

JULY 27, 2015

Minutes of the monthly meeting of the Municipal Services Commission held July 27, 2015 at the office of the Commission, 216 Chestnut Street. The meeting was called to order at 4:00 P.M. with Dr. Roy Sippel, Commissioner, presiding.

Attendance Report:

Present: Dr. Roy J. Sippel, Commissioner, President
Daniel F. Knox, Commissioner
Hick Rowland, Commissioner
Pamela A. Patone, Secretary

Staff in attendance: Jay Guyer, Water Supervisor, Scott Blomquist, Electric Supervisor, Mary Jane Stubbs, Business Manager/Treasurer,

Also in attendance: Andy Patterson, CPA Auditor Horty & Horty

PRESENTATION OF MSC 2014/2015 AUDITED FINANCIAL STATEMENTS

Mr. Patterson began the presentation thanking the Commissioners for the opportunity to meet with them and advised the audit went smoothly. He reminded the Commissioners this was his second year as the lead partner on this job as the Commissioners had requested partner rotation, which he noted was a good policy. He went on to report there were no findings or difficulties during the audit. He distributed a required communications letter which reflected the audit went according to plan, he advised there have been no change in accounting policies followed by the Commission and he reviewed the significant estimates utilized by the Commission. Mr. Patterson went on to report two adjustments were made to the financial statements, the first adjustment related to the temporary vessel costs related to the carbon filtration system. Secretary Patone advised the initial discussions regarding the vessel were that the Commission would rent to own and later it was determined the Model 10 would not be sufficient and a Model 12 should be purchased therefore, the temporary vessel would be rented and not purchased. She explained that the costs associated with the rental needed to then be reclassified as an expense in the period incurred. Mr. Patterson went on to report the second entry related to the capitalization of labor associated with on-going projects. Secretary Patone advised she noted the entry needed to be made when creating the year end financial statements and she prepared the entry and submitted to the auditors. Mr. Patterson went on to report the auditors did not identify any uncorrected misstatements. Mr. Patterson then distributed the financial statements and advised the report reflects an unqualified opinion. He went on to explain the Statement of Net Position reflects a line item titled "Restricted Cash". He advised this line item is to clarify the funds represent deposits held for customers and is not available for customers. He went on to report the "Net Position" of the Commission has increased \$310,511 which is a positive result. Secretary Patone communicated throughout the year she had reported a deficit. She advised the line item Private Developer Contributions in the amount of \$404,036 is why the deficit previously reported is now an excess. She reminded the Commissioners these contributions are not cash received or revenue from the sale of assets. She advised the contributions are developers building utility

infrastructure that is then contributed to the Commission and then the Commission must maintain the infrastructure. She advised the majority of this figure was a result of the Washington Street project where DeIDOT contributed the labor to install the water main infrastructure. Mr. Patterson reported the user charges were down from the previous year in addition to the miscellaneous income. He advised this was a result of lower commercial electric usage and DeIDOT had completed the Washington Street Project. He went on to report the purchase power and water increased significantly from the previous year due to the purchase of water from Artesian, increased rate from DEMEC and the third item that affected this line item was the previous year the amount paid to DEMEC for the substation was offset by credits. Secretary Patone explained the amount paid to DEMEC for the substation is the same each year, however, the Commission was able to utilize bond funds to offset operating and interest costs in the previous year. Secretary Patone went on to report the Statement of Revenues and Expenses have Free Service broken out in the Operating Revenues for clarification purposes. She went on to report the increase in the figure relates to the purchase from Delmarva Power of the right to serve electric to the Frenchtown Road well site. She indicated in future years the electric provided to the Commission sites will be reflected as utility expense. Mr. Patterson went on to review the Cash Flow Statement. He advised the cash provided by operating activities decreased from last year due to the decrease in the change in net position, in addition to the previous year showed a large influx in cash due to the change in billing practices. Secretary Patone reminded the Commissioners the billing date was moved from the 27th of the month to the 19th of the month. She advised the office was able to get the bills in the customer's hands earlier resulting in a smaller receivable balance at the end of each month. Mr. Patterson went on to discuss the footnotes of the financial statements. He advised the Commissioners adopted a revised policy to capitalization threshold from \$1,000 to \$2,500 and this is disclosed Note 2 Property, Plant and Equipment. He went on to report the addition of a Recent Accounting Pronouncement footnote regarding the need to report the costs and obligations associated with pensions in the next fiscal year. Secretary Patone explained the pension liability will need to be reflected on the books next year is currently estimated at \$800,000.

