

**SPECIAL CALL JOINT CITY COUNCIL/FINANCE COMMISSION/UTILITIES COMMISSION MEETING
TUESDAY, APRIL 5, 2011 1:30 P.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA**

A G E N D A

- 1) ITEM FOR DISCUSSION:**
 - A) GAI Consultants' Proposal for Electric System Valuation, FPL
Proposal Evaluation and Technical Assistance for City Response**

This is a Public Meeting. Should any interested party seek to appeal any decision made by Council with respect to any matter considered at such meeting or hearing, he will need a record of the proceedings and that, for such purpose he may need to ensure that a record of the proceedings is made which record includes the testimony and evidence upon which the appeal is to be based. Anyone who needs a special accommodation for this meeting may contact the City's Americans with Disabilities Act (ADA) Coordinator at 978-4920 at least 48 hours in advance of the meeting.

MEMORANDUM

TO: The Honorable Mayor Jay Kramer, Vice Mayor Pilar Turner, Councilmember Brian Heady, Councilmember Craig Fletcher and Councilmember Tracy Carroll

FROM: Monte Falls, P.E. - Interim City Manager

DATE: March 30, 2011

SUBJECT: **GAI Consultants' Proposal for Electric System Valuation, FPL Proposal Evaluation and Technical Assistance for City Response**

Recommendation:

- Review the proposal from GAI Consultants.
- Approve in concept, but hold in abeyance, until a proposal from FPL is received.

Background:

On March 1, 2011, GAI Consultants made a presentation to the City Council, the Finance Commission and the Utilities Commission regarding the City's electric utility. At that meeting, with consensus from the Finance and Utilities Commissions, the City Council voted unanimously for GAI to prepare a proposal for services related to our electric utility. On March 25, 2011, a copy of GAI's proposal was received and is attached for your information.

If, and until, we receive a proposal from FPL, the GAI proposal should be held in abeyance. This would allow us to refine the scope of services and structure it to parallel any FPL proposal. At that point, a refined proposal (from GAI) would be submitted for action by the City Council



Monte K. Falls

MKF:jav
Attachment

xc: Finance Commission
Utilities Commission
Gerry Hartman – GAI Consultants



March 25, 2011
GAI # Pending
Via e-mail and U.S. Mail

Monte Falls
Acting City Manager
City of Vero Beach
1053 20th Place
Vero Beach, FL 32960-5359

**Re: Phase I - FPL Issue – Electric System, Valuation, FPL Offer Evaluation and Technical Assistance for City Response.
Per March 1st, 2011 meeting**

Dear Mr. Falls:

This letter constitutes GAI Consultants, Inc.'s (GAI) proposal to serve the City of Vero Beach (City) with our proposed sub-consultants concerning potential purchase and sale of the City's electric system to Florida Power and Lighting (FPL). GAI was previously selected by the City through a Consultants Competitive Negotiation Act (CCNA) process and has been providing services to the City relative to its water, wastewater, and reuse water utility systems

Introduction/Background

The City's electric service area is approximately 50 square miles including 17 square miles of service area inside the City limits. It serves approximately 33,928 customers (as of February 2011) including residential, commercial and industrial users.

The electric system is comprised of 41.6 miles of transmission lines, 300 miles of distribution lines, 10 substations, and a Municipal Power Plant. The power plant has five generators: four generators are steam turbines and one generator is gas turbine. The total generation capacity is 157 MW. Generators 1, 3, and 4 are old units. They are inefficient but can be easily converted to green power. These generators can be used in extreme hot or cold weather when power demands are high. Generators 2 and 5 were constructed to run as a combined set and are most efficient generation sources.

The City also owns wholesale capacity from St. Lucie nuclear plant and Stanton 1 and 2 coal plants. The total owned capacity is 48.1 MW. These assets are owned through the Florida Municipal Power Agency (FMPA). The City also has a 20-year contract with Orlando Utilities Commission (OUC) to draw up to 95 MW wholesale capacity.

Combining all these capacities, the total power available is 300.1 MW. The peak power demand is usually between 130 MW and 190 MW in the winter and between 155 MW and 215 MW in the summer. Therefore, there are adequate power resources to serve customers in the service area. Average utilization is approximately 100 MW.

The question of the sale of the City of Vero Beach Electric Utility to FPL has been considered for customer pricing (power cost to customers) reasons. For differing reasons and prior to appraising the value of the system, on each occasion the decision was made for the City to remain in the electric power supply and distribution business. In 2010, this question was asked. In 2010, the City requested different electric utilities' interest in possibly purchasing the City's

electric system. FPL expressed its interest and is evaluating the electric system and appraising the same in order to determine if they wish to make an offer for the complete system, some portion of the system, or not make an offer to purchase. The City believes that the FPL interest has matured and that an offer from FPL may occur which would start an asset evaluation process.

The FPL offer issue involves the analysis of what portions of the system are most beneficial for the City to sell to the company or others as well as the option to sell the complete electric system. In anticipation of an offer to purchase, the due diligence FPL has accomplished, and the evaluation work is ongoing by the company. In order to be prepared and to make decisions based in part on a sound valuation, legal, engineering, financial and City fiduciary basis, the City desires to have a team to evaluate any potential offer and determine the impact of the same on the tax payers of the City as well as the City's electric system rate payers.

Scope of Work

In Phase I, the tasks of initial interest to the City include:

1. Appraisal of the Transmission and Distribution (T&D) System

The appraisal shall meet USPAP and Public Utility Appraisal (MTS) requirements and practices and be accomplished by accredited professionals having Florida experience.

