

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, January 23, 2013 at 7:00 PM.

Board Members Present:

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

Ex-Officio Members Present:

*James L. Ford III, Mayor
Darrin Gordon, General Manager
Glenn C. Mandalas, Legal Council
Heidi Wagner, Asst. General Manager*

Others Present:

*Lori Brown, Severn Trent
Tim Reath, The Chesapeake Group, UBS
Jamie, The Chesapeake Group, UBS
Henry Evans, The Cape Gazette
Paul Eckrich, City Manager
Victor Letonoff, City Council
Fred Beaufait, City Council*

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

At 7:00 PM, 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. Revisions and/or Deletions to the Agenda

No revisions and/or deletions to agenda.

4. Consent Agenda

- a) Receive the General Manager Monthly Report*
- b) Receive Severn Trent Report-TO BE REMOVED*
- c) Receive President Report*
- d) Receive Vice-President Report*
- e) Receive Secretary Report*
 - 1.) Approval of Regular Minutes dated November 28, 2012.*
- f) Receive Treasurer Report*
- g) Receive Asst. Treasurer Report*

James Richmann motioned to approve the Consent Agenda with the removal of Item B, Preston Lee seconded, and motion carried unanimously.

OLD BUSINESS

5. Open forum/general discussion on the 2012 Annual Operations and Maintenance Report for the Howard Seymour Water Reclamation Plant. (D. Gordon, L. Brown-Severn Trent)

PRESENTATION:

Darrin Gordon said we have here the Annual Severn Trent Report. I have asked it to be removed because we need to go through it just a little bit. This is a review of last year. I would like to commend Lori Brown, the Supervisor, who runs the show and has done a very good job of compiling what has happened for the year. I would like to go through the highlights; what I believe is essential and important. At the beginning of January of last year, Lori Brown began in the Plant Manager position. In February, nutrient offset paperwork was sent to DENREC as required by the new permit which has to do with our nutrient balance. That paperwork was agreed to, and we are now on that five year contract with them. That has been integrated into their paperwork and that has been seamless and I have heard nothing but positive things. In June DENREC conducted an annual compliance and inspection. This is a big annual inspection and we passed with flying colors and we have Lori to thank for that. In September we received notification of new testing requirements from the Delaware River Basin Commission. Those are the new testing requirements for water quality that were added to what they had previously and they have again seamlessly put that into their mix and we are meeting those requirements. The next page is safety information. Severn Trent is absolutely as interested in safety as we are. They have safety meetings and have a safety officer that comes and is working with them now to help us with our compliance. If we look at the maintenance activities, I have only one that I would point out to you, and that is in April, it says SCADA system upgraded by John W. Tieder. At the time it was a DENREC requirement that they have to be able to pull up information back from a certain amount of time, which I think it is three years. The memory had to be upgraded at that point in time. In September, due to a large pothole in the asphalt, we have one of our drying beds that are going to need some repair. That is going to be held off until summertime. I have talked to Bramble, and the issue of waiting is because we are putting down pervious pavement. If you remember Bramble is the one that put down pervious pavement at Bay Avenue. It is a specialty item and they don't put that every time they do a hot mix so we are waiting until summertime when Bramble has another project where they are putting down pervious pavement. I have talked to Lori about it and Reepee (sp?) who takes care of that part of the process has it scheduled out such that they haven't needed that so they are still operating without using the filter press this year.

Preston Lee asked if that problem was caused by faulty pavement installation previously? Did you try and run down the firm that did it?

Lori Brown answered that I did run down the firm that did it and they came out and looked at it. It is currently Terra Firma, but I do not recall what their former name was. They came out and looked at it and gave me basically told me this was my problem and we are beyond this. I have reached out to the rep two or three times with no response, so we have moved on. What we think happened is that particular bed was poured halfway; they left for the day, and came back and poured the rest of it the next day. There was always a noticeable indent from where they stopped. We believe that if we remove that, and redo it all in one day it will solve the problem. None of the other beds have a problem. I do not have cost on that. I did speak with GMB who were the ones who gave me the information on who to contact, but I do have all of those numbers if you need them.

