

MINUTES OF A SPECIAL JOINT WORKSHOP MEETING OF THE CITY COMMISSION OF THE CITY OF FORT PIERCE, FLORIDA, AND THE FORT PIERCE UTILITIES AUTHORITY BOARD, HELD AT THE FORT PIERCE UTILITIES AUTHORITY ENERGY SERVICES CENTER, 1701 SOUTH 37TH STREET, FORT PIERCE, FLORIDA, AT 2:00 P.M. ON THURSDAY, JULY 12, 2007.

Upon Roll Call, those present for the City Commission were: Mayor Robert J. Benton; Commissioners Christine Coke and R. Duke Nelson; City Manager Dennis Beach; City Attorney Robert Schwerer; and City Clerk Cassandra Steele. Those absent: Commissioners Rufus Alexander and Edward Becht.

Upon Roll Call, those present for the Fort Pierce Utilities Authority were: Chairman Thomas Perona; Secretary Pamela Cully; Vice Chairman Darrell Drummond; Deputy Secretary Robert Summerhays, Jr.; Mayor Robert Benton; Executive Director Bill Thiess; and U.A. Attorney Rupert Koblegard. Those absent: None.

The Pledge of Allegiance was recited.

The purpose of the Special Joint Meeting was Presentation of **FPUA Budget Projections for FY 2008** - FPUA Budget Assumptions, Renewals & Replacements, Budgeting Process, Cost Cutting Measures, Projected Budget for FY 2008, Rate Revenue Scenarios, and South A1A Project Funding.

Mr. Bill Thiess, Executive Director of Fort Pierce Utilities Authority, said first he would like to thank them all for coming.

He thinks this is good information. This is something different, they haven't done this before. What they would like to do is present their budget and a few other things and have some open discussion.

That way, when the U.A. Board sees the budget and the City Commission sees the budget, it won't be the first time. Here is what they are going to try to do today. They have **Budget Assumptions** they make.

That is things that they are assuming they are going to do in the construction of their budget and the service they provide their customers. They are going to go through the budget assumptions. They are going to demonstrate the urgent need for utility-wide renewals and replacements. They are going to explain their budgeting process overall. They are going to explain the cost cutting measures they have taken in the past year. They are going to discuss their future rate revenue scenarios looking out ahead to 2008. Budget Assumption #1, they are going to maintain service reliability at or above the industry-accepted standards. The FPUA is designated by the American Public Power Association as a RP3 level provider; that is, Reliable Public Power Provider. They are one of 40 utilities in the nation that are at the diamond level. They are very proud of that. That means the outages they have are shorter duration, less frequent than other utilities. They have everything it takes to respond to things quickly. They do similar things with water and wastewater. If a water main breaks in front of someone's house and they call dispatch, as soon as they hang up that phone, the line is ringing to call their night crews to come out. They get out there very quickly and fix it very fast. That is important to their customers. Budget Assumption #2, fund renewals and replacements annually at a pace that will replace aging utility infrastructure before it becomes a financial and service liability. They have some really good stuff over here on the table he wants to show them. It is the old stuff that was pulled out of the system. That is critical. That is something that is not just unique to Fort Pierce.

In any old utility system they would see the same stuff. It is a nationwide and statewide problem, worldwide actually. Budget Assumption #3, they want to continue to budget for and develop the utility infrastructure that is necessary to keep pace with growth within their service area. In other words, they don't want the

utility service to be a limiting factor for growth. At the opposite end of this spectrum, if they said they are not going to do that at all and are going to ignore that, they would be looking at moratoriums or lacking and diminishing service at some point in time.

Budget Assumption #4, they want to continue to maintain adequate resources to participate in City, County, and FDOT roadway improvement projects by addressing the utility relocations. In the package he handed out last week (dated July 5, 2007) in Attachment H, it listed for Fiscal Year 2008 the projects that follow these categories, projects that are mandated by other agencies. It was a substantial amount. Just looking at all these rolled together, all the agencies, he believes it was \$16 million in projects. That is things they have to respond to and they really don't have any choice but to do those projects. There are choices, but those are not good choices. Because if they don't do it, there are bad things that will happen. Budget Assumption #5, continue to meet all government-mandated regulatory criteria. That is State and Federal law. They have no choice but to do that. If they don't do that, DEP alone can fine the FPUA for any plant or any other area where they have a problem up to \$10,000 per day per incident. And that has been done. They are not beyond doing that. Also in addition to the fine, they can be under a Consent Order. Those Consent Orders are extremely costly. So really by staying on top of this, they are staying ahead of the game and saving money for the utility and their customers. Budget Assumption #6, continue to maintain adequate staffing levels to provide an acceptable level of customer service. Budget Assumption #6(a), Provide face-to-face interaction. To their utility and their demographics, that is very important. They have a lot of walk-in people who come in and pay their bills with cash. On a good day they will take in over \$100,000 in cash in the lobby. A large segment of their customer base does that. Of course, they have some who do the electronic thing and all that. But they really have a lot of walk-in service. If they take that away, they have some real problems getting those payments in. Budget Assumption #6(b), provide timely response to complaints and customer requests. When a call comes in during the daytime or evening, that person in customer service has to generate the work order to get the people rolling. It all takes customer interface. Budget Assumption #6(c), process new connections within a reasonable time frame. If somebody comes in for service, they don't want them waiting two weeks or three weeks to get service, they would like to get them hooked up as soon as possible. Again, they have to have staff to do that. Budget Assumption #6(d), restore service interruptions in a reasonable amount of time. They have to have the personnel to do that. If they don't it takes a much longer amount of time to get people back in service. Budget Assumption #6(e), continue to provide a safe work environment for their employees and minimize utility-related safety risks to their customers. There are some costs associated with that. There is also a lot of savings associated with that. By doing that, this year they are running very good in safety, there are very few incidents. What that does, it saves costs by minimizing downtime from work-related injuries, time on the job, medical costs, and insurance costs. The second part of that for their customers, by maintaining their system, making sure manhole covers are on, and there are not things out there for them to trip up on. It minimizes injuries to them and their liability and insurance carrier to take those costs. It also minimizes lawsuits.

That is very important and that is also important to keep the bottom dollar down. Budget Assumption #7, maintain competitive rate structures for electric, water, wastewater, and gas utilities on par with other utilities, and keep their electric rates near or below the FMEA-published mean. He doesn't think they would get any

disagreement on this room on that one. Budget Assumption #9, provide adequate staffing to allow effective succession planning for key positions in the company. They have a whole lot of people in upper management positions now who are in their 50's or maybe approaching their 60's. They have recognized this a year ago or so, and this was addressed at their strategic planning. What they are trying to do in this year's budget, they will see this year's budget has a few more employees than 2007 did. They are budgeting some assistant positions so they can bring some people in under those people, train them for a couple of years; and when their long term 25 or 30 year people go out, they will have competent people for those positions.

Those are extremely important positions - the position of Superintendent of Plants, Operations, Water and Wastewater Operations. If they don't have somebody competent in those positions, it makes it hard to do what needs to be done. Budget Assumption #10, expenditures for relocation of the Island Water Reclamation Facility will be excluded from the FPUA budget to the extent possible. They are going to seek outside funding for those expenditures. They can't do that 100%, because once they made the decision that all new capacities going west, there is some infrastructure they have to build. But they don't have to decommission the plant or build that capacity out west until they get the funding. They are still looking at several avenues for that.

Some day it will come, but it is not here today. It is not going to be in this budget or the budget over the next several years. Budget Assumption #11, this is very important, maintain rates at a reasonable level to maintain FPUA's financial health and credit rating - that is right in their Charter, they have to do that - and to assure the distribution to the City is not diminished by bond covenant resolutions, that is the 60/40 thing. As long as they keep their rates at a level to stay ahead of that with the 60/40 split, it does not start diminishing the City's transfer. That makes the City happy and it makes the U.A. happy. Budget Assumption #12, maintain adequate resources to assure a timely and effective response to emergencies and natural disasters. He thinks they showed in the 2004 hurricanes, when Hurricane Frances came and Hurricane Jeanne came right behind it, they were one of the first utilities in this area back on line. They had everything up and running seven days after Hurricane Frances and about four days after Hurricane Jeanne, other than people who had things like the weatherhead ripped off their house or problems on their side. When Hurricane Wilma came through South Florida, FP&L had folks out for up to six weeks. So the FPUA responds very quickly. They have all the plans in place to get the crews in here. They had crews from as far away as Canada.

They had something like 120 or 130 people in here just getting on it right away. As soon as the roads were clear to drive down here, those crews were on their way. Budget Assumption #13, this is important too, conduct their business and operations in a manner that incorporates conservation practices and exemplifies good stewardship of the environment. There are some costs associated with that, but there is also a lot of cost savings in the conservation area. Actually they probably have more savings out of that than cost in that. Those are the assumptions they came up with. He thinks those are all important. He would like to bring it up for discussion and see if everybody agrees.