Assets will be categorized into four (4) groups:

- Beaches including South Barrier Beach and Town of Indian River Shores
- Inside the City limits
- Mainland outside the city limits
- The combined entire T&D system

These assets will be appraised separately and an optimization of sale options will be proposed. To understand which options make the most sense, the load patterns, the revenue, the facilities, and the cost of service will be evaluated. These factors will be compared to the relative value of the grouping of assets.

2. Appraisal of the Generation System

Vero Beach Municipal Power Plant (Power Plant) is frequently dispatched to supply peak load requirements for the local and regional power supply needs. The Power Plant is also frequently dispatched to supplement transmission supply for local and regional power supply needs. Therefore, the Power Plant is a very important piece of capacity in the City's system to prevent this area from having blackouts. The value of the Power Plant will be appraised as a peaking unit apart or separate from the T&S system for its market value given the system limitations, cost profile, and the four considerations of depreciation (physical, technology/economic/external, functional/internal and consideration of salvage value).

3. Appraisal of the Complete System

Assets in the entire system including the Power Plant will be appraised such that the City may be advised of the value of all assets it owns.

4. Valuation and evaluation of the purchase power contracts (FMPA, OUC) as intangible assets of the system and potentially transferred obligations.
5. Evaluation of FMPA contract including the entitlements for Stanton 1 & 2 and St. Lucie with the resulting load profile.
6. General legal, financial and valuation advisory services including:
 - Review of FPL's due diligence report, evaluation and offer documents.
 - Review of one (1) FPL's offer to the City from a technical, legal, and financial as appropriate.
 - Preparation of one (1) counter offer to FPL reflecting the City's desires after consideration.
 - General advisory services up to twenty (2) professional hours including a typical range indication of market value, likely costs of acquisition, and the potential benefits of acquisition.

A summary Uniform Standards for Professional Appraisal Practice (USPAP) compliant appraisal report shall be prepared with an opinion of value of assets and optimization of selling options.

Three valuation methods will be used in the report. One is the cost approach. There are three types of cost approach methodology: (1) the original cost (that is trended upwards), (2) the reproduction cost and (3) the replacement cost. The reproduction cost, replacement cost, and original cost are less depreciation. In this study, replacement cost in like, kind, and quality, would be the type of cost approach to be considered. This approach will be given the most weight due to the quality and quantity of information and the unique nature of the assets.

With regard to the income approach, the City currently accounts for its electric system operations as a not-for-profit entity. Typically, in these types of transactions the income would need to be adjusted to assure at the hypothecated net income stream. Due to the not-for-profit nature of the system and the lack of optimization financially of the operations and asset management, we expect the income method to provide a base (floor) to the evaluation analysis. In consideration of reconciliation of value, it is very difficult to adjust a non-for-profit entity based on profits to get to full fair market value. Therefore, less weight may be given to this valuation approach.

The comparable sales market for these types of systems do not transact very often. There is generation capacity bought and sold and it could be inferred in comparable sales, but it is not as strong as a cost approach. Therefore, it would have a lesser weight provided on comparable sales because the City's system is unique in its configuration, density, load factor, and peaking factors and no other systems could replace it.

Teams

GAI's current approach to this project has used the following team members with which have significant experience in similar projects.

- GAI Consultants, Inc. (appraisal, engineering, and management consultants)
- Gray Robinson (lawyers specializing in such matters)
- City of Vero Beach internal staff (operations, asset management, system specialists)
- Power Services (documentation of the assets, inventory and condition; separation & reintegration cost; the engineering condition assessment, trended book/original cost documentation adjusting, condition consideration)
- Richard Klusza, MAI (real estate analysis, consultation, and appraisal)

Fees

The breakdown of fees for Phase I activities is as following:

1. Utility Appraisal	
GAI's valuation of four T&D groups and power plant:	\$120,000
Other Direct Costs:	<u>\$9,200</u>
Total Utility Appraisal:	\$129,200
2. Real Estate Appraisal	
Mr. Richard Klusza's real estate and easements appraisal:	\$10,000
Other Direct Costs:	<u>\$1,500</u>
Total Real Estate Appraisal:	\$11,500
3. Electrical Engineering Documentation	
Power Services' valuation and analyses:	\$35,000
Other Direct Costs:	<u>\$8,200</u>
Total Electric Asset Documentation, Trended Book Value, and Observed Condition:	\$43,200
4. Legal Services	
Gray Robison's General Legal Services, Valuation and Advisory:	\$25,000
5. General Advisory Services	
Team Consulting for Offer Review and Counter Offer:	\$30,000

The schedule for our work is shown on Table 1 attached hereto.

Other activities

These activities not included above, yet may be desired include:

1. The tasks delineated on March 1, 2011, FPL Issue 1-page briefing
2. Optimization of the Electric System (operations, asset management, financing, legal).
3. Rate and Charge Analysis – Based upon determined values and conditions
4. Competitive Market Assessment/Asset Discussion for
 - (a) Power Plant
 - (b) Transmission and Distribution

5. Other tasks or activities upon request and authorization

The terms and conditions for this proposal are the same as and are included by reference as the existing agreement between the City of Vero Beach and GAI Consultants, Inc.

It is GAI's expectation that the five (5) tasks delineated above and on Table 1 are to be completed in Fiscal Year 2011.

Included in this proposal are

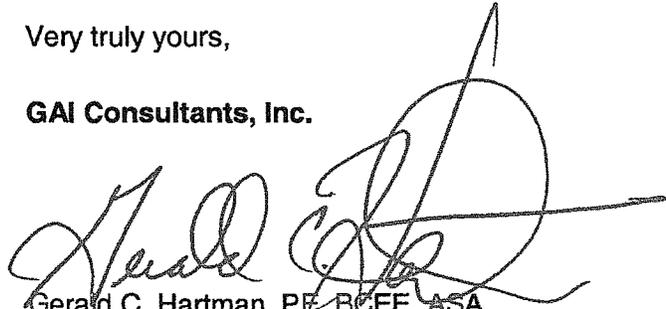
- Attachment A - Real Estate
- Attachment B - Electrical Engineering Condition and Asset Documentation
- Attachment C - Legal Services

Closing

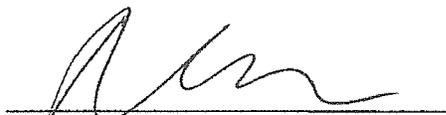
GAI looks forward to providing the technical expertise which the City desires on this matter. As with our previous work on this project, execution of this letter agreement with attachments issuance of a Purchase Order by the City will serve as authorization to proceed on the above tasks. We look forward to working with you on this matter.

