

MINUTES OF REGULAR MEETING OF KISSIMMEE UTILITY AUTHORITY, HELD WEDNESDAY, FEBRUARY 26, 1997 AT 6:00 PM, BRINSON BOARD ROOM, ADMINISTRATION BUILDING, 1701 W. CARROLL STREET, KISSIMMEE, FLORIDA

Present at the meeting were Vice-Chairman Walter, Secretary Guthrie, Assistant Secretary Lowenstein, Director Ralston, Mayor Attkisson, Attorney Brinson, President and General Manager Welsh, and Recording Secretary O'Rourke. Chairman Hord arrived late for the meeting.

A. **MEETING CALLED TO ORDER** at 6:00 p.m. by Vice-Chairman Walter.

B. **AWARDS AND PRESENTATIONS**

1. **10-YEAR SERVICE AWARD - JAY TAYLOR**

Mr. Welsh stated that Jay came to work for KUA as a Groundman in 1987. Jay was promoted to Apprentice Lineman and then promoted to Journeyman Lineman. Mr. Welsh stated Jay is very knowledgeable about the electrical system. At the present time Jay is a System Inspector which involves checking all overhead and underground equipment that requires maintenance. Jay is an exceptional employee and always eager to please.

Jay was unable to attend the meeting, but his 10-year service award will be presented to him by his Department Director at a later date.

2. **5-YEAR SERVICE AWARD - ROBERT MILLER**

Mr. Welsh stated that before coming to KUA, Robert worked for R.W. Beck planning for utilities nationwide. Before R.W. Beck, Robert spent about ten years in charge of planning for the Jamaican Power Authority System. Robert began working for KUA in 1992 as Manager of Bulk System Planning. Mr. Welsh said it is always a pleasure to work with Robert and he is definitely a professional. Mr. Welsh stated he really appreciated the work Robert has done.

Vice-Chairman Walter presented Robert with a crystal oil lamp and the other Board members joined him in congratulating Robert.

3. **5-YEAR SERVICE AWARD - STEVE WALKER**

Mr. Welsh stated that Steve started as a Line Maintenance worker in 1992. Steve takes care of all the tree trimming in the area and Mr. Welsh said Steve does a tremendous job.

Steve was unable to attend the meeting, but his 5-year service award will be presented to him by his Department Director at a later date.

4. **EMPLOYEE OF THE MONTH - ED CARTER**

Mr. Welsh stated that Ed Carter was here for a very special award tonight and that was the Employee of the Month award.

Mr. Welsh said Ed is a fine example of an exemplary employee. Ed is a very hard worker, never complains about anything and always does everything asked of him. Mr. Welsh stated Ed is well liked by everyone at KUA and also by contractors who specifically ask for him by name. Mr. Welsh said many times Ed is extremely busy, but he still takes the time out of his busy schedule to help a customer. Mr. Welsh said Ed is a fine example of what the Employee of the Month should be. Mr. Welsh stated that Johnny Williamson has been out sick quite a bit this year and Ed has stepped right in to keep everything running smoothly. Mr. Welsh said everyone really appreciates this.

Vice-Chairman Walter congratulated Ed and presented him with a plaque. Director Guthrie presented Ed with a bond. Ed will receive a special parking space for the month and a day off with pay.

5. SAFETY AWARD - STATE DEPARTMENT OF SAFETY

Mr. Mike Womick, Environmental & Safety Administrator, stated that the Florida Department of Labor & Employment Security Division of Safety was awarding KUA a safety award. Mr. Raphael Kolbjornson, Safety Specialist, stated the Cane Island Power Park, the Hansel Power Plant and the Carroll Street Administrative facility went from June 1995 to June 1996 without a lost workday incident. Mr. Kolbjornson stated the employees of KUA are very safety oriented and he commended Mike Womick for his efforts in the implementation of the safety program.

Ms. Charlene Purcell, Manager of the Orlando district, stated both the employer and the employees are recognized for the added safety and the quality of work in the work environment.

Ms. Purcell presented three safety awards to Vice-Chairman Walter. Mr. Welsh stated these awards will be presented to the appropriate department heads.

