

SUMMARY OF MINUTES OF A SPECIAL RATE WORKSHOP OF THE FORT PIERCE UTILITIES AUTHORITY BOARD, MONDAY, FEBRUARY 2, 2009, AT 1:00 P.M. AT THE ENERGY SERVICES CENTER.

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

Others present: Director of Utilities; Director of Shared Services; Director of Water/Wastewater Systems; Director of Electric/Gas Systems; Director of Finance; City Commissioner, Christine Coke; Murray Hamilton and Henry Thomas of Public Resource Management Group.

Chairman Cully called the meeting to order.

The roll was called and a quorum declared.

Mr. Thiess said we changed some rules in the rate process this year. Our revenues are under what our projections were when we did the previous rate study and our budget. The sales have fallen off. We don't have a lot of new customers using utilities. With the flat growth line, the poor economy, and high cost of wholesale power, we knew any rate increase had to be close to rock bottom. In the past we have tried to push our cash reserves to sixty to ninety days. This time we took the cash down to thirty days. That means in order to implement the recommended scenario, we would actually be using \$3 million in cash. We went through all the capital and stripped out everything possible. We even took \$1.8 million out of this year's budgeted capital projects to hold this year's rate increase down and make the budget for this year. We moved a lot of projects further out into 2010 or 2011. We have cut it back about as far as we are comfortable with. We are willing to look at anything in the budget and make adjustments. The only thing that concerns him is if these grants come down from Tallahassee or Washington that put money into the hands of the City or County to do major road projects that we haven't planned for, we could be in big trouble. We maintain close contact with the City's Engineering Department to get their best estimate of what projects they will do, and that is what our capital improvement plan is based upon. If the City or County get millions of dollars to throw into new road projects that don't include utility money, we could be in a bind.

Mr. Drummond asked if Mr. Thiess is still of the opinion that there are dollars in the stimulus package for road projects, that wouldn't envision the need for a portion of the infrastructure. Mr. Thiess said all those projects submitted through the legislative delegation or elsewhere were budgetary, high level estimates. We are hoping when they sharpen their pencils and get down to the actual estimates, that they will include some dollars for utilities. We have no idea whether any of the projects will be a reality. Some of them may get here, but we don't know if they will affect us or not. It is hard to budget for it, because it is pretty speculative whether any of that money will come here or impact us on a road project. If it happens early in the year, we will have more latitude. If it happens late in the year, we have commitments and projects locked down and the amount of cash for these projects gets smaller and smaller. If we get it early, we can probably shift priorities. He wanted the Board to be aware that we have not budgeted for potential stimulus projects that might come down and impact utilities. An example is the City's 13<sup>th</sup> Street Project. We have not budgeted for that, because our conversations with City Engineering say the project is still way out and they are not going to get to it this year. If the stimulus money changes that, we will have to regroup and do some serious scraping to get the cash. That's why we hope they will include utility money in the project with the funding coming from Washington, D.C.

Mrs. Coke said even with the guesstimates on whatever projects the City has submitted, when the City Engineer has to sharpen his pencil and give more realistic figures regarding the stimulus

package, we could just go ahead and include those figures for utilities. They may redline them out, but as a bare minimum, we could just include them right up front. Mr. Thiess said the Mayor and he talked about that this morning. Just last week they got the final ranking of those City projects, but we will get back with the City very quickly and try to get an idea of the scope of their projects, so we can get an idea of how much it might cost us to do the utility work for that and get that figure over there so they can adjust their estimates.

Mayor Benton said he spoke to Senator Pruitt this morning, and he thinks the difference in the stimulus package is if the cities and counties get the money straight from Washington, he thinks you will see more of those \$60 million worth of projects we have lined up, but if it goes to the State, what Senator Pruitt is doing is looking at picking one major project from each city or county and of our four items, number one is moving of the wastewater treatment plant. That is something that we are not focusing on right now, but thinking with the economy and everything else, we would never have the money to do it. He believes Vero Beach has added that into their package. If that is something that could be done, hopefully, we have a big enough scope, and we've included a lot of the money it would take for us to redirect the flow of everything. As far as the street projects, he thinks that money is going to have to come directly into the cities and counties to move them forward quicker. Time will tell. We should know by March 1<sup>st</sup>, he believes.

Mr. Thiess said we would have a very big leg up on Vero Beach, because we have a design and a site. They have a conceptual plan that is not even on paper yet. That would really help our wastewater rates for years to come.

Mr. Murray Hamilton of PRMG gave a Power Point Presentation to the Board (copy attached). He said the last joint meeting we had was during the budget process back in June when we took a look at the UA's proposed FY 2009 budget and compared it to the financial plan which was produced during the last rate study. At the joint budget workshop staff made a proposal to the Board and City Commission on budget assumptions and compared those to the long range financial plan. During the last rate study we forecasted a need for a 3.5% system wide rate increase, including electric, water, sewer and natural gas. When the budget was developed we found it was consistent with the long range plan. The Board adopted the budget and, subsequently, the UA engaged PRMG to update the 2008 rate study for when the fiscal year concluded this past fall. In the update, we look at customer growth in the system, actual operating results and the net sufficiency of the revenues to be able to recover those operating and capital expenses. The long range plan goes over five years to 2013.

We had to look at some of the short term results taking place in the system today and make some adjustments for that. He met with staff on January 14<sup>th</sup> with preliminary study results. The system wide average rate increase was looking to be about 3%. There was a 1% rate increase for the electric system for 2009; 10% for water; 10% for wastewater and a 5% rate increase for natural gas to take place this fiscal year. During that meeting with staff we had to make some decisions, primarily revolving around the capital plan and cash balances. Staff looked at the budgeted and funded personnel positions. Those that were unoccupied are still being held. There is about \$500,000 worth of personnel costs that were removed from the operating budget for FY 2009. Additionally, we went through line item by line item of the capital budget. About \$1.5 million worth of capital projects that are funded directly from rate revenues were reduced. Most of those projects were placed in subsequent periods, not removed permanently from the five year forecast. That is an 8% decrease in capital expenditures for those that affect rates. We are allowing the cash balances to dip to a minimum of 30 days of operating and maintenance expenses. We prefer to see 60 to 90 days, which has been our long range pledge. The Authority would like to get there over time.

Mr. Drummond asked if the \$1.5 million removed from capital consists of renewals and replacements. Mr. Hamilton said staff can address that question, but they were all projects funded with rates. Most were probably renewals and rehabs. Some equipment purchases were deferred as well. Most of them were from the Electric, Water and Wastewater Systems. Due to these cuts, we have been able to eliminate a rate increase for the Electric system for FY 2009 altogether, which is 75% of the system revenues. The Water and Wastewater rate increases were cut in half to 5% due to these capital budget cuts. Natural Gas is still looking at a 5% rate increase.

