

MINUTES OF A JOINT BUDGET WORKSHOP OF THE FORT PIERCE UTILITIES AUTHORITY AND CITY COMMISSION, THURSDAY, JUNE 19, 2008, 9:00 A.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Darrell Drummond; Secretary, Robert W. Summerhays, Jr.; Deputy Secretary, Thomas K. Perona, Ex-Officio Member/City Manager, Dennis Beach

Not Present: Vice Chairman, Pamela K. Cully; Mayor Robert J. Benton, III

Others Present: Director of Utilities; Director of Electric/Gas Systems; Director of Water/Wastewater Systems; Communications Manager; Director of Finance; Director of Shared Services; Putnam Moreman of Risk Management Department.

City Commissioners Present: Mr. Rufus Alexander entered the meeting at 9:40 a.m.

The Invocation was given by Mr. Craig Brewer

The Pledge of Allegiance was recited.

Chairman Drummond called to order the meeting of the Fort Pierce Utilities Authority. The roll was called and a quorum declared.

City Clerk Sandy Steele called the roll for the City Commission and Mayor Benton was not present; Commissioner Alexander was not present; Commissioner Becht was not present; Commissioner Coke was not present; Commissioner Sessions was not present.

City Clerk Steel advised Chairman Drummond there is no quorum of the City Commission, so the City Commission Meeting is adjourned.

Mr. Drummond said he would suggest that our Board took the position that we wanted the opportunity to accomplish two things in this Workshop. One, was to have the public have an opportunity to hear and understand what we are trying to accomplish in this budget year, wherefore, we met in the Commission Chambers, so it could be televised and the public would have an opportunity to view it. Secondly, over the last few years we have attempted to have meetings on the budget with the City Commission, so they could participate and understand, given the fact that they do have final approval of our budget. He is sorry they are not here. Hopefully, they may come in during the course of it, but we do have time constraints in regards to our need to have this budget move forward and, therefore, we will proceed with the Budget Workshop.

That being said, Mr. Drummond turned the proceedings over to Mr. Bill Thiess, Director of Utilities.

Mr. Thiess explained we have quite a group assembled today and should be able to answer any questions you may have. We have all of our Division Directors here; we have all of our Department Heads here; we have Murray Hamilton and Henry Thomas of Public Resources Management Group, our rate consultants, present; and we have all the facts and figures with us. Our intent is to open the budget up and give the Board a high level summary. We have all the details if the Board wants to get into the nuts and bolts of the budget.

Mr. Summerhays said he feels like he needs to take the opportunity right here to express his disappointment. FPUA has gone to a lot of trouble and a lot of expense to have this Joint Workshop Meeting with the City Commission at their request and their complaint about lack of communication, and, once again, we always either have poor attendance, or, in this case, no attendance at all. He is extremely disappointed. He thinks it demonstrates a total lack of respect and gives zero credence to their complaints about communications. That's all.

Mr. Thiess said he would like to say before we start that this is still a draft budget. This is not a final budget, so there can be changes made. We will go over the budget schedule and the dates we're going to bring it to the UA Board and bring it to the City Commission. We are, most decidedly, in the draft stage at this point.

Today, we are going to agree on the budget assumptions. He displayed a power point slide of a recap of the assumptions we brought forward last year. We looked at them again and think the assumptions are still valid. We will demonstrate the urgent need for utility-wide renewals and replacements. On the table in front of you we have a collection of things that, as recently as a year ago, were actually serving our customers. We want to explain the UA's budgeting process very briefly, give you a summary of the draft budget from a high level view, talk about some of our cost cutting measures and what we've done to trim the budget down this year, and, then, the heart of the discussion will be at the end where we will open it up for questions. He invites anyone who has a question during the presentation to ask it as we go. We are here to answer questions as long as you ask them.

Mr. Thiess enumerated the budget assumptions as follows:

1. Maintain service reliability and quality at or above industry-accepted standards. He thinks that is primary in our mission statement.
2. Fund renewals and replacements annually at a place that will replace aging utility infrastructure before it becomes a financial and service liability. That is what the items displayed on the table are about. This is not just a Fort Pierce phenomenon. It is a worldwide problem with aging infrastructure. Much of the water and wastewater infrastructure in this entire country was built in the 60's and 70's and earlier. We have pipe in the ground almost 100 years old, so we are still part of that scene.
3. Continue to budget for and develop the utility infrastructure necessary to keep pace with growth within our service area. If you don't do that, the word "moratorium" starts to be mentioned.
4. Continue to maintain adequate resources to participate in City, County & FDOT roadway improvement projects. We have at any one time, three or four of these projects going on. We have one going on A-1-A; there are two on 25th Street. These are big projects and very capital intensive for the utility.
5. Continue to meet all government mandated regulatory criteria. We have no choice on this one.
6. Continue to maintain adequate staffing levels to provide an acceptable level of customer service. This is pretty important for Fort Pierce, because we do a lot more in this area than other utilities. We need to maintain adequate staffing levels to provide an acceptable level of customer service. We have an extraordinary amount of customers who are walk-in customers who pay at 206 South 6th Street, many more, proportionately, than any other utility that he knows of. It is a big commitment to serve that type of walk-in business. We provide face-to-face interaction for customer

services and accepting payment. We also have a drive-through window to take some of that traffic. We pride ourselves in providing timely responses to complaints and customer requests. We need to process new connections in a reasonable amount of time. If somebody comes in and pays their money, we want to make sure they have service very quickly after that. We also need to restore service interruptions in a reasonable timeframe.

7. Continue to provide a safe work environment for our employees and minimize utility-related safety risks to our customers.
8. Maintain competitive rate structures for electric, water, wastewater and natural gas utilities that are on par with or below the rates of other utilities serving the Treasure Coast area. Maintain electric rates near or below the FMEA published mean for Florida municipal utilities.
9. Provide adequate staffing to allow effective succession planning for key positions in the company. We have a lot of key people in positions who will be retiring and moving on and we need to make certain we have people behind them, ready to move up in their succession.
10. Expenditures for relocation of the Island Water Reclamation Facility will be excluded from the FPUA budget to the extent possible. Outside funding will be sought to cover Island Water Reclamation Facility relocation expenses. We all know this is roughly a \$100,000,000 proposition. We want to make sure as we move forward with that concept, that we do so in a manner that doesn't adversely impact our wastewater customers. We ran some numbers a while back and if we were to put it on our customers, the increase in wastewater rates would be astronomical, in the 70% range.
11. Maintain rates at a reasonable level to maintain FPUA's financial health and credit rating, and to assure the distribution to the City is not diminished by bond covenant restrictions.
12. Maintain adequate resources to assure timely and effective responses to emergencies and natural disasters. Hurricanes Frances and Jeanne are a good example of that. We recovered a lot faster than most other utilities, because we had the manpower, the planning and the resources to do it.
13. Conduct our business and operations in a manner that incorporates conservation practices and exemplifies good stewardship of the environment. That is becoming more and more in the forefront these days with green power and conservation.

Mr. Thiess said we went over these last year, and he thinks we had consensus in the room among our Board and the City Commission that these are reasonable assumptions to base the budget on. If you change the assumptions, obviously, things in the budget could change and vice versa.

Our Board should be familiar with the Budgeting process. We are very methodical in the process. Every department starts with a draft budget. We hold two workshops in-house to review the draft budgets, where all the departments get to look at the other budgets and have give and take between departments. When we have the draft budgets where we feel comfortable with them, we have a budget review committee including himself, our Finance staff and seven or eight other key staff, to go through every item in the budget line by line. Next we have a Joint City Commission/FPUA Board Workshop. That is where we are today. We want to assure everybody, our Board and the Commissioners, that we scrutinize every number in the budget. Nothing goes unchecked. The next step is approval by the UA Board.

