

REGULAR MEETING OF THE MUSCONETCONG SEWERAGE AUTHORITY

Chairman Rattner called the meeting to order at 7:00 PM. Following salute to colors, announcement was made that adequate notice of this meeting had been provided for as defined by the "Open Public Meetings Act".

MEMBERS PRESENT: James Benson, David Hoyt, Melanie Michetti, Michael Pucilowski, Steven Rattner, Joseph Schwab, Edward Schwartz, John Sylvester

MEMBERS ABSENT: Donald Bates, John Keiser, Patrick Kunkel, Daren Phil

OTHERS PRESENT: James Schilling

Chairman Rattner open and closed the meeting to the public.

Discussion for 2013 Budget:

Mr. Schilling announced that he had e-mailed all of the meeting documentation that had been submitted in previous budget cycles to the Commissioners. Additionally, he provided a packet at the meeting outlining the 2010 and 2011 final expenditure reports along with budget worksheet with the 2013 proposed budget. He also included the projected 2013 budget with a 2012 year end forecast. For 2013 he proposed a budget that is \$100,000.00 less than the 2012 budget. He indicated that two main areas with the ability to reduce the budget in savings is the labor plan as well as in the sludge disposal. However, he noted that there are forecast increase costs for maintenance repairs and equipment. Plant #1 is 20 years old and Plant #2 is 15 years old. The equipment and facilities are aging and costs are going up. He is trying to control and reduce costs. Some costs are not able to be controlled such as trustee administrative fees, disability, pension costs, health benefits and social security, which all continue to rise. He was able to reduce costs where he can for energy, sludge disposal and labor, but some costs are fixed and unable to be controlled. He stated that he has added two categories which are internal and were created to better understand cost centers and roll-up into the overall operating budget. He is trying to more easily track, manage and hopefully reduce costs with the additional categories. Mr. Benson questioned if the new categories were carved out of items that were already categorized. Mr. Schilling stated that is correct and pointed out supplies and chemicals have been reduced because he had added other expense categories reallocated to supplies and chemicals to better track and manage those costs. Mr. Schilling also discussed that permit and NJDEP fees go up every year, which is also another category that is not in his control. Chairman Rattner pointed out that the permit and compliance fees can go up and down each year depending on what permits fees are due each year. Mr. Rattner summarized the past years and permit and compliance expenses, and indicated that the trend does not always go up. Mr. Schilling said if you look at the 2010 and 2011 expense reports there are variances ranging just below \$19,000.00, however if you look at year to date for 2012 the fees are already at \$20,323.00. He also stated that the overall plant permits have gone up and some permits are only paid every 3 or 5 years. Also, some laboratory testing is done for NJDEP compliance and should be under permits and compliance fees and not laboratory fees. Mr. Rattner questioned how much are the laboratory compliance fees. Mr. Schilling could not estimate that. Someone questioned if the certification fees should be put in laboratory fees or in permit and compliance fees. Chairman Rattner indicated that Mr. Schilling could have as many separate categories and sub-categories that roll up into the main categories as he would like if that helps track expenses.

Administrative Salaries and Wages: Chairman Rattner indicated that Mr. Schilling has now included his salary into administrative salaries and wages, instead of operating salaries as it has always been categorized. Mr. Schilling explained why he would like to categorize his salary in the administrative salaries and wages. He also wanted to keep his salary separate from the hourly operating salaries so he could track and see the hours of employees and where the overtime expenses are being reduced. Administrative salaries and wages was budgeted at \$136,000.00 for 2013.

