

# 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, April 24, 2013 at 7:00 PM.**

### **Board Members Present:**

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

### **Board Members Not Present:**

*D. Preston Lee, P.E.*

### **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:**

*Jamie Kujawski, UBS – Chesapeake Group  
Tim Reath, UBS – Chesapeake Group  
Paul Eckrich, City  
Dennis Reardon, 1302 Bay Avenue  
Fred Beaufaint  
Adrian Nakayama, 53 DeVries  
Barbara Vaughn, 206 University*

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

At 7:00 PM, President Alfred welcomed everyone, called the April 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 that Preston Lee is absent but we do have a quorum, and all other 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.

## **4. Consent Agenda**

- a) Receive the 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 March 20<sup>th</sup>, 2013.*
- f) Receive Treasurer Report*
- g) Receive Asst. Treasurer Report*

President Alfred asked that the President's Report be removed. James Richmann motioned to approve the Consent Agenda with the exception of the President's Report, Preston Lee seconded, and motion carried unanimously.

*President Alfred stated that Candace Vessella is moving on from the Lewes BPW and is running for City Council. President Alfred and the Board of Directors shared many words of praise, thanks, and good wishes to Candace, as well as presented her with a departing gift and token of appreciation. Candace also shared some parting words of thanks and appreciation.*

## OLD BUSINESS

### 5. Open forum/general discussion on the Lewes BPW Capital Improvement Projects.

(D. Gordon)

#### INFORMATION:

**Darrin Gordon** said I would like to concentrate on the fiscal year 2013-2014 Capital Budget and get approval from you to move forward. If you look at the paperwork that you have received, you will see that right next to that heading of Fiscal Year 2013-2014 there is a sign that says "Over". This is a bad thing. This is not something that we strive for, but we have had some things happening in our Capital Projects which have caused some overage in cost. So being transparent, I am going to tell you all about it and let you see that. We have several irons in the fire. The first one you will see under "Water" is the Canary Crossing at the Dairy. We had previously had the second crossing which is the Savannah Bridge Crossing which has been taken off. What we now have is the \$242,879.00 that we had budgeted for that. We ran into a bunch of dead Indians at the Zwaanendael Fort, and with that we have had to do some archaeological digging. This was something that we had not anticipated, and the cost is going to increase by \$38,000.00. We are looking at that being accomplished. Right now we are just doing the engineering which is part of the \$38,000.00. September of October is when we will actually be doing the work on it. We will be doing a directional drill and we still have to go out for the bids but this is an engineer's estimate of that cost. We will keep you informed. The next is the Water Transmission to Distribution Upgrade. On the second page we have under Water Production the Production Site Construction. These go hand in hand. We have the well field with five wells right next to the high school. We have a sixteen inch water line that comes out Savannah Road and snakes down and comes out at Schlay Avenue. The other one sneaks out to Kings Highway and comes down and ends up at Schlay. There are only a few valves that are on those transmission lines and none of them work. That is not good. For the future we will have these become production lines for distribution rather than just transmission. We will be able to create good drinking water at the well field. We can actually pull off and serve customers from that as a distribution system. We need some valves in there so we can make the transition. This cost includes the \$45,000.00 that we had already estimated, plus an additional \$80,000.00 for four valves that are going to be inserted into the line. The Madison Avenue project is going forward. The other three are hydrant replacement, truck, and key valve replacement and are going forward. Scott, our Water Supervisor, is being very careful and prioritizing and putting them where we need to have them. Sewer, Madison Avenue is the main one there and is slated to be built at the end of this year or the beginning of 2014. Those that are not bolded are activities that we are going to be doing as part of our upgrade to our sewer system. Under Electric, we have our building improvements and nothing has really changed there. We are looking at adding another building to keep our equipment out of the weather to preserve our investments there. The Production Site Construction this year is moving forward and on track. They are looking at having that completed in June or July and it looks very good.

**President Alfred** asked in regards to the valve, is that the same situation that we encountered on Schlay Avenue?

**Darrin Gordon** said what we do now is have an annual valve maintenance that we exercise every year. That could not have happened 35 years ago and that affects us today. But we have the maintenance program so that we can avoid it in the future. In Stormwater, we have the Master Plan going on as scheduled. The very bottom of the second page under Support – the SAP Blue Ocean Management System you will see has an overage of \$30,000.00 for the management system itself. That has gone forward as planned. We have had to push it back. We were planning on going live April 1, but now it will be May 5 or 6. At that point we will do parallel systems, and then on June 1 we will be on the SAP system alone. Part of that overage is because of my decision to not fire the bill presenter soon enough. They did some engineering to meet that need, but I fired them due to lack of production and not working correctly. So we had to re-engineer some of those things. I will take the blame that I did not move on that quickly enough. The next \$30,000.00 you see is for the payment portal Bill Trust replacement, which are the people I fired. Blue Ocean is actually going to do this. We were going to pay \$24,000.00 per year to Bill Trust. This is going to be our portal and that will be a one-time \$30,000.00 cost.

