

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

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

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

Chairman Drummond called the meeting to order.

The invocation was given by Chaplain George Crespo of Lighthouse International Worship Center.

The Pledge of Allegiance was recited.

The roll was called and a quorum declared.

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

1. Approval of the Minutes of the Regular Meeting of February 19, 2008.

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A letter was received by Mr. Bill Thiess from Stefanie Myers on behalf of Leadership St. Lucie 26, thanking him for the tour of St. Lucie Village he conducted on Leadership History Day.

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Mrs. Nina Hurtubise, Director of Finance, presented the Residential Electric Rate Comparison prepared by the Florida Municipal Electric Association, as well as, staff's comparison of our electric, water and wastewater rates with surrounding communities for the Month of January, 2008.

Per thousand kilowatt hours, we still sit about in the middle of the pack, a little above average. There are 19 municipal utilities whose rates are less and 13 whose rates are greater. This includes the \$2.00 increase in the power cost adjustment put into place for the month of January. For 2,500 kilowatt hours, we are a little higher up on the scale. Again, we are not at the top of the scale, by any means. We are a little bit above the average. There are 25 municipalities with rates lower than ours and 7 with higher rates. The higher rates are significantly higher. The comparison between Ft. Pierce, Port St. Lucie and Vero is less favorable than it has been in previous months. We have also adjusted the averages downward. Our electric average consumer is shown to use 1,000 kilowatt hours of electricity and purchases 6,000 gallons of water per month. We process 6,000 gallons of wastewater for that same, average customer. Unfortunately, at this point we are at the top of the group. The City of Vero Beach lowered its PCA during the month of January, which is why we do not look as good when compared to Vero Beach. FPL's rates went down a little bit during the month of January. Water/wastewater rates for the City of Port St. Lucie are a bit higher than ours in total. The difference between the highest and the lowest is still only about \$10.00.

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Mrs. Hurtubise presented the Financial Statement for two months ending November 30, 2007.

Mrs. Hurtubise stated this statement contains figures for both October and November, 2007. We did actually have some income before the City distribution, in capital contributions of \$277,000. That in a \$100,000,000 agency, isn't much. At least we are on the plus side. It is less than what we had at the same time last year by about one-third. In two months, we brought in \$3,621,000 in capital contributions. We are seeing water and wastewater units billed continuing to decrease as compared to last year. In the first two months of 2008, electric and gas are up by 7% and 1%, respectively, but the water is down 15%, and wastewater is down 10%. These are units we have sold, not dollars. The operating revenues for electric are up 12%, in part due to the rate increases, which were in effect during October/November of last year. In water and wastewater, the dollars are down by 4%. Natural gas operating revenues are down 3%.

Mrs. Hurtubise further indicated our debt service coverage continues to look good for the 12 months ended in November at 2.36%. It bottomed out in July to 1.82%, but still well above the 1.25% ratio we are required by our bond covenants to maintain. The October/November operating income is pretty consistent, although this is a twelve month rolling average. It was the September, 2006, operating income that did some damage last year.

Mrs. Hurtubise stated we are bringing in a lot of contributed capital, but we cannot use that for day to day operations. It is for capital purchases and the capital improvement charges are restricted to capital projects associated with new growth or new customers. This is what is supporting our bottom line.

During the first couple of months of 2008, we are seeing the electric purchases for resale increasing. It is, unfortunately, being reflected in the increased power cost adjustment that we pass along to our customers each month. Depreciation is up about \$175,000. At this point about half of that relates to the power plant. The other half relates to all the capital work we have been doing. As they have been placed in service, we begin depreciating those assets. That is the trend we can see moving forward. Salaries, wages, benefits and insurance costs have increased, substantially. The salaries and wages have gone up about 4%. Those are just normal raises.

Mr. Perona said as far as the depreciation of the power plant, he thought we were pretty much done with that as of September. Mrs. Hurtubise said it will not be fully depreciated until the end of April, 2008. We have been accelerating it all along. She thinks the big bounce-back in May will be the depreciation that has been there but will not be there anymore. We will be capitalizing all the other projects we have been working on. She isn't sure how obvious it will be.

