations year-to-year due to weather. Total water billed was approximately 66.6 billion gallons, an increase of 5.6 billion gallons from budget. Minimal customer growth of 1,190 amounted to approximately 3/10%. On April 1, 2015 a 4.2% general rate increase was put into effect. On April 1, 2016 a 4.2% general rate increase was put into effect. The results of this will be more fully realized in fiscal year 2017.

Miscellaneous revenues consist of antenna leases, capital reimbursement fees, customer-related charges and fees. These revenues were budgeted at \$19.6 million. Actual revenues were \$24.2 million. Actual antennae lease revenue of \$10.6 million was more than the budgeted amount of \$10.4, due to the annual increase net of the consolidation of some antenna leases. Actual construction-related revenue was \$9.4 million, a \$3 million increase from budgeted, as a result of an increase in projects placed in service. Customer Service related and other revenue was \$4.2 million, an increase of 1.4 million over a budget of 2.8 million. This is mostly a result of favorable variances in flow tests, various charges and fees, vault fees and

land sales. In addition, revenues from legal settlements and reimbursement for damages were \$.6 million, \$.5 million over budget.

In accordance with ASC 980, SCWA is permitted to record deferred revenue equal to the annual required contribution (other than retirement Post Employment Benefits "OPEB".) The Authority established a non-dedicated reserve and recorded an expenditure of \$7 million towards this potential liability. The balance of the current year expenditure in the amount of \$10.1 million was recorded as a deferred revenue and asset.

Operating and Maintenance Expenses

Operating and Maintenance expense was \$121.8 million, 4 million above the budget amount of \$117.8 million. Material variances that compose much of this difference are as follows: Chemicals, Chemical Systems, Pumping Equipment, and Chemical Treatment were \$.7 million over budget due to higher than average consumption levels. In 2016 the SCWA implemented GASB 68 which addresses accounting and financial reporting of pensions. In accordance to the provisions of GASB 68 and based on actuarial calculations provided by the NYSLRS, the SCWA reported its proportionate share of pension contributions unbilled, resulting in an increase to pension expense of \$ 1.3 million in the operating budget. In addition Health Insurance exceeded budget by \$.2 million and OPEB (GASB 45) costs based on our actuarial report and further explained below increased by \$3.1 million from 14 to 17.1 million. Favorable variances in Granulated Active Carbon replacement of \$1.3 million below budget offset some of the above increases.

GASB Statement No. 45, "Post Employment Benefits Other than Pensions" calls for the Authority to record during the employees working career the potential cost of benefits employees will receive upon retirement. The total future cost and the annual required contribution ("ARC") are revised annually with the latest available information. The budget included \$14 million of which \$5 million was to be funded from current year revenues. The balance of \$9 million recorded as a deferred expense. As a result of actual results and updates of these estimates the Authority recorded \$17.1 million; 10.1 million was recorded as deferred OPEB and \$7 million was expensed and set aside, in a non-dedicated reserve account. The total amount in this non-dedicated reserve at May 31, 2016 is \$17 million.

Capital Budget

	<u>Original</u>	<i>Capital Budget</i> <u>Amended</u>	<u>Authorized</u>
Water Mains	\$27,020,000	27,170,000	26,652,044
Hydrants	1,500,000	1,500,000	1,433,079
Meters and Services	15,293,000	15,743,000	15,743,000
New & Replaced Wells and Tanks	9,530,000	9,966,000	9,912,344
Treatment	3,833,000	3,493,000	3,493,000
Pump Station Infrastructure	4,727,000	4,631,000	4,585,830
Computer Equipment/Technological Improvements	1,752,000	1,712,000	1,712,000
Transportation	3,258,000	3,258,000	3,257,800
Laboratory Equipment	384,000	384,000	384,000
Land	550,000	55,000	45,002
Site Work	215,000	300,000	299,576
Other	<u>531,000</u>	<u>531,000</u>	<u>481,000</u>
Total SCWA	<u>68,593,000</u>	<u>68,743,000</u>	<u>67,998,675</u>

The Capital Budget for fiscal year ending May 31, 2016, adopted March 2015 totaled \$68.6 million. Subsequently, the Board amended the capital budget, for construction contracts of \$150 thousand. During the course of the fiscal year, departments draw down on this budget through an authorization process. This fiscal year \$68 million was authorized. In fiscal year 2015 \$63.9 million was authorized, with an additional \$24.6 million authorized for projects relating to the NYSEFC storm mitigation loan program.