#### DISCUSSION:

**James Richmann** said you have the support below the grand total line. Does that mean those are O & M dollars?

**Darrin Gordon** said our policy says that anything over the \$10,000.00 limit is a capital expenditure. So they are capital expenditures. The reason I put it there is because with our accounting, we really don't have a bucket for the Support when we collect and do our depreciation.

**James Richmann** said the total amount you are asking for approval tonight for the fiscal year 2013-2014 is the \$3,032,174.00, plus the \$280,000.00 in support, plus the \$178,000.00 in the column labeled as "Over"?

**Darrin Gordon** said I need to make sure on that math. I believe that the \$280,000.00 is actually already in there.

**James Richmann** said do you want to assume that is correct, and if not correct it at the next meeting?

**Darrin Gordon** said yes, I will correct it if it is not accurate. I will double check that and make an adjustment if needed. The total overage is \$178,000.00. I also included in your packet a third paper dated April 5, 2013 is the final billing for contract for the B. Frank Joy work, the sewer lining and laterals, we did at Bay Avenue. Our engineers at URS have done an exceptionally

good job with the materials we had in there. Darrin Gordon reads the second paragraph:

“Enclosed in Change Order #2. Reconciling the estimated bid quantities and actual quantities installed, the Change Order reflects a net contract deduction of \$367,246.50. Also enclosed is a Certificate of Completion.”

**James Richmann** asked if the amounts on the capital budget were adjusted

**Darrin Gordon** said it does not show you on the paper you have in front of you because it came from last year’s budget. The

**Glenn Mandalas** said I just did the math and the \$280,000.00 in support is not in the total.

**ACTION:**

James Richmann made a motion to approve the Capital Budget as presented by the General Manager, in the column labeled “FY2013/14” and the column labeled “Over”, in the amounts of \$3,032,874.00 in column labeled “FY2013/14”, \$178,000.00 in the column labeled “Over”, and this is subject to correction later, \$280,000.00 under column labeled “FY2013/14” all for Support as indicated on the Tax Schedule. Candace Vessella seconded the motion. Motion passed unanimously.

**James Richmann** said it is not unusual in the installation of large automated computer systems such as Blue Ocean to have overages. I don’t think this should be used as a general indicator of some problem with our General Manager. This is very typical and I believe that the records will show that we anticipated such possibilities at the time of approval of this project.

**6. Open forum/general discussion of the bad debt collections efforts of the Miles by Miles contract and the moving to use Baird, Mandalas attorneys firm for collections. (D. Gordon)**

**INFORMATION:**

**Darrin Gordon** said we have a collection agency named Miles by Miles. We have people who do not pay their bills. We would do our best to collect and then we would send it to them and they would do the collections. We received a phone call recently that the owner died and we haven’t done anything on the collections in the last month or so. I have had discussions in the past with Mr. Mandalas about what we have done in attempts to make some of those collections. To make something clear, our bad debt is about \$12,000.00 this year, which less than .1% of our net. In the utility industry, especially with the economy the way it is, less than 2.5% is very good. Collections are not high priority for us. We do the best we can, but we don’t spend a lot of time on it. We would like to give these collections to him and we can discuss how to do the split. We had discussed doing a 50/50 split.

**Glenn Mandalas** said it would be more like 30% to us, and 70% to the BPW. That is what is typically done. You do not have a huge amount of uncollected debts, so it is not a huge amount of money. Our firm does this for other municipal clients from time to time. I look at this as an added service we provide to our clients. We don’t do enough of it to fall under the Fair Debt Collection Act. There is an Act that requires two phone calls to be made, but we don’t fall into that, although it might be helpful if we had to make the third or fourth phone call. The way we approach this work is to send a couple of letters trying to get payment. If that doesn’t work, we will try to negotiate a reduced payment. If that doesn’t work, I have a conversation with the General Manager on whether they want us to place a lien against the property or file in court to collect the debt. We only take those approaches if the debts get large. We don’t handle any large contracts on it, but we are fully capable of handling it.

**ACTION:**

James Richmann moved that we acquire debt collection services from Baird, Mandalas. Candace Vessella seconded the motion. Motion passed unanimously.

