

THE LANDIS SEWERAGE AUTHORITY
REGULAR MEETING
July 21, 2014

Pledge of Allegiance.

The regular meeting of the Landis Sewerage Authority was called to order by Chairman Silva at 6:00 p.m. The following members were present at roll call: Reuben, Merighi, Villar, Errickson and Silva were present.

The proper notice was given to all members in accordance with the by-laws.

Chairman Silva stated that public notice of this meeting, pursuant to the Open Public Meeting Act, has been given in the following manner:

1. Posting written notice in the lobby entrance of the Authority.
2. Hand delivering notices to the offices of the Daily Journal and The Press.
3. Filing written notices in the offices of the Authority and City Clerk.

Also present: Dennis W. Palmer	Executive Director/Chief Engineer
Robert A. Schwarz	Field Engineer
A. Steven Fabietti	Solicitor
Carol A. Ricci	Executive Secretary
Thomas J. Post	Business Manager
Stephen P. Testa, CPA	Auditor

It was moved by Errickson and seconded by Villar that the reading of the minutes of the regular meeting held on July 7, 2014 be dispensed with and the same be approved in the form submitted to all members by mail. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted “yes”.

The Chairman asked if there were any general public comments or comments on the proposed Resolutions. There were none.

Resolutions:

It was moved by Errickson and seconded by Reuben that Resolution No. 2014-82, “Be it resolved by the Landis Sewerage Authority, that the following bills of items or demands are hereby approved and authorized for payment out of the Revenue Fund Revolving Payroll Account.\$62,848.46”, be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted “yes”.

It was moved by Reuben and seconded by Errickson that Resolution No. 2014-83, “Be it resolved by the Landis Sewerage Authority, that the following bills of items or demands are hereby approved and authorized for payment out of the Revenue Fund

Bills...\$358,140.10”, be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted “yes”.

Prior to passing Resolution 2014-84 Dennis Palmer stated that the discussion should begin prior to the passing of the Resolution.

Steve Testa reported that the draft of the audit report was reviewed in detail with the finance committee and staff. Copies of the draft were distributed to the rest of the Authority members. Final copies of the report were delivered this evening. Steve stated that he would like to give a brief overview of the report and would welcome any questions the commissioners would have.

The Authority received an “unmodified” or clean opinion on its financial statements for the years ended December 31, 2013 and 2012 as reflected on Pages 1-3, which essentially says, in our opinion, the basic financial statements presented fairly, in all material respects, the financial position, results of operations and cash flows of the Authority for the years ended December 31, 2013 and 2012 in accordance with GAAP.

Steve also stated that since this audit is subject to Government Auditing Standards, there is also a report on compliance and on internal control over financial reporting on pages 4 and 5. With respect to internal control over financial reporting, there were no material weaknesses or significant deficiencies to be reported.

With respect to compliance, we noted no instances of noncompliance that were required to be reported under Government Auditing Standards and standards promulgated by the Division of Local Government Services of the State of New Jersey.

Steve reported there are a few global comments to keep in mind when reviewing the financial statements particularly when comparing to the prior year financial statements.

The Authority adopted Governmental Accounting Standards Board Statement No. 65 in 2013. This change in accounting principles which was required for all governmental units that follow Generally Accepted Accounting Principles resulted in a restatement of certain amounts reported in prior years. The details of that restatement have been reviewed in detail with the finance committee and can be found in Note 18 to the financial statements which is on pages 29-31 of the Notes.

Management prepared the Required Supplementary information, namely the Management Discussion and Analysis section which is a “reader friendly” summary of the financial statements including comparisons to the prior year’s information on pages 6-10.

Operating Revenues increased for \$9.382 million to \$9.645 million, an increase of approximately \$263,000 or approximately 2,80%. The Authority did implement a rate increase in August of 2013 so it only had a part year under the new rates. That increase was 5.71%.

Total Operating expenses which includes depreciation, increased from \$9,809 million to \$10,062 million which is an increase of approximately 253,000 or 2.58%.

The Authority held the Costs of Providing Services to less than a 2% increase. The Admin and General Expenses increased by 7.4%, however it should be noted, most of the increase was in two areas the Authority doesn't control which are employee benefits and permit fees. In addition, the Authority incurred professional costs for review of its Bond Resolution and the City of Vineland matter.

The Authority's non-operating revenue or expenses, netted to an expense of \$771,000 primarily the result of the amount paid to the City of Vineland and a decrease in the Fair Value of Investments.

