

Suffolk County Water Authority

--Budgets--

For The Fiscal Year Ending

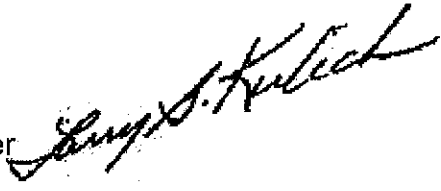
May 31, 2013

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**SUFFOLK COUNTY WATER AUTHORITY
OAKDALE, NEW YORK**

INTEROFFICE CORRESPONDENCE

DATE: March 22, 2012
TO: Jeffrey W. Szabo, Chief Executive Officer
FROM: Larry B. Kulick, C.P.A., Chief Financial Officer 
SUBJECT: **BUDGETS – FISCAL YEAR ENDING MAY 31, 2013**

I respectfully enclose the Suffolk County Water Authority Budgets for the fiscal year ending May 31, 2013. In accordance with Public Authorities Law, these budgets must be approved by the Board and submitted to applicable agencies by March 31, 2012.

OPERATIONS & MAINTENANCE BUDGET HIGHLIGHTS

One of two budgets included is the Operating & Maintenance Revenue and Expense Budget. This reflects the Authority's activities as it relates to revenues and day-to-day operational and maintenance costs. The following summarizes the proposed budget for fiscal year ending May 31, 2013:

Operating & Other Revenue	\$171,008,000
Operating & Maintenance Expense	<u>116,652,000</u>
Revenues Available for Debt Service	<u>54,356,000</u>
Debt Service	<u>29,879,000</u>
Debt Coverage	<u>1.82</u>

Revenues

The Authority's tax-exempt status and its ability to issue tax-exempt debt rests with the sale of water within the boundaries of Suffolk County. The composition of Suffolk County Water Authority's Revenue Budget for fiscal year May 31, 2013 is as follows:

- 1) **Water Sales** (\$124.6 million) – This amount is based on the projected number of customers through May 2012, customer growth of ¼% and an average annual usage of 160,000 gallons per customer. Guided by information and discussions with rate study consultants, using this level of consumption is conservative because it eliminates weather variances. The budget includes approximately \$4.5 million in revenues to be generated by the recently enacted rate increase.

*Preliminary, subject to change.

- 2) **Wholesale Water Sales** – (\$1.8 million) – Suffolk County Water Authority previously eliminated the wholesale water rate. The four (4) municipalities who were either “grandfathered” in or under special agreement are Smithtown, St. James, Stony Brook, and Village of Greenport Water Districts. The recently approved rate increase includes an adjustment to the rate for these four municipalities from \$1.153 to \$1.199 per thousand gallons effective January 1, 2013.
- 3) **Hydrants and Firelines** – (\$8.2 million) – Suffolk County Water Authority has approximately 34,800 public hydrants and 1,950 private hydrants. Public hydrants are billed at a rate of \$160.20 per year, a rate which has not changed since 1994. Private hydrant rates are billed \$184.20 per year. There are approximately 562 additional hydrants within the Shorewood Water Company service area, which are billed at an annual rate of \$312 per hydrant. Generally, the respective fire districts throughout Suffolk County pay for the public hydrants located within their districts. In some circumstances, the hydrants are paid directly by the towns’ special district. The budget reflects a ¼% growth. Firelines are billed by size ranging from \$170 (2”) to \$2,104 (12”). There are currently 4,039 in the system and the budget reflects a ¼ % growth.
- 4) **Miscellaneous Fees** – (\$21.3 million)
 - a. Water Related – (\$4.6 million) - These include customer late charges, reconnect fees, inter-municipal operating & maintenance agreements, rental agreements, etc.
 - b. Capital Reimbursements – (\$6.4 million) – Suffolk County Water Authority pays for the first 75 feet of main installed for each homeowner. Residential homeowners will pay the Authority for the costs in excess of 75 feet. Developers typically pay 100% of the cost. To help residents to become SCWA customers, standard cost per foot and regional fixed fees have been established. Based on reduced customer growth estimates, budgeted revenues from developer contracts have been reduced to \$1.5 million.
 - c. Non-Water-Related Revenues – (\$10.3 million) – Consisting of antenna leases the proposed budget is comprised of existing leases plus 3% (standard built in clause of existing contracts). Conservatively, no new antenna leases are budgeted.
- 5) **Interest Income** – (\$3.0 million) – Current market conditions continue to be very low. The proposed budget conservatively reflects an average interest rate of .3%.
- 6) **Deferred Revenue – OPEB** – (\$12 million) – In order to comply with GASB 45, the Authority has reflected on its financial records a deferred

revenue for the unfunded portion of this cost in the amount of \$12 million.

The Suffolk County Water Authority's Operating and Maintenance Expense Budget for fiscal year May 31, 2013 is comprised of the following:

Expenses

- 1) **Payroll** – (\$34.2 million) – As a service providing organization, payroll is the single biggest Authority cost. By taking advantage of the New York State Retirement Incentive Program in the later part of 2010, the Authority was able to reduce staff to 579. Current base payroll is budgeted at \$40.9 million. In addition, this budget reflects overtime in the amount of \$1.6 million, approximately \$100,000 less than the current year. The budget also includes the addition of 2 employees in the Production Control and Laboratory Departments. In total, the Authority payroll for fiscal year ending May 31, 2013 is estimated at \$42.5 million, which includes proposed salary adjustments for union and nonunion staff. In accordance with Generally Accepted Accounting Principles (GAAP), costs incurred in the course of purchasing or constructing a capital asset must be recorded as a portion of the capital asset. Therefore, costs incurred by SCWA, principally payroll and benefits, must be allocated. Based on updated information, 80% of payroll costs are attributable to operations & maintenance and 20% to capital. Consequently, \$34.2 million of payroll is reflected in the proposed operating and maintenance budget.
- 2) **Benefits** – (\$24.1 million) – As previously indicated, in accordance with GAAP and analysis of historical information, 80% of all benefit costs are reflected in the operation & maintenance budget and 20% in the capital budget. These costs include health, dental, optical, social security, workers' compensation insurance, etc. New York State Retirement System establishes the final contribution rates 17 months in advance. We have been advised that the rates for the period April 1, 2012 through March 31, 2013 will average approximately 18.95% of payroll or \$7.2 million, which represents an increase of approximately 33% over the current year. Health insurance costs continue to rise and this budget proportionately reflects a 3.5% increase in related premiums. All other benefits have remained relatively stable.
- 3) **OPEB** – (\$14 million) In 2008, GASB Statement No. 45 was established, requiring state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits "OPEB". Employers are required to

account for and report the annual cost in similar fashion as currently done for pensions. The amount reflected in the budget is \$14 million. There is currently no requirement to fund this liability. In preparation of the fiscal year ending May 31, 2012 budget I recommended and the budget included an initial funding of this this liability by setting aside \$1 million. Continuing with this recommendation, I have included \$2 million in the proposed budget for this purpose. In order to comply with GASB 45, the Authority reflects on its financial records a deferred revenue in the amount of \$12 million to counter the unfunded portion in accordance with Financial Accounting Standards No. 71.

- 4) **Power** – (\$21.3 million) – SCWA has averaged approximately \$20 million annually over the past 4 years on electrical costs. Based on all water pumped, consumption billed as well as unbilled (hydrants, fire-lines, main flushing, etc.), power used on buildings and structures, proposed LIPA rate increase, and an estimated customer growth of ¼%, \$21.3 million is reflected in the proposed budget.
- 5) **Operations** – (\$6.8 million) Major functional components of the Authority's operations include customer billing and collecting (\$1.4 million), computer supplies and expenses (\$.7 million), telecommunication services (\$1.0 million), public communications (\$.2 million), safety (\$.1 million), office and warehouse supplies (\$.2 million), consultants (\$1.1 million), Insurance (\$1.5 million), personnel services and training (\$.4 million), and other operating expenses (\$.2).
- 6) **Maintenance** – (\$8.3 million) Major functional components of the Authority's maintenance program include water mains (\$2.3 million), hydrants (\$.8 million), meters & services (\$.8 million), wells & tanks (\$.5 million), pump stations (\$.5 million), pumping equipment (\$1.2 million), treatment systems (\$.5 million), computer maintenance (\$.4 million), and general maintenance of facilities (\$1.3 million).
- 7) **Treatment** – (\$5.7 million) This area includes chemicals (\$2.3 million), carbon replacement (\$2.4 million), other treatment systems, including perchlorate, nitrates, and iron (\$.4 million), laboratory expenses (\$.6 million).
- 8) **Transportation** – (\$2.3 million) – The transportation department maintains approximately 320 vehicles and 130 in support equipment (trailers, cranes, backhoes, compressors, etc.). The Authority budgets approximately \$2.9 million annually to keep this equipment on the road. \$1.2 million (41.4%) of the transportation budget is spent on gasoline. Whereas, the fleet and related equipment is used in connection with both the Operating & Maintenance and Capital Budgets, the costs are allocated to both budgets in accordance with

Generally Accepted Accounting Principles (GAAP). Consequently, \$2.3 million is reflected in this budget.

Debt Service

As required by SCWA's bond indenture, revenues available after the payment of its operating and maintenance expenses are to be applied to the payment of its debt service (principal and interest of its outstanding debt). The Authority's capital budget is funded from the issuance of bonds and net revenues remaining after the payment of its operating & maintenance expenses and debt service. The bonds issued are secured against the revenues generated. In April 2011, the Authority utilizing approximately \$75 million of its unrestricted funds and issuance of \$24.9 million of refunding bonds restructured and reduce outstanding debt service over the next several years. In addition, In July 2011 and January 2012, the Authority issued \$10.9 million of Environmental Facility and \$83.6 million of SCWA refunding bonds resulting in savings of more than \$10 million of future debt service costs. The Authority's Capital Program, the structure of its existing debt, the funding relationship of its capital expenditures between revenue and financing, and the importance placed by management to maintain strong debt coverage has allowed SCWA to be held in high regard in the financial community as evidenced by its current rating on outstanding senior lien debt of AAA and AA+ from Fitch, Inc. and Standard and Poors Rating Services. Debt Service of \$29.9 million is budgeted for 2013.

CAPITAL BUDGET HIGHLIGHTS

The Authority formulates the capital budget based on information provided by its Construction-Maintenance, Engineering, Production Control, Laboratory, Information Technology, General Services, Customer Service, and Administrative Departments. The proposed 2013 capital budget of \$56.97 million complies with the Authority's forecast of \$57 million.

The following components are part of the proposed capital budget.

