

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY, TUESDAY, AUGUST 2, 2011, 4:00 P.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Darrell Drummond; Secretary, Michael A. Perri, Jr.; Deputy Secretary, Robert W. Summerhays, Jr.; Mayor Robert J. Benton III; 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; Timothy E. Perkins, Director Water/Wastewater Systems; Eve Walker, Director of Shared Services; and Nancy Dallaire, Risk Manager.

Absent: Vice Chairman, Pamela K. Cully.

The meeting was called to order by Chairman Drummond.

Invocation by Pastor Alice Lodomirak of Pearl Ministries.

The *Pledge of Allegiance* was recited.

The roll was called and a quorum declared.

Nina Hurtubise presented the Government Finance Officers Distinguished Budget Presentation Award which is for FPUA's 2011 Annual Budget. She said this award represents quite a significant achievement. It reflects the commitment of the Board and staff of meeting the highest principles of governmental budgeting. FPUA has received this award since the FY 1997 budget, which makes 15 years now. Ms. Hurtubise said in order to receive this award, the budget would have to be rated proficient in all four of the following: as a policy document, a financial plan, operations guide, and as a communication device. She said staff works very hard on that every year as they go through the information that is presented therein. She thanked everyone throughout the Company for all of their contributions toward making it the high quality document that it is. In particular, Ms. Hurtubise thanked her Executive Assistant Cathy Kane, Controller Barbara Mika, and Assistant Controller Michelle Harris. She very much appreciates all their contributions toward putting together the budget. Everybody in the whole company has a part in it.

Mr. Drummond said he wanted to thank Ms. Hurtubise and her staff for their commitment and continued excellence. He said there is only about 3% nationally that receive this award.

Ms. Hurtubise said she is not sure, but it is a very small number that receive it because it is a lot of work. It takes a lot of information and putting it all together and a great deal of effort. She said it is something the bond rating agencies like to see to make sure FPUA is a professionally run organization.

Mr. Summerhays said as another CPA, he had partners that did municipal audits and those things do not come easy.

Mayor Benton congratulated Ms. Hurtubise and said especially at a time in the last few weeks where we have heard so much about a certain budget in Washington that they could not get right if they wanted to. It is amazing how a local utility that is publically owned, but also city government can balance a budget and the same people that elected us are electing the people in Washington that are borrowing millions or billions of dollars from China every day. Mr. Benton said it is very frustrating and maybe they can learn something from local government and how we run things here.

Ms. Bonnie Howard of 8007 Eden Road (Lakewood Park), Fort Pierce said that St. Lucie County still gets 0.0% from truly clean energy. The Nuclear Plant continues daily release of radioactive wastes into the air, water, and earth. This plant draws 976,000 gpm from the ocean, one billion gallons every day and is permitted to kill 100 endangered sea turtles yearly. Ms. Howard said chlorine, hot water, and radioactive waste are discharged back into the sea. She said we are asking the ocean to dilute rad-waste from 442 plants worldwide. A nuclear reactor generated 25 tons of high level radioactive waste annually. St. Lucie has two reactors and this aged plant designed for 40 years, has licenses extended to 60 years. There is also concern about corroded pipes under the reactors leaking tritium into our aquifer. FPL calls nuclear clean. Even the stages of the nuclear cycle, mining, milling, transport, enrichment, fuel fabrication, decommissioning, and waste management use fossil fuels and emit carbon dioxide and radiation. After the 60 years permitted to decommission this plant, it will remain hazardous for thousands of years and the costs will continue. Ms. Howard said if the inevitable goal is safe, clean, and cost-saving energy, why are we wasting precious dollars on black energies that are threatening our existence? Even Wall Street considers nuclear too great a risk to invest in. We don't have to get our energy from catastrophic black sources. The U.S. has fallen behind having been misled into black oil, black coal, and black natural gas. Solar, wind, and water are thoughtful choices we don't have to fear and go to war over. The technology grows ever more durable and efficient. Ft. Pierce is blessed with relentless sun, substantial 13.8 mph winds and our tidal inlet, where the immense power of the ocean comes to us. Of course we can replace the 19% nuclear with clean sources. It's being done all over the world. We now have no clean energy options. Ms. Howard said St. Lucie County can be an example to the rest of the state, boldly moving ahead into a future we can all be proud of.

Mr. Drummond asked if the Staff or Board Members have any item they would like to remove from the Consent Agenda. *(No items were removed.)*

A motion was made by Mr. Summerhays, 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 5, 2011.
2. Bid No. 6071 – Electric Engineering Services for Upgrade of 69KV Relay Protection - Single Source. Approval of additional \$10,000 for Continuing Electrical Engineering

Services for Upgrade of 69 KV Relay Protection Systems under existing contract with Jennico Enterprises, Inc.