That will be coming up in July and August. The final step in the budget process is to take the budget to the City Commission.

He feels he cannot say enough about renewals and replacements. This is a critical issue with our utility and utilities across the country. You see on the table in front of you a lot of old infrastructure from the system. We have over 100 miles of lead joint cast iron water main that looks similar to the piece on the table. We have over 100 miles of clay sewer pipe that is probably sixty to seventy years old. All this infrastructure needs to be replaced over a reasonable period of time. We jumped up our renewal and replacement program, because at the pace we were going, it would have taken 100 years to complete. Those pipes aren't going to last 100 years. It is the same on the Electric side. You have to continually maintain the system, or you will have severe outages and high costs down the road. Mr. Thiess showed the Board power point slides of damaged electrical cable. He said we are continually checking and replacing cables that need replacing. We do that on large scale projects where we might go into an entire subdivision that was served with direct buried cable and change it all out and replace it with conduit and cable. We have a couple of those in the works as we speak.

Next, he displayed a slide showing corrosion on a termination bracket. These are out in the elements, especially near the beach. We have a lot of corrosion problems that need to be replaced. Next was a picture of a capacitor bank which had been hit by lightning. We have to replace it to keep service. Mr. Thiess showed the Board a damaged underground switch cabinet, faulted primary underground cable, a faulted primary overhead disconnect switch, and an overhead transformer hit by lightning.

Mr. Thiess showed the Board a slide of a water main filled with tuberculation, which consists of deposits from the water which have settled over many years. This particular main might have been used for eighty years. Those deposits are mostly calcium and iron deposits. They will settle out over time and build up in the main. The flow section of what appears to be an eight inch main, is probably less than four inches. As bad as it looks, it is not a health hazard. If you open valves quickly, open a fire hydrant quickly or have a main break, you can break a lot of it loose and have water quality complaints regarding the big brown slugs we get complaints about. Pipes like this need to be replaced very soon. That is the pipe he stated earlier we have a hundred miles of in the system. Every piece of cast iron pipe we cut out of the system looks to some extent like this one.

Mr. Perona said cast iron pipe was used fifty or more years ago, but didn't it have some type of lining that would insulate the water from the iron, itself, and when we started pigging the lines, the lining was removed and the line became vulnerable to oxidation? Mr. Thiess said no, but pigging can cause problems. We did that on the Indian River Drive water main, where we had water quality problems and head loss problems, also. When we pigged it, we took all those deposits out of there and ended up with bare metal pipe, and it started the oxidation process. We had continual water quality complaints, because when it gets to the point pictured, if you don't disturb it, it is kind of coated and it's okay as long as you don't disturb it. Back in the 60's they started using cement lining on the water mains. We have cut some cement lined water mains out that looked great. The 18 inch main on Georgia Avenue has cement lining. The 12 inch line downtown on the north end of the Drive has cement lining, and it is still good as long as that lining is in tact. When most of the old cast iron pipe was put in, it was totally unlined. Mr. Perona said every opportunity we get, we take out the cast iron.

Mr. Thiess said yes. Every road project, such as, the downtown projects, Orange Avenue, Avenue D, Indian River Drive, etc. every piece of cast iron pipe comes out of the road and the galvanized services, also. You don't want to leave that under there, because it is a liability, and you have to come back after the road is paved and tear it up and pull them out at some point in time. They do break more frequently than PVC. Mr. Thiess showed the Board a slide depicting one of these water lines that has tuberculated to the point there is no pathway at all left. He also showed them a service line encrusted inside and outside with deposits. All these are being replaced with poly-tubing services. He showed them a picture of a sewer pipe with a gas main bored through it. That is not unusual. Using the small boring rigs on clay pipe, you can hardly feel it going through the pipe. It would cause a problem if you had high flows in the pipe. You would create a blockage, not to mention the hole in the pipe that would allow infiltration. He showed the Board a couple of slides showing good sized cracks in sewage pipes. This could eventually cause failure of the road and allow more water and material to flow into the pipe, causing higher flows at the wastewater treatment plant.

He is happy to tell the Board that the capital budget for this year is 30% less than last year. That is largely the result of pushing off some projects into the future, due in large part to the slow down in growth in the system. We have deferred a lot of capital expenditures. We cut another \$400,000 in addition to the \$4.5 million already shown on the slide. This additional cut came from the Information Technology Services area. The Operations and Maintenance (O&M) budget is reduced by 4% from 2008, if you exclude purchases for resale, which we have no control over. We've also deferred hiring. Our staff right now at 305 employees is at the same level it was in 1989 and in the early nineties. We have created a Strategic Plan and are in the second year. We've looked at streamlining a lot of processes and increasing efficiency and working smarter, not harder. By working smarter we can do the same job without adding staff. We had two FMPA audits and a Peer Review in our Meter Reading and Customer Service area, and we're still implementing the recommendations.

Mr. Perona asked if the 305 employees includes the contract employees going to the Treasure Coast Energy Center. Mr. Thiess said yes. Mr. Perona said those employees are being compensated by FMPA. Mr. Thiess said yes. Mr. Perona said, so really, it is somewhat of a net reduction of the UA's obligation. Mr. Thiess said yes. The FMPA is compensating those employees and a portion of the overhead related to those employees, but they are still on the FPUA payroll. We are netting out to zero and, hopefully, a little above zero on the agreement with FMPA. Mr. Perona asked how many employees that amounts to. Mr. Thiess said they are going to 15. Right now, he thinks we are at 17, so we have to slim down to 15.

Mr. Thiess showed the Board a slide outlining the cost cutting plan. What is not on the list is the fact that we cut the additional \$400,000 from the Information Technology area. That was due largely to the decision to delay the WiFi Project. Eve Walker will tell you about that a little later. The biggest cost cutting measure is due to the pushing back of the new water reclamation facility on Glades Road. Every year when we get another capacity analysis report, it pushes it back a little further. We are able to push those projects back. The total number of cost cutting measures is close to \$5 million now.

Over half the capital budget, about \$17.7 million will be funded through rates. There is a significant contribution from the Fort Pierce Redevelopment Agency of \$4.3 million for 2009. He thinks that is 100% associated with the A-1-A project. We are expecting \$3.2 million in Capital Improvement Charges. The MSBU money amounting to \$2.6 million is related to the

big MSBU's in the northwest section – Harmony Heights and Sunland Gardens. We are looking at about \$.8 million from FEMA and another \$268,000 in grants.

The next item is a big one – Government & Regulatory Required Capital Projects for FY 09. There are a lot of projects we have virtually no choice in doing. If you look at this slide, the regulatory agencies include Florida Department of Environmental Protection, Department of Homeland Security, Environmental Protection Agency, North American Electric Reliability Corporation, National Electric Safety Code, Public Service Commission, South Florida Water Management District. Projects as a result of these agencies total \$10.3 million. We would run into serious problems with the regulatory agencies if we tried to remove these projects.

Mr. Beach asked if the total \$22,596,806 is a part of the previously mentioned \$32 million. Mr. Thiess said yes. The regulatory agencies constitute the biggest lion's share of that. The County accounts for \$4.7 million; City of Fort Pierce accounts for \$3.9 million; and Florida Department of Transportation accounts for about \$3.6 million. All of these total \$22,596,806. We look at a similar situation every year. There is a more detailed breakdown of that on page ten in the budget book, and on page 11, it also shows the figures anticipated for Fiscal Year 2010. That year is a greater amount due mainly to the Water Reclamation Facility, which will probably be pushed out even further.

