

AGENDA ITEM 2-a

MINUTES OF REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD MONDAY, OCTOBER 15, 2007, AT 6:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

Chairman Spangler requested Commissioner Allen to proceed with an invocation and requested Commissioner Diesen to lead in the Pledge of Allegiance immediately following.

Chairman Spangler then requested for a roll call to be taken with all of the Commissioners in attendance as follows:

Commissioner Jeanne K. Diesen
Commissioner William E. Hall
Chairman Richard L. Spangler
Commissioner Oscar Zeller
Commissioner Walter Allen III

Others in attendance were as follows: R. Rodi, General Manager/ CEO; L. Klinkenberg, Director of Finance; R. Mitchum, Director of Electric Operations; D. Hoover, Director of Water/ Wastewater; T. Beyrle, Director of System Ops./Generation; R. Lemoine, Director of I.T.; P. Perez, Director of H.R.; M. Rodriguez; Electrical Engineer; E. Mahle, Public Information Manager; C. Roberts, Controller/Budget Supervisor; D. Simmons, Executive Asst./Recording Secretary; and a few other U.C. employees; B. Preston, Interim U.C. Legal Counsel; Melanie Stawicki-Azam, Reporter for the NEWS JOURNAL; Bob Tolley, Bill Rogers; Mr. and Mrs. Mercy, Jim Jones, and an unidentified woman, all members of the public.

(1) Agenda Changes, Additions and Deletions:

Chairman Spangler asked Mr. Rodi if there were any agenda changes, additions or deletions.

Mr. Rodi stated no, I do have some comments to make when we get to Possible Other Business (item 9. on the agenda).

Chairman Spangler stated all right, then hearing none we will move on.

(2) Approval of Consent Items:

Chairman Spangler confirmed there were no comments on any of the consent items.

Commissioner Hall stated I move approval of the new consent agenda which has an add-on, SCADA Expansion and Back-up. His motion was to approve the consent items as follows: item 2-a. Minutes of Regular (Reorganizational) U.C. Meeting Held 9-17-07, approve as submitted; item 2-b. Utilities Commission Meeting Schedule for 2008, approve as submitted; and add-on item 2-c. SCADA Expansion / Back-Up, approve and award a purchase order in the amount of \$39,305.00, a sole source vendor per Sections 2-1(2) of the Purchasing Policies and Procedures Manual. Commissioner Allen seconded this motion and it passed unanimously on a roll call vote.

(3) Public Participation:

(3-a) Request to Appear - Robert Tolley – Discuss Placement of Legal Action Against Those Involved w/Telecom Debacle:

Mr. Tolley addressed the Commission and stated his name – Bob Tolley, and address – Fairway Drive. I first want to thank everybody that worked on the 19-05 issue, that's finally off the board, don't have to worry about that for awhile. He stated it's been a heck of a year, you folks have accomplished a heck of a lot, the utilities accomplished a heck of a lot, the employees have accomplished a heck of a lot, but no matter how much we accomplish we still have got one thing hanging over our head which I want to talk about tonight.

Mr. Tolley stated I know that the bureau is looking at the case, don't know how long that's going to take, and added to Mr. Preston I'm looking over your way a little bit. Since it's going to be a multi-agency involvement we could be looking, gosh only knows when, there's at least three agencies, if not four maybe, going to be involved. With that in mind I still think it's a good time, finish out the year by addressing that unanswered item, and that's for us to take an action against those parties that partook in that telecom issue prior to most of us being in here. We can do civil reco, we can do a whole bunch of things, and your attorney can tell you that, your legal counsel. While we wait for the bureau to catch up, if and when they catch up, there's no guarantee there, even though I think that we'll do okay with it. If they come along later on legal counsel can always amend the complaint to add other information that may come to light through any of the federal agencies. I know that Mr. Roper has suggested to the utility that we wait for that bureau investigation to come out but it's like a game of chess, keep your opponent off balance so rather him attacking you, you neutralize him. Right now you guys are sitting up there like ducks in a shooting gallery, everybody's taking shots. I shouldn't say that everybody, that's unfair, there's a lot of people taking shots and even as of today there was more flying.

Mr. Tolley stated so I've come here tonight to appeal to you folks, to consider very seriously that we start a complaint. If the utility decides in their wisdom not to go there, then I'd like to talk to you about a group of ratepayers, citizens, starting their own complaint. But we can't really start our complaint, I'll have to look at counsel up there, if you guys are out there because you guys should be taking the lead, not the ratepayers or the citizens. So it's a two prong request tonight, number one asking you to consider doing an action or starting one, and number two if you decide not to go there, then what is the feeling or the consensus regarding the public to do it.

Chairman Spangler stated any comments from the Commission?

Commissioner Zeller stated I think we ought to let the State go there first. Why should we spend money and time, you know we're taxpayers and if they're headed in the right direction they'll get there.

Mr. Tolley stated you mean the Feds.

Commissioner Zeller stated the Feds.

Mr. Tolley stated okay.

(3-a) Request to Appear - Robert Tolley – Discuss Placement of Legal Action Against Those Involved w/Telecom Debacle (cont.):

Commissioner Zeller stated I think we've spent enough time and money, and you know, let the Feds do it.

Mr. Tolley asked Mr. Preston for his comment.

Mr. Preston stated my comment on your comments are that they are somewhat bifurcated in that the actions, if in fact citizens can prove standing, if the citizens can prove that they have the right to bring such an action, a civil action, against any body or bodies, then that's determinative by the court and citizens can take every action to do so if they wish, to seek the court's determination as to whether or not they have the standing or the right to bring such an action. And I think that the other side of the coin is the determination by the Commission as to whether or not they want to proceed with a civil action or to continue to determine or wait upon the determination from the federal authorities. I don't think that one is dependent upon the other.

Mr. Tolley stated so let me go back to the Commissioners to say thank you. I want to make sure I understand this and I'm not trying to be argumentative with you because you're the newest member here and I've gone through this with the other four. A lot of money missing, a lot of garbage went on, cost us \$600,000, \$700,000, \$800,000 for the accountants, CPA's, to reach their conclusions which I think are very clear to anybody that's read it. I'm going to throw a random figure out there because I'm not a rocket scientist, I'm not sure what this attorney may want because I'm sure it will be in federal court. But even if we're looking at \$50,000 or \$100,000 to chase \$10 million or more, to try and recoup some of the funds we spent with Brent Millikan to me is nothing, nothing. He stated I think the board, the Utilities has an obligation to its ratepayers. Yeah, you guys have taken the right step by going to the Feds, I agree with that, but I think if there's anything possible out there that this commission or utility can do to bring those folks into a court of law to find out what went on here, who benefited from what, what happened. I think that's a responsibility that you all have and I don't think money should be an issue to deter any effort that you should make to bring them into a court of law. Again, I'm not trying to be argumentative, you were the only gentleman to respond. I mean, I'd like to see what everybody else thinks, or am I just wasting my time because if I'm wasting my time, I'll wipe my hands of it.

Commissioner Allen stated I would tend to lean upon our counsel and his direction as matters would move forward because we're not just talking about dollars we're talking about time. Whether that's time with staff in trying to resolve something of the past until it really comes to the surface, I think a lot of times we can miss the big picture of the functioning and the operating and moving forward of our utility for this one item which is truly something of great importance as far as our ratepayers and as far as our citizens. But I would lean upon the expertise of our counsel Mr. Preston to give us direction personally on my aspect of it.

