

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
BUDGET WORKSHOP  
March 2, 2011**

- Call to Order: The Budget Workshop of March 2, 2010 was called to order at 7:00 p.m. with the Pledge of Allegiance by Chairman Galante.
- Announcement  
By Chairman: Chairman Galante announced that this meeting is being held in conformance with the Open Public Meetings Act. Notice has been given to the newspapers and notice of the meeting has been posted in public places.
- Roll Call: Present:  
Thomas Galante, Chairman  
Edward Testino, Vice-Chairman  
Kiran Desai, Secretary  
Nicholas Smolney, Treasurer  
Reginald Butler, 1<sup>st</sup> Alternate  
Richard Greene, 2<sup>nd</sup> Alternate
- Absent:  
Rocco Donatelli, Commissioner
- Also present:  
Guy Donatelli, Executive Director  
Michael Roy, P.E.  
Stephen A. Florek II, Comptroller  
Louis E. Granata, Esq.  
Robert Morrison, Auditor
- Presentation: Nicholas Smolney accepted plaques from the Commissioners in recognition of his service to the Authority as past Chairman.
- Purpose of Budget  
Workshop: Guy Donatelli, Executive Director
- Executive Director Donatelli announced that the staff had prepared the 2011-2012 budget for Commissioners' review and comments.
- Budget Report: Mr. Stephen Florek II, Comptroller
- Mr. Florek referred to the introduction letter sent to the Commissioners which describes the approach taken to and what

has been included in the budget. Senior and disabled citizens will continue to enjoy a 20% discount. The budget does not include an appropriation for the Township. The budget has been reduced by 1.1% (\$345,000) from \$31,916,000 to \$31,571,000. Unrestricted Retained Earnings is in the amount of \$3.233 million. The current minimum user amount has been reduced from 8,000 gallons to 6,000 gallons which will allow for a stable rate.

#### Budget Summary by Major Categories

- Debt service (+) \$158,000;
- salaries and wages (-)\$106,000
- Middlesex County Utilities Authority (+) \$315,000
- Benefits (-) \$472,050
- OPEB (+) \$10,343
- Operations and Materials (+) \$122,100
- Utilities (-)\$70,600
- Capital Expenditures (+) \$1,165,813
- Insurance (+) \$33,637
- Office Expense (+) \$12,710
- Unrestricted Assets for the Township (-) \$1,343,703

#### Commissioners' Comments:

Mr. Smolney referring to the decrease in the minimum water usage stated that previously what was done was an attempt to reduce the amount of money that senior and disabled citizens would pay. In this case, there would be an increase in the water rate that these individuals would be paying.

Mr. Florek responded that the actual impact would be an additional \$6.12 per quarter for those who use between 6,000 and 8,000 gallons.

Mr. Greene added that these users will also be impacted by the rate increase from Middlesex Water. He requested a report showing the actual number of users in this category.

Mr. Florek stated that there are approximately 180 residential users who will be affected by the increased rate with the decrease from 8,000 to 6,000 gallons.

Mr. Smolney questioned the increase in medical benefits.

Mr. Florek responded that although the renewal date is April 1, he has not been given a definite rate.

Mr. Smolney stated that he believed that there was a sufficient amount in fund balances to continue the policy of appropriating money to the Township.

Mr. Florek stated that currently \$1.1 million is the current fund balance and from that small amount, the Township could not be paid any money.

Mr. Smolney asked if there were any replenishment between now and the end of the year, could there be an appropriation to the Township.

Mr. Florek anticipated an increase of \$4.2 million in the fund of which \$3.2 million will be used in the current budget leaving \$2.1 million which is still not a sufficient enough cash reserve to appropriate money to the Township.

Mr. Greene stated that Unrestricted Retained Earnings is generated as surplus from prior years' budgets. The projection is a surplus of \$2.1 million on June 1. Mr. Greene stated that \$2.1 million is money that may be used for emergencies, etc. To date the Township has received \$8.2 million from the Authority, and another \$1.4 million is expected which will deplete the unrestricted retained earnings, diminish the ability to hire, meet emergencies or to initiate new systems, i.e., the SCADA system. Although bonding may be an alternative, that can be very costly. The money appropriated for the Township will pay for its employees. The operation of the Authority should be protected.

Mr. Smolney stated that the Infrastructure Trust Fund has changed its funding cycle allowing three-fourths of the amount at zero percent.

Mr. Florek stated that he does not recommend appropriating money to the Township. An item that had to be removed from the budget was land acquisition on Rt. 34 for a water tank in the amount of \$1.5 million. There was not a sufficient amount in unrestricted retained earnings, and that land cannot be purchased through the Infrastructure Trust Fund. The amount of retained earnings is below the amount allowed by bonding companies.

Mr. Morrison stated that this is the third year that the Township requested (as an item of revenue in the Township's budget) a 5%

contribution of the unrestricted retained earnings be included in the Authority budget. During the first year that the Authority was considering making a contribution, there was a usable retained earnings cash balance of \$18.1 million. The budget called for the Authority to use slightly over \$5 million for its own purposes. The Township received \$1.3 million leaving approximately a \$12 million cash balance discretionary fund.