Darrin Gordon said I will now turn to the projects. Project #1 is the Head Works Building Hydrogen Sulfide. What has happened there is the two-story building Head Works building sometimes has odor in there, and that is where all of that water is brought in from some of the lift stations that first time you get to see it and treat it. What happens is when stuff gets old, it starts to break down; hydrogen sulfide is created which is your nasty sulfur smell. It can end up turning into H₂SO₄, hydrogen sulfite, which is a very aggressive acid. From that we have had, via the controllers, in that building have gone down a couple of times. They went down once from corrosion, and we had problems again when Lori had staff inside that it was bad enough that she was concerned for their health and safety. They have put plastic mats down on the grate. We have added a bucket of chlorine tablets to one of the manholes just prior to our lift station which takes and reduces it as it goes into the piping. They have also added a vent on the upper floor of that Head Works building. A combination of all of those things has cleared up that situation. The folks that have provided BFD's, they have seen that. At our April Open House, we invite everyone to go take a look at it.

James Richmann asked what is a hydrogen sulfite protector coupon?

Lori Brown it looks like a little copper plate. You hang it in the room and it pulls in the air around it and it is a detector of hydrogen sulfide. We take them and send them out to a lab that does the recording on it and I am waiting to get the recording back.

James Richmann just to make a point so you know I am listening, H₂S is hydrogen sulfide, H₂SO₄ is sulfuric acid.

Darrin Gordon said Project #2 is xenon membrane system shut down for power outages. This is the issue that came from Hurricane Sandy. When the entire system goes down out of power, we have a couple of different systems. One is the xenon system itself which is a very proprietary system, GE has their own SCADA system that operates it, and the rest of the plant is a secondary SCADA system. When the power comes back on, the secondary SCADA system pops on by itself, but the xenon does not, it has to be manually restarted. We had an overflow at the plant during Hurricane Sandy and that was our equalization basin, so the floodwater was coming in and going there, but our entire plant where the bugs and our system was working, it did not overflow. If it had been kept running, that would have been pumped in and that would have overflowed, and it would have been a big deal. That is why we don't do that. You can go through the steps that Lori has laid out to do the exploration and get GE involved so that we can have that first SCADA system that is running the xenon filter automatically turned on when it needs to. Finally, you will see a couple of pictures in your booklet which is the polyurea coating. A couple of years ago that was an issue. There was build up once before and we had the original contractors come in and put this on, and it is coming off again. Severn Trent started talking with GE to find out what their recommendations are and whether we have to have that polyurea on the wall.

Currently we are simply taking it off as it peels off. When it comes time for the annual maintenance of that system, they will take whatever has peeled off further and take it out of those systems. It is my opinion that the best thing to do is take it off and someday we will regrout those cement walls if it ever becomes an issue.

James Richmann asked if we know why it was originally installed?

President Alfred said it was part of the package. It wasn't very long before it started peeling and we tried to go back under the warranty and that did not get us anywhere.

Darrin Gordon said the contractor that put it in came back, pulled it out, put it on again. Now this is the second time it is coming off.

Preston Lee asked why it was installed in the first place.

Darrin Gordon said it is my recollection that they did not want those fibers scraping against the wall. Well they do not scrape the wall and they are not close enough to even do that so why that needs to be done I don't know.

President Alfred said there must be other installations of this sort somewhere in this country where either they are having the problem and how they corrected it. This has been going on for a couple years now and it's time now if we can get an answer.

Lori Brown said we don't need to spend anything. I have spoken with representatives at GE and I have email documentation. The reason they wanted the polyurea on there is because of the citric acid and they did not want the citric acid to eat up the concrete walls. The amount of citric that we use is not enough to cause that damage. The guy from GE said to just peel it off and don't worry about it. Where the problem lies is that coating is in every tank. So it is peeling in the digester, in the head works and everywhere else. Where we are having a little bit of difficulty now is, for example, in the digester it is peeling off and getting stuck in the mixers. We are just dealing with it as it comes. Obviously the worst thing is in the trains because it can get inside the membranes. But he said not to put it back on.

Darrin Gordon said if you will turn to the Capital Projects list. We have the purchase of the gear box for the lifacter. The biggest concern there is that it was to go down it has to come from Norwegia or something like that, so it would take a long time to get here. The second point in the sludge drying bed. Again, that is the impervious pavement which we have already covered. Third, the main office is a steel building that has a lot of air passing through it in places it probably shouldn't be and what we will look at, per Lori's recommendation, is to have a contractor check the building structure, windows, etc. and give us recommendations to improve that building. The purchase of Program PLC's will be an ONM cost; it doesn't add up enough to be a capital project. Regarding future recommendations, we will look at the windows on pump #4. What I really want you to look at is the disk on aeration membranes. At our budget meeting we talked about replacing the actual membranes in the xenon filter. These are the disks that are in the thickening process. The cost of these disks will be approximately \$11,200.00. It has a life of seven to eight years. I will be adding that to the capital project list in 2015-2016. We will still monitor it and see how long we can push that out. Because of maintenance and what Lori does down there, I believe some of their life can be extended another year or two.

