

BPW Financial Committee Minutes
July 29, 2022
BPW Upstairs Conference Room

The Lewes BPW financial committee meeting was held at 10:00 am in the BPW conference room.

1. **WELCOME**

Mr. Nichols called the meeting to order at 10:09 am.

2. **ROLL CALL**

Committee Members

Richard Nichols, Co-Chair

A. Thomas Owen, Co-Chair

Mike Hogan

Jack Lesher

Carolyn Jones

Kimberly Bellere

Austin Calaman

Others

Ellen Loraine McCabe, City of Lewes

Kristina Keller, BPW

Madeline Jones

Sharon Sexton, BPW

3. **OPERATING GUIDELINES AND SCOPE**

Mr. Nichols stated that the committee will use documentation to use as background for discussions.

a. Organization chart

Four members of BPW

One council member

Two to four volunteer citizens

The committee operates under FOIA, Freedom of Information Act. Presently, the committee has enough for a quorum.

b. Notice of intent.

The BPW Board spent the beginning of this year to present, gathering prior policies that are used for managing utilities. The review called out policies that were no longer needed or duplication and comments and updates were added. The policies were reorganized into a more accessible document. Mr. Nichols has noted the policies the BPW has requested the finance committee review with red asterisks.

4. **FILL TWO COMMITTEE SEATS**

Mr. Nichols asked the committee to consider two additional volunteers to nominate. A financial business background that would be helpful in reviewing financial documents.

5. **PLANNING DOCUMENTS**

a. Five-Year Capital Improvement for 2022-2027

Mr. Calaman stated that BPW staff looks five years out. When looking past year two and three, there are many unknowns, such as inflation, interest rates, etc. For large scale projects, the BPW looks to use planning grants through the state. A subsidy of 50% would lead into a finance project with the state.

Mr. Calaman reviewed the water utility projects and estimated costs. Mr. Calaman referred working with DelDot on certain projects like King's Highway. With the five new roundabouts going in, the BPW will need to coordinate moving utilities.

Mr. Calaman reviewed the wastewater utility projects and estimated costs. The BPW has moved forward with the head works financing earlier this year for \$1.75 million. Again, the BPW is trying to coordinate with DelDot on the King's Highway project. For the lift stations, most of the money was allotted in the next three years.

Mr. Calaman reviewed the storm water utility projects and estimated costs. The MS4, Municipal Separate Storm Sewer System, project is waiting on designation and could possibly be designated through the city or the BPW. The first few years are the planning stages, and the expenses start in year or three or four.

Mr. Calaman reviewed the electric utility projects and estimated costs. Investing in a couple under-grounding projects. The BPW has started procuring equipment, such as bucket trucks, with lead times of 24 months lead time. Mr. Calaman spoke to the expense of transformers and is watching the lead time on these items. The big transformers on Schley Avenue are tested and lead times are monitored.

Mr. Calaman reviewed the support category of the budget. Monitoring electronics such as computers, phones, etc. and any building improvements needed.

Mr. Calaman stated that the BPW takes advantage, when available, of low interest loans through DNREC, Delaware Department of Natural Resources and Environmental Control, or DHSS, Delaware Health and Social Services. Historically, the stated revolving funds are 2.5% and the terms are for 20 or 30 years accordingly. The BPW can utilize the WIAC, Water Infrastructure Advisory Council, and DEMEC, Delaware Municipal Electric Corporation, who can finance larger projects. The BPW requested ARPA funds, American Rescue Plan Act, from the city for wastewater and this was approved. Mr. Owen stated that the Capital budget comes to \$42 million. Mr. Nichols questioned if the BPW ever must switch priorities because of state or county projects. Mr. Calaman stated that priorities change every day. Well three has a possibility of sand intrusion

and takes priority and was unanticipated. Changes to the cost of labor and material changes daily. The BPW tries to stay flexible. The cash reserve policy has dipped lower, and the Board needed to raise rates, seek funds, and questioned if some projects needed to be prolonged. Mr. Nichols questioned a past project and completing it sooner than expected because DelDot was repaving the road. Mr. Calaman confirmed that this was the case because the coordination saved a substantial amount of money Savannah 16 home project. If DelDot is tearing up a road, then the BPW will want to take advantage because it makes no sense, to come back ten years later and tear up the same road.