Mr. Thiess said some renewals and replacements were cut back. For instance, we had budgeted \$500,000 for sewer lining and cut it back to \$200,000. We have not stopped renewals and replacements completely. We slowed them down. Mr. Drummond said we can defer equipment and things of this nature, but over the years we have talked about how far behind we are with a lot of our infrastructure in the ground, and he thought we couldn't afford to delay those sorts of things. Mr. Thiess said he doesn't think it will impact our overall schedule that much. We intend to ramp them back up next year. We will lose a fraction of the work we were going to do this year. In the economy we are in and with the high wholesale costs we are paying to FMPA, we had to keep the budget to an absolute minimum. Next year the economy might be going forward, and we might be in better shape to get our renewal and replacement plan on schedule and have larger incremental increases on water and wastewater.

Mr. Hamilton said before the adjustments were made, the Capital plan was almost \$17 million funded with rates. After the adjustments, it is \$15.4 million. Of that, \$4 million is technically unfunded by rates. A portion of it, \$3 million, is funded through reserves, and that takes us down to the minimum cash balance, and the remaining portion, about \$700,000 for FY 2009, will be funded through rate increases, 5% for Water, Wastewater and Natural Gas.

The rate increase they are bringing today is amounts to 1.2% system wide with no increase for the Electric System. Aggregated, the typical Electric, Water and Sewer bill would go up about 1.6%.

One of the areas we haven't focused a lot on is utility cost and revenue structure. That is becoming more important. That is your relationship between the fixed monthly base charges and the volumetric charges – having to recover costs through the rate structure. He explained the importance of this relationship. In the system, 49% of the needs are fixed. Distribution to the City is included in that amount. The remaining 51% of costs are variable or change with sales volume. Over time as sales trends deteriorate, more relevance is being put on the fixed revenues of the system. Long term, we would like to see more costs recovered through the fixed base charges. Right now, that would hit our smallest users too hard.

Mr. Thiess said there are not a lot of utilities that put all their fixed costs into the base charge. Martin County and the City of Stuart had even less in their base charge, so when the conservation due to the drought hit them, they had to put the surcharges on right away, because they only had a small amount in their base charge. In their first year of mandatory conservation, they were losing more money than we were.

Mr. Drummond said he knows we had an initial reduction brought about as a result of South Florida Water Management District putting limits on water consumption, but are we still seeing a reduction in water consumption since then? Mr. Hamilton said yes.

Your Electric system from 2005 to 2007 grew just a little less than 1%. In that same period, energy sales actually increased 1.5% per year. For the Water system, customer growth increased 3.2% per year. Sales decreased 4.7% per year. We are having an inverse relationship. What has caused us to levelize our growth forecast going into the future when you go back to the 2009 budget, is water revenues are down 8%, sewer revenues are down 10%, gas revenues are down 1%, and the electric did not change. The actual average use of the electric system has been dropping over the last several years from 1,000 kilowatts per hour to just under 800 kilowatts per hour on average.

Mr. Summerhays said what we really have here is kind of a Catch 22. What is socially responsible to do is bad for us financially. Mr. Hamilton said yes.

Mr. Hamilton displayed to the Board the historical and future average use per account in each system. The average use on the water side has decreased 21% from FY 2005 to 2008.

Mr. Hamilton discussed Net Revenue Requirements and what they include and reconciliation of FY 2009 Net Revenue Requirements. A reduction was made in the FY 2009 Budget of \$532,000 for unstaffed employee positions. Beyond FY 2009, there are expected increases in salaries and other personnel services of 5% per year, Health & Workers Comp Insurance of 8% per year, Property and Liability Insurance of 5% per year, repair and maintenance of 5% per year, general inflation of 3% per year and increase in the price of commodities. The Capital projects were reduced by \$1.5 million or 8%, which immediately gave some rate relief for 2009. The capital budget is \$94.3 million over five years for system rehabilitation, improvement and expansion. This does not include the wastewater plant expansion or moving of the wastewater plant. Mr. Thiess said right now we are looking at 2017 before that can occur. Most of the projects are R&R and equipment related.

Mr. Hamilton listed the sources of funding for the capital improvement plan. No issuance of new debt is anticipated at this time. Debt service payments amount to \$10 million per year on average; capital outlay and R&R amount to \$12.7 million per year on average; and distribution to the City is 6% of gross revenues. For the five year forecast we don't see any encumbrance on that. That excludes the transfer due at the end of FY 2009, which is based upon the 2008 actual results. Those numbers are still in process. There are miscellaneous revenues subtracted from our net revenue requirements before we look at rate recovery. He displayed a chart showing the adequacy of existing rates. Reserves and rate increases will fund the full R&R and capital program. The minimum cash balance of 30 days of O&M must be maintained, or about \$7.6 million.

Mr. Hamilton explained the target of the rate study is the minimum rates necessary to maintain a minimum unrestricted cash balance of not less than 30 days of O&M. Sixty to ninety days is preferable, but staff believes they can manage with a 30 day minimum for the short term. By doing these things, staff has reduced the FY 2009 system-wide rate increase from 3.5% to 1.2%.

Mr. Hamilton said they also looked to phase in rate increases to the extent possible through 2013, although they are not asking the Board to consider adopting them at this time. Our original intent called for a 1% rate increase in Electric, 10% for Water and Wastewater and 5% for Natural Gas. Based upon all the adjustments staff has made, we have reduced the recommended increase to 1.2% system wide for 2009, with a 5% increase proposed for Water, Wastewater and Natural Gas and no increase proposed for Electric. All are recommended to become effective on or after April 1, 2009. We are still using \$3 million in reserves. That will be used to help fund the remaining portion of the capital plan that is not funded by the rate increases. He displayed a slide which showed cash

throughout the forecast period through 2013. This assumes all the rate increases are adopted within the respective years.

Mr. Summerhays asked what we would have to do in order not to use our reserves for Fiscal Year 2009-10. Mr. Hamilton said it would require about a \$3 million system wide rate increase. The opposite of that would be to reduce costs. The Electric system doesn't need a lot of rate increases going forward, so most of the \$3 million would be Water and Wastewater and would be significant. There is the opportunity not to have a rate increase in 2009, but what happens is that forces you into a double digit rate increase mode for 2010. It would be 30% for Water and 30% for Wastewater. That doesn't solve the cash issue Mr. Summerhays mentioned. Either you have to cut the budget or theoretically, it is a 3% system wide rate increase. Mr. Summerhays said he really doesn't like getting down to 30 days of reserves. Mr. Hamilton agreed.

