

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, May 16, 2012 at 7:00 p.m.

Board Members Present:

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

Ex-Officio Members Present:

*James L. Ford, III – Lewes Mayor
Paul Eckridge – City of Lewes Manager
Darrin Gordon – General Manager
Heidi Wagner – Asst. General Manager
Glenn C. Mandalas – Legal Council*

Others Present:

*Paula Liner – BPW
Andrew M. Haynie – PKS & Company, P.A.
Ginger Heatwole – PKS & Company, P.A.
Lee McCabe – PKS & Company, P.A.
John Cross – Resident
Joe Hoechner – Resident
Robert Kennedy – Resident
John Mateyko – Resident
Rob Morgan – Resident
Bonnie Osler – Resident
Dennis Reardon – 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. A moment of silence was observed for our troops serving our country.

2. Roll Call

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

3. Oath of Office for Directors of the Board: C. Wendell Alfred, Jack Lesher, James Richmann.

Oath of Office was administered by Darrin Gordon, General Manager, to C. Wendell Alfred – President, Jack Lesher – Treasurer, and James N. Richmann – Assistant Treasurer.

4. Election of Directors of the Board and the appointment of Board principals to the divisions:

Candace Vessella proposed for Board's consideration and approval the Lewes Board of Public Works slate of officers for the 2012-2013 year per BPW By-Laws, Article 3, Officers and Directors, Section 1 Officers. Each is to serve for one year and until their successors are chosen; in addition each member of the Board shall be designated as a "Principal" of a department of the BPW.

- a) **C. Wendell Alfred:** **President**
- b) **Candace Vessella:** **Vice President and Administrative Director**
 Ex-Officio Officer Member of Planning Commission per approval of Mayor Ford
- c) **D. Preston Lee:** **Secretary and Director of Water, Wastewater, and Stormwater**
- d) **Jack Lesher:** **Treasurer**
- e) **James Richmann:** **Assistant Treasurer, Director of Electric, and Streets Commission Member**

James Richmann seconded approval and stated it is his honor to endorse Mr. Alfred as President; at last election, planned to nominate Mr. Alfred for President, appreciates opportunity at this time to recognize his leadership and endorse his candidacy for President. Motion carried unanimously.

5. Revisions and/or Deletions to the Agenda

No requests for revisions and/or deletions to agenda.

6. CONSENT AGENDA:

- a) Receive General Manager Monthly Report.
- b) Receive Severn Trent Report.
- c) Receive President Report.
- d) Receive Vice-President Report.
- e) Receive Secretary Report.
 - 1. Approval of Regular Minutes dated April 25, 2012.
- f) Receive Treasurer Report.
- g) Receive Asst. Treasurer Report.
- h)

James Richmann motioned to approved Consent Agenda, Preston Lee seconded, and motion carried unanimously.

OLD BUSINESS

7. Open forum/general on the acceptance of the Proposed 2012-2013 Operations and Maintenance Budget as presented and created from the May 4, 2012 Budget workshop. (D. Gordon)

INFORMATION:

Darrin Gordon presented input from May 4, 2012 Budget Workshop with proposed budget done with Heidi Wagner.

- Operating Revenues allow for seasonality with a 4-year average on usage for Electric, Water, and Wastewater taking out some of the highs seen in summer and winter.
- Total Operating Expenses for salaries, wages and benefits show a 25% reduction due to an early retirement offering for several employees. Number also represents how staff employees are spread very thin and are working very hard to maintain current demand.
- Non-Operating Revenues. Adjustment made on Wastewater Impact Fees for Actual and Proposed on existing budget for \$15,000. Actual for this year was about \$400,000 because Canary Creek built a lift station, put in sewage infrastructure, and improved and upsized existing lines. Work was done on an in-kind basis; BPW did not recover impact fees for each home because Canary Creek actually did the work. Since \$400,000 is not a cash expense or a fee, number was removed from budget but is part of PKS accounting.
- An updated Proposed 2012/2013 Lewes BPW Operating Budget was distributed with last minute adjustments made because of allocations to Support Services line under Operating Expenses. **Changes:** Electric is \$564,000, Water is \$300,318, and Wastewater is \$368,657. Formula is based on number of employees, revenues, expenditures, number of meters in each group; average is given as a percent for the input. Andrew Haynie, PKS, noted formula was not applied to proposed budget so percentages were updated in proposed budget. Since purely allocation of funds, total for end of year has not changed.
- Change in Net Assets line at bottom for proposed budget show: Electric at \$322,095; Water at \$450,660; Wastewater at \$198,741; and Stormwater at \$9,517.
- Conclusions from May 4, 2012 budget workshop: **Electric** division is doing very well as a healthy, strong electric utility with capability to pay principal debt. **Water** is healthy with a lot work being done with capital budget – about \$600,000 on Bay Avenue; another million dollar project committed for water treatment facility; crossings at the canal work being done this year for approximately another \$800,000. **Wastewater** has principal payment of about \$580,000; \$198,741 proposed net change indicates still falling short of carrying its own weight.