Mr. Thiess showed the Board a slide depicting the "mile high" view of the capital budget. There is a 33% reduction in the 2009 proposed capital budget as compared to 2008. A lot of the reduction in the wastewater is due to pushing out projects related to the water reclamation facility. The chart on the O&M budget tells a lot. The 2008 budget was about 4% less. You can see what is driving the bus here. It is the electric purchases for resale. Without the electric purchases for resale, the O&M budget would drop a little in 2009 compared to 2008. In Electric Revenues, budget versus actual, goes back to 2005. The big item is the sales revenue. This is increasing some in 2009, which is great, since our expenses are increasing from year to year. The big hit in 2008 was the assumption we were going to get some FPRA funding on Hartman Substation, and, as it turned out, that was not a valid assumption. Even though it is related to the FPRA in freeing up the power plant site, it is not physically within the FPRA, so it had to be removed.

Mr. Drummond said on sales revenues, is that brought about as a result of additional services, or is it just the current services showing very little or no conservation? Mr. Thiess said there is some of both. Mrs. Hurtubise has more detail that she can share. A lot of the increase in revenue is the rate increase from last year. Mrs. Hurtubise said consumption has been pretty flat. As a result, we can't estimate there is going to be an increase, when we really don't expect it to come about.

There is a slight increase in rate revenues in water from 2008 to 2009. The interesting thing here is looking at the capital contributions. They have really been up in water. It is up from the budgeted amount in 2007 and 2008. That is good for infrastructure, but it is restricted revenue and cannot be used for operation and maintenance.

Wastewater is similar to water. The thing that stands out here is the non-operating revenue. That is grant money from South Florida Water Management District. It was the \$7.9 million grant dispersed over 2007 and 2008. Again, the capital contributions in wastewater have been pretty substantial, above the budget for 2007 and 2008.

Gas revenues have been up and down through past years. Looking at 2007, 2008 and 2009, it appears we are heading in the right direction in an upward trend. The 2009 estimates are based on picking up several commercial customers with pretty good gas demand.

Mr. Drummond said he would like to welcome Commissioner Alexander to the meeting. We are happy you are here.

Mr. Thiess said throughout the budget process, we wanted to make sure we reconciled the budget with the rate study. Obviously, they need to be in lock step or we have a problem. If you look at this comparison, we looked at the gross revenue requirements based on the 2009 budget, and at the bottom we compared that to the gross revenue requirements in the rate study forecast. You can see we hit it almost on the head. That wasn't entirely by accident. We did a lot of trimming out of the 2009 capital budget to get it to reconcile with the rate forecast.

Mr. Alexander asked what part of this is for staff salaries. Mr. Thiess said you have in your package a five page summary, and the top page says "Budget At a Glance." Mr. Alexander said he is speaking of what you are showing him, currently. What part of this expenditure is salaries? Mrs. Hurtubise said for 2009, the personnel services are \$15.5 million. That is just salaries. Mr. Beach asked what is the percentage of the total budget? Mrs. Hurtubise said it is about 11.4% of the total budget.

Mr. Thiess said this concludes his presentation, and he will be happy to answer any questions on the budget. We do have two more very short presentations.

Mr. Drummond said when you suggest 11.4%, that is the overall budget including electric for resale. Mrs. Hurtubise said yes. Mr. Drummond said, so it is not reflective of exactly what is outside of that portion that is really just a pass-through. Mrs. Hurtubise said that is correct. Mr. Thiess said that is the percentage of the O&M Budget.

Mr. Thiess said we will switch the order on the agenda for the next two presentations. They involve two areas that represent venturing into businesses that will be beneficial to the Utilities Authority in terms of revenue and, also, will be very beneficial to the community in terms of services and quality of life.

Mr. Don Landin will make a presentation on the FPUAnet fiber services.

Mr. Landin said nearly all of us in this room have been involved one way or another in improving the economic environment in the City of Fort Pierce. We continue to make progress enhancing the quality of life in our community. Fort Pierce is becoming more and more attractive to businesses and residents. We have high quality utilities and other infrastructure in Fort Pierce. He believes these factors are improving our local economy by attracting employers and retaining our citizens. We are in the middle of a cyclic economic slowdown nationwide right now, and it affects all of us. He believes the general trend is upwards here in Fort Pierce, as a result of all our efforts. The Economic Development Council of St. Lucie County points out communications services as one of the needs for economic development, and they must be of high quality at a reasonable price. What does

June 19, 2008

Page - 8

this have to do with FPUA? Our purpose here today is to understand how FPUA's communication services help promote economic development.

Mr. Landin said in 1994, FPUA began to build its fiber optic communications network. We could have built a 24 count backbone, and it probably would have served our internal needs, but the incremental costs to go with a 96 count backbone were very small, mostly installation costs or labor. We elected to build the 96 count fiber backbone, and its principal purpose is for internal use to connect all our sites and give us phone service throughout all our locations. It also allows us to monitor and control our electric, water and wastewater systems. In 2001, we began to provide external fiber services on a part-time basis. We didn't have any full time employees dedicated to this enterprise. In 2004, we began to provide dedicated fiber internet access, still on a part-time basis. During 2006 and 2007, we greatly upgraded the system for external services, so there is failover capability and redundancy and extreme reliability. Now we were ready for marketing.

Mr. Drummond asked if he would share what system failover means. Mr. Landin said if there is a fault somewhere in the network or with one of our internet providers, the system automatically heals that, goes through a different route and a different provider, and all this occurs within ten seconds.

Mr. Landin further stated that in 2008, the revenue growth justified one full time person, and our new focus is on customer base expansion. Optical fiber is a path for light signals using little glass fibers that are high quality and convey light. These fibers are bundled in cables. He passed around a sample of 96 count fiber optic cable that you see on the poles around town. The three main uses of this cable are voice or telephone service, video or television service, and information. An example of information is internet service. The internet is connected world wide through fiber optic links. He showed the Board a slide depicting the location of Fort Pierce's fiber optic network. The red and blue lines are actual fiber that is in place. The black, dashed circles indicate those are fiber rings. Through those rings we can have more than one pathway from any point to another point. That is how we build in the failover capability. You will notice the turnpike fiber is part of this network. We have a fiber sharing agreement with the Florida Turnpike Enterprise. We have about 54 cable miles of fiber cable, and that amounts to about 3,600 strand miles. It is not all 96 count, but the bulk of it is. Some of it is 48 count.

Mr. Drummond asked if we could go back one slide. On the proposed future fiber, it seems to mostly be outside of the incorporated area. Is there no plan to increase within the incorporated area? Mr. Landin said yes, we are working on four projects right now, one of which is downtown Fort Pierce. Another one is on Rock Road. Those are shown as completed on the slide, because they are in process and should be done within a couple of months. In town we generally have the infrastructure we need. If a customer between fiber cables needs service, we can just build a lateral for them. Mr. Drummond ask if this is so for the majority of the incorporated area. Mr. Landin said yes, for the majority.

Mr. Alexander asked how many customers we have existing now. Mr. Landin said we have approximately 28 at this point. We just went into this fulltime in February. Mr. Perona said he thinks it is important to realize we are only talking about commercial customers. Mr. Landin said yes. We only provide services to businesses. It would be too expensive for an individual resident to take this service. Mr. Alexander asked if that includes the turnpike section, too.

Mr. Landin said the turnpike is not a customer. We just use their fiber as part of our network. Mr. Alexander said if we don't have any customers, what's the purpose of that network? Mr. Landin said he thinks that question will be answered during the remainder of his presentation.

