

FINANCE COMMISSION MEETING
Wednesday, January 17, 2018 – 2:00 p.m.
City Hall, Council Chambers, Vero Beach, Florida

AGENDA

- 1. CALL TO ORDER**
- 2. APPROVAL OF MINUTES**
 - A) July 7, 2017 – Regular Meeting Minutes**
 - B) August 30, 2017 – Joint Finance/Utilities Commission Minutes**
- 3. ELECTION OF OFFICERS**
 - A) Chairman**
 - B) Vice Chairman**
- 4. PUBLIC COMMENT**
- 5. FINANCE DIRECTOR’S MATTERS**
 - A) Discussion Regarding Uses of Residual Cash After Completion of the Sale of the Electric Utility to Florida Power and Light (FPL)**
- 6. ADJOURNMENT**

This is a Public Meeting. Should any interested party seek to appeal any decision made by the Commission 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.

**FINANCE COMMISSION MINUTES
FRIDAY, JULY 7, 2017 - 2:00 P.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA**

PRESENT: Chairman, Glen Brovont; Vice Chairman, Randy Old; Members: Kathryn Barton, and Peter Gorry **Also Present:** Finance Director, Cynthia Lawson; City Manager, James O'Connor and Deputy City Clerk, Sherri Philo

Excused Absences: Ryan Bass, Victor DeMattia, and Daniel Stump

1. CALL TO ORDER

Today's meeting was called to order at 2:00 p.m.

2. APPROVAL OF MINUTES

A) May 1, 2017

Mr. Gorry made a motion to approve the minutes of the May 1, 2017 Finance Commission meeting. Mr. Old seconded the motion and it passed unanimously.

3. PUBLIC COMMENT

At this time, Ms. Kira Honse, Assistant City Attorney, reported that she placed on the dais before each member the Guide to the Sunshine Amendment and Code of Ethics for Public Officers and Employees that is produced by the Florida Commission on Ethics (on file in the City Clerk's office). She said the pamphlet has information on the Code of Ethics a Public Officer is to follow. She asked the Commission members to look over the information and if they have any questions they can contact the City Attorney's office.

Mr. Old asked why does the Commission fall under the Sunshine Law. He said they don't have the power to make decisions, they can only make recommendations.

Ms. Honse said because they are part of the decision making process.

4. NEW BUSINESS

A) Discuss proposed 2017/2018 Budget

Ms. Lawson gave a brief overview of the memorandum to the City Council dated June 30, 2017 on the Fiscal Year 17-18 Proposed Budget to the Commission members (attached to the original minutes). She noted that in keeping with Council's direction the proposed budget is at the same mileage rate as last year, but there is about \$454,000 more in revenue because property values went up 7.7%. She reported that they absorbed into the budget a 2% salary increase across the board, a 15% increase in health insurance costs, and a transfer of \$240,000 into Fund 304 – Capital and Construction Fund for street resurfacing. For the first time they have a little bit of

money, about \$18,000, that they will be setting aside for the Downtown Economic Development Zone as a result of the increase in property value. She noted that the proposed Electric Utility budget assumes a full year of utility operations. The revenue was estimated using the assumption that they maintain the current rates, her modeling and the Rate Consultant's modeling for actual kilowatt hour sales based on a three (3) year rolling average with a little bit of growth. Because she does not have any definitive information from FMPA as to what their budget for next year might be, the purchase power costs were estimated by using a combination of the kilowatt hour sales retail forecast plus the losses to create the wholesale megawatt hours and a rolling 12-month per megawatt hour cost for each of the suppliers. She reported that there are two (2) full time positions being eliminated, which is a continuation of the closing of the Power Plant and downsizing of the Power Resources Department. The transfer to the General Fund to the Electric Utility is consistent with the prior year number of \$5.4 million, which is 6.1% of revenue. She said if they look at the Five Year Capital Budget being proposed they will see that they have proposed the utility as though it is a going concern, which includes capital projects they would need to do if they were going to continue to run the Utility. They are going to continue to make the investments they feel need to be made for at least the coming year in order to keep it as a going concern. In order to support that capital program, particularly in moving of the substation out of the Power Plant, they show a decrease in the Fund Balance of \$1.8 million. She said staff feels comfortable with that because it will still keep their working capital above the 90-day threshold. She reported that staff is proposing to reduce the reserves of the Airport Fund to support some capital projects that are needed. She noted that currently the Airport has about 790 days of working capital so staff feels comfortable that increasing the transfer and reducing their reserves would not impact the financial stability of the Airport. She reported that the Cemetery is now self supporting and they have constructed a Marina Fund that doesn't require a transfer. She said they do have the usual issue with the General Government Capital and Construction, which is essentially the one-cent sales tax fund. This money is restricted for capital expenditures. She said included in the budget information is the list of unfunded projects, which are projects they could not fit within the available resources in the Capital Construction Fund (on file in the City Clerk's office).

Mr. Gorry referred to page 3 of the Five Year Capital Program, *Fund 304: General Government Capital and Construction*. He said the ending Fund Balance is \$911,000. The Fund Balance at the end of Fiscal Year 2021/2022 is \$56,870. He said for Fiscal Year 2017 to 2022, the total funded plus unfunded requirements is \$21.4 million. Of the \$9 million difference of the unfunded there are two (2) areas, which are Public Works and Recreation. He said \$8,347,000 is unfunded in infrastructure. He said during the next five (5) years infrastructure is funded at \$4,900,000 and unfunded at \$8,347,000. He said this fiscal year \$5,050,000 was spent on infrastructure. He said there was \$3.26 million spent on the 34th Avenue project, which the City contributed about \$1 million. He noted that what he was saying was not meant as criticism. He said that it is his view that last year this Commission recommended a stormwater utility and the City Council decided against it. He questioned what happens if a culvert collapses or there is a big pot hole that needs to be repaired. He said there is a limited amount of funds and this would reduce the amount originally to be used for other programs. He reported that during yesterday's Utility Commission meeting they passed a motion to put more funds into the water cleanup of the Lagoon.

Ms. Lawson clarified that the motion made by the Utilities Commission was for the City Council to consider looking for revenue sources to put into water quality projects.

Mr. Gorry said if they dedicate funds they are going to have to dedicate them from the money they have. He said the possible source of funding is from a stormwater utility. If there is a stormwater utility his recommendation would be to have it as part of the General Fund under Public Works. He said there is no reason to have it as an Enterprise Fund noting that it would not impact anyone living outside the City.

Ms. Lawson said staff's proposal on the stormwater utility was that by accounting rules it would be a utility, but there would be no staff costs. She explained that it would show as an Enterprise Fund, but there would not be any staff costs or operating costs.

Mr. Old said that he liked the idea of it being separate because they could show the money put into it and the money taken out of it for projects.

Mr. Brovont said they should have a dedicated fund. He felt it would show the public what the money is being used for and what they said it was going to be used for.

Mr. Gorry explained that he was not suggesting that it is melded.

Mr. O'Connor explained that back when they discussed this, they envisioned having a pot of money that would be collected as a stormwater utility, but it would be administered by the Public Works Department.

Mr. Brovont felt the Utilities Commission still supports having a stormwater utility.

Mr. Gorry said that he would like to make a recommendation that the City Council consider it.

Mr. Brovont said that he did his own five-year forecast and he didn't see any way they were going to fund capital requirements needed without either increasing ad valorem taxes and/or having a stormwater utility. He said there is no question in his mind in looking at the numbers that the City is short of money. He does not see any real ability to cut expenses unless they are going to face up the unpalatable fund of recreation money. That is the only discretionary money they have that he can see.

Ms. Lawson agreed with Mr. Brovont, not about recreation, but about the lack of money. She explained that the one-cent sales tax money is the only dedicated revenue the City currently has for capital. The City receives \$2.2 million a year from the one-cent sales tax. They have \$800,000 a year in debt service, which leaves \$1.4 million. Of that \$1.4 million, \$600,000 or \$700,000 a year go towards the rolling vehicle replacement program, which leaves about \$700,000 a year for paving, stormwater, all Public Works projects and all recreation infrastructure. If they look at the unfunded projects, it ranges between \$1.5 and \$2 million a year, totaling almost \$9 million in a five (5) year period. So there is a serious gap between what they have dedicated for capital and what they feel they need in the way of projects. Particularly those projects in stormwater that are proactive towards water quality.

Mr. Brovont said the longer they keep deferring these capital programs the worse it gets. They have to do it on a timely scheduled basis if they are going to keep operations running properly.