Darrin Gordon said proposed budget accurately presents facts and asked the Board for its approval.

DISCUSSION:

Darrin Gordon reviewed rate impacts on new budget after lowering electric rates 7.6%. BPW has committed to reduce the change in net assets of cash available by \$500,000 over this coming period. The 7.6 rate reduction and the change in net assets of \$500,000 are part of proposed budget. Jack Leshar explained \$500,000 is put into a reserve account due to \$500,000 less revenue from the 7.6% rate reduction. Effects will not be seen for ten months; Board will revisit in November for any further reduction. Darrin Gordon added he is optimistic DEMEC contract will improve numbers by the end of the year.

President Alfred referenced an article stating the electrical grid needs a big ticket overhaul for \$673 billion in investments needed by 2020. BPW's infrastructure is healthy with a body of a 21-year old with everyone working to further this cause but caution is the right thing to do at this point.

James Richmann commended the improvements in water plant for approximately \$1 million and said Board should stay on schedule to ensure meeting reliability requirements.

ACTION:

Jack Leshar motioned for the Board to accept the Proposed 2012-2012 Operations and Maintenance Budget as presented; James Richmann seconded, and motion carried unanimously.

Glenn Mandalas stated the spending resolution passed recently terminates upon adoption of this budget.

NEW BUSINESS

8. Presentation/general discussion on the preliminary 2011/2012 audit report as presented by representatives of PKS Inc. (D. Gordon and A. Haynie, PKS representative)

INFORMATION:

Andy Haynie, PKS, introduced two managers, Ginger Heatwole and Lee McCabe, who worked on audit. Draft financial statements given to Board for review. If any questions or comments, contact Darrin Gordon, Jack Leshner, or a PKS representative. Some items may change. Jack Leshner and Darrin Gordon have been very involved to help resolve issues for a fast turnaround.

- PKS did not have the aforementioned administrative allocations when preparing the draft financial statements. When a 20% increase was noted in Electric without changes in services, Board was contacted to discuss and review. Draft financial statements use same allocations used last year which are a percentage or two off from the Board's final analysis. No major swing is apparent as seen in the first run with it.
- Pension fund pages are not complete because the pension company provides information when ready which is typically towards the end of May. Kris is following up diligently to receive needed data.
- No major changes are expected.
- An addition will be made in front of the statements for page numbers with a table of contents and the Management's Discussion and Analysis written by Darrin Gordon when PKS has finalized and approved moving forward.

President Alfred indicated the presented financial statements are a lot to digest and asked Board members to direct questions to Jack Leshner who may contact PKS if needed.

9. Open forum/general discussion on the Memo of Understanding between the Governor of Delaware and the Delaware Municipal Electric Corporation, Inc. (DEMEC) signed May 9, 2012. (D. Gordon)

INFORMATION:

Darrin Gordon said newspaper articles are reporting on a Memo of Understanding between the Governor, the Governor's Office, and DEMEC of which BPW is a member. About three months ago, Governor Markell gave his State of the State Address and made the comment one of the reasons Delaware is lagging behind in economic development in bringing industries to Delaware was the fault of the municipal electric industrial rates. Governor Markell and his staff began meeting with all the municipals including Lewes BPW. A Memo of Understanding was produced and signed May 9, 2012 along with a press release.

Four important items are part of the MOU:

1. In next three years, there will be a reduction by 10% in electric rates.
2. An economic development rate will be established for all the municipalities.
3. Contribution to the City will come from the Electric to the City fund at the 2012 rate for five years.
4. Governor's offering to the municipals because of this effort was to oppose any third party provider of electricity to customers in service area.

