

Municipal Services Commission  
Monthly Meeting  
March 22, 2018 -- 4 p.m.  
216 Chestnut Street  
New Castle, Delaware

The meeting was called to order at 4 p.m. with Dr. Roy Sippel, Commissioner, presiding.

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

Staff in Attendance: Treasurer Mary Jane Stubbs; Accounting/Customer Service Manager Tara French; Scott Blomquist, Supervisor, Electric Department; Jay Guyer, Supervisor, Water Department

Agenda Changes -- Secretary Patone informed that due to the weather Mr. Appleby's family was unable to attend tonight's meeting. Therefore, the resolution honoring former Commissioner Robert Appleby is being moved to April. Approval of the 2/27/18 meeting minutes will be moved to the April meeting.

Treasurer's Report – Treasurer Stubbs' reporting

Treasurer Stubbs reported a total operating cash balance of \$2,084,493.03. PNC escrow and meter deposit total in the amount of \$861,941.14. Total cash balance is \$2,946,434.17. Total investments are \$1,092,236.89. Water Supervisor Jay Guyer reviewed the bank statements for the month. Treasurer Stubbs addressed Mr. Guyer's questions satisfactorily. The checkbook register is attached to Treasurer Stubbs' report.

Treasurer Stubbs attended the 2018 FMLA compliance workshop. She will be reviewing the Commission's policies to ensure we are compliant and making changes as needed. She explained the \$5,000 check for the New Castle Cares Fund was to replenish the fund. Secretary Patone said in 2008-2009 MSC voted to establish a fund at Salvation Army that they administer. MSC deposits no more than \$5,000/year in the fund and we solicit donations from the community for the fund. The Salvation Army determines eligibility of a customer with guidance from MSC. We had originally set up the fund to be \$300 maximum; it is now \$400. We expanded the fund to include water bills. Proceeds are only used for MSC customers who are in need and who are delinquent in electric/water bills. There is a small administration fee the Salvation Army assesses and is taken from the proceeds. Secretary Patone suggested Ms. French could assemble a report showing the number of customers we serve annually and the approximate amount administered.

**A motion was made and seconded to approve the disbursements as presented. The motion was approved.**

Accounting and Customer Service Report – Accounting/Customer Service Manager Tara French reporting

*(See attached report.)*

- Secretary Patone will draft a press release about the rate change and distribute to commissioners for review and input.
- Key components with Customer Action Plan – Dr. Hansen asked what key components are part of the CAP. Ms. French said it includes knowing about all communications that occur with an account, key persons affiliated with that account, and learn how to get to the right people. Secretary Patone said the Key Accounts Program was recently created and embodies any account that is significant to our revenue stream and potentially political accounts. Secretary Patone assigned specific customers to staff with the goal of understanding the needs of our customers. Secretary Patone said to do this

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we need to understand what the customer's operations, key personnel and potentially have an audience with them to identify ways to help them with their systems, including energy-efficiency items.

Electric Department Report – Mr. Blomquist reporting

*(See attached report.)*

Billing Audit -- Dr. Hansen asked if there is a way to track meter charge readings we get from the DEMEC bill versus what we are charging our customers. Mr. Blomquist said we read our substation meters monthly; they have load profiling. DEMEC gets their billing information from Delmarva who has meters on site also. Mr. Blomquist compares the full month against DEMEC's full month figure; it is highly accurate. At the end of the year the EIA-861 report determines our losses for the whole system for the year. Further, Mr. Blomquist said we were about 2.5% this past year; much of which involved transformer loss. Secretary Patone said the industry shows between 4%-5%. Mr. Blomquist attributes their low losses because of the amount of tree trimming we do.

Water Report – Mr. Guyer reporting

*(See attached report.)*

Delaware Street Water Main Extension – This project was part of the DelDOT project to improve the bike trail crossing to the old B & O Railroad tracks. As part of the project, MSC chose to extend the 12" water main from the front of the old Family Foundation School to just outside of DelDOT's proposed work area. MSC was able to acquire the engineering plans for the roadwork which were paid for by DelDOT and have the engineer layout the proposed water main. It will extend down to Eight Street to complete another 12" main loop across town. This will give us two 12" water mains across town. We looked at completing the next section which would include approximately 300lf of 12" main and complete the crossing to tie into Tenth Street eliminating the dead end 6" main. He confirmed the main would have to cross under Delaware Street to get to Tenth Street.

