

**VERO BEACH UTILITIES COMMISSION MEETING
MONDAY, APRIL 22, 2019 2:00 P.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA**

A G E N D A

- 1. CALL TO ORDER**
- 2. PRELIMINARY MATTERS**
 - A) Election of Officers**
 1. Chairman
 2. Vice Chairman
 - B) Approval of Minutes**
 1. August 30, 2017 – Joint Utilities/Finance Commission Minutes
 2. July 6, 2017 – Utilities Commission Minutes
 3. December 13, 2016 – Joint Utilities/Finance Commission Minutes
 4. November 8, 2016 – Utilities Commission Minutes
- 3. PUBLIC COMMENT**
- 4. NEW BUSINESS**
 1. Mr. Rob Bolton, Water and Sewer Director, to give an update on future and ongoing projects
- 5. OLD BUSINESS**
- 6. CHAIRMAN'S MATTERS**
- 7. MEMBER'S MATTERS**
- 8. 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.

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

VERO BEACH UTILITIES COMMISSION MINUTES
THURSDAY, JULY 6, 2017 - 10:00 A.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA

PRESENT: Vice Chairman/Indian River Shores Representative, Robert Auwaerter; Members: Chuck Mechling, Herb Whittall, John Smith, Jane Burton, Mark Mucher, and Alternate Member #2, Judy Orcutt **Also Present:** City Manager, James O'Connor; Public Works Director, Monte Falls, Finance Director, Cindy Lawson, and Deputy City Clerk, Sherri Philo

Excused Absences: J. Rock Tonkel and George Baczynski

1. CALL TO ORDER

Today's meeting was called to order at 10:00 a.m. and the Deputy City Clerk performed the roll call.

2. ELECTION OF OFFICERS

A) Chairman

Mr. Mechling nominated Mr. Bob Auwaerter for Chairman of the Utilities Commission.

Mr. Whittall nominated Mr. Chuck Mechling for Chairman of the Utilities Commission. He felt that the Chairman of the Commission should be a resident of the City.

Mr. Mechling declined the nomination. He felt that Mr. Auwaerter had more experience.

At this time, the Commission members were notified that there was an issue with broadcasting. The Commission members agreed to hold their comments until the broadcasting issue was repaired.

At 10:03 a.m., the broadcasting issue was repaired and the meeting continued.

Mr. Mechling felt that Mr. Auwaerter had the experience to Chair this Commission. He respectfully declined the nomination.

Mr. Smith nominated Mr. Herbert Whittall for Chairman of the Utilities Commission.

The Deputy City Clerk called the vote on the nomination of Mr. Bob Auwaerter for Chairman of the Utilities Commission and the nomination passed 4-3 with Mrs. Orcutt voting no, Mrs. Burton yes, Mr. Smith no, Mr. Whittall no, Mr. Mucher yes, Mr. Mechling yes, and Mr. Auwaerter yes.

B) Vice Chairman

Mr. Auwaerter nominated Mr. J. Rock Tonkel for Vice Chairman of the Utilities Commission.

Mr. Smith nominated Mr. Herbert Whittall for Vice Chairman of the Utilities Commission.

The Deputy City Clerk called the vote on the nomination for Mr. J. Rock Tonkel for Vice Chairman of the Utilities Commission and the nomination passed 4-3 with Mrs. Orcutt voting no, Mrs. Burton yes, Mr. Smith no, Mr. Whittall no, Mr. Mucher yes, Mr. Mechling yes, and Mr. Auwaerter yes.

3) APPROVAL OF MINUTES

A) January 10, 2017

Mr. Mechling made a motion to approve the minutes of the January 10, 2017 Utilities Commission meeting. Mr. Smith seconded the motion and it passed unanimously.

At this time, Ms. Kira Honse, Assistant City Attorney, noted 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 explained to the members that they are considered Public Officers and are governed by the Code of Ethics. She asked the Commission members to look over the information and if they have any questions to contact the City Attorney's office.

4) PUBLIC COMMENT

None

5) DISCUSSION OF THE BUDGET

6) DISCUSSION OF STORMWATER

Mr. Auwaerter suggested that the Commission first go through the General Budget and then move on to the Five Year Capital Program.

Ms. Cindy Lawson, Finance Director, gave a brief overview of the Electric Utility proposed budget listed in staff's memorandum to the City Council dated June 30, 2017 (attached to the original minutes). She noted that she used the estimate retails sales out of the 4% loss to come up with purchase power quantities and a rolling 12-month average per megawatt hour to price out what she thought it would cost the City in the coming year. She explained that she used the rolling 12-month actuals because at this point they don't have any specific information from the Florida Municipal Power Agency (FMPA) with regard to their budget.

Mr. Whittall said they were discussing a budget from October to October.

Ms. Lawson said it is from October 1st through September 30th.

Mr. Whittall asked when are they talking about the sale of the Electric Utility.

Ms. Lawson answered the end of September 2018.

Mr. James O'Connor, City Manager, said they had a meeting yesterday and the closing on the sale would be at the earliest September or October 2018. He said they are shooting for somewhere within the fourth quarter of 2018.

Mr. Auwaerter said that is regarding a potential close of the sale if one goes through.

Mr. O'Connor said that is correct. He noted that until closing, nothing will take place. In other words they will have agreements in place with FMPA and with Orlando Utilities Corporation (OUC). But, the transfer of customers and the configuration of the electric system, Florida Power and Light (FPL) is stating somewhere in the neighborhood of seven (7) to nine (9) months.

Ms. Lawson continued with the overview of the proposed budget. She reported that there were two (2) fulltime positions removed due to the closure of the Power Plant and two (2) positions going to Transmission and Distribution. The transfer from the Electric Utility to the General Fund is flat at the \$5.4 million, which is what it was last year and is about 6.1% of the revenue. The one (1) thing to note is that this budget has a slightly larger, \$2.7 million transfer to the Capital Improvement Project (CIP) Fund in 2017/2018 than what they would normally have in order to cover the cost to move the substation from the Power Plant. She said this would cause them to dip into the balance by \$1.8 million, but staff does not feel that would bring the unrestricted cash below the target level of 90 days. As of March 31, 2017, they were at 98 days and \$18 million equals about eight (8) days. She said the Water and Sewer Utility shows a surplus and Five-Year Capital Plan that is on track with what they have been proposing for the past five (5) years. With regard to the Solid Waste Fund, they don't anticipate any changes in rates in that the revenue source has been extremely stable and continues to generate enough cash to get back on the replacement plan for their vehicles.

Mr. Peter Gorry said the issue is that there is a 5.7%, \$2 million increase in anticipated commercial revenues, which he felt was not consistent with former trend lines. Another question he has is with regards to moving the substation out of the Power Plant, which is a capital expense. In previous years when you put in capital that has useful life of 10 or 15 years you would consider going for debt to pay that off. He asked if that was considered as an alternative. He said currently there is \$1.6 million of a potential loan that the City did not take.

Mr. Auwaerter said they will address these questions when they get to that point in the budget review.

Mr. Auwaerter referred to page 71, *Electric Fund Operating Budget*. He said under Operating Expenses the NonDepartmental amount shown is \$4,622,530 and he is trying to reconcile that number with the amount listed on page 73, *Budget by Department*, which the NonDepartmental shown is \$23,465,780. He asked what is the distinguishment between those numbers.

Ms. Lawson said on page 71 what is shown as operating expenses for NonDepartmental are things that are either personnel related or operating related. The NonDepartmental amount shown on page 73 includes the debt service, the transfer to the General Fund, and the transfer to the Capital Fund.

Mr. Auwaerter complimented staff on the budget documentation provided stating that it was well done and very transparent.

Mr. Smith questioned the balance available for capital additions. It was stated that they would have to reduce it by \$1.8 million. He asked what is that balance.

Ms. Lawson said the \$1.8 million is kind of a backfill number so they would have a balanced budget. She explained that if they look at the Cash Carryover located on the bottom of page 72, if that number is positive it means they are using up that much of the available fund balance. If that number is negative it means they are adding to their available fund balance.

Mr. Smith asked what is the available fund balance.

Ms. Lawson said as of March 31, 2017, the unrestricted cash and investments was about \$19 million and the total cash balance was \$29 million, which is 98 days of unrestricted cash on hand. If they look at operating expenses it takes about \$199,000 per day so that \$1.8 million comes out to be about 9.3 days of reduction. Therefore, they would be going from 98 days to somewhere in the neighborhood of 90 days.

Mr. Mucher said if they look at last year's budget and this projected budget, the numbers are exactly the same. In other words, in the past year they haven't done a revised projection. He asked is that because they haven't done a budget amendment. He would think that over a year's time some projection might have changed because of some unexpected activity.

Ms. Lawson said it is because they haven't done a budget amendment and typically they do the budget amendment at year end.

Mr. Mucher said from the Commission's standpoint they would look at this year's budget versus last year's projection, which is the same so they are unable to evaluate anything that has changed within the last year.

Ms. Lawson said one (1) of the things they have done over the last few years and they are due to do it again is the quarterly rate sufficiency where they can see the parts of the budget that are unmodified, as well as the parts that changed. She noted that the only thing that really changes throughout the year is their estimate on where they are going to come in on rate revenue and where they are going to come in on purchase power costs. The rest of the budget really doesn't change that much from the personnel standpoint.

Mr. Auwaerter referred to page 72, *Electric Fund Revenue*. He said they are projecting under *Commercial Sales* a 5.7% increase and under *Industrial Sales* they are projecting a 4.6% decrease. He asked Ms. Lawson to discuss this.

Ms. Lawson felt it would be helpful not to look at last year's budget, but to look at the 2015/2016 actuals. She said that she recently updated her rate sufficiency model and when she put in the sales, the projected kilowatt hour sales, and the current rates she came up with a few million dollars more on the commercial side, which tracks pretty well with what they experienced in 2015/2016 as an actual, which was \$39.9 million.

Mr. Auwaerter asked does that mean when they do the budget amendment they will be a few million dollars higher.

Ms. Lawson answered basically, yes.

Mr. Auwaerter asked what are they assuming in the budget 2017/2018 in terms of customer rate charges.

Ms. Lawson said currently they are assuming no change in rates, which is fine with the numbers of FMFA as they sit right now. She noted that it would depend on the final numbers of FMFA and their continued quarterly monitoring, which they hope will hold.

Ms. Lawson noted that there were some personnel related issues that impacted the budget Citywide. She reported that the budget includes a proposed salary increase of 2% for all employees across the board. They did experience a 15% increase in health insurance rates, although they will notice when they get to the individual departments that in some cases the health insurance total cost didn't go up 15% because some of the changes that were made in their policy has driven employees away from the higher cost plans to the lower cost plans.

Mr. Whittall felt that they would be discussing this item for a while and suggested that they go to Item 6) Discussion of Stormwater so that Mr. Falls can go back to work. The Commission members agreed.

Ms. Lawson explained that there is no separate stormwater utility. Currently all the stormwater projects are in Fund 304, which is funded by the one-cent sales tax and competes for funding with projects, such as street paving, replacement of vehicles, Recreation infrastructure projects, and other Public Work projects. Given that they are competing for a pool of about \$1.4 million a year, the budget they put together for this year includes a list of unfunded projects. In other words, the projects they had to cut to balance this budget. She noted that a substantial number of these projects were stormwater maintenance and improvements that were more improvements and not necessarily maintenance of existing infrastructure. She then handed out to the Commission members a copy of the *Five-Year Capital Improvement Program Unfunded Projects – Fund 304: General Government Capital and Construction* (attached to the original minutes).

Mr. Monte Falls, Public Works Director, explained that stormwater is done through the Street Division of the Public Works Department. He reported that there are 80 miles of pipe in the ground, 40 miles of ditches and over 6,000 drainage structures. They estimate the value to be about \$25 million. If they assume a 50 year life, they need somewhere in the range of \$500,000 each year in Repair and Replacement (R&R). He then gave a brief overview of pages 67 and 68, *Fund 304: General Government Capital and Construction* of the budget and the list of unfunded projects with the Commission members.

Mr. Whittall asked how critical are the projects that are currently unfunded.

Mr. Falls said it depends on if flooding is on your street or not. He explained that if someone has property that is in peril of being flooded, they would move those projects up to get them repaired and on the funded list.