Mrs. Cully asked if 2009 reflects no increase for Electric. Mr. Hamilton said that is correct. In terms of utilities rates, the PCA sometimes gets confused with rates. The Power Cost Adjustment was reduced by \$5.00 effective February 1<sup>st</sup>. To the extent that fuel costs don't change, the base rates that the Utility charges will be unchanged for 2009 for Electric.

Mr. Drummond said on the Water and Sewer when compared to surrounding communities, we are typically on the top edge. He asked if Mr. Hamilton has a handle on where the rate increases in Water and Wastewater will place us. Mr. Hamilton said as we move through the rest of the presentation, there will be a series of rate comparisons with other utilities. On 6,000 monthly gallons you are about average. Mr. Thiess said we are slightly below the average now. Mr. Hamilton said there are a number of utilities doing rate studies at this time and will be doing rate adjustments in the next 12 months, also. Some are looking at Water and Wastewater rate increases between 6 and 10 percent. Regardless of the scenarios we talk about, the 5% rate increase for Water, Wastewater and Natural Gas is what is on the table. We have not run a scenario where we keep cash at 60 days. Mr. Thiess asked if we know where our cash is today. Mr. Hamilton said it would be in the high 40's. One of the underlying assumptions of this study was to use reserves to keep rates down. We have stiffer rate increases coming on in the next few years. The Electric system for next year would need a 3% rate increase. We are not forecasting any Electric rate increase at the moment for the last three years of the projection. Water and Wastewater are the most deficient at the moment. Unfortunately, the reason they appear that way is they are a smaller portion of the overall system cost. The Electric system accounts for 75% of the system. The Water system is about 10%, Wastewater, 9% and the Gas system is about 5 or 6% of the overall operations of the Authority in terms of revenue. That is one reason the rate increases are more significant in these areas. Outside of the reserves, the deficiency is about \$700,000. It almost sounds insignificant, but it is significant in that staff has already removed the budgeted positions and cut the capital plan. We should start thinking about if in fact, the Authority may be facing some double digit increases at some point, what is the best approach to have the most minimal impact on the customers as possible? If we can have smaller, incremental changes to the utility bills, even if it is every six months as opposed to annually, those are some of the alternatives.

Mr. Hamilton displayed a slide showing the adequacy of the proposed rates. Our expenses still exceed the revenues in 2009. We are on a break even basis in 2010 through 2012. The only reason there is a slight surplus shown in 2013, is the capital drops off. That is the limitation of his ability to forecast five years. The system has not had a problem meeting debt service coverage obligations. He showed a slide depicting the effect the increases will have on customers' bills. Water and Wastewater bills for 6,000 gallons usage would increase by \$1.36 and \$2.10, respectively.

Mr. Perona said in our packets we are looking at numbers from December. Those are significantly different from what Mr. Hamilton is showing us. Mr. Thiess said the numbers in the packet prepared by our Director of Finance are all inclusive with taxes and everything. Mr. Hamilton is showing us numbers without taxes or franchise fees. Mr. Hamilton said the only thing the rates he is showing include is the Power Cost Adjustment and the Purchased Gas Adjustment. Mr. Thiess said that is the same way the FMEA comparisons are shown. They are broken down. You would add the 10% utility tax on water and the gross receipts tax on water and wastewater. If they happen to live outside the City, there is an additional 25%.

Mr. Hamilton described rate study alternatives for subsequent increases after FY 2009 based upon semi-annual intervals. The first would start October 1, 2009 or as late as April 1, 2010. These alternatives look at eight total rate increase periods. It allows for two periods without a rate increase.

Mr. Drummond asked Mr. Hamilton to repeat the last portion of his presentation. Mr. Hamilton said these are annual rate increases from 2010 through 2013. Each is proposed to become effective April 1<sup>st</sup> of each year. The alternatives involve these future rate increases in an effort to mitigate some of the double digit increases which would be required if one rate increase were done. Mr. Drummond said that will be accomplished by doing it in six month increments. Mr. Hamilton said yes. The purpose would be to get two of the scheduled rate increases within one rate study approved at the same time. If you plan earlier, the overall rate impact is the least to your customers, provides you with the best target of cash and, incrementally, customers can absorb more into their planning budgets with small changes. The result is you get two periods with no rate increase and eight periods with rate increases.

Mr. Summerhays said overall it has to result in a decrease in revenue to the UA. Mr. Hamilton said it depends upon the alternative you select. Alternative one actually schedules a rate increase for October 1, 2009, in advance of April 1, 2010. If the rate increase were to be delayed until April, it would be 9.8%. He is suggesting a rate increase in October. The cumulative amount of 4.5% and 4.5% amounts to 9%, not 9.8%. Over time, once you get to the end of the forecast, you get another period with no rate increase and your overall cumulative rate increases are lower over the five years.

Mrs. Coke said not that she is supporting this, but it seems to her a couple of years ago we had a discussion that because we were way behind the eight ball and hadn't had any electric increases in years, that we had to jump up into a great big one. And, she thought we had all kind of agreed then, especially since it is a larger revenue producer, that if it was a half a percent, that we would implement that on an annual basis and, she thinks if you look at that, she would be very interested to know what the difference would be between – you want to talk about 1.2% - she is saying she has to go out there and tell John Q Citizen you are paying 5%, 5%, 5%. They don't care if it equals out to 1.2%, because quite frankly, it took her a while to figure it out, and she knows we are not going to get the word out there properly. What would the difference be if you put in a half a percentage on the Electric system? How much could you reduce that increase, because, as you just said, it is 75% of your income. If that is 75%, would it not be smarter to increase that by a much smaller percentage, and it will equal the same amount of revenue for the UA? Mr. Hamilton said the problem we are running into, and you will see it in the rate comparisons, is one, when you look at the Utility's competitiveness in terms of the Electric system, we are on the far right of the scale, which is not where the UA wants to be. We are losing a competitive edge on the Electric and to add a rate increase that may not otherwise be justified at the moment, might not be the way to go. We see the Water and Wastewater rate comparisons, and while 5% may be significant, it may be appropriate that

those rates should be higher. When we look at the individual systems by themselves on a standalone basis, and we look at them on their own aggregated revenues and operating expenses and capital expenditures, in 2009 until 2010, the Electric system is holding its own. Mrs. Coke said you guys are certainly going to do whatever you want to do, but the point she was trying to make is, you know, I'm going to look at my bill and I'm going to read the paper and I would much rather hear somebody is going to increase my bill – John Citizen doesn't know what utilities are paying in Vero or whatever – she would much rather have somebody tell her they are going to increase her electric bill a half a percent than somebody tell me we're going to increase it by 5%, 5%, 5%, 9.8%, 9.8%. Those are huge numbers.

