

MINUTES OF A SPECIAL RATE WORKSHOP OF THE FORT PIERCE UTILITIES AUTHORITY, THURSDAY, SEPTEMBER 28, 2006, 1:00 P.M., ENERGY SERVICES CENTER.

Members Present: Chairman, Robert W. Summerhays, Jr.; Vice Chairman, Thomas K. Perona; Secretary, Darrell Drummond; Deputy Secretary, Pamela K. Cully; Mayor Robert J. Benton III.

Others Present: Director of Utilities; FPUA Attorney; Director of Corporate Services; Director of Water/Wastewater Systems; Director of Electric/Gas Systems; Internal Auditor/Risk Manager; Corporate and Community Relations Manager; Anthony Westbury of the *Tribune*; Mr. Earl Deever from the public; Murray Hamilton and Henry Thomas of PRMG, rate consultants.

Chairman Summerhays called the meeting to order.

The invocation was given by Mr. Frank Varella

The Pledge of Allegiance was recited.

Director of Utilities, Bill Thiess, explained the purpose of today's workshop is to have Public Resources Management Group (PRMG), present Electric and Water & Wastewater Rate Studies. They have looked at our Capital Improvement Plans for these three utilities and our projected expenses over the next five years, and, in some cases, further out. They have looked at our Capital Improvement Charges (CIC) and our rates to make sure our CIC's and our rates fund the necessary capital improvements. They have completed a Capital Improvement Charges Study and a Rate Study and have some preliminary information and suggested levels for the new CIC's and rates. We would like input from the Board, today, and from the public.

Mr. Thiess introduced Mr. Henry Thomas and Mr. Murray Hamilton of PRMG.

Mr. Thomas said we have been studying the Authority's rate and fee structure over the past several months and will give the Board a status report today. The report on the Capital Improvement Charges is, essentially, completed. Those charges are capital revenues that are billed to new construction and new development on a one-time basis to help offset your capital needs to serve your growth. They are a funding mechanism that is quite widespread in Florida. The Authority has utilized this mechanism for some time. We do have some modifications to some of the pieces of that with respect to how we would adjust those charges for carrying costs for future customers down the road that will want to come on line.

Mr. Thomas further stated we have been reviewing your electric, water and wastewater rates. The electric rates have a component in them that allows you to pass on your purchased power costs, so each dollar of the power cost incurred from your suppliers is built into today's current electric rates. That served to keep up with your costs in recent years. It has risen fairly dramatically in the past 18 months or so. In spite of that, the Authority has not looked at the portion of the electric rate that funds your organizational costs, the distribution of your electricity and the services you provide since 1996. The current rates have been in place for quite some time without any adjustment.

As we look forward on the electric system side, we are going to present to you our five year forecast. It is clear there needs to be an adjustment, today, and as we move into the future, one of the things that will affect the rates, but doesn't get addressed in the base rates proposed today, is the fact that when you decommission your downtown plant and are no longer getting the credits that Florida Municipal Power Agency gives you for having that plant available for service to them, you are going to see a rise in your electric rates in approximately 2009, from your purchased power supplier. At the same time, you are going to have lower costs, because you are not going to have the operational costs to operate

the King Plant. The net effect is an increase to the rates. That increase will come through the power cost adjustment. Even if fuel costs don't rise from today's level, there will be a bump up in your rates as you look at how you provide power to the community, and the assets you've had for many years have to be taken off line.

With respect to water rates, we've reviewed those more frequently than the electric rates. We have a proposal today for the water rates. That has been driven by increased operating costs and the capital needs for the water system. With respect to the wastewater system, there is one major capital project that is really driving things, and that is the mainland wastewater treatment plant. The community made the decision that we are not going to expand the plant on Hutchinson Island. Instead, we're going to create a new plant on the mainland. The timing of that is critical to what kind of rate adjustment you're going to need in the next several years. Initially, when we started the study, we were in a growth mode that suggested the plant needed to be completed fairly quickly. That development growth has cooled a little bit in recent months. If we can extend this process out for a few years, it gives us time to look for more outside monies, some grant help, perhaps, and, two, if our growth is going to slow down, it will be better timed with when the need actually occurs. We wouldn't want to bring the plant on if the growth isn't occurring as fast, because we would have less ratepayers at that time to help pay those costs.

Mr. Thomas further stated, obviously, it would be cheaper to expand the plant on the island rather than building a second plant, but, again, it is a community decision. The mainland plant is one of the big drivers in the wastewater rates. Consequently, for the water and wastewater rates, we've looked at a range of growth scenarios. We're assuming you're going to issue debt to fund this plant, the rate increase over time is going to be about the same. The day that debt comes on line, the rates have to be at a certain level to service that debt and serve your other costs. Where we are, today, is less than that rate. If we can move the plant out a year or two, the rates will still have to rise to the same level, but it will take longer to do so. We've got some alternative scenarios to look at with respect to the different rates of growth and moving the plant construction out a little bit in time.

What we're doing right now with UA staff is revisiting those development issues and the growth assumptions in the study. We are going back to developers you have been talking with all along and reconfirming what their needs are for the future, so that if they develop slowly, you're going to slow your capital plans for water and wastewater. The main drive on your electric system is where we are today. That system needs an increase today. Growth isn't going to affect that a whole lot. He wanted to point out that those were some of the big issues: the mainland treatment plant, the decommissioning of the electric plant in the near future, and the time that has elapsed since the last time you adjusted your rates.