Commissioner Nelson said let him lead off on a question relative to the relocation of the water treatment plant on the Island, Budget Assumption #10. They have taken measures to try to get funding from various sources to facilitate that. They have gone so far as to estimate the cost that is going to be involved in relocating that and have gone around telling people. In his circles he has told

people they are going to try to do that within five years or so. What is Mr. Thiess's basis for excluding this from their budget process now?

Mr. Thiess said he thinks it has always been their position, and he thinks the position of at least some Commissioners, that they weren't going to just dump that load on their customers. They did get the \$8 million the first year. They didn't get it this year.

He has a meeting scheduled with Representative Mayfield to kind of debrief that whole thing of what happened in Tallahassee as to why they didn't get funded this year. As they move ahead next year, if they did something wrong, they will do it right. If they were to just take it and say they will bite the bullet, they will put that \$80 million to \$100 million on their customers, they would probably right off the bat in year one have a 60% or better rate increase. That is just not acceptable. It would automatically price them as one of the highest wastewater utilities in the state if they were to give up on the outside funding and put that on their customers.

Commissioner Nelson said they got \$8 million the first time they asked for a grant. They asked for it the second time and they didn't get any.

Mr. Thiess said that is right.

Commissioner Nelson asked parallel with their getting of the grant, they didn't budget for something to give them some leverage to further make this happen?

Mr. Thiess said they are not budgeting anything to relocate the plant.

They are still budgeting to build their capacity when they need it. As he will get into shortly, that need is out there. The last time they talked, they were looking at putting the plant on line on Glades Road in July 2009. Now they are looking at pushing that out maybe three years to 2012. The residential housing growth slowed down in this area to a crawl, to a virtual standstill. They have reworked their estimated connections over the next five years. Instead of being up in three or four years, they are down. So they kind of dialed back the assumptions. And with that, the wastewater flow projections decreased also. Now it looks like it will be pushed back to 2009 and that also helps them out here with the budgeting rates because they don't have those expenses in the next couple of years.

Commissioner Nelson said he is trying to make sure that the City and the U.A. are in sync with one another. They had their charrettes and they talked in terms of relocating that plant and they had a fairly decent timetable as to when they want to do it. He was under the impression that they were moving fairly well on it. Now they are going to move it back?

Mr. Thiess said they haven't given up. They are still talking about talking with developers and going back to the Legislature and getting in more money. But when they prepare a budget, it has to either be there or not. If they put \$50 million in the budget this year to relocate the plant, they have to designate where that money is coming from. Right now, unless they just want to look at the pie in the sky thing, thinking that somebody is going to give it to them, they would have to put it on the ratepayers. Until they identify the source, they are just going to leave it out there. They haven't given up on it by any means. They will probably talk to the

Legislators, they will probably talk with folks in Washington, they are going to chase it hard; but they are not going to put it on the backs of their ratepayers.

Chairman Perona said the Utilities Authority is very involved with the Task Force, as well as the City and the County, in trying to get these efforts. Part of their direction is to get that done. They have been meeting with them. It is a process that is going to take a lot of time. But he is encouraged by it. He was frustrated at first, but he is encouraged by it. The steps they are taking are baby steps because it involves different governments and everything else like that. But they are moving in the right direction. And that is probably the only way it is really going to get done. They have a force in numbers there and they have a lot of people with a lot different pull and stuff to be able to get the funding accordingly. But the Utilities Authority is very involved with that movement. He and Mr. Thiess sit on that Task Force Committee as well as City Commissioner Becht and County Commissioner Craft and staff. They are moving forward, not fast, but they are moving forward.

City Manager Beach said the statement under the budget assumption is that they haven't included money for that purpose. That statement doesn't mean that is not still a goal of the FPUA and of the City and everybody else. That is still something that is being worked on. It is not part of this particular budget preparation.

Commissioner Nelson said that is his point exactly. If they just put a little bit in there, that telegraphs to somebody that they are still trying. A thousand mile journey starts with a single step. Getting \$120 million might start with the \$8 million they had.

Mayor Benton said they already said they are going to decommission that plant almost eight years from now. Their intent is to move forward. But the market has changed, everything has changed, and they are going to have to get very creative on how to do it. Because as they know, with everything that has been put on the rate payers, they couldn't have very well put that expense on them. They are going to have to find funding from the State and Federal government. And he thinks they are going to have to get creative with developers and see if they can possibly lease that land out when they do have this charrette they are having in the near future.

Mr. Thiess said also note that to the extent possible, they do have money in this budget for force mains going down Jenkins Road into the plant site. That is money that will make that happen, money needed for that plant. There is also money in the budget for designing the plant to finish up. That goes in the next fiscal year. And to finish up the deep injection well. So there is money in this budget that eventually will serve that plant, but it is only things that they have to do at this point in time and not related to moving the capacity off the Island. That is for another budget, another time, and other source. They haven't given up on that idea. It is just not in the budget for this year.

Commissioner Coke asked is Mr. Thiess talking about they have in the budget planning for the other plant - force mains and things? Would those not be paid out of impact fees from development that is going in?

Mr. Thiess said some of that can be paid by impact fees. Also, the \$7.9 million, they are now under contract with South Florida Water Management District. They get 50% reimbursement on all of that,

everything they spend on the force main going down to Jenkins Road, they get 50% reimbursement. The deep injection wells, they are going to get 50%. So they are going to burn up the \$7.9 million between the deep injection wells and the force main. They are going to get FMPA's money toward that injection well.

Commissioner Coke asked they are burning up what \$7.9 million?

Mr. Thiess said the \$7.9 million that the State gave them last year.

Commissioner Coke asked to move the wastewater treatment plant off the Island?

Mr. Thiess said no. That \$7.9 million is toward this first phase of this plant on the mainland, not necessarily toward moving that capacity. The way the grant was written was to help fund this first phase as the initial step to build the basic infrastructure, so that when that is ready to go, they have the basic plant there and the force mains and the pump stations.

Commissioner Coke said then she guesses she needs some clarification. It seems to her that the new plant should some place along the line be funded by impact fees.

Mr. Thiess said to some extent it is.

Commissioner Coke said because it is handling new development.

Mr. Thiess said yes, impact fees are plugged into the funding for the new plant also. The impact fees, the State grant, and the FMPA funds are probably the three major sources, and some by rates too.

Commissioner Coke said that is what her point is. If they are taking that \$7.9 million and utilizing that toward things that cannot be legally expended from impact fees, that is one thing. But her concern becomes is that the impact fees they are charging should be sufficient to cover a large percentage of the new plant. And the funding they are getting, like grants like this, should be... Because there is no way they are going to get any funding to move things off the Island for a grant like that.

Mr. Thiess said they can't structure impact fees to cover short term expenses. If they did, the impact fees would be sky high. Impact fees will be paid by customers going to that plant now and 20 years from now. So if they could get everybody who is going to connect to the plant in the next 20 years to pay the impact fees up front, then they could build it from impact fees. But the way impact fees are structured, everybody who hooks in pays and they don't get all the money up front. A lot of the money is down the road. They are using impact fees toward plant costs, they are using State grants, they are using the FMPA funds, but impact fees by no means covers the whole thing.

Commissioner Coke asked have they looked at recently how FPUA's impact fees relate to, for example, Port St. Lucie Utility's impact fees?

Mr. Thiess said yes. They did an Impact Fee Study last year, in October he believes, and looked at and compared them. These are really developed based on what the U.A.'s needs are; but yes, they do look at what they are in comparison to other utilities.

Commissioner Coke asked how are they compared to other facilities?

Mr. Thiess said they are in line. They are probably higher than some and maybe a little lower than a few. But they are definitely up there where everybody else is. They are not way lower than anybody, let him put it that way.

Commissioner Coke asked how are they compared to the Port St. Lucie Utility's impact fees?

Mr. Thiess said he thinks they might be a little higher than Port St. Lucie.

Mr. Murray Hamilton, Rate Analyst from PRMG (Public Resources Management Group, Inc.), said he is pretty certain that they are.

Mr. Thiess said they are a little higher than Port St. Lucie. They are right in there with the County, he thinks pretty even. Everybody is kind of neck and neck. Are there any other questions on these Budget Assumptions? Is everybody comfortable with these? They all think these are good things that a utility should be doing.

Commissioner Nelson asked did they by any chance put in their budget the possibility of paying a COLA for the employees?

Mr. Thiess said it is not in this year's budget. They like the idea, but they just didn't feel like the time was right to put it in this year's budget.

Commissioner Nelson said he just wanted to pass it on for information.

There are a couple of people sitting on the Fire Board over there and he understands they are trying to or did enact some 2.1% COLA for their people. Those types of things have a tendency to boomerang to all the other employers with similar type situations. He probably will be bringing that same information to the City because, as he indicated, it is a potential boomerang effect. The rationale being - and he hasn't been able to track it down yet - that he thinks this was the year that the Fire Department got out of paying the money to the Community Redevelopment Agency, for both Fort Pierce and Port St. Lucie. So the monies they had to cough up to defray that cost might have come from that source.

