

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY, TUESDAY, JULY 20, 2010, 4:00 P.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Robert W. Summerhays, Jr.; Vice Chairman, Darrell Drummond; Deputy Secretary, Michael A. Perri, Jr.; Mayor Robert J. Benton III (*arrived at 4:05*), and David Recor, Ex-Officio Member/City Manager.

Others present: William G. Thiess, Director of Utilities; Rupert N. Koblegard, III, FPUA Attorney; Nina Hurtubise, Director of Finance; Thomas W. Richards, Director Electric and Gas Systems; Timothy E. Perkins, Director Water/Wastewater Systems; Evelyn I. Walker, Director of Shared Services; Douglas W. Giel, Manager of Special Projects; and Putnam Moreman, IV, Internal Auditor.

Excused Absence: Secretary Pamela K. Cully

The meeting was called to order by Chairman Summerhays.

The Invocation was given by Father Bernard Sheffield of St. Julian of Norwich Old Catholic Church

The *Pledge of Allegiance* was recited.

The roll was called and a quorum declared.

John Tompeck, Gas Operations Superintendent, presented the American Gas Association "2009 Industry Leader Accident Prevention Award". He said the award was earned by achieving a Days Away from work Restricted or Transferred (DART) incident rate below the industry average. Only eight small distribution companies nationwide earned this distinction in 2009 and in 2009 the Gas Operations Department had no reportable injuries or days away from work. Mr. Tompeck said that David Parker, the CEO of American Gas Association has stated that safety and reliability are the foundation for the entire natural gas industry. He said he agrees with that assessment and FPUA has worked hard to achieve the best reliability possible while providing a safe working environment for our customers and employees.

Mr. Summerhays said it is always good to get these awards and recognition.

A motion was made by Mr. Drummond, seconded by Mr. Perri, and unanimously carried to approve the items listed on the Consent Agenda:

1. Approval of the Minutes of the Regular Meeting of July 6, 2010.
2. Excuse Secretary, Pamela K. Cully from today's meeting as she is attending the APPA Policy Makers Council Legislative Rally in Washington.

3. Approval of budget transfer in the amount of \$42,351 from 04-4-032-92100-1010 to 04-4-031-92100-1010 to cover over budget amount for new Director of Shared Services move from Information Technology Services

A note was received from The Mustard Seed thanking FPUA customers for the amount of \$245.46 contributed through Project Care.

Mr. Tompeck presented the Gas Rate Stabilization Fund July 2010 Update. He said this includes information through May and some preliminary June information. There have been no significant changes as shown on the graph. The three curves do not have any adjustment made to them to see that the methodology is continuing to work. Essentially the only difference between those three curves is the changes in the price of gas. They show us reaching the rate stabilization floor in December and we are only running those to validate the methodology and compare it to our original base case. Mr. Tompeck said the adjusted curve includes the \$0.05/CCF increase in the PGA that was made in June. He said the adjusted curve shows us reaching the RSF floor in the May/June 2011 time frame and we are not anticipating any increases in the PGA until that time. The average price of gas in the last four months has been about \$0.68/CCF and our recovery has been \$0.63/CCF, so we are still under collecting on a monthly basis. The indications are still good for gas prices in the future and we expect them to remain fairly steady with the normal winter spike. Mr. Tompeck said that is based on some of the indicators being that production is up, the storage is ahead of the normal pace for this time of the year, and shale gas production is up. He said they hedged 48% of the gas for 2011 at an average price of \$5.70/MBTU and that compares favorably with the average price that we hedged in 2010 of \$6.72/MBTU. On the curve it shows in October where it flattened out a little bit. This is an information only item and no Board action is required.