Capital Improvement Charges were set many years ago. He believes that was in 1996, as well. At one point when the community was not growing, the thought was perhaps we could discount this charge and help give growth more incentive. That discount was repealed in 2004, but other than that, these charges really haven't been reviewed since 1996, as well. On the wastewater side, particularly, you've got this one large capital project that is going to have a significant impact on your rate level.

Mr. Thomas said Mr. Murray Hamilton is going to go through the details with the Board.

(Mr. Hamilton's presentation is attached to these Minutes and is not shown here in its entirety. A recorded tape of the entire meeting is retained in the Director of Utilities' office.)

At this time, Mr. Hamilton presented the Water/Wastewater Rate Study, Capital Improvement Charges Study and Electric Rate Study including a power point presentation.

During the presentation the following discussions ensued.

Mr. Hamilton explained Guaranteed Revenue Charges (GRC). The Authority has already adopted a GRC, which, basically, is a fee charged to a developer that has not put his units in service. They are constructed but have not connected within 12 months. You start recovering some investment made by the Authority from them.

The next fee he will discuss is a new fee, which is considered in their forecast of water and wastewater rates. The new fee is an Accrued Guaranteed Revenue Charge (AGRC). St. Lucie County has something very similar. They may call it something different. An AGRC is to capture the Authority's investment in facilities in advance of growth. It is kind of a carrying cost. You could have done something else with those monies if you didn't have to expand the plant to 5 mgd in advance of growth. It is a cost recovery. It is a schedule that changes on a monthly basis, so over time, the impact fees will stay constant, while, each month, the AGRC's will rise, so that if a developer connects earlier, he will pay the same impact fees, plus a lower AGRC. If he waits, he will pay a higher GRC.

Mr. Thomas said, as an example, with the new proposed Water CIC of \$1,841, that reflects the cost of capacity today. The Authority making that capacity available today has an investment that existing ratepayers are supporting in those facilities. As the developer contributes the \$1,841 to the water system, we give him 12 months to bring his unit on line. After 12 months, we ask him to pay some of the interest costs that are tied to a capital investment of \$1,841. After 12 months, it is just like a customer that is on-line that isn't using any water. You've committed the capacity to the developer. You cannot sell it to anybody else. It has to be there, so, if he has to start supporting this in addition to his initial capital costs, you're going to ask him to start contributing to the interest costs on that if he takes a long time to build the units. In the meantime, to treat everybody fairly, Developer A comes on, today, and pays \$1,841 at today's costs. Developer B comes on three years from now, the ratepayers have paid interest on those facilities costs, and what we are doing is recouping on an accrued basis, three years worth of interest costs tied to that \$1,841 worth of facilities. Nobody gets a free ride. The developer is going to pay the capital costs, and recognizing these assets are financed, the carrying cost as well. You now have the Guaranteed Revenue Fees. We are asking you to add the Accrued Guaranteed Revenue Fees. It really is a fairness issue and a time value of money issue.

Mr. Drummond said you pay the impact fee at the time the developer submits his Supply Agreement. Mr. Thomas said that is when you commit the capacity to him. Mr. Drummond asked where that is in the permitting stage. Mr. Thiess said we changed the resolution in the last year or two to get the fees paid up front. It used to be that we would write the agreement, sign the permit, and the developer would go on his own schedule, and the UA would not get the fees until the developer had a meter set and connected. Harbor Isle was one of the last projects to go that way. They were under the old rules and paid their CIC's as they set each meter for each building. The way the new resolution goes, the developer comes in with a completed agreement, completed approved set of plans, and the DEP permit application is ready to go. At that point, we are ready to take the agreement to the Board for approval, and at that time the developer needs to have his check for CIC's. Before we take it to the Board for approval, we get the check. Mr. Thomas said by moving this up in the process, you make sure this is a serious developer willing to contribute to the system. Mr. Drummond said at that point, we don't care how long it takes him. Mr. Thomas said the longer it takes, we ask them to start contributing to the interest costs tied to the investment. If they get the unit connected in the first 12 months, there is no

additional charge. If they take more than that, they have a monthly fee they pay for each unit they've reserved. It is like a Capacity Reservation Fee. Mr. Thomas said, in reality, you have to build the facilities in advance of the need. That is the problem. You don't get to collect all the money, then build the facilities. The timing of it is very dynamic, so you will have capacity always there to serve new growth. That means your ratepayers have been paying those carrying costs, and all you are trying to do is recoup some of those.

Mr. Summerhays asked if the GRC is, basically, a minimum bill. Mr. Thomas said yes. Mr. Summerhays said the AGRC is, basically, a price increase for the interest factor that has been on going, so that if somebody comes in three years down the road and wants to buy capacity, we have built this plant and have been paying interest on it, so we are raising the price. Mr. Thomas said yes. It is tied together to make sure everybody is treated the same way. That is what the AGRC does. We cap it at 5 years. We don't let it go beyond that. Mr. Hamilton said some utilities, instead of having an AGRC, may increase the impact fee each by about 3 or 4 or 5 percent, but it is still an impact fee. It is, basically, the same effect. We like to make a distinction, because the impact fee is restricted to expansion related projects or paying debt service, a portion of which is borrowed money for expansion related projects. You can't use CIC's for operating expenses. AGRC's are operating revenue. We can use them to pay operating expenses. It is a recovery back to the existing ratepayers. It is not a lot. The revenue is probably \$200,000 a year, but every little bit counts. The goal is to make sure growth does pay.