The Authority also recognized Capital Contributions, or assets paid for by developers and turned over to the Authority in the amount of approximately \$498,000. This is a non-cash revenue.

The net effect of all of this is for the year 2013, the Authority experienced a decrease in net position or equity of (689,737) while in 2012 it experienced a net decrease of (\$369,774).

Those results are on the Generally Accepted Accounting Principles basis as shown on Exhibit B on page 13. On a Budgetary Basis, schedule 4 on pages 37 and 38, the Authority's revenues exceeded expenses by approximately \$193,000 while that amount was \$678,000 in 2012, a \$485,000 negative variance, The Authority did meet the rate covenant contained in the Authority's Bond Resolution as discussed in Note 15 to the financial statements on page 29.

Dennis, Tom and the rest of the staff have done an excellent job again this year as evidenced by the fact that there were no findings or recommendations reported in the 2013 audit report. In addition, as usual there were very few audit adjustments required.

State also stated that we have provided the board with a correspondence which is in addition to the audit report. This is known as the "Communication to those Charged with Governance" which in LSA's case we have taken to mean the full board. This correspondence explains the auditor's responsibilities, describes certain accounting practices, management's responsibilities, certain aspects of interaction with management and certain other matters. It also discusses the implementation of GASB 65 in 2013 as well as an "other Matters" section which includes a suggestion which is not a finding or recommendation.

You have before you tonight a resolution acknowledging that the audit report for the year 2013 has been received and that you have reviewed the report particularly the findings and recommendations section of which there were none. This resolution should be adopted and evidenced by having each of the Commissioners sign the group form

affidavit. A synopsis, which is to be published in the newspaper has also been prepared and provided to the Authority. A copy of each of these is to be filed with the NJ Division of Local Government Services. Since there were no findings/recommendations, the Authority is not required to file a correction action plan with the State.

Steve asked if anyone had any questions and Jose Silva asked if the numbers that we have here, will the City of Vineland look at these numbers in order to require us to pay the 5%. Steve replied that they can request the 5% regardless of what the financials say. The only impact that the financial statements would have on that 5% would be if you didn't have enough net assets or net position to cover that 5% and you do so there is really no impact. They can't request more and it shouldn't effect whether they request it or not.

Tom Merighi asked that the 7% increase in expenses is that the permit fees? Steve stated that the permit fees increased from \$29,000 to \$75,000. Tom said that it was in administrative and Steve replied yes and Tom asked if the increase in benefits to the employees is in administrative and Steve replied yes. The increase would have been \$38,000 for employee benefits, \$46,000 for permit fees and the professional services increased \$12,000. That is about \$97,000 of the \$123,000 increase and if you back that out it was a very modest increase.

Tom asked if permit fees, benefits and legal fees are not part of the cost of providing services, what is in the cost of providing services? Steve said primarily the direct cost is to treat the sewage. The plant costs, salaries, chemicals are the cost of providing services. In the cost of providing service you have a \$6 million dollar base to work from so while you have the \$118,000 increase in expenses on the cost of providing services side, what you are taking out of a \$6 million base, whereas here we had the \$123,000 increase on the admin in general you are taking that against a \$1.7 million base. That's the difference in the percentages.

Tom asked if Tom could speak about how we cashed in on the bonds, how that flowed to revenue. Steve reported that when you did your Budget Amendment and you sent it to the state and said ok we need to increase our budget because we are going to make this payment, the State required you, when they sent back the approved budget amendment, rather than show it was coming out of your net assets but that you were actually going to use that cash on hand to make the payment, they required you to show it as other non-operating revenue. It's wrong because I had another Authority that had the exact opposite situation where they had plenty of revenues to cover the payment to the municipality or county in that case, they wanted to show it as an expense and not even show any revenues to cover it and the state made them show that they were appropriating their own assets to cover it. It depends who looks at it. Dennis stated that we will find out this year. Steve said the bottom line is what we did in the budgetary schedules, we showed the \$434,850 as a revenue source in the budget and not in the actual. We didn't show anything being realized against that. We showed it as a budget line item. It was done that way because if the state checks it, we want to show it was appropriated in assets but if the state checks against that you would have a problem. It was shown the way they said it and we did not recognize any revenue against it. Basically on your budgetary schedule we're saying that

you budgeted \$10 million in revenue, you realized \$9.9 million, but you also budgeted the \$10 million in expenditures and you spent \$9.7 million. That's why we had in excess of \$193,000.