Mr. Perona said he understands what Commissioner Coke is saying, and he agrees to an extent, but we have customers that are Electric customers only. To tag them with that extra half a percent wouldn't be fair. We asked the consultant to analyze the rates with each utility standing on its own and paying for itself, which is probably the right way to do it. That way no one is penalized. He knows half a percent sounds good, because it would be on the majority of our revenues. It would be fine if we all used all the utilities, but that is not the case. There are some that use just water or electric or whatever. Mr. Hamilton said we do look at these systems individually, but there is some feathering going on. What he means by that is if we look at the systems individually, and we have done what Commissioner Coke is suggesting, and what he means by that is the Water, Wastewater and Natural Gas systems don't theoretically support themselves until the last year of the forecast. Each system is deficient each and every year of the financial forecast over the next five years. The Electric system is carrying the load, so to add a half a per cent to it, makes it just that much more. We'd like for each system to stand alone. If we caused that to happen today, you would need a 30% rate increase for water and sewer now. He has to work within the constraints that he has. At the end of the day, the customer looks at the bill. They don't care one way or the other about Electric, Water or Sewer, but we have to do our due diligence at the end of the day and recognize that we have Water only customers; we have Electric only customers, and those kinds of things. Within the constraints of the long range plan, we tried to get everybody on an even keel. Keep in mind, we have Managers and staff within the Authority too that are looked upon based upon the performance of their division. If we have this inequity within the divisions, we're not managing that well either.

Mr. Thomas said absent the outside the city Electric customers or the larger customer base, which certainly helps in terms of percentages, after that though to the extent you use Electric to subsidize, the percentages may look better, but the dollar impact on the bill is going to be about the same. You are getting a small percentage off the biggest bill of the three. Mr. Perona said in thinking about a marketing plan, we could say we are charging a smaller percent of a larger figure. Instead of talking about 5 or 6 percent, we would be talking 2%, and it would be easier to sell somebody on 2%. When he looks at these things, he likes to see them stand pretty much on their own. Mr. Hamilton said each individual system and the Authority as a whole will break even at the end of the five year period with the recommended cumulative rate increases. Mr. Thiess said all the rate projections are based on a pretty flat customer growth, 1% or less. If the building boom happens and we get a 2% growth instead of 1%, those numbers all change.

Mr. Drummond said for all our customers in Electric, Water, Wastewater and Gas over the next four or five years, we are expecting an actual reduction in unit sales. Mr. Hamilton said we have not assumed that the decreasing sales will continue. We would like to hope they are bottomed out. Mr. Thiess said the slide on Historic and Future Sales shows a slight increase. Mr. Hamilton said the Average Use slides show that too. Mr. Drummond said every aspect of the overall system is flat or reduced. Our investment in capital is reduced. Mr. Hamilton said your investment in capital

expenditures for 2009 were deferred. Your capital requirements are primarily R & R. They are there regardless of growth or anything. Mr. Drummond said that has been there. It will either remain or be reduced based upon the economy, but he is saying it is not going to grow unless all of a sudden we see major growth. Mr. Hamilton said yes. Mr. Thomas said with the surplus created in 2013, you are back basically to approximately the same days of cash that you are today before you spend it down in the first year.

Mr. Thomas said to Commissioner Coke's point, if we went ahead and did an Electric rate increase this year, you could either have less increase in Water and Wastewater or you might forestall that double digit one next year. Mrs. Coke said she wasn't actually putting it forth that we should do that, but her concern is what happened several years back. All of a sudden our backs were against the wall, because we hadn't moved forward in years and years, and she doesn't want to see that happen again. Mr. Thomas said the more you defer it, the worse things get. Mr. Thiess said we are pretty comfortable with Electric. We are only looking at a 2 to 3 percent increase in Electric over the next five years. We are pretty happy with that. Mrs. Coke said she got his point, but she knows when we talked previously, and she's not going to belabor it, but we talked previously about it's better to do, whether it's a quarter of a percentage a year or a half a percentage a year, even to hit people up next year with 3% - that's a lot. If you look to phase it in to get whatever you have to have, it's going to be much more palatable.

Mr. Hamilton said he thinks you know what his conclusions are. The rate comparison – within the last year and a half, the Authority found itself in a position where you had to adjust rates at the same time we were going into a market of rising fuel costs, so we had a double ladder to climb. At least initially right now we are seeing some release of pressure on the fuel costs. Although that's not necessarily something we're specifically concerned with on a day to day basis, our customers are, because it impacts their bill. Commissioner Coke's point is valid, because we said in the last rate study that any little bit, incrementally, would put you in a much better position. That hasn't changed even on electric. The alternative on the Electric was to do a 3% rate increase next April or you could do a 2% in October. Mr. Thiess said being an eternal optimist, looking ahead, FMPA is pretty heavily hedged throughout the rest of this fiscal year. A lot of those hedges don't unwind until September. Looking ahead, the natural gas prices, from what he sees, are in a very slow gradual rise, but he believes in the first six months of 2009, it is still below \$7 per MMBU. By the time we get to next October, the hedges will have played out, and he is hoping we can have Power Cost Adjustment decreases that will offset the increases. There are no guarantees there whatsoever. Even if the fuel costs go up, we think we will be in a little better competitive spot in the comparisons. Mr. Summerhays said there is a lot of evidence that a lot of these people whose rates have been lower than ours, have been supporting their utilities with general tax revenues. We have situations such as the last cold front, where the City of Vero Beach asked people not to set their thermostats above 65 or use their ovens. He thinks if these people realize they are not making any money with their utilities, that we will move further and further to the left on the comparison chart.

Mayor Benton asked Mr. Hamilton how many public utilities his firm consults for. He is asking because when we put our budget together last summer, he doesn't think anybody expected the economy to do what it's done. Nobody thought things were going to be as bad as they are and look as bleak as they do, especially throughout this year. Are other utilities going back and revising their budgets? Are they running into financial situations and problems where they might be looking at wage freezes? We sit here and say in the next five years we are looking at raising water and sewer rates some 40% when the public sees there is no new construction; the pipe is already in the ground; why are these costs going up? What are other utilities doing to address this to avoid rate increases? Mr.

Hamilton said the cumulative water and sewer rate increases are not necessarily the result of future growth and costs, but it is the fact that they are not operating in a solvent manner today, individually. They have to catch up. That hasn't changed in any of the rate study years we've talked about. Mayor Benton said for years we've tried to convince people to conserve for many reasons, primarily to save money, and here is how we reward them. We raise rates. It is a hard thing to do to the public when they've finally done what we asked, especially in this economy. When you are projecting out four or five years, he doesn't see how anybody's crystal ball can do that. We're going to pick up the paper and read tomorrow that we're looking to raise water and sewer rates some 40% in the next five years. He is not saying he is going to support that. He would like to know what other utilities are doing.