Mr. Preston stated assuming that's a question for me, what I will do is say first of all what Mr. Tolley is speaking about is a civil action. And a civil action primarily involves two prongs, one of which is liability, the other which is damages. Without passing judgment or opinion of the liability of the person or persons as opposed to the operation of the Utilities Commission, the result should we prevail on any civil action in regards to liability would be what are the damages sustained. If damages are then proved to whatever degree as far as any kind of personal gain or personal liability

(3-a) Request to Appear - Robert Tolley – Discuss Placement of Legal Action Against Those Involved w/Telecom Debacle (cont.):

because of decisions made, then you look to collectability. I think you have to take into account all three issues in making the determination as to whether or not you want to proceed with any civil claim. Whatever the dollars that might be proven to have been misappropriated or because of misfeasance, poor decision making, that doesn't necessarily render itself into dollars collected. I think that all three issues need to be determined and I have not been directed to make that determination or give an opinion in that regard but I think that you need to realize that all of those need to be considered, not just one of the three – liability, damages, or collectability. He then asked if that helped.

Chairman Spangler stated well, part of what I hear you saying is it doesn't do any good to get a judgment against a pauper, that's the worse case scenario. And yes, even if \$10 million evaporated how much of that would be collectable, how much of that could be put at the feet of any group of individuals is what we would be going to court to determine. But as far as a significant financial recovery for the Utilities Commission, I think that's a long shot. As far as whether it would put to rest all of these rumors and innuendos, the main source of those rumors and innuendos will never be put to rest until they're found guilty. If they're never found guilty they will continue to be innocent, that's the way it is. So we would have to weigh number one the fact that we couldn't very well do this and say we were trying to recover money for the ratepayers, but we certainly could say that we were trying to do this to stop the rumor and innuendo. If we were not successful then the rumor and innuendo I think would be worse, so I think we could make an argument to say well maybe we're just flipping a coin as to whether we're going to make it better or make it worse by suing them. If you put any credibility in the FDLE and in the FBI, then you have to say well we don't have a whole lot of a chance to collect or prove anything. But then if you look at the facts, you say it's incredible that we can't collect or prove anything. But I think that this Commission discussed this once before and the feeling basically was, and I know things have changed a little bit, but the feeling basically was that we were going to let the FBI do the discovery and then we were going to use those facts, which would come to us less expensively, to pursue a civil action after the FBI got into it. Now that's where we had left it at that time. I have no recommendation myself, I would look to the Commission. If a majority of the Commissioners would want to pursue this to the extent of asking counsel what the chances are, what the expenses are, and how long would it take, we could do that. I would leave that up to the Commission if someone were to make a motion to do that, we would entertain that.

Commissioner Hall stated two thoughts, one my concern is that the FDLE is now so involved in terrorism that they don't have the time.

Commissioner Diesen interjected they're through with it.

Commissioner Hall stated secondly, we really don't have a handle on how much money we're talking about that may be recovered. I was thinking the other day, what if somebody squirreled away some money and switched (unintelligible) down in the Bahamas and we don't know how much that could be. I mean we've talked about \$7.3 million, we've talked about \$15 million, but there could be millions of others, dollars, we don't know about and somebody could be living high off the hog. Do we try to go after that or do we trust the federal government to do their job in view of all the things that are happening around the world at this point, I'm not sure what the answer is.

(3-a) Request to Appear - Robert Tolley – Discuss Placement of Legal Action Against Those Involved w/Telecom Debacle (cont.):

Commissioner Diesen stated I don't think, if I can weigh in here for just a minute, I don't think that we in a civil suit would have any long arms to reach across state lines and internationally which is what I think Commissioner Hall is alluding to. That can come from the federal level, but of course the burden of proof I think in a civil is only 51% as opposed to a preponderance in a federal.

Mr. Preston stated greater weight of evidence in a civil action as opposed to a preponderance of evidence in a criminal.

Commissioner Diesen stated right, so that's one thing that might weigh but I think if we think we're going to follow any trails I think we're whistling Dixie because I don't think we would have that authority and certainly without the discovery of the federal government it would be useless I would say at this point, but that's up for the whole Commission to decide.

Chairman Spangler stated we have all spoken and I don't hear any Commissioners making a motion to take any action at this time.

Mr. Tolley thanked the Commission.

Chairman Spangler then confirmed there was no further public participation at this time.

(4) General Manager's Report

(4-a) Financial Status August 2007:

Ms. Klinkenberg stated for the month ending August 2007 our change in net assets for the combined system is just over \$1.2 million. Our forecast reports reflect a favorable balance of \$276,862 for the month. She then offered to answer any questions.

Chairman Spangler stated I would certainly like to ask one, in this learning process we're talking about our debt ratio, and it's gone up again. I also see that our long term debt has gone down in the last year therefore our service has gone down about \$300,000 and something dollars maybe. So is that the main reason our ratio's better or do we also have a better net revenue this year?

Ms. Klinkenberg stated it has to do with that and also has to do with our total operating revenues from the combined P&L, so it's a combination I believe of several factors. The debt service ratio, just so I'm really clear, the one that I do is like a general debt service ratio. Sometimes it's a little more specific if you're looking at one particular type of debt. So mine's a little more general than probably the one our Financial Advisor will come out with for specific types of debt.

Chairman Spangler stated I would just assume you'd take all of the interest that we pay and that would be our debt service, but that's very simplistic.

Ms. Klinkenberg stated in this one I do include all of our debt.

(4-a) Financial Status August 2007 (cont.):

Chairman Spangler stated anyway we're improving and I think on the next page our current ratio is good, that's our liquidity I believe, so that's good news too; that's my only comment.

Mr. Rodi stated if I may I would like to give some recognition to Ms. Klinkenberg and her team and also Mr. Lemoine and his team. And I sent an email out on this regarding the upgrade to Great Plains, and we're calling it that but it's essentially a brand new system, it was completed and went live October 1st. In order to do that, those of you who know about conversions of big systems, it just takes an extreme amount of effort because all of the data that has to go into these systems is just poured through. It's seemingly a simple thing, it's sort of like Ms. Perez negotiating, it sounds simple but to do it is very complicated and Ms. Perez also did very well. But I just wanted to bring that to your attention and right now the two teams are heavily involved in replacing our customer system so that we have a target date of around May 2008 so that we can finally do credit card payments and those kinds of items. But all of this other work had to be done first and I just wanted to publicly say that and say thank you to the teams because it was a marvelous bit of cooperation; so thank you.

Chairman Spangler then added and thank you from the Commission.

(4-b) Energy Audit Report:

Mr. Rodi requested Ms. Mahle to address the Commission. He added I think some of this is just really fascinating and we're starting to get some very good feedback on this.

Ms. Mahle distributed a couple of handouts to the Commission and then addressed them. She stated for over a year now both the City Commission and the Utilities Commission have expressed interest in continuing our energy audit work so I wanted to give you a brief update, which was in your packet, and then give you some findings from our current auditor. We had until last August, Don Lloyd was on our staff and he performed energy audits. He was a certified Florida state energy rater, that's done through the Solar Energy Center down in Brevard County. When Mr. Lloyd retired, George Markos took over his position, Mr. Markos was not certified to do that. So we had a lapse of a couple months and then in February of this year Mr. Lloyd came back and agreed as a contractor to perform the energy audits for us; he did that for a couple of months.

Ms. Mahle stated what we wanted to do is try a new program, which we started in August, and have the energy audits free to the customers, the Utilities Commission would pick up the bill. We were finding that customers were not signing up for the audits because they had to pay \$25.00 and the U.C. was paying \$25.00. So we contracted with the company, American Property Consultants, they're out of Port Orange, they have a business in Maryland as well, and I think that's where their head office is. This gentleman goes out to the homes and does the energy audits for us at no charge to the customers. The feedback has been very, very good from our customers. I think from February to June we had 27 audits and since August 23rd, as an update, we've had 110 requests for audits. The gentleman's name who is doing them is Stan DiBello, he couldn't be here tonight but he wrote the report I handed to you in that packet. She stated so we'll go over some of these findings that he's discovering. The gist of it is that what he is finding is major construction and maintenance issues with these folk's homes and their air conditioning units, for the most part, their systems. So he's able to point these things out and help people do some maintenance, some fixes,

(4-b) Energy Audit Report (cont.):

and get their bills down. The number one thing that he has said here was the inadequate air conditioning return air flow, and he's very passionate about this. She commented I believe Commissioner Zeller signed up for an audit so you'll get to hear his passion for this.