Rate study – Mr. Guyer looked at the feasibility of having little to no increase in water operations budget. Secretary Patone said that past operating budgets included repairs and maintenance-type items that are part of a valve program or hydrant replacement program, etc. that was established several years ago. We have had several capital projects the last couple of years and some of those repairs and maintenance projects have not been performed. She added that we budgeted for the work so actual numbers were lower than budgeted numbers in the Water Department's O&M budget. Cost of serve information is based on actual numbers; therefore, the expectation is that the O&M budget would be lower than what we would have approved. We now are looking to get back to some of the regular maintenance activities. If we go with the cost of serve we do not need significant increases. She and Mr. Guyer talked about ways to accomplish this. Mr. Guyer's goal was to delay the Delaware Street project and get back on O&M projects to get his operating budget back to where it used to be with a 6.94% increase while saving some money on the capital budget. We felt this would be a good approach. We are trying to accomplish what the commission has set out to do and stay closer to a 3% increase in budget versus a 6.94%, but we are taking a cash savings on the capital budget.

Carbon – We expect the recent purchase of carbon to last three years. This depends upon how much we sell to Artesian Water Company. Some additional items in the budget like energy consumption at the sites, chemicals such as lime, fluoride, etc. increase when water is sold.

OSHA Crane Training – Mr. Guyer said the Water Department has one utility truck with a crane boom on it. It falls under the same criteria as the Electric Department digger Derrek truck. He thinks the Water and Electric Departments should be cross trained to provide the most efficient and effective service. To

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put all of the Water Operators (6) through the same crane training in accordance with OSHA requirements will cost \$7,620.

Clean Harbor Paints and Thinner Disposal – We have accumulated a pallet full of old paint, thinners, epoxy coatings, liners and such (about 40 gallons). We have exhausted options to dispose of it. MSC is a commercial/governmental facility. Delaware Solid Water Authority (DSWA) advised Clean Harbor has a process for proper disposal. They give us the appropriate containers and pick up the containers; we can track shipments to proper disposal sites. Clean Harbor keeps a history of disposal. We will set up an account with Clean Harbor.

Soil Testing (added to lab testing this year) – As we do more projects and get involved with more excavations disposing of our soil has become more challenging. Mr. Guyer said that up until now we have worked with farmers to dispose of the soil. Working through the Delaware Solid Waste Authority (DSWA) we can start hauling soil there at a cost of \$80/ton. Testing for contaminants must be done in order to be accepted by the DSWA. If results fall within certain parameters DSWA will accept that test for up to a year. He thinks that using DSWA is the proper way to move forward.

*(Messrs. Blomquist and Guyer, Ms. Stubbs and Ms. French were thanked and excused from the meeting.)*

Financial Report Executive Summary – Secretary Patone reporting

*(For the period ending 2/28/18. New format showing Water and Electric Departments and respective details of expenses.)*

Secretary Patone reviewed the financial reports. Total assets are \$16,652,987. Over the last month Accounting has been reconciling the construction and progress projects and placing them in service in the fixed asset module so the construction and progress balance is down to \$66,000; it was \$1.2 million, most of which was in fixed assets. They are planning to get the capital variance report to commissioners in the next couple months. It will show capital projects over the last year and how they compared to the budget. Everything looks fine and is under budget. Trees still need to be replaced as part of the Dobbinsville project.

Revenues and expenses – Secretary Patone reported we are about \$212,000 surplus of net assets; \$240,000 is surplus for electric and we have a deficit of \$28,000 for water. She said we should end the year better than the projected deficit of \$74,000.