Mr. Thomas further explained when you have a bond resolution where you pledge to meet certain debt service coverage ratios, it is based on your revenue, less your operating expenses, and you compare the net revenue to your debt. You have to have a certain ratio of revenue available to pay debt to debt to satisfy your lender requirement. Impact fees don't get counted in that revenue calculation, but the AGRC revenues do.

Mr. Hamilton referred to other rate requirements. Obviously, we have the annual distribution to the City, which is 6% of gross revenues. There are some adjustments in there. We have forecasted this throughout the rate analysis. We made sure we don't get to the limitation. There is a limitation in terms of what we can transfer to the City of Fort Pierce, which is one reason we recommend reimbursement notes at the start of 2007, to replenish your cash balances, because, theoretically, if cash got too low, there is a minimum the Authority can transfer to the City based on that. If you have no cash, you can't do the transfer. We do need to build that balance back up. A lot of our clients maintain 90 days of O&M as a cash balance.

Mr. Summerhays asked what our 1,000 kwh customer is paying right now. Mr. Varella said \$119.00. Mr. Summerhays said we're talking about adding 6%. Mr. Hamilton said a rate increase will make it approximately \$126.00.

Mr. Drummond asked if we are anticipating a decrease in power adjustment. Mr. Varella said yes. Mr. Drummond asked if he is still looking at a 6% overall increase. Mr. Hamilton said yes. Mr. Thomas said that 6% increase is in the operating costs for the Authority in the base part of the rate where you recover what you need for your operation. Mr. Drummond said even with a drastic decrease in power cost adjustment, with our increase, it is going to be 6%. Mr. Thomas said yes. You have not raised the electric rates in a decade. You have had ten years of cost inflation within your cost of benefits, health insurance, property insurance, etc. Mr. Summerhays said this is always the problem with holding off on rate increases. You take it in little bites or in one big bite. Mr. Thomas said in his experience over the last decade or so, water and wastewater utilities have had to keep raising their rates. He has been

doing electric rates for 30 years now, and most of the systems in the State of Florida have not had rate increases on their electric systems in the last decade, other than fuel and power costs. Now, all of a sudden after that decade-long holding off, everybody is in the same position. Your own costs have caught up to the fact that you have not been adjusting that portion of the rates.

Mr. Perona said growth has been stagnant for so long it has been easy for us as a utility to sit and do the minimum they can to keep things going. Now, all of a sudden, we're looking at growth. It is really new to us, and we are looking at spending a lot of money on capital improvements to be able to handle the load. Now is a good time to take a real good look at what's going on. We have to provide for the future.

Mr. Varella asked if we went up 6%, is that on the base rate, excluding fuel? Mr. Thomas said no. The 6% is on the total cost. If you took your bill, and took the power cost off, it is about 8%. Mr. Summerhays said that is how we have to do it, because the power cost is a floater. Mr. Thomas said it would be 8% of the bill, exclusive of the power cost. If you took today's power cost, it is about 6%. The bill payer will see about a 6% rise. Mr. Summerhays said it is about \$7.00 for a 1,000 kwh customer.

Mr. Varella said if we institute this increase, it will increase the amount of the electric bill \$7.00. If we have a power cost adjustment decrease, that will reduce it. Mr. Summerhays said, yes, until we change the power cost adjustment, again. Mr. Varella said the cost has been falling, and we are going to the Board next week with a decrease.

Mr. Drummond said it will be about \$7.00 total increase in the monthly cost for 1,000 kwh, regardless of the fact that the power cost may come up. Mr. Perona said no. Mr. Drummond said the cost to the customer could go down if the power cost goes down. Mr. Hamilton said he doesn't think the power cost is going to go down that much. Mr. Thomas said the power cost adjustment is only a part of the total bill, so even if that dropped 6%, it still would not offset the increase of \$7.00. Right now your total cost is \$70 per thousand, and \$50 of that is built into the rates; your adjustment costs you \$20 of that. If that drops a couple of dollars, it's not going to offset the \$7 increase we need on the Authority's side. Mr. Hamilton said we are talking about 6%, but just within the last four years, the management expenses allocated to the electric system have gone up 12%, on average every year for four years. Transmission and distribution division within that department has gone up 7% per year in the last four years, and we haven't had any adjustments there. Electric Engineering has gone up about 3% per year for the last four years. Obviously, there are costs out there that are rising. These are costs that don't flow through the power cost adjustment. These have to be charged directly to the rates.

Mr. Varella said he thinks you see a lot of Utilities raising rates, since they have been holding them so long because of fear of competition and regulators. Mr. Hamilton said Leesburg and Ocala are looking at theirs. Mr. Summerhays said it is a lot easier to ignore it.

Mr. Thomas said there was a point where the trend in the regulatory area was to make utilities compete for their customers. That is very difficult if you lose customers if you have capital costs, so everybody was very reluctant to increase rates. Competition is not a bad thing, but if somehow FPL could serve 30% of your customers, it would have a huge negative effect on your financial future. Since that time, the regulatory community has come back and said deregulation isn't such a good thing. It will induce more instability than save people money.

Mrs. Cully asked if this is just because of the growth in the State of Florida or are other states experiencing this? Mr. Thomas said it is becoming nation-wide. He works with a generation and transmission utility in Indiana, and they have a lot of coal-based power. Florida has some things going against it. It is a peninsula. It is difficult to draw on diverse sources of power and get it here through the transmission grid; whereas, up in the Midwest they have a lot more opportunities to trade and minimize cost and have the most efficient units running all the time. Their rates have gone up tremendously in the last two years, as well, even though they are mostly coal-based.