Mr. Thiess said they brought that to the U.A. Board a month or six weeks ago. The Board told staff they liked the idea, but it probably is not a good time, bring it back in a little bit and they will revisit that issue.

Commissioner Nelson said okay. He just thought he would mention it.

Mr. Thiess asked are there any other questions on the basic Budget Assumptions? He wants to make sure they are all on the same page with these. **Replacements and Renewals** is one of his favorite areas.

He has been in the utilities business for awhile. At least three of their utilities goes back 100 years - water, wastewater, and the early days of the electric was about 100 years ago too. He wants to show them a couple of things here. He will pick out a couple of his favorite examples for them to look at. This is a cast iron water main. Actually the tuberculation is probably a little heavier than that before they cut the pipe open.

Commissioner Nelson asked is that an example of poor maintenance?

Mr. Thiess said no. This is just an example of the material. This is the material used back in the 1940's for the water main. When they look at that, they would say they wouldn't want their dogs drinking out of that. Well guess what, guess who is drinking out of that? He is, they are, everybody else is.

Mayor Benton asked did that pipe come from Indian River Drive?

Mr. Curtis Morris, Superintendent of Water & Wastewater Operations, said that did not come from Indian River Drive. He is not sure where it came from.

Mr. Thiess said but it is not unusual for their system. It is not unusual for any utility to have pipes this old. People don't see it a lot, but that is where their water comes from. They cut any of these cast iron pipes installed in the 1920's, this is what they will find. This is one of Curt Morris's collections. This is water service line.

Mr. Morris said that was probably taken out about three weeks ago.

Mr. Thiess said three weeks ago somebody was getting their water through this galvanized water service. If they look down the pipe there, they can see it is maybe a little smaller than a pencil, an area that water could flow through in this galvanized maze. It is virtually rusted up and almost closed up. These will continue like this until they fall apart and water will end up flowing through the yard. How many of these are still in service?

Mr. Morris said they probably got close to 12,000.

Mr. Thiess said 12,000 galvanized water services still in a condition similar to that.

Chairman Perona said they saw the big cast iron main. He knows they used a pigging device that went through and cleaned them all out.

Wasn't there supposed to be a liner in that thing. Eventually it erodes and that is why they have this metal. Not everybody gets the tuberculation right off the bat. It is after they lose the liner after so many years.

Mr. Thiess said these pipes were never lined, that is the problem.

The cement lined pipes will still be nice and clean. They did pig that main on Indian River Drive and they did line it after they pigged it. There are measures to do it, but it is almost as expensive replacing the pipe. When they pigged that main on Indian River Drive, it cleared out the main and they got a better flow; but that tuberculation rust just started on that fresh pipe and their water quality problems were worse than they ever were. These water mains like this are not a health hazard. The only potential health hazard is once they break is it opens up the system to bacteriological contamination. These minerals in there are iron and calcium, things that are good for bones. But it is not a health hazard. They could make little tablets out of it and sell it on the side. But it does contribute to water quality problems. They do get color. If somebody does something and opens up a hydrant down the street and shakes a bunch of this stuff loose. In fact, when he was working on the Savannah Repump as a consultant, they had a water hammer situation down there. Mr. Dannahower was Mayor at the time. Apparently somebody was in their house taking a shower, they had that water hammer, and she just got doused with this orange stuff. This is not a good situation.

Mr. Morris said all of this stuff here has been taken out of their system within the past two months. This is just some samples, what they see here.

Mr. Thiess said there is a whole lot more of it out there. This piece is from the sewer service. They can see the holes in the side, the cracking. This is another 100 year old piece. Once that crack gives way, that sewage is going underground or out in the street.

Really, their biggest problems are not these little services, but the big 18-inch or 24-inch mains, like on Georgia Avenue. Before they lined that thing, they had the cracks in it. He thinks they all probably saw the potholes on Georgia Avenue, because once those big pipes go, they get a depression in the road and that is when they get a sinkhole. Here is a couple of more from the electric side. There is no end to this stuff, there is a lot of it out there.

This is a primary distribution line. This is the kind of stuff like they have in High Point. He guesses the insulators weren't nearly as good in these lines as they are now. Now they have better insulators and they put them in conduits. But the insulation broke down here and eventually it arched across there and just blew the thing apart. This is a service line. It probably had a nick in it. Eventually the water got in there; and just boom, there it goes.

There is a lot of this still in the system. It is a lot of money to replace that stuff. If they don't replace it and leave it in the ground until this happens, people are without service. The materials they are using now are much better. But once this happens, they don't get much service past that point. The materials they use now are a lot better, last a lot longer. On the water side, they look at this service here, this is a piece of junk. This is what they are putting in the ground now. They have PVC pipe, all brass, high density polyethylene fittings - this stuff should last 100 years. Once they make this replacement, the second generation replacing all this really old stuff, it should be good for a long time. That is the good news. The bad news is, they have so much of this stuff, they have over 200 miles - over 100 miles on the water end and 100 miles on the wastewater end to replace. They just wanted to drill home how much of that there is. On the water and wastewater side alone, they estimate there is at least \$50 million in replacement they need to do in a period of 25 years. They can imagine, to rely on those pipes for even 25 years seems like a stretch. But to go out at the rate they are doing it now, in 100 year replacement rate, they are really getting on thin ice by relying on that old equipment.

The intention of that was just to drill home how important those renewals and replacements are.

Mr. Thiess said the FPUA **Budgeting Process** and the **Cost Cutting Measures**, they have a very comprehensive approach to that. They actually started a strategic plan in the middle of this year. It is something they are going to do on an annual basis. They have done it before in the past. But like a lot things - they do it, implement a few things, and then it sits on the shelf and they forget about it. Now their strategic planning is a year in, year out process. They will be doing it almost quarterly. A couple of things came out of these meetings. One of the new things they did, they decided to have these budget workshops. They start out with each Department doing their own draft budget. The Department sits down and looks at their needs, look at what they have to do on the renewals and replacements, capital projects they have, and they develop their draft budget. Then this is the new part they do as a result of the strategic planning, they brought all the departments together here

in this room and went through everybody's budget so everybody could see what everybody else is doing. They did that twice - two different budget workshops. After that they have a Budget Committee. He presides over the Committee and there are several other people, mostly Finance and Internal Auditing, and they go through everybody's budget. They bring them in one at a time, sit them down and go through the budget, get out the knife and cut things out, talk things over, they can delete personnel. They very rarely add anything by the Budget Committee, but they do take it out. That process this year on the 2008 budget he thinks they took out \$2 million in the capital budget just through the review. Every number is scrutinized and they do some cuts. That is at the point they are right now. They have been through the all budgets with the Budget Committee. They are ready to finalize the budget and bring it to the Board. He thinks they are going to do it July 25th at a special meeting. It will go to the U.A. Board. Once the U.A. Board approves it, it goes to the City Commission he thinks in August. So that is the process, it is summed up very briefly on one slide. There is a whole lot more work than that, it is a very detailed and a very rigorous process.

One other thing he wants to show them is the growth of the system.

If they look at the blue area on the map, that is the water system 13 years ago. All the red stuff going all the way out here on the perimeter is the expansion of the system that happened since 1995.

That is a lot of expansion, a whole lot more things to take care of. And they are still working basically with the same staff that they had back in 1995 number-wise. It is the same thing on the wastewater side. This green is the old part of the system and all these red areas are new expansions of the wastewater system. It is pretty much going out the main corridors - Orange Avenue, Jenkins Road, Kings Highway, down to Selvitz Road and Midway Road area, and U.S. #1. That is significant expansion both from the number of customers, the number of services. And just the length of the road they have to drive to get out to the end of their service territory, a lot more miles on their service truck, it involves a whole lot more labor. They did go back and do a lot of cost cutting in 2007.

There are several reasons for that. One, early in 2007 when they first figured out that the housing boom was just going to be a little pop and then fizzle, that was one reason to cut back. Another reason was, they were running their cash situation down to an alarmingly low level. They went back in and wacked \$10 million out of their capital budget. Most of that was in deferrals, things like the wastewater plant, where they had planned on spending some serious money on that. Once they started seeing the handwriting on the wall, they pushed that out at least a year, and it ended up being three years. They had some deferrals. They reduced O&M (Operations & Maintenance) by about \$3 million in 2007. They put off hiring. In the budget they had hiring a lot more people because they did a staffing analysis to look at how many people are they going to need. They went to every department and every department did a staffing analysis. They brought that back together and that was rolled into the Personnel Budget. Early on in Fiscal Year 2007 when they realized that wasn't going to happen, they pretty well cut off hiring. They did have a couple of new hires, but only for essential positions. The Strategic Plan he talked about, that has been really helpful. They implemented a lot of ideas and concepts from that.

