

MINUTES OF SPECIAL MEETING OF KISSIMMEE UTILITY AUTHORITY, HELD THURSDAY, OCTOBER 31, 1991, AT 6:00 PM, BOARDROOM, ADMINISTRATION BUILDING, KISSIMMEE, FLORIDA

Present at the meeting were Chairman Hord, Vice-Chairman Gant, Secretary Bobroff, Assistant Secretary Lowenstein, Director Jones, Mayor Pollet, Attorney Brinson, President & General Manager Welsh, and Recording Secretary Rundio.

Also in attendance were City Manager Durbin, Commissioners Maher, Makinson, Attkisson and Hart, as well as representatives from Evensen Dodge, Inc., Merrill Lynch & Co., Bear, Stearns & Co., and Squire, Sanders & Dempsey. Alan Starling and Steve Hudson of the Chamber of Commerce were in attendance also.

A. MEETING CALLED TO ORDER at 6:08 PM by Chairman Hord.

Item E. was pulled out of sequence to accommodate a presentation by Chamber of Commerce representatives.

E. JOB 2000 HIGHLIGHTS

Alan Starling, Chamber of Commerce, spoke briefly of a plan to increase the economic viability of the St. Cloud/Osceola area. He said the electric utility plays a major role in the economic development and getting outside industry to locate in our communities. He showed overheads of various surveys on impact fees for transportation, fire, law enforcement, and water and sewer, and electric rates for Florida cities.

Steve Hudson, Chairman, Electric Utility Subcommittee, Chamber of Commerce, stated that industry hesitates locating here because of KUA's electric rates. He compared rates of other utilities within the state and said that KUA should be more competitive. He compared our operations and debt coverage, and rating ratios with other utilities and urged this Utility to take on even more debt. He said the rate environment should keep us from hurrying into selling these bonds and evaluate whether or not this Authority has the ability to provide some relief to our customers.

Director Bobroff objected, saying that the electric utilities are not responsible for lack of industry here but that the cost of land in Central Florida is the reason business and industry shies away. He stated KUA must have a cash reserve in case of unforeseen emergencies.

Commissioner Bill Hart arrived at 6:30 p.m.

B. FINANCING PLAN

1. UPDATE OF RECOMMENDATIONS OF FINANCIAL ADVISOR

Craig Dunlap, Financial Advisor, Evensen Dodge, Inc., gave an overview of KUA's financing plan and internal and external options and reviewed recommendations made at the September meeting. One of the recommendations was to refund the callable series 1985 bonds. The Financial Group said the reduction in interest rates brings a savings in excess of \$1 million. They recommended the refunding of the callable bonds and the cash defeasance of the remaining 1985 bonds, with a present value savings just under \$3 million. Recommendation for the financing of Stanton Energy Center II jointly with FMPA is still an option via filing and participation through validation with FMPA (Florida Municipal Power Agency).

2. RECONCILIATION OF MAY, 1991 REPORT OF CAPITAL NEEDS VS. PRESENT CAPITAL NEEDS

Joe Hostetler, Director/Finance, highlighted an overhead showing reconciliation of projected construction proceeds needed in 1992/93 (presented at the May 15, 1991 Special Meeting) for construction funds needed for KUA projects per the Financing Plan of October 31, 1991. The total construction projects total \$164 million; however, KUA hopes to float a \$75 million bond issue for the following projects:

Carroll Street Substation
Overoaks Substation
Cane Island Combustion Turbines 1
Energy Control Center

Commissioner Bob Makinson arrived at 7:05 p.m.

3. INTERNAL VS. EXTERNAL FINANCING OF CAPITAL NEEDS

Members of the Financing Team, Bill Jahnes, Rick Molke and Mike Metzler gave in-depth presentations on their respective responsibilities on this proposed capital funding which would move KUA into the '90's with no rate increases and providing us with maximum flexibility to managing future growth. Their plan fashioned a model that would result in optimal financing using both internally generated equity funds and selling some bonds. Most of our finances have gone into capital to provide for additional capacity to manage our growth. Comparisons were made with Orlando Utilities Commission being a larger utility with a larger base of generation and economy, giving them a higher credit rating than KUA's. Discussion followed on the ratios of unenhanced credit ratings for KUA, and that of several other utilities, as well as insurance costs.

4. QUESTIONS FROM THE KUA BOARD

Mr. Welsh said that because KUA's projects have been debt financed during the past 5-6 years, KUA's conservative philosophy paid for construction with internal funds, thus avoiding a huge borrowing debt. The current financing plan assures customers of no base rate increases over the next ten years. We have achieved a better debt equity ratio. Questions were answered by the Financing Team.

Mayor Pollet questioned some numbers regarding how long it would take to reduce our rates. He stated KUA is netting \$12 million a year now which could be used to reduce rates. Discussion followed on possibly running various scenarios to accomplish this in the prospect of a possible economic downturn.