Very truly yours,

GAI Consultants, Inc.



Gerald C. Hartman, PE, BCEE, ASA
Vice President



Witness



Witness

Accepted by:
City of Vero Beach, Florida

Witness

Authorized Signature

Witness

Date

Table 1
Schedule of Activities
City of Vero Beach Electric System – Phase I

Description	Time Period
1. Authorization by City	Start
2. Appraisal of Electric System Complete and Five (5) Asset Packages	132 days
3. Briefings on Findings	45 days
	75 days
	105 days
4. Review Of FPL Offer and Supporting Documents with Customer and General Fund Impact Analysis	To be determined
5. Assistance with Counter Offer to FPL	To be determined

Attachment A

Real Estate Value

FPL Fairness Analysis to Market

Klusza & Goding, Inc.

Real Estate Appraisers & Consultants
2130 E. Edgewood Drive
Lakeland, Florida 33803-3641
(863) 665-9195
FAX (863) 666-3487
klusza@tampabay.rr.com

March 9, 2011

Sent Via E-mail: G.hartman@gaiconsultants.com

Mr. Gerald C. Hartman, P.E.
301 E. Pine Street, Suite 500
Orlando, FL 32801

RE: City of Vero Beach

Mr. Hartman:

You have asked for an addition to my proposal letter dated March 7, 2011 stating my interest in helping prepare a preliminary opinion as to a valuation based upon ratios or how you have referred to it as a "fairness analysis" for the substation sites and fee simple parcels involved.

Without knowing specifically what parcels are involved or the extent of this "fairness analysis", I anticipate that I could provide this for a \$10,000 fee and \$1,500 for other direct costs/expenses/travel.

I hope that this serves your needs at this time.

Yours truly,



Richard G. Klusza, MAI, SRA
State-certified general real estate appraiser 783

RGK/dh



RICHARD G. KLUSZA, MAI, SRA
state-certified general real estate appraiser 783
CYNTHIA L. GODING, MAI
state-certified general real estate appraiser 1914

BRIAN E. GODING
state-certified general real
estate appraiser 2062

Klusza & Goding, Inc.

Real Estate Appraisers & Consultants
2130 E. Edgewood Drive
Lakeland, Florida 33803-3641
(863) 665-9195
FAX (863) 666-3487
klusza@tampabay.rr.com

March 7, 2011

Sent Via E-mail: G.hartman@gaiconsultants.com

Mr. Gerald C. Hartman, P.E.
301 E. Pine Street, Suite 500
Orlando, FL 32801

RE: City of Vero Beach

Mr. Hartman:

I am submitting this fee proposal for analysis, consultation, and possible appraisal and expert witness testimony for an electric utility valuation on behalf of the city of Vero Beach. Since this assignment involves property that is the topic of litigation, it is impossible to know in advance how much work will be required because it is unknown today whether the case will settle or ultimately go to trial.

It is my understanding that the client in this assignment is GAI Consultants. GAI consultants will be providing services to the City of Vero Beach. All fees and expenses are to be paid by GAI Consultants. Invoices will be submitted monthly, and are due upon receipt.

Our billing is based upon the amount of time expended on the assignment. The rate structure for Klusza & Goding, Inc. is:

\$225/hour	Principal - Richard G. Klusza, MAI, SRA
\$175/hour	Project Manager
\$100/hour	Chief Researcher
\$75/hour	General Research

Secretarial and clerical time is included in these rates. Expenses such as, but not limited to, exhibits, unusual reproduction or copy costs, consulting fees, photographic expenses, etc., are not included as part of these per hour rates, and will be invoiced separately.



RICHARD G. KLUSZA, MAI, SRA
state-certified general real estate appraiser 783
CYNTHIA L. GODING, MAI
state-certified general real estate appraiser 1914

BRIAN E. GODING
state-certified general real
estate appraiser 2062

Letter to Mr. Gerald Hartman

March 7, 2011

Page Two

If an appraisal report is ultimately needed, I will plan to provide a summary appraisal report which will meet USPAP requirements. A summary appraisal report would present summary discussions of the data, reasoning, and analysis that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation with the data, reasoning, and analysis will be retained in the appraiser's files and made available upon request.

For your information and file, I am enclosing my Qualifications, Certificate of Appraiser, and the Assumptions and Limiting Conditions which govern my appraisal reports.

Please indicate your approval of this fee proposal by signing and returning a copy of this proposal. I look forward to working with you on this matter.

Respectfully submitted:



Richard G. Klusza, MAI, SRA
State-certified general real estate appraiser 783

Accepted by:

Signature

Date

Enclosures

2130 E. EDGEWOOD DRIVE • LAKELAND, FL 33803
PHONE (863) 665-9195 • FAX (863) 666-3487 • E-MAIL klusza@tampabay.rr.com

RICHARD G. KLUSZA, MAI, SRA

Resident of Lakeland, Polk County, Florida, for over 40 years, and a Florida resident for over 50 years. Actively engaged in the appraisal field for over 40 years.

Florida Certified General Real Estate Appraiser 783

Specializing in appraisal assignments involving litigation since the late 1960s.

