

BOARD OF PUBLIC WORKS

Vision

The Board of Public Works exists to improve the quality of life of the customers we serve.

Mission

We are dedicated to providing our current and future customers with utility and other value added services in a safe, reliable, and economical manner consistent with sustainable growth, community involvement, and environmental stewardship.

Regular Meeting of the Board of Public Works was held in Lewes City Hall, Council Chambers, 114 East Third Street, Lewes, Delaware on Wednesday, February 23, 2011 at 7:00 p.m.

Board Members Present:

*C. Wendell Alfred
James (Jay) Carmean
James Gayhardt
James N. Richmann
Gary W. Stabley*

Ex-Officio Members Present:

*James L. Ford III, Lewes Mayor
Paul Eckrich, City of Lewes Manager
Victor Letonoff, City of Lewes Council
Barbara Vaughan – City of Lewes Council
Darrin Gordon, Assistant General Manager
Glenn C. Mandalas, Legal Council*

Ex-Officio Members Absent:

Kenneth D. Mecham, General Manager

Others Present:

*Hubie Galati – BPW
Carl and Doris Schirmer – BPW
Walter Baumer – Severn Trent
Henry Evans, Cape Gazette
Tim Crowley – Resident
Judy Dawson – Resident
Adrian Nakayama - Resident
Carroll and Eileen Snyder – Residents
Candace Vessela – Resident*

1. Welcome, Call Meeting to Order and Pledge of Allegiance

At 7:00 p.m., President Stabley welcomed everyone, called meeting to order and led Pledge of Allegiance.

2. Roll Call

President Stabley stated all Board Members and Assistant General Manager Darrin Gordon are present; Mayor James Ford will be late [emailed] and General Manager Ken Mecham [death in family] are absent.

3. Revisions and/or deletions to the Agenda.

Mr. Gordon asked to strike Item 9 from agenda because GMB were not able to attend meeting. Mr. Richmann agreed to strike #9 and added that his question on aquifers was answered by a phone call. Mr. Richmann stated he will review Item 11 but only Mr. Mecham is able to answer in-depth questions.

4. Secretary Report

- a) Approval of minutes dated January 26, 2011.
Mr. Alfred motioned to approve January 26, 2011 minutes, Mr. Gayhardt seconded, and motion carried.
- b) Correspondence
No correspondence.

5. Receive the Treasurer's Report [see Agenda Item #11].

Mr. Richmann stated Treasurer's Report is in Attachment 11 and items of particular importance have already been pointed out. Mr. Mecham should present report however the report indicates BPW is in sound fiscal condition. Mr. Richmann recommended approval of Treasurer's Report; Mr. Alfred seconded; and motion carried. President Stabley asked for any discussion questions; no questions. All Board Members agreed to accept Treasurer's Report.

6. Reports

- a) Receive the General Manager's Monthly Report.
President Stabley stated Mr. Gordon was representing Mr. Mecham tonight.
Mr. Alfred informed everyone General Manager's Monthly Report is part of presentations in the packet.
- b) Receive Severn Trent's Report for January.
Mr. Gordon stated Severn Trent's Report for January is in the presentation packet showing a Maximum Daily Flow of 0.693 mg and a Monthly Average of 0.579 mgd. Walter Baumer reported problems with liseptor which are being addressed.
- c) Receive Principals Reports
No reports received.

OLD BUSINESS

7. Open forum/general discussion on the steps involved in an Asset Management Program for the utility infrastructure. (Staff)

INFORMATION/ACTION:

Mr. Gordon discussed the steps BPW staff go through to take care of the assets which include the pipes in the ground, copper wires, transformers, and Waste Water Treatment Plant. Decisions are being made with Capital Improvement Plan to manage assets and to provide the best services.

On January 14, 2011, a 12" transmission water pipe line from the well field broke and was discovered about 4 p.m. Friday afternoon. Temperatures that day were below freezing. Emergency operations were quickly started; after much excavation and hard work, staff was able to repair. At no time was system pressure below requirements for fire protection; quality of water was stabilized and was never compromised. Staff handled extremely well and had all the necessary tools; timeliness and quality of this repair are perfect examples of asset management. Repair was complete by 10 p.m. Goal is keep assets healthy, productive, and getting the most life without incurring emergencies.