Payroll

The Authority maintains a Baseline Payroll report, which identifies staffing levels for each department by position. Modifications to staffing levels must be approved by the CEO and the Board where applicable. During the budget process staffing levels are reviewed and requests from departments are submitted for consideration. The overtime budget was \$1.38 million. The Authority continues to make a concerted effort to optimize the use of overtime. In most instances, because of the Authority being a 24/7 operation, overtime becomes necessary to provide staffing for absenteeism due to sick, vacation, holidays, the union bidding process, and emergency work. Accordingly, the Authority incurred overtime in the amount of \$1.47 million. Regular payroll budgeted at \$41.9 million as compared to actual payroll of \$40.1 million. This resulted in the Authority's total payroll being under budget by \$1.8 million.

At May 31, 2016, the Authority employed 552 as compared to 563 at May 31, 2015. In addition there were 31 vacant positions at May 31, 2016 as compared to 21 at May 31, 2015.

Financing

The Authority routinely issues debt to fund portions of improvements and additions to its water plant system. The debt issued is in the form of Bond Anticipation Notes (BAN's) and Water Revenue Bonds, as well as in conjunction with the NYS Environmental Facilities Corporation (EFC).

During the fiscal year ended May 31, 2016, the Authority entered into the following bond transactions:

- In November 2015, the Authority issued \$49.1 million Senior Lien Water System Revenue Bonds, Series 2015A. The Series 2015A Bonds were issued to retire all of the Authority's outstanding Bond Anticipation Notes, 2013A, fund the Reserve Account and pay cost of issuance. The Series 2015A Bonds bear interest rates ranging from 4.00% to 5.25% and have a final maturity date of June 1, 2040.
- In November 2015, the Authority issued \$116.7 million Senior Lien Water System Revenue Bonds Series 2015 (Refunding). The Series 2015 (Refunding) Bonds were issued to provide for the advance refunding of \$70.0 million Suffolk County Water Authority Water System Revenue Bonds, Series 2006A and a portion of the \$43.6 million of Series 2007A bonds in the amount of \$42.2 million. The proceeds from the Series 2015 (Refunding) Bonds were used to fund the escrow account for \$112.1 along with existing 2006A & 2007A reserve funds in the amount of \$10.0 million and existing debt service funds representing accrued interest in the amount of \$2.2 million. A reserve fund was funded for the 2015 (Refunding) Bonds in the amount of \$10.5 million and \$0.9 million of the proceeds was used to pay cost of issuance. This advanced refunding resulted in a net present value savings of approximately \$9.7 million. The Series 2015

(Refunding) Bonds bear an interest rate ranging from 3.00% to 5.00% and have a final maturity date of June 1, 2032.

During the fiscal year ended May 31, 2016, The Authority entered into the following BAN transactions:

- In November 2015, the Authority issued \$75.0 million Suffolk County Water Authority Bond Anticipation Notes, 2015B. The proceeds from the 2015B notes were deposited in a Construction Fund to finance the Cost of Acquisition and Construction of improvements and additions to the Water System. The 2015B notes bear an interest rate of 5.00% and have a maturity date of November 1, 2017.

During the fiscal year ended May 31, 2016, The Authority entered into the following NYSEFC bond transactions:

- In July 2015, the authority closed on its EFC Bond Anticipation Note 2015A in the amount of \$16.5 million as part of the Storm Mitigation Loan Program through the NYSEFC. The Storm Mitigation Loan Program is comprised of a \$16.5 million zero percent 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 year 2016.
- In August 2015, the Authority participated in the 2015D refinancing of \$4.3 million EFC Suffolk County Water Authority Water System Revenue Bond Series 2005B. The amount of \$0.3 million from the current Local Debt Service Reserve Fund was used as a source to refund a portion of the SRF Refunded Bonds. This refunding resulted in a net present value savings net of reserve funds on hand of approximately \$0.05 million. The EFC Series 2015D currently bear interest rates ranging from 3.55% to 4.00% with a final maturity date of October 1, 2025.

Debt service coverage represents revenues divided by debt service including principal and interest. The Authority's bond covenant requires minimum debt service coverage of 1.1. In order to maintain a strong position in the marketplace when issuing debt, it is recommended coverage remain higher than 1.5 to result in lower interest cost. The Authority's debt service coverage for the fiscal year ending May 31, 2016 was 2.11 on all debt.

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

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

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c: E. Vassallo
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