EDUCATION

Graduate of University of Florida – 1957, Degree in Business Administration – Major in Real Estate

Attended Appraisal Case Study courses offered by the American Institute of Real Estate Appraisers:

Residential
Urban I
Urban II
Rural III
Condemnation IV
Mortgage Equity Seminar
Investment Property Appraising
Computer Applications in Appraising
Standards of Professional Practice

The American Institute of Real Estate Appraisers conducts a voluntary program of continuing education for its designated members. MAIs and SRAs who meet the minimum standards of this program are awarded periodic educational certification. I am certified under this program.

QUALIFIED AS AN EXPERT WITNESS (including, but not limited to)

Federal Court: Tampa, FL
Miami, FL
Houston, TX

Circuit Courts:	Alachua	Hendry	Osceola
	Brevard	Hillsborough	Palm Beach
	Broward	Indian River	Pasco
	Charlotte	Lee	Pinellas
	Collier	Leon	Polk
	Dade	Manatee	Sarasota
	Desoto	Martin	Seminole
	Duval	Okeechobee	St. Johns
	Flagler	Orange	Volusia
	Hardee		

Cherokee County, NC

TEACHING

University of Florida (Adjunct Professor)	1970-1975
University of Tampa	1967
St. Petersburg Junior College	1977
Polk Community College	1981

APPRAISAL EXPERIENCE

Smith and Son Appraisers	1957-1970
Wheeler & Klusza, Inc.	1970-1984
Klusza & Associates, Inc.	1984-2000
Klusza & Goding, Inc. (formerly Klusza & Associates, Inc.)	2000-present
Special Master, Value Adjustment Board Polk County Property Appraiser's Office	1992 and 1997

PROFESSIONAL MEMBERSHIPS

State Certified General Real Estate Appraiser RZ783
Appraisal Institute (the organization formed in 1991 by the consolidation of the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers)
Lakeland Board of Realtors
Florida Association of Realtors
National Association of Realtors
Association of Eminent Domain Professionals (AEDP)

SOCIETY OF REAL ESTATE APPRAISERS (West Coast Chapter No. 89)

Offices Held:

1963-64	Director
1965	Secretary
1966	Vice-President
1967	President

Also served as a member and chairman of various committees.

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

National Office:

1989-92	Governing Council Member
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National Committees:

1985-86	Assistant Southeast Regional Member, Ethics Administration Division
1986-89	Southeast Region Member, Ethics Administration Division
1989-90	National Vice-Chairman, Ethics and Counseling

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS (Cont'd)

Florida Chapter No. 2 Offices:

1983	Treasurer
1984	Secretary
1985	Vice-President
1986	President

Also served as a member and chairman of various committees.

APPRAISAL INSTITUTE

National Office:

1991-94	Board of Directors Member
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National Committees:

1991-93, 1995-06	Appellate Board Member
1994	Chairman, Ethics and Counseling Division
1994	Member of Executive Committee
1996-97	Litigation Seminar and Course Committees
1997	Vice-Chair, Ethics and Counseling Division
1994-02	Member of Ethics and Counseling Committee
1995-02	Chairman, Appellate Division
2002-04	Member, Appellate Division
2005-10	Member, Ethics Appeals Panel

PROFESSIONAL AWARDS

1995	Recipient of the Appraisal Institute's Alfred E. Reinman Award for outstanding contributions to the growth and development of the appraisal profession
1998	Recipient of the Appraisal Institute's Robert L. Foreman Memorial Award for dedication to the enforcement of ethics and standards
2009	Recipient of Realtor Emeritus Status from the National Association of Realtors in recognition of valuable and lasting contribution to the real estate profession in the community

PROPERTY OWNERS REPRESENTED

Barron-Collier Company	Melvin Simon & Associates
Burger King	Midas
Circle K	Olin Mott Tires
DeBartolo Corp./Deseret	Publix Supermarkets
Discount Auto Parts	Ramada Inn
Flo-Sun Corp.	Richland Properties
Florida Auto Auction	Scotty's
Florida Power Corporation	Sears
General Development Corp.	Shell Oil
Kash 'N Karry	St. Joe Paper Company
Lake Nona Corporation	Texaco
MacArthur Foundation	Towermarc
McDonald's	

TYPES OF PROPERTY APPRAISED

Apartment Communities	Parking Garages
Auto Auction	Planned Developments
Banks	Powerlines
Billboards	Private Schools
Citrus Groves	Public Parks
Hotels	Ranches
Industrial Plants	Restaurants
Landfills	Service Stations
Manufacturing Facilities	Shopping Centers
Meat Packing Plants	Shopping Malls
Mineral Rights	Utility Easements
Motels	Utility Systems
Nurseries	Warehouses
Office Complexes	Wetlands
Oil Rights	

MAJOR EMINENT DOMAIN ASSIGNMENTS

Airport Noise Cases -	Broward County Hillsborough County Lee County Orange County Palm Beach County Sarasota County
Central Florida Greenway -	Orange County Osceola County Seminole County
Cross Town Expressway -	Hillsborough County
East-West Expressway	Orange County
Florida Turnpike -	Miami-Dade County

MAJOR EMINENT DOMAIN ASSIGNMENTS (Cont'd)

Interstate 4

Interstate 75

Interstate 95

Polk Parkway -

Polk County

U.S. Highway 19

Landfills -

Charlotte County
Orange County
Palm Beach County
Polk County

Overtown Project -

Miami-Dade County

Cape Kennedy Saturn-Moonshot Land Acquisition
Gasline Appraisals
Kissimmee River Channelization and Restoration
Miccosukee Indian Reservation
Powerline Appraisals
Seminole Indian Reservation
Utility Systems
Wellfield Appraisals

CLIENTS (Past and Present)

Attorneys:

Blain & Cone
Brigham, Moore, Gaylord, Schuster,
Medlin & Tobin, LLP

- Tampa
- Ft. Lauderdale, Miami, Orlando, Sarasota,
Tampa
- Tallahassee

Broad and Cassel
Carlton, Fields, Ward, Emmanuel,
Smith & Cutler
de la Parte, Gilbert & Bales
Earle & Patchen
English, McCaughan & O'Bryan
John R. Farrell
Fishback, Dominick, Bennett, Stepster

- Tallahassee, Tampa, West Palm Beach
- Tampa
- Miami
- Ft. Lauderdale
- Miami

Ardaman, Ahlers & Bonus
Fixel & Maguire
Foerster, Isaac & Yerkes, P.A.
Forman, Krehl & Montgomery
Fowler, White, Gillen, Boggs,
Villareal & Banker, P.A.
Gray, Harris & Robinson

- Orlando
- Orlando, Tallahassee
- Jacksonville
- Ft. Lauderdale, Maitland, Ocala
- Tampa
- Orlando

CLIENTS (Cont'd) (Past and Present)

Heinrich, Gordon, Batchelder, Hargrove, Weihe & Gent	- Ft. Lauderdale
Holland & Knight	- Tampa
Honigman, Miller, Schwartz & Cohn	- Tampa
Jones, Foster, Johnston & Stubbs, P.A.	- West Palm Beach
King, Blackwell & Downs	- Orlando
Mateer, Harbert & Bates, P.A.	- Orlando
H. Rex Owen	- St. Petersburg
Peterson & Myers, P.A.	- Lakeland, Lake Wales
Stagg, Hardy, Ferguson, Murnaghan & Mathews	- Tampa
Stearns, Weaver, Miller, Weissler, Alhadeff & Sitterson, P.A.	- Tampa
Steel, Hector & Davis	- West Palm Beach
Stewart, Stewart, Jackson & Keyes	- Ft. Myers
Trenam, Kemker, Scharf, Barkin, Frye, O'Neill & Mullis	- Tampa
Vance & Doney, P.A.	- West Palm Beach
Wilson, Leavitt & Small, P.A.	- Orlando

Governmental Agencies:

Federal Government
State of Florida
Florida Department of Transportation (DOT)
Charlotte County
Collier County
Hillsborough County
Lee County
Pinellas County
Polk County
Volusia County
City of Lakeland
City of Tampa
City of St. Petersburg
City of St. Augustine
City of West Palm Beach
Florida Inland Navigation District (FIND)
Southwest Florida Water Management District (SWFWMD)
South Florida Water Management District (SFWMD)
Orlando/Orange County Expressway Authority (O/OCEA)
Tampa/Hillsborough County Expressway Authority

CERTIFICATE OF APPRAISER

I certify that, to the best of my knowledge and belief, the statements of fact contained in this report are true and correct. I further certify that the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, unbiased professional analyses, opinions and conclusions.

I have no present or prospective interest in the property which is the subject of this report, and I have no personal interest or bias with respect to the parties involved. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice, of the Appraisal Institute.

The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. As of the date of this report, Richard G. Klusza has completed the continuing education program of the Appraisal Institute.

I have made a personal inspection of the property that is the subject of this report. Each individual who provided significant professional assistance on this assignment, as evidenced by their name and/or signature on the transmittal page of this report, has also made a personal inspection of the subject property. Except as noted herein, no one provided significant professional assistance to the person signing this report.

I do not authorize the out-of-context quoting from or partial reprinting of this appraisal report. Further, neither all nor part of this appraisal report shall be disseminated to the general public by the use of media for public communication without the prior written consent of the appraiser signing this appraisal report.

Richard G. Klusza, MAI, SRA
State-certified general real estate appraiser RZ783

ASSUMPTIONS AND LIMITING CONDITIONS

1. The legal description furnished the appraiser is assumed to be correct.
2. No responsibility is assumed by the appraiser for legal matters, nor is any opinion on the title rendered herewith. The appraiser assumes that the title to the property is good and marketable.
3. All existing liens, if any, have been disregarded and the property appraised as though it was free and clear.
4. The appraiser has made no survey of the property and, unless specifically stated, assumes there are no encroachments involved.
5. The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale.
6. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless non-compliance is stated, defined, and considered in the appraisal report.
7. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined, and considered in the appraisal report.
8. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or public entity or organization have been or can be obtained or renewed for any use on which the value estimate in this report is based.
9. Proposed improvements, if any, on or off-site, as well as any repairs required, are considered for purposes of this appraisal to be completed in good and workmanlike manner.
10. Furnishings and equipment or business operations, unless specifically indicated and typically considered as part of real estate, have been disregarded with only the real estate being considered.
11. Responsible ownership and competent property management are assumed.

12. It is assumed that there are no hidden or unapparent conditions of the property, soil, or structures which would render it more or less valuable.

Further, unless otherwise stated in this report, the existence of hazardous material or any other environmental problems or conditions, which may or may not be present on the property, was not observed by the appraiser or disclosed to the appraiser. The appraiser has no knowledge of the existence of such materials or conditions on or in such close proximity that it would cause a loss in value. The appraiser, however, is not qualified to detect such substances or conditions. The presence of substances such as asbestos, urea-formaldehyde foam insulation, radon, or other potentially hazardous materials could have an adverse effect on the value of the property. The value estimate is predicated on the assumption that there is no such material or condition on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

13. No responsibility is assumed by the appraiser for the absence or presence of any endangered species on this property. This appraisal assumes that there are no endangered species which would prevent, restrict, or adversely affect any development or improvement of this property.
14. No impact studies and/or special market, highest and best use, or feasibility analysis or studies have been required or made unless otherwise specified. The appraiser(s) reserves the right to alter, amend, revise, or rescind any of the statements, findings, opinion, value estimates, or conclusions contained herein if any of these studies require it.
15. Certain data used in compiling this report was furnished the appraiser from sources which the appraiser considers reliable; however, the appraiser does not guarantee the correctness of such data, although so far as possible, the appraiser has checked the same and believes it to be accurate.
16. The appraiser has accepted as correct and reliable all information provided by the client, the client's counsel, or the client's agent which was used in the preparation of the report. All data came from sources deemed reliable, but no liability is assumed for omissions or inaccuracies that subsequently may be disclosed in any data used in the completion of the appraisal.
17. Since the date of value of this appraisal of the property is not the actual trial date, the appraiser reserves the right to consider and evaluate any additional value influencing data and/or other pertinent factors that might become available between the date of the report and the date of trial and to make any adjustments to the report that may be required.

