

MINUTES OF A SPECIAL JOINT MEETING OF THE CITY COMMISSION OF THE CITY OF FORT PIERCE AND THE FORT PIERCE UTILITIES AUTHORITY BOARD, HELD IN THE FORT PIERCE UTILITIES AUTHORITY ENERGY SERVICES CENTER, 1701 SOUTH 37TH STREET, FORT PIERCE, FLORIDA, BEGINNING AT 9:00 A.M. ON NOVEMBER 9, 2006.

Chairman Perona called the meeting of the Fort Pierce Utilities Authority to order.

Mayor Benton called the meeting of the City Commission to order.

Mr. Bill Baldwin gave the invocation.

The Pledge of Allegiance was recited.

Upon Roll Call, those present for the Fort Pierce City Commission were: Mayor Robert Benton; City Commissioners Rufus Alexander, Christine Coke, and R. Duke Nelson; City Manager Dennis Beach; and City Clerk Cassandra Steele. Those absent: Commissioner Edward Becht.

Upon Roll Call, those present for the Fort Pierce Utilities Authority Board were: Chairman Thomas Perona; Vice Chairman Darrell Drummond; Secretary Pamela Cully; Deputy Secretary Robert W. Summerhays, Jr.; and Mayor Robert Benton. Those absent: None.

The purpose of the Special Joint Meeting was Presentation of **Water & Wastewater and Electric Rate Studies** by PRMG (Public Resources Management Group, Inc.).

Chairman Perona said he welcomes the City of Fort Pierce and members from the public and members from the Utilities Authority to this joint workshop. They are going to have a presentation of Water & Wastewater and Electric Rate Studies by PRMG.

Mr. William Thiess, Director of Fort Pierce Utilities Authority, said this is a follow-up of a workshop they had on September 28th. The September 28th workshop was the FPUA Board only, but also open to the public. There were some issues and concerns and questions raised at that workshop. And they thought it appropriate, since the City Commission has to approve any rate changes of the Utilities Authority, they thought it beneficial to bring the City in and go through, not exactly the same workshop, but a focus-directed thing that looks at the rates and the reasons for the rate increases. That is why they are here today. They have Henry Thomas with Public Resources Management Group or PRMG, who is going to go through the presentation. Does the Chairman want to hold comments until the end or how do they want to structure this?

Chairman Perona said if anyone has a question at any time, please jump in. Because if he recalls from the last workshop, those guys know everything, and they sometimes assume we do too; and he, personally, got confused on a few issues, and they handled the questions at that time. There are no stupid questions, because they already tested that theory.

Mr. Henry Thomas, Public Resources Management Group, Inc., said he is there today to talk about the results of their Electric and Water & Wastewater Rate Studies. The system also includes a natural gas system. They have not reviewed the rates for the natural gas system. (Mr. Thomas gave a slide presentation and distributed a package of information.) He would like to go over the results of the studies. He would like to give a little background on why they are where they are in terms of the rate needs. One of the things that has been happening in recent past is that there has been a trend over the last three out of four years where the expenditures or the outflows of the system have actually exceeded the income coming in, and that is inclusive of financing such as loans. That is the first chart in the packet. The Historical Net Cashflows, in 2002/2003, they had a slight net negative cash flow. In 2004, they had positive cash flow of over \$2 million dollars, but they also borrowed that year \$12 million in debt proceeds. In fiscal year 2006, they had a negative cash flow from the FPUA of over \$6.5 million. And in 2006, they are seeing that same trend. That is just the detail behind it. He does not want to spend a lot of time going over the detail, but he wanted to share this information with them. It does show the negative cash flow of just under \$1 million in the first two years and right about \$7 or \$8 million in the last year of the four year period they are looking at. Again, that is a trend that they definitely have to reverse in order to keep the systems financially viable. One other point he would like to

make, they have two types of cash in their system. One sort of cash is restricted cash that has specific uses that it is available for. And then for their operating reserve, which is an important factor in their financial strength, that unrestricted amount is what has been declining sharply over time. As of May 2006, they had right about \$5 million of unrestricted cash left in the system. And based upon the capital plans they had for the remainder of the year, they were anticipating those monies would be spent, so basically they would run out of cash by the end of Fiscal Year 2006. What they have done in recent past, they have a program with Florida Municipal Power Agency, to do cash line of credit type loans and they are recommending that FPUA have a reimbursement loan of some \$8.5 million. These would be capital projects that in 2006 were already paid for out of operating cash, and they are going to try to reimburse that cash with this loan so that they can finance some of these capital needs and not have their cash balances go to zero. Other conditions they are basically looking at in budgeted Fiscal Year 2007 is annual revenues are right about \$92.1 million. They have been growing historically at about 1% a year; however, that is starting to change and the trends for the next few years are upward of that, about \$92 million in revenues. Direct and Indirect Operating Expenses are \$76.1 million. They currently have Annual Debt Service of \$8.8 million. Also included in the revenue requirements is the 6% distribution to the City for Fiscal Year 2007, budgeted at \$4.7 million. Taking into consideration the cash flow represented here between the revenues and the various cash costs, they would only have \$2.5 million in Fiscal Year 2007. If they don't have a rate increase, they would only have \$2.5 million available for capital needs beyond operating expenses, beyond payment of debt, and beyond the distribution to the City. Starting with that \$2.5 million of cash flow built in the current rates, they are not starting with a very strong position, especially when they are looking at a Five Year Capital Plan. This is for the electric, water, and wastewater systems. They have a plan of \$178.6 million. Of that, \$10.1 million a year is for renewal and replacement; and it is expected to be a level that is reasonable on an ongoing basis to renew and maintain the system and ensure that the assets that they have, that their life is extended as long as possible and they are kept in good working order. Hopefully they will find that ongoing type capital need out of revenue.

Because if they borrow to finance their R&R needs over time, they will eventually end up where - even though they are getting some leverage from borrowing - it is a constant \$10 million a year they need approximately; and if they keep borrowing that every year, eventually the debt service will outstrip the amount they need and their cost of R&R will be much higher than \$10 million a year. But when they continue to see a \$10 million debt... So ideally they want the rates to fund this \$10 million a year; but again, they only have \$2.5 million cash flow a year right now. Additional capital needs they are addressing include system upgrades and expansion of \$128.1 million. That is out of the \$178.6 million. And these include system upgrades and expansions, some new debt service of \$7.9 million a year. They have capital improvement charges they are using to help fund this of \$3.2 million a year that is going into the funding source for this. They are also using capital improvement charges when the new debt comes on line to help pay that annual debt service or at least a portion of it. And they also have some grants and some customer contributions that are available that are counted into the funding of that capital need. So they can see they have these imminent capital needs.

Commissioner Coke asked under additional capital needs, \$128.1 million, that is over the next five years?

Mr. Thomas said yes. The total program is \$178.6 million.

Commissioner Coke said where he is confusing her, she sees the \$178.6 million. There is a total of \$128.1 million plus the \$50.5 million. Under system revenues, \$10.1 million times five is \$50.5 million. Under Additional Capital Needs, they have \$7.9 million plus \$3.2 million, which is \$11.1 million.

Mr. Thomas said these are not all adding up is what she is getting to.

Commissioner Coke said times five is \$50 million, not \$128 million.

Mr. Thomas said what they are doing here, they are saying for system repairs and rehab they need to fund that pay as you go. Whereas in this \$128 million of debt, they have borrowing in there that is costing \$7.9 million a year, so that is not pay as you go, that is

November 9, 2006

Page - 3

being spread out over 30 years rather than the five. That is why the annual numbers here of \$10.1 million add to the \$50 million, but the annual numbers there don't add to the \$128.1 million over five years because this debt service is funded over 30 years.

Commissioner Coke said so they are not actually talking \$128.1 million over five.

Mr. Thomas said those are the capital needs. There are really two kinds of costs that they incur for the utility system. There is annual operating expenses to maintain and operate the facilities. This is really capital dollars that are outside of the operations that are needed for upgrading, expanding, and rehabbing the equipment. So it gets booked as an asset, not as an expense. So they do spend \$128 million in five years, but a large chunk of it... He will flip back and give her an amount. It is still a bond issue. So out of the \$128 million...

Commissioner Coke said what she needs to know - being a numbers kind of person - why the figures underneath that additional capital needs, what other figures would be included to total that \$128 million.

Mr. Thomas said this one is fairly straightforward - \$50.5 million divided by five years. Then they come down to... Really what they are really talking about is that in addition to this funding for capital improvement charges, and from grants and other amounts, the debt service piece is actually \$111 million bond. In other words, to equal the \$128 million over five years, out of this \$176 million they are proposing that they are going to borrow \$111 million. To do that annually, it will cost them \$7.9 million a year in debt service payments, principal and interest. But the principal payments are over 30 years. So that is why those numbers don't quite add up like the others do, because this is pay as you go, \$10.1 million a year. You are collecting it and paying it as you go, these monies are as available. But this, they are taking \$111 million chunk of debt, and now they are going to pay it back over 30 years. That is why it doesn't. If they put in the \$111 million that this one time cost represents, it will add back up to \$128.1 million; in fact, it will be a little higher because they will have to borrow a little more than what the projects cost to pay for the issuance cost of the debt.

Commissioner Coke said but if they are borrowing \$111 million and paying it back over 30 years, the figures they are looking at, the debt service. Let's not talk about years six through thirty. Let's talk about years one through five, which is theoretically what he is showing them.

Mr. Thomas said right, these would be the annual payments.

Commissioner Coke said the \$7.9 million and \$3.2 million, that shows her a total over five years of \$55.5 million, not \$128.1 million.

Mr. Thomas said as to what has to come out of rates, yes. But as to what they are going to expend, because they borrowed that \$111 million, they are going to spend it in a two year period.

Commissioner Coke said but he is talking that expenditure will be paid back over a 30 year period.

Mr. Thomas said yes, that is why they annualized it to get the \$7.9 million per year.

Commissioner Coke said she understands that. However, her feeling on this is that Five Year Capital Plan of \$178.6 million should be closer to \$106 million because that \$128 million is not a five year figure, it is a 30 year figure. Out of that, only \$55.5 million is a five year figure.

Mr. Thomas said yes, he thinks they are both saying the same thing. When talking about capital dollars, they talk about what they spend in the year they spend it, not how they fund it necessarily. So they are trying to fund \$178.6 million. It would be impossible to do that all through rates. So that is why they borrow a good chunk of it and turn it into a 30 year payment program, because they really can't afford... They have this need for \$178.6 million, but they can't afford to fund that all in just five years. So on an annualized basis, he

can get her a definite number for these pieces, but it is going to sum something less than \$178 million in the first five years. But the fact is they are spending \$178.6 million in that five year period. It is just that about \$112 million of it is through a loan.

Mr. Thomas said when they began the study, they looked at certain study objectives. First of all, they wanted to ensure that the capital improvement charges in addition to the monthly rates... The Utilities Authority also charges a one time charge for new development. They call it a system improvement or capital improvement charges. On the City side, they have similar fees that they refer to as impact fees. This is a similar thing, it is based on the capital costs only. They are not allowed to use these monies to pay out property expenses. What they wanted to ensure before they increased the rates is that they have the capital fee set at appropriate levels. In addition to the capital improvement charges, the Utilities Authority has a revenue source that comes from new development called Guaranteed Revenues. What it is, is once they committed the capacity to a developer, he is responsible to pay a minimum charge. He gets a one year grace period to build his new facility; and at the end of that year if that is not online and an active rate-paying customer, then he begins paying this minimum guaranteed revenue charge. The theory being he has asked for the capacity, he had the year to utilize it, now he is going to share at least a minimal amount of the cost. In addition, they recommended having accrual of those guaranteed revenues for future customers, so any developer that comes in year three gets treated the same as the developer who signed up for capacity in year one and then begins paying the guaranteed revenue charges. Over time, the amount of capital improvement charges will increase each month by the accrued guaranteed revenue charge.

This is something that their communities in Florida have had to struggle with, high levels of... These are the tools they have in their toolkit to deal with the cost of new growth. All those fees were adopted by the Utilities Authority on October 17th. When they are building new capacity for the future and they are trying to assign these costs to growth, obviously they don't collect those fees until the builders come forward and commit to that capacity. The only other way that they can really mitigate the cost of new capacity is to actually have the developers pay for it directly right up front and get them to somehow open their pocketbooks and build the plant for them. He knows of some communities that have tried that with various degrees of success. They have everything in their current business operations that they have available to make sure they are getting as much as they can from new developers, at least their fair share. Then they looked at the electric rates. The last time they adjusted anything other than power cost adjustment, which goes to their power supplier to pay for energy costs and fuel, that was in 1996. The last water rate adjustment was in 2001. The wastewater, they last had a minor adjustment in 2003.

Commissioner Alexander said speaking about the new growth, he just found out with conversation with other board members that all these projects west of town that they are bringing into the City, they can't figure the electrical rate, because they are not doing it.

Mr. Thomas said right. When he gets into the growth assumptions, he will share how many new customers each system is getting; and the water/wastewater system as it is configured today, the service territory, is different from the electric territory. A lot of this new growth is not in the electric side, although they are experiencing significant growth there, but not like they are in the water/wastewater territory.

Commissioner Alexander said the electrical rate is for the existing customers now, not the new.