Nina Hurtubise, Director of Finance presented the Financial Operating Results for May 2010. She said there has been quite a swing in the month of May from a net decrease in Net Assets to an increase in Net Assets year-to-date to \$2.56 million, which was a result of booking some very large amounts of Contributed Capital in the month of May. There were \$1.3 million that was billed to the FPRA for A1A, \$1.3 million Non-Cash Contributed Capital for a force main on 2nd Street, and the Airport Industrial Park had a Non-Cash Contributed Capital amount of \$260,000. We have booked a bunch of revenue in May, thus the turnaround from the decrease to the increase in Net Assets year-to-date. Ms. Hurtubise said the other highlights include the Units Billed are gradually coming up compared to last year, but overall the Units are still down from 2008. She said we continue to see an improved cash position due to our conservative spending and although we have a PCA over collection, there is not much left. Our cash position has to do with Capital money that has not been spent. We have about \$5 million in open purchase orders, assuming it is through the end of June, we have spent about \$4.1 million in Capital money to date. We projected \$10.5 million through the end of the year and we may not make it. We do expect to increase our spending the last

three months of the year. Some additional spending has come through like at the last Board meeting, \$500,000 was approved in additional spending. Between the amount already spent and the purchase orders, it is still not at the \$10 million amount. Ms. Hurtubise said we have about 57 days of cash and that is very good, but it is the result of the lower Capital spending. The Units Sold compared to the last two years, Electric Units Sold are up 4.5 %, but down 7.1% from 2008; Water Sales are up 2% from last year, but down 2.6% from 2008; Wastewater is down 2.1% and down 9.7% from 2008; and Natural Gas is up 3.4% for this year and up 0.3% from 2008. Although the graph shows that the Electric Operating Revenues are down 2%, because the PCA is down \$2.5 million and that is pulled out, the Electric Operating Revenues are actually up about 4%. Water is up 3%, Wastewater is down 2%, and Natural Gas is up 2%, but if we take out the PGA, it is down \$140,000 and the Natural Gas Revenues are up 10%. Overall, the Operating Revenue is down 1% company-wide, but in terms of our sales, we are doing pretty well. Ms. Hurtubise said the Operating Income, which is the Operating Revenues minus the Operating Expenses is pretty steady. She said the debt service coverage ratio is exactly the same as what it was in March at 3.05. This is very well above the 1.25 required by our Bond Covenants. Year-to-Date our Operating Income is up \$3.1 million. If we pull out the power cost, which we really have to do because revenue from the customers is basically equivalent to the expenses we pay to FMPA, and if we pull that out, the Operating Revenue is up about \$1.8 million. The Other Post Employment Benefits (OPEB), the non-cash expense that we have restated out of our 2010 expenses because it is a deduction is \$1.7 million, and Other Employee Compensation and Benefits is down \$911,000. Capital Contributions are down \$1.5 million, but it is better than it was a month ago because of the contributions we booked this past month. We had an increase in depreciation of \$1.1 million over last year and that tempers some of the good changes from last year. This is an information item and no action is required of the Board.

Ms. Hurtubise presented the Status Report on Electric Power Cost Adjustment (PCA) for June 2010. She said these are the preliminary results through June 2010. What has been reported in prior months is that there was a full expectation that the over collection that we had on hand back in April would deplete and it has done just that in the two months of May and June. We had an over collection of \$2.2 million as of the end of April. She said she reported that last month it depleted by about \$828,000 in the month of May, in the month of June, fully expected, we gave back about \$1.2 million back to our customers. This month because the cost exceeded what the customers were paying for power costs and our over collection is down to \$211,000.

Mr. Summerhays said that it looks much better than last year at this time.

Ms. Hurtubise said if you want to take a quick stroll down memory lane, at the end of June last year, we were in the hole about \$4 million. We are in a much more controlled situation at this point. She said we do expect to have two more down months before we start recovering back again. We have every expectation that in the month of July the customers will begin to owe us back. The rates we pay to FMPA versus what we are charging our customers for the month of June is \$104.74 per 1,000 kWh. That is about