18. Neither I, nor anyone employed by me, has any present or contemplated interest in the property appraised.
19. Possession of this report, or copy thereof, does not carry with it the right of publication, nor may it be used for any purpose by any but the applicant without the previously written consent of the appraiser or applicant, and in any event, only in its entirety and with proper qualification.
20. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the author, particularly as to valuation conclusions, the identity of the appraiser or firm with which the appraiser is connected, or any references to the Appraisal Institute or to the MAI designation.
21. Acceptance of, and/or use of, this appraisal report constitutes acceptance of the above conditions and assumptions.

Attachment B
Power Services -
Condition Assessment



1616 E. Millbrook Road, Suite 210, Raleigh, NC 27609
Toll-Free: 1-866-231-6610
Tel: 919-256-5900
Fax: 919-256-5939
www.powerservices.com

March 23, 2011

Mr. Gerry Hartman
GAI Consultants, Inc.
618 E. South Street, Suite 700
Orlando, Florida 32801

Subject: City of Vero Beach, Florida
Qualifications and Scope of Work for
System Condition Assessment

Dear Mr. Hartman:

We appreciate the opportunity to assist the GAI with a Condition Assessment for the City of Vero Beach, Florida. Enclosed is our scope of work and estimated engineering fees. Following is a brief summary of recent qualifications for our firm.

We have, in the last three years, been involved in three extremely unique Virginia projects for our Cooperative clients. We assisted in the acquisition of the entire Delmarva Power system for our client on the eastern shore of Virginia, and have just recently assisted in the completion of an Asset Purchase Agreement for the entire Potomac Edison (Allegheny Energy Virginia) system. One of these acquisitions more than tripled the number of consumers for the Cooperative with approximately 170 MW of load. The other acquisition involved two Cooperatives purchasing an existing utility that serves over 100,000 customers, with 750 MW of load. PowerServices was responsible for all the evaluation and acquisition engineering, including three new Long-Range Plans and three Construction Work Plans ranging from \$100 million to \$350 million. This effort required the highest degree of skill and experience in the utility long-range planning process all within a highly compressed time frame. Some of the tasks associated with these acquisitions included condition assessments, feasibility studies; strategic planning; resolution of stranded cost issues; expert testimony on valuation and stranded costs; development of contractual arrangements including purchase agreements, wholesale power supply agreements, management, operation and maintenance agreements, transition agreements; joint ownership arrangements; financing reports; development of rates, terms and conditions of service, construction work plan amendments and long-range plans, and system valuations.

The breadth of our teams' talent and our ability to quickly meet our client's needs allowed us to meet and exceed our client's expectations in both of these very unique undertakings. To fully appreciate our abilities and dedication to our clients, we invite you to contact Mr. Vernon Brinkley, CEO of A&N Electric Cooperative, John Coffey of Shenandoah Electric Cooperative, and/or Kent Farmer of Rappahannock Electric Cooperative to obtain a client's perspective on our ability to meet great challenges in a timely manner.

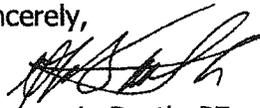
Mr. Gerry Hartman
March 23, 2011
Page Two

Our project team will be managed by highly experienced individuals, most with over 30 years of experience in the electric utility industry. We will manage this project through our Raleigh, North Carolina and Orlando, Florida offices. We have team members who have written nationally published manuals and lead the industry in many areas, including power loss management and system reliability enhancement. We provide a full range of services to the electric industry and serve many electric cooperatives and municipalities, including longstanding relationships.

Our firm is committed to providing all projects awarded to our firm within the timeline agreed upon between our firm and GAI Consultants. The personnel authorized to provide representation for our firm are Gregory L. Booth, PE, President, Phone (919) 256-5901 and R.L. Willoughby, Vice President, Phone (919) 256-5902.

Thank you for allowing us the opportunity to offer our services to GAI Consulting and the City of Vero Beach. We look forward to working with you and your staff, and stand ready to provide any services you need currently or in the future. Please contact me with questions, or if you require additional information or clarification regarding our qualifications.

