

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY,
TUESDAY, FEBRUARY 19, 2008, 4:00 P.M., CITY COMMISSION CHAMBERS.

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

Others Present: Director of Utilities; Director of Electric/Gas Systems; Director Water/Wastewater Systems; Director of Shared Services; Risk Manager; Director of Finance; FPUA Attorney.

Chairman Drummond called the meeting to order.

The Invocation was given by Pastor Robert Coleman of Goodwill Presbyterian Church.

The Pledge of Allegiance was recited.

The roll was called and a quorum declared.

Motion by Mr. Perona, seconded by Mrs. Cully and unanimously carried to approve the items listed on the Consent Agenda:

1. Approval of the Minutes of the Regular Meeting of February 5, 2008.
2. Bid 5790: Approve award of bid to Sulfuric Acid Trading Company, Inc. for purchase of approximately 208 tons of sulfuric acid at a cost of \$209.82/ton for a total not to exceed \$43,642.56, annually, for the term of 3/1/08 – 2/28/09 with two one-year renewal options.
3. Bid 5775: Award lowest and best bid received to Terex Utilities, Inc. in the amount of \$146,952 for purchase of a hydraulic articulating aerial device.

The following letter of appreciation was noted:

1. Notes were received from The Mustard Seed thanking FPUA customers for contributions totaling \$420.10 through Project Care.

Mr. Javier Cisneros presented a request for approval of a negotiated Water and Wastewater Continuing Services contract with Culpepper & Terpening. Mr. Cisneros stated last year the Board approved staff's recommendation to negotiate with seven professional engineering and three design/build firms. To date we have been able to successfully reach an agreement with nine of the ten firms. We were not able to reach an agreement with Jones Edmonds and Associates. They declined to sign the agreement, as is. The Board then approved staff's recommendation to negotiate with the next highest ranked firm, Culpepper & Terpening. Culpepper & Terpening's billing rates are comparable and in line with the other recommended firms.

Motion by Mr. Perona, seconded by Mayor Benton and unanimously carried to approve the negotiated Water and Wastewater Continuing Engineering and Design Build Services Agreement with Culpepper & Terpening.

Mr. Louis Torres of the Electric Engineering Department presented a request for approval of a Specific Authorization with Black & Veatch for engineering services to relocate the 69 kV transmission line at King 5 Substation.

Mr. Torres explained that due to the planned decommissioning of the H. D. King Generating Plant the 69 kV transmission line running between Causeway Substation and the power plant has to be relocated. Currently, it runs from the power plant switchyard to the Causeway Distribution Substation. The new route will take the line from the Causeway Distribution substation to the distribution station, known as King 5. That station is just west and across the street from the power plant. It is necessary to replace the existing pole in front of the distribution station with a new steel pole. We have to relocate the connection from the power plant to the distribution station. To do that we have to install a new breaker and two sets of switches at the station. Once the project is completed, FPUA will be able to retire three steel poles in front of the power plant, which will aesthetically improve the area. We have chosen Black & Veatch for this project, because they are familiar with our needs and designed the line that is going to be relocated. This will have to be done before the plant comes out of service.

Motion by Mr. Summerhays, seconded by Mrs. Cully and unanimously carried to approve Black & Veatch Specific Authorization for engineering services in an amount not to exceed \$183,277 for relocation of 69KV transmission line at King 5 Substation.

Mr. Thiess presented an explanation of the recent administrative reorganization within FPUA. He pointed out an error in the first line of his written presentation. The Customer Service Department reports to the Director of Shared Services, but not Materials Management. Materials Management, as was correctly indicated on the enclosed diagram, reports to the Director of Electric and Gas Systems. Both of those departments had been reporting to the Director of Corporate Services. That department is now called the Finance Department.

The following changes have been made:

Customer Service is going under the Director of Shared Services. Materials Management is going to the Director of Electric and Gas Systems. Both of those formerly reported to the Corporate Services Department. The Finance Department has reorganized as a single department no longer incorporating other areas. The Director of Corporate Services position has been eliminated.