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 (\$2.3 million), (2) the replacement of existing water mains (\$12.6 million), (3) installation of new water mains paid by developers (\$1.5 million), and (4) improvements to the distribution system to provide better service within existing service areas (\$2.5 million). With respect to the first component, fear of private well contamination, the security of having water that is constantly tested, and the safety offered by the presence of public fire hydrants drives the demand for public water. Projected customer growth is ¼%. The selection of water mains targeted for replacement is based on its repair history and the age of the water main. Development

has decreased in recent years and therefore this component is budgeted at \$1.5 million. Whereas, this component is paid 100% by the developer and is reflected as revenue, should the need arise, a budget revision would be proposed and welcomed because of the cost would be fully paid and there is expectation of additional water revenues from the homeowners within these developments.

Point of Service Distribution

The proposed budget reflects additional hydrants at ¼% as well as replacements of existing hydrants in an amount of \$1.3 million. To avoid disruption of roadways and reduce the costs of connecting future customers to new pipes installed underground, the Authority is providing easy connections to the water supply ("stub services") where existing homes do not immediately connect to the water supply system but are expected to in the future (\$5.2 million).

Meter replacement for automatic meter reading is done internally as well as by an outside contractor. During the course of the year, the Authority responds to customers for repair or replacement of the meter. The Authority has determined that for efficiency, in lieu of repairing a meter, the meter will be changed out. This has resulted in the annual replacement of approximately 11,000 meters by Authority personnel. The proposed budget includes \$2.6 million for this purpose.

The current budget reflects a continuation of the Authority's planned ten-year AMR implementation program. The current contractor agreement expires December 31, 2012. It is anticipated the new agreement will call for installation of approximately 27,000 meters and is reflected with a cost of \$6 million. This program was initiated based on the continued systematic reduction in 42-meter reader positions and support staff over the ten-year period. The Customer Service Department continues to be on-target with this plan,

Treatment Facilities

In order to provide water that meets regulations and the Authority's standard, the Authority, from time to time, has to treat water to remove volatile organic chemicals, pesticides, herbicides and other contaminants through the utilization of filtration systems, such as granular activated carbon or ion exchange. It is anticipated that water treatment will be ongoing since, contamination, inevitably, will be detected for the first time each year in a few wells and new contaminants may be added and/or the level of the standard requiring remediation may be changed in the regulations of the EPA and the New York State Department of Health. The Authority also utilizes filtration systems to remove excess iron primarily for aesthetic reasons (the presence of iron in drinking water poses no known health hazard). \$4.3 has been budgeted in this area.

Other Equipment

To assist in the operation of the water system SCWA needs to add or replace certain support equipment in the information technology, transportation, and clerical areas. This includes the upgrading of computer equipment, vehicles, field and office equipment, and various site improvements. \$2.3 million has been included in the proposed budget.

Additional Facilities – Storage, New Wells, Replacement Wells, Tanks

The Water System operates approximately 43 separate and distinct pressure distribution zones. The wells have a capacity to pump approximately 835,000,000 gallons of water per day. To meet system demands, the proposed budget includes \$16.3 million for new well and tank construction, replacement of wells, pump station infrastructure, land acquisition, and painting of tanks.

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E. Vassallo

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ABOUT THE AUTHORITY

The following provides information is extracted from the Authority's \$50,000,000 Bond Anticipation Renewal Notes, Series 2012A Official Statement dated March 20, 2012. Information includes but not limited :

- Authority Powers
- Board Members
- Executive Staff
- Capital Improvement Plan
- Service Areas, Plant Facilities, & Water Supply

Certain Powers

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 of 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:

JAMES F. GAUGHRAN, Chairman, term as member expires in March 2013. Mr. Gaughran is an attorney in private practice, having begun his practice in 1984. He is admitted to practice in the New York State and U.S. Eastern District of NY Courts. Mr. Gaughran has held a number of public sector appointments over the years including service as counsel to the Huntington Community Development Agency, Village of Northport, Town of Babylon and staff service to Congressman Gary Ackerman and the New York State Senate. From 1984-1987 he was an elected member of the Huntington Town Board, which included service as a Commissioner of the Dix Hills Water District. From 1988-1993 Mr. Gaughran was an elected member of the Suffolk County Legislature, representing the 17th District, during which time the Legislature aggressively supported and funded the Suffolk County Drinking Water Protection Program. Mr. Gaughran received a Bachelor of Arts degree in Political Science from Stony Brook University and a Juris Doctor degree from Hofstra University School of Law.

PATRICK G. HALPIN, Secretary, term as member expires on March 2016. Mr. Halpin is Executive Vice President for External Affairs for the Institute for Student Achievement (ISA). Mr. Halpin has been with ISA since 1994. Prior to joining the ISA, Mr. Halpin 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 1988, Mr. Halpin was elected to the office of County Executive of Suffolk County, serving in that role until 1992. Mr. Halpin currently serves as a trustee of the Long Island Chapter of the Nature Conservancy and is Director of 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.

JANE R. DEVINE, term as member expires May 2012. Ms. Devine has held a variety of positions in public service. Most recently, she has served on the Town of Huntington Planning Board. Other positions held include, Commissioner of Consumer Affairs for Suffolk County and Suffolk County Legislator. Ms. Devine holds a Bachelor of Arts degree from the College of New Rochelle and a Master of Arts degree from Long Island University, College of Management.

FRANK J. PELLEGRINO, term as member expires in March 2014. Mr. Pellegrino currently serves as the Funds Administrator of Plumbers Union Local 200, with jurisdiction in both Nassau and Suffolk Counties. Mr. Pellegrino oversees a staff of field representatives covering all construction sites in both counties, and negotiates both special and general labor agreements with the Plumbing Contractors Association and with a variety of large development companies and agencies. Mr. Pellegrino is conversant with all aspects of state and federal labor law, collective bargaining, benefit fund administration and the oversight of consultants retained for the furtherance of legal, accounting, investment and insurance services related to the conduct of union business. Mr. Pellegrino has experience as both Chair of the apprenticeship training committee and as an Instructor in the Apprenticeship Training Program.

ERROL D. TOULON, Jr. Ed.D., term as member expires May 2015. Dr. Toulon is a retired New York City Correction Captain. During his twenty-two year career with the New York City Department of Correction, Dr. Toulon was assigned as a captain to the Emergency Service Unit and the Firearms & Tactics Unit. During the final year of his law enforcement career, Dr. Toulon was assigned to an independent unit that reported directly to a federal court judge monitoring environmental issues in the city's jails. Dr. Toulon is certified through the Department of Homeland Security in Emergency Planning, Radiological Emergency Management, Incident Response to Terrorist Bombing, Weapons of Mass Destruction Threat and Risk Assessment and State Disaster Management. In addition, Dr. Toulon is certified to teach Weapons of Mass Destruction Awareness, National Incident Management System, and Domestic Terrorism and Hate Crimes. Dr. Toulon received his Master's degree in Business Administration from Dowling College, and Advanced Certificate in Homeland Security Management from Long Island University and recently completed his Doctorate in Educational Administration.

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, General Counsel, Director of Administration and a Chief Sustainability Officer.

JEFFREY W. SZABO, Chief Executive Officer. Prior to being named Suffolk County Water Authority CEO in May 2010, Mr. Szabo served as Special Projects Coordinator beginning in July 2009. In this capacity he was involved in every aspect of the Authority's operation and management. Prior to joining the Authority, Mr. Szabo served as Deputy County Executive and Chief of Staff for Suffolk County, New York. Mr. Szabo was an integral part of the administration's successful management of a county with an annual operating budget of \$2.5 billion and an employee base that exceeds 11,000 individuals. He is credited with implementing many of the administration's successful reform measures. As a Deputy County Executive, Mr. Szabo oversaw the departments of Public Works, Police, Parks, Probation, Civil Service, Fire, Rescue and Emergency Services, Information Technology, Labor, Women Services, Handicapped Services, Youth, Aging, Veterans, Consumer Affairs and Minority Affairs. Mr. Szabo also oversaw personnel and human resources for the County Executive's Office. Mr. Szabo holds a Bachelor of Arts degree from Long Island University.

LARRY B. KULICK, CPA, Chief Financial Officer. Mr. Kulick was appointed Chief Financial Officer in April 2006. Mr. Kulick is a graduate of the University of Miami, with a Bachelor of Science degree in Accounting. A Certified Public Accountant, he is a member of the American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants, and New York State Government Financial Officers Association. After working in public accounting for four years, he has been employed with the Authority since 1982 serving in various capacities including Accounting Department Manager, Assistant Director of Finance, and Director of Finance.

JANICE E. TINSLEY, Esq., Deputy Chief Executive Officer for Customer Service. Ms. Tinsley joined the Authority in April 2008 as Deputy Chief Executive Officer for Customer Service. She is responsible for all facets of the Customer Service Division. For eight years, Ms. Tinsley served as Town Clerk for the Town of Babylon. Prior to that, she served as Special Assistant to the Babylon Town Supervisor, concentrating on constituent services. 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.

HERMAN J. MILLER, P.E., Deputy Chief Executive Officer for Operations. Mr. Miller has been with the Authority since 1972 and has held numerous positions with increasing responsibility in the operations area. In 1993, Mr. Miller was promoted to his current position of Deputy Chief Executive Officer for Operations. In this capacity, Mr. Miller has overall responsibility for the Operations Division of the Authority which includes the Engineering, Construction and Maintenance, and Production Control Departments. Mr. Miller is a 1972 graduate of Manhattan College where he received his Bachelor of Science degree in Electrical Engineering, and is a licensed Professional Engineer in the State.

TIMOTHY J. HOPKINS, Esq., General Counsel. Mr. Hopkins joined the Authority in 1992. He is responsible for managing the Authority's Legal Department and outside counsel, and conducts litigation for the Authority. 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. 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.

DONNA MANCUSO, Director of Administration. 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 of the Board and she has continued to serve in that role to the present. In addition, Ms. Mancuso is responsible for the Authority's successful educational outreach program. Ms. Mancuso was appointed Director of Administration in December 2010. She holds a Bachelor of Arts degree in Music from California Lutheran University, has completed graduate studies toward a Master of Science degree in Education, and is currently working toward an MBA in Public Management at Dowling College.

CARRIE MEEK GALLAGHER, Chief Sustainability Officer. Ms. Gallagher joined the Authority in January 2011. She is responsible for implementing a sustainability program, including source water protection, water quality improvement, water conservation, energy efficiency, renewable energy, recycling, green buildings and procurement, waste reduction, and environmental education. Previously, she served as Suffolk County Commissioner of the Department of Environment and Energy, Deputy Director of Planning for Suffolk County; inaugural director of the Long Island Index, an indicators project that measures the region's progress toward improving the quality of life for all Long Islanders; headed the Nassau County Economic Development Resource Center under County Executive Tom Suozzi; and developed Sustainable Long Island's Brownfields Redevelopment program. Ms. Gallagher earned a Bachelor of Arts in Sustainable Development and Latin American Studies from Amherst College, a Master of Science in Conservation Biology and Sustainable Development from the University of Maryland at College Park and an MBA from the Frank G. Zarb School of Business at Hofstra University. Additionally, Long Island Business News selected her as one of its 40 Rising Stars Under 40, Class of 2003.