Ms. Mahle continued by stating Mr. DiBello reported people are closing doors, and added I've learned a lot about air conditioning systems, the amount of air that an air conditioning system can put out is only as much as it pulls in through the return. So by closing doors and if you don't have adequate returns you're starving the system of air. So things like that, he's educating the customers, helping them understand how air conditioning systems work, what needs to be done. He's finding some very interesting things, a person's return, where their filters are, is actually located in a completely inaccessible area so the filter never gets changed; you can imagine what that system is like. They keep all bedroom doors closed, keep pets out, keep kids out, or whatever and the system just keeps running on and on because it just can't produce enough cold air to keep the temperature up. Return air ducts are too small, the size of the return has to be the size that your unit allows to blow and for whatever reason the system's been constructed in such a way that it's not able to happen. The water heater thermostats are too high in many cases. He told me today about a home he went to on Friday, it was at 137 degrees and you only need this at 120 degrees; things like that are very important. Attic ventilation, he's finding some major construction issues, he pointed out a customer's house a couple of weeks ago, and there were no ridge vents on the top of the house. There was the cut out for it but the contractor had never put in the ridge vents and he said you have no ridge vent and the customer said what does that mean. That's not a dumb question because unless you're in construction you don't know what a ridge vent is, so you need to understand all these things. So he's pointing out things like that and this customer asked if she could go after her contractor and he asked when was the house built and she answered 1985. So those sorts of things are just not feasible but the place was there so that's something she can look into. Another thing is no soffit vents, no vents whatsoever around the soffits; so those sorts of things he gets very passionate about.

Ms. Mahle then stated interior lighting, Mr. DiBello brings CFL's with him and shows the customers the difference in the brightness, the types of CFL's, the compact fluorescent bulbs that you should buy. He shows the customers there's no difference but you can feel the heat difference, which is very interesting if you've never felt a CFL versus an incandescent. With the amount of heat that an incandescent bulb puts out, you can imagine how much that would heat your house on a summer day; so he shows customers that. We also purchased for him to take, it's a \$1.19 I think at Home Depot, insulation for the water heater pipes. So he shows folks, in Florida we don't have to wrap the whole heater but if you wrap the pipes themselves then it's able to retain some of the heat of the hot water coming and going so he shows folks how to wrap that. And window shading, he's showing people how to do solar shades which are like a storm window from the north but really just a shade, like an extra screen that you stick in your window opening during the summer months and it's made of a real heavy thick material but it lets light through but keeps the heat out. He shows people that's one option on your western and southerly exposures. Also Freon, it's getting harder in the cooler temperature, I say cooler it's 85 degrees, but it's harder in the cooler temperature to judge your Freon just by touching the line, but he's able to tell the people that it feels like your system's not getting cool enough, you need more Freon. He went to a house where there was absolutely no Freon; you know very simple maintenance things. He also had a customer who picked up the phone and called the air conditioning repairman in the middle of the audit saying you need to get here.

(4-b) Energy Audit Report (cont.):

Ms. Mahle continued so he's able to point out things that are helpful and stated customer feedback has been really strong. I picked up the phone and called a lot of these customers and asked them are you likely to do anything, because from the Commission's standpoint it's not worth anything to us if a customer doesn't take any action. If they're just going to say yes this is great but not change, repair, or whatever, it's not doing anybody any good and all the customers I talked to said they would fix what had been pointed out and/or change their behaviors to use less energy in the home.

Ms. Mahle stated so I wanted to just give you an update on how the audits were going, the feedback as I said is very strong, and he's continuing to do them. The two other items I handed you, one is the report that the customer sees and Mr. DiBello goes over those. One thing that he's able to tell folks, which is very good, is he asks for a copy of their bill, and a lot of people bring out bills over the last two, three, four years. He says look, your energy charge hasn't gone up that much, it's your fuel adjustment which we all know is hitting us all. Here's what you can do, the fuel adjustment is what's happening in the world unfortunately, but here's what you can do to bring down your overall energy consumption to help your bill. He explains that, he promotes our load management, and he's a very good ambassador for the Commission. I feel like we're lucky to have him and so hopefully he'll continue the good work for us.

Chairman Spangler thanked Ms. Mahle and then asked if anyone had any questions or comments. After a comment, Chairman Spangler stated I think the houses are a lot better put together today but most of the houses are not brand new so it's also very interesting to me to hear that as soon as we dropped that \$25 people are flooding in to find out how to save a lot more than \$25. Of course the way I go is I would love for that man to say to me okay, if you do this it's going to save you so much a year, if you do that, etc. So then I'll know how quick the payback is because you don't want to spend \$500 to save \$50 a year; at least I don't. Certainly I think it must have been a good idea to drop that \$25 because now we're getting the word out to people.

Commissioner Hall asked Ms. Mahle if we were finding most of these concerns with older homes, homes built before 1990.

Ms. Mahle stated yes, a lot of the structural issues are with the older homes. A lot of the maintenance and behavior issues, it doesn't matter. People who are maybe not aware about ceiling fans cooling the body and not a room, for example, he tells them things that will change their behavior, so that of course doesn't matter for the age of the home. But as far as structural issues yes, it tends to be three or four or five owners and somebody four owners ago was a handy man and installed something that wasn't quite the right size or what have you. So yes, to answer your question, the older homes are the structural issues, but the newer homes, closing doors and that sort of thing, it doesn't matter who it is, it's just educating them as far as how systems work.

Ms. Mahle then stated and to answer your question Chairman Spangler, Mr. DiBello is not recommending anything that is pricey. He's very economically minded so he might suggest for example a solar fan for the attic. He's very aware of where you can get things, he'll say I've seen that at Lowe's for \$100, and you do it yourself, and then you can get this. She commented hopefully he's not telling a 97 year old woman to do it, but things like that and from my understanding, not recommending major overhauls of systems.

(4-b) Energy Audit Report (cont.):

Commissioner Hall then asked just out of curiosity, what is the number one item in our houses that waste energy, the hot water heater.

Ms. Mahle answered the a/c unit, the air conditioning system from the ducts to the returns to the coils, the compressor, and the whole system has to function properly. If the return is not balanced with the supply you're only going to blow 2/3 of the air that your unit is designed to blow and then it's going to turn on more than it has to and then your bill's going to go up and up and up. He finds insulation in attics and things like that, so he's very good about educating. It's a very good comprehensive look at how the house as a system runs.

Chairman Spangler stated well he's certainly educated you, I'm surprised to hear you say the return has to be sized to the supply.

Ms. Mahle answered yes, I've learned a lot about the a/c system.

Mr. Rodi then stated just an overall comment, this is part of a much larger program that we're just beginning, and it's to manage demand, reduce peaks, where there's a tremendous return to the utility as well as to the customer. It's seen at this point in time as a primary method of cutting demand for electrical use, even at the State level, in preference to building new units. This is part of the reason why we had asked for an engineer to start to measure and define the effects of these kinds of programs. So I just wanted to comment there's much more that will be coming, we're just beginning to ramp up into this but you can see there's great value for the customer in this kind of thing. Mr. Rodi then stated I have one announcement, Commissioner Hall was reappointed unanimously by the City Commission, so for those of you who weren't aware of that I wanted to say thank you and congratulations. He then ended his comments by saying that's all I have for now.

(5) Commission Counsel's Report

Chairman Spangler asked if there was a Commission Counsel's Report this evening.

Mr. Preston stated there's no report.

(6) Committee Meeting Reports

Chairman Spangler commented we don't have any committee reports that I'm aware of.

(7) Old Business

Chairman Spangler then confirmed there were no old business items to consider at this time.

