

MINUTES OF A SPECIAL JOINT WORKSHOP MEETING OF THE CITY COMMISSION OF THE CITY OF FORT PIERCE, FLORIDA, AND THE FORT PIERCE UTILITIES AUTHORITY BOARD, HELD AT THE FORT PIERCE UTILITIES AUTHORITY ENERGY SERVICES CENTER, 1701 SOUTH 37TH STREET, FORT PIERCE, FLORIDA, AT 9:00 A.M. ON FRIDAY, FEBRUARY 29, 2008.

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

Craig Brewer gave the invocation.

The Pledge of Allegiance was recited.

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Upon Roll Call, those present for the Fort Pierce Utilities Authority were: Chairman Darrell Drummond, Secretary Robert Summerhays, Deputy Secretary Tom Perona, and Mayor Bob Benton; Executive Director Bill Thiess; and U.A. Attorney Rupert Koblegard. Those absent: Vice Chair Pamela Cully.

Upon Roll Call, those present for the Fort Pierce City Commission were: Mayor Robert J. Benton; City Manager Dennis Beach; City Attorney Robert Schwerer; and City Clerk Cassandra Steele. Those absent: Commissioners Rufus Alexander, Edward Becht, Christine, Coke, and Reginald Sessions. (Commissioner Sessions arrived at 9:45 a.m.)

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The purpose of the Special Joint Meeting was Presentation of **FPUA Fiscal Year 2008 Utility Rate Study** prepared by Public Resources Management Group, Inc.

Mayor Benton said this is sort of embarrassing. To him, this is very important. This is one reason they are having this workshop, when it comes to rate increases and understanding them. He just wishes the Commission was here, he wishes they felt it is as important as he does. He will ask that the Minutes to this Workshop get to every Commissioner as soon as possible so it does not become big boondoggle on television during their next meeting.

Mr. Perona said maybe they read all the information and they did not have any questions.

Mayor Benton said he does not think that is the case. This is their second workshop. The reason for during this is so they can have everybody understand why they need these increases and how this organization works.

MAYOR BENTON ANNOUNCED THAT DUE TO LACK OF A QUORUM, THE SPECIAL WORKSHOP MEETING OF THE CITY COMMISSION IS ADJOURNED.

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There being no quorum, the City Commission meeting was adjourned at 9:15 a.m.

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Adjournment.

ATTEST:

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CITY CLERK

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MAYOR COMMISSIONER

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Mr. William Thiess, Director of Fort Pierce Utilities Authority, said he is going to give a little history on the workshops and why they are doing them, and where they are in this particular year going through the budget and rate process. They started the joint workshops on the rates, last year was the first time they had one,

and the purpose of that was to bring both boards together to have their rate consultant throw everything out in front of them so questions could be asked, to have a little back and forth give and take, and get the City Commission involved in the budget and rate process early on. As far as this year, this fiscal year they started off with a budget workshop they had July 12, 2007. If they recall, they stated the assumptions that staff made going into the budget. Just to refresh the Board's memory, he passed out a list showing General Budget Assumptions. One of the assumptions was to commit to renewals and replacements. They had a table set up over here with the decrepit pipes they had pulled out of the ground that were all crusted. They reported they had over 200 miles of that on the water and wastewater side. Plus the normal renewals and replacements on the electric side. So that is a big part of what they look at in the budget, catching back up the renewals and replacements, because they are way behind. That was July 12th. At that time, they prepared an overview looking ahead at the rates and gave the five year projections. He will point out that the rates they are going to see today, if they look at the three-year window of rate adjustments, the rates that are coming to them today collectively are within .2% of what was presented here in the Budget Workshop on July 12th. The budget was subsequently approved by the U.A. Board and the City Commission. That brings them where they are today. The budget is done. They are five months into the fiscal year. Today they have come to the completion of the rate study. Recommended rate adjustments will be presented to them here shortly. That is kind of the background of how they got to this point.

**Mr. Murray Hamilton, Jr.**, Public Resources Management Group, Inc., said PRMG is a utility rate consultant firm based in Maitland, Florida. They did participate in the last rate study which began in Fiscal Year 2007. They had two primary objectives during the last rate study. The first was to ensure that new growth pays its own way. Primarily with that, they look at the impact fees of capital improvement charges for water and wastewater service and they increase those charges to reflect the Authority's investment in capital treatment equipment and transmission. Those rates were increased almost a little bit more than 40% during the last rate study. Secondly, what they did is they developed two new revenue sources for the Authority. The first being the accrued guaranteed revenue charges, which helps accrue the carrying cost of the investment in fixed facilities charges to new development. The second is the inactive account fee. This new fee, the inactive account fee, generates about \$600,000 a year in revenue. It is kind of important right now, because one of the trends they are seeing statewide is a slowdown in development. Particularly in the City of Fort Pierce they have units that are constructed but have not yet become paying customers, nobody is occupying them. The background of creating the inactive account fees is to help pick up capacity reservation that the citizens of Fort Pierce has invested in and assign that to the particular units that are unoccupied at the time. These three methods of ensuring that growth pays for its own way, taking into consideration first to make sure that existing residents are not carrying those costs with higher rates. Second they looked at revenue sufficiency during Fiscal Year 2007. There were proposed rate adjustments - 6% for electric, 12% for waster system, and 10% for the wastewater system. The electric system's rate increase went into effect January 2007, while the water and sewer rate increases were staggered between April and September 2007. Subsequently after the rate increases, they have seen significant changes within the system. They have seen a reduction in sales in all systems, electric, water, sewer, natural gas.

Primarily, a lot of that has to do with conservation within the system. People are reacting to their total bill as the price of fuel has gone up and bills in general have gone up as well. Also, they have had different water mandate restrictions over the last summer. So they have seen sales go down as well. Keep in mind most of their costs are fixed - plant investments, debt service, etc. At the end of Fiscal Year 2007, they ended the year with about \$2.5 million or 40 days of O&M. He would like to point out one of the proposals here today, although they are asking them to consider the 2008 rate increases, they are utilizing \$2.5 million of this \$10.5 million reserve, 20% of their reserve, in an attempt to phase in some of the subsequent rate increases for 2009 and 2010, which are preliminary and making modifications in the future.

The Authority is using \$2.5 million in reserves in order to keep the rate increases a little bit lower in the short term. One of the topics during the last rate study revolved around the distribution to the City. The City receives a transfer equal to 6% of the adjusted gross revenues of the system. However, that distribution is limited to 40% of the Authority's cash flow after it makes its debt service payments. This particular year, in 2008 they will be paying the transfer that was earned in 2007. Basically the calculated distribution is \$4,951,964 and the amount allowed is just slightly higher than that, \$4,985,920. The Authority, based on its operating results for 2007, barely made the 100% transfer requirement by a slim margin. In a matter of fact, it was about \$1.3 million in revenues which were really a result of investment income. They had an anomaly in 2007. Usually their interest income on their cash is about \$1 million per year. In 2007, they had almost \$2.5 million. That led to the transfer being equal to 100%. They may recall in the last rate study, they were concerned that the City might not get 100% of the 6% transfer. That was a result of the interest income in 2007. He would like to point out in 2008, as the State Board of Administration... He is not sure if they are familiar with that. A lot of the governmental funds as well as some of the Authority's funds were invested in SBA. They are going to see lower returns on those investments; and therefore, they expect this interest income to fall back to historical levels. Again, this was kind of an anomaly. As they move forward and they talk about the 2008 rate increases, although they are using some of the reserves to help phase in those rate increases, they will see a slight shortfall in the City's transfer by about \$300,000. Secondly, he would like to point out that although the City will receive its 100% of the 6% transfer, cashflow-wise it only leaves about \$7.5 million to then address the maintenance of their system. Last summer, Mr. Thiess had brought in some of the failing infrastructure to point out the needs in the community. On average over time, they really need to allow for investment of about \$10 million a year, not for expansion of construction materials, this is to replace the infrastructure that is already serving existing homes today. So the rates that they will see that they will present later on is intended to help long term support the \$10 million investment per year. For the Fiscal Year 2008 Rate Study, generally they are primarily focused with their current budget year to revenue sufficiency, funding the operating costs, and then the capital replacements he was just mentioning. In 2008, they have some reserves that they are going to use to help make that happen to get them through this year. They also still have some money proceeds from a 2007 note that they took out with FMPA. Those two items there is what is helping them to be able to phase in some of these increases over time. Generally they look at customer sales and revenues; and particularly, they compare those to net revenue requirements, which is slightly different than how the Authority budgets. The Authority budgets on an accrual based accounting to account for items such as depreciation. Wherein they look at the needs for rate revenues, they directly

apply to their cash needs what will they expend in that particular year; and it helps bring a nexus between the rates that they are collecting and obviously the expenditure requirements they have. For their customers and sales forecast, they can see they have a trend over the next few years. The electric sales have not really changed all that much. They will experience about 1% on an average per year increase in sales of energy is what they anticipate. The natural gas system really isn't growing. As a matter of fact, they are seeing an exodus on their residential side, although they would like to see some growth on commercial side. They have recognized some modest growth in commercial. So the sales of natural gas is somewhat flat over the forecast. Waste and wastewater system, based on some development schedules that they received from the Authority and taking into account the capital improvement charges that have been paid to date with regards to projects, this is probably the most significant growth that they have seen in system, the water and wastewater system. As they go and update some of the Rate Study assumptions that they move forward into 2009 and 2010, the growth within the water and wastewater system, they are going to want to continue to readdress it. He thinks they all recognize that the growth trend, the development trend in the State of Florida, is changing. That may affect some of their outlying assumptions beyond 2008. The rate increases they are specifically asking them to consider today is for Fiscal Year 2008.