Part of the problem with municipal systems is a lot of them are self contained. Ocala has it's own generation. But, like FPUA, they went to FMPA, because what we're looking for is diversity in our portfolio. When you're New Smyrna, and all you have is a natural gas unit, if something happens to that commodity, you're stuck, so the trend is to get into these bigger organizations to try to spread the risk and resources into different fuels.

Mr. Thomas said the proposed Capital Improvement Charges we've assumed you would adopt to minimize these rate increases. If you didn't adopt those, these rate increases would be higher. Mr. Drummond asked what kind of percentage increase are we talking about if we don't. Mr. Thomas said if you did not adopt the AGRC's the cumulative rate increase over what is now proposed would go up about 2% on water and 3.5% on wastewater.

Mr. Thomas said right now if a resident is seasonal or if you have a rental unit that is vacant, you render no bill. We don't think that's fair, because you have invested in the infrastructure, including the treatment capacity, to serve those units, and you are obligated to serve that capacity. If you have a customer who lives six months up north and six months down here, during the six months they are living up north, they are not paying anything. We believe there should be a readiness to serve charge that they should pay throughout the year. If they keep a second home here, just because they don't live in it for six months, they are not exempt from paying the mortgage on it. You have a capital investment to bring service to them and the plant capacity for them when they are here, so it is fair that everybody pay a base charge every month, once the service is there and ready to serve. If a customer is willing to abdicate his capacity allocation, then you don't bill them, but if they want capacity back at that location, they should have to pay another Capital Improvement Charge. They should effectively pay some minimum bill every month. Most cities in Florida are going that way.

Mr. Drummond said if he has already paid the capital improvement charge for the capacity, there is no additional charge. Mr. Hamilton said there should be, because there is maintenance of the line, maintenance of the meters, meter reading. Even if it says zero, they still go out and read it. There are still operation and maintenance expenses. There is an investment. You have staff and plant. You have the plant built to meet capacity when everybody is on line. If I'm not here, should I be exempt from paying any cost at all? We are saying they may not be paying a usage charge if they're not here, but they should pay a minimum fee for having the ability to turn on the tap and the water is there.

Mrs. Cully asked if there is an average fee for something like that. Mr. Thomas said most utilities charge a base monthly charge in the rates every month, 12 months around, whether there is usage or not. There are some that still don't do that, but they have higher rates than year round customers as a result. In Fort Pierce's case your minimum monthly bill includes a usage component allowing for some gallons of water usage. We strip that out in this proposal, because we don't think they should pay for 3,000 gallons if they're not using anything at all and, technically, the service is off for that month. They should pay the base cost less the 3,000 gallons. That is how we propose to do it.

Mr. Drummond asked if you take out our base usage, is that going to be greater than the increase proposed. Mr. Thomas said no. We have not factored this in yet, because we want the Board's input, since it is a change in policy from how you treat seasonal customer or rental units that sit idle or a strip mall that is not full. If you implemented this, we could reduce the amount we raise rates. It would help us 2% over time and 3.5% on the water. If you say to do this, we will bring you back a lower rate proposal than we otherwise would. This does help offset rate increases. We are looking for the Board's direction.

Mr. Thomas said electric's overhead facilities are a lot less costly to sit idle. When you have to dig things up and put them underground, you have a tremendous investment just in bringing services to homes.

Mr. Thiess said he thinks it would help to throw out the numbers for water and wastewater. Mr. Hamilton projected this power point frame for all to see. Mr. Thomas said for a typical residential home, we stripped out the 3,000 gallons from the base cost, so you would continue billing \$9.00 per month when the home is unoccupied. For wastewater, there isn't an implied usage built in, so the base charge stays the same at \$11.09. With this increase, customers would pay a base charge of about \$20, as opposed to \$27 or \$28 that they pay now. So, they would pay less than what they are paying, because there is not an implied usage there. But, they continue to contribute to salaries, benefits, ongoing maintenance, etc. We are saying \$20 per month is a fair price to have service available before you have any usage. That is how you treat your current customers before they have any usage, and we're just saying you shouldn't give a free ride to someone, because they are not occupying their unit for two months, at least on that portion of your cost structure. This doesn't create a lot of revenue for Fort Pierce, because you don't have a lot of seasonal folks here. If you went to southwest Florida where they use this kind of approach religiously, you would get a lot more revenue, because you would have more seasonal customers. We thought this is something you are not doing that you could. Mr. Summerhays said it is still \$450,000 our year round customers wouldn't have to pay. Mr. Thomas said that is right. Mr. Summerhays said he can only speak for himself, but he thinks it's a good idea. He thinks we may get some howls from part-time residents. They are already getting stoned pretty good in the real estate tax arena, but we're basically reserving that capacity for them. Because they have the use of that capacity, we have to build more. Mr. Thomas said it is almost analogous to the GRC. You are holding capacity for him while he builds. Why should someone, just because they leave town for three months or don't rent their unit for a month, why should they get a free ride?

Mrs. Cully said she agrees, also, because we have a lot of new units that aren't coming on board within the next year or two. Mr. Thomas said there are many units on Hutchinson Island that are going to be seasonal, and you don't want to subsidize them with your existing ratepayers.

