

Municipal Services Commission
Monthly Meeting
August 23, 2018
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: Mary Jane Stubbs, Treasurer/Human Resources Manager; Tara French, Accounting/Customer Service Manager; Scott Blomquist, Manager, Electric Department; Ryan Jaeger, Supervisor, Water Department

Also in Attendance: Tim Sawyer, Barbacane, Thornton & Co.

Addition to Agenda – Secretary Patone added Resolution 2018-4 that adopts regulatory accounting for financed projects for DEMEC.

Secretary Patone turned the meeting over to Mr. Sawyer for a presentation on audit results (4/1/17-3/31/18). The results show the Audit Opinion to be an unmodified opinion on financial statements (clean opinion). Internal controls related to expenditure transactions this year – tests found zero exceptions. Controls are operating as designed to operate. The audit did not show any material weakness in operations. Commissioners had no questions about the audit results.

Mr. Sawyer talked about the change to regulatory basis accounting. As of 3/31/16 MSC's net position was \$13.2 million. Prior period adjustment – The cumulative effect of moving to regulatory basis accounting resulted in the net position increasing approximately \$1.7 million taking MSC to \$14.9 million. He said there were increases in expenditures of about \$279,000 in 2017 and \$286,000 in 2018 over other reports this year that show expenditures were reduced by these amounts. Mr. Sawyer said there was increased outflow for when the substation comes onto MSC's books. Instead of recognizing revenue when the substation comes in it will get rid of the deferred outflow for MSC for that year. Mr. Sawyer said DEMEC will not recognize a loss when the substation is turned over to MSC.

Secretary Patone said MSC will expense just the portion of the interest expense and depreciation on DEMEC's books as opposed to the full payment being made for principal and interest plus the additional 10% because the bond covenant requires 110% funded. She said MSC has been expensing the entire payment to purchase of power; however, if regulatory accounting had been adopted from the beginning it would have resulted in a deferred outflow and less expense. She said they believe it is the best way to match up revenues and expenses. Once the asset is recorded on MSC's books at the end of the bond payment there will not be recognition of a gain. All the new financing other municipalities are doing will mirror this regulatory accounting process. She will seek approval from Commissioners on this accounting policy. Once approval is given any further transactions we have similar to this will fall under regulatory accounting.

Secretary Patone informed that she did all the journal entries for MSC's portion of the transaction and Mr. Sawyer's team reviewed those entries as well as supporting documents and they support the change to the accounting policy.

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(Mr. Sawyer was thanked and left the meeting.)

Minutes -- A motion was made and seconded to approve the minutes of the 7/25/18 monthly meeting. The motion was approved.

A motion was made and seconded to approve the executive session minutes of the 7/25/18 monthly meeting. The motion was approved.

Resolution 2018-4 – Adopting regulatory accounting for financed projects through DEMEC. The resolution was read into the minutes by Secretary Patone.

WHEREAS, the Municipal Services Commission (MSC) of the City of New Castle is a municipal utility duly organized and validly existing under the laws of the state of Delaware (the "State"); and

WHEREAS, the Delaware Municipal Electric Corporation ("DEMEC") is a joint action agency incorporated in the State, established by certain cities and towns, and formed pursuant to Chapter 13 of Title 22 of the Delaware Code; and

WHEREAS, DEMEC offers financing and project management services on behalf of members pursuant to financing and project agreements; and

WHEREAS, DEMEC retains ownership of the projects and assets financed to serve as collateral for the underlying debt obligation; and

WHEREAS, DEMEC transfers the project and assets to the participating member upon completion of the member's responsibilities pursuant to the project agreement; and

WHEREAS, GASB standard 62 for regulated operations allows MSC to defer certain revenues and costs to match its recovery through rates; and

NOW THEREFORE, BE IT RESOLVED THAT; The Commissioners of the MSC hereby, authorizes the adoption of regulatory accounting as of April 1, 2016 as provided in GASB Statement No. 62 for all current and future projects and assets financed on behalf of participating members; and

BE IT FURTHER RESOLVED, that this resolution be spread upon the minutes of the Commission in testimony thereof.

