

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY,  
TUESDAY, OCTOBER 17, 2006, 4:00 P.M., CITY COMMISSION CHAMBERS

Members Present: Chairman, Thomas K. Perona; Vice Chairman, Darrell Drummond; Secretary, Pamela K. Cully; Deputy Secretary, Robert W. Summerhays, Jr.; Mayor Robert J. Benton III; Ex-Officio Member/City Manager, Dennis Beach

Others Present: Director of Utilities; Director of Electric/Gas Systems; Director of Water/Wastewater Systems; Director of Shared Services; Director of Corporate Services; Internal Auditor/Risk Manager; Communications/Corporate Relations Manager; FPUA Attorney.

Chairman Perona called the meeting to order.

The Invocation was given by Dr. Willie Russ of Miracle Prayer Temple.

The Pledge of Allegiance was recited.

The Roll was called and a quorum declared.

Motion by Mr. Drummond, seconded by Mr. Summerhays and carried with Mrs. Cully, Mr. Drummond, Mr. Summerhays and Mr. Perona voting yes. Mayor Benton was not present at this time.

1. Approval of the Minutes of the Regular Meeting of October 3, 2006.
2. Approval of the Minutes of the Rate Workshop of September 28, 2006.
3. Excuse Mayor Benton from attendance at the September 28, 2006, Rate Workshop.

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The following letters of appreciation were noted:

1. A letter was received from Gil Hyatt Construction expressing appreciation of the cooperation and sincere efforts to work with them during the demolition and construction of the McDonalds Restaurant on US 1 in Ft. Pierce to the following FPUA employees: David Mellert, Water/Wastewater/Gas Engineering Department, Craig Crawford of the Natural Gas Department, Jason Mittler of the Electrical Engineering Department and Eileen Snoberger, Bill Abramowicz and Val Sirmons of the Customer Service Department.
2. A letter was received from Lynne Tejada, General Manager & CEO of Keys Energy thanking Tom Richards for overseeing the Peer Review of their generating facilities.

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Mayor Benton and Mr. Beach entered the meeting at this point.

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Mr. John Tompeck presented a request for approval of contract Change Order No. 1 to the Overland Contracting, Inc. contract for services related to the Causeway Substation Addition.

Mr. Tompeck explained the Board approved the original contract at the February 7, 2006, Board Meeting. Construction on the project began in March. Since that time several unforeseen developments have impacted Overland's scope of work, which has resulted in their request for additional funds. These additions can be broken down into a few specific categories. The first category is below grade obstructions and old oil line clean up. During pole installation and duct bank

construction along Second Street, contaminated soil was encountered during excavation which had to be disposed of properly. As it turned out, ten truckloads of contaminated soil and about 2,500 gallons of oil contact water were removed. Also, some below grade obstructions not previously identified on the drawings or during locates were encountered, which had to be worked around. In both of these cases there were delays in construction, which impacted manpower and equipment costs. The resulting increased cost for these items was \$92,878.

The second category was reliability and outage concerns. Most of the work on this project was completed during the summer peak load months. He is talking about the transmission lines across the river and the lines on both sides of the river. As a result, in order to maintain the reliability of power supply to the island, outage management became a very important issue. In some cases outages had to be cut short based on load during the hot afternoon periods. In other cases, temporary spans had to be erected as a work-around to maintain system reliability. As a result, the cost to Overland for those changes was \$54,397.

The third category is project delay. The most significant impact to the project was delay in delivery of the prefabricated control house by Tampa Armature Works. This critical item cost us four weeks in delays. It delayed the start of critical wiring work and added additional expenses for equipment rental, insurance bond premiums, manpower and administrative costs. The cost for these delays was \$223,728.

The fourth category is contractor overrun. In addition to the scope items already discussed, Overland had some overruns where the actual cost of work exceeded the estimated cost of work. These items included construction labor, construction materials and services, management and administrative costs. By contract FPUA is responsible for 50% of this overrun. Overland is absorbing the remaining 50%. Also by contract, Overland does not receive the 12% fee on the overrun amount. Our share of the cost of this item is \$169,315.