Mr. Smith asked Mr. Falls if he anticipated any new regulations. He asked what is happening that is going to be affecting the City in the next five (5) to ten years.

Mr. Falls said the new regulations that are currently being discussed are the total maximum daily loads of nitrogen and phosphorous that can be discharged to the receiving waters.

Mr. Mucher said flooding, maintenance, and lagoon water quality were kind of mixed together in the documentation. He asked is it possible to separate them out at some point along with the costs.

Mr. Falls said they did put that together back when they presented a stormwater utility. He said they had water quality and water quantity type of improvements. The number the consultant used was \$500,000 a year and \$2.3 million was the number the consultant used over a five-year cycle to do the water quality improvements.

Ms. Lawson thought the \$500,000 was for maintenance of the current infrastructure that moves the water, not necessarily treating it. She said that is kind of close to what they managed to squeeze out of the budgets each year. She said about \$350,000 to \$400,000 each year that they have to have to maintain the current system, but with no improvements to water quality issues. She emphasized that at this point the City's only dedicated revenue source for capital improvements is the one-cent sales tax. They receive about \$2.2 million a year and they have \$800,000 in debt service that they pay, which leaves \$1.4 million. Of that \$1.4 million they have between \$500,000 and \$700,000 a year in rolling lease purchase payments on City vehicles. This leaves \$700,000 for street paving, stormwater projects, recreation infrastructure, and any other Public Work projects. That is the problem they are facing and the reason they have done away with projects that are essentially improvements or water quality and stuck with just the projects necessary to make sure existing infrastructure and roads collapse.

Mr. Falls said when they previously discussed a stormwater utility that was capital improvement driven, not operating cost driven.

Mrs. Orcutt said it was her understanding that the Department of Environmental Protection (DEP) has given draft allocation that the City has been aware of for five (5) years because they have known their water quality has been impaired for a five (5) year period of time. They haven't been given their mandatory allocations, which are expected in 2018. She asked is that correct.

Mr. Falls said yes, as he understands it. He noted that is why the City has been doing this program for the past five (5) years in trying to get ahead because they know it is coming.

Mrs. Orcutt said all cities and counties are all working on projects to try to clean up this impaired water. It is her understanding that at this point in time the City has about half of the nitrogen reductions they anticipate having to make and about one-third of the phosphorous reductions that they are going to have to achieve over the next five (5) year period, starting in 2018. She said the only water quality project they have on the books for the coming year is the oyster bed project. She asked how much nitrogen and phosphorous is that expected to reduce.

Mr. Falls said that he did not have those numbers with him.

Mrs. Orcutt said the application was made for all of these projects to the Indian River Lagoon Council (IRLC) and the City was not funded because the IRLC prioritized all the projects and part of what was missing were some of the details on the planning. She referred to the muck aeration project listed in the unfunded projects. She said one (1) of the reasons that wasn't funded was because there is a top notch scientific study being done this year on muck that was funded, which in her opinion they should delay any aeration project until they see if it actually works or not.

Mr. Peter Gorry noted that stormwater only affects City residents. He said there is a Five-Year Capital program for the General Fund of \$12.4 million. He said there is an \$8.3 million shortfall in streets, roads, and stormwater. One (1) perspective is to understand how the City is going to fund that as they move forward.

At this time, the Commission went back to Item 5) - Discussion of the Budget.

Mr. Auwaerter referred to page 76, *Electric Fund – Expenditures of Object*. He asked how were the numbers derived at for Stanton I and Stanton II.

Ms. Lawson explained that she used a 12-month rolling average price per megawatt hour multiplied by her retail forecast with the losses added back for wholesale purchases.

At this time, the Commission moved on to the Fiscal Year Capital Program of the budget.

Mr. Auwaerter asked what do they do with the Fiscal Year Capital Program given that they have a potential sale on the table. He asked are there certain obligations involved to continue to do the capital programs because in some ways it could be viewed as throwing money away if a sale comes to fruition.

Mr. O'Connor said back when the City had the first sale agreement the City started doing minimal work and now they are at the catch up stage. He said when FPL receives the City's utility it will be an operational utility that will meet their standards. He said hopefully the sale will take place, but the fact of the matter is they have customers that they have to be concerned about.

Mr. Auwaerter referred to page 57, *City of Vero Beach Capital Expenditure Request Fiscal Year 17-18 – Asset Inventory and Tagging*. He asked is this an item that they could forego for a year and possibly save the \$800,000 if they do sell to FPL.

Ms. Lawson said they started the asset inventory about nine (9) months ago.

Mr. Auwaerter asked staff if they were looking for a motion from the Commission.

Mr. O'Connor said if there is a motion that they have reviewed and that they either accept or reject the budget as it applies to the utilities in question that would be something staff could take to the City Council.

Mr. Auwaerter made a motion to approve the operating budget as proposed by the City Administration for the coming fiscal year for the Electric and Water and Sewer Funds.

Mr. Mucher questioned Solid Waste.

Mr. Auwaerter added Solid Waste to the motion.

Mrs. Orcutt felt that the City's budget needed to include more water quality funding so she was unsure where she would vote against the budget. She said if it is a matter of reviewing the budget and discussing it that is fine, but she was not sure if she wanted to vote with the fact that the City is not funding water quality improvement projects efficiently.

Ms. Lawson explained that would be a separate motion because that is actually in Fund 304 General Government Construction. She said that has nothing to do with the Utility budget.

Mr. Smith said the capital improvement is a little difficult as Mrs. Orcutt suggested because the Commission has reviewed it and discussed it, but he was reluctant to say that he approves it.

Ms. Lawson explained that they are different budgets. She said the Commission could approve, for instance, the Electric Five Year Capital, the Water and Sewer Five Year Capital, and the Solid Waste Five Year Capital, but could have a different opinion with the Fund 304 Capital, which is where the stormwater is concentrated.

Mr. Auwaerter said the current motion on the floor is for the Operating Budget of the Electric Fund, the Water and Sewer Fund, and the Solid Waste Fund.

Mr. Smith seconded the motion and it passed unanimously.

Mr. Auwaerter made a motion to approve the Capital Expenditure budget for the same Funds (Electric, Water and Sewer, and Solid Waste) for the coming fiscal year.

Ms. Lawson questioned for the entire five (5) years or just the coming fiscal year. She asked are they okay with the Five Year Capital Improvement Projects or just the coming fiscal year.

Mr. Auwaerter said his suggestion is just for the coming year because they do have the uncertainty with regards to the potential full sale of the Electric Utility. Therefore, he made the motion for the coming fiscal year.

Mrs. Orcutt clarified that they were not discussing Fund 304.

Mr. Auwaerter said that is correct.

Mrs. Burton seconded the motion.

Mr. Smith said that he still has difficulty in that they reviewed it, analyzed it, and had no particular suggestions. But, approving it is a little stronger.

Mr. Auwaerter said they would be recommending approval.

Mr. Smith said that he would accept the wording “recommended.”

Mr. Auwaerter changed the wording in the motion to “recommend” (that they *recommend* approval).

The motion passed unanimously.

Mrs. Orcutt made a motion that she feels that Fund 304 is insufficiently funded and that the Council should look at ways to provide more water quality funding. Mr. Whittall seconded the motion.

Mr. Mechling asked would that encompass the entire concept on how the current stormwater pipes, etc., are being handled.

Mrs. Orcutt explained that she was not talking about repair and maintenance, but water quality. She said sometimes when making repairs they can include water quality improvements, but that would be accountable separately.

Mr. Mechling agreed with the concept of water quality, but felt that there was an overall situation of underfunding for infrastructure needs. He said that he did not want to see this kicked down the road in that it is an overall issue that needs a solution.

Mr. Mucher said the City Council often moves things around during the budget. He said the Commission could recommend that if the City Council finds some surplus that they care to make use of that perhaps they could look at water quality as a place to put those excess funds.

Mr. Auwaerter said that he is in favor of more water quality, but because the motion is vague in that they don’t have specific projects or specific amounts he is reluctant to vote in favor of it. He said if Mrs. Orcutt is willing to amend her motion that the City Council study increasing the priority on water quality projects then he will be willing to vote in favor of it.

Mr. Mucher said that he has a general problem when they are talking about stormwater because it only affects residents of the City of Vero Beach in the pocket and three (3) of the seven (7) of the Commission members live in the City of Vero Beach so the other members don’t have a stake in the game.

Mr. Whittall said this is a Utility Commission for the City.

Ms. Lawson said there is not a stormwater utility.

Mr. Whittall said no, but there are stormwater projects that need to be done.

Mr. Auwaerter thought Mr. Mucher’s point was that it is being funded out of the General Fund, which residents outside the City do not directly contribute to.

Ms. Lawson said at this point in the budget priorities it is another piece of City infrastructure that competes with other needs, such as the streets, deteriorating recreation buildings, etc. At this point, it is not a separate utility and it has to compete in the mix with everything else.

Mr. Mucher felt the minutes would reflect that they are all concerned about this issue. He would go so far as to say that if some funding became available or it is decided that the surplus that is in this budget became available that they would like to see water quality projects considered as a use for those funds.

Ms. Lawson said there is a proposed \$240,000 transfer from the General Fund to Fund 304 just to support the level of projects that they currently have in there.

Mr. Whittall said there are about 30 projects that are unfunded that have to do with water quality. He felt that the Commission wants to say that they think the City Council should make those funds available. He said if they look at what FMPA sent them, there are only three (3) cities out of 21 that have a mileage rate less than the City of Vero Beach.

Mr. Smith said what the Commission wants to do is to send some type of message to the City Council that they keep this on the forefront.

Mrs. Orcutt felt that they needed a dedicated funding source for water quality. She said it makes sense for it to be a line item. If they don't have a dedicated source for water quality that is kind of sacrosanct then there is no way they could fully plan long term projects and know that those projects are going to be funded. She said it takes a long time for long term projects because they have to do preliminary studies, pilot studies, etc., which takes time and then a couple years out then they can apply for the grant funding. Therefore, they need to have dedicated funds for water quality. She was not sure how that was best implemented in a motion to encourage the City Council to find a dedicated source for water quality projects.

Mr. Smith said they could add to the motion that they recommend that the City pursue finding a funding source.

Mrs. Orcutt said the City Council previously turned down having a stormwater utility, which having a stormwater utility made perfectly sense to her. But, if they are not going to have a stormwater utility they need to have a dedicated funding source.

Mr. Mucher thought when the City Council turned it down they also expressed a desire to spend some money in that area. However, at the same time they set the mileage rate so staff had to come up with a budget that tried to do both. He said that he has seen the City Council go into Budget Hearings and move things around.

Mrs. Orcutt said the Commission just "liked" the budget that was presented (motion was made to approve).

Mr. Mucher said they did not look at the entire budget; they just looked at the three (3) Enterprise Funds.

Ms. Lawson said the General Fund, per City Council direction, holds the same mileage rate, covers the personnel cost increases that she discussed earlier in today's meeting and in addition, they had enough funding to propose a transfer of about \$240,000 from the General Fund into the Construction Fund for street paving.

The Deputy City Clerk read back the motion under consideration, which is that Fund 304 is insufficiently funded and the City Council should look at ways to provide more water quality funding.

Mr. Auwaerter asked Mrs. Orcutt, does that characterize what she is trying to say.

Mrs. Orcutt amended the motion to state “a dedicated funding source for water quality improvement.”

Mr. Mucher asked Ms. Lawson when she said there is a transfer from the General Fund to Fund 304, is that kind of a dedicated transfer.

Ms. Lawson explained that is a line item that they were able to make this year because of the way various other expenses fell. In other words, rather than show a surplus they are suggesting that they put in some funds for street paving.

Mr. Smith said it is a dedicated fund, not transfer of surplus. He said it is a dedicated fund that is considered each year.

Ms. Lawson said that is correct. She explained that this was a transfer that was made possible mostly by an increase in property values, but it is definitely not a dedicated revenue source.

Mr. Smith asked can they amend the motion to state “dedicated fund.”

Mrs. Orcutt amended the motion to recommend to the City Council that they look for a dedicated funding source for water quality improvement projects. Mr. Whittall seconded the amended motion.