Mr. Landin said, why does FPUA provide communication services to our community? A big reason is for community development. It enables a higher level of technology. It helps attract and retain employers. It enhances formal and informal education, and it, ultimately, increases the standard of living. How do we help economic development? By providing advanced communications, introducing new technologies into the community and exerting competitive pressure on incumbents or other providers of communication services. He likes to call that co-opetition, because it is not true competition. We like to see them provide state of the art services at reasonable prices. That enhances economic development. Revenues help reduce utility rates. You are probably all familiar with FPUA's Mission: "To provide our customers with economical, reliable and friendly service in a continuous effort to enhance the quality of life in our community." Mr. Landin doesn't think any of you are familiar with a fairly new Mission Statement for the FPUAnet enterprise. That is "To improve utility rates and the Fort Pierce economy by creating new revenue and by making needed communication services available and reasonably priced". Mr. Landin referred to the EDC website economic research page. There they list the things companies look for when they are deciding whether or not to come into our community. One of those is utilities, and that includes communication services. What kind of businesses are the Economic Development folks looking at? You are all familiar with the decline in the citrus industry. It is much smaller than it was. Now Economic Development folks are looking for research facility businesses. They think that is the future of St. Lucie County, and it's able to fill the void left by citrus. There is a regional synergy. It is not just St. Lucie County or Fort Pierce, it's Palm Beach County, Martin County, Indian River County. All are focused on research facility businesses. When a research facility business decides where they are going to move, they look at what other research facilities are nearby, because they all work together. Examples include the Florida Center for Innovation, which is at Tradition in Port St. Lucie. The St. Lucie Education and Research Park has been a few years in development and is still in development, but it is making progress. It does take time to develop an education and research park. It is a large tract out on Rock Road, and we will have fiber optic cable going right through it. They are planning to make the Fort Pierce Furniture Mart a research park, also. Research absolutely requires state of the art communication services. They must be available and priced right to attract these businesses. Competition is needed. So, co-opetition drives incumbents' quality up. Here is an example. In 2003 Fort Pierce Utilities Authority embarked on a study, which took eleven months. We were considering whether we should provide fiber to the home throughout our whole territory. Being a public entity, we publicly disclose everything we do. Before the study there was not digital television in Ft. Pierce. There was very scarce cable internet and DSL, but after the study was well underway and people began to realize we were considering doing communication services in a very big way, both incumbent providers were in the process of major upgrades. Before that the cable TV system was a 450 megahertz system that was not capable of supporting digital TV or internet service. Now, the major improvements in Fort Pierce made available digital TV, cable internet and DSL internet. It is not yet everywhere, but there is so much more than before we had the study done. We like to think we played a big part in that. By the time the study was over, we had no need to step in and provide fiber to home services throughout the community.

Mr. Landin showed the Board a list of some of FPUA's customers: The Sheriff's Office, the St. Lucie County Board of County Commissioners, Hometown Cable, who provide internet service at Tradition and intend to use our fiber to come into new developments in Fort Pierce and provide fiber to home services. We provide services to three departments and the Police Department of the City of Fort Pierce. We provide service to Orange Blossom Business Center, Renaissance by the River, Indian River Community College, Lawnwood Medical Center, John Carroll High School, St. Anastasia, St. Lucie County School Board, Florida Municipal Power Agency, the Fire District – we provide internet service to every fire station in the County –, the Treasure Coast Motor Coach Resort and the Econolodge Hotel and Jackson Drugs. These are businesses and enterprises. We do not provide services to individual residences as this point. We are looking at the possibility of doing that. Mrs. Eve Walker will talk a little bit about that in her presentation.

Mr. Landin said we are making money at this. He showed the Board a slide of our profit graph for this fiscal year. When we were doing this on a part-time basis, we were making some money, but now things are stepping up. We became fulltime in February. These profits go towards increasing the City transfer, as well as reducing utility rates. They may look fairly small, but we have a five year plan that hasn't been audited yet, but we could call it a preliminary plan that looks like after paying all expenses, all capital expenditures, that we will have during the five years, about a half million dollars left over for City transfer and reducing utility rates.

Each opportunity or potential sale is evaluated for the value to the network and the return on investment period. It is priced to cover all expenses and profit and to pay back its capital share during the contract term. Fiber has about a 25 year life, but if we get a three year contract with somebody, we are looking to pay back expenditures for that customer in three years. We still have 22 years to use that fiber to make more money. It generally saves our customers money unless they are really far from our fiber backbone. At the same time we provide excellent service and reliability. We guarantee 99.99% up time.

Mr. Landin said for Fiscal Year 2009 budget we are set up in three categories: FPUAnet Communication Services, which is our general category we've had for a few years, consists of 23 customers with a proposed budget of \$93,000. Fiber Optic expansion into four areas: Rock Road, downtown, Midway Road, and the Airport Industrial Park east of the airport, has a proposed budget of about \$99,000, which would cover about 30 customers. A new one for next year would be the fiber optic expansion. We're working on a deal with St. Lucie County where we're proposing, and they're leaning towards accepting, the County install the conduit and FPUA would install the cable and do the splicing, etc. The biggest cost is the conduit, trenching, etc. It is about a six mile extension and would only cost us about 75% of what it normally would. That is budgeted at \$51,000. That covers an area of future development along west Midway Road.

Mr. Landin said to bear in mind that the pricing evaluations we do for each and every job ensure a positive return on investment. It isn't like we just pick a number off the cuff. Mr. Drummond asked Mr. Landin, when he talks about return on investment, is he using that three year window with regards to this investment he is asking for? Mr. Landin said he would like to explain how that investment will be paid back. We have one customer that we know of. We will project a very conservative number of customers over the next few years we expect we will have along that route. Then, we will take the pricing from all those customers,

probably four customers for that area, just to justify that period during the terms of those contracts. Mr. Drummond asked if that is within the three year window. Mr. Landin said the three years was an example of a term. We have terms that go as long as ten years. We have terms as low as 18 months. Average is probably around four or five years. During each term, whatever the term is with a particular customer, there is payback of that capital expenditure for their portion of the job. Mr. Drummond said on the last slide where he suggests the investment he is proposing, what are you projecting to be the timeframe for return on that investment? Mr. Landin said it will be approximately five years, just under five years. The business plan shows our paying back all of our capital expenditures in the fifth year.

Mr. Beach asked if we are the only provider of fiber optics in this market. Mr. Landin said no. AT&T provides that service a little differently. They, generally, go in increments of T-1 or 1.5 megs. Mr. Beach asked if we are competitive as far as our pricing with AT&T. Mr. Landin said yes. Mr. Beach asked if we were more competitive, would we have a greater advantage over AT&T? Mr. Landin said we would in terms of obtaining customers. Mr. Beach said the reason he is asking that question is if you looked at rescheduling your timeframe for return on investment – if you have a 20 or 25 year asset, it is not uncommon to try to get your return over half of that period. If you try to do it in a three year period, you have to price your product where you are going to be a lot less competitive than if you were to spread it out over ten years. He doesn't know if that has been considered or not? He knows FPUA has always had the policy of getting a return on whatever their capital investment is, whether it's water, sewer or electric. He thinks, even though that is, fiscally, very responsible, it prohibits us from doing as much as we could do in regards to expanding the services we provide. Mr. Landin said yes. He thinks the utility mentality is, generally, pretty conservative. We like to be very comfortable that we are not going to run short and leave our ratepayers holding the bag if we lose money. This enterprise needs to stand on its own. We need to be pretty sure that it will and make money to benefit the other utilities. What Mr. Beach says has merit, and maybe we need to take a look at that, at least, in some cases. He thanked Mr. Beach for his input.

Mr. Landin said FPUAnet Communications improves community communication services; it helps promote economic development; it provides a positive return on investments; it improves utility rates from net revenues, and it improves the City transfer amounts.