Preston Lee asked if it is better to replace them in thirds or all at one time?

Lori Brown answered all at one time. That is the recommendation.

Darrin Gordon said that is the discussion that Lori and I have already had, as well as with the replacement of the xenon membranes. Can we do it at a portion at a time or does it have to be done in one complete package? It has to do with the pressures. That is still an unknown, and I am not settled on exactly how we are going to do that.

DISCUSSION:

Question from an attendee in the audience:

How long as the main office been there? It sounds as if it is in pretty bad shape. Is it something that you will need to replace?

Darrin Gordon responded that it was built in the 1980's. It has withstood a couple of hurricanes in the past year and a half. We have considered it and I think we have a contractor go through and look at it and give us a recommendation. It is an old steel building, so how it stood up through the salt air I don't know. I need to have a professional look at it.

President Alfred said that you have seen the interior; it is in very good shape except for the outer structure that is causing the leaks. At least it always looks nice.

Lori Brown said we don't know where the leaks are coming from. That is the strangest part. Charles said he thinks it's coming in through the sophet. But I don't know what that means. I would like to add just as an update on Project #2, the xenon membrane. I would like to add that I do have a representative tech from Tieder coming in to work on our instrumentation on February 12th – 14th. He will be working specifically on this electric outage situation. My computer has been set up so that I do have some remote access to the plant. I can physically from my home get online and check all of the parameters and change the flow. I can't do anything else, but when a big rainstorm at 2:00 AM I can get up and turn the flow up which will be very helpful to keep everything moving. The tech will be working with the GE person to get the second side moving so that I can have more control over that.

President Alfred thanked Lori and said it was one of the most detailed reports we have ever had from Severn Trent

6. Open forum/general discussion on the adoption of the proposed “Addendum to the Statement of Objectives and Investment Guidelines for the Investment of the Board of Public Works Funds”. (D. Gordon, T. Reath- UBS, Chesapeake Group)

INFORMATION:

Darrin Gordon addresses President Alfred and members of the Board:

Back in November we selected the Chesapeake Group of UBS to be our financial advisor. At that time, they were awarded the contract. We have signed that contract. Part of the RFP process that we asked each of the individual possible candidates was that they provide us and take a look at our existing policy on investing and that they give us recommendations of what we could do to maintain the security of those dollars, but then get the most out of it in the investment world. What came of that is what you see in your packet. This addendum to the statement of objectives and investment guidelines for the investment of the Board of Public Works funds has been produced by these gentlemen, Jamie and Tim. This is the addendum that you have in front of you, and I hope you have had an opportunity to take a look at that. I have invited them to here to answer questions, to present anything that they have, and then at the conclusion, what I would ask, is that I have a resolution that has been drawn up by Mr. Mandalas, that this resolution be adopted and that this addendum be adopted to our investment policy. I will turn it over to Jamie and Tim at this time.

Jamie said Tim and I in conjunction in answering your RFK crafted an addendum to your investment policy statement that is necessary in order for us to implement the proposed use of funds for you. With the modifications that we put forth, that will allow us to effectively move forward and get your money working for you as soon as you say go.

Darrin Gordon said that have transferred the funds to you and they are currently held in?

Jamie said they are currently held in the highest institutional money market fund that is currently allowable with your investment policy statement as it is today.

President Alfred stated that let it be noted for the minutes that this was an action taken by the board to authorize the General Manager to move those funds.

Darrin Gordon said it is in a money market account now. If you do nothing, it will stay there, but this is the addendum that will allow him to operate and function as they propose.

Preston Lee said that he is not the money person here. I am the engineer of the group. I am always concerned about our customer’s money. When I see that we are talking about getting into equities and corporate bonds and that type of thing, it makes me nervous. If it’s personal money, I am a little more aggressive. I am nervous about several things being proposed here. My bottom line question would be if we do this, and I know you can’t answer this exactly, but what type of percentage return or additional return would we get. It can’t be more than a couple of percentage points I would think. What does that mean to our customers monthly?