Authority Advisors

Bond Counsel to the Authority is Harris Beach PLLC, New York, New York.

Tank Consultants - Dvirka and Bartilucci, Woodbury, New York.

Labor Counsel - Putney, Twombly, Hall, & Hirson, LLP, New York, New York.

Consulting Ground-Water Geologist for the Authority is Leggette, Brashears & Graham of Wilton, Connecticut.

Bond Fund Trustee under the Resolution is The Bank of New York Mellon, New York, New York.

Financial Consultant to the Authority for long-term bond issues is Goldman, Sachs & Co., New York, New York

Communication Consultants - Zimmerman\Edelson, Inc., Great Neck, New York.

AUTHORITY DEBT

The following table sets forth the Authority's outstanding Bonds as of January 31, 2012:

<u>Senior Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding at January 31, 2012</u>
Water System Revenue Bonds, Series 2002A (EFC Series), dated March 14, 2002	10,869,331	6,710,000
Water System Revenue Bonds, Series 2003 (Refunding), dated June 19, 2003	67,395,000	7,000,000
Water System Revenue Bonds, Series 2003B (EFC Series), dated July 24, 2003	9,130,775	5,800,000
Water System Revenue Bonds, Series 2004A (EFC Series), dated July 22, 2004	6,605,448	4,920,000
Water System Revenue Bonds, Series 2005B (EFC Series), dated July 28, 2005	7,047,361	5,315,000
Water System Revenue Bonds, Series 2005C, dated December 1, 2005	60,000,000	60,000,000
Water System Revenue Bonds, Series 2006A, dated May 23, 2006	70,000,000	70,000,000
Water System Revenue Bonds, Series 2007A, dated December 20, 2007	45,000,000	45,000,000
Water System Revenue Bonds, Series 2009, (Refunding), dated November 16, 2009	13,415,000	10,635,000
Water System Revenue Bonds, Series 2009A, dated November 16, 2009	66,395,000	57,740,000
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 2010C (EFC Series), dated June 24, 2010	2,902,750	2,385,000
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	7,384,173	6,695,382
Water System Revenue Bonds, Series 2011C (EFC Series), dated July 21, 2011	10,946,917	10,323,856
Water System Revenue Bonds, Series 2012 (Refunding), dated January 24, 2012	83,635,000	83,635,000
 Total Outstanding Senior Lien Bonds		 <u>\$501,089,238</u>

<u>Subordinate Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding January 31, 2012</u>
Water System Revenue Bonds, Series 1994 Subordinate Lien Refunding, dated February 15, 1994	\$38,135,000	\$ 695,000
Water System Revenue Bonds, Series 2005 Subordinate Lien Refunding, dated December 1, 2005	71,905,000	<u>71,905,000</u>
Total Outstanding Subordinate Lien Bonds		<u>\$72,600,000</u>

The Authority has issued from time to time bond anticipation notes to finance improvements and additions to the Water System. These notes are redeemed from the proceeds of the Bonds in anticipation of which they are issued. As of January 31, 2012, the Authority had the following bond anticipation notes outstanding:

<u>Bond Anticipation Notes</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding January 31, 2012</u>
Variable Rate Bond Anticipation Notes, 2008, dated January 17, 2008, maturing January 15, 2013	\$70,000,00 0	\$ 70,000,000
Fixed Rate Bond Anticipation Notes, 2011A, dated April 6, 2011, maturing April 1, 2012*	50,000,000	50,000,000
Variable SIFMA Rate Bond Anticipation Notes, 2011B, dated April 6, 2011, maturing April 1, 2014	50,000,000	<u>50,000,000</u>
Total Outstanding Bond Anticipation Notes		<u>\$170,000,000</u>

*A portion of the proceeds of the 2012A Notes are to be deposited in the New Construction Fund of the Authority to provide moneys to pay the principal of the 2011A Notes at maturity.

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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>Senior Debt Service*</u>	<u>Subordinate Debt Service</u>	<u>Total Debt Service</u>
2012	\$ 22,390,743	\$ 3,259,540	\$ 25,650,283
2013	24,507,183	3,259,540	27,766,723
2014	24,501,135	3,259,540	27,760,675
2015	26,631,214	3,259,540	29,890,754
2016	26,369,616	3,912,840	30,282,456
2017	28,333,886	3,217,840	31,551,726
2018	31,067,923	3,217,840	34,285,763
2019	27,257,347	8,132,965	35,390,312
2020	29,415,428	7,605,665	37,021,093
2021	32,538,244	7,677,603	40,215,846
2022	33,916,821	3,927,803	37,844,623
2023	33,779,731	9,030,900	42,810,631
2024	31,829,772	7,913,400	39,743,172
2025	31,042,292	10,097,750	41,140,042
2026	34,790,919	8,260,500	43,051,419
2027	33,320,888	9,208,625	42,529,513
2028	25,338,138	18,525,000	43,863,138
2029	43,662,350	—	43,662,350
2030	43,698,675	—	43,698,675
2031	43,522,588	—	43,522,588
2032	43,438,925	—	43,438,925
2033	45,661,625	—	45,661,625
2034	45,876,406	—	45,876,406
2035	45,838,791	—	45,838,791
2036	45,808,250	—	45,808,250
2037	3,366,000	—	3,366,000
2038	3,357,000	—	3,357,000
2039	3,350,750	—	3,350,750
2040	3,346,750	—	3,346,750
2041	3,335,000	—	3,335,000
Totals [†]	<u>\$871,294,385</u>	<u>\$113,766,891</u>	<u>\$ 985,061,276</u>

* 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).

† Totals may not add due to rounding.

CAPITAL IMPROVEMENT PLAN

Although the Authority's Board does not adopt a 5-year capital improvement plan, management annually prepares a 5-year forecast of its projected capital improvement requirements. The Authority formulates this forecast primarily based on information provided by its Construction-Maintenance, Engineering, and Production Control Departments. The Authority's Laboratory, Information Technology, General Services and Customer Service Departments as well as other administrative departments provide supplemental information. The Authority anticipates financing the cost of these capital expenditures with a combination of revenues, notes, and bonds issued for such purposes.

The following is management's forecast of capital expenditures which average \$58.2 million for the next five Fiscal Years:

	Forecasted Capital Costs				
	Fiscal Years Ending May 31,				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Water Main Installations	\$18,900,000	\$21,223,000	\$22,222,000	\$23,200,000	\$23,664,000
Meters, Services, and Hydrants	15,154,000	15,405,000	15,205,000	15,205,000	15,509,100
Treatment and Remediation	4,300,000	4,750,000	4,250,000	3,950,000	4,029,000
Plant Facilities	16,280,000	13,830,000	14,080,000	13,380,000	13,647,600
Miscellaneous Equipment /Facilities	<u>2,343,000</u>	<u>2,668,000</u>	<u>2,571,000</u>	<u>2,574,000</u>	<u>2,625,480</u>
	<u>\$56,977,000</u>	<u>\$57,876,000</u>	<u>\$58,328,000</u>	<u>\$58,309,000</u>	<u>\$59,475,180</u>

Management annually prepares a capital budget for the current Fiscal Year. This budget is based on its 5-year forecasted capital costs and incorporates the latest available information and needs of the Construction-Maintenance, Engineering, and Production Control Departments. The 12-month capital budget is then submitted to the Authority's Board in March for its approval.

For the twelve months ending May 31, 2012 (the "2012 Fiscal Year") the Authority has approved a capital budget totaling \$58,344,750 (the "2012 Capital Budget").

The construction and improvements funded by these expenditures will enable the Authority to maintain its high standards of water quality and purity, fulfill its legal requirements, and apply state-of-the-art technology, all in the most cost effective manner possible. The Authority anticipates financing 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 component of the capital improvement plan subject to review pursuant to the New York State Environmental Quality Review Act ("SEQRA") will be 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.

Water Main Installations

There are three 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, and (3) improvements to the distribution system to provide better service within existing service areas. With respect to the first component, the fear of private well contamination, the security of having water that is constantly tested, and the safety offered by the presence of public fire hydrants are issues that drive the demand for public water and amount to \$4.9 million in the 2012 Capital Budget. The second part of the program relates to the replacement of existing water mains. Incorporated in the 2012 Capital Budget is a long-term program of pipeline replacement to improve pressure and volume distribution, fire protection and reduce main breaks. The selection of water mains targeted for replacement is based on repair history and the age of the water main. The Authority's commitment to replacement of this critical infrastructure is supported by its inclusion of \$12.0 million in the 2012 Capital Budget for this purpose. Water mains typically have useful lives of 100 years or more. 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 must be replaced. Additionally, when a particular section of water main has required excessive amounts of repair, it is included in the replacement program. The final component of the program relates to improvements to the distribution system in order to provide enhanced service within existing service areas, such as the replacement of existing water mains with larger mains to provide increased water flow. The amount included in the 2012 Capital Budget for this component is \$2.0 million.

The Authority has aggressively met the demand for public water in areas previously served by private wells to the point where there are only a few locations in Suffolk County that do not have access to public mains. As a result, the Authority anticipates that over the coming years, as more water mains reach the end of their useful lives, the water main installation program will focus more on water main replacement and less on the installation of new water mains.

Twenty-seven miles of new and replaced water mains were installed in the 2011 Fiscal Year. The Budget for the 2012 Fiscal Year includes \$18.9 million dollars for the installation of approximately 29.8 miles of new and replaced water mains.

Meters, Services, and Hydrants

The Authority has budgeted 919 new customers and 79 new hydrants for the 2012 Fiscal Year. To avoid disruption of roadways and reduce the costs of connecting future customers to new pipes being installed underground, the Authority is providing easy connections to the water supply ("stub services") where existing homes are not immediately connecting to the water supply system but are expected to in the future. For the 2012 Fiscal Year, the Authority's budget includes an aggregate amount of \$5.5 million for these services.

The Authority has implemented a program to replace its meters with Automated Meter Reading ("AMR") devices. This will allow for timely and accurate meter readings without the inhibitions from weather, or the need for Authority personnel to enter a residence or leave their vehicle. By having access to timely accurate meter readings, the Authority will be able to evaluate its rate structure quickly and make any needed adjustments. The Authority expects this program to be phased in over a ten year period. For the 2012 Fiscal Year, the fifth year of the ten year period, the Authority budgeted \$6.2 million for the AMR project.

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 2012 Fiscal Year, the Authority has budgeted \$3.82 million for new and replacement residential meters.