(8) New Business

(8-a) Capital Financing Program – Alternate Funding Requirements:

Mr. Rodi requested Mr. Lemoine to open a file to display on the screen, the one entitled 20" line, place it on the larger screen so the audience can see it completely. He stated I wanted everyone to

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

be able to see this. For some time, since the Quentin Hampton report, as you may recall we had formal studies conducted with regard to the performance of our existing systems for water, wastewater, electricity, and reuse. In the Quentin Hampton study one of the immediate needs was the replacement of a 20" line that goes between Glencoe pumping station to Smith Street. And we've talked about this often. Part of the setup tonight is I'm going to give some overall comments, then I'll ask Dave Hoover to give you some specifics, and then following that, we have our financial advisors who will be covering the financing for this project which is the installation of a new 20" line, the pumps that are on each end at both the Water Treatment Plant but primarily Smith Street, and then a one million gallon tank which is not connected to this project, over on Third Street for fire protection for the North beachside area.

Mr. Rodi stated to return to this 20" line, you've heard me comment about the excessively high water pressures. When we have a very high demand day, the water pumping pressures often exceed a 100 PSIG. When I had first arrived here I had received a complaint from someone out in Venetian Bay and they said they had 95 PSIG out there and then I noticed that we have water shock dampening apparatus on hot water heaters so that you don't get water hammer in your homes, and so I started to ask questions and this report confirmed it. But at one time we had a 20" line that was operated at low pressure and the effect of that obviously with a 20" line exerting pressure on it, on the smaller lines you get quite a bit of the hydraulic multiplication of that 20" line. What was done was that it was converted, most of that line, for reuse purposes. And good, bad, or indifferent, what you see up on the screen and the map you have in front of you shows that all of the water is being now pushed at that very high pressure to make up for the volume size of that pipe and it is constricted at the area down near S.R. 44 to a 10" line and then it goes back to a 12" inch line. Then on the other side of the tracks you can see that there's an 18" line that goes over to beachside for the filling of, for example, the water tank at South beach and originally that tank on Third Avenue. Obviously we've reached the point where we can't put any more pressure on that line and that's why I have said previously that the water system is about to have a stroke. If you put that much pressure on the lines in order to keep up with the demand, over time you do have an event that, you know we're very dependent on that line. So with that having been said I wanted to provide something more tangible and this was the recommendation of the Quentin Hampton report, to replace that line with a 20" and then upgrade the pumps. With that he then asked Mr. Hoover to give some summary comments about the history of this to put a little more information to this project.

Mr. Hoover addressed the Commission and stated I'll be very glad to do so, this is one project that is near and dear to my heart, and one of the most important ones we can achieve for the water system. He stated I have a very brief technical summary of what I'm going to discuss here and proceeded to distribute a copy to the Commissioners. He stated some of the Commissioners are pretty familiar with this but for Commissioner Zeller I'm going to give a brief review of the factors that are involved and for the public, as you might not have seen it before. He stated for many years I have been the chief operative for the water system and I think what I've said in this report here are three things that would stand out very quickly to you.

Mr. Hoover stated the improvements that will quickly be derived from this one project will be number one the cost for pumping will decrease significantly. Right now we pay for electric bills at the Water Treatment Plant at Glencoe where the pumping station is for the west side of our

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

community, and then at Smith Street we have a pumping station, and at the south beach we have a pumping station; right now we're spending \$400,000 a year. We perform an annual operations summary and in this report for many years we've seen these costs for pumping escalate as the growth of our system also rises. But in the last 11 years since we've lost this line, while the population or the number of accounts has increased by 9%, the pumping costs have gone up 63% indicating significant restrictions in this system. As our CEO so aptly says, he's a man of few words, it's going to have a stroke. We're pumping the maximum pressure we can to try to get more water out and what happened in 1997 was when the Wastewater Treatment Plant got relocated west of town, we were in the process of constructing a new 20" reuse/river outfall line and there was a problem with that. There was a very quick decision, well now that we've got high pressure pumping at Glencoe, let's go ahead and convert that. The operational people were very briefly consulted about that, we were adamant that this was not a good decision, not a long term solution at all, and that the costs associated would be pretty high. We were assured that in due time we would get modifications to help us. It's been 12 years and this is the modification we need, we need that line back that we had before. So the cost for pumping could go down, very conservatively I would say 25%, that would be \$100,000 a year less operational costs to pump and deliver water.

Mr. Hoover stated number two, capacity issues with this larger line unencumbered by system pressures. We'd probably operate that at around 40 to 45 pounds of pressure and a whole lot of water just goes straight there to those tanks at Smith Street and would be able to be re-supplied to the eastern areas.

Mr. Hoover stated finally water quality, this is a huge area, what no one considered there that made that decision was that the same high pressure distribution system that was going to now fill those tanks, when Smith Street tanks are being drained and pumped to go eastward, a portion of that enters the same distribution piping system that's filling it. What we call re-circulation, it's sort of a merry-go-round in that location, in that neighborhood some of the water keeps re-entering the tank before it actually disburses to the eastward areas that then causes decreasing chlorine residuals, an increase with bacterial problems. So we're not only going to see better price for pumping but better water quality and better capacity. We have heard from the City side, the Fire Department people saying that they have some fire flow problems.

Mr. Hoover stated so briefly I just wanted to go over how that all developed and I think this will give you a very clear understanding of how these things interrelate. In 1951, the original New Smyrna Beach Water Treatment Plant was built at Smith Street, right across from the Rinker facility. At that time our original wellfield which was at the Glencoe site had a fairly large transmission main to take raw water to the site east of U.S. 1 and that's where our water was softened, chlorinated, and then pumped out to the whole system. Of course in 1951 most of our city was east of U.S. 1 so there was just a handful of lines constructed with directional bores underneath the railroads to take water to the western accounts in that area. So from 1951 until 1975 this is how water supply was done, the raw water went to Smith Street, it was treated and distributed.

Mr. Hoover stated in 1975, for the need of a larger facility and a larger plant, we built a 6.0 MGD plant at Glencoe. Again the philosophy at that time, the engineering design considerations said let's put a 20", formerly it was a 16" raw line, now it's a 20" finished water supply line. But with possibly 80% of the population east of this railroad tracks, 80% of the water went straight on that

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

20" line to Smith Street into those tanks with no interference from system pressures or demand, was re-pumped to everything east of the railroad tracks, and across the river crossings to the beachside. Then 20% of the water came through these lines to the westward underneath the railroad tracks. We knew at that time, I talked to engineers back in the early 1980's and throughout the 1980's, we knew there was going to be a point in time when the westward development of the city and those service accounts would no longer make it feasible for us to pump water east of the railroad tracks and then re-pump it westward.

Mr. Hoover stated so in 1991 we expanded the water plant to 10.4 MGD, we put in a high service pumping station in there for this western area, and a 2 MG tank. Everything was going fine, we still had a very effective efficient system and then we came to the point in time when the wastewater plant was relocated to the western area, there by I-95, and the decision was made to abandon the 20". Now keep in mind, it's limited, there's only nine lines that we have underneath the railroad tracks. For one thing they're very expensive to construct and for another thing there's a monthly lease on them. So our founding fathers said only have the bare minimum that you need for the western areas. Now the operational staff is asked to completely reverse the flow and take 100% of the water needed for the eastern areas and pump it through this 12" line which is the closest to the tank, and two other 12" lines. It hasn't worked, what happens is you end raising the pressure so much, this is the stroke condition Mr. Rodi is speaking of, that we're running about 95 to 100 pounds of pressure in a system I used to operate at 65. In fact we can't go any higher, the pumps are at their maximum and with a plant that's rated at 10.4 MGD, if we turn on every pump in the system, and even back off on the pumps on the east side, we can only put out 9 MGD.

Mr. Hoover stated these are the issues that will be corrected with this 20" line, more efficient system and better water quality. I believe we'll be able to reduce the chlorine feed at the water plant and the chlorine residuals carried throughout the city because we'll have fresher water. I can't say enough about this because I'm so happy to see it moving forward and it's the best thing we could do for the city.