**7. Open forum/general of the current negative Purchase Power Cost Adjustment of the electric rate structure. (J. Richmann, D. Gordon)**

**DISCUSSION:**

James Richmann said I have a coupon for fifty cents off a gallon of milk. When I went to the store, every gallon of milk in there was fifty cents off. I am saying to myself why didn’t they just reduce the price of the milk? Why do they make me go through this fifty cent off coupon thing? I am sure there is some marketing genius who said they will sell more milk that way, but that is not the point. I think the purchase power adjustment for a positive quantity, a positive PPA, is a very legitimate way for us to collect the increase in charges it costs us to provide power under circumstances where power is costing us more. That is usually a peak period, or a period when the energy system can’t supply the needed energy and there needs to be a way of rationing it by price. However, I am adamantly opposed to the negative PPA. The reason I am opposed to it is because it’s like my milk coupon. It’s that fifty cents off a gallon of milk. I know there are a considerable number of our citizens who don’t even look at the lines on the bill, they just look at the total amount and gripe about the BPW charging them too much and they write the check. I know that is the truth, so this is maybe a minor point. But the point that I have is the negative PPA is confusing on the bill. IT’s a discount on your electricity to have that negative quantity. Why didn’t the BPW just lower the price? That is easier to understand. Now that is not a sophisticated argument, but that is all there is to it though. It is simpler if we know we have a long term contract and we can lower the price, we should lower the price rather than continually carrying a negative PPA.

**Darrin Gordon** said I would simply tell you that we have rates that fluctuate a little bite very month. What you are looking at here is our capacity charge that we hit every month. We have a different transmission charge every month because it comes from different hubs. There is a natural fluctuation that we work with. Our current rate structure takes that rate, and we have a twelve month rolling average and that PPCA helps to make that as smooth as we can get it in spite of all the fluctuations that are going on. The other thing that I have included is the monthly rate comparisons for the state of Delaware for the municipals and the coop. It is going from April backward, and if you look at the last one in August and it shows that we were selling our power for

\$120.20 which happened to be the lowest in all of Delaware and that included that PPCA. So if you can take that fifty cent coupon and get the lowest price of milk in all of Lewes, that is good thing and I think people are happy to get that. Eventually our rates are going to go up, and the PPCA is going to go from a negative to a positive. I believe in consistency. The fewer moving parts, the less confusion that we present to our customers. I believe having the PPCA working the way it is and leaving the rates alone works for us. I have a discussion with Mark Beauchamp and the very last item in this packet is part of an email that he sent us and he looked at our financials. Mark is the one who set up our rates two and half years ago. He compared it to what the goals were. Last year we had that \$500,000.00 return, and we used the negative PPCA to give that back to the customers, that escrow dollar amount that we give. The average was about \$20.00 that most people were getting back. Even if they don't understand it, I can in good faith tell you we are doing the best we can to give the best rates to our customers. My recommendation is that we leave it alone.

**President Alfred** (addressing James Richmann) asked how many folks have you had discuss that with you that felt it was negative? I have only had one. I am just curious. I agree with you 100%. I get my bill, look at the bottom line, say a few words, and write the check.

**James Richmann** said I am going to concede the point. I think you are correct, Mr. President. Most people just pay the bottom line. I do think it is important that we as a Board recognize that we have two responsibilities. One responsibility is that we have run the utility and be good business stewards. But also because our utility is not regulated by the Public Service Commission. Because we are elected officials, we have to regulate the rates. We have to be both business operators and regulators. The way the PPA works now, and no offense to the General Manager because he is doing a great job and he calculates that coupon value every month and I am sure it is perfect. But it is our job to set the rates, not the General Manager's job. By allowing this to fluctuate we hardly ever discuss in a serious way what our long term rate projection is going to look like. We do it once a year, usually in conjunction with the budget, but I don't think we are fully satisfying our obligation when we let the PPA drive the whole thing. But admittedly, it is a minor point.

## **NEW BUSINESS**

### **8. Open forum/general discussion reviewing the first quarter of the reserve fund investment by UBS-Chesapeake Group. (D. Gordon, J. Kujawski, T. Reath)**

#### **INFORMATION:**

Darrin Gordon said about four months ago we hired the Chesapeake Group and I will turn it over to Jamie Kujawski and Tim Reath to fill us in on what has happened with our investment

**Jamie Kujawski** said I have two points. The first one is critical to state because this is our first quarterly review with you. The investment policy statement, which is the guiding document that was presented to us at UBS, which we presented to our legal department, and they said the Board is in complete compliance with what they are doing with the investment dollars with the investment policy statement. For informational purposes, you are adhering to the fiduciary code of conduct as we will continue to ensure that you do on a quarterly basis. Secondly, regarding the performance in the account; while the Board has allowed the Finance Committee some latitude on how much risk they would like to assume, they have moved very conservatively in that direction. We project that the reserve bucket will generate approximately \$300,000.00 per year in interest. We have done that through a calculation of what instruments are in the reserve bucket and we can very accurately predict that the income that comes in on a monthly basis over twelve months is approximately \$300,000.00. Since we have started the first quarter we have made approximately \$139,000.00. We are very pleased with the results. We are not assuming an inordinate amount of risk. We are on the very conservative side of the spectrum, and for a first foray at least we can at least present to you that you are in line with the fiduciary code of conduct and we can continuously update you on how your income flows.

