

Lewes Board of Public Works
Rate Study Workshop
July 16, 2021

The Monday, July 16, 2021 workshop of the Lewes Boar of Public Works was held at 9:00 A.M. in Council Chambers at City Hall and zoom.

1. WELCOME, CALL MEETING TO ORDER AND PLEDGE OF ALLEGIANCE

President Lee called the meeting to order at 9:00 am.

2. ROLL CALL

BOARD MEMBERS

D. Preston Lee, P.E.
A. Thomas Owen
Thomas Panetta
Earl Webb
Richard Nichols

EX-OFFICIO MEMBERS

Darrin Gordon, General Manager
Austin Calaman, Assistant General Manager
Theodore Becker, Mayor

OTHERS PRESENT

Dawn Lund, President of UFS
Robert Kennedy
Kimberley Bellere, BPW
Sharon Sexton, BPW Administrative Assistant

3. REVISIONS AND/OR DELETIONS TO THE AGENDA

None

4. WORKSHOP- Presentation and discussion of the UFS, LLC (Utility Financial Solutions, LLC) rate study for the water, sewer, and electric rates of the BPW. (Dawn Lund, Vice President, UFS, LLC.)

President Lee introduced Dawn Lund, President of UFS that joined the workshop via Zoom.

Mr. Gordon introduced Ms. Lund and UFS as a well-known organization. They are renowned for what completing these studies and participate and present at APPA and AWWA conferences. Mr. Gordon reminded the Board when talking about rate increases and other changes, the Lewes BPW has the lowest electric rates in Delaware and has been over the past couple of years. Mr. Gordon continues that Delaware Electric Co-Op is the BPW's competition however, as

a municipality the BPW gives 5% of everything the BPW makes to the city. The Co-Op has no such obligation. Even with the 5%, the Lewes BPW still beats out the Co-Op. Mr. Gordon stated that the BPW electric rates are exceptional and same goes for our water rates. In comparison to Tidewater, we are lower by four times. In comparison to Rehoboth, their ready to serve charge is only \$10.00 compared to our \$50.00 ready to serve charge. However, the BPW consumption rate is three times lower than Rehoboth. It is a different form and when comparing, Rehoboth's rate increases, and the Lewes BPW stays steady. The Lewes BPW has exceptionally low rates and have had them for a long time and that this is the perfect time to look at the rates to make changes because the BPW has been aggressive with capital projects.

Ms. Lund stated that she is going to present the results of the electric, water, and wastewater projection. She will talk about key financial targets, where the BPW is today, and where the BPW should be in the future regarding those targets. Ms. Lund then shared tables from the reports with the Board. Ms. Lund stated that UFS is an international consulting firm providing financial services to utilities across the country. UFS teaches cost of service and financial planning for APPA. Ms. Lund stated that the key financial targets that she will be speaking about are operating income, cash reserves, and debt coverage ratio. She will review these targets in detail with the first utility. Ms. Lund stated that each utility are enterprise funds that are self-sustaining operations and should individually cover operating expenses, ability to replace capital, ability to pay its debt. Utilities should be considered individually and kept individually healthy.

Ms. Lund began with the electric utility and went over the three key targets in detail. Ms. Lund displayed the Financial Projection No Rate Changes for Electric table and stated that this is multiple spreadsheets rolled up into one. Ms. Lund stated that this is a powerful table and can tell the Board where the BPW is at today. Ms. Lund stated this table allows us to adjust the rate adjustment column to see where the targets will move into the future. Ms. Lund spoke about operating income which means revenues less expenses and hopefully that number is something positive. If the operating income is negative, the utility is operating at a loss. The question becomes how positive should the operating income be? The operating income should recoup two things:

1. Interest expense on debt since it is below the operating income line
2. Inflationary increase on assets that are invested into the system. Hypothetically, the utility has a 1-million-dollar asset with a ten-year useful life. When the utility goes to replace it, it will cost 1.3 million or more. The 300,000 is the inflationary increase is what we are trying to recoup over time and what we will need the additional funds for.

Ms. Lund stated the next column she looks at for financial health is projected cash balances. The BPW should hold a minimum, according to the risks in the utility. Ms. Lund stated that she wants the BPW to be above the minimum. If the BPW is at the minimum, we consider the utility cash critical. According to the table, the cash balances stabilize throughout the projection period because the operating balances deteriorated. This means that the capital improvements are not spending what the utility is depreciating. When the utility does not invest as much as the depreciation, cash will build a little bit.