Mr. Rodi stated and there's one other part of this, at Smith Street the types of pumps that were used there do not allow us to take advantage of the lower 1/3 of that tank. So what we have is a diminished capacity and we have the circulating effect where we're just pumping water around in a circulatory pattern losing the chlorination values. So there are a lot of operational improvements in addition to some savings that we will accomplish here. This also diminishes our electrical peak because generally when we have the hot days we often times have a heavy water usage too.

Mr. Hoover confirmed true and it's something that we need to do. There's a simplistic viewpoint that as long as water comes out of the spigot we're doing fine, it's not that simple, we need to be able to perform not only under normal conditions but under peak conditions right now such as event weeks or during a fire. We can see some of the limitations surfacing severely so this will eliminate that and be a huge improvement to our whole operation.

Mr. Rodi asked if there were any questions from the Commissioners on this part of the presentation so far.

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

Commissioner Zeller stated we had a fire Friday night a week ago, didn't we have some water pumping problems.

Mr. Hoover stated not that we heard of, in fact I questioned the Fire Chief and one of his lieutenants was kind enough to get back to us. We had a couple of unique factors happen then, for years we've asked the Fire Department personnel, whenever we've had joint training to let us know when there's a fire immediately because we can do more for them. If not, our plant operators will see a pressure loss and think there's a water line break and get the call out man to look for water breaks. The Fire Department did call us immediately, at 11:00 p.m. that night and our operators responded instantly with more pumps. We were told that the fire flow was adequate enough for them to run four fire hydrants at 1600 gpm which is a very healthy flow. I believe that fire was close enough to a healthy part of the grid that we were able to perform well; it was in very close vicinity to the 12" line that is now carrying a lot of the demand from the plant. So they were quite happy, they told us at one point they actually asked us to back off some of the pressure but by I think it was 3:00 a.m. everything was under control and they told us to stand down so we went back to our normal tank filling mode.

Mr. Rodi stated one of the advantages of the notification was that you were able to stop pumping to the south beach and then be able to use that volume and pressure to supply that area.

Mr. Hoover stated that's true, we have automatic balance on those tanks and if we close and stop that filling operation we'll have additional pressure for a fire event.

Chairman Spangler stated the thing that we don't want to know is how well we'd have done if we had had a fire in the south beach or west of town simultaneously to the one that took a million gallons and I hope that this new pipe will give us a little bit more capability in case we have double trouble.

Mr. Hoover stated it will and the restoration of the Third Avenue tank and pumping station will give us adequate supply for a multiple event if that should happen.

Mr. Rodi asked Mr. Lemoine to close out the file on the screen if there weren't any other questions. He then stated part of what I am doing at this point with regard to the studies, we have been diligently working on the electrical side of the house between Mr. Mitchum and Mr. Beyrle for the south beach. A lot of the old Schoolway substation issues and voltage problems in that area have pretty well been resolved. What we've done is we've converted a number of that old 12 KV system over to 23 KV and what that has allowed Schoolway to do is be more effective in supplying the remaining customers there. The addition of the transformer over at Field Street has given the capacity that we need for both supplying this part of town but also being able to use Smyrna substation for the primary supply for the western side of town. So at this point, aside for some reconductoring and a lot of tree trimming and those storm hardening activities that Mr. Mitchum's been involved in, we've now come to focus upon the water system. Which this particular project is a multiple year project, it's very extensive, and it is critical for the future of the community. This project will resolve the limiting capacity in the system so that it matches the water plant capacity. It also then allows for the reduced costs that you've heard from a pumping standpoint. We won't have to buy any more variable speed drives and higher horsepower motors and be able to effectively

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

take care of the weaknesses of the water system that are of a major nature. There will be one remaining point out toward Turnbull Bay that was part of the study but after we see the results of these projects, and the three projects are the line, the pumps, and the tank, then we'll be able to measure better what action we really do need to take for that part of the service territory. Mr. Rodi then stated with that we'll turn to the money side of this.

Mr. Toby Wagner addressed the Commission and stated he was with Southeastern Investment Securities out of Orlando and we're the financial advisor to the Commission. We haven't been here in a few months, we were here I think probably in the early part of the summer, and we had a resolution before you, a reimbursement resolution. Tonight what we'd like to do is talk about some alternate financing for the projects Mr. Rodi has outlined tonight. He stated as we go, feel free to interrupt with any questions, and commented I get tired of hearing myself talk so I'll be glad to entertain any questions.

Mr. Wagner stated on the introduction page we'll spend a little bit of time going over the outstanding indebtedness that you currently have and we'll talk about the preliminary financing plan, and the issuance of indebtedness to cover this project, and then the actions steps. On the overview, I think as your budget and your capital budget points out you've got several sources to fund your capital plan, existing funds available, R&R account, any grants, and then any external financing that can't be covered by those other sources. And again we're just going to focus tonight on what your needs are in the current year knowing that future years are very much driven by growth, and what your expectations will be in subsequent years.

Mr. Wagner stated regarding the next slide here's a very brief summary, as of October 2nd or currently up through now, of your outstanding debt and October 2nd was important because you had a lot of bonds that matured October 1st. You have three senior lien bond issues outstanding, the Series 1993, the 2002, and the 2004A Certificates. The 2004A is a bank loan through SunTrust Bank. And then you have subordinate loans with the State Revolving Fund through DEP, which is for I think wastewater, right.

Mr. Rodi stated yes.

Mr. Wagner stated and then your FMFA loans on the electric side. You can see what the maturities are for those various issues, they range as short as 2011 on the 2004A bonds and then the majority of them go out to 2020. The next slide, page 6, is a further breakdown of each of those issues. What was originally issued, what's currently outstanding, what the interest rates are, the final maturities again, what the maximum annual debt service is on each of the issues, and then what the money was used for. As you can see most of the debt that you've had has been refunding, probably taking advantage of a lot of interest cost savings by refunding your outstanding older bonds and then you've had some capital improvements on your subordinate lien debt, the SRF and the FMFA debt. You have no cash reserve accounts in hand, you've got sureties on both the 1993 and the 2002 which means you've bought an insurance policy to cover the debt service reserve requirements on those two loans. The series 2004A bank loan with SunTrust doesn't require a reserve account, nor is there one required with the SRF or the FMFA loan. You can see the redemption date meaning that those bonds could be called in on those dates without what we call an advance refunding which is a technical term under the I.R.S. regulations.

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

Mr. Wagner stated and while I mention I.R.S. regulations I think all of you probably know that you've got the ability to borrow tax exempt whereas the Federal Government borrows on a taxable basis, so they're very jealous of your ability to borrow tax exempt when they have to pay a higher cost of money. Therefore they've put some very stringent regulations and guidelines in place that restrict how local governments can borrow and what they can use the money for and so forth. One of those is limiting the amount of times that you can advance refund bonds, that's where a redemption date becomes very important to you.

Mr. Wagner stated the Series 1993 and 2002 bonds are insured which means that you're receiving a AAA rating as a result of those bond insurance companies on your outstanding bonds which buys down your interest rate and gives you the lowest possible interest rate in the market. He then asked if there were any questions on this slide.

There being no questions, Mr. Wagner stated the next slide is just a quantitative summary of the senior lien bonds and why that's important is because of what we're talking about for financing these projects is to issue senior lien bonds that would go on top of these. As you can see your debt remains relatively level up through 2014 and then starts to drop off and continues being somewhat level from 2015 to 2020. He stated the next slide is a graphic of the date we just presented, probably a little more illustrative. You can see the Series 1993 is the longest issue, in the red, and why that is so low in the early years is because you refunded a lot of the Series 1993 and you've only got two maturities out which were the term bonds on that loan, so there's just the tail end of that loan. Then the majority of this is the Series 2002 and then you see the bank loan on top of that.