Jamie said I can give you last year’s numbers, and we have selected the conservative diversified portfolio for you as you saw in the proposed RFK. I will say take it with a grain of salt but also see where the landscape is with basically money market fund basically doing nothing. A one year treasury is 2% behind inflation currently. Had we made this investment last year, the overall rate of return for the longer term bucket, the one that has a three to five year intermediate conservative, would have been approximately 7+ percent, as opposed to riskless money which is for all intents and purposes today paying zero.

Preston Lee said the money we have invested today is not necessarily keeping with our objectives, but is just a place to put it as I understand it. How much would it compare if we had invested according to our present objectives? That would be a lot higher I would think.

Jamie said your present objectives are really the genesis of for our original dialogue of conversation. The present objectives basically keep the money in an extremely riskless fashion and I don’t mean to digress too far but I think this tells a story. When we were having a dialogue early on, almost about a year ago, we looked at an investment policy guidelines for people who are stewards of funds such as you are now, and it is rather ironic that if you ask the average investor who is a steward of funds how much would they would like to receive on their funds they would say they would like to get the maximum they can. On the other hand, at this point in time and at this timeframe when this was written, it said very few people would be satisfied with riskless money at today’s rate of just a little over 7 percent. So this is an intentional reaction to the fact that interest rates are effectively zero, and as proper stewards of the fund, you kind of poke your head above the gopher hole and say we are trying to have this at least outpace inflation and we would like to not have our money going backwards as far as purchasing power over time. So that was the genesis of these dialogues and when Tim and I had conversations with you folks, we came back with an investment recommendation that would effectively allow you to be proper stewards of the funds and stay consistent with what would be current guidelines for people in similar circumstances as yourselves. Meaning you can’t say to be proper stewards of the funds, at an interest rate of zero, we are just going to stay with zero because we are unwilling to take risk on any fluctuation. With the shorter term bucket, we have gone to the ultra, ultra, ultra conservative side of the spectrum, meaning we selected a fund for you folks that has never had a three month down period. So we are looking at two separate buckets; one having a three to five year time horizon, and one having a more immediate time horizon of “what if”. The “what if” the money is on the most conservative side of the spectrum and yet trying to get some return. I hope I answered your question.

Preston Lee said you do but when I read “equities wouldn’t exceed 60% of our investment” and even down to 20% would be the minimum bothers me. I don’t think this type of money should be equities. God forbid we have another 2008. I would like to make as much money as we could for our customers and keep their rates down, but I would feel a lot worse if we lost that kind of money.

Jamie said that a key element that we proposed in the RFP is UBS’s macro view on global economics allows for the management of the fund to take precautions. I will give you a very clear example. When we weren’t sure if we were going off the fiscal cliff or not, our investment policy at UBS reduced exposure by 5%, so we really did get super conservative based on the “what if” scenario. We really do take a very conservative stance, and, if you will, preservation of capital, is paramount when trying to

when trying to squeeze the last bit of juice out of the bag.

Jim Richmann said from my perspective the most important statement in the document is the risk tolerance of the portfolio. I just want to highlight that. The document reads “that the risk tolerance of the portfolio is considered moderate.” Then “moderate” is defined, and I think this is a standard definition, moderate means “the preservation of principal and growth of capital is considered equally important.” It’s a Board policy issue that no financial advisor can tell us where we want to set that risk tolerance.

Preston Lee said I don’t think the growth of capital is anywhere near equal to the preservation of funds. It states that in our savings bond objectives, it mentions both of them, but it doesn’t state that they are equal and I don’t think that is the intent.

Jamie said I can tell you that was derived from an industry standard based on the timeframe. Timeframes tend to have more directionality, and I am just using an industry standard. Five to ten years tends to be more of a moderate timeframe, versus a one to three year which tends to be more conservative. I will say that the RFP, which is what we have put forth legally to you gives a risk tolerance of conservative. But while the timeframe in the addendum will allow you to be moderate should you choose. Our RFP, which is our legal proposal to you which has been signed off by our legal department, states that we are in the conservative portfolio. You can direct us to go higher, but our mandate at this juncture in time is to be conservative. That is the portfolio you selected, the conservative portfolio not the moderate portfolio.