Mr. Thomas said there will be some new growth. They have accounted for some new growth in electric, it is not all water/wastewater, but it is much higher in the water/wastewater. Part of that is the timing of the various agreements they have for service territories. And in the case of electric, they agreed with Florida Power & Light and other utilities years ago - those are filed agreements with the Florida Public Service Commission - where some of the water and wastewater stuff gets renegotiated and changed from time to time as to what the service territory is. But it definitely is not the same territory, right. One of the things they wanted to correct is to develop a more appropriate funding strategy for the repairs and upgrades. Rather than spending their reserve cash and then borrowing through their line of credit, they need to have an annual level of R&R expenditure built into them. Otherwise, if they continue the pattern they have been using, which was really done

to forestall rate increase in the short run, in the long run it will come back to cost them more if they always borrow to pay these repairs. The only other thing they did, they did a five year financial forecast to look at where they are headed, to look at the need for future rate increases, and to the extent they can, to try to phase in the increases over time. What they are going to show today as they go through here is both systems need an immediate rate increase. Unfortunately, that is the cash position they are in. And trying to head off into this era of high level of capital expenditure, they can't go down that road with no money in the bank, so they have to correct that. The other thing that is going to happen is, there are two significant events. The electric side, they are going to see a one time fairly significant increase followed by increases annually that look more like inflation, very small increases. But built into that is the net cost of taking the power plant out of downtown. Because right now their power supplier, Florida Municipal Power Agency, gives them credits each year because that plant is available to them. It is part of their mix if they want to use it to generate power for their pool. And as a result of that plant being there and getting those credits, the City gets an annual credit that is a payment against the power cost that is flowing through their rates for power cost adjustment. That credit is going to go away when that plant is taken offline. On the other side, they also have staff at that plant that will not be needed any more by Fort Pierce Utilities Authority and they are going to help operate the new FMPA plant that FMPA is building; and therefore, they see a cost savings there. The net of that, which the credits are a little higher than the operating cost savings, the net effect of that item, he wants to show them the effect of that on the future of the electric system. The other thing that is going on, on the water/wastewater side, again they need an immediate increase to deal with where they are financially. But there the rate increases are significant over the next five years. And the reason is that part of this \$111 million borrowing is to start a new mainland wastewater treatment plant. What they are going to do is fund that new plant through a loan. That plant is scheduled for that money to start being paid back at the tail end of the five year period. What they are trying to do is raise the rates over the next several years, so that in that year that the debt service comes on line, they are going to meet all their lender obligations. He will talk a little more about that too, what are their lender obligations. Some other considerations, they need to wipe out their current cash position. As he understands it, the Utilities Authority has already filed the paperwork to make a reimbursement loan and also to borrow a little more than the amount they show in here to shore up their cash balances currently, but they do have a duty to get it out of the deficiency situation ASAP. The second thing is, in this five years they have tried to maintain year by year at least 20 days of O&M expense. They would really prefer 45. And the bond market will tell them that they would really like to see their cash unrestricted balance at least 90 days of revenue. They are not going to get there without even higher rate increases. Because they do have this active line of credit with FMPA, and if there was an emergency they could get some cash, they are going to go over a much tighter cash position than really would be ideal. But again, they are starting kind of in the hole, so it is really tough to make that up quickly, and they are not recommending they do that. They are going to have to remain sort of cash thin over the next few years in order for these rate increases to be mitigated at the best they can do. In addition to using capital improvement charges to pay for certain projects, in their capital plan they are paying about \$3.2 million a year of the impact fees they are getting from new customers to pay for the projects directly. And they are also using a portion to pay some of the debt on the new bonds. They don't have much available to do this. If they were in a better position from cash reserves, they could probably phase in some of these rate adjustments a little easier. And he thinks in one year in the future the cash does fall back a little bit as they phase in some equal rate increases. Another thing that is real important is the existing bond resolution, which is a contractual commitment to bond holders. It requires they have \$1.25 of net revenues. Net Revenues are their revenues in total including interest income, miscellaneous charges, all the revenue sources except capital improvement charges, less their operating expenses. That is the amount of money they have to pay for their debt. And for every \$1.00 of debt, they have to have \$1.25 of revenue available to pay for the debt. That is the minimum. If they go below that, they are in technical default of their bond. So there are some practical limits as to how low the rates can go. In Fiscal Year 2005, on a combined system basis, they achieved a 2.46 debt coverage ratio, which is a good coverage for 2005. But again, the capital expenditures are what are dragging the cash balances down, not the operating ratio in this year. The other thing that the bond covenant does require is that they maintain the system on an ongoing basis so that it is a going concern. A lot of systems that put off rate increases for many years, what ends up

happening is people start deferring maintenance and deferring things that maybe shouldn't be deferred. That is one of the reasons they put covenants like that in there and why they require R&R funding in these agreements with the bond holders. It actually even tells them how the money must be spent. They have to pay off their operating expenses, including purchased power. The next thing they have to do is put their payments for principal and interest into a sinking fund. They have to put an R&R deposit in there. The pledge says as long as they have \$1 million, they don't have to fund it. But they have identified a \$10.1 million funding need, so that pledge is a stop gap and it doesn't really solve their problem. They have a large annual funding need for renewal and replacement. There is an emergency reserve fund deposit that is required to maintain emergency reserve fund of \$1,750,000. That one is fully funded. They have other payments they need to make, junior lien debt service. And then the final thing is distribution to the City. That is not supposed to exceed 40% of the balance. Once they factor revenues less all these costs, whatever the balance is the Utilities Authority pays the City 6%, not to exceed 40% of the balance. So at least 60% must be retained to pay for capital costs and meet working capital needs. One of the things that is going to happen if they don't have a rate increase and they don't straighten the cash around is, per the bond resolution they would be unable to make their distribution to the City per that agreement. They looked at the five year financial forecast. The first year is based on a budget that has been approved by the board for fiscal year 2007; and from there they forecasted the future revenues - customer sales revenues, operating expenses, capital improvement needs, and finally the adequacy of existing rates. They talked about the electric versus the water/wastewater system. Over the next five years - and this is based upon discussions with staff and they have collected this information directly from developers - what they are looking at and have been continuing to update that communication, because one of the strategies that may work is that they don't bring the plant on-line on the mainland as quickly because the growth is slowing and perhaps they can defer some of these rate increases. But right now, they don't see any decline in the customers coming forward wanting new service. Over the next five years they are looking at just under 3,200 new electric customers and 8,400 new water and wastewater customers. He believes that is what they were referring to there, is the difference in the territories.

Commissioner Nelson asked of those 3,157 new customers in the electric area, do they know how many of those will be going to Florida Power & Light? And do they in fact recoup those costs?

Mr. Thomas said yes, this 3,157 will actually be in the Fort Pierce electric territory. Most likely this additional 5,200 customers that this is higher would probably be more to Florida Power & Light. He doesn't know if there is any other system that might get a chunk of those. Basically the Authority would get about 3,200 new electric customers and 8,400 new water/wastewater. Presumably these other water/wastewater customers would then be served by FP&L. No, they don't get reimbursed by them, because those 5,000 customers would be in the FP&L territory. But they are going to serve and charge rates and collect revenues from that 3,200. That is a lot more growth than they have seen in recent past in either of these systems. Let's talk about the capital improvement charges and what they are trying to do to recover their costs of new growth. They have increased upwards... He doesn't have the figure with him because it happened months ago. But the board has already increased the capital improvement charge for the electric system. That happened in the summer, they did the electric system capital improvement charges.

Mr. Thiess said correct.

Mr. Thomas said then in October they increased the water and wastewater capital improvement charges by 53%, or \$1,600 more than what they were charging. They increased the guaranteed revenue capacity fees by 43% or about a \$80 increase a year in capacity renovation fees. They proposed new accrued guaranteed revenue fees that are sort of an accrual of those guaranteed revenues that gets added into future capital improvement charges. These were all adopted on October 17, 2006. They have done their best to address the cost of new growth on a dollar per gallon basis, which is how they have to recover it; and they are going to see significant increases in the revenues from the development that is going to be used to offset the capital program.

November 9, 2006

Page - 7

Commissioner Coke asked these new charges to developers, at what point do they pay that?

Mr. Thomas said they certainly pay before they connect.

Mr. Thiess said they have changed their resolutions to collect the money at the time of signing the agreement. Before their water/wastewater supply agreement goes to the Board for approval, they have the check in hand.

Commissioner Coke asked do they have to sign that agreement prior or at the time of site plan approval?

Mr. Thiess said the site plan approval is a different process. Generally they won't go as far as committing and putting hundreds of thousands of dollars in a lot of cases for service until they have site plan approval. The FPUA approves their utility plans.

Commissioner Coke said they come to the City for their site plan approval and it is automatically kicking into the FPUA's system. If these developers are sometime in the immediate future after getting site plan approval required to pay these fees, then it might help the cash flow, and it might stop some of these people from coming to the City that really have no intention of building anything and are just looking to get site plan approval and then flip the property.

Mr. Thiess said it is safe to say that by the time they come to the FPUA and have their utility plans approved, they have already had site plan approval either by the City or by the County in most cases.

Commissioner Coke said so they don't have a time frame from the time the site plan is approved to the time the developers have to pay those fees to them.

Mr. Thiess said that time frame probably varies for different developers. Usually they come in pretty quickly for service after they go through the site plan approval.

Mr. Summerhays asked they pay before they get their building permits, right?

Mr. Thiess said actually the processes are proceeding along parallel paths. The FPUA is reviewing their utility plans while the City planning folks are reviewing their site plans. He thinks they rarely ever would sign for water/wastewater service until they have their site plan approval completed.

Mr. Summerhays said they have to pay before they are guaranteed to get that service.

Mr. Thomas said right. Then after one year if they haven't started construction yet, or the customer that they purchased that capacity for, that capacity is not being used, that is when these guaranteed revenue charges kick in, and they have to start contributing to the annual revenue stream. That is a more progressive approach than the other municipalities use. They don't see this used very often by municipal governments as a tool. They do see it used quite a bit by counties. Probably it is a recent concept being used by governments. It has been used for years by private utilities that invest in future plants for customers. They are seeing more and more municipal governments look at this to help mitigate rate increases and make sure that growth pays its own way to the extent they can. The way they designed these fees, once that capacity in that new plant is utilized, they have recovered enough money to pay for that capacity. But the problem is, they have to build the plant in advance of those capacity commitments a lot of times. They have to do it in very careful increments. One of the things that is driving this rate increase is, when they start out with a plan to bring a new plant to the mainland, it is hard to have a very small incremental increase in capacity like they could have in an existing plant; and they are pretty much starting over again with a whole new footprint, buying land, and things of that sort. So there are some redundant costs that are involved with bringing this new capacity on that is really not the result of growth as it is as much a decision to try to eventually phase the plant on Hutchinson Island out of service. Unfortunately, if they did it quicker and just took the plant on Hutchinson Island off service and built a new facility mainland all

at once without a phase-in, the rates would even be higher in the near term. So it is a tough strategy to deal with. He will have some sample bills to share with them on electric costs and water/wastewater costs. One of the things he really did not feel comfortable trying to do over the next five years is project what is going to happen with fuel costs that flow through their rates. He does not have a crystal ball, he has no way of knowing what is going to happen. Obviously, those costs are probably going to continue to rise at least with inflation. But nobody could have predicted the 30% power cost increases, for example, that Florida Power & Light passed on. The good news is, there is a decrease coming up in the power cost adjustment. He saw in the paper where Florida Power & Light's fuel costs are coming down by about the same amount. But in any event, they projected for the power cost adjustment, assuming that fuel will be at about the today's level. So they can isolate and talk about the rate increase that the Utilities Authority needs for its own internal operations and not what they pass on. Any increase in future fuel costs does flow through the FPUA's rate structure, as it does with all other electric utilities in Florida, so those fuel costs flow directly to the customer. They did take into account in the comparisons of rates, the loss of the credits. But at the same time, they don't have the power generation costs. So those two net out, and there is a slight impact on electric rates over time because of that. Labor and benefits, they used 5% annually. In the short term going forward, health insurance and workers comp insurance, 10%. Utilities and chemicals, they did 2.5% plus customer usage growth. In other words, their utilities and chemicals rise as they grow, plus they inflate in cost, so they tried to capture both of those. Again, they are not trying to predict another 30% increase in electric costs, but they have already experienced that. Repairs they have got going forward at 4.5% annually. And over the five year period between all systems, there are 45 new personnel in the plan for the electric, water, and wastewater operations.

Commissioner Coke asked how many employees do they have now?

Mr. Thiess said they are right about 300 right now.

Commissioner Coke asked how many electric customers are they serving now? And how many water customers do they have now?

Mr. Thomas said in the water system they have estimated for 2006 they are going to have about 17,000 accounts.

Commissioner Coke asked how many do they have now? She sees they have a proposed increase of 3,100 electric and 8,400...

Mr. Thomas said water is about 17,000 accounts and wastewater currently they are serving about 13,300 accounts and then electric is 26,487 accounts in 2006 on average, so about 27,000. So based on the capital plan, the need to start funding renewals and replacements on a pay as you go basis, reflecting the increase in the capital improvement charges, and these various effects on operating expenses... Again, this is just a statement of the capital plan. It includes retirement of plant on the electric side, transmission and distribution improvements and extensions, they have transmission pole replacement going on that is pretty aggressive, they have substation improvements and expansion, and the replacement of equipment there. Again, a major part of the water and wastewater is the mainland water reclamation facility, line extensions, relocations, and replacements. With those operating and capital assumptions, if they look at the total, that gives a number that should add up to \$178.6 million. In terms of the bond amounts, the capital improvement charges amounts - and it is not on an annual basis, but what is expended in the five years - that might help them if he had come to that earlier.

Commissioner Nelson asked did he factor in the projection for placing of underground utilities in the systems?

Mr. Thomas said no, he has not. He is assuming that at the margin they have some of that going on in the plan, but he does not believe the plan is trying to achieve that system-wide.

Mr. Thiess said no, by no means system-wide. All new development is undergrounded inside the developments.

Mr. Thomas said those developers are paying that out of their pockets, the differential costs.

Mr. Thiess said they are paying some of that cost. But as far as the transmission and distribution down the public right-of-way, they look at that on a case by case basis.