Mr. Gorry referred to page 65 of the proposed budget, *General Fund – NonDepartmental*. He said it shows non recurring expenses of a \$47,000 transfer to the Cemetery, \$691,000 for debt, and \$107,000 for the Marina. That adds up to \$845,000 of non recurring year to year expenses. If they add that to the \$892,000 year to year actuals, that comes to over \$1.1 million.

Ms. Lawson disagreed because they would have to look at the decreases in revenue.

Mr. Gorry said it states that the increase is \$392,000.

Ms. Lawson suggested that they look at pages five (5) through eight (8). She said almost \$700,000 of it is health insurance, the increase in the OPEB Trust contribution, and the increase in workman's compensation insurance.

Mr. Gorry asked how do they lose \$700,000 in non recurring expenses and then compare year to year.

Ms. Lawson explained that full time salaries went up by \$210,000, pension costs went up by \$90,000, health insurance went up by \$250,000, the OPEB Trust contribution went up by \$112,000, and workman's compensation insurance went up by \$118,000.

Mr. Brovont said if they compare next year against this year, going forward the City's labor costs are at \$19,800,000 and last year it was \$18,800,000. The difference is \$200,000 in labor costs, \$250,000 in hospitalization costs, they voluntarily picked up \$100,000 in the OPEB Trust Fund, and \$100,000 in the Pension Fund. Therefore, what happened was their labor costs went up \$210,000 and all other costs within the labor department went up by over \$800,000. He said part of this they have no control over. He asked how did workman's compensation go up by 68% to \$118,000.

Ms. Lawson explained that the City went away from being self insured to being fully insured about three (3) years ago. At that time, they had no history on what their deductible payments would be. Now they have about three (3) years of history of their average payments of deductibles in addition to what the insurance costs are and this is the year that she chose to recognize the fact that on a three (3) year average the City is spending about \$90,000 a year in deductible costs from the General Fund for workman's compensation claims.

Mr. Brovont said when they subtract the debt service by \$691,000 it makes the budget look like it only went up by \$300,000.

Mr. Gorry said that was his point.

Mr. Brovont said they say the payroll is going up by 2%, but when you add in all the ancillaries, it actually went up by 4.8%. He faulted the budget a little bit, noting that it probably happens in every city, in that the Elected Officials tell staff to bring back a budget that balances. They don't

say to bring back a budget that leaves the City healthily running. He said when they look at a lot of these expenses it is meaningless because there is no inflationary factors in them. Maintenance costs are the same as they were last year.

Mr. Old said the City Manager has the duty to run the City well, safely, and to also take care of the roads, etc. He said they clearly are not doing that on the capital items. He said they have looked at the expenses and the things that had to be done to take care of staff, but they haven't looked at what they are not doing, such as the capital needs. He wondered what expense items they were missing that increases danger, where services are going down, etc. He wondered what they were falling short on as a City that they are not doing.

Mr. O'Connor said that is one (1) of the reasons they showed the unfunded projects.

Mr. Old said when they raised the taxes no one came in and said anything about it. But, when they discussed the stormwater utility the Council Chambers were full of people who wanted it. He felt that they needed to pay more attention to what the goal is and then go for it.

Mr. Gorry commended staff on the business model located in the back of the documentation. He felt before they can have a Vision Plan or a long term plan they need to have a business model and know how they are going to finance it.

Mr. Brovont felt that one (1) of the issues was that they do a great job of forecasting a Five Year Capital Program and then they have Elected Officials come in every two (2) years not knowing very much and they don't have a road map on revenue and expenses. They receive the budget and are supposed to pass it. There is really no excuse for not having the Five Year rolling operating statements simply by revenue source and expense source. They don't need a lot of details, but they do need a four (4) or five (5) year vision of what could or would occur by doing something or doing nothing. He said staff knows the revenue sources and they know philosophically where the City is and even if they are wrong, it is better to be wrong with some knowledge passed through to the Elected Officials coming into office.

Mr. O'Connor said the City's Five Year Plan is really not a Five Year Plan. Every November they take a turn and the budget reflects not the expenditures of dollars and revenue of dollars coming in. It reflects the policy of the majority of the City Council, which changes. He said if they were to look at their Five Year Plan last year and look at the Five Year Plan this year, it is a different document.

Mrs. Barton felt they should have a budget line item like they did with OPEB where they have an amount in the budget every year that goes towards funding capital projects in the future.

Mr. Old said when coming in as a new Councilmember and going into the budget process it is very easy to say they are not for increasing taxes. But, it is something that has consequences and they don't know the consequences before getting into the budget process.

Mr. Brovont agreed with Mr. Old in that they do have Elective Officials who come in and do not know a lot and it is sort of reflective in them not raising taxes.

Mrs. Barton asked in the State of Florida does the City have the fourth lowest tax rate.

Ms. Lawson did not have that information with her, but she thought the City was in the bottom 10 or 15.

Mr. Gorry said that he does have issues with the Enterprise Funds. He referred to page 72 of the proposed budget, *Electric Fund*. He said there is an increase of \$2,178,000 as opposed to residential sales of \$277,000. He said that he took the kilowatt hour ratio between residents and commercial for several years and it appeared to him that it ran fairly steady at about 45% and this year it is close to 48%. His point is that it looked to him that it was somewhat optimistic compared to previous years.

Ms. Lawson explained that all the revenue estimates were predicated on the Utility Rate Sufficiency worksheets, which she felt did a very good job statistically of predicting usage. She said if they compare it to her 2016/2017 projection it is up a little. If they compare it to the 2015/2016 actuals it is really more in line with that and with the PRMG Rate Study. She reported that the kilowatt hour sales that she is using for the revenue forecast for next year is based on a rolling 12-month average for the last three (3) years and a .5% increase so they are actually a little bit on the conservative side.

Mr. Brovont said there is a large impact in hospitalization costs. He said they are up about 25% over the last couple of years.

Ms. Lawson noted that they have had a very bad year where their claims ratio is running in excess of the premiums paid.

Mr. Old asked Ms. Lawson how the Finance Commission can help her.

Ms. Lawson said from an operating budget standpoint and from the various Enterprise Funds; they have met the goals of the City Council. She felt the issue is infrastructure. She said the \$700,000 they have available is not funding water quality improvements, but it is funding pipe failures, proactive projects, etc. But, if they receive a water quality mandate from the State that they have to meet within a certain time frame they don't have the money for it. If they want to be proactive and get ahead of it they don't have the money for it. If they want some premier infrastructure when it comes to Police, Parks, etc., they don't have the money for it. She felt the real question is how do they tackle it.

Mr. O'Connor agreed with Ms. Lawson in that the Capital is the big issue. He said when the Finance Commission looks at the projects that are the unfunded list, if they see something they feel needs to be done then they can state that is a project that needs to be considered.

Mr. Brovont felt that they should budget a capital account in the General Fund.

Mr. O'Connor said they need to clarify how they were going to do it.

Mr. Gorry made a motion that the Finance Commission continues to recommend a stormwater utility and that perhaps the City Council can revisit the funding source. Mr. Old seconded the motion.

Mr. Brovont asked Mr. Gorry if he was recommending the stormwater funding program as outlined previously.

Mr. Gorry answered yes, what the Commission previously recommended.

The motion passed unanimously.

Mr. Gorry said that he knows the Commission is under a gag order regarding discussions of a potential transaction (referring to the possible sale of the Electric Utility). But, he wondered if Mr. O'Connor could give them an update. He knows this whole budget process is dependent or is predicated on a no closure before the end of the fiscal year. One (1) caution he would proffer is that if through superb negotiations they could end up with an earlier date of the completion of the sale, which will have important impacts on the process of budgeting and the Five Year Plan.

Mr. O'Connor reported that it would be in the fourth quarter of 2018 before they are ready to set a date of closing. He then gave a brief update on the projected timeframe for OUC and FMFA.

Ms. Lawson reported that after the Utilities Commission finished their budget review they made a motion to recommend the budget as proposed by staff to the City Council and they did that for the operating budgets of the Utilities and the Capital budgets for the coming year for the Utilities. The other motion they made was for the City Council to consider finding some revenues for water quality improvements. She said if the Finance Commission is so inclined, staff would appreciate a motion for them to bring to Council during the budget workshops next week.

Mr. Gorry said that he does have concerns with Fund 304 of the Five Year Capital Program.

Mr. Gorry made a motion that the Finance Commission recommends all the financials except Fund 304 where they have passed an alternative of stormwater.

Ms. Lawson said for clarification they are recommending acceptance of the budget as proposed with the exception of Fund 304. Mr. Gorry said that was correct.

Mr. Old seconded the motion.

Mrs. Barton asked will there be a second motion regarding the Five Year Budget.