Mr. Alexander said he heard Mr. Landin say it would improve returns to the City. How would this help the ratepayer reduce their costs? Mr. Landin said the way it works is the net revenues or profits provide extra money. That money is used for utility expenses, and when the rates are calculated, those utility expenses are less, which makes the rates lower.

Mr. Thiess said he thinks that is really going to come into effect more when the infrastructure is paid off. Our investment will be paid off and the revenues will be higher, and it will offset a lot of our expenses. Also, all the revenues that come in from that side of the business are subject to the 6% on the City transfer. Mr. Alexander said his real concern is four or five years out, are you telling him you are not going to be reinvested in this fiber to try to expand, so you will be spending whatever you receive? Are you going to be coming back to the Board to get other funds? Mr. Thiess said he thinks we are looking at covering our costs over a five year period with the main part of our fiber system. From that point forward, we are looking at positive cash flow. Mr. Landin said yes. Actually, there becomes positive cash flow before the fifth year, because, as an expense, we only pay a 25 year depreciation on the fiber infrastructure. Mr. Beach thinks the answer to Commissioner Alexander's question is, as you

do additional investments, those investments are financed through your contracts with your customers, so you don't use existing resources for expansion, you use the contract for service for your expansion. Mr. Landin said in the long run, yes. We may have to borrow capital funds from the parent company, and then pay interest on that. After all that is paid, we end up paying it all back.

Mr. Alexander said he heard Mr. Landin in his comments stating St. Lucie County will be doing infrastructure and laying conduit, but he is looking at his draft and wonders where the costs associated with that are located. Mr. Landin said the way we put our budget together, is we put the total value of the project in the budget as a budget item, and, then, we put in what is called a "contribution by others" and reduce that amount.

Chairman Drummond thanked Mr. Landin for his presentation.

Mr. Thiess introduced Mrs. Eve Walker, Information Technology Systems Manager, who will talk about the WiFi Project. This is the project we told the Board we will probably shift out to 2010. It was originally budgeted in 2009. Mrs. Walker will explain.

Mrs. Walker said her presentation this morning is to address the global positioning system or GPS and wireless network requests within the ITS budget. She will cover briefly an outline of the progression of FPUA's network infrastructure, describe a wireless network, summarize the benefits and cost analysis in deploying a wireless network infrastructure, and, based on recent additional information, outline ITS's current recommendation regarding these budget requests.

Mrs. Walker showed the Board a slide depicting a glance of our existing fiber shown in red and future fiber shown in green that goes around Fort Pierce. The areas within and around these fiber runs will be what the wireless network will be designed to cover as an expansion or compliment our existing wired network infrastructure.

She showed the Board a depiction of how the wireless network is the next technical progression in FPUA's external network infrastructure. We are evolving from installing a wired infrastructure of fiber allowing for building to building connectivity, which replaced slower speed and costly voice and data circuits from BellSouth, to starting up a new revenue source from selling services, such as bandwidth connections, dedicated internet access, and dark fiber links, which Don Landin just spoke about, utilizing our existing excess fiber strands on this infrastructure to where we are now, which is looking at deploying a wireless mesh network as an expansion or compliment to our existing fiber infrastructure.

What is a wireless network? Basically, a wireless mesh network is a series of radio transmitters that send out signals to interconnection stationary and/or mobile clients and optionally provide access to the internet. Wireless mesh technology will enable FPUA to deploy secure high bandwidth scalable access to fixed and mobile applications across our metropolitan area, extending our existing wired networked services and applications beyond our current physical infrastructure. She presented a diagram of a pictorial representation of a wireless mesh network; however, it is not explicitly how we would design our network. The wireless mesh network portion starts at a base station attached to a wired network and extends the transmission distance by relaying signals from one radio to another, thus

extending the wired network into a wireless domain. The client, such as a laptop, PDA, cell phone or camera, then receive their connectivity to the network from these radios. These base stations can be installed on electric poles, streetlight poles or roof tops from which they would obtain their power. In wireless networking the rules that routers and receivers use to communicate with each other are called standards. Currently, two standards are continually evolving, which are WiFi and WiMax. WiFi, or wireless fidelity, operates in a different band of the radio spectrum than WiMax, which is the wireless interoperability for microwave access. The WiMax is capable of higher data rates that extend out over a larger range, up to 30 miles. WiMax can operate in either the licensed or unlicensed band of the radio spectrum and is the standard that is becoming the more prevalent solution in building a municipal wireless mesh network.

As stated, the wireless network is a compliment to our existing wired network, which will provide more cost effective and efficient operation. It will allow us to eliminate reoccurring costs from AT&T data circuits to remote supervisory control and data acquisition sites; increase speed and reduce reoccurring costs of air cards that we use to connect our mobile workforce at this time; reduce reoccurring costs for cell phones and radios; improve our efficiency and reduce costs of FPUA fleet deployment and, as such, reduce fuel costs; reduce if not eliminate, reoccurring equipment costs in relation to our radios. As other services or applications are added once the wireless infrastructure is built, additional benefits can also be realized, such as wireless security systems to meet existing and anticipated Homeland Security requirements, wireless electronic automated meter reading to provide read on demands, turn offs and ons, elimination of error margins via manual reads, and the ability to monitor and trace revenue loss from water loss or meter performance degradation. The wireless network as a compliment to our existing wired network will also provide FPUA with the ability to offer services for additional revenue sources, such as, hot spots for local businesses, residences and/or boaters who live, work and play in Fort Pierce, internet connectivity options for customers where wired solutions are too costly or just not possible, a stepping stone to public safety applications where applicable or where existing applications are not meeting the public sector's needs, such as wireless municipal surveillance cameras, access for emergency response workers, and better deployment and survey availability of fleet vehicles.

Mr. Drummond said, again, do we know whether or not any other providers are looking to developing this sort of capability within our service area? Mrs. Walker said there are some in our service area, but there isn't anyone that has the fiber infrastructure that we have to attach to.

She further stated, the following is a cost benefit analysis based on an estimated 85% reduction in existing reoccurring costs or if we were just deploy an initial pilot project. Right now, with only an 85% reduction in reoccurring costs for air cards, cell phones, radios, etc. the full deployment of a wireless network solution results in a five year return on investment. The ROI will increase or decrease as the percentage of reoccurring service costs are increased or decreased. The deployment of just the pilot project at this time has an estimated 4.5 year return on investment. Both are indications that proceeding with a wireless mesh network is a good decision.

However, at this time it is our recommendation to pull the GPS system and the full deployment of the wireless network, replacing this with a pilot project for the wireless network

for the following reasons: Technology is in a state of transition. We initially made these budget requests under the assumption that we would be deploying a WiFi solution, and we all know how quickly technology changes, and based on several meetings we've had since we submitted the budget, we believe the better solution for wireless mesh technology for FPUA is a WiMax solution. That requires less radios with higher data rates over a larger range. Second, industry indications are that the prices for the new technology may come down significantly during the next six months to a year. We know that Cisco, Nokia and Sprint are working on new handsets that will provide cellular, WiFi, WiMax, Bluetooth, push to talk and GPS capabilities on a windows mobile format platform. We are a windows operation here. Also, we expect to see additional multi-frequency access points from Cisco, Nortel and Motorola that will provide additional capabilities to wireless mesh networks and reduce the cost of construction and operation. Next, industry leadership of the new wireless generation has not yet fully emerged. And, finally, based on all of the above factors, plus, taking into account the current instability of economy, we have come to the conclusion that the full scale wireless project should be postponed for at least another year. The pilot project, however, will provide us the means of proceeding with a scaled down deployment as the transition moves along and as new product offerings become available.