Mr. Thomas said the other thing they do have, when they have their deep well at the new mainland plant, they have an agreement with FMPA, because they are going to take some of the effluent for cooling, and they have an agreement that they are going to reimburse them about \$3.2 million once that plant is completed. So they have assumed that cash is in the cash flow as well as a funding source. Today's debt, the current debt with all loans considered today is \$8.1 million a year. They talked about a reimbursement loan from FMPA. That would cost them about another \$800,000 a year. They need that critically to get their cash balances back to where they are reasonable. Then finally, they have a new bond of \$111 million that will result in another approximate \$8 million annual debt service. In addition, the distribution to the City on average over the five years is about \$5.3 million. And they do have these other sources of revenues, although those are modest compared to rate revenues and capital improvement charges. So they do get some revenue from miscellaneous services. They get some interest income, although interest income is down, because they don't have a lot of cash on hand at the moment. Going to the bottom line, the impact is the electric system rate increase is 6% of total electric revenues, that includes current power cost adjustment levels. He will share what that means on a bill, because on a bill basis, it is not quite as bad. On a typical bill they have done some rate structure changes that will help the smaller users on electric. He will talk more in detail about the individual effects. After that first kind of get out of the financial hole they are in increase, here they are looking at about 1.5% a year increases. One thing they recommend is that they may want to have in their ordinances and resolutions the ability to index the rates. Private companies right now can go to the Public Service Commission and based on an annual inflation index get a modest increase in their raise without any detailed rate case. This is on the water/wastewater side. What they see is the utilities that do that, that have the small annual adjustments, are much better off in terms of avoiding any large rate increases. And when they defer it for too long, it actually ends up costing them more. He has an example of that in a moment. The water system needs two, 12% increases, and then it goes to something that looks more inflationary in the future. Again, one of the reasons they were not able to phase this increase and spread it over more time is where their cash balances are today. And then the wastewater system needs significant increases to deal with those costs of that mainland facility and that debt that is going to be coming on line out here. And cumulatively over a five year period, the electric cost would be up about 11%, water 35%, and wastewater 68%. One of the exercises they did was look at alternatives and look at what if the growth slows down. They could probably move some of this wastewater out if that is the case, if they don't proceed as quickly with the mainland plant expansion. They looked at some of those things and compiled information with the authority staff to show them the effects. One of the things they did, what happens if they only do half these rate increases in this year? What would happen if they did that? They looked at it two ways. One, let's say they only do half and they don't make it up in the future, they just cut those figures by half; and then they do the rest of the years just like those are shown in the chart. That one time miss of half of that increase, basically by 2009 they would run out of cash, and they would be in serious financial trouble. Obviously, if they are going to spend \$178.6 million, if they are going to see the operating costs rise and they don't do these increases... Part of the reason is because they compound on each other. So if they cut the first one, it affects the level of all the future ones. The other thing they looked at was, what if they just delayed it, and then put it back here in these latter years. What happens then is, they can make it financially perhaps; but instead of it being 35%, the cumulative increase over the next five years would actually have to be higher, 39%. And instead of 68%, it would have to be about 72%. Because by delaying this, they would have to increase it more in the later periods. So again, the current cash position has made it real tough for them. With these kind of front-end increases, they would like to be in a position to spread them out in time a little more, particularly for the water system and the electric. The wastewater ones are spread pretty evenly. But they just can't see a way to do that and keep the FPUA whole financially.

Commissioner Coke said before they go on, when he was talking about if they were not to do the rate increase at that rate this year and not to make it up later on, he is saying they would be in serious financial trouble by the year 2009. But that is based only on if they went full speed ahead with the capital improvement program, if they raise the number of employees by 12%, and all the other things he previously discussed.

Mr. Thomas yes, that is based on those assumptions.

Commissioner Coke said so if they were not to do that kind of raise, then what it would entail was good management not to increase the number of employees by 12%. She really doesn't want to get to a point where she is micro-managing the FPUA; however, when they look at they have a base to operate a system, and certainly as the system grows they need more employees to handle that, she doesn't think it is a direct proportionate growth. Because once they have their base in, there will be some functions of the FPUA that will not need to be increased. And when she looks at the figures he gave them, the increase in electric worked out to about 9%, the water was probably about 10% or 11%, but they are looking at a 12% growth in employees. And they all know the employees are probably the most expensive asset they have in any group.

Mr. Thomas said, unfortunately, their hands are tied a little bit on that factor in that. One of the keys to that one too - and on the wastewater side everything hinges back to this ultimately - is that if they are going to bring that new plant on line; they are going to have to staff it; but because they are not taking the old plant off line, so they are basically going to be staffing two treatment plants simultaneously. And the DEP tells them what level of staffing is required for those plants. So in some respects, that does tie their hands. She is absolutely right that his conclusion that they really need to do this is based on the assumption that they are going to do the capital plan. If they decide not to do the mainland plant, and if they decide not to spend \$178 million in capital and they reduce the employee growth, then this picture would all change clearly. But what he is basing it on is the current plan as he knows it.

Commissioner Coke said she is still going to have to disagree with him on that \$178 million figure. Because if they are going to talk five years, then they have to talk five years. If they are going to talk 30 years, then they need to do that. What he projected as five year actual expense for this capital improvement plan versus that \$178 million was \$72.6 million less. Mr. Thomas said okay, but what he didn't communicate to her though is... Here is another way of looking at it. This is what gets spent in five years - \$0.6 million in future operating reserves, \$50.5 million in rate revenues, \$13.4 million in grants and MSBU charges, \$16.2 million coming from capital improvement charges. And of those projects, \$98 million, that is made up in this \$176 million. They are spending that in five years. It is just this piece they are paying back over 30 years. He does not have this \$97 million in the rates, he is not proposing to charge the customers to pay for this in five years. The only thing he put in the rates is the \$8 million of debt service for this piece of the \$178 million plan. It is indeed a \$178 million plan that they intend to spend in the five years, they just can't afford to pay it back in that period. So the rates are not set based on anything that says they are going to spend this out of rates. Assuming they are going to borrow most of that and pay that back to the debt service. He agrees with her that \$178 million isn't the effect on annual rates; it was that number they looked at in the back. Instead of \$97.9 million, it is more like \$8 million a year. That is the effect on annual rates. That is all he put in his proposal.

Commissioner Coke said when they were looking at building that new plant it seems to her four or five years ago, they had a meeting and made a commitment when they reworked their service boundaries with the County and discussed moving that plant, that whatever this equivalent to an impact fee is for water/wastewater, from the time they had that meeting five years ago to now, it was supposed to go into a special fund so the money would be available when they would start building that plant. Her question is, how much is in that fund, how much have they collected towards that, and where is that reflected in these figures?

Mr. Summerhays said his memory is they discussed that, but it was never part of the agreement.

November 9, 2006

Page - 11

Commissioner Coke said her memory is that they all agreed if they were going to work towards moving that plant, so they would avoid this type of situation, any impact fees that came in for water/wastewater were going to be earmarked for this plant.

Mr. Thomas said he is going to find her the balance, they do have money in the current fund, and they are using as much of it as they can. He will give her a detailed answer on that.

Mr. Thiess said the capital improvement charges, so far what they have collected from the County has fallen short of their expectations as far as the number of developments coming forward.

Mr. Thomas said yes, they really haven't seen much growth on the County side of that agreement.

Commissioner Coke said it was her understanding - does Mayor Benton recall it differently - that any capital improvement charges that they collected for water/wastewater, since they were not going to rehab the plant out on the island, were going to be put in a separate fund to construct this new plant. Because when they looked at it at the time, they said if they let this go to full capacity, it is already built, then they would have collected all this money for all these other developments, and this would be the amount they have here. If they only let this go to 75%, it should be filled at 75% to this level and their projected income for capital improvements charges was lower, and they would need to find a financial tool for it.

Mr. Thiess said they have a very detailed accounting of what the capital improvement charges were spent on. He thinks for the last couple of years it has been mostly on force mains on the wastewater side.

Mr. Thomas said Ms. Coke said she thought they would take the water and wastewater charges and use them towards the plant. Technically they shouldn't spend water capital improvement charges on sewer projects, they should be spent on water projects. Because the nexus for those impact fees is that they have to spend the money to the benefit of those who paid it. So if it is a future water customer paying it, they can't turn around and use it to help the sewer system, because those costs are going by the sewer. They have some limits there on what they can do. He is not finding the fund balance - there is a current balance in those impact fees - but he will get back to her on it and get her a number.

Commissioner Alexander said he knows that George Bergalis is the City's financial person. How much of an input does George Bergalis have in any of these proceedings?

Mr. Thiess said the FPUA is responsible for their own financial workings.

Commissioner Alexander said so the FPUA is responsible for their own. But when they bring this to the Commission, they are bringing them numbers like these today and at whatever meetings they have other than that. So what part does the City, the City Manager or the City Finance people, what part do they play in explaining to the Commissioners and the Mayor before they sit amongst them all?

Mr. Thiess said the purpose of this workshop is to try to get a lot of these questions answered. If they ask questions today they can't answer on the spot, they will come back with that information.

Commissioner Alexander asked so they are not expected to do anything concrete today?

Mr. Thiess said it is just an informational workshop.

Commissioner Alexander said expectation is a lot, sometimes at workshops. He just wants to make sure that he will be able to go back to his staff and ask questions, and he doesn't see them here.

Mr. Summerhays said they have to have a public meeting and pass these, and then they go to the City Commission for just approval.

Mr. Thomas said right now in the water system they are estimating there is about \$2.2 million in capital improvement funds that should be available at the end of 2006 and there is approximately \$1.3 million in the wastewater fund. So obviously they have been using them to some degree.

Commissioner Coke asked when looking at wastewater, do they know what they have collected in the last five years?

Mr. Thomas said he doesn't have that number with him, but he can get her an accounting of that. They anticipate collecting a lot more in the next five years than they did in the last five years, because they did not see the kind of growth they are talking about here in the last five years. Right now, most of the large utilities in the state of Florida charge a penny more for electric use over 750 kilowatt hours than they charge for the first 750 KWH. Historically Fort Pierce has not done that; but in this proposal they are going to slightly increase the rates for use over 750 KWH more than the rates for up to 750 KWH, and that is going to help the smaller users and the average users on the system. But right now, based on the proposal before them, if the rates are adopted by the Utilities Authority, they can see what is going to happen to the bills in the first year. (Mr. Thomas passed out a package of information.) This handout shows each rate and bill over the 2008, 2009, and 2010 period, and shows what is happening in the future. Right now, he just wants to talk about what is happening now. When they implement the electric rate increase, one of the things that is happening simultaneous to that is reduction in power cost adjustment. So the net effect of those two would leave them an increase of \$3.88 or 3.5% for the average 1,000 KWH bill, which is what they usually refer to when they talk about the typical residential cost for electricity. For water and wastewater, they base that on 6,500 gallons of water use. As they can see here, the current bill for water will rise about \$2.95 a month, and for wastewater \$3.71 a month, for a total increase in the bill for all three utilities from \$175.50 to \$186.04, about \$10.54 or about 6% per year. Remember, at least for the electric and water systems, this is probably the worst year. There is another water increase in 2008 that is significant, and then those are rather small. But the wastewater increases they see do go through the entire five year period.

Commissioner Alexander said just for information, on the proposed increase here it is showing 6% electrical and over there it is 3.5%.

Mr. Thomas said right. He is going to show them what they did, to address his question. That is focusing on 1,000 KWH of use. Right now they charge \$5.35 a month and then they charge \$0.08277 per KWH used, plus a power cost adjustment. What they have done in the future rates, the rates they propose, is they have raised the energy charge for use over 75 KWH a month from \$0.08277 to \$0.09373, while the first block of the first 750 KWH use only goes from \$0.08277 to \$0.08373. They can see what is going on here is somebody at 500 KWH use is only seeing a 1.5% increase in their bill, but someone using 4,000 KWH a month is seeing an 8% increase in their bill. The overall impact on revenues is 6%. That is why there is the slight difference. In the water/wastewater system, they didn't do any of this rate structure change because they already have a conservation rate.

Commissioner Alexander asked how do they get that type of information out to the public?

Mr. Thomas said they start with this meeting. And this is important information, because if he is in the public and he knows what he uses, he can pretty much see what the effect of this is. The point is, it is not affecting everybody equally on the electric side, and that is a real important point. Because if they go out and tell everybody that it is 6%, one of them is going to come back and say it is 8.4%, and another one is going to be pleasantly surprised. So this point takes a little more effort to communicate. And what they can say is they are following the lead of the Florida Public Service Commission on electricity at Florida Power & Light, but they are also trying to... This does give the bill an effect where it helps the small user, and they put more of the cost in the future onto the large user. Their water rates already do that. This is an opportunity they took on sewer to help mitigate the effect of all this on the average user. This is a comparison in their packet (Page 22) and it shows some other municipal and investor owned electric rates right now. The solid blue bars are the various utility companies, cities, FP&L, Tampa Electric - all those are in here. And the

average of all those utilities right now for 1,000 KWH is just under \$110.00. The FPUA's current rates right now are \$119.00 per 1,000 KWH, that is what they are billing over the past few months. But as of October 1st, without a rate increase, that will actually drop to \$113.90 because the power cost adjustment for the October period is down. However, when they add back in the electric rate increase, it brings it back up to \$117.00. So for the first quarter of the year, there will actually be a reduction when they take into account the power cost adjustment, because it is coming down. Where that goes in the future, he just didn't feel comfortable speculating.

Commissioner Coke asked is he saying that presently they are billing about \$9.00 for 1,000 KWH over the statewide average?

Mr. Thomas said no, the statewide average is about \$110.00 for the same amount.

Commissioner Coke said they are billing \$119.00. They are billing \$9.00 per 1,000 KWH over the state wide average.

Mr. Thomas said right. But this isn't every utility in the state.

Commissioner Coke said okay, this is the average of the people he is showing them. So they are already, without any rate increase, \$9.00 per 1,000 KWH over the average. So the next thing she is going to need to know is, she is sure there are industry figures available on utilities that serve the same approximate number of people that FPUA does, and what their operating costs percentage-wise are versus what FPUA's is.