That is an on-going process. They are going to be reviewing that probably quarterly and do a big review of it annually. They also conducted audits. FMPA (Florida Municipal Power Agency) came in and did two audits for them. They audited their purchasing back when they were talking about the purchasing arrangement with the City. They also came in and audited their Customer Service Department and looked at processes that they had in Customer Service.

Then they did a Peer Review of Customer Service also. It gave them some very good ideas to increase efficiency and make their systems work better. To a large extent they have implemented all that and it is working for them.

Ms. Cully said there is one thing that hasn't been mentioned yet; and that is the \$13 million they borrowed.

Mr. Thiess said yes, that is what bailed them out for 2007. Without that, they would have been upside down in 2007. The FMPA pooled loan was \$20 million. They used about \$13 million in the 2007 period.

That is the cash that will take them through the 2007 year. They have almost \$7 million that they can go ahead and use in 2008 fiscal year. They did borrow to get themselves out of the hole. But as long as they keep their rates up to pay down the debt service, they are fine with that.

Mr. Thiess said next is the **Projected Budget for FY 2008**. The Capital Budget, they sent around the package and he believes they all got that a week or so ago. This has the budget line item by line item.

Here is the Cliff Notes version of that. They are looking at the original budget in 2007 at about \$48 million. They cut it almost \$10 million here by the end of the budget year, most being deferrals, things they could put off. So their Capital Budget for 2007 ended up about \$10 million less than when they started out. Proposed 2008, they are right about where they started in 2007. There are a couple of big capital projects in there. Like he said, the wastewater treatment plant is not one of them. But part of the deep injection wells are in there and part of the Hartman Substation improvements is also in there. Those are probably the two major capital projects.

The Hartman Substation alone runs around \$11 million. That is a big one. Otherwise they are trimming back the Capital Budget. For proposed 2008, they are about where they were in 2007. The O&M Budget, they started out in 2007 with about \$107 million, trimmed it back to about \$104 million. That is that \$3 million reduction he talked about earlier. In 2008, they are at about \$118 million.

There are several reasons for the increase from there to there. This is a big one right here, Purchase for Resale. The gas fuel price is going up by an estimated \$10 million. If they took that \$10 million off, they would be right back where they were at 2007 levels. Taxes, Insurance, and Gross Receipts is almost \$1 million increase. Everybody knows the cost of insurance is up. So that is \$11 million of that \$117 million in just those two items there.

Commissioner Coke said when Mr. Thiess says the Purchase for Resale increased by \$10 million, that is a cost that gets passed on immediately.

Mr. Thiess said that is a straight pass-through, but it shows in their budget.

Commissioner Coke said but then there should be a correlating increase in the revenue budget.

Mr. Thiess said yes, it will show up there too. This chart shows their Personnel Head Count. They wanted to show them where they were back in the early 1990's. Up to 1994, it was up in the 312 or 315 or 320 area. They dropped off in 1995/1998. A lot of that was they started looking at more efficient ways to do things. One was, they cut back on their pipe crews for water and wastewater and gas also. They started doing contract work, because they didn't have to pay the overhead and all the costs associated with that.

They dropped back off. They had a little bump here. It just kind of ran up here from 2005 through 2007 with the development run-up.

That equates to that service area extension he showed them with system expanding. Even if the people aren't moving in and living there, the FPUA is putting in the facilities and are taking care of those. In 2007 he thinks it was 303 and he thinks in the 2008 budget they are at 306. They kind of leveled it off and they intend to stay there until they see this growth thing geared back up. But they are not going to hire people in advance of that happening, they are going to wait until that happens. They would rather play catch-up with personnel than get out ahead. This curve up here shows the number of customers connected. It is just kind of gradually going up, maybe a 2% a year increase. The last two years it has probably been more like 5% or 6%. So it is climbing. It is not climbing near as fast as the developers lead them to believe two years ago.

The Revenue Projections, this is where they are talking about the major jumps in revenue is right here in the PCA (Power Cost Adjustment). They will see that bar got a lot fatter between 2007 and 2008. The other big ones are Capital Contributions, that is where the money from the State and FMPA showed up. The \$8 million grant and about \$900,000 that the FMPA is putting into their contract to operate Treasure Coast Energy Center (TCEC). And they are also contributing money for these deep injection wells. Between this and that, it is probably by and large the biggest chunk of that. The other part, the Non-Operating Revenues, took a pretty good jump compared to the other small changes. The Power Cost Adjustment increase is going to take a jump of about \$20 over the next year.

They realize that is a big jump. A little while back they had \$3 million. When they do a power cost adjustment, they have a bank of money. If they over-collect, it goes in the bank. If they under-collect, the bank goes down. The idea is, at some point in time that goes to zero. Whatever money they collect in the PCA as over-collection, they have to give back to the customers. They have been kind of winding that down. He doesn't know where they are. They are down \$2 million or so?

Mr. Frank Varella, Director of Corporate Services for FPUA, said \$2 million as of the end of June.

Mr. Thiess said so they gave \$1 million back in the last two or three months. They don't have enough in there to ward off the \$20 increase by any means. But the biggest thing here is the FMPA increase. FMPA is losing two very favorable contracts for purchased power. Long term, he thinks FMPA is going to turn that around. He doesn't know if they can find contracts like that; but they are looking at getting into the nuclear end, they are trying a new coal plant up in north Florida. They are trying to get the fuel mix to where they are stable and not totally or largely dependent on natural gas. So they are going to take a pretty good hit right away, he doesn't think it is going to get a lot worse past that, and they are hoping at some point it gets better when they get a better fuel mix. That alone, just the FMPA losing those two major wholesale power providers, it is probably on the order of \$15 on a 1,000 kilowatt hour bill. That is a large chunk. They are used to dealing with PCA adjustments in the \$2, \$3, or \$5 range, so \$15 is a pretty good hit.

Ms. Cully asked would Mr. Thiess repeat that again about the \$15?

Mr. Thiess said the adjustments they have made through the PCA lately, they have done some \$5 adjustments and he thinks they did one that was maybe \$7 or \$8, some pretty good ones. But they never did a \$15 adjustment and they are not going to with this one, they are

going to do it gradually at \$2 increments over a period of time. But it is a pretty big hit for their PCA, upwards of course; and the \$15 is directly attributed to FMPA losing those two wholesale power providers when the contracts ran out.

Ms. Cully asked when he says a period of time, what kind of time is he talking about, one year?

Mr. Varella said August through March they will increase it \$2 a month to get up to the \$20.

Mr. Thiess said yes, they are going to start in August; but the FMPA increase is anticipated in October.

Mr. Varella said he thinks that is in February or March.

Mr. Thiess said so they will get a little head start on it by ramping up at \$2 increments. They will bank the PCA money and will fatten it up a little bit. They will get a little ahead of it. When it kicks in it, they will automatically probably be a little behind and then catch up. They are going to ramp it up very slowly. The other part of that is loss of capacity credits by taking the H.D. King Power Plant off line. That equates to roughly \$5 on the PCA.

So that \$20, they have \$15 FMPA losing two contracts and \$5 losing capacity credits, that is the \$20 hit they are going to take. That is the bad news. The good news is coming up on the electric.

Chairman Perona said just to keep it separate, these are things that the Fort Pierce Utilities Authority absolutely has no control over, these are just pass-throughs to the customers. But it has a definite effect on the customer, because they are talking about a lot of money.

The average bill payer out there, they are going to see their bill go up \$15 or \$20 just on that alone. There is nothing the FPUA can do about that.

Mr. Thiess said also, this one here will affect all municipals in Florida, not just FPUA. That FMEA (Florida Municipal Electric Association) comparison they get every month, they are going to see all those take that \$15 jump wherever that power cost adjustment kicks in. The private investor owned utilities have their own little set of things to deal with. Municipals will certainly jump ahead of them, but the private utilities may be paying out big money too in developing those nukes and other things. But they will definitely get a little ahead of them in that particular area.

Chairman Perona asked the capacity credits on the King Plant, they do realize that through their PCA adjustment, right?

Mr. Thiess said yes, there is also the power cost adjustment.

Chairman Perona asked so since those are being removed, what is it, \$5 million a year or something like that?

Mr. Thiess said right.

Chairman Perona said that is off the list, so they are going to have to make that up somewhere else. So that is going to be passed through to the customers.

Mr. Thiess said it is \$5 out of \$20.

Chairman Perona said those two things, those are going to be direct costs to the ratepayer. That is without the Utilities Authority doing anything at all. It is normal business that happens.

Mr. Thiess said right.

Chairman Perona said he just wanted that clear in everybody's mind.