Mr. Thomas said the Board has to consider, if you're going to go to the bond market to fund these capital improvements, you like to look at a minimum of a five year picture. They are going to want to see the rates adequate on coverage and meeting your capital needs through those five years. What you are really going to have to do is adopt rates forward looking into future periods to satisfy them to get the best possible borrowing. You don't have to do that this year, because we've got some time. It may be that we need a little more time to see where water and wastewater fall out. You have some options. We could do a two year increase and adopt it now, and, then, revisit it. But, ultimately, you're going to have to do a rate plan for about a five year period and commit to that. The bonds in any of these scenarios presented are coming on line at the end of the five year period, so if you just did the first two and went to the bond market, and you hired a firm like PRMG to do the financial feasibility projections, it would show rate increases the last couple of years. Unless you are willing to adopt those,

they are not going to be as eager to loan you the money. They are looking to commitment from local government that you are going to raise the rates commensurate with the needs of the system. At some point, you're going to have to make a commitment beyond just a year or two into the future. Right now, you could do a 2007 increase. You need to do something quickly. If you don't, your financial condition is going to continue to deteriorate. We are going back to developers to try to reaffirm the growth that we've been talking to them about. We could come back quickly with a five year plan. PRMG presented the Board with five years worth of rates today. You can always go back and revise them if conditions change. Nothing stops you from doing that, but it would be wise to have them in place in advance of the bonding.

Mr. Drummond asked if Mr. Thomas projects about 35% of the upcoming development would be electric. Mr. Thomas said yes, because the service areas don't match up. Mr. Drummond asked if he is suggesting only 35% of that development is within our service territory. Mr. Thomas said yes, for electric. Mr. Drummond asked if we are talking about the water and wastewater development being wholesale. Mr. Varella said wholesale sales to St. Lucie County are not considered in this report. We don't have any cash outlay regarding that and sales have not been anything to talk about. Mr. Thomas said the water/wastewater and electric service territories are not the same. Mr. Drummond asked if the water/wastewater customers in the projections are within our corporate boundaries. Mr. Thiess said they are within the Area A boundaries, not within the County's Area B Bulk Service Area. Also, in the bulk agreement with the County, there is a stipulation that the bulk rate increases proportionately to the retail rate. Mr. Thomas said bulk will get an increase, but that hasn't been factored into this. Mr. Varella said the reason for that is it isn't that much money. Mr. Drummond said he is trying to get his mind around how many of these will be within our corporate limits, but not have our electric. Mr. Varella said we do have electric service area outside our corporate limits. Mr. Drummond asked what percentage of our citizens are on FPL. Mr. Varella said he doesn't know. Mr. Drummond asked if we are going to have large percentages of corporate Ft. Pierce not being served by our electric department. Mr. Varella said it will depend upon how the city annexes and grows over the next years. With ultimate build out of our Territory A, yes, there will be citizens on FPL service. Mr. Drummond said as we are serving water and wastewater, we are annexing those areas, but not so with electric. Mr. Varella said that is correct. Mr. Thomas said you have agreed with FPL to settle on what your individual territories will be for the next 30 years regardless of what happens with your corporate boundaries. Mr. Drummond said then, as he understands it, as those developments receive water/wastewater on Jenkins Road and annex into the City, they will still be served by FPL and that is going to grow. Mr. Varella said yes. The same is true with Hutchinson Island south of Green Turtle Beach. We go all the way to Jensen Beach, practically, with water service.

Mr. Summerhays asked if there are any members of the public here, today, that want to speak. Mr. Bill Deevers asked if any consideration was taken of the value of the property of the power plant and wastewater plant being used to help offset the new project.

Mr. Summerhays said yes and no. The power plant reverts to the City. There is talk of a joint venture regarding the wastewater plant in which the proceeds of whatever is done with that property would help to offset the cost of another, second wastewater plant. That is another subject altogether. The new wastewater plant we are discussing today is under design and will be built sometime in the foreseeable future next to the new FMPA power plant.

Mr. Deevers asked how far away in time is construction of the second new wastewater plant. Mr. Summerhays said that is in the area of conjecture at this point. It would involve us unifying our water

and wastewater systems with the County, which is something we've been discussing, but are nowhere near agreement.

Mr. Thomas said when we had the agreement with FMPA executed, it was understood the power plant will be decommissioned in a short period of time; whereas, with the mainland wastewater treatment plant being designed now, we aren't going to take the one on Hutchinson Island out of service right away. It will be a number of years. As we build the mainland plant up in capacity, we will, ultimately take the island plant off line. There isn't a benefit in the near term regarding the existing wastewater plant property to even account for one way or the other.

Mr. Drummond asked if PRMG's assumptions included costs for decommissioning the power plant. Mr. Thomas said no. Mr. Summerhays said we will lock it up and give the key to the City. Mayor Benton said we will take care of it. His understanding there is somebody interested in the components inside. Our goal is to get the plant out of there as soon as possible.

Mr. Varella said he would like to bring to the Board at the second meeting in October, a resolution regarding the Capital Improvement Charges, because we have a 90 day window that we have to satisfy to make them effective the first of January. Mr. Summerhays said he thinks that is a good idea. He has been a little concerned about our eroding cash position for about a year, and we do not need to let the rate issue go on for too long. Mr. Varella said, as you are aware, we did borrow \$10 million from FMPA in June, and we have run through that already.

