

AGENDA ITEM 2-a

MINUTES OF A REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD WEDNESDAY, AUGUST 21, 2006, AT 6:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

Chairman Para opened the Regular U.C. Meeting with the Pledge of Allegiance led by Commissioner Reynolds, and then with a roll call with all Commissioners present as follows:

Commissioner William E. Hall
Chairman Kevin J. Para
Commissioner William H. Reynolds
Commissioner Richard L. Spangler
Commissioner Jeanne K. Diesen

Others in attendance were as follows: R. Rodi, General Manager/ CEO; R. Montalvo, Director of Finance; R. Mitchum, Director of Electric Operations; T. Beyrle, Director of System Ops. & Generation; J. White, Director of Engineering; D. Hoover, Director of Water/Wastewater; B. Mudge, Director of Human Resources; R. Skog, Interim Director of I.T.; C Montgomery, Database Analyst; E. Mahle, Public Relations Manager; L. Klinkenburg, Chief Accountant; R. Wetherington, Materials Manager; T. Gilligan, Payroll/Benefits Coordinator; S. Gunter, Training Officer; D. Simmons, Executive Asst./Recording Secretary; and additional U.C. personnel; Bill Preston, Interim U.C. Legal Counsel; Melanie Stawicki-Azam, Reporter for D.B. NEWS JOURNAL; Jerry Shaw, Reporter for THE OBSERVER; City Commissioner Grasty; Lillian Conrad, CPA; Brent Millikan, Kimberlee Millikan, Alex Kish and Brad Douglas, representatives of the firm Brent Millikan & Co., P.A.; two Security Guards from World Security Services, Inc.; Tony Grippa and Jennifer Botting, representatives of the firm Brown & Brown; and Sally Mackay, Bill Rogers, K. Taylor, Walter Glenn, Bob Tolley, and a few other unidentified men and women, all members of the public.

(1) Agenda Changes, Additions and Deletions:

Mr. Rodi stated upon the consent items, there's an item 2-e. I'd like to have that discussed under old business. There's a procedural change in that, there isn't a substantive change, but it's procedural and I just wanted to openly talk about it.

Chairman Para stated okay, that is the establishment of the escrow account, that's going to be down in the old business. He then asked the Commissioners if there was anything else.

(2) Approval of Consent Items:

Commissioner Diesen then stated on an item in the consent agenda, agenda item 2-c., just for clarification, it says suspension of the services but in fact it's continuing with what we have, just not new.

Mr. Rodi stated that is correct, it is no new customers; we will keep up what we have.

Chairman Para then asked for a motion on the consent agenda items.

Commissioner Diesen made a motion to approve the consent items, item 2-a. Minutes of Final

(2) Approval of Consent Items (cont.):

Public Hearing and Regular U.C. Meeting Held 7-17-06, approve as submitted; item 2-b. Developer's Agreement and Addendum – The Golf Village at Turnbull Bay, approve as submitted and authorize the General Manager/CEO to execute these documents; item 2-c. Suspension of Broadband Wireless Internet Services – Canopy, approved suspension of broadband wireless internet rates until further notice (it was confirmed and stated this was for new customers only, services would be continued for existing customers); item 2-d. Supplemental Professional Services – Invoice Nos. 14411 and 14451 – Brent Millikan & Company, P.A., approved payment of the two invoices in the amounts of \$43,383.75 and \$18,902.50 respectively; item 2-e. Establishment of Escrow Account and Appointment of Trustees for Administration of Developer Contributions to Infrastructure Costs, item was requested by General Manager/CEO to be discussed under old business regarding procedural change (due to inadvertent omission was subsequently not discussed and UC legal counsel then determined that the opening and maintenance of the escrow account is a management function and involves no expenditures of fund which would require the approval of the Commission – copy of this subsequent legal opinion was attached to this agenda item); and item 2-f. Bid No. 26-06 – Furnish and Install Three Galvanized Radiators at Substation Transformer, approved award of purchase order no. 03609, in the amount of \$26,924.00, to Waukesha Electric Supply, Inc., the evaluated low responsive and responsible bidder, for three galvanized radiators at substation transformer station. Commissioner Hall and Commissioner Reynolds seconded this motion and it passed unanimously on a roll call vote.

Chairman Para then commented I think Commissioner Hall had it.

(3) Public Participation:

Mr. Kenneth Taylor then addressed the Commission.

Chairman Para asked is there a podium with a microphone set up somewhere. (The podium and microphone was located on the west side of the room due to the screen being down and planned subsequent slide presentations.)

Mr. Taylor stated he would just stand in the middle and commented it's always interesting that at public meetings the people in charge of those meetings, for some reason, feel they must restrict public input except for that part called public participation instead of letting the public participate in the meeting at the time various issues come up where the public might have interest. But anyway, since I have public participation, I have a little statement I would like to make, probably a little early but I think you'll understand it.

Mr. Taylor stated it has come to my attention that the Utilities Commission is once again eliminating any vestiges of a communications network within their serving area. Several years ago a wireless system known as Canopy was installed to serve several locations in town with fast internet service, principally on the beach. It experienced starter problems for various reasons but performed reasonably well. In fact, as you know, the Utilities Commission installed a system to

(3) Public Participation (cont.):

serve the airport tower because there was no other service available that could do the job in such a short installation time. I'm told that you're now planning to turn it off for a reason or reasons unknown. I would appreciate an explanation of the technical and financial reasons the wireless system will be turned off and de-installed, particularly when Bright House, BellSouth, and others are spending large amounts of money to gain wireless presence in New Smyrna Beach.

Mr. Rodi stated for the record, the first item Commissioner Diesen had asked about, is that the wireless system will continue as it is. The consent agenda item was simply not to add additional customers. One of the technical issues that you may not be aware of is we had attempted to use a company called 5G Wireless that was suppose to be a non-line of sight wireless system. It did not prove out, so as a result what we have is the old infrastructure and old equipment now. We have spares but we aren't in a position to continue to expand it. What we're finding is there are increasing amounts of maintenance that we're having to spend on it and what we're attempting to do is get a fiber backbone system in and then look to see between what's available on the competitive scene, what's going to be available here, and how we might best then serve the community. So that's where we are right now.

Mr. Taylor thanked Mr. Rodi for that information.

A man (later identified as Mr. Tony Grippa, Brown & Brown) addressed the Commission and stated just because I don't know the protocol Mr. Chairman, is this where we would speak on a particular agenda item.

Chairman Para stated customarily if you'd like to bring up something, but if you've got some detailed information on an agenda item, I have in the past allowed people to participate in the agenda items. So if you've got something to add to an item I think it would be probably better for everyone that you speak then.

(4) General Manager's Report

(4-a) Monthly Summary Report for July, 2006:

and

(4-b) Budget Summary through June, 2006:

and

(4-c) Commercial Monthly Report for June, 2006:

Mr. Rodi stated I'll just be brief. From a standpoint of the financials, I think we're beginning to now see a restoration of our profitability. For those of you who aren't aware, we're out of the telephone business in all the states now except for Tennessee and we will be out there effective September 1st. We're under 200 customers at this point, so as we're winding this down we're seeing some of the costs are obviously going down with it and we're still dealing with a lot of the residual issues like closing out contracts and we're working with counsel right now. I just wanted to bring that to your attention, it's not totally positive but it looks as if we're headed in

(4) General Manager's Report (cont.):

that direction. He stated with that I'll open the floor with questions on the financials of Mr. Montalvo should you have any, and if not, we'll move on with the rest of the program tonight.