Secretary's Report – Secretary Patone reporting

DEMEC – Secretary Patone and President Sippel attended the 3/20/18 Board meeting. There was a presentation by Tony DiPrima with the Delaware Sustainable Energy Utility (SEU) who gave a history of the SEU. Mr. DiPrima was invited to attend because they have energy efficiency programs. To address energy efficiency DEMEC wants to partner with the SEU. Their mission is to deliver energy efficiency and renewable energy services to Delaware households and businesses. Secretary Patone informed that MSC's service territory is larger than the 19720 zip code. Records show that 304 businesses/individuals were helped in the 19720 zip code area and about \$50,000 in funds were provided. The SEU plans to track by service territory so we know where to partner with them and know who is benefitting within our service territory. Churches and schools are included. Dr. Sippel thinks that St. Peter's Church and school would benefit from the fund. Their principal is interested in the program. He would like to pursue the church and school if fellow commissioners agree. Secretary Patone thinks it would be good to start a conversation. Over the last week she and DEMEC have started working together on a way to

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put together and start the DEMEC program. Secretary Patone will be completing a survey asking how to we want to structure the program. She has some ideas and will be asking commissioners for their input.

She will report back in April. We need to coordinate the DEMEC plan and the SEU and see how to educate citizens on the offerings; each group would run their part of the program. DEMEC and the MSC benefit by getting credit for identifying efficiencies to show to the State so they don't continue trying to mandate things we are voluntarily promoting for energy efficiency. She said a key difference between what the State offers (identifies individuals and homes) and what DEMEC is looking to offer is we have three large commercial entities that could utilize assistance with some efficiencies to keep their expenses lower and keep them in the community. We want to keep them productive and positive.

Secretary Patone reported that one of the resolutions the DEMEC board adopted was GASB Standard 62. She prompted discussion regarding the finance on behalf of members of DEMEC. When New Castle needed to build the substation it was important for reliability and we were not able to have debt on our books and needed funding from bonds. New Castle and DEMEC worked jointly on the project. Having proper accounting for this was new. DEMEC Finance Director Lou Vitola took on the project. GASB Standard 62 is regulatory accounting for project finances. DEMEC retains ownership of projects being financed; it acts as collateral for underlying debt they are holding on their books. At the end they transfer project assets to the member after the completion of the member's responsibility (paying bond). GASB Standard 62 will allow any municipal rate-making utility to utilize GASB Standard 62 rather than defer money and match up to their rate structure. The DEMEC board voted to approve adopting this GASB Standard.

Additionally, Secretary Patone said the Audit Committee has been reviewing with auditors and Mr. Vitola to understand what it would mean for DEMEC and their financial statements and educating communities affected by it. New Castle is affected after the fact while Middletown and Seaford will be affected over the next couple of years. DEMEC will be restating their financial statements in order to account for this so when they turn over the assets to us they don't have a gain/loss based on what is on their books at the time. She believes that members should be comparable with DEMEC. She will be looking into whether we should adopt GASB Standard 62. She has not spoken to MSC's auditors yet, but plans to meet with them soon.

RPS Requirements – Secretary Patone said we discussed the possibility that the bill that would increase RPS requirements significantly. State of Maryland lawmakers had similar bills, both backed by environmental groups. One bill called for requiring 100% of its energy from renewables by 2035 and the other changing from 25% to 50% by 2030. Maryland lawmakers rejected both bills saying the increase to ratepayers was not clear and is too cumbersome. DEMEC and other community members believe this is a good sign for Delaware. The bill has not been presented to lawmakers yet; only circulated in draft form.

Maxwell and Associates Annual Renewal for Services – Robert Maxwell has been DEMEC's lobbyist for 20 years. He has not increased his fee during his time with DEMEC. DEMEC believes Mr. Maxwell's experience with legislators is valuable. The board approved renewal of his services (\$6,500). Last year, Lincoln Willis was hired as a lobbyist in anticipation of Mr. Maxwell's retirement.