Mr. Thiess said this is the point where they will entertain any questions on their tight lean budget. The next thing they want to do is just look ahead to the rates, a review of the **Rate Revenues** for next year. This is where they at least have some good news. The rate increase that was passed in March, it was a two-phase increase. The first phase was in March. The second phase is in September. So they didn't want to do another rate increase until shortly after September, so they are looking at January. January 2008 is the date. Of course, they will be having these discussions all over again. This is just a look ahead. He is not asking for any decisions. This is just for their information. This slide shows the Rates Scenarios for FY 2008 Budget they are looking at, assuming that FPRA funds the improvements to the Hartman Road lift station. The logic behind FPRA funding it is the direct result of taking the King Plant off line. But there are other options other than FPRA funding, they will show them that too. This is the good news. They are looking at three years ahead, probably not needing an electric rate increase.

Mayor Benton said Hartman Road is not in the FPRA area. He doesn't see how they can fund it.

Mr. Thiess said that comment came up before. But it is a direct result of turning the King Plant site loose. They have another solution to that.

Mayor Benton said they are getting real creative now.

Mr. Thiess said when they are trying to build a budget, they deal with the best tool they have. If that one falls out of the tool box, they have another one.

Commissioner Coke asked didn't they have some major discussion about even if it was a half a percent or one percent, instituting rate increases on an annual basis so they wouldn't get to the point where they were way behind the eight ball. Now they are looking at three years with zero increase.

Mr. Thiess said no, they are looking at really one year with zero increase. The other two years are projections. They are going to do a rate analysis every year. Next year when they do the rate analysis, they might need 1% or 1.5%. Next year if they did a rate analysis and they were fat, they might lower the rate, they can do that too. Trust him, they will do that if they can.

Commissioner Coke said lets not be delusional please.

Chairman Perona said now they have Commissioner Coke complaining that they are not raising the rates.

Mr. Drummond said he thinks what she was suggesting is, he thinks the Commission was saying maybe there should be a slight increase, even if that increased the reserve on an annual basis, so the rate payers weren't looking at large increases at one fatal swoop.

Mr. Thiess said they might have one anyway, because if they have to fund Hartman Substation, they have a 2% electric rate increase.

They are doing the rate analysis every year. They are not waiting several years like they did the last time. Every year they are going to look at the last year and look ahead. And then if they need a little increment, they will get it. If they are okay, they will leave it alone. If they can give some back, they will reduce it.

But they are going to do that rate analysis every year. So they are not going to get in a situation where they have to do a big rate increase, because they are looking at one year at a time every year.

Mr. Summerhays said the point is that maybe even if they don't need it, 1% would be in order.

Mr. Thiess said their thinking behind it at staff level was, they are taking a \$20 hit from the PCA. So it is not a good year to have a rate increase unless they really need it. Plus they might have to raise it 2% to cover the Hartman upgrade.

Commissioner Coke said the PCA has nothing to do with...

Mr. Thiess said right; but it has to do with how much the customer writes a check to pay their power bill, even though it is not in the rates.

Chairman Perona said but that is the same type of logic they used when the hurricanes all hit and they said they weren't going to raise rates because everybody got hit with the hurricanes. They almost have to go with the attitude that no matter what is the financial environment out there, they need to go ahead and process accordingly.

That was just the communications they got from this meeting last year.

Mr. Thiess said they can do that. Also, if FPRA doesn't or can't fund Hartman, they get 2% anyway.

Commissioner Nelson said that was the same thing he was talking about with reference to setting something aside for that water treatment plant being removed from the beach, just a little bit.

Mr. Thiess said yes, but that dollar amount is so big...

Commissioner Nelson said every little bit helps.

Commissioner Coke said they would be surprised. Commissioner Nelson and Mayor Benton knows, when they go up to Washington, D.C. and they talk to people, if the U.A. or the City have made the effort - even if it is a small effort - people are more inclined to listen. Even if they say this is the best they could do, they did something. She thinks one of the big things that cinched the funding for the Federal Courthouse this year was they finally said look at how much money the City has invested downtown. It is a small drop in the bucket compared to what they wanted them to spend.

Mr. Drummond said if they are talking about creating a fund for moving of the plant and making that a line item and everyone knows that is what was being done, he doesn't think there would be an argument, as long as everyone knew what they were doing.

Commissioner Nelson said it precludes the perception of knee-jerking or over-reacting if they have plans. He knows it may be off the radar screen, but it is a plan.

Chairman Perona said especially if they assist the U.A. in budgeting for that plan.

Mr. Thiess said they could look at that. That might be in a form of a surcharge specifically designated for a specific purpose.

Mr. Summerhays said in any case, he thinks before they get to the point of rates in January, they might want to talk...

Mr. Thiess said they have a whole lot of time to talk about this. They are just looking at it based on the numbers. That may be a good idea. Here is their projection. With FPRA funding, 0% electric, water 3% for three years, wastewater 5% percent and about the same for the next two years. The natural gas system is 8% probably for three years. They have lost a lot of customers. Gas is a very small utility and they can't really accept a lot of economic adversity without getting some more revenues.

Chairman Perona asked about how many customers do they have on gas compared to electric?

Mr. Thiess said 5,000.

Chairman Perona asked 5,000 versus what?

Mr. Thiess said they have about 28 on electric and 17 on water.

Commissioner Coke asked are they ever going to have gas on the beach?

Mr. Thiess said it is not there yet.

Commissioner Coke said she knows that.

Mr. Thiess said they could form an MSBU for gas on the beach or the FPRA could pay for gas on the beach.

Commissioner Coke said she would pay for a taxing district on the beach.

Mr. Thiess said their poor little gas utility cannot afford to build the lines.

Mayor Benton said knowing the cost of natural gas and the unregulated gas industry, he would be afraid to think of what the cost would be in several years.

Mr. Summerhays said there are a lot of people in Gator Trace who have gas for everything - hot water, cooking, and everything. They all keep telling him - and he was astounded by this - what a bargain the gas is.

Ms. Cully asked what percentage of it is residential?

Mr. Tom Richards, Director of Electric & Gas Systems, said the residential customer count is probably 4,000 or 4,200.

Mr. Thiess said revenue-wise, the commercial is bigger.

Mr. Varella said the residential is about 4,100. The commercial is about 400. So the ratio on that is about 20% over the residential.

The problem with the gas is, in this study they realized that their average residential customer usage dropped. It used to be about 18 ccf per month average. Now it is down to 13 ccf. And what that does is, really the usage here is the ability to make a profit on such low sales. It doesn't really pay to have residential customers.

Commissioner Coke said the answer is, they are never coming to the beach.

Mr. Thiess said also another thing he wanted to mention is they have a lot of stuff over here, he only brought a few things out to show them. They have some running videos of leaking sewer pipes and all kinds of really interesting stuff. They see little cockroaches in there and everything. On the other laptop they have a bunch of things they have cut out from the wastewater system. There is a lot more stuff over here to look at. They can show them a little bit more.

If they have time to stick around, Curt Morris will talk with them and will explain it a little better. At any rate, in all four utilities they are looking at a 1.2% increase in the rates. Also, that PCA is on top of that.

(The City Commission and the U.A. Board took a break from 3:00 p.m. to 3:15 p.m.)

Mr. Thiess said this scenario for Hartman Substation is with FPRA funding; but he is hearing from the discussion earlier that it might not be possible. With this scenario it would likely add the 3%, 5%, and 8% rate increases in the water, wastewater, and gas utilities, 1.3% overall. Unrestricted Cash Balances hang around \$14 million.

The days of O&M, this is important if they have a hurricane or major problem, it is nice to know they can cover their O&M and not just go belly-up. They tried for 60 and 90 days is what they like in the industry. They are getting up close to it here. If they keep going they will start getting to the lower end of their comfort zone.

The transfer this year of course is based on 2007 financials. So this year it looks like it is going to be not as short as last year, they were about \$319,000 short making the transfer. That is based on 6% of gross, which is this number; but the 40% of net is a slightly less number.

City Manager Beach asked did the U.A. work out that IOU thing with Mr. Schwerer?

Mr. Thiess said they are working on that.

City Attorney Schwerer said they are charging interest by the way.

Mr. Thiess said at these levels with these nominal rate increases, they should be good from here on out. Like he said, they are doing this rate planning thing every year, so they are going to take a good hard look in the area. And if they get their incremental rate increases, they should never be back in this situation again. That is one of their goals. They are going to do the rate study every year and there might be some minor changes, they might get out here and need 1% or 1.5%. These are just projections at this point based on today's costs. These projections assume no additional employees beyond the 2008 budget. And right now it looks like they won't need any for 2008 and 2009, unless something happens after all this development comes through they don't know about. They talked about Hartman Substation. They get their power, right now they have three

connections - the King Plant, Hartman Substation, and Garden City. That is their three main connections to the system. When the King Plant goes, they are down to two. If the King Plant goes and they have a problem with Garden City, Hartman is the only substation they can get power through. They are a reliable utility and they want to stay that way.

Commissioner Nelson asked when are they going to decommission that King Plant?