Treatment Facilities

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 those imposed by the regulations of the New York State Department of Health. In order to provide water that meets these regulations and the Authority's internal standards, the Authority from time to time, has to treat water to remove volatile organic chemicals, pesticides, herbicides and other contaminants through the utilization of filtration systems, such as granular activated carbon or ion exchange. It is anticipated that water treatment will be ongoing since contamination, inevitably, will be detected for the first time each year in a few wells and new contaminants may be added and/or the level of the standard requiring remediation may be changed in the regulations of the United States Environmental Protection Agency ("EPA") and/or the New York State Department of Health. The Authority also utilizes filtration systems to remove excess iron primarily for aesthetic reasons (the presence of iron in drinking water poses no known health hazard). Currently, the Authority has over 132 filtration systems in operation. For the 2012 Fiscal Year, the Authority has adopted a budget of \$3.01 million for treatment facilities.

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

The Water System operates 45 separate and distinct pressure distribution zones. The wells have a capacity to pump in excess of 800 million gallons of water per day. (For a more detailed description of 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 its 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. In order to meet this 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 \$17.81 million for the 2012 Fiscal Year. (Budget for new and replacement wells totaled \$9.27 million in Fiscal Year 2012).

Operation Facilities

To operate the Water System, the Authority must continually add or replace certain support equipment in the information technology, transportation, and clerical areas. This includes the upgrading of computer equipment, vehicles, field and office equipment, and the undertaking of various site improvements. For the 2012 Capital Budget, as amended, the Authority has budgeted \$3,104,750.

2012 Capital Budget

On March 28, 2011, the Board of the Authority authorized and approved a capital budget totaling \$57,152,000 which has been amended and increased to \$58,344,750 for the 2012 Fiscal Year. As in the past, the Authority anticipates financing the costs of these capital expenditures with the proceeds of notes and bonds issued for such purposes as well as net revenues from operations.

The following is a comparison of the adjusted capital improvement budget for the 2012 Fiscal Year compared to the final authorized capital improvement budget for the fiscal year ended May 31, 2011 (the "2011 Fiscal Year").

	<u>2012 Fiscal Year</u>	<u>2011 Fiscal Year</u>
Water Main Installations	\$18,900,000	\$19,036,208
Meters, Services and Hydrants	15,520,000	18,746,583
Plant Facilities	17,810,000	15,865,439
Treatment and Remediation	3,010,000	4,450,000
Misc Equipment / Facilities	<u>3,104,750</u>	<u>1,897,181</u>
TOTAL	<u>\$58,344,750</u>	<u>\$59,995,411</u>

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-quarter 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 three water districts and the incorporated Village of Greenport.

Customer Count

The Authority supplies water to its customers in one of the three following ways: (i) direct service to retail customers through facilities owned and operated by the Authority, (ii) direct service to retail customers through facilities which are lease-managed by the Authority, and (iii) wholesale service to other water distribution 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	94.5%
Facilities lease-managed by the Authority	3.0%
Wholesale service to other systems	2.5%

As of May 31, 2011, 389,022 customers were served by the Authority, compared to 388,660 at May 31, 2010, an increase of 362 customers. The following table details the number of customers, by region, served directly by the Authority, 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 directly</u>	<u>Fiscal Year Ended May 31,</u>		
<u>Region</u>	<u>2011</u>	<u>2010</u>	<u>% Growth</u>
Western	172,106	171,967	0.08%
Central	128,885	128,854	0.02
Eastern	<u>66,551</u>	<u>66,091</u>	<u>0.70</u>
Subtotal	<u>367,542</u>	<u>366,912</u>	<u>0.17</u>
<u>Customers Served through Operating Agreements</u>			
Brentwood Water District	6,475	6,683	(3.11)
Fair Harbor Water District	488	489	(0.20)
Stony Brook Water District*	1,621	1,654	(2.00)
Riverside Water District	585	609	(3.94)
East Farmingdale Water District	<u>2,396</u>	<u>2,398</u>	<u>(0.08)</u>
Subtotal	<u>11,565</u>	<u>11,833</u>	<u>(2.26)</u>
<u>Wholesale Customers</u> [†]			
St. James Water District	3,100	3,100	0.00
Smithtown Water District	5,915	5,915	0.00
Village of Greenport	<u>900</u>	<u>900</u>	<u>0.00</u>
Subtotal	<u>9,915</u>	<u>9,915</u>	<u>0.00</u>
TOTAL	<u>389,022</u>	<u>388,660</u>	<u>0.09%</u>

* The Authority serves customers through an operating agreement and Stony Brook Water District is sold water at wholesale rates.

† The number of customers served by the Authority's Wholesale Customers is derived from information provided by the respective Districts and Village of Greenport.

The number of customers served as of May 31, 2007 through May 31, 2011 is presented below.

<u>Year</u>	<u>Number of Customers</u>
2011	389,022
2010	388,660
2009	385,450
2008	384,738
2007	383,790

The Authority's customers are approximately 95% residential and 5% commercial and municipal. The following chart lists the top ten metered account users of water and their corresponding water consumption for the 2011 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</u> <u>(gallons)</u>
1	Smithtown Water District ¹	1,034,409,000
2	St. James Water District ¹	570,913,000
3	State University of New York at Stony Brook ²	376,539,086
4	Stony Brook Water District ¹	236,578,188
5	State University of New York at Stony Brook ²	115,135,900
6	Department of Public Works (County of Suffolk)	103,467,100
7	National Grid	99,435,380
8	Artists Lake Homeowners Association	80,152,613
9	Bretton Woods Home Owners Association	76,932,548
10	Waterways/Fairfield	66,680,460

1. Reflects water sold at wholesale rates of \$1,042 per million gallons. Effective January 1, 2012, the rate changed to \$1,153 per million gallons. All other accounts, except where noted are billed at \$1,520 per million 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 five (5) years. The Authority also anticipates customer growth at approximately one-quarter percent each year for budgeting purposes.

According to the Five Year Engineer's Report issued in June 2009 by the Authority's consulting engineers, Hazen & Sawyer, PC (the "Engineer's Report"), the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water.

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Physical Plant

The following table presents certain data relating to the major physical properties of the Authority as of May 31, 2011:

<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 (gpm)</u>	<u>No.</u>	<u>Capacity *</u>
Brookhaven	170	7	73	198,943	19	21.89
Babylon	56	4	24	72,080	8	8.22
East Hampton	38	1	17	17,730	3	3.42
Huntington	51	2	24	50,988	10	12.52
Islip	107	10	42	117,427	11	12.19
Riverhead	4	0	1	1,150	0	0.00
Smithtown	52	0	22	66,850	5	3.50
Southampton	56	5	19	44,688	4	3.75
Southold	<u>41</u>	<u>1</u>	<u>16</u>	<u>7,390</u>	<u>3</u>	<u>1.95</u>
Totals	<u>575</u>	<u>30</u>	<u>238</u>	<u>577,246</u>	<u>63</u>	<u>67.44</u>

* Millions of gallons

As of May 31, 2011, there were a total of 5,900 miles of water mains in use, an increase of 27 miles since May 31, 2010, and there were 36,714 fire hydrants in service, an increase of 92 hydrants since May 31, 2010.

The capital improvement budget for the Water System for the 2012 Fiscal Year included provisions for additional wells, pumping equipment and storage capacity amounting to approximately 30% of the total amount budgeted in the Authority's capital improvement budget. (See "CAPITAL IMPROVEMENT PLAN – Additional Facilities – Storage, New Wells, Replacement Wells, Tanks" herein.) Additional wells under construction, not classified as "In Service" as of May 31, 2011, is expected to increase the capacity of major facilities over the next twelve months as follows:

<u>Site Locations</u>	<u>Wells and Pumping Equipment Gallons per Day (in thousands)</u>
Port Jefferson	558,720
East Hampton	2,160,000
TOTAL	<u>2,718,720</u>

Source of Supply

Management believes the Authority is the largest groundwater-based water purveyor in the United States. 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 aquifers beneath Long Island. The deepest aquifer is called the Lloyd Aquifer, and it holds water that can be as old as 1,000 years. The Authority draws very little water from this aquifer. The middle aquifer, called the Magothy Aquifer, holds water that may be as much as 500 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. Approximately 44% of Authority wells draw from this aquifer.

Management studies have determined that significantly more water enters the aquifer system than is removed. The United States Department of Interior's United States Geological Survey reports that there is over 70 trillion gallons of water stored within these underground aquifers. The Authority pumps about 70 billion gallons per year. Studies indicate this level of pumpage is not reducing the level of water in the aquifers due to the replacement of water annually by rain and snow absorbed into the aquifers. Since 1987, the County of Suffolk has been acquiring and preserving thousands of acres specifically for drinking water protection purposes, using funds generated by one-quarter of one percent of the local 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 36 separate sites of up to five acres a piece from 18,871 acres that were ultimately 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, since the cost to remediate older wells is becoming more expensive than pumping water from new uncontaminated sites. Large expanses of watershed protection areas are preserved for future use. The Authority accesses these lands through an easement given in perpetuity for drinking water purposes in exchange for a modest one-time payment. Raw water quality in these areas is expected to be very good requiring minimal treatment measures. 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. The Authority is the 2006 recipient of the nationally prestigious "Exemplary Source Water Protection Award," given annually by the American Water Works Association ("AWWA")

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 Engineers Report, the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water. Approximately 22% of the Authority's wells are treated using granular activated carbon to remove contaminants such as volatile organic compounds, pesticides and herbicides. Approximately 12% of the Authority's wells are filtered to remove iron and manganese. Other treatment technologies, such as air strippers, ion exchange and reverse osmosis units are used as needed. Due to standards imposed which regulate organic compounds, nitrates, pesticides and herbicides, it is necessary for the Authority to periodically take wells out of service. The Authority has been able to remediate numerous wells, allowing these wells to be placed back on line for routine service. Bacterial contamination in water from wells of the type constructed by the Authority is rare. A small amount of chlorine is added to the water as required by the State Department of Health as precautionary protection against any bacterial contamination, which might result from repairs or additions to the distribution system. The acidity of the water is buffered to guard against possible corrosion of the lead and copper in home plumbing systems. The high standards of design, construction and quality control employed by the Authority's staff assure the production of an adequate quantity of potable water conforming to the requirements of the State Department of Environmental Conservation, State and County Departments of Health, and the EPA.

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 undeveloped land in the center of Suffolk County to ensure that the water recharging the aquifer system remains unspoiled. The Authority has aggressively and 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 and of the Long Island Groundwater Research Institute at the State University of New York at Stony Brook, both of which researches issues related to the management and protection of the aquifers. Recently, the Authority updated its Water Conservation Program and is currently developing an official Source Water Protection Program to further ensure the protection of the aquifers.

