

**BOARD OF COMMISSIONERS MEETING
SELECTBOARD MEETING ROOM, TOWN HALL
DECEMBER 7, 2017 AT 7:00 P.M.**

Present for the Board: Chair Gregory Dubreuil, Vice Chair Vernon Blodgett, Anne Awad, John Hine, Kurt Schenker

Present for staff: General Manager Sean Fitzgerald, Financial Manager Michael Conchieri and Administrative Assistant Kim Mendoza

Guest: Jeff Stanek, CPA, Baker Tilly

Call to Order:

The meeting was called to order at 7:03 PM.

Public Comment

Chair Dubreuil made a statement regarding the Public Comment topic of each meeting. He stated that Public Comment is designed for ratepayers to address items that are on the agenda. Items that are not on the agenda can be taken under advisement by the Board and possibly be put on a future agenda. We are subject to following the Open Meeting Laws.

There were no public comments.

Minutes Approval:

10/26/17 Open Session

On a motion made by Mr. Hine and seconded by Ms. Awad, it was unanimously

VOTED: To approve the meeting minutes of October 26, 2017.

Manager's Report:

Outages:

There were five electrical outages in the past month. There was a significant outage on Ferry Street, on November 14, which affected just over 1,000 customers. Power was restored to 966 customers in an hour and twenty minutes while the remaining 112 customers were without power for eight hours. The outage was the result of a car hitting a pole, causing the wires' coming down on the vehicle, creating an emergency de-energizing situation.

The on-call Linemen arrived on the scene within ten minutes and instructed the driver to remain in the car. A second lineman arrived and turned off power to the downed line immediately. This was a life-threatening situation and had the person left the vehicle they likely would have been killed. SHELD crews worked all night replacing the pole and restoring power safely.

Mr. Fitzgerald commended the line crew for arriving on the scene within 10 minutes, managing the situation and restoring power quickly.

Mutual Aid Update:

We have had two linemen and a digger truck in St. Thomas, for the past few weeks. They were working 14-16 hour days, seven days a week. It was very demanding work because of the devastation left by the hurricane, the heat index and the terrain. The cost for them to be there will not have a negative impact on SHELD, as the expenses for the crew and the truck will be reimbursed by FEMA. SHELD is part of the NEPPA mutual aid group, consisting of 26 Massachusetts utilities, assisting in the restoration in the Virgin Islands.

In November, SHELD Linemen also assisted in Stowe, VT, after severe storms damaged lines and poles. The linemen were mentioned positively in an article in the *Stowe Reporter*.

Mr. Fitzgerald stated that this has been an unusually active mutual aid year. It's good to be able to help out others in need and in turn it reduces our costs while they are away.

2016 Financial Audit Report:

Mr. Jeff Stanek, from the Baker Tilly audit firm, who works specifically with energy utility companies, reviewed their audit findings for the year 2016. He explained that there are several parts to an audit report and that he would cover an overview of the audit process followed by an overview of the basic financial statements. Then he would discuss the required communications, current year recommendations and status updates.

An audit has three to four phases, depending on the company size. The auditors look at risk areas, and perform tests on those areas, based on the risk assessments. In 2016, the audit was prepared in house and there were no material adjustments to the financial statements. There were some minor suggestions. This is a common occurrence the first year a firm does an audit. There were no major issues during the audit, just some timing issues.

The Department received an unmodified (clean) opinion, with reasonable assurance, for 12/31/2016. This is the highest form of assurance that can be provided to the Board. The audit firm must look at every aspect of every accounting policy for compliance. There were two Emphasis of Matter paragraphs listed in the report. One pertains to the Pension Plan and GASB 68. SHELD's year-end is December 31 and Hampshire County Retirement uses June 30 as a year-end date. This causes SHELD to miss the reporting period by six months. Nothing needs to be done about it as this is not material to the financial statements and would not change things. The other Emphasis of Matter paragraph pertains to the restatement of the 2015 financial statement regarding updating the compensated absence policy.

It was a straightforward audit. The auditors reviewed three classifications of types of deficiencies that could be found in internal controls. They looked for material weakness and found none. They looked for significant deficiencies and found none. They also looked for control deficiencies. Control deficiencies are suggestions for improvements and these were discussed later in the presentation.

Mr. Stanek then gave an overview of the financial statement. In reviewing the Statement of Revenues, Expenses and Changes in Net Position, which showed a summary of the operating revenue and expenses, the total revenue for 2016 was down \$850,000. Purchased power was down a similar amount, while kilowatt hours sold remained stable. The 2015 financial restatement figures were also listed. The 2016 year-end operating loss was \$600,000 and the change in net position showed a loss of \$850,000. The Statement of Net Position showed half of the balance sheet was cash. The largest liability is the net pension liability. SHELD has little control over that increase which is due largely to changes in the markets and interest rates. There is no debt on the books and the capital asset figure is \$4.7 million.

