

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, June 22, 2011 at 7:00 p.m.

Board Members Present:

*C. Wendell Alfred
D. Preston Lee
Jack Leshner
James N. Richmann
Candace Vessella*

Ex-Officio Members Present:

*James L. Ford III, Lewes Mayor
Fred Beaufait – Lewes City Council
Victor Letonoff, City of Lewes Council
Ellen Lorraine McCabe, City of Lewes
Darrin Gordon, General Manager
Kenneth D. Mecham, Assistant General Manager
Glenn C. Mandalas, Legal Council*

Others Present:

*Jim Morris – BPW
Paula Liner – BPW
Walter Baumer – Severn Trent
Henry Evans – Cape Gazette
Andrew M. Haynie – PKS & Company, P.A.
Ginger Heatwole – PKS & Company, P.A.
Michael Kleger – PKS & Company, P.A.
Ray Perdue – PKS & Company, P.A.
Nick Pruitt – PKS & Company, P.A.
Tim Crowley – Resident
Joe Hoechner – Resident
Carroll A. Snyder – Resident*

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

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

2. Roll Call

President Alfred stated all Board Members, Mayor James Ford, General Manager Darrin Gordon, and Glenn Mandalas, Legal Counsel are present.

3. Introduction of New Member (W. Alfred)

President Alfred introduced Jack Leshner as the newest Board Member.

4. Election of Treasurer (W. Alfred)

President Alfred called for the election of Board Treasurer.

Candace Vessella motioned to elect Jack Leshner for Treasurer, James Richmann seconded.

James Richmann stated it has been his pleasure and distinct honor to serve as Treasurer for the last year. Tonight, he voluntarily yields the position to a friend, Jack Leshner, a CPA, because the City requires a Treasurer who is available to the City and his availability is greater. After discussion, agreement is to operate moving forward as a team. If Board is willing, I request to be nominated as Assistant Treasurer and I will do everything possible to support Jack Leshner as he assumes his responsibilities as Treasurer.

Candace Vessella motioned to elect James Richmann Asst. Treasurer, James Richmann seconded, and motions carried.

5. Revisions and/or Deletions to the Agenda

No revisions and/or deletions to the agenda.

6. CONSENT AGENDA:

President Alfred advised everyone Consent Agenda is usually handled as one item but tonight will review individually.

- a) Approve Minutes of the Regular Meeting of May 25, 2011 and Special Meeting of June 14, 2011.
No corrections or additions to minutes.
- b) Receive the General Manager's Monthly Report. Accepted as presented in packet. Darrin Gordon added financial sheet for Stormwater and Wastewater for month ending April 30, 2011 to packet for review.
- c) Receive Severn Trent Report for May. Accepted as presented in packet.
- d) Receive President's Report.

President Alfred reported an incident that occurred this past Saturday at about 11:30 a.m. Water pressures in City dropped for second time in two weeks. Notification was quick as Jim Morris, Supervisor, was en route as soon as call was received and within 10 to 15 minutes pressures were back to normal. Board is very proud of Staff. President Alfred and James Richmann went through town to visit 23 establishments including Fire Department to inform everyone, extend apologies, and offer assurance there is 24-hr. protection at water plant over weekend. Problem caused by a pump that failed. Pump has been repaired and a secondary pump ordered to be installed as a backup. BPW and URS met at power plant are working together to ensure this will not happen again. A secondary failure with dialer used for instant notification is being repaired this week. Board apologizes and wants to openly to communicate all details.

- e) Receive Vice-President's Report. Candace Vessella has nothing to report at this time.
- f) Receive Secretary's Report. Preston Lee read letter from Gordon T. Davis, Lewes Fire Dept., into record.
- g) Receive Treasurer's Report.
- h) Receive Asst. Treasurer's Report

Darrin Gordon stated a negative purchase power cost adjustment [PPCA] for last four months is reflected in April 2011. Revenues in 2008 and 2009 indicate BPW is selling more and making less in 2011/12. Customers will see electric costs are going down on bills because of the 12-month rolling average.

ACTION:

Candace Vessella motioned to approve Consent Agenda, Preston Lee seconded; and motion unanimously carried.

OLD BUSINESS [None]

NEW BUSINESS

7. It is recommended that the Board of Public Works write off the bad debt incurred from January 1, 2008 to December 31, 2009 in the amount of \$25,867.12.