Steve Hudson stated that KUA's plan is built on a very conservative fiscal policy with a propensity for pay as you go. The Authority is making a transition while not raising rates. Discussion continued on what our bond issue covers. Mr. Welsh stated that of the \$75 million bond issue, \$15 million would refinance bonds and \$20 million defeasance provides money for new projects (which could have been financed through internal funds), yielding approximately \$40 million in new debt.

The meeting recessed from 8:00-8:15 p.m. Commissioners Hart and Makinson left the meeting.

C. DISCUSSION WITH CITY COMMISSION

The City Commission had expressed an interest underlying the economic activity in the area and infrastructure, as well as KUA's proposed bonding

issue. Their attending a KUA Board meeting would enlighten them on this, the impact on rates, and overall implication of the action we are contemplating.

City Manager Mark Durbin stated the Commissioners and he had raised questions earlier, and he agreed we can't bond more than what we are proposing now. He queried if the 1995 and 1998 projects could be taken from the \$58 million equity, to perhaps bond more of this in the future and lower the rates now. He said the Commission would formally ask KUA to look at this, being somewhat more risky, with a savings to the ratepayers. He said this might be precipitated at this time with the concerns expressed by the City Commission and Chamber of Commerce, but looked for direction from the Board.

Director Bobroff said several rate studies had been made in the past with rate schedules and the City Commissioners made changes in them, prompting roller-coaster rates. KUA has since attempted to keep rates uniform as much as possible.

Mr. Welsh said our goals and objectives for the 1992/93 budget are scheduled for February, 1992, and we could embark on a study to avoid a roller-coaster effect and bring the implications back to the Board. Director Bobroff said we must have reserves in case we lost half of our customers. Mr. Welsh said what we are looking at is a decision whether or not to finance Stanton II through the FMPA structure (\$28 million is currently planned to be spent out of today's equity). The payback would not begin until 1997, giving us some front-end rate reduction.

Director Bobroff said he would recommend that our staff and consultants work up several models without our directing them to use up our surpluses.

Mayor Pollet suggested giving specific instructions to the Team to work up this model, e.g., reducing our rates 5%, 10% or 15%, and what would it do for us over a 10-year period. Mr. Welsh said the study could be formulated in-house or through Black & Veatch. This should be done in concert with the decision on the FMPA financing of Stanton II. Discussion continued.

In response to Mark Durbin, Mr. Welsh said the proposed study would not be available until mid-February. In answer to Director Bobroff's question, City Manager Durbin said the majority of the Commissioners are concerned about lowering rates in the short-term and seeing what the effect would be long-term. Commissioner Ken Maher asked Director Gant why KUA was formed. Director Gant said rates were driven by the demand. Director Bobroff said, besides lowering rates, it was to get the rate situation out of politics.

Chairman Hord said that the KUA staff and Financial Team will do several models and have them presented during the Goals and Objectives meeting (February 19, 1992).

Attorney Ed Brinson expressed a concern that in issuing any bond we have to make a complete disclosure, and if part of the direction is to make a rate study for a reduction, it could affect the bond issue. Mayor Pollet said the Board has not said that; the Commission came to the Board asking for information. In-depth discussion continued. Mayor Pollet asked for figures indicating if we could survive these rates over the next 10 years. Several scenarios and suggestions were made.

Robert Freeman, Bond Counsel, gave his viewpoint on the validation of SEC II and the status of the FMPA project, expressing concern from the viewpoint of licensing. Mr. Welsh said the decision to be made by KUA is whether to finance Stanton II internally, through bonding, or through FMPA.

Mayor Pollet did not think we had to hurry through this on the supposition the economy would turn around and rates would go up. Pros and cons on the best recourse to follow were discussed.

Joe Hostetler explained to Mayor Pollet the details on how numbers were developed in the 10-Year Plan by various departments. Load forecasts and sales revenues were reviewed, along with personnel projections, estimated expenses, when turbines come on line, cost of purchased power, etc. Mayor Pollet had difficulty accepting the numbers presented.

Bill Jahnes said **in their** projections they take all the programs (except Stanton II) currently approved by the Board and bond them based upon today's favorable rates. Secondly, the bond insurers and retina agencies will see the flexibility, thereby ensuring us lower cost of insurance and saving the ratepayers even more money. He said it is important for the Authority to proceed with the bond issue and, hopefully, have the rates move more in line with the other utilities in the state. Mr. Jahnes said it is beneficial for us to defer funding Stanton II until a later date. Mr. Welsh asked if we should be bonding for more to reduce rates over a long-term period. It is yet to be determined whether SEC II will be part of the bond issue.

Chairman Hord stated we have three issues at hand: 1) concerns of ratepayers; 2) a \$75 million bond issue because the market is favorable; and 3) a future issue of Stanton II. He asked why we cannot take care of the \$75 million, run some models and analysis (with interested parties being on hand for that review) to help us address the financing of SEC II, and perhaps address future rates at that time.