C. HEAR THE AUDIENCE

Mr. Richard Herring, 514 Verona Street, Kissimmee, Florida stated he came before the Board last September with a concern about a contract with Black & Veatch dated 1983. Mr. Herring said there have been changes in the Black & Veatch contract through the RFP (Request For Proposal) program mandated by the State of Florida. Mr. Herring said through his research Black & Veatch has cloaked itself as almost a department of KUA, rather than a separate entity of KUA. Mr. Herring said a few months ago the Board voted a \$102,000 contract for a Cane Island Environmental study. On the backup it stated this was a Request for Proposal. Mr. Herring stated he visited the Power Supply and Purchasing departments two weeks ago and looked at the backup data. Mr. Herring said it was not a Request for Proposal, but a letter sent to KUA stating Black & Veatch would like to give KUA a proposal to do a \$102,000 study on Cane Island. Mr. Herring said the State of Florida mandates in any planning study over \$25,000 you must go out for a proposal. Mr. Herring stated in the past Vice-Chairman Walter has said he would like to see more local people in the Central Florida area get a chance at the environmental study done at Cane Island.

Mr. Herring said the real problem is an illegal agreement with Black & Veatch and that it did not go through the proper process of the State of Florida Competitive Negotiation Act. Mr. Herring said if Black & Veatch has not started the work yet, the Board should consult with their attorney to look at the procedure and get back to Mr. Herring next month with a conclusion.

Mr. Welsh thanked Mr. Herring for bringing this up to the Board and stated the legalities of this will be looked at and will be brought back to the Board next month.

D. PUBLIC HEARING - No comments

E. INFORMATIONAL PRESENTATIONS (REQUIRING NO ACTION)

F. OLD BUSINESS

1. APPROVAL FOR RFP PROCESS - INVESTMENT BANKER & LETTER OF CREDIT PROVIDER

Mr. Welsh stated Chairman Hord would be arriving late, but he had particular interest in this item and would like to participate in the discussion. Mr. Welsh asked if this item could be moved to after New Business. The Board had no objection to this.

G. NEW BUSINESS

1. BOARD MEMBER APPLICANT SELECTION 1997 SCHEDULE

Mr. Welsh stated the schedule is very similar to the process that has taken place in previous years.

Director Lowenstein abstained from voting because he is the outgoing member.

Director Ralston made a motion to approve the advertisement and the schedule for the selection process; seconded by Director Guthrie.

Motion carried 3 - 0
With one abstention

2. UNION CONTRACT APPROVAL

Mr. Welsh stated KUA and the IBEW have reached a tentative agreement on the contract. If the contract is approved the wages and performance bonuses will be retroactive to October 1, 1996.

Director Lowenstein made a motion to approve and ratify the collective bargaining agreement; seconded by Director Guthrie.

Motion carried 4 - 0

H. STAFF REPORTS

1. MONTHLY PROGRESS REPORT ON ENGINEERING PROJECTS

Mr. Welsh said no verbal presentation was planned. Mr. Ken Davis, Director of Engineering, was available for any questions or comments.

2. QUARTERLY FINANCIAL REPORT - DECEMBER 31, 1996

Mr. Joe Hostetler, Director of Finance, gave a brief presentation on the quarterly financial report. Mr. Hostetler stated we are 13% below the budgeted sales for the month of December and year to date we are 10% below budget. Mr. Hostetler said for the month we were \$584,000 above the budget for reinvested earnings and for the year we were \$1.5 million over the budget on reinvested earnings. The debt service coverage ratio was 2.66 versus a budgeted 2.46.

Chairman Hord arrived at 6:30 p.m.

3. MONTHLY FINANCIAL REPORT - JANUARY 31, 1997

Mr. Joe Hostetler, Director of Finance, gave a brief presentation on the monthly financial report. Mr. Hostetler stated we are 4% below the budgeted sales for the month of January and year to date we are 9% below budget. Mr. Hostetler said for the month we were \$750,000 above the budget for reinvested earnings and for the year we were \$1.6 million over the budget on reinvested earnings. The debt service coverage ratio was 2.57 versus a budgeted 2.44.

