

# 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 27, 2012 at 7:00 p.m.**

### **Board Members Present:**

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

### **Board Members Absent:**

*James N. Richmann*

### **Ex-Officio Members Present:**

*James L. Ford, III – Lewes Mayor  
Paul Eckridge – City of Lewes Manager  
Fred Beaufait – Lewes City Council  
Darrin Gordon – General Manager  
Heidi Wagner – Asst. General Manager  
Michael Hoffman – Legal Counsel [sitting in for Glenn Mandalas]*

### **Others Present:**

*Paula Liner – BPW  
Henry Evans – Cape Gazette  
Andrew M. Haynie – PKS & Company, P.A.  
Ginger Heatwole – PKS & Company, P.A.  
Mike Keleger – PKS & Company, P.A.  
E. Lee McCabe – PKS & Company, P.A.  
Ray Perdue – PKS & Company, P.A.  
David Athey – Duffield Associates  
John Cross – Resident  
Joe Hoechner – Resident  
Lynn Osler - Resident  
Dennis Reardon - Resident  
Barbara Vaughan – 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 [except James Richmann], General Manager Darrin Gordon, Assistant General Manager Heidi Wagner, Mayor James Ford, and Legal Counsel Michael Hoffman [sitting in for Glenn Mandalas] are present.

## **3. Revisions and/or Deletions to the Agenda**

No requests for revisions and/or deletions to agenda.

## **4. CONSENT AGENDA:**

- a) Receive General Manager Monthly Report [separated for Electric Department's Safety Award].\*
- b) Receive Severn Trent Report.
- c) Receive President Report.
- d) Receive Vice-President Report.
- e) Receive Secretary Report.
  1. Approval of Regular Minutes dated May 16, 2012.
- f) Receive Treasurer Report.
- g) Receive Asst. Treasurer Report.

\*Darrin Gordon referenced American Public Power Association Safety Award given to Electric Department Staff for working another year in 2011 with zero net lost man hours while working diligently.

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

## OLD BUSINESS

### 5. Open forum/general discussion on 2011/2012 Audit Report presented by Andrew Haynie of PKS, Inc. and accepted by the Board by vote. (J. Lesher, D. Gordon)

#### INFORMATION:

Andy Haynie, PKS, presented final financial statements for year ending March 31, 2012. Darrin, Heidi, Kris and Laura were thanked for being very helpful with moving forward the audit process; PKS' staff introduced.

- Independent Auditor's Report issued an unqualified opinion which is the highest level auditors can provide on a set of financial statements and is a clean opinion; no findings were found needing to be reported. Very good job.
- Handout provided summarizing review items; any questions will be answered and/or further details reviewed.
- **Page 2** lists Assets, Liabilities and accumulated Net Assets. Wastewater Department has most of the fixed assets. Electric is where most of the profits and losses are processed.
- Draft Report listed an asset item in each department as "due to/due from" which are no longer shown. Electric has most of the revenue and not necessarily most of the expenses therefore subsidizing other departments. Previous Boards voted to even "due to/due from" between departments; after discussions, this was eliminated.
- No major changes this year on assets and liabilities. Biggest change was some cash and the debt; cash from a bond issue along with a debt portion was moved back to the City. Process discussed for five years has finally ended.
- Everything else flowed as expected with no major changes this year.
- **Page 3** details income and expenses for each department. Under Non-Operating Revenues (Expenses): Transfer in (Out) indicates the subsidy Electric Department provided to each department as referenced above. Number this year of approximately \$3 million is inflated because true up has not been done for about five years; plans are to do this on an annual basis.
- Operating income (loss) line is true number indicating each department's operating income before interest paid on bonds, impact fees, etc. are applied; no department losses this year.
- **Page 4 Graph Revenues** shows 66.10% of revenues come from Electric Department. Electric revenues down this year due to factors such as rate cuts and winter was not as cold.
- **Page 5 Graph Revenue by Source.** Increases in Water and Wastewater impact fees shown in 2-year comparison numbers made a substantial difference in percentages of revenue: \$785,333 (2012) vs. \$83,704 (2011).
- **Page 6 Graph Expenses by Department.** With Electric revenue down the purchased power is down therefore Electric expenses are down about 3%. Each department expenses run along same lines as revenue as reflected in Net Profit from Operations.
- **Page 7 Graph Expenses by Source.** Largest expense is Purchased Power at about 50% of expenditures; every runs between 50% and 55%. Again, numbers down slightly.
- Same page under Payroll and employee related expenses show a significant change due to early retirements at end of last year; some people were replaced with newer employees having less benefits.
- Same page under **In lieu of franchise** is not a new number; before it was lumped in another number. After discussions, number pulled out as separate line item this year covering payments to City in lieu of a franchise fee.