Mr. Drummond asked if Mrs. Walker could suggest where the pilot program would cover. Mrs. Walker indicated on a slide where that would occur. We could put those in our supervisory controlling data acquisition sites which are our SCADA sites. Those will allow us to start testing some of the radio transmitters without deploying them to the point where they start hopping, so they are single locations. We won't be able to do removal of all of our air cards at this time, but at least the data circuits to those sites, we can get rid of the reoccurring costs for that. We can test the transmitters, plus, we can put can get rid of those costs.

Mr. Drummond said, on a geographical basis, what would be available in terms of coverage at that point? Mrs. Walker said it will be the ability to get rid of those reoccurring dedicated circuit costs. It will be the ability to test those radios we will be putting in those sites just in their specific vicinity. We will not be able to go beyond a mile or anything like that. We won't be able to specifically get rid of our air cards for our entire service territory. Mr. Drummond said we won't be able to offer wireless service to our customers. Mrs. Walker said not at that time, not with the pilot.

Mr. Perona asked how storm hardened are these compared to... he knows we had issues with those developments during the last two hurricanes. Mrs. Walker said they are an alternative to existing network infrastructure that tends to be destroyed during a hurricane. They went in after Hurricane Katrina hit New Orleans and put a wireless network in there, because poles were knocked down, cables were destroyed. Mr. Perona said that is a strong benefit of this program. Mrs. Walker said yes. It builds in more redundancy to our network, as well as, providing additional services and getting rid of reoccurring costs.

Mr. Alexander said with St. Lucie County, the Sheriff's Department and the Fire District, why are we not trying to do a collaborative effort? He knows the Fire District has the GPS in all their vehicles now. He is not sure about the County. Mrs. Walker said when she mentioned the possibility of being able to do the public safety applications, that is with the intention of getting together with a consortium of other government entities in the area.

Mr. Thiess added that staff is pretty excited about this project. It has a lot of potential. Actually the costs savings just within the UA will pay for itself within five years, but the potential for revenue outside the utility is huge, plus the automated metering would be facilitated by this project. It has a lot of possibilities for us and a lot of potential cost savings.

Mr. Alexander said he thought we had existing automatic meter reading. Mr. Thiess said we do. We have the Itron devices, a drive-by type device that reads the meters. We are talking about with the new system, you could have a fully automated meter reading where the meters are read from the office. Mr. Alexander asked if that would eliminate employees and benefits. Mr. Thiess said you wouldn't have meter readers, but you would have people maintaining the system. We might drop a couple of employees, because we would not be out reading the meters. Mr. Alexander asked if it is a good business decision to put this off another year. Mr. Thiess said he thinks it is. We are trying to come in with as slim a budget as we can this year, and, also, the technology is changing. He thinks that is what is really driving the delay. Technology is changing, and it looks like in the industry, costs are coming down. He thinks delaying it at least a year is a good business decision.

Mr. Perona said he is reminded, too, that he thinks this Board visited automatic meter reading a year and a half ago. In fact, we were going to put in two test sites, one at Gator Trace, and one in Sheraton Plaza, and we were gung ho and got it all put together, and the technology had not caught up with our excitement, and it kind of fizzled away, because it was unable to do what they said it would do. With the technology changing so much, it is always on a precautionary basis to make sure that they catch up with our desires and are able to do what they originally said they were going to do. He thinks putting it off and getting into it when it is almost guaranteed to be successful, is the way we like to move.

Mr. Alexander said his only thought was we are laying down these five sites, shouldn't we be doing the infrastructure with these other items that need to go right along side by side with it. Mr. Thiess said the fiber is going to serve us well in our FPUAnet business. We are going to have fiber customers, the Sheriff's Department and the County. That is a good little business on its own that is going to grow, but to make the jump to have the total wireless system is a major jump, dollar-wise, and with the emerging technology and costs coming down, it looks like it is good to wait a year on that.

Mr. Thiess said we are finished with our presentations. What you have really seen on the major budget is the mile high version in bar charts. What you have in front of you is the draft budget at a glance sheet, and that really summarizes a lot of the bar chart information, as far as the numbers. We are prepared to put anything you want up on the screen and talk about it. We can put budgets by department, budgets by utility, line items, we can go as deeply into it as you want. Mrs. Hurtubise is prepared to put anything you want on the screen for discussion.

Mr. Drummond said he thinks the easiest way is to see if there are specific questions. Mr. Thiess said the operations and maintenance budget for 2009 is estimated at a total of almost \$132,000,000, of which \$73.5 million is purchases for resale. That is driving the costs. Well over half the O&M budget consists of purchases for resale. On the capital we are looking at a \$32 million budget this year, compared to \$48 million for last year. That is a 33% decrease.

Mr. Beach said he can't find it in the budget book, but you have a page relating to removal of the H. D. King Power Plant. Can somebody tell him what page number that is. He saw it earlier. Mrs. Hurtubise asked if it is a capital item. Mr. Beach said he believes so. Mrs. Hurtubise said that is not really the removal of the plant. That is more relocations that need to be made just to accommodate it. That is not the actual demolition or anything like that. Mr. Beach asked where we talk about the demolition. Mrs. Hurtubise said it is in the revenue. It is shown as \$250,000 in 2008 and \$750,000 in 2009. We are expecting to receive a million dollars from the vendor. There are other costs associated with the demolition, which are included in extraordinary income. There are expenses. Those are included in extraordinary expense. Mr. Beach said that is what he would like to see. Mrs. Hurtubise said those are in Department 52. She is not sure we have an adequate estimate of what that is. There is a very small number in there, and she is not sure that number has been finalized at this time. She would like to reiterate that this is a draft. That is something we are working on right now. You will probably see a larger number for that estimate. She doesn't expect we will eat up all the million dollars, but it is costing us far in excess of a million dollars to remove the plant, because of relocation, having to enhance the Hartman Road Substation and that sort of thing. That is costing tens of millions of dollars. The things we include in the extraordinary expenses are such things as asbestos monitoring as the plant is demolished – the vendor is responsible for that, but we need to make sure he is doing what he is supposed to be doing. Mr. Beach said Mrs. Hurtubise has answered his question. Mr. Thiess said there is a total of over \$10 million in other projects that are required for that decommissioning that are unrelated to the physical tearing down of the building and moving that equipment out. The large majority of that relates to Hartman Substation, but there are a couple of other transmission projects that total up to \$1.5 million, too. We are looking at the \$10 to \$11 million in other improvements away from the physical building itself. Mr. Beach asked how those were financed. Mr. Beach asked if any of it was related to the new power plant. Mr. Thiess said none of it is related to the Treasure Coast Energy Center. That is strictly FMPA. Mr. Beach said, so there was no financing portion of that Energy Center that dealt with FPUA's cost associated with preparing for that. Mr. Thiess said none, whatsoever. We used the FMPA Pooled Loan to largely finance Hartman Substation improvements.

Mr. Drummond said the presentation earlier suggested we were moving forward this year as we had before with 305 employees, so we don't envision any new employees. Mr. Thiess said the personnel budget has passed through the budget review committee at 305 employees, and that will not increase in 2009. Mr. Drummond said your operating and maintenance expenditure proposes for the upcoming year, personnel services increasing by 6% - what is that? Mrs. Hurtubise said in large part that relates to vacant positions being filled. It caught her attention, as well. How could the budget be increasing when we're not increasing headcount? There is a 4% increase, approximately, that showed up for the October raises in October of 2007, but that doesn't attribute all of it. The rest has to relate to positions we have kept vacant for a number of years. We are talking headcount versus dollars. We have held positions vacant in anticipation of some high level employees retiring in the very near future, such as, Assistant Superintendent positions, which we anticipate filling now. Mr. Drummond said we haven't at this point discussed proposed increases in October with regard to personnel salary increases, but this budget does contemplate some level of increases? Mrs. Hurtubise said it is included in Contingency. It is not included as a line item in the Salaries and Wages and Overtime line. Mr. Drummond said, so none of the 6% includes salaries. Mrs. Hurtubise said that is correct. Mr. Alexander asked about the 6% increase. Mr. Drummond said as he is understanding it, that 6% does not include any salary

increases. Mr. Thiess said that is correct. It is vacant positions being filled. Mr. Alexander said he thought there was a proposed 4% raise. Mrs. Hurtubise said no. The 4% occurred on October 1 of 2007. When we prepared the budget a year ago, the raises that were granted at that time were not included in the original budget, and we're comparing the original budget to the estimated 2009. We have had a lot less turnover than we have in years past, too. That is good for business stability. She is not sure it is an indicator of economic times though.