\$1 less than what we were expecting, but because of other circumstances, it turns out the projections that PRMG provided last month were pretty much right on overall. Ms. Hurtubise said comparing FMPA's projections to how the rates actually turned out, we see that in the last four months, the amounts they have projected versus what the rates turned out to be are pretty close. When we go back to the last three months of 2010, the 50% confidence numbers were pretty far off, the 80% was a lot closer, but near term for the most recent projections they are pretty much on. We are continuing to watch this very closely. The table in your agenda package shows where we expect to be at the end of FY2010. Based on our current \$44 PCA, we expect \$437,312 over collected at that time. This is a little bit better than what we were looking at the end of last month. It was projecting to be \$313,911, which is \$123,401 better and that is a good thing. Ms. Hurtubise said this is at 50% confidence and we have been going with those numbers for 2010. She said last month we asked the Board's permission to hold off until we had some new numbers for projections for consumption as well as the cost values. If we use the 70% confidence levels that FMPA has provided to us, it would appear we would need to raise the PCA to about \$49.75 October 1st and hold that for the entire rest of next year at 70% confidence. However, this is why the different confidence levels are so very important. At the 50% confidence level, it appears we will be able to hold the \$44 PCA all of next year and still come out with a slight over collection at the end of the year. Assuming their 50% confidence numbers continue to work out as they project, we will be good.

Mr. Recor said he always enjoys Ms. Hurtubise's financial reports and he is a numbers guy. He said for the layman it could be overwhelming particularly when they do not know what a confidence level is. He thinks of that every time when a financial report is presented to the Board. For the public's benefit what Ms. Hurtubise is working with is models and when she is talking about confidence levels, those are models and are based on assumptions. If we stick with a lower confidence level, then we are talking about probabilities and likelihoods. It is not anything more complicated than that although it may not sound like it. Mr. Recor said he appreciates the information and wished there was a better way to educate the public so they could follow along and understand the process.

Ms. Hurtubise said that the spreadsheets are so huge that they will not even fit on the screen and they have so many variables in them. She said the information is available at request, but she does not want to boggle the mind too much. These are all projections and they are going to change next month. They have held out pretty well.

Valerie Schulte, Supervising Engineer for Water/Wastewater Engineering presented the proposed FPUA contribution of \$548,309 for the St. Lucie Village Potable Water Municipal Services Benefit Unit (MSBU). She said this amount is equivalent to four years revenue towards the Town of St. Lucie Village Potable Water MSBU. As shown in the agenda item, Ms. Schulte said the past MSBU's have followed this formula which is that four years of revenue on an average of 7,000 gallons per month for 48 months will give us the amount of our contribution. The funds are available in the Capital Improvement Charge account for water and that is what they are supposed to be used

for, to support new growth and customers. The Town of St. Lucie Village has 290 occupied lots right now, 50 vacant, and 67 outside the Village. Using just the 290 occupied lots is how we came up with the four years revenue contribution. Also to note, within this project, they will be installing approximately ten miles of facilities that will be then turned over to FPUA and those will be new assets. Ms. Schulte said this contribution will really help make it affordable for them to construct the facility. She said that within three months they will bring it to their Town meeting and may have approval for the project.

Mayor Benton asked if that meant that the Village would get annexed into the City.

Mr. Thiess said they have worked out a separate Annexation Agreement with the City Attorney and it basically says that if the Village ceases to become an incorporated entity, then the property would be subject to annexation by the City when it is contiguous. He said we have already used that when we connected three properties down past the packing house on Shimonek Lane. When the Grace people brought the water in there, they used that Annexation Agreement. It has been blessed by the City Attorney and the Village would use the same one.

Mayor Benton said he would like to let the Village know that the City is one step closer.

Mr. Perri asked if in the event the referendum does not pass, we would not go forward with this, is that correct?

Ms. Schulte said that is correct.

Mr. Perri said that we will have it committed and can have it uncommitted.

Mr. Thiess said this will come back in the form of an Interlocal Agreement like all the other MSBUs. He said it is the Village Board's discretion what to do with the petitions. There are some public health issues and the County has typically gone with 50% plus one. Everybody likes to have a majority to make sure that at least half of the respondents are on board, but it is at that Board's discretion what to do with the petitions and whether they want to move forward with the MSBU. Mr. Thiess said there have been MSBUs that have moved forward at less than 50%.