Trustee Administration Fees: Mr. Benson asked why there was a 20% increase in the trustee administration fees. Mr. Schilling stated he did not know why those fees have gone up, but he did mention that there is a \$2,700.00 variance and the account is already over budget. Mr. Schilling also noted that the Auditor advised that \$60,000.00 for next year's budget would seem right and that the expense is not in his control. Mr. Schwab said that it seems like the trustee has added another layer with the NJEIT for some reason. Mr. Benson said he was questioning it because it seems like the trustee fee would be a predicable fee for the budget and yet it is up 20%. Mr. Schwab asked if the trustee administration fee would change in another year after that service is retired and noted that this year it went up because the MSA took on new financing. Mr. Rattner said it would be trending down eventually, but it has been going up at this time and in 2010 it was \$45,000.00, 2011 it was \$49,900 and now it is \$52,000.00 and he agreed with Mr. Schwab that it could be the State fees also. Mr. Schilling indicated that he budgeted \$60,000.00 according to the advice from the Auditor. Mr. Schwab stated that it is up

now because of the additional loan the MSA took from the Infrastructure Trust Fund, but the year after next it should start to trend down because the MSA will start to retire some of that debt service, so this year should be the largest and next year it should go down. Mr. Rattner said there should be no fee in the coming years because the debt service is going down. Someone questioned about trying to find a better bank. Mr. Rattner said they had looked into Wells Fargo, but with the change in the regulations Wells Fargo did not seem to be interested. He also indicated that the MSA had tried to contact a couple of banks about three years ago and never got any responses. The only response the MSA got was from TD Bank and that is why the MSA had changed from Chase, since Chase left the state. Trustee administrative fees were budgeted at \$60,000.00 for 2013.

Administrative – Other Expenses: Mr. Schilling noted that ADP was one of the vendors in the administrative – other expenses category which is another service that is going up. He said the budget was close to \$35,000.00 last year and he is predicting about \$33,000.00 for 2013. He said administrative – other expenses also covers a lot of costs for managing the office. Administrative – other expenses were budgeted at \$33,000.00 for 2013.

Legal: Mr. Schilling said that he recommends that legal go from \$20,000.00 to \$25,000.00 because he believes the MSA will need some additional counsel in 2013 for an employee issue and he wants to make sure that it is handled properly for the MSA and the employee's benefit. Legal was budgeted at \$25,000.00 for 2013.

Chairman Rattner questioned the additional categories and noted that he counted seven not two. Mr. Schilling explained that there are only two new accounts, external services and office. However, he said that internally there were B codes. He used B-18 as an example and said that it was actually used on 4 separate accounts and he simply broke those out. He noted that B-18 was for supplies and chemicals, but also included laboratory supplies and education and training. Mr. Schilling indicated that the reason he is breaking it out that way is to better understand how to manage the budget. He did not want to manage three huge categories under one B code and in each of those three categories were 50 to 60 vendors. He noted that gasoline was in supplies and chemicals and he moved it under the category with propane and the other fossil fuels. Mr. Rattner said he could understand why gasoline would be under supplies and the other fuels would be in a different account because one is used for vehicles and the other is used for productions. Mr. Schilling noted that it would be better to put gasoline with the other fuels so he can more simply keep track of the budget on fuel.

Audit: Mr. Schwab noted that the audit fees would be going from \$6,500.00 to \$7,000.00. Discussion took place indicating that the audit fee had stayed the same for three years. Mr. Schwab questioned about the auditor's time for phone calls. Chairman Rattner said the auditor does not bill for phone calls, he only bills for actual work he is asked to do and prepare. The audit fees were budgeted at \$7,000.00 for 2013.

Engineer: Engineering fees for the previous years were discussed. Mr. Schilling indicated that he had a phone conversation with Lee T. Purcell and he is asking for a \$3,000.00 retainer and a \$20,000.00 engineering consulting budget. Mr. Purcell also pointed out that there is a 50% likelihood that litigation with the NJDEP would proceed in the next year. Chairman Rattner also mentioned that this could be for fees for Najarian Associates. It was decided that the budget for the engineering fee should be \$20,000.00 for 2013.