Mr. Drummond said he thinks Mr. Thomas is not saying it correctly, and he doesn't want to speak for him, but it was \$119.00. Last month they adjusted it down to the \$113.00.

Commissioner Coke asked what Mr. Drummond is telling her, they have been billing everybody \$9.00 per 1,000 KWH over for the last nine months and they are just now adjusting it down.

Mr. Thiess said it changes semi-annually.

Mr. Thomas said the point being, even with the rate increase, with reduction in the power cost the bill is actually going to be net down for 1,000 KWH in the first quarter.

Commissioner Coke said compared to what they have been billing, not compared to the average of what other utilities have.

Mr. Thomas said but what they have been billing is their cost. The reason why they are able to lower it is fuel costs have declined and their supplier is passing that on to them.

Commissioner Coke said she understands what he is saying. But her concern is - and she doesn't know how they are going to address it - they already have people that are struggling with taxes and insurance, and people looking to move here that are saying taxes and insurance are too high. And now according to this, their utility has been \$9.00 per 1,000 KWH over and now it \$3.00 per 1,000 KWH over. How do they justify to somebody to come live in Fort Pierce rather than Port St. Lucie, where they are going to charge them more on their utility bill than if they went to Port St. Lucie?

Mr. Thomas said if that is the case, nobody would ever move to the City of Tallahassee or Vero Beach either. He understands that there is a lot of pressure on people and their household budgets. But some of those same kind of factors are what is driving this increase for their costs. Fuel costs, the cost of gasoline, the cost of PVC pipes is up unbelievably significantly, the cost of new construction is up. They are seeing all those effects hit their budget. Unless they can come up with a benevolent benefactor that is going to give them some money, they have got to charge their costs to their customers. That is the definition of an enterprise fund.

Commissioner Coke said go back to her previous question. Do they have industry standards on what other utilities are spending for operational expenses - broken down by

maintenance repairs, employees, benefits, etc. - so they can at least have a degree of confidence that their expenses are in line with where they should be?

Mr. Thomas said no, he doesn't think they have that kind of information. The comparison study she is talking about would be a significant undertaking, although it could be done. He will tell them this, they are not going to compete on that basis with the Florida Power & Lights and the Tampa Electric of the world, because they are large utilities that get more economies of scale, but they probably shouldn't. The other thing that could affect it... Again they have not tried to study all these factors, but Jacksonville Electric Authority is the lowest on the chart. It is doing a lot to pull down that \$110.00. They have to be real careful with averages. Even though he put it up there, he has to tell them that one column for Jacksonville Electric pulls that average down quite a bit, because they are less than \$90.00 per 1,000 KWH right now. But the reason is, they have a totally different fuel source than what these other utilities are tied to, and they take advantages of those differences in different fuel sources. One of the things Jacksonville Electric is doing is bringing a lot of coal power into their system from Georgia and above. He can remember a time when Jacksonville Electric had the highest rates in the state, and the City of Tallahassee was the most cost-effective, and that was really all due to power costs and fuel, it didn't have a lot to do with the efficiency of the utility. Again he would submit that the larger utilities, when they look at staffing for customers and things like that, they would probably be hard-pressed to outperform them. But with municipal utilities, he would hope they would be comparable.

Commissioner Coke said her point is, she would think that something like the FMPA has industry standards for different sized utilities as well as municipal utilities versus private utilities. It is a national organization that already has that information.

Mr. Thomas said he they do get a rate comparison.

Mr. Summerhays said they are usually on or a couple of bucks above the municipal median.

Mr. Thomas said but that's the rates. What Ms. Coke is really getting at is, how do their underlying cost efficiencies compare? And that is really a whole other study than what he tried to do. It is certainly something that he could look at, but it would be time-consuming and it be fraught with a lot of interpretation, because not all these folks account for things quite the same way either. It would be a pretty involved study just to answer her question.

Commissioner Coke said she would venture to say that somebody like the FMPA or another company along those lines already has those facts and figures in place. She can make one phone call...

Mr. Thomas said the PSC may have one for the investor-owned. But to compile that and have it where they can interpret and use it, he is not aware of anything. He does not think FMPA has anything. They call that a benchmarking study the way consultants talk. He doesn't know of any that have been done.

Commissioner Coke said she would be very surprised if it wasn't available.

Mr. Thiess said if they want to take a look at a snapshot, a utility very similar to ours with the same age plant and everything else is the City of Vero Beach. Look where they are on the chart. Obviously FPUA is more efficient than the City of Vero Beach.

Mr. Perona said plus the fact that a lot of these utilities that are out there right now, this is a snapshot. They have to take into consideration that these utilities are looking at the same issues that they are looking at right now. They are looking at Fort Pierce and comparing, and they don't know that FPUA is looking at rate increases. This is a moving issue here and every utility is re-evaluating themselves. Taking a look at the comparisons they get from FMPA every month - and they do an excellent job showing them the median of all the municipal utilities and everything else - Fort Pierce always falls and always has fallen in the last few years right at the average, with all the different situations going in line. It's funny when he first looked at this thing, he thought they were going off the charts. Then he realized, and he knows for real, that at least two of those communities up there are looking

to have rate increases, and he would guess that probably at least half of them are. Each of them have their own situation. So to hang on that graph right now and compare Fort Pierce to that without knowing all the other issues that are out there may not be the best thing in the world to do.

Mr. Thomas said one of the things that has helped the electric industry in recent years is they haven't had to add a big amount of production capacity in Florida that has been done in the past, and they have certainly grown into that over time. They are right, in the last decade they have seen very few electric rate increases other than when these fuel costs blips come through the market and rates rise then. He can tell them that it was years before Florida Power & Light did a rate increase for their own needs; and the reason is, they hadn't had to invest in new capacity for a long time. So it is a little different dynamic. But he thinks when they look at strictly within municipal systems and other compatible systems, it is hard to show a utility doing a much better job in terms of rate levels.

Mr. Summerhays said they have been aware that they have needed to raise rates over the last three or four years. They held off doing that in large part because they had three hurricanes and their customers already had enough on their plates. In retrospect, it probably would have been better to have a series of small rate increases than have to wait and hit it all at once. They made a conscious choice to not raise people's electric rates when they had so many other problems.

Mr. Thomas said an example of the electric side of the business that can be very striking is the City of New Smyrna Beach, which a number of years ago decided that they were going to take advantage of low gas costs and this new technology for combined cycle operation of gas plants that is very efficient, and they were going to have some really cheap power. They went out, and they bought a power plant in conjunction with an investor-owned utility and built this power plant. Now gas costs have risen dramatically since that time. They were telling him back then, about five or six years ago, that they were going to see production costs less than \$40.00 per 1,000. Now what FPUA did in contrast is they joined the pool with FMPA. What they are looking to do is take advantage of FMPA being larger, and they have diversity of resources. Because what is going to happen now is the gas costs have skyrocketed, and New Smyrna's rates are real high today. Their rates would be low if gas costs would have stayed low, but that is not the case. Most of the utilities that are in the pool, one of the things he will point out is out of this \$115.00 to \$120.00 roughly they are talking about, \$80.00 goes to FMPA for the purchase of power cost. So right off the bat, most of it is not even... And it is pretty much the same cost for any of those pool systems that they are in sharing these costs with the FMPA. Again, a vast majority of the costs are pretty common between the various utilities in the FMPA group. Where they see these differences are utilities that aren't in the FMPA group. When these folks were the highest rates in the state was back in the late 1970's when they were running everything with oil and the City of Tallahassee was low; and now they totally flip-flopped. A lot of it has to do, not with the decisions on employees and operations, but with what their power supply source is. What kind of fuels they rely on has a lot to do with that stat.

Commissioner Nelson asked of those cities there, does he recall whether or not they are organized the same as they are here in Fort Pierce, i.e. with the UA separate?

Mr. Thomas said Fort Pierce is pretty unique. He is not sure; he thinks the Jacksonville Electric Authority may have a separate board. He knows the Orlando Utilities Commission has a separate board from the city, even though that city has a role similar to their role here. St. Cloud is just a municipal government. So there is a small handful of authorities like they have here in the State, but it is not the common situation.

Commissioner Nelson said in Tallahassee it is an integral part of that city.

Mr. Thomas said yes.

Commissioner Nelson asked the first chart on Page 3, showing the approximate \$7 million deficit over the last five years or so, why is it he says they have that deficit and what was the cost to the individual ratepayers to offset that cost?

Mr. Thomas said the ratepayers really didn't really feel it, because where the offset came out of was out of their reserves. In fact, what they did was they deferred rate increases. They funded out of cash reserves some of their capital needs at the margin, they couldn't fund all of them, but cash flow was funding some of them. But then what happened, particularly in the last year, is all of their operating costs rose too - fuel costs, insurance, property insurance as a result of hurricanes. It all adds up. So their margins have been dwindling, plus they are now spending more capital than they used to. The total cash flow deficient there was capital driven. And what they were doing was paying it out of reserves, which past ratepayers had paid in and it had built up. Now they don't have those reserves. So if they really want to ask, what is the effect? Part of that effect is built into this rate increase proposal, because it was deferred situation. They were spending more money than they were taking in.

Commissioner Nelson said what he is trying to get is, exactly what occurred in 2002 to the present, projecting to 2007. What was their operating expenses? What was the intake from the ratepayers during that same period.

Mr. Thomas said this table (Page 4) gives them a little detail. They talked about just a little under a million in the first two years, slightly positive in the third year, and then down \$7 million in the fourth year, right? Of that, the net cash from operations started at a positive \$22 million, it grew and then it fell back. Again, a lot of that has been cost increases they have been seeing. But in 2005, cash flow from operations, this is revenues less operating expenses, so this is what is available for capital financing was about \$15.8 million. Then they have non-capital financing issues, like payments to the City and such, that accounts for this second line. And then they have cash from capital financing. That is paying for those capital costs. For example, in 2004 they can see there is a \$10 million deficit, but they borrowed \$12 million, so they spent \$22 million in that year. And then this final is, they earned some interest, and they got some investing activities that are going on. It was pretty high, because they had those bonds outstanding. But when they talk about what part is coming from rates, that is why they need a rate increase, because that amount is declining as well. Not only are their capital needs on the rise, but their net margins they get from operations are declining, because they haven't increased rates in ten years.

Commissioner Nelson said he is not phrasing his question correctly. He is trying to focus in on Mr. & Mrs. Ratepayer. During the last five years they paid so much money. Now what are they paying and what have they been paying all of those intervening periods?

Mr. Thomas asked in the bills? He does not have that history, but he will put that together for them, that is something he can compile.

Commissioner Nelson said his focus is the fact a ratepayer is saying it used to be his bill was \$110.00 a month. He has lived in the place and has the same appliances, etc. Why is it he is having to pay \$300 a month now?

Mr. Thomas said he can appreciate that question, but the real answer is, it costs them more for labor for trained operators, it costs more for power, it costs more for property insurance, and they are seeing those same things. All their bills are going up. Look at what a car cost five years ago versus today.

Commissioner Nelson said at a certain point in time, it has to be up to management to address whether or not some of the things they want to do are feasible to do. Do they have the means to do it? Is it something that can be eliminated or deferred - the size of an organization, buying new equipment, acquisition of new facilities, etc.?

Mr. Drummond said as it relates to the electric rate itself, in the last ten years the customer has not paid a penny more. The only difference in the cost has been the power adjustment cost. As it relates to the operation of the utility, they have not had a rate increase in ten years. So that whole ten year period, the customer did not pay a penny regardless of operation.

Mr. Thomas said their operating costs have been rising, yet the bills for electric that Fort Pierce keeps, the revenue they keep to run their internal operations, hasn't gone up in ten years.

Commissioner Nelson said he wanted to focus in on the fact that the customer, the ratepayer, doesn't really look at it from the standpoint of the power adjustment or the costs like hiring new people. The customer is looking at the bottom line saying that this is his bill.

Mr. Thomas said it took a pretty big jump in the last couple of years because of the fuel costs. So Mr. Nelson is right, they have seen the bill go up, no doubt about it. But unfortunately it hasn't helped make FPUA's operations more viable. The water rates haven't been increased since 2001. They have been paying the same water bills, and they have no pass-through there. Those bills have not changed. And the last time they increased the sewer bill was 2003, so it has been almost four years now with 2007. Mr. Nelson's earlier point was well taken. These costs, the most extreme increases they are seeing, is here. So the question really becomes if they are going to bring that plant from Hutchinson Island back to the mainland, and they are going to build a new plant in the next several years, that is what is driving it. And that gets to the question, can they afford that or should they pursue other alternatives? Because of all these things, they have got some flexibility on that. That has the biggest impact on the rates, but they have the best flexibility to deal with it. They are proceeding on the grounds that they want to have this new facility be on the mainland, and they eventually want to take the facility off of Hutchinson Island. And in order to do that, if they are going to do it and afford it, at some point they have to increase the rates to do it. Because effectively they are going to be operating two plants simultaneously for a period of time to make this work.

Commissioner Nelson said he is confusing him. Is Mr. Thomas a member of the UA staff? Does he work with them day to day? Is he interwoven into the fabric?

Mr. Thomas said no, but maybe he is an extension of it, he is pretty interwoven. He has worked with the Utilities Authority since 1986, so he has a twenty year history with their system and the rates. Again, this isn't something they look at as something that is going to be popular; but it is an enterprise fund, and they have to raise their rates to meet their costs. Do they have some flexibility in their costs? Yes, and the biggest flexibility is in the sewer rates and that plant. But these are all predicated on the current capital plan to bring the system off the island.

City Manager Beach asked what is the figure that is plugged in for the wastewater treatment facility itself? He saw under the capital improvements, they had a wastewater figure somewhere in the vicinity of \$90 million. What portion of that is the treatment facility?

Mr. Thomas said he will have to get that. He apologizes, the person that spent the most time working with their staff on this is not with him today, he is home expecting a second child at any moment.