Ms. Lund stated that in the debt coverage ratio column, the BPW does not hold debt in the electric utility. Debt coverage ratio is a measurement of debt affordability meaning was there enough cash flow from operations in that year to pay the debt service payment, at least 1.25. For financial planning purposes, 1.45 is ideal. Ms. Lund stated that it is not how much cash is on hand to pay debt service, but a measurement of cash flow. In the electric department debt coverage ratio is not an issue because the BPW does not currently hold debt. Ms. Lund stated the electric utility is healthy, however, moving into the future without increases the operating income will deteriorate.

President Lee questioned the impact of growth on the projections which was not shown in the tables. Ms. Lund stated that in general with energy efficiencies and distributed energy resources, electric usage is projected to go down overall. UFS projected very conservatively and will show the Board the little effect a growth would have on the projections.

Mr. Panetta stated that this has been the trend up until now, with energy efficient appliances and bulbs, but the industry is projecting that this is coming to an end. Most of savings have been wrung out from that perspective and what is expected is that with decarbonization and electrification of vehicles and heat pumps. The industry projections are projecting 1-2% growth a year in fore coming future.

Ms. Lund stated that Delaware is a net metering state. The Board agreed. Ms. Lund stated with net metering those types of rate structures for distributed energy resources will not make up for that growth. Ms. Lund stated that with net metering if the rate structure is not set properly, the distribution cost is rolled into the kilowatt/hour charge. The utility will lose the kilowatt/hour sales and distribution cost recovery. Until the utility improves rate structure that are more adequate for distributing energy resources, they will not make up for the growth. Ms. Lund stated that even if the growth did make up the difference, the rate track would not change.

Mayor Becker questioned if UFS used a projected percentage of growth. Mayor Becker stated that growth is going to be more than 10% in this community. Mayor Becker questioned Ms. Lund if she used a 5% growth rate or what did she use.

Ms. Lund stated that she did not use growth. Ms. Lund stated that if Lewes sees a growth in the future, it will mitigate the rate change projected in the 2025 year. Ms. Lund states that 10% growth is unlike anything she has ever seen however, if it does happen, we can take it into consideration into the projection. Ms. Lund stated that with that growth with only benefit the Lewes BPW and ensure that current customers are paying more fairly their current share. Ms. Lund stated that even with her rate track, current customers are not paying fairly their current share.

Ms. Lund highlighted the operating income column. Ms. Lund stated that in a perfect world, if the Lewes BPW fully funded the system, the BPW would fund \$500,000 every year over the projection period. This is the operating income that the electric utility should get every year to ensure that current rate payers are paying their fair share. Ms. Lund continued that if the BPW has an operating income, the BPW is taking revenues and less O & M expenses. The operating income number should be positive should be recouping two items, interest expense on debt, which the BPW does not have, and inflationary increase on assets invested in the system. If

everyone fully funded the BPW would be at that \$500,000 every year. Ms. Lund stated that with the rate track at 1.5%, only stabilized the operating income and only meets 25% of the target. If there were to be a growth, it would simply improve this number.

Ms. Lund explained that she did not put a rate increase that meets that target because she also looks cash balance and debt coverage ratio. These three key targets are important and work together. Ms. Lund stated that she would like the BPW carry a minimum of \$3,000,000 in cash balances, however she would like this to be above the minimum. The BPW has cash on hand and Ms. Lund is not concerned with cash balances or debt coverage ratio. The BPW currently does not have debt in the electric system. Ms. Lund balances these three targets and if the BPW is not operating at losses and balance the operating income then she is comfortable with the rate increase of 1.5%. Ms. Lund stated that to fund the system fully and properly, the increases should be larger. Ms. Lund stated that she has given the BPW enough room in the rate track to not create rate shock. Ms. Lund believes that the BPW has a solid Capital Improvement Program and that this rate track is very conservative and has allowed for room if the Capital Improvement Projects were larger, the BPW to handle that.

Mr. Panetta stated that the capital budget that Ms. Lund was given is a 5-year outlook and there is a large capital project right after this, the rebuilding of the Schley Substation. Mr. Panetta continued that for the time being these numbers are valued but in year six the BPW could be looking at two new transformers and an upgrade of all controls.

Mr. Gordon stated that looking at the total cash column at year 2026, we are preparing for year six.

Mr. Panetta agreed that the 5-year projection is valid but wanted to be clear that there will be another project coming and there will not be a surprise.