INFORMATION:

Darrin Gordon asked everyone to recognize this is a two-year write off for customers who cannot pay and leave the system. Thorough attempts are made to locate customers and collect payments and then a collection agency tries to collect. Write-offs account for less than 1% of net margin; industry average is around a 2.25% write off. In-house efforts and policies are solid; debt needs to taken off.

Discussion:

- President Alfred stated Round-Up Plus Program was an initiative by Ken Mecham to help offset these needs.
- Jack Leshner requested data to assist him to improve the process.

ACTION:

Candace Vessella motioned to approve write off bad debt; Preston Lee seconded; and motion unanimously carried.

8. The presentation of the 2010-2011 Annual Audit Report by PKS & Company, P.A. It is recommended that the report be accepted by the Board. (D. Gordon)

INFORMATION:

Andrew Haynie introduced entire audit team and their responsibilities; everyone was given a handout to review.

- **Press Release**, Pg. 1, last sentence "The auditor issued an unqualified opinion on the financial statements" confirms findings for fiscal year ended March 31, 2011. An unqualified audit opinion is highest assurance independent auditors can give for financial statements
- **Financial Highlights**, Pg. 2, is summary of assets, liabilities and net assets as of 3/31/11 broken down for Electric, Water, Sewer and Stormwater departments.

Current Assets: Electric has most cash. **Noncurrent Assets:** Capital Assets indicate items having a life longer than a year i.e. water reclamation plant, electric building, and vehicles; data set up with help of accounting staff and a portion of the assets is depreciated depending on determined life. **Total Assets:** \$61 million [**Electric** \$21 million; **Water** \$9 million; **Sewer** \$29 million; **Stormwater** \$957,000. Sewer has large balance in fixed assets involving upgrades.

Liabilities: Accounts payable to vendors; accrued interest on outstanding loans; bonds payable for current portion with larger portion under noncurrent liabilities. Sewer has significantly higher liabilities involving debt for upgrades.

Net Assets: Accumulation of all profits and losses for each department over the life of BPW. End of March 31, 2011, net assets are approximately \$39 million.

- **Financial Highlights**, Pg. 3, is summary of revenues, expenses, and profits and losses for the year. Comparisons between 12 months for this year and 6 months for last year because year-end was switched from 9/30/10 to 3/31/10 to align with City of Lewes will not balance out well.
Electric has most revenue of \$11.3 million and most current expenses showing a profit of \$1.4 million. **Water** had a profit of approximately \$84,000; **Sewer** profit was about \$42,000; **Stormwater** had a small profit of \$175.
Total Profit at year-end was approximately \$1.5 million; end-of-year Net Assets of \$39 million.
- **Graph, Pg. 4, Revenue by Department** shows comparisons for 2011 [12 months] and 2010 [6 months]: Percentages do hold weight. **Electric** revenues hold consistently at over 70% and **Sewer** is next at about 15%.
- **Graph, Pg. 5, Revenue by Source** shows comparisons for 2011 [12 months] and 2010 [6 months]: Sale of Electric is again consistently above 70%.
- **Graph, Pg. 6, Expenses by Department** shows comparisons for 2011 [12 months] and 2010 [6 months]: **Electric** expenses are again over 70%. **Water, Sewer, Stormwater** show smaller expense percentages, however, these expenses are higher versus the percentages of revenue not having the profits associated with Electric.
- **Graph, Pg. 7, Expenses by Source** shows comparisons for 2011 [12 months] and 2010 [6 months]: Purchased Power relating to electric makes up about 52% of total expenses. Other large items include **Depreciation** showing current portion of long-life assets being deducted this year, **Administrative**, and **Payroll**.

Discussion:

- 12-months vs. 6-months is not a good comparison; in addition, peak months are not taken into account.
- Audit findings for retirement and transfer of long-term indebtedness: Long-term indebtedness went down a significant amount again this year. All required payments were made and a payment was made ahead of time on one of the smaller debts in order to remove from the books and further reduce debt.
- Concept of Net Cash Generated by Operating Activity used for capital budgeting by many non-profit governmental organizations as a way to make infrastructure investments on a periodic basis to avoid catastrophic failure of the infrastructure was discussed with the need for pre-planning to pay down debt.
- Electric resources may be used to help in other departments if necessary.
- Audit report issued an unqualified opinion that is highest level given to indicate there are no major financial issues with regard to financial statements and no need to make huge adjustments.
- Audit report does not assure Board is free of fraud; only assures Board financial statements are not materially incorrect. Fraud involves much smaller items below level of testing PKS would do. An audit is a sample testing of larger dollar items along with random samples of smaller dollar items in order to pick up on anything else happening.
- This year at discretion of prior Board audit went into certain areas using a detailed list of accounts because of huge turnover including General Manager and no major problems were found in these areas.
- Audit is to serve as an exit audit for Ken Mecham while turning over a clean audit to Darrin Gordon.
- Audit also should assure public BPW is in sound financial condition, is well managed and is doing the right things.
- Andrew Haynie said audit statement reflects Board is in very sound shape with regards to cash flows and how it is handling its debt payments.