Chairman Para confirmed no one had any questions of Mr. Montalvo regarding financials.

Mr. Rodi stated at this point then I'd like to have the final fiscal year audit presentation from Brent Millikan and Company.

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Mr. Brent Millikan addressed the Commission and stated it's certainly good to be here with you. What we're going to do tonight is basically cover some high points with you. What we have here is about 200 pages of information. He stated I'll never forget the time we were over at New Smyrna Beach and we were getting ready to go through the financial statements and there was a gentleman who was sitting behind me and as luck would have it he was right behind me on the agenda. He nudged his wife and said do you realize Brent Millikan is in front of us and she said I sure do, and then his wife nudged him and said do you see how many pages of information he has there. He said I sure do and he looks like the type of guy that's going to read every page. Well, we're not going through that tonight, what we're going to do is just hit you on the high points of what we've got here for you.

Mr. Millikan stated when I take a look at this report, the way that I look upon this report is kind of like a 911 report. We've had some major problems, had some major issues that we had to deal with, and I feel like what we're here to do today is kind of identify the problems and then the important thing now is to come up with solutions to the problems, and there's been a lot of problems. We've been working with you for over 34 years and this is probably the most challenging year that we've worked with you. Going through the things that we've had to go through has certainly not been pleasant for us but it's not a matter of being pleasant, it's a matter of what our job is and what we have done is we've tried to do like Detective Friday use to say, just the facts, and that's what we have here in this report. What we've done is we have the documentation, everything that we said in this report, we have the documentation supporting what we have, everything stands as is, and we stand here today telling you this is the way it is, these are the facts, and we're here to present them to you.

Mr. Millikan reiterated but what we're going to do is just hit the high points of this, there are an awful lot of pages here to go through but we're not going to do that tonight. We are very, very willing to come back and help you. But like I said the most important thing is to understand that what we're doing here tonight is these reports identify the problem but the important thing is to now move forward and come up with solutions, and that's what we're here to talk about. He then asked Mr. Kish to take over the presentation.

Mr. Alex Kish addressed the Commission and stated as Mr. Millikan said we're here tonight

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basically to discuss the actual findings that we have with you from two separate communications that we've made to you tonight regarding audit matters. The first, obviously being since these are rather lengthy in size, we don't want to hit every single item and we've had an opportunity to discuss these already. We kind of want to hit from a cursory overview standpoint the items that we have here. Now please understand that we're ready and willing and able to discuss them to the extent that you want. I'm just going to go initially, in a presentation, as a quick overview and if you want to discuss these matters please feel free to whistle and we'll do so.

Mr. Kish stated basically I want to let you know that we've got two particular communications here, one being the management letter documents that's included within the financial report, roughly 52 pages of comments, very detailed comments by the way, regarding resolution of prior year matters and current year matters. Also, note that we did in fact dual date the management report to indicate that some additional procedures had been performed through August 1st of 2006. So we have some issues on items that we were working on with you and with your staff subsequent to the cut off point doing the financial statements, and that's been included in Exhibit B to the back of the management letter. Also the other section is the report on audit matters which is a summary follow up to the October 2005 and I believe April 7, 2006 report to you of issues we had actually discovered as a result of the expanded scope that we had. Again, this was as a result of the authorization provided to us in June of 2005, so we're going to try to hit on those.

Mr. Kish stated as Mr. Millikan alluded to here, one of the most important things in discussing this is that we need to take a look at what we have, the first step in solving a problem, obviously, is identifying and understanding first of all that a problem exists. We believe that we've started that process and we've identified numerous problems that have been encountered by the Commission in each of the past two years. We do have detailed recommendations that we've made with respect to the majority of the problems and we believe that those are all issues that can be resolved and establishing a means to do that is going to be just as important as identifying them in the first place. It's going to be a very concerted detailed effort that's going to be required to resolve the bulk of these issues, and as he indicated earlier, one of the major issues may have been already resolved by the complete shut down of the communications system that's there.

Mr. Kish stated so what I'd like to do if I can, in looking at the bulk of these problems, is kind of the best place to start is at the beginning. Let's take a look at the overall issues that we have to deal with and actually what is their history, how did these things arrive. We've discussed these comments with each of you and I think we all came back with the same basic question, how did all this happen, how did actually all of this happen. We've tried to recap that very quickly here and just to go through. Again back in 2001, in August 2001, the City actually authorized the Commission to enter into the telecommunications business. The fundamental legal basis for that is still questioned and is still open but prior to 2004, prior to the 2004 fiscal year, I don't know if you're aware, but the Commission actually billed your customers themselves. The actual

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Utilities Commission billed these customers, retained from the billing and collections the 16% commission, and then cut a check for the 84% difference and sent it back to Epicus. So through September 30, 2003, that was the practice and there's been, I guess, comments been made that issues went way back beyond that point in time, but we're here to tell you that there were no findings prior to September 2003 with respect to that system. That system actually worked quite well. Again, you billed the customers, you collected 100% of the amount, you took your cut off the top, and you sent the remainder out to the provider; that was an easy process to work.

Mr. Kish stated however, late 2003, around August, the Commission decided to create its own platform where you would build your own customers. Early development of that took place, but really and truly nothing material took place with developing customers until around January 2004. Also, one of the primary kick ups in that point and time was the acquisition of the KUA agreement, that added a large chunk of customers to you right there. So at that point though, I think the key thing to point out was that as soon as you actually relinquished the billing function and turned it over to Epicus, almost immediately you encountered delinquencies in billing. In other words, almost immediately you didn't receive your funding from them. The first four months they collected revenues from the Commission they had not submitted them to us and at the same time there was approximately \$400,000 outstanding which was due to you in the form of customer deposits that had been retained. So really and truly, just so we can address that issue, that's the first time this actually came into an issue and that was during fiscal year 2004. Again at that point in time, payments became approximately four months behind, sometimes five months behind, and those findings were in fact reported to you at the conclusion of last year's audit, in the management letter at the end of the 2004 fiscal year.

Mr. Kish stated now in developing this customer platform in 2004, the Commission management chose an Exceleron/Commworx package or system to account for database activities, your billings, your collections, and the whole issue. This system was really never, ever, ever designed for this type of use. It wasn't a proven product, it was in a beta test mode, it just literally was not the right product and it's actually turned out to be the wrong product. The pitfalls that were experienced came almost daily. Again, those findings from the first year's application in use of the Commworx system were included in the 2004 fiscal year audit management letter comments.

Mr. Kish stated due to continuing problems, primarily, and I guess you all recall back in August, September, and October 2004, we experienced four hurricanes back to back. As a result of that, the Utilities Commission wasn't any different than any other local government jurisdiction in the area. As a result, audits for virtually all government jurisdiction entities were three to six months behind because literally, staff was then filling out forms to obtain reimbursements from FMEA and doing all the things that were required associated with that. As a result of that we actually did not get started on the 2004 audit until around January and we rendered a report in March of 2005. But at that point in time, those issues were in fact reported. Further delays, going into 2005, in June, issues came up with the termination of employees and things kind of boiled to

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another hot point at that particular time and we were asked to do additional work and as a result of that work, we issued reports in October (2005) and also followed up with the issuance of another report, very similar, that included the same information on April 7th (2006). Both times we indicated to the Commission that we were fully aware that the FDLE was involved in an investigation. The investigation was ongoing and that we were unable to report on all of our findings at that point in time. Now subsequent to that, the bulk of those findings have been included within the reports that you have presented to you this evening. So those matters, basically, had to do with reporting of information on April 7, 2006.