Mr. Thiess said May 2008 off line. In order to maintain reliability, they have to be able to bring in power through either of their two remaining substations, they need to upgrade the Hartman Substation. That is strictly through the King Plant decommissioning.

City Manager Beach said the distribution facilities that are adjacent to the King Plant, do those stay or do they go?

Mr. Thiess said some of that stays and some of it goes.

Mr. Richards said the substation on the north side of Moore's Creek and at Indian River Drive, that can all been retired. But the little substation between the railroad tracks and 2nd Street needs to stay there.

City Manager Beach asked that is permanent?

Mr. Richards said that is permanent. It serves the downtown area.

Mr. Thiess said Lift Station A on the east side of the plant also has to stay. It is critical to the wastewater system.

Commissioner Nelson asked that property the King Plant sits on, all that is City-owned? Who owns it?

Mr. Thiess said he thinks the property that the plant itself sits on is right now registered in the name of the City. He thinks the only properties that are in the U.A. name is the old ice house property west of 2nd Street.

Ms. Cully asked what they are saying is that everything east of 2nd Street can be decommissioned and torn down?

Mr. Thiess said everything east of 2nd Street except for Lift Station A down at the corner of Backus Avenue and Indian River Drive. That is critical to the wastewater system and would be extremely expensive to relocate. It is a huge lift station. The cost of that Hartman Substation upgrade right now is about \$11.3 million. That is a pretty big chunk of change. Again, it is the direct result of decommissioning the King Plant.

Mr. Summerhays asked weren't they going to ask FP&L if they would like to participate in that?

Mr. Thiess said yes, they will ask; and no, it is very unlikely they will volunteer to do that. They are rebuilding the lines from Midway Road to the Hartman Lift Station and that is a pretty good chunk of change. Does Mr. Richards know what that is?

Mr. Richards said no, he does not have the figures with him. But they will ask FP&L for a contribution, but they can't delay while they wait for an answer, so they will have to do that afterwards.

Mr. Thiess said bottom line, they will ask; but it is not likely from what he is hearing. They are paying the cost of bringing it on to Midway Road. This is Rate Scenario #2, this is without FPRA funding the Hartman Lift Station the \$11.3 million. If they get one rate increase in 2008 at 2%, they could fund the improvements.

That is based on he thinks a 25 year financing and carrying that debt service for 25 years. That is the other way to do it. From what he is hearing, that might be the likely scenario. They have plenty of time to talk about this between now and January. The other things in this scenario are the same. They did not do anything with the water and wastewater. They actually ran these numbers. There was some little differences between here. They decided to go ahead and level them out and not have big ones or lower ones or vice versa.

They just projected a level increase. Down here, it is just a little bit different. The Unrestricted Cash and the Days of O&M are a little different because of this rate increase here. And also the transfer is bumped up a little because of the ad valorem revenue in the mix.

Other than that, the numbers are very similar. They get up a little higher in Days of O&M at 65 days in three years, another day or so of O&M revenue here. Again, this number is unchanged because that is based on the 2007 financials, that is still \$319,000 short. But from this point forward, 2009 and on out, there would be no more diminishing of the City transfer.

Chairman Perona said maybe just for clarification, if Mr. Thiess would speak to the Hartman Substation. He knows it is because of the decommissioning of the King Plant, but kind of describe to this group exactly what the \$11 million is going to get them.

Mr. Thiess said he has some notes on that. Does Mr. Richards have that off the top of his head?

Mr. Richards said the Hartman Substation is one of their two interconnect substations that connects them electrically with the rest of the world. If they are not generating power at the King Plant, then all of their power has to come from some place else, through one of those two substations, either Garden City or Hartman Substation. They always plan, in fact they are required now under Federal mandates, to plan for single contingency outages, which means if either one of those sources are out of service, they have to be able to cover their entire load during the peak period with the other one. And the situation they find themselves in after they retire the King Plant is that the loss of the Garden City Substation feeding their City would leave them only with Hartman Substation, which does not have enough capacity to serve their peak load. They didn't have a problem with that as long as they had the King Plant because they could generate enough to make up the difference. If the plant is gone, they can't do that any more. In addition, FP&L is telling them that their transmission system which delivers the power to Hartman Substation is not adequate to deliver that entire peak load during emergency conditions to Hartman without adding a third line into Hartman. FP&L told them they will plan to build a five-mile transmission line into Hartman. It is the FPUA's substation, they have to spend the cash to upgrade the substation to accept the third transmission line. There is a lot of internal work on the substation to beef that up to carry the capacity. And also, the two transformers that are there that deliver the power to Fort Pierce need to be doubled in size. All that combination adds up to about \$11 million. They are going to ask FP&L to make some kind of contribution to that \$11 million. He doesn't know where that is going to go. But it is one of those situations where the time is drawing near and they need

to go ahead and make the plans to do it. They will certainly recover as much as they can. And if necessary, they will hire big Washington lawyers to go after FPL and see if they can get some money from them. But they can't afford to wait and see if they are going to pay for it or not.

Mr. Rupert Koblegard, U.A. Attorney, asked is that the same power poles that they have now?

Mr. Richards said he believes they will come in on new poles. It is an upgrade.

Commissioner Coke said they are talking about the 2008 budget and now they are talking about the Hartman Substation and \$11 million for that. The King Plant is supposed to be finished May 2008?

Mr. Thiess said off line, May 2008.

Commissioner Coke said she would assume then in their 2008 budget figures they have money to decommission, break down, etc., at that point.

Mr. Thiess said yes, they have a nominal amount of money in there to safe the site up, to get rid of the liquid hazardous waste, disconnect the electric. He thinks that plant winds out in August he believes. What they are doing is developing a draft Memorandum of Understanding that they want to take the Utilities Authority Board and then take to the City and lay out what they will do and the schedule they will do it. Actually they would turn the plant site over to the City, safed-up, the electrical disconnected, all the contamination that they know about cleaned up; then hopefully at some point in time the City can work with the developer to do something else with that site.

Commissioner Coke said so long as they have money for shoring it up and decommissioning it, that would be great, she would appreciate it. But those people on the FPPA Board tend to move a little slow. By the time they agree to send out for an RFQ and what they want to put on it, it is 30, 60, or 90 days. They send it out. They revise it. It is another 30, 60, 90 days. What she is telling him is, as soon as the FPPA can, get something in hand to the FPPA Board so they can actively pursue getting things in the works. It could take conceivably - between the process of deciding what they want to put in an RFQ, getting it out, and getting responses - it could take a year.

Mr. Thiess said the only thing that would change the May 2008 date is if FPPA were to lose a plant somewhere and they need the King Plant to hang on there a little bit and pick up the capacity. Other than that, the King Plant is going off line May 2008. He thinks it would be very safe to go out for an RFP, because the chances of the King Plant having to come back on line or stay on line longer is very small.

Mayor Benton said if they find out whether it would be a Brownfield site, if there is something that needs to be cleaned up there under the plant, because Enron cleaned up part of it. As soon as they can get something to the City, he thinks they need to look at the big picture and find out how soon it can be dismantled, and through the FPPA...

Commissioner Coke said she thinks what they need to do is bring it in front of the FPRA Board or the City Commission as a whole and have a discussion on it, because there are probably developers out there who are willing to apply for the Brownfield designation. If need be, take the plant down and move forward. But there is no sense in waiting until May 2008 and decide that they want to do something. They ought to be moving forward with it now.

Mr. Thiess said they will be bringing that memorandum to the FPUA Board he is guessing probably in August. It is already drafted, they are just doing a cleanup on it. As soon as their Board approves it, they will send it to the City Commission. But it will lay out the schedule and exactly what they are going to do. So are there any questions on Scenario #2 of the budget? It is the same as the other budget. The only thing different is they put in 2% to carry the Hartman Substation capital project. This next slide (How will Rate Scenarios Affect Customer Bills?) is similar to the little chart they worked up the last time on how it will affect the bills. Here they have the existing April 2007. This is Scenario #1, this is existing. Adopted includes the increases that are coming in September 2007 right around the corner, plus the new fuel charges on the electric. So these two are the incremental increases for the second phase of the rates that were passed in March. This and this, a little bit of the rate increase there, but most of it is fuel charge. This is all fuel charge on the gas. The PGA will increase by \$6.11 due to rising gas costs. That is 2007. That is without anything they are doing here. The proposed rate increases - nothing additional on the electric, \$.79 for the water, \$1.93 on sewer, and \$2.51 on gas, for a total of \$5.23, the rate increases they are asking for this year. The only change under Scenario #2 is if they put the 2% on the electric, they end up with an additional \$2.62 on the electric because of the Hartman Substation upgrade.

Commissioner Nelson asked did they crank in this new standby rate charges they are proposing for gas, water, and electric wherein they got to keep a service there and they are billing the property owners?

Mr. Thiess said yes, that is all worked into the new rate model. The increased guaranteed revenue charges, the new accrued guarantee revenue charges, and the readiness to serve standby charges are all cranked into the overall.