Dennis stated in respect to the City's request, I think the Shared Services Agreement may be back again soon. They may have reworked it somehow, but with that all said the conversation I had with Council President earlier in the year, he wanted to know what we could do this year and I told him that 5% would require another rate hike. We're not cashing in another bond. We have approximately 13,000 accounts and we raised it \$20 which is about \$260,000. He also was looking to fund the grant writer and he asked if we could do \$300,000. Dennis stated that to afford that, we delayed a couple of hiring's. So at some point we will have to do a budget amendment to transfer the \$300,000 and we haven't done that yet. Next year, our position will be that we don't have those vacancies we will still have the 13,000 accounts and a \$20 rate increase for around \$260,000. We will be looking to do that sometime later this year. Dennis also stated that there is no action for the connection fees tonight.

Steve stated that he could explain the letter. Once the audited numbers were available we were able to calculate what your maximum allowable connections fees under the statute could be and the statute provides the formula and the Authority gives us the average daily flow or gallons per day and we do the calculation. The maximum allowable connection fee as of December 31, 2013 would be \$4,867. You are currently charging \$2,090.

Dennis stated that later in the year and not now, we generally try to have the connection fee 50% of what it could be. What that does is it allows us to be competitive with those around us. We don't want to go up to the top number and lose that competitive edge. It has been a year and a half since we raised them and sometime later this year we want to revisit that. We don't want to do it right now because Burns Avenue just came on line and we don't want to sock those folks. They got a letter that says its \$2090 and they come into pay and it's some other number. Sometime later in the year send them a note saying the line has been available to you for some months and the rate will be going up some point in time. We have to do an advance notice to the newspaper and the towns that we serve 40-45 days prior to and then have a public hearing.

Carlos Villar asked if these are for new connections and Dennis replied yes, for new connections. The user rate that everyone else pays would be the same. The new folks coming in would pay a fair share of all of the other money that people have invested in the system between the plant, the pipeline, pumping stations and everything else. Generally you try to match about 50% of that number and the same thing, the Vo-Tech is coming in right now and you don't want to rock them as well and we are working with them now. This is for later in the year and probably revisit for the Fall, give the Burns Avenue people a chance to tie in if they want to.

Tom Merighi asked about the final note which is the credit card. Steve Testa stated we did note that during the current year, we found in our testing, that there were some items purchased through an e-commerce website or e-bay. It was documented that you had other quotations which documented the cost savings by doing it that way. In order to

purchase that way you can't use purchase orders like you normally do because they are not going to accept them. Basically you ended up having an employee charge on the credit card to make the purchase and then we reimbursed the employee. That may or may not be an issue because the state doesn't allow credit cards but they do allow procurement cards and they allow store specific cards like Home Depot. When you make payment you can get from them a claimant certification because it's directly from them whereas if you go to Visa and you bought from 10 different places you are not going to get that claim certification. Our question is just even more than just a credit card piece. If you are not able to obtain a claimant's certification or a business registration certificate from the vendor, is that going to be an issue and there is almost no guidance available in that area from the state since it is relatively new method of purchasing. It's great, we are saving the rate payers money. I just think from my prospective I suggest that you look into it and make sure you are ok with it and it is legal and I suggest that you check with Steve and/or the State of NJ Division of Local Government Services. I did try to check with them and they never got back. At least the Board knows that there is a question and we think it's good to look into it to make sure you are comfortable with it. If it is ok then you are saving money. There is no finding and there is no recommendation because we are not saying it's wrong, but you should look into it. Dennis stated that we started that today.

It was moved by Reuben and seconded by Errickson that Resolution No. 2014-84, "A Resolution of the Landis Sewerage Authority certifying that the Commissioners of the Landis Sewerage Authority have reviewed the 2013 Audit"... be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted "yes".

Tom Merighi asked if all we have to do is verify that we read the Audit and Steve Replied yes and you sign the Group Affidavit.

Jose Silva stated that we are relying on the representation of the professionals since none of us are experts on financial accounting so let's move on to the next resolution.

It was moved by Errickson and seconded by Reuben that Resolution No. 2014-85, "A Resolution of the Landis Sewerage Authority authorizing corrections on credits, charge-offs, refunds and cancellation of accounts in the amount of \$956.18..." be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted "yes".

It was moved by Errickson and seconded by Reuben that Resolution No. 2014-86, "A Resolution of the Landis Sewerage Authority allocating sewerage capacity for commercial classification..." be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted "yes".