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Mr. Drummond said we will allow staff to make a presentation with regard to the following resolutions on rate adjustments. He will then open the public hearing for each resolution, after which, the Board will proceed with voting on each resolution.

Mrs. Hurtubise said she is making use of the great presentation Public Resources Management Group (PRMG) put together for our workshop on Friday. It was very beneficial

information, and she would like the public to see it, as we did on Friday. It is an abbreviated version. The full blown version of the presentation and the rate study are available on FPUA.com for anyone interested in looking at the 200 page, plus, document that is the rate study and how comprehensive it is. She cannot say enough about the job PRMG did with respect to the rate study, how thorough they were, all the information they gathered. They took all our budget data and updated whatever they possibly could to give us the most current information possible. The presentation will cover all the rate increases, as a whole. She will touch on each one, individually, also. Mrs. Hurtubise proceeded with a power point presentation.

The first slide showed the rate increases we are recommending be implemented. We are proposing the rate increases go into effect on April 1, 2008. Overall, there will be a system-wide 3.9% increase in the customers' bills. It is broken down between Electric, Water/Wastewater, and Natural Gas Systems. There is a recommended increase of 3% for electric, 3% for water, 9% for wastewater, and 9% for natural gas. These rate increases are necessitated by something fairly simple. Prices for everything have gone up. The cost of everything we do, both as consumers, and as a business, has been increasing and continues to increase. Even with these rate increases, we will have to spend about \$2.5 million from our reserves just to make ends meet. That is about 2.3% of our total revenue. A big issue is the amount of our reserves, cash reserves we have on hand for operations. At the end of 2008, it is projected we will have about 33 days of operations and maintenance expenses on hand at any given point in time. When a rating agency looks at an organization and when they look at their bond rating, they look at the company's financial stability. We are aiming for 60 days of cash. The rating agencies are really wanting to see 90 days of cash. We are merely aiming for 60 days. After the next four years of rate increases, we hope to have 61 days of operating cash on hand at any one point in time. Even with these rate increases, we do not expect to make the full city transfer based on 2008 numbers, paid in 2009. In 2008 we will be making the full 6% transfer to the City of Fort Pierce. That is primarily the result of interest earnings. That is what put us over the top. It relates to the interest earnings on our restricted funds associated with our pooled loan that we had not yet drawn down. It is a one-time thing. It is not something that will continue in future years. We can enjoy it this year, but it is not going to carry forward. In 2009, we do not expect to be able to make the City's full transfer even with these rate increases. We will be able to in future years beyond that. What we are presenting today is only 2008 increases. We will be looking at the 2009/2010 rate increases in the near future. We will continue to sharpen our pencils and keep looking at the figures over and over again to make sure our estimates are correct and that the actuals are turning out the way we expect. We do not want to raise rates any more than we have to. This looks like a situation where we really do have to. Based on projections, our existing rates are not sufficient to meet our revenue requirements.

Mrs. Hurtubise displayed a slide showing what our existing customer using 1,000 kilowatt hours of electricity per month would expect to see in the way of an increase. We do expect an increase in the power cost adjustment in April. We will bring that to the Board in two weeks. Initial estimates are that we will need to raise it to \$42.00. That is more of a substantial increase than the rate increase we're discussing today. The increase in PCA amounts to about \$10.26 for the 1,000 kilowatt hour customer. The rate increase, also being proposed as of April 1<sup>st</sup>, is only a \$3.94 increase.

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Mrs. Hurtubise showed the Board a comparison of electric bills of other providers in the area. We will still be somewhat in the middle. This comparison does include some investor owned utilities, such as, Progress Energy, Tampa Electric, and FPL. With the proposed rates, we will move to the right a little bit. However, we cannot project what the other electric providers are planning to do. Right now, it appears we may be moving up in the mix, but we might not actually be moving up. We will have to wait and see, because we don't have all this information on other cities and what their proposed rate increases will be.

