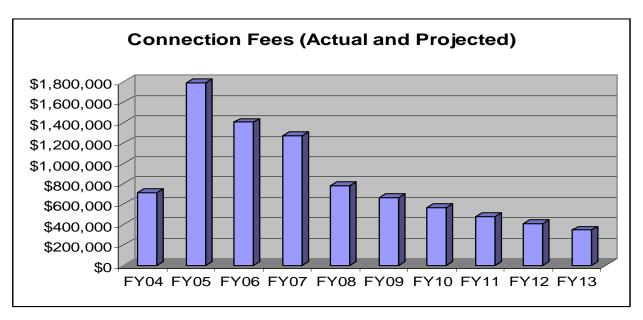
Statement for Public Rate Hearing December 10, 2007

Pursuant to the requirements of the Municipal and County Utilities Authorities Law, N.J.S.A. 40:14B-1 et seq., the Mount Laurel Township Municipal Utilities Authority ("MUA") is conducting this public hearing for the purpose of receiving public comment on proposed adjustments to its rate schedule.

The Authority's long term approach to rates has allowed us to grow and improve our systems and facilities while remaining fiscally sound. The benefits to this are the ability to provide products of consistent quality and responsive services to our customers, void of poorly maintained infrastructure that typically requires emergency (and often more expensive) repairs and replacements. This translates into better service for our customers, as poorly maintained systems are prone to much more frequent disruptions of service.

The MUA is required to submit annual budgets to the state for review. These budgets must be balanced, which means generally that revenues must be sufficient to pay operating expenses and debt service. The two major sources of revenue for the Authority consist of user fees and connection fees. Each of these components has an impact on the Authority's rates.

Through operational and administrative efficiencies, negotiation of beneficial contracts, maintaining facilities and infrastructure in good order, eliminating and restructuring outstanding debt obligations and other factors, the MUA has been able to operate with modest rate increases over the past few years. It is our intention to continue this steady, gradual approach to rate increases as we move into the future and meet rising costs for goods and services. At the same time, we must continue to plan for a decline in connection fee revenue due to the approaching build out of our service area. This major source of revenue will cease to exist when there are no new customers connecting to our utilities. A brief description of connection fees would be helpful.

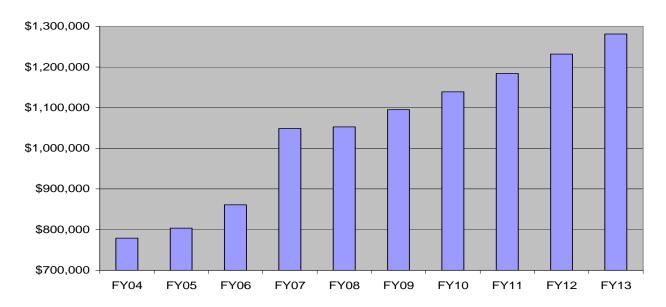


Connection fee revenues are generated when newly constructed homes, apartment buildings, commercial properties, etc. have been built and hook up to the MUA's water &/or sewer systems. During the 1970's and 80's, when building and population was exploding in the township, the MUA was realizing \$5 million dollars or more in annual connection fee revenue. Despite these large amounts, the MUA understood that build out of the township would come and that connection fee revenue would cease to exist. In 1990, with this realization, the MUA started approaching its rate structure differently. As a result of this new approach, gradual increases in rates would be used over the long term in order to replace our dependence on connection fee revenues. Recent troubles in other communities, in the form of significant rate increases, poor water quality and infrastructure issues, point out the problems that result from failing to take a long term perspective on rates and the consequences of relying on diminishing revenue streams to sustain future fiscal activities. Time has proven the rate approach begun by the Authority eighteen years ago to be a sound, fiscally responsible one.

Rather than the \$5+ million dollar connection fee revenues we once experienced, the Authority has realized annual connection fee revenues ranging between \$709,000 and \$1.8 million over the past 4 fiscal years. In our current fiscal year, we have budgeted about \$780,000 in connection fee revenue. Considering township build out and the poor real estate market, this amount may prove to be optimistic. This source of revenue is expected to reduce steadily in the future, resulting in planned revenue of \$347,000 in Fiscal Year 2013. Without the systematic approach begun by the Authority many years ago, the loss of this important revenue stream would have resulted in severe rate increases rather than small, manageable ones.

Regarding <u>operating</u> expenses, the MUA continues to work hard at reducing and minimizing costs whenever and wherever possible.

Electricity Expense



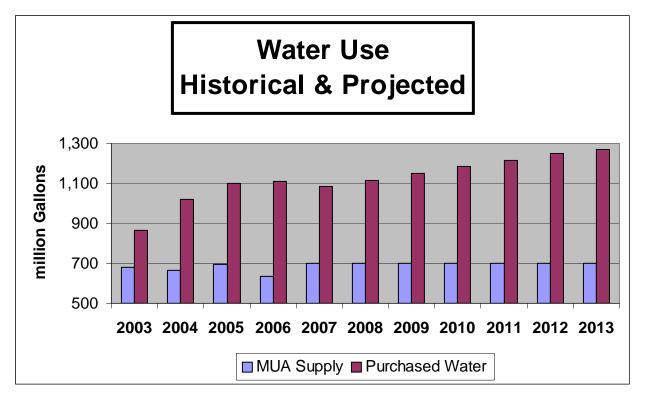
For example, sophisticated process control computers regulate energy consumption at our plant facilities to ensure that equipment is operating at optimum levels. Variable frequency drives and more efficient pumps have been installed at many of our facilities and have become our standard for new construction. The MUA also exercises dozens of diesel powered emergency generators on a regular basis, and has a well run preventive maintenance schedule for them. By operating them with load banking equipment, which identifies potential problems early, the generators are kept in top, efficient condition. All these measures are especially important in today's world, as energy related costs continue to spiral upward. In fact, despite the Authority's best efforts in the area of energy cost savings, electric expenses for our fiscal year that ended June 30 exceeded \$1 million dollars; the first time in our history. Over the last 3 fiscal years, total electric expenses have increased by almost 35%.