Mr. Mechling asked does that, in concept, include the dollars for infrastructure improvements. For instance, when they talk about the unfunded projects under stormwater, those certainly would have an end result of improving water quality.

Mrs. Orcutt said there are infrastructure improvements that would improve water quality, but it can't just be something like a culvert replacement. If it doesn't address water quality improvements and it doesn't reduce nitrogen and phosphorous, it is only an infrastructure improvement. But, there are capital improvements that could be done, such as putting a baffle box in because they would get some nitrogen and phosphorous reduction.

Mrs. Burton felt that when they state “water quality studies,” that is a very broad statement. She felt that they needed to be more specific.

Mrs. Orcutt said it is water quality improvements.

Mrs. Burton asked what exactly are they trying to improve.

Mrs. Orcutt said the nitrogen and phosphorous sediments.

Mrs. Burton felt that should be specified in their recommendation. Not just a broad statement of water quality.

Mr. Mucher asked is there a mechanism other than a Stormwater District or a Stormwater Enterprise Fund that would do that because he would have to vote against this if there isn't a way to do it.

Mr. O'Connor said one (1) thing they did when they funded the Other Post Employment Benefits (OPEB) was they raised property taxes to establish it. He said that property tax is allocated to the OPEB, which is a dedicated source.

Ms. Lawson said there are not that many significant home rule revenue sources and certainly not ones for stormwater. Therefore, other than having a stormwater utility, ad valorem tax is the only thing that is under the City Council's control. Or they could reestablish the priorities for the limited amount of one-cent sales tax money. In other words, this is staff's attempt at what they think is important enough to fund and what they think belongs in the unfunded list. She said the City Council can certainly look at the funding list and the unfunded list and disagree and cut one (1) thing and add another. She said the bottom line is there are not that many revenue sources that are under the control of City Council.

Mr. O'Connor said to answer the question; OPEB was established through raising property taxes to address that issue.

Mr. Auwaerter said they were putting that in an irrevocable trust, which is different.

Ms. Lawson said in using this example, the City Council could state they were going to raise taxes and were going to do it because every year they are going to make a certain dollar amount transfer into a stormwater utility. She said they could still establish a separate stormwater fund and have that dedicated annual transfer go to a separate fund where it could be tracked only against water quality projects.

Mr. Whittall said all they were doing was asking the City Council to look at this. They are not saying they have to fund it or that they have to do anything. They are just asking Council to look at it.

Mrs. Orcutt said as an example, the County allocated 20% of all their sales tax towards water quality improvement projects.

Mr. Mechling said that is what he is trying to understand. To him, fixing a culvert that has collapsed has an end result to water quality as well. Therefore, to him the base infrastructure that Mr. Falls discussed that has aged and has a quality issue that comes to the forefront in hard storms, if those things are being projected and funded to be repaired in the end it all goes towards water quality. That is why he was trying to understand if the motion encompasses the ability to spend funds on infrastructure stormwater needs.

Ms. Lawson said currently they have dedicated 19% of the sales tax to stormwater.

Mrs. Orcutt said but not water quality.

Ms. Lawson said not to water quality, but to stormwater projects in general.

Mr. O'Connor said for example, they budgeted \$35,000 for side lot culverts. The motion on the floor would not address that because that is strictly for drainage passing through and the carrying of water. Therefore, it would not be that encompassing. But, if they were doing another project, such as the Lateral E Project, that motion would cover it.

Mr. Mechling said that is his concern. That they were not going far enough with the motion to be able to address all the stormwater infrastructure needs that staff discussed.

Mr. Mucher said when they discussed a stormwater district, which he voted against, it encompassed water quality improvements, pipe maintenance, etc.

Mr. Auwaerter called the question.

Mr. Mucher asked that the motion be read back to them.

The Deputy City Clerk reported that the motion on the floor is that Fund 304 is insufficiently funded and the Council should look at ways for a dedicated fund for more water quality funding.

On a roll call vote the motion failed 3-4 with Mrs. Orcutt voting yes, Mrs. Burton no, Mr. Smith yes, Mr. Whittall yes, Mr. Mucher no, Mr. Mechling no and Mr. Auwaerter no.

Mr. Mucher said that he voted no because it was a dedicated fund.

Mr. Auwaerter said that he voted no because it involves the General Fund of the City of Vero Beach and because he is not a resident of the City he is not going to direct Council how to make decisions on purely the General Fund expenditure.

Mr. Mechling said that he voted no because he felt they needed to expand this to handle the infrastructure needs of the stormwater situation.

Mrs. Orcutt asked as in a stormwater utility.

Mr. Mechling said that he is not sure on the mechanism, but he feels that it has to be an overall fix.

Mrs. Burton said that she voted no because she did not think it was specific enough as to exactly what water quality improvements.

Mr. Mucher felt they had a general consensus that they would like the City Council to look at ways to find additional funds for stormwater and water quality improvements.

The Commission members agreed.

Mr. Auwaerter suggested that if the members want to move in that direction that they put another motion on the floor.

Mr. Smith said this Commission previously recommended a stormwater utility and the City Council voted it down. In a way the Commission is saying that the City Council look at it again and see if they can find resources to do this. Not a utility, but to look and see what else is out there and that they keep it on the forefront.

Mr. Mechling made a motion that the Commission would like the City Council to continue to review the process in funding for addressing the stormwater infrastructure needs and water quality improvements. Mr. Whittall seconded the motion.

Mr. Mucher said that he would vote for that. But, it does go back to Mr. Auwaerter's point about outsiders telling them how to spend their money.

Mr. Auwaerter said it was not that he didn't think it was a good idea.

Mr. Whittall didn't see where that has anything to do with it. He said that Mr. Auwaerter is sitting on a City Utility Commission and represents the City Utility Commission.

Mr. Auwaerter said that he represents the ratepayers.

Mr. Mucher said they represent all customers of the City Utilities System.

Mr. Whittall said it is part of the City Utility System. He said it is part of the General Fund, but it is still a City Utility.

Mr. Auwaerter said not the way it is accounted for.

Ms. Lawson said it is a general government Public Works function so it is not a utility. The utility would apply if it was supported by ratepayer fees, but it is not. It is supported by general government resources and is part of the Public Works Department.

The Deputy City Clerk read back the motion, which was that they would like the Council to continue to review the process in funding for addressing the stormwater infrastructure needs and water quality improvements.

On a roll call vote, the motion passed 6-1 with Mrs. Orcutt voting yes, Mrs. Burton yes, Mr. Smith yes, Mr. Whittall yes, Mr. Mucher yes, Mr. Mechling yes, and Mr. Auwaerter no.

7) ADJOURNMENT

Today's meeting adjourned at 12:42 p.m.

/sp

JOINT UTILITIES / FINANCE COMMISSION MINUTES

Tuesday, December 13, 2016 – 9:00 A.M.

City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Utilities Commission: Vice Chairman, Indian River Shores Representative, Robert Auwaerter; Members: Chuck Mechling, Herbert Whittall, John Smith and Alternate Member #1, George Baczynski **Finance Commission:** Chairman, Peter Gorry; Vice Chairman, Glen Brovont; Members: Kathryn Barton, Randy Old, Ryan Bass, Alternate Member #1, Daniel Stump and Alternate Member #2, Victor DeMattia **Also Present:** City Manager, James O'Connor; Finance Director, Cindy Lawson and Deputy City Clerk, Sherri Philo

Utilities Commission: Excused Absences: J. Rock Tonkel, Judy Orcutt and Norman Wells

1. CALL TO ORDER

Mr. Gorry called today's meeting to order at 9:00 a.m. He said there is a change on today's agenda because they don't have the full complement of either Commission they will not be holding the Election of Officers (request received from Mrs. Laura Moss, Mayor, which is attached to the original minutes). Therefore, he will continue as Chairman of the Finance Commission and Mr. Auwaerter will continue as Vice Chairman of the Utilities Commission until they have a full complement of each Commission (referring to Election of Officers on today's agenda).

2. UTILITIES COMMISSION ELECTION OF OFFICERS

- A) Chairman**
- B) Vice Chairman**

This item was pulled from today's agenda.

3. FINANCE COMMISSION ELECTION OF OFFICERS

- A) Chairman**
- B) Vice Chairman**

This item was pulled from today's agenda.

4. PUBLIC COMMENT

Mrs. Laura Moss, Mayor, thanked all the City's Board and Commission members for their service. She especially thanked the Utilities Commission in which she had a great fondness. She said it was a wonderful experience serving as Member at Large, as well as the Chairman of the Utilities Commission.

Mr. Gorry complimented Mr. John Smith and Dr. Stephen Lapointe for their service while serving on the Finance Commission.

5. RATE STUDY PRESENTATION – PRMG

Ms. Cindy Lawson, Finance Director, reported that today's presentation was on the updated Rate Study. She said the preliminary report was before the Commissions in the summer of 2015 and was put on hold as the City completed their negotiations with the revised Orlando Utilities Commission (OUC) contract. With all of that in place, they have revived and completed the Rate Study. She said the purpose of the Rate Study is because the City needs to update the tariff sheets that they file with the Public Service Commission (PSC) noting that they have not been updated since 2010. She said those include not only the rates, rate structure, calculation of the bulk power cost adjustment, but also includes a host of administrative items, associated fees, etc. Staff is asking the Utilities Commission/Finance Commission to review the recommendations contained in the Rate Study and give staff either their approval or denial on those recommendations, which if approved would then allow staff to create the updated tariff sheets for the City Council to adopt after the first of the year. She explained that this Study does not include the proposed partial sale of Indian River Shores (IRS), which at this time it could not. They did the Rate Study based on the utility that is on the ground currently based on known costs. Until that sale is completed and they have answers on the resulting costs, the use of the proceeds, etc., that will affect the Rate Study, it cannot be updated to include it. Once that has taken place, this model can easily be updated to include the known costs, the known use of the proceeds, etc.

Mr. Gorry asked Ms. Lawson if what she was stating was that based upon the fact that there would be potential changes due to the proposed partial sale, that it wouldn't be implemented until those variables are known.

Ms. Lawson answered no. What she was saying was that it would be implemented in January. The City would update their tariff sheets with the PSC with what they have currently and as soon as the variables related to the partial sale becomes known they would update the Rate Study. She said staff is proposing that they proceed to finish what they started with the utility they have in place right now, knowing that they can easily update it to include any changes to revenues, expenditures, use of proceeds, etc., related to the partial sale.

Mr. Old asked are there any assumptions as to what the affect would be in doing the partial sale.

Ms. Lawson answered yes, but assumptions would be very broad and are policy decisions. She noted that until the City Council directs them with whatever they consider to be reasonable assumptions. She did not think that they would spend the time or money to go through that effort. She said use of the proceeds was probably the most impactful decision to be made and until it is it would all be speculation.

Mr. Old said the use of proceeds is limited.

Ms. Lawson said that is correct. She explained that the bond covenant states that the proceeds stay within the Electric Utility to defease debt or to build capital. But again, even those two (2) uses can produce widely different results. She noted that there was a host of policy decisions that need to be made relative to all the revenues, expenditures and the use of proceeds in the Electric Utility.

Mr. James O'Connor, City Manager, said the devil is in the details. He said they have to work towards a contract and March is their target date. In that contract, it will tell them the City's costs and FPL's costs.

Mr. Whittall said in the backup information it states that the City was going to take out a loan in the amount of \$5 million. He asked why would they be taking out a loan when they were putting \$5.5 million in the R&R Fund.

Ms. Lawson explained that currently the adopted Five Year Capital Plan, which contemplated the improvements suggested by the Optimization Study, includes borrowing money for those improvements. She noted that only the City Council can approve that borrowing so when the time comes they might not need to borrow that money.

Mr. Auwaerter suggested that they start the presentation because there were some pages in the presentation that references the questions being asked. He said when they get to pages in the presentation where they have questions they could ask them at that time. He suggested that they allow the presenter to complete their presentation for each page and at that point the Commission members could make their comments and ask questions.

Ms. Lawson noted that the additional information attached to the presentation was included as backup information. She did not think it was their intention to present it all. She then introduced Mr. Henry Thomas and Mr. Murray Hamilton of Public Resources Management Group (PRMG) to the Commission members. She reported that they have been the City's Rate Consultant for

many years and are very knowledgeable of the City's system and all the changes that have occurred over the past number of years.