In Water the 3% requested increase amounts to \$.79 per month. The 9% proposed wastewater rate increase amounts to \$3.44. That puts us up on the chart, but it depends upon where the other utilities are going with their rates in the future. She thinks everyone is feeling the affects of conservation and rising costs.

The 9% increase requested in Natural Gas amounts to \$2.75 for our average customer using 1,300 cubic feet of gas in the course of a month.

Chairman Drummond opened the public hearing on the proposed changes to Electric Rates set forth in Resolution UA 2008-04. There being no one present who wished to be heard, the public hearing was closed.

Motion by Mr. Summerhays, seconded by Mrs. Cully that Resolution UA 2008-04 be adopted Revising the Schedule for Electric Rates.

Under discussion, Mr. Perona said the comparisons we use for residential rates are valuable tools. Today, these are the rates and how everybody compares. This may not be the way we compare tomorrow. It is a useful tool. He is trying to get it to be a more useful tool, so we can look at it and say, historically, this is what we did last year. He is sure the information is available. He spoke to PRMG, and they said they could possibly get this, also. He thinks it is a valuable tool for this Board, so we can get a better idea of exactly where we fit. Moving toward the right side of the chart is not necessarily a good thing, but he is sure with all the issues we have in front of us, that everybody is going to be shifting toward the right side until all of a sudden the right side ends up back in the middle again. He thinks it sometimes sends a difficult message that the Fort Pierce Utilities Authority is heading to the higher side and will be leading with the highest rates in the State of Florida, and that is not what is going on. He would like to be able to get a better feel for that, maybe a history. If there is anything we can do or anybody we can call, he thinks it would be a very valuable tool.

Mayor Benton said he would like to comment on the bar chart, too. Several of the first four or five on the left end make their own power. It is hard to compare FPUA to FPL or Progress Energy. Jacksonville has several power plants. Orlando and Tampa are there too. Several are big cities, so it is hard to compare us to them. If you notice, the other cities comparable to Fort Pierce are on the upper end of the chart. Also, this is at a time when Fort Pierce will not be making power anymore. Our power plant is going to be decommissioned. It is not like our power is coming from our power plant. Those were the old days. The new days are there is a grid out there, and we, as a city, cannot afford to build these facilities anymore. It is way over our head. We have to partner with other cities, and this is what the chart reflects. The new power plant being built on Selvitz Road doesn't belong to us. We are part owners in that. This is the cost of doing business in today's world. It is sort of out of our hands. We are planning for the future, but it is going to be more costly than it has in the past.

Mr. Drummond said he thinks it is also important to remember there was that one chart that suggested that this increase reflects our utilization of \$2.5 million of our own reserves. Mrs. Hurtubise said yes, very much so. Perhaps our rates were artificially low in the past, and we have to make up for that. The rate increases last year were not passed in a timely manner. They were passed in steps. That was revenue we missed out on. It just delays it. It doesn't make the rate increase go away; it just delays them. We tried to delay the rate increases for this go-round, as well. As you can see there are other rate increases planned for future years. We have not asked for them all at once. We do recognize the impact on our customers.

Mr. Perona said in looking over this and from what he learned at the workshop on Friday, what still comes to mind is the message we got from the City Commission last year, when after a long period of time of not asking for any increases due to austerity programs implemented in the Utilities Authority, they wanted us to look at a more level increase. The Mayor suggested going to a more level type increase, so we can look at it every year to see what we are going to need. PRMG did a sensational job with their report to us and, in fact, lowered what we expected last year. He thinks that message comes back, and when he reads through everything and takes it all in, he thinks we are on course, especially, since the cost recovery chart showed increases that were projected into the future. He will say they will probably change before then, and, probably, to the better. It depends on how much usage we have and a lot of issues we can't count on. As long as we stay very vigilant of all those issues and try to keep it to the most economical source we can – he just wants to say the message from the City Commission really came through, and he really thinks we are on track by doing exactly what they recommended last year.