The budget fees for Pension, Social Security and Unemployment categories were considered to be fixed fees. It was discussed that Social Security was over the budget in that the government is putting surcharges on social security because it has been over extended. Pension was budgeted at \$84,700.00 for 2013. Social Security was budgeted at \$60,000.00 for 2013 and unemployment was budgeted at \$7,000.00 for 2013.

Hospitalization: Mr. Schilling said he did not get a budget number for hospitalization from the state as yet. It was noted that the state did not have all the health plans that were to be decided on by November 9th. Mr. Rattner said that the state consultant advised it should be 8-1/2%. Mrs. Michetti asked if the MSA was governed by a cap. Mr. Schwab replied that there was no cap. Mr. Rattner said the governor has the right to veto the MSA budget and that is why it is submitted to them. Hospitalization was budgeted at \$222,800.00 for 2013.

Disability Insurance: The disability insurance was discussed and it was questioned whether the budget number included long and short term disability. The disability insurance was budgeted at \$10,000.00 for 2013.

Operating Salaries and Wages: Mr. Rattner mentioned that the operating salaries and wages budget for 2012 was \$750,000.00 and 2013 will be at \$620,000.00. Mr. Benson questioned if there was any real savings in the operating salaries. Mr. Rattner indicated it was a savings of \$36,000.00. He also explained the operating salaries was now excluding the Director's salary. Mr. Schilling mentioned that the operating employees would be getting a salary increase on January 1, 2013. Mr. Rattner also said there would be more overtime expected for snow removal than last year. Mr. Schilling noted that there is a 37-1/2% decrease in overtime. He also noted the operating salaries will now only be related to the labor force without the Director's salary so the budget could be reviewed without pulling the numbers in and out. It was decided that the budget for operating salaries and wages would be \$620,000.00 for 2013.

Reserve for Retirement: Chairman Rattner said the retirement reserve was only established a couple years ago because employees have retired with a certain amount of money. The contract was revised so that anybody who retires could get up to \$15,000.00. He noted that the workforce is aging and there now needs to be enough in the budget at this time so it could be like a trust fund. Mr. Schwab asked if the account rolls with a balance like renewal and replacement. Chairman Rattner replied that it does and it is a reserve account. Mr. Schwab asked what the current balance is for the reserve for retirement. Mr. Schilling estimated that it was \$11,000.00. Mr. Schwab asked if anyone knew how many sick days are outstanding. Chairman Rattner answered no and you do not always know if someone may be planning on retiring. Mr. Benson asked if the retirement was capped. Mr. Rattner said yet it had been capped at \$15,000.00. Discussion took place on how the reimbursements for sick days were handled upon someone retiring. Mr. Schwartz suggested that a report should be printed to see how many outstanding sick and vacation days are actually in place. Mr. Schilling indicated that if someone goes on disability they have to use their sick time first. Mr. Benson said the retirement reserve should be carried as a liability. Mr. Rattner said it may be and he would have to review it. It was decided that the reserve for retirement would be budgeted at \$15,000.00 for 2013.

Telephone: Mr. Schilling said he had been researching the telephone expenses. Chairman Rattner asked why did it go up to \$14,000.00. Mr. Benson said that he believed that Mr. Schilling was looking into technology enhancements. Chairman Rattner said the budget for telephone had been approximately \$10,000.00 or \$11,000.00 for quite a few years and asked why the increase of 30 to 40%. Mr. Schilling responded that Cite-net was a new line item under telephone, which cost \$1,500.00 annually. He added that he was very satisfied with their service. Telephone was budgeted at \$15,000.00 for 2013.

Electric: Mr. Schilling stated that he believed that \$527,000.00 was a bit of a savings and a manageable number for the electric budget. He said that there have been savings and less consumption this past year. Electric was budgeted at \$527,000.00 for 2013.

Propane/Fuel Oil/Gasoline: Mr. Schilling budgeted the propane, fuel oil and gasoline costs at \$35,000.00. He mentioned that he rolled gasoline into the category. Mr. Benson asked if Mr. Schilling took all the site services and fuel usage into consideration. Mr. Schilling replied that was correct and he did not see those costs for fuel going down. Propane/Fuel Oil/Gasoline was budgeted at \$35,000.00 for 2012.

