

Reading Municipal Light Department (RMLD) Board of Commissioners

Policy Committee Minutes

Thursday, March 5, 2015

General Manager's Conference Room

Start Time: 7:30 a.m.

End Time: 8:27 a.m.

Attendees:

Committee Members: Messrs. Pacino, Stempeck and O'Rourke

Board Members: Mr. Talbot, RMLD Board Chairman

RMLD Staff: Mses. O'Brien and Foti

Call Meeting to Order

Chairman Pacino, Chair of the Policy Committee called the meeting to order at 7:30 am.

Approval of Minutes

July 1, 2014 and September 17, 2014

Mr. Stempeck made a motion seconded by Mr. O'Rourke to approve the July 1, 2014 Policy Committee minutes as presented.

Motion carried 3:0:0.

Mr. Stempeck made a motion seconded by Mr. O'Rourke to approve the September 17, 2014 Policy Committee minutes as presented.

Motion carried 3:0:0.

Continued Review of Board Policies

Ms. O'Brien reported that, as decided, the policies are being separated and scrubbed. Ms. O'Brien mentioned that the budgets are underway; while the legal for labor issues has been substantially reduced, legal for major overhaul/review of the policies is being managed. Ms. O'Brien reported that RMLD Policies 9 and 19 were sent to legal and staff is looking at these policies as well. Ms. O'Brien said that she will send out RMLD Policies 9 and 19 to the RMLD Policy Committee members in DRAFT. Ms. O'Brien commented that she would like to have the committee meet monthly. Ms. O'Brien pointed out that the policies related to procurement are some of the more difficult, Policies 2, 9 and 19. The procurement policies are more complicated and involved because of the considerations for Chapter 164 and MGL 30B. Mr. O'Rourke asked how long it will take to get through the RMLD policies. Ms. O'Brien responded that there are thirty-one policies. Once the procurement policies are settled, the balance could be two per month for review.

Ms. O'Brien added that yesterday, the auditor that the Town of Reading engaged was at the RMLD and they discussed procurement. Ms. O'Brien explained that she discussed with the auditor a potential for revision to Policy 2 which would discuss absolute auctions relative to fair market value and the threshold of \$10K under Chapter 30B as well as the offering of the electric rated vehicles to the towns. The auditor indicated that using common sense to determine a fair market value would determine if utilizing an absolute auction was acceptable. Based on the appraisals received for the three trucks in addition to a similar truck trade in of \$3,000 (accepted in a bid that day), then it would be allowable to assume the trucks are valued under \$10,000 and an absolute auction would be acceptable.

Mr. Talbot clarified that the larger concern is that we cannot do this because someone assessed the vehicle at \$11,000. Ms. O'Brien replied that the appraisal prices are all over the place; one being \$11,000, one being \$8,000, and one being \$1,750, then based on what the auditor indicated, common sense says that you can still utilize the absolute auction. Ms. O'Brien indicated that the issue is that if the value is over \$10K, then a reserve to reject a bid must remain. Absolute auctions do not have rejection reservations.

Ms. O'Brien said that the issue was if you are obtaining prices that are all over the place and one was over \$10,000 how would this be handled. The auditor stated that if a price over \$10,000 was obtained from an appraiser that never looked at the vehicles that can be thrown out.

