

Mount Laurel Township Municipal Utilities Authority

Management's Discussion and Analysis (MD&A)



FINANCIAL HIGHLIGHTS

Management believes the financial position of the Authority is strong. According to its bond covenants, the Authority is required to generate revenues that are at least equal to 110% of its annual debt service, after deducting operating expenses. This is referred to as cover. For fiscal year 2018 (FY18, July 2017 – June 2018), the Authority generated a 285% cover. Key financial highlights for FY18 include:

- Total assets of \$137.42 million remained relatively the same when compared to fiscal year 2017 (FY17, July 2016 – June 2017), with a slight increase of \$607,900 (0.4%). Total liabilities decreased significantly, lead by substantial reductions in long term net pension liability (as described later in this MD&A) and Loans Payable.
- Service charges decreased marginally, falling slightly over \$452,000 (2.4%) compared to FY17. Connection fees increased nicely, finishing nearly \$430,000 higher than FY17. In total, operating and non-operating expenses outpaced operating and non-operating revenues by \$457,400 in FY18. When offset by \$492,000 of infrastructure installed by developers then turned over to the Authority for lifetime operating and maintenance, the Authority's Net Position increased by a nominal \$35,000 in FY18.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor’s Report, required supplementary information, (which includes the management’s discussion and analysis (this section), the schedule of the Authority’s proportionate share of the net pension liability, and the schedule of the Authority’s contributions), the basic financial statements, and supplemental information.

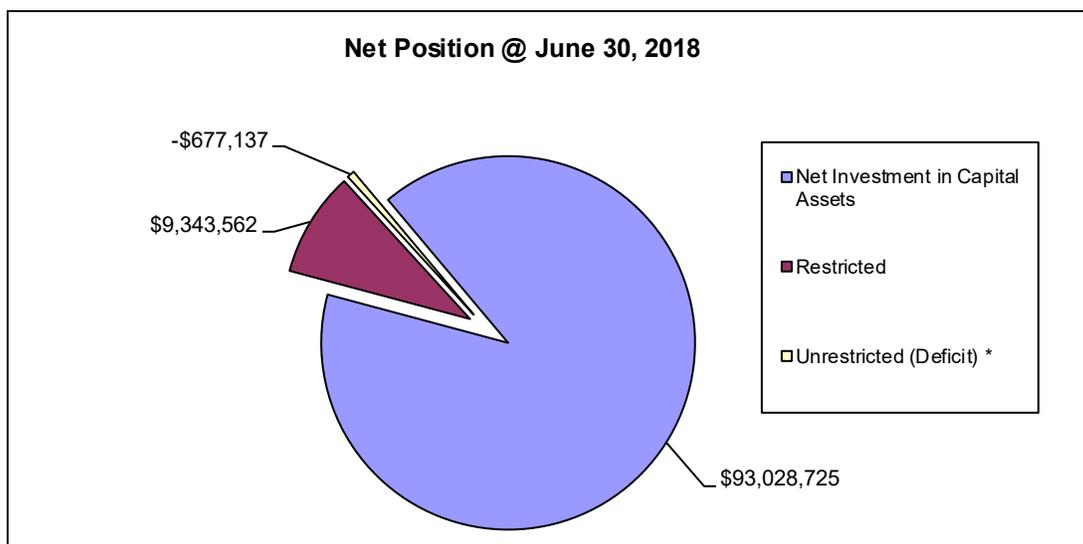
The basic financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The comparative statements of net position include all of the Authority’s assets, deferred outflows of resources, liabilities and deferred inflows of resources. As the Authority follows the accrual method of accounting, the current fiscal year’s revenues and expenses are accounted for in the comparative statements of revenues, expenses and changes in net position regardless of when cash is received or paid. Net position - the difference between the Authority’s assets, deferred outflows of resources, liabilities and deferred inflows of resources – is a measure of the Authority’s financial health or position.

The comparative statements of revenues, expenses and changes in net position provide a breakdown of the various areas of revenues and expenses encountered during the current fiscal year.

The comparative statements of cash flows provide a breakdown of the various sources of cash flows categorized into four areas: Cash flows from operating activities, noncapital financing activities, capital and related financing activities and investing activities.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority’s total assets as of June 30, 2018 were \$137,420,658. Total assets, total deferred outflows of resources, total liabilities, total deferred inflows of resources and total net position are detailed on the following page.



* Unrestricted Net Position is primarily used to pay for the Authority’s capital program not funded by debt issuance. More information concerning the use of these funds can be found later in this MD&A, under the “Operating Income compared to Paid Additions to Assets” graph within the Asset Management, Capital Asset, and Long-Term Debt Activity section.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONT'D)

**Mount Laurel MUA
Net Position
As of June 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current Assets	\$ 28,078,729	\$ 28,004,244	\$ 27,064,836
Capital Assets	109,341,929	108,808,540	109,693,640
Total Assets	137,420,658	136,812,785	136,758,477
Total Deferred Inflows of Resources	3,894,042	5,349,251	2,307,031
Current Liabilities	5,088,696	5,217,045	4,946,044
Long-Term Liabilities	26,425,868	31,785,669	29,167,524
Total Liabilities	31,514,564	37,002,714	34,113,568
Total Deferred Inflows of Resources	8,104,987	3,498,984	2,101,363
Net Position			
Net Investment in Capital Assets	93,028,725	90,561,492	89,463,918
Restricted	9,343,562	9,413,891	11,197,699
Unrestricted	(677,137)	1,684,955	2,188,959
Total Net Position	\$ 101,695,149	\$ 101,660,338	\$ 102,850,576

The Authority realized operating income of \$45,143 for the current fiscal year. When offset by a loss from non-operating activities, the Authority's loss before capital contributions was \$457,435. During FY18, the Authority received capital contributions in the amount of \$492,246. These contributions come in the form of infrastructure installed by developers during construction. Once the developer finalizes the project and it is accepted by the Authority, the developer transfers ownership of the new infrastructure to the Authority. It then becomes the Authority's asset and responsibility to operate and maintain in perpetuity. The combined effect from these components of fiscal activity resulted in the Authority's net position increasing by a slight \$34,811. The major components of this activity are discussed in the following paragraphs.

Service charges fell slightly in FY18. The \$452,000 (2.4%) decrease was largely due to 62 million gallons of water less being delivered to service when compared to FY17. Overall, the mix of the Authority's billing base remains well diversified with residential users comprising the vast majority of its customers. There remains a stable and growing segment of the billing base made up of residential, commercial and public customers, along with a very small industrial presence. The rate structure is stable and includes rate increases that were implemented with each year's February billings from 2008 through 2013.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONT'D)

**Mount Laurel MUA
Revenues, Expenses and Net Position
for the Fiscal Years Ended June 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Utility Service Charges	\$ 18,778,311	\$ 19,230,637	\$ 19,125,618
Connection Fees	718,515	291,795	2,235,022
Other Operating Revenues	662,194	637,853	674,136
Total operating revenues	20,159,021	20,160,285	22,034,776
Operating Expenses	13,969,115	15,414,950	13,675,086
Depreciation expense	6,144,763	5,927,044	5,989,599
Operating Income	45,143	(1,181,709)	2,370,091
Non-operating Revenues (Expenses)			
Investment Income	159,842	105,600	132,447
Interest on debt	(295,814)	(332,310)	(373,233)
Loss on disposal of capital assets	13,651	9,256	(5,229)
Insurance Proceeds		181,967	
Contribution to Mount Laurel Township	(380,257)	(374,070)	(447,716)
Income before contributions	(457,435)	(1,591,265)	1,676,360
Capital contributions	492,246	401,028	1,597,150
Increase in Net Position	34,811	(1,190,238)	3,273,509
Net Position - July 1	101,660,338	102,850,576	99,577,066
Change in Net Position	34,811	(1,190,238)	3,273,509
Net Position - June 30	\$ 101,695,149	\$ 101,660,338	\$ 102,850,576