#### DISCUSSION:

When asked if financial condition is strong and well managed, Andy Haynie said the balance sheet is very healthy having cash reserves required to pay down a large bond with plans to make larger pay downs in next 12 to 18 months. The fixed capital assets need to be maintained with potential to spend cash.

Jack Lesher and Andy Haynie will coordinate Audit Report information between now and next audit for Board's review to present to the public on BPW website.

#### ACTION:

Jack Lesher motioned for the Board to accept the Proposed 2012-2012 PKS Audit Report for year ending March 31, 2012, Candace Vessella seconded, and motion carried unanimously.

## NEW BUSINESS

### 6. Presentation/general discussion on the 2011/2012 Capital Projects Budget. (D. Gordon)

#### INFORMATION:

Darrin Gordon distributed Capital Budget Talking Points to everyone for a 5-year rolling budget. Many items such as Bay Avenue Water and Canal Crossings have already been approved.

- A) FY 2013 under **Water** on 4<sup>th</sup> line **Water Transmission to Distribution Upgrade**. A new Water Treatment Plant is being built at the Well Field. Two transmission lines, a 12" and a 16", are taking raw water from the wells down Savannah down Kings Highway ending at Schley Avenue to current facility. As soon as new facility is built, transmission lines will be used as distribution lines with tie-ins and loop systems. Water will become chlorinated water. Estimated costs are \$285,000 for next year; new item is to take full advantage of what has been created.
- B) **Sewer Master Plan** is 4<sup>th</sup> line under **Sewer**. Last SMP was in 2007 done by GMB who did last couple of plans. Want to use a different firm to have a fresh set of eyes with more on discovery side which will serve us better over next five years. Estimated cost is \$45,000.
- C) **Production Site Development/Engineering**, 3<sup>rd</sup> line under **Water Production**. Budgeted funds already spent on previous work. Two engineering items were not anticipated: (1) a full-blown Wetlands Study is needed at a corner

of the well site (2) work with Fire Marshall and Fire Marshall approval; costs are an additional \$35,000.

