



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

2023 Management's Discussion and Analysis Annual Financial Statements

Authority Overview

The Authority was founded for the purpose of protecting and preserving the area's vital environment for current and future generations and by so doing ensure a healthy ecology, a robust economy, and a high quality of life for our citizens.

The skilled and dedicated men and women at the Authority accomplish this by effectively collecting and treating wastewater from our service areas' thirty-seven participants and then recycling safe, clean water back into the natural ecosystem.

Our philosophy is never to lose sight of those who we are committed to serve: residents, businesses, public institutions, and the millions of seasonal visitors to the many attractions located within our service region.

All the plans, improvements and system changes are made to ensure that we continue to meet or surpass all mandated federal and state regulations and standards, and to operate the Authority at as low a cost to our customers as possible.

Summary of Organization and Business

The Authority, a public body corporate and politic of the State of New Jersey was created pursuant to a resolution adopted by the Board of Chosen Freeholders of Ocean County on July 8, 1970, and the Sewerage Authorities Law, constituting Chapter 38 of the Pamphlet Laws of 1946 of the State as amended (the "Original Act"). On December 6, 1978, the Ocean County Sewerage Authority was reorganized as the Ocean County Utilities Authority pursuant to the Act.

The Authority has the statutory power to acquire, to construct, to maintain and to operate sewerage facilities for the relief of waters in, bordering, or entering the areas within the territorial boundaries of the County from pollution or threatened pollution and for the improvement of conditions affecting the public health.

Pursuant to the provisions of the Act, the Authority presently consists of twelve Commissioners, eleven of whom are appointed by the Ocean County Board of Commissioners and one of whom is appointed by the Monmouth County Board of Commissioners. All members of the Authority are appointed to five-year terms. The Authority is administered by an Executive Director appointed by the members and directly responsible to them. The Authority has approximately 260 employees who are organized into four activities: Finance and Administration, Engineering and Construction, Operations and Maintenance, and Technical Services.

The Authority's Service Area includes portions of the Atlantic Coastal Drainage Basin in Ocean County, the Metedeconk River Drainage Basin, which is located in Ocean and Monmouth Counties, and the Manasquan River Drainage Basin, which is located in Monmouth County. The Authority currently has Service Contracts with 37 contracting customers, including 20 municipalities, 13 municipal authorities, 3 private corporations and the Department of the Navy for the Naval Air Warfare Center at Lakehurst.

The System encompasses trunk and interceptor sewer lines, metering stations, pump stations and three treatment plants. The Northern Service Area treatment facility ("NWPCF") commenced initial operations in September 1976,

the Southern Service Area treatment facility ("SWPCF") commenced initial operations in August 1977, and the Central Service Area treatment facility ("CWPCF") was the last to come on-line, commencing initial operations in December 1979. The Authority's three regional treatment facilities provide secondary treatment and disinfection of the wastewater collected in the service areas. The treatment processes at each of the plants are essentially the same. The primary treatment process consists of influent pumping, screening to remove large objects, aerated grit chambers for grit removal, and primary settling to remove suspended and organic matter. The secondary treatment for biological reduction of pollutants includes diffused air aeration and final settling. Disinfection is provided with the effluent conveyed through outfall lines equipped with diffuser systems to the Atlantic Ocean. In addition, the Authority has constructed septage-receiving facilities at the Central Treatment Facility to allow for septage treatment as a result of a 1980 State law prohibiting certain landfills from receiving septage.

In 1997, The Authority completed construction and testing of a new centralized sludge drying facility located at the CWPCF in Bayville. The system utilizes Andritz, Inc. rotary drum sludge dryers fueled by natural gas to produce a final pelletized product that is approved for use as fertilizer and is marketed under the product name Oceangro. In accordance with the provisions of the New Jersey Wastewater Treatment Public-Private Contracting Act, N.J.S.A. 58:27-1.9 et seq., the Authority entered into a contract with Andritz, Inc. to operate the facility. The current contract has been extended to December 31, 2027.

