

*MILFORD CITY COUNCIL*  
MINUTES OF MEETING  
February 19, 2014

A Meeting of the Public Works Committee of Milford City Council was held in the Joseph Ronnie Rogers Council Chambers of Milford City Hall, 201 South Walnut Street, Milford, Delaware on Wednesday, February 19, 2014.

PRESIDING: Chairman Owen Brooks, Jr.

IN ATTENDANCE: Committee Members-Councilman Bryan Shupe & Dirk Gleysteen  
City Manager Richard Carmean and City Clerk/Recorder Terri Hudson

Chairman Brooks called the meeting to order at 3:30 p.m.

He recalled at the last council meeting council approved a \$3.5 Million Bond Issue to pay for Water Improvements in the city. This meeting was called to revisit the matter. He then turned the meeting over to City Manager Carmean.

Mr. Carmean explained that at the meeting, some concern was expressed about the impact fee waivers that have occurred the past couple years. The following day, he asked Finance Director Jeff Portmann how much money we have not collected though he was informed it was not tracked in that manner. Mr. Carmean said that the only way we can determine that is to go through every building permit for the entire time frame we have waived impact fees. Unfortunately, that is a lot of work for our staff.

Mr. Carmean threw out a number out of \$500,000 and Mr. Portmann said he doubts we lost that much. He then informed the city manager that we have \$1.2 million in an account which he keeps separately.

The city manager then explained that impact fees are used for new construction. Impact fees are paid so if something is needed in the future, we could pay for that with the impact fees. He also recalled stating that during the budget meetings, Mr. Portmann, Public Works Director Dennehy and Mr. Carmean considering using some of our reserves for this project.

Mr. Shupe scheduled a meeting with Mr. Carmean to discuss several issues. He discussed this matter with Mr. Shupe who told him he wished the city could do something other than raise our water rates again. He asked Mr. Carmean if he had looked at other funds that may be available. In addition, some of our larger users had asked the impact on their fees.

The city manager then determined there was \$2.6 million in our reserves. Mr. Carmean recalled that in 2006, he convinced city council to raise water rates because we had not had a water rate increase in ten years. At that time, he had our engineers do a presentation on the present and future needs of the city. The current need was a new water tower in the southeast section of the city, additional treatment and water main work.

A referendum was then held for a substation, water tower, treatment plant and some sewer issues. The city borrowed \$15 , million for those projects. It included \$5 million for water improvements.

At that time of the referendum, Mr. Carmean was able to tell the public we can borrow the money, particularly from the water and electric, build a substation, do the infrastructure work we need in the southern area and not raise taxes. He said after he thought about it, the rates had already been raised for future needs. After the rates were raised in 2006, he said that Mr. Portmann can confirm that when that money came in, instead of just leaving it in the checking account, he placed it in our investment accounts.

He said when you consider the \$1.8 million received from increased rates, \$2.6 million in regular reserves and \$1.2 million in infrastructure, that totals almost \$6 million.

Mr. Gleysteen asked if the \$1.8 million is the difference in the old and new rates over the eight years; Mr. Carmean stated yes. The city manager advised that Mr. Portmann explained that the first couple of years, he put the money into the general revenue account in a checking account. But nothing was happening with the project. The fund continued to build because it was not needed for any reason and our regular rates were sufficient. We always felt like that money should go toward

that project for debt service. That is why we had enough in the raised rates to pay the debt service for the tower project without raising the rates.

The city manager said they discussed it at length with Mr. Shupe and Mr. Brooks. Mr. Brooks felt it should be presented to the public works committee.

Mr. Carmean stated that yesterday, he spoke with each committee member individually. He said it boils down to the fact that the city has the money to do these projects. As a result, he recommends we leave the \$1.2 million in place for future needs generated by growth. This allows us to use the \$1.8 million received from the increased rates since 2006 and \$2.6 million in water reserves.

Mr. Gleysteen said it sounds good to him and alleviates his concern that our rates may not be high enough because the impact fees are supposed to do exactly this. In addition, we can also use some of those monies as incentives to attract businesses to town. It appears to him the money is in place from our rate structure and impact fees to do handle both.

If this committee agrees to this recommendation and city council decides they are comfortable using the \$1.8 million, it is the sound thing to do according to Mr. Carmean. He verified that the rates we had in place at the time of the referendum would pay for the debt which is still the case. What happened is that the finance director separated those funds out and we have not had any debt service because the \$5 million has not been borrowed from USDA. Once the project is complete, the rates will cover the cost of the debt service and no rate increase will be needed.

Mr. Carmean reiterated this is a sound and smart way to complete the projects.