It was moved by Errickson and seconded by Villar that Resolution No. 2014-87 authorizing payment from the Construction Fund of certain costs of the system in the amount of \$100.00 to Michael J. McKenna, Esq. for professional services for Rudy's Airport litigation in accordance with the provisions of the Authority's General Bond Resolution..." be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted "yes".

It was moved by Errickson and seconded by Merighi that Resolution No. 2014-88, “A Resolution of the Landis Sewerage Authority authorizing the exclusion of the public from a meeting between the Landis Sewerage Authority, its general counsel, insurance counsel and administrative personnel to discuss litigation and related matters falling within the attorney client privilege...” be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted “yes”.

At 6:28 p.m. the regular meeting went into closed session.

At 6:35 the regular meeting reconvened.

It was moved by Errickson and seconded by Reuben that Resolution No. 2014-89, “A Resolution of the Landis Sewerage Authority authorizing the Chairman of the Landis Sewerage Authority to Execute a settlement agreement...” be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted “yes”.

It was moved by Reuben and seconded by Villar that Resolution No. 2014-90, “A Resolution of the Landis Sewerage Authority authorizing the Executive Director to endorse NJDEP TWA permit applications...” be adopted. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted “yes”.

Reports:

Executive Director

Dennis Palmer reported that we had good news in the mail last week was a copy of a draft permit to expand our capacity from 8.2 to 10.2 MGD. The permit is 30 plus pages long. It is part of a 20 year journey. Dennis stated that when he first came to the Authority in 1993 there was sewer moratorium. One of the goals is to not ever be under a sewer moratorium again. There was also a moratorium from the mid 80’s up to 1989. This one of multiple steps to the Wastewater Management Plan which we spend 19 years working on and is hanging on the wall. This draft permit and the final permit later allows us to discharge and the last piece of it is the Treatment Works. The last Resolution is the package we send to DEP. We are re-rating the plant. We built parts of the plant larger, the headworks, and the equalization tanks allow us to take more flow in so they store the peaks. With that the department will re-rate the plant by 15, 20 or 25% of capacity. We are getting close to that process. Our engineer has to wrap a few things up. We started working on this with a hydro geology report of the site. We are expecting a letter report for \$5,000 to \$10,000.

Today we had a design team meeting on the manure project, we continue to work on that and many items have been ordered. We will be reimbursed for some of those costs; not all of them since we are building a better project than we first envisioned 4 or 5 years ago when this came up. It’s something I can see as a revenue stream of \$50,000 to \$100,00 a year with food process waste and saving \$7,000-\$10,000 a year for hauling grease away

and long term it will make more methane and more electricity. We have filed several permits.

We received a pre-draft and there were no comments and a draft NJPDES permit for plant expansion and handling residuals and solids.

Steve Fabietti and I spent some time together last week working on a letter appealing our NJPDES fee that went from \$19,000 to \$94,000 and we will continue to fight and delay on that matter.

After Sandy, FEMA was asking people to apply for grants. We are just in the beginning and we have a mitigation letter from the State and we will have to sit down with FEMA and they are authorizing up to \$60,000. That money can buy two more trailer mounted generators and we will almost have a generator for each pumping station if we have another major outage. We got caught in the derecho moving a small one around to multiple stations pumping them down and moving them. This will allow us to park some of these generators at the stations in advance or after a storm has happened.

Thursday we have a tour that is a combination of several things. It is on the quail project. We are working with a group called the Youth Corps. They do work improvements in the community, whether they are cleanups or environmental. They are probably teens to twenties. They are here to learn at the same time and do community service. They will be here Thursday, we will give them a discussion on our facilities, take a tour, see what we did with the cedar project and then they are going to actually start the hedgerow that is part of the quail project. We have forty or fifty plants. There will be someone from Fish and Game and someone from the Wild Turkey Federation and the NJ Quail Project. They are going to bring some quail in a cage. The kids will learn about what they are doing in the field, the plant and the renewable things we are doing here such as the solar panels and the wind turbine. We invited the press to come out too. We hope we get a nice story out of it.

Back to the manure project, once we have something in the ground such as pipes and the tank, the Dept. of Agriculture wants to do a press thing as well. We will try to get the Secretary of Agriculture, Doug Fisher. At some point included in the grant is funding for a co-op coordinator. That person will help market the availability to food processors, dairy farmers and others to bring their waste to their facility and buying the extra chemical to make more gas. If this is successful, they can use this as a business model for other treatment plants.