Editorial comments:

1. LBPW already had 7.6% rate reduction to customers prior to the State of the State Address and BPW has been working to reduce rates for years and Board Members strive immensely to make sure rates are lowered.
2. Agreement to establish an economic development rate is being presented on a preliminary document to Board Members and Mayor Ford. After looking at several communities, a discussion is needed that expands even beyond this Board. A question of what does the City want to do for economic development rate comes to mind; are we supporting the City with BPW's efforts? Everyone's input is requested for discussion at next Board meeting.
3. Contribution BPW makes to the City elicits the following comments: Lewes has a different governance style than most every other municipality in Delaware other than New Castle who has their own utility board. Our contribution to the City is defined by the Charter from the State of Delaware. We give 5% no greater than our utility sales collected annually which is a given number that will not ever go above the 5% unless the Charter is changed. The other municipalities who have the utilities underneath the city government have somewhat of an open checkbook taking funds from electric to go into the general municipal funds. This is part of Governor's concern. When they saw how Lewes works, very little was said. Having BPW separate from the City Council is an exceptionally good governance style which helps give the Lewes citizens control over what they are paying and their taxation.

DISCUSSION:

James Richmann as Electric Principal congratulated and thanked Mayor Ford for his excellent letter, Darrin Gordon who did bulk of the work, and President Alfred for their participation in the negotiations with the Governor. Mr. Richmann was always informed and the Board Members were consulted in the right way and the right time. Three points include the economic development, the Board's goals as a utility, local control and where BPW is now. The substance of Mr. Gordon's statements reflects the attitudes of the Board Members for the most part.

- This Board fully and enthusiastically supports economic development. Looking at each member in terms of careers, involvement in community activities such as the Library, Beebe Hospital, the Canal Front Park, and the Overfalls, each represents the community in terms of economic development based on our traditional industries of tourism and making this a graceful, productive and high quality of life area. Our work is done individually and collectively for economic development in the community.
- BPW's goal has always been to have lowest rates possible for our electric, water, wastewater, and storm water

customers within the structure of three priorities (1) Safety (2) Reliability and (3) Efficiency of Operations giving us the quality utilities at the right rates.

- Local control concerns: (1) No opportunity to conduct governmental affairs intimately related to our budget in the public eye; it was not Board's choice to do under veil of confidentiality which public should realize. (2) A strong voice is needed for local control as we are the ones who know what types of economic development are best for us. (3) Our Charter defines our relationship in law between the City and BPW. The discussion of what our freedom of flexibility is needs to take into consideration what our legal obligations are under the Charter.
- Where are we now? This deal is pretty much a done deal. The Governor has indicated BPW must go along with supporting economic development and economic rates for grant development or he will in effect go to war with us. This would not be good for our community, the citizens of Delaware or the ratepayers of BPW. We have negotiated through our voluntary association of municipal electric utilities about as good a situation as we are going to get. Am I scared of what the economic impacts of this are going to be? Absolutely not. We are going to breeze through the requirements and we are going to excel. Given Jack's diligence and Darrin's cost-cutting measures, and through Candace's publicity program, we may be able to advertise the lowest summer electric rates in the state of Delaware very soon.

Mayor Ford commented he wants to see what happens to the other municipalities in the State as DEMEC represents nine of the fifty-seven and also the unincorporated areas of the State and how the Governor's office and Mr. Levin's proactive positions on economic development will pan out in those areas. It will be interesting to see. Also, the correspondence to the Governor was referenced. I think people know the feel of the four square miles of Lewes and what large term economic development exists here on a major scale for industry; heavy commercial is very limited or even non-existent. Our economic development consists of a lot of small businesses and real estate with some construction activity on a smaller scale type of operation. I don't think the driving force that encourages or pushes away our economics here is due to the electric utility rates solely; as with anything, it certainly is a player. I don't see this having a huge impact on economic development in the City or in the operations of Board and the City. Everything has some impact. We will work out whatever details we need to work out. Bottom line is we often have the sentiment of the loss of home rule and loss of local control in local government; it is another example of the battle we fight to maintain stability for our local elected positions and the responsibilities we take on.

Preston Lee questions how it will impact everyone as residents. My opinion is we were going there anyway and we are close to where we were going. There isn't any impact I can measure on the average resident.