The last category is miscellaneous items, two of which he believes are significant. Two of the existing concrete switch stands on the existing bay of the substation were structurally unsound and had to be replaced. This was not anticipated and, based on material delivery, cost us about a week's delay on the project. During construction in field installation in various structures you always have some minor field changes. In our case those changes were minor fits, clearance and tolerance issues that were addressed by Overland on an on-going basis. The cost of these items was \$154,781.

The total of all these categories is the \$695,099 listed in the change order. In terms of alternatives, we don't really have any viable ones. The project is critical to supplying power to the island and must be completed. Overland has done an excellent technical job on a very difficult construction project.

Mr. Tompeck stated we expect to energize the first transmission line later this week and the second transmission line early next week. Barring any unforeseen problems, removal of the poles on Indian River Drive should start next week, and we're hoping to complete the project by November 3<sup>rd</sup>.

Mr. Perona said the thing that gets to me every time I read through this is Tampa Armature Works delivery of this unit a month late. Was there any type of performance issue with them? Mr. Tompeck said Black & Veatch did as good a job as possible in expediting this with Tampa Armature. He doesn't believe we have a financial remedy in the contract for consequential damages, but we've initiated a memo to City Purchasing to see if we can have Tampa Armature Works removed from our suppliers' list. Even when they finally delivered the control house, there were pieces and parts that

were missing that straggled along a couple of weeks afterwards. We were very disappointed in their performance.

Mrs. Cully asked if there is any way we can retrieve some of our money back from Tampa Armature Works. Mr. Tompeck said, based upon his review of the contract, he doesn't believe there is. Mrs. Cully asked if this type of overage happens with Overland all the time. Have we worked with them before? Mr. Tompeck said he doesn't believe we've worked with Overland before. He thinks part of the problem was that, originally, Overland had given us a change order for about \$128,000 in July. At that point we didn't think that covered the extent of the late delivery of the control house, so we asked them for additional information. They came back a couple of weeks later with a revised change order for \$240,000. Based on the cash flow, he didn't think they were close to where they needed to be to finish, and we asked them to go back and take a look to see where they were. They had a little bit of difficulty putting their hands around the overrun. In some cases the construction materials were much more expensive than they anticipated, especially, concrete. It cost them \$165 to \$170 per cubic yard. In retrospect, he thinks he probably should have come before the Board a couple of months ago to present the first change order, even recognizing there was going to be additional work required. We thought we could handle this all in one change order, which we are doing now, but we should have come here two months ago.

Mr. Koblegard asked if Mr. Tompeck would send him a copy of the contract for his review. He asked if this is the contract that was negotiated and how it compares with the low bid now. Mr. Tompeck said the other two bids received for this were \$4.6 million and \$5.9 million. With this change order we are in the \$4.875 million range. The lower bidder would have encountered the same kind of construction problems. He feels comfortable that the costs are less using Overland. Overland has done an excellent technical job. It is nice to be able to use the contractors from the same organization as the Engineer.

Mrs. Cully said the work began in February. Was there a time period set that said we were going to go on through the summer like that? Mr. Tompeck said we should have been complete by mid-September. It would have gone through the summer. As we progressed through the project, we realized we couldn't take out both lines across the river, and that is what created our outage problems. There were a couple of days where we had to stop working at 2:00 p.m., because the load couldn't be supported by one distribution line on the bridge. In retrospect, he thinks we could probably have done a little better job in managing the outages. The first thing we could have done is not do the job in the summer. As it turned out, we had to. This is normally a job you would not do during the summer based on the restrictions on the transmission and distribution to the island.

Mr. Perona said the job itself was somewhat complex. He would like for Mr. Koblegard to take a look at the contract and report back to the Board at the next meeting with his thoughts.

Mr. Drummond asked if they provided us with detailed documentation for the numbers. Mr. Tompeck said yes. We have back up for the change order, and based on the open book concept of this contract, we can go back any time and look at the details. We have all invoices for materials and services and timesheets.

Motion by Mr. Summerhays, seconded by Mrs. Cully and unanimously carried to approve Contract Change Order No. 1 with Overland Contracting, Inc. in the amount of \$695,099.00 for contracting services related to the Causeway substation addition, substation and 69kV overhead and underground transmission line construction.