A motion was made and seconded to approve adoption of the resolution. The motion was approved.

Treasurer's Report – Treasurer Stubbs reporting

Treasurer Stubbs reported a total operating cash balance of \$2,303,624.48. PNC escrow and meter deposit total in the amount of \$731,230.37. Total cash balance is \$3,034,854.85. Total investments are \$1,093,537.32. Water Utility Manager 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.

Dr. Hansen asked how deposits and withdrawals in investment accounts are reflected. Accounting/Customer Service Manager French said she reviews Summit Financial statements monthly. She reconciles statement activity and ensures investments are noted accordingly with the investment statement.

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Secretary Patone stated that when we sell a fund a note is placed in the Treasurer's Report and the proper accounting would show a realized gain or loss in sales transactions. If we took cash out of our operating funds to purchase new investments it would be shown as a purchase on the financial statements. We try to tie accounting and treasury together to ensure reconciliation. No investments/purchases would take place without Commissioners' approval.

Human Resources – Treasurer Stubbs reported meeting with all employees and providing them with new EAP (insurance) cards. Employees received new handbooks and signed they have received same.

Workplace Safety Inspection — Treasurer Stubbs announced we have been informed we will receive a 15% discount on workers compensation this year.

Secretary Patone noted a reimbursement of \$13.38 to herself for a small expense she incurred while attending a conference in May. Treasurer Stubbs and Accounting Manager French reviewed prior to reimbursement.

A motion was made to approve the Treasurer's Report. The motion was seconded and approved.

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

(See attached report.)

Electrical outage – Accounting/Customer Service Manager French met with Dr. Hansen to discuss communication options in the event of a major outage, particularly after hours, and how the process could be improved. One option was to change our phone message after hours so customers know we are aware of outages and estimated restore time, if known. We are able to do this within our current system and are working on the best staff person to handle it. In addition, Accounting/Customer Service Manager French said we are looking to update the website on outages (via cell phones). Secretary Patone said that currently when informed of an outage she can use her cell phone to update and repost to our website. Outage parameters (length of outage) need to be discussed. Both of these options have been implemented. Secretary Patone said we have been moving toward AMI and better communication and electronic communication. Dr. Hansen thanked Secretary Patone and Accounting Manager French for moving quickly to help remedy future outage notification issues.

Financial Report (For the period ending 7/31/18)

Accounting/Customer Service Manager French prepared the July 2018 monthly balance sheet and financial statement. She reported total assets of \$19,071,862 that includes \$2,227,630 increase in unrestricted net position at the beginning of the year in the financials to implement GASB 62. Account receivables were up about 45% due to the hot weather compared to last month. She said they are in line with receivables from the same time last year.

Schedule for Revenue and Expenses – Accounting/Customer Service Manager French reported no significant changes in revenue or expenses compared to the same time as last year.

Investments -- Accounting/Customer Service Manager French reported that unrealized losses were up about \$23,000 over this time last year. Investment activity was reviewed and appears to be recorded correctly. The Investment Advisor will be presenting at the September meeting.

Schedule for Revenue and Expenses – Accounting/Customer Service Manager French reported a surplus of \$113,231 in net assets; \$17,781 attributed to water and \$95,451 attributed to electric.

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Electric Department Report – Mr. Blomquist reporting

(See attached report.)

Mr. Blomquist met with Dr. Hansen concerning a recent significant outage. Mr. Blomquist will have a yearly maintenance meeting with SCADA personnel soon. Afterwards he will talk with Dr. Hansen about output for our SCADA to know what we are working with. Dr. Hansen thanked Mr. Blomquist for his time.

VanDyke Village Project Community Meeting -- Mr. Blomquist reported a second community meeting took place and was well attended. Most residents approve of the project. The Electric Department will meet with customers at their residences to address their respective concerns/questions. Mr. Blomquist provided updated estimates for the project: cost of lighting (LED fixtures versus HPS fixtures) will increase to about \$26,000. The cost for plantings around transformers is approximately \$15,000. Total cost of the project is \$797,128.57 or \$265,709.52 for a year. Secretary Patone told the Commissioners that formal approval to increase the budget will be discussed later in the meeting.