Mr. Wagner stated next I want to get into the bond covenants which is Resolution 28-78 and that is styled after bonds that you issued back in 1978 which have since been refunded but that serves as your master bond resolution. That outlines all the covenants that any parity bonds or additional senior lien bonds and subordinate debt for that matter gets layered on top of those bonds. As you can see your oldest senior lien debt is the Series 1993 but that's still living off the same Resolution 28-78. Your security is typical, it's the net revenues from the operation of the system which is your gross revenues less your operation and maintenance expenses that trickles down then to pay the debt. Your rate covenant is a fairly standard rate covenant, net revenues must equal at least 125% of annual debt service requirements. Some of the more modern bond resolutions will have a little bit lower rate covenant. Your additional bonds test is a little bit healthier than what we see in modern times, you could probably skinny that back to maybe a 120 or 125 times as well and not have as much surplus required to service the bonds. Other than that it's a pretty typical resolution.

Mr. Wagner stated on the next slide you'll see how the flow of funds works which is similar to what you probably have seen in your budget, the nomenclature may be a little bit different but essentially this is tracking how your budget reads as well. You have your revenue fund and then the operation and maintenance expenses, the debt service reserve gets funded next and in all instances we've got that insurance policy taking the place of funding any cash into a debt service reserve. And then the sinking fund monies are paid, the debt service is paid, and then you come down to the subordinate debt and you have R&R, demand charge debt service components, surplus revenues, and your transfers to the City.

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

Mr. Wagner stated now we get into the preliminary financing plan for the borrowing that we are talking about and what we're recommending is issuing certificates or entering into a loan for up to \$10 million this year. Then your future issues are really going to be growth and system performance driven, we think that's the most flexible way to go. The projects that Mr. Rodi outlined currently I think total about \$12.9 million based upon your current estimates. We're looking at funding \$10 million of that \$12.9 and then picking up the balance possibly in a 2008 Series of loan or maybe you just pay out of R&R or revenues; that's to be determined along with any future issues that may come along. You'll recall that your capital plan was very aggressive in terms of showing about \$40 million of external financing but a lot of that was very growth related and right now you're just not seeing that growth so that number I think is going to start to come back or if those projects get delayed, it will push it off certainly.

Mr. Rodi stated if I may, the growth designation here is for individual fill-ins. For example the addendum that we put together for purposes of adding infrastructure for new growth usually relates to PUD's and subdivisions. As you'll recall that excluded individual homes so the individual lot, and I'm not talking about commercial, I'm talking about residential, as you get infill in the City will over time continue to have impact on the existing system. So that's what is referred to with regard to growth. We worked very hard to use the external financing so that what it does for us is not encumber the future so that we don't have to go for additional bonds or any kind of loans. That is a very definite change over what has occurred previously. The system performance relates to my comment previously, for example in the Turnbull Bay area. There's not an issue there currently but we do know that there's a weakness and after we replace the 20" line and the pumps then we'll have some actual measurements to then see whether we have any other action to take in that area. Currently our expectation is in 2008, in the early part of the year, to fund the balance of the money we need for these projects. The estimates that we're referring to were just recently done as a part of our annual review for the addendum. So U.S. Cost was the name of the company who went over the projects again and looked at current rates for materials, other than labor costs, and labor costs to give us a forecast of how good the numbers ought to be for these projects as well as others. So I wanted to contribute that to your comments.

Mr. Wagner stated this next page outlines really what your options are in terms of external financing and we've got fixed rate bonds and then two types of bank loans or notes I should say. Under fixed rate bonds, that is a traditional municipal bond which you issued in 1993 and 2002, it's long term, it can be short term, it can go out to 30 years, semi-annual interest, annual principal payments, and secured by a first lien on the system net revenues. You need a debt service reserve or a surety for a bond issue, final maturity can be out to 35 years but we don't see that generally, it doesn't go out longer than the life of the asset certainly. Then the investors want a ten year call protection at least, that's pretty standard, and the bonds are sold to an underwriter, either on a competitive sale or negotiated sale and then distributed to investors.

Mr. Wagner stated in comparison to a bank loan which is similar to the 2004 note that you have outstanding, that can be short or long term and principal can be semi or annual. Again secured by a first lien or it can be secured by a subordinate lien as well, you're not going to get as high of an interest rate on a subordinate lien as you would on a first lien. You can get away on a bank loan with not having to fund a debt service reserve or buy a surety so that's a plus. Final maturity is a little bit shorter, it can only go out for 20 years. The redemption feature, while we have on the

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

bonds ten years, that can vary from lender to lender, some lenders will get aggressive and give you maybe a five to seven year redemption feature, others may be ten years. Some banks will not allow you to have an early redemption. The banks will buy this and usually hold it in their portfolio, they won't distribute it out to any of their clients therefore they don't need any disclosure documents and the disclosure document, if any of you have seen one recently, is usually about 150 pages long in terms of a prospectus outlining everything under the sun about the utility authority good, bad, and ugly.

Mr. Rodi interjected it's totally understandable too.

Mr. Wagner answered that's right and added I don't know who reads those believe me, but under a bond issue you hire a disclosure counsel to assist you in preparing that and you don't have that on a bank loan. A bank loan is a much simpler obligation to enter into therefore the issuance costs are lower, and we'll get into that on the next slide. The caveat on a bank qualified loan is that you can only issue up to \$10 million in any calendar year. Now let me stop for a moment and talk about non bank qualified versus a bank qualified. A non bank qualified goes to the same party, it goes to a bank, but it's going to carry a different interest rate and the give up in the interest rate on a non bank qualified can be anywhere from 30 to 50 basis points. What would qualify it, again as what we would call a bank qualified or what the tax code considers bank qualified is if you issue \$10 million or less in any one calendar year. Now, what gets a little tricky is you've also got to look at what the City issues as well or their interest in looking at what they issue. Your bond counsel will tell you from your standpoint you can issue up to \$10 million and not worry about what the City has on their books or what they're issuing. Vice versa is not true, in other words if they want to borrow any money this year and you're going to eat up that \$10 million then they can't do any bank qualified. So you've got to work hand and hand with the City when you're approaching this type of a loan. We have talked to the Finance Director, Ms. Klinkenberg has talked with the City's Finance Director, I've talked with my counterpart, neither of them feel that the City's going to be doing any borrowing this calendar year so what we're trying to do is move in and capture this \$10 million availability to both entities and use it for the benefit of the Utilities Commission and then see what the City does next year. The City has some borrowing needs of next year of probably about \$14 or \$15 million, I have no idea what the projects are that they're talking about but with that kind of level if they need over \$10 million they probably wouldn't be going bank qualified anyhow unless they bifurcated \$10 million in 2008 and the balance in 2009. So the limited knowledge that we have to date is the City won't use any of their \$10 million cap and that could be available to you to issue on a bank qualified basis.

Mr. Rodi stated part of the thought process is we won't be using all of this money at one time because the first part of these projects is always engineering and the engineering required for the pumping is going to be very complex. So as a result we'll need a part of it to pay for the engineering design. When these banks compete, because I'm sure that's where we'll go, will they also compete in return on the unused portion of the loan? He commented I think maybe I'm getting ahead of myself.

Mr. Wagner stated I was going to cover that a little bit later but let's talk about it now because I think it's important. One thing about a bank loan is you can be very flexible in how you structure it. If we went out to the market and solicited bids from banks, the way that we would write those bid

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

specs is that we would want them to commit for up to \$10 million, either on a variable rate basis or a fixed rate basis. We would also say it may be a draw down loan like a line of credit that we'll just draw down on it as we need it, and we may frankly not even need \$10 million. So we may not use the full amount or we can draw down the full amount and we can reinvest it either through the bank, whoever gives us the best rate is who we would want to invest it with, meeting the draw down schedule that your staff would put together and making sure that you could hit that draw down schedule but in today's market you could earn that arbitrage profit which is the rate of return on the investment versus what you're paying out in interest. You could have a positive arbitrage in today's market but that can flip too by the time that we close this loan and you may not want to draw it down. So to summarize those comments if we go out and receive bids even when we award the loan we don't even have to select which way we want to go Mr. Rodi, we can keep it open as a draw down loan or take a look at the reinvestment opportunities or draw it all down if we want or a good portion of it. With a bank loan you can be very flexible whereas on a bond issue you're going to take down all of it at once. He then asked Mr. Rodi if that answered his question.