Mr. Gordon stated that Ms. Lund will redo this process and will adjust, and the big will hit a year 3 and will justify the numbers. Mr. Gordon stated that in the past, 2007, the BPW invested in the electric system and reconducted the whole place. At the time, the BPW took out \$1,000,000 loan and has served the BPW well. Mr. Gordon stated that the BPW needs a little bump to maintain the operating income. The operating income has been held for so long, it has started to decrease. Mr. Gordon stated that the BPW has not been spending everything the BPW should on the capital side. The BPW has exceptional reliability and Mr. Gordon believes this was achieved by exceptional management and good decisions by the Board. Mr. Gordon states that the BPW needs the increase, resulting in extra cash. Mr. Gordon continued that the extra cash can be justified by the planned big hit in the sixth year.

Ms. Lund stated that the growth will help the operating income and projected cash and the BPW will be better prepared. If Ms. Lund were to add that growth and it did not happen, the BPW would not be prepared for the 2027 project. Ms. Lund reiterated that the three key targets should be used as a guide to not create rate shock and that is what she tried to do by being conservative to stabilize operating income, the cash is over the minimum, and if growth comes into play a better picture is created. Ms. Lund has kept the rate track as low as it can be to ensure a healthy utility.

Mr. Panetta questioned all the rate studies given the post storm recovery requirements for all the of the utilities, does the BPW have enough cash reserves since FEMA money does not come until years later. Mr. Panetta states that Lewes is a coastal town is one storm away from major damage.

President Lee states that he and Mr. Webb have spoken with a financial guy that has suggested the BPW obtain lines of credit as opposed to cash on hand, or a combination of both.

Ms. Lund stated that lines of credit give the BPW immediate cash and would reduce the minimum cash reserve policy. This policy is unique to the BPW, there is a line in the policy called Historical Investment and System. With a line of credit, the BPW can zero the Historical Investment and System, but the line of credit will need to be paid back. The Debt Payment line in the policy would increase, creating a wash. Lines of credit are not true equity and the BPW would just borrow for the immediate cash and straps the BPW with a debt payment, not really preparing for the capital replacement. Ms. Lund stated that she receives this question all the time, however it is not the same as having equity on hand. President Lee stated that it is a gamble with a line of credit if a major event does not happen it will save the ratepayers, but if there is an event there will be the additional cost. Ms. Lund stated that having the minimum amount of cash does not strap ratepayers but is good financial planning. Ms. Lund would only be concerned if the BPW was at the minimum all the way down the cash balance column. Ms. Lund referred to the previous mention of new technology and growth putting strain on current equipment and stated that new technology comes with a price. Ms. Lund stated that by looking at the BPW's debt ratio, the BPW does not rely on debt and does not jump to issuing debt without thinking about it. To start going to a mechanism that historically it appears the BPW does not lean on is another additional risk to be aware of.

Mr. Robert Kennedy, ratepayer, questioned the cash working balance and line of credit and the cash reserves are invested. Mr. Kennedy stated that the cash reserves invested are earning a return and need to be taken into consideration because it reduces the pressure to borrow money. Changing the makeup of the cash reserve policy because borrowing money will need to pay interest on it as opposed to investing that money.

Ms. Lund stated this will benefit ratepayers.

Mr. Panetta stated that five years down the line, no one knows what interest rate will be and could strap the BPW with a line of credit loan much higher than what is available now. Mr. Panetta stated that this is something to take into consideration.

Mr. Calaman questioned that on the water and wastewater projections, Ms. Lund included adjustment on the ready to serve rate but on the electric utility only included the 1.5%. Is the 1.5% just towards the commodity and with the water and sewer was the increase applied to only to the commodity or also to the fixed?

Ms. Lund stated that with the electric projection she did the opposite, only putting the increase on the customer charge, the fixed monthly fee. Ms. Lund in the electric projection, the 1.5% affects the BPW average customer about \$1.00. Ms. Lund continued that trying to get the fixed monthly customer charges where they should be is a short-term band aid to help with

distributive energy resources. The BPW has net metering policies and pushed the distribution cost recovery into the kilowatt/hour charge, and we do not have the monthly customer charge where it should be, the BPW loses revenue. Ms. Lund stated that those without solar are subsidizing distribution recovery cost even more. Ms. Lund reiterated that the BPW needs to get that fixed monthly customer charges where they should be. Ms. Lund stated that with the water and wastewater utilities she added as much as she could to the fixed monthly charge, but she did tweak the commodity rate.

Mr. Panetta questioned the cross subsidizing of people with solar and the way the market is going. Mr. Panetta continued that income base is another component; people who rent, people with lower income typically do not have the same solar as those with higher incomes.

