

SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

INTEROFFICE CORRESPONDENCE

DATE: August 24, 2012

TO: Jeffrey W. Szabo, Chief Executive Officer

FROM: Larry B. Kulick, Chief Financial Officer



SUBJECT: **YEAR END REVIEW – MAY 31, 2012**

The Water Authority has completed its audit for the fiscal year ending May 31, 2012.

Below is a summary of the Authority's financial activities for the fiscal year ended **May 31, 2012**.

	<u>Actual</u>	<u>Adopted Budget</u>	<u>Variance</u>
Water Revenues	\$ 131,293	\$ 129,967	\$ 1,326
Miscellaneous Revenues	\$ 43,852	\$ 34,516	\$ 9,336
Interest Income	<u>\$ 2,067</u>	<u>\$ 3,000</u>	<u>\$ (933)</u>
Total Revenues	\$ 177,212	\$ 167,483	\$ 9,729
Operating & Maintenance Expenses	<u>\$ 113,288</u>	<u>\$ 108,561</u>	<u>\$ 4,727</u>
Net Revenues Available for Debt Service	<u>\$ 63,924</u>	<u>\$ 58,922</u>	<u>\$ 5,002</u>
Debt Service	<u>\$ 28,109</u>	<u>\$ 31,065</u>	
Debt Service Coverage (all debt)	<u>2.27</u>	<u>1.90</u>	

Revenue

The budget for water sales is predicated on average historical usage of a typical customer using 160,000 gallons annually. This equates to an overall budget of 62.6 billion gallons for fiscal year 2012. This methodology attempts to eliminate potential financial consequences of weather variations. Water pumpage was 70.7 billion gallons, a decrease of 3.2 billion gallons over fiscal year ending May 31, 2011. Actual water billed was approximately 63.6 billion gallons. The difference of 7.1 billion gallons consists of water used for non-metered services such as firelines, hydrants, flushing programs, and pump station uses. The remaining unbilled water pumped from leaks and non-metered water, which we estimate at approximately 4.5%, is within industry standards. Minimal customer growth of 533 customers amounted to slightly below 1/10%. On April 1, 2012 a rate increase of approximately 4% was put into effect, the results of which will be realized in fiscal year 2013. This increase was in accordance with a cost of service and rate study prepared by Black and Veatch in January 2011.

Miscellaneous revenues consist of antenna leases, managed water district fees, capital reimbursement fees, customer-related charges and fees, and other post-employee benefits. These revenues were budgeted at \$34.5 million. Actual revenues were \$43.9 million. The antenna leases' budget was based on existing leases in service at the time of budget preparation, including built-in percentage increases. Additional leases and reimbursements for work performed in connection with the leases resulted in \$10.7 million or \$.4 million of revenue over budget. Customer Service fees, including \$1 million of late charges were \$2.1 million or \$.4

million over budget. The construction contract revenue, which represents the money paid by developers for water main installation, is initially recorded as a deposit. When the project is completed it is recorded as revenue. Construction revenues totaled \$4.9 million or \$3.4 million above budget, \$3 million of which were projects from previous years that closed during this fiscal year. Tapping fees, surcharge revenue, and miscellaneous construction fees were \$5.4 million or \$.4 million over budget. In connection with the purchase and retrofitting of certain vehicles at a cost of \$1.2 million, the Authority received grant money in the amount of \$.6 million. Miscellaneous revenues totaling \$1.4 million exceeded budget by \$.7 million including sale of easements (\$.5 million) and FEMA/SEMA reimbursements from Hurricane Irene (\$.2 million).

In accordance with FASB No. 71, SCWA is permitted to record deferred revenue equal to the annual required contribution (other than retirement Post Employment Benefits "OPEB".) The Authority established a non-dedicated reserve and recorded an expenditure of \$1 million towards this potential liability. The balance of \$14.6 million was recorded as a deferred revenue and asset.

Interest revenues were \$2.1 million, which was \$.9 million below budget due to continued low interest rates.

Operating and Maintenance Expenses

Operating and maintenance expenses were \$113.3 million, \$4.7 million above the adopted budget of \$108.6 million. Variances included increases in O&M allocated payroll of \$4.3 million, benefits of \$1.6 million, transportation, \$.4 million and treatment cost of \$.5 million offset by decreases. These decreases include power cost of \$1.2 million, telecommunications of \$.2 million, production facilities maintenance of \$.4 million, and office & computers supplies of \$.3 million.

Costs for maintaining the Authority's fleet of vehicles and related equipment are approximately \$3.0 million, net of depreciation (\$.8 million). A portion of this cost is applied to capital projects based on the payroll cost assigned. As explained below, the percentage of payroll costs applied to capital has shifted over the past decade from 35% to 20%. Accordingly, approximately \$2.3 million (80%) of maintaining the transportation equipment is included in the Operating and Maintenance Budget. Transportation costs were budgeted at \$2.9 million.

Total payroll (Capital and Operating) was \$41.3 million or approximately \$1.0 million below budget. In accordance with General Accepted Accounting Principles "GAAP", a portion of the Authority's payroll and benefits are historically allocated to the Capital Budget. This is often referred to as "overhead", which is assessed on the direct costs of the respective projects. Over the past decade we have maintained a level Capital Budget, with certain exceptions, of approximately \$60 million, annually. While maintaining a flat capital budget, the increased cost of labor and benefits resulted in less capital projects being authorized. Accordingly, the staff associated with Capital work has been reduced over this period of time. A recent review was done with the associated departments to redetermine the amount of staff time spent on capital work. Per this review, the percentage of payroll and benefits allocated to the Capital Budget was reduced from 30% to 20%. This 10% reduction is approximately \$4.2 million of payroll charged to operating and maintenance. Whereas benefits represent approximately 55% of payroll, an additional \$2.3 million is reallocated from Capital to Operating and Maintenance. This reassessment was not contemplated in the course of preparing the fiscal year 2012 budget in March 2011. Consequently, payroll charged to O&M for fiscal year ending May 31, 2012 exceeds the O&M budget by \$2.3 million.