Mr. Summerhays said we are not looking at approving anything over the next four years. We're looking at next year. Mayor Benton said he knows, but he is saying what the public is going to be reading in the newspaper. He doesn't think governments are sitting out there saying we're going to do this. They are telling staff to go back and sharpen their pencils, because some of the things we wanted to do, we're not going to be able to do right now. Mr. Thomas said JEA has let go quite a few temporary employees. They cut their capital projects and outside expenditures on construction to the bone. Yet, because of the financial position they're starting in, they are looking at probably close to 40% compounded rate increases with their electric, water and sewer systems. PRMG is working with them right now. They may be in a little better competitive position than you are to start with, but they are still seeing those large increases. Mr. Summerhays said that is because they ignored it and didn't do it when they needed to. Mr. Thomas said he thinks the electric system in particular, went many years without adjusting the base rates. Another one that is hurting is the City of Leesburg. When things were going fairly good, they took a lot of cash out of utilities and moved it over to the city side and spent it on public projects, and now they find themselves in a very precarious situation with respect to their financial condition. You will see their rates go up. Ocala is looking at a rate increase on the base side right now, too. Some of them are in a position there is not a whole lot else they can do. You can't be in default of your bond covenants. We've got systems we work with in Charlotte County and Okeechobee, Florida, where they have already adopted rate increases going out several more years. But just to maintain that, because of what's changed, they had to go back and make drastic cuts in operations and capital. Okeechobee Utility Authority probably has one of the toughest positions all, because they are building a wastewater treatment plant, and it doesn't look like there is going to be anybody to use it, because all the developers that wanted it are going bankrupt. That is true in Zephyrhills, Florida, as well. They built a new facility to serve growth that is not now occurring. There you have new assets and new debt. He sees more and more utilities moving to a survival mode. The first and easiest thing to do is cut your capital. If you cut R&R too long, it comes back to haunt you. The City of Tampa has some of the lowest rates in the State, but they average a water line break per day. A year ago they had several major problems downtown where the streets collapsed, because the sewers under the streets failed. They have huge infrastructure problems, yet they have very low rates. In order to catch up, they are looking at about a 50% increase in their water rates over the next several years. Everybody is going through the same thing you are. Some of the systems already have rate increases programmed and adopted. On the southwest coast where communities have alternative water projects like Cooper City, they are going to have to increase their water rates about 50% over where they are today to be able to afford new sources of water supply. The State is telling them they can't keep pumping and using the assets you've already funded, because we want you to use a different kind of water. Stuart's water increased by 25% and 15% for sewer. Whether they can maintain that or not, we won't know until next budget cycle. If we defer the capital, we can suffer from the quality of service. If we keep doing the capital and defer the rate increases, they will get worse at some point. The steady as you go, small increases is the way to deal with this, but it does compound significantly. Right now we're depending on the Electric system to sort of cover the

Water and Wastewater deficiencies. We are trying to get out of that situation. In five years each system should be in better shape to stand on its own. The City of Titusville did some big increases a few years back and now they are in a mode where they're doing inflation or less every year. They are still doing something every year even though it's small. If we can get to where the increases are small every year, the customers don't really notice that in their bills. He doesn't know if you saw in the paper where OUC is having a 13% increase in their electric bills. They will be in the \$140.00 range shortly. Part of the reason was they put it off for many years, as well. He knows PRMG has been contracted by Vero Beach to look at their rates. He isn't sure where that's going to head, but at least they acknowledge they need to take a look at it. Mayor Benton said they can tap into the general fund like St. Lucie County has been doing.

Mayor Benton asked about wage freezes. We don't want to lay people off. He thinks the way to avoid that is to give no raises this year. He thinks that would be more acceptable for the public if you could say if we are looking at a 5% rate increase, we can make it 2% or 3%, but on our side we aren't going to give raises this year. The employees are glad they have a job. We have to be sensitive to the public. We can't make it appear we're giving ourselves a pat on the back and doing better while they are hurting. That's something we haven't talked about. He knows it's not popular in this room, but to him, what would the difference be if we didn't have a wage increase this year for our employees. Could that number come down a percent? Somehow there has to be give and take here.

Mr. Summerhays said he wants to make it clear that the only thing on the table here is Zero, Five, Five and Five. All the projections that say 2010, 2011, 2012 are speculation. We will address those next year and the year after. Any reporting to the contrary would be irresponsible. Mayor Benton agrees, but he hears when they are talking about salaries and other personnel services, that is 5%. We talked about it last year, and it was under 5%. He wondered what the savings would be if we were looking at a wage freeze. Mr. Thiess said we have not given raises this year. We passed on them in October and there is a very good chance that will happen again in April. When we get to next October it will be two years since we have given a raise. We haven't done it. Mr. Summerhays said there is probably no wage increase factored into the rates presented. Mr. Thiess said we have budgeted going ahead into future years, because you don't want to rule out the possibility. You can't freeze wages forever. You can do it for a year or so and get by with it, but you have to budget it. Mayor Benton said today we are talking about this year. Mr. Summerhays said yes, and there is no wage increase within that. Mr. Drummond said there are increases projected as far as the need for this rate increase if he is reading it correct. Mayor Benton said it is written in the report as 5%. Mr. Hamilton said that is for after 2009. Mrs. Cully said those are for 2010. Mr. Hamilton said their forecast is based upon the budget as it is adopted. It is salaries, benefits and a contingency of 1%. To the extent the budget or contingency is anticipated to allow for any merit or cost of living increases for this year, then, yes, but to the extent it is in the current year budget. Mr. Thiess said the costs the Mayor was referring to are beyond 2009. We have not had any raises this year and at this moment we are not planning any. Mr. Drummond said we are talking about rate increases effective in April. Our budget is already approved to take us through September. Mr. Thiess said these are still the 2009 rate increases for April. We used to do them at the first of the year, but the zero, five, five, five are the April 2009 rate increases. If you take the base case, they wouldn't be considered again until April of 2010.

