

Reading Municipal Light Department (RMLD) Board of Commissioners

Policy Committee Minutes

Tuesday, July 1, 2014

General Manager's Conference Room

Start Time: 7:08 a.m.

End Time: 8:40 a.m.

Attendees:

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

Board Members: Mr. Talbot, RMLD Board Chairman

RMLD Staff: Ms. O'Brien, Foti and Antonio

Town of Reading Accountant: Sharon Angstrom

Town of Reading Board of Selectmen: John Arena, Chair

Call Meeting to Order

Chairman Pacino, Chair of the Policy Committee called the meeting to order. Chairman Pacino welcomed Mr. Arena and Ms. Angstrom.

Ms. Angstrom said that she received an anonymous letter on the sale of three surplus bucket trucks. Ms. Angstrom commented that she has looked into this and has received information relative to the trucks. The letter alleges that the sale was made to an employee which has been confirmed for \$350 for three bucket trucks. She reviewed the policy that has been in place for ten years and appears this is allowable; she does not think it is allowed on the town side. It is hard to make a sale for a related party to make that look legitimate. This dollar value is particularly low. There was a purchase of a truck in February \$184,000 and Ms. Angstrom is unsure of the purchase price of three vehicles in question. Maintenance on each of the three vehicles was \$80,000 (2008 to 2013). She searched her records and found that one of the vehicles in question had four new tires put on in 2012, with 3,000 miles put on the tires. These trucks typically go short distances. The recent history needs to be reviewed at a minimum to determine the value that you would want to garner. Since the purchase of a new vehicle was made in February, in conjunction with that purchase, seeking trade-in value or a baseline minimum value for a surplus truck could have been performed. The policy references benchmarking by using Kelly Blue Book (or equivalent) to determine the value, but for trucks you cannot search for commercial equipment on that site. This points to what we need to do to assess what the value is. When performing the bid process you want to get a fair market price. The whole idea behind procurement law is to get a fair price when purchasing items and get a fair price when selling items. Ms. Angstrom explained that she asked the DPW how they handle surplus vehicles and they mentioned to seek a trade-in value. Also, another means is to get the value is to go onto online auction sites to look at similar items. You can get a report from a mechanic that shows an itemization of what items need to be performed on a vehicle such as a hydraulic lift and deduct this to get the value of a truck. There is more that can be done here and the policy does not refer to that. Also, there is nothing in place that requires the General Manager to sign off on the sale whereas the Town Manager does. At Town Meeting, there is a disclosure of surplus that the town is getting rid of; perhaps there should be Board involvement. This is a poor judgment because on the face of it does not look right to the public because we sold it at a low cost to an employee. There is a lot of money put into maintenance and one tire would garner more money than what was received for the total surplus. There should be an effort to do our due diligence when selling surplus to get the best value.

Ms. Angstrom pointed out that in the letters RMLD sent to the towns, it does not clearly state the surplus was free. Ms. Angstrom is seeking the background on that, why the vehicles are being offered for free. Chairman Pacino responded that it is general goodwill to the towns. Chairman Pacino explained that these vehicles were surplus and were not going to be used by the RMLD, and all four towns have been offered surplus. The rationale is that their citizens paid for the surplus trucks by the rates. It is representative of a goodwill gesture. Ms. Angstrom pointed out that the Town of Reading Town Manager may have not turned down the trucks if he knew they were free because he recently obtained the position of Town Manager. Ms. Angstrom said that the advertisement ran for one day in the newspaper and the only bidder was an employee who heard about it because of working at the RMLD. Ms. Angstrom suggested looking at publications to attract the potential buyers in the market who may be interested in purchasing such trucks such as an electrical contractor. Ms. Angstrom said that expanding the amount of time that the RMLD advertises in the newspaper could be considered.

Ms. Angstrom pointed out that the surplus was not on RMLD's website. There are areas to make the policy better. Ms. Angstrom said that the letter highlighted a need.