The Community and Corporate Relations Department, including the Manager, two assistants and the Manatee Observation and Education Center, has been dissolved and is going to several different areas. The Manatee Observation and Education Center is now going to report to the Director of Shared Services. The Records Management function, involving one person almost fulltime, is going to Information Technology Services. More and more records are being kept electronically, so we want to get away from the practice of having electronic records and printing them out and storing paper copies. That person will also go to ITS to continue handling those functions. The other Community and Corporate Relations Assistant position has been eliminated. A new Communications Manager will be hired. Those interviews begin tomorrow and go into next week. We hope to have that person on board

February 19, 2008

Page - 3

within the next three weeks. The Marketing Representative for Electric Engineering, Don Landin, for marketing dark fiber and internet services, is going to ITS, also. Lastly, the Strategic Planning Function, which was listed under Director of Shared Services, but really has been under the Director of Utilities' umbrella, is now officially under the Director of Utilities.

We did some minor salary adjustments. The people who received significant additional responsibilities were given small increases in salaries. We eliminated one position. The Director of Corporate Services retired. That was a highly paid position. The net effect is that we reduced personnel costs by just under \$100,000 per year.

Mr. Thiess stated, according to the Charter, Director positions have to have Board approval. He is asking for the Board's approval to appoint Nina Hurtubise to the position of Director of Finance.

Motion by Mr. Summerhays, seconded by Mr. Perona that Nina Hurtubise be appointed to the position of Director of Finance.

Mr. Drummond said he had a conversation with Mr. Thiess regarding this issue. With everything he has seen and heard regarding Mrs. Hurtubise, he has no question that she is more than adequately qualified for the position. It will continue to be his hope as we move forward that we work very diligently to try to increase the diversity at management level within the organization. He understands and agrees with the decision with regard to Mrs. Hurtubise. Mr. Thiess said we will be doing that.

The roll was called and the motion unanimously carried.

Mrs. Nina Hurtubise presented the September 2007 Quarterly Operating Results.

Mrs. Hurtubise advised the Board that the year end income before City distribution came to a fairly nice number of \$6,211,000. We did have a pretty good month last September, but there are a couple of things that attributed to the increase over some of the previous months. We did bill \$2.9 million in grant funding. We do have a grant that pays for one-half of some improvements associated with the Mainland Water Reclamation Facility. We brought in some of those funds during the month of September, 2007. Capital contributions are up \$6.7 million as compared to last year. The grand total is about \$16 million.

The bad news is that we continue to experience decreases in unit sales. We are seeing people being conservative, and we are all functioning that way. She showed a slide depicting 2006 and 2007 unit sales. In electric, unit sales are down 4.3%; water, 8%; wastewater, 8.2%; and natural gas, 6.1%. Correspondingly, operating revenues are up a little bit, because of the small rate increases we had this past year, or they are just flat. Electric was up 2%. Water was flat. Wastewater was up 2%, but natural gas was down 13%.

We have a very nice bounce back with our debt service coverage. For the rolling 12 months of operating income upon which that calculation is based, the month of September, 2006, was a dismal month. Because that month was included in the calculations through the year,

it truly dragged down the debt service coverage for that year. As she mentioned in the last presentation of the financial results, we knew it would bounce back during the month of September, 2007, and it has. Debt service coverage is now 2.35%. It had bottomed out last July at 1.82%, but in any event, still above the 1.25% level as required by bond covenants.

Our August, 2007, operating income was very strong. September was good, but not as good as August. As a result, we are seeing some improvement in our financial position. We had \$15 million, overall, for the year in contributed capital. Please keep in mind \$10 million of that is Capital Improvement Charges, which are restricted for use for construction associated with new customers. We can't spend it on all the R&R projects we have out there, and we have a lot of R&R projects out there. We spend those funds when we can. Also, we have non-cash, contributed capital in the amount of \$3.2 million. These are contributions from developers that they have given to us, but we take responsibility for operation and maintenance of those facilities moving forward.

We have some expense increases, and we've spoken about this for the past 12 months. The depreciation on the power plant and anticipating that decommissioning in May, 2008, we had a little bit of extra depreciation, but not anything like it was in September, 2006. We are trying to keep it levelized, so we don't have any surprises in May. We obtained a \$20 million pooled loan in October, 2006. For obvious reasons, you have to pay more interest when you borrow money. We had about a 7% increase in salaries and wages. About half of that is attributable to an increase in fulltime equivalents, and about half of it is attributable to annual raises. It is pretty much standard business practice. Property and Liability Insurance increased 66% from the previous year. The good news is that it is expected to come down in 2008.