Commissioner Alexander said Mr. Thomas gave them a figure of 17,000 for water, 13,000 for wastewater. As a paying customer, he has water and wastewater. So why is there a difference in numbers of water and wastewater? He knows there is some reason, but he is just asking that for information.

Mr. Thiess said there are some parts of their service area that don't have wastewater service.

Commissioner Alexander asked what would they have other than what he has at his residence?

Mr. Thiess said septic tanks.

Mr. Summerhays said they have a bunch of customers that are water only.

Commissioner Alexander asked they are talking about 4,000 customers in the City of Fort Pierce are on septic tank?

Mr. Thiess said not necessarily in the city limits, but in their service area.

Commissioner Alexander asked so the new figures that are coming in, the 8,400, what numbers of those with septic?

Mr. Thiess said those would all be new customers.

Commissioner Alexander asked that is going to raise their water and wastewater figuration up, right? He doesn't want to sound facetious, but it seems that with Mr. Thiess is just coming on board and he has an egg in his lap.

Mayor Benton said Indian River Drive is the classic example, they have septic tanks.

Commissioner Alexander said they shouldn't.

Mayor Benton said they would have to give up some right-of-way to pipe in.

Mr. Summerhays said both of his children are water customers but they are not electric or wastewater customers. They live at the south end around Midway Road.

Commissioner Alexander said he thought something came up not too long ago speaking about excess leaking into the lagoon. Where is that overflow going to?

Mr. Thiess said eventually eastward. But it is very expensive to go back and sewer a non-sewer neighborhood. They learned that on 26th Street. Those assessments were \$12,000 or \$13,000.

Commissioner Alexander said it is going to be very expensive to take care of that lagoon in the future, if they don't take care of it now.

Mr. Perona said what is required is they need an underground easement from the people on Indian River Drive. The surveys they sent out, they were against it. He remembers very clearly the last meeting that Eddie Enns was at and one of the things he regretted most was not undergrounding the utilities on Indian River Drive, which would have included gas and wastewater and electric. They wanted it, but they didn't want to give up the land.

Mayor Benton said that's the whole length of the drive. It is amazing.

Mr. Thomas said between the deep well that would go with the new plant and the plant itself, based on the best he can do here, is they have about \$63.7 million for that mainland reclamation facility.

Mr. Thiess said he believe the plant itself is about \$46 million, but then they have a pumping station in there that is a year or two out. They also have a lot of large force mains too. But it adds up to the \$60-something million.

City Manager Beach asked that is a period of five years?

Mr. Thiess said actually probably it would depend on when they start. They might delay that start. They are going to try to delay that start. But that would be from the time it starts over a three or four year period.

City Manager Beach said the capacity of the new plant at this price is what?

Mr. Thiess said 5 million gallons a day.

City Manager Beach asked they would continue to operate the island plant for...?

Mr. Thiess said until they can afford to move that capacity. It is a 5 million gallon a day plant; but the backbone of that plant, the main piping and the big splitter boxes and headwork, is designed for 30 million gallons a day.

Commissioner Alexander asked the capacity of the island plant now is what?

Mr. Thiess said it is 10 mgd.

Commissioner Alexander asked they are utilizing...?

Mr. Thiess said about 6.5 mgd.

Mr. Thomas said to take that plant off line and replace it over time, there may be obvious community reasons for doing that, but there is a cost of doing it and that is part of what is driving this up.

City Manager Beach said he thinks one of the questions that the Commission gets to deal with on this, as well as the UA Board, is how do they handle that \$65 million cost. They have choices of either making it part of the rate structure or going a different avenue for raising the resources to do it through the Redevelopment Agency and through some land transactions and things of that nature. In addition, they have about a \$8 million grant.

Mr. Thiess said they got about \$7.8 million this year and they submitted for another \$10 million for FY 06/07.

Mr. Beach said they are working with South Florida Water Management in attempt to gain even higher levels of participation from them. He does not know how that is progressing, but he knows that it is underway.

Mr. Thomas said some of that could change. And the other thing that could well change is the timing. Mr. Thiess has already had him run different scenarios where they lag the growth and they lag the plant. It doesn't mean in the long run rates will be any lower, but it defers them, because they are not adding the facilities as quickly; it allows the system to grow more into... But at some point they may be in a situation where they have to decide they can't keep deferring, because they have to either increase the capacity of the island plant or begin building the new plant. So they tried to take into account those funding sources and such. Another one they have done is, in those capital improvements charge increases, those 50% increases, they have the cost of this new facility as part of what is driving that up. So if they decide not to do that plant, they wouldn't be increasing those fees as much, either, he would suspect. They haven't looked at it that way, because they are starting from the premise that this is the plan.

Commissioner Coke asked is it a fair assessment, when they are looking at the increase that they are projecting here as necessary, to say that the majority of that wastewater increase is to fund the future plant - which is future users - so the current ratepayers are going to be paying for the future capital improvement?

Mr. Thiess said some of that plant is replacement and the plant is designed to handle their service territory build-out. But of that 25 million or 30 million gallon a day capacity out there, 10 million of that is to take capacity that is already built for their current customers and move it out west. Part of that is for current customers and part of it is for future customers. It is not all future.

Commissioner Coke said but the majority of it is future.

Mr. Thiess said it is designed as a 25 mgd plant and they have 10 million gallons a day built here. So of the 25 mgd, 10 mgd would be capacity that is duplicated that they have already paid for and 15 mgd would be for new customers.

Commissioner Coke asked what are they doing with all the new impact fees that are coming in for new growth? If it is new growth for wastewater, they charge a fee, correct?

Mr. Thiess said yes.

Commissioner Coke asked what are they doing with that?

Mr. Thiess said what isn't in the bank...

Commissioner Coke said obviously not a lot.

Mr. Thiess said what has been spent is on force mains primarily. They have force mains going down Jenkins Road, Moore's Creek, Orange Avenue. The developers contributed heavily to those, but the part of the UA contribution comes out of capital improvement charges, and it has been significant.

Commissioner Coke said she is not understanding this. Because it was her assumption that new development coming in is supposed to pay for itself with the roads, the UA, all kinds of things. The general taxpayer that has been here and put their blood and sweat into the community for 30, 40, or 50 years should not be paying for John Q. from Alaska to move to South Florida.

Mr. Thiess said these force mains, the FPUA contribution has been coming from capital improvement charges paid by those developments. In other words, the force mains that they are building now are being paid by the capital improvement charges from all these developments that will be connecting.

Commissioner Coke said so nothing from the capital improvement charges that they are charging the developers is being put aside for the future need of this new plant.

Mr. Thomas said that is not quite the case. What they are doing is, early on they are using the annual monies they receive to help pay the debt service on that new plant. And they are also buying down the other capital projects.

Commissioner Coke said he really just lost her. Because how do they have debt service on the new plant they haven't built or borrowed for yet?

Mr. Thomas said they are looking at a five year plan. The plan anticipates that they build the plant in the latter part of the five years, and that they have a loan that is going to cost another \$8 million a year; and of that \$8 million, they are going to pay as much as they can out of impact fees that they collect annually. They are allowed to do that because a portion of that plant is growth related. The other thing they are doing is, they have already adopted an increase in those fees of almost 50%. The theory says they want to make new growth pay for itself. He will give an example outside of utilities. If they are going to go out and buy a bunch of park land for their future population of the city, or they going to build a road today, those costs are built into their impact fees. But if they go build the road right now, they are probably not going to have enough money from current impact fees to pay for that expansion of that road. But over time as developers ask for capacity or for new development which is approved and they pay those fees, they can use that to offset those costs. But it is real difficult to make it match up to where out of pocket the developer pays everything and the existing customers see no effect. One of the things they have done is they even added a new charge, this accrued guaranteed revenue to increase what they take from the developers. A lot of it gets back to this, if the Utilities Authority didn't build that mainland plant with some ability to expand it, then they would be creating more redundant costs, because they would have to go back and re-engineer it when it needs to be expanded. So the fact is, they have some capacity in that plant for the future, but there are no developers right now ready to pay for it. That is a fact. A little bit of that plant is for some future expansion of that plant, there is money invested in that, and they can not charge that to the current developer. They can't say, here is their five year plan and the developer has to pay this share of it, because they are one of these customers coming in the next five years. They have to say, here is what it costs per gallon in capacity and each new home uses approximately this much. Well, until they get enough homes to sign up, they are not going to recover those capital dollars right away. Yes, growth should pay its own way; but to actually make it match up on a year to year basis is very difficult, and the most difficult time is when they have a major capacity expansion. At least with roadways, much like transmission lines, they can do a little bit at a time. But when they decide to build a new whole treatment facility, that's like the snake swallowing a rat because he has to digest it now. They have this big expenditure and they are trying their best to spread it out

over time. That is why they are borrowing the money, they are increasing our capital recovery fees from developers as much as they can justify, but there is some cost there of choosing to have two facilities. It would be much cheaper to expand the island plant and they wouldn't be looking at these kind of increases.

Commissioner Nelson asked what kind of guidance do they get from Senate Bill 360 relative to making these various projects be financed prior to them starting?

Mr. Thomas asked what bill is he referring to?

Commissioner Nelson said Senate Bill 360. He thinks it was enacted last year or the year before last. It says they must pay for growth, pay for increase capacity, and they must do it on a concurrent basis or within a set time frame. Mr. Thomas has not addressed that issue at all?

Mr. Thomas said he thinks if the Utilities Authority in its due diligence expands its plant, that means the facilities are available for that concurrency. So no, he does not look at it from that perspective. The City does that when they make decisions to expand capacity, and it is so they will have capacity available to serve that growth. And what would happen if they didn't expand the plant, at some point, they would be in a moratorium. They wouldn't be allowed to add new customers to the system, because the state would say they used up all their capacity and they can't add new customers.

Mayor Benton said that is what he wanted to get to. In the County now most of the 8,400 units they are looking at is being approved by St. Lucie County along Jenkins Road and that area, not where the City is trying to grow, their numbers are a lot less. In the County, what they are doing to a lot of developers when it comes to roads which belong to them, they ask the developers to think outside of the box - they need additional money coming in other than impact fees - and the developers are doing it. One developer gave them \$250,000 to spend as they want. Somehow the County should be here, because any moratorium would be put on the County, because that is where this growth is costing them. To him, if they are putting these lines in and it is creating more capacity on their main... They just put one in that went from the Seminole's development and Bernie Kosar's development west of the turnpike. They had to expand that to get it all the way to the island. They are talking about running half the distance if they are building this new plant to the south. To fill up the pipes they have now with 8,000 units along Jenkins Road. It is cheaper to go there than going to the island. But somehow they have to get the County to come on board and think outside of the box. If they want this development, they are going to have to pay more. Because the majority of Fort Pierce has PVC pipe in the ground, they have an existing facility. How can he tell these folks that their rates are going to go up that much? To him, it doesn't make much sense. They take a shower, they flush the toilet - how can it go up 22% two years in a row? It just can't work that way. Somehow developers are going to have to pay a little bit more; they are going to have to think out of the box.

Mr. Thomas said the statement he made at the beginning, he will go back to that. If they can get the developers to write the checks up front, it would not look this bad. But he strongly believes that the first rate increases they are looking at, they need to do, because, otherwise, they are not going to get out of the cash deficiency they are in, and they are going to regret it if they don't move forward with the early rate increase. With respect to the later increases, he doesn't believe they are going to adopt them all right now. They may have to adopt those before they go to the bond market. But they have some time to say, are they going to delay it? Can they find some developers that will help fund it? Are they going to get more grant money? There is time to adjust this. This is just what they see today.

Mayor Benton said in his opinion, they are going have to find another way. He for one could not pass those rates on today to their customers. He knows what his utility bill is. He understands electric is one thing. But when it comes to the water and wastewater, they put that PVC pipe in the ground, it is good for years, it's good for forever. It is the new PVC pipe that developers should be paying for. The option is a moratorium. This isn't going to affect the City of Fort Pierce as much as it is St. Lucie County. So they are going have to

start coming to the plate. There is a development on Hartman Road where they started in the mid-\$250,000's and now they are down to \$159,000. So if they can take a drop of \$100,000 a unit, how much money are they making? This is going to get their attention; and in his opinion, they will come to the plate with the money. It's not going to affect the little guy, it's going to affect the 500 units or the 900 units next to Westwood High School. If they tell them they can't afford to do it, they can't send that cost to his residents.

Mr. Drummond said he is not fully understanding as it relates to wastewater. There are two components. There is the growth that they want the developers to pay for and then there is the cost of making the conscious decision to ultimately move that plant off the island. For that part, the existing ratepayers are going have to fund a portion of it because there is still capacity available.

Mr. Thomas said and they can't assign it to a developer legally, unless they can get them to go along with it.

Mayor Benton said but the plant on the island, the first year that they asked for grant money to help move it, they received \$8 million. The federal government which helped permit this - they have talked to Senator Martinez - they said they are going help them out. To him, they have a nine year plan to get it off the island, let's see what kind of grant money they can get, because the residents today cannot afford these rates.

Mr. Drummond said he understands that part as well. But also everything that he saw when they did the study the last time suggested if they replace the plant in five or ten or twenty years, the numbers just went right through the roof in terms of construction costs. So even though they may want it delayed, they are also increasing the cost for construction.

Mayor Benton said if that is the way they have to do it, he just can't put the burden on the people.

Mr. Summerhays said there is something they haven't talked about yet, but it is in front of them, is the comparison of the water and wastewater bills. And both of those first big two year increases have to be in effect before their rates reach average for the state.

Mr. Thomas said they talked about that, and he made the point, that in the 58% or the big number over five years on wastewater, the big driving factor is the plant. Based on their cash flow, they are producing \$2.5 million towards capital after payments of debt and to the City, and they've got at least \$10 million of capital need for R&R. This increase isn't all about growth. So, even if they took that out, he probably would be talking to them about some future increases that would be much less, but they would be there.