Mr. Henry Thomas, of PRMG, gave the Commission members some background as to why they did the Rate Study. He explained that a number of years ago a Cost of Service Study and rates were established, which was approved by the PSC and it included a multiyear phase-in of electric rates. The City didn't fully phase those rates in, which he thought 2010 was the last year the rates were adjusted. However, the tariff's the City filed showed minor increases beyond that. The issue was while the City has control of the expenditures that the utility makes and the revenue requirements that need to be recovered from rates, the PSC has regulatory jurisdiction over the cost of service. He explained that the cost of service is how the City apportions the revenue requirements among the customer classes; residential verses commercial verses large power. These groups taken as whole groups and not as individual customers have characteristics. As a result, the cost of serving a small commercial customer is slightly different than a residential customer and a large power customer. In 1978, the Federal Government passed the Public Utility Regulatory Policy Act. That Act stated that State PSC's should set rates based on cost of service principles. In doing so, the municipal governments in Florida that were not subject to PSC regulation at that time signed a consent order to the PSC to allow them to review the cost of service aspect of the rates. He said the rates that are in place today were approved by the PSC. About two (2) years ago, the City asked PRMG to update the cost of the service analysis. He explained the rates that were in the file tariffs were not being implemented and the City, through a period of time, was managing the utility funds on a holistic basis meaning that the Finance Director would look at cash balances and if they started to grow and look like they were going to continue, she would back off on the rate. If they were starting to get tight she would increase the rate. But, she was managing on the whole system. In reality, the file tariffs that they had placed before the PSC basically said that base rates should stand and be reviewed and approved by the PSC periodically. Power costs should pass through and the City had a purchase power adjustment clause in their rates at the time. But, the City had gotten away from that because of all the changes they were going through. What they wanted to do in this tariff filing was to reconstruct the tariff in order to recognize the proper flow-through of purchase power expense. They presented this Cost of Service Study in March, 2015 to these Commissions and to the City Council. The Study showed that there were minor variances and at that time it was suggested that there was not a need for rate changes. There was also an Optimization Study done, while it was tasked to look at cost savings, which it did identify, but it also identified some critical needs on the distribution system. Therefore, part of what is in the Capital Plan that they would be discussing today, were the distribution improvements identified in that Study. What they were asked to do was to take their work from 2015 and update it to see where they stand today. In summary, what they were finding was that the City's base rates, which are the rates that recover the City's cost of operations, labor, administration of the system, etc., were adequate for the next five (5) years. In doing the update, they used the power cost analysis that was done

concurrent with negotiations with the Orlando Utilities Commission (OUC). The base rate costs were also reflective of the new 2016/2017 budget, the closure of the Power Plant, and the new Capital Plan. There is one (1) aspect of base rates where there is a small amount of power, roughly \$16.50 per 1,000 Kwh that is built into the base rate itself. What that does, if they follow their recommendations, while the mechanics internally would change on how they track power costs going forward, the bill today would not change for any customer on the system. He explained that they set the level of base power costs based on the adjustments they had in place and the total cost of power and since the rates were adequate as a whole they were able to determine how much power costs the City was actually collecting through base rates. He explained that what they were trying to do was manage the base rates on a budgetary basis over time and then let the power costs flow as the costs change so the premise of the power cost adjustment is that the City doesn't make a profit from power costs and they can insure that they pass through the costs incurred for wholesale power and only those costs. Therefore, the formula they put together will allow the City to monitor this, true it up, and manage it over time.

Mr. Gorry said this is really in two (2) parts. Mr. Thomas was addressing the usage part and there is also a fee part. Therefore, when discussing a bill, it might change based on the fee impact.

Mr. Thomas said what Mr. Gorry has pointed out was that they have monthly rates for service, which are the bills based on meter usage. Then they have certain miscellaneous fees for ancillary services, such as connecting a new meter. One of the tasks they had in this study was to go through the miscellaneous fees and revise them because they have not been set in a long time. Those fees are actually not subject to the PSC's jurisdiction, but they do have some changes in those fees. It won't affect monthly bills, but might affect a new customer who wants service and has a meter hooked up. They have examined those ancillary fees as well, which is part of this Study.

Mr. Mucher said that Mr. Thomas mentioned a base rate in the power cost, but used the term adjustment. He said when using the term "power cost adjustment," a lot of people think the second line on the bill is some kind of an adjustment number as opposed to the total power costs, with the exception of the \$16.50. He said this is very confusing to people. He asked Mr. Thomas to explain this.

Mr. Thomas said years ago what the City did, as well as other municipal utilities, was they purchased power and had their own power including fuel. When the rate study would be done, they would always increase the base in the base rates for fuel to the current level. Therefore, if fuel was costing the City \$35 per 1,000 Kwh and the City did a rate study at that time; they would set the base to that and have a very small adjustment going forward as fuel costs change. Then if they redid the study years later and fuel was \$40 per 1,000 Kwh they would raise the

base rate to the \$40 level for fuel and then have a small adjustment. The PSC, with respect to investor owned utilities, took all the costs out of base rates associated with fuel. As they moved forward the municipal governments in Florida quit moving up the base for purchase power and fuel in their rates. That is why in the City's current rates, they have a legacy of \$16.50 per 1,000 Kwh that is in the base rate line that is associated with fuel and purchase power. Then the PPA on the bill is the difference between the costs the City is incurring today and what is in the base rate. The reason they refer to it as an adjustment is because if gas prices go up, for example, they can flow it through the adjustment mechanism without having to go back to the PSC. He said it is intended to allow them to adjust, but the majority of it is on the bill as a separate line item as opposed to a small adjustment amount.

At this time, Mr. Thomas gave a Power Point presentation on the "*City of Vero Beach Summary of Electric System Rate Study Update and Cost of Service Analysis*" (attached to the original minutes).

*Please note that questions and discussion took place throughout the presentation.

Mr. Auwaerter referred to page 3, *Historical and Projected Electric Sales*, of the Power Point presentation. He asked what is the base period.

Mr. Murray Hamilton, of PRMG, explained that is basically a 10 year average of about ½ of a percent.

Mr. Auwaerter said his question is what is the base period that they are calculating the ½ of a percent.

Mr. Hamilton said from 2017 to 2021. He said that is definitely ½ of a percent. But, if they go from 2012 to 2021 it is a running average of about ½ of a percent as well.

Mr. Thomas said the historical period of five (5) years is where they generated the ½ of a percent.

Mr. Auwaerter said they were not answering his question. He asked what is the base period. Was it from 2012 to 2016?

Ms. Lawson explained that 2017 was the base period and it was designed to match the assumptions that were in the OUC contract and the forecast that Mr. Bill Harrington provided for from 2017 going forward in the new OUC contract. She said the 722,338 in electric sales was a match to their projection for the OUC contract. She said they decided to use a conservative

number based on the past five (5) years. But, the KWH sales starting with 2017 matched the original projection they had under the OUC contract.

Mr. Auwaerter said the other side of that is they could argue that the 722,338 was not conservative because in 2012 they were at 703,614, then 692,887, and then 710,688 projected electric sales.

Ms. Lawson said last year they were at 752,291. She said that when they discussed this, the initial thought was to have the base year of 2017 higher based on the last few years. But, they decided to go back to a five (5) year average and start with that and to be conservative. She said that for the last three (3) years she has taken the rate sufficiency that the Utilities Commission and the Finance Commission receives every quarter and laid them over top of each other and she could see that it is weather dependant. She said better results would produce better margin and therefore, upon review, perhaps better rates.

Mr. Auwaerter thought it was also economy related because he graphed them going back 10 years and ending in 2014 they went down 8%.

Mr. Thomas said they felt that the 752,291 was high because of the weather, which is why they rolled it back in 2017. He noted that when they come to their conclusions they want to make sure they are sustainable and the City can meet it. If they had forecasted 3% each year they could paint a better picture, but if that 3% is not achieved they would have to adjust as they go forward. At this point in time, this is a good analysis that states if they grow at 1½% each year, the rates would be adequate over the next five (5) years.

Mr. Mucher said a few years ago they had two (2) very cold winters in a row. Much colder than in 2016, but they were kind of throwing out 2016 as a bad data point because of a cold winter.

Mr. Thomas said they didn't want to trend off of just 2016. He said they have had variances because of weather and because of the economy. He said weather variances were probably more significant. He noted that these were assumptions that they tried to make as reasonable as possible.

Mrs. Barton said it was stated that the customer base was increasing by 1.2%.

Mr. Thomas said historically the customer base was increasing by 1.2%.

Mrs. Barton said based on the increase in customer base they expect an increase in revenues. She asked where are these customers coming from. She asked are they coming from a specific geographic area in the City.

Mr. Thomas explained that this is looking at the average number of bills rendered. He said some of the growth in recent years could have been homes that were unoccupied and then occupied, foreclosed homes that might have been sold and then occupied, etc. He said that he didn't know that it was growth in housing stock at 1.2% a year; it was growth in the number of bills rendered on average year over year. He said they have seen a longer term trend of declining use per customer mainly due to energy efficiency.

Mr. Auwaerter referred to page 4, *Projected Purchased Power Costs*. He said they are supposed to save money on the OUC contract and he doesn't see that anywhere. Also, he has attended FMPA Board of Director's meetings and a lot of their debt on the three (3) Plants that the City purchases power from (St. Lucie, Stanton I, and Stanton II), they were projecting a big drop in interest expense. He said that he ran some rough back of the envelope numbers and he came up with an average of about 15%. He asked where is all that information in the numbers shown. He said the City's electric system debt is being paid down pretty rapidly and will be gone by 2023 and he is seeing a pretty big jump in rates. He asked why were the rates going up to this degree.

Ms. Lawson said the City's actual OUC cost in 2014/2015 was almost \$32.6 million and the City's budgeted amount for 2016/2017 is \$30.2 million. She thought the reason it was not seen on this page was because they used the revised OUC numbers for the bulk of 2015/2016, which kicked in October of 2015. She said they would need to add 2014/2015 in order to see it.

Mr. Mucher said in Mr. Schef Wright's projected rates, as a result of the new OUC contract, power costs started trending up beginning October, 2016. He said that he noticed on this chart that in 2017 the purchased power costs were going down and FPL has fuel going up 14%. Therefore, there is a discrepancy in that he could not see that OUC and FMPA were that much wiser in their purchases than FPL is able to purchase fuel. He asked how could FPL's fuel costs be going up and the City's going down.

Ms. Lawson explained what they were showing today is that the rate decrease made in October and the way the rates are currently, is what they are stating needs to stay in place for the next year.

Mr. Mucher asked why is FPL going up 14% and they are forecasting the City's costs going down.

Mr. Thomas said as he understood it, the rate increase that FPL was granted was the total rates and that their fuel costs probably are not going up 14%.

Mr. Mucher gave Mr. Thomas a copy of the handout he had distributed to the Commission members entitled *Sheet 1* that had information on rates (attached to the original minutes).

Mr. Thomas referred to the information given to him by Mr. Mucher stating that FPL did have their fuel costs going up. He said that he had not investigated what was in their fuel costs, but FPL has a true-up provision in their rates as well. Therefore, part of their increase could be a projected increase in fuel and part of it could be making up for some fuel that they didn't recover last year as a true-up. He noted that the forecast was probably prior to the FPL fuel forecast being done. He said before he would speak on their forecast versus FPL's, he would need to look into it further. He said the big bump they see in 2018 on their (PRMG) forecast was really related to FMPA's cost that they were given when preparing this analysis.

Mr. Auwaerter said in an FMPA meeting they discussed their costs going down because they were coming to the end of a lot of the debt they are carrying on the Plants.

Ms. Lawson said the important thing to keep in mind is that when they created the Purchase Power Cost adjustment as a formula within the tariff sheets, although they may have this five (5) year projection, it only fixes base rates.

Mr. Hamilton explained that the costs shown in the presentation are the blended resources, OUC and FMPA. He said that FMPA costs were going down over time as different debt service payments were coming off. He said Mr. Schef Wright negotiated with OUC for a lower rate today and a higher rate later so that when they add the two (2) together it looked level.

