

MINUTES OF GOALS AND OBJECTIVES SPECIAL MEETING OF KISSIMMEE UTILITY AUTHORITY, HELD WEDNESDAY, MARCH 3, 1993, AT 6:00 PM, BOARD ROOM, ADMINISTRATION BUILDING, 1701 W. CARROLL STREET, 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.

1. **MEETING CALLED TO ORDER** at 6:00 PM by Chairman Hord.

General Manager Jim Welsh informed the Board that recently one of our employees, John Wayne Cable (Journeyman Lineman) passed away in a tragic accident last Friday evening. His funeral was yesterday. A moment of silence was observed in his honor.

2. **INTRODUCTION AND OVERVIEW**

Mr. Welsh stated that the purpose of this meeting was for going over the Goals and Objectives and discussing the general direction in which we are headed for the upcoming budget year. Budgeting is a continuing planning process to ascertain a direction for the organization. During the first portion we obtain a general direction from the Board, then the departments prepare a detailed budget on this direction. This is followed by a budget session later on whereby changes, enhancements and recommendations are made. To finalize the budget, a Public Hearing is held to receive public input. In June, a final hearing is held and the Board adopts the budget, which guides staff through the next fiscal year.

This year, along with many other companies, we are forced to look for a very tight fiscal situation for fiscal year 1994. Here we can plan towards this end. The Board and staff have always tried to adopt an optimum budget where everything we did was cost effective in the long haul to benefit our customers and KUA.

We must practice deep austerity now which comes off of economics--its not the optimum but what may be necessary and prudent short term given the fact we are short on money. Several measures were looked at, one of which was a possible wage freeze to avoid cuts in personnel and salary levels. Some cutback areas may be in training and travel achieved by only the most necessary training, but not at the expense of safety, more in-house training, eliminating uniforms, and other cuts.

Mr. Welsh stated that tonight we would have the Financial and Personnel overviews, highlighting the personnel staffing, and obtain a direction on employee uniforms. A uniform contract is pending, which we are currently utilizing on a month-to-month basis until a decision can be reached. To achieve the target of reducing the budget of the 1993 level requires the elimination of the uniform costs. Mr. Welsh suggested postponing this item until after the detailed departmental goals and objectives were presented. We need to look at the implications of the austerity measure we're seeing and he looked to the Board for direction.

Director Bobroff made a statement concerning these goals and objectives and how careful the Board has been for specific members having specific items of interest. For the first time for many years this budget is being challenged. He asked, how careful can we budget and still perform our job. Its a matter of necessity to have to cut back. He said if things are postponed to a later time at perhaps higher costs rather

than facing the problem now we will face it maybe two-three years down the road. He felt we are ducking our responsibility and foremost we should decide we have to have more money in order to have a sound utility operation. He felt some areas of cutback might be detrimental to our operations and safety. If its cost effective and economical to do something now, then we should find some way to get the money, maybe in maintenance service contracts and agreements, in-house training, etc., but he felt tree trimming practices should be continued to prevent outages. He also felt staff and employees have been exercising prudent purchasing practices. He said the Board has yearly questioned our staffing policies. His conclusion was that we cannot delay asking for an increase in rates to make this an efficient business.

Mr. Welsh stated that we are looking for cutbacks for one year which we would find tolerable.

3. FINANCIAL HIGHLIGHTS

Joe Hostetler, Director of Finance, gave an overview on our financial situation and explained current and FY 94 projections, as included in the Goals & Objectives booklet. We are seeking a base where we apply the 5% target reduction. We are saying the FY 94 budget will be 95% of the FY 93 budget, a 5% cut.

Chairman Hord stated that we should not think the natural progression is that everything must go up in the future. He said we should challenge this type of assumption.

Mr. Hostetler said we are expecting 4-6% growth which must be absorbed internally.

Discussion followed as to what the cost of fuel and possible Btu (British Thermal Unit) tax will mean to our costs. Fuel costs were not included in the 5% due to cost of fuel and purchase power being optimized continually through our buying and selling functions. These are recovered through our COPA (Cost of Power Adjustment) rates which fluctuate. Savings are passed on to the customer.

Mr. Ben Sharma, Director of Power Supply, explained that until the Phase III line is in place, gas prices will fluctuate and pass-through costs on Btu tax and gas prices will be passed on to the customer.

Chairman Hord stated we are on a declining growth trend currently and we must face the reality of the situation.

4. PERSONNEL OVERVIEW

Mr. Neville Turner, Director/Personnel & Risk Management, made a presentation on the overall picture of our personnel status. Currently we have 234 positions, which is adequate, but we may require additional personnel for Cane Island. Our goal is to use our attrition rate of 3% which occurred in 1992 and hope to lose this through attrition. Vacant positions will not be filled due to cost cutting measures unless absolutely necessary. A 3% increase in salaries equals \$263,258. Our salary portion represents 13.5% of our total operating costs; the benefits are 3.5% for a total of 17% of operating expenditures.