Supplies and Chemicals: Mr. Schilling said he had lowered supplies and chemicals by \$85,000.00. Mr. Schwab asked if that was because he moved some line items into other categories. Mr. Rattner asked which line items did he omit. Mr. Schilling responded that he had previously given the commissioners the tab outs for the supplies and chemicals and there were over 60 vendors. Mr. Schwab reviewed the tab outs and asked where did education and training get moved to. Mr. Schilling said that he moved most of the line items to external services. They discussed some of the services he included in external services from supplies and chemicals such as American Water and Waste Management. Mr. Schilling said it made for a lot more clarity. Supplies and Chemicals was budgeted at \$135,100.00 for 2013.

Laboratory Supplies: Mr. Schilling stated that laboratory supplies increased by \$2,000.00. Laboratory Supplies was budgeted at \$8,000.00 for 2013.

Education and Training: Mr. Schilling said he and the administrator often questioned where education and training should be allocated. Additionally, he mentioned that education and training covered the different license renewals of plant employees and the license incentive program. He believed that \$15,000.00 was a realistic number. Education and Training was budgeted at \$15,000.00 for 2013. The importance of the license incentive program was discussed further and it was suggested that it should be encouraged among the employees. Mr. Schilling agreed and said that he would follow up with the employees.

Laboratory Fees: Mr. Schilling said he proposed \$30,000.00 for the lab fees budget for 2013 which is a \$5,000.00 increase from 2012. Mr. Rattner asked if that was almost double of what Mr. Schilling thinks will be spent. Mr. Pucilowski asked if the lab certification was done this year. Mr. Schilling responded that every year the lab certification fees were renewed as well as the proficiency testing. Mrs. Michetti indicated that she thought Mr. Schilling moved the proficiency testing into NJDEP compliance fees. Mr. Schilling apologized and said he kept it under lab fees. Chairman Rattner said that this year the lab fees almost tripled than over the previous years and asked if they will triple again this year. Mr. Schilling noted that the MSA spent \$18,000.00 for lab fees in 2010 and \$21,000.00 in 2011, so it was fairly consistent. He said that what he would be forecasting for this year is 1) there are fuel surcharges on the lab fees and 2) we may have to go out to bid, based on some comments at the previous meetings, and that could drive up the costs. Mr. Rattner again questioned that it will almost double. Mr. Schilling responded that it has not doubled in just one year, but has gone up considerably over the past years. Laboratory Fees was budgeted at \$25,000.00 for 2013.

Maintenance and Repairs: Chairman Rattner indicated that the maintenance and repairs budget was a very rough guess if he looked at the past years. In 2011 it was \$89,000.00 and the year before it was \$75,000.00 and it has been as high as \$103,000.00. Mr. Schilling said last year the budget for

maintenance and repairs was almost \$90,000.00 and he is asking for another \$10,000.00 to make the budget \$100,000.00 for 2013. Mr. Schwab mentioned that the NJEIT projects did handle some of the maintenance and it took some of the money away that would normally be spent. Mr. Rattner mentioned how the MSA had bundled some projects in the past to save on repair and replacement. Maintenance and repairs was budgeted at \$100,000.00 for 2013.

Insurance: Chairman Rattner questioned the insurance increase and asked if that was just figuring in a 20% increase. They discussed the insurance from previous years and how it had fluctuated. Mr. Rattner said you really cannot project what the insurance is going to be. Mr. Pucilowski asked Mr. Schilling when the premium is due and what it will be. Mrs. Michetti asked if the policy was renewed. Mr. Schilling said it looks like the insurance is renewed and the premium is due in January and April. Mr. Rattner asked how much was the rebate. Mr. Schilling responded that it was \$531.00. Mr. Schilling also mentioned a worker comp claim that the MSA recently had. Mr. Rattner explained about the insurance and the classes that are required. There was discussion about the buildings on site and which buildings are being insured. There was also discussion about discarding the compost equipment. Insurance was budgeted at \$110,000.00 for 2013.