Mr. Kish stated the report on audit matters that I was referring to, the first section, I'm going to kind of hit that first if I can. It's dated June 5th (2006), it's in a separate folder, it's a 52 page report along with approximately 150 pages of exhibits. Again, probably, the most important point here, really nothing has changed in that report other than I guess some issues that came up subsequent to its delivery. At the point in time it was delivered to you, subsequent to that, two individuals in particular basically denied that they had been involved in any of the actual activities involved in the destruction or alteration of customer database files. As a result of that we felt we needed to continue the findings and go ahead and provide you with all the information that we had since much of that information had been suppressed by us at the time the report was done.

Mr. Kish stated if you'll take a look at exhibit 32-a, I think you'll see that. He stated I'm not going to beat these things to death but in exhibit 32, that actually is a summary of a sequel code that we discussed with you back in April indicating that there was involvement by two employees to destroy or alter certain customer database function, particularly the sales agent ID codes in certain customer records. If you take a look at that, step 1, step 2 and step 3, are identified, that's actually the sequel code or the program instructions that were done and initiated as a result of the follow up on this email. At that point in time, it was indicated to you in meetings afterwards that those activities actually never took place and we've included in here a copy from the News Journal, the statements that were made by both individuals. One indicating that this information had never been done, they were contemplating a way to remove coding assigned to VStar but stated they never did it; again that's one of the big points. Then on the other side we see that ultimately it was said that the process never got turned on. We're here to tell you that's totally false because we have absolute proof and evidence that was done, actually that very same day. The sequel code that was discussed in that communication was in fact performed within 30 minutes of the original email being transmitted. We have proof from the exchange server showing the mailing, where the source of the email came from as identified on 32-b. and the receipt of that email is confirmed with the exhibit 32-c. If you'll take a look at the actual email itself, in the code to the email or in the original email, the instruction code indicates that a file is created, a temporary file called TMPVSTARREMOVE32305. If you'll take a look, on exhibit 32-d., you'll find that exact file, named precisely and exactly the same. That file was created by New Smyrna Beach Admin. on March 21, 2005 as identified there. To look at the

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actual contents of that file, we've got on 32-e., we basically clicked on the contents of that file and we can see from examining what's inside that file that it does in fact include a random distribution of accounts totaling 1,331 records, which is precisely the number identified in the sequel script. If you'll also look under the second column you'll see that every single sales agent ID code has been replaced with the four letter word NULL, it has been nulled out. Which is precisely the language contained in the sequel script that was given to you.

Mr. Kish stated to us personally, all that does is show that it was in fact performed, the procedure actually did in fact take place. It took place the very same day that the sequel communication was made but what really bothered us was what was on 32-f. and 32-g., which was the follow-up to it. This was information, again, that we had at the time that we did not relate in the communication. If you'll notice on 32-f., that one of the individuals prepares a letter that was sent to Mrs. Turano and in that letter basically indicates that oh, oh, look what I found. I found 1,332 accounts out there that have had their agent ID codes nulled out. Now it may be, I'm having to make a guess, but it's a fairly educated guess, that the accounts actually fell into a group of buckets and had their agent ID's overwritten. Now, what we're telling you at this point in time is that all this is, is an attempt to cover that particular procedure up. The fact that it took place and its on the server is one thing, but approximately one month later the communication is made hey, look here, we've found this where these accounts have been nulled out. That's just simply not the way that it went down.

Mr. Kish stated when we take a look at the actual file that's attached to it, we see an excel file which is an excel spreadsheet file. If we take a look at the contents of that spreadsheet file it is absolutely identical to the contents contained in the access database file that was created and stored in that temporary VStar file, exactly the same. The accounts that are randomly selected are in the exact same order, the ability to recreate that file and pull random accounts from your database one month after it was done, is virtually impossible. What it is, it is a copy of that database file that was attached. We want to make sure that you were aware of that and we're just following up on that issue.

Mr. Kish stated there are other issues in this report. It's apparent that individuals have felt that it's permissible for them to operate competitive enterprise operations, very similar and emulating the prior CEO's actions. When we take a look at that, we see that we had an entity that was developed by an existing employee, Mustang Solutions, LLC, was created to potentially compete with the Utilities Commission. Also in the process of the preparation and development of this company we feel like there is proof, in the form of documentation that shows that two other employees of the Utilities Commission were solicited to assist in the development of activity of sales documents, logos, slogans, jingles. All these activities took place while being employed at the Utilities Commission and in many instances included Utilities Commission's computers. Those issues are being reported to you in this section of the report. Again we feel like these are all issues that need to be brought to your attention to basically conclude the exhibits that are

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included in here, in the latter section of the exhibits, in the 41-a. through f., in the very, very back, they are the very last exhibits included there.

Mr. Kish stated now if we look at the other document we have, very quickly, we'll talk about the management letter, I'm not going to go through each of these comments in particular but I would like to let you know that there are over, there's 28 comments, some have subsections, there's probably 35 to 37 comments there, including prior year, current year and post year matters. There's some really significant issues in here, one in particular in looking at prior year matters, we've talked about the Commworx system for two consecutive years now. Again, it's been reported to you by your own staff that they fully understood the limitations and the non-working capabilities of the Commworx system. It's just not the right package, now again talking that the actual communications division is in fact winding down I don't want to beat that to death, other than to tell you that there was in fact a software package that was not usable.

Mr. Kish stated computer system controls, we've got some serious problems with the computer systems that were in place in prior years. Communication system operations we've discussed with you in detail some of the pitfalls, some of the reporting issues and some of the other problems that we've encountered in the prior year. Other current year matters, we've basically broken down comments into three specific, functional areas. We've got accounting and finance related matters, we have communication related matters, and we have information technology matters. Then I guess we have a final section in here on general matters regarding new accounting pronouncements that we have to deal with. But under current matters, one of the most important issues that we feel like may be of use to you immediately is the issue of consideration of an internal auditor on your staff. An independent person who can screen these types of activities and provide additional support to the Commission. We feel like that's a very, very important area to look and want to bring that to your attention.

Mr. Kish stated we've also discussed in here, in looking at the decentralization requirements, one of the problems that we encountered through the communications system is that all the accounting functions became, they worked their way into a decentralized strait. The bifurcation of the reporting responsibilities, the establishment of separate systems, really created a problem for you. When Finance was dealing with a drop dead deadline of having a financial report done and not having data from the telecom division to literally complete that function and that part of the report, decisions had to basically be made to omit that information in the process of submitting a report to the Commission. The fact that information was omitted doesn't mean that that's what your operating results were for any given month, it just means that they simply did not record certain financial activities associated with that division. Again, that's a major pitfall in the reporting side.

Mr. Kish stated when we take a look at the communications system itself there are several areas that need to be looked at, potentially for areas that may still affect you. You may still have certain receivable balances available to you. We look at the Carrier Access Billing issues, the

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fact that's a very, very complex program, very complex issue, and with people in charge of the operation with no background in the telecommunications industry, no understanding of this, its certainly understandable to me as to how it could be overlooked on that part. Not that it's good, not that it's bad, I'm just saying that is a reason why it potentially could be overlooked. However, we did discuss that approximately a year and a half ago with this board, to discuss with you the intricacies and complexities involved in doing a billing for the CABS billing. It's a very complex process, particularly when it's involved in more than one tariff state, you actually have physical operations in more than one state, so you have multiple tariffs and multiple filings with those jurisdictions as well. So those are very complicated issues however there still may be recoveries available in that area and we've gone through a very detailed and lengthy discussion within the management letter to indicate to you amounts that are pending and some of the issues that are actually unresolved with respect to the CABS issue.