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Mr. Thiess said we have been talking about work after retirement options for the last several months in one form or another, and DROP is one of those options, which is fairly common. The School Board has this plan, as well as, a lot of other agencies. DROP means Deferred Retirement Option Plan. He introduced Mr. Brad Armstrong, Senior Consultant with Gabriel, Roeder, Smith and Company, who will make a power point presentation explaining this option. We want to present this conceptually and are looking for Board approval to move to the next step, which would be to outline the need, define the costs to both the UA and the participants and bring it back to the Board.

Mr. Armstrong addressed the Board. He stated he is an Actuary trained in putting a value on things of financial risk.

He explained the Deferred Retirement Option Plan allows a member to retire for pension purposes while continuing to work. When it first came out, people thought of this as double dipping, but it has received a lot of federal scrutiny over the years, and, effectively, you're taking a pension and allocating it into a separate account and accumulating it while you're still working. This type of plan began in Louisiana, spread through the southeast and has made its way up to Michigan, among other states. Initially, it was very popular among safety plans and teacher plans.

Mr. Armstrong stated when eligible for a DROP, a member may either retire, continue working and retire or DROP at some future point in time. In your plan for FPUA a lot of your members, if they start before age 35, will become eligible for a pension benefit through your retirement plan after 25 years of service. At that point if you had a DROP, they would face a decision. They could freeze their pension at that point in time or work another year and review that decision, again. As far as implementing a DROP, it doesn't cost anything until somebody elects it. Just by having the option available, if somebody doesn't elect it, your benefit structure would be identical to your current benefit structure. Generally speaking, we've seen in other south Florida communities, participation has been pretty heavy. Of those who become eligible, 50% or more will elect to participate in a DROP.

When someone elects to enter a DROP, they retire for benefit purposes of the retirement and benefit system, but that's it. As far as the retirement and benefit system is concerned, that member becomes a retiree. They are not, typically, eligible for disability benefits unless designed into your plan. The retirement and benefit system views that person as if they are no longer employed. The pension check will be paid into an account rather than cutting a physical check and mailing it or electronic fund transferring it into somebody's account. The member in the meantime, continues to work. The member makes a non-binding choice on when to stop working. One of the advantages when a DROP is put into place is to have some sense of when people are going to retire, so for training and transition purposes it can be a very useful tool. A person wouldn't be able to say they are going to wait and see and take a life annuity and three or four or five years from now, when they leave active employment with the UA, then, decide if they want to elect the joint survivor beneficiary and take a reduction. In the meantime their DROP account would accumulate with life annuity. That is advantageous to the member, but it is a little more costly, because a person is always going to elect the highest benefit while they're active and make a beneficiary election at some later point in time. If you truly think of it in terms of retirement, at that point in time they would make the irrevocable election as to who their beneficiary might be and whether or not for the rest of their life they are going to either receive a life annuity or joint survivor annuity in whatever form they might choose.

You can think of the DROP account as an accounting ledger. Each month instead of mailing a check that creates a transaction and assets leave the retirement system, the simplest way is to put those monthly amounts into an accounting ledger and keep accumulating that.

The current cost of living adjustment provision under the retirement and benefit plan is likely not to be invoked for a number of years, but, suppose the 3% cost of living were to be paid. The member is treated as a retiree, so on the anniversary date when the COLA takes effect, the amount you would put into their account would reflect the 3% cost of living adjustment if all the other retirees were receiving it at the same time.

During the DROP period, what are the consequences to the member? The member actively works and is subject to all employment rules and disciplinary procedures. They can't attempt to not be subject to the same situations, whereby, they show up to work at 10:00 a.m. or something. It doesn't create a contract with the employee in any way with respect to any of the other programs or health insurance coverages.