Mr. Brovont said that is covered in the motion.

Ms. Lawson said it was her understanding that they were recommending that the City Council accept the budget as proposed, both operating and capital, with the exception of Fund 304 and

the second motion was the solution they are proposing is that the City Council reconsider a stormwater utility.

The Commission members agreed.

The motion passed unanimously.

5. OLD BUSINESS

None

6. ADJOURNMENT

Today's meeting adjourned at 3:53 p.m.

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JOINT UTILITIES/FINANCE COMMISSION MINUTES

Wednesday, August 30, 2017 – 9:00 A.M.

City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Utilities Commission: Chairman/Indian River Shores Representative, Robert Auwaerter; Vice Chairman, J. Rock Tonkel; Members: Chuck Mechling, John Smith, Jane Burton, Mark Mucher and Alternate Member #1, George Baczynski **Finance Commission:** Chairman, Glen Brovont; Vice Chairman, Randy Old; Members: Peter Gorry, Kathryn Barton and Ryan Bass **Also Present:** City Manager, James O'Connor; Finance Director, Cindy Lawson and Deputy City Clerk, Sherri Philo

Utilities Commission Excused Absences: Herb Whittall and Judy Orcutt

Finance Commission Excused Absences: Victor DeMattia and Daniel Stump

1. CALL TO ORDER

Mr. Auwaerter called today's meeting to order at 9:00 a.m. He stated that the purpose of today's meeting is to review the terms of the full sale of the City's Electric Utility to Florida Power and Light (FPL) and to make whatever recommendations the Commissions feel is appropriate to the City Council. He explained that this is a Joint Utilities/Finance Commission meeting for efficiency purposes, however each Commission will vote on their own and can either make motions or not. He reported that he and Mr. Brovont will be Co-Chairing today's meeting.

At this time the Deputy Clerk performed the roll call.

2. PUBLIC COMMENT

Mr. Auwaerter asked that anyone speaking under Public Comment to try to limit their comments to three (3) minutes.

Mr. Layne Sykes, Councilmember, said that he was glad to see today's meeting taking place. He said that he is adamantly in favor of this deal. He felt that for far too long there have been a lot of road blocks. He said it is time to get this done. He appreciated the Commission's diligence in reviewing the deal. He is looking forward to completing this deal in a sufficient manner. He said that he could not say enough about this offer. He mentioned at the last City Council meeting that along with everything else that comes with this deal, is the ability to finally access the money in the Utility, an extra \$25 million on top of the generous offer that FPL has presented. He said that is a huge win for the City of Vero Beach and with proper management it will help them grow in the future. He hoped that they will take that into consideration.

Mr. Brian Heady said that he served on the City Council and one (1) of the things that he was successful at was brokering a resolution by the City Council to stop the three (3) minute limitations on citizens during Commission meetings. He said unless they have some legislative act that they can point to then they are still under the provisions that they don't cut citizens off. He said the sale of the Utility really dates back to the 1970's where at the very last minute they were stopped by a regulatory authority. In the meantime, the taxpayers and ratepayers have spent millions of dollars and that has continued for a very long time. He said that at a recent meeting Mr. Sykes stated that there have been no other offers. Mr. Heady said that is not true. He said there has been a restriction on other offers where the City has signed an agreement not to negotiate with anyone else. He said that is kind of like someone saying to him that they are going to sell their house and the only one they were going to take an offer from was him (Mr. Heady) and were going to accept whatever offer he gives. He said the City Council and the current Mayor have continued to stifle citizen input and have not allowed all the facts to come out in what amounts to criminal conspiracy to unload valuable City taxpayer, resident owned property. He said that Mr. Sykes refers to the generous offer, but he thought at one (1) point they were told that the Electric Utility was worth some \$300 million, not the \$30 million they are now set to receive. He said it is not a generous offer. He said it is a very good deal for FPL and he is all for them getting good deals, but he is not for FPL being able to come into their community and take assets of the community without paying fair market value. He said the City has consistently been on a path that sells the Electric Utility at less than fair market value and it gets worse than that by giving away the proceeds to other entities and the citizens of Vero Beach wind up getting virtually nothing by the time they finish. He said that when he served on the City Council the head of the Utility at that time showed him the numbers and the facts and the reality was that the cheapest electric they could have would be to turn the City's generators on. He said that didn't happen. Instead what they did was bring in a new City Manager who decommissioned the Power Plant. He said in the deal from FPL back in 2009/2010, FPL was going to decommission the Plant. He said the taxpayers and ratepayers have paid for this. He said this City was in a position where if a hurricane hit they could turn the Power Plant on. Thanks to the current City Council, the past couple City Councils, and the current City Manager they can't turn anything on because it doesn't exist anymore. He said in the FPL offer back then, FPL was going to decommission the Plant and tear it down. Instead, the new plan is to have the taxpayers pay for it. Over the course of several years now in FPL wanting to purchase the Electric Utility, they have upgraded the Electric Utility. He said the ratepayers were told that they have to do the upgrades and they have spent millions and millions of dollars to give FPL a better equipped Electric Utility, which has been done at the ratepayer's and taxpayer's expense.

Mr. Auwaerter asked Mr. Heady to please finish his comments over the next minute as he has been speaking for over five (5) minutes.

Mr. Heady asked Mr. Auwaerter if he knows of any legislative change. Mr. Auwaerter felt that the point of public comment is not to filibuster... Mr. Heady said that he is not trying to

filibuster. He said that he is talking to them about the Electric Utility and what has happened over the course of several years and that takes more than three (3) minutes.

Mr. Heady continued stating what he started to say before being interrupted is that if you were selling your house, you wouldn't have someone come in and count the number of two-by-fours, the nails, etc. He said this has been going on and on and on. If FPL really wanted to purchase the Electric Utility, they could come in and tell the City they were going to give them \$200 million and they could take over, which they could take over the first of the month. He said that he explained at a Council meeting how this could happen and Councilmember Howle's only answer was that he didn't know where the keys were.

Mr. Auwaerter asked Mr. Heady to please finish up. Mr. Heady said that he was trying to do that.

Mr. Auwaerter asked Mr. Heady to do it in the next minute. He said there are other people who would like to speak.

Mr. Heady said it's amazing how few people are present. He doubted that there were a number of people who are going to speak at such length. He said the Commission members asked for this job, to be advisors. He said they can't advise if they don't listen to all the input. He said they clearly don't want to do that and the City Council doesn't want to do that. This has been nothing less than a criminal conspiracy to defraud the taxpayers and they are all part of it if they refuse to listen to the input from citizens.

Mr. Auwaerter thanked Mr. Heady for his comments. He asked if there was anyone else wishing to speak.

Mr. Heady asked if he was telling him that he needs to sit down. Mr. Auwaerter said yes sir. He said that he gave him (Mr. Heady) over eight (8) minutes. He asked if there was anyone else wishing to speak.

Mr. Gorry said to clarify about other buyers, some years ago when he was Chairman of the Finance Commission he was approached by an executive of another utility company who wanted to make an offer. He said because of the aforementioned prohibition, he explained to him that there was no need to make an offer because the City was prohibited under the agreement. He just wanted to clarify that there was an inquiry from another utility.

Mr. Heady said there are other utilities that would be interested in coming in. If they were going to benefit the taxpayers and ratepayers then those kinds of offers should be listened to. But, the City Council has tied their hands by agreeing to LOI's and agreements with FPL where the City

said they would not allow or entertain and prohibited any official from speaking to anyone. He said this is an insane way to try to get rid of a valuable asset. He said the other thing ...

Mr. Auwaerter said sir ... Mr. Heady said that he is just responding to what Mr. Gorry said.

Mr. Gorry said that he was just making a statement.

Mr. Auwaerter told Mr. Heady that it is not his right to respond.

Mr. Heady said Mr. Gorry was referring to things that he said as citizen input.

Mr. Auwaerter said it was a general comment. He asked Mr. Heady to please sit down and give the gentleman ...

Mr. Heady said you're (Mr. Auwaerter) from Indian River Shores (IRS). You are not from Vero Beach so you really don't give a hoot about the citizens of Vero Beach. You care more about IRS and there has been a problem with them in this community where they have had entities from outside the community come in and try to do things that have essentially destroyed many aspects of the community that they loved and have moved here for. He said a long time ago, Mr. Ken Daige said, and he thought Mr. Daige was crazy at the time, but Mr. Daige said that these entities were trying to destroy the City brick by brick. Mr. Heady felt that Mr. Daige was right. He said they have continued to do it and been allowed to do it and it is just wrong.