Mr. Kish stated when we take a look at ILEC billings and charges, again we're referring to the billings and charges we would receive from Bellsouth and Sprint and so forth, the reconciliation process basically broke down. There was not reconciliation with account billings, or with actual accounts billed out to customers on the other side. We kind of walked through that in detail with you and at the same time we looked at the actual Commworx reporting system and the deficiencies that are involved in the Commworx system. The discrepancies in reconciliation procedures and lack of reconciliation procedures were totally the cause of the bulk of your problems. If you can envision an accounting system that basically does not have, really it's not developed, it's not designed, and it's not programmatically established to report to you billings to customers. It's not, it's really a haphazard, one-sided program that was put in place to manage pre-paid cell phone activity. Quite frankly, the limitations involved with the system are numerous and any time you had to have additional support on it, it cost you a fairly substantial amount of money, by the hour, to obtain actual support from the Commworx side of the street in order to do any maintenance of files that had to be done by them in that process; and that's discussed in here as well.

Mr. Kish stated also, tax collection issues, having to do with, again, the reporting information is very important, that you can identify where you collect money from. If you collect it from New Smyrna Beach or Edgewater, or Daytona or Miami or where ever it's from. In today's world, in Florida, the public service tax has been centralized. If you all recall, now all public service taxes are remitted to the state, the Department of Revenue, and it's actually based on information that you provide them. It's broken up and sent back to the government jurisdiction that it applies to. So you have to be able to provide that to them, not only by a county level or a zip code level, or a phone access level, you have to be able to do it by actual physical city, state and zip in order to meet the state's requirements.

Mr. Kish stated also we take a look at the IT issues that we've got, try to pull this thing together if we can. We've got a lot of issues that we need to look at for moving forward. Organization and management, basically we have a situation where we just really did not have any

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organization and management in the IT function prior to at least until March or April of this past year. Storage management functions, move to production process functions, and virtually no safeguards were employed with respect to the management of your IT systems for the past year and a half; those are of serious concerns. We've gone through and discussed some issues in here in particular, communications policies, tracking of internal and external email, activities, outboxes, inboxes, as some of those deleted at random are not included on your actual exchange server. There's a lot of issues that need to be looked at and rectified for moving forward.

Mr. Kish stated one of the issues regarding security that we broke down in more detail to you, at least individual issues, we've got on page 110, and that has to do with inventories of software and hardware; none basically existed. We have some real problems with access, email security, and the lack of email security. We have malicious software that's been identified on your computer, almost 300 unlicensed or unidentified software packages on your computer, 26 of which were programs that were determined to be dangerous. In many instances malicious software was found throughout and again we live in a world where we certainly don't want to have non-licensed software on our computer systems. There's real and tangible penalties associated with those types of issues. Vulnerability scans were not performed at all, the Microsoft based security analyzer was not in place for the period. The encryption, there was no encryption of sensitive accounting information on site. Remote administration and back doors we discussed with you, the existence of several firewall, I call them several firewall puncturing software packages where they can actually go through your firewall system and gain access to your main computer systems. There were four specific items we know that were Microsoft terminal services, Go To My PC, WebX Client, and Virtual Network Console. These were all issues and programs that were installed on the servers. Again, there's no security or audit logging maintained with many of these activities so they could just basically happen and operate at random with no record of access. Firewalls that had basically been unused with the access of these individual packages, and the firewalls that were in place were not totally functional in reality. An intrusion detection software, none was deployed by the IT department during this period of time. We also discuss internet service and wireless network, the location of some of the wireless servers, again with access to your meter reading equipment and certain other areas.

Mr. Kish stated those were all issues that we felt were very, very important and issues that need to be addressed and we think that we are at least making steps to move ahead and work on those particular areas but those are all issues that were place prior to the end of the fiscal year that had not been resolved. Also, prior to year end we had an opportunity to look at some other information, basically these are tasks that were commissioned to us by Mr. Rodi and running through and doing some additional work and we've got some references made there. Also on communication management issues, those would be in response to post June 5th comments that we wanted to make to you with respect to procedural activities we were involved in working on the audit.

Mr. Kish stated so really and truly, just kind of pulling this thing together, we've had a difficult

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time as well as you have, in dealing with a host of issues. Most have been difficult, most have been unpleasant, and however we feel like we have, as Mr. Millikan put it, stayed on task in this whole process without being deterred. It has been very difficult, we have had to be very abrasive and unyielding in a lot of attempts, we've had difficulties in dealing with third parties, difficulty in dealing with some of your contractual providers and still do, to this day. However, we've continued to roll up our sleeves and jump into the trenches and help represent you in fighting this battle. It's been a tough time in the last two years. While it wasn't fun, it was essential, there's things that had to be done. Also, a lot of toes may have been stepped on in the process, unfortunately, that was essential as well. We feel like we have completed, at least successfully completed that process of the investigation and have been able to put some comments together for you. He reiterated we have over 35 specific problem areas that we've discussed within the report and here tonight, many of which we just glazed over them, we haven't really discussed any of them in detail, but there are 35 specific problems areas which will absolutely require very concerted and genuine effort to resolve. Some of these are going to be difficult to resolve, and we feel like we want to be able to help you in that problem. Mr. Millikan stole my thunder here, I said these are similar to the 911 report. In talking about that, we've got conditions and problems that have been identified, how did these things happen and what do we need to do to implement solutions to correct them. Probably the most important thing is we certainly want to look at implementing solutions that are necessary, not only to resolve these problems, but to establish controls and procedures which will absolutely put in place controls that will not allow these types of problems to continue in the future. So we're kind of in a very unique position to be able to help you with that. At that point, I'd like to kind of shut it down and go through any specific comments that you may have with respect to the audit.

Commissioner Spangler stated I think that what I hear is that we went into the phone business in a straightforward and open way, we got rolling, and then come the end of the fiscal year 2003, a whole new bookkeeping system was initiated and that bookkeeping system, apparently, wasn't decipherable by anybody until after the next year. So that basically allowed sort of a funny bookkeeping system to function that no one else could penetrate or understand and we also apparently had management problems. I know one of your comments is that we should never go into a business without a business plan. Well, to me that is sort of like WAV telling us that we're going to run out of water; yes, we understand that. I think a lot of the problems that you've identified never would have occurred had we had a business plan and had we had competent people implementing that plan. So from my point of view the real confusion began when the billings were no longer made through the standard accounting system and we lost control of all of that. Is that a fairly accurate statement?

Mr. Kish stated I think that's a very precise and accurate statement, that effective, on or around August 2003, when we opted to create our own platform and pull away from the Epicus internal billing cycle. However, we really didn't add a large number of customers until January 2004, it was in fiscal year 2004 you actually had stand alone procedures.

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Commissioner Spangler interjected the die was cast.

Mr. Kish stated that is correct.

Commissioner Reynolds stated so I better understand it, in discussions and previous briefings, it appears that the previous Director, Mr. Vaden, had bypassed reporting specific financial data to the Chief Financial office, and therefore he did not have visibility into the telecommunications separate accounting system, is that correct?