Mr. Armstrong further stated the DROP interest can be market or fixed. The fixed interest credit would be the simplest as far as accumulating account balance. Let's say you picked 4% annual interest rate with quarterly compounding. Every quarter you would increase the value of the DROP account by 1%. There are usually no member contributions during a DROP period. Or, they can be added to the account. He has seen both situations. You could have some combination, whereby, you have partial or reduced contributions. This creates an additional incentive for someone to go into a DROP, because regardless of the consequences of the retirement benefit, while they're actively employed their take-home pay would be enhanced by the fact that they're not making the 6.16% member contributions into the retirement plan. Whether or not they allocate that to savings or retirement is up to the member. That is part of the financial equation someone would consider if they were trying to determine if this was a viable choice for them.

At actual retirement the monthly frozen pension commences. You have plan design options for payment of the DROP accumulation. The most cost efficient would be to roll over to another eligible plan. If you don't want to be in the business of variable annuities or managing other people's lump sums or creating installments or additional accounting or bookkeeping, you could pick the second option and just roll it into that person's name with a lump sum distribution. They would then potentially pay excise taxes. The tax consequences aren't the responsibility of the retirement system. You would strongly encourage the employee to seek a tax advisor before they made any decision with respect to a lump sum distribution. Other than that, you would not attempt to give them tax advice.

Under potential benefits for members, if somebody had it in mind that they were going to work 25 years for the UA and then retire, and, potentially, seek a second career or have more leisure time, that person was already thinking that 25<sup>th</sup> year was the point where they were going to start their pension. The decision to wait and get a bigger pension wouldn't necessarily be something they would want to do. They could go into pay status, although they wouldn't have access to their money until some future point in time, and keep working and would still be receiving fulltime pay. The appeal of a lump sum can't be underestimated. People love lump sums. They are extremely popular. Under your current retirement system, you don't have the option to take a lump sum from all or part of your retirement annuity. Somebody who may want to buy a Harley Davidson without having to take out a loan may like taking the lump sum. You can pay down mortgages with a lump sum, also.

Under the DROP plan you would also have employment rights, privileges and non-pension benefits with active health care coverages. Health care coverage is more favorable as an active member rather than as a retired member. Under disadvantages, often benefit increases may occur when someone is in the DROP, but because they are retired, they are not included in formula benefit changes. They might miss out on that. Pension is not increased due to pay raises during the DROP period. If someone sees very small pay increases over the next few years, that would encourage them to enter the DROP, versus waiting to start their pension a few years later. If somebody takes a lump sum from the DROP and utilizes it very quickly, the potential is that their lifetime income would be a little bit less than it would if they had not done that.

Mr. Armstrong said if the employer is willing to set up the DROP, they have the objective that this will give them some planning and transitional latitude between one person's career and the next person's career. If the DROP period is indefinite, you create a host of problems. The opportunities for promotion are very limited for those who may be in the DROP who, otherwise, would have expected to be promoted. If you stay in the DROP for seven to ten years, it's not meeting the objective for planning purposes. The most common thing that happens is you cut the payments off in three to five years after someone enters the DROP. This encourages them to retire. You would quit putting monthly amounts into the account. The end of the DROP period is, overwhelmingly, the date people will leave. Very few would put their pension on hold for a few years. You control the beginning and the end. You encourage someone to stay on a little bit longer than they might have, otherwise, but for a finite period of time.

Under potential benefits for the employer, this enables you to give another benefit at, potentially, a very low cost. You may be able to manage the workforce better with very little additional cost on the part of the employer. The employer has the opportunity to retain valuable employees. This is an area where you want to discriminate. You would like some of your best people to stay longer, but some of the people you really were hoping might consider opting to retire at the first opportunity, might decide to enter the DROP and stay a few more years. Discrimination is something that is more of a legal issue. If you narrowly define who is eligible, as long as it is available to all people in that same situation, he thinks you will avoid any trouble with discrimination. You would want to think about the consequence ahead of time. If you simply said anybody with 25 years of service is eligible for the DROP, you may end up encouraging a number of people to stay longer. You could expressly identify those positions that would be eligible, so the DROP isn't opened broadly to all employees. That would be part of your decision making process and plan design.