Sincerely,



Gregory L. Booth, PE
President
gbooth@powerservices.com

glb/sk

Enclosure

**VERO BEACH CONDITION ASSESSMENT
 PROPOSED SCOPE OF WORK
 TASK SUMMARIES AND ESTIMATED COSTS**

Task		Engineering Fee
1	Kick-off Meeting	
2	Data Request	
3	Data Review	
4	Condition Assessment	
5	Comparison of Book Value to Field Assessment and Cost Analysis	
6	Final Report	
	Total Engineering Assessment	\$ 35,000.00
	Other Direct Costs	\$ 8,200.00
TOTAL PROJECT AMOUNT		\$ 43,200.00

**SCOPE OF WORK
TASK DETAIL**

<u>Task</u>	<u>Detailed Description</u>
1	Kick-off meeting task includes key PowerServices and GAI staff to meet initially with City of Vero Beach representatives to discuss issues important to the City, as well as approach and processes to be used in the analysis.
2	Data request task will include, but not be limited to the following information provided by the City: maps of system (circuit diagrams, detail maps, underground maps, subdivision maps), book value and depreciation data, pole inspection reports (10 years), underground facility inspection reports (10 years), substation design, substation transformer and feeder load data, power transformer DGA (5 years), and wholesale-retail load data kW/kWh. Data shall be sorted by plant inside the City limits and outside the City limits.
3	Data review, including cost evaluation and age evaluation.
4	Condition assessment will include field evaluation of facilities, as follows: <ul style="list-style-type: none">• Field evaluation will compare book value and age of plant as reflected in data requests, compared to actual observations in field. Field observations will be limited to four days with primary focus outside the City limits.
5	PowerServices will compare the book value, as provided by City of Vero Beach, to field assessment and determine if the book value is representative of what is actually in the field.

SCOPE OF WORK
TASK DETAIL (CONTINUED)

Task

Detailed Description

- 6 Final report task will consist of the following four (4) components:
 1. PowerServices will prepare a draft report
 2. PowerServices will have a work session with GAI and City of Vero Beach to review and receive input from City.
 3. Preparation of final report
 4. Presentation of report to City Council (if requested).

Attachment C
Legal Services

GRAY | ROBINSON
ATTORNEYS AT LAW

SUITE 1400
301 EAST PINE STREET (32801) PORTLAUDERDALE
POST OFFICE BOX 3068 JACKSONVILLE
ORLANDO, FL 32802-3068 KEY WEST
TEL 407-843-8880 LAKELAND
FAX 407-244-5690 MELBOURNE
gray-robinson.com MIAMI
NAPLES
ORLANDO
TALLAHASSEE
TAMPA

Thomas A. Cloud, Esquire

407-244-5624

THOMAS.CLOUD@GRAY-ROBINSON.COM

March 23, 2011

Gerald C. Hartman, P.E., BCEE, ASA,
Vice President
GAI Consultants, Inc.
The GAI Building
618 East South Street, Suite 700
Orlando, FL 32801

Re: Engagement Letter for Representation of GAI Consultants, Inc.

Dear Mr. Hartman:

You have inquired as to whether our Firm is interested in representing GAI Consultants, Inc. regarding certain services for the City of Vero Beach. You have asked that we provide legal assistance in the preparation of an appraisal of the City of Vero Beach's electric system, the assessment, analysis, and recommendations related to any offer from FPL to Vero Beach related to the City's sale of all or a portion of the electric system, the development of alternative proposals for the sale or transfer of all or a portion of the Vero Beach electric system, and other related legal tasks. Negotiating or closing a sale is not included in this scope. For providing these services, my estimate would be \$25,000.

Over the years, it has been our experience that things go more smoothly if we have a clear understanding of your needs and the role we need to play. The purpose of this engagement letter is to confirm an agreement concerning representation and the payment of our fees and expenses. This engagement letter will govern all subsequent matters in which we may become involved on your behalf unless a separate arrangement is made.

We will do our very best to meet your needs in any matters we undertake for you, but as you know, we cannot and do not make any representations or warranties concerning the outcome. We will give you our best advice, render opinions, and seek to obtain the desired result. In this regard, it is most important that we communicate regularly.

We have attached a copy of the firm's Policy Regarding Expenses and Billing. All conditions in that document are incorporated by reference as part of this

March 23, 2011
GAI Consultants, Inc.
Page 2

engagement letter. As we are sure you recognize, we have a legitimate business concern in being paid in a timely fashion.

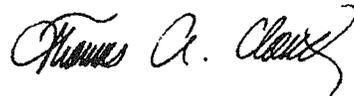
The following arrangement is proposed regarding fees and costs:

Our firm charges for services on an hourly basis. Our firm will charge for services on an hourly basis at a blended hourly rate of \$200.00 for all attorneys who work on this matter and \$100.00 per hour for paralegals, (my private client rate is \$375.00 per hour). As you know, this is substantially less than our private client rates which is offered as a reduced hourly rate to Florida cities. I will be primarily responsible for all matters, but we reserve the right to utilize other members of the firm whenever, in our discretion, we deem it appropriate. Further, computer research, and other technology may also be utilized if and when appropriate and in your best interest. You will be billed for the use of the same.

If this engagement letter meets with your approval, please indicate by having the extra copy of this letter signed in the space provided below, and return it to our offices. Your approval of this letter will include our agreement regarding the fees and costs arrangement.

We appreciate the confidence and trust you have reposed in us in asking us to represent you and encourage you to communicate with me if at any time you have questions on the status or progress of your matters. I look forward to working with you and your staff on any matters you deem appropriate. If you have any questions, please do not hesitate to contact me.

Sincerely yours,



Thomas A. Cloud, Esquire

GrayRobinson, P.A.

TAC/jg
Enclosure

GRAYROBINSON
PROFESSIONAL ASSOCIATION

March 23, 2011
GAI Consultants, Inc.
Page 3

The terms of this representation are accepted
this _____ day of _____, 2011

GAI CONSULTANTS, INC.

By: _____

Print: _____

March 23, 2011
GAI Consultants, Inc.
Page 4

POLICY REGARDING EXPENSES AND BILLING

EXPENSES: You will be charged a reasonable rate for computerized document production, postage, reproduction, telecopies, couriers, express mail, long-distance telephone, travel costs and other costs. We may also use computerized research services to assist in handling your matters. This service will be used when we believe that it will save you money to do so. Expenses incurred or advanced on your behalf will be itemized on the statement.

BILLING: You will be billed periodically, usually monthly. In the event you should disagree with or question any amount due under an invoice, you agree to communicate such disagreement to us, in writing, within thirty (30) days of the invoice date. Any disagreement you may have with a bill that is not communicated to us within that period shall be deemed waived.