Chairman Drummond asked this 4% average growth in the water sales, that also takes into account the projected mandatory restrictions for water?

Mr. Hamilton said what it takes into account is the conservation that is in the system already. He should point out, one of the reasons they are coming to them now in the month of February is that when they got to the end of October, which is when they actually anticipated finalizing the rate study results, they saw this huge trend with a decline in sales from 2006 into 2007. It was pretty significant. So what they have done is they tried a lot of that information up as current as possible, so a lot of that is already captured. Water conservation, that has already occurred. However, they did make a second adjustment to those water sales, mainly on the irrigation side as they go to one day watering and those types of things. So they did make an adjustment for conservation. With the water and wastewater systems, the growth assumptions as they move forward into the later years is an area they are going to want to address in the future. As he mentioned before, they looked at the sufficiency of user rates based on net revenue requirements. It basically accounts for their cash outflow from operating expenses, on-going capital expenditures, such as vehicles and equipment, those annual expenditures he told them about, replacing lines in the existing infrastructure. They have debt service payments which include both principal and the interest payments. The distribution to the City. And with that take into account all those other revenue sources. They may recall during the 2007 Rate Study, he mentioned they developed two new revenue sources - one being the inactive account fees and the other one is the AGRC=s (Accrued Guaranteed Revenue Charge). That was one of the reasons, they deduct those revenues straight from their revenue requirements before they go to their existing ratepayers and ask for an increase. So that was one of their objectives there. A clear distinction between the method of rate design that they use in their budgetary process is that they exclude depreciation and amortization expenses. One of the things he wants to show them here today (Reconciliation of Net Revenue Requirements - Test Year), in the righthand column is Adopted Budget. Their adopted expenditure budget for Fiscal Year 2008 is \$117 million. What

ultimately goes into their rate design is the net revenue requirements, the \$107 million. They wanted to provide them a little reconciliation, it is in the report, and he can answer specific questions. Basically it backs out all those adjustments he was telling them about. One specific adjustment he would like to mention is that they did actually reduce operating costs by about \$4 million from where they started their budget. A lot of that primarily had to do with purchase power cost, which was a reduction of about \$3.7 million. As he mentioned, they tried up the rate study for conservation they were seeing in the system. When the 2008 budget was put together, they were asked at that time to help the Authority's staff put together an energy forecast for 2008. Once they got to year to date purchases and sales to the customers, they even saw more conservation in the electric system. And for that reason, the energy purchases had to come down, it came down about 3%. So they lowered some budgetary expenses, obviously they have made some accrual type adjustments to their cash needs. Basically they are targeting about \$107 million in revenue requirements for 2008. Speaking about the wholesale energy costs, the Authority since last year in the summertime, based on the forecast of energy requirements from FMPA and the schedule of rates, it was very apparent that power costs were on the rise. They also knew that they were going to be retiring the King Plant at some point, at which time they would lose certain energy credits they were applying to the bills. With that said, the Authority proposed raising the purchase power cost \$2.00 per 1,000 kWh incrementally each month until March of 2008. As of this coming March - this was adopted by the Board - the purchase power cost will be \$34.00 per 1,000 kWh. Right now with the new energy forecast, in order to make it through the end of this year, which has the most recent schedule of rates from FMPA and adjusted energy purchases for conservation within their system, staff is recommending that the purchase power cost increase April 1st. This is separate from their rate study increases that they will be talking about later. Those relate primarily to their base and energy charges that the Authority charges for its costs. This is primarily an asterisk. Right now Authority staff is recommending that the purchase power cost of \$42 per 1,000 kWh April 1st. It will continue through the remainder of the year, September 30th. At which point the costs are actually anticipated to be lower in 2009. And subsequently, purchase power costs will be lower also, \$38 per 1,000 kWh. The Authority keeps a running balance of this. Some months they have a surplus unless they have a deficiency. Earlier this year they were in a slight deficiency. His point is that at the end of Fiscal Year 2009, at \$38 per 1,000 kWh, it is estimated that the Authority will break even at that point, they will not have a surplus nor will it have a deficiency. What he would like to point out is that none of them has a scope into where the fuel costs are going to go in the future. So to the extent that FMPA has a rise in its energy costs, the purchase power cost should be adjusted as well. He will point out that FMPA does have the ability to pass on the increase in their costs almost on a monthly basis. There is a limit to where they can go with that. But as monthly bills come in and there is a quick trend in the rising fuels costs, FMPA has the ability to do that. And he will just suggest that they take that on as well and be responsible to pass on those costs through the power cost adjustment.

Chairman Drummond asked does he see a decrease? He indicated October 1st. Is that 2009 or 2008?

Mr. Hamilton said October 1, 2008, which is the start of Fiscal Year 2009. So they have about six months of the \$42 power cost adjustment, at which point it will go down to \$38 and that \$38 will

be for the whole Fiscal Year 2009. Again, that is assuming that none of the other costs goes up. Those are probably going to go up; but from where they are today, based on the rates that they received from FMFA, this is where they fall. At the end of this 18 month cycle, the Authority would not have a surplus nor would it have a deficiency, it would basically break even. That was the staff's strategy, that they just wanted to break even. If he showed them the full monthly schedule, they would see some months where the Authority has a deficiency and they are using reserves to get through that little hump, and then there are other months where there is a slight surplus. But the goal is to break even over the forecast period. With the purchased natural gas costs, they really do not have a forward-looking forecast of where those exact costs are going to go. Obviously they have looked at growth within their natural gas system; and as they saw before, the trend is pretty flat. Right now, they do not anticipate that the purchased gas is going to go up. As a matter of fact, he thinks the PGA (Purchased Gas Adjustment) charge has not increased in a little while. With the Fiscal Year 2008 budget, other than the \$4 million in adjustments that they made, when they approached the five year financial forecast they had to make sure that certain assumptions about operating costs going forward. They have increased costs beyond 2008 for salaries, health and workers comp insurance, and repairs and maintenance of the system. Their general inflation assumption on underlying inflation is 3%. Most of these escalation records he is showing them were reflective of the 2007 Rate Study. There has not been much change. The 5% in salaries and personnel is supposed to account for both merit and CPI, cost of living inflationary pressures as well. No additional personnel staffing positions have been anticipated over the next five years above those positions already outlined in the 2008 budget. There is a 1% operating contingency that is recognized. This is one those budgetary policies that the Authority already has and they continued that policy going into their forecast period. 1% is just about \$1 million per year. As he pointed out before, that was actually the origin of why they were able to meet the 100% transfer to the City, it was because of the 1% differential. His last point here is, while the Authority budgets on a consolidated basis, they see one budget, they do allocate the cash requirements to electric, water, wastewater, and natural gas systems so they can develop rates on kind of a standalone basis. Then of course they bring back to them later on and give them a big oversized picture. One of the primary concerns in the financial forecast is the Capital Improvements Program, which is currently budgeted at \$172 million. One of the tasks that they completed just last month - he and Mr. Thiess and Mr. Thomas and others - they went through the capital improvements program again since it has been adopted earlier this year. They went through each and every project and looked at not only the amount of the expenditure of the project but the timing of the project. Certain projects were eliminated that were not necessary. Others were pushed out one or two years based on the needs of the system. The objective was, to the extent that they were able, to phase in as much as the required rate increases as possible. They have \$58 million of the \$172 million coming from rate revenues. They are counting on \$30 million to directly be funded by capital improvement charges or impact fees from developers directly. They also have some other funding sources, they do have a grant there for almost \$4 million. One is a note that was assumed for this year. The Note Proceeds, that is from the FMFA note that they took out in 2007, that is \$8.3 million in proceeds from that note that they are applying in 2008. The new debt is \$60.5 million. They break that up between two different instrument issues. Their existing debt averages almost \$10 million per year in both principal and interest payments. That accounts not only for senior lien bonds, through Series 2003 bonds, but they