Mrs. Coke asked if the UA's budget, as approved, includes these proposed increases, the April increases. Mr. Hamilton said what we did at the budget workshop last June 19<sup>th</sup> was base the budget adopted by the Board on a system wide 3.5% rate increase from the last study. Subsequent to the adoption of the budget we had the ending of the fiscal year, when we were able to look at the actual

operating results for 2008, and the first step was revenues at existing rates were not enough. Mrs. Coke said that really doesn't answer her question. She asked Bill Thiess if he can tell her... you adopted a budget that Fiscal Year 2008-09 you are going spend "X" number of dollars on projected income of "Y". Can you tell me if your "Y" figure includes this 5, 5 and 5 percent increase. Mr. Thiess said he thinks the budget last year was based upon the rate increases that were in the last year's rate study that were greater than these. We backed them down from those, because the revenues for this year turned out to be lower than the projected revenues. Mr. Hamilton said what was anticipated for the budget was an electric rate increase of 3%, an increase in water of 2%, an increase in sewer of 6% and an increase in natural gas of 9%, all to be effective on January 1, 2009. That is what the budget was based upon. Our first pass was 1%, 10%, 10%, 5%. That was on January 14<sup>th</sup>. We made adjustments based on directions of staff and the proposed rate increases are a little bit more than 2% less than what the original budget called for. A lot of factors were considered: the change in revenue stream and the reductions in the capital projects and operations. Mrs. Coke said you really muddled her a little bit more, because if you are telling her that you are decreasing... first of all she is confused about how we can prepare a budget using increases that were not yet adopted or approved, number one. Number two, you are saying you are decreasing the amount of the increase that was proposed based on a loss of revenue. She would think if the revenue was down, you'd have to increase. Mr. Thiess said we deferred capital projects. We made up for it by deferred capital projects. Mrs. Coke said she guesses we were invited here to voice opinions, so that is the only reason she is throwing this out there. It seems to her we need to find a way – she tried to say before, perception becomes reality, and if people perceive that we are not being fair to them, they really believe it and that's where we're getting this discontent coming from. We have been harping on the general public for years and years – not just us, but everybody – to conserve, conserve electric, conserve water, and now we finally get people doing it and we say, well guess what, we're going to raise your rates to cover the fact that you are conserving. She knows this is a business and you have to make money, but the other side of the coin is if you are selling less, it should cost you less to produce that product that you're selling.

Mr. Summerhays said that may be popular perception, but it is absolutely not true. It is not true because of the amount of capital a utility uses, and almost half of our costs are fixed. They are there whether we sell the first dollar. Mrs. Coke said, as she said, she certainly did not come here to argue with anyone. She came here because she thought you wanted her to voice her opinion, and her opinion would be that at some juncture in time, if I'm going to buy 100 kilowatt hours, it costs me "X" number of dollars. I'm not going to buy that much if all of a sudden I only need to sell 50. Then I'm only going to buy 50. So, your costs go down proportionately. There are fixed expenses and certainly she has been in business enough years to understand the theory of fixed expenses. But once you reach a certain level where your operating expenses are covered, then your profit level goes up once you sell over that or it goes down if you don't meet that – your operating level. So, her question is going to become, how do you explain to John Q Citizen, who owns this Utilities Authority, that we've asked you to conserve, you're conserving, and now we want to charge you more for it?

Mr. Thiess said the fixed cost issue certainly comes into play, because if you have a certain amount of fixed costs, you have to cover them regardless of what you do. The slide that Mr. Hamilton displayed that showed total water pumped showed a 24% decrease in three years. You don't need a 24% rate increase to offset that. The rate increase over the last few years has been substantially less. So, yes, you do have to ratchet it up a little to keep covering your fixed costs, but it is not a one to one relationship. The other factor that comes into play is inflation, the higher cost of doing business. You do have to raise it up, but obviously we didn't raise it up 24% over the last three years because of that

24% drop. The individual customer can beat the system by using a lot less than the average customer if they really get aggressive about it.

Mrs. Coke said she guesses what she is thinking is as important as the rate studies are – and she hears everybody's proposing 30, 40 or 50 percent, but that doesn't mean they're going to get it done – it is equally important to have good PR to the general public. Same as they elect me, they control the Utilities Authority. What we have all heard from them for many years now is they need to see some responsiveness. She doesn't know how else to do it. The City has tried to put aside money for weatherization to help these people. She and Bill have talked about taking the inactive account fees and instead of putting it into the general fund, we're going to put it directly towards lowering the Power Cost Adjustment. She thinks John Q. Citizen would say, hey, look, here's an attempt the UA Board is making to help me not have to pay that huge Power Cost Adjustment.

Mrs. Coke further stated we have talked for the last year or so that there may be some possibility of being able to merge some combined departments. We don't know which departments we could do it in. We certainly can't do it in wastewater or sewer or electric, but maybe we can combine Human Resources. It won't take place today, but maybe over a five year period we could move Human Resources over to the Utilities Authority. Maybe we could do economy of scale. All she has asked for the last year and a half is that we sit down and look at those things, and she hasn't gotten any feedback on that. Mr. Thiess said he has spent a lot of time on that. He prepared a four page outline of what things we need to think about to move forward with that. We have to be on the same software platforms, a lot of things have to happen. He sat down with David Recor and discussed that. Now the ball is in the City Manager's court. We have it laid out as to what has to happen for us to move ahead with things. Mr. Recor needs to get back with him and tell him if the City is willing to take the next step. Mrs. Coke asked that Mr. Thiess copy her on that memo. The last she heard from Mr. Recor, the ball is in Mr. Thiess's court. Mr. Thiess said that is not the case. He will send her something.

Mayor Benton said in the next thirty days we're going to look at a way of reducing utility bills similar to the way the County and Port St. Lucie have done it by maybe considering taking the garbage off the utility bills and putting it on the tax bills. That would reduce the overall costs and make the utilities look better. That is something the City has to do. Mr. Drummond certainly agrees that perception matters at this point. He keeps hearing about how other utilities are going to be forced to increase. He doesn't know that he's comfortable being on the cutting edge of getting ahead of everyone else in terms of increases. He would like to follow for a change. Mr. Hamilton said that is one of the reasons we didn't want to raise the electric rates. We wanted some time to see the fallout from those systems around the State you are being compared to. We think some of them aren't realistically recovering their costs. Some of them are planning increases, and when you look at your competitive situation it is clear that the electric rates are high relative to your peer groups, while Water and Wastewater are more in line. Mr. Summerhays said the bar chart on page 35 showing the Water and Wastewater rate comparisons shows Fort Pierce as slightly below average. Mr. Drummond said he is not really comparing apples to apples.