As part of the required communications, the audit firm provided reasonable assurance that the report is free of misstatements due to error or fraud. There was also a review of significant accounting policies to assure they are in compliance with generally accepted accounting policies and standards. In 2016 and 2017 there were no new accounting policies to report. There was nothing unusual found in the audit and all the estimates reviewed were reasonable, consistent and within management policies. There were no adjustments to the general ledger.

The current year comments included possible internal control improvements such as a new inventory management process, development of a plant accounting/capitalization policy and the pension valuation. The pension valuation has to do with the six-month lag in reporting because Hampshire County Retirement has a June 30 year-end date and SHELD's year-end is December 31. Most of these changes would require small companies to hire additional administrative staff to implement them and that may not be feasible.

Updates to prior year comments included clarification of the compensated absence policy, which has been done. It also included the Town cash reconciliation, which has been adjusted by the Town, and updating some IT best practices.

Future accounting pronouncements includes possibly implementing the expected December 2018 accounting change, to GASB 75, earlier than required.

On a motion made by Ms. Awad and seconded by Mr. Schenker, it was unanimously
VOTED: To accept the audit report presented by Baker Tilly auditing firm.

Mr. Dubreuil commented on the competence and diligence of Mr. Conchieri and SHELD's financial department, giving them credit and thanking them for their hard work.

2018 Budget:

Mr. Fitzgerald stated that he met with Mr. Dubreuil and Mr. Blodgett to review the 2018 Budget and, after much discussion, came to an agreement on the budget prior to sending it to the Board for review. The budget does include funds for the development of a .5 megawatt solar array at a cost of \$1.2 million, completion of the LED street light conversion project, investigation of the fiber to the home initiative and enhancement of fiber to eight Town buildings. It also includes a new vehicle on the 5-year vehicle replacement plan previously presented to the Board.

Mr. Fitzgerald reviewed several observations including that the 2017 residential operating revenues, at \$7.1 million, were consistent when compared to the \$6.9 million that was projected in the budget. A slight increase is projected for 2018 to \$7.7 million. Total operating expenses for 2018 are projected at \$14.3 million, compared to \$13.6 million for 2017. The outcome of Strategic Planning may affect the total expenses of the 2019 budget, depending on the projects planned, but the most significant expense increase for 2018 will be from the pensions and benefits. As Mr. Stanek had mentioned in the audit report, we have no control over these increases.

Mr. Dubreuil asked about the \$150,000 increase listed in the General and Administrative supplies and expenses section of the new budget. Mr. Fitzgerald confirmed it was for the addition of renewable energy projects that had been discussed at an earlier MLB meeting. Mr. Fitzgerald explained that it was for 50% of the cost of a feasibility study for renewables and 5 rebates at \$25,000 each. He was seeking Board approval at this time for the addition to the budget. Rebates had previously been added for residential heat pumps. The Board agreed they could approve the additional rebates as part of the budget approval.

On a motion made by Ms. Awad and seconded by Mr. Blodgett, it was unanimously
VOTED: To approve the Operating Budget for the year ending 12/31/2018 as presented by the Manager.

Mr. Hine asked about the process for approvals for capital expenses. It was discussed that any future capital expenses would need to go out to bid and be brought before the Board for approval at that time.

Strategic Planning Vendor Review:

Mr. Fitzgerald began by stating that he had obtained references on the three vendors discussed at last month's meeting. He sent the full proposals and references to each Board member. After additional conversations with each vendor, Mr. Fitzgerald shared his recommendation that he thought Hometown Connections, an affiliate of American Public Power Association (APPA), would be the best fit for SHELD.

Originally he was concerned with whether to hire a vendor with more utility experience or one with more facilitating experience. Mr. Fitzgerald found that a reference, from the V.P. of Member Services for APPA, was helpful in his making his final decision. The V.P. stated that

Hometown Connections is a subsidiary of APPA and is trying to become a complete solution for municipal utilities. Mr. Fitzgerald found that Hometown has worked with many municipal utilities, in the same situation as SHELD, and helped with their planning. He feels that they can help us work through many of the issues we are currently facing and issues that will come up in the future. SHELD is a small utility and Aether Advisors and Curtis Strategy don't have the same expertise as Hometown in the specific areas where we are looking for help.