In the second year, there was a balance of \$18.2 million in Unrestricted Retained Earnings of which \$5.1 million was used in the budget, and the Township received \$1.34 million. The Authority put \$5 million in an irrevocable trust to fund the future costs of health benefits for retirees. That is why there is a \$470,000 reduction in health benefits in this budget. There are no health benefits for retirees included in this budget.

The Authority also purchased land for the recharge basin in the amount of \$5.6 million. So, from a cash balance of \$18.2 million, there remains \$1.1 million. Mr. Florek is anticipating \$4.2 of favorable budget variances. Prior to creating the irrevocable trust and purchasing land for the recharge basin, the Authority had a balance of \$16 million. Assuming \$4.2 million in favorable variances, the balance could be \$5 million. The money is there, but the surplus that the Authority has enjoyed in past years is gone.

Mr. Desai asked if there was an amount included in this budget for future health benefits. If so, that amount should be excluded.

Mr. Florek stated that the money in the Irrevocable Trust is for retirees. The current active employee benefit cost is in a line item in the budget general funds.

Mr. Smolney asked if the Authority were to entertain a \$1.4 million payment to the Township, what would be the concerns.

Mr. Morrison responded that resolutions of both bodies would be required. A cash transfer would have to take place sometime prior to the close of the Township's 2011 budget. The concern of the Authority would be how to fund unexpected expenses without having to raise rates or selling bonds. From a financial prospective, the greatest concern is the impairment of the revenue stream based upon the weather, i.e., a wet summer. The benefit in the change in the fiscal year was to gain more control over the capital outlays, an option that still exists.

Mr. Testino asked if there were a standard relating to what the reserve should be.

Mr. Morrison responded that there is no set accounting standard; however, in his opinion the Authority should have as much retained earnings as affordable. Prior to this financial crisis, the ratings agencies preferred retaining 10% of the operating budget as a reserve (\$3.1 million). That percent has decreased over the last few years, and Moodys and Standard & Poors cannot use that standard any longer. Operating deficits are his concern.

Mr. Smolney commented that when there was a \$12 million surplus, he with the assistance of financial advisors, approached the rating agencies to determine if the Authority could obtain a better rating, but the rating could not be changed because the credit worthiness of the Authority is directly related to the Township.

Mr. Greene responded that if that is the case, the Authority is in trouble. He has been in touch with rating agencies, and the key to the Township's rating is the amount of reserve.

Mr. Smolney agreed that the Township's rating is tied to its reserves, not to the Authority's.

Mr. Greene is adamant that a reserve is imperative to meet emergencies, and \$2.2 million is the minimum.

Chairman Galante appointed Commissioners Greene and Smolney as a committee to investigate the feasibility of appropriating money to the Township.

Mr. Smolney stated that with respect to the difficulties last year with the increase of flow and parameters in the billings from Middlesex County Utilities Authority, he knows that the Authority is in the process of researching what transpired and ways of mitigating the situation. The three high peaks of last year have not reoccurred. The fourth quarter was reasonable and lower, and there have not been any difficulties in the first quarter as yet. He inquired about the Authority's position with respect to the sewer rate if the flow rates are less for the portion of the year that is transpiring, will that be revisited, and is that taken into account in the budget.

Mr. Roy responded that this has been taken into consideration. This was viewed as one-time occurrences relating to construction

and operational processes. The numbers used in the budget did not include those high numbers.

Mr. Florek stated that if there is a reduction in the overall MCUA numbers, that would be a projection for next year based upon when the rates are set.

Mr. Smolney asked if the grant writer was to be funded.

Mr. Florek responded “no”.

Mr. Testino asked based on past history, what was the appropriate amount to keep in the unrestricted retained earnings fund to safeguard the operation of the water/sewer system.

Mr. Florek responded that in one year one-half million dollars was expended to mitigate the collapse of a trunk main for the Summerfield line. That pump station is being rebuilt at a cost of over \$1.5 million. The line at Waterworks Road is deteriorating.

Mr. Testino asked for an estimate of the amount to be spent on unexpected events.

Executive Director Donatelli responded that weather is a major issue. Although an increase from Middlesex Water is passed through to our customers it is only 20% of the budget. The other 80% of the water budget has been absorbed through attrition, efficiencies, cut backs, etc. There are increases in salaries, benefits, etc.

Mr. Testino asked why the Township would request the same percent.

Executive Director Donatelli stated that the Township is requesting the 5% of the operating budget which comes out of the Unrestricted Retained Earnings.

Mr. Butler asked Mr. Florek if he can project future earnings.

Mr. Florek responded that future earnings have been projected for the year ending May 31, 2011. The projection is adding \$4.2 million to the \$1.1 million current which would give \$5.3 million prior to the adoption of this budget.

Mr. Morrison stated that an audit in July will reveal actual figures.

Mr. Butler stated that in light of the current budget, he opposes giving money to the Township.

Mr. Greene added that the Authority is building on a \$2.1 million surplus which may increase. He emphasized that a portion of that surplus is used in the following year for operating purposes.

Executive Director Donatelli stated that the surplus will be reduced further by payments for debt service.

Chairman Galante reiterated that he would like Commissioners Greene and Smolney along with Messers. Florek and Morrison to research this matter further.

Adjournment: A motion was made to adjourn at 7:52 p.m. by Mr. Desai and seconded by Mr. Butler.

The motion was approved by an ALL AYES vote.

Respectfully submitted:

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Kiran Desai, Secretary