Investment income increased strongly, with a year over year improvement of \$54,200. During the previous FY17, the Authority had increased its holdings in money market accounts to position itself for the purchase of more attractive, higher yielding investments when opportunities presented themselves. During FY18, the Authority did exactly that. Even with the impact of a negative market value adjustment on some investments at the end of FY18, the Authority still managed a 51% increase in interest income over the prior fiscal year. It should be noted that market value adjustments, whether positive or negative, ultimately tend to have negligible impact on the Authority. This is because their impact has more significance when investment instruments are sold before maturity, when market value influences the selling price. Since the Authority tends to hold investments until they mature, fluctuations in market value ultimately have no meaningful impact on the Authority.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONT'D)

Connection fee revenues increased substantially when compared to the previous fiscal year. Connection fee revenue is an indicator of the overall economy, as property developers typically slow down or accelerate their activities based on how the economy is trending in general. Developers pay connection fees upon submittal of plans to construct and connect residential developments, commercial properties, retail shops, etc. into the Authority's water and / or sewer systems. The Authority treats these payments as deferred inflows of resources until tie in is completed. When this occurs, the Authority releases a notice to Mount Laurel Township that a certificate of occupancy can be issued. The Authority then establishes a new billing account, reduces the deferred resource and recognizes connection fee revenue. Because the Township of Mount Laurel is approaching build out as less land is available for development, this type of revenue will generally decline in the coming fiscal years. In recognition of that inevitability, the Authority has had a long term fiscal planning model in place for many years that systematically reduces its dependency on connection fee revenues when projecting total annual revenue needs. This approach has served the Authority well.

Mount Laurel continues to be a desirable location for residential and commercial development. The composition of the ratepayer base is well diversified. The residential and public sectors, the most stable when considering the volatility of a billing base, comprise approximately 95% of the Authority's customers. There are dozens of hotels within the Township, providing the second highest number of rooms in New Jersey, behind only Atlantic City. There is no particular emphasis or imbalance in the type of business enterprises within the commercial sector. Industrial users comprise a minuscule portion of the Authority's billing base.



TopGolf Construction Project – Progress Photo

The Authority's fiscal activity yielded flat results for the year. Operating revenues totaled an aggregate of \$20.16 million, virtually the same as FY17. Connection fee and other operating revenues were \$450,000 higher than FY17, which served to offset the \$452,000 decline in service charge revenues. The Authority's operating expense (including depreciation) decreased by approximately \$1.23million (5.8%) compared to FY17. The more significant changes in revenues and expenses are described in more detail below.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONT'D)

As the original budget for FY18 was formulated prior to April 2017, certain actual events during the fiscal year necessitated amending the budget. The Authority approved this budget amendment in June 2018. Following is a narrative addressing the more significant amendments, and how those amendments compare to actual operating results for the current fiscal year.

OPERATING REVENUES & EXPENSES

Service charges (user fees) were originally budgeted at \$18.32 million but were amended to \$17.52 million. This decrease was necessary due to an anticipated reduction in the total gallons of water delivered to service in FY18. The number of gallons ultimately delivered to service during the fiscal year were slightly more than the number anticipated in the amended budget, resulting in actual service charges of \$17.44 million.

Connection fee revenue was amended significantly downward, from \$1.81 million to \$730,000. This \$1.1 million reduction was due to originally budgeted projects that either tied in prior to the start of FY18, partially tied in or ultimately did not tie in at all during FY18. Examples include connection fees for the Hampton Inn on Briggs Road (\$237k), 5000 Midlantic Drive (hotel phase) (\$316k), Rowan Student Center (\$318k) and NJ Turnpike Authority -TMD2 (\$139k). In the end, actual connection fee revenue realized for FY18 was \$718,500.



The Authority's operating expenses of \$13.97 million (excluding depreciation) in FY18 were \$1.45 million lower than in FY17. This was largely due to a few significant operational events during the fiscal year, which are described more fully below.

Fringe Benefits decreased by nearly \$765,000 compared to FY17; a decrease of slightly more than 22%. The overwhelming majority of this significant decrease was an adjustment to the Authority's Public Employees Retirement System (PERS) pension expense. This adjustment, required by a Government Accounting Standards Board statement (GASB68), requires that the Authority recognize its proportionate liability for long term PERS benefits. To satisfy that requirement, the Authority was obligated to record its FY18 PERS expense at \$995,400, down from the FY17 PERS expense of \$1.66 million. This represents nearly 87% of the decrease in fringe benefits. The remaining decrease is largely due to savings in group health insurance premiums, by virtue of the Authority selecting a lower cost base plan from the State Health Benefits Program.

OPERATING REVENUES & EXPENSES (CONT'D)

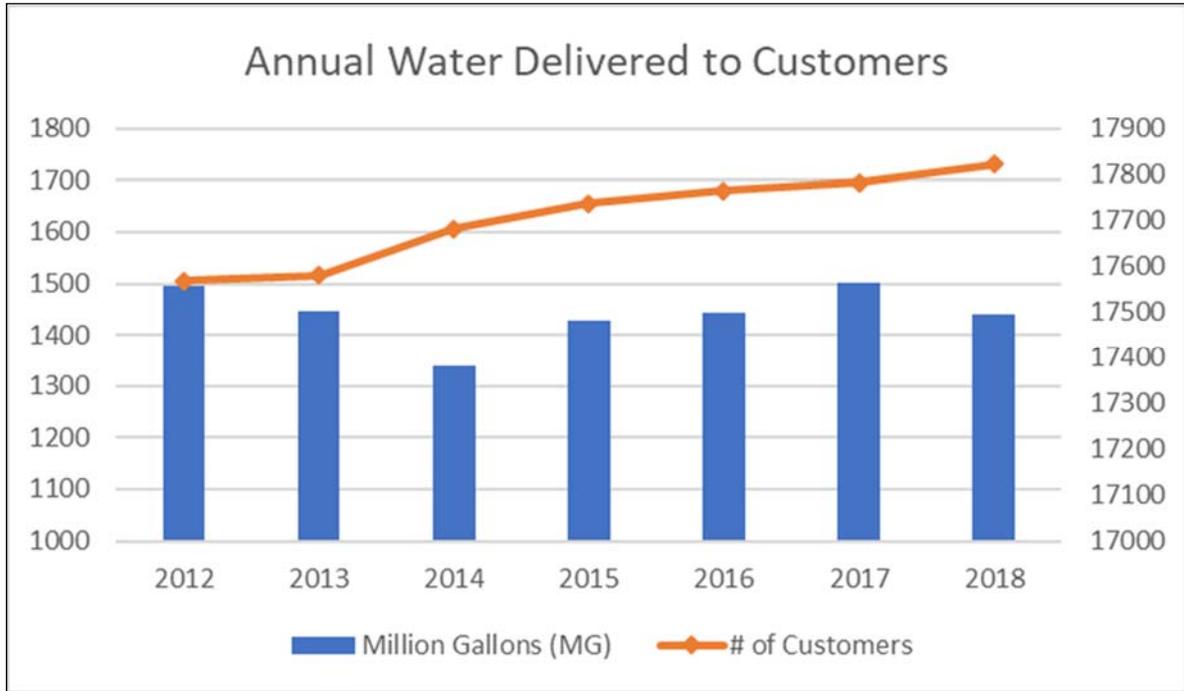
Electricity costs decreased in the current fiscal year by \$65,000 (6%), related to slightly lowered water demand and continued focus on energy efficiency. Examples of the Authority's steps toward efficiency include the use of sophisticated process control computers used at plant facilities, use of variable frequency drives and efficient pumps and the use of LED lighting at most facilities. A well-run preventive maintenance schedule continues to keep emergency generators in excellent, efficient condition. The Authority's 3rd party electric supply contract remains in effect until October 2019 and continues to work in the Authority's favor by keeping electric costs in check. In addition, the Authority's participation in an energy curtailment program has allowed it to generate income by agreeing to shed electric usage if called upon by the power grid. In FY18, participation in this program produced \$55,300 in payments back to the Authority.



