

SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

INTEROFFICE CORRESPONDENCE

DATE: August 27, 2018
 TO: Jeffrey W. Szabo, Chief Executive Officer
 FROM : Elizabeth K. Vassallo, Chief Financial Officer *E. Vassallo*
 SUBJECT: **YEAR END REVIEW – MAY 31, 2018**

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2018**.

	<u>Actual</u>	Adopted <u>Budget</u>	<u>Variance</u>
Water Revenues	\$162,900	\$162,200	\$ 700
Miscellaneous Revenues	\$28,800	\$21,500	\$7,300
Deferred OPEB	\$7,900	\$7,100	\$ 800
Interest Income	<u>\$2,300</u>	<u>\$1,000</u>	<u>\$1,300</u>
Total Revenues	<u>\$201,900</u>	<u>\$191,800</u>	<u>\$10,100</u>
Operating & Maintenance Expenses	\$123,600	\$120,500	\$3,100
Deferred OPEB	<u>\$8,000</u>	<u>\$7,100</u>	<u>\$900</u>
Operating & Maintenance Expenses	<u>\$131,600</u>	<u>\$127,600</u>	<u>\$4,000</u>
Net Revenues Available for Debt Service	<u>\$70,300</u>	<u>\$64,200</u>	<u>\$6,100</u>
Debt Service	<u>\$32,092</u>	<u>\$31,921</u>	
Debt Service Coverage (all debt)	<u>2.19</u>	<u>2.01</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. This conservative approach minimizes consumption fluctuations year-to-year due to weather. Total water billed was approximately 68.7 billion gallons, an increase of 7.9 billion gallons from budget. Minimal customer growth of 1,218 amounted to approximately 3/10%. On April 1, 2017 a 4.0% general rate increase was put into effect. On April 1, 2018 a 3.75% general rate increase was put into effect.

Miscellaneous revenues consist of antenna leases, capital reimbursement fees and customer-related charges and fees. Miscellaneous revenues are budgeted at \$21.5 million. Actual revenues are \$28.8 million. Antenna lease revenue of \$11.1 million is more than the budgeted amount of \$10.5 million due to the annual increase net of the consolidation of some antenna leases. Actual construction-related revenue was \$12.7 million, a \$5.7 million increase from budgeted as a result of an increase in projects placed in service and the Westhampton NYSDEC reimbursement for contamination of \$1.8 million. Customer Service related and other revenue is \$4.9 million, an increase of \$1.6 million over a budget. This is a result of the EFC

grant money of \$1.0 million dollars for the Storm Mitigation Loan Program of the Noyack and Huntington projects and favorable increases of customer related fees variances.

Operating and Maintenance Expenses

Operating and Maintenance expenses were \$131.6 million, \$4.0 million above the budget amount of \$127.6 million. Material variances that compose much of these differences are as follows: Workers Compensation exceeded budget by \$3.9 million due to changes in the estimate for claims of all years. Maintenance of Mains & Services, and Fire Protection exceeded budget by \$2.6 million. The OPEB - other post employment benefits, increase of \$0.7 million compared to budget. 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 resulting in a net decrease of \$2.3 million under budget. Other offsets to the increase in actual compared to budget is the GAC replacement of \$0.7 million decrease and Engineer consultants of \$0.2 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 the annual required contribution ("ARC") are revised annually with the latest available information. The budget included \$17.1 million of which \$10.0 million was to be funded from current year revenues. The balance of \$7.1 million recorded as a deferred expense. The Authority recorded \$17.8 million; \$8.0 million was recorded as deferred expense OPEB and \$10.0 million was expensed and set aside, in a reserve account. The total amount in this reserve account at May 31, 2018 is \$35.2 million.

Capital Budget

	<i>Capital Budget</i>		
	<u>Original</u>	<u>Amended</u>	<u>Authorized</u>
Water Mains	\$26,250,000	\$26,700,000	\$26,540,000
Hydrants	1,500,000	1,400,000	1,378,000
Meters and Services	15,830,000	15,830,000	15,718,000
New & Replaced Wells and Tanks	14,083,000	14,083,000	14,068,000
Treatment	3,739,000	3,739,000	3,739,000
Pump Station Infrastructure	4,800,000	4,155,000	4,056,000
Computer Equipment/Technological Improvements	2,125,000	2,125,000	2,125,000
Transportation	2,165,000	2,165,000	2,154,000
Laboratory Equipment	340,000	340,000	340,000
Land	400,000	400,000	0
Facilities	270,000	270,000	269,000
Other	<u>578,000</u>	<u>503,000</u>	<u>503,000</u>
Total SCWA	<u>\$71,360,000</u>	<u>\$71,710,000</u>	<u>\$70,890,000</u>

The Capital Budget for fiscal year ending May 31, 2018, adopted March 2017 totaled \$71.4 million. Subsequently, the Board amended the capital budget to \$71.7 for construction contracts in the amount of \$0.3 million. During the course of the fiscal year, departments draw down on this budget through an authorization process. This fiscal year \$71.0 million was authorized. In fiscal year 2017 \$74.1 million was authorized.

Payroll

The Authority maintains a Baseline Payroll report, which identifies staffing levels for each department by position. Modifications to staffing levels must be approved by the CEO and the Board where applicable. During the budget process staffing levels are reviewed and requests from departments are submitted for consideration. Throughout the year 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.

Base payroll is \$44.1 million, with additional overtime spent of \$2.1 million. This is \$1.1 million less than overall budgeted base payroll and overtime of \$45.7 million and \$1.6 million respectively.

At May 31, 2018, the Authority employed 555 as compared to 581 budgeted at May 31, 2018, resulting in 26 vacant positions as of May 31, 2018.

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).

In October 2017, the Authority was awarded \$2.1 million in grants from the Environmental Facilities Corporation (NYSEFC) 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 these projects is expected to begin during fiscal year 2019.

During the fiscal year ending May 31, 2018, the Authority received a total of \$6.1 in advances against the Environmental Facilities Corporation Storm Mitigation Loan program note receivable of \$16.5 million and \$1.0 million in grant monies pertaining to its NYS EFC Bond Anticipation Note 2015A. The advances received were for eligible projects related to main extensions and generators. At May 31, 2018, the note receivable balance is \$8.1 million. In accordance with the EFC 2015A Bond Anticipation Note Financing Agreement, in May 2019, the Authority is required to make an estimated principal payment of \$0.2 million which is based upon the amount of funds drawn down on the note.

The Authority has evaluated subsequent events through, August 28, 2018, the date the draft of the financial statements are available to be issued.

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 town 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 will

take the lead in applying for Inter-municipal Grant funding from the Environmental Facilities Corporations NYS Inter-municipal Water Infrastructure Grant (IMG) Program.

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, 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.

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, 2018 was 2.19 on all debt. The budgeted debt coverage for 2018 was 2.01.

In accordance with 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 Bond Covenant the Authority is required to submit 180 days after fiscal year end the Audited Financial Statements, Annual Disclosure report and any Bond issuance related documents by November to the Electronic Municipal Market Access (EMMA) database, operated by the Municipal Securities Rulemaking Board (MSRB).

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/>).

c: D. Malone

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