Mr. Welsh said we are projecting departmental goals and objectives to meet the 95% level in order not to cut salaries and positions. We are targeting in the 5% a freeze with no cuts in these percentage

levels. The Board will not make a decision tonight on what the budget is; this will be accomplished during a Budget Workshop at a later date. Staff suggested not to make cuts but to maintain a freeze and formulate a budget on this freeze. If our cash flow is not made through this avenue, we may need to suggest a wage cut or personnel cuts. Other alternatives will be discussed. Savings will also be realized through bond refinancing giving us some relief. Staff requested some general direction not to formulate our plans on any cuts whatsoever.

All benefits would not be included. Health insurance would not increase or decrease; its a monthly rate.

In answer to Director Gant, Mr. Welsh briefly explained how our pay plan is formulated for target and merit employees.

5. EMPLOYEE UNIFORMS

This agenda item was postponed for discussion following the departmental goals and objectives.

6. DEPARTMENT GOALS & OBJECTIVES

Each department will be focusing on the implications of the austerity measures they are anticipating at this time. The implications are not well defined as yet, but a broad-brush approach was taken up front.

Power Supply

Mr. Sharma stated we hope to have the new Cane Island Unit 1 in operation in 1994, in addition to another substation proposed for Clay Street. He went on record to say that we may face personnel constraints at that point and may require the Board's approval for additional staff in mid-1994. Staffing will be required at the Combined Cycle Plant. Two people are required to start the diesel engines and are required because of regulations. He highlighted some Power Supply's implications and cost cutting measures towards our goal. Sometimes overtime is cost effective and utilized.

Mr. Welsh reiterated that these cost cutting measures are intended for one year while we're experiencing a cash crunch.

Director Gant felt it was imperative that regular maintenance be pursued to extend the life of our equipment, which is cost effective in the long run.

Chairman Hord stated that discussion was had previously regarding having a self-sufficient self-contained maintenance department at Cane Island. He suggested having a central location, namely where it is today. It involves costly minimally used equipment, and not everyone is a machinist. Having a central base eliminates all the additional costs of duplicating present facilities and equipment. Using a flat rate per hour to maintain the downtown machine shop could be allocated to Cane Island, which certainly does not justify spending \$126,000 on a second machine shop. Chairman Hord asked, for a later time, an itemized list of tools, dies, etc., to compare costs and savings concerning this.

Information Systems

Dennis Wick, Director/Information Systems, outlined his department's capital expenditures and stated all projects programmed for FY 94 can be deferred until FY 1995 without totally impacting his operations. Many FY 93 projects are being delayed while others will hopefully be carried to FY 94.

Mr. Wick highlighted the necessity of some individual projects and discussion followed. The priority for 1993 was upgrading the AS-400 and the purchase of the Direct Access Storage Device and the Bar Coding System software.

To achieve the departmental 5% cutback, some travel and training would be minimized and others undertaken in-house. It is Mr. Wick's intent to drop the maintenance on Personal Computers and go to a service contract with a set fee on a time-and-materials basis and do minor repairs in-house. Some discussion followed on possible cutbacks in telephones and telephone costs, long distance and personal calls. Mr. Wick stated all monthly telephone statements are reviewed. Staff stated personal calls are curtailed through departmental monitoring.

Director Jones expressed concern where expenses can be cut. For instance, by not having the monthly newsletter (Power Line) done by an outside source, a savings of \$6,000 would be realized. Mr. Welsh stated this was being considered done on a quarterly basis.

Transmission & Distribution

Department Director Ken Lackey highlighted capitalized costs, capital equipment and projects, the capital improvements and line extension funds, load management equipment, distribution feeder upgrades, and other projects as included in the G&O Fiscal Year 1994 Budget. The 5% target for Operations and Maintenance has almost been achieved.

In-house training for T&D personnel is being utilized and was discussed. Mr. Welsh stated that we utilize the Enterprise training facilities by Florida Power Corporation which can be curtailed somewhat, but that we should not jeopardize the safety of our crews. Director Gant also stressed that safety is of the utmost importance and is invaluable.

In response to Director Gant's query on Load Management, Mr. Welsh replied that if there's a published tariff and someone applies for this service, we have to accommodate them with that tariff.

Chairman Hord opened a discussion on line extension costs and revenues and asked how much above and beyond the percent the new consumer pays does it cost us. Mr. Lackey said the customer pays 70% and KUA pays 30%.