Mayor Benton said he hasn't said much yet. He received the e-mail containing cost increases yesterday. He read the article in the newspaper this morning. He has seen the numbers here, today, but hasn't had a chance to sit down and really look closely at this. But, he really thinks you are going to have a problem with the City Commission approving any kind of 10% a year rates for five years. He, himself, could not support that. He would have to see additional numbers. Right now we are dealing with some of the highest utility bills we've seen in a long time. He knows it is the cost of doing business. At the same time, residents are paying some of the highest taxes, even though the City has lowered the millage rate a whole mill this year. It is just that the cost of living here in the last couple of years has gone up so much that we have to look at the big picture.

Mr. Summerhays said, actually, electric was 6%, 1.5%, 1.5% and 1.5%. Mayor Benton said right. He doesn't know why we always take these big jumps. For years he's been talking about growth not paying for itself. He has been lead to believe the costs associated with wastewater and water are due to growth. How does he pass that onto the customers who have been sitting there for years hearing there is a wastewater plant on the island that isn't anywhere near capacity, and that we're fine. All of a sudden we're looking at these numbers to support growth and build a facility that Fort Pierce doesn't need.

Mr. Summerhays said it would be much cheaper to stay where we are and increase capacity on the island. The community seems to have indicated, and the Mayor, repeatedly, that is not what we want. Mayor Benton said there is nothing in the report saying that plant is going to be moved any time soon. We've heard we're going to raise rates to move that off the island, eventually, but that is not associated with these rates. We're building a facility that is needed for many reasons: Number one, for a power plant, and number two, for growth. St. Lucie County has approved a lot of units out there that will require this water and wastewater system. It is time we really re-addressed the growth issue and make growth pay for itself.

Mr. Summerhays said he agrees the rate increase will be a thorny issue. We will discuss it some more. Mayor Benton said he is sure the City Commission just read about it today, themselves. They are the ones who have the final say on this rate increase. It is hard to say we need to put capital money in the bank so we can go out for bonds for growth. Mr. Thomas said, again, at the same time, you can't run a utility business with no working capital. That is where we're at today.

Mayor Benton said because it is a public utility you try to run that number as low as you can to keep the rates down. His question is can City or County or government, which, basically, oversees as big brother here, cosign bonds. Mr. Thomas said the City might be able to pledge some of their revenues towards them. Does the City want to subsidize those rates? Mayor Benton said he is just asking that question, because he can't support rate increases like this at a time when things are the way they are. Mr. Thomas said if the City had a grant to help the UA fund that, that would be wonderful, too.

Mr. Thomas said if you don't build the mainland plant, the increases in water and wastewater won't look like that. Maybe, that is something that needs to be revisited. Mayor Benton said the mainland plant, right now, is supporting growth that the County has approved. Future city limits, yes, but it is not doing anything to get that plant off the island. If we were saying building this plant would move the plant off the island quicker, he thinks there would be a buy in, but he doesn't see that. Mr. Summerhays said you can't say it is going to move the plant off the island, but you can say if it is not built, the plant is not coming off the island. Mayor Benton said, not any time soon, but if there were two new plants, that would help subsidize moving that one. But, the new plant is also to cool a new power plant.

Mr. Thiess said if we were to take the lowest dollar approach to keep the rates down for current and future wastewater customers, that approach would be to expand the plant on the island. It is a small footprint. We could probably expand that plant with a different process that could go out ten additional years. The direction we've been getting from the City with some buy in from our Board, is that is not the direction we're going to go. The next additional capacity is not expansion of the island plant. It is moving to a new site with all the costs inherent in that. If we were to drop the plan for the new plant and expand the plant on the island, the whole rate structure would be entirely different. We are planning to build the core of the facility for the 25 to 30 mgd plant. That is the first stage.

Mr. Thomas said if you did take the island plant off line and bring all the capacity to the mainland plant, now, the rate increases would be even higher, because you would have to build an even bigger plant than what is in the capital plan today. The rate increases to do what the Mayor says will be more acceptable, to go ahead and move the plant off the island right away, would be much higher.

Mayor Benton said he questions when we approved putting in that line from the two developers west of the turnpike to the island. What is the capacity on the island now? Mr. Thiess said our last capacity analysis report said we will be at capacity in late 2009. We are at about 6.5 out of 10 mgd. Mayor Benton said we are at 65% now. With the current growth we would have in Fort Pierce, he would not see the plant at capacity in the timeframe we have looked at moving it, so this new plant we are talking about is being built to subsidize development in the county, bulk water, and, also, to cool the power plant.

Mr. Thomas said in reality, it is part of the long range plan. This may be the first step. We do need some new capacity for development, but we could easily do that if we expand the island plant and save money. The higher cost you are incurring is due to the decision to move off the island. Mayor Benton said because right now we are talking about regionalizing facilities, knowing that these costs are so

expensive that we might not be able to go it alone. He thinks before decisions are made we need to evaluate that a lot closer. It is time to make everyone in the County pay for this, because we're providing the service. He doesn't know what the rates could be for the bulk customer, but they would have to be higher than rates for the Ft. Pierce customers. Mr. Drummond asked if Mr. Thiess just said, based on existing projections, the island plant will be at capacity in 2009. Mr. Thiess said yes. We will do another capacity report in January of 2007. Mr. Drummond said that means we have to do something anyway, regardless of the power plant. Mr. Thomas said your cheapest alternative would be to expand the plant on the island, but as a community, you are deciding whether that is wise.

Mayor Benton said, also, the value of the land. There are so many options out there. Mr. Drummond said even if we do something on the island, we're going to have to get money to do it. Mayor Benton said a lot of the units that have already been approved, might not be built. If we look at this six months from now in the City, if you haven't gotten a permit after your site plan has been approved, you're done. When we look at these numbers, there might be a lot of people that are done.