It can be difficult to design a DROP to be cost neutral. Cost neutral means contributions into the retirement plan could go up, depending on what the plan design looks like. As far as the retirement plan is concerned to the extent that somebody is going to work 28 years, anyway, and they decide to DROP at 25 years, then you really didn't affect their decision to retire. You just put them effectively into pay status three years sooner, so you only had 25 years to fund that benefit, as opposed to 28 years. He doesn't think contribution consequences are very dire. They are relatively modest, but it goes back to what your objectives are. If your objectives are to encourage qualified personnel to stay a few more years and plan for their departure, a DROP can be a very useful tool.

Employer contributions also will stabilize over time, because in the case of the 28 year employee, you may have had to fund their benefit over 25 years instead of 28, but you create a three year gap where that new employee doesn't come along. One of the ways to think of it is if you have a single position and a 25 year career, over a 100 year period, you would have to pay four people pensions. Instead of 25 year careers, you had 33-1/3 year careers, then, in the same 100 year period, you only have to pay

three pensions. Just because an individual pension may look a little bit more expensive, you actually have a contribution holiday where you are not building a pension benefit for somebody else. It will take a few years to reach a point of equilibrium.

You definitely want to think about death benefits and disability before they become emotional. In other words, if you had somebody who was injured in the line of duty and left several dependents, you would rather decide ahead of time how the DROP situation is going to handle that person. Even though, theoretically, they're retired, clearly, they would never have been out climbing a utility pole and exposing themselves to high voltage if they were retired under normal circumstances. He supposes some people like their careers so much that they would volunteer during retirement, but it doesn't seem likely.

The accrued sick and vacation leave are issues that have to be dealt with. You don't want somebody in the DROP to have no responsibility to show up for work for the next six months, because they're using their accrued sick and vacation leave. The issue of member contributions and how much, need to be considered. If there are any, would they get directed to the DROP account, so they would accumulate on the member's behalf, or would they serve to offset the employer contribution? Interest credits on the DROP account and distribution options are plan design questions. Communications are important. You want FTD and benefit statements to be available. This would be a new type of benefit statement you haven't had in the past.

As an aside, Mr. Armstrong stated, he is not an attorney, but to the extent that any of you get involved in anybody asking questions, you should never make recommendations. Don't even make the statement, "If it were me," or "If it were my mom, this is what I would do." You should never take it upon yourself to try to make a recommendation. You don't want to influence anybody's decision, particularly, with respect to employment. You want to communicate, but nothing more than the plan provisions.

Mr. Beach and Mayor Benton exited the meeting.

Mr. Armstrong described to the Board several scenarios of DROP situations. He stated if someone worked five years and works one more year, their benefit is increased by 20%. A 25 year career, conversely, working one more year would only increase your benefit by 4%. A DROP is generally going to be more favorable to people with longer service. Under the scenario of a 30 year career, staying an additional year is only 3-1/3% additional benefit. Florida Statutes cap your benefits at 100% of final average salary, so if somebody wanted to work beyond 33 years, if you put a DROP in, that's a case where it would increase costs. Virtually, anyone with 33 years of service in the State of Florida with a 3% multiplier is going to enter a DROP if given the opportunity. It is also possible your eligibility expires, so you may say we don't really want people with 33 years of service working until they have 38 years of service. We'd rather cap it at the earlier 5 years in the DROP or 35 years of service. That is part of a plan design decision.

Mr. Armstrong said cost neutral as far as the retirement plan is concerned, overlooks another big component, which would be personnel issues and payroll costs. The UA would probably be able to say we're being experience-rated on active health care cost and the DROP may encourage unhealthy people who might have less of an opportunity for insurance, to continue on in an active basis for health care costs. Sooner or later that will show up in your premiums. Your retirement plan may say this doesn't cost you a dime, but you have to consider the big picture. If you're trying to retain your talent at the top, you have to be careful about the mid-level talent that is anxious to get up to the top. The mid-level

talent may very well have opportunities elsewhere. If you encourage people to stay longer, there has to be some consideration given to the opportunities for those below them, although, the people below them, suddenly have a well defined opportunity. In other words, if someone enters the DROP, those below can see the light at the end of the tunnel. If you have a three year DROP, that's as long as you need to transition any employee. It doesn't necessarily guarantee the person beneath them gets the position, but it gives people a timeline. They won't have the anguish that the person above them is never going to leave and is going to work here longer than they have patience to wait.