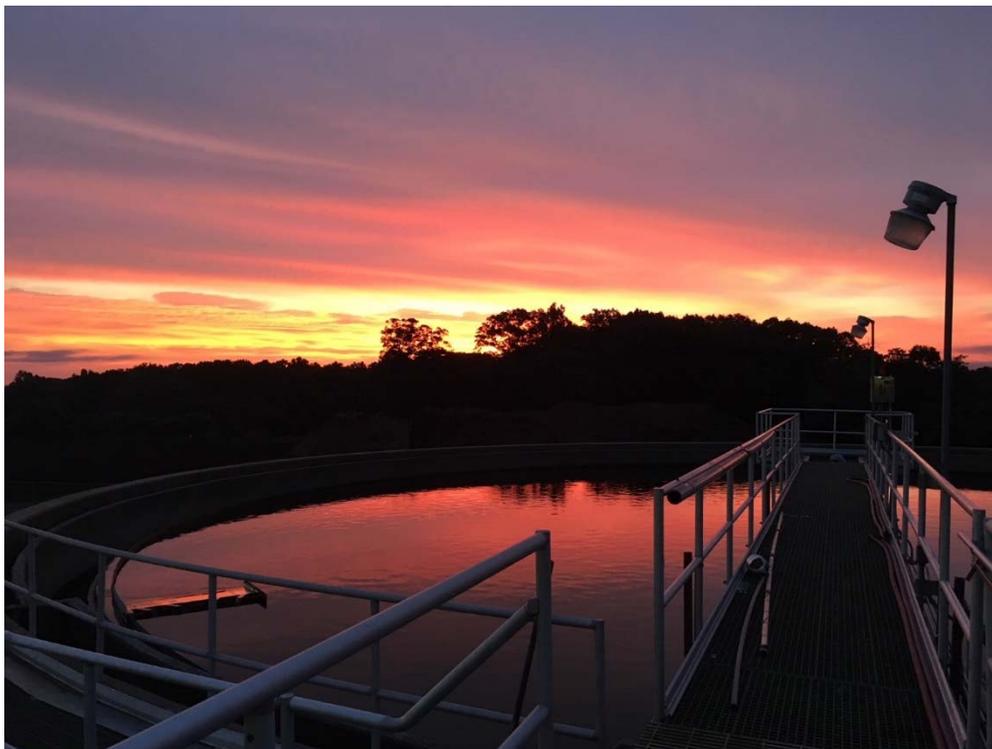
Routine Standby/Emergency Generator Maintenance

The total volume of water delivered to customers in FY18 was 4% lower than FY17, which is considered negligible. The New Jersey Department of Environmental Protection has restricted the quantity of water that the Authority can withdraw from its wells drilled in the Potomac-Raritan-Magothy Aquifer (Critical Area #2). The amount of water the Authority is permitted to produce annually equals the volume utilized for the Township in 1980. However, because the Township has experienced explosive growth in the ensuing years, the Authority has been forced to purchase more and more of its water from other water purveyors in order to meet the water demands of its ratepayers.

OPERATING REVENUES & EXPENSES (CONT'D)



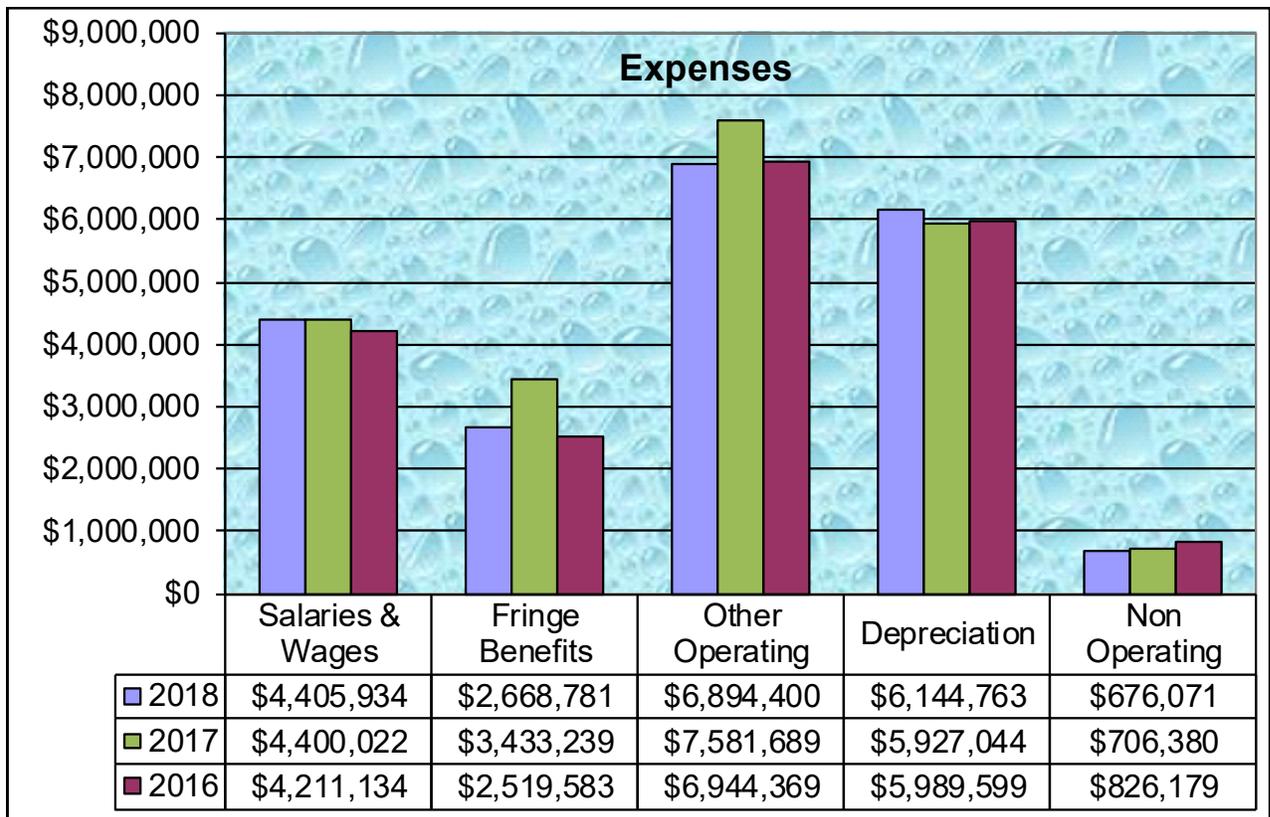
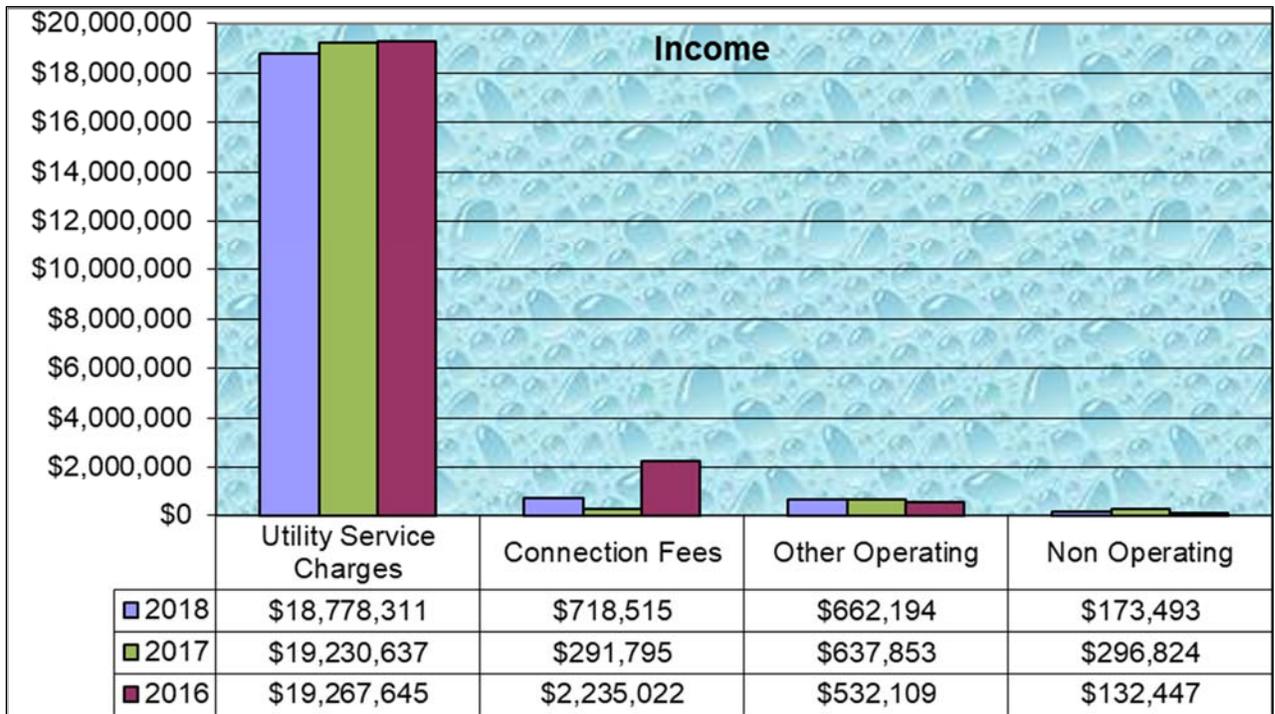
The total cost of purchased water from these outside purveyors decreased by nearly \$273,000 (11%) in FY18. This change was due to the Authority’s ability to utilize the water permitted to be drawn from its own wells, including water stored in its Aquifer Storage & Recovery well. The decreased water demand from the Authority’s ratepayers also decreased the need to purchase water from outside purveyors.