Mr. Stump referred to pages 6 and 7, *Projected City Operating Expenses*. He asked is that the reason for their conclusion listed on page 25, *Summary of Observations and Recommendations*, where it states that no rate adjustments are proposed for the near future.

Mr. Thomas answered yes.

Mr. Stump asked how long would that be good for, assuming things stay as "status quo."

Mr. Thomas felt that a three (3) year period was reasonable. He noted that Ms. Lawson monitors this constantly.

Mr. Auwaerter referred to Table 4, page 1, line item 10 (attached to the original minutes). He said it shows that the total personal services for power resources were going down, which made sense to him because of the closing of the Power Plant. He then referred to page 3, line items 87 and 89. He said it shows a significant jump in operating salaries of almost \$300,000 and an additional \$100,000 of overtime for the 2017 budget versus the 2016 budget. He questioned what would have caused that because they have not had a change in the transmission and distribution.

Ms. Lawson said they were based on the adopted budget. She reported that there was an increase of two (2) employees within the Transmission and Distribution, plus the absorption of one or two employees that had been within Power Resources, as well as an approved increase in rates per the Union negotiations.

Mr. Thomas noted that when they discuss assumptions going forward and how the potential sale might affect this, these are the areas that are liable to be affected.

Mr. Brovont asked if he was correct that all the backup information starting from Table 1 was really City generated figures.

Mr. Thomas said they worked in concert with City staff.

Mr. Brovont said the way it looks to him is that over the five (5) year period, using 2018 as the base year, they end up with about a 2.6% increase in revenue. On the other hand when looking at the expenses they end up with about a 4.6% increase in expenditures. This means that the free cash flow, revenue less all direct expenses, ignoring debt service, capital, and transfer; at that point in time they have about a 6.3% loss in free cash flow so they would end up with roughly \$800,000 at the end of the fifth year.

Mr. Thomas noted that the criteria they used was to not allow it to go below 90 days of operations and maintenance (O&M).

Mr. Brovont said it was clear to him that in 2019 the 90 days of working capital was getting thin. But, one would have to ask how is this sustainable to be forecasting a ½ of 1% increase in the revenue side and 4.6% in expenses, most of which is made up in operating costs and not fuel costs. He said their operating costs went up 10%. He said his point is that the projection is they are at a flat break even net cash flow after all the debt service, transfers, and Renewal and Replacement (R&R) Fund Balance. At the end of the year they are at zero like they have been. But, is it sustainable when they are forecasting only ½ of 1%. He said they are going to have to do something going forward after five (5) years.

Mr. Thomas referred to page 11, *Projected Transfer to Fund Capital*. He explained that when they did the Optimization Study, the projects deemed to be critical projects on the T&D side were really scheduled in at the beginning of the period. He said the expenditures were disbursements from the Capital Fund for R&R. The first two (2) years were just under \$7 million in each year. In the past they also had to maintain the generating Plant, which is no longer on the table. The projects that were identified in the Optimization Study should be one (1) time things. The assets were going to be in service for a long life so the normal routine level, absent those projects, was going down. In looking at the graph, as they go through time they can

see that the trend is going down. They think the target level that is sustainable is about \$3 million a year.

Mr. Brovont said that is the critical equation in his mind.

Mr. Mucher asked does this include the borrowing.

Mr. Thomas answered no. He explained that this is the R&R Fund Balance, the City's internally generated capital.

Mr. Brovont said in looking at the R&R, they had to get the feeling that a lot of the R&R was really direct expenses.

Mr. Thomas explained that the R&R is intended to extend the life of the asset, which is why they treat it as a capital expenditure.

Mr. Brovont said that when he looks at the R&R account, half of it or 40% of it was really operating expenses and the rest was capital expenditures. That is the way he looks at it.

Ms. Lawson explained that there is a difference between capital expenditures and capitalization, which are not equal things. An example is they have a number of meters that they put in every year, which are capitalized. But then what happens is they go into the capital asset records and take the oldest meters and retire them. Therefore, there is a continuous improvement in capitalization, but there a continuous retirement of the assets that were replaced.

Mr. Brovont said that doesn't change his question. He said the operating revenue was still going up by $\frac{1}{2}$ of 1% and the expenses, ignoring the R&R, were still going up 4.6% over that five (5) year period. If they project that forward they are either going to have to have rate increases or cut expenses. The reality is that a 10% increase in operating expenses over a four (4) year period at 2 $\frac{1}{2}$ % per year doesn't seem to be out of line. The only give that he could see was the revenue side.

Mr. Thomas said there is one (1) other thing that is going on in the revenue growth was that the City has existing debt that is going to be retired, which is part of this equation.

Mr. Brovont said in thinking as a business seller, the fact is that the free cash flow is declining. He said the cash flow might be affecting the valuation.

Mr. Thomas said most of the buyers would look at it in the context of the rates they would charge and what the cash flow looks like.

Mr. Gorry said that he looked at the capital over five (5) previous years and three (3) years forward (through 2020). He explained that he backed out all power costs so transmission and distribution and customer service capital programs averaged about \$3.5 million for previous five years. Going forward through 2020, based on the push for optimization, was about \$6 million.

Mr. Auwaerter said a presentation was given to the Utilities Commission by Power Services on the Electric Utility System Study at their April 21st meeting. In their presentation, they had a 20 year long range plan that came to a total of \$20 million. He asked Mr. O'Connor what changed over that time period to get the \$27.9 million.

Mr. James O'Connor, City Manager, explained that it was where they put the projects and the proposed pricing of them. He said they had an internal debate on how to implement the Optimization Study and over what period of time. Therefore, some of them go outside the five (5) year forecast, which changes the numbers somewhat.

Mr. Auwaerter referred to page 9 - *Projected Capital Plan Funding*. He said the big elephant in the room is the General Fund transfer. He felt that they should consider modestly reducing, for a period of time, the General Fund transfer so they don't have to pay any interest. Based on the projected rates, they would affectively earn 4% on that money and if they spread it out over five (5) or ten years, it is a relatively small impact on the General Fund transfer. He felt this was something they should think about.

Mrs. Barton said it was mentioned that the City was operating under a holistic principle that if they had the cash they would lower the rates. But, they are also stating that the base rate appears sufficient for the next five (5) years. She asked if that was not true, can the fuel cost only vary in the same degree that fuel cost is actually varying or could some costs be pushed in.

Mr. Thomas said that is the intent of their proposal; that they have that stand alone to represent to the customers what the City is paying for the power they are consuming. Not the services to operate the system.

Mr. Mucher referred to page 14 – *Projected Debt Service Coverage*. He asked if 2017 was not a great year, why do they take such a big drop. He asked does this include the \$5 million borrowing.

Mr. Thomas said that is why it dropped. He explained it includes the borrowing of the \$5 million in 2017. Therefore, the new debt came on and they didn't raise rates.

Mr. Auwaerter said they were also paying down \$4,225,000 in fiscal year 2017 on the current debt.

Mr. Thomas explained that the coverage ratio was not for the balance, but for annual debt service.

Mr. Auwaerter said they would be saving on the debt side \$1,251,000.

Mr. Thomas said the debt payments were level.

Ms. Lawson explained that the debt payments are levelized, so every year's principal and interest combined is right at \$5 ½ million. The debt coverage ratio is free cash for that year divided by that year's principal and interest payment so it is even across time.

Mr. Auwaerter said they are also paying down debt on the existing electric system.

Ms. Lawson said they were talking about the existing electric system. She explained that every year they make a principal and interest payment, which means the outstanding principal goes down. But, the coverage ratio shown is a snapshot of a single year; how much money is free after operating expenses that they have available for debt service in that year. That is the calculation shown. Not how much debt service as a total of the system remains in principal, but a year to year snapshot.

Mr. Thomas referred to Table 1, *City of Vero Beach, Florida Electric Rate Study Update / Projected Costs per Mwh Sold*, that was handed out to the Commission members (attached to the original minutes). He said this shows where the money is going. He wanted to make sure they were all on the same page in that this was not the residential bill. It is the average system cost. What it states is that the average system cost per Mwh sold is \$119. If they look at the chart located on page 20 of the Power Point presentation they would see the average cost at the bottom of the chart of \$119. He explained that while the system averages \$119, the residential cost is \$124.40, and the cost of service is \$128.20. Under general service, the average cost is \$120.60 and the cost of service is \$115.50. He said all this is encapsulated at the very top of the chart. He explained that what they are stating is that on a revenue neutral basis, if they want to strictly follow cost of service, residential should get a 3% increase, small commercial a 4% decrease, and general service demand a 3% decrease. Therefore, based on this analysis and knowing its limitations, it is applied to the City's customer class and given where the City is in the evolution of the utility service, they believe it is probably most prudent to not make these changes and keep the rates on average where they currently are.

Mr. Mucher said this slide raises the most questions for him. It states they are losing money on residential service and non-residential is making it up. He asked is it coincidental that both the revenue and the cost is \$119. He asked wouldn't this state that system-wide they were at breakeven, but they really weren't because they were making money.

Mr. Thomas explained that this takes into account the money they are making as well.

Mr. Whittall excused himself from today's meeting at 11:25 a.m.

Mr. Auwaerter referred to the bullet point, "*No revenue adjustment is required, but the City should continue to monitor the Purchase Power Costs*" located on page 25, under *Summary of Observations & Recommendations*. He asked how would do they do this.

Ms. Lawson explained that they would do what they kind of are currently doing, which is monitor on a quarterly basis the actual costs the City receives. She noted that there is a formula in the tariff sheet.

Mr. Auwaerter asked if they have the ability to check the accuracy of the bills from OUC and FMPA.

Ms. Lawson said the City does that every month when they pay the bill. She noted that the bill is actually broken down component by component.

Mr. Brovont asked the Chairman if they were looking for a motion.

Ms. Lawson said staff is asking for a motion on the recommendations. If approved, these recommendations would be used to construct the revised tariff sheets, which would go before the City Council with a Resolution to be filed with the PSC.

Mr. Auwaerter said to be clear, the recommendations are listed on pages 25 and 26 of the Power Point presentation.

Ms. Lawson said that is correct.

At this time, Mr. Gorry opened and closed public comment with no one wishing to speak.

Motions:

Finance Commission:

Mr. Brovont made a motion to accept the Summary of Observations and Recommendations listed on pages 25 and 26 of the Power Point presentation on the report done by PRMG. Mrs. Barton seconded the motion and it passed unanimously.

Utilities Commission:

Mr. Auwaerter made a motion to accept the recommendation of the PRMG as their summary and observations and recommendations as depicted on slides 25 and 26. Mr. Mechling seconded the motion and it passed unanimously (Please note that Mr. Whittall was not present for the vote).

Mr. Auwaerter made a motion to adjourn today's meeting.

Mr. Mucher noted that there were other items on today's agenda.

Mr. Gorry said they do have other items on today's agenda, but they don't have all the members appointed to the Commissions present in order to discuss those items.

Mr. Auwaerter agreed.

6. PARTIAL SALE TO FPL

Mr. Stump suggested that they wait on the remaining items until they have the sales agreement as they relate to the sale.

Mr. Gorry said they have a Letter of Intent.

Mr. O'Connor said the Letter of Intent has the target of March as the time the initial contract is to be brought back for consideration with December as the time when the transfer would actually take place.

Mr. Gorry felt that it was far too complex to try to discuss this today. He noted that the Finance Commission has never looked at a partial sale because the original proposal died. He said they were looking to have a full membership on both the Finance Commission and the Utilities Commission present for this discussion.

Mr. Stump asked how are they going to discuss a partial sale to FPL until they have a contract.

Mr. Brovont felt that they should have a meeting as soon as possible and he would hope that Ms. Lawson could provide them with a number that is within the IRS' operation. He said they could do a rough projection.

Ms. Lawson said that she could extract from the billing data the revenues the City has taken in from IRS, how many customers there are, etc. But, they cannot do a Performa of the impact on

the rates until they have decisions and policy direction about the use of the proceeds and the terms of the partial sale.

Mr. Brovont disagreed. He said they do not have to have all the assumptions as to how the money is going to be used to understand what the impact on the loss is going to be. They are two (2) different items.