Current Work:

1. Identify assets [difficult with pipes in the ground, sewer lines, stormwater lines, and water lines]. Workers are trained to use a GPS collector for longitude, latitude, and elevation data sets for any pipe put in the ground and any pipe that is exposed. Staff is keeping up with what is being built in the ground; some help may be needed with GPS collector and computer side.
2. A valve exercise machine coordinates with GPS collecting data on size of pipe and quality of valves and is on list for Capital Improvements.
3. Have handwritten and drawn maps of system from days before GPS, some professional maps, and old information going back to beginning of 1900's which we use.
4. Have men on staff with knowledge of what is in the ground i.e. Gilbert Holt and Hubie Galati.
5. Currently collecting information and place in a data source for use.
6. GPS Utilities have collected data and Digitized Utilities have old maps and information which is under laid.
7. Contracted with Geospatial to help make sure lines connect, etc.

Current Worth:

1. In 2006, started in earnest setting evaluation and depreciation for basic worth of electric, water, etc. Software is breaking down valuation for each asset based on age, condition and depreciation value.
2. Camera is being used to look at Bay Avenue and Madison Avenue in order to make a decision on condition of pipes.
3. Master Water Study, Master Water Plan, and Engineers help us evaluate system.

Current To Do Needs:

1. In addition to removing, replacing and rehabilitating, new technologies include re-grouting manholes, using plastics and polymers
2. Prioritizing.
3. Sewer Master Plan is about 3.5 years old; Capital Projects include redoing in 2 more years so there is a 5-Year Master Plan to follow along with Engineer's input.
4. Capital Improvement Projects.
5. Aggressive 5-Year Master Plan puts BPW ahead of curve and a proactive versus reactionary organization.

Costs and Financing:

1. Construction cost estimates, O&M Studies, engineering quotes comparing communities are utilized.
2. Rate studies and bond issues are involved.
3. Grants: Finished Water Master Plan and received a \$16,000 Grant from Office of Water. Also, a \$24,000 grant will help with the beginning of a Stormwater Master Plan. Another \$50,000 grant will be used to look at salt water intrusion and nutrients. Taking advantage of monies available to save customers from paying.

To conclude, Asset Management Program is a cyclical effort to attain balance in order to provide best services.

Discussion:

Using a straight-line depreciation schedule, this year's budget has about \$1.4 million depreciation with equal amounts of money put aside from income. Depreciation is shorthand for depreciation and amortization.

Hubie, Gilbert and Carl were recognized and commended for their work.

Darrin was thanked for his milestone presentation of plan for going forward.

NEW BUSINESS

8. **It is recommended that the Board of Public Works approve RESOLUTION 11-002, A RESOLUTION OF THE BOARD OF PUBLIC WORKS OF THE CITY OF LEWES AMENDING THE INDUSTRIAL LARGE GENERAL ELECTRIC SERVICE TARIFF SUPPLEMENTING, SUPERSEEDING AND AMENDING SUCH POLICIES ADOPTED BY THE BOARD OF PUBLIC WORKS PRIOR TO FEBRUARY 23, 2011.** The Purchased Power Cost Adjustment [PPCA] provision would be removed from this billing class. **(Carmean)**

INFORMATION/ACTION:

Mr. Carmean stated resolution addresses the industrial class and will remove the reference to the Purchased Power Cost Adjustment for the industrial class customer. Currently bill with PPCA but will bill the invoiced cost of the energy to the industrial customer plus system losses [difference between what is metered and additional costs] which will be revenue neutral with a possible slight reduction.

Mr. Carmean supports recommendation. Mr. Alfred read Board Resolution 11-002 into the record. Passed and Adopted Date change made from ~~26th day of January 2011~~ to **23rd day of February 2011**. Tariff was not read into the record however publication is available once adopted and the press will be given a copy.