Mr. Hostetler then gave a brief presentation on investment information and how KUA's portfolio is broken down.

Mayor Attkisson stated KUA is below budget, yet is still okay and he wanted to know what we are holding back on. Mr. Hostetler said a lot of the expense is in Power Supply for Professional Services which is budgeted for on a known basis and a contingency basis. Most of this money has not been spent and the budget is calculated to take 1/12 of the entire budget. At this time of the year, if you haven't spent that money, it looks like the actual will definitely be under budget. Mr. Hostetler said there is a combination of a lot of things working together to make this happen. It is typical for this time of the year to not meet the budget and then really accelerate toward the summer months when our megawatt hour sales really kick in.

4. MONTHLY REPORT ON POWER SUPPLY DEPARTMENT PROJECTS

Mr. Welsh said no verbal presentation was planned. Mr. Ben Sharma, Director of Power Supply, was available for any questions or comments you may have.

Director Lowenstein questioned if the billing adjustment for St. Cloud wheeling is usually credited to KUA. Mr. Sharma said, yes it is. Director Lowenstein also questioned the FMPP adjustment. Mr. Sharma stated this \$98,000 credit is for the last three months that FMPP overcharged KUA.

Director Lowenstein stated the COPA (Cost of Power Adjustment) on his bill has risen instead of staying the same and wanted to know if there was anything that can be done to not have this large surcharge. Mr. Sharma stated the debt service is in COPA which is the purchase power portion. Mr. Sharma also said if Crystal River Three was available it would lower the COPA.

Director Guthrie asked if there was any other liability at Crystal River besides the \$6,000 per month KUA is paying. Mr. Sharma said because Crystal River Three was not there, during the month of January KUA did not have 3,868 MWh of cheap power. Until Crystal River Three goes back on line KUA will have this kind of situation. Mr. Sharma said the root of the trouble at Crystal River Three is the emergency diesel generator which was undersized and the Nuclear Regulatory Commission (NRC) is looking very closely at all the equipment. As a result of this investigation, if Florida Power Corporation (FPC) has to do certain capital improvements we will have to pay our portion of it which is .8754%.

Mr. Sharma said if KUA can prove that FPC did not exercise prudence in selecting that unit we can probably get off not paying.

Director Guthrie asked if we knew what our maximum cost might be. Mr. Sharma said no, not at this time because we do not know what recommendation will come from the NRC.

5. SELECTED DEPARTMENT HIGHLIGHTS - TRANSMISSION & DISTRIBUTION

Mr. Ken Lackey, Director of Transmission & Distribution, gave a brief presentation highlighting the major projects being worked on in the past six months. Three of these projects are Main Street, Pleasant Hill Road and the feeder installation from Hord Substation out to Carroll Street in front of the KUA administration building.

Chairman Hord asked if the Main Street and Pleasant Hill Road projects were done at KUA's expense because we were in the right-of-way. Mr. Welsh said yes, that is correct. Mr. Welsh said we have begun setting aside an average amount every year for projects like this.

Mr. Ken Davis, Director of Engineering, stated the estimated cost for the Main Street project was just over \$250,000 for all related costs based on KUA doing the job.

Director Lowenstein said he thought the Main Street project was coming under the umbrella of the CRA (Community Redevelopment Agency) who was funding it. Mr. Davis said the lighting was purchased under the CRA, but none of the other relocation was funded by the CRA.

I. CONSENT AGENDA

Chairman Hord asked if there were any questions or comments on any item from the Consent Agenda or if anything needed to be removed.

Chairman Hord requested that item #4 - Award of Contract to American Compliance Technologies Inc. (ACT) for the Final Remedial Action at Cane Island be pulled.

Director Lowenstein made a motion to approve items 1, 2, 3, 5, 6 and 7; seconded by Director Ralston.