Chairman Hord asked how much additional revenue would KUA realize if a line extension cost 100%. Response was \$600,000. He stressed we are trying to keep our rates low, our expenses low, maintain a well run organization and asked, is this not the time to look at this and change our philosophy since staff is asking for fiscal direction. Mr. Lowenstein thought that was a good point and concurred.

Director Jones felt the 100% line extension cost is too high and that this impact fee would heavily tax first-time home buyers.

Chairman Hord asked the Board's opinion on this issue.

Mayor Pollet stated that at one time we had the philosophy of justifying doing it the way its being done now and asked what justification we used in the past, and also what is our competition doing in this respect.

Mr. Welsh said in the past we charged 100% but gave it back. He said this was started some 20 years ago but difficulties arose and we lost money. Then the philosophy arose of growth paying its own way. Finally after many deliberations, the result was for staff to charge 70% for line extensions.

In response to Mayor Pollet's second question, Attorney Edward Brinson stated that Florida Power Corporation and Orlando Utilities Commission charge no fees; St. Cloud has a flat fee for subdivisions. There are some utilities that charge a straight impact fee on line extensions. Discussion continued.

At Director Lowenstein's request, the Board asked staff to do a survey of some other utilities concerning their line extension policies and bring the conclusion back to the Board at the next meeting.

The meeting recessed from 8:00 - 8:18 p.m.

Engineering

Mr. Davis stated that his department is also looking at similar cutbacks as other departments to meet the 5%. He went over various line items. One vacant position of Meter Technician has not been filled for the time being, affected by the growth rate. Mr. Davis highlighted some capital items.

Mr. Davis highlighted the participation in the Bonnet Creek Canal transmission line with FMPA (Florida Municipal Power Agency) which originally KUA was funding alone and we budgeted it in our Ten Year Plan. A large number of purchases, consisting of testing equipment and relays, will be delayed which may eventually cause us some problems in not being able to take care of it in-house. Replacement vehicles are being delayed.

Customer Relations

Chris Beck, Director/Customer Relations, gave a brief overview of targeted expenditures which have almost reached the 5% reduction.

The O&M for Customer Relations totals \$2,542,991. This is a reduction of 4.3% from the 1993 O&M Budget. The '93 Capital Budget was \$12,812. The '94 Capital Budget is projected to be only \$9,000 which is a decrease of 29.6% or a reduction of \$3,812. Main capital reductions came by delaying building enhancements and not replacing a vehicle as we were planning on doing in '94. Some of the O&M reductions to take place will include some bank contracts, overtime, fuel costs, promotional things, office supplies, uniforms, travel and travel, and not filling a Meter Reading vacancy. The Energy Informer, a customer newsletter, will be mailed quarterly rather than monthly.

In response to Chairman Hord's question, Ms. Beck stated that the total revenue from the upstairs rental offices amounts to approximately \$9,000 per year which will help with this austerity budget.

Finance

Mr. Hostetler gave a briefing on his targeted reductions totaling \$37,700. He stated he can accomplish this by reducing the quality and quantity of some public reports, i.e., the Annual Report and eliminate non-KUA training seminars. We have three CPA's on staff required to meet an 80-hour requirement which will be met by in-house training. Professional services costs not directly related to a bond issue can be capitalized, and he plans to eliminate any overtime. The replacement of one Personal Computer will be made.

Personnel & Risk Management

Department Director Neville Turner stated there were no departmental capital items and his goal to reduce the budget was \$20,888. He will reduce it by \$36,100 by cutting medical supplies, employee related expenses, professional services and risk management, travel and training, supplies and recruitments. The Employees Organization Committee offered to significantly cut their budget for employee socials.

Materials Management

Jim Tillman, Director/Materials Manager, addressed the O&M expenses. He will be able to achieve the 5% but removed all allowances for fluctuations and increase in operations (due to storms and/or major construction). All accounts will be affected. Discussion followed on the replacement of a high-volume copier, as well as other subjects.

GENERAL DISCUSSION OF GOALS AND OBJECTIVES

Mr. Welsh requested general planning direction and feedback on the uniform contract, whether to award the contract or eliminate it and reduce our costs by \$40,445.60. Currently, we are utilizing a month-by-month service until a decision is made.

Director Jones stated that he felt the direction of this meeting was more like that of a budget meeting. He asked what the bottom line will be from getting these results. Mr. Welsh indicated this is a first-time austerity program budget. Some departments went into greater detail to get an overall picture. Director Jones felt it was important to know what the goal for the bottom line will be and to strive for that. Mr. Welsh stated that we're feeling our way along and that perhaps by June we may be under budget and need to adjust. In the past we have set general direction and targets to work toward. Following Board's direction staff will put the numbers together and get a more realistic picture of where we're headed. Staff's feeling for the bottom line was to achieve 95% of the 1993 level.