A motion was made by Mr. Perri, seconded by Mayor Benton and unanimously carried to approve an FPUA contribution of \$548,309, the amount equivalent of 4 years revenue, toward the Town of St. Lucie Village Potable Water MSBU.

Mr. Thiess said there has been some discussion at the Board meetings about the use of procurement cards and credit cards for payment. He said this Board directed staff to end that process for commercial customers and requested information on what other customers were using and how much that was costing us. We were able to pull out of our data which customers are using credit or procurement cards and we have that information. We have not been able to get from the credit card people what all those

transactions cost. Our Customer Service Manager was concerned that if we did a blanket to end it for all commercial customers that would impact the small businesses that are using credit cards to help their cash flow during the month to month of paying their bills. What we are doing at this point is the City is already paying by electronic check and that is working well. That ended the biggest hit that we were taking of about \$3,600 to \$3,800 a month that we were paying. The other biggest customer is Orchid Island and we have one other fairly large commercial customer that is paying with a procurement card. Mr. Thiess said we are talking to those folks to work with them to find an alternative payment method. He said it may be the best thing we could do for customers as a whole is to manage our bigger customers to convince them to pay another way until our contract with this company expires in three years. We can then negotiate the next one to do just what we want to do. We are holding off eliminating it for all commercial customers until we get some more information and get the transaction costs and then we will bring that back to the Board.

Mr. Perri said he was at the City Commission meeting last night and there was some controversy about our Capital Improvement Program relating to future annexations. He said the consensus was that the City Planners were going to get together with FPUA Staff and get coordinated on this. Mr. Perri said it seemed to him like they said FPUA was not cooperating and he does not know if that is the case.

Mr. Recor said it is one thing to have that discussion on an agenda and it is another as far as when you are down there from the staff's perspective trying to respond to questions under fire. He said the better way of stating it is that there has not been as good coordination that there could have been and that is where Mr. Thiess and he need to intervene. We will call our groups together, bring the resources to the table, and will make sure the effort is better coordinated. Mr. Recor said that fundamentally, yes there are policy issues that need to be discussed as part of that process and we need to be able to evaluate the impacts that it has on the business of FPUA.

Mr. Perri said the other part of the meeting last night was about FPUA tearing up the roads after the City paved them. He said he believes there is a communication problem there also. The City's Engineering Department can let FPUA know when they plan to pave something and give enough leave time so that if we have to do some underground work, we can do it before they pave the road.

Mr. Recor said that for the most part the staffs do a great job of communicating.

Mr. Perri said he did not get that impression from some of the comments last night.

Mayor Benton said the problem last night is they were talking about North Indian River Drive and that is a County Road. He said most of the road work they have done in the 15 years he has been here has been reconstruction work that all the utilities have been replaced and very little paving of the roads. The North Indian River Drive was the issue because that was the County's.

Mr. Thiess said that was the County's force main project.

Mr. Recor said they just took the trolley over North Indian River Drive about an hour ago and it is not that bad. He said there are roads in the City that certainly need attention.

Mayor Benton said they have some Commissioners that need to put some new shocks on their cars or drive a truck.

Mr. Perri said another issue that was brought up is why FPUA is not applying for grants. He said we are applying for grants and are getting turned down. As he understands it, there are some grants available through the City that FPUA can use for capital improvement.

Mr. Recor said the City is looking into that and it is safe to say that if there are resources available for capital projects, on their own initiative they are going to recognize that. He said that if Mr. Perri is walking away from last night's meeting feeling like there is some hype, do not believe the hype. The working relationship and the communication are consistent in their organizations. He said could we improve it, you bet, do we occasionally drop the ball, sometimes. It is not this pervasive problem.