Mr. Hogan asked if the difficulty projecting cash flows further out than 1 to 2 years was because of uncertain costs or changing priorities. Mr. Calaman stated that it is a combination of both cost uncertainty and shifting project priorities. Time constraints are also a factor and under normal circumstances, DelDot does not want to work into the summer. Project cost have increased 25% from two years ago. Federally funded or state funded projects mandate union participation for a percentage of the projects. Mr. Hogan stated that projecting the cash flows will have to be the unknowns, the random components.

b. 2022/2023 Operating/Maintenance Budget

Ms. Bellere stated that for O&M, Operations & Maintenance, budget, historically the BPW looks out three to five years and the budget for the following year is based off that. With COVID, the staff felt that it was more beneficially to predominately look at the past year and included revenue rate adjustments. Staff also considered projects with GMB that are billed out to developers which is increasing. There are more unknowns this year. So far, the budget is only 1% off. The operating expenses were increased. Prices of chemicals have increased three cents per pound, but when ordering thousands of pounds, it adds up. Ms. Bellere estimates 7% increase from July of last year. The non-operating revenues is interest income from investments The interest expense is for loan obligations. The impact fees for this year are high. The grant revenue was updated to include some head works money and ARPA funds should be added. Ms. Bellere compares the budget each month to the actual expense. Mr. Hogan stated that some risks can be diversified away while other types of risks cannot. The risks that cannot be diversified away must be accepted and managed for example through lines of credit, private insurance, or self-insurance by building up a larger investment portfolio. Mr. Calaman stated that the BPW has reached out for that line of credit for risk management. The cash reserve will not even cover the material needed if there is a storm event.

Mr. Owen questioned how the BPW can better project the money needed. Mr. Owen suggests putting the "knowns" to one side. It is known that costs are going up. The supply chain is unknown and questioned where you would start. Mr. Hogan stated that this is a bigger question than the committee will be able to answer here.

Mr. Calaman suggests that the committee looks at the investment policy. This is a new age for the BPW, as far as the volatility of the market. The last two quarters has really changed for the BPW. The BPW uses the investment group UBS and have been considering splitting the investments. Mr. Hogan agreed that these questions are the right questions to be asking.

Mr. Hogan stated that he entered the financial business in 1987 and there was a crisis every year. All the events were unpredictable. In the financial system, the return has corollary risk. The reason someone pays the return is because someone is willing to accept that risk. When investing in the markets you are taking on risk. There are two major ways to deal with the uncertainty: Calibrate the level of risk that could be taken and only expose the organization to that risk or tactical market timing. Historically, those who use tactical market timing, tend to lose more money than they gain. When pulling back, people end up buying high and selling low. Mr. Hogan does not think that this is the right way to handle the risk. Mr. Owen stated the BPW has to consider that this is the public's money.

c. Minimum Cash Reserves 2022-2023

Mr. Nichols stated that this document could be used as a short-term short fall. The minimum cash reserve policy is \$10.4 million. The UBS cash reserves showed a short fall of \$500,000. This is the normal operation for the current fiscal year. Ms. Bellere reviewed each line.

Mr. Calaman stated that this is an item the Board would like the finance committee to review and determine if five years is realistic. The question is does the BPW reduce the percentage progressively the further out the projection. The current year would have the highest percentage because there is more certainty. Mr. Calaman stated that self-insurance was also discussed and questioned if the BPW should get an insurance policy for pollution and flooding instead. Mr. Nichols stated that this document ties into item seven and the review of policy 3.8.

Mr. Hogan questioned where the 10 million dollars is invested. Mr. Calaman stated that it is invested with UBS and that there are parameters in the investment policy. The range is from 20%-80%. Ms. Bellere stated that the bonds are 80%. Mr. Hogan stated that the problem with an investment portfolio of this type is to really determine what the risk profile is going to be. Mr. Hogan stated that one was to look at the minimum cash reserve is like the right-hand side of a balance sheet, the liabilities. If not careful of how the asset pool is designed, there could be an asset liability mismatch. When the asset pool does not move like the liabilities, this could become a risk.

d. BPW Financial Overview

Mr. Nichols stated that this document is intended to give picture without using numbers. This shows operation expenses and the capital projects that are historically variable, equaling the required payments from reserves and cash reserves to pay one hundred percent. There is a shortfall often due to a lag of funding reimbursement of 15%-30%. An example would be developer fees that are usually due when certain phases are done. The BPW pays for the infrastructure installations upfront. The developer obligation is linked to occupancy rates.