Mrs. Hurtubise said we did request from PRMG an alternative strategy to see what would be required for the City to receive their full 6% transfer next year. It would have required a 6.9% system-wide increase. That is not something we want to do to our customers. Even then, we still would have to use \$915,000 of our reserve. Phasing in the increases is what we are aiming to do at this point and have them eventually trail off if at all possible.

Mr. Perona asked, taking the 40% issue instead of the 6% transfer, what is the difference in dollars? What is the anticipated transfer to the City next year in 2009? Have we figured that out yet? Mrs. Hurtubise said for 2009, the short transfer would be \$4,703,439. It is about \$531,000 short. These are just projections. We are projecting based on facts and circumstances we have today. Those facts and circumstances change on a daily basis. Mr. Perona said that is true, because we did not expect to be able to make a 6% transfer this year, but a rabbit came out of the hat and here we are. He thinks that's great. It caused him some concern to have to go back after hammering it in and the drama that happened last year when we thought we would not be able to transfer 6%. He thinks we are all charged with the responsibility of hitting that 6% and making the transfer to the City. It is good to see on that chart with the slow steady increases, we will eventually be able to do that without issue.

The roll was called and the motion unanimously carried.

Mr. Drummond called to order the public hearing for Resolution UA 2008-05 Revising the Schedule of Water Rates. There being no one present who wished to be heard, the public hearing was closed.

Motion by Mr. Summerhays, seconded by Mayor Benton that Resolution UA 2008-05 Revising the Schedule of Water Rates be adopted.

Under discussion, Mayor Benton said when it comes to Wastewater Rates, he will show the Board the little package he brought with him tonight. Maintenance is his issue when it comes to these rates. We have got to replace pipe under the roads and rights-of-way in this City. It could be 80 years old, and a lot of it isn't PVC pipe. Most of us up here today haven't seen anything but PVC in the last 25 to 30 years. He saw some pipe last year that came out of the ground on the island and the word "asbestos" came up. We need to replace this pipe. He doesn't want to be like the Mayor of a certain city to our south that comes on with a smile, and they have water problems with businesses closed for three weeks to a month costing business people millions of dollars. They kept rates down as the infrastructure fell apart. When a water pipe breaks, then the road caves in, then it costs the City, too. This is a maintenance issue that we need to keep up with, and we haven't done a real good job of it in the past, but he thinks, lately, we're doing better, and we are going to have to continue at this pace in the future. When people see street work being done out there, they can be assured it is water and sewer pipe going in the ground. It is a big plus for us. The business community realizes that, and people who want to relocate here, business-wise, see that.

The roll was called and the motion unanimously carried.

Chairman Drummond called to order the public hearing regarding Resolution UA 2008-06 Revising the Schedule of Wastewater Rates. There being no one present who wished to be heard, the public hearing was closed.

Motion by Mr. Perona, seconded by Mrs. Cully that Resolution UA 2008-06 be adopted Revising the Schedule of Wastewater Rates.

Under discussion, Mayor Benton brought out some pipe which we were shown last year at our workshop and which he carried around when he was campaigning to show people what is really under these streets. He isn't sure how well this will show up on camera, but this is the old Orangeburg sewer pipe that was taken out. Mr. Thiess said he isn't sure how many miles of the Orangeburg sewer pipe we have, but we have over 100 miles of clay pipe. The Orangeburg is typically used for services for the old clay pipe, so there are a whole lot of Orangeburg services that need to be replaced and 100 miles of clay gravity sewers. Mayor Benton said it is pretty difficult to flush your toilet and have action when the pipe is blocked up with tree roots. That is one of the reasons we're doing what we're doing today.

The roll was called and the motion unanimously carried.

Chairman Drummond called to order the public hearing regarding Resolution UA 2008-07 Revising the Schedule of Natural Gas Rates. There being no one present who wished to be heard, the public hearing was closed.

Motion by Mrs. Cully, seconded by Mr. Perona and unanimously carried to adopt Resolution UA 2008-07 Revising the Schedule of Natural Gas Rates.