Mr. Rodi stated yes and the reason why I went there with the question was everyone I think was doing the same thing I'm doing, looking at the interest rates, the debt service, are we going to spend it all in one year. I've grown to understand the Commission a little better in the last couple of years so I wanted to ask that question because I saw them, I thought, wondering.

Mr. Wagner stated and then another decision will come into play also, can you award a contract for \$13 million on these projects when you only have financing of \$10 million in hand, where are you going to get the difference, and so that becomes a legal question too and a policy decision.

Mr. Wagner stated on the next slide, slide 15, is another graphic on a bank loan versus a bond issue summarizing what was on the previous page in terms of you can see the cost differential for a bank qualified versus a bond issue and then how much money's available for the project fund. We matched up the final maturity on a bond issue with a bank loan here for interest rate purpose comparison. You can see that it's slightly higher on bond issue versus a bank qualified loan and you see what the annual debt service interest is. But again the bond issue could go out 30 years if you so chose, if you went with bonds.

Chairman Spangler stated I have one question please, what you're saying is that this is a commitment for a specific project.

Mr. Wagner answered it doesn't have to be, we will style this so that it can be used for any utility purpose, in other words monies fungible as far as that lender is concerned, it can be used on the electric side, wastewater, water, wherever you want to use it. So you can dictate where you want that money spent, whether it's the Smith Street project and these other projects, Third Avenue or if you need the money in an emergency for something else.

Chairman Spangler stated we'll probably have an emergency if we don't do this work so I think it's probably committed.

Mr. Wagner stated but again you'll have enough flexibility to go any way you want on that. He then stated this is another boring slide that shows you all the numbers of what your existing debt is

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

on the left hand side, similar to what we looked at before and then feathering in a loan in 2007, this project for \$10 million, and then an aggregate of those two, of the existing plus the Series 2007. You can see that we don't amortize principal in those early years because you've got some pretty heavy debt service and so that's interest only and then we start to bring the principal in. Actually we start to bring that principal in 2015 instead of starting in 2016 and fill that hole so that you drop from an aggregate of \$5.4 million down to about \$2.5 million for the next few years.

Mr. Wagner stated the slide after this is just the same graph that we had before layering on again the Series 2007 debt, and you can see that it still remains a little bit uneven. I think that if we did see some heftier borrowings in the future based upon your growth or maybe through some refundings that we want to take a look at for interest cost savings then we can level off some of this. But right now there's not a lot of leveling we can do. I think your staff is doing a good job of aggressively paying down debt, you've accelerated some of your debt on your FMPA loans I know and you're whittling away at your debt very well I would say.

Mr. Rodi asked to make a comment here because I think it's appropriate. I don't know what year it was, 2003, the U.C. sold some land to Jerry Johnson and I think he paid the U.C. \$1.9 million and we have actually put that money rather than putting it against the FMPA loan, we've left it in the revenue account because we're getting a greater return there. When we aren't getting a greater return, I think we're making about \$19,000 to \$20,000 a year, so it's easier for us to make that additional amount and if the interest rates change then what we'll do is put it against the FMPA land loan. There are all of the possibilities that we can use here depending on what the market will allow us to do at that point.

Mr. Wagner stated the next slide just shows you your debt service coverage and it's probably a little different than what you see in your monthly reports. What we're doing here is looking at the maximum annual debt service which is the worse possible case in terms of your coverage versus what your annual requirements are or your monthly requirements. But we've got the gross revenues and then the operating costs coming out for your net revenues available for debt service and we show the coverage on the senior liens as well as the subordinate on the left hand side. You're pretty healthy in terms of your senior lien debt and your subordinate, you've got over three times coverage and on your subordinate and senior over two times coverage. And then you remain right about two times coverage with the proposed issue coming on line as well. So all in all you've got good debt service coverage which means you've got adequate capacity for future issues if you need to go back into the market. I'm not recommending that, suggesting that, I always recommend you exhaust all other possibilities before you go out and borrow. Again there's enough coverage there that allows you bonding capacity for future capital needs.

Mr. Wagner stated in summary we are recommending, I think as you saw in the agenda package, that you pursue a bank qualified loan for up to \$10 million. And if you choose to do so then what we would do is go out to banks with a bid package, get competitive bids, come back to you at the November meeting and do an award to the best bid. You're not obligated at that point just because we've awarded, you can walk away up to the point that we actually close a loan. In fact we've got one additional step once we award a loan, then we have to go back to the City and get them to bless it through the adoption of an ordinance. Mr. Preston probably could speak to that a little bit more. You did that back in 2004 and you'd do that again and they'd have two readings. Essentially we've

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

got time to do this before the end of the year but we're running close on time. We would catch the last meeting in November of the City and then their first regular meeting in December and then we'd move before closing before Christmas or after Christmas if we take advantage of this process. He stated to the Commission that he would be glad to answer any additional questions that you may have.

Commissioner Hall stated I'm trying to phrase my question without stepping on toes. What if the City says no?

Mr. Wagner stated if the City says no then we'll be in a position to demonstrate to them clearly what a strain it will be on your revenues and the fact, well I haven't studied it but perhaps you may have to raise rates to cover these expenditures. But that's something we'll be prepared to demonstrate to the City what a hardship it will be for you if they do say no.

Commissioner Hall stated secondly, in your opinion, this is absolutely needed.

Mr. Wagner stated in terms of this structure or the improvements?

Commissioner Hall stated this structure.

Mr. Wagner stated I think this is the best structure, I think the bank loan is the best way to go, it offers you the most flexibility in terms of getting into a loan very inexpensively and if you want to get out of it you're going to have the ability to get out of it; so it's a very flexible piece of financing.

Commissioner Hall stated there are economists out there in the world, whatever an economist is or may be, who are saying that we're in a recession or about to get into a recession, will that have any impact on this.

Mr. Wagner stated if rates go down we'll be able to buy this loan down, again you'll have enough flexibility in this as rates move downward we'll be able to refund out of this loan and take advantage of those.

Commissioner Hall stated I don't want to put you on the spot but do you see this as a win-win position for us?

Mr. Wagner stated I think it is your best loan, I think it is a win, I don't know what the other win is. I think it is a win-win for you and the City frankly, I think it gets a lot of your borrowing ability out of the way so that you make room for them to borrow next year. And I think it's a good transaction for both sides and we'll portray it that way to the City when we go before them with an ordinance.

Mr. Rodi stated to Mr. Wagner and you also represent the City too, your firm?

Mr. Wagner stated no we do not.

Commissioner Diesen stated its obvious that this is something we have to do, I mean we said we would only do the capital as it really was needed and we need this fix, there's no doubt about that.

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

And I think we're real fortunate probably, this wouldn't be seen in a lot of quarters as being fortunate, but now that we do have a little bit of lull in building we're going to have a chance to perhaps catch up to where we should have been. The only thing that really concerns me is that the \$10 million is not necessarily committed to this project. It doesn't bother me with this sitting Commission and with this CEO but things can change and that's the only thing that bothers me about this. And if I were on the City Commission it would bother me as well.

Mr. Wagner stated you can certainly restrict it, I mean you could make it specifically, explicitly for this project if you wanted to do so. I was just pointing out by Chairman Spangler's question, that it can be used for any purpose if you so choose. The lender doesn't care, so if you want to put belts and suspenders on and guard yourself and restrict it to a specific use, you can certainly do that and then you could come back and amend that project description at a later date if you needed it for other purposes.