NJDEP Fees: Mr. Schilling said he raised the NJDEP fees by \$3,000.00 because those costs are going up and there are fees that are due once every five years. NJDEP Fees was budgeted at \$25,000.00 for 2013.

Permit and Compliance Fees: Mr. Schilling kept Permit and Compliance fees at \$100,000.00 as it has been in the past years. He indicated that it may or may not be enough if the MSA goes to litigation. Mr. Rattner said the only one that could better predict if that will happen would be Najarian Associates and even if the MSA gets notification at the beginning of the year it is going to be a lot of paperwork, but he did not believe the MSA would have to go to court next year. Mrs. Michetti said the NJDEP does not normally respond for five years. Mr. Schilling said the engineer and attorney sent him e-mails that day stating that there is a 50% likelihood the litigation will not proceed during the next year. Permit and Compliance fees was budgeted it at \$100,000.00. Mr. Benson asked if permit and compliance fees were annual fees or can it be put in a reserve. Mr. Rattner responded and he explained why the MSA gets rebates if it does not spend the money and why the money goes into the next year's budget. Permit and compliance fees was budgeted at \$100,000.00 for 2013.

Equipment: Mr. Schilling stated that there is no change in the equipment budget. Mr. Pucilowski asked if all the vehicles were good and if the MSA did not need to purchase any new vehicles in 2013. Mr. Schilling said he had discussed it previously with Chairman Rattner and who had provided an overview of how to look at fuel consumption, depreciation, insurance and mileage, and it was decided that no new vehicles would be needed in 2013. Mr. Rattner questioned the past equipment budgets at \$10,000.00 and asked if the new security gate is the biggest expense this year. Mr. Schilling responded that was correct. Someone asked about computers. There was some discussion about exactly what equipment was covered in the equipment category. Equipment was budgeted at \$60,000.00 for 2013.

Sludge Disposal: Mr. Schilling said he proposes to reduce sludge disposal by \$125,000.00. Someone questioned if he can keep the sludge disposal at that level. Mr. Schilling said that it was his goal. Mr. Rattner explained that you do not know exactly what could affect the amount of sludge disposal especially with temperatures and rain. He also indicated that the budget could go up to, but cannot exceed, so the number has to be enough for the operation. Sludge Disposal was budgeted at \$550,000.00 for 2013.

Contingency: Mr. Schilling said there was no change in contingency. Contingency was budgeted at \$25,000.00 for 2013.

Capital Improvement: Mr. Schilling said there was no change in Capital Improvement. Mr. Schwab questioned about the debt service. Mr. Rattner said that the debt service would still go down and would go down a lot more in 2014. He explained some of the figures for the debt service and that this year the MSA debt service is 2.7 million dollars and last year it was 3.4 million dollars. He said the big difference was because the MSA applied the \$750,000.00 loan. Mr. Rattner said that next year, because the loans from Phase 1 and Phase 1A are going down to 2.5 million without the \$750,000.00, so the MSA will be almost one million dollars less next year. He also noted that in 2014 it will be another \$900,000.00 less because all the MSA's bigger loans will be gone. He indicated that all the member municipalities will benefit from this except Hopatcong because they have the newer bonds. He said Roxbury's total charge would be reduced by about \$100,000.00 less for 2013 and the year after it will be reduced another \$90,000.00. For Stanhope, he indicated, that based on the auditor's schedules, their debt would stay about the same, but in the following year it will be reduced by about \$140,000.00. He said it looked like Netcong's charge could be reduced by almost \$200,000.00 because they had a lot of allocation. He estimated that Mount Olive would have approximately a \$300,000.00+ reduction. Hopatcong would be a total of \$180,000.00 over the cost. Byram's charge would go down \$55,000.00 and then another \$20,000.00 in 2014. Mrs. Michetti questioned if the Phase 1 was completely paid off. Mr. Rattner said he believed that one of the Phase 1's would be paid off in January and the other Phase 1 would have one more payment. Mr. Schwab questioned where the capital improvement should be showing on the budget and should it be taken out because it is not considered operating. Mr. Rattner replied that it is considered operating because the money is taken out of the operating account and put it into a trust fund. Capital Improvement was budgeted at \$150,000.00 for 2013.