Mr. Joseph Guffanti said that he spoke with one of them before the meeting was called to order and it is true that all 19 cities have to sign off on the sale and everything they do here this morning and whatever happens is superfluous if one (1) of the cities doesn't sign off. He said to evaluate a system as to what it is worth; they look at what the revenues will be and what the profits will be. He said if the Commissions were going to do anything they should determine what the revenues are going to be for FPL and what FPL's profits are going to be. He said that will tell them what it is worth to FPL, not what it is worth to the City. He said that is what they should do. That will tell them what it is worth to FPL.

Mr. Lange Sykes said year after year they continue to hear the same red herring arguments about the sale of the Utility. He was thankful and surprised at the resilience of FPL to stick with them. He said there are no other qualified buyers. That is absolutely absurd. He said the only qualified buyer is the one (1) that brought an offer to the City. He said it is an incredible offer. He said that he doesn't know why they can't continue to remember that there is a third party doing a valuation of the Electric Utility separate from the City and from FPL. It is the State that is doing it and they have to justify the cost that is being paid for the Electric Utility. So for anyone who is concerned, there is a third party valuable being done for this Utility and if it doesn't go well then

FPL can't purchase it. He said let's keep that in mind and work towards getting this sale completed. He thanked FPL for sticking with the City.

3. REVIEW THE TERMS OF THE FULL SALE OF THE CITY OF VERO BEACH ELECTRIC UTILITY TO FLORIDA POWER AND LIGHT (FPL)

Mr. Auwaerter said it is important that they look at not only what the City might be getting in terms of the sale, but also the risk involved in continuing in the Electric Utility business. He said that he spoke before the City Council on May 16, 2017 highlighting his concerns as an individual, not as a member of the Commission, regarding the risk the City would take on if they continue to stay in the Electric Utility business. He said the Electric Utility business is changing. It used to be that if the utility was run well operationally, the Public Service Commission (PSC) or the Public Utility Commission (PUC) of the State would give them a good rate of return. Those days are over. The Electric Utility industry is in a complete state of flux. It is not only here in the United States, but around the world. It really involves what he calls two (2) related factors, which are slowing electric demand and excess traditional power generation capacity. He said in terms of slowing electric demand, on a continuous basis the electric appliances are becoming more and more efficient. It used to be that the Electric Utility industry would be estimating from the 1970's through 2000 at roughly about a 2% compound annual growth rate in kilowatt sales. That has dramatically slowed over time. On top of that what has taken place is that there is a surplus of power generated from coal, natural gas, and nuclear power. So, what they are seeing in the prices that those independent power producers can generate their charge is going down and it all has to do with renewables and they are seeing that in Indian River County. He said FPL is in the process of installing two (2) 74.5 megawatt solar power units west of I-95. FMPA's Coal Plants have run over \$100 a megawatt hour and their best Plants, which are the All Requirement Project (ARP) Plants that are powered by natural gas, were roughly about \$65 a megawatt hour last year. The Nuclear Power Plant ran in the high 70's. He said they recently asked for bids for solar power and at a recent FMPA meeting he asked what bids they received and he was told that one (1) of their bids was \$40 per megawatt hour. He said that is distorting the entire power industry and big electric utilities are struggling with this. He said renewable are not only being built on large Solar Power Plants, but on smaller operations. He said the last thing is that the cost of battery capacity per kilowatt hour is going down. He asked the Commission members to think about first on the risk side to what extent that they might start to lose some of their best customers. Their top 10 customers based on the Comprehensive Annual Financial Report (CAFR), which represents ten and a half percent of the City's revenues. That they think about what would happen if they lose some or all of these large customers. He said the game in electric utilities is that they have fixed costs, such as the transmission lines, the distribution lines, the meters, etc., and they have to spread those fixed costs over a revenue base. If they lose these big customers that means that they would get into a spiral where they would start to have a situation where the small customers would have to pay higher and higher rates and the customers who can escape will and they would get into this downward negative cycle where

they would be trying to cover these fixed costs over a smaller and smaller rate base. The City is a small Electric Utility and does not have the size and scale that other utilities have, such as FPL has. He said that is what he worries about and is something they have to think about. He felt that gets lost a little bit in discussion in that there are some people who have raised concerns about the sale, but he felt they were looking at the business on a static basis and not looking at what it might be 5, 10, or 15 years from now.

Mr. Mucher supported Mr. Auwaerter's concerns about the risk. He said there has been a lot of discussion on the rates and the City's rates are higher. But to him, that is not the most important thing. He said more important than rates is reliability and their reliability has been good. But, at the same time if for some reason they have to stay in the utility business then they are going to have to invest tens of millions of dollars just to maintain a decent level of reliability. He would rather have power even if he would have to pay 10, 15, or 20% more in order to have power. Another thing is the ongoing risks of being in the electric business and most of those are unknown and most are uncontrollable. He supported the idea of getting out of the electric business with the biggest reason being long term risk. He said looking at it statically today is not the way to do it. He said the three (3) R's are risk, reliability, and rates.

Mr. Brovont said that he supports Mr. Auwaerter's analysis. He said that nuclear energy is collapsing all over this Country and many states are now facing shortage of power caused by the collapse of the nuclear Power Plants. The other thing that is occurring is they are going solar power on a smaller and smaller scale. Many homeowners are beginning to do that. He said it is really not economically feasible yet. They are all living on tax subsidies and many big companies are doing the same. But, those things are probably going to change too. The Federal Government is flat broke and this business of subsidizing big corporations to get solar power is probably a thing of the past. It may be more feasible at the homeowner level, but the big problem there is that it has an adverse affect on the Power Plant. He said that he has said for a long time that running the Power Plant is really not a City business. They don't have the expertise to do it. They have done a tremendous job up to this point and the Power Plant has fostered the growth of the City in that it was here when there was no other power. But, those days are gone. He could not do anything but support Mr. Auwaerter's analysis. They need to get out of the power business as quickly as they can and do it as expeditiously as they can with the right buyer. They have a buyer that doesn't need financing and that is worth a lot.

Mrs. Barton was happy that Mr. Auwaerter brought this up because she felt that every discussion has looked at this as a static situation that would never change and they all know that every industry changes and is brought with risks. She said the City can't sustain those risks, which she felt was the most important thing about the sale.

Mr. Brovont said that Mr. Auwaerter did an analysis of the cash flow and he did an analysis a few years ago. He said that he questioned what it was really worth so he did an analysis, which

on a cash flow basis, price of the sale, price of earnings and revenues and it compares favorably with FPL at \$185 million. The argument about how much money the City spent is not relevant. He said none of them would expect to sell their business at three (3) times their earnings just because they spent money on it. That is not the way it works. He said that he has looked at this and he thinks the price of \$185 million is correct.

Mr. Smith said that he agrees with the full sale and he agrees with Mr. Heady in that it keeps coming up and if they add the time and energy that has been spent by the City Council and the Commissions that is not going to go away if they don't sell the utility this time. It is going to keep coming up. He felt that Mr. Brovont was right in that if they want to sell something they have to see what the buyer is willing to pay. Not what they think they would like to get. He agrees completely with the full sale.

Mr. Old thought that in the past the management of the Utility was not as complicated as it is now. They made choices in the past when it was a lot easier that were bad choices. He felt it was going to get to be a lot harder for the City Council to run this. Unless they can think of some other way of managing it, it just doesn't make any sense for them to be in this business. It is too complicated for a City this size to be able to run it. He felt the idea of selling the whole thing was right and the price now is so much better than it was before that it makes sense.

Mr. Tonkel said if the condition's Mr. Auwaerter cited come true, which he felt the changes will occur it makes the valuation of the offer an even stronger case. He did not think there was any question that this represents an outstanding value of the Utility as it is and will probably look better as they proceed and the City is out of the business. He said that they appreciate FPL's offer and he clearly supports it.

Mrs. Burton said that she also supports the idea of a total sale. She said as a County resident and a ratepayer to the City, they are concerned as well on the risk going forward to those ratepayers outside the City. She said if they start losing those large customers they are going to be involved in the hits. She felt that they needed to look at that as well as the cost going forward to increase the technology, which is not cheap. She felt that now was the time to move.

Mr. Baczynski said the Utility generates a lot of income for the City and he was not hearing any discussion about how that income can be replaced when the Utility is sold. The fact is that if the Utility is sold the full amount that the Utility has been generating is going to have to be generated by the citizens of Vero Beach only because they are the only people the City could tax and that is probably one-third of the total base of the Utility System. While he hears their arguments for getting out of the Utility, they cannot forget there are two (2) sides and they need to have a plan that covers not just the sale of the Utility, but also recovery of revenues to keep the City whole. He felt not to discuss this would be very remiss. He said the City Council represents all the citizens of the City and they should be looking out for the interest of all the

residents of the City. He said selling this large cash contributor to the City finances without making any provisions for replacing it he felt was a dereliction of duty and they should be looking at that very carefully.