Mr. Thiess said he agrees. He said when he was in the Water/Wastewater Director position, they used to get regularly a schedule for road overlays that were going to be done in the next six months. If water services need to be replaced, FPUA would go in there and do it and he believes that is still going on. On the grant issue, FPUA works with the City. The City helped us get grants for Avenue Q of \$300,000, a grant for the King Plant environmental work of \$600,000, and we are working with the City on 10th Street for FEMA funds for Hurricane Faye flooding that will cover utility work also. Mr. Thiess said we are doing this constantly and are working with the County on grants. They used CDBG funds in the County to do the Oleander Business Park water mains and also the 26th Street sewer work. We got almost \$9 million appropriation from the Legislature to help design the mainland plant and construct the deep injection wells. We have pursued every grant source that is known out there. Last year we pursued \$10 million for the Wireless Broadband project and unfortunately, FPL got \$300 million and we got zero and a couple of other municipals got smaller amounts. FPUA pursues grants at every opportunity and we have succeeded on many of them and most of them with cooperation with the City and the County.

Mr. Perri asked about the Agreement with Jennico Enterprises that is in the Board packet for signatures. He said that he knows it does not require Board approval, but he said other items in the past that were substantial amounts were put out for bids and it does not appear that this one for \$23,200 was. Mr. Perri asked if this was a sole source supplier for the kind of services for engineering. He asked if there was a reason that there is no bid on it.

Mr. Thiess said it is for electrical engineering services for upgrade of the 69 kV relay protection.

Tom Richards, Director of Electric and Gas Systems said the vendor is an individual person that we are hiring to do some specialized engineering work for the Engineering Department rather than try and do it with an employee. We do not have any employees that have that expertise and we believe this is the most economical way to accomplish that without hiring a consulting engineering firm. This also may come under the Competitive Consulting Negotiation Act (CCNA) which forbids us from bidding engineering services. Mr. Richards said this is very inexpensive for the value we are getting.

Mr. Thiess said that it is under the threshold for doing RFPs for CCNA.

Mr. Perri said that he knows it is under the threshold, but he said there have been bids for things in that price range that he has seen before.

Mr. Thiess said the CCNA forbids us to bid consulting work out like that. We would have to go out for an RFP for qualifications and then write the qualification statements and then pick and negotiate a contract with each one. He said with these little ones that is a way too onerous process. We usually identify someone or know an individual that can perform the work and it is a better process to find that individual and do a contract with them.

Mayor Benton said the problem was there was some misinformation. He believes City Staff took something that the FPUA Board went to the City with the 100' hookup that the City Ordinance requires for sewer and this Board's recommendation was for the City to change the Ordinance to match the State Statute, which is when it comes to your property line. There would be a substantial savings to that customer today and it could cost the City a lot of money like several thousand dollars to run sewer down the road to their house. They were also talking about outside our service boundary which is something we would have to renegotiate with the County and Port St. Lucie if we are going to change those. Mayor Benton said that is something this Board, the City Commission and several Boards should discuss; this is way outside of what staff or the Commissioners should have been discussing last night.

Mr. Recor said it was related to the Comprehensive Plan. He said it was a bigger picture issue that turned very specific because of the Breckenridge Project where we have gone beyond the boundary. The precedent has been set and how do we address that in the City's Comprehensive Plan and have we coordinated that with FPUA. Mr. Recor said the answer to that is no, we have not and that is not to say that we have not coordinated on other things, but on that particular issue at that time no we had not. He said it is still at the policy level and that is why the meeting that he and Mr. Thiess will facilitate and get that issue taken care of.

Mayor Benton said one development out there where Mr. Thiess came up with some numbers for them and it moved some heads that night and could change a vote or two because of the steep cost it would have been to supply water and sewer. He said his concern is the way they were going last night, had it been implemented without discussion with FPUA, it would have been similar to what the State does to the Cities

and Counties with mandates. It would have cost FPUA dearly and we just cannot afford to put water and sewer lines in the ground and make people pay as we go. They have to pay up front or else the ratepayer pays. Unfortunately, there are Commissioners who just do not understand the ratepayers are going to pay the bill if we do not have developers pay it. They seem to think this organization has a big fund out there that they can reach into and put pipe in the ground or do anything they please.

There being no further business, the meeting was adjourned.

ATTEST:

SECRETARY

CHAIRMAN