It was noted that it is only slightly cheaper to do one bond issue than two. A concern was that we're rushing into this rather than waiting one month to see what the rates will be.

Commissioner Frank Attkisson arrived at 8:35 p.m.

Steve Hudson expressed concern over why a healthy, prosperous, growing utility franchise is in a position of not being able to formulate a plan to bring itself into parity with other electric companies. He said the current ratepayer financing future growth philosophy should be reexamined by professional experts.

Director Bobroff assured him we have professional experts on our staff right now, who give factual, actual figures and can accomplish this without spending dollars for outside studies.

Mr. Hudson expressed concern over our rates. Director Bobroff flatly stated they are not exorbitant, although our rates are higher. He said we are saving our taxpayers money by not having to pay interest.

Mr. Welsh said we are trying to fund our growth needs through bonding rather than through the rates. He suggested we move forward without delay, perhaps obtaining a cost of service study. Another alternative is to proceed with the \$75 million issue for funding externally rather than internally, and maybe look at lowering rates in some fashion.

D. DISCUSSION ON NEED FOR NOVEMBER 14 MEETING

Commissioner Attkisson suggested that if the rate studies would not be available before November 14th, there would be no need to meet with the KUA Board on that date. The other City Commissioners present concurred that there was no need for a subsequent meeting on November 14.

E. **JOB 2000 HIGHLIGHTS** - See page 1.

F. **BOND COUNSEL SUMMARY AND REQUIRED ACTION**

Mr. Robert Freeman, Bond Counsel, Squires, Sanders & Dempsey, gave an overview of where we could proceed. He referred to the plan which allows us to undertake the financing to pay for currently scheduled capital needs and provide some alternatives to the Board in the future in terms of future financing. He profiled the actions to be taken if authorization is given: preparation of the bond resolution, securing a bond rating, authorization of the issuance of the bonds, preparation of the official statement to be delivered to potential investors, and commitment for bond insurance. The Financing Team would then go before the Board on December 4th with a proposal from the Underwriters to purchase the bonds.

Copies of Resolution No. R91-7 were handed out authorizing the President and General Manager to certify the Official Statement (OS) for the proposed electric system refunding revenue bonds, Series 1991, and providing an effective date.

Mr. Freeman highlighted the rules of the disclosure statement to give investors a clear picture of the financial situation. He emphasized the importance of the Board and staff completely understanding and being comfortable with this document. Mr. Freeman recommended that Resolution No. R91-7 be adopted, which delegates to the President and General Manager the authority to deem this disclosure statement final.

Director Bobroff moved to approve Resolution No. R91-7 authorizing the President and General Manager to certify the preliminary Official Statement as final. Seconded by Director Lowenstein.

Motion carried 5 - 0

Director Bobroff moved to accept staff's recommendation for the timing for the bond pricing and closing per the calendar, included in the KUA Financing Plan prepared October 31, 1991. Seconded by Director Gant.

Director Gant said that, having discussed rate structures and what brought us to this point over a long period of time, he did not feel it prudent on our part to not at least proceed with our plan. No one knows what the market will do. He did not feel we would benefit in changing direction now, so will vote for it and hope to do something with the rate structure at some future time.

Motion carried 5 - 0

Mr. Welsh asked for a consensus to look at the option of lowering rates at alternate levels and bring it back during the Goals and Objectives in February. Director Jones asked how this would affect the disclosure. It was decided not to approach the rate issue at this time, but wait until we get the bond issue out of the way.

Mr. Freeman said that, from a disclosure standpoint and from tonight's discussions, there is a concern about rates and the Minutes would reflect such concern and whether this is an appropriate time to discuss rates. His advice was to not bring it up now because of the disclosure document, considering a rate study is not appropriate in this time frame.

Commissioner Ken Maher asked if this was not the function of the Board to do it all the time, but that nothing official is pending. Mr. Welsh said we look at the rate levels annually.

Director Gant suggested to reflect in the Minutes of this Meeting that the question of rate structure came from the City Commission and from the audience, and that this Board did not address that issue at this meeting. We listened and this was part of the discussion; it was not discussed by any Board member one way or the other. This Board has not taken a position.

Robert Freeman agreed this was a good point and being presented this way would help from the standpoint of drafting the Official Statement. He did not think the investment bankers had to be directed by the Board.

Mr. Welsh asked Bob Freeman if the Board's consensus was adequate at this time. Mr. Freeman replied that it was, according to tonight's discussions.

G. HEAR GENERAL MANAGER, ATTORNEY, DIRECTORS

GENERAL MANAGER

Mr. Welsh addressed the Commission and Board as to whether the tentative meeting for November 14th was necessary. Director Gant suggested we not meet until after the bonds are sold. It was the consensus both of the Board members and the City Commission that the November 14th meeting was not necessary.

ATTORNEY - No comments

DIRECTORS - No comments

H. ADJOURNMENT: Meeting adjourned at 10:00 P.M.



CHAIRMAN

ATTEST:



SECRETARY