Ms. Lawson said that she could easily show them the impact on the revenue side, but how that translates into savings or changes on the expenditure side she cannot do. As discussed, there are likely to be impacts on the capital program. Also, balancing any budget can be done one (1) of two (2) ways; increase revenues or decrease expenditures. Before she could give them a Performa she would need some policy direction from the City Council as to what their intentions are with regards to the other expenditures post the sale of IRS. She said they could take the model, make a set of assumptions, and run those numbers. But, whether that would comport with the direction that they are given by the City Council as a result of the sale is an entirely different thing. Without that direction there isn't any way to do a Performa unless she makes her own assumptions on what is going to be done with revenues, expenditures, the proceeds of the sale, the debt service, etc. She said to have those assumptions in place with good credible answers by January or February she did not think was going to happen.

Mr. Smith said although he agrees with what Ms. Lawson was saying, he thought what was being asked was that they take a proactive approach and anticipate potential problems. He said they don't need the details that Ms. Lawson was discussing to do that.

Mr. Brovont said they were not asking how to use the \$30 million. The question is, what is the impact on losing the business.

Ms. Lawson said that analysis was done about two (2) years ago so all she would need to do is update it for the adopted 2017 budget. When that analysis was done, it indicated that all other things being equal, the loss of those customers would result with about a 1% increase in rates to the remaining customers.

Mr. Stump asked couldn't all this information be given to them at the time there is a contract.

Mr. Mucher said it seemed to him that they were assuming that FPL would be giving them a contract and they have to vote it up or down. He said perhaps one or both of the Commissions could give the negotiators some direction that would shape that contract. He didn't think they should sit and wait for a contract to be written.

Mrs. Barton agreed. She said there were things in the Letter of Intent that she would like clarified before they start negotiations.

Mr. Gorry noted that they were not a decision making body, but they could point out concerns or issues. It doesn't mean they were for or against anything, but they could make recommendations or point out their concerns to the City Council.

Mr. O'Connor clarified that staff's charge is to give the Finance/Utilities Commission the revenues the City would lose if the partial sale goes through and what, in their estimation, that affect would be if everything stays equal.

Ms. Lawson said that she would update the analysis and do it on the basis of nothing about their assumptions changing, except for the things they know, such as the closing of the Power Plant.

7. BOND COVENANT

This item was not discussed.

8. ADJOURNMENT

Today's meeting adjourned at 12:17 p.m.

/sp

VERO BEACH UTILITIES COMMISSION MINUTES

Tuesday, November 8, 2016 – 9:00 a.m.

City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Chairwoman, Laura Moss; Vice Chairman/Indian River Shores Representative, Robert Auwaerter; Members: J. Rock Tonkel, Stephen Lapointe, Judy Orcutt, Bill Teston and Alternate Member #1, George Baczynski **Also Present:** City Manager, James O'Connor; Finance Director, Cynthia Lawson; Director of Electric Utility Operations, Ted Fletcher; Public Works Director, Monte Falls and Deputy City Clerk, Sherri Philo

Excused Absence: Chuck Mechling

1. CALL TO ORDER

Today's meeting was called to order at 9:00 a.m.

2. PRELIMINARY MATTERS

A) Approval of Minutes

1. October 18, 2016

Mrs. Moss referred to page 1 of the October 18, 2016 Utilities Commission minutes under Public Comment. She added to the end of the first sentence, "***since it has to do with utilities and it is misinformation factually.***" She said the word "***sale***" is missing from the sentence "***The three other candidates support not the full sale, but the sale of the Indian River Shores portion.***" She then referred to the sentence "***From the May 10, 2016 Utilities Commission meeting minutes she would like to read her response to the proposed capital expenditures of \$21 million dollars over 20-years for the utilities infrastructure.***" She asked that "***page 5***" be added to the sentence. She said the word "***feels***" should be "***thinks***" in the sentence, "***She feels that the wrong impression was given in the letter.***" She then added to the end of the sentence, "***FPL's offer of \$30 million to purchase the Indian River Shores customers.***" She added the following sentence noting that it should be the last sentence on page 1, "***The contract for the entire sale still is on the table, the offer for the partial sale is gone.***" She then referred to page 7, the first paragraph where Mr. Bolton stated, "***That decision would be up to the Utility Commission who previously voted to move forward with the canopy streets.***" She asked that her reply, "***Mrs. Moss said that the previous vote was 3-3***" be added to the minutes. She then referred to page 12, paragraph 3, under Old Business, the word "***imbedded***" should be "***embedded.***" On page 13, the second paragraph, the word "***addresses***" should be "***addressed.***" Also on page 13, the fourth paragraph where it states, "***Mrs. Moss asked if they can automatically do a memo and make sure the other Commissions and Boards are handled the same way,***" the following statements should be added, "***From the point of view of City Council, presumably it would make their job easier to segregate the recommendations and send them directly as separate and distinct pieces of information.***" She said the following statement should be added after Mr. Gorry's statement (paragraph 6), "***Mrs. Moss said that she does that as well, but there is no need for a time lag. The City Council should get these recommendations directly.***"

Mr. Auwaerter made a motion to approve the minutes of the October 18, 2016 Utilities Commission meeting as amended. Dr. Lapointe seconded the motion and it passed unanimously.

B) Agenda Additions, Deletions, and Adoption

This item was not discussed.

3. PUBLIC COMMENT

Mr. Peter Gorry, Chairman of the Finance Commission, said at their last meeting the issue of rates came up and he would like to give them an update. He handed out to the Commission members information regarding Duke Energy (attached to the original minutes). He explained that the information provided was Duke Energy's announcement of their proposed 4% rate increase for next year, as well as another \$1.50 increase. Mr. Gorry said if those increases are approved, Duke Energy will be more expensive than the City of Vero Beach. He said that Gulf Power and the two Florida public utilities are \$17 more per month than the City of Vero Beach and are asking for another \$10 increase. Therefore, over 2.1 million customers will have a higher rate in 2017, if approved by the Public Service Commission (PSC). He said that Florida Power and Light (FPL) was going up 6%. His point is that 2.1 million customers in the investor utilities regulated by the PSC have higher rates than the City of Vero Beach. He said the significant difference in this rate is the return on equity. He said the return on equity for regulated utilities is between 10% and 11%, which is added on to the operating expenses after taxes for a 10% to 11% return. The City's return on equity is 4.8%, which is a major difference. He said that as of October, there were 12 utilities in Florida that were more expensive than the City of Vero Beach, including the four (4) of the six (6) investor owned utilities. He said the City also offered to go to the PSC to have them review their rates on whether they were suppressive, excessive, and abusive, which he said was not the case. He said that rates are determined from the formula of rate of return plus operating expenses based on usage. Essentially that is applied in different ways. The City takes 6% of the revenues, which is 4.8% of the return on investment.

Mr. Auwaerter said that Mr. Gorry constantly brings up three (3) of the most expensive utilities in the other part of the State, but he never addresses how the City compares against other municipal electric utilities. Mr. Auwaerter said the latest data from the Florida Municipal Electric Association (FMEA), which the information is located on www.publicpower.com, is that as of August 16th out of the 33 electric utilities the City of Vero Beach had the 29th worst rates. He said that Ft. Pierce, who buys all their power from the Florida Municipal Power Agency (FMPA), was ranked 11th and Orlando Utilities Commission (OUC), whom the City purchases a lot of their power from, was ranked 10th. He said that Ft. Pierce is very similar in size in the electric utility and the City of Vero Beach's rates are 9% higher. He said OUC was 10.9% higher. He said that is the benchmark to compare with the City of Vero Beach. He said there are 28 municipal electric utilities that had lower rates as of the most recent data they have. He said this is something that the Utilities Commission and the City Council needs to look at in terms of how they could get the City's rates down. He said if they could get the rates down to the medium utility, the City's rates would be down by 6.7%, which would be

real progress. They might not get to FPL rates, but it would be a savings for every customer. He said that is the benchmark to look at. Not Duke Power, Gulf Power, Tampa Electric, etc. He said utilities, such as Ft. Pierce, are in the same boat the City is in with regards to purchasing power from FMPA. He said FMPA doesn't charge the City of Vero Beach a different rate than they do with their other customers. It is based on the cost that comes from each particular electric utility.

Mr. Gorry said as of October 1st, the base rate and the usage rate for Ft. Pierce were higher. He said there is a subsidy of \$10 in the City of Ft. Pierce. Therefore, the actual rate, without the subsidy, is higher in Ft. Pierce.

Mr. Auwaerter asked Mr. Gorry, what is the source of his data.

Mr. Gorry answered FMEA.

Mr. Auwaerter said FMEA hasn't updated their rates yet. He said their rates wouldn't be out on October 1st because it always comes in with a lag.

Mr. Gorry said that is why he speaks with people within these organizations. He said the fact is that the City's rates are going down and they would go down another \$1.50 if it wasn't for the lawsuits by Indian River Shores (IRS) and Indian River County (IRC). He said the City would have further reductions in that the \$750,000 for the demolition and cleanup of the Power Plant would be gone next year, which would further reduce costs. He said there would be an additional \$1.50 if the lawsuits were dropped. He would assume that the Utilities Commission would support the City defending itself.

Mr. Auwaerter said IRS signed a Franchise Agreement with the City of Vero Beach in 1968, which was renewed in 1986 and it was made in good faith. He said the people in the City of Vero Beach who signed these did not have a gun to their head. The reason IRS is suing is because the Franchise Agreement expired and the City of Vero Beach said it doesn't apply anymore.

Mr. Gorry said what Mr. Auwaerter is saying is that when the Franchise Agreement expires the City could no longer serve. He asked when the Franchise Agreement with IRS expires.

Mr. Auwaerter said it expired a few days ago.

Mr. Gorry asked then would he suggest that the City stop serving.

Mr. Auwaerter answered no. He said there is a mechanism that has been used previously, which was between Winter Park and FPL to go to an arbitration to decide the value of the assets.

Mrs. Moss asked that they return to the fundamental issues because they don't want to spend the whole meeting on this. She appreciated Mr. Gorry's comments, but felt that he was putting the cart before the horse. She said if rates were reasonable there would not have been any lawsuits. She said that Mr. Auwaerter was correct in that they should be looking at the median when comparing utilities. She was happy to know that the City of

Vero Beach was not the most expensive utilities in the State, but said that is not a lot of comfort. She said today is election day and the voters are going to decide if the rates are too high.

Mr. Gorry said that he was talking about the Legislature.

Mrs. Moss said the Legislature is getting ready to move on this. She said that she spoke to State Representative Debbie Mayfield and Senator Jack Latvala personally and they are ready to move on this. She said this is not something that Moses brought down from the mountaintop in stone. She said there is no such thing as an ironclad contract even if they wanted one. She thanked Mr. Gorry for the information he provided and asked that he summarize what he wanted to say because they need to return to the meeting.

Mr. Gorry said there is a solution and the solution is the Legislature. He said 22 states have deregulated electricity and six (6) to 18 states have deregulated gas. He said there are two (2) steps to be taken, which are first to have municipalities put under the PSC with the appropriate ground rules and second to deregulate. What it means is they would uncouple power generation from transmission and distribution service.

Mrs. Moss thanked Mr. Gorry for his comments.

Mr. Tonkel said what Mr. Gorry has not discussed adequately was the City's non competitive position, which continues and has for the past 17 years that he has been involved. He said it was about time that Mr. Gorry and the other leaders of the City took affirmative steps to see some improvement for the consumers of the City. He said the record is deplorable.

Mr. Gorry said the first step is to have IRC and IRS drop their lawsuits. He said that he has worked in the utility business for 40 years, he has managed utilities, he has gone before the PSC, he has been involved in mergers and acquisitions, etc. He said that he has some grasp on what he is talking about. He said the Finance Commission clearly recognizes the situation and have pushed for the full sale of the utility.

Mrs. Moss said it hasn't been that clear to the community. She thanked Mr. Gorry for his comments and stated that they need to move on with today's agenda.

Mr. Mark Mucher said a lot of the numbers that Mr. Gorry throws out have the investor owned utilities at 6% on top because of some imputed franchise fee that the FMEA likes to penalize public owned utilities with. But, Mr. Gorry doesn't include the municipal utilities, most of which have a 10% utility tax. He said that Mr. Gorry likes to compare rates plus fees, but not rates plus taxes. That is one reason Mr. Auwaerter pointed out that the numbers were different. Mr. Mucher said FMEA just changed from their August rates to September rates and if they have the October rates he didn't know why they were not published.

