

THE LANDIS SEWERAGE AUTHORITY
REGULAR MEETING
September 19, 2016

Pledge of Allegiance.

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

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

Chairman Merighi 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.

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| Also present: Dennis W. Palmer | Executive Director/Chief Engineer |
| Robert A. Schwarz | Field Engineer |
| A. Steven Fabietti | Solicitor |
| Carol A. Ricci | Executive Assistant |
| Thomas J. Post | Business Manager |
| Stephen P. Testa | Romano, Hearing, Testa & Knorr P.A. |

It was moved by Errickson and seconded by Barse that the reading of the minutes of the regular meeting held on September 6, 2016 be dispensed with and the same be approved in the form submitted to all members by mail. Roll call: Barse, Reuben, Errickson, Villar and Merighi 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 Barse that Resolution No. 2016-100, “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.....\$69,417.10”, be adopted. Roll call: Barse, Reuben, Errickson, Villar and Merighi voted “yes”.

It was moved by Errickson and seconded by Reuben that Resolution No. 2016-101, “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...\$247,579.05”, be adopted. Roll call: Barse, Reuben, Errickson, Villar, and Merighi voted “yes”.

It was moved by Errickson and seconded by Reuben that Resolution No. 2016-102, “A Resolution of the Landis Sewerage Authority listing payments from the 2016 Bond Issue Construction Fund adopted July 6, 2016...” be adopted. Roll call: Barse, Reuben, Errickson, Villar and Merighi voted “yes”.

Chairman Merighi stated that before we approve Resolution No. 2016-103 we’ll have the presentation from our Auditor.

Stephen Testa, Auditor reported the draft of the audit report was reviewed in detail with the finance committee and management. Copies of the draft were distributed to the rest of the Authority members. I have delivered final copies of the report this evening and I would like to give a brief overview of the report at this time and would welcome any questions you may have.

First a global statement. Governmental Accounting Standards Board Statement No. 68 (GASB 68) Accounting and Financial Reporting for Pensions became effective in 2015 for the Authority, and, in fact for all State and local Governmental Accounting Standards Board, our standards setting body and was not initiated by the State of New Jersey. Under GASB Statement No. 68, individual government employers must report a proportionate share of the Net Pension Liability, deferred inflows and outflows, and pension expense in their financial statements. Previously, employers only reported the annual contributions they made to the pension system as an expense.

The implementation in 2015 of GASB 68 and GASB 71, both related to reporting pension information, required a restatement of the Authority’s 12/31/13 net position. As a result, the Authority’s Net Position as of 1/1/14 was reduced by approximately \$8.55 million primarily to record the Authority’s share of the State’s net pension liability.

The prior year (2014) financial statements were also restated to reflect the difference between Pension Expense previously reported and the expense per GASB 68. The implementation of GASB 68 also resulted in several additional disclosures being reported in the notes to the financial statements as well as an additional required supplementary information section being included.

As all local governmental units were affected by the implementation of these standards, the NJ Division of Local Government Services granted a blanket extension of time in which to file Authority audit reports.

The Authority received an “unmodified” or clean opinion on its financial statements for the years ended December 31, 2015 and 2014 as reflected on Pages 1 – 3, which essentially says, in our opinion. The basic financial statements present fairly in all

material respects, the financial position, results of operations and cash flows of the Authority for the years ended December 31, 2015 and 2014 in accordance with GAAP.

There is an Emphasis of Matter section added to this year's report to explain the adoption of GASB 68 and 71 and to explain the prior year statements have been restated as a result and that our Opinions were not modified with respect to those matters.

Since this audit is subject to Government Auditing Standards, there is also a report on compliance and on internal control over financial reporting. 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 audit requirements prescribed by the Division of Local Government Services of the State of New Jersey. I would like to briefly review some financial highlights.

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.

I wanted to mention in the State of Net Position, which shows assets, liabilities and net position (equity) the 2014 column is restated to include the pension related items. The most significant is the Net Pension Liability which was \$8,275,000 at 12/31/14 as restated and is \$9,740,000 at 12/31/15. The recording of this liability and pension related deferred outflows, deferred inflows and accrued liabilities results in the Authority now showing a deficit in unrestricted net position in the amount of \$5.63 million.

Operating revenues increased from \$10.222 million in 2014 to \$10.393 million in 2015, an increase of approximately \$172,000 or 1.68%. Note the Authority defines operating revenues as user charges and fees, income from its farm operation, lab testing fees and receiving station income. Total operating expenses which includes depreciation, increased from \$10.444 million to \$10.689 million which is an increase of approximately \$645,000 or 6.42%.

The Authority's Costs of Providing Services increased by \$484,000, approximately 7.94% increase. The primary increases were in Salaries and Wages (\$205,000), Utilities (\$201,000) which is due to the co-gen plant being down for 6 months.