The last column of the document lists the sources of cash and issues impacting cash sources. The middle of the page shows that UFS does a rate study every three years for the BPW and three ways to increase cash reserves. The bottom section shows the required cash for capital projects for five years. This is short quite a bit from the various sources.

Mr. Owen questioned the developer timeframe and if it is common industry wide? Maybe the BPW should look into the developer paying more upfront like the BPW is paying upfront. Ms. Bellere stated that some developers have escrow accounts that is posted before work is started. There are others that pay as BPW gets the expenses. Mr. Owen questioned why the difference. Mr. Calaman used the Pilottown road project as an example. This project was coordinated with a DelDot project. If there are future developments that will need to tap into Pilottown Road, then there will not be a developer's agreement in place. Mr. Owen questioned if some developers are paying when the homes are occupied. Mr. Calaman stated that this is impact fees. Mr. Owen questioned if the time lag is a problem. Mr. Calaman and Ms. Bellere stated that they do not look at it as a problem. Ms. Bellere stated that the BPW is looking to have escrow accounts in every agreement. Mr. Hogan stated that in a sense the BPW is extending an interest free loan and taking on a risk of the developer going under. Ms. Bellere stated that there are instances when an engineering bill comes in and then it is invoiced to the developer at 30 days plus a percentage for administration cost. The expenses are already set up. Mr. Owen stated that the BPW should be tight on this issue and have the developer pay ahead of time. Ms. Bellere stated that this a consistency that the BPW is working on.

e. In Lieu of Franchise Fees

Ms. Bellere stated that based on the BPW revenues, the BPW pays 5% to the city. It is stated in the policies this should be between 2%-5%. For this year, the BPW paid about \$780,000. Mr. Nichols questioned if this has been reasonable steady. Ms. Bellere stated that the 5% has been steady for years. Ms. Bellere stated that as the income increases, the expense goes up. Mr. Owen stated at a recent conference, ILOF, In lieu of franchise fee, were discussed and 5% was among the lowest, some paying 30%, but were not independent from the municipality.

f. Summary Trial Balance

Ms. Bellere stated that this document was just to become more familiar with accounts and to see how they are running through their balances. This would be a link to the asset liability mismatch. Ms. Bellere stated that the trial balance has every account not just asset and liabilities.

g. Outstanding Loan balances

Ms. Bellere reviewed the fiscal year loan obligations. All loans are 2% except for WWTP, waste water treatment plant, which is 2.5% and are 20- or 30-year terms. The WWTP will be done in 2027. Mr. Nichols questioned if all the loans are fixed. Ms. Bellere confirmed. Mr. Hogan said that the interest rates are well below the inflation rate which means that inflation adjusted interest rate is negative. If the inflation rate stays where it is at, the interest rates can be expected to rise sharply.

6. EQUIPMENT PURCHASE BONDING OPTIONS

a. \$2.5 Million interest only on equipment line of credit

This is a proposal from Fulton Bank for an equipment line of credit, LOC. Mr. Nichols questioned the reason for a separate line of credit as opposed to taking it out of the general account. Ms. Bellere stated that it is just to even out money and pay over five to seven years. Mr. Nichols questioned if the rates seem reasonable and competitive. Ms. Bellere stated that exact rates were not given but used the Bloomberg plus 2%. This is more of a traditional loan. For LOC, Fulton is using standard overnight funding plus 2% for unsecured and for secured it is the prime minus 1.25%.

Mr. Owen stated that with bucket truck the BPW is purchasing, the manufacturing was willing to do payments. Ms. Bellere stated that the interest rates were very low on that quote. Mr. Owen stated that this should be utilized. Ms. Bellere agreed. This line of credit is here for uncertainty. Mr. Owen stated that he is in favor of having this line of credit in back pocket. Mr. Nichols questioned if the BPW has committed to the truck. Ms. Bellere stated the BPW has committed, and a PO has been given to the vendor. Mr. Nichols questioned when the first payment is due. Ms. Bellere stated that payment would be due upon delivery, unless using the financing option. The truck is not expected for two years. Mr. Owen questioned if the financing could be locked now. Ms. Bellere stated she will look into this.

b. Up to \$7 million working capital line of credit

Fulton Bank offered a larger line of credit if the BPW would transfer all the portfolio from UBS to Fulton Bank as collateral. Fulton Bank would manage the retirement accounts in fiscally, similar way that UBS is. There was a \$71,000 savings of management fees a year. Ms. Jones questioned if the BPW wants to put all eggs in one basket.