Training and Conferences – The board wants to send board members and alternates to conferences to keep them updated on public power issues and training for their staff. They requested an increase to

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\$4,000 per conference/certification (from \$3,000 per conference/certification). The board approved the increase. Secretary Patone informed that DEMEC has agreed to send her to a Public Power Manager Certification program in Denver to be certified as a Public Power Manager. She expressed appreciation to commissioners for the Key Accounts Certification for MSC staff.

Audit Committee – Secretary Patone is the chair of this committee. Financial statements were received last week. The committee will meet next week to review the statements and prepare questions for the auditors. The auditors have not identified any material misstatements or weaknesses. One adjustment was identified. It was immaterial but recorded at Mr. Vitola's request.

FOIA – Secretary Patone updated commissioners on the FOIA request made by Napoli Law. They requested documents thru FOIA related to PFC testing and contamination issues. She consulted with Max Walton, legal counsel and DEMEC's counsel. Mr. Walton suggested that since Napoli Law is not a Delaware citizen (located in New York) their FOIA request was denied. They were referred to MSC's website (consumer confidence reports and testing information), newsletters and minutes for relevant information.

Railroad License – We have electric lines that go over and above the railroads and water mains that go under; different circumstances for each crossing. One of the water contracts was paid for up front meaning no annual payments. Two other contracts we have are for electric lines. One of those contracts went from \$500 per year to \$5,000 per year. Norfolk Southern has a third party managing their licenses. We disputed the increase because of how they computed the increase (CPI calculation within the contract), and had our attorney, Dan McCollom, look at it. The contract allows them to use a different method and that method results in the \$5,000 annual payment. We inquired about buying a lifetime rate as in the past; they no longer offer lifetime rates. They offered a 10-, 15- or 20-year rate. We rejected those offers and plan to counter offer. Secretary Patone and Mr. McCollom are negotiating a new rate. We are looking at locking in to something long-term that may involve a large amount up front. Secretary Patone, Messrs. Blomquist and Guyer have discussed the Riverbend completion of the loop that will require going under the railroad. Since we have not finalized the issue, we may need to adjust the budget for the completion of the loop. She welcomes comments from commissioners.

Charter – Secretary Patone noted that charter changes that took place in 2016 contained a wording change that was not consistent with the intent of the agreement. City Solicitor Dan Losco and Commission attorney Dan McCollom are working to address the correction. She and City Administrator Bill Barthel talked about the correction that would be needed and appear to be in agreement.

#### Old Business

MSC Office Security – Secretary Patone stated that a committee was formed to discuss security in the office after the incident in December. The committee is comprised of Secretary Patone, Ms. Stubbs, Ms. French, Messrs. Blomquist, Guyer, Art Granger and Water Operator Barry Granger who is also a carpenter. As a reminder, she said we have put in extra cameras (we now have 8) and installed an extra light on the back of the building enabling us to see all areas in the back of the building. We put an addition on the door so employees can use a card swipe to enter. The biggest cost will be glass in the front. Secretary Patone said that staff strongly requested that glass be installed. We have met with New Castle City Police and looked at their bullet-resistant glass. Lexan, similar to Plexiglas, is preferred over glass. Quotes have been secured on both Lexan and glass; the Lexan is cheaper. There is a door we may want to also protect and we have to reinforce the countertops to carry the weight. Operations put together a budget of \$26,000; the committee has not voted yet on the door (\$5,000). However, the cost

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of \$5,000 is included in the \$26,000. Secretary Patone requested approval not to exceed \$26,000 and defer to the committee concerning the door.

Capital Budget – Concerning the Delaware Street project, Secretary Patone is requesting the capital budget be revised to add the additional \$5,000 for the interconnection room re-piping which was approved at \$28,500 and quotes came in higher making the cost \$33,500. The SCADA servers were at \$20,000 and came in with an additional \$4,000 making that cost \$24,000. The Delaware Street project would be removed from the capital budget for a total of \$790,924.

Operating Budget – Secretary Patone reviewed assumptions with commissioners.