Jack Leshner said that we have received a host of definitions of different terms. I didn’t print mine off the computer, but I am offering that as a thought to anyone who is interested in maybe understanding in more depth what these terms might mean. That is why I brought my dictionary. We do have that for our own help in understanding what these terms mean. This is not what I do but I have been exposed to a lot of this over my lifetime, and I used to be where you are personally. Then I decided if you are ever going to go anywhere other than up or other than zero, you are going to have to take some forms of risk. So the question is how do you mitigate the various kinds of risk, and that is really what we are trying to do. I thought you might quote a rate for us. Would you comfortably say we should get 3% versus .08%, which is what we are now getting?

Jamie said that I can comfortably say that over the course of the defined time horizon we expect to get three to seven percent for you. I realize that is a broad spectrum, but that is what we are attempting to obtain. Should interest rates move higher, obviously the fixed income portion of the portfolio, the bond side of the portfolio, will yield more interest.

Jim Richmann said I am reluctant to discuss rate of return with our advisors. For one thing, I wouldn’t necessarily believe or advise anyone else to believe it, and secondly I think that by just discussing rate of return with our advisor it puts pressure on our advisors very subtly to achieve that rate of return, and that causes secondary effects that could be bad. So I am reluctant to even have discussion of that. I think it is more appropriate to discuss what portfolio we are willing to adopt and then understand that investment professionals have a professional code that interprets what these words mean and react accordingly. There are a couple of things that strike me. One is these funds are not for the purpose of investment, these funds are for the purpose of the business function of the Board, and as a business we have to have capital in order to operate. So the interest that we might earn on these deposits is secondary to their business purpose. However, as Jack has stated on more than one occasion, we have a fiduciary responsibility to our ratepayers to maximize the return with the realm of risk portfolio of those monies that we do have on deposit for those periods of time which they must be banked rather than used immediately. I think we all understand that. I am sort of interested in flexibility. I am a little concerned about number four which says “cash may not exceed 15% of the portfolio.” It’s a well-known fact that another major institution in this city, of which I was on that Board during the time of the collapse of Lehman Brothers in September 2008, we were very fearful during those times. We moved a significant amount of our portfolio into cash/cash equivalents at that time.

Jamie said without getting lost in the minutia, a cash equivalent, 30-day treasury, portfolio that invests exclusively in 15 or 20 day treasury, the reason why we say cash is that cash bears zero interest. While you folks are making fiduciary obligations and decisions, we have to deal with our legal team that says “cash bears zero interest” because cash truly provides zero interest. So when we say cash equivalents and/or low duration treasuries that is where we get stuck because we obviously have an obligation to give you some interest if possible.

Jim Richmann said the other nightmare scenario is if we were to enter into a period of hyperinflation. And if this were to happen, not this year or next year, but it could happen in five years, the only thing that is going to preserve our capital is equities most likely. Maybe more risky investments like commodities or something, but I don’t think we want to invest in those things. But I could foresee a time when something happens in world events or our personal finances or whatever, and we as a Board would like to talk to you again about interpreting these events in terms of our risk profile and whether or not we should be adopting a different profile. I think personally we are in a period of great uncertainly right now and volatility is high. I don’t think there is any way of predicting.

President Alfred said he thinks that is a good point you make. I think if I am correct, in our planning workshop, that these gentlemen will be with us on a quarterly basis with our general management. At that point in time is when discussions about what you just said will take place. It’s a good point and I think it’s important.

Jim Richmann said I can’t say for certain if any of us will be on the Board at a future date, but at some future date we are going to have an opportunity to retire our general obligation bonds which are at 4.5% right now.

Darrin Gordon confirmed that they are from 3.75 all the way up to 5.

Jim Richmann said I would hate to have as a matter of public policy, we look at what our earnings are and decide not to retire our general obligation bonds, let’s do a little bit of interest arbitrage and make a little money on the side. I would hate for us to do that or a future board.

Candace Vessella said I believe we are going to have access to information on a quarterly basis and we can make adjustments as we need to with our financial advisors with the monies that we are going to be caring for.

President Alfred agrees and said one of the important facts was that we have someone that is going to meet with us and we can make changes and that is what leads us, not a five year term where we can’t do anything. We can make changes in three months if we had to.

Jim Richmann asks if we are looking for approval of this policy.

Darrin Gordon responds yes.

Glenn Mandalas requests to read the resolution.