Mr. Thomas said one of the critical factors here is the timing of how the rate increases have to come on when you target the plant expansion. The more we can delay it, even though the rates are still going to have to rise to meet that cost, it is going to take longer to get there. Mr. Drummond said the other side is the increasing cost to construct a plant. Mr. Thomas said the first two increases don't have anything to do with the capacity tied to that plant. It has to do with the fact the UA is not fiscally sound, and if you don't do something, you are going to run up against your debt service coverage ratio requirements and downgrade your bonds. We have to do something. Whether you need to do the full 68% of sewer depends on how quickly and what you do with the sewer plant expansion.

Mayor Benton said, like he said before, he has a lot of reading to do. We have a long way to go before these numbers could even be considered. Mr. Thiess said we do a capacity analysis for the wastewater plant every year. Every year we will look at that. If growth slows down, we will keep pushing the plant date out to where it needs to be. We will have the design on the shelf; we will be permitted; we will be ready to go. If we don't need it, we're not going to build it. Mr. Summerhays said to meet our contract with FMPA, we could satisfy that with a deep injection well. We don't have to have a plant out there. Mr. Thiess said, correct.

Mr. Drummond said CH2M Hill presented a report last year, and for every year you delay constructing the plant, the costs rise astronomically. Mr. Thomas said yes. As an example, Plant City had to rebuild their plant, because it was so old it was failing. We were looking at a five year rate plan and were at the front end of the planning process. They still hadn't bid the plant yet. They were looking at \$35 million. Two years later when the bids came in, the plant cost \$54 million. You can't imagine it, but construction costs are rising dramatically. One reason is everybody is trying to expand their plants, and the contractors have plenty of work to do, so they're not going to compete real hard, because they're so busy. Secondly, a lot of this is cost of asphalt and pvc, which have gone up 30% in the last 12 months.

Mayor Benton said in his opinion, the only thing that has come out of this study that we should act upon immediately is impact fees. Mr. Summerhays said we're going to have those for approval at our October 17th meeting.

Mr. Thomas said the impact fees as presented do have the mainland plant costs included in them. We have to look very carefully at development and see where we think it is headed. He thinks things are

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slowing down. Mayor Benton said there are thousands of units in Ft. Pierce and in the County that are just sitting there.

Mr. Summerhays said he would like to see the AGRC's included in the resolution. Mr. Varella said they will be.

Mr. Perona asked when would be the latest date we would have to start increasing the capacity on the island to make sure we have capacity in 2009. Mr. Thiess said his thinking is with the way growth projections are lagging, when we do the capacity analysis report for January 2007, we are probably looking at mid-2010. January, 2008, could show different numbers.

If we expand the island plant, we will utilize what we are able to of what we have, but we may be using a different process. That project would have a lot of engineering in it. We would need plenty of lead-time to do it. Mr. Drummond asked if he is suggesting that from engineering to permitting to construction, we would be looking at three years. Mr. Thiess said yes, but if you do a major capacity increase at that facility, you are looking at an engineering complexity similar to the mainland project. It is probably more difficult than building the mainland plant on a greenfield. Mr. Summerhays said he doesn't think that is the way to go. Mr. Perona said he doesn't either, but if we get direction from the City Commission that they don't want us to build the mainland plant..... Mr. Summerhays said it is like being between a rock and a hard place.

Mayor Benton said the only discussion that has taken place regarding what is going to happen with the island plant has been sort of behind closed doors with this task force. He thinks it's something we need to get serious about, because our State Legislators are setting up time to meet with us on what they would like to see over there. He thinks a percentage of the value of the property could be used to move the building somewhere else. We need to get the commitment. It is time we allowed the City and CRA to take the lead in that, because we have a lot of interest in that property. Maybe, we can get some type of commitment that will help.

Mr. Perona said the task force is meeting this month. Mayor Benton said we have several governments working on that specific site. He knows right now with what we've done with FPRA we've got a lot of interest in it that could become reality. People are already putting numbers out. Mr. Drummond asked what the Mayor means when he says let CRA take the lead. Mayor Benton said if we're committed to moving that facility, which we are, if we are looking at what we can get out of the property to build a plant somewhere else, he has heard numbers from \$10 million to \$30 plus million from developers for some of that site or all of it. If we're talking about getting started soon, we need to look at numbers to get whatever good deal we can get out of it. There is a lot of vacant land sitting around there waiting to find out where we're going. Mr. Perona said we are dealing with the County, the City, the FPUA, and a lot of environmentalists. This thing is moving very slowly to satisfy all the agencies. We are moving forward. We are agreeing to things that a year ago we never thought we would agree to. This gives him the feeling that this will come to fruition. It won't happen tomorrow, but it is moving forward.

Mr. Summerhays said if we're going to move the total plant from the island to the mainland, it will cost in the \$100 million range. Mr. Thiess said that is in the ballpark. Mr. Summerhays said that is last year's prices, so it is probably \$120 million now. It is something we're going to have to get done to get the plant off the island. He agrees it is a very desirable goal to get the plant off the island. Mayor Benton said we did set up a date as a goal, but he doesn't remember what it was. Mr. Thiess said it is 8.5 years from now. Mayor Benton said he thinks it is time to really look at our options. There is a

charette coming up with the City and the County over that. There are too many governments involved. Let the City take the lead role in this.