Continued Review of Board Policies

When he looked at the chart in which Kiley who physically works on the trucks and knows the maintenance of the trucks, they were valued at \$1,750, \$1,500 and \$1,700. Ms. O'Brien noted that JJ Kane the auctioneer does the absolute auction, looked at the vehicles and provided auction based pricing for \$4,000, \$8,000 and \$3,000. The other two provided pricing of \$15,000, \$10,000 and \$10,750 and did not view the vehicles nor go through the list of the work that should be performed on each of the vehicles that Dave Polson put together. Ms. O'Brien said that the auditor stated that the companies that did not perform a physical site assessment can be crossed off the list, the RMLD can use the companies that physically look at the trucks as well as mechanical defects. Mr. Stempeck said that the company that provided the highest pricing, but did not come onsite to physically look at the vehicles the assumption would be is that they would sell it for whatever they could get then pay you whatever they received. This is as opposed to the absolute number, which is high balling. Chairman Pacino agreed. Ms. O'Brien commented that the averages were \$2,875, \$4,750 and \$2,350. The estimated towing charges for the trucks to get to an auction is \$750 per vehicle, the commission for the auction is five percent these factors are considerations. Mr. O'Rourke clarified that most everything gets sold at auction. Ms. O'Brien commented that Chapter 30B says that trade ins do not necessarily garner the best price. Ms. O'Brien explained that on the surplus trucks the RMLD did not get the best price, now we are trying to garner the best price. You are more likely to get a better price at an auction than at a trade in. Most of the towns and municipalities trade in because it is within the law. A trade in is not questioned. Mr. O'Rourke pointed out that the downside of the auction is that if there is a sole bidder with the vehicle pricing comes in at \$500. Ms. O'Brien said that if it is an absolute auction the price is \$500, but can use this mechanism for vehicles for estimates under \$10,000. Ms. O'Brien stated that the auditor said that the three surplus vehicles can go to auction because they are under \$10,000.

Ms. O'Brien pointed out that yesterday as well, the RMLD had a bid that included a trade in. This was a truck similar to one of the three trucks with the 40' boom. Both companies that bid on it that rolled into the overall price for the new bread truck that Tech Services will use, it has all the test equipment in it which priced in at \$3,000. The auditor asked what was the original price of the trade in vehicle which was either \$161,000 it is a 2003 both bidders priced the trade in at \$3,000. These trucks cost so much money to keep up and maintain to safety standards. Mr. O'Rourke pointed out it holds true for a personal vehicle with the initial purchase price \$30,000 to \$40,000 seven years later it is worth \$3,000. Mr. O'Rourke said that is why most people trade in vehicles. Mr. O'Rourke asked historically what percentage of the vehicles have been sold on trade in or have they. Ms. O'Brien responded that they have not. The majority of the bucket trucks have been given to the towns for free. Ms. O'Brien explained that the three surplus trucks were free and the towns could have taken them for free. Mr. O'Rourke asked if the trucks were not given to the towns, were they disposed of by trade in. Ms. O'Brien responded no, that the majority of the trucks have been given to towns for free. Ms. O'Brien said that before she started at the RMLD, a line truck in November 2012, was offered to all four towns with no interest, went into the paper and no one showed up for the bid. Everyone that was working here last year was working here in 2012 and no one bid on the truck. Penney's took that truck for \$400 scrap. The auditor asked in the meeting how the surplus has been handled. The purchasing staff explained that the process that has been used, usually the town takes them for free, they are put out to bid or the trucks are sold for scrap. Ms. O'Brien stated that the RMLD will broaden the publications, will use the trade ins or auctions because they fit within the policy and can be fairly quick. This has been costly and time consuming process. The auctioneer has a list of everything that needs to be done on the vehicles. The auditor was not aware of all the repairs that were made by the employee who purchased the trucks.

Ms. O'Brien stated that Mr. Talbot said at Town Meeting regarding to the truck issue, that a policy was followed and that the RMLD is taking immediate corrective actions to fix it. That is exactly what the auditor said yesterday, he saw all the actions.

Mr. O'Rourke inquired as to the current status of the surplus trucks. Ms. O'Brien said that the surplus trucks will be in the auction this spring. Mr. O'Rourke pointed out that with Kelley Blue Book there are three price ranges from excellent condition to poor. Ms. O'Brien also pointed out that in Kelley Blue Book it does not state the defects of a vehicle such as does it need a valve job or is the tire rod bent. Ms. O'Brien said that is why the auditor said that you have to view the vehicle as well as speak with the mechanic to best determine the value.