In August 2002, the Authority commenced legal action against most of the major petroleum companies for contaminating Suffolk County water supplies with the gasoline additive methyl tertiary butyl ether ("MTBE"). During the fiscal year ending May 31, 2009, the Authority reached settlement with all of the defendants, except one minor defendant, and received \$78.5 million in net settlement proceeds. In 2010, the Authority settled with the remaining minor defendant and received approximately \$370,000 in net settlement proceeds. The Authority served as lead plaintiff in this multi-district federal litigation.

The Authority recently commenced an action in state court against the manufacturers of dry cleaning equipment and dry cleaning chemicals (perchloroethylene and related solvents). The action is currently in the discovery phase of the litigation.

The Authority operates a groundwater testing laboratory which is both state and nationally certified. The Authority's laboratory employs over 45 chemists, technicians, and support staff, with an annual operating budget of \$4.7 million for the 2012 Fiscal Year. Last year, the laboratory staff conducted approximately 187,000 tests, from over 66,000 water samples. The water samples were collected from the wells operated countywide and from over 5,900 miles of water main making up the water distribution system. Reflecting the Authority's conservative approach to water quality and safety, tests are done for over 286 chemical constituents, nearly twice the number required by federal or state regulation. 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 and is 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 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 Engineers Report, the Consulting Engineer discusses five rules that have been proposed 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 adopted 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 ppm leaving the pump station. There have been no positive fecal results for any of the Authority's

wells. Therefore, a total coliform-positive result from a routine sample collected for the Total Coliform Rule ("TCR") will trigger GWR 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 TCR 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 monitoring plan update 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 EPA has recently reversed a decision made by their previous administration and plans to move forward with the development of a regulation for the chemical perchlorate. This could result in a maximum contaminant level standard lower than the current interim drinking water health advisory level of fifteen (15) parts per billion. Perchlorate is both a naturally occurring and a man made chemical. Several years ago the Authority began testing for perchlorate and tests revealed low levels of this chemical in wells located primarily in the northwest area of Suffolk County and in the Town of Southold, located on the east end of Suffolk County. The perchlorate found is believed to be the result of past farming practices which included the use of certain fertilizers (perchlorate is found in fertilizer mined in Chile). It can now be found in numerous "organic" fertilizers. Currently all but one of the affected wells has levels of perchlorate well below the current New York State Health Department and EPA standard. The one affected well is currently being treated with resin.

If the EPA reduces the acceptable level of perchlorate in a new standard, the Authority may be required to install treatment facilities or pipe-in additional water to the impacted areas. The new standard would likely be put into effect after providing affected water systems with some period of time to install the necessary facilities/equipment to meet the new standard. The precise timing of these new standards or the exact financial impact on the Authority are unknown at this time and will depend on, among other things, the specific standard chosen by the EPA. Based on currently available information, the Authority believes any additional costs which may result from a stricter standard will not have a material impact on future budgets of the Authority.

Protection of Water System

In recent years, the Authority has taken a number of steps to enhance its security arrangements to protect the Water System, including more frequent monitoring of the water supply for contaminants, severely restricting access to certain facilities, additional fencing installations, upgrading locks and alarming entry points within the Water System. In addition, during 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 the Water System's vulnerabilities. The report provides a prioritized plan for security upgrades, modifications of operational procedures and/or policy changes to mitigate risks to critical assets. The assessment also provides a basis for comparing the cost of protection against the risks posed. The Authority is using these recommendations to establish a cost effective, balanced security protection system. To protect against potentially severe weather conditions, the Authority has refined its Emergency Preparedness Plan to contemplate and plan for severe damage scenarios. Based on the findings of the report the Authority estimated that it would cost approximately \$2.0 million to implement the report's recommendations. The Authority continues to include approximately \$150,000 annually in order to continue the implementation of the report's recommendations. By the end of the 2012 Fiscal Year the Authority expects to have spent approximately \$1,050,000 incorporating the recommendations in the report.

The Authority participates in the Suffolk County Emergency Operations Center ("EOC") 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.

Water Plant Account

The Authority carries its water plant on its balance sheet 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>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Water Plant at Cost	\$1,521,642	\$1,468,931	\$1,405,632	\$1,352,269	\$1,298,034
Less: Accumulated Depreciation	<u>468,371</u>	<u>437,658</u>	<u>407,978</u>	<u>377,011</u>	<u>347,010</u>
Net Water Plant	<u>\$ 1,053,271</u>	<u>\$1,031,273</u>	<u>\$ 997,654</u>	<u>\$ 975,258</u>	<u>\$ 951,024</u>

The Original Resolution does not provide for payments into a depreciation reserve account, and consequently the provisions for depreciation are unfunded. According to the Resolution, after allowance for (i) payment of operating and maintenance expenses, (ii) payments on the Original Bonds (if any), (iii) payments on Outstanding Senior Lien Bonds issued under the Resolution, and (iv) 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 2009, the Authority, in accordance with the requirements of Section 8.5 of the General Resolution, filed with the Bond Fund Trustee, the Engineers 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 properties, 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, and may in the future find it necessary to create rate structures for new service areas which

are different from the Authority's uniform, system-wide rate schedules for water service. See "WATER RATES" herein.

Construction Contracts

In its rules and regulations, the Authority has provided 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 set forth in a construction contract between the developer and the Authority, which, in some cases, is 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 installments of 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's water rate schedules applicable to residential, commercial, industrial and certain public users are uniform for approximately 96% of its service areas. In addition, the Authority charges certain customers pursuant to different rate schedules. In 2010, the Authority retained Black & Veatch Corporation for the purpose of preparing a rate study for the Authority. After considering this study, in January 2011 Authority adopted the final report. On February 27, 2012 the Authority adopted certain changes in the rate schedules for the Water System effective April 1, 2012 and is set forth in the table below. 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.

General Rates

Service Classification No. 1 Quarterly

Service Charge - \$19.77

Commodity Charge - \$1.182/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$6.59

Commodity Charge - \$1.182/hundred
cubic ft.

Bridgehampton/Surfside Service Area Rates

Service Classification No. 1 Quarterly

Service Charge - \$15.21

Commodity Charge - \$1.182/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$5.07

Commodity Charge - \$1.182/hundred
cubic ft.

Shorewood Service Area Rates

Service Classification No. 1 Quarterly

Service Charge – \$16.47
Commodity Charge - \$1.3464/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$5.49
Commodity Charge - \$1.3464/hundred
cubic ft.

Greenport Service Area Rates

Service Classification No. 1 Quarterly

Service Charge - \$18.60
Commodity Charge - \$1.3464/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$6.20
Commodity Charge - \$1.3464/hundred
cubic ft.

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 water districts within the Authority's service area. The following water districts within the service area of the Authority: Village of Greenport, Stony Brook Water District, St. James Water District, and Smithtown Water District are billed at the rate of \$1,153 per one million gallons, payable monthly. In February 2012, the Authority adopted an increase in this rate classification to \$1,199 per million gallons effective January 1, 2013.

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, the Authority will increase the annual minimum from \$156 to \$162 and the consumption rate from \$1.5858 to \$1.646 per hundred cubic feet effective April 1, 2012.

Effective April 1, 2012, the commodity charge for Service Classification No. 1 and 1A will increase from \$1.137 to \$1.182 per hundred cubic feet. Previous rate increases became effective in 1973, 1975, 1977, 1980, 1985, 1986, 1989, 1992, 1994, 1995, 1997, 1999, 2001, 2005, 2006, 2007 and 2011. An increase in the general rate quarterly service charge for Service Classification No. 1 from \$18.93 to \$19.77 and in the monthly service charge for Service Classification No. 1A from \$6.31 to \$6.59 will become effective April 1, 2012.

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. The Authority establishes a reserve for accounts deemed uncollectible. The reserve as of May 31, 2011 was \$1,394,706.

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 semiannually 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 except for the Shorewood service area where it is \$312.00 per hydrant per annum. The category Private Hydrant Rates was extracted from the system-wide uniform rate schedule and the rate of \$184.20 per hydrant per annum became effective as of March 1, 2011.

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 2012 Calendar Year) for customers who use an average of 40,000 gallons per quarter with amounts charged by several other public water suppliers that do not derive any of their revenue from real property taxes.

Suffolk County Water Authority	\$332
Water Authority of Great Neck North	845
Erie County Water Authority	580
Monroe County Water Authority	466
Onondaga County Water Authority	637

Source: Comparative rates from the web site of each respective public water supplier are as of February, 2012.

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 eight-month period ended January 31, 2012 and 2011, 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 2011 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 DATA¹

(000's omitted)

	Fiscal Year Ended May 31,					8-months Ended Jan. 31,	
	<u>2011</u> (audited)	<u>2010</u> (audited)	<u>2009</u> (audited)	<u>2008</u> (audited)	<u>2007</u> (audited)	<u>2012</u> (unaudited)	<u>2011</u> (unaudited)
Revenue:							
Operating Revenue							
Residential & Commercial	\$118,019	\$101,750	\$106,160	\$114,124	\$106,949	\$85,696	\$89,459
Public & Private Fire Protection	7,822	7,789	7,773	8,003	7,541	5,624	5,538
Public Authority & Water Districts	6,019	5,040	5,308	5,559	5,120	4,293	4,878
Miscellaneous	16,800	14,663	14,306	12,277	10,540	11,050	11,147
Total Operating Revenue	148,660	129,242	133,547	139,963	130,150	106,663	111,022
Other Revenue	22,059	24,736	106,316 ²	31,281	19,454	15,131	15,174
Total Revenue	\$170,719	\$153,978	\$239,863	\$171,244	\$149,604	\$121,794	\$126,196
Operating Expenses:							
Operations	83,228	76,654	83,579	78,888	64,293	56,233	56,510
Maintenance	19,746	20,417	19,897	18,666	20,298	14,220	13,926
Total Operating and Maintenance Expenses	\$102,974	\$97,071	\$103,476	\$97,554	\$84,591	70,453	70,436
Net Revenues Before Debt Service	\$67,745	\$56,907	\$136,387	\$73,690	\$65,013	\$51,341	\$55,760
Debt Service:							
Interest on Bonds & Notes	\$26,981	\$24,853	\$24,184	\$23,680	\$23,237		
Principal of Serial Bonds	6,159	9,755	10,968	10,652	10,232		
Total Debt Service	\$33,140	\$34,608	\$35,152	\$34,332	\$33,469		
Available for New Construction Fund, General Fund and general corporate purposes, subject to the provisions of the Original Resolution Senior Lien Bond Debt Service Coverage (Times)	\$34,605	\$22,299	\$101,235	\$39,358	\$31,554		
Senior Lien Bond Debt Service Coverage (Times)	2.55	2.01	4.71 ³	2.75	2.62		
Total Debt Service Coverage (Times)	2.04	1.64	3.88 ³	2.15	1.94		

¹ The annual information in this table is derived from the Authority's audited financial statements, however, some of the information, including (i) the 8-month interim figures, (ii) the individual components of Operating Revenue, (iii) Debt Service, (iv) Available for New Construction Fund, General Fund and general corporate purposes and (v) Debt Service Coverage are not audited. Debt service reflects the principal portion of bonds paid off during the fiscal year. Please refer to Exhibit A hereto for the audited financial statements of the Authority. Effective with the May 31, 2008 financials OPEB reporting is in effect.