Mr. Carmean motioned to approve adoption of the resolution with amended date; Mr. Alfred seconded, and motion carried. President Stabley asked for questions; no questions. All Board Members agreed to accept.

9. **Open forum/general discussion on the aquifer that supplies drinking water for the Lewes BPW customers. (Richmann)**

Item was stricken from Agenda.

10. **It is recommended that the Board of Public Works approve an amendment to the Utility Service Agreement with Donovan Smith, MHP, LLC dated September 23, 2008. (Staff)**

INFORMATION:

Mr. Gordon clarified there is currently a Utility Service Agreement between Donovan Smith, the developer, and BPW. There was a dispute as to how much contribution BPW would make and Donovan Smith would make for the sewer collection system. BPW policy states developer pays for what they will build and need with BPW paying for making larger for other developments that may come on later at which time BPW will be reimbursed. Under requirements of BPW, Donovan Smith is putting in a 4" force main and a 6" force main. Agreement clarifies BPW's contribution and Donovan Smith's contribution.

Mr. Richmann supports this agreement however advised future contract requests should have a statement of cost estimates with the agreement.

Mr. Richmann read the Utility Service Agreement with Donovan Smith, MHP, LLC into the record.

Mr. Mandalas clarified original agreement had all three signatories [City of Lewes, BPW and Developer] with a provision that in order to amend the agreement the same formalities/signatories are needed; Agreement will be forwarded to Lewes City Council when approved. Mr. Richmann advised future contracts should clearly differentiate between City of Lewes and BPW; Mr. Mandalas agreed. This agreement does clearly identify the incorporated references to City refer to both the municipality and to the BPW.

Timing of work was discussed due to a possible increase in costs to BPW however agreement on costs is based on percentages. Developer decides when to go forward with work. Mr. Mandalas said under Subdivision Code the subdivision approval will expire at some point and infrastructure should be in progress before the expiration date.

ACTION:

Mr. Alfred motioned to approve the agreement, Mr. Richmann seconded, and motion carried unanimously. President Stabley asked for questions; no questions. All Board Members agreed to accept.

11. **Open forum/general discussion on the nine-month financial reports. (Staff)**

INFORMATION/ACTION:

Mr. Richmann stated Mr. Mecham asked him to present his report; he will attempt to answer specific questions.

Report Summary for nine-month period ending 11/30/10:

- Total Operating Revenues for Utilities were \$10,200,661 [a 9.5% increase from same period year before].
- Total Operating Expenses were \$8,658,466 [down 4/10's of 1% from a year ago].
- Revenues are up and Expenses are slightly down.
- Net Operating Income [difference between the two] is \$1,542,195 [a net increase in operating income of 147.5%].
- Non-Operating Revenues and Expenses which reflect cost of interest and loss on sale of assets are a loss of \$422,708 [required to call a loss but actually is over half million dollars in interest]; expense amount is dramatically up by 20%.
- Net Assets at beginning of year were \$37,849,647; Net Assets at end of year were \$38,919,243.
- Bottom Line shows a net positive margin of \$1,069,596 [a 294% increase in net operating margins from a year ago].

Mr. Richmann stated the money would be used to fund the 5-Year Capital Improvement Plan and as stated by a previous policy adopted by a vote of the Board would retire some of the debt. Goal is to have a plan for debt service reduction ready for Board review and approval by the BPW Election on May 7, 2011 which is achievable.

Discussion:

Strategic Study has been commissioned and timing of results should fit well with 12-month report to review financial situation. Significant increases in rates for sewer and water along with significant increase in interest on the sewer plant are balancing finances out until Board revisits financial situation and looks for opportunities to progress. Increased income is also result of high utility consumption due to temperatures which may not be a recurring event. Report does not include December 2010 so is an 8-month report but December numbers are in 2010 YTD report. Staff has done a good job controlling expenses. Public was asked if they had any questions; no questions.