Resolution 13-0001 titled the Resolution of the Board of Directors of Lewes Board of Public Works establishing a First Addendum to the statement of objectives and guidelines for the investment of the Board of Public Works funds, whereas as pursuant to Section 4.16 of the Charter of the Board of Public Works being Chapter 10 Volume 77, laws of Delaware as amended. Board of Public Works hath the authority to invest surplus funds of the BPW in securities that are safe and authorized pursuant to the BPW's investment policies and by Board resolution. Whereas the Board of Directors of the Lewes Board of Public Works and be referred to as the Board of Directors hereafter, adopt this statement of objectives and guidelines for the investment of Board of Public Works funds on January 19, 2012. Whereas the General Manager of the Board of Public Works has recommended that the Board of Directors establish a First Addendum to the statement of objectives and guidelines for investment of the Board of Public Works funds to modify certain account restraints that are presently inconsistent with the investment objectives outlined therein. Now therefore be it resolved by the Board of Directors of the Lewes Board of Public Works in session met this 23rd day of January 2013 that:

Section 1 – The First Addendum to the statement of objectives and guidelines for the investment of Board of Public Works funds attached here to Exhibit A shall be hereby authorized and approved.

Section 2 – This resolution shall take effect immediately upon its adoption by the Board of Directors of the Lewes Board of Public Works.

That Exhibit A is what you have in your books. The only thing I would modify is where the title says “Addendum”, it now says “First Addendum”. So to make clear if there is another addendum there will be a numbered process. It also had under the title “approved on January 23, 2013 by resolution 13-0001.

Preston Lee said I do not think it is wise and I do not feel comfortable including equities or corporate type investments in our portfolio. I think it is too risky. Jim pointed out that is really secondary to our mission here.

Jim Richmann said I agree with your thought, but I do not want to tie the hands of our advisors in regard to our equities.

Preston Lee said to increase that by saying as much as 60%, and alternative investments could be as much as 15%. I do not think that is wise and I don't feel comfortable.

Jim Richmann said he would like to ask Jamie and Tim what would be the impact in terms of your ability to execute your job as you understand it from our contract, if we were to change the sentence as reads “the risk tolerance of this portfolio is considered moderate” to read “the risk tolerance of this portfolio is considered conservative”?

Jamie said that at this juncture there would be no difference at all in respect to our plan because we did propose a conservative bucket. We simply wanted to give the Board flexibility, and I think it's very much worth mentioning that we simply wanted to give the Board latitude. Our legal recommendation was not to be heavily invested in equities, we simply wish to give the Board the latitude should over the course of time the Board want to meet, sit down with us and say this is what we would like to do with another section of money; we have a \$2 million surplus that we have a ten year earmark for. This is just thinking beyond today. We would rather give you a broad spectrum of time horizons which you can choose from. Obviously our recommendation was conservative. It's in our RFK and it very clearly states that what we have recommended is conservative. To give you latitude does not mean that is our recommendation for what you do with your funds. So to answer your question, not at this juncture.

Jim Richmann asked what would be the impact if we were to strike that fourth item, “cash may not exceed 15%”?

Jamie responded that I don't know if it would have any impact. The only thing that I could suggest is that we could say “non-interest bearing cash”.

Jim Richmann asked wouldn't it be unnecessary at all, except during a period of great financial stress without changing our policy, we might move some of our money into cash equivalents

Jamie said cash equivalents are fine. We are talking money market funds. We, unfortunately, get bogged down by having battalions of attorneys.

Jim Richmann said I don't see the benefit of having the statement in the re.

Jamie said the reason why it is there, and again it will have no impact on the management of the funds, generally speaking when you come into fiduciary code, at times of severe financial stress the idea is to make sure that fiduciaries can stick to the longer term goal as opposed to react. I am not suggesting that this Board would, but I think we all probably know a few people who had funds available who all ran to cash when the market bottomed out. As fiduciaries, from time to time, we can get caught up in the moment. I realize this is a Board driven decision, but it tends to be there to protect people. We tend to get out when things are ugly and that is at the bottom. It is not going to have any impact; it is there for that reason.

Tim Reath said in the RFP that we proposed to you, we chose a conservative portfolio with no alternative investments. As Jamie said we are just trying to make sure with the addendum that you have flexibility should something change in the future. But in the RFP, it was a conservative portfolio with no alternatives at all.