Mr. Drummond said he is guessing that the retirement board would have to approve this in order for us to initiate the program. Mr. Armstrong said this Board, as an agency, would have to decide this would be beneficial to your objectives and worth pursuing. You have to decide what type of plan design you want. ICMA does have a product where you could allocate these amounts to self-directed accounts and you would be out of the administration of it completely. After you have decided upon a plan, the retirement and benefit system board would consider it. It would then go to the City Commission. It would be a question of who pays for administration costs, if any, and legal costs associated with drafting an amendment to the ordinance. He doesn't think the City Commission would be a hurdle, per se.

Mr. Drummond asked if there would be the view at the City Commission that if we went into that arena, that they would be pressured to offer this, as well. Mr. Armstrong said many retirement plans have this in place and have for a number of years. He doesn't see it as a bad thing. Each of the other groups involved in the retirement system would view their own objectives and decide if this makes sense for them. It shouldn't be a domino effect just because the Utilities Authority has it. It isn't quite the same as a 3% multiplier. You do have members at the 2.5% multiplier still. There are differences in benefits among the groups. The DROP is really more in the category of optional forms of payment than it is in providing additional benefits.

Mr. Drummond asked if it would be more advantageous to have all the participants look at this at once, versus each one going through it individually. Mr. Armstrong said it might stir up some interest. There isn't going to be any interest by the board of the retirement and benefit system if you don't bring forth a proposal for your own employees. If it meets with your objectives, he doesn't think it would affect you one way or the other if it became the popular thing to do and the other groups wanted it. He doesn't think the City Commission would view it negatively. It gives you an option to accomplish things and provide better service in the long run. It has been in place for a long time in other communities, particularly, Palm Beach County. Generally speaking, these plans have been well received by the members.

Mr. Thiess said staff is looking for direction from the Board to move to the next level, which would be to prepare an outline of a plan to detail the costs to the participants and the UA. Mr. Perona would like to see something from staff that it is something that makes sense and is a benefit. Mr. Summerhays asked if the employees have been surveyed. Do we know if there is an interest? Mr. Thiess said there hasn't been a formal survey of all employees. We have had a lot of interest expressed during discussions. It is not the panacea for retirement, but it would work well for some employees. Mrs. Cully said she would like to see something more from staff.

Mr. Drummond asked Mr. Richards if the Retirement Board has expressed an interest in this? Mr. Richards said no.

October 17, 2006

Page - 9

Mr. Drummond said he is sorry that our City representatives left the meeting. He would like to get some kind of feeling if there would be any kind of hesitation on their part if we brought something to them.

Motion by Mrs. Cully, seconded by Mr. Summerhays to allow staff to take the next step to outline a Deferred Retirement Option Plan along with costs and bring it back to the Board for review. The roll was called and the motion carried with Mrs. Cully, Mr. Drummond, Mr. Summerhays and Mr. Perona voting yes.

Mr. Perona thanked Mr. Armstrong for his presentation. Mr. Armstrong said Mr. Richards or Mr. Giel can reach him if the Board has any additional questions. If you need a prompt response, you'll have it.

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Mr. Thiess said at the last Board meeting we brought an item to the Board regarding a malfunction of the Unit No. 8 steam boiler. We made reference to the Phase I study looking at the incident. Mr. Bill Anderson, Power Generation Superintendent, is present to give the Board additional information if needed.

Motion by Mr. Drummond, seconded by Mr. Summerhays to waive bidding process, declare emergency and approve the substantial form of proposal from Foster Wheeler for engineering services for Phase I preliminary condition assessment of Unit No. 8 steam boiler in an amount not to exceed \$49,720.00 and authorize execution of same subject to Attorney's review. The roll was called and the motion carried with Mrs. Cully, Mr. Drummond, Mr. Summerhays and Mr. Perona voting yes.

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Mr. Frank Varella presented the August 2006 Operating Results.