Mr. Kish stated I think the key thing here is at this point, in looking at that, what actually happened is this moving off of the Epicus platform and moving into your own platform via the Commworx system. There was very little information available from it. So I think to maybe characterize that differently, from Mr. Montalvo's viewpoint, trying to gather data to produce a monthly financial report, that includes current billings, collections and account receivables balances, that information was not available. It had not been generated and quite frankly there was no infrastructure in place, no computing infrastructure in place to technically produce schedules that could be relied on to convey to you what your true billings were, what your true collections were, and what your true balances were at any given time. So those were not moved forward, and as I mentioned earlier, what happened is in the process, you've got a drop dead date that you've got to have financial reports done to produce for the Commission board, if that information's not there it's not included within the reporting statistics that you have and the issue that we wanted to make clear is just because we've got some information reported in there, it clearly does not include all of the costs for operating the venture. That doesn't mean that those reports are not considered gospel and that they are correct, simply because they don't include certain cost activities or accruals for expenses associated with them. And the contentions been made that just because that's what's in those monthly records, if it shows a profit simply because we left off a half million worth of billings for phone service, then it just showed a profit. Well, that's just not the way it works.

Commissioner Diesen asked to piggyback on that and go over a couple of other things, because I figure this is probably the last time we're going to really discuss this in depth. At the point that we went on our own platform, that's when it really started to unravel, when we brought in RSVP, and then VStar was created.

Mr. Kish stated basically that was when the bulk of the internal accounts would have come into place, and would have been placed into an internal customer platform. That is correct, in the January, February time frame.

Commissioner Diesen stated all right, and how many customers did VStar actually get for us themselves.

Mr. Kish stated themselves?

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Commissioner Diesen stated yes.

Mr. Kish stated I think the number was 36 or 38, under 50.

Commissioner Diesen stated and for that they received a considerable amount of commissions because they were getting, talk to us about that little round robin.

Mr. Kish stated in this particular case, we've indicated in our report to you that the contract that exists, we don't know if its a valid contract or not. We don't know if the individuals that signed were even corporate officers, we don't know. Mr. Preston has made repeated attempts to gather information from the company and they're just ignored. We don't know who the company is, where they are, how they operate, we really don't know anything about them other than we've got a contract. In the process of reviewing that contract, there is language in there that prohibits them from using a telemarketing company to solicit customers, which in this case RSVP was a telemarketing company. It said that the contract that's there does in fact say you can solicit customers, but you've got to do it, you can't go out and hire anyone to do it; and that language is in the contract. Again, that's like a level two difference that we have in this whole process, so if you look at this alleged contract it does not even provide a provision to allow that type of activity to take place.

Mr. Kish stated the issue, as we see it, is I guess, internally, communications were made which would indicate to staff, for instance the ex-CEO would indicate I paid 40% of the telemarketing expenses for this month, therefore we want this amount, this percentage of all the customers that come in through this source, meaning RSVP, would be attributed to them versus the internal call center generated account. The issue as we see it, and quite honestly, Commissioner Diesen, I believe that memo is on exhibit 31. The key thing to point out in looking at that memo is look at it for exactly what it is, it's looking at February 4th and it's telling us what the allocations are going to be for the 15th of March, in other words a month and a half later. How's anyone to know exactly what the expenses would be for that period. How do we know that's what the expenses would be or were, we don't know, that's more like a budget than it is an actual summary. We can tell from looking at these, from what we've been able to look at in the very, very limited information that we've been able to receive from RSVP, we can't verify the hour breakdowns that are included within this memo, and that right there creates a problem. In other words we indicated to you in our April 7th report that we don't have any, we can not place any reliance on the agent ID codes that are identified and included within your customer database simply because of these actions, and other actions where Mrs. Turano had indicated there were 2,000 accounts that had been changed. In reality that number was 4,900 plus accounts that had been changed, and on top of that these accounts that we discussed tonight, some 1,331 accounts being changed back the other way. Just because that one event took place, I'm sure that anyone looking at this would say, hey if it happened three times already, what's to say it didn't happen 35 more times that we don't know about, or three, one, or eighty; we don't know. What happens is we as auditors lose any credibility in being able to rely on the status of that database for

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making those decisions. So at that point, we would be in a position where we wouldn't be able to identify what resources came, short of going back to the 3PV verification notice which would clearly indicate the source of where the actual accounts came from.

Commissioner Diesen stated I have a lot more questions about that but I won't belabor it because I think its fairly clear and I think some of it is contained in the 6,000 pages from FDLE. She then stated let's go back to the infamous now figure of \$7.3 million that was lost, just recap that Mr. Kish where that actually came from, that \$7.3 million loss.

Mr. Kish stated we have a whole host of issues there with that. He then asked Mr. Douglas if he had the recap with him.

Mr. Douglas stated I don't have the recap but I know what it is. He stated I'll start with fiscal year 2005, you had revenue that you were receiving from Epicus, and this is what Mr. Kish was explaining you were receiving on this Epicus platform. That's meaning the U.C. was basically paying to grow a competitor's customer base in exchange for commissions, and that was relatively a straightforward situation. And what happened is you did receive revenues in the prior fiscal year of approximately \$1.7 million. In October of 2004, Epicus filed bankruptcy and you received nothing. There was a calculation done to determine approximately what the Commission was going to be receiving under a bankruptcy judgment that was approximately \$2.8 million. All the Commission received in fiscal year 2006, the year we haven't even audited yet, is about \$69,000. So in fiscal year 2005 you can figure part of your loss was attributed to a loss of revenue from commissions from Epicus, that's a contributing factor.

Mr. Douglas stated another factor is you had uncollectible accounts receivables from credit telephone customer sales of about \$1.1 million in fiscal year 2005 and that was about \$1.5 million in fiscal year 2004. You also lost revenue from Carrier Access Billings (CABS) that haven't been collected but had been billed, of approximately \$500,000. And there are a whole list of other items that I'll try to give you the exact complete breakdown of what they are. A big part of the loss that the Commission's endured, I guess, over the past two fiscal years that we are reporting on, and remember those losses continue to carry into fiscal year 2006, and we don't really know what that is yet. But, the biggest part was lack of due diligence for collections on those customer accounts, that's a big part of it. You're having to pay provider fees to BellSouth and Sprint, in essence, you're taking BellSouth and Sprint territorial customers and that's all you had interconnection agreements with, and you were paying them a certain price to pay to provide these services, and then you had to turn around and sell that and try to collect on it; so that's a big part of the loss.

Mr. Douglas stated another explanation for how you lost money in fiscal year 2005 is, in December of 2004, the FCC had an order of remand that changed the unbundling obligations of the ILECS, your big ILECS. So what ended up happening is the interconnection agreements that you had went away and effective in March 2005, you had new commercial agreements and the

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costs of providing those services had increased dramatically and when you didn't even have a response to the corresponding increases in your customer pricing, in your packages to your customers. So if they bought the World Plan or the America Plan or whatever, they were still paying your rates that you had established from the original time of providing those services in the beginning, like September 2003. So there was a loss of revenue, in essence you paid approximately \$1.5 million more in expenses to provide those services than you were able to bill. But let alone you billed it, but you might not have also collected it, so it just compounds the loss situation; that was another big contributing factor that we saw.

Commissioner Diesen stated I noticed the caller ID was one item that kind of jumped out, customers got it, we paid for it, but we didn't bill them.

Mr. Douglas stated you had some plans where you provided unlimited long distance services and some customers, believe it or not, took advantage of that situation, and there was no monitoring of your cost margins as it related to what you were paying for services and what you were receiving in revenues. It was understood that a third party company was doing this for you and that's not what they were doing. Software was acquired, it's nothing more than an access database that was designed to try to audit your ILEC bills, the bills you received from BellSouth and Sprint, but in actuality all they were doing was looking for disputes. They were looking for working telephone numbers that weren't even customers of the Utilities Commission and then if you were billed for that telephone number, just making a dispute on it. But there was no profit margin analysis being done by that third party company or by that software.