The admin and General Expenses increased by \$138,000 or 7.57% (S & W \$25K, Benefits 60K, Permit fees \$13K). The Authority's non-operating revenue (expenses) netted to an expense of \$273,000.

The Authority also recognized Capital Contributions which are grant funds used to acquire capital assets as well as assets constructed by developers and turned over to the

Authority, in the amount of \$60,000 compared to approximately \$1.323 million in 2014 which was primarily the Burns Avenue project.

The net effect of all of this is for the year 2015; the Authority experienced a decrease in net position (equity) of \$509,000 while in 2014 it experienced a net increase of approximately \$1,259,000 the difference being the Burns Avenue grand funds earned in 2014.

Those results are on Generally Accepted Accounting Principles basis as shown on Exhibit B on page 14. On a Budgetary Basis the Authority's revenues exceeded expenditures by approximately \$854,000. The amount was \$1,168,000 in 2014 so while it is less than the prior year; it is nonetheless a positive number

The Authority did meet the rate covenant contained in the Authority's Bond Resolution as discussed in Note 15 to the financial Statements.

Some of the more significant disclosures in the notes to the financial statements are:

- Note 2Q: Adoption of Accounting Pronouncements (GASB 68 and 71)
- Note 7: Pension note is now over seven pages long
- Note 8: The contingencies paragraph relates to the contested NJDEP Permit fees.
- Note 13: We Show the breakdown of the unrestricted net position (deficit) which is \$9.078 million deficit related to pensions, \$3,448 million net position before the pension impact. Those net to a \$5.63 million deficit.
- Note 17: Shows the restatement of the 1/1/14 net position, the restatement of the 2014 financial statements.
- Note 19: Subsequent Events discloses the issuance of \$25 million in bonds in August 2016 and discloses the announcement of the proposed 2017 closing of the Progresso plant.

The Authority Commissioners, Management and its staff are to again be commended for a job well done.

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 finding or recommendations reported in the 2015 audit report. In addition, as usual, outside of the GASB 68 related adjustments, There were very few audit adjustments required.

I would also point out that we have provided the board with a correspondence which is I 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. There were no items to be reported in the "other matters" section of the correspondence.

You have before you this evening a resolution acknowledging that the audit report for the Year 2015 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 or recommendations, the Authority is not required to file a corrective action plan with the State.

Chairman Merighi asked about the modified liability number for the Authority and who created it. Steve Testa stated the number is given to us and if you look at the State's audit report for the pension there is a listing of everyone in the entire state and it tells you what the net pension liability is and what it was last year what the pension expense is and what it was last year and it tells you what the deferred inflows and outflows are and that gets pretty complicated because you have to amortize them over a certain number of years and they are different. Next year it will be interesting but it should also be a lot smoother. Again, they give you that number and the way they get that is they take the amount that you are required to pay on your April 1, 2016 bill and they divide that by the total that everyone is required to pay. That's your proportionate share and they took the state's net pension liability for local units and applied that percentage and that's how much is yours on your financial statements. As yet, there is no requirement to pay it but it is required to be shown on your financial statements. They say there is not going to be any impact on ratings but I could see already that in the budget review notes that we received for one of the authority budgets that we did they just mentioned that matters for future consideration, yes you can have back the net pension liability to create net position but if you use any of that it's just going to increase your GAP basis deficit and we know that. It's not a big deal and maybe they are trying to tell you that is going to happen but it's not supposed to matter. I'm wondering why they are telling us that so I guess we'll find out in future years if the state is actually planning to do anything in that. To dispel any concerns it was not the state's doing that this had to be reported. They may eventually want to be the beneficiary of it, who knows, it can't be projected, but that's not supposed to be the intent.

It was moved by Barse and seconded by Errickson that Resolution No. 2016- 103 "A Resolution of the Landis Sewerage Authority certifying that the Commissioners of the Landis Sewerage Authority have reviewed the 2015 Audit Report..." be adopted. Roll call: Barse, Reuben, Errickson, Villar and Merighi voted "yes".

It was moved by Errickson and seconded by Reuben that Resolution No. 2016-104, "A Resolution of the Landis Sewerage Authority authorizing entrance into the National Governmental Cooperative known as the National Joint Powers Alliance..." be adopted. Roll call: Barse, Reuben, Errickson, Villar and Reuben voted "yes".

Dennis stated it's like the State bid list but expanded. There's more equipment and larger stuff like some of the tractors and farm equipment we may need. Hopefully because it's a

mass bid we will get better pricing and we could avoid the cost of putting together a bid, advertising it and so on.

It was moved by Errickson and seconded by Barse that Resolution No. 2016-105, "A Resolution of the Landis Sewerage Authority authorizing the award of an alternate method contract with Horizon Blue Cross Blue Shield of New Jersey to provide a fully insured healthcare plan..." be adopted. Roll call: Barse, Reuben, Errickson, Villar and Merighi voted "yes".