Mr. Perona said he thinks it is important to put out on the table all the cost cutting things FPUA has done over the last couple of years. We have mentioned a few in Human Resources area, and we've cut back on capital improvements, but he knows Mr. Thiess and staff have gone through and scoured and scoured, and we, as those who will be making decisions for the Utilities Authority, really need to have that information close at hand and have the confidence that is being done. There is such a fine line in trying to keep a utility asset healthy, in the ground and in the air, and at the same time being sensitive to real people in our community who are having to pay these bills. That line is so difficult for

all of us. We have Mr. Hamilton come in and talk about this and they are looking at numbers, but it is up to us to be able to get that feel from our people. It is easier for us as Utility Board members to make that decision and pass it on to the Mayor and Mrs. Coke to approve. They are trying to make their people understand it too. We really also need to take what is not in this book and show what the Utilities Authority is doing; what have they done to really cut down? As Mr. Hamilton said earlier, if it is 3% we have to raise, it doesn't always have to be in our rates. It could be in reducing costs. Mr. Thiess is squeezing everything out of that turnip. We need to have the confidence that is being done as it is being done in all the other communities we are talking about. We need to get to that place in time before any real major decisions get going here from both sides. Mr. Drummond said the Mayor made the comment earlier and that may be the way to do it. What happens if we direct staff to come back and show us exactly what happens if we cut the increase by 3%. What does that do to the system? At least there is something for us to actually look at and say, no, we can't do that. What does it hurt for us to see what it looks like? Mayor Benton said we did it with the City. He thinks this year is really tough on the public. People are losing their jobs. Showing them that we are looking at every option we have is a help. He is not saying staff hasn't looked. He thinks it is just knowing that we're that concerned and things have changed that much since we approved our budget. Mr. Thiess said, again, we're asking for nothing for Electric, 5%, 5% and 5% for Water, Wastewater and Gas. Those are pretty nominal rate increases. Mr. Summerhays said yes they are.

Mayor Benton said his water and sewer during the wintertime when his AC is off is almost as much as his electric bill. He is paying over \$100 for water and sewer for a family of three. A family of four or five today is getting hurt in this economy worse than anyone. We are trying to convince people they want to get rid of septic and become part of the City. Mr. Thiess said that is the reason we cut projects from the capital budget this year. With the economy like it is right now that is why we trimmed everything we could and minimized the rate increases. We wanted to keep it to a minimum this year with minimum impact on the customer. Hopefully, next year it will be better. If we have revenue increases, future rate increases get smaller.

Mr. Drummond said he is not convinced. He wants to see something more, because ultimately we're going to ask staff, the Board Members and the City Commission to get on board as we sell this to our customers. He thinks there is still more that we need to be able to show that we are all the way to the bone, even though he agrees that incrementally, the 5, 5, 5 is a lot smaller and no increase on electric is good. But, he thinks we need to show more in terms of exactly how any more cuts would hurt to the point where we are not able to provide services. He doesn't think it hurts us to show that. If it does hurt us to show it, something is wrong with us.

Mr. Thiess said we can certainly show you what we have cut already. We have cut quite a bit of personnel out of the years ahead. Any positions that become vacant from a couple of weeks ago, forward, have to come through him to get approved to be refilled. Mrs. Coke said when you say you cut personnel, you didn't actually trim people. You did what we do at the City. You have a position budgeted, but no one is sitting in the chair collecting a pay check. It is a way in her opinion that the City staff – she is not saying your staff – but our staff has used to have that extra bit of cushion in each department's budget, so then later on they say, well, we never hired this person, so I can buy a new computer system with this \$20,000. Mr. Thiess said we did terminate one person, but the theory there is the position will have to come through him to be approved to be filled, but we are lowering staff by attrition. As people leave, the position will not be refilled in a department unless there is a real need to put a person there to keep up with the work load. We can certainly show you what we did with all the capital we cut out of this year's budget and the budget years ahead. We can show you which positions we are holding open and not filling in departments. If the Board wants to give us

some arbitrary number to cut in O&M expenses, we will go in and take a look at it. Mr. Summerhays said he would never vote for that. Aren't we still substantially below the number of employees we had ten years ago? Mr. Thiess said we are below that level. Mr. Drummond said if we asked to see what affect a 3% cut in the overall budget would be because we didn't have any increases, he doesn't think that means we actually approve it, it just shows what it would do. Mayor Benton said with a percentage like that he doesn't want to tell staff where to cut. Mr. Drummond said he isn't saying where to cut. Mayor Benton said he doesn't want to tell the public if their power goes out it is not going to be hooked up. If it's midnight, it's not going to be turned on until 9:00 a.m. He knows we are doing a real good job with a skeleton crew at night right now. Mr. Thiess said he can tell you in qualitative terms, if we significantly reduce staff, you are not going to have standby crews to come out and turn power back on at night; you're not going to have standby crews to fix water leaks at night. If you cut down staff, you will have lower quality service. If we got into real specifics about how bad the service is going to be, we would have to know how deep the cuts are going to be. If you cut 10% of staff, you will have a very significant cut in service, because we are already down below 300 people. We have 306 budgeted positions. We are well below the 1993 level, and if we cut another 30 people, payroll-wise, it would mean \$2.1 million. The effect of \$2.1 million on the overall rate increase would be 2%.

Mr. Hamilton said for 2009, the rate increases we're talking about will only generate \$700,000 in revenue, so it is 1.2% to get rid of the rate increases. As Mr. Summerhays pointed out, there is still a deficiency of about \$3 million, so the aggregate is about \$3.7 million. This is the scenario of using reserves and not having a rate increase in 2009. Your reserve would then be 28 days. Mr. Summerhays said that is totally unacceptable. Mr. Hamilton said right. He does not disagree. You would at least have to defer another \$700,000 in costs for 2009. He says defer, because according to the capital plan they are needed. That only gets you up to 30 days in reserve.

Mr. Perona said the other thing you have to be really careful about is if we start getting into a survival-type mode where we are doing minimal services and trying to keep reliability and services safe, we also start crossing over the line of bond ratings and everything else, which can be contaminated for years. When he was talking about things the UA has done to cut back, it is not business as usual. We have not been business as usual when it comes to what we spend and budget. It is a new type of business with a whole new philosophy of need-want. When Mr. Thiess brings things to the Board it is not to say this is what we want, but this is what we need. It helps us as Board Members to make that possible. The public, the Commissioners and the Board Members need to know what we are doing as a whole to make sure we are doing everything that we can before we ask for one dime from a ratepayer. That already is probably being done. He is just saying we are not getting that message across, because we are always leaping over a big fiery pit to get to what we should be doing, and it is because we don't have that knowledge out available for people to pick up.

Mr. Thiess said we can certainly get the information out there. We can outline the cuts we've made in this process. We have gotten that out there before. In the last budget we reduced the capital budget by 40% from the year before, the O&M Budget 4%, even with rising costs. We made that public many times. Mrs. Coke said she appreciates all that and agrees with what Mr. Perona is saying. She thinks, perhaps, a different way to have approached this – she knows Mr. Summerhays keeps saying we're not looking into 2010, 11, 12 or 13 – but let her put it to you this way – we pay these people to bring us those figures, and why? In this economic timeframe when we have no clue what is going to happen in six months, whether the economy is going to turn around, and we're going to be on the mend, in which case we can throw all these out, or the economy is going to level off and this would be viable or if it's going to take another nosedive, in which case we need to start all over again. We might

have been better off looking to have a shorter timeframe study, because these figures are going to scare John Q. Citizen. These figures scare her. Whether we are only looking at 09, I don't like even because next year somebody is going to tell her, well we showed you we were going to need this. She doesn't want to see that. She wants to see 09 and she would rather have, rather than spent the money on a study, it's just her opinion, for 2010, 11, 12 and 13, she would rather that we spend a little bit of money and hire an advertising firm to get the word out there that the Utilities Authority is actually being responsive to people and we have cut this and we have cut that. You guys tell your story, because she doesn't know your story, but it needs to be told and it needs to be told to the public in the right light.