Mayor Benton said he could live with a 3% to 5% increase which should have been enacted years ago. But 22%? It is the numbers, he is sorry. But if Mr. Thiess was the Mayor of a community, if he were to raise the rates 22% two years in a row, what would they say to him? No way.

Mr. Thiess said they raised their taxes almost 60% this year.

Mr. Thomas said it wouldn't be a record from what he has seen. But he will tell them where they can get into trouble. If they don't do those annual adjustments and they start deferring things, then they are asking for worse service and ultimately higher rates.

Mayor Benton said he is saying they need to raise rates. But 22% at this time? When people the last two years, living here... They have to look at the big picture, at least for the Commission.

Mr. Summerhays said that is over two years. Didn't the City increase taxes 15% this year.

Commissioner Coke said they lowered their tax rate a mil.

November 9, 2006

Page - 23

Mr. Summerhays said they can't point at the millage, that's not the whole story. Overall taxes went up 15%.

Mayor Benton said he believes it was 13%, something like that.

Ms. Cully said, actually, they have already done them a service by delaying the cost for them; and they are doing them a disservice if they don't do something now instead of in the future down the road. Because then they are going ask why didn't they do this before when it could have been cheaper? But at this point in time, if they delay it, it could cost a whole lot more. This is how they have to talk to the citizens and ratepayers in our community. Let them know that they did do them a service; they gave them the opportunity not having to pay any extra rates during this period of time when they had these hurricanes, when insurance and everything was going up. But at this point in time, at one time or another, they have to pay for it, they just have to decide when they are going to do it.

Mr. Thomas said if they wait to long, it really could have consequences.

Commissioner Alexander that is why he questioned him educating the community. And what he is hearing, they should educate their constituents. But that is not being fair or not. But they have to get, whatever they say out of their mouth is going to be believed whether they like it or dislike it. But the utility don't make an effort, the same effort, and he thinks they should.

Mr. Thiess said they are doing several things. They are issuing a letter to all their customers for starters. They have been talking to the newspaper and giving them information to prepare some informative articles, which he is sure will be coming out before too long. They have been thinking about some other things like maybe some radio spots. They are going to do many things in that area, but they wanted to get past at least this workshop to see where this is going before they take it to the public.

Commissioner Coke said she thinks the problem is... It is not Mr. Thiess. It is the old saying - Poor planning on your part should not constitute an emergency on my part. And she thinks the general public would have been fully accepting - understanding for the last ten years that prices go up and everything else - a small increase right along the line. But to do nothing, nothing, nothing, and then come and say they are in trouble? She understands it is not Mr. Thiess, because he wasn't the man in charge. But someplace along the line there was a responsibility to not allow the Utilities Authority to get into this shape. They are here being told that they could lose their bond rating, that the FPUA might not be able to make a payment to the City. She is not saying it is Mr. Thiess, but it is his organization that allowed themselves to get into this situation. And now it is going to be everybody in the City of Fort Pierce and all of their ratepayers, everybody that is a customer of the FPUA, having to pay the price and pay the price dearly. Where they could have been paying \$.50 a month more last year and \$.50 more a month the year before, they would have built up their cash reserves. Now all of a sudden, they have to come along and say instead of raising \$.10 or \$.50, now their bill is going to go up \$5.50 a month this year and next year. And she thinks that is where it all becomes very unpalatable to the average citizen.

Ms. Cully said she disagrees with her on that. Because at the time when they are trying to make a decision, they are trying to make the right decision. She thinks during the time of the hurricanes and when they had fuel costs and so forth, she thinks the Utilities Authority did try to make the right decision for the ratepayers at that time. They were all having trouble just trying to get their homes back in shape and then along came these fuel costs that no one expected and they continue to go on plus the war has caused a lot of these fuel costs and so forth that continue to rise and no one expected that. She thinks at the time they were thinking they just wanted to do their ratepayers a favor, not raise rates, they are going to hold off. But they know how things go, when they delay sometimes, things happen and they end up...

Commissioner Coke said she is not going to put it on a personal note disagreeing with any one particular person. But she will note here that according to the figures they are giving her, electric rates have not been raised in 10 years. Hurricanes were two years ago.

Water rates have not been raised in five years. Hurricanes were two years ago. And wastewater was three years and hurricanes were two years ago. So there were many years there that a little palatable increase to John Q. Citizen could have helped them out with the cash flow. She understands that everybody was trying to be kind the last two years to the ratepayers in the aftermath of the hurricanes. However, there was also an obligation to ensure that the Utilities Authority remained a healthy financially vibrant entity. And if it was necessary to bite the bullet, then they needed to bite the bullet. The point she is trying to make is that it shouldn't have been ten years for electric and five years for water or three years for wastewater, because what they have now done is have an excessive burden to put on people all at once.

Ms. Cully said she thinks some of the costs have been mostly over the past two or three years.

Mr. Summerhays said for most of that period they had flat growth, no reason to build anything new at all, they had no growth and costs were relatively flat.

Commissioner Coke said its not just growth. She is talking about the cost of insurance, both of the plants, for employees.

Mr. Summerhays said most of those years, those things did not go up significantly.

Ms. Cully said just the past two or three years.

Commissioner Coke asked they didn't give everybody raises? They didn't increase their multiplier for their retirement? She is not saying that those were not justified things. What she is saying is there was a financial responsibility to ensure that the Utilities Authority was able to cover those costs all along without now saying to the Commissioners that their capital reserves have fallen to a dangerously low situation.

Mr. Perona said but those reserves fell to a dangerous situation only in the last couple of years. Being on the board four years ago, part of philosophy was if they didn't need to raise rates, they are not going to raise rates. And speaking of Mr. Boudreaux who was the Director at the time, he thinks he was almost anal at the point of not having to even talk about that, and he took pride in the fact that he had same amount of employees the day he took the job 14 years, previously, as the day he left, maybe fewer. He means, it is just the austerity program and the philosophy of the Utilities Authority to run on its most economical source it can. He thinks if they weren't looking at building a mainland plant, abandoning the usage they have out there on the island, and all the other things, Mr. Thomas would be here talking about a heck of a lot less of a rate thing, and they wouldn't have issues and it would be those nominal things. But they have two things going on. They have a lot of explosive growth happening in their community. They are looking ahead, not even five years, but 30 years. Because even if they take the growth out there on the island, how much capacity can they get to on the island in concept, 15 mgd?

Mr. Thiess said maybe, they would have to look at that.

Mr. Perona said even that isn't going to handle the needs of this community 25 to 30 years from now. So the movements that they make, much like Mr. Drummond said and the studies they had before, the money they are spending now is cheaper for that. They really have to separate those two issues. He thought for the longest time, they as a board didn't do their job by not raising rates over that period of time. But they look back at that time, and they really didn't have a need to raise the rates at the time. Their coverage amount was perfect, their bond rating went to an A-. These are all financial conditions of exactly what the utility was. For a small utility on the east coast of Florida, they are rated as one of the highest of them all, and it is based on their financial rating. So this is an element that, basically, if they want to comment on that, he would say that they should have looked at this a year ago, maybe, or 18 months ago, and then beaten the drum back then. But at this moment in time, he thinks it is more important to be able to take and digest all those two issues - what they as a utility need to maintain their financial position, and how they are going to accommodate the growth that is anticipated by the City of Fort Pierce. The things

that the Commissioners are passing, when they put developments in and stuff like that, they better have capacity for them or they will be in trouble.

Commissioner Alexander said he came in here under a clouded mind as far as removing that treatment plant; he thought that was supposed to be a collaborative effort and a regional effort for the County. So now they are talking about taking the total on the City of Fort Pierce and the FPUA?

Mr. Perona said that is a great question, and all of them that sit on that task force can't answer that question for him today. Mr. Beach sits on it, Mr. Thiess, and himself.

Commissioner Alexander said what he is saying is, all of that is placed on their shoulders now.

Mr. Perona said the issue, speaking just as an appointed board member here, is the fact that regardless of what the County says and regardless what everybody else says about this thing, they have to provide their ratepayers water, wastewater, and electric. And they have to make sure that no matter what, if there is indecision, they have to step forward and make sure that is a continued thing no matter what. Right now, they are at indecision on the task force. There are too many issues out there that are not going to be resolved in his estimation in the near future.

Commissioner Alexander said when they had the dispute with the County about their boundaries, they resolved that. He thought at that point they said they had the capability of handling all the water and wastewater that they needed for those boundaries. And now they are saying that...

Mr. Perona said he has been a Board Member long enough he can just imagine what other issues are in front of that. It is more than just putting pipes in the ground and everybody holding hands.

Commissioner Alexander said but he understood they had the capacity to deal with whatever those boundaries were when they agreed to those lines.

Mr. Summerhays said construction was in existence at that point. They are talking two years ago. That was correct. He thinks they are going to get a breather on this because a lot of this new stuff along Jenkins Road is going on hold for a little while. That is a good thing. Because they have been running like crazy trying to keep up both at the City level and on the UA side with this explosive growth. They need to look a little further ahead than that, because it takes along time to build this infrastructure. It is has made it very difficult.

Mayor Benton said when it comes to the maintenance needed for capital for the existing users, they have some properties that the UA can come off of. They have the federal courthouse, they have two city blocks downtown that do not need to be held by the UA. They are looking for future court expansion. But those buildings and that property could be sold. They are paying \$100,000 a year for a lease for 20 employees on 2nd Street. Wouldn't they be better off expanding this facility? It would probably be a lot cheaper in the long run. But selling those facilities could put money in the bank and help bring rates down. It is not going to help with \$178 million, but it could put \$10 million in the bank.

Mr. Summerhays said they are already looking at that. They had a report three or four meetings ago.

Mayor Benton said they are at the point now, because of the discussion of the court system possibly moving over there, he thinks they have the ability to start marketing that and pushing it. Because it might be something the City or the County or the FPRA is looking at for that court expansion. But it would put capital in the bank for what they are looking at doing here.

Commissioner Nelson said they mentioned \$7.8 million from South Florida Water Management District, a grant every year for the next 10 years.

Mr. Thiess said they are going to apply for it every year; but he doesn't know that they are going to get \$10 million every year. But if they do, obviously, those numbers can come down. If they find the big bucket of money, they could put off all the rate increases.

Commissioner Nelson asked are they looking at other potential sources of revenue? South Florida Water Management District is one source. But they got a big hook over there with that plant sitting on the island, that possibly they could go into the Environmental Protection Agency and have them address that, too, in terms of money. They can imagine if they have another Hurricane Frances or Hurricane Jeanne come in here and devastate that plant over there and causes an environmental impact throughout that Indian River Lagoon, it is going to affect a whole lot people. Of course, if they can convince EPA to address that and give them some money, he thinks they will be far ahead of the game. So he is suggesting in conjunction with what the Mayor mentioned, selling off some of their facilities, relocating some of their operations, and apply to other agencies. There are three entities out there that he feels has a lot of money - the Environmental Protection Agency, South Florida Water Management District, and the Corps of Engineers. Now the Corps of Engineers will tell them that they have a \$22 billion deficit for construction over the next umpteen years. But those three entities at the federal level, he can assure them have got a lot of money. The question is, what other sources have they looked to to get money?

Mr. Thomas said the scope of the study was not to go out and find the money for this plant. They do have grants that they are counting on.

Commissioner Nelson asked who, for example?

Mr. Thomas said it is a South Florida Water Management District grant.

Commissioner Nelson said that is his point, they are only dealing with one.

Mr. Thomas said the other ones, for him to sit here and say he is going to get more money out of the Legislature is speculation right now. If they can get more money, they don't have to adopt these future increases. But what he is seeing, it is getting more and more difficult to get grants.

Commissioner Nelson said but the only people they are going to - and he thinks it was the advice of this Commission that they went with the South Florida Water Management District - has been the South Florida Water Management District.

Mr. Thiess said let him respond to that. Are they are familiar with the Emerald Coast Utility situation up there? They got \$130 million through FEMA, mostly. They were impacted much more than the FPUA plant was, because they are up there in the panhandle, and they had a much higher storm surge. Here, where the coast is flat, they don't get that kind of storm surge. But at that time they gave their consultants, CH2M Hill, the direction to look into finding money from FEMA or elsewhere to get funds to relocate their plant on the same basis that Emerald Coast was doing. They came up dry on that. EPA does not have construction grant programs any more. The Corps of Engineers, he asked them, specifically, and they had never heard of the Corps funding a plant relocation. Also, in Monroe County there was a serious issue with wastewater down there that has been active for 10 or 15 years, where they have very primitive systems - lots of septic tanks, lots of cesspools. They hired a lobbyist, paid him \$100,000 a year to go to Washington to get grants, and he came back with just about nothing. Really the source of the money that is realistic is an appropriation through their State Legislature or at the Federal level. But the agencies at this time, don't have much to do with utility relocation.

Commissioner Nelson said he can assure them now is the time to strike relative to trying to get additional funding. Because the government will change at the governor's level, significant changes at the federal level. The potential for more storms to come hit them like Hurricanes Frances and Jeanne. The strategic location of that plant over there, wastewater treatment and the potential impact it would have if the event it erupts. It is a possibility it is going to erupt.

November 9, 2006

Page - 27

Mr. Thiess said they would be glad to work with the Commissioners and Mayor on approaching the federal delegation. They have approached the state people, they are in contact with Representative Mayfield's office on a pretty regular basis. He thinks the \$10 million a year, he doesn't know if they could help that any.

Commissioner Nelson said he doesn't believe in embellishing things, but sometimes they have to say look, he is no fortune teller, but he knows it is only a matter of time and this is going to happen. Iron rusts; it is going to deteriorate. One time they had a bubble in the pipe and it blew out and everybody went bananas over there. You can bet it is going to do it again.

Mr. Thiess said they lined all those pipes. They should be good for 50 years.

Commissioner Nelson said his point is, please take a look at potential other revenue sources, be it grants or whatever.