Mr. Auwaerter thought there was the normal few months data delay because they have to gather the information. He didn't think there was anything they were trying to hide.

Mr. Mucher said if they have the information to give to Mr. Gorry then they should have the information available for the public. He thought that Mr. Auwaerter was a little mistaken in that FMPA charges the same fees to everyone. He said the reason that 90% of the Florida municipal utilities are cheaper than the City of Vero Beach's is because they are buying from the All Requirements Project (ARP) of FMPA and the City of Vero Beach is buying from "entitlements." He said the "entitlements" are by far the most expensive.

Mr. Auwaerter said the ARP costs, which are in FMPA's Annual Report, came in lower than the City's in the last fiscal year and prior to that they were actually higher. He said if they go beyond the full year the City's costs were lower from the St. Lucie and Stanton Plants.

Mr. Mucher said they are not talking about old Plants like St. Lucie and Stanton. They are talking about new Plants, like the Plant in Ft. Pierce that is highly efficient. He said that his understanding from FMEA was that the ARP wholesale energy costs were comparable to FPL's wholesale energy costs. He said the City is not buying from the ARP, but are buying from OUC. He said that is why the City's costs are higher. He asked if the City was in fact trending up or if they were on a downward trend. He said that he was told they were on a slightly upward trend and then all of a sudden the announcement was made in October, just before the Election, that there is a reduction of \$1.50.

Mr. Gorry said all the numbers that he mentioned were without franchise fees and without municipal taxes. He said that he didn't add anything else. They were the base rates.

Dr. Lapointe asked as a point of order, how is the Commission to conduct their business. He asked are they to speak when they want or do they require recognition from the Chair. He asked do they rebut public comment noting that it delays the business of the Commission.

Mrs. Moss said that is why she wanted to move forward. She thought that technically they (members) were to ask to speak, but that is why generally she asks if any of the Commission members has any comments. She said that she does not have any objections to a Commission member making a comment.

4. NEW BUSINESS

A) Power Plant Demolition Report – Mr. Ted Fletcher, Director of Electric Utility Operations

*Please note that discussion took place during today's Power Point presentation.

Mr. Ted Fletcher, Director of Electric Utility Operations, gave the Commission members a handout of the Electric Utilities facebook page (attached to the original minutes). He explained that there was a communication issue in getting information out to the public after the recent hurricane so they set up their own electric utility facebook page. He said that when they were going through the hurricane they sent the information to the Police

Department's website, which was confusing because people didn't know to go to their website.

Mrs. Moss thought this was a great idea because people don't think to go to the Police Department's website to check for outages.

Mr. Fletcher gave the Commission members a handout on the City of Vero Beach Power Plant Demolition Items (attached to the original minutes). He noted that this information would go along with the Power Point presentation.

At this time, Mr. Fletcher gave a Power Point presentation on the Power Plant demolition (attached to the original minutes).

Mr. Tonkel said the spreadsheet indicates that their expenditures for fiscal year 2016/2017 were \$210,480 versus a budget of \$750,000. He asked would the removal of all the assets at the Power Plant be completed within the budgeted figure. He asked is the City's position at this point that the budgeted amount is adequate.

Mr. James O'Connor, City Manager, answered yes.

Mr. Tonkel assumed that when the budget was put together that these costs were put in the projected rate structure for 2016/2017.

Mr. O'Connor said that is correct.

Mrs. Moss asked has there been further discussion about moving the substation.

Mr. O'Connor answered no.

Mr. Teston asked if the substation stays on the property, would that limit what the property could be used for.

Mr. O'Connor said it could, but they have access to the property on the north and the south side. He noted that the real value of the property is the water and the substation is on the highway. He said there would be limitations no matter what they do because the substation is taking up room on the property. He said they could move the substation, but to move it to the corner of the lot would cost almost as much as it would cost to move it across the street.

Mrs. Moss asked if they have any idea of the timeline for the overall project.

Mr. Fletcher said the only timeline that he could give at this point was the one that is currently in progress, which is 60 days on the fuel tank.

Mrs. Moss said the presentation was very well done and gives them a sense of the enormity of the scope of it in that there are many different parts to it.

Mr. O'Connor said there would probably be a lot of community input so the time would be gauged by how much activity that generates.

B) Quarterly Outage Report – Mr. Ted Fletcher, Director of Electric Utility Operations

Mr. Fletcher briefly went over the Quarterly Outage Report with the Commission members (attached to the original minutes). He said the only thing that stood out was because of the storms they had in August and September there were a great deal of outages.

Mr. Auwaerter complimented Mr. Fletcher on the report. He said it has good graphics and has a nice data set that they could start to do comparisons on historical trends. He felt it was important that they keep showing the monthly data as they build it up over the years.

Mr. Baczynski said one question that was asked after the recent hurricane was why it took longer to restore power to some areas of the City than others and they were told that they were areas that had a lot of trees. He asked if any thought has been given to putting the utilities underground in these areas.

Mr. Fletcher answered yes. He said they have identified some areas and if it is cost beneficial for the City to do it they will. He reported that there were two (2) areas on the mainland and one (1) area on the beachside that they were looking at putting the utilities underground.

Mr. Baczynski asked if they would be making a presentation to the Commission.

Mr. Fletcher said that he could give a presentation on the areas they were looking at for this budget year and the areas they were looking at for the next budget year.

Mr. Baczynski would like to see an overall plan of what areas needed to be addressed.

Mr. Teston asked would enabling the crews to trim trees further back lend itself to less power outages.

Mr. O'Connor noted that the City is a Tree City U.S.A. He said no one had any objections to them trimming trees before the storm and immediately after the storm. But, two (2) months from now people won't remember the last outage.

Mr. Teston noted that underground utilities are very expensive compared to overhead utilities. He asked for a cost estimate on what it would take to put the electric service underground in the areas that Mr. Fletcher referred to.

Mr. O'Connor said that would be part of Mr. Fletcher's presentation.

Mr. Tonkel said the report is very well done. He asked if there is a running total on what equipment creates the biggest problems.

Mr. Fletcher answered yes, all the information is kept in a database.

C) Post-Hurricane Utilities Update – Mr. Ted Fletcher, Director of Electric Utility Operations, Mr. Monte Falls, Public Works Director, Mr. James O’Connor, City Manager

Mrs. Moss thanked Mr. Fletcher and his staff for working so hard during and after the storm. She said that Mr. O’Connor gave an update at their last meeting and asked Mr. Fletcher if there was anything he wanted to add.

Mr. Fletcher reported that the only thing that is still pending is some debris pickup. He said there might be some homeowners who were provided temporary power because of issues with their overhead lines, but there is not many. He said they are now operating as usual.

Mrs. Moss said the charge of the Utilities Commission is to be an Advisory Board to the City Council and their purview is the electric issue, which is usually at the forefront, water and sewer, and solid waste. She said the Solid Waste Department works under Mr. Falls, who is the Director of Public Works. She thought that this was the first time, at least during her tenure, that Mr. Falls has attended a Utilities Commission meeting to discuss something. She said that she has been remiss in not inviting him to attend their meetings sooner and was sorry that it took a storm for him to attend. She said that she was happy that he was present for today’s meeting.

Mr. Monte Falls, Public Works Director, thanked Mr. Fletcher and his staff for their assistance in that they all worked together during the storm. He said that he would like to give a quick report on some of the storm related issues before getting into the solid waste program. He reported that as of Friday they have completed the first pickup at every residential property in the City. They are making a second pass through the neighborhoods in case there are piles that might have been put out late or that might have been missed. They hope to have this completed by the end of Thursday. He reported that they have collected almost 25,000 cubic yards of debris to date. To put that in comparison, in 2004, after Hurricane Frances they had 150,000 cubic yards of debris and after Hurricane Jeanne they had 90,000 cubic yards of debris. He reported that they have prepositioned contracts for assistance, with one being the primary and a second in case one could not get here and they have a consultant that helps monitor where the loads are collected. He explained that the City receives a ticket with the GPS coordinate on it, which gets downloaded from the field to the consultant’s home office and the City receives the report the following day. What they did during this storm, which they have not done in the past, was they had the information on the City’s website where people could click on the site and see storm debris collection, which was updated every day. He said they started out making good progress in that the contractors bring in a few of their crews, as well as hire subcontractors who follow the work around the Country and go wherever the most work is. He said the City had a small storm so it was hard to keep the subcontracted crews here. They started with six (6) crews and it dwindled down to two (2) crews. At that point they supplemented them with City forces, which brought them back on target of collecting between 1,000 to 1,800 cubic yards per day. He reported that they hope to start the grinding operation the week of November 18th. He said they are looking at a few options, one (1) was to haul it off, two (2) was there has been some interest in using the mulch for weed suppression in some of the groves, and three (3) was to look at tilling some of it back into the soil on site. He reported that there was damage

to the road and dune system at Conn Beach and the estimate to repair this was \$300,000 with \$200,000 for sand replacement at the dune. He reported that they were working towards getting the permits and bids in hand in order to start the work. He said there was one dune crossover at Bahia Mar that was damaged and they are working on getting permits and this cost would be somewhere in the \$20,000 range. He reported that they have the applicants briefing with FEMA to go over possible reimbursement for some of these charges tomorrow.

Mr. Auwaerter asked how extensive is the paperwork they have to provide to FEMA.

Mr. Falls said they have to keep in a log the labor, equipment used, and the specific site worked at so it could be transferred onto FEMA's worksheets. He said the reason the City hired the debris consultant was because they have experience in doing this. He explained that before a load can be transferred the consultant gets the GPS location, they measure the volume before it leaves and then when the truck comes back in it goes by a tower where there is a spotter who estimates the percentage of the load.

Mr. Auwaerter asked in terms of the initial application is it extensive from a paperwork perspective.

Ms. Cynthia Lawson, Finance Director, explained that tomorrow's briefing with FEMA is really just a question and answer session. It will be another few months before they have a true kickoff meeting with the Public Assistant Coordinator (PAC) who is assigned to the City by FEMA. At that point, City staff will begin to sit down with the PAC and divide their various costs into project work sheets. She explained that they would come up with the most intelligent grouping of the kind of costs, such as debris removal, restoration of power, etc., and that is when they will be getting down to the nitty-gritty of agreeing on what costs are eligible and what documentation is required. She said it is very extensive. She said in terms of the process it takes a long time, an example is that the City is still dealing with FEMA on the 2004/2005 hurricanes. She reported that they have \$2 million set aside in the General Fund to cover these kinds of expenses, which would be replenished by any money the City receives from FEMA and from insurance.

D) Overview of Solid Waste Program – Mr. Monte Falls, Public Works Director

Mrs. Moss asked Mr. Falls to give the Commission members an overview of the Solid Waste program.

Mr. Falls gave the Commission members some background. He said that he has been in the Vero Beach area for 35 years and has been working for the City for 26 years. He received his Professional Engineer's license in the State of Florida in 1995 and has been the Public Works Director for 12 years. In 2005 the Public Works Department did not include the Solid Waste operation. That was managed by General Maintenance Services, which included Solid Waste, Fleet Maintenance, and Facilities Maintenance. That Director retired in 2005 and he was asked by the City Manager to look at the operation and make a recommendation. His recommendation was to roll those divisions into the Public Works Department and not duplicate a Department Head and administrative services for those three (3) divisions. At that time, those divisions were rolled into the

Public Works Department, which resulted in a savings of about \$200,000 annually. The Public Works Department now has nine (9) divisions. The Street Division, which takes care of all the streets, the signage, the pavement markings, and the drainage. The Grounds Maintenance Division, which takes care of all the City's Parks and public lands. They also manage the Cemetery maintenance, staking out graves, and dealing with customers on site. They have an Engineering and Survey Division that does project reviews for the Planning and Development Department, as well as their own small project designs. They have the Geographic Information System who assists the Electric Utilities Department and the Water and Sewer Department with mapping. They have the Administrative Division for the management of the Public Works Department. He reported that in 2005 there were 150 employees in the Public Works Department and today they have 97 employees.