12. Open forum/general discussion on the proposed Operations and Maintenance (O&M) Budget for the fiscal year April 1, 2011 through March 31, 2012. (Staff)

INFORMATION/ACTION:

Mr. Gordon indicated copies of proposed O&M Budget were left on table for attendees to review. At a workshop a week ago, this budget was discussed and Mr. Mecham made all requested changes.

Board is planning another public meeting before regular March Meeting when the Board will request adoption of this budget so public has opportunities for input, questions, and concerns.

On first page, Operating Expense for Support Services has increased 25.7%; the majority of that expense is \$150,000 for the consultants doing the Study. Everything else is fairly tight. Board has worked very hard to reduce expenses.

Looking at the change in net assets at the bottom of each utility, the Electric Department will be ahead of the game by \$970,000. For the first time in a very long time, Water will be ahead by \$17,000 and Wastewater will have a net margin of \$55,000. Stormwater will be in the positive for \$100.

Part of this budget is based on the 5-Year Plan done by the consultants back in September 2010.

Discussion:

Mr. Gayhardt asked Board to consider lowering the electric rates after reviewing and studying the consultant's financial reports, debt service issue, and needed reserves. Mr. Richmann reviewed the numbers to present total budget picture.

13. Open forum/general discussion on the Five-Year Capital Budget for period April 1, 2011 through March 31, 2017. (Staff)

INFORMATION/ACTION:

Mr. Gordon presented budget which was also presented at last week's meeting.

Water:

- Madison Avenue construction was moved to fiscal year 2013-14; since numbers not available as yet, costs have not been split out between water and sewer. Currently on City's GMB Street Inventory Plan for FY 2012 but Council has decided to move to FY 2014 at earliest. Presentation has chart breaking out projected 5-Year Capital Expenditures. Moving Madison Avenue to FY 2014 makes a more even distribution of funds through next five years. Projects are prioritized as high, medium and low.
- For 2011, Bay Avenue Water and Bay Avenue Sewer are biggest projects with combined costs of about \$1.3 million.
- Canal Crossing at Savannah Bridge - Starting to look at engineering this year for \$23,000 with actual construction perhaps in 2012 for \$213,000.
- Canal Crossing at Dairy - Engineering this year for \$13,000 and moving construction to 2013 at \$128,650.
- Hydrant Replacement - Looking at replacing at least about five a year at \$10,000 in 2011; 5% interest is added each year out for next five years.
- Key Valve Replacement - \$45,000 in 2011; again 5% interest was added each year out for next five years.

Sewer:

- Bay Avenue Sewer.
- New Road to Lift Station #3 Upgrade - Will be done in conjunction with construction at Canary Creek.
- Lift Station SCADA - \$15,000 for next three years and was a low priority.
- Sewer Lift Station Renewal - \$60,000.
- Sewer Master Plan - \$35,000 is slated for 2012 which is five-year anniversary of that plan; will apply for a grant.
- Manhole Replacement/Rehab - \$40,000 for 2011 with interest added over next five years.
- Donovan Smith 4" and 6" lines - Approved tonight for an estimated \$72,000 in 2011. Additional costs later; the 4" and 6" lines will run approximately 1800 feet; in about five years foresee bringing the 6" line from initial manhole down to a manhole close to hospital.

Electric:

- University Renewal - In conjunction with Canary Creek; needs to be done this year.
- Building Improvements - \$24,230 for this year to maintain the buildings.
- Next four are underground replacements: Mason Way; Cape Shores; Bay Breeze; Jefferson Apartments are recognized needs for replacements scheduled in the future.
- 69 KV Breaker/Metering at Delmarva Connection - This is connection on Savannah Road. About a year ago had some problems with metering and is now operating. Since old, foresee replacing in about five years.
- Railroad Solar Light - Replace light by bridge in order to take power line out of the marsh to be a stand alone.

Water Production [from Water Master Plan]:

- Building Maintenance Power Plant - \$250,000 for work suggested by an architect. Not high priority but on agenda. Two issues: one involves working on actual construction of the building for the \$250,000; second part involves deciding on production as suggested by GMB.