Continued Review of Board Policies

Ms. O'Brien pointed out that with the recent bid that involved a trade in both bidders valued \$3,000 for the same exact truck. All electric utility rated commercial vehicles and electric utility specific rolling stock that has an auction estimate of less than \$10,000 may be disposed of by using the absolute auction. Ms. O'Brien noted that the existing policy is acceptable and the auditor agreed. The RMLD is not using a retail value, the auction value will be utilized. The auctioneers sell these and can benchmark what was similar that sold, it is not like going on eBay for a similar truck they have a list of everything that is wrong with it, but trying to obtain the best pricing. Mr. Stempeck asked in terms of assigned value, do you want the RMLD to have anything to do with estimating the value because of perceived bias. Ms. O'Brien said that is why you use the auction value. The line of demarcation is that it is either under \$10,000 absolute auction can be utilized or over \$10,000 a sealed bid. Ms. O'Brien presented a scenario to the auditor in which the auction value is over \$10,000 and the trade in value is \$7,000, does she reject this. Ms. O'Brien said that the auditor said that if you are sending out for a new truck and obtain three prices and they are all around \$7,000 you cannot freeze because someone provided estimated pricing of \$10,000, it is worth what it is worth. The trade in value is tangible; you will get this money. You cannot keep rejecting it to get that estimate (\$10,000 used in the scenario.) If the auctioneers reasonably think you are going to get over \$10,000 and everyone is saying the same thing then you cannot send it to absolute auction, then you can trade it in without having to reject it. You keep notes of why you did not reject it. Any property that is considered electric utility rated with an auction estimate greater than \$10,000 shall be disposed of in accordance with VI C. Substantial Value. Scrap wire and other electric utility rated that will be disposed of by three quotations awarded to the highest price. What happened at the RMLD in the past is when the scrap wire bin used to get full they would call Penney's to take it away; three prices were not obtained. One caution is that someone may give you a price with the covering striped. It has to be like for like. Underground wire has more insulation, a core, than copper. You need to obtain three prices for what that wire is and condition it is in. The auditor was fine with that. The only thing the auditor saw was some pile up of streetlight masts which is scrap and suggested a procedure be put in place which will be in his report. The auditor liked all the procedures that were being written.

Mr. O'Rourke clarified that the disposal for the towns getting the trucks for free is now gone. Ms. O'Brien agreed. Mr. O'Rourke said that there must be a standard process that utilities routinely utilize. Ms. O'Brien said that she had Purchasing call a number of municipals; they do not have policies or procedures, they only utilize trade ins. Mr. O'Rourke said that you qualify the vendors with the trade in if they give you a poor price then you do not use that company again. Ms. O'Brien said that we will probably use trade ins in the future, but currently we have three surplus trucks. Currently, the RMLD is performing a fleet assessment. In the past the trucks were not traded in, kept as extras even though they were in poor condition and needed substantial work. The process was that RMLD would keep a couple of surplus vehicles then sell one at bid. There are different types of trucks if one broke down. She is not agreement with this, but the fleet assessment will address this. Serving four towns people want power back on and especially during a storm you cannot rent a truck.

Mr. Talbot asked if there are extra trucks out there. Ms. O'Brien responded that there are a couple of extra trucks, but given the large territory, that is what the assessment will tell. By realigning the linemen to two man crews it eliminates one person rolling out of here with a truck. Responding to four towns the thought process was at RMLD they did not want to be caught without a truck that is why they have four diggers. Most places have one or two diggers. There are two pretty good diggers and two old diggers. If your digger breaks down with the auger or hydraulics it is down for a week or two. If you have to set an emergency pole you do not mind taking out an old digger. The change being, with the exception of the electric utility rated vehicle commercial vehicles and electric utility specific rolling stock all vehicles will be offered to the towns at FMV on a rotational basis, not for free. Mr. Stempeck commented that if the towns want the vehicles it will be based on FMV.

Ms. O'Brien noted that for these vehicles it will be Kelley Blue Book with a minimum value, they will not be free anymore. Mr. O'Rourke asked can you do trade in before you offer them to the towns. Ms. O'Brien responded that it says that the RMLD will offer them unless they are considered scrap with no value. Mr. O'Rourke stated that the hierarchy is that they are offered to the town at fair market price, then trade it in or send to auctions.

Continued Review of Board Policies

Mr. O'Rourke stated that with these three surplus trucks there was no trade in opportunity, the RMLD was not purchasing anything. Ms. O'Brien said that the RMLD did buy something, but they kept them for spares, they did not trade them in. Mr. O'Rourke said that at the time we were going to keep them when the RMLD allowed to put the bid in there was no way to trade them in. Ms. O'Brien said that they kept the trucks as spares.