Mr. Thiess said in the absence of those sources, this is the only way to proceed, if they are going to proceed down the path that the Commission has given them, build capacity out west. If they go down that path, and they get large sums of money from the federal government or the state government, they can back off considerably on these rates. Obviously, they are not going to raise the rates any more than they have to to balance their books. They have to make the decision now to stay on that course and build capacity west for when they need it; or choose another course in a different direction.

Commissioner Nelson said he is not sure he is totally convinced that this is the only course of action they can take.

Mr. Thiess said unless large amounts of money come in from the federal and state government, the only other course is to put their stock in the plant on the island and maximize the use of that for their service territory. They probably would have to let the County bulk thing go to the side and just concentrate on their customers, their service territory, and try to get as much capacity as they can out of that plant and use that plant as long as they can. This would put this off for maybe 10 or 15 years.

Commissioner Nelson said even if the County has a stake in this too. They are building Bentwood out there, Portofino Shores, other areas out in the county. If they want it, they need to ante up and help.

Commissioner Alexander said but they were assured that the FPUA had the capability...

City Manager Beach said he thinks the direction that has been set as it relates to the relocation of that utility plant is the direction the City should continue and that the UA should continue. What he thinks they have to revisit is how they are going to do it. He doesn't think, unless he is mistaken, even when they had the discussions originally they had concluded early on that trying to make relocation a part of the rate structure was not a realistic approach simply because the public will not accept that. The City Commission is not going to approve it. If they did approve it, the public is going to react to it in a very negative way. But that doesn't mean that they don't look for other mechanisms to accomplish this. There are other mechanisms, there are ways to do without it becoming part of the rate structure of the UA.

Commissioner Nelson said that was well put.

Mr. Thiess said he went to a meeting yesterday, the City of Vero Beach City Council. They are talking about the same issue, and they are looking at going down the same path the FPUA is going. The Vero plant is out by the Causeway, and they are looking to move it west. They are going to be obviously looking for the same funding sources the FPUA is. They are already talking to Stan Mayfield and getting some money there. Vero is little bit earlier in the stage than the FPUA is. The UA is much further down the line than they are - they don't have a site, they don't have it designed. They are also looking at a \$100 million-plus price tag. If they succeed and find money somewhere else, he is sure they will be right behind the UA and, hopefully, not right ahead of the UA.

Mr. Summerhays said he knows he read in one newspaper or another that there is an environmental group in Martin County that doesn't think they should be tapping that money at all. It may have been in the Post, he doesn't recall which one it was.

Mayor Benton said it was in the Post. The St. Lucie River Initiative.

Mr. Summerhays said they don't think they should get any of that money, and they are going to rise up and apply all the political pressure they can to keep them from getting any more of those \$8 million to \$10 million grants. They cannot, from a business viewpoint, bet on pie in the sky. They cannot proceed down this path without a funding source in place.

City Manager Beach said what he is saying is that they can back away from the proposed rate adjustment as it relates to the relocation of the utility plant and they can simply focus their efforts a different direction to finance that. If they are unsuccessful at finding that direction, then, obviously, they are not going to do it.

Mr. Thiess said it is a little more complicated than that, because they have to address where they go for capacity once they max out their 10 million gallons a day on the island.

City Manager Beach asked but aren't they under design for the treatment plant out west? They can continue in that direction, they continue with the idea that they are going to do it. They simply resolve the financing issues as they go. They have the resources available for the design, they already own the land, everything is moving forward with that. The decision about when they spend the next \$40 million doesn't need to be made today, it probably doesn't have to be made a year from now. But they still get prepared for it.

Mr. Thiess said they are going to put that off as long as they can.

Mr. Summerhays said isn't it correct that only about \$8 million of that cash flow requirement is related to that plant. The debt service.

Mr. Thomas said it actually is less than that related to the plant, because it is part of the debt service, and they have more in the loan than just the plant. A couple of things. One, they may be able to find some more grant money. Mr. Thiess mentioned the Keys and the money. There they are putting in sewers where sewers don't exist. They got some substantial federal grants to do this, because down there the septic systems are fouling the bay. It is pretty bad, because they put dye in a septic system, and two hours later they can see the dye in the bay. So their septic is going right into the bay. They got millions of dollars in grants; and yet, in spite of all the grants, they are still having to assess \$8,000 to \$10,000 per household to make all this work. So there are plenty of other grant opportunities, but those remain to be determined. They don't know that yet. Right now, they are planning on what they know. They have a lot of flexibility here, because these are future rate increases. With respect to the fact that they need to do something now, because of the declining financial condition, he would like to make one point; and that is, if the rates had been raised in the past, they could make a rational argument that these rates wouldn't be a lot higher in 2007 than what he is already proposing. And in fact, their citizens would have been paying more of their monies to these higher rates in the past. Yes, it is a large percentage. When talking about the water and wastewater, the dollars aren't a great deal to a monthly bill. The percent looks high, but keep in mind water and wastewater bills are a fairly low part of the budget. He is suggesting to them that had they been raising rates in the past, he is not sure that they would be looking at 2007 rates that would be a lot lower than they are today, and yet people would have been paying more. So in some ways they can say by deferring the rates, they have helped them, because they didn't pay higher costs over the last five years. There is at least that to consider there. What he would like to do is lead them through the rest of his charts. And he knows they said it would take about two hours and they are running past that, so he is going to go through some of them quickly. He is sure they will talk some more and ask questions. He wants to point out that the relative rank of where they are in the mix for residential. If they look at the commercial rates (Page 23-24), this is for the small commercial user, they are in about that same place. If they look at the rates for a larger commercial customer, they are in about that same relative competitive position there. This is even a bigger large

customer. And the reason for that is, in addition to the City of Fort Pierce that has a say in the Utilities Authority rates, they also have to be filed with Florida Public Service Commission. And the Florida Public Service Commission doesn't say they can't raise rates, but it says how they apply those to different customer groups, and they want them to base the rates on cost of service. Over the last 20 years Fort Pierce has done a good job and that is why they are kind of in the same relative position. For example, they are not overcharging their commercial customers to help their residential customers, which the Florida PSC would frown upon. They have aligned their rates relative to cost of service. And that is why the proposed rate increases, other than that issue of the usage of over 750 KWH, it is affecting all of their customers basically the same way. Talking about water and wastewater (Page 26), right now the combined bill for 6,500 gallons the existing rate is \$61.59. These are utilities that are on the coast that have the same kind of water quality issues the FPUA has and things of that nature. Ormond Beach, Vero Beach, Indian River County, Stuart, Melbourne, Martin County, City of Titusville, St. Lucie West Service District, Port St. Lucie - the average of those utilities is just under \$70.00 for 6,500 gallons. With the proposed rate increase, they would be right under the average at \$68.25. So when they are talking about on the electric side they are charging more than most other communities, here is an example on the water and wastewater side they have actually been charging less. That is not to say the FPUA is more or less efficient than those utilities, because a lot of things can go into this. They have been talking about grants. There was a time when EPA gave grants out that funded 100% of sewer treatment plants. There are not very many communities left that still have capacity in those EPA funded grants, but it certainly helps keep their rates low, because it has been years since EPA has given a grant like that. So it is real difficult to compare and say they are clearly doing a better job than St. Lucie West Service District, and they're not doing as good a job as Vero Beach, because there are other things that affect the total bill other than just the efficiency of their operations. But the comparison looks more palatable when they look at the water and wastewater side, at least relative to yardstick competition. They really don't compete with those folks, but it is a yardstick. The next chart shows again over time what the bills are doing with various rate increases. They have done one that just bases on the existing power cost adjustment, that is all it looks at on the electric bill. So over five years the electric bill would rise 10% for example. He also has in their packet another one where they try to take into account, even though they don't know what fuel is going to do, they do know they are going to lose those credits when that electric power plant comes out of service. So they take the effect of the credit loss; and simultaneously that increased the power cost adjustment, but it also offset to some degree with less operating costs. So that is factored into this second comparison. It does present the average bills over time so they can tell what is going on overall. With respect to when they look at these comparisons, right now these are utilities that his firm works with or other firms that they know are currently doing rate studies and they are in those comparisons. The City of Ocala is looking at significant increases. Boca Raton which had some of the lowest rates in the southeast is looking at increases. Charlotte County, which has very high rates, has just adopted a series of rate increases going into the future. So even though they had high rates, they were in a position where they had to raise them some more. City of Titusville does an annual rate review and have been annually increasing their rates for the last five years now. When they look at those comparisons, keep in mind that it is a snapshot in time. Other utilities are reviewing rates and having to raise them. Talk about some outcomes that could result. They need to get that reimbursement and he believe the authority has already applied for it, he doesn't know if they have received the cash yet. But if they got that, and they didn't raise rates at all, they probably would be in a difficult position to make the distribution to the City, their unrestricted cash balances would decline. What's been happening is they have been spending out of the unrestricted balances, they can only do that for so long, that would go away so they wouldn't have any capital out of that source for future capital needs. They could face, if they allow the cash and the financial system to decline too much, they could get bond rating downgrading. It could be a difficult time.

Commissioner Nelson asked why does he say that they could possibly have immediate suspension of distribution to the City?

Mr. Thomas said because the agreement as he understands it says that 6% of the Utilities Authority's revenues go to the City; however, after payment of expenses and debt, they can

only take 40% of what is left over. So if that money left over is zero, then by the bond resolution they are not allowed to make a distribution to the City. They can make that 6% as long as there is adequate cash flow to do it. Where the cash flow isn't adequate, according to the bond covenants, they are not allowed to make the transfer. So the covenant does recognize the 6%; but it also says after they pay their expenses, after they pay their debt, any money that is going to the City cannot exceed 40% of that net cash flow that is available for capital and distribution to the City. If it goes low enough, the FPUA can be in a position where they could not legally make the transfer if the funds equal to 6% would be more than 40% of the cash flow in that year.

Commissioner Nelson said he was not around when they hashed that out, but he was always under the impression it was 6% of gross revenues.

Mr. Thomas said it is 6% of revenue. But there is another clause in it that says it could not exceed 40% of money available for capital and other legal purposes after paying operating expenses and debt service. The 6% is fine as long as they keep their rates adequate and the cash flow is there, they can do the 6%. But if they were to say they are not going to increase rates at all and costs continue to rise, they might in a position - he is not saying it would absolutely happen - where if there is not enough cash flow, they can't make the payment.

Commissioner Alexander said if that happened, they would be telling the taxpayers that they put \$6 million back into the community, because if don't come to them.

Mr. Thomas said they don't have it to spend in their budget.

Mayor Benton said this is the worst case scenario.

Mr. Thomas said that is right, that is if there is no rate increase at all. If they don't take some action, they could be there fairly quickly is the point he is trying make.

Commissioner Coke said immediately, according to the information (Page 30).

Mr. Thomas said they are pretty much out of money right now. One of the other things they looked at doing, they have seen a change in their customer base where the past they didn't have very many seasonal units and units that sat empty. There is a cost to the FPUA of having buildings on Hutchinson Island that people have built for vacation homes that sit there for most of the year and don't really bring in revenue. Right now, if that customer disconnects and goes back up north, they only pay for the months they are here. It has been the philosophy around the state that a base monthly charge ought to be billed every month for the fact that a utility has an investment in a plant, so when these people are here, they have capacity for them. They have an investment in a system to get the service to the site, and they have an investment in a meter and the maintenance of all that. If someone is choosing not to use it, the utility should still be billing them something. What they have done is, also in the study they are proposing a readiness to serve or an inactive account fee. So that seasonal customers, if they have a landlord with 100 units, the Utilities Authority is committed to having capacity for that 100 units. But if 50% of those units are empty, there is a cost to that the owner is not paying right now. So for the water, wastewater, and electric system, he is recommending that they have a minimum bill even if there is no use, even if the folks are back up north for a while.

Commissioner Coke asked could he tell them what that minimum bill is in real dollars to the person?

Commissioner Alexander asked could he give them a number or who would be affected?

Mr. Thomas said those were the annual numbers. If they adopt the electric system, which the electric system is equal to the monthly base charge...

Mr. Thiess said they would get a zero bill if they suspend service.

Mr. Thomas said in the wastewater system, they would pay \$12.20 a month with no use at all. For the water system, it would be \$10.40 a month for no use at all. And for the electric, it is a little less than \$6.00.

Mayor Benton said there are other communities and cities that do that now. For example, Naples, where 60% of the population is gone six months out of the year.

Mr. Thomas said that is right. This is not an uncommon thing. He won't say it is pervasive or it is everywhere; but especially the communities that develop around seasonal growth, they have to do this or they would be putting way too big a burden on the year-round customers. What that is going to do is it is going to make units that are empty in a given month help support the revenue base. That are not doing that now. It is going to help. It has already been factored into the rate increases. So without this, the rate increases to the every day users that are here year-round would be higher. So this is helping a little bit. They don't have a lot of that yet, but they are getting relatively more of it. So he thinks it is important they consider this going forward. It is not uncommon. He thinks the other one near here now that is grappling with the same issue is Stuart. They don't do it now, but they are looking to move in that same direction. Titusville did it five years ago, they started charging the year-round charges. Just like any other capital asset, people still have to pay their mortgage when they are not using their unit. The Utilities Authority has capital costs invested on their behalf that they should share in.

Mayor Benton said they couldn't increase the number of employees that, in winter time when they get here, if there are problems.