Another large expense we have made an effort to control is in the area of Repairs and Maintenance of our facilities and infrastructure. Although outside contractors must still be used for major R&M issues that may be too involved for MUA personnel, we have begun doing more and more of the work that we previously used outside contractors for. Even including the costs of equipment purchased to do these things, our R&M costs have increased an average of only 1% per year over

the last four fiscal years. In fact, R&M expenses for the fiscal year ended June 30 were actually 7.5% LESS than the prior fiscal year, saving us \$40,000.

Unfortunately, there are certain operating costs that the MUA has little control over. One of these is bio-solid (or sludge) disposal. This is the cost of disposing the end product of our wastewater treatment process. We are bound to the contract pricing negotiated by the facility we use for hauling and tipping our bio-solids. Over the past four fiscal years, our bio-solids costs have risen an average of 5.5% annually.

However, the largest operating expense out of the MUA's control is the cost of buying water from outside sources in order to meet the demand of our service area.



The New Jersey DEP controls use of the state's water resources. Due to a law enacted in 1993, our permitted withdrawal of water from our wells was significantly reduced to 717 million gallons per year. To put this 1993 reduction into perspective, it is important to understand that this is the amount of water Mount Laurel Township used in 1980! Today, with 27 subsequent years of often explosive township growth, we now need more than double our allocated amount of water to satisfy the township's needs. For calendar year 2007, we project our township water demand will be nearly 1.8 billion gallons. And still, DEP maintains our permitted withdrawal limit at what we needed 27 years ago! The "extra" 1 billion gallons of water we need must be purchased from

outside sources. To illustrate the <u>economic</u> impact of this, the fiscal year ended June 30 resulted in an expense for purchase of water exceeding \$2.8 million dollars. This represented over 25% of our total operating expense.

Compounding the problems created by our DEP imposed withdrawal limit and the increasing growth within our township are increases in the rates charged by our outside water sources. Earlier this year, NJ American Water Company was awarded a 12.5% rate increase by the Board of Public Utilities. They had requested an increase of 22.3%. Because the MUA was part of a bulk purchaser's coalition fighting against the full impact of the increase, the effective increase to us was 9.6%. In fact, since 1998, six rate increases have been absorbed by the MUA amounting to 27.2%. Considering all these factors, including continued growth and demand in our service area and anticipating future rate increases from these vendors, it is projected that the cost of outside water will exceed \$3.5 million dollars in 2013. To put this staggering amount into perspective, this represents nearly one third of the \$11.0 million dollar operating expenses anticipated in that year.

For years, the MUA has been working to secure alternative, less expensive ways to provide our customers with the water they need and we will continue to do so. For example, by using an innovative technology to modify an existing production well, the MUA is able to "store" water underground between October and April. Then, during fair weather months when our system demand for water increases, this "stored" water is pulled out and delivered to our customers. By employing this technology, the MUA was able to negotiate a contract with NJ American that allows us to avoid purchasing as much water from them during the summer months when we would have to pay their highest rates.

The MUA has done quite well in minimizing the cost of doing business by being very active in the management of its debt. Since 1998, refinancings and paying down principal balances of various bond issues has resulted in future debt service savings exceeding \$5.7 million dollars. This is very significant, because the MUA is legally required to generate revenues that produce 110% of its debt service. By taking these cost saving steps, the Authority has eliminated the need to produce almost \$6.3 million dollars of revenue. The MUA has been able to accomplish this by taking advantage of favorable interest rates for refinancing and by using available asset reserves to pay down existing debt. And the Authority's existing debt is structured to be as inexpensive as possible. Of the \$42.5 million dollars of current outstanding debt, 87% (or \$37 million) is comprised of money borrowed

through a low interest program available from the state of New Jersey. The remaining \$5.5 million is part of the refinancing activity mentioned earlier. That particular refinancing saved the MUA \$1.1 million dollars in debt service payments.

Concerning capital improvements, the MUA continues its commitment to a prudent capital program. For many years, the Authority has taken the approach that facilities and infrastructure must be constantly improved and updated, in addition to being aggressively maintained. Because of this philosophy, the need for expanded facility capacities to accommodate an ever growing customer base and increasingly stringent state and federal regulations, the Authority's expenditures for capital assets totaled more than \$50 million dollars between 1997 and 2007. For the six fiscal years 2008 through 2013, the MUA expects to expend \$43 million dollars on capital projects for similar reasons.

Over the years, the Authority's progressive approach to rates and capital projects, as well as its efforts to keep costs in check, have created water and sewer utilities that are well established, well maintained and fiscally sound. In order to continue providing the high quality services that Mount Laurel Township has the right to expect, minor rate increases are needed. In keeping with the MUA's systematic approach to setting rates, it is proposed that these increases occur in a series of small, manageable ones. The proposed increase to take effect in 2008 would result in the average residential water and sewer customer, <u>currently</u> receiving a monthly bill of \$56.23, to receive a monthly bill of \$58.32. This increase equates to only 7 cents per day. It is proposed that the new rate structure become effective with the bills to be issued in February 2008. Packages are being offered at this hearing which indicate the proposed rate schedule through Fiscal Year 2013.