- 1. APPROVAL OF MINUTES OF JANUARY 22, 1997 REGULAR MEETING**
- 2. APPROVAL OF MINUTES OF FEBRUARY 12, 1997 SPECIAL MEETING**
- 3. ACCOUNTS PAYABLE REVIEW**
- 5. CONTRACT FOR INTERCHANGE SERVICE BETWEEN KUA AND CNG POWER SERVICES CORPORATION**
- 6. LINE RELOCATION PROJECT**
- 7. 1997 ACADEMY AWARDS OF EDUCATION SPONSORSHIP**

Motion carried 5 - 0

Item #4 - Mr. Sharma stated the oil spill happened during the construction period of Cane Island Unit 1 on July 22, 1994. Present at the site at that time were General Electric's Field Engineer, some KUA people and also Metric Constructors. A piece of flexible pipe broke and as a result approximately 500 gallons of diesel fuel spilled over the surrounding area. Mr. Sharma said after that, on an emergency basis, KUA engaged OHM Corporation to perform the Initial Remedial Action (IRA). As per DEP (Department of Environmental Protection) procedures, OHM then completed a Contamination Assessment Report (CAR). Based on that report a Remedial Action Plan (RAP) was prepared and submitted to DEP for approval. DEP approved the RAP for implementation

Chairman Hord wanted to know if this was KUA's problem or the contractor's problem. Mr. Welsh said it was KUA's problem. Mr. Larry Mattern, Operations/Maintenance Supervisor, stated KUA employees were just turning pumps off and on and General Electric was there to inspect the screens. Mr. Mattern said we think a valve could have been closed. The pipe is flexible stainless steel with metal mesh over it and the pump itself can exceed 1,500 lbs. if it was deadheaded. Mr. Mattern said we have no proof that somebody closed a valve, but that is the only thing to make this type of pipe fail. Mr. Mattern said it is our site and our problem. The Engineer on site for General Electric immediately called a local clean up company and acted on his own. General Electric spent \$41,000 to start the clean up for good customer faith, but then their legal department said it was not General Electric's problem.

Director Lowenstein made a motion to approve item #4; seconded by Director Walter.

Motion carried 5 - 0

F. OLD BUSINESS

1. APPROVAL FOR RFP PROCESS - INVESTMENT BANKER & LETTER OF CREDIT PROVIDER

Mr. Joe Hostetler, Director of Finance, stated the 1987 bond issue is approaching the ten year timeframe where we can currently refund that issue. In order to defect lower interest rates, the market has been cooperating with us. Mr. Hostetler said we basically have two options. We can do a typical fixed rate refunding, which we have done in the past or we can venture into the variable rate mode.

Mr. Hostetler said the advantages of a variable rate versus a fixed rate are: the flexibility to call the debt immediately at par. If you do a fixed rate debt like KUA did with the 1987 series, we had to wait ten years before we could have the first call. Another advantage is the lower average cost of funds. If KUA did the 1987 refunding under the variable rate mode, that would have the affect of the higher fixed rate that we have on our other three outstanding bond issues. With the variable rate bond issue we would have a blending of higher costs and lower costs so our overall total KUA debt cost would be lower.

Mr. Hostetler said as KUA is approaching a competitive market, our competitors generally are going to have variable rate debt and their interest costs are going to be lower on average than KUA's interest cost. This is one of the reasons why we should start to look at this. Being a monopoly at this time, fixed rate is a fairly easy decision to make. We basically know what our fixed rate interest costs are going to be throughout the twenty-five to thirty year bond period and we pass those costs onto our customers. In a competitive market, we may have difficulty passing costs along and this is one advantage of doing a variable rate. Mr. Hostetler said we could fix the rate if the market dropped low enough and we felt that even though we had variable rate financing maybe the best thing to do maybe to eliminate the risk of having variable rate and just go fixed rate.

Mr. Hostetler said the big disadvantage would be it is subject to interest rate risk. Because it is variable, it can vary higher than what we would otherwise fix our debt at. It is also subject to liquidity renewal risk and that is if you were to buy some of our variable rate debt, when you could turn that debt in, you would have to buy that portion of those bonds. If for some reason you could not find a buyer, you would have to have a bank step in with a letter of credit. Typically the banks will set up a letter of credit somewhere between three and five years and then they want to renegotiate the letter of credit agreement. Therefore, you have the risk of having to renegotiate these that maybe higher or lower than what you are currently paying.