Commissioner Diesen stated well I think as a citizen, ratepayer, and stepping down off the podium or dais, I would say I'd want it tied down. I'd feel more comfortable knowing that it's tied down but that's speaking from the other side. I'm comfortable with what I know we would do but as I said things change quickly.

Mr. Rodi stated we can specify this for the water projects and that's basically how we started this. The sequence obviously would be to have the construction of the 20" line and then you have to have the pumps and that design go with it. But there are some parts of the project, for example the 1 MG tank replacement that can be put off, that would be at a later stage, and likewise there's some emergency generation, I believe at Glencoe, Mr. Hoover?

Mr. Hoover answered yes.

Mr. Rodi stated so we can sequence how this is done and confine it to those projects. Whatever your pleasure is, I'm not adverse to that.

Commissioner Diesen stated thank you.

Chairman Spangler asked Commissioner Allen if he had any comments?

Commissioner Allen stated no.

Chairman Spangler then asked Commissioner Zeller?

Commissioner Zeller stated this could be used on the tank, this is going to be on Third Avenue at the pumping station there?

Mr. Rodi stated that's correct.

Commissioner Zeller then asked and that's an alternate?

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

Mr. Rodi stated no, that is for fire flows on the north beach and by the time, we can either build it first and we've resolved that issue assuming that Mr. Hoover can fill the tank, and then that provides the volume of water flow should it be needed. The other approach is to do the 20" line, gain whatever efficiency we can for the flows also to the north beach because of the 20" line and then put that extra capacity in for the tank.

Commissioner Zeller stated what if the 20" line proves to be better than expected, would you still need the tank and the pump.

Mr. Rodi stated the answer is yes, the hydraulic flows indicate that we will need that tank. In fact they're suggesting that we do it all at the same time but I don't think we can handle this project as well as we're putting in a new 24" line from roughly Glencoe Road to the other side just west of the Interstate 95. That's going on now, we're doing the engineering design on that so I think we're reaching our capacity to do projects.

Chairman Spangler stated the sum \$10 million seems to bring to my mind that this is not solely our decision. The \$10 million fund has been sort of available and not available this year and now it's available. I'm not sure why it is but that's okay, we may find that what we use it for will be restricted when it goes to the City Commission however I can't believe that they would want to restrict it to anything other than what we say we intend to use it for, so I mean that would be the worse case scenario that would happen there. I hear some Commissioners say maybe that's a good idea so we don't know for sure what's going to happen but this motion here is basically to approve the beginning of the process so do we have any other comments.

Commissioner Allen stated if we look at the agenda item it basically states it's for these three capital improvements on the water side.

Mr. Rodi stated that's right.

Commissioner Allen stated to me that's what it tells me that money is going to be spent for and the opportunity if the City is looking to needing funds next year this would be the ideal time to move forward on providing funding for this project which is really needed.

Chairman Spangler stated all right, I guess if we have no further comments, what we're looking at here is a motion to approve the referenced process, to obtain a bank qualified loan for the financing of three capital water projects in the total amount of \$12.9 million, \$10 million in 2007, \$2.9 million in 2008, and authorization to seek bids for the same. So basically what we're asked here is for a motion to approve the process and get started.

Commissioner Hall then stated so moved (a motion to approve the referenced process, to obtain a bank qualified loan for the financing of three capital water projects in the total amount of \$12.9 million, \$10 million in 2007, \$2.9 million in 2008, and authorization to seek bids for the same). Commissioner Allen then seconded the motion.

Chairman Spangler requested a roll call vote to be taken on Commissioner Hall's motion and the motion then passed unanimously.

(8-a) Capital Financing Program – Alternate Funding Requirements (cont.):

Mr. Rodi thanked Mr. Wagner and the Commission. He stated he just wanted to explain we were just finishing this presentation this afternoon, going through some of the numbers. Part of what we were trying to do was be respectful of what the City's needs were and it was very unclear with the impacts from the tax reduction and so it made it very difficult for our City as well as other Cities to get their arms around what impacts there would be. And then the City was also facing the construction from their bond issue for a new Fire and Police station so that I think they had an extremely complex set of issues to work through so that's why we ended up at this last minute trying to fit it in and push it along as quickly as we did and to get it here. So thank you very much and I appreciate your indulgence in getting late reports in fact too.

Chairman Spangler stated and we thank you for clarifying that as much as you're going to be able to clarify it for us. He then confirmed there were no further new business items.

(9) Possible Other Business – Time for Commissioners:

Commissioner Hall stated in reading the notes from the last U.C. meeting it was interesting to note that by reducing costs to the consumer, such as lowering your hot water heater and making sure your air conditioning returns are working, etc., etc., that will cost us money. What really hit me was we have to strike a balance which means that we have to be vigilant all the time. And I remember comments you made, Mr. Rodi, several months ago that you didn't know if our, at one point, our Directors never had a chance to direct, it was done by some other person. I just want to restate what I've said many times, I am a happy utilities customer of New Smyrna Beach, have been all of my adult life, and I think that the people we have working in this organization really do a great job.

Mr. Rodi thanked Commissioner Hall and added I think they do too.

Commissioner Diesen welcomed Commissioner Hall back to fulfill his unexpired term and added we're glad to have you.

Commissioner Hall stated thank you and I want to thank the Commission for their support in that endeavor.

Chairman Spangler commented it was our pleasure and we liked the outcome, quick.

Commissioner Zeller stated thank you for the light bulb and commented about the color of the bulb.

Commissioner Hall stated it says the bulb will last five years, right.

Mr. Rodi stated well that's what it says. What Commissioner Zeller's referring to, for those who aren't familiar, each of the Commissioners have graciously agreed to test an energy efficient bulb that is to remove odors.

Commissioner Diesen interjected and it works.

Mr. Rodi stated so far it seems to be working, so that was the reference.

(9) Possible Other Business – Time for Commissioners (cont.):

Commissioner Zeller stated we talked earlier, if we could get this, the reports earlier in the week.

Chairman Spangler stated earlier in the week, not in the day.

Commissioner Zeller stated well getting it on Friday, it's kind of hard to get it to come to a Monday meeting.

Commissioner Diesen commented that's what you get Saturday and Sunday for.

Commissioner Zeller then added there's nobody to call and ask about the items.

Mr. Rodi stated we understand and we were traditionally about a week ahead of time and with the items we've run into in the last several months in fact we've been right up against the deadline so we'll try to push it back so that you have more time to look at it.

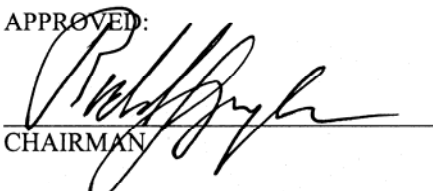
Commissioner Zeller stated I appreciate it.

Commissioner Allen stated it is good to see that Commissioner Hall is still going to be with us and I look forward to serving another year, and with Commissioner Zeller. I look for us to being able to tackle some real issues that we need to improve on for our utility. We do have a great utility, good staff, employees that work for us and conscientious, and it's important to kind of move forward. I know there's been a lot of deterrents and interference that has kept the Commission from really taking on the real tasks. I just thank Mr. Rodi as CEO for providing the leadership for us to move forward and looking forward to the different utility issues to be resolved and improved for our customers and our residents.

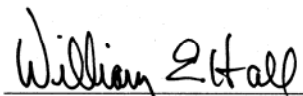
Chairman Spangler stated I certainly have to agree with that, I think we're about as a cutting edge utility now administratively and management wise as a small town could ever hope to have. It really is a big help to us and it's really nice to be working with an organization that knows where it's going and when and why. And I think that's what we're doing and that information is available to anyone, it's all up there. So I thank you Mr. Rodi and once again welcome Commissioner Zeller and welcome back Commission Hall.

There being no further business to come before the Commission, Chairman Spangler stated we're adjourned. Chairman Spangler closed the regular U.C. meeting at 7:45 p.m.

APPROVED:


CHAIRMAN

ATTEST:


SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their November 19, 2007 meeting.