We have also had some expense decreases. Purchased power and natural gas, which we pass on to our customers - we will take any benefit we possibly can. There was a 7% decrease in those purchases for resale. We did see this on our expense side for the utilities we pay. We saw an 8% decrease in our utility costs, so we did see a dollar for dollar benefit on both the revenue side and the expense side. Obviously, hurricane expenses have decreased significantly. The distribution to the City of Fort Pierce was limited to 40% this past year, so it was less than the previous year. The 2008 distribution to the City, which is based on Fiscal 2007 income, will be paid at the 6% rate. It will be \$4,952,000.

Mr. Drummond said this is, generally, positive information. Mrs. Hurtubise said she is very pleased after the past year. Mr. Drummond said as we move forward and anticipate continued conservation efforts by our customers, we are anticipating the lack of revenues that will be generated. He assumes this will be part of the discussion at our workshop next week with our consultants. Mrs. Hurtubise said in the next item to be discussed she will have some charts to show the Board that will demonstrate how much less our customers are using. We still have the same costs, except for purchased power and gas. We still have many of the same costs being distributed by usage by fewer customers and less usage by customers.

Mr. Perona said one of the biggest advantages is being able to compare from year to year. He knows when we went through the hurricanes, we had the exclusion that we really couldn't compare it with a disaster that had happened and how it affected the Utilities Authority. Now, we have the decommissioning of the King Plant, and he is wondering if we can be sensitive to that as far as being able to relate the trends and financial issues that come in front of us that we can still use that as a tool and be able to get around that. We are really not talking

about apples and apples, because we have a different playing field now. He was wondering if Mrs. Hurtubise would like to comment to that, and if it is something we can still look forward to as a benefit to be able to use that comparison. Mrs. Hurtubise said yes, we can drop out the unrelated items and just compare apples to apples. What happens so often in any of the comparisons we do with our financial position, purchased power and gas are so big as compared to FPUA as a whole that it overshadows. Very often we remove that from the analysis when we start looking at changes in dollar values. An \$800,000 change in purchased power costs is less significant than something like \$800,000 in salary costs. Our accounting is completely separate. Electric is separate from Water, Wastewater and Gas. We have separate departments, but we can remove those non-like items and still do comparisons.

Mrs. Nina Hurtubise presented a request for approval of the final budget amendment for FY 2006-07.

Mrs. Hurtubise stated this item is a comparison of budget versus actual. She is not going to compare this with last year, although some of the explanations are the same. In August the Board approved an amended budget of \$113,000,000 in revenues and \$102,000,000 in operations and maintenance expenses. The results were favorable. We had a little more revenue and a little less expenses. Our operating revenue, due to decreased consumption, is down in electric. Non-operating revenues were up by about \$800,000. That was our investment income. We did well with our investments this year. They probably won't do quite as well this current year. Contributed capital is up, but overall the difference is only \$843,000. Mrs. Hurtubise displayed graphs depicting consumption. The year 2005 for electric was fairly level with 2006. We expected our budget to be about the same, but when we amended it in August, we thought it might be a little better than that, but it turned out that is not the case. We didn't anticipate the huge drop in consumption for the year 2007. Along with that, operating revenues were fairly stable. In water, we have the same situation. Operating revenues related to usage were down. Non-operating is up. That is attributable to a \$516,000 water supply grant for the water treatment plant. Contributed capital is up, so, overall, we were up in water revenues from the amended budget. Again, we amended our budget in August thinking consumption would be up a bit, but it turned out that we did not sell the water we expected to. Operating revenues show the same trend.

Mr. Summerhays said when we looked at the electric chart, there was a huge decrease in consumption with relatively level revenue. When we get to water, you see a more logical relationship with the revenues also steeply declining. Is the difference because of the increased cost of purchased power? Mrs. Hurtubise said some of it is tempered by the power cost adjustment. As prices increase, we have to raise the power cost adjustment. It may be in some respects, the scale of the charts, also. Mr. Summerhays said it appears if you convert these to percentages, there is not the difference it looks like on the charts.

Mrs. Hurtubise said in wastewater, operating revenues are down a little bit from what we were expecting. In non-operating revenues, the \$2.9 million grant related to improvements associated with the mainland water reclamation facility and the increases in contributed capital provided quite an increase in revenue. Natural Gas is a much smaller system. Differences there relate to increases in sales of gas for appliances and investment income.

The chart is not as dramatic for natural gas. You see a little bit of the same situation where there are definite decreases.