also have a series of subordinate notes with FMPA. Their two debt issues are slightly over \$60 million. The first one needs to occur some time in 2008, somewhere after April 1; and primarily that is to fund the Hartman Substation, which is required once they bring the King Plant offline. So they do have a note there, average payments of \$1.3 million. Not all of that first payment is recognized in Fiscal Year 2008. For the later issue, Series 2010 bonds, it primarily relates with the development of the mainland wastewater facility. These are some of the issues and assumptions that are going to be reinforced and readdressed as they continue to update their annual rate studies. But that is primarily what that debt issue is going for. They have tried to capitalize interest where it is feasible, where it makes sense. But that will also increase their average annual debt service by another \$4 million in one those subsequent years by about 2012. Their on-going capital outlay, this number is part of the capital plan. On average it is around \$11.6 million for this period. There is some peaks there. On average probably in the long term they will be talking about \$10 million outside their forecast period. Secondly, one of their revenue requirements they spoke about is the distribution to the City. Again, it is 6% of gross revenues and it is limited to 40% of cash flow after debt service. Based on the timing of the rate increases for 2008 and the operating results that would follow, most likely they are going to have a short payment in the transfer to the City in 2009, based on the 2008 operating results. But if all the rate increases they propose to them here today were in fact adopted, they would expect that the City=s transfer would be 100% funded by 2010. The other revenues that he was talking to them about to back off of, the revenue requirements, they are all the miscellaneous charges, late fees, meter re-reads, inactive account fees, interest income. Again, that was the anomaly in 2007. It is probably a little more than \$1 million going forward. Management fees from FMPA, this is also a new revenue. This has to do with bringing the King Plant offline. As they understand it, the Authority will running FMPA=s plant on cost basis. So as they are losing some credits on the purchase power side, they are gaining a separate revenue to help cover some of those labor type costs that is going to be associated with this contract. For 2008, that revenue is probably only going to be about \$800,000. But going forward from 2009 and after, it is going to average about \$3 million per year, which again is a direct cost, so it will help them recover the salary costs along with that. Adequacy of their existing rates. From Fiscal Year 2008 to Fiscal Year 2012, as they can see here in the bar chart, their revenue stream is under their net revenue requirements. This is their cash revenue requirements for the five years. In 2008 specifically, that is the year they are asking them to consider today, their revenues are expected to be about \$1.3 million and their annual cash outflow is expected to be \$107.5 million. They do have a cost recovery plan. Authority management has tried to grasp where they are going in the long term, they have asked PRMG do annual rate studies to address the concerns of the system and to reinforce assumptions as they go forward. One of the goals is that they would like to maintain an unrestricted cash balance of approximately 60 days of operating costs. They are starting Fiscal Year 2008 with about 40 days, about \$10.5 million. They are going to use some of that cash reserve, 20% of that cash reserve, \$2.5 million to keep rates a little bit lower this year, so they can make it up over time. Again, staff has authorized them to get down to about 30 days. They expect it to be temporary, assuming that the other rate increases are adopted subsequently in later years. The current cost recovery strategy for the full five years financial forecast. They are asking for consideration for Fiscal Year 2008. They had a 3% increase for the electric system. These are the costs outside of the purchase power cost of the system, they relate directly to

the rates charged by the Authority. A 3% increase in the water system. The underlying inflation rate has been 3%. Those do not necessarily seem unreasonable. They do have some increases in the wastewater system of 9% and in the natural gas system of 9%. Both of those systems have continued to operate in the subsidy. They funded those operations primarily with reserves, even during the last rate study that they had. The intent is to phase in the rate increases to the extent that they have the cash to do it. They do have the operating cash sufficient through that year of \$2.5 million. Below that they can see their cash balance goes from \$10.5 million, which is where they started the current year, down to about \$8 million for 30 days in 2008. The transfer below that actually relates to the transfer being paid in 2008 that was earned in 2007. Subsequently, in Fiscal Year 2009, they will see they have a transfer deficiency of \$531,000.

(Commissioner Sessions arrived at the Workshop at 9:45 a.m.)

Mr. Hamilton said that is the transfer that is current in Fiscal Year 2008, based on their proposed rate increases, that will be paid in Fiscal Year 2009. They do anticipate a shortfall in the transfer. It is about 90% to 92% of the 100% required. They do have subsequent rate increases there for Fiscal Years 2009 through 2012. Their objective is then to update the rate studies annually. As he mentioned before, one of the significant assumptions will be the actual growth that does occur within the water and wastewater systems as they go forward. So they do have some variable assumptions in there. The adequacy of the proposed rates going forward, the Fiscal Year 2008 which is the year in which they are asking them to consider, again their cash expenditures are anticipated to be \$107 million. Even with the proposed rate increases, which they anticipate to become effective April 1, 2008, they would still have a shortfall in revenue of \$105 million. This reflects the \$2.5 million in cash reserves that they are going to use to finish the year. Going forward they can see that they are sufficient by about the third year. They are going to continue to update the annual rate increases as they go forward to insure that they stay in line with those margins. Their debt service coverage, right now they are well above their minimum requirement. They just wanted to demonstrate here that that is one of the other requirements that they have. It kind of restates some of their primary goals of the rate study. They try to attempt a positive cash flow in the long term. Obviously in 2008 they are not going to have a positive cash flow. They are going to use \$2.5 million of their reserves to make it through the end of the year. The second goal is maintaining adequate cash reserves. They would like to have a cash reserve balance of 60 days. They started the year with 40. During the first couple of years of the forecast, they are going to allow that balance to go down to 30 days in order to help phase in some of these higher increases. The third test that comes into play is meeting their debt service coverage requirements. Obviously they do anticipate meeting those. Finally it is their intent to meet 100% of the 6% transfer to the City on an on-going basis. There are some considerations in terms of delaying the rate increase. He thinks they are seeing that here even today when they are presenting the idea of adopting these rates. The consequence of adopting the rate increases today in terms of not having them earlier is the fact that they are going to have to use \$2.5 million in operating reserves to make it happen. They had hoped to finish the Rate Study in October. The delay resulted around the significant conservation and changes in revenues and expenses that they saw as the 2007 actual results were coming to a close. So that did delay the Rate Study somewhat. What they would like to do is not further delay any implementation

of the proposed rate increases. If they push it out even a couple of months, the use of the reserves intensifies. It will go from \$2.5 million up to \$3.5 million by July if they delay the effective date of the rate increases, which drops them down to the bare minimum that was established by staff to just below 30 days. He would also like to point out too, because they did mention that they would have a short pay in the distribution to the City, is that at least the projected distribution drops, it decreases as they push out the rate increases by \$110,000 or \$120,000 a month. So it does not really benefit anyone within the system to delay the implementation of the rate increases. Again, they have to use more reserves and make that up over time and also decrease their transfer to the City even greater than what it is in their initial forecast. There is an alternative. If they wanted to attempt to transfer to the City 100% of the 6% distribution in 2009, based off the 2008 rate study results. Again, that is not their recommendation today, because it would bring the increases higher. He thinks there is a better way to phase this in. As they can see, they would need a 6% increase in electric up from 3%, water would remain the same, they would need 15% rate increases in both wastewater and natural gas systems, up from 9%. The overall increase systemwide would be 6.9%, up from 3.7% or 3.9%. They would pretty much almost break even in terms of cash flow for the year, so that would be beneficial to the Authority and the City would get 100% of their transfer. But again, he thinks by using some of their reserves and by short paying the City's transfer in the short term, that they can allow for some small increases in this case. Their conclusions and recommendations relate to the fact that the rate revenues from their existing customers are not sufficient to meet their current cash flow. Even with the adopted 2008 rate increases, they still will have a negative cash flow this year. They would recommend adopting the proposed rate increases of 3% for electric, 3% for water, 9% for wastewater, and 9% for natural gas. These are systemwide increases to the rate structures effective April 1, 2008. And that the Authority should continue to review its rates as it has been beginning with the Fiscal Year 2009 budget process. They do have some bill comparisons to demonstrate to them some of the implications of the rate increases. On the Electric Bill Comparison, this is tied to a typical bill that is out there, 1,000 kWh bill. What he wants to show them is two increments. The first column shows the current rates that are in effect today in February, which reflects a power cost adjustment of \$32 per 1,000 kWh. As he mentioned to them before, it was already adopted by the Board that the purchase power cost would go up to \$34 per 1,000 in the month of March. That was from a strategy that was developed last summer because they knew that the purchase power cost was on the rise and the Authority elected to incrementally increase that power cost by \$2 per month to get to where they thought it needed to be. Unfortunately, it was short. The \$2 did help incrementally, but however it is short. Staff currently recommends that the purchase power cost needs to go up to \$42 on April 1st. This is a function of the purchase power cost that they spoke about earlier. With that power cost strategy - just to restate it - the intent of the Authority staff is that the power cost adjustment would remain at \$42 per 1,000 kWh from April 1 to September 30, 2008. On October 1, 2008, it is estimated that the purchase power cost would drop about \$4 per 1,000 kWh sold. So beginning October 1, it would go to \$38 per 1,000 kWh for the Fiscal Year 2009. At the end of 2009, the 18 month period, the power cost adjustment that the Authority keeps track of would generally will break even, they would not have a surplus nor a deficiency in regards to this energy cost. As he did qualify before, this is based on the fuel rates that were provided to them by FMPA. For Fiscal Years 2008 and 2009, and to the extent that those fuel costs and other energy costs go up on FMPA side, the

power cost adjustment is going to have to continue to adjust around that, whether the cost goes up or down. The third column demonstrates the actual impact of their proposed rate increase, which is 3% on the typical bill. As they can see, just the power cost adjustment increases the bill about 8%, about \$10 per month on the typical bill. That is the power cost pass-thru from FMPA. The rate adjustments that the Authority does have control over, which is to help them recover the Authority's cash disbursements, is the 3%, \$3.94 per typical bill on the electric system. This is the most recent Residential Electric Comparison available. Based on the February rates and the existing rates for February fuel charges, this is where the Authority falls today, which is just slightly above the average of the survey. With the adjustment and fuel only, from the \$32 where they are at today up to \$42 on April 1, they are going to increase up to \$134 per 1,000 kWh. Then subsequently on April 1st, they have a \$3 increase related to a 3% electric rate increase as well. One thing that is not relevant here is where these communities fall within the recovery of their own purchase power costs within their own system. They are not sure if they are going to see any dramatic swings in their fuel cost adjustments as well. So as this moves forward, it will be interesting to see how this rate comparison changes. He knows the Board does pull these up and review them monthly at their Board meetings. It will be interesting how this shifts as they head into the summer months. One of the questions they can't answer is where the recovery is for these remaining utilities. They could be facing some of the issues the Authority is today.