Mr. Drummond agrees. He thinks we would be well served to do something aggressive in terms of our PR. Mrs. Coke said you should be proactive instead of reactive.

Mr. Drummond said if there is no rate increase as prescribed this fiscal year that started October 1 and ends in September 30<sup>th</sup>, we would have a \$3 million deficit. Mr. Hamilton said you would spend \$3.7 million of your reserves. On the amended plan that staff has come up with, not the original adopted budget, but the amended plan, you would still spend \$3.7 million, which would take you below the 30 days cash reserves. Mr. Drummond said didn't we propose in our budget that we would use a portion of our reserves? Mr. Thiess said yes, but not that much. Mr. Perona said \$2.9 million. Mr. Hamilton said your original budget and plan did have a system wide rate increase earmarked for 2009. Mr. Drummond said he can recall stating to the Commission that we planned to use a portion of our reserves and take it back down to the 30 days. Is this just in his head? And that it would be about \$4 million that we would be obligating. Mr. Hamilton said you are about in that same place. What you have done to make up for the lack of growth is you have cut your capital plan and the operating portions of the budget that we based it on. The cash position is about that same \$3.7 million. Mr. Drummond said so the monies we said we were going to use is what we are going to use if we don't do anything. So, that shouldn't be a surprise to us. Mr. Summerhays said we would not have budgeted to slip under 30 days of cash reserves. Mrs. Hurtubise said no, we didn't budget it that way, but that was nine months ago when it was put together. Mr. Thiess said the figures today are based upon much more recent figures than the budget that was done nine months ago. Mr. Drummond said the budget nine months ago envisioned us using a portion of our reserves. He is sure that is what we said. Mr. Summerhays said, but not as much. Mr. Drummond said that is the number he thought we used. Mr. Hamilton said it also envisioned higher rate increases than what we are bringing you, as well. Mr. Summerhays said we envisioned more unit sales and higher rates. This is a business. Budgets are a guess. Mr. Drummond said understood. He has worked with this quite a while. He is not having great success with the understanding that if we are going to use exactly what we said we were going to use, why we are upset. That's his problem.

Mr. Summerhays said we should have 90 days in reserve at least. Mrs. Coke asked what you had in reserves when Frances and Jeanne came through. Mr. Hamilton said it was closer to 20 days. Mrs. Coke said and we survived well. Mr. Summerhays said we had 90 days to start with. Mrs. Cully said we had \$20 million in reserves. Mr. Summerhays said it was 20 days, not \$20 million. Mr. Drummond said when we went to the Commission for our first rate increase we were down to 28 days. Mr. Hamilton said that is correct. The first thing we showed was the historical trend from the 2002 to 2003 level when we had cash up to \$20 million, and as you remember, it was spent down during the hurricane years as opposed to doing the rate increases. Mr. Summerhays said that is what we should have done. It all falls under the heading of no good deed goes unpunished. Mr. Hamilton said if we had adequate reserves we could have phased the higher rate increase. The Water and Wastewater Systems are not operating in good standing right now. It is not just future costs, it includes costs in

the past. They are in the negative. We are attempting to use some of the reserves to phase in the higher rate increase. Even with the 5% increases in 2009, you are still using \$3 million in reserves taking them down to 30 days. Mr. Thomas said the other thing as you assess this is when you are looking at these percent increases keep in mind that they are only there for half years, so the benefit of the increase in 2009 comes into play in 2010 when it is there for the full year. That percent increase does not raise revenues very much in 2009, but we need it in 2010, because there is another potential rate increase out there in 2010. Without the 2009 increase, the gap becomes bigger.

Mrs. Cully asked how this 28 days affects our bond covenants? Mr. Thomas said the bond covenants don't speak to cash. They speak to cash flow, but in your credit ratings, they will look at cash balances. When you look at what Moody's and Fitch look at, for a utility in a stable operating environment without a lot of risk, they look at 90 days being the target they like to see. Mr. Summerhays said that is what we should have. Mr. Thomas said it is hard to quantify what the impact of not being there is. Mr. Summerhays said if we needed to borrow, we wouldn't be able to. Mr. Thomas said or you would pay a lot more in interest.

Mr. Drummond said there are two things he would like to see. One, of course, is he would be favorable to seeing something come back to us with regards to some sort of PR program that we can look at as a Board. The other thing, so it doesn't keep getting bounced back and forth between staffs, he would like to see something definitively, formally come back to us with regards to the request in terms of staffing and what can be done. He knows this has been going on for some time, and he would like to have it resolved. Mr. Thiess asked if he is talking about combining departments. Mr. Drummond said he knows staff has looked in terms of the feasibility of what would work and what would not work. He would like for it to get past being in somebody's court. He would like for us to resolve it one way or the other, so we can move on to something else. If it's a good thing, let's see it, if it's not, let's get passed and move on to something. Mr. Thiess said we have put quite a bit of effort into it, and the ball is in with the City's court. He will get with the City Manager's office. Mrs. Coke said if he will just send her a copy of it, she will be glad to get with the City Manager's office. Mr. Thiess said the City Manager might be out of touch for a week or two. Mrs. Coke said that's okay, she has Ann. Mr. Thiess said he will talk to Ann after the meeting and see where we can go with it. We have put quite a bit of thought into it and laid a pretty detailed outline about what needs to happen. We need some input from City staff.

Mr. Drummond personally doesn't think a six month rate increase request to the City is going to work. Mr. Thiess said the reason we put the 0, 5, 5, 5 as a base case is because that is the minimum amount that would be approved going to the Board and City Commission this year. If you take the second alternative, you are taking the six months, plus the October increases. We thought we should do the minimum required and see where the economy and revenues go and put the least pressure on our customers this year. Increases in coming years will be bigger, but we've also pushed the projects out further, too. We slimmed it down for this next year as much as we could with the goal of putting the minimum rate increase on our customers this year.

Mrs. Cully thanked Murray Hamilton and Henry Thomas for their presentation.

There being no further business, the meeting was adjourned.

ATTEST:

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SECRETARY

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CHAIRMAN