Ms. Lund agreed and stated that is why it is important to restructure the rates to handle distributive energy resources. If the solar customer does not pay the proper customer charge or close to what it should be and the BPW rolls the cost recovery over to the kilowatt/hour charge, the rest of the system paying for that.

Mr. Panetta wanted clarification that the rate study is only proposing a rate increase on only the commodity.

Ms. Lund stated that the increase is on the electric customer charge, and she did not change the kilowatt/hour charge.

Mayor Becker questioned if there were any participants via zoom. No participants.

President Lee stated that the lack of participation is disappointing.

Mr. Gordon stated that the workshop was advertised in the paper.

Mr. Kennedy question if the rate studies were posted to the website. Studies were posted to website.

Mr. Panetta questioned the risk in the choice of 2.6% for inflation and due to the cost of heavy equipment going up, especially during the pandemic.

Ms. Lund stated that she used projections from Statistica, or similar website, to base projection. Ms. Lund stated that the BPW will have to circle back in the next two years. Ms. Lund stated that given the data she had, the 2.6% was the best projection.

Mr. Panetta questioned if the 2.6% was for heavy equipment or utilities.

Ms. Lund stated it that the 2.6% was for general overall utility inflation and to remember that when talking about equipment replacement the capital improvements numbers go up. Ms. Lund continued she uses projected expenses, which include items like salaries or small O & M. If the projected capital improvements increase then the projected cash balances will be affected and why it is important to have a healthy cash balance.

President Lee asked Mr. Gordon if this was typically included in projections/budgeting.

Mr. Calaman responded that yes equipment replacement is included. Mr. Calaman provided an example of a utility truck that was purchased however, there was an 8–12-month lead time. Currently there is a 14–16-month lead time for delivery and a 5% increase in raw material.

Mr. Gordon stated that he has instructed the electric, water, and sewer departments that when the BPW reaches a reorder point, to increase it by 20% due to lag time.

President Lee questioned if the BPW is adjusting the depreciation. Mr. Gordon stated that we are.

Mr. Panetta questioned the O & M as it is not system upgrades but routine replacement and how much of the O & M is purchasing material.

Mr. Gordon stated that he was unable to quote on that at this time, since we do not pay for it until we get it. December and January is when we may see those numbers rise a bit.

Ms. Lund stated that projection is based on historical financial statement and does her own independent projection according to statistics and inflation.

MS. Lund compares her projection of 2022 to the budget and where she thinks where she thinks we will be and where the BPW thinks we will be. Ms. Lund stated that this is a whole behind the scenes process to make sure we are on the same page. Ms. Lund continued that the budget prepared by Mr. Gordon and an independent consultant are not far off. A year or two out, this picture is pretty accurate but by the time we hit the 5th year not going to be close. Ms. Lund stated the importance to update the rate studies every two years.

Mr. Panetta question if there were any key markers we should be looking at on a yearly basis, such as inflation.

Mr. Gordon stated that we have been doing a 5-year review and does not think that it is sufficient. Everything in the world affects us and may need to review the rates, especially if another round of COVID comes. Mr. Gordon suggested that rate review should be done every two years to be able to react to what is happening in the economy and every aspect of the utility industry.

Mr. Panetta added that the electric side, the market is changing so quickly.

Mr. Gordon suggested being more conservative and add a little more than the 1.5%. Mr. Gordon continued no one knows what will happen with solar, or the electric cars. The industry is changing so fast and having to react on outside influences so heavily, revisiting these rates is something the BPW will have to do.

Mayor Becker stated that Lewes will see a 10% growth.

Mr. Gordon stated that Lewes has had a 30 % increase in solar customers but because the rates are set appropriately, the rate structure is protecting us.

Mayor Becker stated that the BPW does not have a good illustration of what is going on with EVs.

Mr. Gordon stated that there is no way to capture the EV, but rates in the right place, we should be okay. To capture the EV information, it should be done through the state.

Mr. Panetta stated that AMI is the only way to get visibility into EV because Lewes is a transient town. Through AMI can show when category 2 charger comes on.

Mr. Gordon stated customers with category 2 charge will need to come to the BPW for application.

Mayor Becker stated that tracking permit applications would be one way to obtain this information.

Mr. Panetta suggested updating permits.

Mr. Calaman stated that AMI is giving a presentation in August.