COMMENCEMENT OF REPRESENTATION: Our representation will not commence until we receive a signed copy of the letter to which this statement is attached, together with payment of any retainer specified therein.

WITHDRAWAL FROM REPRESENTATION: We reserve the right to withdraw as your counsel in the event you fail to honor your agreement with respect to our legal fees or for any just reason as permitted or required under the Florida Code of Professional Responsibility or as permitted by the rules of courts of the State of Florida. In the event of our withdrawal, you will promptly pay for all services rendered by us prior to the date of withdrawal.

FILE RETENTION: You should be aware of our file retention policy. Once your case is concluded, the file will be officially closed. Once the file is closed, it may be sent to off-site storage, and there may be costs associated with retrieval of information from the file. We retain stored and closed files for a period of ten (10) years after which time they may be destroyed. Thus, if there are any documents which you need from the documents we possess, we recommend that you obtain them at the conclusion of your case.

Exhibit "A"
Electric System Valuation Data Request

1. Copy of any existing franchise agreements for electric service within the municipal boundary.
2. Comprehensive asset listing by FERC account:
 - a. Provide list of utility system hardware located within the municipal boundary including but not limited to fuses, reclosers, transformers, switches, capacitor banks, street lights, and structures (poles) from their Geographic Information System/Facilities Information Management/Asset Management System databases.
 - b. Classify hardware by type.
 - c. Provide geographic identifier (GPS based or with GPS conversions).
 - d. Provide installation date – if not available, provide an estimate of the installation date clearly marked estimat.
 - e. Provide Supporting information for asset listing (all assets within municipal limits and those that may be connected to the municipality's system) including but not limited to:
 - i. Updated utility system maps for lighting systems, substations, and distribution and transmission lines, and any other equipment or hardware owned and operated by electric provider within the municipal boundaries – hard copy and electronic copy (Microstation or AutoCAD).
 - ii. Copy of Asset Management System data – hard copy and electronic database copy in a format that can be imported into any database management program.
 - f. Provide cost and depreciation rate information for each asset listed.
3. Tangible personal property tax returns for the last five (5) fiscal years.
4. Customer listing for past five (5) fiscal years – should include account number, address, rate code (with definition), usage and bill amount. The bill amount should be broken out by revenue item: base charge; consumption charge; franchise fee; etc. This listing should be for all customer classes – Residential, Commercial, Industrial, etc.

Exhibit "A"
Electric System Valuation Data Request

5. Audited Financial Statements for the past five (5) years showing the operating results for the electric system:
 - a. Provide raw data (at the municipality level) used to develop any companywide financial statements.
 - b. Provide financial reports for the operating region inclusive of the municipality.
 - c. Provide audited companywide financial statements.
6. Operating Budgets:
 - a. Provide operating expense budgets for all operating expenses companywide including but not limited to personnel expenditures, fuel costs, vehicle costs, maintenance and capital improvement programs, tree trimming, animal protection, aesthetic program, circuit protection and coordination review, preventive maintenance, circuit reliability improvements, system hardening, circuit and pole inspections, underground device inspections, etc.
 - b. Operating budgets shall be provided for smallest defined geographic region inclusive of the municipality. If budget is only assigned on a companywide basis, provide method used to prioritize funding and last five years of actual expenses within the smallest geographic region inclusive of the municipality.
7. Total load and aggregate load of the customers of the municipality (include historical information used for load forecast models within the utility):
 - a. Provide load from utility's energy delivery system planning model.
 - b. Provide load data from Customer records.
8. System maps detailing service areas, asset locations, customer locations, electric schematics, along with a legend key:
 - a. Provide system models as detailed above.
 - b. Provide system maps as detailed above.
9. A copy of the current tariff.
10. Any special contracts for the provision of electric service with any customers within the municipal boundaries:

Exhibit "A"
Electric System Valuation Data Request

Provide list of Customers on special tariffs such as:

- a. Interruptible Customers.
 - b. Stand-by generator.
 - c. Other Demand Side Management program sign ups.
 - d. List of residential Customers on load management.
 - e. List of Customers with relay service or other power quality and priority distinction the Customer may pay for in tariffs.
11. A copy of the Customer complaint logs:
- Provide listing of all Public Service Commission complaints filed within the service region inclusive of the municipality. Information should include – Customer meter numbers, address, transformer number, reason for complaint, and resolution.
12. A copy of the outage reports:
- Provide, at a minimum, five years of outage history (outage records) by distribution circuit, substation and transmission circuit affecting residents within and around the municipality.
13. A copy of any special leases (if any).
14. A copy of deeds for any land used to provide electric utility service, including a description of the land use.
15. Copies of agreements as between the electric provider and other companies using or sharing in the use of assets within the municipal limits:
- a. Provide utility attachment contracts:
 - i. City
 - ii. Cable TV
 - iii. Phone
 - iv. Other Communications companies
 - b. Provide a copy (paper and electronic) of latest audit of attached utilities.

Exhibit "A"
Electric System Valuation Data Request

16. A copy of the preventive maintenance plans for the municipality's electric distribution system:
 - a. Such maintenance plans should include but not be limited to :
 - i. Pole inspection
 - ii. Circuit hardening
 - iii. Protection and coordination
 - iv. Tree trimming
 - v. Circuit patrols
 - vi. Storm restoration
 - vii. Reliability improvements
 - viii. Animal protection
 - ix. Lightning protection
 - b. Provide the scope of the service (units served, inspected, replaced, installed, etc.) provided above.

17. A list of proposed Capital Improvement Program projects within the identified municipal limits for the next five (5) or ten (10) years as identified by the electric provider's short and long-term system planning process.