- D) **Canary Ave/Tax Ditch Improvement** 4<sup>th</sup> line under **Stormwater**. One tax ditch is inside Lewes at forested area behind and including Pilottown Village with easement and right-of-way into our ditch. SW system has 24" pipe with connection from ditch through an 8" pipe into Canary Avenue. Since system is grossly inadequate, BPW is working with Tax Ditch people and Soil Conservation District to increase size to 24" pipe at a cost of \$15,000.
- E) **Drying Bed Cover** under **WWTP** is estimated at \$80,000. **Filter Press** at 4<sup>th</sup> line for 2013 cost is \$225,000. If drying beds operate better, pressure on filter press will lessen. Effort is to keep the rain off with the cover to improve system in order to push filter press expense out to possibly 2017.
- F) **Train Wall Polyurea** under **WWTP**. (Page 6 passed to everyone for review.) Train is where Zenon filter is located. Walls of about 13 feet deep of concrete base were recoated with polyurea about 4 years ago but it is coming off again. Polyurea appears fluid but is similar to porcelain cracking into sharp pieces getting into filter fibers and cutting them. BPW is not only one having this problem. Zenon engineers with water department engineers are arguing whose fault it is. With the stir up of issues, dollar signs are there as an estimated cost. Scraping off all the polyurea to run with a concrete side seems to be solution and in about 15 years, re-grout for use for another 20 years keeping costs at a minimum. Don't know solution but directives will come down. Severn Trent is working with engineering group asking Zenon for a fix because warranty is involved. For assurance, plant is working in the high 90 percentile.
- G) **Accounting System** under **Support**. Currently using Harris System which ties in with Flexi-Bill, Micro-Fund and other software systems for billing and meter reading. Downloading issues are unresolved plus system is very onerous and very person-unfriendly. Cross training is necessary in order to run this system. Additional staff to support current work is necessary or BPW can obtain a new more user-friendly system with the needed cross training along with security. Actions are being taken for cross training. If unable to succeed, a new system costs are estimated to be \$280,000.
- H) **Stormwater Master Plan**. Duffield Engineering has been contacted for SMP as an initial start into SW. A complete assessment of current system is necessary for Duffield to prioritize going forward. A general idea of what the water sheds are within Lewes for engineering to be done appropriately with size of pipes, etc. \$80,000 is the estimated expense for that level of detail. Candace Vessella said EPA has recently put down guidance which State is adopting; therefore, project is timely. UoD conference this Spring addressed SW concerns in terms of what kind of requirements will be levied on Lewes on SW issues. Water quality will be addressed down the road but will have primary impact for BPW. Preston Lee stated he is very much in favor of this basic SMP in order to understand what is involved before preparing a plan which is sorely needed.

#### **DISCUSSION:**

**Zenon warranty** issue discussed pertaining to working with directives and covering costs incurred. Polyurea is used for a hard smooth finish but history has been the cracking fibers cause problems.

**Stormwater Master Plan** listed previously at \$40,000 is different from new plan with wish list discussions.

**David Athey** assessed what is known and what is unknown. At this point, knowns include roughly 605 drainage inlets with "X" number of outlets and open channels in Lewes. Condition of inlets and pipes are important; we know where inlets are but not how deep and what the inverts of pipes coming in or the pipe sizes are. In order to do SMP starting from scratch, a healthy amount of field work needs done before getting to point of SW modeling with recommendations. Working aggressively with 600 structures would be 150 to 200 hours right out of the gate not including outlets and various open channels. Many variables include traffic control plus using a senior engineer, a senior technician or interns; everything adds up quickly. Project needs to be phased or another approach used for \$40,000; total expense is \$80,000.

Darrin Gordon suggested holding off on the outfall one-way valves. Catch basin renewal needs to be included as we know several are already bad enough.

**David Athey** added SMP project is very timely. Lewes is not federally mandated but state regulations for water quality will happen. Having a storm inventory is absolutely needed sooner or later. Legitimate open channels are the only surfaces involved besides obvious ponding areas; tax ditch not involved. **Mayor Ford** said it is an all-encompassing situation besides managing underground. When modeling, adjustments may be made to effect the flows and to address some drainage problems. **David Athey** said project is below ground other than a cracked or clogged grate.

**Production Site Construction** under **Water Production** is construction of Water Treatment Facility for \$900,000. On Schley Avenue at old powerhouse is where chlorination, pH adjustment, addition of fluoride is done making water potable; facility is being moved up to the well field because site is antiquated. Designing/engineering is the \$35,000. Then a new water production facility will be built at the well field.

Well field is outside City limits but owned by BPW. Turning lines into distribution lines will solidify all other hydrology throughout the entire system. There are a lot of positives putting the facility at the well field.

Upgraded facility will have same volume capabilities and will be safest plant around meeting all requirements of State Fire Marshall. New facility is 95% complete and is about one-third the size of Schley Avenue.

#### **ACTION:**

Darrin Gordon will move forward and keep everyone informed.