Ms. Lund stated that the original question was what to monitor on a yearly basis and that it should be those three key targets: projected expenses, projected cash balances, debt coverage ratio. If you have higher inflation, but great growth, the system can handle the inflation. The study shows that we could sustain a higher rate increase and be justified. This is a minimum rate track.

Mr. Panetta would like to get a good estimate to rebuild the system.

Mr. Gordon stated that the last time the BPW created an estimate to rebuild was 2012-when coop came in wanting to purchase the BPW. At that time, the cost to rebuild was about 11 million. Mr. Gordon stated that he would add 3% to that estimate for account for interest.

Mr. Panetta believes that the estimate to rebuild the system will let the BPW know if they have adequate cash reserves. Mr. Panetta stated that Lewes is in hurricane country, and he wants to make sure the BPW is not beholden.

Ms. Lund stated that the BPW currently has 6 million and need to borrow 10 million if it the whole system was completely devastated. Healthiness of our system indicates that BPW could borrow 10 million. Ms. Lund stated that the bottom line for the electric rate study is that the average residential customer is a \$1.00 increase.

Ms. Lund stated that with the water projection we are looking at operating income, projected cash balance and debt coverage ratio. Ms. Lund stated that without any rate adjustments in the future, operating income deteriorates, cash balance is directly stabilizing the cash balance is the bond issues. Ms. Lund continued that Water Utility capital improvement program is aggressive, just as she sees across the country.

Mr. Gordon question if bonds were synonymous with loans. Ms. Lund stated that bonds and loans is an inflow of cash. Ms. Lund noticed that part of the restricted cash is impact fees and depending on how the impact fee restriction is written can be used the mitigate that bond/loan/money resource. In order to have the capital improvements where they are today, the BPW will need find 6 million dollars in 2022 and 3 million dollars in 2025 and if any oof the restricted funds can be used, that would mitigate some of that.

Mr. Webb questioned what the impact fee numbers were, and Mr. Gordon stated that impact fees are used on the increase of capacity of renewals, etc.

Ms. Lund stated that the bond issues column is a cash resource. In the water department the operating income has increase because it is direct relationship to the investment in the system. Over the 5-year period, Ms. Lund tried to stabilize the operating income. Cash jumps around a little bit but is supplemented with the cash borrowings. With that rate track the debt coverage ratio looks healthy. For financial planning, UFS would like to target a 1.45 ratio. The Rate adjustments stabilize operating income, and the unrestricted cash balance is healthy at a 3 million dollar minimum.

President Lee question why the revenues do not increase over 5 years.

Ms. Lund responded that the water department is all over the board and she was very conservative on water. Water is weather dependent and even if projected to increase, water sales jumped around. Ms. Lund stated that the BPW has an aggressive capital improvement program that we are bonding for and if there is a growth it will help the cash bottom line and less borrowing will be needed.

President lee stated that 10% growth is assured as the buildings are going up now.

Ms. Lund stated that we cannot be assured of weather and efficiencies of water. Ms. Lund does not recommend including 10% growth in the projections but that is the Board's decision. Ms. Lund stated that this is the best info that she can provide today given the capital improvement program the BPW has and that this is the rate track she would recommend. To do that, the BPW will need bonding or some sort of cash resource.

Ms. Lund stated that the average customer will move from \$16.00 to \$17.25, a little over a \$2.00 impact. Ms. Lund also moved the commodity rate by five cents.

Mr. Panetta questioned post storm recovery and what it would take to recover for both water and wastewater. Mr. Calaman stated that the BPW already has this, part of the asset management program. GMB performed the study, and the plan is to replace the plant and all the lift stations. Mr. Panetta questioned the amount and Mr. Calaman responded very expensive, a lot more than electric.

Mr. Panetta is concerned that cash balances is decreasing, especially in the water.

Ms. Lund stated that the operating income at the income at the end of the 5 years is 800k and could entertain higher rate increases. Ms. Lund's stated that the goal is to mitigate customer impact with rate increases by balancing the three key targets. Ms. Lund stated that the rate increase is political and socially acceptable.

Mr. Gordon reminds the Board that the BPW rates are exceptionally low, very reasonable, and aggressive capital improvement plan. Ms. Lund has proposed a 6.9% increase a \$2.00 impact. Mr. Gordon wants to bring recognition to what is the value of water. Mr. Gordon states that this increase is very reasonable and will improve water quality and reliable.

Mr. Panetta questioned if the irrigation rates would go up at the same rate.

Mr. Gordon stated that yes irrigation rates would go up and the commodity charge would increase.

Mr. Calaman stated that to replace both water and sewer systems would be around 200 million dollars. Mr. Panetta stated that that number would be for building new.