Field Engineer

Bob Schwarz reported that the final paving for Burns Avenue is scheduled for the middle to the end of August.

Bids are to be received for paving and seal coating this week and Mill and Gallagher Drive next week to review the scope of the project. Notice has been hand delivered to 30 businesses in the area to alert them of the project.

Red Robin started construction of the sewer line today and will connect to the LSA line this week.

We are currently reviewing plans for Wendy's on Main Road and the Vo-Tech at College Drive.

Solicitor:

Steve Fabietti stated that he and Dennis worked on an appeal letter to the DEP for the NJPDES permit fee assessment of 2014 which went up 5 times over its prior rate. That is a feat to be calculated in accordance with a set of very detailed regulations. It is not supposed to be arbitrary or on a whim and Dennis was able to pick that apart and we pieced it together in some legal language that provides a good basis for the Department to reconsider. The first step is to ask them to reconsider the fee. Based upon that response depending on what that is we can evaluation if there is any other formal action that you want to take to pursue a contest of that fee. We will have to just see what they come back with.

Dennis stated they may have multiple Authorities filing a contested fee at some point. It may be a merger or parties.

Steve stated that they will report back when they know more. Dennis said that will be in you next package.

Chairman: No Report

Issues and Correspondence:

It was moved by Errickson and seconded by Reuben that the Executive Director be authorized to purchase a 2015 Ford F250 pickup truck off of state contract. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted "yes".

It was moved by Errickson and seconded by Reuben that the Executive Director be authorized to advertise and fill the position of Electrician with a starting salary of \$4.00 per hour less than the existing position. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted "yes".

Jose Silva asked what the existing rate was for the electrician. Dennis replied that he thinks it's \$31.00. On the anniversary date, based on attendance and performance, they go up \$1 an hour each year as they go through.

It was moved by Reuben and seconded by Villar to create and fill the title Engineering/Construction Technician as a management title in accordance with the recommendation dated July 16, 2014 from the Executive Director. Roll call: Reuben, Villar, Errickson and Silva voted "yes". Merighi abstained.

Committee Reports:

Engineering/Plant

Dennis stated that he covered everything in his report and that he has an appointment with the DEP next Thursday. As a prelude to the finance report, the City has put together a report on the Shared Services Agreement, consolidating all of the comments from the Different Department heads. I just got it but have not had a chance to look at it. At some point after that, I want to sit down with the Finance Committee and maybe David Kotok and look to our future as we know we have construction projects, is it advisable to go with a temporary construction note or temporary bonds that may not pay interest for a period of time. Start your projects and then do your permanent financing. I think it's what we did. In 1993 we did a temporary financing and we did some construction notes in the late 80's as the treatment plant was being built and we also wrapped up some old financing. I want to explore that a little later in the year.

Budget/Finance

Tom Merighi wanted to commend Steve Testa for his work. Steve is a real ace and he is so knowledgeable when it comes to every facet of the finances of this operation and he really helped me understand and learn even more and I'm sure he did as well with the staff. He speaks very highly of our staff, Tom and Dennis both on how professional and thorough they are and it's really great to be part of that process.

Tom Merighi reported that income is approximately \$385,716.00 or 8.04% over Budget and expenses are approximately \$9,436.00 or .20% over budget. Accounts receivables decreased approximately \$466,878.00. The Authority is affected and keeping watch on the economy.

Dennis stated that there is nothing going on in homes, but there is an uptick in commercial and the fellows at DEP said they are seeing an uptick in permits as well. That is a good sign for an overall economy.

Human Resources

Dennis stated that we took some action tonight on filling some positions. Caution, Tom noted a fairly good number of income over budget that's also subject to a budget adjustment I talked about earlier. You will see a pretty good piece shaved out of there.

Public Relations:

Dennis stated that he hoped to have a nice story out of Thursday's Youth Corps coming here.

Insurance Committee: No Report

Allocations/Administration

Dennis stated again that we are getting some commercial applications coming through.

Old Business: None

New Business: None

Adjournment:

At 6:53 p.m. there being no further business to come before the Board, it was moved by Reuben and seconded by Villar that the meeting be adjourned. Roll call: Reuben, Merighi, Villar, Errickson and Silva voted "yes".

THE LANDIS SEWERAGE AUTHORITY

CARLOS VILLAR, Secretary