Mr. Blomquist said a question was raised during the second community meeting about when Verizon would not agree to put their service underground would it be wise to install a conduit for all the locations so if Verizon wants to go underground in the future they would already have a conduit installed. In Booker Circle we did install conduits at each location and ran piping to meters for Verizon. Installing conduit now makes providing underground services more easily in the future. Secretary Patone noted we could rent Verizon space for our conduit. Mr. Blomquist cited the City of Baltimore saying the city owns all infrastructure underground and rents everything to utilities. He said the cost of \$38,000 represents the cost of putting a conduit to every location in the entire VanDyke project. The cost is for materials only and does not include labor. Secretary Patone is confident that Verizon will not run utilities underground unless the City pays for it. The likelihood of this happening in the near future appears to be small; a lot of their infrastructure in the area is new.

Safety – Mr. Blomquist said they continue to do safety meetings with their crews.

Water Report – Mr. Jaeger reporting

(See attached report.)

Security glass – Treasurer Stubbs reported the glass has not been received to date.

Gray Street Water Main Replacement – Mr. Jaeger said the project is complete. All services have been transferred to the new main, the Office of Drinking Water granted approval to operate it, they have done all the patching, and sidewalk concrete restoration is done. City Building Inspector Jeff Bergstrom has been informed that the City can begin their work. Secretary Patone received numerous compliments on the work done by the Water Department.

Safety – Mr. Jaeger reported no near miss incidents for the month of July. Tailgate talks continue.

(Messrs. Blomquist and Jaeger, Ms. Stubbs and Accounting/Customer Service Manager French were thanked and excused from the meeting.)

Secretary's Report – Secretary Patone reporting

DEMEC – Secretary Patone and President Sippel attended the DEMEC meeting on 8/21/18. A resolution was approved to honor Dolores J. Slatcher (former Seaford City Manager) who left the Board. The Executive Committee did not meet. The Audit Committee met to review second quarter statements and

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to discuss chair rotation. Secretary Patone agreed to chair the Audit Committee for another year with the understanding the two newer Board members would assume the responsibility thereafter. They are going out for a RFP in spring 2019 for an auditing firm.

Construction Projects:

- Middletown Transmission Line – Going to a condemnation process. There are issues with right-of-ways. The substation is complete, but the lines are not.
- Seaford System Improvements – Complete.

Economic Development Projects:

- The Middletown Technology Center -- Working on permits, etc.
- Milford Bayhealth Hospital – Complete.
- Newark Star Campus – As of December 2017 they have one tenant and are working to secure additional tenants.

Utility Best Practice Consultant – DEMEC hired a consultant. DEMEC has been asked to respond to questions about systems and processes and some financial information. The result will provide a benchmark of where we are doing well and where improvement is needed. A phone survey about customer satisfaction may be done. Secretary Patone said that AMP provided a free customer service phone survey about four years ago and MSC participated. MSC did very well, but we will wait to see what comes out of the report.

AMI Projects (Smart Meters) – Secretary Patone informed that AMP has a program through Ohio and has extended it to its members, including New Castle, through DEMEC. The City of Seaford and City of Milford have agreed to participate and are moving forward using contractors. They started the process about 1-1/2 years ago. We are waiting to see how their process goes. AMP handles all the data and they do all the research. One downfall is our Water Department does not care for the water meters being used by AMP. We want to see if we can use our Badger meters and Itron adaptors. Secretary Patone is trying to schedule a visit for herself, Accounting/Customer Service Manager French and Messrs. Blomquist and Guyer to the Seaford and Milford facilities.

Secretary Patone announced there will be a billboard for Public Power Week again this year. The billboard will be within our service territory this year.

Annual DEMEC Dinner – Commissioners are invited to attend the annual dinner on 9/19/18. President Sippel and Secretary Patone will attend the Board Meeting prior to the dinner. City Council President Linda Ratchford and Councilperson Valarie Leary will be attending the dinner representing the City.