Mr. Stempeck said that Ms. Angstrom had good and constructive comments. Mr. Stempeck pointed out that as this policy was written ten years ago, the policies need to be updated. This is going to be fixed. It is unfortunate that this happened this way; it is in the policy that it is free to the towns, which sets up a de facto standard of zero value. Mr. Stempeck mentioned that he is agreement with the tires, but if he had a car to sell and it takes \$10,000 worth of repairs you may not buy it. Ms. Angstrom added that she asked the DPW about what if things are wrong with the items you are selling. Ms. Angstrom was pointed to an example of an F150 whose value is much lower than the trucks with a blown engine that sold between \$800 and \$900. It is a significant investment to the purchaser because you have to put a commitment of money into it due to the blown engine. Ms. Angstrom said that there was investment in the maintenance. Mr. Stempeck explained that he sells companies for a living, and someone loves it or hates it or sees no utility in it and the values can range all over the place. Mr. Stempeck added that Ms. Angstrom's points are well taken in which the policy will be changed to reflect exactly that the amount of advertising, where it is advertised and a much clearer solicitation, it is absolutely correct.

Ms. O'Brien thanked Ms. Angstrom for her comments. Ms. O'Brien reported that she has only had a chance yesterday to start her investigation and her responsibility in the policy, which is to make recommendations to the Board. All of you have received information from UMASS Amherst in which they have websites and flowcharts on this topic, and it is very policy driven which she is used to and the direction that she will be recommending. Ms. O'Brien commented that Ms. Angstrom asked her a question yesterday. In response to Ms. Angstrom's question, Ms. O'Brien had a chance to speak with the Facilities Manager, Dave Polson, the question being, when they received the bid what was the thought process and did he stop to say this is acceptable. What had occurred is that the scrap value was considered to be \$400 per truck due to the condition of the trucks. Mr. Polson then had the bidder employee come in, went through the receipts for monies paid out and estimates for work needed, which are available. The cost per truck to obtain an inspection sticker to get them on the road ranged \$7,000 to \$10,000 per truck. Truck 11 needs significant body work because you cannot have rust on the vehicle in order to get it on the road. Truck 9 equipment lift turntable repairs and body work exceeding \$10,000. Truck 44 needs a new clutch, significant body work etc., and costing \$7,000 to \$10,000. Mr. Stempeck said that the policy needs to be addressed relative to the sales to the employees. Chairman Pacino was in agreement.

Mr. Arena said that Ms. Angstrom has covered most of the bullet points. The issue is not any one of the facts, but the collection of them taken as a whole such as the valuation of the vehicles, the sale to employees, and the lack of knowledge or awareness at the Board level. The optics of it collectively is really tough for someone on the outside to swallow. Internally, you can understand the rationale as you walk through it comparing what happened to the policy. Mr. Stempeck said to Mr. Arena that beauty is in the eyes of the beholder. Mr. Arena said that the first thing you need is beholders. Mr. Arena commented that his initial reaction is an earnest attempt to get value. It would not be necessarily a single advertisement in a single issue paper or magazine, but there would be more of an attempt to get more beholders to get more beauty valuation. That is the one sin in his view that has been committed here. It does not appear that there has been an earnest attempt to get value. There is a need to do more than the minimum when you have the public's money. Mr. Arena said that these may have been \$400 trucks, he has no idea; it is lost to history at this point. Mr. Arena asked if RMLD policies are public. Ms. Foti responded the policies were on the old website and there has been a recent update. Mr. O'Rourke confirmed that the policies are on RMLD's current website. Mr. Arena said that he was amazed that the surplus can be sold to employees. Mr. Arena does not know of any business that permits that. Not even the presence of it, but the mere appearance of it presents a conflict of interest. Mr. Stempeck commented that for-profit businesses do this all the time. Mr. Stempeck said that he worked for Polaroid where used equipment for the laboratories were open to all employees that were internal to the company. Mr. Stempeck pointed out that we are speaking to a policy which is ten year old which will be updated. It is something that needs to be addressed. Mr. Stempeck is in agreement that one day advertising needs to change. Ms. Angstrom pointed out that there is a Goods and Services website that the Town uses when they put things out to bid whether to purchase or sell. It is the standard place that they put items because it is a place where people look for municipal related items. Mr. Stempeck said that is something that can be used as well as Craig's List, and industry trade magazines. Mr. Stempeck commented that Ms. Angstrom is correct. Mr. Arena suggested checking on EBay to see what similar trucks are asking for similar vehicles. Mr. Stempeck agreed with Mr. Arena. Mr. Stempeck said that in his industry they use comparables all the time.