James Richmann said it is also an exit audit for him as Treasurer and asked to make statements regarding Board's fiscal position. Total assets are \$62,830,000 and total liabilities are \$25,115,407. Total net assets are \$37,714,878 highlighted by auditor as accumulated net profit of the Board since its inception in 1908.

Other important figures are current assets meaning cash or cash equivalents such as prepaid expenses, inventories, etc. compared to liabilities to prevent possible foreclosure. Andrew Haynie confirmed current assets are \$23,174,977 and current liabilities are only \$2 million. Income statement, Pg. 10, shows a change in net assets of \$1.555 million. Real question for Board: "is that too much?" was left as an open-ended question.

Public discussion:

Joe Hoechner inquired about restricted funds under net assets; he asked if there is only one restricted fund for each department or multiple restricted funds. Andrew Haynie responded there are multiple restricted funds in each department. Majority of restricted amounts are bond proceeds not used yet from a bond issue several years ago restricted for capital projects. In next few months some cash will revert back to City for City projects and some will be used for BPW projects. Impact fees are included because they are restricted for certain items; customer deposits required to be paid to customers are included.

Joe Hoechner asked why restricted fund numbers under net assets vary from the top; some go up and some come down. Andrew Haynie answered because of restrictions with some liabilities. Restrictions at top distinguish restrictive cash; other restricted liabilities are not pulled out because amount is insignificant and appear in payable and accrued liability sections.

Joe Hoechner also asked where to locate reserve fund numbers. Andrew Haynie indicated numbers are part of Net Assets. At very bottom, ahead of Total Net Assets line, "Unrestricted" line shows accumulation of profits in each department for the history of BPW not restricted to any particular projects or any particular item at this point in time and may be used at the Board's discretion for debt reduction, etc.

ACTION:

James Richmann motioned to formally accept the 2010-2011 Annual Audit Report by PKS; Candace Vessella seconded; and motion unanimously carried.

9. It is recommended that Darrin Gordon be appointed as the Lewes Board of Public Works Representative Director on the Delaware Municipal Electric Corporation (DEMEC) Board of Directors and Kenneth Mecham

be appointed Alternate Director. (D. Gordon)

INFORMATION:

● Darrin Gordon said DEMEC is a joint-action agency representing all nine municipalities throughout state of Delaware. Seven members purchase their power through DEMEC; Lewes and Dover are not participating members. DEMEC provides an immense amount of information, wonderful expertise, and represent municipalities well at state level with legislative concerns. Board should know being a Representative Director on DEMEC is not a constraint. When Ken Mecham retires at end of July, someone else will be appointed Alternate Director.

ACTION:

Preston Lee motioned to approve appointments of Darrin Gordon and Ken Mecham as representatives on DEMEC, Candace Vessella seconded, and motion unanimously carried.

10. Presentation of the Annual 2010 Consumer Confidence Report for the BPW water system. (D. Gordon)

INFORMATION:

Darrin Gordon said BPW by law is required to present to customers every year a Consumer Confidence Report or Water Quality Report. Report will be delivered to customers prior to July 1, 2011. Printers missed deadline to include report in current bills; printers will mail to customers without any additional costs.

Points of interest:

“Secondary Substances” were monitored in 2010 as part of a three-year rotating testing schedule. No substance put water into any violation. Lewes has exceptional water tested monthly for any bacteria with negative results. Nitrates at 7.4 is fairly high although not at a dangerous level. Well #1 is involved with increased nitrates; another well is mixed with Well #1 to dilute percentage of nitrates. Total dissolved solids number indicates total of all substances in water. Lewes has 130-150 parts per million TDS compared to Fiji water that has about 230 TDS. Lewes water is a truly exceptionally quality water.