Mr. Perona said it is real important to point out too, they rely a lot on this, this is their feel good chart. They put it up on television for their ratepayers to be able to look at it. He knows the Commissioners look at it as probably one the biggest indicators of where the FPUA is compared to the rest of Florida. It is really unfortunate that they may have other communities right here showing the same perspective chart with their number all the way down at the right side of the graph also. So it will be interesting to see over a period of time where they all changed around on the chart and have that somewhat as a reference, so that they do know that these things are subject to change and that other communities are going through the same thing that the FPUA is, and they are not just drifting to the right all by themselves.

Mayor Benton said would it be safe to say that the folks on the left side of the chart produce a lot of their own power or at least some of it, compared to FPUA, like Jacksonville or Orlando?

Mr. Hamilton said that would be a fair determination. On the water and wastewater bill, actually their typical bill has kind of decreased as a reflection of the conservation in the system. In most of their comparisons they look at 7,000 gallons up to 8,000 gallons. Typical on average the residential use now is down around 6,000 gallons per month. This is a result of the recent conservation they have seen in the system. What they are asking for them to consider today is the 2008 rate increases of 3% for the water system and 9% for the wastewater system. It is \$0.79 increase on the water side and a \$3.44 increase on the wastewater side, a \$4.23 increase in the total bill for the water and wastewater.

Chairman Drummond asked the suggestion with regard to taking into consideration that the mandated restrictions on water and the needs for the system, is the only reason they are talking about an increase on these systems is because of this decrease?

Mr. Hamilton said no. That does have an affect on what is going on, because most of their costs are tied to a fixed cost - water

treatment, wastewater treatment, more debt service that was incurred to develop these facilities. Obviously conservation has a significant place in this. Primarily with the wastewater system, where they are seeing a 9% increase, is during the 2007 Rate Study if they recall they had several years of double digit increases forecasted for the wastewater system. What they were trying to do in that effort is allow the wastewater system to be a little bit deficient in the short term and phase in some of those higher increases over time. This is still the case. They are using \$2.5 million in this year from reserves. Most of that falls out to the wastewater system. Going back, there were a couple of years where most of the rate studies that were developed for the Authority in the past were done one at a time. For example, when they started the last rate study, they started doing the electric system isolated, and then they picked up the water system and then they picked up the wastewater system, and they were not asked to even look at the natural gas system. It is kind of hard when looking at pieces of the Authority. When they started this current year rate study, they went back and they said lets bring it in as a whole. It is a family of enterprises, although their long term goal is to make sure that each enterprise carries its own weight. To the extent they can help mitigate some of those higher increases, in the short term even between the systems, then they are going to take that opportunity. Quite honestly, with the wastewater system and the natural gas system, there has been an on-going subsidy that occurs there. They are trying to get those systems on an individual basis, out of that subsidy. A lot of the \$2.5 million that they are using in this current year is related to both of those systems. What they want to do is by the end of their five year forecast, that each system is standing alone.

Chairman Drummond said he just continues to have great difficulty in suggesting that as a result of conservation, the individual residential customers are still going to see their water and sewer bill increase.

Mr. Hamilton said it is not the primary factor. The 3% increase is really tied around inflation, particularly to the water system. The 9% for wastewater - 3% is inflation, the other 6% is prior bills, their ability to try and catch up from prior years where they did not have an annual index. If they recall when they started the 2007 rate studies, the Authority had not raised rates in a number of years. The electric system, it had been almost a decade. Granted, the power cost adjustment went up; but the Authority=s rates to recover its costs, the rates had not been increased in a decade. The water and wastewater systems, although they did have increases, they were kind of staggered; and there was some neglect in a couple of years, not on the staffing level, but in terms of balancing the system. So the 6% kind of accounts for those ills. The conservation that is in the system, it has an effect, but it is marginal for Fort Pierce Utilities Authority. Primarily because at minimum they had base charges in the water and sewer system that are appropriate enough that they pick up a reservation of capacity. His point is that 80% of their costs are fixed, 20% are variable. They try to set rates that help balance that. Where there are communities that set their base charges too low, when they have conservation interruptions - they are seeing that in South Florida - they are seeing a huge swings in revenues, 15% to 20% swings in revenues. When he says revenues, he means dollars. Because all their revenue sources are tied up in the volumetric rate. In the City of Fort Pierce and the Fort Pierce Utilities Authority, they have base charges right around \$18 for the water system. That helps stabilize their revenues during unstable times, which is where they are at right now. Take that a step further, that was one of the reasons during the last rate

study they proposed an inactive account fee. They had new units that were being built and were not being occupied, but the Authority still had that capacity there, that readiness to serve, and they needed to pay their share. This is a new revenue that can be used to help keep those rate increases down. But he would not suggest, and he is not suggesting to them today, that the result of their rate increases are a direct result of conservation in the system. There has been conservation in the electric system, mainly it is on the residential end. Most of the commercial accounts, they have a profit incentive in mind, so they do not normally see as much swing. On the water side where they see the conservation, it is on the irrigation side, not the indoor use which is typically what that 6,000 gallon represents.

Chairman Drummond said he just wants to be sure everyone understands as they are out preaching conservation, it is going to be real difficult to talk to customer when they are saying they are conserving but they see their bills continue to rise.

Mr. Summerhays said these comparisons, it is a flat use - 3,000 to 3,000 or 6,000 to 6,000. If a customer in fact conserves, their bill will go down or at least remain flat.

**Mr. Henry Thomas**, Public Resources Management Group, Inc., said he brought up a real good point. It is counterintuitive. And it is a difficulty that all utilities face in communicating with their customers. Mr. Hamilton's point is, when they look at their cost structure - labor, debt service, R&R needs - those are pretty much fixed by their infrastructure needs and costs. About 20% of their costs - fuel for pumping, chemicals for treatment, and things of that nature - actually vary with demand. So when they do see conservation, while they are not putting as much pressure on the aquifer and the water supply sources, the ability to recover costs is diminished because now they have less gallons that are being sold. So it is kind of counterintuitive. They are using less, but are being told their rate is going up. He thinks the real point is, if everybody collectively is using less, that is having an effect on their system. The customer that was using 6,000 or 20,000 gallons is now using less, so while the rate went up, if they are conserving, their bill may go down or may not rise as much as the rate increase. But the problem is their business model in utilities in Florida is that they have very low base charges in most communities and they try to recover all their costs through a variable charge, yet their costs are not variable like that. So in South Florida, where they see instead of the FPUA's \$18 base charge, the City of Stuart has a \$5 base charge. 50% of Stuart's revenue comes from irrigation. When they go from two days a week to one day a week watering, that means 25% of their revenue disappears; but 25% of their costs do not disappear because the chemicals for treatment and the electric for pumping is all that really changes. In the future they will preserve that resource and there is a value to that that is really part of what is causing water rates particularly, and co-mingled with that sewer rates because they bill based on water usage, causing it to rise. And that is, as they go to those marginal sources for water, that is costing a lot more than the groundwater they have been using. Fort Pierce is already experienced on that, because they already have their RO plant in place and they are pretty good steady in their future with their water capacity and those costs. But those communities that were drawing out of the aquifer and only seeing the costs to treat it and pump it, are now going to higher cost sources to treat and are seeing huge increases. So it is counterintuitive, that is a very good point; but in reality, there is not a lot they can do about it. One of the things that have

already done is they have a very solid base charge and that helps a lot to keep their system more stable. Right, there is some implication here of the unit cost, the price per gallon having to rise because of less use overall. It is not the material issue, but it is there.

Mr. Perona said he thinks Mr. Drummond speaks for all of them, as Board members they are constantly out in the public having to defend these issues. They understand that perfectly, they understand exactly what Mr. Thomas said, and it took him three or four minutes to talk to them. They have less time than that to sell that to their customers. They are trying to tell their customers that if they do not conserve, they are going to be spending more money than they do now. Instead, they need to conserve so they are spending the same amount they did last year, is a little bit tougher sell. But really that is the world they live in and that is really what they are going to have to do. Basically they are all looking for a loop out of the sky they can hold onto. But guess what? They need to save so they are exactly where they were last year. They are helping themselves in the future, is a little tough to sell.

Chairman Drummond said it really is. They are out saying to individuals, who say their bill is too high, to conserve, so it will stay just as high.

Mr. Perona said if they don't conserve, it is going to be a lot higher. It is just that they have got to change the thinking of their ratepayers, as they do all through America right now, because of the costs. The thing about it is, they have to teach conservation and it is the future of what they are going to do. Otherwise, these bills are going to go way out of whack. They are going to have ratepayers screaming and yelling every time they turn around. Mr. Hamilton just described the fact that they are now in a trend of constantly looking at rates and raising them to keep up with their demands and their costs. Their ratepayers are going to be looking at this every year from as far out as they can go out on their guesstimate.

Mr. Thomas said the fact is, even if the people wanted to not conserve and to pay more, the South Florida Water Management District is not going to allow that. They have entered an era now where water conservation is being mandated. And SFWMD is not going to let them pump enough to meet everybody's needs to irrigate all their lawns and such. So that is a major factor in this, is the regulatory stance.