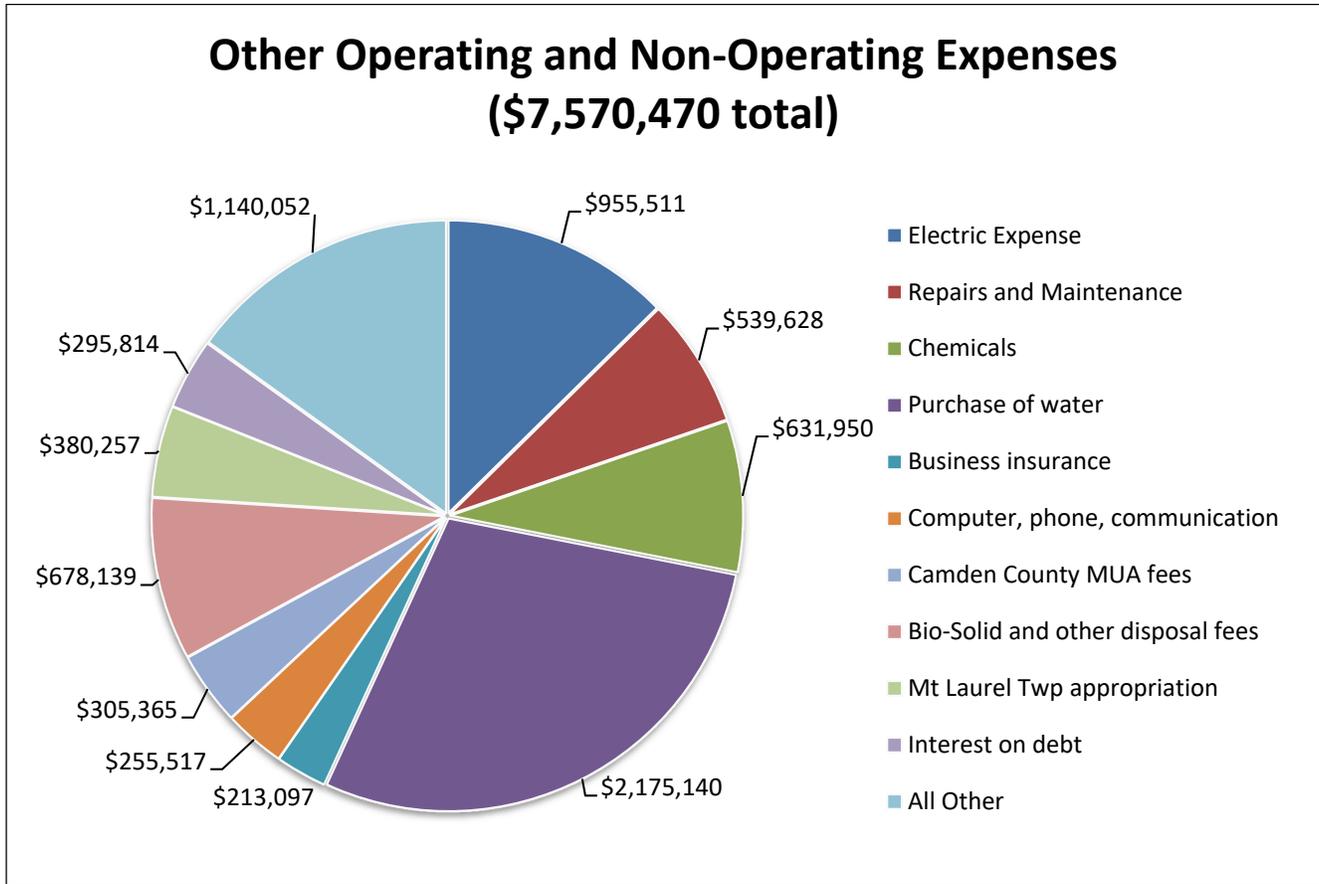
Sunrise at the Hartford Rd Wastewater Treatment Facility

OPERATING REVENUES & EXPENSES (CONT'D)

Graphical representations showing revenues and expenses for the three fiscal years of 2016, 2017 and 2018 follow.



OPERATING REVENUES & EXPENSES (CONT'D)



ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY

The United States Environmental Protection Agency (USEPA) has estimated that water systems in New Jersey require an investment of nearly \$8 billion within the next 20 years in order to continue providing safe water to the public. In addition, the 2016 American Society of Civil Engineers Infrastructure Report Card estimated that New Jersey’s water and wastewater infrastructure needs billions of dollars of improvements in the next 20-30 years. These are significant dollars by any measure, and point out the fact that water and wastewater infrastructure is extremely expensive to build and maintain. Particularly worth noting is the fact that many of the capital assets owned by an Authority are quite often underground or otherwise out of view from the vast majority of the public. Underground piping, pumping stations, valves, water and sewer mains, interconnections, control panels, computers, and many other appurtenances and components continue to do their jobs around the clock, without being seen. Above ground, many capital assets are placed in unobtrusive settings, such as fenced areas concealed with natural plantings, remote locations, business or industrial parks, etc.

USEPA offers this definition regarding asset management: “Asset Management is maintaining a desired level of service for what you want your assets to provide at the lowest life cycle cost.” Some key features of an Asset Management Program (AMP) include identifying the assets critical to providing a desired level of service, estimating their life cycle and costs to maintain, replace or rehabilitate them, assessing the likelihood and consequence of their failure and considering redundant systems that are (or must be put) in place in the event an asset does fail.

ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)

Because the Authority has invested nearly \$253 million in its infrastructure and keeping in mind the staggering estimated amounts mentioned above, the Authority has embraced asset management concepts into its operation and developed an AMP. Key employees of the Authority have participated on the American Water Works Association (AWWA) New Jersey section's Infrastructure Management Committee beginning in 2010 and on the New Jersey Department of Environmental Protection's (NJDEP) Asset Management Industry Working Group since 2014 in developing asset management procedures for use at water and wastewater facilities in New Jersey. Recently NJDEP issued its Asset Management Technical Guidance document which was developed to follow USEPA's original guidance. The Authority is positioned to meet the NJDEP guidance as our current policies were based on the original EPA guidance.