Mr. Gorry said that he did that at some length and with the loss of the revenues from the return on investment. He said one (1) way that could be partially retrieved was to have a franchise fee added to the revenues, such as the County now has. The second thing is that they could cut services or raise taxes. Those are the options. The last one (1) that is a potential revenue source is a stormwater utility. In his view, those are the options that the City Council is going to have to deal with as they move forward. He said they need a five-year plan once they receive a contract and understand what the total revenues less all the expenses are and how they are going to apportion what the proceeds are. He said when they have that clarified they can go forward with a five-year plan.

Mr. Brovont said that he is very concerned as well about losing \$5 million a year. He said that he worked through the City's budget and he can see how they can make it. He said they have nearly \$5 million in their pension programs. It wouldn't take the City long to fund some of the pension funds (referring to the \$30 million from FPL), which would free up cash flow for operating expenses. He said currently the City does not have enough money. Every year they struggle with the budget. He said they could raise taxes, but between doing some investment work on the pension plans in getting that resolved and work harder in funding the Other Post Employee Benefit (OPEB) Plan, they could make the numbers work. It may take some forecasted cash flow, tax increases, to keep the City moving. He thought that they could make it work. He said that he even looked at a partial sale and it looks to him that they could make it work both on a partial sale and a full sale. He said they might be better off with a partial sale, but that is another story. He said that doesn't eliminate the political problems and getting rid of the entire Utility. He said they are spending way to much time fighting with each other when they should be working together. He said the City management is convulsed with this Utility and has been for five (5) years at least.

Mr. Gorry said having a smaller utility is increasing the risk so any partial sale is counter intuitive to going to a full sale in his view. He said they have a facility that is built to serve 35,000 customers and they are paying fixed costs and are paying for infrastructure on those 35,000 customers. If they lose 10% of their customers they are stranding 10% of their fixed assets. The other piece is that the \$5 million is not only on the operating budget, but millions of dollars in infrastructure in the capital programs. He said again it is not only the operating cost, but critically is in the shortfall, which is more severe.

Mr. Brovont said that he would be happy to share his analysis and they can make their own judgment.

Mr. Old said they have not had a concentrated time to sit down and come up with a five-year plan and work through this.

Mr. Baczynski explained that what he was saying was that they need to look at the whole thing as a system. They can't optimize one (1) part of the system without doing something adverse to another part. They have to look at the system as a whole and optimize the system as a whole. They have talked about piece meal solutions, such as raising taxes, shaving numbers, etc. But, it all needs to be looked at as a whole because every little bit they take from one (1) is going to be taken from someplace else. They can't look at the final result unless they are totally aware of everything that is involved. Not just the sale. The sale is only one (1) part of it and it is the elephant in the room and it dominates everything they have been talking about. As far as he could see, no one has been thinking about what the sale would do to the City and the aspects of City life, such as recreation, maintenance, etc. All of these things have to be looked at as a whole.

Mr. Gorry said that he has done that, but he didn't want to get sidetracked until they know exactly what the total proceeds are going to be. Until they get a final contract of the sale and understand it, the Finance Commission have been directed by the City Council not to discuss any of these aspects and they have not spoken at all to what the issues are that Mr. Baczynski is addressing.

Mr. Baczynski said they can address them, but in the final analysis it is the City Council that has to answer the questions. He said they can propose suggestions and solutions, but until the City Council agrees to them in increments they are not going to happen.

Mr. Ryan said with all due respect, he has been on this Commission for almost a year and they all have been saying the exact same thing for a year and have never done any action to fulfill what they are saying. He said they can go based on what they have in front of them. Mr. Auwaerter's point, Mr. Brovont's point, Mr. Tonkel's point as to future technology costs, he follows that every day in the business he works in. It is real. They are not exclusive of one another. What Mr. Baczynski is saying and what Mr. Auwaerter is saying play together. So to present it as them being exclusive of one another is not accurate. They play together with one another. He said they can do this instead of saying it for a year and get this done or they can go off of what they know now.

Mrs. Barton said that she thinks they play together, but all she has heard is \$6 million until she is tired of hearing it. That is the static situation in that right now it contributes \$6 million and in the future they have no idea that it isn't going to be a net cost to them. The risk is what they really have to worry about, but they keep focusing on the \$6 million that can be made up. For that reason, she is very enthusiastic about a full sale, but she felt a partial sale keeps them in the

business, they still have the risk, and they have a smaller client base to absorb the risk. So she is very nervous about the partial sale.

Mr. Auwaerter felt there was more money in the sale than people realize.

Mr. Smith felt that discussing the two (2) together, what is going to be done with the money and whether or not they should sell, confuses the issue. He thought they were meeting today to discuss the terms of the sale. Not to talk about the City Council jurisdiction. He understands that is important, but to get into that during this meeting they are confusing the issue and they will have great difficulty in reaching a decision.

Mr. Gorry agreed. He said his takeaway was to give a status given the elements. The only thing that has changed in the LOI is the issue of the substation and the closing date. What he wants to hear is when it is reasonable for when the contract is to be signed given that there are still these issues.

Mr. Auwaerter said they are still in the process of the FMPA approvals. That is why it is fluid and in his opinion makes sense for both Commissions to be meeting today. If they wish they could put a motion in place, which they could state something like subject to these provision they would recommend that the City Council approve it or not approve it. He said they have to move along in the process because there are so many steps and any one (1) of them can derail the sale. He then referred to his model that he provided to the Commission members, FPL Purchase of Vero Beach Electric Utility (attached to the original minutes).

Mr. Tonkel said they have all reviewed the LOI. He asked the Commission members if the LOI addresses any issues they have with respect to the sale. He asked if they were comfortable with the terms enclosed in the LOI. He asked do they have any major differences in terms of what has been presented to the City Council to consider.

Mr. Gorry, Mr. Smith, and Mr. Brovont said they have some concerns.

Mr. Gorry said it is the trying to decouple the partial sale from the total sale. That is his issue. He is totally for the full sale.

Mr. Smith said that is his issue as well.

Mr. Mucher said if they have a full sale then the partial sale becomes mute so they don't need to address that. He said they were almost past the LOI and almost to a full sale contract. He didn't feel they needed to dwell on that.

Mr. Auwaerter did not think they do. But, they do have to address the price that the City is getting. He said the purpose of his model was to try to come up with some way to see if the price was reasonable. He then went over his model with the Commission members.

Mr. Gorry questioned the last page where it states under Cash Flow from FPL Sale, Prepaid Rent – Power Plant Substation Lease, \$10,000,000.

Mr. O'Connor said the \$10 million has not changed. The title has changed where instead of being rent it will be a payment made to the City, which equals the \$30 million that is in the LOI. As they go through this exercise these types of changes is what is delaying them from bringing a final contract to the City Council. They are having frequent meetings to make sure they are all on the same page and that the contract has all the components of the changing issues that have evolved over time. At the end of the day, his goal is to have the numbers stay the same.

Mr. Auwaerter asked would it be fair to say that in the ongoing discussions with FPL there have not been any discussions about changing any of the financial terms to the City to the worse.

Mr. O'Connor said that he can't say there hasn't been some discussion, but at the end of the day the same numbers will be in the contract. He feels very comfortable with that.

Mr. Ryan said then the only change to the LOI is rather than a lease contract it is payment to the City.

Mr. O'Connor said that is correct.

Mr. Tonkel asked aside from the major policy issue, which he thinks FPL and the City Council has to deal with in regards to a partial sale or a full sale, is there anything else in the LOI that they want to communicate with regards to the final agreement. He said that he hasn't found anything in his review of the LOI.

Mr. Brovont said FPL stated very adamantly that the partial sale remains in the contract. His response to that is if they are 95% into the full sale FPL keeping the partial sale in the contract strongly suggests to him that they (FPL) thinks there is a fair amount of risk in the deal yet. He felt they should all be aware of that. They do have 19 city members that have to vote and if anyone calculated the probabilities of 19 cities, that is small. He felt that was a risk that FPL wants as a back door to get something out of this after fighting with them for eight (8) years. The question that he comes up with is when would the partial sale be executed. Would it be when they put the contract in place or after the 19 cities have voted. He asked what is the transition and what are their costs.