Mr. Thomas said they certainly have to have the plant capacity. They have to be ready for them. Many other businesses in the seasonal communities face the same thing. Recommendations. He knows they have gone over a lot today. But right now, they are recommending that they adopt the 2007 electric rate increase. If they want to assure that in the future there is a minimal increase that is within the band of inflation so they don't get in a situation where they wait 10 years again. They also encourage them to consider a rate indexing formula that would be tied to an inflation index. The Public Service Commission uses an inflation index, and the last few years it has been between 1.5% to 2.5% a year. They can index their rates to that kind of inflation base; and then after the first rate increase, they think they would be fine over the next six years. If they don't use the index, they probably are going to have to do some further small adjustments and take action. The index will actually take the purview of the action and make it automatic and it will be tied to an index. That is something that some utilities do. He would encourage it, particularly where they are dealing with a utility that has deferred increases for a long time, because to him, this is a more effective strategy. It is better to make small annual increases rather than large ones. He is saying to adopt the rates from 2007 through 2011; but really most importantly is they want to look at 2007 rates. Right now they are not looking to going to the market yet to finance these wastewater and other costs in the neighborhood of that \$90 million or \$100 million bond. When they go to the market today, in today's market they are going to want to see the rates to pay that debt back already adopted. They are going to want to see a plan which, the Commissioners may not like this plan, but it accounts for everything and all the cash flows are accounted for, and they can see where they are headed financially. And to the extent that plan shows rate increases, the marketplace that issues the bond would like those rates to be adopted. They want to make sure they are going to get repaid. They have some time. They don't have to go out for the full five years right now. They have some time for these issues to ripen, for them to seek other funding and all of that. But they pretty much need to do the 2007 right away. Then they have to do the rest of them at whatever point they formalize their funding plan totally. Everybody is in agreement with it, and they need to go to the market to borrow the money. That is when the other ones will have to be in place. They also recommend that they adopt the proposed inactive account fee. That will be a slight change for those customers who are mostly seasonal. Finally, they think they are in a very dynamic period. It has been a while since they reviewed the rates. He has been working with the Utilities Authority for 20 years. But he thinks in this one, they need to continue to monitor it and update it as things change, so they can keep coming back to them and letting them know where things stand as they move forward. That is all he has as a formal presentation. He appreciates their patience.

He knows it has taken some time to get through it. If they have any other questions, he will try to answer them.

Commissioner Coke asked is there a reason why he is not proposing an annual indexing provision for the water and wastewater rates?

Mr. Thomas said yes, in fact there is. Because if they look, the rate increases that they need in the near term probably exceed that annual index provision. Again, that would be something they could do. But in the next few years if they proceed as planned and how he has mapped it out for them today, they will need more than just the inflation index. So he is saying just increase them by the whole amount; and at some point when things stabilize, it would be a wise thing to do.

Commissioner Coke said except if they look at it that way, then they are looking at an automatic inflation increase of whatever the indexing provision would call for.

Mr. Thomas said less another increase. But it is still a dollar increase, a bill is a bill, if they call it one thing versus another. They could come back with an index if that is their pleasure. These increases are all in excess of anything that an index could give them. If they were to say to him they want him to build an index in there, and then for example in this year he would have a 1.5% index increase and an 8.5% rate increase, but it would still need to go up 10% is his point, which is in excess of the inflation index. In his mind, out there sometime they could do the inflation index, they might be able to do it earlier on water; but wastewater, if they are going to follow the plan, it would be some time before they could do only an inflation index. But it is a good point. They could break up the charge and have a part of it be the inflation index. That is not what the Utilities Authority's preference was through the first pass, but he thinks they are open to consider those kinds of things. The bottom line is that they get the revenues in they need, and they are open to how they approach that.

Mr. Perona said he thinks the point Ms. Coke is trying to make, which is sensible to him too, is the fact that when they start discussing it with their ratepayers and how they are going to have to take this into consideration, they are not looking at bottom lines on the utilities authority, they are just wanting to see why they are paying more money for what they are doing. And that breaks it down into a format, he is not saying it is easier to swallow, but it is definitely something easier to understand.

Mr. Thomas said it would be nice if their costs were inflating more like the cost in those baskets that they index. Because he can tell them a lot of their operating parameters are going up more than inflation on a year to year basis. So while it helps justify some of the increase, it really doesn't reflect that increased inflation and how it affects their operating costs. Aside from capital, it's 1.5% to 2% is not keeping up with most utility's cost inflation, at least in the last few years. Inflation overall as measured by these indices don't fully reflect some of these things. Yes, they can break this apart, and they can put in an index each year and then show how much more over the index they would need, depending on what the capital plan is when they get there, finally. He does believe indexing is important. So he agrees with them in that regard.

Mayor Benton said his only issue is, and it has been since Mr. Thomas gave the first presentation when they got their book back on September 25, 2006, in the opening letter one of the first statements he made was that the capital improvement charges are designed to recover the capital costs associated with providing water and wastewater capacity to new development. The next comment is, the capital improvement charges are not used to fund deficiencies in capital needs of the water and wastewater utility system; i.e., no cost for renewal and replacement of facilities serving existing customers. That is where he sees a majority of these costs are needed, for new growth in the city limits. They see limited numbers of development as far as 50 units, the most they had 250, recently, but they are not seeing the growth. He sees the County doing this to them. He can't put that burden on the residents in Fort Pierce to fund that new growth.

Mr. Thomas said they had so many tools available to them. Mayor Benton alluded to the final tool, where governments have some.... The City recently did an impact fee study for

their capital needs. He did an impact fee study for the City of Hallandale, which is fairly well built out relative to Fort Pierce, but they are looking at redevelopment. After they went through the whole process and looked at what the impact fees could justify, they came to the same conclusion that is relative to what Mayor Benton said earlier. They decided not to implement impact fees, and, instead, negotiated with developers to see what they could extract from them.

Mayor Benton said extortion, it works. The developers are making so much money on these developments. When they can drop the price of a unit \$100,000, and they are building 500 or 1,000 of these, they can afford to come to the plate with a little bit more money.

Mr. Thomas said the key is to have fiduciary responsibility to have a sound system. Second, they have a responsibility to the community to make sure it operates safely and in good health. Also, if it is the community's desire to grow, they have to provide for that. Part of the difficulty in meeting that statement is, he can say, is the plant cost. It is 5 mgd of new growth; it is so many dollars per gallon, and a single family residence uses... He can equate that right to that resident. But the problem is, he is not building capacity for next year's 300 units; he can't do that. He can't track it that nicely. There come times, typically, it is when they have a huge capital expansion like they are talking about. Unless they can get a developer to put a check on the table... There is a community called Dundee that has not grown in years and years. They are way west of Orlando, out in that Kissimmee four corners area, a little sleepy rural community. All of a sudden a bunch of developers come in, and they want to build homes for English people to come over here and use them as apartments while they vacation here and live here seasonally. So they are building all these homes that are going to be \$300,000 to \$400,000 homes. The city told them that it can't accommodate them; but if they write a check for that sewer treatment plant, they will build it. The developers wrote a check. The day they broke ground, they had the money from the developers to pay for the whole thing. That is a long range looking developer. The Okeechobee Utilities Authority tried to get developers to do that, and they can't get them to the table. The developers want them to fund that and take that risk, but they want the capacity. The question is, how far out do they build for the future, and what kind of risk do they take? You guys work all that out, and they will make a financial plan that will work.

Mayor Benton said maybe if they plan their growth. The problem now is, for instance, the other night they had someone come in front of Commission for a site plan extension, and they said no. How many more of those are not going to happen? But they are planning for all this growth. If they don't get the growth that they are building these facilities for, then the price to their existing customers is going to go up to maintain those facilities.

Mr. Thomas said if they go build it and the growth doesn't come, then they have worse problems.

Mayor Benton said so they really need to get a grip on this and really know who is serious about building and who wants to flip it.

Mr. Thomas said in the FPUA workshop, Mayor Benton was there when they looked at what happens if they defer it. And even if in the long run it may not be more pleasant, but in the short run it works better, because they are deferring that growth and that need for the capacity. He knows Mr. Thiess has already gone back and had more discussions with developers. And at some point maybe they do need to look at is there a way to put the hammer down and make them come forth, but it is not going to be easy. And, to move the plant from Hutchinson Island to mainland simultaneously with all this, does complicate matters.

Mayor Benton said he agrees. That has been something he has lead the way for eleven years now. But he never expected it to cost the ratepayers this much. And he thinks there is the ability to get grant money when that time comes, because they put a 10 year window on doing that. But new facilities are going to have to be built regardless because of the growth to the north and south.

Mr. Thomas said some of it is ultimately going to replace current capacity. The City of Titusville was late to get out of Mosquito Lagoon with their effluent. They got a moratorium; they finally built a sewer plant. When they built it though, today, ten years later, they are only using about 50% of capacity of that plant. They have been known in that part of the state for having high sewer rates since the day they built that plant. Maybe they built too much. If they would have built a smaller plant... But the same problem happened to them where they had an actively working plant that they had to change the process because in this case the regulators said they can't put their effluent in the Indian River Basin anymore. They had to change because of regulatory. Here the regulatory may make the same comment, ultimately, but it is a community decision.

Mayor Benton said the sad thing is these are the same people that approved those plants years ago and said they could do it. Now they are saying they can't. They should be helping them out financially.

Commissioner Nelson said engineering prudence tells them they should build 2-1/2 times what their present needs are, so he is not concerned with unused capacity in these various plants. He is going to go back to something Mr. Thomas apparently is not addressing to the fullest; and that is, Senate Bill 360 and the new requirement coming out in Tallahassee saying that they have to have a fair share ordinance in place between now and the first of December. He would encourage them to check with their staff. David Recor is handling that, on the SB360 program and also working on this ordinance that deals with the fair share for the extraction of various commitments from the developers. Relative to the various cities that have sewer treatment plants, the chart on Page 26 lists several. He is asking how many of those cities have sewage treatment plants located on the river like Fort Pierce and Vero Beach? If there is not that many, then they don't have the same problem that Fort Pierce has. The sewage plant appears to be the driving force for them having to address the issue of monies for the future.

Mr. Thomas said it is certainly one of them. As far as on the river, Titusville has already been through that. They had their plant effluent going into the river. They are out, but they spent a lot of money doing that. Vero Beach is in the same boat.

Mr. Thiess said SLC - North Hutchinson Island abuts the river.

Mr. Thomas asked what about the City of Port St. Lucie?

Mr. Thiess said they are west. The canal will eventually get there, but they are a good ways up.

Mr. Thomas asked what about Martin County?

Mr. Thiess said they are close. He doesn't know what the path is between their plant and the river, but they are offset a little bit.

Mr. Thomas said Martin County is trying to convince Stuart to decommission a plant that they just expanded five years ago and go into a joint plant with them. But Stuart is having a hard time making rational sense of that because they just spent a bunch of money increasing the capacity of the plant. But now Martin County doesn't like the location of it and would like to do another plant on another site and be involved together. Yet they have a huge investment there they just made that they are going to walk away from if they do that. That is kind of a similar situation and he doesn't think they have resolved that. In fact, right now the City of Stuart is saying they don't think they can do that.

Commissioner Nelson said what he is trying to focus in on is once they go out to try to solicit additional funding...

Mr. Thomas asked who else is going to be competing with them?

Commissioner Nelson said he thinks Vero, Stuart, and Fort Pierce would be a prime candidates that they must have it. If they don't do it, this is what is going to happen.

Mr. Thomas said not just here on this coast. Sarasota County has Phillipi Creek that they are trying to get their sewage out of that creek. He just worked with Marianna, Florida. They were putting their effluent into a surface water or creek and they had to redo their whole plant. Not the same as being on the river, but a similar type of fact. They went out and sought grant money. They are a rural community, they were able to enlist a little bit of grant money from the federal government through a rural program. But they are going to have more than just the east coast utilities that will be competing. The Florida Keys. They have problems in Florida. Citrus County is another one, they are looking to lobby the State Legislature, because they have a lot of surface water in Citrus County, and they want to get septic tanks out of there. There are some that may have higher priority than Fort Pierce's need from the environmental regulator standpoint, but he couldn't tell them how they all stack up. But, they are certainly going to be competing for grant money, because everybody that is in a position where they are looking to do new projects is looking for a way to fund it through grants. They talked about the sources. It isn't the Water Management District, it is probably a legislative grant is the next best shot. And, there they have to have some clout. Unfortunately, his client, Okeechobee Utility Authority, got grants that then got vetoed by the Governor. So the Legislature might give them the grant; but in the past, the Governor has vetoed some of them.

Commissioner Nelson said Mr. Thiess made a tremendous presentation to the South Florida Water Management District last year that netted them the monies they are currently getting. It was the Legislative Delegation who said lets go to those people, get on their agenda, ask them to put it as a priority; and, of course, they came up with the money. They asked for \$10 million, and they got \$7.8 million. If, in the event they are able to do it for next succeeding years, it is not going to be a case of please do it, they are putting them in the mix based on the priority and based on the need. Their input has to be fully justified; i.e., if they don't do it, it is going to pollute the river, and it is going to stink up the whole place, and make them convinced of that.

Mr. Thomas said he is right, it is going to take some work. They can certainly sit down with Mr. Thiess and run some scenarios where they assume more grants and see what happens. It's just that right now, it would be arbitrary until they pin that down a little better.

City Manager Beach asked is there some way to wind this up?

Mr. Thomas said they are not asking them to take any action.

Mr. Summerhays said there is no action required.

Mr. Drummond said this was for informational purposes only, and there is no action required at this point in time.

Commissioner Alexander said he will wait on staff to decipher this and come back with some recommendations.

Mr. Drummond said his only question would be whether or not there are any time frames with regard to them having to take formal action. They are saying they need to do something with regard to 2007.

Mr. Thomas said he would move fairly quickly on that one, just to preserve the current financial picture as best they can.

City Manager Beach asked the wastewater fee for 2007 at 12%, is that going to be the recommendation to the Board regardless of whether they pursue the funding of the wastewater treatment plant or not?

Mr. Thomas said yes, in that first year. They have taken a close look at that, and he thinks they have to do the 2007 ones. Especially, on water. Wastewater, in time there is flexibility, depending on what the actual expenditure needs are. But he thinks in the near term... They have worked hard to get it where it is the best they could. If he could spread it out more, he would have. They can see it is fairly front-end loaded in the terms of the water and the electric too. He wouldn't have done that if he could have avoided it.

November 9, 2006

Page - 36

There being no further business, the Joint Meeting was adjourned at 12:05 p.m.

Adjournment.

ATTEST:

Secretary

Chairman