Mr. Varella stated we had a better month in August than we had in the previous two months. Our operating income is up this month. The weather has a lot to do with it, but expenses were down, also. If you go to the statistical section on pages 4, 5, 6, and 7, you will notice the electric, water and gas were all down for the month, which is surprising. However, wastewater service charge units were up. Overall, he thinks we are doing pretty good. It will depend on how we do in September. He thinks we will be over last September, as the weather seemed to be very hot this year.

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Mr. Thiess stated the next item is in reference to Capital Improvement Charges. These were presented at the Board Workshop three weeks ago. The resolution presented tonight incorporates that information. No changes in the amounts have been made. This brings the Capital Improvement Charges, Guaranteed Revenue Charges, and Accrued Guaranteed Revenue Charges to the Board in the form of a resolution for adoption.

Mr. Perona called to order the Public Hearing regarding Water/Wastewater Capital Improvement Charges. There being no one present who wished to be heard, the Public Hearing was closed.

Motion by Mr. Summerhays, seconded by Mr. Drummond and carried with Mrs. Cully, Mr. Drummond, Mr. Summerhays and Mr. Perona voting yes to adopt Resolution UA 2006-10 - Revising Water/Wastewater Capital Improvement Charges, and revising the payment procedure for Guaranteed Revenue Charges for the Water/Wastewater System and Establishing the Accrued Guaranteed Revenue Charges by the Water/Wastewater System and Providing for An Effective Date hereof.

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Mr. Frank Varella presented Resolution UA 2006-11 approving the FMPA Pooled Loan.

Mr. Varella said the loan is in the amount of \$20 million. Our capital budget this year is almost \$50 million, and we will need a substantial amount of money in order to complete all the capital items we have in the budget. In the last two meetings, the Board approved over \$5 million in capital projects. We are spending money at a rapid pace in order to continue to keep the quality of service at the level our customers expect it to be. Our system is growing. You don't pay the money and expect service in the future. When people want electric, water, wastewater and gas, that is when they give you the money for the service. We have to have the infrastructure in place at the time our customers come here. Everywhere you go, new buildings are popping up. We haven't made any substation improvements in years. Hopefully, the power plant will be vacated in the next couple of years, and we're trying to prepare the system, overall, to be able to serve our customers. We have to have more capable substations in order to distribute that power throughout our system. We need the new water reclamation facility for growth on the western side. We just expanded the water system and added another R/O skid for a couple of million dollars. Utility plant isn't cheap. We are putting in water and wastewater lines to serve all the customers in the new developments all over our service territory. It is highly likely we will spend the \$20 million in this year. If everything goes according to plan, we will be coming to the Board this fiscal year to go to the bond market. The pooled loan will tide us over so we can get our financial house in order. He is very happy the Board adopted the new Capital Improvement Charges resolution, because that is a part of getting our financial house in order. The next step is to adopt water, wastewater and electric rate changes we need in order to continue to provide our customers with a high quality service. We can't grow if we don't have money to pay the debt or capital improvements. Bondholders or loan holders won't lend you money unless you have a revenue stream in place that will guarantee they will get paid. This is what we are trying to do.

Mrs. Cully asked when we go out for bonds, how do they look at the pooled loan we have outstanding? Mr. Varella said they look at the fact that we need money to pay our bills. Our bond counsel and financial advisor said at our last special meeting that going to the pooled loan market is a great way to interim finance. It saves us bond marketing costs, which are very expensive. It gives the ability when we do go to Wall Street or when Wall Street reviews our financial situation, they see that we do have part of our portfolio in fixed debt and part in variable debt. The pooled loan gives us the variable debt portion at an economical rate.