Glenn said I thought you said earlier that you were not able to satisfy the objectives of the investment policy without this addendum. Did I hear that? Can you explain that?

Jamie answered yes, you did hear that. The answer to your question is the objectives are verbalized in the attempt to produce returns at today's interest rates within the spectrum of US government debt, short term duration of less than two years. When it was crafted, interest rates were substantially higher, so what was allowable when the document was originally crafted as allowable investment did satisfy the goal of attempting to get the higher rate of return. Based on the massive decrease in interest rates the objective cannot be obtained by that vehicle at this time. So that is why we wanted to allow for different vehicles should the Board choose to do that.

Glenn said the reason I asked the question is because it seems to me that you put the advisor in a difficult position if they are asked to satisfy certain objectives and the advisor says we can't achieve or pursue those objectives without this addendum
Mayor Ford asked how the details of these decisions are handled. Who makes that decision? Is it one person, or is it a Board decision collectively every time the money is shifted somewhere?

Jack Leshner said I am looking at Darrin. I don't know what he would plan to do as the General Manager. But I would think when they meet with us quarterly, we could bring them into a Board meeting.

Darrin Gordon said I was planning on bringing them into a Board meeting at least for the first year so we can review what is happening and make decisions from there. I would have recommendations for changes that we would need prior to the Board meeting and I would know what was going on at that point in time and I would bring recommendations of changing that to the Board. That is what I foresee happening.

Jim Richmann said normally the Board would not get involved in picking the individual securities.

Darrin Gordon said I would have recommendations. In other words, when I see the first quarter, I would simply say here is where the money is, we have "x" amount in this and this, and this is what we are anticipating. We would leave it alone and would stick with an avenue and listen to what the advisors are saying.

Mayor Ford said if this policy allows flexibility and then the Board collectively makes that decision on how flexible they want to be, then the Board is still weighing in as the decisions unfold. We are not tonight authorizing the Manager or the Treasurer or the combination of individuals and then you are out of it. You continue to have a hand and a say as it moves along. I just wanted to understand what process was going to be recognized.

President Alfred said I would echo what the General Manager said. I think it is appropriate that the Treasurer and the General Manager meet with these gentlemen on a quarterly basis and then to bring the advisors in. I think to your point Jim that it would be a collective decision of the Board with his advice and recommendations.

ACTION:

James Richmann moves the adoption of the resolution as read by the solicitor and the addendum thereto with the modifications as follows:

1. In the seventh paragraph, first sentence as reads "the risk tolerance of this portfolio is considered moderate", shall read "the risk tolerance of this portfolio is considered conservative."
2. In the eighth paragraph, fourth subparagraph as reads "cash may not exceed fifteen percent of the portfolio." That line should be stricken in its entirety.

President Alfred said per the motion by Mr. Richmann to adopt the resolution with the addendum with those two changes which is in the seventh paragraph to change the word "moderate" to "conservative" and also in the eighth paragraph in subsection four to remove "cash may not exceed fifteen percent of the portfolio."

Jack Leshner said just for clarification purposes by eliminating that, we are eliminating any restriction on the amount of cash.

Jim Richmann said correct. Any amount from zero to one hundred.

President Alfred asked for the motion to be seconded.

Jack Leshner seconded the motion.

Glenn Mandalas said he wants to make sure he has clarity. Earlier the Director referenced page eight, the first paragraph of the addendum should be page seven. Secondly where you propose to strike the word "moderate" and change it to "conservative", this next sentence...

Jim Richmann said he considers the word "conservative" to be a term of art to the profession of financial management; therefore it need not be spelled out in the addendum

Glenn Mandalas said the second sentence of that paragraph where it says "moderate".

Jim Richmann said it's irrelevant but can stay there.

Darrin Gordon asks to strike the page. It does reference Section 7E and that should be edited.

Jim Richmann said good recommendation. Strike the page number in its entirety.

Preston Lee opposes motion. Motion carried.

NEW BUSINESS

7. Open forum/general discussion of the 2013 Board of Public Works election time line. (D. Gordon)

DISCUSSION:

Darrin Gordon said I wanted to bring to the attention to President Alfred and the Board that the election timeline is coming up. The posting of the Notice of the Solicitation of Candidates will be posted by January 31st. From February 1st to April 4th we will be accepting filing for candidates. The two seats that will be up are that of Candace Vessella and Preston Lee.