**7. Open forum/general discussion and request for a ratifying vote of 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 agreement between DEMEC and the Governor states rates will be reduced, an economic development rate will be created, contributions to City will be frozen at 2012 rates, and in return any third party offerings will be opposed inside our service area. DEMEC approved and Governor asked where all the ratifying actions were. Board is asked to ratify this action and then take minutes of meeting to them as proof of ratification.

**DISCUSSION:**

President Alfred asked since MOU was read into the record at last meeting without a vote if it should be read into record again. Mike Hoffman said motion should specifically refer to that meeting where MOU was read into record. Jack Leshar motioned for the Board to ratify the MOU between the Governor of Delaware and DEMEC as read into the record at May 16, 2012 Board Meeting and Candace Vessella seconded.

President Alfred asked for any questions on the MOU.

Fred Beaufait asked about impact on Lewes residents? Darrin Gordon responded residents have already experienced rate reduction. The change in operations by the Board is almost zero. One most significant change is the creating of an economic development rate for two more items. Reduction in electric rates is being experienced and will continue; at least a 10% reduction has occurred since the specified date. Holding of funding to the City based on 2012 numbers will be the wild card. Problem for City and Council Members is contribution will be less for next two years based on the rates. The residents should see no effect. Mayor Ford said situation may be addressed through other options with discussions involving relationship between BPW and the City in order not to have negative impacts by being subsidized by citizen's tax base. City has gone through before with major utility non-profit consumers who do not subsidize the operational expenses of the City.

**ACTION:**

President Alfred asked Board Members in favor of ratifying the MOU as read into record May 16, 2012, to say aye. All said aye and no one opposed. Motion unanimously carried.

**8. It is recommended that the Board of Public Works adopt Resolution 12-004 suspending the rate increases in the Water rates as prescribed in Resolution 10-003, Sewer rate increase as prescribed in Resolution 10-004 and maintain Electric rate as prescribed in Resolution 10-005. (D. Gordon)**

Darrin Gordon said in 2010 rates were set to have an annual incremental in water and sewer; this year BPW does not need to increase rates and suspended last year with recommendation to suspend again this year.

Preston Lee read Resolution 12-004 into the record. Next to last paragraph, line 4, "... established a 15% increase *plus CPI* in the Sewer Ready-to-Serve Charge..." [plus CPI was added].

**ACTION:**

President Alfred asked for questions. No questions. Preston Lee motioned to adopt Resolution 12-004 as read, Candace Vessella seconded, and motion unanimously carried.

**9. It is recommended that the Board of Public Works adopt Resolution 12-005, an economic development rate for the purpose of supporting the economic development of Lewes. (D. Gordon)**

**INFORMATION:**

Darrin Gordon said under Resolution 12-005 BPW will be creating an economic development rate to encourage industrial customers to come to Lewes. Exhibit "A" written on June 23, 2012 talks about the minimum qualifications for a utility grant. In order to qualify: Company or business must originate from outside the State of Delaware, must have 30 full-time employees that work specifically in the Lewes business site, a full-time employee is an employee working 40 hours a week for 52 weeks of the year, must have electric usage of no less than 50 kwh demand charge at least one time in a 12-month period. Grant would allow: 25% off required impact fee; 1<sup>st</sup> year 25% off monthly electrical and water r-t-s charge, 2<sup>nd</sup> year 20%, 3<sup>rd</sup> year 15%, 4<sup>th</sup> year 10%, and 5<sup>th</sup> year 5%. Board has questioned why water is part of award. My past experience tells me if you want people to come those are significant numbers. Everyone here will recognize this bar is very high and leave it at that. My recommendation is to adopt Resolution 12-005.

Candace Vessella read Resolution 12-005 into record. Next to last paragraph, date changed from June 23, 2013 to **2012**.

Candace Vessella motioned to adopt Resolution 12-005 as read and Jack Leshar seconded.

President Alfred asked for questions.

**DISCUSSION:**

Preston Lee said MOU was strictly about electric with no need to add water so water references should be deleted.