3. Approval of Specific Authorization CH-11-02 with CH2M Hill, Inc. in the amount of \$48,031 to provide engineering, well testing, and reporting services in support of the Mechanical Integrity Testing of FPUA Mainland Water Reclamation Facility's Injection Well IW-1.
4. Approval to accept a Nondisclosure Agreement with Dynamic Towers, Inc., and Dynamic Construction Services of America, Inc., to protect confidential and proprietary information during the development and implementation of a mutually beneficial agreement with FPUA.
5. Excuse Vice Chairman, Pamela Cully from this meeting because she is out of town.

A card was received from SSG Melissa Fuetes at the Kandahar Air Force Base in Afghanistan thanking FPUA employees and Stephanie Goings of Electric T&D for the care package she received.

A note was received from The Mustard Seed thanking FPUA customers for the amount of \$295.31 contributed through Project Care and \$50.00 from Electric T&D employees.

Mr. Drummond said it is gratifying to see in these very difficult economic times that individuals still participate in the Project Care Program and that is to be applauded.

Javy Cisneros of Electric Engineering presented Bid No. 6053 – Installation of Underground Electrical Conduit Systems – Unit Price Contract. He said on May 19th specifications for the installation of underground electrical conduit systems were advertised with a scheduled opening on July 21, 2011. Five bids were received and evaluated in accordance with the bid package and the bid tabulation was prepared with units of materials used in a common design job. Mr. Cisneros said MasTec North America, Inc., of Tampa, Florida was the best evaluated and lowest bidder with the bid price of \$79,437.48. This represents a 30% cost savings on comparable items from the current contract, which expires September 30, 2011. The contract amount is not to exceed \$500,000 annually with four optional annual renewals. Mr. Cisneros said staff recommends Board approval to award Bid No. 6053 to MasTec North America, Inc. of Tampa, Florida.

A motion was made by Mr. Perri, seconded by Mr. Summerhays, and unanimously carried to approve Bid No. 6053 – Installation of Underground Electrical Conduit Systems – Unit Price Contract. Approval to accept the lowest and best responsive responsible bid from MasTec North America, Inc., Tampa, Florida, in the amount not to exceed \$500,000.

Bo Hutchinson of Water/Wastewater Engineering presented the project to rehabilitate the Water Treatment Plant Lime Softening Unit 1 and Design Build Specific Authorization with Globaltech, Inc. He said Lime Softening Unit 1 is currently out of service due to its aged and deteriorated condition. FPUA is left with Unit 2 and the reverse osmosis system to produce potable water with no backup. If either of these assets go down FPUA will be unable to produce the quantity of water required for our service area. We will then have to open the emergency interconnects with our neighboring utilities. Mr. Hutchinson said that earlier this year Unit 2 went down and it was a 2-day all hands on deck, late night emergency that demonstrated the critical weakness. He said the project is estimated at a not-to-exceed amount of \$884,210, which \$60,000 of this is for staff time and overhead. The project is budgeted for next fiscal year; however, because of the magnitude of the project, we are requesting \$34,000 to get started this fiscal year. Staff is requesting the Board approve the Lime Softening Unit 1 Rehabilitation Project and approve the Specific Authorization 11-03 with Globaltech, Inc.

A motion was made by Mayor Benton, seconded by Mr. Summerhays, and unanimously carried to approve Rehabilitation of the Water Treatment Plant Lime Softening Unit 1 Project and Design Build Specific Authorization with Globaltech, Inc. for a project cost of \$824,210 (\$30,000 this fiscal year), to rehabilitate Unit 1, approve a not-to-exceed project budget of \$884,210, and approve a post budget project request of \$34,000.