Mr. Drummond asked if Mrs. Hurtubise can explain the 10% increase in City distribution. Mrs. Hurtubise said yes. The City distribution number for 2008 was expected to be lower, because we expected it to be figured at the 40% level, and it turned out to be at the regular 6%. As you can see, the original budget was at 4.7%, and we actually ended up transferring almost the full \$5 million. The estimated 2008 is not an estimate, it is actually what we transferred back in April. Mr. Drummond said the \$5.1 million for Fiscal Year 2009 would be the full 6%. Mrs. Hurtubise said that was estimated at the full 6%, as well. That is another number that will be revised before you see the actual final version.

Mr. Alexander asked, with the escalating prices of natural gas, have we projected that cost in the budget? Mrs. Hurtubise said we certainly have. She thinks we will revisit it before the budget goes to print, but even if we do, please keep in mind that it is an estimate. This is an item that is fully passed through to the customers, so when budgeting those items, it will not affect the bottom line of the Fort Pierce Utilities Authority, but any increase in expenses will be offset by an increase in revenues if the numbers are less. If the costs are less, our revenues will decrease, but they have to be in lock step, so the bottom line is absolutely not affected by the price of gas. Unfortunately, probably one of the most volatile questions we all see every day is the price of gasoline or natural gas or in our case, the price of electricity, because it is a function of the price of natural gas. Mr. Alexander said he is looking at a 35 cents decrease in electrical. Is that going to be passed on to the consumer? He is looking at Capital Expenditures. Mrs. Hurtubise said the capital expenditures that were originally budgeted in 2008, were \$22 million, and in 2009, it is estimated to be \$15 million. She would venture to say that some of that decrease relates to Hartman Road Substation upgrades that were either deferred, or we did not have to make some of the changes that were anticipated, or we implemented some cost saving plans to get around some of that. But, yes, that is absolutely figured in when we look at our rates. What we are not spending is taken into consideration.

Mr. Alexander said he happened to be looking at an FPUA movie the other day and noticed you asked for an increase in Power Cost Adjustment. Mrs. Hurtubise said that is absolutely correct. Our power bill that we received from FMPA for the month of May included an adjustment of over \$900,000. Although we anticipated an increase in their bill, we certainly did not expect it to be that much. Mr. Alexander said that was in May, you say? Mrs. Hurtubise said that is correct. Early in the month of June, we received the bill for the month of May, and, as a result, we have consulted with FMPA, and they do not anticipate decreases in the price of natural gas. She thinks that is a pretty fair projection at this point. Everything is going up and up. In order to maintain the financial stability of the organization, that put us about a million dollars in the hole with the customers. The customers now owe us about \$900,000. Mr. Alexander said that is the customer's fault? Mr. Thiess said it is the gas industry's fault. Mr. Alexander said he doesn't want it to go back to what we had in the hurricane season where we did nothing, and so you are telling me we are expecting this to be a monthly increase? Mrs. Hurtubise said she doesn't know if there will be another increase

next month, but she certainly doesn't expect it to go down. Mr. Alexander said how did they come up with a May increase? He is just asking this. It may sound facetious. Mrs. Hurtubise said no, not at all. She asked the Board to look at the slide she is displaying. This is the price of natural gas and it only goes back to October of last year. You can see a very stable, through the month of February, reasonably stable gas price. Take a look at the bottom of the chart. It is at \$7.50. That was a couple of days ago, and, she thinks, yesterday it was over \$13.00. That is almost double the price. Mr. Alexander said that is what he is saying. From May it is almost doubled, so we will be coming for another increase. Mrs. Hurtubise said that is a pretty fair statement. Mr. Drummond said he is glad Mr. Alexander called it a movie, because there was quite a long discussion on this subject on Tuesday. There was quite a bit of consternation with regard to that large of a jump. The month before we had a large increase in the PCA, and we were very shocked to see such a large increase in just one month period. We are now, at this point, praying that next month there may be some sort of stabilization. We had Roger Fontes, Director of FMPA, attend our Board Meeting last Tuesday, and he was suggesting FMPA's calculations suggested they are looking, based on the hedge and what they are seeing in the market place, hopefully, some stabilization over the next three months. That was his statement.

Mr. Alexander said he just wants to let you know he does sit down and look, but when that question came up, he just got up and excused himself from anything that came after that. He knows the public is already put on an incremental raise, one the Commission decided not to do anything and it automatically set in, so they have incremental raises between now and October first, and, then, on top of that we have another \$900,000 for the customers to pay. He doesn't know.

Mrs. Hurtubise said there are no incremental increases scheduled at this time. Mr. Alexander said, maybe, Mr. Beach, he may be in confusion, but he remembers the City Commission did not come to a decision concerning certain things, and it automatically rolled in. Mr. Beach said that had to do with an approved rate increase the UA Board authorized. What we are dealing with here is a cost that this Board has no control over. It is a pass-through cost that is part of the rate structure, and, as that goes up, it is automatically placed on the bills. He is not even sure the UA has the choice of not passing that through. Mr. Alexander said he understands that, but on top of increment raises, that's due to FPUA from the customers, and then, they are going to have to some kind of way have the customers pay for that. Mr. Beach said that is correct, and he thinks it is going to get worse, not better. Mr. Alexander asked if we have a percentage on what these increases are going to come to. Mrs. Hurtubise said no. Mr. Alexander said even with May, you have no idea of what percentage of increase it is going to be for the individual customers? Mr. Thiess said the amount of the increase in PCA was \$12.00 per thousand kilowatt hours. Mr. Drummond said the rate increases that were phased in, as he understands it, are for our operation and maintenance. This increase that we are seeing in the amount of \$12.00 is all a result of just fuel costs. That is the PCA that is a straight pass-through and in no way impacts our operating and maintenance. Mr. Drummond further said, as far as the customer is concerned, it is an additional increase. Mr. Alexander said okay.

Mr. Drummond said going back to the summary sheet that says "Purchase for Resale", this 29% does suggest, if you will, a projection in terms of where the market is going. Mrs. Hurtubise said, absolutely, and it is our best guess when we finalize the budget. Mr.

Drummond said, so this 29% is in anticipation of the PCA. Mrs. Hurtubise said it is both the gas and electric purchases for resale in this particular case.

Mr. Summerhays said, unfortunately, he was reading an article in the *Wall Street Journal* last night that suggested the increases we've had thus far in both the price of oil and natural gas are about half of what they are going to be. He certainly hopes that is wrong. Mr. Alexander said we have to look forward to it tomorrow, because we can't give up. Mr. Summerhays said at this point, the only possibility of our customers reducing their bills is to adopt conservation methods.