Our expenses overall have been pretty stable over the last couple of years. There is a 1% decrease in expenses, which are spread pretty much across the board. The biggest decrease was purchase for resale, which decreased by \$1.6 million, amended budget versus final budget. We also had some insurance recovery for damage to the No. 8 boiler, which we had not budgeted, not knowing whether we would recover those damages when we did the amended budget. We also had some savings in employee insurance. We are self insured, and although that is not always a good thing, in this case it was, because we had some savings related to lower than expected claims.

Motion by Mrs. Cully, seconded by Mr. Summerhays and unanimously carried to adopt Resolution UA 2008-02: Final Budget Amendment for FY 2006-07.

Mrs. Hurtubise requested approval of a revision of Capital Improvement Charges for the Electric System through Resolution UA 2008-03.

We are making some minor changes. This resolution supersedes Resolution 2007-08 approved by the Board on June 19, 2007. There are no changes in water/wastewater Capital Improvement Charges. Since we originally enacted CIC's for electric service in June, 2005, we have attempted to improve on the original theory of getting new growth to pay for itself. We want to be fair to everyone involved, and we want to keep it as simple as possible. The changes to the calculations were modeled after the CIC's of the City of Vero Beach. These are much simpler than the calculations we previously had. We are also taking into consideration customer class, whether residential or commercial, and their demand, the anticipated demand on the electric substation at the time of the customer's peak demand. Is the demand Monday through Friday, 8:00 a.m. to 5:00 p.m. or is it at 2:00 a.m. or on the weekends? We need to provide a benefit to those customers that are not using electricity at times of peak demand. We do expect the financial affects of these changes will be revenue neutral. We do expect single family residences to pay less. It is a single flat amount for those that don't pay demand charges.

Upgrades that are required to the electric distribution system that are required for a new customer will be included in the calculation of contribution in aid for that customer. These are calculations performed by the Electric Engineering Department.

This resolution will go into effect 90 days from the day it is passed, so assuming it is passed today, the resolution will take effect on May 19, 2008. This will provide our customers the opportunity to evaluate whether they wish to move forward now or whether they want to wait the 90 days and take advantage of the potentially lower rates.

Mr. Perona said resolutions come from staff and are adopted by this Board. It is good that we take a look at them every once in a while to see if they are fair and simple. Sometimes they aren't. Sometimes our intentions turn out not to be fair for some of the ratepayers, and he is thrilled that we go back and look at it and try to come up with a better idea. He understands where this one comes from, and he thinks that is a step in the right direction. By revenue neutral, that means some of these people will be paying less for these services, and some

are going to be paying more. If any of those people are out there watching this program and are intending to do some building in the very near future, it might behoove them to pay attention to what is going on right now. His point is that he is glad we take a look again and again to make sure that we are representing our intent, because sometimes when we pass things here, we have such a broad stroke that we are affecting some people unfairly. It is good that we take a better look and a closer look at it sometimes.

Motion by Mr. Perona, seconded by Mayor Benton and unanimously carried to adopt Resolution UA 2008-03: Revision of Capital Improvement Charges for Electric System.

Mr. Thiess reminded the Board of the joint workshop a week from Friday with the City Commission from 9:00 a.m. to Noon at the Energy Services Center War Room. We have a package of information drafted this morning that he e-mailed to everybody. We will finalize that tomorrow morning, and PRMG will produce a number of copies of the documents. We should have hard copies Monday to distribute to everybody. We expect to get them to the City Commission and our Board, hopefully, on Monday. That will give the week before the workshop to go through it. In the meantime, he will try to get some one-on-one meetings with the Commissioners to go over items and answer questions.

Mr. Thiess said he understands we have photos of the transformer being set at Hartman Road to show the Board. One of the big transformers from Korea has arrived at Hartman Substation. We had a rather large crane out there setting it off the large flatbed. This occurred today. Mr. Bill Baldwin made this presentation. Mr. Baldwin said these photos will show the Board what they received for their money. These are million dollar transformers, 100 MVA, that will double the capacity of the Hartman Substation. It weighs around 87 tons.

Mr. Perona said we expect another one of these, correct? Mr. Baldwin said yes. It is still in Korea being manufactured. Mr. Perona said he remembers we were worried that these were not going to make it here on time. Mr. Baldwin said he has enjoyed some stress waiting on this one. He feels a lot better today.

There being no further business, the meeting was adjourned.

ATTEST:

SECRETARY

CHAIRMAN