The Authority first concentrated on creating an asset database for all underground assets. Using both our Geographic Information System (GIS) and our Computerized Maintenance Management System (CMMS) we began to apply individual identification numbers to each underground asset, identify approximate installation dates and note material of construction, type and size. Where appropriate we added elevation, depth of installation and slope. As the database became more detailed we added other assets and began to store Operation and Maintenance (O&M) information in the same database including estimated replacement values. Our continued concentration on assigning life expectancy, current condition, consequence of failure, probability of failure and criticality of the asset to our database is part of our normal O&M procedures. This continues to be used for our repair/replacement and maintenance scheduling and has also been incorporated into our budgeting and funding processes to anticipate the timing and scope of future capital projects.



Annual Hydrant Flushing

The Water Quality Accountability Act (WQAA) was signed by Gov. Christie in July 2017 with an effective date of October 19, 2017. This regulatory act, as a supplement to the Safe Drinking Water Act, applies to approximately 300 public water systems in New Jersey. The WQAA has multiple requirements including Cybersecurity Plan implementation, hydrant and valve maintenance timing, and the requirement for water purveyors to create and implement an asset management plan designed to inspect, maintain, repair and renew its infrastructure consistent with standard established by the American Water Works Association. The Authority has reviewed its policies, modified some operating procedures in its O&M plans, and amended its goals to comply with the WQAA.

ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)

During FY18, the Authority recorded \$6.7 million in capital assets. By including retainage and other pre/post fiscal year adjustments, the capital additions were as follows:

<u>Asset</u>	<u>Amount Disbursed in FY18</u>
Supervisory Control and Data Acquisition Systems:	
**Upgrade Water & Sewer SCADA Systems	\$ 115,165
Hartford Rd Wastewater Treatment Facility (HRWPCF) Rehabilitation:	
* Rehabilitation of Site Pumping Station	\$ 362,953



Sanitary Pump Station Construction

**Secondary Clarifier #2 Rehabilitation (Design)	\$ 133,445
Rehabilitation Belt Filter Press No. 1	\$ 72,102
**Convert Old Warehouse Building to Vehicle Storage	\$ 63,979
**New Plant Lab	\$ 46,263
**Replacement of Damaged Cover & Disk Cell #2 Orbal Unit	\$ 33,031
Rehabilitation of Grinders & Motors (Franklin Miller)	\$ 32,978
Rehabilitation of UV3000 Ballast, Lamps, & Sleeves	\$ 22,234
New Alfa Laval Pump	\$ 22,130
Cleaning of Primary Tanks	\$ 22,100



Cleaning Primary Tank

ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)

<u>Asset</u>	<u>Amount Disbursed in FY18</u>
Hartford Rd Wastewater Treatment Facility (HRWPCF) Rehabilitation (Cont'd):	
New Radiant Heaters in Press Building	\$ 21,930
New HVAC System	\$ 21,160
*Replacement of Utility Water Hydrants	\$ 17,273
New Hayward Gordon Pump #1 WAS Plus Installation	\$ 15,590
Replacement of Safety Disconnect Aerator on Orbal Unit	\$ 13,681
*Orbal Aerator Motor Gear Boxes Replacement	\$ 13,067
Paving & Sidewalk Replacement	\$ 12,683
Rehabilitation of UV4000 Ballast, Lamps, & Sleeves	\$ 12,149
Various Parts for RTU Units for SCADA System	\$ 12,138
Rehabilitation of RAS Pumps	\$ 11,200
New 14" Magnetic Influent Flow Meter	\$ 9,418
New Regulator Assembly for Generator	\$ 8,730
Rehabilitation Belt Filter Presses No. 2 & 3	\$ 8,495
Rehabilitation of Orbal Motors	\$ 8,480
Replacement Impellers for RAS Pumps	\$ 7,740
New Doppler Influent Meter and Installation (Flow Meter)	\$ 7,696
**Upgrade Belt Filter Press Control Panels #1,2,3 Compatible w/ SCADA	\$ 7,598
**UV4000 Disinfection System Rehabilitation of Slide Gates	\$ 7,339
**Roof Replacement	\$ 7,233
Replacement of Aurora Pump & Motor	\$ 6,919
Rehabilitation of RAS Motors & Replacement of Expansion Joints	\$ 6,015
New 4" Magnetic Influent Flow Meter	\$ 4,860
**Lighting Replacement	\$ 4,714
Replacement Solenoid for Grit Snail Tea Cups A & B	\$ 4,699
Tea Cup Units Inspections (Bucket Truck Rental)	\$ 4,036
New Polymer Pump #3	\$ 3,364
New Check Valves and Flanges for Utility Water Pumps	\$ 2,554
Installed Meter Transmitters on New Influent Flow Meters	\$ 2,131
Replacement Straps for Influent Valves	\$ 1,684
New Exhaust Fan and Piping Main Lab	\$ 1,490
New Primary Sludge Pump	\$ 1,425
LED Lighting Replacement (Interior & Exterior) Vehicle Maint. Garage	\$ 1,125
Sanitary Sewer Pump Station Rehabilitation:	
*PS Painting (Bridlewood, East Gate II, Laurel Ponds & Turnpike)	\$ 117,074
** Upgrade Library PS (Design)	\$ 49,934
** Upgrade Atrium PS (Design)	\$ 34,512
**Upgrade Union Mills Farms PS (Design)	\$ 30,443
Impellers Replacements (Laurelwood, Briggs Rd, East Park & Lakes)	\$ 15,717
** Upgrade Devonshire PS (Design)	\$ 15,146
New Myers Pump Weiland Tract PS	\$ 9,950
**PLC Based Pump Station Monitor Duplex, Triplex, Quadraplex	\$ 9,631
Replacement of Pumps Brentwood PS	\$ 8,649

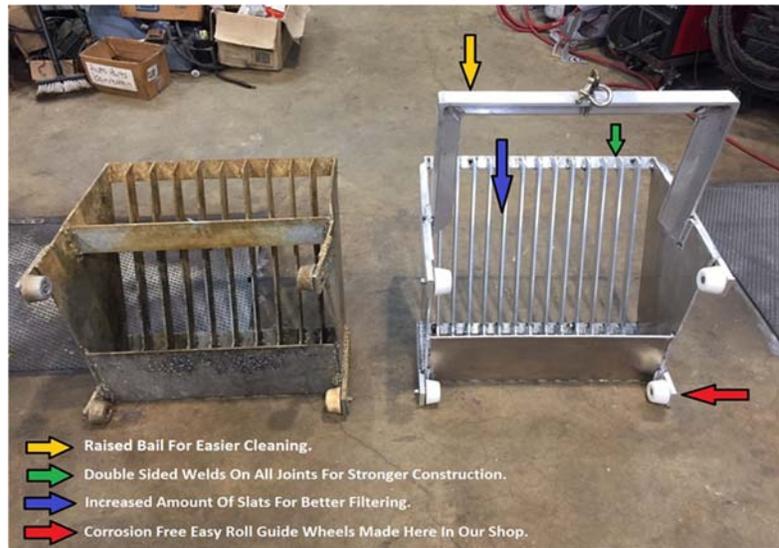
ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)

Asset

Amount Disbursed in FY18

Sanitary Sewer Pump Station Rehabilitation (Cont'd):

New Yeomans Pump Ramblewood PS	\$ 7,643
Replace Transducers for Various PS	\$ 7,343
**Painting of PS (Timbercrest, East Park, Hunters, Brentwood & Birchfield)	\$ 6,794
Repair/Rehab/Replace Pump, Impeller and Vibration Analysis (Bridlewood PS)	\$ 6,773
Replacement of Pumps Rancocas PS	\$ 6,500



New Bar Screen Fabrication & Improvements

** Level Control & Electrical Upgrade Turnpike PS	\$ 6,351
** Level Control & Electrical Upgrade East Park PS	\$ 6,351
New Ladder & Bar Screen Tricia Meadows PS	\$ 5,889
New Ladder & Bar Screen Stonegate PS	\$ 5,214
New Grinder Pumps Teals Lane PS	\$ 4,600
Repair/Rehab/Replace 5hp Motor Hunters PS	\$ 1,954
**Site Work Improvements (Timbercrest, East Park, & Ethel Lawrence)	\$ 1,800
New Multi Ranger 200 for Various PS	\$ 1,779
Site Improvements Birchfield PS	\$ 1,400
**Replacement of Bar Screens	\$ 1,346
Replacement 1600amp Power Monitoring Transducer for Solar Facility	\$ 1,286
New Engine Block Heater Generator Ramblewood PS	\$ 1,045