Mr. O'Connor said it is not only FPL that wants the partial sale. The City Council made it clear that they support the partial sale, even before the full sale contract was being negotiated. The way the contract will be designed, hopefully, is that the full sale will be the primary. He said if something was to disrupt the full sale and it is determined that they cannot move forward for whatever reason, at that time they go into discussions on the terms and conditions of a partial sale. In the meantime, it is important to know that the partial sale is not something new.

Mrs. Burton said that she is in total support of the full sale. She said based on their discussions today that there are too many risks to know that they can sustain the kind of income that they have been making with the electric if they keep the Utility. She said changes are that they would be making less.

Mrs. Burton excused herself from today's meeting at 10:30 a.m.

Utilities:

Mr. Auwaerter handed out to the Commission members a copy of his motion that he was prepared to make (attached to the original minutes).

Mr. Auwaerter made a motion that the City of Vero Beach Utilities Commission recommends to the City of Vero Beach City Council that the Council finalize the contract for the full sale of the City's Electric Utility to Florida Power and Light using the financial framework as described in the Letter of Intent dated May 16, 2017 between the two (2) parties subject to the following two (2) provisions: 1) the final executed contract should incorporate Florida Power and Light's plan to dismantle the electric substation at its present location next to the defunct City of Vero Beach Power Plant and to build a new substation on the lot on the southwest corner of Indian River Boulevard and 17th Street in Vero Beach and 2) as a result of the full sale, the City of Vero Beach should have no actual ongoing or contingent liabilities arising from any post-closing Electric Utility operations. The City will retain certain pension obligations for transferred employees as described under Section 1.11 (a) in the above mentioned Letter of Intent. Mr. Mechling seconded the motion for discussion.

Mr. Mucher said that he didn't know how they could recommend that they finalize the contract when there isn't a contract.

Mr. Auwaerter said there is a contract that is currently being negotiated. The finalization is when it is signed.

Mr. Mucher said they will probably see that contract and they could make their recommendation at that time. He said that he cannot recommend a contract that he hasn't seen. He said that he is totally in favor of the deal.

Mr. Auwaerter said it is described in the LOI with those two (2) provisions.

Mr. Mucher asked isn't that superfluous. He asked what is the purpose. He asked does it clarify anything.

Mr. Auwaerter said there has been discussion that they want to be sure the City is completely out of the Electric Utility business. He said the intent of the City is not to have any trailing liabilities.

Mr. O'Connor said that is correct. He reported that has become a major point in negotiations, especially with FMPA and FPL. He said if something happens after the closing they are recommending that all parties have their own insurance and that there be no trail or tail connecting the City to the Utility. The analogy that he uses is that when they get to the closing table and everyone receives their check, he can look in the rear view mirror and the City is totally out of it.

Mr. Mucher asked once it is closed that is when FPL starts building the new substation. Therefore, the handover of customers doesn't take place at that point. He asked isn't the City conceivable in the electric business until the new substation is in operation.

Mr. O'Connor answered no. He explained that the City would give FPL the right to use the current substation until FPL's substation is completed.

Mr. Tonkel felt that Mr. Mucher makes a point that they should be at an advisory capacity for looking at all the provisions of the final negotiated contract.

Mr. Auwaerter felt that there would be hundreds of pages with a lot of property descriptions, etc. He said that the first provision was proposed by FPL and the second provision was from in his discussion with the City Attorney in that was an objective the City was trying to reach. He said to him that would be the biggest risk in the contract in having a tail of a liability. The objective is to get completely out of the sale, get the money laid out in the financial framework, and wipe their hands clean of the sale. That is what he was attempting to do. He said this process is going to start to move along pretty fast and the City Council is going to have to sign off on it. If they look at all the steps in terms of the 19 cities that have to sign off, rating agencies, bond trustees, etc. He said they have to rely upon the expertise of the City Manager and their legal firm. But, lay out what they put in the LOI, the financial framework, they want to get those monies and make sure that there isn't something that the taxpayers will be responsible for post-closing.

Mr. Tonkel felt that they were all in favor of it. It is the question of coming up with a way to make that affirmative statement to the City Council.

Mr. Mucher didn't think they needed to say anything except that they agree with the terms in the current status of the LOI with the modification of the substation, for example. He said that Mr. O'Connor reported that they should have a contract in October and they could hold a meeting at that point to see if there are any changes.

Mr. Auwaerter said his motion states that they recommend to the City Council that they finalize the contract. They were not stating that they agree to a contract because there isn't one. But, that they move forward to a final contract, that the Utilities Commission looked at it from the prospective of the price that is being paid, and the risk that the City of Vero Beach takes on if they continue to be in the Electric Utility business.

Mr. Mucher said it depends on the definition of finalize.

Mr. Tonkel felt the emphasis on finalize, unfortunately, he didn't think it expressed the view that they were clearly in favor of the deal.

Mr. Old asked do they want to state that they convert the LOI to the contract.

Mr. Gorry said this is a Utilities Commission motion.

Mr. Auwaerter said they will accept their advise.

Mr. Old suggested that they word it a little differently. He suggested that they change the wording *that they recommend they convert the LOI to a contract.*

Mr. Auwaerter amended his motion to take out the word “finalize” so it would state that they “convert the Letter of Intent to a contract.” Mr. Mechling seconded the amended motion.

Mr. Auwaerter said the amended motion is “The City of Vero Beach Utilities Commission recommends to the City of Vero Beach City Council that the Council convert the Letter of Intent to a contract for the full sale of the City’s Electric Utility to Florida Power and Light using the financial framework as described in the Letter of Intent dated May 16, 2017 between the two (2) parties subject to the following two (2) provisions, which will remain the same.”

Mr. Brovont suggested that they needed to talk about more than a full sale. He said they are talking about a full sale and a partial sale in the contract.

Mr. Mucher felt they would deal with a partial sale if and when that comes up.

Mr. Brovont said the City is finalizing a contract that covers the full and partial sale.

Mr. Smith said the motion only applies to the full sale.

Mr. Auwaerter asked if they should take the word "*full*" out.

Mr. Tonkel felt that they could express the preference for the full sale. If they are going to take out the word "*full*," they could express that the sentiment is their preference for a full sale.

Mr. Smith said the difficulty in that is that he would not approve recommending a partial sale because they have not looked at it. He is totally in favor of a full sale.

Mr. Brovont explained that FPL is looking for a contract that provides for a full sale and a partial sale. He said FPL has been pretty adamant that they were not going forward unless it is in the contract. He said the City Council has already conceptually approved that.

Mr. Smith said yes and without any advice from the Commissions.

Mr. Gorry added or any analysis.

Mr. Smith said it is almost like it's a cancellation prize. He questioned if there was some way they could separate the two.

Mrs. Barton said this is a motion of the Utilities Commission and when it comes to the Finance Commission and they want to present the same motion, she agrees in that she doesn't like the changes that were made. She said they don't make the final decision. She said they are recommending the full sale. They are not addressing the partial sale at all. She said it is simply a recommendation and they were never asked to look at the partial sale.

Mr. Auwaerter asked the Utilities Commission for their response in taking out the word "*full*" out and just have the word "*sale*."

Mr. Mucher thought they were recommending the full sale and the City Council is in the position where they are going to have to approve a contract that might include a partial sale. He said they all just heard from Mr. O'Connor on what a great deal the partial sale was. He thought that if and when they get to that they will discuss it. He said that he could go ahead with voting on the motion as it was amended and the way it currently stands. He said they basically talked in

favorable terms about the full sale and questionable terms about the partial sale. He felt that what they have done is recommend the full sale.

Mrs. Amy Brunjes, of FPL, wanted to clarify what is going to be presented to the City Council and in what format in order to assist the Commission with their motion. She reported that the goal is to have something before the City Council in early October. She said one (1) of the reasons, in addition to the incorporating some of the changes including the substation, is they wanted to give the City Council and the Commissions the opportunity to see the contract prior to the final vote. She said it will be voluminous like Mr. Auwaerter stated. It will have each item of the LOI with several detail pages attached. When it is presented and finalized it is going to be a contract for the full sale of the Utility and a provision in the contract is going to state that should a full sale not be executed that it would immediately revert to the partial sale that will have all the details of the partial sale and with the amount of \$30 million.

Mr. O'Connor noted that Section II of the LOI is very explicit about the partial sale. He explained that the LOI will outline the contract so the outline of the contract is going to be very close to the LOI.

Mrs. Brunjes said they are working towards the full sale and if the full sale is closed in October of 2018 as planned then the partial sale is mute. She said there is a lot of work being done in a very aggressive timeline. FMPA has presented them with a schedule of approvals and they have said that they expect all the approvals including the final vote of their Board, their Bond Trustees and their Bond holders at the very latest by February, 2018. She said that is very positive and very aggressive.