Nina Hurtubise of Finance presented the Financial Operating Results for May 2011. She said there has been a year-to-date increase in Net Assets of \$847,000 because the City Distribution has been paid. The year-to-date increase in Net Assets is a \$1.7 million decrease from FY 2010. We have had a 63% decrease in Capital Contributions over last year and we continue to have a good cash position due to our conservative spending. Ms. Hurtubise said the rate adjustments which included a \$4 reduction in the electric rate began first billing cycle of May. We are beginning to give back through our electric base rate. The Units Sold 2010 versus 2009 as compared to this year shows that the electric is fairly flat. We have had an increase in water Units Billed as compared to 2010 and decreases in electric, wastewater, and gas. Electric is down 3% and up 1% from 2009; water is up about 2% and up 4% from 2009; and wastewater is down 2.5% and down 4.6% from 2009. You may ask if our water Units Sold is increasing why our wastewater Units Sold is not increasing. The answer is because we have had an increase in our bulk water sales where it does not re-enter our wastewater system as well there has been an increase to irrigation because of the drought, which does not re-enter our wastewater system. A residence that uses more than 10,000 gallons is not charged for the gallonage over 10,000. If we have a heavy user of water that is a residence, they will get the benefit of that on the wastewater side. Natural Gas is down about 1% from last year and is up 2% from 2009. Last FY year we had a cold snap in December and January that makes us look bad currently, but really we are doing fine. Ms. Hurtubise said Operating Revenue for electric excluding the PCA is down about 3.5%. The water is up about 1%, and wastewater is up about 1%, the Units Billed is dropping, but the revenues are up. That is predominately as a result of other operating

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revenues and guaranteed revenue charges from developers that started a project and did not finish or hook up. Natural Gas is down about 2% and Operating Revenue overall is down about 8%, companywide. That is the result of the PCA and the PGA, which combined is down about \$4.7 million in FY 2011. Ms. Hurtubise said one of the better methods of determining FPUA's health is to look at debt service coverage and our debt service coverage ratio for the 12 months ended May 2011 is 2.70. The rolling 12 months operating income is fairly consistent and down about 1%. The reason our operating income is up almost \$1 million comparing to last year is because our depreciation expense is down \$700,000, salaries and wages are down actual to actual \$262,000, utilities expense is down \$170,000, and because the utilities costs have gone down, so does the gross receipts tax that we pay on our gas and electric collections. It is down about \$165,000. Our employee's insurance is not experiencing the same favorable claims history that we have over the last 5 years. The costs have not increased as a result of any changes in benefits or increase rates, it is merely claims since we are self-insured and as a result we have to take the bad with the good. The employee's insurance is up about \$500,000, but only because last year was \$500,000 too low, not because we are \$500,000 too high. Ms. Hurtubise said we have an increase on the interest on our bonds as a result of the refinancing of the pooled loans. This is an information only item and does not require any action of the Board.

Mr. Summerhays said it has been a while since he has expressed an alarm on our unaccounted for units and they are all up even though it is not a huge amount. He said he assumes they are up because of theft, but in the past we have occasionally discovered things that were not working quite properly when we investigated. He is suggesting that we consider doing that.

Ms. Hurtubise said in particular water for the 12 months is about 5% and anything up to 10% is good.

Mr. Summerhays said he would have questioned it a long time before now if it hits over 10%.

Ms. Hurtubise said electric is a little over 4%.

Mr. Summerhays said they are not up high, but they are up higher than they have been.

Ms. Hurtubise said gas is 1.4% and generally in tolerable limits.

Ms. Hurtubise presented the Status report on Electric Power Cost Adjustment for June 2011. She said the last couple of months we have been giving back quite a bit of money to our customers and reducing the over collection we have had. The last three months we have given back about \$1.8 million so the cumulative over collection is at about \$2 million. We expect it to continue to decrease as time passes. What we are paying to FMPA is more than what we are charging the customers. The amount FMPA charged us for power including the nuclear was \$86 for 1,000 kWh and that is a decrease of \$1 from May. What that means moving forward is we are at \$34 and anticipate holding through the end of the fiscal year. The other good news we

received is in the projections from FMPA. Our rate consultant took those numbers and plugged them in through the end of September 2012 and \$42.75 was projected for the last two months, but they are now showing that we may only need an increase to \$39.50 if we continue to keep the PCA to \$34 through the end of the year. The future prices of natural gas just inherently are high when we look far out into the future. As the future gets closer, those prices tend to come down so what we see is that although there are very high projections out in the future, there is a possibility those projections could be too high and we will not have to pay as much as being projected. We have to go with the projections we have today and it was a very positive change from what we have been seeing. What is being presented today is the option of going from the current \$34 up to \$39.50 in one shot in the month of October. Another option the Board may wish to consider is to do \$2 incremental increases in October, November, and December and that would put us up to \$40. This would be a gradual increase and should the projections continue to drop, we might not have to make the other increases. Ms. Hurtubise said the two charts on the screen show how much we are recovering from our customers with the red and the gray bars and the blue line is what we are charged by FMPA. The last three months, the amount FMPA is charging is higher than what we are recovering from our customers. The history of our power cost adjustment going back to 2008, back in those \$54 days seems like it was only yesterday and hopefully that is in our rearview mirror all the way down to the \$34 PCA we see today. This is information only and no change to the PCA is being recommended at this time.