Mr. Thomas said given the situation you are in where you've got the sewer plant in an undesirable location, it is very tough to compete with other utilities. You are taking a working, operating plant and saying you don't want to use it anymore, especially when it was built with dollars many years ago at costs much lower than today's. You are going to displace something that is working and meeting our needs with a brand new plant just to move the old one. That is going to be an unusual cost you are going to have to bear to do that, which other utilities don't see.

Mr. Summerhays said he thinks it is going to have to be in part reflected in rates. Mr. Thomas said yes. Everybody should share in that burden, not just new growth. Mr. Perona said instead of increasing capacity on the island now, we can move that capacity off the island. Mr. Thomas agreed.

Mr. Perona said the decisions we've made in construction over the last couple of years have been in anticipation of moving the mainland plant. We've put in increased sizes of pipes. We've put in pipes in directions to flow a different way. We really already have an investment in this. It is not like we are starting today. We have already started as a utility. We have to see what is going to help us in our efforts to go that way. If a rate increase will help our funding and bond issues, we're going to have to accomplish that. If not, that is why he asked Mr. Thiess what our timeline is. Somebody is going to look at us real funny if toilets don't flush and water doesn't flow. These are things we have to anticipate way in advance. Mr. Drummond said he thinks it is important at some point that we share with our ratepayers exactly what that cost is for the opportunity to just move it off the island, especially when you are looking at displacing a lower cost capacity that is still there. At some point we have to say exactly what that is ahead of just incrementally increasing those rates. He thinks it is fair that the ratepayers know what it will cost. They may not buy into moving the plant at all.

Mr. Thomas said even though you are facing that, there is going to be a significant amount of time that you will have redundant costs. Mr. Perona said there is an asset that was paid for years ago that still has some life and benefit that we will be putting in the trash can.

Mr. Thomas said the other side of that is our rate analysis is a cash flow statement. When we are talking about valuing the land at the existing site and what that value might be and can we use it against the construction costs of the new plant or keep rates down. The other side of the coin is how quickly can we convert that property into cash. That is what ultimately matters in terms of rates. Yes, there is a value out there, but turning it into cash might be a little bit different story. Mr. Varella said he would like to remind the Board that when that plant was upgraded in the late '80's, the land had been used for a wastewater treatment plant for 30 or 40 years. The federal government paid 75% of that upgrade. That didn't cost the ratepayers anything. Now, here we are, we may have 30 years or more life left in that plant, and we're going to take it and not utilize that and build a brand new one at 2006 - 11 costs, and nobody has given us a substantial grant. \$10 million is not substantial. It is going to have an adverse affect on our ratepayers.

Mayor Benton said we are looking at more grants. Senator Martinez was down here. He hasn't committed numbers, but he said it needs to be moved. Hopefully, the federal government will realize they made mistakes. The first time we asked we received \$7.8 million.

Mr. Thomas said under some of these scenarios if growth does slow down, you will have time to go and get more grants.

Mr. Thiess said we have submitted a request to the State for another \$10 million for FY 2008. Mr. Thomas said yes, but you also don't get to collect that money from new development in Capital Improvement Charges, because if you have a grant funding program, you can't double collect. If it's a \$10 million debt and you get a \$5 million grant, the only thing that can come from Capital Improvement Charges is \$5 million. You collect the net cost after grants. You obviously have work to do to look at these scenarios and options. Once you decide what the plan is and go to market, that is when you have to come to the table and have a rate structure into the future that you commit to. He urged the Board that they need to do something quickly in 2007. Mr. Summerhays said he doesn't think we have a lot of time, because we're bleeding money.

Mr. Drummond said he thinks the Mayor has given us a hint that it's not going to be a piece of cake across the street. Mr. Summerhays said we have to cover it one way or another. The rate part of this is not growth. The rate part of this is covering operations. Mr. Thomas said if you can't get any increases and things begin to deteriorate, you will find your bond holders will force the issue. At some point you can't say we're not raising rates. Our costs are going up and our customers can't bear it, so we're going to ignore it, because at some point when you deteriorate enough, financially, the bondholders will put you on a credit watch. They're going to lower your bond rating, and they are not going to loan you any more money. If you violate your covenants, they can technically come in and take control of your operations and force you to raise rates. There are some practical limits we have to deal with. Costs are rising.

Mr. Drummond said, ultimately, we're going to be punished for ten years of not raising rates. Mayor Benton said maybe the task force can get the County to buy in. Mrs. Cully said when it goes regional you have no control. Mayor Benton said you don't have as much control. Mr. Thomas said it is all in how you work the agreement out.

Mr. Thomas said some communities are doing RFP's to the development community. They say we are in a planning cycle. We're going to increase capacity. How much do you want? When the developers respond with the amount they want, the communities tell them what their share of the costs are going to be and ask for a check. Then, the developers change their minds and say they don't want that much. The more you can get the developers in at the beginning of the process, the less impact it will have on your ratepayers. That is not easy to do. At some point you have to weigh having capacity or saying you are not going to grow any more, putting it all on developers and making them write the checks or using impact fees as we have traditionally done. It is all changing because of the higher costs of utilities today. Mr. Drummond said the developers would have to go to the City first, because the City may not want that much development and then come to us. Mayor Benton said on north Jenkins Road, the County is telling the developers to build the road first, which has not happened anywhere else as far as he knows. The County is getting the roads, but they figure FPUA is going to get the utilities, so they don't care. Somehow we have to bring that into the big picture.

There being no further business, the meeting was adjourned.

ATTEST:

Secretary

Chairman