Ms. Angstrom said that there is always the option on a bid that the bid can be rejected to say that we can do better. If you are looking at obtaining the highest value and the bid comes in too low it does not have to be accepted. Considerations would include if it is worth rebidding or to expand the window. Ms. Angstrom said that if it is advertised for one day (referring to the surplus) many people did not see it.

Mr. Stempeck said that the way this was handled there was no question that it is archaic and not modern in how it was handled however, the policy was followed to the letter of the law, absolutely. It was when you walk through the steps and all the letters went out. It is like the military following the policy to the letter, but doing absolutely the wrong thing. We do not want to be there and recognize that and it will be addressed. Mr. Arena said that he takes issue in that policies were followed in that the Kelly Blue Book which is an attempt to get value, where was the assessment value. Mr. Stempeck said that Kelly Blue Book does not cover these. Mr. Arena commented, where was the internal assessment valuation. Ms. Angstrom said that if the Kelly Blue Book does not cover that then some other option needs to be utilized to cover that step.

Mr. Stempeck stated that the trucks were offered to all four towns and turned them down which is de facto, zero value. Ms. Angstrom pointed out that the letter does not state zero. In the letters to the towns, it looks like that it was an offer to sell. Mr. Stempeck added that the policy states the towns get them at no cost. Ms. Angstrom and Mr. Arena pointed out that the policy is not attached to the letter. Ms. Angstrom said that we would need a capital plan to purchase it. If it was not a planned purchase without a budget for it they could not purchase it. It was not knowledgeable to Ms. Angstrom or Town Manager, Bob LaLecheur that the surplus vehicles were free. Ms. O'Brien agreed with Ms. Angstrom. Ms. O'Brien pointed out that Reading has taken vehicles for free in the past. Ms. O'Brien said that she is new; Ms. Angstrom is new as well as Mr. LaLecheur. Ms. O'Brien noted that there are assumptions made that you are following the policy and they know. Ms. Angstrom and Mr. Arena suggested that it would be good to put the policy with the letter and highlight that they were free. Chairman Pacino and Mr. Stempeck noted the requested changes suggested to the surplus letter format.

Mr. Talbot, RMLD Board Chairman thanked Ms. Angstrom and Mr. Arena for their input. He is hopeful that something can be done today in that Ms. Angstrom let the RMLD know how the Town of Reading handles specialized surplus. Mr. Talbot said that a Ford 150 is easier to value because it is one of the most popular vehicles in the country. Mr. Talbot commented that the specialized surplus market is a more rarified market distributed over time and space; one week is not enough to advertise in the local paper. Mr. Talbot said to Ms. Angstrom that any suggestions are appreciated. Ms. Angstrom said that she will look into their policies and forward them on to Ms. O'Brien. Mr. Talbot pointed out that the key thing is how it is marketed. Ms. Angstrom said that using online auction sites provides for wider audiences. Mr. Talbot said that Mr. Polson did look at some online websites. Mr. Talbot is in agreement that there should be the General Manager's signature on these types of disposal and a commission signature, if not a Board vote. Maybe there is not a reason to do that, but he does not understand why there would not be. Mr. Talbot said that the Board comes in over the weekend to sign invoices there is no reason they could not sign the surplus award. Ideally, in the public interest and full public disclosure, he would like to see a surplus bid on the agenda, if we get to the point where "Joe Smith is buying a truck and selling for X amount of dollars." This provides the public the opportunity to know who may be potentially receiving the surplus and is another public check and balance. The Board is responsible for the final decision on contracts so it can be for the surplus material. Chairman Pacino said that if you are selling hypothetically a chair, do you want that on the agenda. Mr. Talbot asked how often the RMLD disposes of items. Ms. O'Brien said that surplus is not addressed quarterly and is one of the items that will be looked at. It is more on an as needed or deemed not in a safe condition. Ms. O'Brien explained that UMASS puts it surplus on their website for thirty days. Once the surplus is awarded they list, the awarded bidder, minimum bid and how much they were sold for. The way UMASS handles this is transparent. Mr. Talbot said that at Town Meeting, the town's surplus is presented then. Mr. Talbot asked if there is any argument against putting the surplus on RMLD's agenda. Mr. Stempeck said that Mr. Pacino's point is that if the item is less than \$200 do you want it on the agenda for a meeting of ten items listed. Ms. Angstrom suggested having a threshold. Mr. Stempeck was in agreement. Ms. Angstrom said that it could be items on the fixed asset listing. Chairman Pacino added that the more items that are capitalized the better we do. Mr. Talbot added that minimally there should be a General Manager and commission member signature. Chairman Pacino said that there is a minimum value put on the agenda on a quarterly basis.