² In November of 2008, the Authority received a settlement of \$78.5 million dollars (net of legal fees) as a result of MTBE litigation.

³ Excluding the \$78.5 million MTBE settlement, the Senior Lien Bond Debt Service Coverage and Total Debt Service Coverage equals 2.0x and 1.65x respectively.

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 as of May 31, 2011 includes 5,900 miles of water main, 36,714 hydrants, and 389,022 customers 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 continues to be the Authority's second highest single operating expense, representing approximately 26% of the Authority's operating and maintenance budget. The Authority is the second largest power user in Suffolk County.

The Long Island Power Authority ("LIPA") is the power provider to the Authority. LIPA recoups increased fuel and purchased power costs through a purchased power and fuel adjustment clause in the rate tariff. Over the past five fiscal years, the surcharge provided by this fuel adjustment clause has translated into aggregate increases in excess of approximately \$2.0 million. For the 2012 Fiscal Year the Authority has budgeted, based on average consumption, power costs of \$20.3 million.

The Authority will continue to do everything possible to minimize the cost of power. The Authority entered into a contract in August 2006 to participate in the New York Independent System Operator ("NYISO") Installed Capacity and Special Case Resource programs. The NYSIO operates the state's high voltage electric transmission system and administers the state's wholesale energy markets. Under these programs, large consumers of electric power are paid capacity and energy payments in exchange for their commitment to curtail electric use when requested to do so by NYSIO. The Authority's participation in this program has resulted in a savings of approximately \$355,000 since inception. The Authority is working in a joint effort with twenty-four other Long Island water suppliers to maximize the potential electric load being offered for curtailment, which will result in the highest possible return for participation.

Wages and Employees

The Authority employed 563 full time employees as of May 31, 2011. Total payroll for the 2012 Fiscal Year is budgeted at \$42,146,000, of which approximately \$29,700,000 is charged to the operation and maintenance of the Water System. The Authority has made a conscious effort over the past decade to control payroll costs since wages represent approximately

*Preliminary, subject to change.

31% of the operating and maintenance budget. The Authority participated in the New York State Retirement Incentive Program with an open period of September 1, to November 28, 2010. Thirty-eight employees took advantage of this program of which the Authority has filled, at lower level salaries approximately 10 positions.

The Authority has approximately 342 employees who belong to the Utility Worker's Union of America A.F.L. C.I.O., Local 393 (the "Local"), covered by a collective bargaining agreement. In August 2010 both parties agreed to a new collective bargaining agreement for the period July 1, 2009 through June 30, 2013. Terms of the agreement include increases of 2% effective July 1, 2010, 2011, and 2012. Employees of the Authority are subject to the State's Taylor Law prohibiting the employees from striking, but are not subject to the State's Civil Service Law. In January 2008, the Authority recognized a separate bargaining unit for approximately 26 laboratory employees. The contract with the Laboratory Bargaining Unit was ratified on April 25, 2011 and is in force until June 30, 2013. The terms included a lump sum payment of 1.25% of base salary as of February 1, 2008 and retroactive wage increases of 2% effective dating back to January 1, 2009, January 1, 2010 and April 26, 2011. On October 14, 2011, an additional memorandum of agreement was issued to include an increase in salary for 11 laboratory employees effective October 18, 2011 due to promotions to different positions. Effective July 1, 2012, each employee will be entitled to a 2% salary increase.

Pension System

The Authority makes annual contributions to the State and Local Employee's 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.

The Authority's expense in connection with the Retirement System is 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 2007 through 2011 are shown on the following schedule.

Payments to Employees' Retirement System Fiscal Year ending May 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Regular Pension and Group Term Life Insurance Contribution	\$4,720,000	\$3,040,330	\$2,940,309	\$3,576,261	\$3,558,955

On December 15, 2011, the Authority remitted payment in the amount of \$7,117,314 for the New York State Employees Retirement System Fiscal Year ending March 31, 2012. Included in this payment is \$1,750,000 representing a one-time lump sum payment for the New York State Retirement Incentive Program.

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 rate for the period April 1, 2012 through March 31, 2013 (payment due February 1, 2013) is:

<u>Tiers</u>	<u>Years</u>	<u>March 31, 2013</u>
Tier I	Employees who joined prior to 7/1/73	25.4%
Tier II	Employees who joined on or after 7/1/73 and prior to 7/27/76	23.2
Tier III and Tier IV	Employees who joined on or after 7/27/76	18.6
Tier V	Employees who joined on or after 01/01/10	15.1

Based on the contribution rate for the twelve month period ending March 31, 2013, the Authority estimates the cost to fund the payment to the Retirement System to be approximately \$7.1 million.

Other Post Employment Benefits

GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB"), requires state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits ("OPEB"). GASB 45 generally requires that employers account for and report the annual cost of the OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Under previous rules, annual OPEB costs were reported as an expense on a pay-as-you-go basis and were not reported as a liability on governmental financial statements.

GASB 45 requires that state and local governments adopt actuarial methodologies to determine annual OPEB costs. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each state or local government employer. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a government employer contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liabilities actually be funded, only that employers account for unfunded accrued liability and compliance in meeting the ARC. Actuarial valuations are required every 2 years for each government employer including the Authority. The Authority implemented the requirements of GASB 45 in connection with the reporting of its financial statements for the 2008 Fiscal Year.

As permitted by Statement No. 71 of the Financial Accounting Standards Board, "Accounting for the Effects of Certain Types of Regulation," the Authority intends to defer the impact of implementing GASB 45 on its financial statement until such costs are raised in future water rates.

The Authority engaged a consultant to assist in estimating its actuarial unfunded OPEB liabilities based on existing plan benefits and certain assumptions. These assumptions include (i) 4% rate of return on assets, (ii) various increases in insurance premiums from 10% grading down to 5% for medical, dental 5% grading down to 4%, and optical 3%, (iii) all active employees will retire and receive OPEB, (iv) face value of life insurance benefit remains constant, (v) spouses are assumed to be the same age as retiree, (vi) upon reaching the age of 65 all retirees will participate in Medicare Part B and (vii) all active employees and retirees currently opting out of health insurance coverage are assumed to continue this election. The report estimated an actuarial OPEB liability of \$170.3 million and the annual net ARC of approximately \$12.8 million as of May 31, 2010. This analysis is subject to further review and adjustment in future years based in part on further examination of the relevant assumptions, measures, which the Authority may consider to manage plan benefits, and ongoing changes in health care costs and the delivery of health care services. For the 2011 Fiscal Year (non actuarial valuation year), the Authority was required to update the calculation for the current years unfunded OPEB liabilities. The Authority estimated the OPEB liability to be \$180.0 million and annual net ARC to be \$13.6 million as of May 31, 2011. The Authority expects that as this process continues, estimates of its actuarial unfunded OPEB liability may vary substantially, based in part on costs and assumptions used over which the Authority may have limited or no control. From time to time, the Authority may consider the legal and economic feasibility of financing all or a portion of the OPEB liabilities, as well as available options for managing plan benefits. The Authority has not yet adopted a comprehensive financing plan for its OPEB liabilities. However, in an effort to begin, the Authority has included \$1.0 million in its operating and maintenance budget for this purpose.

Insurance

The Authority renewed its insurance coverage on April 1, 2011. Overall, premiums and claim costs decreased by 2% over last year, amounting to a total program cost of \$3,549,307. The Authority continues to review its insurance needs annually in an effort to manage its risk while at the same time managing its costs.

The Authority maintains an insurance policy for both general liability and automobile liability coverage. These policies provide a coverage limit of \$1.0 million in excess of self-insured retention of \$500,000. Claims handling is performed by a third party claims administrator, and legal defense is under the direction of the Authority's General Counsel. Some claims are defended through the use of in-house counsel while others are outsourced to a panel of attorneys. Excess liability insurance was purchased in the amount of \$50.0 million to provide coverage over the above primary policies.

Property insurance with a per occurrence blanket limit of \$75.0 million 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's workers compensation coverage is in accordance with New York statutory regulations. The policy is written through Liberty Mutual Insurance Group containing a minimum and maximum component. Both components are subject to audit of payroll at policy expiration.

The Authority also maintains directors' and officers' liability, commercial crime, and disability insurance in commercially reasonable amounts.

Collections

The Authority's collection activities have resulted in a collection rate on revenues (revenues less uncollectible accounts) of 99.6% in the 2011 Fiscal Year. Total revenues, uncollectible accounts and collection percentage for each of the Fiscal Years 2007 through 2011 are set forth below:

<u>Fiscal Year</u>	<u>Water Service Revenues</u>	<u>Uncollectible Accounts</u>	<u>Collection Percentage</u>
2011	\$131,860,000	\$559,696	99.6%
2010	114,579,000	609,110	99.5
2009	119,241,000	567,008	99.5
2008	127,686,000	477,483	99.6
2007	119,610,000	443,035	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 forty-five (45) days. The Authority's regulations also provide for discontinuance of water service, in conformance with law, when necessary.

After extensive efforts to collect on any outstanding bills, account information is forwarded to the Authority's in house counsel for action.