Mr. Perona said if they ever have to go to desal or something like that, people are really going to learn about cost.

Mr. Thiess said just to put some numbers on that, from 2006 to 2007 they had over 1 million gallon a day decrease in water pump. That is over 10%, mainly for conservation. So 10% conservation over that period, they are looking at a 3% rate increase. The conservation still works. In fact, they have talked to people on the electric side that have cut their electric bill in half. So if they look at the 3% increase, if they can conserve about half, they can still make a lot of headway in conservation. It has a little bit of a part in it, but it is not nearly as much as they would think. If they really get on the conservation bandwagon, they can reduce their bill by 20% or 30% or even 50%. It is a matter of the individual and how much control they take in their consumption. They can go a long way with conservation, way further than these 3% increases they are looking at on water and electric.

Mr. Thomas said if they look historically, at electric in particular, people are pretty responsive to changes in price. He has been doing this for a long time. When they got into the late 1970's, they had some real increases in fuel like they have been going through in the past year or so, and prices were way up. People talked about keeping the thermostat at 78 or 80 degrees or higher in a lot of homes and they conserved electricity quite a bit. In about 1986, when the fuel prices dropped in real terms significantly in that one year and over the next couple of years continued to drop in real terms, in other words prices were going up less than inflation and even going down, they saw tremendous jumps in peoples home energy consumption. Because if they saw the bill mitigating, they decided they wanted more comfort and they used more. So people will adjust to the changing prices and costs.

Chairman Drummond said this is why he wanted them to have a discussion with the Commission, understanding that the PCA may continue to increase based on the market conditions out there. And understand that they have to start looking very seriously in terms of exactly where they need to be in terms of their operating budget - be it 30 days, 60 days, or whatever. They need to make some hard decisions with regard to that, understanding the cost is continuing to increase and looking in terms of just how sensitive the City is going to be with regard to the size of the transfer. He thinks that is part of the discussion they need to have, versus just looking in terms of a 3% or a 6% increase. Do they have the flexibility to work with their staff on their reserves and work with the City in terms of their transfer?

Mayor Benton said after Amendment #1 that just passed last month, especially this year with the City=s shortfall, they do not know how much it will be, he thinks this year is going to be a very difficult year. But in the future, he thinks they can talk about that. But he thinks this year is going to be a very difficult year for them to work through their budget.

Mr. Summerhays said the biggest problem with perception, particularly amongst their customers, is they think the U.A. can cut costs, and that really is not true. 80% of their costs are fixed, those are there even if they do not sell a kilowatt or a gallon. It is only the 20% they can play with. So if they reduce that 20% by 10%, that is really 2%, and then they have crippled customer service. So that is part of the problem. People think of a business where the fixed costs are relatively low, and that is decidedly not the utility business.

Mayor Benton said last week he was in Tallahassee. Their last morning they heard from the Chairman of this energy commission that the State and the Governor had put in line last year. That is where the folks have talked about lining our beaches with the wind turbines. They are looking at getting these emissions down. The strange thing is with their eighty-five points, they never got to conservation. They talked about education; and a lot of that is supported by the private sector and FP&L, who still wants to make profits. But he thinks with the cost of fuel in their cars right now, when they are talking about \$4 a gallon, and price of electric and everything else, they have learned right here early on that they have been conserving. He thinks they are going to have to conserve more. If people see that they can save there... They are going to see a challenge made by himself later in this year with some of the other mayors in Florida, they have a Mayors Association now, that is looking to put a challenge out there and see which communities can conserve the most. If they want to go green, they are going to have to go green by turning that thermostat up and turning it off when they can. And he thinks it is educating

people. But with this economy, it is going to be very difficult for a lot of people to start making ends meet. What they have found is, people have been putting not only their gas but their electric bills on their credit cards. And now a year or eighteen months into this, with the economy the way it is, these bills are coming due and that is just adding to more and more of these foreclosures. The big picture in this economy he thinks is conservation. They are in for a rude awakening in the next year. Mr. Thomas said he thinks there are some things brewing out there.

Inflation went from stock prices to property, now it is into goods, it is in energy, it is in the goods that they buy and in their food every day, it showed up there now. There is no other place for it to go. The stock markets and the property markets are gone. The other thing he will warn them is, when they look at their reserves and they look at their finances, in order for all this to work they still have to access the financial markets, and right now those are taking hits. A lot of bond insurers have gone out of business, they are getting downgraded. And it is going to be more difficult to get credit in the future than it has been in the last five to ten years. At the time when they could use the help the most on the rates is also a time they need to be financially strong if they are going to meet the community's needs and to continue to deal with the needs of the system. In particular, the debt in the latter part of this forecast is associated with the new mainland wastewater treatment plant.

Chairman Drummond said that \$12 million that he projected that is going to be necessary is also very much tied to their need to expand that plant based on what is going on with the growth.

Mr. Thomas said the initial \$12 million is related to the substation for taking the King Plant offline, getting that power plant off the downtown property, etc. The second slug of debt out there in the future is the new treatment plant. So it is not the time to say they are going to let the system deteriorate financially in order to avoid rate increases, because that is going to come back and bite them when they try to enter the credit markets.

Mr. Summerhays said all they have to do is look south at Lake Worth and look at their rolling blackouts all through one summer because they did not keep a spare transformer.

Mayor Benton said also, Palm Beach's water problems.

Mr. Summerhays said yes, Palm Beach pumped surface water because it was cheap. And now they are really behind the eight ball.

Mr. Thomas said working with the City of Apopka, a very fast growing community with tremendous groundwater resources, but it is running out as they have grown. If they think about it, with their Florida groundwater they stick a straw in it in the ground, pump it up, put a little chlorine in it, and distribute it. They really are not reflecting that value of that product when they price it at cost at doing that. Because what is happening to them is, as they have grown, they are looking at alternative surface water sources; and those sources will likely cost as much as four to five times what they are currently utilizing to meet their needs in terms of the groundwater that they have. It is so valuable. Florida may not appreciate what they really have here. But as they desal and all these incremental needs get met through additional alternative sources, there is going to be a lot of pressure on water and sewer rates. When they really boil it down to think about their cost per day for these services, still in the end their central services are a bargain in terms of what it really costs to run their lights

every day for power, for water, and for wastewater, and what they truly get for it. Turn the tap on, the water is there. Flush the toilet, the waste is gone. And they have comfort from their energy and things like that. It is hard to put a value on it. But if they look at their utility performance versus other sectors, it is a high value to their citizens. And it is obviously something prominent, dealing with these issues is complex. Not being an expert in communication, that is a real challenge for them and for everyone right now.

Mr. Hamilton said for the record, Henry Thomas is the Vice-President of PRMG and their resident economist. Talking about what the Chairman was discussing a moment ago versus reserves and also the distribution to the City, that was one of the strategies for 2008. Obviously they showed them an alternative, whether they get a 100% funding for the transfer. One of the issues with not only the transfer but the debt service coverage is, as the Authority addresses its business plan, where it is not only their cash operating costs but also their infrastructure. Replacing the existing infrastructure that goes to existing homes today, that is kind of a business plan. To the extent that they fund the business plan, then the Authority is then strong enough to meet the 100% of the obligation for the City's distribution and also in order to meet the debt service covenant requirements. So to the extent they fund the business plan, that by default strengthens their ability to meet their other obligations. Mr. Perona had a good point about rate comparisons and that is kind of where some of these utilities go in the future. They can see their proposed rates, which is a 3% systemwide increase on the water system and a 9% increase on wastewater system. It would put them slightly above the average at \$69.20, about a \$4 increase in the typical bill. One of the things Mr. Thomas mentioned before deals with treatment and water supply and those kinds of things. One of the answers he does not have for them is where all these utilities fall in line in terms of their treatment costs. But that is a factor. He thinks Mr. Perona had a good observation there, tracking these guys over time to see eventually where their costs fall in line. On the natural gas system, a 9% increase is proposed. The PGA has not changed lately and they are not anticipating that it is going to change directly in the near future. Obviously as fuel costs go up, that will have to adjust as well. Again, that is not necessarily a function of their rate study, it is a cost that the Authority has to pass through onto the consumer as it comes through the gas bill. The typical bill, which is at 13 ccf on average, is about \$2.75 increase. Right now with the natural gas system, they are actually seeing an exodus of residential customers. He thinks it has been the goal of the Authority to try and bring new commercial accounts onto the system and that has been kind of the strategy. But right now they are kind of losing the residential customers they have. That does conclude the presentation and they will be happy to entertain questions.

**Mr. Steve Weaver** asked with the PCA and the 3%, what is the average increase in their bill in a month?

Mr. Hamilton said it is going to be about \$13.00.

Mr. Weaver asked what is that in percentage?

Mr. Thomas said about 11%.