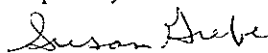
Renewal and Replacement: Mr. Schilling said he budgeted Renewal and Replacement at \$50,000.00 with no change from last year. Chairman Rattner stated that is the one category that the MSA has been light on, because renewal and replacement could cost up to \$300,000.00 or more if there is a fire or electrical repairs are needed. The MSA does not have the ability to easily try to borrow money. It would involve all the member towns agreeing. His goal, after talking to the auditors about five years ago, was having about half a million dollars in renewal and replacement, but that is high. Mr. Rattner suggested to let the auditor put everything together and make sure the numbers make sense to see how much the rebate is going to be because we do not want to give much less than we did last year. Chairman Rattner further explained how the capital will build back up for the future when the MSA may have to do a million dollar project and it would not have to borrow any money at all. Mr. Schilling asked if renewal and replacement should be increased. Mr. Rattner said he would like the auditor to review it. Mr. Schwab said he would like the budget for renewal and replacement to be increased. Mr. Rattner agreed, but said right now the MSA may also want to look at doing certain projects such as the computer networking and it is possible to do a transfer before the end of the year. Mr. Schwab stated that it looked like there was room to increase renewal and replacement this year and was not sure about what the auditor had to look at. Mr. Rattner said he was looking at the year end projection, and he was not sure if they would be good. He noted that last year the MSA refunded \$373,000.00. If we do not refund \$373,000.00 that means the net cost to the towns increased. Mr. Schwab said he is not comfortable with a \$260,000.00 balance for renewal and replacement. Mr. Rattner agreed on \$100,000.00 and noted that the account is a reserve and it is very tightly controlled. Mr. Schwab said that this year the MSA has been pulling out of renewal and replacement already, so it is not like we are going to be building our reserve. This year the MSA is already at \$40,000.00 and needs to get some additional money in the account. Mr. Rattner indicated that if we leave the \$150,000.00 in the capital improvement that is an additional \$300,000.00 which can be used for the same thing. Mr. Schwab understood that but suggested with the aging plant he felt there should be more money in the Renewal and Replacement account. Renewal and Replacement was budgeted at \$100,000.00 for 2013.

Office Supplies: Mr. Schilling stated that office supplies was a new category and it was inherent in supplies and chemicals. Office supplies was budgeted at \$20,000.00 for 2013.

Mr. Schilling indicated that he would revise his numbers and send them out to all the commissioners for their review. The total budget came to \$3,350,600.00 which is a reduction of \$52,000.00 from last year. Last year's reduction was discussed. Mrs. Michetti question if last year's reduction was a result of using the reserves, plus the debt coming off. Mr. Rattner answered no, last year's reduction was from the \$750,000.00 reserve. He said the MSA debt service this year was a couple dollars higher because of the loan payment. Mrs. Michetti indicated that this year the MSA was at the top and now it will go down. Mr. Rattner said 2012 actually went down because the MSA used the \$750,000.00 loan. He noted that next year the total number would be \$900,000.00 less and the MSA would still have another \$750,000.00 to use.

Motion made by Mr. Sylvester, seconded by Mr. Pucilowski and the affirmative roll call vote of members present, Chairman Rattner adjourned the meeting at 8:26 PM.

Respectfully Submitted:



Susan Grebe,
Administrative Assistant