Operating and Maintenance Budget for the 2011 Fiscal Year

<u>Category</u>	<u>Budget - FYE May 31, 2012</u>	<u>Actual - FYE May 31, 2011</u>
Construction Maintenance	\$ 3,803,000	\$ 4,102,000
Customer Service	420,000	326,000
Engineering	4,096,000	3,764,000
Facilities Management	1,237,000	1,220,000
Finance/Administration	4,233,000	3,752,000
Human Resources/Risk Mgt.	22,058,000	19,022,000
Information Technology	1,100,000	892,000
Laboratory	625,000	584,000
Production Control	4,735,000	4,619,000
Safety	135,000	168,000
Stores	300,000	221,000
Telecommunications	974,000	821,000
Accrued Expenses - OPEB	13,000,000	12,984,000
Power Purchase	20,300,000	21,373,000
Transportation	1,845,000	1,791,000
Payroll	<u>29,700,000</u>	<u>27,335,000</u>
TOTAL	<u>\$108,561,000</u>	<u>\$102,974,000</u>

The Authority has budgeted \$108,561,000 in operation and maintenance expenses for the 2012 Fiscal Year. This figure represents an increase of 5.14% or \$5,587,000 over the actual operating and maintenance expenses for the 2011 Fiscal Year. The increase is attributable to,

among other things payroll (\$2.4 million) and benefit costs, including an increase in the Retirement System (\$1.6 million). Other increases include an increase in costs associated with Risk Management and Human Resources of \$0.6 million. The above reflects the line item breakdown of the Authority's operation and maintenance budget for the 2012 Fiscal Year compared to actual operation and maintenance expense in the 2011 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, 200

SUFFOLK COUNTY WATER AUTHORITY
HIGHLIGHTS OF BUDGET DATA
FOR FISCAL YEAR ENDING MAY 31,

Authority Budgets	Budget <u>2013</u>	Projection <u>2012</u>	Budget <u>2012</u>	Actual <u>2011</u>
Operating Revenues and Other Income	\$ 171,008,000	\$ 167,264,000	\$ 167,483,000	\$ 170,720,000
Operation and Maintenance Expense	<u>116,652,000</u>	<u>108,656,000</u>	<u>108,561,000</u>	<u>102,974,000</u>
Operating Income Available	<u>\$ 54,356,000</u>	<u>\$ 58,608,000</u>	<u>\$ 58,922,000</u>	<u>\$ 67,746,000</u>
Capital Budget	<u>\$ 56,977,000</u>	<u>\$ 58,345,000</u>	<u>\$ 57,152,000</u>	<u>\$ 62,188,000</u>
Debt-Service	<u>\$ 29,879,000</u>	<u>\$ 31,065,000</u>	<u>\$ 31,065,000</u>	<u>\$ 34,969,000</u>
Debt Coverage				
Senior Debt	1.88	1.95	1.96	1.95
All Debt	1.82	1.89	1.90	1.94

Projection May 31, 2013

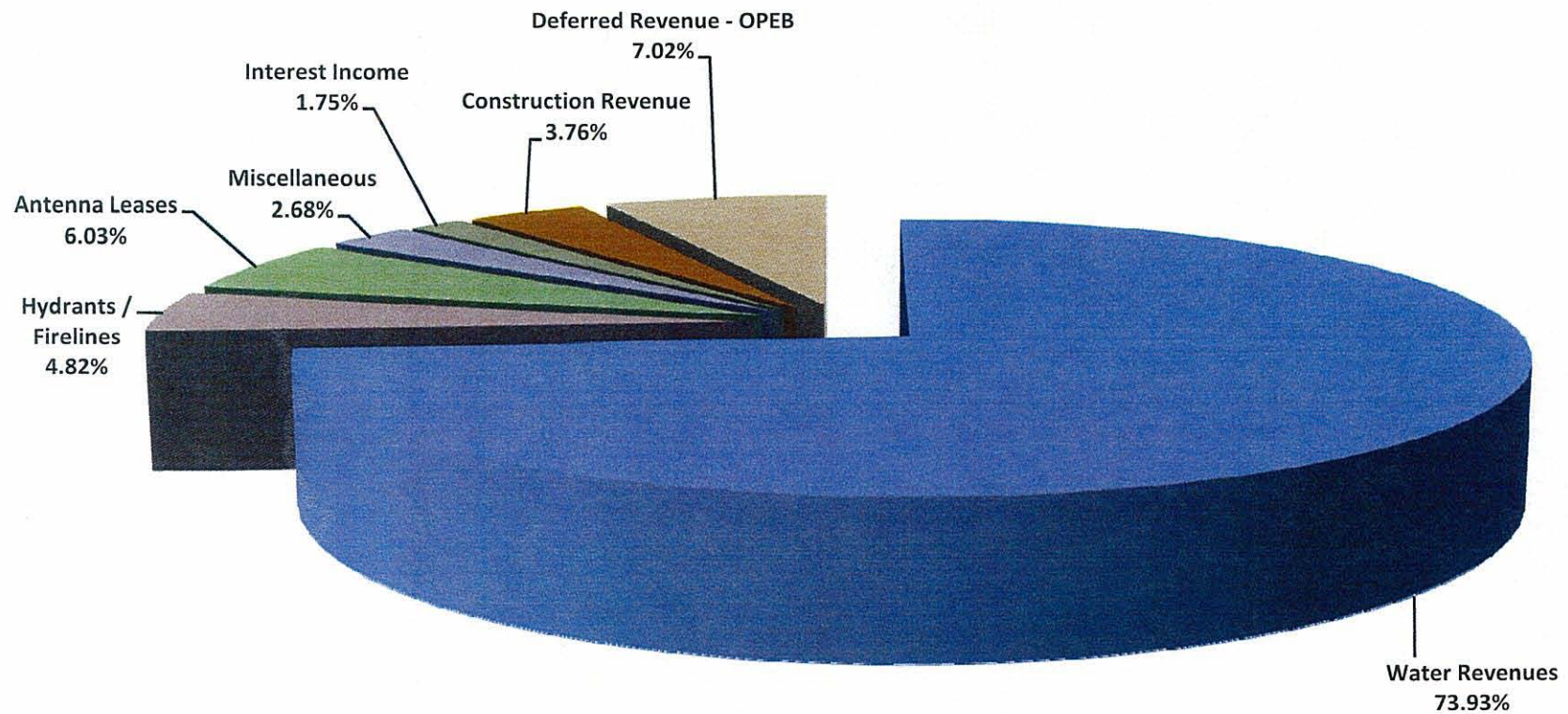
Revenues -Actual for 7 months and estimated for 5 months
Expenses -Actual for 7 months and estimated for 5 months
Capital -Figures are based on the latest available information

**SUFFOLK COUNTY WATER AUTHORITY
REVENUE
FOR FISCAL YEAR ENDED MAY 31,**

	Budget Year Ending 2013	Projected Year Ending 2012	Budget Year Ending 2012	Actual Year Ending 2011
Water Revenues	\$ 126,431,000	\$ 121,538,000	\$ 121,904,000	\$ 124,038,000
Hydrants / Firelines	8,241,000	8,131,000	8,063,000	7,822,000
Antenna Leases	10,320,000	9,419,000	10,289,000	10,059,000
Miscellaneous	<u>4,591,000</u>	<u>5,968,000</u>	<u>4,633,000</u>	<u>7,488,000</u>
Total Operating Revenues	<u>149,583,000</u>	<u>145,056,000</u>	<u>144,889,000</u>	<u>149,407,000</u>
Interest Income	3,000,000	2,125,000	3,000,000	2,904,000
Deferred Revenue - OPEB	12,000,000	13,000,000	13,000,000	12,984,000
Construction Revenue	<u>6,425,000</u>	<u>7,083,000</u>	<u>6,594,000</u>	<u>5,425,000</u>
Total Revenues	<u>\$ 171,008,000</u>	<u>\$ 167,264,000</u>	<u>\$ 167,483,000</u>	<u>\$ 170,720,000</u>

SUFFOLK COUNTY WATER AUTHORITY

Revenue Components:



Revenue Budget for f/y/e May 31, 2013: \$171,008,000

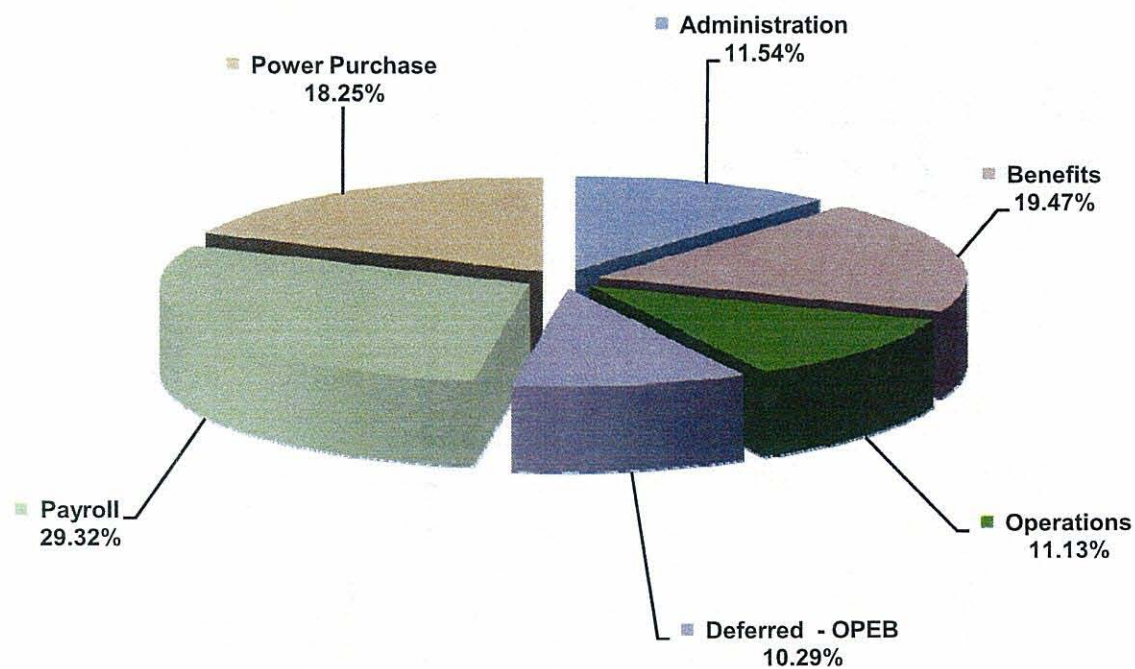
**SUFFOLK COUNTY WATER AUTHORITY
OPERATING AND MAINTENANCE BUDGET
FOR FISCAL YEAR ENDING MAY 31,**

SCHEDULE 3

	<u>2013</u>	<u>2012</u>
Construction Maintenance	\$ 3,798,000	\$ 3,803,000
Customer Service	215,000	220,000
Engineering	3,829,000	4,096,000
Facilities Management	1,314,000	1,237,000
Finance	3,620,000	3,233,000
Benefits	22,717,000	19,564,000
Information Technology	995,000	1,100,000
Laboratory	600,000	625,000
Stores	200,000	300,000
Payroll	34,200,000	29,700,000
Office of the CEO	74,000	85,000
Transportation	2,247,000	1,845,000
Meter Shop	150,000	200,000
Communications	201,000	213,000
Power Purchase	21,287,000	20,300,000
Production Control	4,760,000	4,735,000
Risk Management & Human Resources	3,349,000	3,196,000
Safety	132,000	135,000
Telecommunications	964,000	974,000
Deferred - OPEB	12,000,000	13,000,000
	<u>\$ 116,652,000</u>	<u>\$ 108,561,000</u>

SUFFOLK COUNTY WATER AUTHORITY

O&M Components:



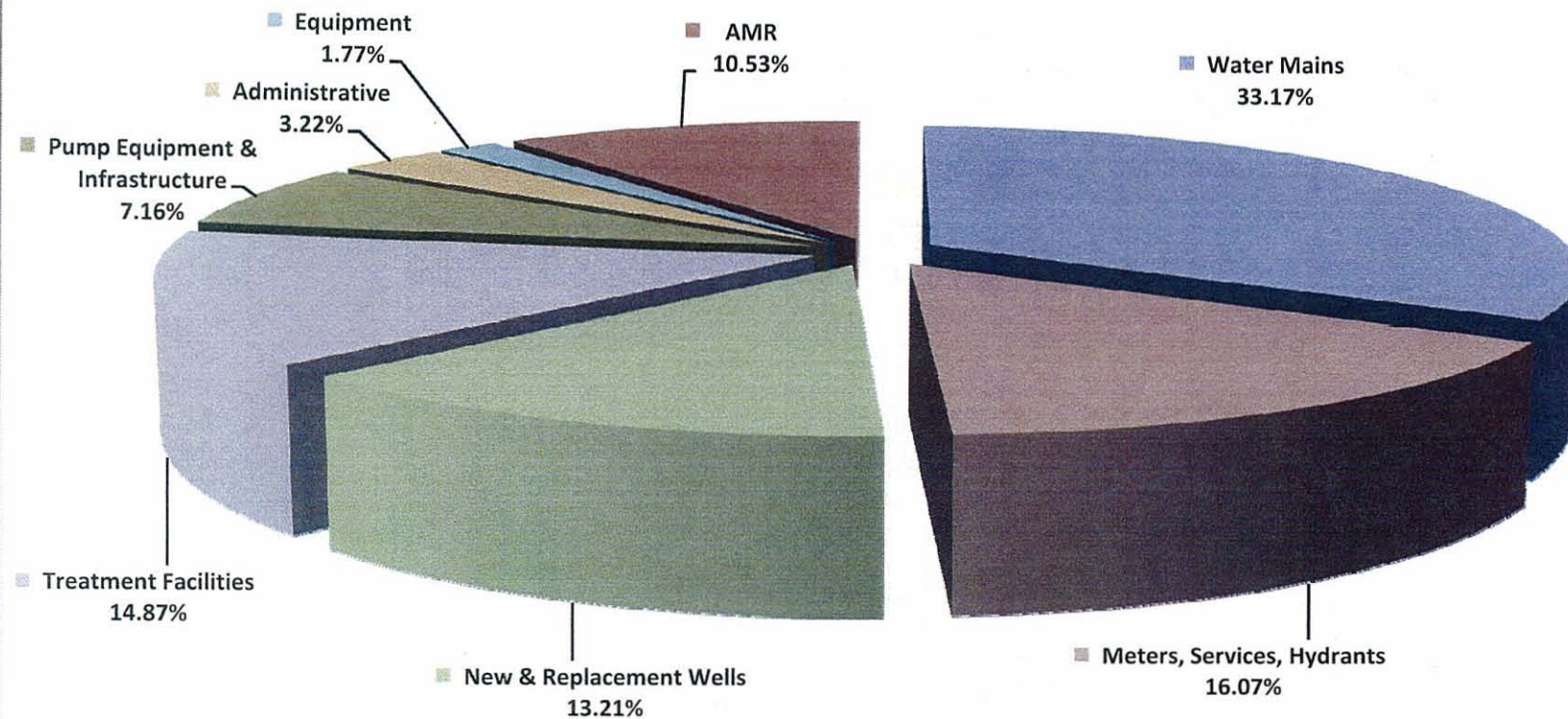
O&M Budget For f/y/e May 31, 2013: \$116,652,000.

**SUFFOLK COUNTY WATER AUTHORITY
CAPITAL BUDGET AS REQUESTED/AMENDED
FOR FISCAL YEAR ENDING MAY 31, 2013**

		2013	2012	2011
<u>PROJECT DEFINITION</u>		<u>BUDGET</u>	<u>AMENDED</u>	<u>FINAL</u>
EXTENSION OF WATER MAINS FOR NEW CUSTOMERS	005-13	\$ 2,300,000	\$ 3,400,000	\$ 3,400,000
REPLACEMENT OF WATER MAIN	010-13	12,600,000	11,964,000	9,725,000
DISTRIBUTION SYSTEM IMPROVEMENTS	015-13	2,500,000	2,000,000	5,850,000
WATER MAIN SUB-TOTAL:		17,400,000	17,364,000	18,975,000
BLOWOFFS & VAULT CONVERSIONS	020-13	200,000	200,000	200,000
HYDRANTS	025-13	1,305,000	1,305,000	1,305,000
SERVICES	030-13	5,000,000	5,500,000	5,500,000
CONSTRUCTION CONTRACTS	035-13	1,500,000	1,500,000	2,000,000
NEW WELLS	040-13	4,710,000	6,275,000	3,929,000
REPLACEMENT OF EXISTING WELLS	045-13	2,815,000	2,990,000	4,061,000
TANK MAINTENANCE AND CONSTRUCTION	050-13	3,500,000	2,560,000	1,586,000
MISCELLANEOUS TREATMENT FACILITIES	055-13	4,300,000	3,010,000	4,450,000
INSTRUMENTATION - NEW OR REPLACEMENT	060-13	675,000	475,000	340,000
NEW PUMP STATION INFRASTRUCTURE	065-13	1,200,000	1,690,000	1,500,000
REPLACEMENT OF PUMP STATION INFRASTRUCTURE	070-13	1,925,000	1,865,000	1,763,000
SUPERVISORY CONTROL AND DATA ACQUISITION SYSTEM	075-13	555,000	555,000	165,000
BAY SHORE PUMP STATION/TECH/SHAPEUP	080-13	400,000	400,000	750,000
FIELD COMMUNICATIONS	085-13	100,000	50,000	50,000
TRANSPORTATION	095-13	924,000	1,774,750	100,000
GENERAL SERVICE SITE WORK	100-13	281,500	256,500	606,000
LANDSCAPING	110-13	5,000	5,000	20,000
LABORATORY EQUIPMENT	120-13	325,000	336,000	300,000
OFFICE FURNITURE AND EQUIPMENT	125-13	27,000	36,500	28,500
METERS	130-13	2,649,000	2,315,000	2,238,000
INFORMATION TECHNOLOGY EQUIPMENT	140-13	403,500	392,500	505,800
DEPARTMENT EQUIPMENT	145-13	66,500	58,500	40,925
ACQUISITION OF LAND FOR WELL AND TANK SITES	150-13	500,000	950,000	1,785,000
FIELD EQUIPMENT	155-13	185,500	256,000	289,900
RIVERSIDE WATER DISTRICT	160-13	25,000	25,000	25,000
EFWD	161-XX		-	3,000,000
AMR	170-13	6,000,000	6,200,000	6,675,000
TOTAL SCWA CAPITAL BUDGET		\$ 56,977,000	\$ 58,344,750	\$ 62,188,125

SUFFOLK COUNTY WATER AUTHORITY

Capital Components:



Capital Budget for f/y/e May 31, 2013: \$56,977,000

SUFFOLK COUNTY WATER AUTHORITY
OPERATING - CASH FLOW
FOR FISCAL YEAR ENDING MAY 31,

	<u>Budget</u> <u>2013</u>	<u>Projection</u> <u>2012</u>	<u>Budget</u> <u>2012</u>	<u>Actual</u> <u>2011</u>
Operating Revenue	\$ 149,583,000	\$ 145,056,000	\$ 144,889,000	\$ 149,407,000
Investment Earnings	3,000,000	2,125,000	3,000,000	2,904,000
Deferred Revenue - OPEB	12,000,000	13,000,000	13,000,000	12,984,000
Construction Revenue	<u>6,425,000</u>	<u>7,083,000</u>	<u>6,594,000</u>	<u>5,425,000</u>
Total Revenue:	171,008,000	167,264,000	167,483,000	170,720,000
 <u>Less:</u>				
Operating and Maintenance Expense	104,652,000	95,656,000	95,561,000	89,990,000
Deferred Expenses - OPEB	<u>12,000,000</u>	<u>13,000,000</u>	<u>13,000,000</u>	<u>12,984,000</u>
Total O&M:	<u>116,652,000</u>	<u>108,656,000</u>	<u>108,561,000</u>	<u>102,974,000</u>
 Net Operating Income Available for Debt Service				
	54,356,000	58,608,000	58,922,000	67,746,000
 <u>Less:</u>				
Debt Service				
a) Interest on Long-Term Debt	25,638,000	26,200,000	26,200,000	28,501,000
b) Bond Principal	3,254,000	3,865,000	3,865,000	6,159,000
c) Interest on Notes	<u>987,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>309,000</u>
Total Debt Service:	<u>29,879,000</u>	<u>31,065,000</u>	<u>31,065,000</u>	<u>34,969,000</u>
 Operating Funds Available for Capital				
	<u>\$ 24,477,000</u>	<u>\$ 27,543,000</u>	<u>\$ 27,857,000</u>	<u>\$ 32,777,000</u>

**SUFFOLK COUNTY WATER AUTHORITY
PROJECTED EARNINGS
FOR FISCAL YEAR ENDING MAY 31,**

	<u>Budget Year Ending 2013</u>	<u>Budget Year Ending 2012</u>	<u>Actual Year Ending 2011</u>
REVENUES:			
Operating	\$ 149,583,000	\$ 144,889,000	\$ 149,407,000
Construction	6,425,000	6,594,000	5,425,000
Deferred Revenue - OPEB	12,000,000	13,000,000	12,984,000
Interest	<u>3,000,000</u>	<u>3,000,000</u>	<u>2,904,000</u>
Total Revenues:	171,008,000	167,483,000	170,720,000
OPERATING & MAINTENANCE EXPENSE:			
Operating & Maintenance Expenses	104,652,000	95,561,000	89,990,000
Deferred Expenses - OPEB	<u>12,000,000</u>	<u>13,000,000</u>	<u>12,984,000</u>
Total O&M:	<u>116,652,000</u>	<u>108,561,000</u>	<u>102,974,000</u>
 Net earnings before Interest and Depreciation (Available for Debt-Service)	 54,356,000	 58,922,000	 67,746,000
 Operating Ratio	 68.2%	 64.8%	 60.3%
OTHER DEDUCTIONS:			
Interest on Long-Term Debt	25,638,000	26,200,000	28,501,000
Interest on Notes	<u>987,000</u>	<u>1,000,000</u>	<u>309,000</u>
	<u>26,625,000</u>	<u>27,200,000</u>	<u>28,810,000</u>
 PROJECTED EARNINGS	 <u>\$ 27,731,000</u>	 <u>\$ 31,722,000</u>	 <u>\$ 38,936,000</u>
 DEPRECIATION & AMORTIZATION	 \$ 40,147,000	 \$ 35,100,000	 \$ 38,413,000