



**SPECIAL MEETING  
PUBLIC HEARING  
2011 CONNECTION FEES  
MAY 3, 2011**

1. Meeting called to order by Chairman Dator at 7:55 p.m.
2. The Chairman read the statement in compliance with C.231, PL 1975.
3. Roll Call: the following Commissioners were present: Chewcaskie, Dachnowicz, Kasparian, Kelaher, Rotonda, Shafron, Dator. Commissioner Plumley was absent.
4. Salute to the Flag. The salute to the flag was led by Chairman Dator.
5. Chairman's remarks. This is the required public hearing for our connection fees rate adjustment. There is no public present but our auditor, Paul Lerch, is present and as part of the record we will be incorporating his qualifications and statement in regards to the report which was issued by his firm. The report was distributed to all the Commissioners in advance of the meeting. The connection fee for 2011 will be \$1,987 per EDU. The calculations allow us to go up to \$3,974 and we made a decision several years ago that we would only assess 50% of the allowable fee for new connections. The recommendation is that the new charge be \$1,987. The Chairman asked for any comments or questions of Mr. Lerch.

Commissioner Chewcaskie noted that we have a ten page document in regards to the hearing and since we are without counsel at the hearing it is required that Mr. Lerch, Mr. Hurwitz and Mr. Henderson testify. It was suggested that Commissioner Shafron administer oaths to each of the three individuals and Commissioner Chewcaskie would ask them if they adopt the statements contained in the written hearing document and then we will have complied with the requirements of law.

Commissioner Shafron swore in each of the individuals and Commissioner Chewcaskie asked each if they had the opportunity to review the statement contained in the attachment to the report and asked if they adopt those statements. Mr. Lerch, Mr. Hurwitz and Mr. Henderson all testified that they do adopt the statements in the report.

The Chairman asked for any questions in relation to the 2011 connection fee.

Commissioner Shafron wanted to know how our fee compares to BCUA's connection fee. Mr. Hurwitz pointed out that our fee is higher and that is why the Authority decided to cut the fee by 50%.


**6. Public Hearing – Adoption of 2011 Connection Fee.**

The public hearing was opened to the public for any comments on the fees. Having no public present Commissioner Chewcaskie made a motion to close the public portion of the hearing, seconded by Commissioner Rotonda. All Commissioners present voted to close the public portion of the meeting.

Discussion on Resolution #43-2011 by the Commissioners to adopt the 2011 Connection fee. There was no further discussion on the resolution.

**7. Vote on the Resolution.** The resolution was moved by Commissioner Rotonda, seconded by Commissioner Chewcaskie. All Commissioners present voted in favor of the resolution.

**8. Adjournment.** Commissioner made the motion to adjourn, seconded by Commissioner Rotonda. All Commissioners present voted to adjourn the meeting at 8:00 p.m. and proceed into the Regular Meeting.

  
Madeline Thumudo, Secretary

**NBCUA**  
**CONNECTION FEE HEARING**  
**MAY 3, 2011**

**PAUL LERCH**

Educational Background

**1986 – William Paterson College, Bachelor of Arts in Accounting**

Year of CPA License

**1990**

When did you begin the practice of accounting

**1986**

Have you practiced accounting continuously since then

**Yes**

Serve as Auditor for NBCUA

**Since 2003**

Chairman qualifies Paul as Expert Witness in accounting

Did you perform an investigation for the NBCUA with respect to proposed connection fee program?

**Yes**

Did you render a report to the NBCUA with respect to the results of that investigation?

**Yes, our report is dated April 27, 2011.**

Mark Report as NBCUA – 1

Are you familiar with N.J.S.A. 40:14B-22?

**Yes**

In particular, are you familiar with the formula for calculating connection fees in that statute?

**Yes**

Did you follow that formula in preparing the report marked NBCUA -1?

**Yes**

1. The first step in the calculation is to determine the total investment of the Authority in the existing system?

**Correct**

In that context, what was the first thing you did in your investigation?

**Gathered historical financial data contained in audits, bond closing documents and public offering statements for the purpose of determining amounts paid toward the cost of the sewer system funded by bonded debt, loans and temporary financings.**

What did you include as amounts paid toward the cost of the sewer system?