Mr. Perona said, as Board Members, it's difficult to get through a conversation with City Commissioners without talking about the relocation of the wastewater plant on the island. As far as budget considerations for anything to do with wastewater, do they anticipate some type of movement within our infrastructure that deals with the future moving of the wastewater plant. Mr. Thiess said we are laying all the ground work for that. We've got a lot of the force mains in. Over the next couple of years we plan on completing some more of the big force mains. That is in the Orange Avenue/Moore's Creek east-west corridor and Jenkins Road from Orange Avenue going south. A lot of that is in. Some of those projects are some of those we deferred to make sure the budget was reconciled with the rate work. We don't have to do them. He thinks we had a draft on the capacity analysis report for the new water reclamation facility, and he believes it is going out to 2017. That means it is out even further than it was before. We are going ahead and by the time we get close to ready to build that plant, we're going to have the force mains in place, and we will probably have that massive pumping station at Orange and Jenkins at least designed. As far as moving ahead with the relocation, we would be glad to do that as soon as we could. We would love to shut down the island plant, operate a new plant, bring all the capacity on line in one plant. That would be ideal for us. There has been some discussion with the UA involved, and some discussions between the City and the County, on devising at least a conceptual plan to make that happen. He is not sure exactly where we are on that. Mr. Beach may have more information.

Mr. Beach said the City Commission and the County Commission have asked that staff put together a joint planning activity that relates, not only to the wastewater treatment plant site, but, also, the 17 acres immediately adjacent to it. They had an economist put together a projection of what could be earned from the right development of that site. That process is underway. He thinks what the UA is doing is just what they need to do as it relates to preparing for this. His understanding from the City Commission, and, certainly, from this Board, is that any attempt to move that and the expenses associated with moving it, need to be ratepayer neutral. The City Commission and the UA doesn't want the ratepayers to have to pay for this activity, so what we are all working on are ways to cause this to occur that do not impact the rate structure. The way the UA can help with this process is to continue to plan for this occurring. As soon as we bring you the strategy and pay out schedule, then, you are prepared to go forward and build the other facility. Mr. Thiess said yes, and we have spent the better part of \$10 million on those improvements going in that direction, so we do have some investment commitment to this point.

Mr. Drummond said if he is not mistaken, we continue to look in terms of grant opportunities as we continue to build that infrastructure in anticipation of that at some point. Mr. Thiess said yes, we are always looking for that. He knows the legislative delegation meets, typically, in December. Hopefully, if we have enough positive discussions to bring that to them again,

we will try it. Last time, they told us not to bring it back unless we had worked out a plan. That is kind of where we are right now.

Mr. Alexander asked if Mr. Thiess is speaking of utilizing the existing piping? Are you talking about utilizing that canal in Linear Park all the way west? Mr. Thiess said no. We built the force main already from 39th Street all the way to 7th Street. He believes it is a 16-inch main. That is in the ground. Mr. Alexander said so when the City of Fort Pierce builds the Linear Park, it won't be disturbing any of your facilities. Mr. Thiess said we should be good. We are on the south side, and he thinks we are clear of that planned construction. The pieces that are missing include the piece from 7th Street by the old health department, into Lift Station A, and a couple of pieces on the extreme south end of Jenkins Road, south of Okeechobee Road and crossing Okeechobee Road.

Mr. Drummond likes the way Mr. Beach described it. Everything we have said at this level is that we are looking for it to be cost neutral for ratepayers. Mr. Thiess said we did receive the \$7.9 million grant from South Florida Water Management District, which has helped out a lot with what we have done so far. That was a 50-50 matching grant, so we had to match their grant. We used it for a lot of the big force main projects and for the deep injection wells at the future wastewater treatment plant site.

Mr. Alexander said he has one last question. He knows Commissioner Coke is not here, but he is reading her flyer of communication to us, and his question to Mr. Thiess is what she asked of Mr. Thiess and looking forward to having a workshop, not on the budget review, but just doing a creative policy to better serve our community. Do you have any aspiration of putting that together? Mr. Thiess said we can certainly talk about that and schedule a workshop. Mr. Alexander asked if Mr. Thiess read her memo. Mr. Thiess said yes. We can certainly talk about having a workshop. He thinks before we bring in a plan we need to bring both boards together and really brainstorm to see what makes sense. If we develop something unilaterally, it may be totally unacceptable to the Commissioners. He thinks we would have to get a mutual understanding of where we might want to go with it, and he thinks the best way to do that is in a workshop forum. Mr. Drummond said we got this memo from Commissioner Coke when we came to the meeting this morning, and he thinks what she is contemplating is a need for us, as two boards, to sit down and talk about areas we might be able to look in terms of cost savings, but he doesn't think we would ever be opposed to having such a conversation with the Commission. Mr. Thiess said if both boards are ready to do that we can work out a schedule. Mr. Drummond said in his mind it would be achieved by both staffs getting a sense of where there would be a potential and bring it to us. That would be the most constructive way in his mind in terms of moving forward with something like this.

Mr. Drummond wants to make certain everyone understands the budget presented today is a draft, and we still have opportunities for staff to continue to work together to look in terms of refining this, and, at some point, it will come to the Board. At that point we will have a public hearing in which the public will have an opportunity to have input. Mr. Thiess said the way the schedule reads right now, the capital budget would go to the UA Board on Tuesday, July 1st. The O&M Budget would go to the UA Board on Monday, July 14th. That is the meeting we moved from Tuesday to Monday because of the FMPA conference on the west coast. These two budgets would be approved independently. We have it scheduled for Tuesday, August 5th, for the entire budget book, bound and ready to go to the UA Board for final approval. Mr. Drummond asked if there would be a public hearing at that time? Where is the public given

an opportunity? Mr. Thiess asked if we do the public hearing with the O&M and Capital, separately, or when we bring the entire budget? Mr. Summerhays said he thought we had public on both of those in the past and, again, when we have the final budget. Mr. Thiess said he thinks we do have public hearings at all three of the budget presentations. (Note: After reviewing FPUA records, it was noted that budget presentations to the UA Board are not public hearings, but that the public is allowed to comment during the "Public Comment" section of the Board Meeting Agenda.) Mr. Drummond said he believes the City Commission gives the public an opportunity to speak when they approve it, also. Mr. Thiess said he is not sure, but he knows the City does not have a public hearing when they approve rates. Mr. Beach said he doesn't know.

Mr. Thiess said we sent the budget books out ten days prior to this workshop and if anyone had any question about a specific line item or project that raised questions and wanted to know why we needed it, we are here to answer that question or discuss. Mrs. Hurtubise said she believes it is the expectation that she needs to get a draft of the capital budget to Mr. Thiess tomorrow afternoon. Mr. Thiess said after this meeting if there is something that catches somebody's eye and you want some answers by the first part of next week, there is time to make changes. If there is serious concern brought up, we could roll the July 1st capital presentation to the July 14th meeting. We don't usually do that, but we could if there were serious concerns. If any Board Member or Commissioner has an issue with any item in the budget, please let us know, so we can talk about it, and either we will convince you that it's necessary or you will convince us that it is not. We would like to do that ahead of coming to a board in a formal setting and asking for approval.

Mr. Drummond said he certainly wants to thank staff for their efforts, and he thinks this is an excellent forum to delve into the budget and to get input and have questions answered with regard to it. He will continue to solicit and he encourages staff to solicit input from both the Commission and other parties with regard to what we are doing and moving forward. He certainly wants to thank Commissioner Alexander for being present. He wishes and continues to hope at some point the full Commission will participate in these workshops, because he thinks this is the best opportunity for us all to have an opportunity to make sure we are on the same page as we move forward with the final budget. In these tough times we need to be sure we are on the same page, because, ultimately, we want to be sure everyone understands why we have to have the rates that we do to deliver the services we all want and need.

There being no further business, the meeting was adjourned.

ATTEST:

SECRETARY

CHAIRMAN