The County of Ocean has agreed, pursuant to the County Agreement dated September 15, 1971 ("Deficiency Advance Contract"), to pay the Authority amounts ("Deficiency Advances"), if any, equal to any excess of the Authority's expenses (including debt service) over its receipts. In the opinion of Bond Counsel to the Authority, the obligation of the County to make Deficiency Advances is a valid and binding general obligation of the County.

Hurricane Sandy

In 2012, the Authority was affected by Hurricane Sandy's storm surge as it hit the New Jersey coastline. The storm primarily impacted the Authority's collection and conveyance systems. The three treatment plants remained relatively unscathed. Damages were sustained to 27 pump stations, 23 metering chamber facilities and 16 cathodic protection stations. The three ocean outfalls were inspected via marine divers and no damage was reported. Within one week following the storm, the Authority was able to restore adequate sewerage services to each participant in the regional system affected by the storm. Long-term mitigation projects have been completed to strengthen facilities with the goal of reducing or eliminating future losses from similar storm events.

GASB 68 - Accounting and Financial Reporting for Pensions

During the fiscal year ended December 31, 2015, the Authority was required to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, relative to its participation in the Public Employees Retirement System (PERS).

Historically, the Authority has recorded its contributions to the plan as expenses in the year these contributions were required by the State of New Jersey Division of Pensions and Benefits. With the adoption of GASB 68, the Authority is required to record a liability in its financial statements for its proportionate share of the PERS plan liability and expenses. The Authority's December 31, 2023 net pension liability decreased to \$34,460,251, deferred outflows of resources decreased to \$1,076,524, and deferred inflows of resources decreased to \$3,426,048. All employers who participate in the PERS are required to record a proportionate share of the June 30, 2023 and 2022 net pension liability in their respective financial statements which total \$14,606,489,066 and \$15,219,184,920, respectively. Management intends to fund this liability through annual required contributions determined by the actuary, and it is unlikely that this liability would be callable in full.

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pension

In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting of Postemployment Benefits Other Than Pension* (“OPEB”), which was effective for fiscal years beginning after June 12, 2017. Similar to GASB Statement No. 68, the Authority is required to record a liability in its financial statements for its proportionate share of the OPEB plan liability and expenses. As a result of implementing this statement during fiscal year ended December 31, 2018, the beginning unrestricted net position decreased by \$93,299,548.

Historically, the Authority has recorded its OPEB payment as an expense in the year these contributions were paid to the State of New Jersey Division of Pensions and Benefits. With the adoption of GASB 75, the Authority is required to record a liability in its financial statements for its proportionate share of the OPEB liability and expenses. The Authority’s December 31, 2023 net OPEB liability increased to \$67,775,835, deferred outflows of resources increased to \$30,370,994 and deferred inflows of resources increased to \$39,582,928. Management intends to fund this liability through annual required contributions determined by the actuary, and it is unlikely that this liability would be callable in full.

Financial Highlights

Management believes the Authority’s financial condition is strong. The stringent financial policies and guidelines set by the Board of Commissioners and Management, with the adoption of the Cash Management and Investment Policy and the Seven-Year Capital Improvement Plan in particular, add to the financial strength of the Authority. The following are key financial highlights for 2023 and 2022:

For fiscal years 2023 and 2022, the Authority treated 18.305 and 17.942 billion gallons of wastewater, respectively.

User charges and fees revenues and product sales were \$76.90 million, an increase from 2022 in the amount of \$1.94 million or 2.6% more.

Operating expenses excluding depreciation increased approximately \$4.67 million or 10.0% from 2022. The bulk of this increase was attributable to increases in chemical and health insurance costs.

Operating income after depreciation for the year 2023 was approximately 9.32 million.

Total net position increased by \$11.328 million from 2022.

The Authority budgets on a cash basis and does not fund depreciation. The Authority’s 2023 operating revenues exceeded operating expenses. The Authority appropriated \$4.2 million to its capital budget from operations during 2023.