Commissioner Diesen stated okay, I think it adds up to \$7.3 million plus, but in that amount I want to ask you, and then I'm going to ask Mr. Montalvo about it as well. The deposits, we were asked twice to increase deposits to Epicus by \$200,000 to stay current with BellSouth, which indicates that those deposits should have gone to BellSouth. However, I believe, I don't know if it was in the FDLE information or whether it was your information, there was no indication that BellSouth, I guess it was actually internet information, there was no indication that the BellSouth deposits increased. Is that correct?

Mr. Kish stated that's exactly correct. What we did, and at the time we were compiling data for the investigator, in reviewing the 10Q's and 10K's for Phoenix International, which is the previous predecessor to Epicus.

Commissioner Diesen interjected one of them.

Mr. Kish stated in Epicus there were 10Q's and 10K's filed with the Securities and Exchange Commission, and I didn't bring the numbers here, but it showed there were actually deposits that were being held external to the company, they stayed at \$200,000, \$203,000 or \$201,000, somewhere along in there, during the entire period of time you made two \$200,000 advances to them so the money that you gave to them they did not use to purchase or in order to

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pass on to any suppliers for deposits, and that was clear with their 10Q filings.

Commissioner Diesen then stated to Mr. Montalvo, I want to ask you, what was your understanding of what that money, those two \$200,000 deposits, would be used for?

Mr. Montalvo stated at the time when we paid the \$200,000, it was that it was in order for us to continue the phone services. They were required because we were growing so fast, we were growing from one month to another, say 3,000 to 3,500 accounts, and in the way that they explained it to me was that it was in order for us to continue growing because the requirement for BellSouth, they had been asking to Epicus for the backup of the money. And then it was something that customarily we have sometimes that we need to deposit money as a utility and in that way we disbursed the money.

Commissioner Diesen stated there was no indication to you at any time that money was going to be used for expenses by Epicus?

Mr. Montalvo stated no, none whatsoever.

Commissioner Diesen stated so it was your understanding then in fact that it was going to be deposits.

Mr. Montalvo stated that's correct.

Commissioner Hall stated you mentioned they, who is they?

Mr. Montalvo asked Commissioner Hall to repeat his question.

Commissioner Hall stated you mentioned in your conversation with Commissioner Diesen, they instructed us.

Mr. Montalvo stated Epicus.

Commissioner Diesen stated Epicus asked, but she then stated to Mr. Montalvo, but you were instructed by Mr. Vaden to draw the checks correct?

Mr. Montalvo stated that's correct, he asked for me to wire the money.

Commissioner Diesen stated and you wired it to accounts for Epicus in another state, correct?

Mr. Montalvo stated that's correct.

Commissioner Diesen reiterated, but at no time was there any understanding on your part that

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Epicus was running short on cash and needed cash and this would be an infusion of cash into the Epicus company.

Mr. Montalvo stated not that it was running out of cash, it was that they had to put the money in order for them to continue putting accounts, our accounts, in their name. Because we were doing the telemarketing and that means that we needed to, and we were at that time, and Epicus was the one billing those accounts, we were an agent for them.

Commissioner Diesen stated I understand that, but it's been purported that this went to BellSouth, is that your understanding that these deposits were to go to BellSouth because of the increase in customers.

Mr. Montalvo stated that was the understanding, that it was suppose to go to BellSouth, I really don't know when the money went.

Commissioner Diesen stated but that was your understanding when you drew those checks, that's what I want to clarify.

Mr. Montalvo stated that's correct.

Commissioner Spangler stated I think that understanding came because there was a letter that came from Epicus explaining their problem and Mr. Kish can probably tell us the source of that letter.

Mr. Kish stated yes, that was very unusual to us and that was an issue that we brought up with them as well. When we take a look the 9-10-2002 letter from Epicus to Ron Vaden, when you look at the text of the letter, we see the exact same letter having been generated internally, was dictated by Ron Vaden to an employee, and actually transmitted to them the day before, on 9-9-02. So the actual text of the letter appears to have been dictated by Mr. Vaden and included within this letter. Again, I think that's one of the issues that certainly makes it look unusual at best.

Chairman Para stated if I could ask one question, Mr. Montalvo, at what time did you represent to that Commission, that Utilities Commission, as to where the funds were going, did you do that in advance or did you do that after the fact.

Mr. Montalvo asked Chairman Para to repeat his question.

Chairman Para stated at what time did you represent, to the Utilities Commissioners who were seated at that time, these funds were being drawn and sent to Epicus.

After Mr. Montalvo hesitated, Chairman Para stated never?

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Mr. Montalvo stated I don't remember.

Chairman Para stated okay and then asked if we had some minutes, if I'm not mistaken I recall reading the minutes in which it was represented as a deposit.

Commissioner Diesen asked Mr. Kish if he had that information.

Mr. Kish stated I don't recall minutes, I do know that when you read the document itself it refers to it as a utility deposit, and that's exactly what it is, and that's what it's referred to within the letter. It says they're going to need to require a deposit account and we assume that's a refundable deposit.

Chairman Para stated so many of us have read different material, I'm trying to remember where I read it and again it was fully represented by, I think it almost a year ago.

Commissioner Diesen stated I do think there's other information, maybe it's from FDLE.

Chairman Para stated I think it was in the minutes that you had asked and that be provided to the new Commission and we read through it and at that time it was indicated as being a deposit. So again, we'll figure that out, I think what we're all trying to get at is how did that fund get transferred or represented, it's important to us.

Commissioner Hall stated to Mr. Kish, we have two documents in front of us. Are there any criminal charges that could come out of these documents in your opinion?

Mr. Kish stated we have indicated to you in here that we're not attorneys, we don't have the ability to identify if there are or are not criminal activities here. We certainly think that there are documents that exist that corroborate very, very, very unusual activities took place. The only jurisdiction that would have the ability to do that would in fact be a police officer, he'd be the only one that could indicate if it is or is not a criminal activity and of course, as we well know, it would have to go through a very structured process to go to the next level with it. But we believe that looking at, particularly just and the only charges that I've seen, is one from April of 2005. I've not seen anything regarding any disposition of issues subsequent to that date. There are other individuals in here other than the named party on the document that we received. There are issues in here that need to be looked at for other individuals as well in our opinion, if that's what you're asking me.

Commissioner Hall stated yes, that's what I'm asking you.

Commissioner Diesen stated and you're saying they need to be looked at.

Mr. Kish stated absolutely, we've made reference in here, in each case that we think that they

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should be looked at. And the response that you got back initially indicates that only one name was included on that and we've implicated some, you have actually five employees names included in here. Not that those are criminal activities but they're all activities that we believe are in violation of certain internal policies or code of ethics or other issues. There are issues regarding the alteration and destruction of data, whether or not those are criminal, I don't know if they are or not. I can say that I think they're in violation of two sections of law and we've indicated that to assist a law enforcement agency and for it being able to identify precisely what we're talking about.

Chairman Para then asked if there were any further questions or comments.

Commissioner Spangler stated I'm burning to comment about VStar stock and Epicus stock. I thought that I glanced in there and I saw a really large amount of Epicus stock that went out on the market and was sold by one of the individuals involved in this, and it was my understanding that Epicus had said this individual didn't have any part of their business and they didn't know of any involvement by him, but he seemed to have had 600,000 shares of Epicus stock at one time, that were sold.