Mr. Patterson indicated on page 16 a note was recorded to disclose the well contamination, the commission's undertaking to install a temporary filtration system and the permanent filtration system being constructed currently. Secretary Patone advised the note discloses the \$500,000 USDA grant in addition to the contracts with third party vendors for the construction. Mr. Patterson went on to report the note discloses the EPA investigation regarding the contamination and the unknown source. Secretary Patone thanked Treasurer Stubbs for her participation in the pension footnote disclosures as she advised they are quite lengthy. Mr. Patterson advised he was always available to the Commissioners if there are any questions. President Sippel questioned whether Dodd Frank had any impact on the audit process. Mr. Patterson advised it did not impact the audit as it relates to financial services organizations. Commissioner Knox questioned whether the Commission would be subject to the Single Audit because of the USDA grant. Mr. Patterson advised the current grant funding does not require a Single Audit but new grants could have the Commission exceed the audit threshold; therefore, it should be monitored closely. Secretary Patone advised that although the Commission is a component unit of the City of New Castle, the Commission is a separately State of Delaware chartered agency and grant funds are for the benefit of and expended by the Commission so the funds are not pooled with the City of New Castle grant funds and reaffirms the Commission is a separate entity.

President Sippel thanked Mr. Patterson for his attendance and he left the meeting.

MINUTES

With the concurrence of all the Commissioners the minutes of the June 29, 2015 regular monthly meeting were approved.

TREASURER'S REPORT

Treasurer Mary Jane Stubbs reported a total cash balance of \$2,781,695.50 which includes escrow and deposit amounts of \$488,028.35 leaving an operating cash balance of \$2,293,667.15. She went on to report investments in the amount of \$1,035,541.28. She communicated Customer Service Manager Sandy Scott reviewed the bank statements for June 2015. Treasurer Stubbs presented the June 2015 invoices for the Commissioner's review. Secretary Patone advised the disbursement to Mayor & Council on June 19, 2015 was in the amount of \$134,375.00 this accounted for the increase in the ordinary appropriation which was approved by the Commissioners in the amount of \$537,500 annually. Staff answered the Commissioner's questions regarding disbursements.

Upon motion made and unanimous approval, the Commissioners accepted the treasurer's report for the month of June 2015 and approved the payment of the June 2015 bills attached hereto.

President Sippel thanked Ms. Stubbs for her attendance and she left the meeting.

ELECTRIC DEPARTMENT

Supervisor Blomquist reported no new information on Riverbend, Fishing Pier project and the Triangle across from St. Peter's. Commissioner Knox asked what the Fishing Pier project was and how it related to electric. Supervisor Blomquist explained Council President Ratchford inquired of the ability to extend electric and water service to the proposed Fishing Pier near Dobbinsville. He and Supervisor Guyer explained the proposal may include lighting for parking, restroom facilities and on the pier.

Supervisor Blomquist reported electric service has been transferred to Techmer PM for 1600 Johnson's Way in Centerpoint Business Park, however, the anticipated electric service changes have not yet taken place. He went on to report the house at 144 East 3rd Street was divided into apartments and there is electric work that needs to be done. He advised he continues to work on the totalizing meters in Centerpoint in order to have them immediately uploaded into the billing software. Supervisor Blomquist went on to report the racking for the solar array has been received but was not the correct material and he is working to correct the problem. He advised he is scheduling on-site meetings with Comcast for the Booker Circle project. He indicated there is no update for the Crossroads Well site and the electric crews have moved the transformer at the School Lane Treatment Facility and the wiring of the building will begin soon.

Secretary Patone requested Supervisor Blomquist explain the Booker Circle project and the easements that exist. Supervisor Blomquist explained the poles behind the homes are owned by Verizon. He advised the conversion to underground will result in the service being run in the front of the homes in the street right away, the individual homes service lateral will go underground on their property and because the service only serves that individual's home an easement will not be obtained. Supervisor Blomquist explained he has spoken with other municipalities and Delmarva regarding easement policies and although there are several approaches the Commission's policy was consistent with several municipalities. Secretary Patone reaffirmed that easements are obtained if the Commission's system infrastructure needs to cross personal property or if another individual's service needs to cross personal property. She explained the Booker Circle project will be consistent with the treatment of underground electric service within the Commission's service territory. Secretary Patone advised she wanted to reaffirm this approach with the Commissioners as staff moves forward with more underground projects in the future. Supervisor Blomquist reported new subdivisions are typically provided a blanket easement for the utilities. Supervisor Guyer explained this was one of the issues with the Riverbend subdivision as the plans do not currently reflect the utility easements.