Mr. Brooks confirmed that Mr. Carmean is recommending we leave the \$1.2 million in impact fees and use \$3.5 million out of the \$4.4 million. Mr. Carmean agreed noting that we can earmark \$3.5 for these projects. Mr. Brooks pointed out that will still leave almost \$1 million in water reserves.

Mr. Carmean also pointed out that anytime you borrow money from the USDA, federal prevailing rates must be paid. In some cases, we do not get the bang for the buck. For example, a flag person is paid \$38 an hour. By paying for this project with city funds, we will save a great deal of money because our bids will be based on normal wages versus using federal or state funds. In that case, a flagger may be paid \$17 an hour. He pointed out this would be another benefit of paying for this project from city funds.

Mr. Shupe stated that even though council has made a decision, he thinks it is great we went back and continued with due diligence to see if there was another answer. He feels that looking this over and seeing those debt services is the right answer. This will protect our residents from unnecessary rate increases.

Mr. Carmean advised there is one industry in town that uses 250,000 gallons of water every year. They are currently expanding by another 25% so this could have a huge impact.

He also pointed out that we may need some additional money due to increasing costs within all our departments. He said we really do not have short term capital. He estimates we will need a five or six-cent increase. He said the 29 cents needed to pay the \$3.5 million debt service and this 6-cent increase would have resulted in a 35-cent increase. Paying out of the city coffers will be a substantial savings to big industrial users. Residential customers will also appreciate not having an increase if we can kick it down the road and still keep everything moving.

Mr. Brooks pointed out the other advantage Mr. Carmean spoke to him about is the ability to start the project much sooner. If not, nothing could be started until after the referendum at the end of March.

The city manager confirmed the matter has been put on the agenda. It can be discussed and a decision made by city council. We can then proceed with the work.

Mr. Carmean said there is also an argument that the 1.5% is a great rate that we may not see again. He is unsure if we will see it again, but no one knows at this point and is possible. He said our finance director does not feel it is enough to offset

the funds that already exist. We are not making a lot of money on those funds so we are just as well off utilizing that money for this project.

Mr. Gleysteen said if we are only making a .25 or .50% on investments, it should be used. Mr. Carmean pointed out we are making .15% right now. Mr. Gleysteen noted that the spread is over a percentage so we would still be losing even with that rate.

The city manager said that Mr. Portmann hopes to buy some government bonds at 1.5% in the future and we would break even. However, he must then invest that money in five-year blocks.

He said if the public asks why we voted on it, the city manager feels it is simple. That money was compartmentalized. Until he looked at it and realized we could use the \$1.8 million and possibly the \$1.2 million. But that would be a little more questionable because it was portrayed as being used for future growth so the people here already would not have to pay for the tower.

Mr. Gleysteen confirmed that DBF is clear on the different projects. For example, it should be clear that prevailing wages will not apply and the bid package should indicate such. If bid in the other manner, we are going to see higher numbers.

Mr. Carmean said that will not be a problem. Many employees of larger contractors are very happy when they receive prevailing wages. The problem is they are back to normal wages with the next project. Most projects do not involve prevailing wages and are private contracts except the larger ones through the state. He explained the bids will go out just like the remodeling bid on PNC banks where we will get more work done for a lot less money because prevailing wages do not apply.

Mr. Shupe confirmed Mr. Carmean wanted a motion.

Mr. Shupe made a motion that the public works commission recommend to city council that the funding to pay for the water improvements be paid from the debt services and reserves instead of moving forward with the referendum. Mr. Gleysteen seconded the motion. Motion carried unanimously.

Mr. Carmean believes this is a positive move for the city. He pointed out that Milford is one of most financially secure towns in the State of Delaware. He does not believe we are putting anything at risk when keeping almost \$2 million when considering the impact fees and what is left from these projects. However, he does not believe the project will cost as much as anticipated.

The city manager stressed this is a responsible way of handling these costs. If something catastrophic occurred within our water infrastructure, we would have to take money from somewhere and take care of it instantaneously. If we got in trouble, we could use the impact fees though he prefers keeping them separate and clean if possible.

Mr. Brooks recalled that during the ice storm in 1994, the city had to use more than \$4 million in reserves which was later reimbursed by FEMA.

He thanked the committee members for taking time to attend the meeting and agreeing to what has been proposed.

With no further business, Mr. Brooks moved to adjourn, seconded by Mr. Shupe. Motion carried.

The Public Works Committee meeting adjourned at 4:06 p.m.

Respectfully submitted,



Terri K. Hudson, MMC  
City Clerk/Recorder