Messrs. Stempeck and O'Rourke said that a flow chart would aid in this revised process. Mr. O'Rourke stated that trading in vehicles is less time consuming than trying to sell them.

Mr. Stempeck asked if Ms. O'Brien is comfortable with the change to the policy. Ms. O'Brien stated that you have to call out the electric specific because it is treated differently, it cannot be treated like a car. Mr. O'Rourke said that as discussed at the last meeting, the core focus should be on revenue generation. Disposing of assets is not our business. Ms. O'Brien stated that items such as trailers you cannot trade in those can be sent to absolute auctions which provides for two good avenues. Chairman Pacino pointed that we are in the wires business. Mr. O'Rourke said that if the towns have the first right to purchase non electric rated vehicles, how will these be valued. Ms. O'Brien replied Kelley Blue Book will be used for the valuation. The auditor provided good information as to what should be put in procedures. Documentation is the key on these items.

Ms. O'Brien said that she will send the committee members a copy of the DRAFT revision.

Messrs. O'Rourke and Stempeck said that a simple chart from purchasing would be helpful. Ms. O'Brien commented that policies and procedures are separate.

Mr. O'Rourke made a motion seconded by Mr. Stempeck to approve revision changes subject to final revisions to RMLD Surplus Policy, Number 2.

Motion carried 3:0:0.

Discussion

Mr. Talbot had questions on policy changes going forward with the review being at such a granular level. Mr. Talbot asked if there is a state-wide template, or best practices is there a need to go through each paragraph. Ms. O'Brien said that RMLD is trying to follow 30B which electric utilities are exempt from. Mr. Talbot said that the RMLD has thirty-one policies. It is very expensive to have lawyers going through all these policies, is there a set of policies that communities have that are considered best practices. Mr. Stempeck commented that everything is customized to the municipality. Ms. O'Brien added there a lot of policies that are human resources related that will be coming out of the purview for policy review. Ms. O'Brien pointed out that the review dates are every three years.

Mr. Talbot said that the Board signs off on major contracts such as landscaping contract, there are other classes of arrangements that have not been going to the Board. Mr. Talbot stated that he spoke to Ms. O'Brien and RMLD is leasing the fiber the RMLD receives \$230,000 annually from leasing. Ms. O'Brien clarified which part, the permission to lease or the amount of money the RMLD makes. Mr. Talbot responded the RMLD is entering into an agreement where it is getting paid for use of its infrastructure, done by the former General Manager years ago. Mr. Talbot said that when it is added up RMLD receives \$230,000 annually, for the fiber, it has never become before the Board, and it is their job. Mr. Stempeck said that there was a ruling that FCC that municipalities can move into fiber. Mr. Talbot explained that the ruling where a couple of states (North Carolina and Tennessee) make it harder to go into this business, but not in Massachusetts.

Discussion

Mr. Stempeck stated that he strongly supports to use fiber for the Internet. Mr. Talbot said that the RMLD is entering these contracts, it should be addressed in a policy. Ms. O'Brien pointed out that the Comcast attachments to RMLD's poles did the Board approve that we collect a calculation of how much we charge per attachment, she does not think so. Mr. Talbot would like to have such items as the fiber come up to the Board level. Mr. Talbot said that perhaps the leasing should go out to competitive bid.

Discussion

Ms. O'Brien said that probably the former General Manager's thought it was an opportunity to make money. Ms. O'Brien said that she will have an informational session on fiber.

Mr. Stempeck said that there was an article that the RMLD electric rates within the Northeast U.S. are amongst the lowest. He is wondering what the economic development of the four communities are doing to use this for economic advantage.

Schedule Next Meeting

Policy Committee meetings will take place the first Thursday of the month at 7:30 a.m. to the extent possible.

Motion to Adjourn

At 8:27 a.m. Chairman Pacino a motion seconded by Mr. Stempeck to adjourn the meeting.

Motion carried 3:0:0.