- Well Renewal – Last year did Well #1; \$12,825 is a quote to take care of Well #5.
- Additional Site Test Well/Alternative Emergency Supply - \$75,000. Mr. Gordon said both items are considered back-up supply. Discussion followed on making these two separate items because they have two different purposes; one is for ensuring long-term continuity of the means of production and other is for emergency and mutual interchange and cooperation under a mutual agreement. Milton and Bethany have such agreements.
- Actual Production Site Construction – Whether production done at well field or on Schley, construction is slated to be done over two years for \$600,000 and \$300,000 totaling \$900,000 for construction of that facility.

Stormwater:

- Stormwater Master Plan has \$40,000 plus a grant that will help; also see some GIS monies to help with development.
- Hoornkill and Harborview – Putting in roughly 100 feet of pipe that is undersized scheduled out a year from now.
- Catch Basin Renewal – \$25,000 to renew four to five basins; ongoing over next five years with 5% interest added.
- Outfall One-Way Valves - \$15,000 to start; ongoing over three years with 5% interest added. Currently on low priority because more direction and information are needed

WWTP:

- In conjunction with an Energy Conservation Grant with City, looking at improving the efficiency of the oxidation ditch along with a constant monitoring nitrate meter for \$22,000 and a constant monitoring phosphate meter for \$28,000 with some added engineering for guidance.
- DNREC Matching Grant for Nutrient Offset for \$50,000.

President Stabley stated adjustments will be made to this report from tonight's discussions.

Mr. Gordon agreed and requested another public meeting to discuss both the Budget and the Capital Budget.

** Item 22 was discussed out of sequence.**

14. MEETINGS ATTENDED BY BOARD MEMBERS OR STAFF.

Mr. Richmann attended the Delaware Clean Water Commission meeting and was able to bring back \$50,000 in matching grant money.

15. BOARD OR STAFF REQUESTS FOR AGENDA ITEM(S).

As requested, a public meeting will be scheduled to discuss Budget and Capital Budget when schedules permit. Meeting should be scheduled in the evening and after the City's meeting on March 22, 2011 to finalize their budget.

16. Call to the Public.

No questions.

17. Call to the Press

No questions.

18. Executive Session.

Mr. Alfred motioned to move to Executive Session, Mr. Gayhardt seconded, and motion carried unanimously.

Board went into Executive Session at 8:50 p.m.

Recorded by: Rosemary Shannon

19. Return to open session.

20. Approve the Executive Session Minutes of January 26, 2011.

21. Open forum/general discussion and/or action on any item from the Executive Session.

***22. It is recommended that the General Manager be authorized to extend the current wholesale electric supply agreement for period as specified by the Board of Directors and in such a manner as to assure electric supply beyond June 1, 2011. (Carmean)**

Mr. Carmean said Mr. Mecham sent out the Constellation Energy Indicative Pricing Sheets for periods of from one up to five years. For the purchase of wholesale power, Board is currently paying \$58.84/mw hr. for the energy portion with an added \$20 for transportation costs through the transmission lines for a total of \$78.84/mw hr. Board has previously had electric rate discussions indicating the purchase power agreement would be a rolling 12-month situation causing public to ask about pricing. If the price spikes up dramatically, would not be seen immediately because would be spread over a 12-month period; conversely, if price goes down, impact would not be seen immediately. Currently, pricing is going well with the \$79 price for delivered energy.

The bid from Constellation is good news with a proposal of \$58.05 for a one-year period not including transportation which is indicative pricing as of yesterday. The two-year option is \$60.50 [a 4.2% increase in the second year]; pricing for third year goes up 4.5% at \$63.25; last option for fourth and fifth years is \$67.90. The price a year ago was \$102. Mr. Mecham recommends and I second his recommendation that we sign an agreement with Constellation at nearest opportunity for a one-year extension [until May 31, 2012] currently. This will allow BPW to get through the strategic analysis and the financial decisions while leaving the option to negotiate an extension for two or three or more years out. This should not be difficult because prices are stable right now. Mr. Alfred seconded the motion. President Stabley asked for questions; no questions. All Board Members agreed to accept.

23. Adjournment.