

MARCH 30, 2015

Minutes of the special meeting of the Municipal Services Commission held March 30, 2015 at the office of the Commission, 216 Chestnut Street. The meeting was called to order at 4:00 P.M. with Robert S. Appleby, President, Commissioner, presiding.

Attendance Report:

Present: Robert S. Appleby, President, Commissioner
Daniel F. Knox, Commissioner
Dr. Roy J. Sippel, Commissioner
Pamela A. Patone, Secretary

Also in attendance: Hick Rowland, Commissioner effective April 1, 2015, Mark Beauchamp, Utility Financial Solutions

REVIEW OF COST OF SERVICE STUDY- PRESENTED BY MARK BEAUCHAMP,
UTILITY FINANCIAL SOLUTIONS

Mr. Mark Beauchamp began his presentation providing an understanding of his credentials and the history of Utility Financial Solutions. Mr. Beauchamp explained every utility should identify key targets to maintain financial health of the organization. He advised the first target is a minimum cash reserve to insure working capital for monthly expenditures, funding for capital improvements and funds for catastrophic events. He recommended that the Electric Department have a minimum cash reserve of \$1.7M and the Water Department have a minimum cash reserve of \$800K. Secretary Patone reminded the Commissioners they had previously adopted a \$2.7M cash reserve. Mr. Beauchamp went on to report a target operating income should be identified which takes into consideration not only depreciation but also the inflationary cost of replacement of infrastructure. Mr. Beauchamp explained that table 5 in the electric report reflects the balloon payment being paid in full when it comes due, which resulted in a recommended electric rate increase of 3.9% for fiscal year 2016, 3.0% for 2017 and 2.5% in 2018. Secretary Patone reminded the Commissioners the balloon payment is due June 2019. She indicated the current bond rate is 2.92% and the balloon payment is approximately \$2.7M that is reduced by \$500K (the 10% additional payment required by the bond) that has been paid into DEMEC each month. Mr. Beauchamp indicated that the recommended rate adjustment would be closer to 2.0 % average rate increase if the balloon payment was refinanced.

Commissioner Knox questioned the larger cash balance projections for the electric department. Secretary Patone referred the commissioners to table 7 in the water department report showed a negative cash balance. She advised that although the commission increased water rates three years ago it was not sufficient enough to have the water cash balance be positive. She reminded the commissioners the capital programs within the water department such as the new well site and carbon filtration system would continue to keep the water cash balance negative. Mr. Beauchamp reported the recommended water rate increase is 9.9% for fiscal year 2016, 9.9% in 2017, 4.5% in 2018, 4.5% in 2019 and 4.5% in 2020. Mr. Beauchamp explained that a 10% increase for a residential user would be approximately \$3-\$4 per month. Commissioner Knox

noted that an almost 10% increase for our large commercial water user could be significant. Mr. Beauchamp advised depending on the rate design the percentage increase may not be as high as 10%. He went on to present the theory for economic development rates to attract commercial accounts to the system. President Appleby questioned how the model would change if the commission received the USDA \$500,000 grant. Mr. Beauchamp suggested the recommended rate changes be increased an average of 5.2% each year with the assumption the USDA grant was received. Commissioner Sippel questioned the percentage increase in water rates three years ago. Secretary Patone indicated the rate increase was 31.59% and the electric rates were reduced by 12% in 2012. Commissioner Sippel questioned the date the rate increases would be effective. Secretary Patone indicated the rate increase could take effect with the April 19, 2015 billing.

Mr. Beauchamp went on to report that customer charges for water should be increased by \$0.50 from \$7.75 to \$8.25. Secretary Patone questioned whether the customer charge would be included in the 5.2% increase. Mr. Beauchamp agreed the customer charge increases would be included in the rate changes. Mr. Beauchamp explained the importance of insuring the customer charges are as close to the actual cost to serve in order to prevent one customer classification subsidizing other customer classes. He advised the distribution charges and commodity charges must be set properly so that the price signals sent to groups evaluating solar system are accurate. Mr. Beauchamp advised that he believed residential customers will eventually be charged demand charges throughout the industry to capture the proper costing.

Mr. Beauchamp emphasized at the conclusion of his report the Commission's cash reserve amount is a minimum amount and it is important to maintain at least the \$2.7M. He advised this would insure funds were available when needed for repairs and maintenance of the aged infrastructure and if a catastrophic event took place.

The Commissioners discussed that waiting for the rate changes to take effect May 1, 2015 would be acceptable.

Mr. Beauchamp indicated the electric customer charge should be increased in the amount of \$1.25 from a rate of \$8.75 to \$10.00. Commissioner Knox questioned the amount of the Delmarva residential customer charge. Secretary Patone indicated the Delmarva tariff reflects \$11.71 as the residential customer charge.

Secretary Patone questioned whether the Commissioners would be re-evaluating rate changes annually. Mr. Beauchamp explained a cost of service study should be done every three to five years but a financial projection should be done annually. The Commissioners agreed they would revisit the rates annually.

President Appleby indicated the nominations of officers needed to be addressed.

Upon motion made and unanimous approval the Commissioners nominated Pamela A. Patone for Secretary and Mary Jane Stubbs for Treasurer.

Upon motion made and unanimous approval the Commissioners nominated Dr. Roy Sippel for President.

President Appleby announced the nominations were now closed.

Upon motion made and unanimous approval, the Commissioners approved the rate increase recommendations of an average 2% electric rate increase and an average 5.2% water rate increase based on the five year plan that would be reviewed annually, with the residential electric customer charge increased to \$10 and the 5/8" x 3/4" water customer charge increased to \$8.25.

ADJOURNMENT

By motion made and unanimous approval, the Commissioners voted to adjourn.

Approved 4-27-15
Date


Pamela A. Patone