Mr. Kish stated we read the same document that was in the FDLE report indicated, and I believe the number was 578,500 shares, is that correct? There was a large numbers of shares that were disposed of during that period of time.

Commissioner Spangler stated by an individual that was an employee of this Utilities Commission and the stock was in a company that claimed they didn't know anything about his ownership.

Mr. Kish stated that's the way the investigator wrote the report, that's correct.

Commissioner Spangler commented how about that, so we do have a record of the sales of stock, we don't know where it came from or how the individual got it, but we do have a record that it was sold by that individual.

Mr. Kish stated the investigator indicated in his report each individual sale, there was two dozen or so, I don't recall the exact number, but it was for a total of 578,500 shares; 580,000 shares, in that range.

Commissioner Spangler stated I was reading in the really fine report we're going to hear later on that the consultant used the words staggering, which consultants never use when they're talking about water and sewage and things, and you never used the word staggering, but thank you for all that information.

Commissioner Diesen asked if that was also in the FDLE report where they stated that Mark

(4-d) Final Fiscal Year 2005 Audit and Supplemental Audit Reports – Brent Millikan & Co., P.A. (cont.):

Richards said he turned down the opportunity to own or be a part of VStar.

Commissioner Spangler stated there's so many people saying so many things, but I just remember that it was said by someone from Epicus, whether it was Mr. Haryman or Mr. Richards, that they were unaware that Mr. Vaden had anything to do with Epicus at any time and yet he had 578,000 shares of stock at one time, and they didn't know it. That's a big company, that's all I'll say about that.

Commissioner Reynolds stated obviously if this stock was received and sold there must be some bank records. Is there any information of deposits or expenditures of the funds on 1049's reported to the IRS that would say that yes these stocks options or stocks certificates were sold and deposited in someone's account.

Mr. Kish stated actually what I recall in reading the report was that it listed approximately two dozen form 1099B transactions that were captured from the hard drive of that individual and that it actually was in agreement, they had indicated that was a truthful matter. I don't know, but I do know in trying to link things to tax returns that's not done, the investigators will tell you they can't obtain a tax return, they can't verify anything from that side. All I can tell you is that the language in the physical FDLE report indicated some two dozen form 1099B stock transactions that totaled up to 578,000 plus shares of stock.

Commissioner Reynolds stated so in summary for Epicus, not only did they go bankrupt owing us money but in essence the former Director Mr. Vaden perhaps received about the same amount of funds.

Mr. Kish stated I don't recall exactly how much he said that were sold, they didn't have the dollar amounts on the actual sales value and I don't have any idea what the stock was worth at the time that it was disposed. It was over two dozen trades, it wasn't something that took place with one fell swoop. It was a bunch of trades, 30,000 shares here, 15,000 there, 25,000 there, it added up to 578,000 and it didn't indicate times, I couldn't tell you when it was done, it just indicated that there were some two dozen 1099B's confirming stock transfers.

Chairman Para commented so if he had a cooking show he'd probably have got in trouble, right.

Commissioner Diesen stated wasn't there 100,000 shares that showed up in the financials that Epicus had given to VStar, for consulting I believe it was.

Mr. Kish stated that was VStar, now mind you.

Commissioner Diesen commented I forgot, they're not related.

Mr. Kish stated the key thing, and I think what Commissioner Spangler's referring to is there's

(4-d) Final Fiscal Year 2005 Audit and Supplemental Audit Reports – Brent Millikan & Co., P.A. (cont.):

language in the report indicating that they had in fact subpoenaed stock registrar's records in which Epicus officials indicated to the investigator that there was no such activity. I don't know if they gave them any records, I don't know what they did, I'm just telling you that's what the report says is there was no activity and I don't know if they did anything else, or if they did not do anything else, I have no idea what FDLE did with that. I'm just telling you it was in the report what you're referring to, I do recall reading that, and it is in there, and there are in fact summaries of the interviews that were done with those questions that were asked.

Commissioner Diesen asked Mr. Kish if he have had a chance to look at the 6,000 pages at all.

Mr. Kish stated have I, I have not looked at them, no.

Chairman Para confirmed there were no further comments from the Commissioners and thanked Mr. Kish. He stated we appreciate the hard work that you do and I think I could summarize that we've been a better witness of what took place and what we can do better. I think Mr. Millikan said it best, that we're not an investigative body, I'm going to add a few words here, or police agency but we saw what took place and we've got 35 areas that we can improve and start looking forward, that's what we want to do. And I trust that our competent staff will begin, engage and work through that, and I'm going to read this and I know we'll have some more fruitful discussions to make this system a better system. Thank you again for your time.

Commissioner Diesen thanked them for all their hard work this year, and added I know that you all went above and beyond the call of duty and did a whole lot of extra things that would have never been done had you not had the history with us that you have and it's greatly appreciated by this Commissioner.

Mr. Kish stated if we can help in any way please let us know.

Mr. Tolley asked if he could make comments now or wait until the next item.

Chairman Para stated Mr. Tolley should wait until after the next item for his comments.

(4-e) Final External Forensic Audit Report:

Ms. Lillian Conrad addressed the Commission and stated I have two pieces of paper, not two hundred, and I did follow you on the agenda. Good evening.

Chairman Para stated we keep getting stuff when people stand up.

Ms. Conrad apologized and stated it's very simple, it doesn't have a different format to anything you've ever seen from me before. It doesn't say a whole lot. Since the last time I stood up here there has been little that I've done, I believe at your direction, unless something came to my

(4-e) Final External Forensic Audit Report (cont.):

attention, I was not actively involved in any further investigation of any new matters.

Ms. Conrad stated if you would like I will read this into the record.

Chairman Para stated that's up to you, fellow Commissioners, what would you like, do you prefer that it be read into the record or do you just want to review it.

Commissioner Diesen and Commissioner Reynolds stated they would like to review it.

Commissioner Diesen stated I would like to ask Ms. Conrad a question. Did you share any of this information with anyone else, any other agency or any other group or any individuals, the investigative information that you did for us?

Ms. Conrad stated the investigative information that was done for you was shared with FDLE, and we did whatever FDLE, whatever we could do to facilitate what information they needed at the time that they were investigating. That communication and that facilitation probably stopped ten and half to eleven months ago.

Commissioner Diesen stated and you shared this information with no other individuals, attorneys, or agencies, is that correct?

Ms. Conrad stated what I did share with someone else was, Mr. Beazley and Mr. Vaden came into my office and reviewed the documents that had been collected as part of the investigation. I do not believe they looked at anything that had not been reviewed for proprietary for releasing and they simply consisted of the records that had been gathered. That I believe happened probably last October. On Saturday or Sunday, this past weekend, I received an email from Mr. Beazley saying that Mr. Vaden wanted to come in and copy those documents and was bringing somebody in to use a high speed copier to copy those documents and I told him yes he could do that, and I verified with Counsel that the records that I have are public information with the exception of the names and/or addresses of the customers of the Utilities Commission.

Commissioner Diesen stated and you checked with Counsel before the first review in October 2005 and you were told you had to share that information as well?

Ms. Conrad stated I did not, I was not told I had to share the information, I did not deem that I had any information that was not public information that was in the collection of the documents that I had. I verified with the State Attorney's office that the information that I had could not be disclosed if it would impede their investigation and nothing was disclosed that would impede their investigation.

Commissioner Diesen stated thank you.