GASB Statement No. 45, "Post Employment Benefits Other than Pensions" calls for the Authority to record during the employees working career the potential cost of benefits

employees will receive upon retirement. The Authority recorded \$15.6 million, which represents the annual required contribution ("ARC").

The Authority's single largest paying vendor is Long Island Power Authority (LIPA). Payments to them totaled \$18.9 million, approximately \$1.2 million below budget. This is attributable to Production Control managing costs as well as reductions in varied components of the electric bills.

Capital Budget

	Capital Budget		
	<u>Original</u>	<u>Amended</u>	<u>Authorized</u>
Water Mains	\$ 19,100,000	\$ 19,064,000	\$ 18,914,921
Hydrants	1,305,000	1,305,000	1,257,528
Meters and Services	14,015,000	14,015,000	14,015,000
New & Replaced Wells and Tanks	11,825,000	12,145,000	12,145,000
Treatment	3,010,000	3,010,000	3,010,000
Pump Station Infrastructure	4,985,000	4,985,000	4,965,220
Computer Equipment	392,500	392,500	392,500
Transportation	582,000	1,774,750	1,487,400
Laboratory Equipment	300,000	336,000	336,000
Land	1,000,000	950,000	949,979
Other	426,000	426,000	425,198
Site Work	<u>211,500</u>	<u>261,500</u>	<u>256,993</u>
	<u>\$ 57,152,000</u>	<u>\$ 58,664,750</u>	<u>\$ 58,155,739</u>

The Authority's board members, at its March 2011 meeting, adopted a capital budget for fiscal year 2012 in the amount of \$57.152 million. Subsequently, the Board authorized an increase in the transportation budget (\$1.193 million) to purchase and retrofit certain vehicles to natural gas. The Authority received grant money in the amount of \$.6 million for this purpose. An additional \$.32 million was added for the construction of a new well for the future hotel in Stony Brook. Monies were received by the Authority and recorded as miscellaneous revenues -- construction reimbursement. Accordingly, net increases to the capital budget in the amount of \$1.513 million were approved resulting in a final amended budget of \$58.665 million. During the course of the fiscal year, departments "draw down" on this budget through an authorization process. This year \$58.156 million was authorized. The Authority incurred \$44.2 million on work authorized during the fiscal year ending May 31, 2012 and prior.

Payroll

The Authority maintains a Baseline Payroll report, which identifies staffing levels for each department by position. Modifications to staffing levels must be approved by the CEO and the Board where applicable. During the budget process staffing levels are reviewed and requests from departments are submitted, reviewed, and either accepted or rejected. In addition, an ongoing concerted effort is made to review how the Authority does business, particularly with overtime. The overtime budget was \$1.8 million. Actual overtime costs were \$1.7 million. The Accounting Department working along with several other departments formulated a standardization of overtime categories. Beginning June 2012, the computer system will accumulate information by these categories resulting in a uniform reporting system of comparative information. In the interim, departments are able to access their overtime information utilizing SAP.

At May 31, 2012, the Authority employed 569 as compared to 562 at May 31, 2011. In addition there were 18 vacant positions as of May 31, 2012.

Financing

The Authority issues Water System Revenue Bonds to finance improvements and additions to the water system as well as to refund previously issued higher interest bonds or previously issued Bond Anticipation Notes. During the fiscal year ended May 31, 2012, the Authority issued \$83.6 million Suffolk County Water Authority Senior Lien Water System Revenue Bonds, Series 2012 Refunding, for the purpose of refunding \$10.7 million principal amount of Bonds from Series 2001A and the advanced refunding of \$72.5 million principal amount of Bonds from Series 2003C.

From time to time, the Authority has issued Bond Anticipation Notes to finance improvements and additions to the water system. In March 2012, the Authority issued \$50 million Suffolk County Water Authority Bond Anticipation Notes, 2012A for the purpose of renewing the maturing \$50 million BAN's 2011A. The BAN's 2012A were competitively bid and awarded with a fixed interest rate of 2% and a maturity date of January 15, 2013.

The Authority has worked with the NYS Environmental Facilities Corporation "EFC" since 1988 for the purpose of issuing Bonds through the State Drinking Water Revolving Fund, at a subsidized interest rate. Currently, SCWA has \$41.4 million SDWRF Bonds outstanding. In July, 2011 the Authority, in conjunction with the EFC, utilizing available funds and the issuance of \$10.9 million EFC Series 2011C, refinanced \$10.9 million of outstanding 2001B and \$5.7 million 2002G SDWRF Bonds. This transaction resulted in a net present value savings of approximately \$1.3 million over the remaining average life of the Bonds.

Debt service coverage represents revenues divided by debt service (principal and interest). The Authority's bond covenant requires minimum debt service coverage of 1.1. In order to maintain a strong position in the marketplace when issuing debt (resulting in lower interest cost), it is recommended coverage remain higher than 1.5. The Authority's debt service coverage for the fiscal year ending May 31, 2012 was 2.27 on all debt.

Enclosed please find for your consideration, a resolution to adopt the following:

- 1. Audited Financial Statements for the years ending May 31, 2012 and 2011**
- 2. SCWA Annual Investment Report for the year ending May 31, 2012, including Audited Schedule of Investments**
- 3. Public Authority Reporting Information System "PARIS" Annual Report for the year ending May 31, 2012**

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

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c: D. Celiberti
E. Vassallo

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