New Business

Secretary Patone informed the City of Seaford is supporting “Seaford Goes Purple” and suggested Sussex County and the State of Delaware is interested in participating in the program to stop opioid use. It may be sponsored by Lieutenant Governor Bethany Hall-Long. DEMEC President Patrick McCullar spoke of the possibility of making a donation to this fundraising effort. Secretary Patone questioned contributions from a utility. The chair agreed a policy should be in place before any decision is made on this matter. The topic was tabled and may be considered later. Secretary Patone said most of the conversation was where the contribution is coming from. Two towns suggested it would be coming

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from the electric fund and the general fund. She believes it would come from the general fund. Secretary Patone believes that DEMEC will develop a policy and make a recommendation at a future meeting.

Efficiency Smart Program – The program has been very well received. Secretary Patone said our larger key accounts have reaped the benefits of utilizing the consultant and are getting rebates. Scott Lynch from DEMEC told Secretary Patone we may be reaching our three-year goal within six months of the program. This would mean we would no longer have finances to support other initiatives like our residential accounts. She asked DEMEC to write up an analysis showing where we are at and added that we may be able to use Green Energy monies to supplement the program. She will provide an update later.

Cyber Security – Secretary Patone attended a cyber security course presented by the APPA in May. She has received the results of the security scorecard and is going through the questions with our IT person. There are some things we need to understand better. She wants to touch base with the SCADA to better understand controls associated with equipment. We will circle back with the DEMEC group to learn next steps. Secretary Patone is talking with City Administrator Bill Barthel about IT needs for the City and MSC.

President Sippel would like to know what the reason is for our key accounts doing so well with the Efficiency Smart Program. Secretary Patone said Scott Lynch's report should provide answers. She said LED lights in commercial buildings, the amount of kWh we had to save and be more efficient with is fairly low because we are 8% of DEMEC's load and the portion of efficiency needed to come from New Castle is small.

Old Business

VanDyke Village Updated Capital Budget – LED light fixtures and landscaping to plant around transformers.

A motion was made and seconded to approve the updated budget as presented by Mr. Blomquist. The motion was approved.

Conduit (VanDyke Village) – Mr. Blomquist had suggested his crew thinks it is a lot of work to put in the conduit. Secretary Patone thinks it is a lot of money to spend when we do not have a clear possibility of underground services happening. She did not get much pushback from residents where Verizon is concerned. She has no reason to recommend the conduit. Secretary Patone said that Comcast is going underground and is paying for their own materials. No action was taken.

Riverbend – Secretary Patone reminded Commissioners that Mr. Guyer wants to be proactive with going out to the cul-de-sac to connect to the 12-inch main near Burris Logistics. He has indicated they could do the work in house and run the main over and out of the cul de sac giving them a point to pick up the main and invoice the developer for the work. The cost is \$24,000 to install 150 feet of 12-inch pipe. If the Commission agrees with the project, Secretary Patone will inform all parties that we are doing the work and expect to be reimbursed. Secretary Patone thinks it is worth the risk of not being reimbursed. She added that we would not turn the water on until we receive reimbursement. Extension of service of water and electric is borne by the developer.

A motion was made and seconded to approve the \$24,000 to run the water. The motion was approved.

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New Business

Insurance broker – (Memo sent out in advance.) Secretary Patone informed we typically request quotes for insurance every three years. She issued a RFP for insurance broker services and asked for specific criteria. We have received responses from New Castle Insurance, Insurance Financial Services and CBM Insurance. Commissioners discussed the responses. Secretary Patone was asked for her recommendation. She has been pleased with our current carrier, IFS, and recommends continuing with them.

A motion was made and seconded to continue with IFS. The motion was approved.

A motion was made and seconded to go into executive session at 6:15 p.m. The motion was approved.

Commissioners returned to general session at 6:41p.m.


A motion was made and seconded to approve personnel changes discussed in executive session. Motion was approved.

Next Meeting

Commissioners set the next monthly Board meeting to be 9/27/18, 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 was approved. The meeting was adjourned at 6:44 p.m.



Deborah P. Turner, Stenographer

Approved: 

(Minutes transcribed from recording.)