Mr. Perri said it looks like since April we have been steadily decreasing the amount of the short and possibly we might still be decreasing it as the months go on. It looks like some kind of trend. Perhaps we will not have to raise it to the \$38.

Ms. Hurtubise said she hopes we do not have to raise it and that their projections are too high, but they may be too low.

Mr. Perri said he understands that and he is looking at the trend of April, May, and June. In April it was \$752,000 short, now it went to \$622,000, and June it is \$409,000. Hopefully it will come in \$200,000 next month. He said he is not happy about the prospect of trying to have to raise any of our rates after just going through the decreases.

Ms. Hurtubise said a \$3.25 reduction over what they were projecting last month is a very positive thing. We will continue to watch it.

Ms. Hurtubise presented Resolution No. UA 2011-08, adopting the Annual Budget for the Fiscal Year Ended September 30, 2012 and amending the FY 2011 Budget. She said it has been a long year and we are budgeting year round now and she pulled out an email from one year ago today where we started looking at cost cuts. We have been actively controlling and reducing costs as it shows in this budget. These are the budget amounts we are asking the Board to approve and it looks like 2012 is more than 2011. Predominately the reason for that is the projected amount of our power cost. One of the later slides shows that our power costs are

about 40% of our total budget so when there is a change of a few percentage points in those costs it throws our entire budget out of whack. If power costs are higher, although our costs go up, our revenues do too as a result of what we charge our customers. There is a certain level of comfort in being able to recover any additional costs. We have had a very good year in 2011 with our power costs. Ms. Hurtubise said the cost cuts staff started working on one year ago were presented to the Board in January, but many of them had already been implemented or were put in place immediately. The impact of those costs reductions, which was in the form of the base rate reduction, has already been passed along to FPUA's electric customers. That is the biggest reward of all, being able to pass it along to our customers.

Mr. Summerhays said they have noticed it too, but that does not mean they did not complain.

Ms. Hurtubise said included in the Operations and Maintenance Budget is a contingency of \$500,000 in 2011 and 2012, which is a change from years past. We do not expect to spend that and if we had to, it would be brought back to the Board. Included in the Capital Budget for the very first time, we have identified an amount for contingencies instead of budgeting for the "just in case" and "what if", the number included in Capital is \$3.5 million. We do not expect to spend it, but if it is needed, the request would come before the Board before the funds are committed. We should not have to use those funds, but in the utility business things break down and it can be very expensive when that happens. Ms. Hurtubise said both of those contingencies, as well as noncash items, were excluded from the rate sufficiency analysis, so we better not have to spend them. The budget funded by rates took a dip in 2011, but has steadily decreased since 2009 and 44% of FY 2012 budget goes towards purchases for resale, which is a cost that FPUA cannot control. FPUA is not proposing any cuts in customer services, no reduction in lobby hours, service trucks are continuing to roll just as they have, but we have cut back quite substantially. Most departments are holding back on current spending and they may or may not spend remaining funds they have in 2011. Since 2009, there has been a 48% decrease in rate funded capital spending. The capital numbers as well as the operations and maintenance numbers are holding fairly steady. The increase in the 2012 budget is primarily driven by the increase in purchases for resale in the amount of \$6.4 million projected. Ms. Hurtubise displayed a slide showing the breakdown of the revenues by the different types of sales, general service and residential. She said when the 2012 revenue budget is compared to the original 2011 revenue budget, there is a substantial decrease. It is not a result of 2012 trending downward as much as it is the original 2011 budget including grants and capital contributions which were not received, and therefore, not spent. For example; the largest decrease in revenues is in capital contributions, which is the result of the lack of development primarily. There are some other items in that we originally had hoped for in the non operating revenues. We had some grant revenue that was not received and that was pulled out. Those one-time increases are not reflected in 2012. The next slide shows the same information sliced and diced a little bit differently by the different systems. The largest part of our revenue comes from electric. The revenues for 2012 are going to be a little bit higher than 2011, but not as high as the original budget in 2011. Breaking it down, system by system, the line graph represents the consumption and the bar graphs represent the dollars or the operating revenues. The orange on top is the power cost adjustment and the red is the rest of the