Mr. Tonkel felt the confusion arises over the fact that those terms are fixed and the City Council and the two (2) parties have basically come to an agreement on how they are going to proceed and how the sale will be, either A (full sale) or B (partial sale). He felt that the problem the Commission was having was that without knowing anything about the partial sale or the implications of a partial sale they are having difficulty bracing it, particularly when all the concerns have been expressed about a partial sale. What he is interested in is coming to some agreement about getting the City Council to proceed with the preferred and knowing FPL and the City has the right to conclude that contract. But, without the Commissions having sufficient basis to do that they are having a wordsmith problem.

Mr. O'Connor assured them that they don't need to motivate the City Council on the full sale. He felt the discussion that has taken place is to encourage the City Council that gives support to their decision making going forward. From his perspective the LOI is a policy of the City Council. They voted on it. He said the Finance Commission and the Utilities Commission can go through the breakdown and the analysis of the impact of the partial sale. That is an analysis that can be done anytime they want to do it. He said that from a financial standpoint, he did not

anticipate a negative impact. He noted that if they sell the IRS customers, it would not be that it is going to be a negative if they use the \$30 appropriately. He said they are going to have the same amount of money for the sale of 10% of their customers as they will have for the full sale.

Mr. Tonkel recommended the contract for the sale of the City Electric Utility as articulated in the LOI. He said that gives their support to the City Council on moving forward under the provisions of the LOI. He thought they already made their declaration on what is going into the contract and the Commissions might have an opportunity to review it if it comes to a partial sale. But, at this point he felt they wanted to encourage the additional steps that need to be taken to bring this to a conclusion.

Mr. Mechling agreed.

Mr. Brovont said that he is not on the Utilities Commission, but he would agree to that. He said the reality is that the City Council has already agreed on a full sale and a partial sale without any input from them.

Mr. Smith said that he would agree to that. He didn't like it, but he felt they should embrace it and move forward.

Mr. Auwaerter asked Mr. Tonkel what amendment to the motion was he suggesting.

Mr. Tonkel said *"that the City of Vero Beach Utilities Commission recommends to the City of Vero Beach City Council that the Council finalize the contract for the sale of the Electric Utility including the provisions as outlined in the Letter of Intent."*

Mr. Auwaerter said then he is basically saying to take out the word "full."

Mr. Mucher asked are they leaving in the word "finalized." He thought there were questions about that.

Mr. Auwaerter said to him finalize or convert the LOI to a contract was one in the same.

Mr. Mucher said as long as that is the meaning to the word "finalize."

Mr. Auwaerter said that is the way he views it because until they have a final contract there is not a contract.

Mr. Auwaerter amended the motion to state that *the City of Vero Beach Utilities Commission recommends the City of Vero Beach City Council that the Council finalize the contract for the sale of the City's Electric Utility to Florida Power and Light* with the rest of the motion remaining as is.

Mr. Tonkel added in accordance with the provisions of the LOI.

Mr. Auwaerter said they were using the financial framework as described in the Letter of Intent.

Mr. Mechling seconded that.

Mr. Smith said under condition 2), it states “*as a result of the full sale,*” which the word “*full*” should be removed.

Mr. Mucher said it should state “*in the case of a full sale.*”

Mr. Auwaerter amended the motion from “*as a result of the full sale*” to “*in the case of the full sale.*” Mr. Mechling seconded the amended motion.

Mr. Baczynski said the LOI was signed by the Mayor. He asked what were they adding to the process.

Mr. Auwaerter felt that as a Commission of citizens who has developed some expertise in utilities that they have looked at it from a different prospective than possibly the City Council has and that they think they should move forward.

Mr. Glen Heron referred to Mr. Auwaerter’s model. He said it is as though looking at from FPL’s prospective in what would they be willing to pay and what their returns would be.

Mr. Auwaerter said that is correct.

Mr. Heran noted that Mr. Auwaerter was being very conservative in his model.

On a roll call vote the amended motion passed 5-1 with Mr. Baczynski voting no, Mr. Mucher yes, Mr. Smith yes, Mr. Mechling yes, Mr. Tonkel yes and Mr. Auwaerter yes.

The Utilities Commission adjourned their meeting at 11:13 a.m.

Finance:

Mr. Bass felt that Mr. Auwaerter did a tremendous job on his model and he appreciated the work that he put into it. He felt that it was very conservative in eyes of FPL. He felt that the Finance Commission could put a motion on the table as well. He said that he would like to make a few changes to the Utilities Commission’s motion.

Mr. Bass made a motion that the City of Vero Beach Finance Commission recommends to the City of Vero Beach City Council that the Council convert the terms of the Letter of Intent to a contract for the full sale of the City's Electric Utility to Florida Power and Light using the financial framework as described in the Letter of Intent dated May 16, 2017 between the two (2) parties subject to the following three (3) provisions: 1) the final executed contract should incorporate Florida Power and Light's plan to dismantle the electric substation at its present location next to the defunct City of Vero Beach Power Plant and to build a new substation on the lot on the southwest corner of Indian River Boulevard and 17th Street in Vero Beach, 2) in the case of a full sale, the City of Vero Beach should have no actual ongoing or contingent liabilities arising from any post-closing Electric Utility operations. The City will retain certain pension obligations for transferred employees as described under Section 1.11 (a) in the above mentioned Letter of Intent, and 3) under Section 1.3 (d) of the Letter of Intent the contract must reflect the \$10 million lease as a payment to the City of Vero Beach and not as a lease.

Mr. Gorry said that he absolutely disagrees if the partial sale is not removed because it has never been reviewed. He said that he has serious concerns on a number of issues. He noted that obviously a full sale is what everyone wants, but he doesn't want to have an automatic Russian roulette trigger.

Mr. Bass noted that his motion is slightly different than the Utilities Commission's motion because he took into account Mr. Gorry's opinion so he left in the word "*full*." He said they are at advisory capacity and they are making a suggestion to the City Council. It is very clear when they specify the words "full sale" what their recommendation is. He said that he is not an attorney, but the way he reads it, it is very clear.

Mr. Gorry asked that the partial sale is not included.

Mr. Bass said they were wordsmithing a bit, but the way he read the motion is what he would recommend making to the City Council.

Mrs. Barton agreed with leaving the word "full" in their motion, but she didn't know what it means within the financial framework as described. She asked is that a backdoor way of saying the partial sale is in there.

Mr. Gorry said that he was not saying that after a full review of all the data and how it affects rates, the future revenue stream to the City, etc. But, all of that has never been looked at and that is a problem for him.

Mr. Brovont said they were saying that they were recommending the full sale. He said the City Council has already made their decision.

Mr. Gorry said they may be wrong.

Mr. Brovont said they might be, but they have already done it. He said if the Commission feels strongly for a full sale, they can recommend a full sale. The City Council is going to do what they want.

Mr. Gorry said there is also an Election coming up.

Mr. Brovont said the contract is going to be very tight.

Mr. Gorry hoped that they get the full sale.

Mr. Brovont said that he was in agreement with Mr. Bass. He said the City Council made up their mind. He said they are all in agreement that there should be a full sale and not a partial sale. He did not have a problem with approving the motion as stated.

Mr. Old agreed.

Mr. Smith said what they were complaining about was not the details so much as the City Council going ahead with the contract without asking for advice. He asked why don't they state that they would prefer that the City Council obtain the advice of the appropriate Commissions. He felt that was the argument. Not the details in the contract.

Mr. Mucher thought a lot of the objection some of them are having on the partial sale was based on misinformation. Mr. Gorry talked about \$30 million could only go to certain areas and that won't affect fixed costs. Mr. Mucher said if they pay off the debt and pay off a big chunk of capital costs, that is going to greatly reduce fixed costs. He felt that most of their objections and the public's perception on bad aspects of a partial sale is based on misinformation.

Mr. Brovont said that he was not opposed to the partial sale either. He was opposed to not knowing how it was going to work. He said that he ran the operating numbers to see if the City could operate on it with the \$30 million and his answer was yes, they could make it work. He said in many ways they might be better off with a partial sale. He said that he could run the City financially on a partial sale. He said that Mr. O'Connor could run the City.

Mr. Bass asked Mr. Brovont if he wanted to add that to the motion.

Mr. Mucher said that would basically not be taking out the word "*full.*"

Mr. Gorry felt that the Finance Commission should have a meeting specifically on the issues that they were bringing up.

Mr. Old asked did they want to add to the motion that the Finance Commission would like to review it.