Ms. Lund stated that in her opinion the water industry is losing value because people do not understand what 4,500 gallons of water means. Ms. Lund used the example of 4,500 gallons of milk lined up around the room. At \$4.00 per gallon, 4,500 gallons of milk would cost 18 thousand dollars and our customers are paying \$22.00 for 4500 gallons of water. In the standards for the median income family is \$95.00 a month for water. The BPW offers a great value for water.

Mr. Webb agreed that comparing our rates to those around us is something people can understand.

Ms. Lund stated that again the three key targets wastewater department is where to focus. The wastewater department is relatively healthy, and the capital improvement is sufficient. The capital improvement has a direct relationship with cash balances that may or may not decrease. Ms. Lund stated that the rate increase is to stabilize operating income and the projection still does not meet operating income target. The cash balances are above the minimum and the debt ratio coverage looks healthy.

Ms. Lund went over her summary.

- Electric:
 - No increase in place for 2022
 - Proposed increase 1.5% for 2023
- Water
 - Rate increase already in place of 6.5% on commodity only (3.5% overall)
 - Proposed rate increase 6.9% for 2023
- Wastewater
 - No increase in place for 2022
 - Proposed rate increase 2.9% for 2023

Mayor Becker is concerned that all rate increases are hitting in 2023 and is there a way to stagger them?

Mr. Gordon stated that the BPW could start sooner with the increases. Mayor Becker agreed and stated that this will relate to a big increase overall.

Mayor Becker stated that incremental increases are easier to swallow than a giant one all at once.

Mr. Panetta questioned what the cumulative impact of all three increases.

Ms. Lund stated that wastewater was \$2.35, water was \$2.00, and electric \$1.00 totaling \$5.35.

Mr. Webb questioned how we stacked up to other companies?

Ms. Lund stated that overall, we are healthy with well planning in the past. The increase in water is fighting capital improvements, which Ms. Lund is seeing across the country. In general, increases were in water and wastewater and electric all over the place. Ms. Lund stated that she has seen rate increases around both where the BPW is and is not.

Mr. Webb stated that we need to communicate our decision and being able to give comparisons to other utilities would be beneficial.

Ms. Lund stated that surveys tell you nothing on a cost to serve basis. On a cost to serve basis, the BPW needs to know what they should be charging for their rates. A survey does not show comparisons to neighboring utilities on a financial basis. Ms. Lund gave an example of a utility wanting a rate decrease and were operating at losses. Overall if financially healthy, a utility usually has higher rates and the BPW is fortunate to be in that position.

Mr. Gordon stated that when it comes to the sewer, the BPW built a new plant in 2005-2008 and capital improvements were low because of that. The BPW is now seeing that major maintenance is going to be needed and see capital cost going to go up, but then come back down. This will create a cyclical event and rate increase will keep the targets the nice and level.

President Lee questioned how many more years on existing bond? Mr. Gordon stated that 4 years.

Mr. Calaman stated that the BPW structures rates for all is evenly distributed. Mr. Calaman used the example of the City of Rehoboth who structure differently. Rehoboth's commodity rate is very high, and the customer charge is very low. With seasonality, Rehoboth is penalizing people that are there year-round versus to try and evenly distribute.

Mr. Robert Kennedy, from 123 Henlopen Shores Circle, Lewes, Delaware spoke to the Board and Ms. Lund. Mr. Kennedy wrote a memo to the Board that address the question justify a different rate for inside the city and outside the city.

Ms. Lund stated that there is justification to charge outside customers more. This is done through the rate of return component. Inside city customers took that risk to service the outside the city. The outside the city customers could get a different resource. The infrastructure was built to serve outside city customers as well. That differentially is driven through rate of return between inside and outside city customers. If it is determined that there is so many more infrastructure outside city customers because area is rural, the allocator can be tweaked. In general, the rate differential usually falls between 1.3 and 1.6 and would be considered reasonable. Some communities have a 2.0 differential is aggressive and is not justified.

Mr. Kennedy disagrees with Ms. Lund's previous statements. The outside the city customers are in the BPW service area and physically adjacent to city limits. These communities could be annexed into city and would be eligible for lower rates and there would be no change in cost to serve them.

Ms. Lund responded that outside customers, higher risk. The BPW is not guaranteed the outside the city customers. Ms. Lund reinforces that risk greatly drops when annex.

Mr. Kennedy stated that they are in within the CPCN, a monopoly service area that only the BPW can serve Mr. Kennedy stated that they are unable to jump ship or be served by another provider.