Preston Lee said the last time there was some confusion that some people did not realize that any customer can vote.

President Alfred said it is one of those things that I do not think we will ever overcome.

Darrin Gordon said it will be an April 24th appointment by the President of the Board of Elections and inspectors and judges if needed. Hopefully by April 4th we will know if there will be any need for an election

8. Open forum/general discussion for DEMEC and Converge to be a demand response aggregator for the citizens of Lewes. (D. Gordon)

INFORMATION:

Darrin Gordon said a demand response aggregator is a group that will come in and talk to our largest industrial customers. You have to have an electric load of greater than 500 KW peak load in a single month. We have three customers that fit that; the hospital, SPI Pharma, and the school district. SPI Pharma has been approached and they are not able to partake of it, but the high school and the hospital are. What happens is that they sign up to be a part of this group aggregator and they get a phone call when there is a demand on the PJM system. That means the entire thirteen states of which the PJM has authority. If they will drop that load, PJM says we are going to write you a check every month for "x" amount of money, and it can be very lucrative for them to do that. A year ago Converge, through DEMEC, came and said we would like to be able to serve this area and we want to be the exclusive server of this area. At that time we rejected that, and I agree with that completely. I do not want to have an exclusive person doing that. We receive a benefit for having these aggregators simply by it maintains and holds down our peak cost per kilowatt for the entire system. So we get a little bit of a benefit. Converge is able to use and follow the demand that is specific to our area. DEMEC in our service area is starting to have those peaks too high and they are able to call for a peak shave, a reduction of kilowatt, so we will have a little bit more of a direct return on that effort. I would like to have your permission to allow Converge to be an aggregate supplier, a demand response aggregator, in this area for this year. They need a form which you have in your packet. What I also ask is if you give me the permission to sign this for the upcoming years so that this does not need to be brought to the Board again. Converge can come and knock on the door of the hospital and the school district and compete for that contract with them if they want. I do not want to make them an exclusive provider. Who they have now is working fine. That is my request.

Jack Leshner asked if there is some advantage for us through DEMEC if were to sign an exclusive contract?

Darrin Gordon responded I do not believe so. If the hospital and the school district were to go with them, I don't think it would be horribly significant, but it would be when our specific area started to have peaking problems and they would be able to call in and ask them to reduce. Otherwise that call is coming from PJM, which is the much greater area. It still helps us, but it really isn't a direct positive influence on us.

ACTION:

President Alfred asks for a motion to authorize the General Manager to move forward with the signature to accept the item that is listed on the agenda.

Jack Leshner makes motion, motion seconded by Candace Vessella.

Glenn Mandalas said for clarification of the motion, does the motion also authorize on an annual basis?

Motion passed unanimously.

9. MEETINGS ATTENDED BY BOARD MEMBERS OR STAFF.

Preston Lee met to go over the various storm water projects on January 8th, attended the Water Plant Construction Progress Meeting on January 10th, attended the BPW Workshop on January 14th, and the PGM all day workshop on January 17th.

Jack Leshner attended the PGM workshop on January 17th.

Candace Vessella attended the BPW on January 11th, the City Council meeting on January 14th, the Planning Commission on January 16th, and the Citizens Roundtable meeting on January 18th.

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

No requests.

11. Call to the Public.

No questions or comments.

12. Call to the Press.

Henry Evans from The Cape Gazette asked what is the capsule version of the water plant progress?

Darrin Gordon responded that they have put all of the under plumbing and piping in place that will be under the building. They are scheduled to place the footers today. They were hoping to start putting up the brick for the building next week. I don't know if they have been able to do that because of the weather. They are also waiting for the delivery of about 2,400 feet of pipe that they will be putting into the ground, which is probably one of the only hold ups right now. Other than that it is on schedule.

Henry Evans asked when it is scheduled for completion?

Darrin Gordon responded in about six months.

13. EXECUTIVE SESSION

Executive Session on preliminary discussions on possible negotiations of franchise acquisition and to review and discuss draft meeting minutes of prior executive sessions. (29 Del.C. § 10004) (b) (2) (6) INFORMATION/ACTION

14. Adjournment.

President Alfred asked for a motion to move to Executive Session. Jim Richmann motioned, Candace Vessella seconded. Meeting adjourned at 8:10 PM. An Executive Session followed.

Respectfully submitted,
Stephanie Moyer