Ms. Awad was concerned about confidentiality of our information between the vendors and other municipalities they may serve. Mr. Fitzgerald said that so far he hasn't heard any specific

information about other utilities, from any of the vendors, but he would be sure to address that concern verbally and in a contract.

The Board then discussed the different options that Hometown Connections gave for a Strategic Plan. Mr. Fitzgerald wants the employees to be involved in the process, along with the Board and some ratepayers. He thinks this plan will be of great value to SHELD and he wants to make sure we choose the option that gives us a complete picture. Mr. Fitzgerald also said this should be an active plan that will be followed over the next five years and a plan that we measure ourselves against yearly.

Mr. Dubreuil said he sees this as a one-time investment for a long-term plan. Ms. Awad suggested that we find out if Hometown Connections has a middle-of-the-road plan and price that is custom fit for SHELD.

The Board agreed to move forward with Hometown Connections and Mr. Fitzgerald will talk with Hometown further about the specifics for a SHELD Strategic Plan and report back to the Board.

Bid approvals for Supplies:

Mr. Fitzgerald stated that the bid recap sheets for meters, transformers, wire and cable and line materials had been sent to the Board for review. This year the meter and transformer bids were posted for a two-year period in an effort to be more efficient. The bids are awarded to the lowest bidder on each item. SHELD will not order everything on the lists. Items are ordered when needed and only in the quantity needed at that time. The Board's approval was requested to accept the bids.

On motion by Mr. Schenker, seconded by Ms. Awad, it was unanimously
VOTED: to approve the purchase of SHELD's meter requirements for 2018-2019 from the lowest responsible bidder for each individual item based on economic analysis.

On motion by Mr. Schenker, seconded by Ms. Awad, it was unanimously
VOTED: to approve the purchase of SHELD's transformer requirements for 2018-2019 from the lowest responsible bidder for each individual item based on economic analysis.

On motion by Mr. Schenker, seconded by Ms. Awad, it was unanimously
VOTED: to approve the purchase of SHELD's wire and cable requirements for 2018 from the lowest responsible bidder for each individual item based on economic analysis.

On motion by Mr. Schenker, seconded by Ms. Awad, it was unanimously
VOTED: to approve the purchase of SHELD's line material requirements for 2018 from the lowest responsible bidder for each individual item based on economic analysis.

Manager's Review:

Mr. Dubreuil gave a quick overview of the rating system used by the Board in reviewing Mr. Fitzgerald's first nine months as Manager. Mr. Fitzgerald was evaluated in eight categories on a

scale of one to five, with a five indicating consistently outstanding work. For each category rated, the title, a description of the goals and the average score were read by a Board member. They also summarized the individual comments each Board member had submitted.

Mr. Fitzgerald scored an overall average of 4.125 for the eight categories.

Mr. Dubreuil stated that a three is a good rating and that he thinks that, in less than a year, Mr. Fitzgerald has done an outstanding job and he looks forward to having him guide SHELD in the right direction into future.

Ms. Awad thanked Mr. Fitzgerald for coming to South Hadley Electric Light Department. She believes it was a very good match and that he has taken action where it was needed.

Mr. Hine mentioned the new logo was simple but symbolic in moving the department forward.

Mr. Dubreuil said the remaining portion of the evaluation was compensation. It was decided that a subcommittee, consisting of Mr. Dubreuil and Ms. Awad, would proceed to work with Mr. Fitzgerald to negotiate his salary. The committee is expected to give their recommendations at next month's meeting.

Mr. Fitzgerald thanked the Board for choosing him as Manager and for having confidence in his abilities to lead SHELD. It has been a great fit for him. He also thanked the SHELD employees. He appreciates all the hard work the employees have done to help him. "No one succeeds alone".

New Business

The Board discussed the need for another meeting in early January to discuss the MMWEC project. Thursday, January 11, 2018 was mutually agreed upon. It would start with an Executive Session at 6:30 and then be followed by an Open Session, at Town Hall.

Adjourn:

On a motion by Mr. Blodgett and seconded by Mr. Schenker, it was unanimously
VOTED: to adjourn.

The Open Session ended at 8:34 PM.


Anne Awad, Clerk

Approved: January 25, 2018

EXHIBIT A**List of Documents reviewed at the December 7, 2017 Municipal Light Board Meeting**

1. Draft Open Session Minutes of the MLB October 26, 2017
2. Outages 12/5/2017 YTD
3. SHELD Financial Audit Presentation
4. SHELD Operating and Capital Budget for 2018
5. Bid Recaps for Meters, Transformers, Wire & Cable and Line Materials
6. SHELD Average of MLB Scores for Sean Fitzgerald Review and Goals