Ms. Lund stated that this is common practice and driven through the rate of return. Ms. Lund highly recommend with any investment look at the risk.

Mr. Panetta stated there is a higher risk because all of the BPW's bonds must be cosigned by the city. For those residents outside the city transfers that risk to those inside the city. The relationship with the City of Lewes is separate but is intertwined.

President Lee questioned how common this practice is. Ms. Lund stated that it very common to charge outside city customers a higher rate and she not concerned that we are charging.

Mr. Kennedy does not disagree that it is common practice but is it unjust discrimination? How is it justified to charge water and sewer customers outside the city but inside the monopoly service area, but do not charge the electric customers?

Ms. Lund states that it directly related to risk and how the BPW's rates were set up. Ms. Lund is not familiar with why the rates established this way but is directly related to the rate of return component. Outside city customers could have a well and septic tank easily and disconnect from the system. This is a much higher risk than electric.

Mr. Kennedy stated that DNREC may not issue permits for well and septic when city water and sewer are available. Since the BPW has a monopoly service area, how are the higher rates justified for water and sewer?

Ms. Lund stated that this up to the Board and Council. Having said that, it is justifiable, common practice, and Ms. Lund is not concerned about the differential. The risk has been challenged and justifiable.

Mr. Owen stated that the BPW CPCN are not guaranteed. The CPCN could be taken away by the state.

Mr. Panetta stated that CPCN could only be taken away for growth and not established customers.

Mr. Owen stated that with the CPCN gone, outside customers go anywhere they want.

Mr. Panetta stated that this is a larger legal area and pay for buying all the assets in the ground.

Mr. Owen reiterates that the outside city customers are not guaranteed and are governed by a different entity and agrees with Ms. Lund.

Mr. Panetta stated that for established customers that risk is very low.

President Lee thanked Ms. Lund for joining the Board today and that they may reach out with more questions. Dawn Lund left the Board meeting.

Mr. Webb questions what the next steps would be with inflation adjustments. Mr. Webb would like to discuss assessing inflation adjustment, cost and timing, capital projects, another review, AMI, pump stations, items needed to add to plan that were not there initial, reassess replacement cost, and plan for growth.

Mr. Gordon stated that the rate increase is not going to hit in 2022 which gives time to think about what will happen. Mr. Gordon recommended a workshop before discussing AMI. Mr. Gordon believes that the biggest issue will be the study GMB is conducting about water quality issues, and what pipes need to be replaced. This will be the biggest component to a water rate increase and the BPW needs to be ahead of the curve. Mr. Gordon stated that the BPW is low on the electric and feels that it safer is to do 1% a year. This would allow for a 5% increase total. Mr. Gordon stated that BPW should look to start doing some undergrounding in areas that are problematic.

President Lee questioned if there were any areas that are most vulnerable.

Mr. Gordon stated that access to Mariner's retreat is constricted and is a concern. Because of a ditch and big trees underground lines would be beneficial. Mr. Gordon stated that is also a concern with the second circuit near the State Park. There are some areas we can be selective.

Mr. Calaman stated that the vehicle fleet will need updating. The BPW did recently purchase a vehicle, but the others will need to be replaced.

President Lee questioned if fleet replacement was already in the 5-year budget and Mr. Calaman stated that it is.

President Lee suggested the BPW create a long-term plan for undergrounding the most critical areas. Mr. Owen agreed. Mr. Calaman stated that it BPW has considered Sergeant Lundy or Booth, like GMB with boots on the ground, an engineer that we can utilize.

Mr. Panetta stated that there is some money built in for AMI but is not sufficient. Mr. Panetta would like a reasonable updated forecast to recovery from hurricane.

Mr. Gordon stated that the BPW can operate without water tank, but the biggest concern is contamination enter the water system. The BPW is protected because it is a ground water system and will be difficult to happen.

Mr. Gordon continued that ground shaking could be catastrophic for us. The BPW would need to find broken pipes and fix them. Mr. Gordon stated that for wastewater, the biggest issue is plant. To replace the plant would be approximately 15 million dollars to replace in kind but there would be pushback from the community to locate elsewhere.

Mr. Webb stated that is not any mitigation cost to try to protect the plant. Mr. Webb continued that there are additional things the BPW could do but at a cost.

Mr. Calaman stated that the BPW is working on the elevation certificate to see the most vulnerable area of the plant.

President Lee questioned the progress of the elevation certificates.

Mr. Gordon stated that the surveyor is being difficult to set a date and time to meet.