Mr. Arena said that the Town of Reading does its surplus annually at Town Meeting which is the correct frequency. Mr. Arena explained that the vote at Town Meeting is to authorize the Town Manager to dispose of surplus in any manner he sees fit which typically is a trade in. Ms. Angstrom said that the town uses trade in because usually they are replacing something they use. Mr. Stempeck said that his personal experience on trade-ins, is the retail price gets inflated. Ms. Angstrom said that she cannot speak to that because she is not part of the process. Mr. Arena said that if a purchase request goes out for the vehicle first then offer the trade in because the price has been fixed for the vehicle you are replacing.

A healthy discussion on anonymous letters with the pros and cons then took place. The consensus is it that the anonymous letter policy and process needs to be looked into.

Mr. Arena asked what the RMLD policy for periodic review of policies is. Chairman Pacino replied that in the past when the General Manager thought policy changes were necessary they were brought to the Board. Mr. Arena asked how many policies there are. Ms. O'Brien replied thirty one policies.

Mr. Talbot left the meeting at this point.

Mr. Arena asked if this deal was done, the title has been transferred. Ms. O'Brien replied, yes. Mr. Arena clarified is there a policy that limits the employee and is there a declaration that they will transfer the material subsequently. Ms. O'Brien responded not in the existing policy. Ms. O'Brien said that in the example she provided, the community of Placer County there is no sale for resale, she has submitted some sample language on that topic.

Chairman Pacino asked if there was additional comments on surplus property, there was none.

Ms. Angstrom and Mr. Arena left the meeting at this point. Chairman Pacino thanked them for their attendance.

Mr. O'Rourke wanted to know how to proceed. Chairman Pacino said that the MelansonHeath memorandum contained some of the same suggestions that Ms. Angstrom pointed out. Ms. Antonio said that the original policy goes back to 1991 and surplus has been offered to the town since then. Ms. O'Brien said that the policy states that "towns will not be charged for the property, however they must provide in writing a release from RMLD liability concerning the vehicles." Mr. O'Rourke asked if the towns have historically taken the trucks. Chairman Pacino said that it is a goodwill gesture. Ms. Antonio pointed out that the surplus letter also goes to the DPW heads. Mr. O'Rourke said that if you offer the vehicles for free and there is no interest, it is better for the RMLD to get \$350 versus not getting anything. Mr. O'Rourke said that no matter how you do it someone is always thinking there may be collusion. Mr. Stempeck suggested a valuation expert or comparable in the Northeast for most recent sales, advertising, *The Boston Globe*, *The Boston Herald* or industry trade magazines could be considered. Mr. Stempeck warned on advertising when it gets cost prohibitive. Ms. O'Brien said there are companies that will auction the vehicles. Ms. O'Brien said that the RMLD does not use *The Boston Globe* because of the cost.