Mr. Bass said they were making a recommendation. The way he stated the motion is extremely clear and the word "*full*" covers exactly what Mr. Gorry is saying.

Mr. Brovont said they might be tying the City's hands a little bit by not covering the partial sale in their motion. He said that is a key point with FPL and they have been very clear about it since day one (1). He said everyone knew it and the City Council agreed to it. He felt they should cover that in their motion.

Mr. Mucher said they could have the partial sale analysis meeting tomorrow if they wanted to. He said that is another piece of misinformation in that they were still under a gag order, but they haven't been under a gag order since OUC agreed to the \$20 million.

Mr. Brovont said the reality is that they have been under a gag order.

Mr. Mucher said they could have the discussion on the partial sale if they want.

Mr. Gorry said the Utilities Commission has oversight for recommendations on electric, water, and solid waste. But not on operations of the General Fund, whether it is capital or expense. What he was trying to address with the partial sale is to do an analysis to see how it measures. He said it was always in the "context of a full sale." It was never only a partial sale forever and ever amen.

Mrs. Barton said they were never asked to make a recommendation on that so she didn't think they should throw that into their recommendation now. That is past history and they can't make a recommendation after the fact. Their meeting today is to consider the full sale and she felt they were all enthused about the full sale. She said Mr. Auwaerter's original motion addressed the full sale and it came out later to include the partial sale. She didn't know why the Finance Commission could not make a recommendation on the full sale. She said the City council has already decided and the Finance Commission cannot change that.

Mr. Tonkel said they have an external audience and they have other parties to this agreement and he felt it would be unwise to basically not support the City Council's action that they have taken in the terms and conditions of the LOI. If they have someone on the Finance Commission that opposes the motion and the majority carries the vote, the Utilities Commission and the Finance Commission would have endorsed the proceedings and the conclusions of the City Council. He

felt that they would understand from today's meeting, their discussions, and the future work that they will do, and what the preference is. He said to not take action and approve it and move forward was a serious strategic mistake.

Mr. Gorry disagreed.

Mr. Bass said that he totally agrees.

Mr. Bass read back the motion, which is that the City of Vero Beach Finance Commission recommends to the City of Vero Beach City Council that the Council convert the terms of the Letter of Intent to a contract for the full sale of the City's Electric Utility to Florida Power and Light using the financial framework as described in the Letter of Intent dated May 16, 2017 between the two (2) parties subject to the following three (3) provisions: 1) the final executed contract should incorporate Florida Power and Light's plan to dismantle the electric substation and its present location next to the defunct City of Vero Beach Power Plant and to build a new substation on the lot on the southwest corner of Indian River Boulevard and 17th Street in Vero Beach, 2) in the case of the full sale, the City of Vero Beach should have no actual ongoing or contingent liabilities arising from any post-closing Electric Utility operations. The City will retain certain pension obligations for transferred employees as described in Section 1.11 (a) in the above mentioned Letter of Intent and 3) Section 1.3 (d) must reflect in the contract the #10 million lease as a payment to the City of Vero Beach and not as a lease. Mr. Old seconded the motion.

Mr. Brovont asked that they take out "*full sale*" and just state "*sale.*"

Mr. Bass felt that the motion states it both ways.

Mr. Brovont asked that they strike the word "*full.*"

Mr. Bass amended the motion to just state "sale."

Mr. Mucher asked because they were discussing the substation, would they need to mention the change from \$20 million to \$30 million and the lack of a lease. He said they have the final section of the motion.

Mr. Bass said the final section of the motion addresses the LOI.

Mr. Mucher said the Letter of Intent has been modified.

Mr. Bass said in the LOI that they have currently states under Section 1.3 (d), "*a payment of \$10 million to the City of Vero Beach as prepaid rent to lease the Vero Beach Power Plant substation for a term of 99 years as further described in Section 1.5 below.*" He reported that has since been

scratched so what his motion is trying to achieve is to state that the contract must still reflect the \$10 million applied to the new property in the form of a payment, which Mr. O'Connor already covered earlier in today's meeting.

Mrs. Barton asked can she make a motion to put the word "*full*" back into their motion. She asked can they vote on two (2) motions.

The Deputy City Clerk explained that there is a motion and a second on the floor and there is an amended motion, but the amended motion has not been seconded.

Mr. Old said that he seconded the original motion with the word "full."

Mrs. Barton said the agenda said they were looking at a full sale and Mr. Auwaerter's original motion stated full sale. She asked what is wrong with them voting with the full sale first and if it doesn't pass then they could amend it.

Mr. Brovont said the LOI covers more than the full sale and the City has already moved forward.

Mrs. Barton said the agenda states that they were going to consider a full sale and most of them are really enthused about a full sale. She asked why can't they put a motion forward that shows their enthusiasm for the full sale.

Mr. Brovont felt that they should be supporting what the City has already done.

Mr. Bass said with the language that he changed to concert the words of the LOI to a contract that they are achieving both. He agreed with Mrs. Barton. He said they would be getting both things done.

Mr. Gorry said that he took an oath to the City of Vero Beach to do the very best that he could and to give the best advice he could on issues that would impact the finances of the City and he has done that. He said that he has done an extensive analysis on the partial sale and on the full sale. He said that he would not vote for anything other than a full sale. He would not vote on a rubber stamp to automatically have a partial sale. He would only vote for a motion that is for the full sale only.

Mr. Brovont said there is a motion on the floor.

The Deputy City Clerk reported that the amended motion died for lack of a second so they would be voting on the original motion.

Mr. Bass said they would be voting on the original motion.

Mr. Gorry said then the intent of the motion is for a full sale.

Mr. Bass read back the first part of the motion, “the City of Vero Beach Finance Commission recommends to the City of Vero Beach City Council that the Council convert the terms of the Letter of Intent to a contract for the full sale of the City’s Electric Utility to Florida Power and Light using the financial framework as described in the Letter of Intent dated May 16, 2017 between the two (2) parties subject to the following three (3) provisions.”

Mr. Gorry said that based on that language he interprets it that they were fully endorsing the full sale only.

On a roll call vote the motion passed 5-0 with Mr. Bass voting yes, Mrs. Barton yes, Mr. Gorry yes, Mr. Old yes, and Mr. Brovont yes.

4. ADJOURNMENT

Today’s meeting adjourned at 11:42 a.m.

/sp

STAFF RECOMMENDATIONS FOR USES OF RESIDUAL CASH AFTER FPL SALE IS COMPLETED

\$ (millions)

ESTIMATED CASH BALANCE AVAILABLE AFTER UTILITY SALE COMPLETED:

\$ 58.0

SUGGESTED USES OF RESIDUAL CASH:

Proposed Action	Cost	Advantages - Benefits
Use a declining annual cash contribution to mitigate the gap between General Fund revenues and operating expenses (estimated at \$2.5 million in the first full year after the sale) across a five year period	FY 18-19 \$ 2.5	Allows for gradual revenue enhancements and/or expenditure reductions to lessen the immediate impact of the sale on general government levels of service.
	FY 19-20 2.0	
	FY 20-21 1.5	
	FY 21-22 1.0	
	FY 22-23 0.5	
Total \$ 7.5		
Set aside funds to make the annual payments on the unfunded pension liability for the General Fund (\$1.8 million per year) for 10 years until fully funded	10 yrs \$ 18.0	Addresses the impact of unfunded pension costs on the General Fund annually, without risking the principal by making a large one time lump sum deposit into the pension fund
Make a lump sum contribution to the pension fund to offset the remainder of the Electric Utility liability that is not funded by the \$6.6 million in FPL sale proceeds (which covers current employees only)	FY 18-19 \$ 3.0	Remaining annual payment of approximately \$300K will not need to be absorbed by the General Fund
Pay Off Series 2007B-2 'Dodgertown' Loan (including prepayment penalty)	FY 18-19 \$ 5.3	Frees up \$ 660K per year for 8 years in general government capital project funds (one cent sales tax) for stormwater, street paving, etc
Pay off Series 2007A Marina property loan (including prepayment penalty)	FY 18-19 \$ 3.4	Frees up \$338K per year for 10 years in Marina Fund; could be used for Marina capital improvements (instead of General Fund transfers) to stop declining Marina net asset value

BALANCE REMAINING

\$ 20.8

OTHER POSSIBLE USES OF RESIDUAL CASH

Invest as part of City's cash balances	annual \$ 0.2	Annual earnings at 1.2%
Apply to unfunded projects in the FY 17-22 Five Year Capital Plan (stormwater, public safety, public works, recreation)	FY 17-22 \$ 8.9	Deferred infrastructure projects can be completed in the near term