Audit Assurance

The unmodified opinion of our independent external auditors, HFA, is included in this report.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning.

Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

Condensed Statements of Net Position

	December 31		
	2023	2022	2021
Assets and deferred outflows of resources			
Current assets	\$ 22,356,272	\$ 23,034,665	\$ 22,564,823
Non-current assets	44,747,574	46,769,511	52,630,128
Restricted assets	30,046,165	27,881,998	28,977,462
Capital assets	267,943,915	258,236,986	265,919,376
Deferred outflows of resources	36,355,246	27,980,842	26,179,932
Total assets and deferred outflows of resources	<u>\$ 401,449,172</u>	<u>\$ 383,904,002</u>	<u>\$ 396,271,721</u>
Liabilities and deferred inflows of resources			
Current liabilities	\$ 29,192,784	\$ 26,117,205	\$ 26,039,447
Non-current liabilities	193,760,822	189,208,226	203,939,669
Deferred inflows of resources	47,626,015	49,036,908	51,221,405
Total liabilities and deferred inflows of resources	<u>270,579,621</u>	<u>264,362,339</u>	<u>281,200,521</u>
Net position			
Net investment in capital assets	179,364,124	170,259,399	168,170,579
Restricted	12,881,944	12,888,819	12,890,850
Unrestricted	<u>(61,376,517)</u>	<u>(63,606,655)</u>	<u>(65,990,229)</u>
Total net position	<u>130,869,551</u>	<u>119,541,563</u>	<u>115,071,200</u>
Total liabilities, deferred inflows, and net position	<u>\$ 401,449,172</u>	<u>\$ 383,903,902</u>	<u>\$ 396,271,721</u>

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	December 31		
	2023	2022	2021
Operating revenues			
Charges for services	\$ 76,416,380	\$ 74,579,567	\$ 77,524,521
Product sales	483,799	378,922	383,983
Other	107,469	75,742	-
Total operating revenues	<u>77,007,648</u>	<u>75,034,231</u>	<u>77,908,504</u>
Operating expenses			
Operations and maintenance	45,756,767	41,546,751	37,300,277
Depreciation	16,064,181	17,663,860	17,230,204
Administration and general	<u>5,869,434</u>	<u>5,413,197</u>	<u>5,421,447</u>
Total operating expenses	<u>67,690,382</u>	<u>64,623,808</u>	<u>59,951,928</u>
Operating income	9,317,266	10,410,423	17,956,576
Non operating revenues (expenses)	<u>2,010,622</u>	<u>(5,939,960)</u>	<u>(2,271,323)</u>
Changes in net position	11,327,888	4,470,463	15,685,253
Net position - beginning of year	<u>119,541,663</u>	<u>115,071,200</u>	<u>99,385,947</u>
Total net position - end of year	<u>\$ 130,869,551</u>	<u>\$ 119,541,663</u>	<u>\$ 115,071,200</u>

Other Selected Information

	Year		
	2023	2022	2021
Selected data for analysis			
Employees at year-end	265	265	267
Sewer customers at year-end	37	37	37
Septage haulers at year-end	20	21	21
Fertilizer customers at year-end	69	66	60
Annual sewage flow in million gallons	18,305	17,942	18,689
User rates			
Sewer use per million gallons	\$ 4,039	\$ 4,039	\$ 4,039
Septage disposal per thousand gallons	68.30	68.30	68.30
Graywater disposal per thousand gallons	31.72	31.72	31.72
BOD surcharge per pound	0.41	0.41	0.41
Suspended solids surcharge per pound	0.39	0.39	0.39
Ratio of operating revenue to			
Operating expenses including depreciation	1.14	1.16	1.30
Operating expenses exclusive of depreciation	1.49	1.60	1.82
Total assets	0.19	0.21	0.21
Total net position	0.59	0.63	0.68
Debt related ratios			
Equity to long-term debt	1.45	1.33	1.11
Current ratio	0.77	0.88	0.87
Operating ratio	0.67	0.63	0.55
Debt service coverage	1.54	1.64	2.09
General fund to operating expenses	1.14	1.32	1.56