Commissioner Nelson asked what is his projection with respect to monetary intake as a result of that new policy?

Mr. Thiess said off the top of his head, he thinks they are close to \$600,000 on the standby charges between all the utilities. They are still working through the mechanics on how to do that and how to assess it and how to deal with people who don't pay. That is very nearly being wrapped up.

Mr. Varella said the first bills relative to that should go out in August.

Commissioner Nelson said he has one in his hand.

Mr. Thiess said they forewarned people. All that is cranked into the rate model and that does help.

Commissioner Nelson said he is getting a lot of negative feedback on it, he can assure them. He doesn't know how to handle it right now.

Mr. Thiess said their logic behind that was, whoever is putting or exerting the cost on the system should pay their fair share. If there are snow birds on the island or any other seasonal people, they still read those meters, they still maintain the plant. They don't lay people off because the snow birds go home. They still have a certain segment of their cost, they still have to maintain their lines, they have to flush the hydrants, they still have firefighting capability out there with the hydrants. There is a certain cost for that service that is associated with the service being there and being available for them and it costs the U.A. It is not fair for other full time year round customers to pay for it.

Commissioner Nelson said the people who are talking to him are not snow birds. These are people here year round - his neighbors, even himself.

Mr. Thiess said if they are here year round they don't get the charge.

Mayor Benton said they are saving them money.

Chairman Perona asked Commissioner Nelson has two different homes though, right?

Mr. Thiess said if it is a vacant rental unit, then...

Mayor Benton said Commissioner Nelson has a unit at Harbour Isle.

Chairman Perona said there are people who may have two home or four homes. It is the ones that are vacant, right? That is the one he is talking about? Is he talking about Harbour Isle? He is trying to understand Commissioner Nelson.

Commissioner Nelson said the one here in his hand is not Harbour Isle. It is on Avenue D.

Mr. Thiess said the charge is only assessed if the utilities are turned off. If he turned off the electric and water and nobody is going to be living there, that is the only time the charges are assessed. As long as the account is active and it is hooked up, that charge doesn't apply. It is only services that are cut off and nobody is living in the residence.

Commissioner Nelson said that is the part that is just hard for his people to fathom. They say they are going to charge him because... They are not charging the people who use it, they are charging the people who own the property?

Mr. Thiess said correct. If there is a person who owns a rental unit and the tenants leave, the property owner has to pick up that \$5 a month for electric, and he thinks between water and wastewater it is like \$11 or something like that.

Mr. Drummond asked this isn't unique is it?

Mr. Thiess said it is not unique, a lot of utilities do this. It is really the fair way to split up the cost. When people get in and out of their service, they don't arbitrarily reduce their staff or reduce the cost of the plant. There is a certain amount of the costs they have no matter who is connected. A little bit of share of the cost they distribute to those people who are not getting services.

Commissioner Nelson asked do they have any feedback from the landlord associations on this?

Mr. Thiess said he has had zero so far. Has Mr. Richards had any?

Mr. Richards said he has had a couple inquiries on it.

Chairman Perona said they want to understand a little bit more. It goes back to what they are talking about. On one side they are talking about moving the plant off the island and building a mainland plant for capacity for wastewater. By even that thought they have to include all the possible homes and customers that are out there.

If they are not there and they don't want to be charged, it is not fair to the people who are here all the time. He thinks all the Board members went through this thing about three or four times. It isn't the utilities that is making out. Charging the people who are here all the time, because they have people who have capacity and who are not using the services, it puts a burden on the rest of them. It is a nominal charge, it is not a tremendous amount, it is not an egregious amount of money. But it does fairly represent that service available to that location. That is why they did it.

They are finding out it is done in a lot of utilities and it is done because it is the fairest way to bill for those services, especially for people who come to Florida and they leave. Those are predominantly the ones they are talking about. The rental people who have vacancies, they didn't have a problem until there started to be vacancies in the community. Now all of a sudden it is an issue.

Mr. Thiess said the other reason that justifies it too is, just because those people disconnect, the FPUA can't sell that capacity to somebody else, they have to hold that capacity for them. So they reserve capacity and they pay their impact fees. If the FPUA could take that capacity and sell it to somebody else, it would be one thing. But they can't, they have to hold it for them.

Commissioner Nelson said the totality of what they are doing is having a very adverse impact on the various landlords who don't have the benefit of receiving some of the benefits like homestead exemption, for example. They pay the highest tax rate, so they are basically getting the short end of the stick on this. They are talking about snow birds going back up north is fine. But when they start looking at the people who are in fact paying their tax base for ad valorem taxes... He thinks they are doing this regardless of the fact they say some of the other cities are doing it. The ability of these people to pay and possibly pass these costs on to their various tenants...

Mr. Thiess said once they get a tenant they don't have the cost any more, because once it is occupied that cost goes away. The property owner just has to pay it until the unit is occupied. That is already on the books. Any questions on this Rate Scenario? The only difference between #1 and #2 is it translates to \$2.62 increase on the electric. Are there any questions on the rate forecast? Like he said, they aren't looking for any decisions. They have six months to kick this around before they bring things back for approval.

Mr. Thiess said the next thing they have on the Agenda here is to talk about funding by the Fort Pierce Redevelopment Agency of the **South A-1-A Project**. Does Mr. Beach want to kick this off?

City Manager Beach said at a previous FPRA Board meeting, the FPRA Board agreed with a proposal that was submitted by the Utilities Authority for undergrounding lines on Phase 3 of the A-1-A project.

Phase 3 (Gulfstream Avenue to Blue Heron Boulevard) he believes starts at Jaycee Park and goes south. They worked out a financing scheme to accomplish that. What it included was the Redevelopment Agency putting \$1.5 million toward electrical undergrounding and almost \$840,000 for water and wastewater relocation in that phase.

The FPRA Board approved that contingent upon the Utilities Authority agreeing to go underground from Melaleuca Drive to Coconut Drive at a cost of about \$1.25 million, as well as taking the lines that cross over A-1-A from Coconut Drive to Blue Heron Boulevard and putting those under ground. In his discussion with Mr. Thiess, that was an acceptable arrangement. Is that accurate?

Mr. Thiess said yes. Actually the \$538,505 should also be included because this \$538,505 is the balance of what they would agree to in Phase 3 subtracted from the \$1.7 million that they had agreed to before to put out for the project for the overhead to overhead relocation. That should be in yellow on the chart also.

Mr. Beach said his memo (dated July 3, 2007) adds those figures together. That deals with Phase 3 and he thinks that is now behind them in terms of the financial commitments to do it and the agreement between the City and the Utilities Authority. The balance of the A-1-A Project is something that Mr. Thiess has laid out on the slide.

Just for electrical, that represents a figure of about \$4.6 million for the FPRA share of electrical undergrounding for the entire balance of the A-1-A Project. There additionally are estimates for water and wastewater at \$1.6 million. And he thinks the discussion between Mr. Thiess and himself ended up that they would discuss that at a later time, they would try to find some solution to that. But his recommendation to the FPRA Board, whenever they have that discussion, that they commit the \$4.6 million for the undergrounding of the balance of the overhead utilities on the A-1-A Project. That would cover everything as it relates to A-1-A. Is that correct?

Mr. Thiess said yes, it would.

Mr. Beach said of course, the bottom line would be that the FPRA would be spending almost \$7 million to get those utility lines underground. The reason he believes that is fair is because of the unusual value that is being added to the beach property as a result of this investment. If it were an investment in the system citywide, then it would make sense to put it on the ratepayers. But the fact that it is an investment in an isolated very defined area, he thinks it makes sense for the Fort Pierce Redevelopment Agency to cover that cost.

Commissioner Coke said she was a little confused when Mr. Beach said that would cover Phase 1 and 2, but that will only cover the electric part of Phase 1 and 2. That doesn't begin to even look at the water and wastewater part of Phase 1 and 2.

Mr. Beach said that is correct. He was not in a position or had not reached a point that he was willing to make a recommendation on that request.

Commissioner Coke said so long as they are looking at the FPUA budget, can they tell her how much the FPUA has budgeted for Phase 1 and 2 of the A-1-A Project for water and wastewater?

Mr. Thiess said he believes right now the way the budget is constructed, they have put these in as FPRA-funded. If these are not FPRA funded, they are looking at about .5% on water and .5% on wastewater added to the 3% and the 5%. So if the U.A. has to fund them, they are looking at 3.5% and...

Commissioner Coke said she doesn't want to go all the way back to the very beginning of today, but she knows they had money budgeted for Capital Improvements.

Mr. Thiess said yes, this is budgeted; but the source of the funds is shown as FPRA in the budget.

Commissioner Coke said no. Fort Pierce Utilities Authority has Capital Improvements budgeted in their 2007-2008 fiscal year budget, do they not?

Mr. Thiess said yes.