Sanitary Sewer Force Main Repairs and Replacements:

* Primary Force Main Hartford Road	\$ 2,773,509
**Primary Force Main Briggs Road	\$ 47,777
**Corrosion Protection Study & Rehab of FM	\$ 39,506
**Primary Force Main Connection Mill Stream PS	\$ 17,270
**Primary Force Main Connection & Repairs Library PS	\$ 13,779
**Primary Force Main Elbo Lane (Restoration)	\$ 9,101

ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)

Asset

Amount Disbursed in FY18

Sanitary Sewer Force Main Repairs and Replacements (Cont'd):

Pressure Data Loggers for FM Study	\$	3,713
New 2" Tap on Force Main at HRWPCF - Head Works Investigation	\$	2,500



Hartford Road Force Main Replacement Project

I & I Control Replacement of Sewer Castings & Lids	\$	14,176
Vibration Plate Compactor	\$	1,595

Elbo Lane Water Treatment Plant Rehabilitation:

Replacement of Chlorine Tank	\$	22,295
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Water Main Replacements:

*Lincoln Drive & Stuyvesant Place	\$	752,997
*South Saint Andrews Drive & Grant Rd	\$	198,563
**York Rd	\$	34,905
**Nottingham Way	\$	24,637
**Saint David Drive Phase 2	\$	14,526
*Saint David's Drive	\$	11,893
*Wharton Road	\$	7,129
Fire Hydrant Replacements	\$	6,347
** Fleetwood Road	\$	4,708

ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)



Asset

Amount Disbursed in FY18

Wells and Booster Stations:

Well # 4 Repairs/Rehab/Replacement	\$	105,437
New Cornell Pump Willingboro Booster Station	\$	35,984
**Well # 4 Generator Replacement	\$	17,234
Site Improvements (Asphalt Replacement) Well # 6	\$	10,764
New 8" MAG Meter (Flow Meter) Ark Rd Booster Station	\$	9,969
Replacement of Fluoride Saturator Well # 7 ASR	\$	1,867

Water Meter Reading:

**Meter Change Out Program	\$	101,880
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Vehicle Replacements:

Replacement Front End Loader, Plow & Trailer for Easement Clearing	\$	57,171
Vehicle 58	\$	35,104
Vehicle 45	\$	32,829
Repairs/Replacement Piston Pump Vehicle 42	\$	13,900
Replacement Nozzles Vehicle 42	\$	3,429

ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)

Asset

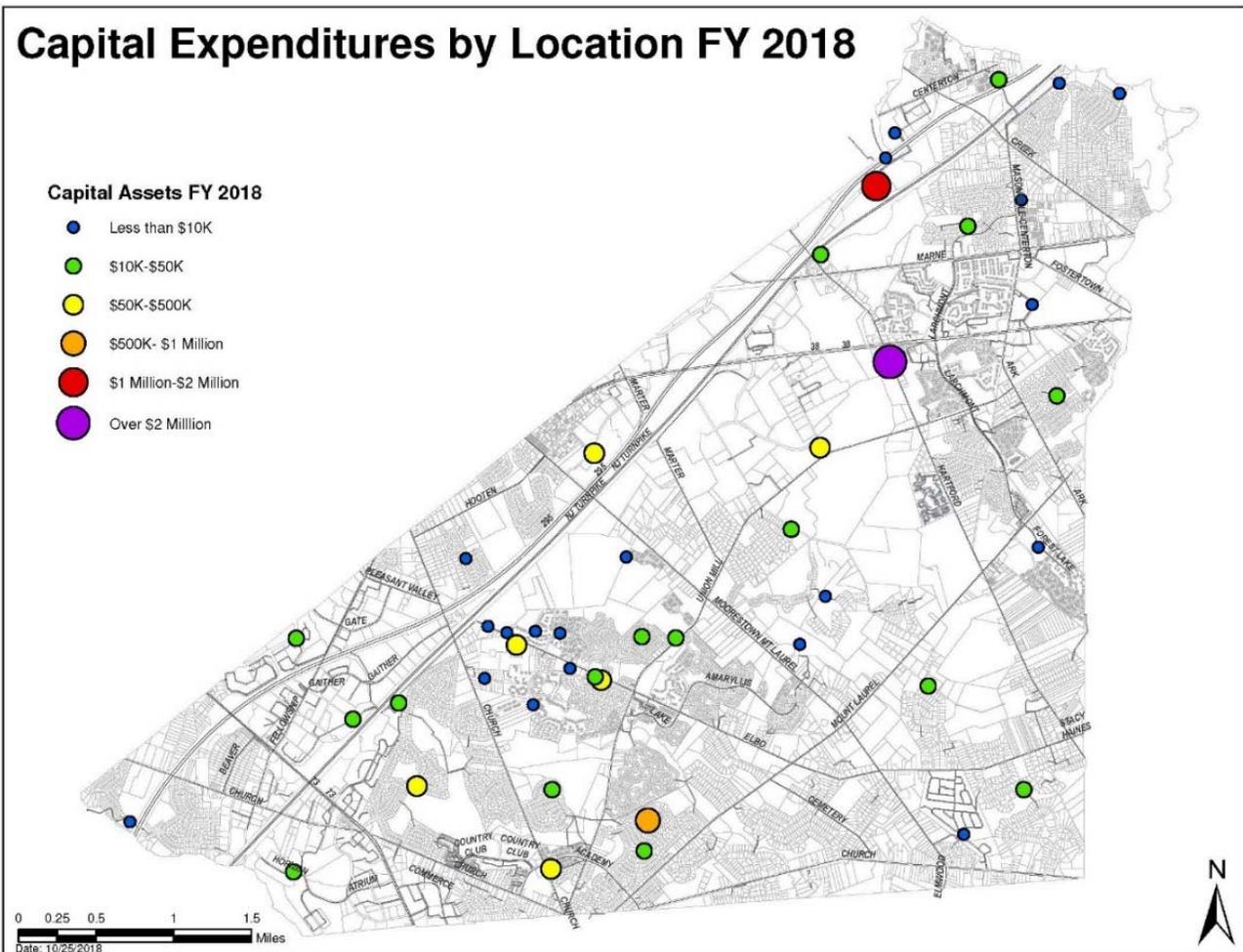
Amount Disbursed in FY18

Miscellaneous:

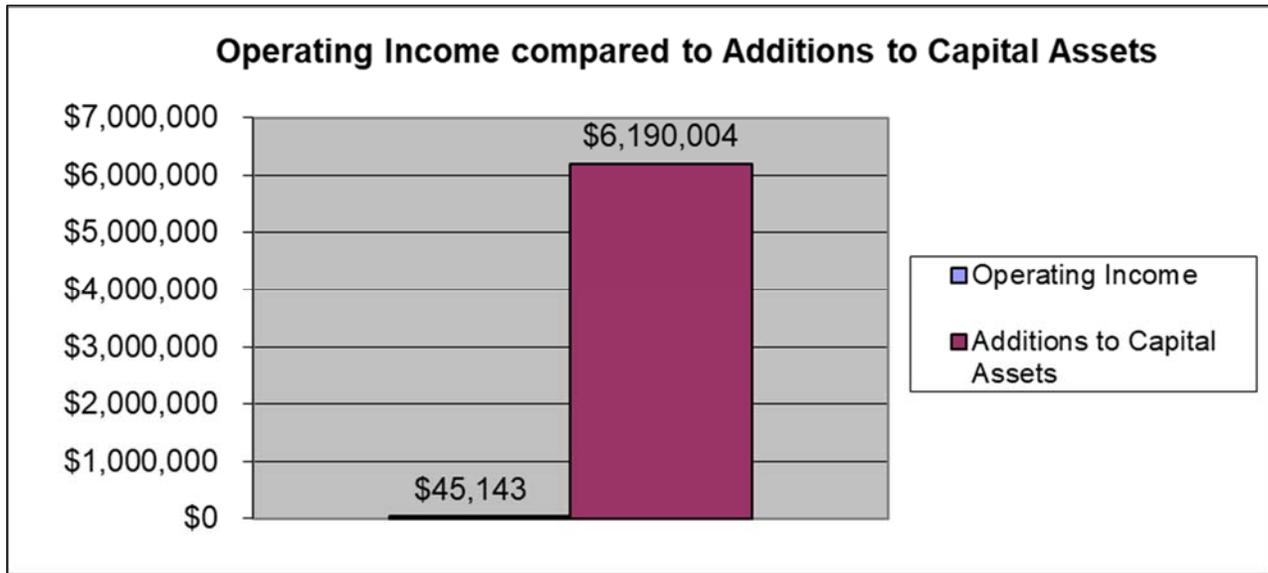
**Analysis Survey for Clearing of Water & Sewer Easements	\$ 31,593
Upgrade Workstations	\$ 27,674
E-Mail Migration Project to Microsoft 365	\$ 16,327
Portable Global Positioning Systems	\$ 8,220
iPads & Accessories	\$ 5,919
New File Cabinets	\$ 4,456
Redesign MUA Website	\$ 4,200
Portable Doppler Flow Meter	\$ 3,963
LED Lighting Upgrade Administration Building (Interior & Exterior)	\$ 3,409
New Portable Radios	\$ 3,201
Software Upgrade Fixed Assets	\$ 3,017
Bottle Filling Stations/Fountain	\$ 2,925
36" Portable Scanner & Carry Case	\$ 2,795

* Multi-Year Project Completed this Fiscal Year

** Project Continuing into Subsequent Fiscal Year(s)



ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)



The above chart demonstrates the Authority’s ongoing and unwavering commitment to keeping its systems and infrastructures current and well maintained. To provide a more expanded time frame, the Authority has made \$42.12 million of paid additions to its assets over the eleven fiscal years of 2008 through 2018. \$34.02 million of these paid additions were provided by available cash reserves which were planned for and accumulated over many fiscal years for the specific purpose of paying for capital projects on a “pay as you go” basis. The source of these funds is the “Unrestricted” portion of the Authority’s Net Position (see earlier chart). During the same eleven fiscal year period, the Authority’s aggregate Operating Income has totaled \$10.33 million. This is a clear demonstration of the Authority’s commitment to reinvest its operational results back into infrastructure and capital improvements. In addition, the Authority has issued \$8.7 million in debt over the past eleven fiscal years, of which \$8.1 million was used for capital asset additions for certain capital projects. The Authority continually plans capital projects in both short and long range terms, including the assessment of whether to commit “Unrestricted” funds or to issue debt to finance those projects. It should be noted that the State of New Jersey allows for the adding back of net pension liability when determining unrestricted funds available for capital purposes.

Our five-year capital plan calls for the expenditure of \$35,059,300 with \$9,240,800 budgeted for the upcoming fiscal year. The Authority plans to fund these amounts in the following manner:

	Five-Year Plan	Upcoming Fiscal Year
Projects funded from Unrestricted Net Position (including reserves for renewal and replacement)	\$ 21,667,300	\$ 4,170,800
Debt Authorization	\$ 13,392,000	\$ 5,070,000

The Authority has not experienced any change in its excellent credit rating, nor does it anticipate any. Although the Authority does not operate under any debt limitations, it is required to receive approval by Mount Laurel Township resolution prior to issuing any new debt.

ASSET MANAGEMENT, CAPITAL ASSET, AND LONG-TERM DEBT ACTIVITY (CONT'D)

In May 2003, the Authority refunded debt. In doing this, the Authority replaced the outstanding principal balances of its 1992 and 1994 bond issues with the 2003 bond issue. All bonds under the new issue will mature no later than the bonds on the refunded issues. By taking advantage of a very favorable interest rate market, the Authority was able to reduce its debt service by approximately \$1,070,000 over the life of the new bonds, while only increasing its outstanding bond debt by \$40,000.

In November 2005, the Authority finalized long term financing in the amount of \$23,772,200 on two major capital projects. The financing was arranged through the New Jersey Environmental Infrastructure Trust (NJEIT) loan program. This program has an advantageous structure which allows participants to borrow one portion of the funds at current market interest rates, and the other portion at a zero percent interest rate. The Authority's financing resulted in \$12,295,000 borrowed at rates between 4% and 5%, and \$11,477,200 borrowed interest free. The two capital projects associated with this borrowing were the Aquifer Storage and Recovery (ASR) project and the new Elbo Lane Water Treatment Plant.

In November 2007, the Authority completed a supplemental financing to the above November 2005 loan. This was primarily due to contractor bids being received for the new Elbo Lane Treatment Plant that were higher than anticipated after the 2005 loan amount was determined. This financing was in the amount of \$3,500,000. The financing was again arranged through the New Jersey Environmental Infrastructure Trust loan program. This program has an advantageous structure which allows participants to borrow one portion of the funds at current market interest rates, and the other portion at a zero percent interest rate. The Authority's financing resulted in \$2,635,000 borrowed at rates between 3.4% and 5%, and \$865,000 borrowed interest free. Additional supplemental loans were authorized that, when combined with the 2007 supplemental loan, created loans of roughly equal size, one bearing market interest rates and the other being interest free.

In December 2008, the Authority closed on the supplemental loans referenced immediately above. The two loans included one bearing market rate interest, in the amount of \$33,544. This loan was paid off immediately. The second, in the amount of \$1,677,183, is an interest free loan. Principal payments will cease in 2028.

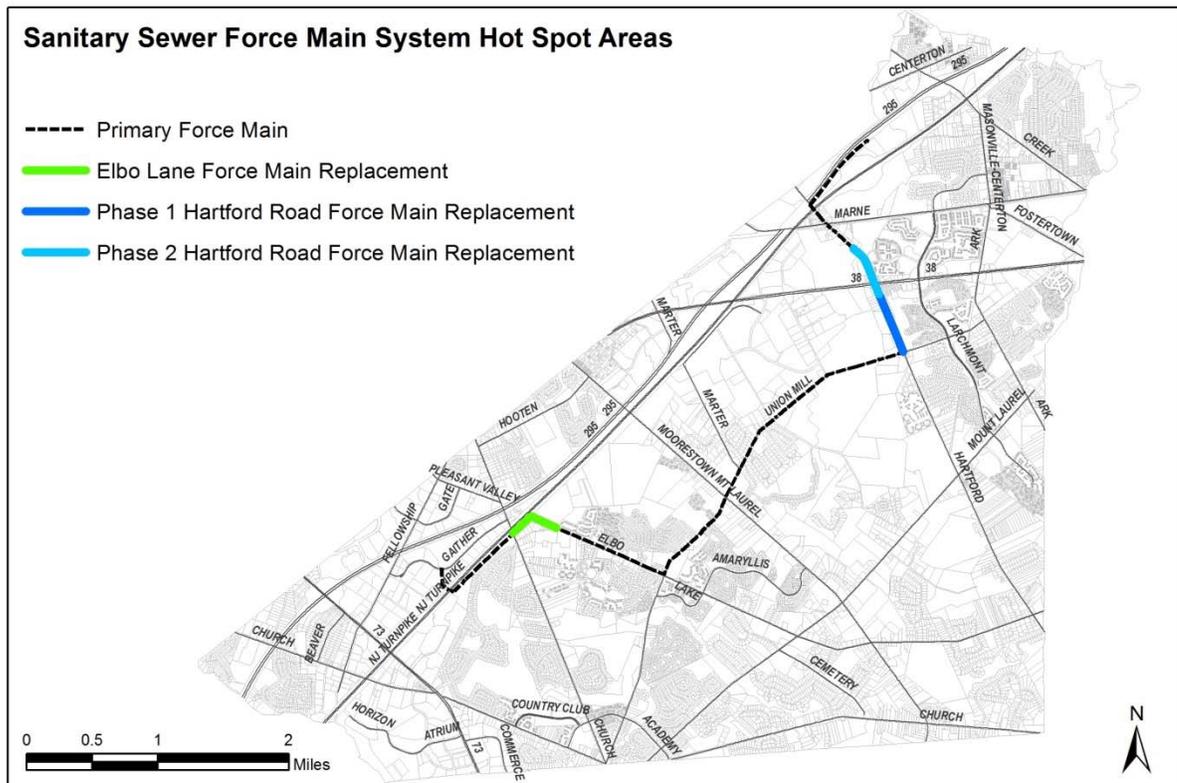
In December 2009, the Authority closed on two loans from the New Jersey Environmental Infrastructure Trust totaling \$2,244,600 for the completion of a solar energy array that generates power for a sewer pumping station and a groundwater well. \$1,109,600 of this loan is at a zero percent interest rate. The remaining \$1,135,000 was borrowed at interest rates ranging from 2% to 5%. This project also included a Federal American Recovery and Reinvestment Act (ARRA) grant of \$2,219,200. The ARRA grant does not require repayment and was forgiven at closing. Principal payments will cease in 2029.