Mr. Welsh stated one of the biggest things in the planning stage was the possible wage freeze for FY 94. Director Gant suggested we needed the numbers to plug in and he was not in favor of a salary freeze until he saw the budget. He felt if he could not give employees a 3% cost of living increase across the board he would find it very unfair. Discussion continued. Mr. Welsh said we want to present a balanced budget, but we haven't made the sales projections yet. In the past we set general targets towards goals. Chairman Hord said if we operate this budget at break-even, what we have today is all we will have because we're not making any money.

Mr. Welsh said we're talking about an austerity year where lots of things are happening, not about a long-range goal. Rate changes play an important role in these goals. Discussion continued on what the bottom line has to be, how to achieve this, and what our revenues are expected to be next year. Mr. Welsh estimated revenues to be about \$60 million. Depreciation expenses were discussed.

Director Gant said we might want to consider our bonding position as a goal and our operating system needs to stay within those guidelines and it can't be done with a negative balance. Our bonding position needs to be addressed as one of the ultimate goals. Our existing debt service is taken into consideration. Chairman Hord agreed, since we're heading in the bonding direction soon. Director Gant said if we can't sell power cheaper than we can buy it on the open market, we'll be in trouble. We must maintain the 1.5 minimum coverage and everything else is part of our fiscal policy.

Chairman Hord preferred using P&L's (Profit & Loss) with depreciation. That we need to set the philosophy of setting a minimum number in a percentage point or in a fixed dollar amount. Mr. Hostetler stated there will be a rate change in 1995. Some members felt this organization must be run as a business with a P&L to realize a profit. Director Jones' vote right now would be to go on a break-even basis, consider it an exception rather than a rule in view of what will come next year. The 15% rate decrease discussed was an exception.

Director Gant reiterated that our bonding position is very important and we need to stay within those guidelines.

Chairman Hord asked what 3% means in annual wages. Mr. Turner replied its a \$263,258 total increase (salary increase of \$222,762 and benefits increase of \$40,496). Chairman Hord asked if other members were in favor of 1.5 minimum and striving for 3% retained earnings using depreciation.

Mayor Pollet stated that we have a Fiscal Policy that was developed by the Board in conjunction with staff. A lot of time had been spent in developing this policy. Mayor Pollet stated that he thought we should stick with this policy and not be expanding it or changing it at the last moment here. He then asked for a restatement of the Fiscal Policy as adopted by the Board. Joe Hostetler stated what our Fiscal Policy was--1.5 minimum coverage with \$5 million in reserve money on hand at any one time. All minor capital outlays are covered by cash from current operations.

Mr. Welsh stated that if we hit our debt service coverage of 1.5, and we can go over that, he did not think we should go with the wage freeze.

Discussion turned to target and merit and cost of living increases. Mr. Welsh explained KUA's pay plan.

Mr. Welsh stated that he understands that the Board's direction to Staff is to maintain our current Fiscal Policy which includes a minimum 1.5 debt service coverage within the planned budget for 1994, including a wage freeze if necessary to do this. It was the general consensus of the Board that the budget should be developed so as to maintain the stated Fiscal Policy. It was also the consensus of the Board that it was Staff's responsibility to work out the details of how this was to be done and present them to the Board at the Budget Workshop.

5. EMPLOYEE UNIFORMS

Turning back to the agenda item for employee uniforms, Mr. Welsh reminded the members this yearly contract totals \$40,445.60 and that a decision was necessary. Mr. Tillman stated that right now we're going on a month-to-month basis.

Chairman Hord said the consensus of the Board and staff is that we continue at our bid price until we make a final decision.

Director Gant moved that we negotiate to go with the present contract for uniforms and negotiate to continue the service until October 1, 1993 on a month-to-month basis based on a bid price. In the future if we elected to change, that we would terminate it on the following October 1st. Seconded by Director Jones.

Mr. Welsh said the current contract is \$4.75 per week and they agreed to go on a month-to-month basis. For \$4.50 perhaps we can negotiate a contract until the end of the fiscal year.

Director Gant amended the above motion to read that staff is authorized to negotiate with the Uniform Company to continue the contract to October 1, 1993 on a month-to-month basis, preferably with a new contract, but we will give staff the flexibility of using the old contract price if necessary. Seconded by Director Jones.

Motion carried 5 - 0

7. HEAR GENERAL MANAGER, ATTORNEY, DIRECTORS

GENERAL MANAGER - No comments

ATTORNEY - No comments

DIRECTORS

Chairman Hord felt that, putting this all in perspective, our competition has forced us to reduce our price, our sales are steady but not on the increase; therefore, we should do whatever it takes to achieve the reality.

Director Gant commended staff for their hard work in putting this together.

8. ADJOURNMENT: Meeting adjourned at 9:45 p.m.



CHAIRMAN

ATTEST:



SECRETARY