Reports:

Executive Director

Dennis Palmer reported that we had our financial meeting going over the budget and the audit.

We had a tour from DEP and there were 23 staff members that spent most of the day at the Authority. They were new employees and the idea was to see a facility that has a multifaceted items. We spent the time here at the plant, going out into the field, to the farm and seeing the different projects we are working on.

We have an intern from Rowan coming in. Rowan requires 100 hours of internship at no pay and we have a young woman who is in environmental science at Rowan. She will be working for about eight weeks Wednesdays and Fridays. We will give her experience in the plant, the collection system doing sampling and going out to the farm.

We have a meeting coming up for the Quail Management project next week. We will be meeting with the partners that we have on establishing the project. We want to do a burn and we have a permit. We want to do a burn in the wooded areas where we planted for the quail. It gets rid of the greenbrier, the fragmites. It makes a much better forest because the greenbrier takes all of the nutrients from the trees. There is a seed inventory waiting in the soil for a fire and you get plants that you want to grow rather than things like greenbrier as well as everything we planted last year. The quail are not here yet.

Field Engineer

Bob Schwarz reported that we will be meeting with the City Utilities and the Engineers to discuss a coordination of our future plans for each utility. The purpose of the meeting is to advise each other what needs to be planned with respect to infrastructure projects in the near future.

Med Express submitted plans for a new facility at the Acme shopping complex at Main Road and Chestnut Avenue. Paving is scheduled to occur this week to continue to pave roads that have settled relevant to the sewer trenches.

Allied Steaks provided revised plans for the proposed facility. We will be reviewing the plans and responding.

Solicitor:

Steve Fabietti reported in the State permit fee litigation, the State's brief will be due first week of October so by the time the next meeting rolls around I will have it in hand. Our office is working is also working on collecting some funds for J.L. Septic of South Jersey which was a customer of the receiving station that did not pay. There was a motion on for September 16th. We have levied upon funds of \$5,549 and this motion would be that the Court authorizing the bank to turn over that money to the Authority.

We've been consulting with Dennis and the staff about an issue that came up with a customer who filed bankruptcy and did not list the Authority as a creditor for back fees and also how we address that in terms of billing with certain language for the staff to highlight. Obviously debts that are prior to the petition in bankruptcy are handled one way but going forward they should be collected if the money is owed and we will try to emphasize that to the customers.

Chairman:

Chairman Merighi said he would just like to speak on behalf of the Commissioners to commend our staff, Tom and the entire crew for a great job getting the information to Stephen and Steve it is always a professional job as well and very informational. We appreciate it.

Issues and Correspondence: None

Committee Reports:

Engineering/Plant:

Dennis Palmer reported that it's a little slow as our engineers hit some key milestones. We had a 30% meeting on the plant. I expect 60% or 75% towards the end of the year. We should have a 30% on the Sears pumping station soon. The engineers come in, lay out where they are as far as design, concept principles and what they are going to be doing. We get a change to look at it later and then you go out to bid and that should be coming soon.

Budget/Finance:

Joseph Reuben reported that income is approximately \$654,500 or 9.87% over budget. Expenses are approximately \$315,402 or 5.0% under budget and accounts receivables decreased approximately \$357,196. The Authority continues to be affected by the economy and is keeping a close watch on its budget.

Dennis also stated that we are starting to pull together for next year's budget. We're looking at capital items other than the construction projects.

Human Resources: No Report

Public Relations:

There may be a small story on the DEP coming to the Authority.

Insurance Committee:

Carol Ricci stated that as reported last meeting, we have settled up everything with Horizon BCBS of New Jersey. We had ten people that opted to take the secondary plan and save a little money.

We had dramatic changes in the census this year, with families that have children that reached 26 and they are no longer insured on the policy or they've graduated from college and they have jobs that offer insurance which they have to accept under the Affordable Health Care Act. Also we had people retiring, dropping insurance and consolidating onto their spouses insurance. We are going to spend less on major medical than we did last year. It was \$930,153 last year and it will be \$881,690. There is always a little fluctuation in who comes on and who comes off. We will save a little over \$48,000. Everything goes into place on October 1st.

Allocations/Administration: No Report

Old Business: None

New Business:

Dennis mentioned that the fall conference information came yesterday and it is November 15 and 16 and Caesars.

Adjournment:

At 6:49 p.m. there being no further business to come before the Board, it was moved by Erickson and seconded by Reuben that the meeting be adjourned. Roll call: Barse, Reuben, Erickson, Villar and Merighi voted "yes".

THE LANDIS SEWERAGE AUTHORITY

G. STEVEN ERRICKSON, Secretary