Candace Vessella sees both perspectives. Enticing businesses to come to Lewes will involve expenses to move. Was told sums of money would be offset by money spent using a substantial amount of utilities.

Jack Leshar is inclined to see same way. Since not offering a lot with the electric, water adds to enticement.

Preston Lee added water is not necessary under terms of MOU; with real encouragement, resolution and terms should be changed drastically.

Darrin Gordon said the City and Council need to set the goals.

Concern expressed about bringing in a high water using industry who taxes the system and costs cannot be recovered.

Mayor Ford agrees to take the water out.

President Alfred said sticking to MOU is best bet.

**ACTION:**

Candace Vessella amended the motion to state Exhibit A will delete all references to water and only electrical services will be addressed, Preston Lee seconded, and motion unanimously carried.

**10. Presentation/general discussion of the cash holding of Lewes Board of Public Works. (D. Gordon) INFORMATION:**

Darrin Gordon said after quite a bit of discussion over time, spreadsheet presented detailing BPW cash as of 5/31/12.

- Cash balance is fluctuating since payments made after number shown. This is a snapshot in time.
- Total amount of cash in the bank in our Fulton account is \$20,052,975.51.
- Inside of that are both restricted and unrestricted funds. Definition of a restricted fund can be a legal term given by accountants plus the fact BPW cannot get to cash to spend.
- Next to Bank of New York restricted in bold is Escrow which are bonds borrowed by City and BPW for WWTP and other items; recently City took \$2.25 million leaving \$3,800,000 given back to BoNY stating money will be used over time to pay for bond debt. Money is still belongs to BPW but cannot be used for anything other than payment of that debt as designated over 25 years. Cash has to be on the books but is absolutely restricted.
- Operating is another restricted amount of cash. BPW keeps about \$1.5 million to use throughout month to operate.
- Deposits, Debt Service, and Self Insurance specifically for employees' health are also restricted accounts in the amount of \$6.2 million.
- \$13 million is available for Capital Projects. From last year BPW has already committed in CP: Bay Avenue Water Project at \$336,000 [total project about \$600,000], Bay Avenue Sewer Project, Canal Crossings and the Water Production Facilities. Committed dollars are not part of \$20,052,975.51. Total CP committed dollars are \$2.4 million. \$13 million minus \$2.4 million leaves \$10 million available for CP.
- This year, \$665,000 has been committed for CP along with a committed rate reduction. Bills show a PPCA which is roughly equivalent to ready-to-serve charge; almost everyone has received a \$14-\$15 reduction in electric as shown in this \$500,000 amount. Committed dollars now down to \$9.4 million.
- BPW has a reserve as shown on 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> pages of your packet detail reserve policy. It is a healthy reserve and fluctuates based on percentages of money committed to CP. At this point, Heidi Wagner figured out the minimum reserve is at \$7.6 million in order to cover hurricanes, tornadoes, and earthquakes.
- Removing minimum reserve from \$9.4 million leaves \$1.8 million in cash. BPW capitalizes our depreciation and cash was put away to build and replace items when necessary. The estimated depreciated cash for our budget is \$1.4 million for coming year leaving \$3.299 million above the minimum reserve.
- What is too much and what is too little. BPW's philosophy has been to work towards being able to operate and do Capital Projects without getting a loan. Lines of credit have been considered to cover the reserve and other funding possibilities and taken advantage of State-revolving fund loans.
- The bottom left rectangle feature four large loans [two of which BPW will not even come close to paying off]. The two small State-revolving fund loans will be considered to be paid off with input from Jack Leshner and the Board.

**DISCUSSION:**

John Cross said he does not agree with philosophy. Rate payers are paying for new sewer plant because of depreciation; then BPW takes the depreciation as cash for replacement. Current ratepayers are paying for existing plant and also paying for future replacement of the plant. Utilities usually borrow for building major facilities. Darrin Gordon responded no one likes the \$50/month charge for the sewer plant which is because BPW borrowed the money. AWWA graphs shown from 1870 to 1930's and 1940's with a curve indicating growth in nation and the actual implementation of utilities in this area has this kind of curve. Date in middle is roughly year 2000 going to 2095. Statement is that what was put in the ground, the very same assets need to be replaced. When you say you are paying twice, I am saying you did not pay for it the first time. Infrastructure in America is hitting 100 years of age and ways need to be found to replace. BPW's philosophy is sound.