Mr. Falls reported that the City has been in the solid waste business since the late 1940's. In the 70's that operation was changed to an Enterprise Fund. They currently serve about 7,300 residential customer accounts and about 1,600 commercial accounts. All are solely in the City limits. They do not have a service territory outside the City limits. They provide side yard residential garbage collection twice a week and curbside yard debris collection once a week. Recycling is provided through a commercial provider and paid for with the non-ad valorem assessment, which is included in the tax bills and is managed by Indian River County. The City's commercial garbage collection is tailored to the needs of the customer. He explained that the City collects commercial garbage Monday through Saturday and can collect someone's commercial garbage from once a week to six (6) times a week. Residential rates are \$14.62 per month and commercial rates are based at \$4.50 per cubic yard. He reported that the residential rates are close to surrounding communities and the City's commercial rates are lower. He said about a year ago Indian River County switched to a once a week trash collection, which is billed out at about \$9.68 per residential unit. The City's Solid Waste Department has 23 employees and have eight (8) residential trucks, five (5) commercial trucks, and six (6) specialty trucks (claw trucks). He reported that if a citizen or business has a large debris pile the City will give them a price for collection. Their budget is about \$2.5 million per year, which is what the City takes in and what they expend. He said about 60% of their work is residential and about 40% is commercial.

Mr. Tonkel asked if they have any contractors who are retained on a permanent basis or on an as needed basis.

Mr. Falls said they do not have specific contracts, but inside the City limits they have franchise haulers where if someone needed a dumpster they would contract with them. He said the City knows who those contractors are so if someone needs them the City will provide them with the list of contractors. He noted that the City does receive a 6% franchise fee.

E) Update on Utility Customer Service Technology Upgrades – Mr. Jim O'Connor, City Manager

Mrs. Moss reported that this item was before the Commission last November. It recently went before the Finance Commission and no financial questions were asked. She reported that this was also presented to the City Council. She said that she went back and

read the minutes from their November 10, 2015 meeting and there was a question as to why they don't save money or at the very least reduce the charge back to the Utility Fund. She said that she would like to address this question after Ms. Lawson makes her presentation.

Ms. Lawson said the conversation about improvements to their customer service probably began in 2013 and was originally part of a conversation with both the Finance and Utilities Commissions in that the Finance Commission Chairman made suggestions to optimize or lower costs within the Electric Utility and to improve the efficiency and the customer service responsiveness of the Customer Service Department. At the time, staff put together a proposal for three phases. The first phase was the upgrade of billing software, which at the time was about 10 years out of date. The second phase was the implementation of Ebox and Lockbox. She briefly explained the function of Ebox and Lockbox. She said currently when someone does an online bill-pay through their bank; the bank creates a paper check that is mailed to the City and has to be hand keyed because it comes without any account information. She said Lockbox would have the bills sent to the City's bank to be processed rather than the City's staff processing all the bills. This second phase staff believes would result in efficiencies and cost savings within their cashiering function. The third and final phase was the customer website and their thought at the time was that this would be the most difficult and most expensive to implement. She said currently customers can go online and pay their bill, but it is very cumbersome and redirects them to a third-party website and the only thing they can do is pay their bill. They could not view their bill, set up auto debits, etc. They could only pay their bill. Staff recently discovered that there is an online bill payment and presentment software service that was already chosen by the City's billing software provider, Cayenta, as their partner. She said this would not require any upgrades to their billing software and is very inexpensive in both implementation and ongoing costs. Included in the backup information provided is a description of the kinds of things Invoice Cloud offers (attached to the original minutes). In addition, it would require that the City implement through their billing software Cayenta's customer service porthole so essentially what would happen is when a customer goes to the City's website they would enter through that porthole so they would not have that third party feeling. They will be able to view their bills and other things that have to do with their bill itself. They can also choose the bill paying options. She said one of the most exciting things about it, other than setting up auto pay, pay by credit card, text, etc., is customers will also have the option to sign up for electronic billing. She said that is one of the things that will result in a net savings to the City, which will offset the costs of the other portions of this. Because it is easy to integrate and install, staff made the recommendation, which was accepted by the Finance Commission and the City Council, that they move this phase up as phase two (2) and save Ebox and Lockbox for the next phase. She said 28% of their customers pay their bills by physically coming in to the Customer Service Department. Over the past three (3) years staff has suggested if they want to save costs in the cashiering function that they could close the drive-through or shorten the hours, which was met with a lot of resistance. She said staff is okay with that in that they are a full service customer service utility, but it does come at a price. Staff is suggesting that if they implement these types of services they might see a natural downturn in the amount of demand on the customer service representatives because the people who prefer to do their business at home and not actually physically come to the Customer Service Department the City can offer that option. She reported that they are currently in the process of working with Mr. Fletcher

and his staff to implement the outage management system, which does require modifications to the billing software. She reported that this program should be completed sometime in December so they would start this phase the first of the year and should be completed by next summer.

Mr. Auwaerter asked Ms. Lawson if she envisions having an option where the customer completely opts out of receiving a paper bill and receives it electronically.

Ms. Lawson answered yes. She noted that people who have multiple addresses, such as landlords, will have the option to create one account and link them all together and then they could pay all the bills with one (1) payment.

Mr. Tonkel asked were competitive proposals taken for each phase of the program.

Ms. Lawson answered no. She explained that Cayenta is the firm that has the City's current billing software and they are not proposing to replace their billing software company. Cayenta's piece of it is an off the shelf porthole that allows the City to use the Invoice Cloud product. They did not competitively procure them for a couple of reasons. She explained that they are the preferred partner of Cayenta, who already did the competitive bidding and chose the firm they wanted to work with. She said any other bill payment and presentment that the City chose would require modifications to their billing software in order for it to work. Cayenta has already looked to find the best partner that they could and they chose Invoice Cloud. She noted that Indian River County has chosen Invoice Cloud and so has Ft. Pierce. She thought that Ocala did a competitive procurement and ended up with Invoice Cloud. She said basically the sole source justification is that it has already been integrated with the billing software that the City currently has.

Mr. Tonkel asked what is the term of the agreement. He asked is it something that can be cancelled in a year's notice.

Ms. Lawson said the initial term is three (3) years, it renews for an additional successive three (3) years unless it is terminated and it can be terminated at the end of the initial or renewal term with a 90-day notice. They also put into the agreement that the City has the authority to terminate the agreement if Invoice Cloud increases their pricing.

Mrs. Moss asked what is the cost.

Ms. Lawson reported that the implementation of the Cayenta CSS portion is \$58,000, which is a one (1) time fee. There is also a \$15,000 software license fee. As far as the Invoice Cloud goes, they do not know because it is a per transaction pricing. She explained that there are certain parts of this that would be paid by the customer. For instance, customers who pay by credit card or pay by one (1) time payment would pay the fees, customers who sign up for ACH the City would pay, and customers who sign up for E-billing, the City would receive a net savings of .31 cents. She estimated in a worst case scenario where none of the customers changes from their current demographic or uses e-billing at all, it would be about \$30,000 per year

Mrs. Orcutt asked how will customers find out about this new service.

Ms. Lawson said they would probably put a notification in their bill. She noted that the information will also be located on the City's website. She said the customers would be responsible for going in and creating their own account.

Mrs. Moss said last year the Vice Chairman asked at what point, if any, will there be a real cost savings by having this system in terms of needed personnel.

Ms. Lawson said until and unless the City is willing to reduce cashier hours, close the drive through window, or in some other way modify the amount of service that is provided by the cashiers, she cannot reduce the number of cashiers. Therefore, the issue of cashiers is going to be driven by the City's willingness to reduce the services offered. What this is more likely to do is reduce the number of customer service representatives.

Mr. Auwaerter asked if she thought this would help their collection rate.

Ms. Lawson said it might. She said their collections have been pretty good in that in the last couple of years they have cut down on the cutoff lists by working with customers by not allowing them to get too far behind. They are working with customers to help them come up with payment plans and have worked with some of the local aid agencies to help customers pay their bills when they can't. They have also changed some of their policies in regards to deposits.

F) FMPA Matters – Mr. James O'Connor, City Manager

Mrs. Moss reported that a few months ago she invited a representative of the FMPA to attend one of their meetings. She said they have a new Chief Executive, Mr. Jacobs, and because he was new they weren't prepared to accept the invitation. She said that she left them with a standing invitation to attend the Utilities Commission meetings. She felt that it would be worth wild on FMPA's part to attend a meeting to discuss the \$250 million that the State Audit uncovered last year. She noted that the report is still on the internet. She said that she heard there was some kind of a debt service on the \$250 million dollars. She asked Mr. O'Connor if he was aware of this.

Mr. O'Connor asked if she was discussing the money they lost on the futures.

Mrs. Moss answered yes. She said someone told her about this, but she has not seen it in writing anywhere.

Mr. O'Connor said there were penalties in the instruments themselves. He said FMPA did have to pay those costs.

Mrs. Moss asked what was the amount of those penalties.

Mr. O'Connor said that he did not know. He thought that the PSC just reached an agreement that futures would be limited in the State of Florida going forward for fuels. He thought that everyone in the electric utility in the large volume buyers suffered similar type of hits. The way he understands the future documents is they are instruments that state you buy it at a certain rate and if the rate goes down you sell it at a higher rate than

what you bought it for and if the rate goes up you would make money. He said the rates went down so they lost whatever that continual was.

Mr. Auwaerter said there were actually two different things going on. He thought what Mrs. Moss was referring to were the Taylor Swaps.

Mr. O'Connor reported that they hope to have the 2016 FMPA Audit completed by January.

Mrs. Orcutt asked about the FMPA Solar Survey. She said that she was very unhappy with it. She asked is it too late for their input.

Mr. Auwaerter answered no. He said the responses are not due back until tomorrow and he has not reviewed the questions yet. He said that he attended the last meeting in Orlando and he received resistance in that there is insistence that solar power is more expensive than FMPA's power. He did not think they were looking at it correctly noting that they might be correct currently with the current technology. He wanted to make sure that FMPA did not bias the survey by saying that solar power was always going to be more expensive. He was not sure if that was the source of Mrs. Orcutt's concern.

Mrs. Orcutt said the main source of her concern from the very beginning was that the first 30 questions would prejudice the person responding because they were all about do you like your utility company. She said that is irrelevant.

Mr. Auwaerter said they made it a broader survey in order to get the FMPA Board of Directors to sign off on it.

Mrs. Orcutt felt that this would totally backfire in this area because this has been such a negative political scenario relevant to the utility and they are starting the survey with how you like your utility compared to this or that before they even get to a solar question. The other thing is it only talks about community solar and doesn't mention that the City has a net metering program. She said the survey does not address local issues.

Mr. Auwaerter said the problem is they have to try to have the survey at nine (9) minutes.

Mrs. Orcutt said then they shouldn't have the first 30 questions, they should jump right into the solar questions.

Mrs. Moss asked the Commission members if it would be appropriate to have this item on next month's agenda.

Mr. Auwaerter said that he can give a report to the Commission at their next meeting.

5. OLD BUSINESS

None

6. CHAIRMAN'S MATTERS

Mrs. Moss said that next week's Joint Finance Commission/Utilities Commission meeting was rescheduled presumably because Mr. Peter Gorry, Chairman of the Finance Commission, was appointed by Mayor Jay Kramer who is not running for reelection. Therefore, someone else will have to appoint Mr. Gorry if he is going to maintain his position on the Finance Commission. She said today is election day and she is a Commission member at large who was not appointed by an individual Councilmember. Therefore, she would retain her seat if she doesn't get another seat today (referring to a seat on the City Council). She said whatever happens she wanted to state for the record that this Commission is very smart, spontaneous, and spirited. She said the energy level is very high and she thanked them all for their time and dedication. She appreciated all their efforts.

7. MEMBER'S MATTERS

Mr. Mark Mucher reported that at the last City Council meeting it was clarified that Commission/Board members who were appointed by a Councilmember would continue to serve until the Successor Councilperson appoints someone new. Therefore, the rescheduling of the joint Finance Commission/Utilities Commission doesn't sound like it has anything to do with Mr. Gorry being appointed by Mayor Kramer as there will be a Finance Commission meeting next week.

8. ADJOURNMENT

Mr. Auwaerter made a motion to adjourn today's meeting at 11:12 a.m. Mr. Baczynski seconded the motion and it passed unanimously.

/sp