- User charges – In agreement with cost of serve (revenue for water and electric) -- .5% growth in usage and a new rate design of a 9% overall water rate increase and a 3% overall electric rate decrease. The electric consumption bills paid to DEMEC are based on the .5% growth and the new DEMEC rate that is down about 6.37% from previous years. Add in charges related to the substation.
- Wages are budgeted according to the labor agreement and the Personnel budget that was approved in January. The Personnel budget approved in January did not include the Accounting intern, only current staffing and increases. Secretary Patone is requesting approval for an intern for this summer to assist with an accounting policies and procedure manual.
- Pension expense – We used the same amount as we did this past year except we did not include the additional \$50,000 one-time increase the commissioners approved in the prior year. The Actuary has all the census information but the actuarial report will not be complete until May, therefore an estimate is utilized.
- Health insurance expense – The State will not make any decisions on increases until May/June. We are using a rate increase of 7%, the same as last year. Employees pay 10% of their health insurance costs.
- Property and WC Insurance – We are using the current rate with a 3% increase. We have cut out some of the D&O insurance that was duplicated for Riverbend in the past.
- City Appropriation – Budgeted at 6% of user charges (audited numbers). We do not expect any significant changes between the audited and unaudited. The figure is about \$11,000 less than last year because last year we adopted a 2.5% reduction in our electric rates that we passed along as a negative PPA. This resulted in electric revenues being lower this year; about a 1.65% reduction.
- City and Nonprofits – The City pays for electric, but not water. Our nonprofits started paying electric and water bills at the full rate in January. She included some cost of serve professional fees.
- Water and electric – Messrs. Blomquist and Guyer developed operational expenses; Secretary Patone gives them guidance and looks at details of their requests line by line.
- Depreciation expenses based on previous years.
- Water repairs and maintenance programs – Secretary Patone said when we exercise valves, etc. some will break. During hydrant flushes some hydrants will be in disrepair and may need to be replaced. Some of the items exceed \$2,500 and end up being capitalized. She explained her recommendation to increase the capitalization threshold from \$2,500 to \$5,000. In 2014 the IRS changed their threshold for businesses from \$500 (lower than \$500, do not capitalize and depreciate; expense it) to \$5,000. Even though we are not subject to this ruling it is a reasonable basis to rely on to increase our threshold. Our auditors are fine with increasing the threshold to \$5,000. It will allow for more flexibility in our operating budgets. We will start the new threshold on 4/1/18.
- Inflation estimate for cost of serve – The consultant indicated a 2.5% rate of inflation. We have tried to keep expenses lower than that rate.

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- Energy efficiency program -- We thought there would be a cost associated with the program but DEMEC decided to build it into the DEMEC rates.

In summary, Secretary Patone said this would result in net income of \$257,000; the Electric Department would be \$435,000 net income and the Water Department would be \$178,000 deficit. Projected

operating incomes from cost of serve electric vary from the operating budget because the consultant utilizes the actual operating expenses over the past couple of years which has been understated due to repairs and maintenance programs not taking place in the Water Department (crews were working on capital projects), in addition, the actual activity reflected a reduction in labor on the expenses because the labor was capitalized and depreciated for the capital projects. Secretary Patone reminded the Commissioners the budget reflects the total labor costs which must be paid and the portion that may be required to be capitalized for accounting purposes would not be considered in the budgets.

**A motion was made and seconded to approve the increase in capital threshold from \$500 to \$5,000. Motion was approved.**

Secretary Patone will get the financial statements to commissioners as soon as possible.

**A motion was made and seconded to enter executive session at 5:43 p.m.**

Commissioners returned to general session at 6:20 p.m.

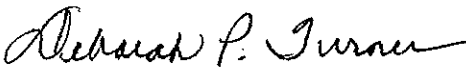
**A motion was made and seconded to approve the revised capital budget. The motion was approved.**

Next Meeting

Commissioners set the next monthly Board meeting to be 4/19/18, 4 p.m. at the office of the Commission, 216 Chestnut Street, New Castle, Delaware.

Adjournment

**A motion was made and seconded to adjourn the meeting. The motion received unanimous approval. The meeting was adjourned at 6:24 p.m.**



Deborah P. Turner, Stenographer

Approved: 

(Minutes transcribed from recording.)