John Cross said Lewes is blessed with very young plant except for the pipes in the ground with little need for capital expenditures over next five years to maintain the plant. Can escrow in BoNY be used to pay principal due this year?

Darrin Gordon said it is spread out over time so only a portion is paid off. Jack Leshner added his understanding is that it is to be withheld and paid ratably over the term of the bond issued. John Cross concluded the principal payment reflects the fact BPW already escrowed part of that payment and everyone agreed.

John Cross said he is confused about the committed rate reduction; he thought the \$500,000 was the 7.6% reduction.

Darrin Gordon responded it is not. The 7.6% reduction came off the capacity charge reduction as going into DEMEC.

John Cross asked what the PPCA is. Darrin Gordon said PPCA is purchased power cost adjustment based on a 12-month rolling average. John Cross said it is really a rate adjustment.

John Cross asked if except for money at BoNY the rest of the money is sitting in Fulton; are you comfortable with that?

Darrin Gordon said it is collateralized. Jack Leshner said it collateralized by the bank through the federal government according to by-laws.

Darrin Gordon followed through on philosophy by referencing 6<sup>th</sup> line on back of budget. Severn Trent gave us estimates talking about what they see going on in the next few years with O+M replacement and capital cost. For 12 Zenon cassettes with 40 modules in each cassette at \$3,000 per module at \$120,000 per cassette comes to \$1.4 million for 12 cassettes. This demonstrates the expenses as they come through.

President Alfred said Board is doing its best to make sure we preserve and plan for the future with the reserves.

Preston Lee said conference he just attended discussed cash reserves and BPW is doing exactly to the letter the APPA recommendations. Mark Beauchamp who gave the seminar helped BPW create our system. Comment was made on

how minimum cash reserve is calculated; a maximum cash reserve is also recommended for up to double the minimum based on same process is a reasonable range. Part of calculation is based on age and condition of the facilities and our facilities are in excellent shape. Water plant is only old facility and it is being replaced within a year or so. Candace Vessella said an information paper is being put together on the cash policy and once coordinated in the appropriate fashion will be posted on the website for the public.

**11. Meetings attended by Board Members or Staff.**

President Alfred said General Manager and two Board members attended the APPA meeting.

Preston Lee attended the Picnic in the Park Citywide Coordination Meeting with the police force, BPW and the City; attended the Bay Avenue Street and Water Improvement Projects Progress Meetings; met with Duffield at the Master Planning Meeting. Chesapeake Utilities Update meeting was the other night; BPW needs to coordinate with them on some of our efforts going forward.

Candace Vessella participated last week in the Planning Commission Meeting as ex-officio member of the liaison to PC for BPW. Assistant General Manager Heidi Wagner and I participated in the new website development meeting with the State of Delaware. BPW's new website is anticipated to be revealed in mid-July. We are working hard to make website functional and user friendly for our customers. Customers will be alerted with an insert in monthly bill probably in August.

Darrin Gordon asked to say all of the sewer and all of the water are completed on Bay Avenue. Teal Construction came in at night and all of Cedar was isolated to replace nine valves; work was done by 6 a.m. They did a fabulous job.

I have been on vacation and we have been short of a water supervisor and Heidi has taken care of everything. She has done wonderful and water guys have done wonderful. My hat is off to them; we have a great staff.

**12. Board or Staff Requests for Agenda Item(s).**

Coordination with Tidewater Utilities should be a discussion item.

**13. Call to the Public**

No questions or comments.

**14. Call to the Press**

No questions or comments.

**15. Adjournment**

Meeting adjourned at 8:44 p.m. No executive session.

Recorded by: Rosemary Shannon