Supervisor Blomquist reported the pneumatic mole from the capital budget has been ordered and will be utilized for the Booker Circle project. He went on to report several outages over the past month, the first was June 23rd when the tree in front of the Knott's bus company came down and knocked out the 420 Circuit for 2.5 hours which affected 620 customers. He advised the same thunderstorm knocked down a tree in VanDyke Village which affected 17 customers for 6.5 hours. He reported the tree was very large and the electric crew assisted the City Public Works to clear the tree. He indicated on June 27th another thunderstorm in VanDyke Village took a tree down which resulted in 72 customers without power for 1.5 hours. He went on to report under Repairs and Maintenance, the two poles Delmarva Power scheduled to change out have been completed and the Commission's equipment was transferred. He indicated over the past two weekends two poles were hit by cars and had to be replaced. He advised the first one was in Buttonwood but the individual was not found and the other pole was at Centerpoint near Bellanca, where a capacitor bank came down and caused significant damage. Secretary Patone indicated staff was working to obtain payment from the insurance companies of the drivers for the damage.

WATER DEPARTMENT

Supervisor Guyer reported the water department continues to flush Riverbend hydrants. He reported he met Joe Corrado of Parkway Gravel on site at Riverbend in reference to the 120 linear feet of water main through the causeway. He advised Parkway Gravel ordered a bottomless culvert and will install it in the causeway and they confirmed the water main will not conflict with the culvert. Supervisor Guyer indicated he advised Mr. Corrado a plan for supplying the subdivision with temporary water while the culvert is being installed will need to be presented and the main would need to be inspected after it was removed to confirm it is class 52 DIP. Commissioner Knox questioned whether Parkway Gravel had obtained a permit to

perform the work; Supervisor Guyer confirmed the proper permits had been obtained.

Supervisor Guyer advised he and Secretary Patone reviewed the information provided by Delaware Greenways regarding their request for an agricultural rate and Secretary Patone would review in detail under Old Business. He went on to report staff met with Heather Warren of the Delaware Division of Public Health and John Marciszewski of Echologics Technologies to discuss testing on the Delaware Street water mains from 3rd Street to the Wharf and all of Dobbinsville. He advised Heather Warren was confident the Commission could obtain a Water Innovation and Technology Grant in the amount of \$50,000. He indicated Echologics revised their quote to include 2 miles of main for approximately 3 days of testing which resulted in a quote of \$52,015.00 He advised the grant would require sharing the results with other municipalities and inviting students from the STEM programs at local schools.

Supervisor Guyer reported on the Cross Roads well, the Variable Frequency Drive Controller was received and installed; in addition the SCADA is being reviewed. Supervisor Guyer reported the Utility Building curbing has been completed. He went on to report the Consumer Confidence Report (CCR) was distributed in the Newsletter by July 1, 2015 and the notification was sent confirming delivery to the Office of Drinking Water (ODW) and Public Advocate by July 10, 2015 the reporting deadline. He advised a reporting violation was received from the Office of Drinking Water indicating a copy of the CCR was also to be sent to the ODW by July 1, 2015. He advised the violation would need to be reported in the 2016 CCR. He confirmed the violation was cleared upon the ODW receiving the CCR by the July 6, 2015 for the proof of mailing. He advised the communication of the requirements was inconsistent within the documents and he spoke to the ODW regarding the confusion. He confirmed there were no financial penalties as a result of being out of compliance for five days.

He advised Cirillo Brothers mobilized to start working on the City's 14th Street Drainage Project. He indicated Assistant Supervisor Jaeger met with Cirillo's superintendent and provided him a plan illustrating all water crossings, test holes were completed by the contractor and no conflicts were noted. He went on to report a fire hydrant was hit by a car at the intersection of 6th Street and Harmony, repairs were completed and a police report filed. He indicated the driver's car insurance had lapsed and the office staff is pursuing collection.

Supervisor Guyer reported the utility building and fence grant paperwork has been received and the Cross Roads Well grant in pending approval. He continues to work on the PFC contamination solution he advised the Model 12-40 was delivered on July 23, 2015 and both vessels were set by the end of the day. He reported the building continues to be worked on and the piping for the vessels will begin shortly.

Commission Knox asked before Supervisor Guyer left the meeting whether there would be discussion regarding the antenna on the water tanks. Secretary Patone indicated after the July 22, 2015 meeting with President Sippel, Secretary Patone, Council President Ratchford, Councilman DiMondi, Mayor Reese and City Administrator Barthel the City Council had a special meeting on July 23, 2015 and decided to schedule a meeting on August 18, 2015 for Verizon to answer questions and present information regarding the need for cell phone coverage in the area. She went on to report the City Solicitor Dan Losco and the Commission's attorney

Dan McCollom were to meet to discuss details regarding the negotiations which included a percentage of Commission user charges, the City paying for electric and water charges, rights and responsibilities related to Commission occupied property, charter changes and contracts/leases. Secretary Patone reminded the Commissioners one key area of the discussions with the City have been to allow the Commission to have exclusive rights to decisions relating to the electric and water infrastructure and the properties occupied by the Commission and in negotiations the discussion was to pay an annual fee to the City for three years to settle the antenna issue. She advised it was unclear why a meeting with Verizon would be necessary based on the negotiated terms. The Commissioners agreed Secretary Patone would attend the meeting on August 18, 2015 to listen to Verizon's presentation.