Mr. Perona said he remembers sitting here a year ago or so and looking across the table at their City Commissioners and telling them that there was no way in the world they were going to be able

to meet their 6% transfer this year. And all of a sudden it ends up on his paperwork where it says they are going to do it. It is \$4.9 million. He does not want to lose credibility here by crying wolf; and all of a sudden, here it is anyway, even though they might not have gotten everything that they wanted last year. It was kind of interesting to see. After he went through the report and he talked to staff, he found out it was really what they did with their cash and how they earned an interest rate that there was no way in the world that they could ever account for that. It was just by luck that they got here. But it really was shocking to him. He wants credibility in everything that they do and that they take every step and they look at it very carefully. Even though they tell everybody that it is not going to happen, there is still a way things can happen. He wants everybody to believe that what they have in front of them is really the way they believe it in the best form with using the best facts that they have. But it really hit him off guard, it really did. He kept telling the Commissioners that there is no way that the City is going to get the 6% transfer next year if they do not give the increases to the U.A. Yet again, they did.

Mr. Beach said there is a very good point to be made in that. That is, what they deal with at the beginning of the year are projections. They deal with projections of what they think is going to happen. He will give an example. He told his Commission six months ago that their fund balance was one-half of what it is supposed to be and they made decisions based on that information. Then their audit comes in. And because of a few changes that had occurred, their fund balance is where it is supposed to be and that is to the tune of a couple of million dollars. His point is, they make projections; and the problem with that is, the future has not happened yet and there is always opportunities for change.

Mr. Perona said those are good surprises when they happen. But then as administrators, they have to explain to the people that they gave valuable comment and factual information to as to why they missed the projections.

Mr. Beach said they are projections, they can just be wrong.

Mr. Perona said this Board uses projections and stands pretty tall when they are talking to the City Commission.

Chairman Drummond said it is difficult when they make these projections and they move forward with the rate increases and they far exceed where they thought they would be. That is where it becomes doubly difficult.

Mayor Benton said last year the discussion from the FPUA Board was, they have to give them these rate increases; but the City Commission said no, they are going to phase them in. And it was not as bad as they thought it would be.

Chairman Drummond said which makes it a lot more difficult to go back to the Commission and say they need these rates increases.

Mr. Perona said that is absolutely right.

Mr. Summerhays said but it was solely because of investment income.

Mr. Thomas said the point Mr. Hamilton made earlier, just to clarify, when they did the plan last time, they were looking at some needs that needed to be debt funded. And at the margin, they have their FMPA pool loan partner that they can easily get short term capital from. In the original plan, they were going to draw

about half of what they drew down in this latest loan. What happened is, when they did not get the rate increases, the Authority at the time had to borrow than what they had anticipated.

Mr. Hamilton is showing those monies being used in 2008 for the capital. That means those monies have been sitting there earning interest and they did not anticipate that. That is where the majority of that extra income came from. Because if they look at the financials year over year, they are going to see a big rise in interest income in Fiscal Year 2007. But once that money that is in that construction fund is gone, it will not be there as a source of investment earnings any more, and therefore they do not anticipate this bubble that they got in investment earnings to continue. Also, they have had to draw back on where they put their money and get out of SBA, and the opportunities out there are a lot more conservative in terms of what they will earn. So those two things together did get them through 2007. But if they had not borrowed that \$20 million from FMPA, they would not have had the interest earnings and likely would not have made the transfer target. So there are a lot of variables that go in it. They are trying to follow the rules that are laid out in the bond covenants. And the fact that they could in the short run borrow and earn interest on it helped them. In the long run there is a cost for that; and that is, they have to pay that debt back. But they are using the funds, they did not borrow them for no reason. They just stepped it up a little quicker than what they originally planned. So that was really the source of that change from where they were.

Mr. Hamilton said that is the source of the interest income, where that came from. The transfer is actually calculated by the Authority=s Finance Department. This is the transfer as it was calculated by the Authority. He had the same question, what occurred that changed the story from last time to where they are at today? It took him some digging and he finally found out that it was the interest income. It is up about \$1.2 million from where they thought the budget would be, historically where they have been, and probably where they are going to go in the future. So they adjusted the Authority=s test for that anomaly; and sure enough, the transfer would have been at \$4.9 million, but the authorized would have only been \$4.4 million and they would have had a shortfall of about 8%, about 92% of the transfer if that were to occur. His point to them earlier in the presentation, they are happy that they are able to meet 100% of the transfer obligation, they never stood up here and discussed that the City is not otherwise entitled to its 6% transfer. They are thrilled they are getting it for 2007. But it was a thin margin. \$1.2 million is about 1% of their operating revenues. And any business manager will tell them that is not much of a contingency and it is difficult to plan on. Obviously, the point was brought up before, these are projections, these are estimates. This is the best information they know today. They are not sure where their fuel costs are going to go in the future. The PCA could continue to rise. There is conservation within the system. Conservation is a good thing, but there is some pressure on rates when that occurs. This is kind of where the fallout is. So he thinks what they had was credible of what they knew at the time. He thinks this kind of helps test it, test back to where they were. But they are thrilled the City is going to get 100% of the authorized transfer.

Chairman Drummond said he was just thinking in terms of a slide show which actually showed without the increases what those projections would be, both in terms of the U.A. budget as well as the transfer to the City. He thought that was a discussable matter, but the Mayor is saying not this year.

Mayor Benton said he cannot speak for the whole Commission; but he thinks with the projections, they are going to have a tough time. Amendment #1 is really...

Mr. Summerhays said he guesses they could not have earned that interest at a better time as far as the City is concerned.

Commissioner Sessions said as the Mayor said earlier, with the passing of Amendment #1, the City has come to the conclusion that desperate times brings about desperate measures. In his mind, he thinks the FPUA has to somewhat adopt the same concept. In lieu of an increase that has been indicated here that they need for the electric, the water, the wastewater, and natural gas increases, in lieu of those increases, what can FPUA propose in lieu of the 6% transfer being affected? How can they satisfy the projected costs, labor, debt service, and capital improvements, and still keep the FPUA afloat?

Mr. Thomas said given his premise that they want to maintain their transfer, to not do rate increases, and somehow make all this work, the only way that can likely be done from his perspective is if they dramatically reduce their operating expenses to the system. In the natural gas system and the electric system, when they look at the total operating expense on the income statement, a vast majority of that goes to third parties for wholesale power. As long as their customers demand the power and they have the contracts and a rate to pay, that is not likely to change. So then the only other choice is those operating expenses that are under the Authority's control, which essentially they can defer renewals and replacements. But that does not help them on their transfer. The way the system works is, they have their revenues less their operating expenses generate net revenues for bond coverage. Those monies are there to pay for ongoing capital needs. What the covenant says is, that money that is available for those ongoing capital needs, the City can take up to 6%, but only 40% of that. So when they wrote that bond covenant, what they were trying to say is they do not want them to take the money at the expense at maintaining the system, they want to limit it. If their rates are not adequate to create enough cash flow so that the 40% criteria is met, then they cannot have the 6%. That is the way it is working.

And the idea was to protect the Authority from just having to make transfers when they were not doing their other needs of maintaining the reliability of the system. So deferring the R&R does not give them a long way in terms of saving and making the needs and meeting their coverage, because that R&R need is part of what generates the cash that gets to the 40% transfer level. It really comes down to operating expenses that are labor related. He does not think they can covenant enough to wipe these increases totally out. They are talking about major staff reductions would be required to not see these increases. Over time, there are things that can be done. They can defer some of the capital projects, because ultimately those all go into rates. But it is a complex equation. And about the only way they can preserve the transfer and not increase rates is to cut operating expense. As he said, when they really look at what costs are available to reduce... The Authority in its electric system in the last decade, its costs that are not related to FMPA and wholesale purchases, have only risen 9% from where they were a decade ago to today. Those costs have not risen a great deal. And they have not been adding a lot of staff historically. To say that they are going to go back and somehow wipe out all these rate increases with those reductions, he thinks would be at the expense of customer service and reliability in the system. That is where they would see the hit if they did do that. He does not know if they would be able to field all the customer phone calls. He does not know if they would be able to deal with the

emergency repairs needed on the system. There would be absolute consequences to that kind of cost cutting at this point. They could certainly examine that more closely. That was not in their scope to try to do this. They are trying meet the needs as based on the business plan. Adjusting the business plan dramatically could affect this certainly. But it would probably be the labor force that would take the biggest hit.

Commissioner Sessions asked how about capital improvement projects?

Mr. Thomas said those that they have in the five year period that are debt funded, if they defer those, those would help the overall rate picture they are looking at. In the short term though, the equation is that they have their revenues less their operating expenses less their debt service. Whatever is left over is available to split up between the City and those capital needs. So cutting the capital needs does not help meet that equation of what is the revenue less the operating expenses less the debt service. That is where the constraint comes in. Because it is that money after they pay operating expenses and debt service, that cash flow that is left is what is available for vehicles, departmental equipment, renewals and replacement capital, and city transfer. And it basically has to be split 60/40. So if they cut the R&R expenditures and they take that out of rates, the transfer to the City will go down.

Mr. Hamilton said to kind of reinforce that, he mentioned to them before their annual contribution to R&R needs to be a little bit more than \$10 million. In 2008, they are only able to fund \$7 million, that is the other 60%. When they do the 40/60 split for the City=s transfer, they are only going to have enough cash flow for \$7 million. That is where the \$2.5 million in reserves, the negative cash flow they are seeing, they are going to have to pull that from reserves to make it up. So to the extent of his suggestion that they find another way to pay for the capital, they have attempted to do that in 2008, which is proposed to them today.