Commissioner Coke said they have all known this was coming down the pike for 10 or 12 years. What money has FPUA committed toward the water/wastewater utility work in Phase 1, 2A, and 2B of the A-1-A Project?

Mr. Thiess said this showed up in their budget last year. Last year he thinks they funded \$450,000 for water and wastewater on South A-1-A. They have agreed tentatively with staff to fund the remainder of Phase 3 that is outside, this is not a part of the FPRA.

Commissioner Coke said let's go to Phases 1 and 2 and 2B.

Mr. Thiess said Phases 1 and 2, in last year's budget he thinks it had the FPUA funding it, not the FPRA. In the 2008 budget, it is shown that these two numbers - the \$1.1 million and the \$650,000 - the budget shows now it is funded by FPRA.

Commissioner Coke asked whose budget?

Mr. Thiess said FPUA - everything in the budget, every project.

Commissioner Coke said now he really confused her. How is the FPUA budgeting the FPRA's money?

Mr. Thiess said every line item in their budget shows where the funds are coming from. For example, the deep injection wells - some will be capital improvement charges, some will be FPUA, some would be FMFA, some state grants.

Commissioner Coke said maybe she is not asking her question properly.

In the FPUA's 2008 budget, they have by necessity... They walked around and looked at these old pipes and things right here and Mr. Thiess said they have budgeted every year to replace part of them.

So her question is, how much do they have to replace the water/wastewater pipes in their 2007-2008 budget?

Mr. Thiess said they should have in the neighborhood of \$2 million.

But they didn't include these items as budgeted from their rates, they showed them as budgeted by FPRA.

Commissioner Coke said so her second question to follow that is, since the FPRA is looking at \$6.1 million they have committed to for that area, is it not conceivable that they can take out of that

\$2 million the \$1.7 million to do this work and then flip-flop it and put whatever that was budgeted for 2007-2008 off to 2008-2009?

Mr. Thiess said they would probably rather up the level of commitment for 2008. Because if they take away \$1.7 million out of \$2 million they were going to do to replace this, that means none of that gets done anywhere else in the City.

Commissioner Coke said but this will be done and they won't have to budget that later on.

Mr. Thiess said right, but none of this will be done. What they would do is probably, if they make the request to FPRA and the stuff they say they will work out down the road, and FPRA says no they can't do that, the FPUA would probably ask for 3.5% and 5.5% and go ahead and get that done this year and not put all of their renewals and replacements on hold for another year. They can't afford to let this go for another year with no attention just because they have a big project over here to do. So they would ask for the additional incremental rate increase to cover that.

Commissioner Coke asked Mr. Thiess was talking about putting aside and redoing their capital improvements and the renewals and replacements of water and wastewater over a 25 year time frame, correct?

Mr. Thiess said yes.

Commissioner Coke said so at some juncture she is sure this \$1.7 million would fall into that 25 year time frame.

Mr. Thiess said he thinks here is where they have the disconnect. This is mostly adjustments. There is about \$200,000 worth of this that is lining sewers and replacing those valves out in front of Repump #1 at Jaycee Park. The rest of this is all adjustments. It is moving their pipes to get out of the way of the storm drains or something like that. So out of this \$1.7 million, \$1.5 million is just adjusting their pipes to get out of the way of the FDOT's contractor, it is not for renewals and replacements.

City Manager Beach said the reason he was unwilling to make a recommendation on the water/wastewater side of this is that it doesn't reach as high a level of a redevelopment investment as does taking the overhead utilities underground. This is a very typical cost that is absorbed by ratepayers of the Utilities Authority when a project of this nature comes about. It is a legitimate cost of the FPUA and it is legitimate to pass it on to ratepayers; whereas the undergrounding of the overhead utilities, that has a great deal to do with aesthetics and redevelopment activity. That is kind of his thinking on it.

Mayor Benton said there are probably worse places in the City with more priority where water and sewer pipes are in a lot worse shape than on the island in this area, because this area hasn't been developed as long as some of their hundred year old downtown areas or neighborhoods. So that is one reason why this wasn't in the capital costs versus other areas.

Mr. Thiess said right. And like he said, there is only \$200,000 for renewals and replacements, the rest of this is adjustments. Also, when they do this, they prioritize. Mr. Morris has charts up there that show the last 30 months of repairs they have done to

repair stuff like this and take pipes out of the ground. Mr. Morris spends about \$200,000 a year on wastewater and \$100,000 a year on water just to fix breaks from these old pipes letting go. What the U.A. does with that \$2 million is they prioritize all these areas.

Because Mr. Morris knows from looking at where all these dots are on this chart where they have the most problems. So they prioritize the worst areas where these pipes are letting go with the greatest frequency and do it there. The beach is probably not in that. The only two items on the beach is, there is a little bit of sewer line for \$100,000 and there is a big valve down in front of the Jaycee Park Repump that he doesn't think will operate. These have been like that. They have had it on the list for a couple of years and just haven't replaced it. They could probably go another couple of years. But they need to do it. But only \$200,000 of that is for renewals and replacements. The rest is just adjustments to move pipes and get them out of the way. And if FPRA can't fund it or a portion of it, the FPUA will take whatever portion is left and maybe tack a little bit, a fraction of a percent, onto the rates to cover it and do it this year.

Mr. Beach said this is just for information. They won't be able to act on this until they are in the proper session.

Mr. Thiess said that was just for discussion, just to show them what their conversations were between staffs. He appreciates them all coming today. He thinks this is a worthwhile exercise. When they thought about doing this, they thought it would be a good thing to incorporate into the annual budget process so that both the U.A. Board and the City Commission gets to look at things early on. When questions come up they can answer them right here informally and talk about it. So when the City Commission sees the FPUA's budget, they already have been up the learning curve about three quarters of the way. He thinks they will probably continue to do it in years to come. It will be helpful.

Chairman Perona said he appreciates everybody being here too. As far as the Fort Pierce Utilities Authority Board, they are thrilled.

It is very important for them to stay in sync, they both work in the same tangent all the time. They need to work side by side to make sure this is done upright. He really appreciates these types of sessions, he learns a lot. He gets an idea of where the City is moving on that issue and it really helps to get a flavor for that.

Mayor Benton brings a lot of that discussion to the FPUA Board meetings and they appreciate that too. So if they can't get to any of the U.A. Board members, speak with Mayor Benton; and they will keep this thing very harmonious.

Commissioner Coke said they are not allowed to speak to Mayor Benton.

Mayor Benton said they can speak to Mr. Beach. He is not a voting member, but he sits on that FPUA Board as well.

Commissioner Nelson said let him go back to something that Commissioner Coke was mentioning relative to the King Plant and their May 2008 deactivation date. He feels fairly certain they are going to work to make that come to pass. But he thinks her point relative to them finding something to do with that plant could possibly be started so as to shorten some of the time. Because the synergy they should get as a result of decommissioning that plant should attract a developer in there to do a good thing which would complement what they have going on downtown now. They have the various buildings going on. There is another building there in the back of the Cobb's

building that somebody is going to build. The Courthouse should be moving along by that time. And the more things they have going on, he thinks the more positive people are going to review this City as being progressive and making some headway towards meeting their goal and making this the number one city in the area. If by any chance they see anything that is going to delay that date, if the FPUA people can work with the City people relative to facilitating an RFP for that area, it might be of value so they can get it started. But the time frame for getting some of these things done in government is just absolutely horrible.

Mr. Thiess said there is nothing right now that should stop the FPRA from moving ahead on an RFP proposal on that site. The May 2008 date is all but carved in stone. Like he said, there is a minuscule possibility that it would be asked to stay on longer - if a plant blows up somewhere and they lose generating capacity somewhere out in the system. But in all likelihood, they are at the bottom of the call list already, the May 2008 date is all but 100% certain. They will firm that up with the Memorandum of Understanding that they are going to run through the U.A. Board and to the City Commission, and that will come to them in August. Based on what they know now, they could start with the RFP and go ahead with it and reference probably the two dates - the May 2008 shut down date and the August 15th out of there date.

Commissioner Nelson asked they have not moved in that direction as yet, have they?

Mr. Beach said there hasn't been anything formal. However, the Redevelopment Agency Director has been in discussion with four or five major developers and that site always is part of that discussion. There is going to have to be a formal process to make that happen and there is no reason not to start that process whenever they want to.

Mayor Benton said what they have to do is evaluate if there is contamination under the building for a cleanup. He thinks that is what they are waiting on. They will know in August?

Mr. Thiess said they have done some of that and they will probably do some more between now and when they get out. They cleaned up a couple of little fuel spills already. But the way that goes is, no matter whether they give the City the keys, if it happened under FPUA ownership, they are both involved in it. Hopefully it won't be anything that will really bite them bad in that regard, because they have taken care of things as they have gone along the best they can, at least what they know about.

There being no further business, the Joint Meeting was adjourned at 3:50 p.m.

Adjournment.

ATTEST:

CITY CLERK

MAYOR COMMISSIONER