Chairman Hord asked how the bank is secured on the letter of credit. Mr. Welsh said basically it is a credit line. Mr. Hostetler said it would be based on our financial strength and the bank is getting a fee for providing this service.

Chairman Hord asked if KUA, as a municipality, could have a letter of credit with a bank. Mr. Welsh said yes.

Mr. Craig Dunlap, Dunlap & Associates, stated debt cannot be remarketed by your remarketing agent and a bank is typically there to buy and hold the bonds in their own portfolio. Mr. Dunlap said he cannot remember anytime when a bank has actually had to step in and buy paper because of failure to remarket. What happens in an agreement with a liquidity provider is that they buy paper in because of the failure to remarket. They would have a lien upon the revenues of KUA to the extent that they become a bond holder. Therefore, the lien that they have on any debt that they might hold is no different than if debt was sold to an institutional firm or an individual. They would have a lien on the utility revenues of KUA.

Director Lowenstein asked what would be the duration factor if KUA would have to remarket. Mr. Dunlap said remarketing can have maturities anywhere between 1 day and 270 days. It could be weekly, it could be monthly. This is a decision that the KUA staff would make in conjunction with the firm that serves as the remarketing agent for these bonds. The remarketing agent will make recommendations as to where within the 270 day period they feel interest rates are best served for KUA at the lowest overall interest cost.

Chairman Hord asked Mr. Dunlap if he has done this program with any other utilities. Mr. Dunlap stated yes, many times. Florida Municipal Power Agency, for example, has about \$70 million in variable rate paper outstanding. Mr. Dunlap said the experience so far has been very good.

Mr. Dunlap said right now if KUA did a refunding for the 1987 bonds, which can be done on July 1st, the all-end borrowing costs would probably be 5-1/2%. If the decision is made to go into variable rates, today the all-end costs would be about 3-3/4%. Mr. Dunlap stated the reason he recommended the variable rate to the KUA staff is not only the interest rate savings, but the flexibility it gives in a competitive environment.

Director Lowenstein made a motion to approve the Investment Bankers and Letter of Credit Providers RFP process; seconded by Director Walter.

Motion carried 5 - 0

A brief recess was taken between 8:05 p.m. and 8:15 p.m.

J. HEAR GENERAL MANAGER, ATTORNEY, DIRECTORS

GENERAL MANAGER

Mr. Welsh stated he and Mayor Attkisson attended the APPA legislative rally in Washington, DC. Mr. Welsh said they visited the congressional offices of our two House of Representatives and two Senators. Mr. Welsh said they asked them to keep deregulation at the state level, to be aware of private use problems with tax exempt financing and the market power issues. Mr. Welsh stated what a tremendous effort Mayor Attkisson has put forth on this and thanked him for it.

ATTORNEY - No comments.

DIRECTORS

Mayor Attkisson stated there is a very good article in *APublic Power* on rate regulation and recommended everyone read it. Mayor Attkisson said the congressmen and senators are very open and receptive to the issue of keeping local control.

K. MANAGEMENT REVIEW

Chairman Hord stated they were going to review the criteria used to do the review. The Board decided to put weighing factors on each of the categories A through L.

After some discussion, the consensus of the Board was to use the following weighting factors: categories A, B, D, E, H and I - a weighting factor of 1.0; categories C, K and L - a weighting factor of 1.2; categories F, G and J - a weighting factor of 0.5.


Director Guthrie said the salary survey should be mailed out the first of July so if it is not back in time for the July meeting, it would certainly be back for the August meeting.

Chairman Hord stated next they were going to review the horizontal numbers 1 through 4 going across the top of the form. Chairman Hord asked if the Board wanted to use half point or quarter point increments.

After some discussion, the consensus of the Board was to use


CHAIRMAN

ATTEST:


SECRETARY

the whole number up in quarter point increments.

L. ADJOURNMENT: Meeting adjourned at 8:47 p.m.