RMLD Policy Matrix (Attachment 1)

Strategic Plan to Review and Update all RMLD Policies

Ms. O'Brien stated that when she first came to the RMLD she initiated the restructuring of RMLD policies. The committee has not met in part due to other items such as addressing the rates which took precedent. Ms. O'Brien informed the committee members that on YouTube, which will be linked on RMLD's website and on all local cable televisions she, Ms. Gottwald and Ms. Parenteau did a call in for the new rate structure and unbundling of the bill that went well.

Ms. O'Brien said that she looked at the Drug and Alcohol Policy because she had to address this her first week at the RMLD. Utilities should be alcohol and drug free workplaces. It is very difficult to implement this type of policy here due to the unions, but is half way completed. She looked at all the policies where some should be operational, however are governing. The Board cannot vote on a federal guideline of where the drug and alcohol should be, it should be Human Resources. There are a substantial amount of policies that were never written for construction standards and were not because it would go under the governing board. It is a list of the policies proposing whether they should be operational or governing.

RMLD Policy Matrix (Attachment 1)

Strategic Plan to Review and Update all RMLD Policies

Mr. O'Rourke asked why the Sexual Harassment Policy is not under Human Resources. Ms. O'Brien responded that Massachusetts General Laws Chapter 164 states that the General Manager has responsibility of the operational policies. The proposal on the table is twofold. Ms. O'Brien then addressed the policy matrix. Ms. O'Brien stated that one is the proposed division matrix and the second is proposal is to take all of the policies and send them to legal for political sensitivity, rescrubbing and legal updating. That way she and the Board will receive a mini legal opinion on each of the policies stating that it shows the pros and cons. An example of this would be the Anonymous Policy from a legal standpoint you will see both sides. Each policy will be gone through with controlled cost. Ms. O'Brien said that she sent Mr. Talbot a list of her accomplishments and one of them was decreasing legal significantly. The scope will be very specific. Legally, the RMLD is not under 30B; however, the RMLD policies follow them, would it be prudent to reject the bids, would it be politically sensitive to remove employees from bidding. Then the committee can come back and meet. Mr. O'Rourke clarified that legal will look at the policies before the committee. Ms. O'Brien said that it could be done in parallel. Mr. Stempeck said that it is best if legal looks at the policies first from what we have experienced. We can get the legal suggestions and then decide what we want to incorporate. Mr. Stempeck said that surplus material needs to be addressed. Ms. O'Brien said that we are not going to have any surplus material at this point until the policy is rewritten and approved. The UMASS Amherst surplus information can be sent to legal because what UMASS does is working for them. Mr. O'Rourke has a concern to administer this. Ms. O'Brien said that UMASS Amherst surplus has been vetted and is working. Ms. O'Brien also added to have someone to perform an analysis on the surplus can cost money that results in a negative cost. Ms. O'Brien said that with the six year plan vehicles are being looked at in this time parameter versus one year as done in the past. Mr. O'Rourke asked about the depreciation of the trucks. Ms. Antonio replied every eight to ten years. Ms. O'Brien said that some of the trucks were kept and dielectrically tested as back up in storm situations. Ms. O'Brien said that the tires may have been taken off the trucks, it is being looked into.

Ms. O'Brien said that she will start on the surplus as a priority and have legal look at the rest and then get the matrix for proposed separation. Mr. O'Rourke said that he is on board with legal giving the policies a first review, will legal make additional recommendations. Ms. O'Brien explained that switching, load shedding and peak shaving policies do not exist at RMLD and is unsure why; these are operational and will not go to legal.

Mr. Stempeck said that many of the policies should become operational policies, not subject to the Board. They should be dealing with strategic issues, etc. Ms. O'Brien said that another thing is missing which she had in Danvers, is a comprehensive terms and conditions handbook. It is a manual and is online; it is the direction to go for operational policies.

Chairman Pacino asked what is the timetable for getting the policies to the lawyer and back. Ms. O'Brien responded that she will get out a scope and memo out before Friday this week and everyone will receive a copy.

Motion to Adjourn

At 8:40 a.m. Mr. Stempeck made a motion seconded by Mr. O'Rourke to adjourn the meeting.

Motion carried 3:0:0.