James Richmann said there is a potential impact based on the final rate granted for economic development. If some firms and some enterprises which may be nonprofits may qualify for that rate, it will cause something that has been avoided which is subsidizing one class of customer for another. Actual pennies out of pocket may be small, but the emotional impact of that cross subsidization should not be diminished.

Preston Lee said he does not see the City attracting major industry or a major developer having any impact on this rate.

James Richmann said only opportunity he foresees which is already under way is the expansion of the nursing school at Beebe Hospital. Beebe Medical Center is doubling their graduating class from 30 annual graduates to 60 annual graduates involving substantial construction, capital allocation inside the City, staff expansion, massive expenditures for simulators and instructional technology. As a heavy electric consumer, it is possible the hospital could qualify for a rate based on that expansion, but it is too early to tell.

Mayor Ford said that certainly would depend on whatever policy of economic development is created.

Jack Leshner said any change in the industrial rate should not require any overall changes in other categories to cover for any decrease.

Candace Vessella echoes the commendations for the gentlemen involved in the negotiations as we came out as good as we could given the objectives of the Governor and his staff.

10. Meetings attended by Board Members or Staff.

Preston Lee attended the Construction Progress Meeting for the sewer system on April 30, 2012, the Bay Avenue Water System Progress Meeting on May 3, 2012, and occasional site visits to Bay Avenue construction site.

James Richmann attended the Greater Lewes Foundation Annual Meeting; some of the Foundation's plans for their activities in the area are coincident with Board's objectives and plans.

Darrin Gordon expressed appreciation for Preston Lee attending the meetings with him. On Bay Avenue, the water line installation was put off for more than a week because of supplies coming in yet they are still projecting finishing on time. Project is going very well. Everything we have seen has been absolutely positive.

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

PKS Audit. MOU follow-up.

12. Call to the Public

John Cross asked if Board has a capital budget for coming year. Darrin Gordon said will be presented next month.

When asked what he has now, Darrin offered to have him come by office for details.

Joe Hoehner asked about dates for the MOU 10% reduction for DEMEC members. James Richmann answered the MOU gives five years as the time to achieve the 10% rate reduction with current 7.6% rate reduction considered part of 10% goal. MOU details were further explained.

John Cross said it was mentioned the rates paid DEMEC may go down. James Richmann responded that is expected and would be independent of 10% rate reduction. As explained earlier in the draft budget change in net assets, there is

also a positive change in net assets. Treasurer committed to reviewing rates in November. The long-term contract with DEMEC is an important mechanism to allow BPW to buy wholesale electric at a steadily declining rate.

Bonnie Osler asked if it is the percentage of gross income that goes to the City or a dollar figure. James Richmann said State Charter has precedence over the MOU; Charter clearly says it is a maximum of 5% of gross revenue. Glenn Mandalas agreed the Charter is an act of the General Assembly and therefore State Law. The agreement with the Governor is legal and binding without the effect of law taking precedence over a Charter approved by the General Assembly. James Richmann added Mayor and Council have the authority to set the percentage within the range given in the Charter without going above the 5%.

John Mateyko presented a flyer inviting the Board to participate in a one-day workshop on June 14, 2012 at St. Peter's on walkability. Sometimes the issue involves placement of utility poles, etc. This is not an issue of faultfinding but opportunity finding looking forward. Renaissance Planning conducts this workshop all over the country.

Robert Kennedy referenced the May 10, 2012 MOU newspaper article. Article stated a reduction in rates and not revenue so BPW should be able to design an economic development rate. An interesting aspect of the article cited some municipalities over many years have unfairly relied upon the utilities to subsidize the general operations of the municipality. This situation sends improper price signals to both utility consumers and ratepayers. Lewes is fortunate to have the BPW operating under the Charter. Everyone is commended with hopes of keeping the good work going. Also Darrin Gordon and his crew should be congratulated for replacing a broken sewer main on our street which I did not realize was going to be so involved.

Mayor Ford commented on some of the municipality situations saying there is a balance between the taxation and the revenue generated through utility sales and each community is unique.

13. Call to the Press

No questions or comments.

14. Adjournment

James Richmann motioned to go into Executive Session, Preston Lee seconded, and meeting adjourned at 8:00 p.m.

Recorded by: Rosemary Shannon