**President Alfred** said I think the best news is that we are in compliance with our policy. I think the public has a right to know what we are doing as stewards of their money and our investments are carefully being monitored. Thank you very much and keep up the good work.

### **9. Open forum/general discussion for receiving the 2012 American Public Power Association Safety Award-Honorable Mention. (D. Gordon)**

#### **INFORMATION:**

**Darrin Gordon** said I apologize I do not have the plaque with me. In the past we have always taken with a gold standard with zero injuries in our electric department. This year we had an honorable mention. We had one of our employees who hurt his back while he was lifting something. We do give out an award as we try to incentivize our employees and we give them money if they go a year without any injuries. Safety is one of the mantras that we are pushing. We have safety first, reliability, and professionalism. I think it is important to say that we have that Honorable Mention because our employees are not afraid to report if there is an injury. That is an important part of it. In some organizations there is peer pressure to keep your mouth shut and limp along so you can still get that safety award. We do the training and our tailgate sessions.

**President Alfred** said safety has always been an integral part, and you are right, it is safety first. We have a great staff and it is nice to be recognized. Please pass that on to the staff on behalf of the Board.

**10. Presentation of the Proclamation declaring May5-11, 2013 Drinking Water Week. (D. Gordon)**

**INFORMATION:**

**Darrin Gordon** said the Proclamation was approved by the City earlier this month and we appreciate that very much. It says: “Drinking Water Week May 5-11. Whereas waters are a valuable natural resource; and whereas our tap water delivers public health protection, fire protection, support for our economy, and the quality of life we enjoy; and whereas any measure of a successful society, low mortality rates, economic growth and diversity, productivity and public safety, are in some way related to the access of safe water; and whereas we are all stewards of the water infrastructure upon which future generations depend; and whereas each citizen of our community is called upon to help protect our source water from pollution, practice water conservation, and get involved in local water issues. Let it be resolved that James L. Ford III, Mayor of the City of Lewes, do hereby proclaim May 5-11, 2013 as Drinking Water Week within the City of Lewes.”

We have exceptional water. In a bottle of water that you buy for \$1.39, you would see that there are 250 ppm total dissolved solids in the water. They usually filter it from a public water source and add sodium so it tastes good. Our water has approximately 200-220 ppm total dissolved solids in it. We have chlorine in it, but that keeps it safe and sanitary. You can buy it for a \$1.26 for a thousand gallons, then it goes up to a \$1.65, and then up to a whopping \$2.00 for a thousand gallons. We flush our hydrants and we are working on improving the lines so that we can have that water quality all the time. I think it is an unappreciated product and service that is provided. Thank you for the proclamation.

**Mayor Ford** said you are welcome. I think we have done this for a few years now around the same time in the spring, and we will continue to do so.

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

**James Richmann** attended Neighbors Meeting at Beebe Medical Center.

**Jack Leshner** attended the City Council meeting on April 8 and the Citizens Committee earlier this month.

**Candace Vessella** attended the City Council meeting and the workshops associated with the land planning of the Thompson property adjacent to the library.

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

**President Alfred** said a time needs to be established for the swearing in of A. Thomas Owens needs to be coordinated with the General Manager following the election.

**James Richmann** said we have re-swear in Preston Lee as well.

**President Alfred** said that can be done at a Board Meeting.

**Tom Owens** said to make a correction – there is no “s” on the end of his last name.

**James Richmann** said that I would like to have the General Manager, at a time that is convenient for him, schedule a workshop for the Capital Budget for the years that we did not approve in tonight’s discussion. I don’t think we need to approve that, but with a new Board member coming on, I would like to have a workshop to discuss the entire Capital Budget.

**13. Call to the Public.**

No questions or comments.

**14. Call to the Press.**

No questions or comments.

**15. Executive Session.**

President Alfred motioned to move to Executive Session. Candace Vessella seconded. Meeting adjourned at 7:46 PM. An Executive Session followed.

**16. Adjournment.**

Respectfully submitted,  
Stephanie Moyer