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operating revenues. The revenues have increased to a certain extent in recent years, but are pretty much flat for 2009 through 2012. The only difference is in the PCA and the revenues are very flat. Water revenues are on the increase. The consumption is pretty much flat, although it has been increasing through the month of May. Wastewater units billed are on the decrease, operating revenues pretty much flat. In Natural Gas, the consumption is pretty flat and there was an uptick between 2009 and 2010, but it is fairly steady. The PGA is not expected to do anything radical in the next year. Ms. Hurtubise said if we slice out the Operations and Maintenance Budget (O&M), not just rate-funded, but the entire O&M budget, it shows that the basic O&M budget and things we can control and are cash driven has actually been decreasing. Depreciation is a non cash item and the Purchases for Resale, which is the part we cannot control, dominates our budget. Amongst the costs that can be controlled is personnel services and what has been done is closely examined. Any positions that have become vacant over time, whether they are for retirements or for other reasons, we have reevaluated if the position needs to be filled, and have really benefited from doing that over time. It has been done for three years now and this year we saw a \$377,000 decrease budgeted. There are 15 positions that have been held vacant, 9 more were held vacant in 2011, and the drop program saves FPUA money. In this case, the savings is \$135,000 in 2011 and \$144,000 in 2012 due to contributions to the retirement system that we do not make for those employees. They are still working for us, but because they are in the drop program they are retired and do not contribute. There were 286 positions approved in the 2011 budget and that number was reduced by two positions before the year even started. The FTE count has been reduced during 2011 by nine positions and staff is requesting approval of 275 positions as of September 30, 2011. We are requesting to add two apprentice positions in FY 2012 in the mid year to offset the anticipated retirements. There is a listing of the head count by department on page 19 of the annual budget. Ms. Hurtubise said the estimate for the City Distribution in FY 2012 is \$4,852,052, the FY 2013 estimate is \$4,837,188 and that will be on the 6% calculation; the 40% calculation no longer applies. She said the proposed Capital Budget for FY 2012 is approximately \$11,680,000 and we are also requesting the funds for contingencies, just in case and not considered in the rate base, so that the total Capital Budget is approximately \$15,250,000. Looking back to 2008 through 2010 to see where we have been, there is a huge drop from 2008 of the original budget of \$48 million all the way down to the actual 2012 expense of \$7 million. The budget numbers looking forward 2012 through 2016 are pretty consistent and stable. There are a couple of different items that show up, such as in 2015 where we have a second deep injection well at the water treatment plant for \$4.7 million and in 2016 a Floridian Aquifer Well Construction. The contingency in 2012 is a little high because of a particular project that may or may not go through. Ms. Hurtubise said the slide on the screen is the same data showing where the money is coming from to pay for the budget. The rate-funded portion is pretty stable as is the Contribution in Aid. The \$4.7 million will be funded by Capital Improvement Charges because it would serve new customers as well as the Floridian well project. The Contingencies in 2013, 2014, 2015, and 2016 are pretty consistent. Staff is only requesting approval of the 2012 Capital Budget. There usually is a long list of major Capital projects, but since many of them are on hold both at the federal, state, and local levels, much of the capital projects are linked to renewal and replacement work. The governmental and other required work, the Lime Softening Unit 1 rehab as seen earlier today

and for South A1A we still have portions of the water and wastewater that still needs to be completed. About 40% of our entire budget, including the contingencies is required by outside parties, regulatory agencies as well as the Florida Department of Transportation, the City, and the County. These are not really in our control, we are doing a renewal as the result of a road project and to improve reliability, but not necessarily and in many cases, no extra revenue as a result. Ms. Hurtubise said staff is requesting approval of Resolution 2011-08, adopting a budget for the FY beginning October 1, 2011 and ending September 30, 2012 and amending the budget for the FY beginning October 1, 2010 and ending September 30, 2011 for the Fort Pierce Utilities Authority of the City of Fort Pierce, Florida.

Mr. Perri asked Ms. Hurtubise to back up one slide and questioned what the regulatory requirements are for the City of Fort Pierce.

Mr. Thiess said that would be improvements to South A1A.

Ms. Hurtubise said the slide states the funds are for Governmental and Regulatory Requirements and it probably is the A1A project. It is a government project that requires us to move or relocate our lines out of the way.

Mr. Thiess asked for the slide that shows the list of the projects. He said the lime softening Unit 1 is part of the money and the A1A project is a big chunk of the \$800,000.

A motion was made by Mr. Summerhays, seconded by Mr. Perri, and unanimously carried to approve Resolution 2011-08, adopting the Budget for the FY beginning October 1, 2011 and ending September 30, 2012 and amending the budget for the FY beginning October 1, 2010 and ending September 30, 2011 for the Fort Pierce Utilities Authority of the City of Fort Pierce, Florida.

Mr. Drummond asked where the budget goes from here.

Ms. Hurtubise said it will go before the City Commission on August 15th.

There being no further business, the meeting was adjourned.

ATTEST:

SECRETARY

CHAIRMAN