They are using 20% of their reserve balance today to phase in the rate increases so they would not be higher this year than what they otherwise would be. They used 20% of the Authority=s reserves to do it. And one of the primary drives around this is the ongoing capital that Mr. Thomas was talking about, the R&R. In July the Authority held a workshop; and when the Authority staff looked at the timing of the replacements and how long it would take them, based on the funding with the 60% profile at \$7 million, how long it would take them to replace the existing infrastructure that is serving existing homes, he forgets exactly but he wants to say it was 100 years.

Mr. Thiess said it was well over 100 years. They have over 200 miles of cast iron water mains and clay sewers. And sometime, certainly in their lifetime, it will have to be replaced. At the rate they were replacing them before last year's budget, it would take well over 100 years to make those replacements. Obviously if they are going to fail in the next 30 years, it is going to take 100 years to replace them. There is definitely a bust there. They stepped up the R&R program to replace them over a much more reasonable period in time in a 20, 25, or 30 year time frame. Also, if they do substantial cuts on the electric side to counteract the 3% rate increase, they would have to somehow cut about \$2.5 million out of the operating and maintenance part of the budget. He passed around this list of Budget Assumptions that they did back in July. This is what they are assuming the Authority is going to do as far as maintaining quality service, keeping up with the road projects and replacing the utilities. If they hit any one of these utilities to that extent by cost cutting, they are going

to start throwing a lot of these assumptions right out of the window as far as reliability and service and keeping up with growth and everything else. They will be looking at moratoriums on the development growth, failing systems, and failing service is the bottom line.

Mr. Thomas asked the Commissioner's question about where can the cuts occur, was the explanation on the way the flow of funds works and their limitations, does that make sense?

Commissioner Sessions said yes. What he is hearing is that if in fact they even entertain not increasing the rates, they are looking toward the City to cut back with the transfer. That is the only viable option is what he is proposing.

Mr. Thomas said if they do not raise the rates, it is a certain that they will not get the full 6%. Because their bond covenants, which is their contract with the bond holders, will not allow them to transfer more than 40% of that cash flow after the payment of debt service. So one of the reasons they build a cash flow after payment is for R&R. But having an adequate R&R budget, that then generates enough below the line cost to justify the 6% transfer. To the extent that they do not raise rates, it will impact the City's transfer absolutely, in the short run. If they can counteract that with cost cutting, they can mitigate some of that. But it has to be on the operating side. And that is going to really make a difference.

Mr. Summerhays said let him point out a couple of things. They have few people now than they did ten years ago working for FPUA with a much bigger system. The electric cost going up 9% over ten years is 9/10ths of 1% per year, which is less than a third of inflation. So the real cost has gone down by 2/3rds every year. There is not any fat in this budget. The only way they can cut it would be to do away with reliability, which probably is illegal. Are they affected by that federal law?

Mr. Thiess said yes and it is getting more restrictive every year.

Mr. Summerhays said so they cannot cut reliability without violating federal law for starters. That is the reason they are here. He is proud of the fact that they have a reliable utility and he would not take any action that would reduce that reliability. He would point out to them that just the other day when FP&L lost power for hours, FPUA's longest period out was seven minutes. Reliability. And it was his circuit. He is not willing to give that up for anything. Utilities are not free, people have to be willing to pay what it costs.

Mr. Thomas said he does not where they cross the line exactly, that is not his area of expertise, but they have another bond covenant that says they must maintain the system on a going concern basis. So if they begin to neglect it, they might have to answer to the bondholders as well as to why the system is deteriorating. Because obviously they cannot continue to produce revenues if the system is not working properly.

Mr. Summerhays said they have example after example around the state where people made political decisions and decided to forego maintaining replacements and repairs or not having spares or spending too much money on appearance for political reasons, and they messed up their utility. He really believes that is one of the reasons that the FPUA is separate from the City Commission. The FPUA does not have this pressure to cover a shortage here by shorting repairs or shorting spares, they just can't do it.

Mr. Weaver said early on in the presentation they mentioned staff levels remain the same although personnel costs were going to go up 5% and health care costs would go up 10%. Could they put dollar values with those 5% and 10% figures?

Mr. Hamilton said he did not bring that with him, but he could find that for him.

Mayor Benton asked could he bring up that slide which shows if they were to put off those rate increases each month, how much it would affect the transfer to the City?

Mr. Hamilton said it is about \$110,000 a month. To point out too, the Authority is losing reserves as well. It is timing issue. As the Authority gives up reserves, but it still needs to meet those R&R needs, and subsequently the City's transfer would go down.

Commissioner Sessions asked where are they presently at with reserves?

Mr. Hamilton said based on information the Authority gave them, they are starting October 1, 2008, with \$10.5 million. That is 40 days of operating and maintenance costs. The Authority's goal - and it is an adequate goal - is to maintain 60 days. Based on discussions with Authority staff, in order to help keep rates low, the rate increases that they have today that were proposed to them in 2008, to keep them lower than they otherwise would need to be, the Authority authorized them to assume using \$2.5 million of those reserves. So the cash balance would go from \$10.5 million at the beginning of the year to about \$8 million by the end of the year, which is the bare minimum - 30 days of operating maintenance costs - in order to otherwise not raise the utility rates even higher.

Commissioner Sessions said he had a chart earlier that showed a comparison in the rates by the municipalities. When he looks at that chart, he thinks an important factor, which is not included, is what the actual reserves are for those municipalities.

Mr. Hamilton said that is not information that he has directly.

Commissioner Sessions said in order to make a fair comparison, it is certainly essential to look at what the savings are somewhat to make a decision as to whether or not they fall somewhere where they should be in terms of comparing with other municipalities. That is a fact that would have been more helpful for him anyway.

Mr. Hamilton said in talking about a utility enterprise maintaining an adequate cash reserve, where a lot of that comes from is from their rating agencies. One of the items that they want to be aware of is their creditworthiness. If they look at some of the standards that they measure utilities against one another, actually their goal is they would prefer to see utilities at 90 days of operating and maintenance costs in order to have adequate reserves to meet emergencies, hurricane expenses, and those kind of things.

One reserve that the Authority does have, which is stipulated in their bond resolution that they must maintain, is a \$2 million emergency reserve for catastrophes. That is one reserve that they have. Another reserve is an R&R fund that is about \$1.2 million roughly and those are kept restricted for emergencies. Outside of that, the Authority elected instead of attempting to maintain a 90 day reserve like a lot of rating agencies would prefer to see, they elected to have something slightly less, which is 60 days. He will point out that the Authority has not been at 60 days for several years. This was a discussion during their last rate study where

they were down to 30 days. They have been trying to incrementally get that balance up as best they can, but not directly at the expense of the ratepayers. They spent a great deal of cash on infrastructure and they cannot necessarily recover that overnight.

They tried to come up with a plan, they are going to use \$2.5 million in 2008 to help pay for some of these capital projects, phase in the rate increases. But as they will see in their five year financial forecast - again, that assumes all the rate increases were adopted - they would then be at the 60 days reserve balance, they would be paying 100% of the City's transfer, and they would be meeting the replacement needs of the system on an ongoing concern basis.

Mr. Summerhays said the only reason they use these rate comparisons is to make sure they are staying within the realm of reason. The particular chart that is here, the two columns that show the U.A. higher, are after the increase, yet all the other rates are current. If they compare their current rates to all of the other rates, they are back dead in the middle where they have been historically. All of these people are suffering the same cost pressures as the U.A. is suffering. Everybody that is part of FMPA is going to have the same purchased energy cost increases and their rates are going to go up too. FPUA is not going to remain over here far to the right in these comparisons in the future, because one by one these people are going to have to make up their cost increases too.

Mr. Thomas said while he does not have specific information about every utility in that comparison, they do a lot of these studies all around the State of Florida. As Mr. Hamilton said, the bond rating agencies recommend 90 days of O&M as a reserve. They are in the low 30's. That is one of the reasons they have alerted them to the marginal financial condition of the system. Their cash flow is not necessarily adequate to meet transfers to the City. Their cash reserves are not particularly strong. He would venture to say that most utilities that he works with are well in excess of 90 days. The study that they just finished in Apopka, they have 277 days in reserves, which is rather high. But he very rarely sees a system with less than 60 days of operating reserves in the system. So he would put them in the reserve category at the very low end of the spectrum. They can probably get financial statements and show them that, but it would really take a little more research to come up with a complete answer. Just anecdotal and on all the studies that he has done, their reserve balance is at the bottom end of what it needs to be. It is really a stop-gap approach to keep these rates from rising faster. If they look at the recommendations and they see in the last couple of years, there are surplus revenues coming into the system in the last two years. What that is doing is building the reserves back up to something adequate. Should they decide they are going to live with less than 40 days of cash reserves in the future, then those last couple rate increases out here in 2009 and 2010... They are going from a low of 31 days to trying to come back up to 60 days, which is still below what their rating agency recommends. But to do that, they have surpluses actually in the last couple of years to phase up to a better reserve position. The worst thing that can happen is, the City of Leesburg, which also has electric system, they spent their reserves down so woefully low that they actually had to borrow money to replenish them. That is something that they do not want to find themselves borrowing money just to have safe reserve levels. Where they are at now, they do not deteriorate that any more below the 30 day area, he thinks it would be a real bad mistake.