11. Proposed amendment to the 2011 Capital Budget for a water main extension from Atlantic Drive to the water main at Savannah Road. (D. Gordon)

INFORMATION:

Darrin Gordon said Henlopen Gardens has an end system serving the area. A main was recently placed coming up Savannah Road serving Savannah Circle and Savannah Place areas. A map illustrates placing a main up Savannah into Atlantic Drive completing a loop feed and improving reliability for whole area. Costs for installation are estimated to be approximately \$70,000; recommendation is to add to current Capital Budget. If approval is given to go forward, engineers will give a more concrete cost estimate.

ACTION:

Candace Vessella motioned approve the water main extension for a price to be determined, Preston Lee seconded the motion, and motion carried unanimously. President Alfred confirmed approval was authorization to move forward.

12. The introduction of communication outreach for the upcoming 12 months. (C. Vessella)

Candace Vessella stated as part of her administration focus for Board, a **BPW Communication Outreach** strategy has been developed with General Manager.

It is important to communicate with customers and stakeholders in the community in an effort to do better. With that premise, components of communication plan include: Information papers for the public; public information displays at various events around town; public engagement opportunities for General Manager to meet with public; speaking engagements; bill stuffers; facility tours; media outreach; a customer newsletter on a quarterly basis; website updates; potential use of social media to reach out to customers; and an emergency notification plan for a better understanding of outreach so no one is omitted.

Plan has been proposed to General Manager and he wants to do also. Board members will also be involved in reaching out to community as well to explain issues.

Preliminary list of subjects to be covered is provided. An example being used is “Why does BPW flush fire hydrants?” Topics include basic questions with background information on why things are done and how much things cost. BPW processes will be shared and become more transparent to the public.

Consulted with Solicitor Mandalas assuring papers will provide factual information already contained within BPW. All Board Members will be consulted on materials contributing from their areas of expertise before public distribution. Strategy will commence in September. Darrin Gordon will lead with Candace Vessella’s assistance as administrator.

13. Employee job description review due to expanded duties and responsibilities. (D. Gordon)

Darrin Gordon stated early retirement was offered and accepted by several employees. Current staff has been asked to step up to ensure all jobs are filled. Staff has done that recognizing almost all are outside their job descriptions. Efforts are in the works to address new job descriptions. Board will be informed on progress at a later date.

President Alfred indicated Candace Vessella is in effect BPW’s Human Resource Administrator. Candace Vessella said plan is to check with other utilities to develop prototypes of job descriptions and check peer review descriptions with compensation plans and then calibrate against size of utility, etc. Processes will be utilized to make fair comparisons. Once General Manager completes preliminary inventory of individuals with new tasks and responsibilities, necessary adjustments will be made with comparisons with other utilities.

President Alfred suggested everyone on Board was welcome to offer input and assistance.

14. Meetings attended by Board Members or Staff.

Darrin Gordon, Preston Lee and Candace Vessella attended APPA Conference in Washington, DC. APPA is a budgeted item placed in budget by Ken Mecham. As one of best educational seminars available, all Board members are encouraged to attend when possible. APPA is an excellent and unbelievable resource to Board members to keep up-to-date on important issues.

15. Board or Staff Requests for Agenda Item(s).

- Second request by James Richmann for an agenda item to discuss reduction of stormwater fees by use of natural methods of stormwater control with ability of General Manager to have authority to act on ratepayer requests.
Request was made to send new Board Members the Stormwater Study.
- Saturday, August 13, 2011, was established date for workshop; Darrin Gordon will pursue a location. President Alfred said workshop will involve finances along with a well-rounded agenda and serve as a planning retreat for newest members as well as legal counsel to discuss FOIA, etc. No cell phones or other communication outlets.
- President Alfred suggested Round-Up-Plus Program be revisited and reports given to Board.

16. Call to the Public

Fred Beaufait, Lewes City Council, suggested Board should express displeasure to Senators, Representatives, and EPA concerning the push for green energy mass production before everyone is ready. Candace Vessella responded saying she has spent 30 years working with legislation. At APPA Conference, attended legislative sessions and these issues were discussed. A good part of discussion is outcome of Clean Air Act so it is not necessarily any new laws but instituting and applying the laws already passed through rule making. Some unintended consequences or repercussions from legislation previously passed are now being applied to utilities, to generators of power, and flowing down to BPW. Legislation passed two years ago is now being instituted.

Fred Beaufait's comments will be taken into consideration.

17. Call to the Press

Henry Evans, Cape Gazette, confirmed retreat meeting on Saturday, August 13, 2011, is open to the public.

18. Adjournment

James Richmann motioned to move into Executive Session, Candace Vessella seconded, and meeting adjourned at 8:25 p.m.

Recorded by: Rosemary Shannon