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Mr. Tom Richards presented a request for adoption of a resolution terminating Public Gas Partners Project Pool No. 1 with Florida Gas Utility.

Mr. Richards stated about four years ago, UA staff proposed to the Board and the Board approved our joining a project Florida Gas Utility (FGU) called PGP. That project was far reaching and a little different for us to join with a number of utilities from the southeast part of the country to purchase reserves in the ground. We embarked on that project with specific criteria. We asked them on our behalf to purchase a certain amount of reserves that would be delivered to us each day. We set very conservative criteria on what kind of purchases could be made. The project initially had a three year life and was to close after three years, regardless of whether they were able to make all the purchases or not. We are now past the three year mark, and the project has only been able to purchase about 50% of what we asked for. The reasons, primarily, have been that the criteria we saddled our project folks with was so conservative that we got outbid every time by other purchasers in the market. In addition, there are some other reasons that have made this less attractive for us. One of the things that has happened in the interim is that one of the tools we had available to us back in the 90's that got taken away, has been restored. That is the ability to make a pre-purchase from a supplier where we would simply sign a contract with a supplier for a specific amount of gas for a long period of time. That supplier would be paid in advance, and we would finance that purchase with tax-free municipal bonds. The IRS has given us a favorable ruling on that after some back and forth with Congress regarding this issue. That is now available to us, and those kinds of projects are much more straightforward and actually give us a better discount on the mark up price of gas. We would kind of like to look at some of those. Finally, an administrative difficulty exists because of the low volumes we got on this project, we feel the overheads that are required for us to properly administer this project are going to be a lot more than the project is worth in terms of time, effort and costs.

There are partners in the Public Gas Partners who want to continue with this project. They would like to buy our share of the project, and we have negotiated with them. We sent the FGU staff back to PGP and said pay us money to get out of it. They have negotiated a \$270,000 payment to the group in exchange for us signing our interests in the project over to them. At the FGU level, we have also accumulated about \$200,000 in expenses that haven't been paid. The first thing that will happen is the expenses will come out of the \$270,000. Whatever relatively small amount is left, will be divided up amongst the partners in the project. There will be a small return to us if we approve this. If we don't approve it, actually one FGU member can stop it, because all FGU members in the project must approve it, and then you would sign it. Otherwise, the project will go forward as originally contracted for. The period will close out for purchases if we don't terminate. Each member will have to do its own permanent financing, do its own bond issue to finance the purchases PGP has made under short term financing. And, we will have to run another bond issue and administer all the costs involved in another bond issue. Mr. Richards says all that just to recommend that this resolution be adopted, which has been crafted by the Attorneys at FGU to allow us to release FGU from their part of the project, and once they collect the ten or fifteen participants' resolutions, they will be able to terminate FGU's participation in PGP.

Motion by Mayor Benton, seconded by Mr. Summerhays and unanimously carried to adopt Resolution UA 2008-08 Terminating Public Gas Partners Project pool No. 1 with Florida Gas Utility.

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Mr. Thiess said in the next week and, maybe, into the following week we will be scheduling meetings with each City Commissioner to answer questions on the rate adjustments and answer any questions they may have, so by the time we get to the City Commission Meeting, the issues will have been addressed, and we can make a more concise presentation at the City Commission Meeting on March 17<sup>th</sup>.

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Mr. Drummond said he would suggest that this entire public hearing with regard to rate increases is somewhat of a misnomer to the public watching, because we did have a rather lengthy workshop last Friday, and we did have an opportunity to ask staff and our consultants many questions with regard to these increases, as well as, grill our staff with regard to making sure they are necessary at this time. He wants to be sure the public recognizes that we did not just very cavalierly move forward with these rate increases. We labored over the need, and it got to this level, which is less than the consultant said was needed.

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Mrs. Cully thanked Mr. Tom Richards for graciously escorting her in Washington, D.C. last week at the APPA Legislative Rally. We had a great time and met a number of our Congressmen and Senators. It was a great experience.

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There being no further business, the meeting was adjourned.

ATTEST:

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Secretary

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Chairman