Results of Operations

Operating Revenues: Revenues from operations fall into two general categories: charges for services and product sales. Charges for services include sewer use income, septage, application fees, sales of plans and specifications, scrap metal sales, assessments, and miscellaneous income. Product sales are sales of fertilizer produced by converting sludge generated from the treatment process at all three facilities into

fertilizer pellets. This organic fertilizer product is registered with the N. J. Department of Agriculture and is marketed under the name “Oceangro”.

Operating Expenses before depreciation: The Authority’s operating expenses consist of the following categories: employment costs, repairs and maintenance, supplies and materials, utilities, bad debt expense, and administration. Operating expenses increased by approximately \$4,666,253 or 10% from 2022.

Rates and Billing and Collection Process

The rate of charge per million gallons of sewage treated, known as the Bulk Rate, is set by the Authority on an annual basis in accordance with the Municipal and County Utilities Authorities Law and the Bond Resolution. The rate per million gallons for 2023 and 2022 was \$4,039. The Bulk Rate for 2024 will be \$4,120.

Customers, known as Participants, are required to pay estimated Annual Charges to the Authority in equal quarterly installments. These Annual Charge payments are based on the estimated wastewater flows and the current Bulk Rate. The amount of this estimated Annual Charge is stated in a certificate delivered to each Participant no later than January 31 of each year. The Participants are required to make Annual Charge payments on the first days of March, June, September, and December, except for the Manasquan River Regional Sewerage Authority whose payments are due on the last days of March, June, September, and December. There are two exceptions to the above-described process – Long Beach Township and the Naval Air Warfare Center, both which make quarterly payments based on actual metered flows.

At the end of each calendar year, the estimated Annual Charge billings are adjusted to reflect the actual wastewater discharged by the Participant during the year. This process is referred to as a “Deficiency Notification” and can result in an additional amount due to the Authority or a credit due to the Participant. All additional payments or refunds due are billed in the first quarter of the following fiscal year.

Pursuant to the service contracts, the Participants are required to pay interest at the rate of eight percent (8%) per annum on any Annual Charge payment or part thereof due to the Authority that shall remain unpaid for 30 days following its due date.

Capital Improvement Program

As part of the annual budget process, the Authority updates its Capital Improvement Plan. This Plan generally updates the projected capital expenditures for the current year, the upcoming budget year as well as for an additional six-year planning period. The 2023 capital budget projection was \$39,335,000. Actual capital expenditures for 2023 were \$26,120,000.

The Authority currently has approximately 135 discrete projects listed on the Capital Improvement Plan – 5 of these projects are under construction, 30 are in various phases of evaluation and design, and the balance will be addressed in the coming years. All proposed projects on the Plan have been, or will be, evaluated for economic feasibility. As the Authority moves forward with each major project, it is submitted for review by all agencies having jurisdiction.

The Authority’s Capital Improvement Program is financed from a combination of sources. The current Capital Improvement Plan projects total expenditures for the six-year period of 2024 through 2029 of \$241,340,000. Funding is expected from the following sources:

Operating Appropriation/General Fund	\$ 60,540,000
NJIB Loans	\$180,800,000

It is the Authority's policy to utilize the New Jersey Infrastructure Bank ("NJIB") to the greatest extent possible. For eligible projects, three quarters of the cost is funded by an interest-free "Fund" loan, and quarter of the cost is funded by a "Trust" loan which bears market-rate interest. NJIB loans are on a reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher to the Trust. Interest is credited to the Authority's account for funds held by the Trust.

Final Comments

The Authority has adopted appropriate strategic operating, finance and capital improvement plans that ensure the Authority will continue to provide the residents of Ocean County with an exemplary level of service while maintaining reasonable and stable rates.