Mr. Ted Perkins, Water & Wastewater Systems Director, said before it got off everyone's radar screen, he just wanted to give a couple

of examples of what deferring R&R could do on the sewer side of the system. He had the experience of working in a utility that went many years without a rate increase, the City of Jacksonville. And they ended up with an Administrative Order from the EPA because they were having so many sewer failures. They had to implement a five year program costing \$600 million and it caused a 54% wastewater rate increase to be implemented. The City of Miami deferred sewer maintenance and ended up with an \$800 million Administrative Order. Scaling the City of Jacksonville to Fort Pierce, they are about one-tenth the size, so that would be roughly getting hit with a \$60 million impact on their capital program. They are not very efficient, but there are reliability mechanisms in place with the Florida Department of Environmental Protection and EPA, that if a sewer system begins to deteriorate, it has sanitary sewer system failures and overflows, eventually they get in a position where they are forced to take action and they do not have control over their program anymore. They have to comply with what regulators in Atlanta and in Tallahassee come up with what they think they should be doing, which is not necessarily cost effective for the citizens.

Mr. Thomas said he thinks those are important observations. They worked for the City of Tampa, which has some of the lowest rates in the State of Florida; and it is their badge of courage, they are very proud of that fact. Yet they suffer a water system line break a day on average. Last year in particular they had eight major sewer system failures in downtown Tampa which caused the roadways to collapse because the pipes underneath them collapsed. A lot of traffic disruption, a lot of angst in the community over this. In reality, they were making a political decision not to raise rates.

In return, they neglected any kind of active R&R program for over 20 years, all they did was fix things as they failed. That is not the way to run their infrastructure.

Mr. Hamilton said they have an answer to Mr. Weaver's question before, what the 5% and the 10% increases for labor costs and health insurance costs, what it represents? For labor costs, to capture both merit and CPI cost of inflation increases, is about \$700,000 a year. For the health insurance only, it is about \$300,000, and that is based on a 10% increase in those health care costs. These are financial projections. For example, the 10% for health care costs is intended to be an average over time. In reality, these costs are typically stepped. They might have a 25% increase in one year and a 5% increase the next year. It is hard to directly measure those. But these are some of the assumptions that they are going to readdress as they annually update the rate study.

Chairman Drummond asked where do they go from here?

Mr. Thiess said that is all staff had prepared for today. He thinks they just wanted to get all the questions answered. From here, staff intends to take the suggested rate adjustments to the FPUA Board on next Tuesday's meeting. Assuming that the FPUA Board approves the increases, it will go to the Commission the second meeting in March.

Mr. Summerhays said he thinks it is kind of a shame that more of the City Commissioners could not have been here for this. He is sure that some of them probably have good reasons. But they only have two out of the five, and one of them - the Mayor - is also on the FPUA Board. So Commissioner Sessions is basically the only one who showed up and he was late; but he understands that he had to go to court put on an appearance, he knows how those things go, he has lots of lawyer clients. He is disappointed that more of the City Commission could not be here for this. This was specifically put

on to explain to the City Commission what they are planning on doing and why they are planning on doing it.

Commissioner Sessions said he cannot speak for the others. But he made a great sacrifice. At any rate, the actual meeting once it was posted on the agenda was the first time he had an opportunity to see the scheduled time. He is not aware of anyone contacting his office or him personally to try to make the arrangements so that he could be here. The first time he saw the date was when he saw it in the package.

Mr. Summerhays said Ms. Hayes contacted his office.

Ms. Kenna Hayes said she contacted Angela Wilkinson, who contacted Commissioner Session's office and gave her dates when he was available, and this was the date he was available.

Commissioner Sessions said at any rate, he made a sacrifice to be here realizing the importance of the issue, but he did have a court appearance. So he does not know whether the others, if it applied to them or not. But he will deal with that. Again, it was a sacrifice for him to get here.

Chairman Drummond said this date was based on availability, to try to make sure that the Commissioners could attend. He thinks each person was individually asked what date worked for them.

Commissioner Sessions said he thinks Commissioner Becht had a doctor appointment.

Mr. Summerhays said he is sure there are some really good reasons why some of the Commissioners are not here.

Mayor Benton said as important as this issue is to the public, he would ask that maybe a memo or letter could go out to the other Commissioners that did not make it, so they do receive this information; and if they did have any questions on this information once they read it, maybe they can contact Mr. Thiess or Mr. Hamilton, so they do not have this lengthy debate for a third time. He can see this coming up for a lengthy discussion at the Commission level. He was hoping that everyone would be here today to get some of the answers they were looking for.

Mr. Thiess said what he intends to do next week is start setting up one on one meetings with every Commissioner. It will probably be himself and the Director of Finance, they will make themselves available for whatever time it takes to answer all the questions.

Mr. Perona said he is really happy that Commissioner Sessions is here today. This utility business takes awhile to really comprehend all the little innuendos that relate to one another. He and Mr. Drummond have been on the Board probably the longest now and they are learning something new all the time. If they read through this again, they are going to have questions about that; and staff is immensely available to them. It is real important the Commissioners understand everything so they are able to make their decisions accordingly. These are issues that are really important, they have to balance out between what is right for an asset that is owned by the City that needs to go on and what is right for their constituents, the people that vote for them, the ratepayers that are having a hardship of making those payments every month. These are very sensitive issues that they are going to have to wallow through all this stuff. If there is anything that they can do to help them with that information... He is calling Mr. Thiess twice a day sometimes on things. He is sure the rest of them do it also. If that happens, that is what the utility business does.

Commissioner Sessions said one thing that comes to mind while they are talking about the rate increases, bringing it before the City Commission and getting authorization first from the FPUA Board, as they are all aware the City Commission has decided to select an advisory board to identify some of the issues regarding the FPUA as the public sees it; and at that point, bring in a firm to investigate those issues themselves, an independent consultant firm. In his opinion as far as he is concerned, to move forward with those increases are suspect in his mind and he is sure as far as the ratepayers and the individuals that brought this to the City's attention regarding issues regarding the FPUA. It just does not sit well with him. So he would hope that they could get over that hurdle and not expedite a rate increase in the absence of going along or moving forward with the City's proposition at this point which is to bring in an advisory board and later bring in a consultant firm to investigate the issues that the advisory board identifies.

Mr. Summerhays said it is not really being expedited. These rates increases are long overdue. That chart up there showing \$110,000 reduction in the transfer, those are not made-up numbers, those are real. Each month they delay costs the U.A. its reserves and the City its transfer. They should have had bigger rate increases last year; but they compromised and they delayed them. This isn't something that can wait. If they are able to come up with something with this study group that reduces costs or whatever, they can certainly make it up next year. But the rate increases are important and needed to occur before now. He would not be willing to delay implementation. He doubts very much that there would be any other folks on their Board to delay implementation.

Mr. Thiess said Commissioner Sessions was not here for the first part of this meeting. They had a budget workshop back on July 12, 2007; and in the budget workshop PRMG laid out a forecast of the rates at that time. If they drag it for three years, the 2008, 2009, and 2010 rates that were put forward in that workshop compared to what they are putting out today, is only 2/10ths of a percent change in those rates. They moved things around and staged them different, but it is basically the same rates they brought to their Board and the City Commission back in July. So this should not be a big surprise. Obviously for Commissioner Sessions it is a little different because he just became a Commissioner; but for the rest of the Board and the Commissioners, this is very consistent with what they brought back in this room in July.

Chairman Drummond said he understands that the Commission somewhat felt that it would be very good to have an independent committee and study look in terms of what is going on with the operations. That is all well and good, and they look forward to seeing exactly what scope of services and what findings ultimately a study brings forward. But in the interim, FPUA needs to continue to rely upon the best information they can obtain from their consultants with regard to the adequate running of this utility. And if indeed a study comes back and suggests cost-saving measures, those can most certainly be rolled in and implemented in the future. But he thinks they would be failing in their responsibility not to proceed in a timely fashion based on the information that they have before them.

Commissioner Drummond asked does he feel this situation warrants not postponing at minimum two or three months?

Chairman Drummond said he thinks that one chart right there speaks to what each month's implication is and he thinks it is important that they look at that.

Mr. Perona said from the standpoint as a Board member on the Utilities Authority - much like the Commissioners look to their constituents and the people of this community - they look to their ratepayers. If they are pretty well convinced and they have gone through all the information and they have gone through the workshops and they have spoken to these gentlemen personally and staff, and they have come to a conclusion that they need to act expeditiously to be able to save their ratepayers money and to be able to get back on line for what they have to do, that is where their responsibility lies. He understands the Commissioners have a responsibility also. Hopefully they can get together on this thing and move forward. But he has a really good feeling that this is going to come up at their next Board meeting. And from what he heard here today, the FPUA Board is going to pass it on down to the City Commissioners.

Mayor Benton said he prefer to call it a task force, it was his idea and he brought it up in November. Unfortunately they have not had their first meeting yet. He hopes in the next 30 days they do have their first meeting. This is something they have known for at least a year, the Commission has seen this information. This is just the price of doing business. They knew what happened last year when they adjusted the proposed rate schedule and phased it in. That is why they had this workshop, so that would not happen again.

Chairman Drummond said he would like to thank everyone. He wants to thank Mr. Thomas and Mr. Hamilton for making this presentation.

If there is additional questions, he believes staff and even the consultants would be available.

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There being no further business, Chairman Drummond declared the meeting of the Fort Pierce Utilities Authority Board adjourned at 11:10 a.m.

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Adjournment.