**I included all principal paid on bonded debt and loans and interest paid on bonded debt, loans and temporary financings.**

How far back did you go in determining the principal and interest paid?

**I went back to debt issued in 1961 and included all payments made for principal and interest through 2009.**

What records were available to you in that context?

**Audits and/or official statements provided the information for all principal and interest payments made on Wastewater Treatment System Bonds and Notes issued.**

What records were not available to you?

**Audit reports for the years 1967 and 1968, and for the years prior to 1961 were not available. Official Statements for the following debt issues were not available: 1965 BANs, 1966 BANs, 1967 BANs, 1968 BANs, 1969 BANs, 1970 BANs (2 issues), 1973 BANs, and 1974 BANs.**

How did you deal with the absence of that data?

**The combination of available Audits and Official Statements provided all of the information necessary to compile the principal and interest payments made on all Wastewater Treatment System Bonds and Notes issued.**

What was the total amount of principal and interest which you determined?

**\$137,165,978**

Where does that appear in your report, NBCUA – 1?

**Page 6 – Exhibit C**

What steps, if any, did you take to confirm or prove the correctness of that figure?

**We compared principal and interest paid as provided in the analysis of debt information contained in our report Exhibit C to principal and interest paid per the audits for reasonableness.**

Did you include any adjustment for inflation?

**No**

Did you include any compounding of interest?

**No**

How did you treat defeasance or refunding bond issues?

**Any bonded debt which was subsequently defeased or refunded was not included in the amounts paid toward principal and interest. The defeased amounts were eliminated from the scheduled debt service payments contained in the closing documents and official documents and therefore was not included in the total cost**

In other words, you were careful not to count the same principal amounts twice in the case of bonds which were defeased or refunded.

**Correct**

How did you treat capitalized interest?

**Capitalized interest was not included in the calculations and was eliminated from the scheduled debt service payments for interest contained in the official statements.**

Again, you were careful not to include the same interest payments twice in your calculation

**Correct**

How did you treat scheduled future debt service requirements?

**Future debt service requirements as of December 31, 2009 were not included in the calculation. The sewer connection fee should be adjusted on an annual basis to reflect the future debt service payments as they occur.**

Where do those items appear in your report?

**Page 18 – Exhibit G**

**2. Did you determine the total capital expenditures funded by capital outlay, in other words, any amounts paid for capital expenditures from the Authority's own funds and not from the proceeds of bond issues?**

**Yes**

How did you go about determining the amount paid from capital outlay?

**Summarized the amount of capital outlay which was expended per the Authority's audits for the period 1961 through 2009.**

How did you treat vehicles and equipment in this context?

**In order to be conservative, we assumed that all purchases made for vehicles and equipment not related to the sewer system were paid from capital outlay expenditures. The amount of capital outlay expenditures was then reduced by the amount paid for vehicles and equipment not related to the cost of the sewer system.**

How did you go about determining the value of the vehicles and equipment purchased (i.e. – non-infrastructure assets)?

**I reviewed the audited fixed asset report for vehicles and equipment as of December 31, 2009 to determine the portion of amounts paid for vehicles and equipment which were not paid toward the cost of the sewer system.**

What were the results of that determination?

**I determined that out of the \$14,158,257 spent from capital outlay for the period 1961 through 2009, \$969,201 was spent on vehicles and equipment.**

Where does that appear in your report?

**Page 5 of my report – Exhibit B**

3. Under the statute, the next step is the total of all gifts, contributions & subsidies

**Correct**

What investigation did you do in that context?

**Review audits for the years 1961 through 2009 as well as financial data to determine if any grant awards, gifts, contributions or subsidies were used to defease debt.**

How do you know that Grant Proceeds were not included in the capital outlay spent as part of the budget process?

**The grant awards have guidelines established which require that these funds are separately accounted for outside of the budget process. I reviewed audits to ensure that the grant awards were not included in the operating budget where capital outlay is paid from.**

What did you determine as to whether any grants or gifts needed to be included in the calculation?