Mr. Gordon stated that the reserve fund would tie into the discussion. Mr. Gordon continued that the BPW has a formula for the reserve fund, and it tells us what the minimum is. Is it adequate, or is a line of credit needed in addition? Mr. Gordon used Minneapolis Minnesota as an example and stated that they live on nothing but credit or debt. Minneapolis rates are some of the worst in the nation. Mr. Gordon believes that the in value of reserve fund because the BPW can fund our own projects and the BPW does not pay prevailing wages. This saves the BPW 20%-30% on each project.

Mr. Panetta stated that a line of credit and cash need a balance between the two for a recovery budget. Mr. Panetta continued that cash balance would cover what is reasonable and the line of credit would cover the higher risk items.

Mr. Gordon stated that this is like FEMA and is already in place. Mr. Gordon stated that the Finance Committee can have this discussion.

Mr. Webb stated that there are different instruments for different things. For example, the BPW could increase your insurance and lower cost in certain areas and higher in others. Mr. Webb continued those deposits must be 100% in cash and makes no money but could be something that could be put in line of credit.

Mr. Gordon stated the BPW has restricted funds and those are held with UDS and is cash that is earning interest.

Mayor Becker stated the cost of a line of credit is a factor and the city used a line of credit for the land of the library. Mayor Becker guessed the interest was 2%.

Mr. Panetta stated that a line a credit is always paid whether it is used or not and that is always open and available.

Mr. Gordon stated that the BPW is flexible and has the availability to use a mix of instruments: reserve funds, line of credit, outside bank, etc.

Mr. Calaman stated that DEMEC was looking into funding AMI. Mr. Calaman continued that DEMEC would be likely willing to help if the BPW were in a natural disaster.

Mr. Panetta stated that the issue would be that DEMEC is regional, and our neighbors would be hit as well.

Mr. Calaman stated that the BPW is the only coastal town, and the inland towns may not be affected as we are. Mr. Calaman reiterated that DEMEC would be willing to fund AMI and the BPW would pay back with interest.

Mr. Gordon stated that contractors know that it takes longer to get FEMA money back and if the BPW has cash they are more likely complete work for the BPW first.

Mayor Becker suggested that the Board looks at communities along coastal towns and what cash reserves they have.

M. Gordon stated that the BPW has MOUs with other intergovernmental agencies.

Mr. Calaman stated that Rhett is looking into retainer for an electric crew.

Mr. Gordon stated that the company, ULC, is in southern Delaware, and Rhett is cousins with the guy who runs ULC. Currently in southern Delaware all other outside contractors are retained by the CO-OP.

Mayor Becker stated that given the availability, the BPW may need to look outside the state.

Mr. Owen totaled electric, water, and sewer increase. At 4,500 gallons of water and \$5.35 comes out to be \$64.20 a year. Mr. Gordon stated that this is not bad. Mr. Owen stated given the Lewes community, this should not affect them greatly.

Mayor Becker stated that they may be some that it does affect and the BPW may need to find solutions to help them.

Mr. Gordon stated that the BPW still has the Round Up Plus Program and Community Action program. The Round Up Plus Program Generates around \$3000 a year. Mayor Becker responded that this is not much. Mr. Gordon stated that the BPW has a reserve for the Round Up Plus Program and can give away more.

Mr. Panetta stated that the electronic bill pay service does not work for electronic.

Mr. Calaman stated that customers can call in and set it up.

President Lee questioned what items need to be discussed at upcoming Board meeting.

Mr. Gordon stated that Mr. Calaman needs to be made the representative for DEMEC and Kimberly Bellere as alternate. Mr. Nichols will speak about outreach and website update. President Lee would like Mr. Gordon a summary since it is his last meeting. Mr. Calaman stated the audit will be on the agenda and possibly policy and resolutions. Mr. Owen stated that a workshop for policy and resolutions should be held. Mr. Webb stated that he may not be able to attend the next Board meeting, possibly online with challenges. Mr. Gordon stated that it is allowed for Board members to participate and vote via zoom. Mayor Becker stated that zoom link was not part of this agenda and may be the reason there are no attendees. Mayor Becker suggested a workshop for the rates would be important before any changes are made.

5. ADJOURNMENT

ACTION: *Mr. Owen made a motion to adjourn to executive session; Mr. Webb seconded the motion, which passed unanimously.*

Workshop adjourned at 10:53 AM.

Respectfully Submitted

Sharon Sexton, Administrative Assistant

Lewes Board of Public Works