Mr. Owen revisited item 6a and questioned if the committee is going to recommend to council to get the line of credit for equipment. Mr. Nichols stated that Ms. Bellere is going to get information from the bucket truck company first. Ms. Bellere clarified that the equipment line of credit can be used for anything deemed equipment. Ms. Jones stated that the financing for the truck is only vendor related. Ms. Bellere stated that the line of credit is a potential debt to use when it is needed. Mr. Nichols questioned if there are any additional sources and if Ms. Bellere has “shopped” around. Mr. Hogan stated that questioning bundling all financial services to Fulton Bank is a good point. Mr. Hogan is a big advocate of a line of credit and generally the fees on lines of credit are low. It is a great risk management tool. The question is how large the line of credit should be. Ms. Bellere stated for the unsecured line of credit, there is just a one-time fee of \$3,000, which is ten basis points. Mr. Nichols stated that the unsecured line of credit is the one the BPW already accepted.

Mr. Hogan stated that he does not know what the Bloomberg rate represents. Is the Bloomberg rate a treasury rate or prime rate or some other market rate? Could the committee get more of a description? Mr. Hogan suggest trying a couple of different banks to see what else is available. Mr. Hogan is apprehensive in bundling everything together. There is a different skill set for managing a retirement plan effectively and making a truck loan. May be giving up a lot more than you would get. Ms. Jones agrees. Mr. Owen is not in favor of 6b. Ms. Bellere stated that Fulton Bank does have different branches. Mr. Hogan reiterated that retirement investment has different approaches. Mr. Owen and Ms. Jones agree that more information is needed.

Mr. Hogan stated that periods of sharp downturns in financial markets are very hard to predict. The amount of financial market exposure a firm takes on needs to be consistent with its risk carrying capacity.

Mr. Hogan strongly encourages to consider the the risk profile of the organization. Mr. Hogan stated that he thinks that over time the market tends to reward but investors must take the risk along with that.

Mr. Owen stated that several years ago, the BPW changed the allocation. Ms. Bellere stated that UBS allocations are conservative. Mr. Owen stated it is way too conservative. UBS does not have that much leeway. Mr. Hogan questioned the percentage for equity allocation, 20%-80%. That’s enormous. Ms. Jones stated that this is not confirmed. Mr. Hogan stated that two different portfolios may be being discussed. allocation. Mr. Nichols stated that understanding risk is key and there needs to be more understanding of the situation. Without knowing risk upfront, reaction risk happened after the fact. Ms. Jones stated that everything has to do with risk management and not so much how much is going to be saved. Fulton Banks proposal looks tempting, but it is a volatile market.

The finance committee will get more information.

7. REVIEW POLICY 3.8: CASH RESERVES

This is the current cash reserve policy. The finance committee should determine if the percentages are arbitrary or functionary. Ms. Jones suggested more homework on this item.

8. PRIORITIZE POLICIES

Mr. Nichols stated the committee should review policies and decide how to proceed with the review and prioritization.

9. SCHEDULE NEXT MEETING

Originally, the committee was to meet quarterly, but may need to meet more frequently based on the market right now. Mr. Nichols suggested meeting again before the end of August. Ms. Sexton will coordinate dates of members availability.

Mr. Hogan questioned if there would be work done by a subgroup that would come with some proposals or the committee working through this. Mr. Nichols is hesitant to give a firm answer and will review FOIA rules and how they apply to committees. Mr. Owen questioned if Mr. Hogan would be willing to meet with another committee member in a subgroup to discuss one or two critical financial issues. Mr. Hogan agreed.

10. ADJOURNMENT

Chairman Nichols adjourned the meeting at 11:42am.

Respectfully Submitted
Sharon Sexton
Executive Assistant