In March 2010, the Authority closed on two loans from the New Jersey Environmental Infrastructure Trust totaling \$1,282,000 for pipe lining and manhole rehabilitation. \$962,000 of this loan is at a zero percent interest rate. The remaining \$320,000 was borrowed at interest rates ranging from 3% to 5%. Principal payments will cease in 2029.

LOOKING FORWARD

The Authority continues to pursue and investigate alternative sources of water to meet user demand. Currently, the Authority must purchase from outside water purveyors in order to make up the difference between its user demand and its permitted withdrawal from its supply wells. The Authority believes the development of less expensive alternatives is possible. Several have been identified. If the Authority receives approval from the appropriate regulatory agencies and develops these alternatives, particularly the building of a surface water treatment plant, the operating expense for the purchase of water from outside purveyors can be significantly reduced. Capital expenditures for a new plant would be significant.

As part of the Authority's Asset Management Program, we have continually rehabilitated parts of our sanitary force main system. We have been analyzing and implementing options to replace or rehabilitate sections of this approximately 45-year old main due to sections of it prematurely reaching the end of their useful life. During this process we have been able to identify "hot spots" in the force main system and have attempted to prioritize these areas utilizing probability and consequence of failure. Currently two hot spots have been identified: Hartford Road near 38 and Elbo Lane near Church Street (see map).



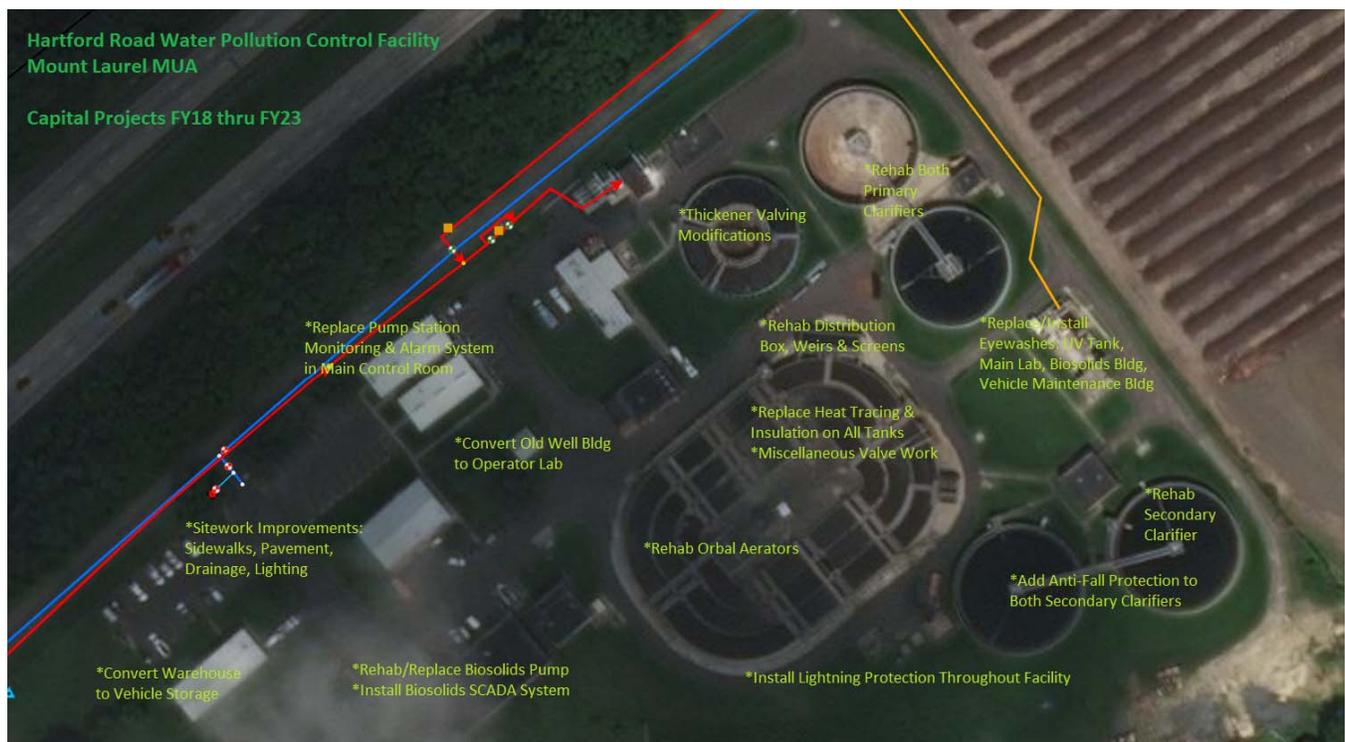
The Hartford Road section is a critical length of pipe, with over 3 million gallons of sewage flowing through it daily. This represents almost 80% of the town's daily flow. Even with 20 tankers working non-stop, this is simply too much volume to haul away by truck in the event of a break. The Elbo Lane section is less critical due to its location near the beginning of the force main system, but the continued frequency of breaks has required its rehabilitation to be addressed.

LOOKING FORWARD (CONT'D)

The Authority included replacement of Phases 1 & 2 of the Hartford Road force main in our capital budget after the board approved \$7 million for these replacement projects. Results from additional corrosion control studies indicated that Phase 1 of the Hartford Road project was a top priority. Work related to the \$2,561,111 construction contract was substantially completed and the new piping placed in service in January 2018; the project spanned multiple fiscal years at a total cost of \$3,217,366. Our Engineer is currently working on the design of Elbo Lane force main replacement project. Although this work is moving forward we cannot rule out that additional leaks are likely to occur on sections of pipe before they are replaced.

The Authority intended to use the NJ Infrastructure Bank's (I-Bank) emergency financing program for Hartford Road Phase 1; however, I-Bank program requirements, such as requiring installation of the replacement pipe in the same trench as the existing pipe, precluded participation. Therefore, the Authority used the "Unrestricted" portion of the Authority's Net Position for funding. A bond issue is planned in FY19 to reimburse those funds to the Authority. The Authority plans to issue debt via the I-Bank for the Elbo Lane and Hartford Road Phase 2 force main replacement projects.

The Hartford Road Water Pollution Control Facility, which was substantially upgraded in 1996, has a planned renewal of components of its main process units to ensure continued successful operations. Part of this work, the replacement of the primary mechanism of a clarifier, was completed in FY16 due to premature failure. The remaining process unit work has been included in our capital plan for work in the next 5 years. Funding for much this work is being secured through the I-Bank.



This financial report is designed to provide Mount Laurel's citizens and our customers, clients, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Finance Director, Mount Laurel Township Municipal Utilities Authority, 1201 South Church Street, Mount Laurel, NJ 08054 or visit our website at www.mlmtua.com.