Mr. Perona said he gets the feeling that Mr. Varella is more than sure that the rates across the board will be accepted by the City Commission, because they are anticipated to be able to handle the debt service. Mr. Varella said he is hopeful the City Commission is going to adopt the rate changes the Board approves. If the City rejected the rate increases, we would have to re-address the capital budget process and where we are going from a capital expenditure perspective and a service perspective. Mr. Perona said we would re-examine every future plan we have and go back to a standard plan that is cheaper, which may even include keeping the island treatment plant. We have already identified that we can get more years of life out of that plant, but when we are talking about costs to our ratepayers and what the UA can afford in a business sense, it is probably our only move if we're stuck with a lack of approval of the rate increase. Mr. Varella said we would have to re-evaluate where we are going as a utility. It may even include some sort of moratorium, because we couldn't provide services to outlying areas. Utilities are capital intensive businesses. If you don't have capital, you can't operate. The UA has done everything we can over the last ten to twelve years to tighten our belts, cut costs and try to increase revenues in order to get through a very stagnant if not declining customer base. We didn't

have any growth to support our expenditures, so we cut back and cut back, and now growth is here and we can't cut back any more. If we plan to be a utility, we need to step up to the plate and get the rate adjustments in.

Mr. Drummond said we are, in essence, responding to the growth that the City Commission has approved. Mr. Varella said that is correct. We are making the developers pay their share. It is not like we are being negligent and not charging them. We are charging them as much as we can justify charging them. When you build plants and put in infrastructure, you're not paying for today's expenditures, you're paying for future periods' expenditures that sometimes go out five, ten to twenty years.

Motion by Mr. Summerhays, seconded by Mrs. Cully and carried with Mrs. Cully, Mr. Drummond, Mr. Summerhays and Mr. Perona voting yes, to adopt Resolution UA 2006-11 approving the FMPA Pooled Loan Agreement.

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Mr. Thiess reported that our purchasing audit was completed by FMPA today. He received the e-mailed audit report immediately prior to this meeting. We have not had time to look at it and digest it, plus, we want to share the results with the City. After the City's audit is complete, we will get our auditors together so we can get on the same page. Hopefully, by the next Board Meeting we can bring it back to the Board.

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Mr. Thiess said we had a meeting between UA staff and City staff regarding underground electric. Staff put together a proposal based upon the way we have done it in the past, which was to have the City put in the conduit and the equipment pads. We come back and pull in the conductors and cables, set the equipment and relocate the overhead. This estimate was based on construction drawings and not a general estimate like we brought to the joint meeting. Based on the construction drawings the total estimate for the project was \$1.35 million instead of the \$1.95 million earlier estimated. If we split it along those lines, the City's share will be \$656,000 and our share will be \$693,000, roughly. Our share is below what the Board bought into. The overhead relocation, itself, was \$740,000. The City staff seems to be okay with their share. He would like to send a letter back to the City confirming what was agreed upon at the meeting to see if their staff is comfortable with this. We have done it before in the past, and it seems to be a fairly equitable split. It is not quite 50-50. Sometimes we pay a little more, and sometimes they pay a little more. In the letter to City staff confirming what was decided upon in the meeting, we will ask them to take it to the City Commission in some format for approval.

Mr. Drummond asked if this represents the way we have handled prior projects. Mr. Thiess said yes. We have done this on the Georgia Avenue Project, Orange Avenue, Avenue D, Avenue A, Indian River Drive, 7<sup>th</sup> Street and on the Ohio/Sunrise roundabout. Mr. Drummond asked if it would be out of order for us to make a motion to do it this way and send it on to the Commission. Mr. Thiess said it we had that buy-in from this Board, that would be good to include in his letter. He would also like to recommend in the letter that we use this format for future projects.

Motion by Mr. Drummond seconded by Mrs. Cully that we send a letter to the City recommending that we handle electric undergrounding projects as we have in the past with the City supplying the conduit, equipment pads and conversion of services to underground and the UA providing the cable, equipment and removal of overhead lines and that projects be handled in this manner in the future.

October 17, 2006

Page - 12

Mr. Drummond said in this way, it will not have to come back to this Board every time we have such a project. Mr. Perona said that would eliminate a lot of hassle that we went through before with the City. If this can solve that problem, we have made leaps.

The roll was called with Mrs. Cully, Mr. Drummond, Mr. Summerhays and Mr. Perona voting yes.

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City Manager Beach re-entered the meeting at this time.

Mr. Koblegard said depositions are continuing for the Atlantic Coast Recycling litigation, and he will update the Board where there is something of substance to report.

There being no further business, the meeting was adjourned.

ATTEST:

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Secretary

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Chairman