Secretary Patone asked Supervisor Guyer whether he had any input regarding the agricultural rate report. Supervisor Guyer indicated he supported the presentation Secretary Patone prepared and would be presenting to the Commissioners under New Business.

The Commissioners thanked the Supervisors for their attendance and they left the meeting.

FINANCIAL REPORT

Secretary Patone reported in Collections the 30-60 day receivables are \$39,355.29 compared to \$127,044.35 from last year. She advised the variance was due to a large commercial account which was delinquent last summer but has since been paying timely.

She reported the financial statements for the quarter ending June 30, 2015 showed Total Assets of \$14,894,030 with "Cash" decreasing \$53,000 from the previous month.

In "Revenue and Expenses" the "Change in Net Assets" was a deficit of net assets in the amount of (\$68,000), \$40,000 from Water Operations and (\$108,000) from Electric Operations. She indicated the deficit was anticipated as the revenues and expenses do not typically turn to an excess until the end of the summer months, in addition, the rate increase did not take effect until May 2015. She went on to report the water department has an excess because the new hire did not begin employment until June 1st but was budgeted for a full year. She advised the user charges have increased compared to last year due to higher consumption, specifically the commercial water consumption. She advised the user charges are lower than budgeted. The commissioners inquired whether the office received a lot of calls regarding the rate increases. Secretary Patone reported the office did not receive a lot of inquiry in May or June due to the increases.

SECRETARY'S REPORT

Secretary Patone reported she attended the July 21, 2015 DEMEC meeting. She advised there was an Executive Session to discuss the philosophy for bidding into the capacity market for the 2016/17, 2017/18 and 2018/19 auction in addition, some personnel matters were reviewed. Secretary Patone gave the Commissioners a brief understanding how the auctions operate and the clearing prices. She explained since the 21st meeting FERC has postponed the markets to allow Demand Response and energy efficiency into the market. She advised the auctions will be

rescheduled for the end of August. She went on to report DEMEC was posting a VP of Finance position, the Beasley Unit 1 nozzle was repaired at approximately \$553,000 and was placed back in service on June 18, 2015. She reported the Beasley facility was curtailed from natural gas usage due to a circulating water pump seizing which needed repair. She communicated DEMEC participated in the RGGI auction (Regional Greenhouse Gas Initiative) and purchased 7,000 CO2 allowances, the Board passed a resolution honoring President Patrick McCullar for his contributions for 22 years of service and recognizing his APPA's national award (the Donovan Award). She reported DEMEC has changed IT providers to Diamond Technologies to provide the level of service required as a result of the penetration testing performed this past year. Lastly, she advised the memorandum from DEMEC's attorney regarding board members and alternates was presented to the DEMEC board.

OLD BUSINESS

Secretary Patone advised the antenna on the tank issue was reviewed earlier in the meeting and it was agreed that she would attend the Verizon meeting on August 18, 2015.

Secretary Patone reported the Penn Farm request for an agricultural water rate was reviewed by staff and she had accumulated an analysis and recommendation that was sent to the Commissioners in advance of the meeting. She advised staff was confident the Commission's water system could support the demand requirements of the Penn Farm as discussed with Delaware Greenways. She went on to review her analysis of the estimated variable and fixed water costs. She advised the variable cost in the previous year and the expected increase in costs in upcoming years due to the new treatment system may not fully be recovered with the requested \$4 per 1,000 gallon rate. She suggested the rate be \$5 per 1,000 gallons with an evaluation of the rate structure when the next cost of service study is performed. The Commissioners discussed the William Penn School students program on the Penn Farm, the metering required to evaluate the off-peak requirement of the rate, the possibility of cost savings during off-peak times and a minimum acreage requirement.

Upon motion made and unanimous approval, the Commissioners approved an Agricultural Rate in the amount of \$4.50 per 1,000 gallons with off-peak requirements.

Secretary Patone advised she would follow up with the Trustees and Delaware Greenways and the necessary Tariff changes for the next meeting.

NEW BUSINESS

Secretary Patone indicated she wanted to review the Booker Circle easement approach being utilized by staff and Supervisor Blomquist reviewed this item in his report.

President Sippel indicated the attorneys will be reviewing the possible Charter changes and will be presented to the Commissioners for review.

JULY MEETING

The Commissioners set the date of the next monthly meeting to be August 24, 2015 at the office of the Commission, 216 Chestnut Street, New Castle, DE 19720. (The meeting was subsequently changed to August 31, 2015)

ADJOURNMENT

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

Approved 8-31-15
Date


Pamela A. Patone