**\$3,071,137 of Federal and State Grant funds received were used to defease bonded debt service on the 1973 A Bond Issue.  
\$620,000 of Federal and State Grant funds received were used to pay down the principal on the 1974 Bond Anticipation Notes.**

What did you determine as to whether any contributions or subsidies needed to be included in the calculation?

**There were not any contributions or subsidies received that needed to be included in the calculation.**

4. The next prong under the statute is the amounts paid to the NBCUA by any public entity on account of capital costs

Were there any such costs paid?

**There were no costs paid by any public entity toward capital expenses as per NBCUA representation.**

5. Did you then calculate the NBCUA's net investment in the sanitary sewer collection and treatment system permissible under the statute?

**Yes**

How did you go about calculating that amount?

**The results of my calculation are presented in my report on Page 5 – Exhibit B.**

What did you determine the net investment in the system to be?

**\$136,648,745**

6. The next step under the statute is determining the average daily flow from the average single family residence in the service area to compute a base service unit

**Correct**

How did you go about determining that number?

**I contacted the NBCUA's consulting engineer Keith W. Henderson from T&M Associates and relied on his recommendation of 300 gpd as the average daily flow for a single family residence, which has been used to determine the equivalent service unit for the NBCUA**



7. The next step was a determination of the total number of equivalent service units in the service area

How did you go about determining that?

**I used the NBCUA 2009 Historical Flow Information for the last 5 years by member municipality. I then averaged the 5 years and divided the sum by 108,000 gpy (or 300 gpd) to determine the number of equivalent service units.**

Why did you average 5 years of flow?

**In order to be conservative and discount the possibility of an aberrant year based on above average or below average rainfall**

What did you determine to be the number of equivalent service units in the NBCUA system?

**34,384**

Where does that appear in your report?

**Page 4 – Exhibit A**

8. The next step was the calculation of the connection fee cost per service unit.

How did you go about that calculation?

**We divided (i) the net total investment in the system (i.e., the total debt service and total capital costs paid) by (ii) the number of equivalent service units**

What did you determine that number to be?

**\$3,974**

9. The connection fee statute requires that the combination of the NBCUA's service charges and the connection fees will meet the requirements of N.J.S.A. 40:14B-23. What is your understanding of that statutory requirement?

**That the combination of service charges and connection fees of the NBCUA will at all times be adequate to pay all of the expenses of operation and maintenance of the system without creating a windfall to the Authority.**

Does the combination of the service charges and the proposed connection fees meet that requirement?

**Yes**

**HOWARD HURWITZ**

After determining the connection fee cost per service unit, the Authority requested that you apply a reduction across-the-board to reach a lower fee.

**The Commissioners determined that the cost of \$3,974 was onerous and asked that the staff investigate connection fees at other facilities. Based on this investigation, I recommended to the Commissioners that a reduction (of approximately 50%) be applied to the actual cost of \$3,974.**

By applying the reduction of 50% across-the-board, is the resulting reduced fee fair and reasonable?

**Yes. The recommended 50% reduction will result in a Connection Fee of \$1,987, which is considered fair and reasonable when compared with other connection fees within New Jersey.**

**KEITH HENDERSON**

What is your educational background?

**I have been awarded a Bachelors Degree in Civil Engineering from Drexel University, a Masters Degree in Environmental Engineering from Manhattan College and a year of post Masters study in Biochemical Engineering at Drexel University.**

What licenses do you hold?

**I hold Professional Engineering Licenses in New Jersey and Pennsylvania. I am also a Licensed Professional Planner in New Jersey and a Licensed Land Surveyor in Pennsylvania.**

How long have you been an engineer?

**I have been an engineer for 33 years and a Professional Engineer for 30 years.**

How long have you served as Engineer for NBCUA?

**I have served as one of the NBCUA's engineers since 2004.**

What is your recommendation as to the daily flow for a single-family residence to determine the equivalent service unit for the NBCUA?

**The amount of flow attributed to a single family, three-bedroom residence is 300 gpd. This is the industry and NJDEP standard and is widely utilized to estimate sewage flows.**

What is that based upon?

**The NJDEP standard was established in NJAC 7:14A-23. The regulations also include flow standards for many other types of buildings and uses that have been incorporated into the NBCUA's connection fee program.**