Commissioner Spangler stated I have one question, did those attorneys and individuals receive

(4-e) Final External Forensic Audit Report (cont.):

any information that the Utilities Commission had not received at that time?

Ms. Conrad stated are you talking about Mr. Beazley?

Commissioner Spangler stated everything that they read and looked at, at your office, was information we had already received, is that right?

Ms. Conrad stated primarily it's information that you provided.

Commissioner Spangler reiterated that we provided.

Ms. Conrad stated correct.

Commissioner Diesen stated that includes personal interviews, correct?

Ms. Conrad stated there are no personal interviews in that information.

Commissioner Reynolds stated last year when you were briefing us on progress, on several occasions you said I can not divulge that information because its been turned over to Florida Department of Law Enforcement. Can you quickly summarize that information that you turned over to them so we can have a clear picture of what you found while you were doing the forensic investigation for the Utilities Commission.

Ms. Conrad stated I believe that you have a record now, I have not seen the documents that you have received back from FDLE, I do not know what you have. I would believe that you have the information that they used from the interviews that we have provided to them.

Commissioner Reynolds stated but you're not willing to tell us or summarize to us what was withheld from this Commission that you reported to Florida Department of Law Enforcement.

Ms. Conrad stated I would need to go back and look at the records, I'll be happy to provide that to you.

Commissioner Reynolds stated okay.

Chairman Para then asked if there were any further questions. He stated I think maybe if I could just sum it up, we're looking for the archives to be turned back in, right, that's permissible, and then that way it will end back up here, and be ultimately a part of a body that's consistent with good tracking of everything that went on.

Commissioner Diesen commented even though we didn't have it previously we want to track from this day forward, and then added just kidding.

(4-e) Final External Forensic Audit Report (cont.):

Chairman Para stated well, we'll just get it all and compile it and that way we've got it.

Commissioner Spangler stated I think what makes us nervous is to think that Mr. Beazley and Mr. Vaden have information that we don't have, that's all.

Ms. Conrad stated well all the information I have is your information.

Chairman Para stated it's information that you gleaned from internally but again it all comes back here in form of the body of the documents that you've got, I think is what we want.

Commissioner Diesen asked Ms. Conrad if that request was made to you just sort of informally and you just complied with it as opposed to were you subject to if you don't share this then, you know, there could be consequences.

Chairman Para stated well, if I could add this, I think what we did at the time is that we put Ms. Conrad in charge of providing guidance, at that time we were on a skeleton crew and I think the records reflect that we gave you the responsibility at that time to weed out information requests when Genny left, right, I think that's what took place.

Ms. Conrad stated the freedom of information act requests, yes, those requests were routed through our office and ultimately were complied with by the Utilities Commission.

Chairman Para stated I think that's how we got at least to the point of putting you in that capacity of making those discretionary decisions. Now I can't comment specifically on what took place in October but I know that, at least my understanding, as to how you got to that point.

Commissioner Hall asked how much has this cost us, not just Ms. Conrad, Brent Millikan & Company, the money we may have spent on this investigation.

Chairman Para stated well to start with I think it cost us \$7.3 million, we've established that and beyond that.

Commissioner Spangler stated he likes money and I think probably the money that we spent in order to find out what happened came to about 10% of what we lost.

Chairman Para then thanked Ms. Conrad for her time.

Public Participation for items 4-d. and 4-e.:

Mr. Tolley, a resident at 803 Fairway Avenue, addressed the Commission and stated I've got to be careful what I say here tonight because I'm surrounded by suits. I will tell you that report you have from Brent Millikan is missing a couple of chapters and those chapters are yet to play out. I wouldn't formulate a final decision on what you heard tonight or what you might read or what you might see in your hand until those chapters come in. I am willing to tell you this, a lot of

Public Participation for items 4-d. and 4-e. (cont.):

effort went into getting the FDLE investigation and this whole matter killed, a lot of effort. A lot of people put a lot of work in making sure this thing went no further. But I'm glad to give you an update, it's come back from the dead. FDLE will be involved again through an internal affairs investigation of their investigation. The, shall I say, handling of the matter by State Attorney Tanner's office will be looked at by authorities quite higher than him who I'm sure are going to come to a different opinion and formulate a different way of where we should be heading with this. As long as you see my face or hear my voice I'm going to tell you I'm going to stay on this because those chapters aren't done yet. A lot of the problems that you hear about, read about, and in those 6,000 pages, originate right from this room, but those chapters aren't yet to be written.

Mr. Tolley stated I can't comment on the Rob Hunter issue, it is what it is, but I don't cut and run. You stole my friend, I still see him everyday, I still support him. There are others that are going to judge what he did or what he didn't do but I don't cut and run like a lot of other people. I want some direction from you folks tonight. I didn't give the Commissioners an opportunity to speak about Brent Millikan's report or Lillian's report, but I've got to know something as a citizen, are you guys willing tonight to decide whether you are going to file a criminal complaint and/or a civil complaint against the parties that are listed in all these documents.

Chairman Para stated well I think I'd like to try to answer that, I think that number one there's a lot of information that we just got handed here this evening and we've got to read through it and study it and myself personally, and I'll let my colleagues speak. But myself personally, I like the 35 points of improving, I think we did our due diligence in reporting what activity took place. Again, just as one Commissioner, alright, everyone else can have an opportunity to speak, but for myself I want us to go in a direction of solving these problems so they don't occur again and look into the future. But again, whatever my colleagues would like to say.

Commissioner Spangler stated I think that what happened was it became obvious that there was a problem here and I think that problem has been dealt with to the extent that it's not happening any more, controls have been set up, I believe, so that it can't happen another time. We may still be paying for part of it, but the step number one was to stop what was going on by any method whatsoever. Now, that's our job here and I guess it's a good question, do we intend to try and get someone to go and press criminal charges. Well I think we tried to do that in several directions and so far, for reasons I don't quite understand, that hasn't gone anywhere. The only thing that we can do is wish you luck with the FDLE and higher ups that we don't have access to as readily. But I think the important thing is what went on, that shouldn't have been going on, has been stopped and the ways that things that they set in place that allowed them to do that have been eliminated. As to whether or not we're going to be able to do damage to individuals I don't know, I'm not sure whether this Commission is suppose to do that. I'm not on any witch hunts, I'm appalled at what happened, I'm appalled at the things that I heard but those things have stopped and that's our first job, and that's as far as I'll go with it right there.

Commissioner Reynolds stated basically what we performed I think, along with everyone here in this department, is sort of like firemen, we put the fire out. We identified these items that Brent

Public Participation for items 4-d. and 4-e. (cont.):

Millikan said we must improve on, I think we have a lot of them underway if I'm not mistaken. From everything I've read so far, I'm very hacked off as a citizen and as a Commissioner, but this has taken place. I think that the previous Commissioners that Bill, Richard and myself replaced probably because it was improper handling, certainly broke the policies, they were probably unaware of this and therefore why should they be held accountable. I think what we have to do is have this thing played out, either in a civil or criminal court. And it's not up to us necessarily, if we voted here tonight to go after criminal activity, doesn't mean that would happen, because all we are doing is reading the same information that obviously the FDLE provided the Attorney General and also that he decided was not sufficient evidence there to do it.

Mr. Tolley stated let me respond to two items sir, if you don't mind, number one...

Chairman Para interjected can we wait until we get through everybody, and then you can respond to everybody.

Commissioner Diesen stated I don't think they decided there wasn't sufficient evidence, I think they decided they wouldn't go forward and I think that's quite different than saying there wasn't sufficient evidence. As far as I'm concerned, civil suit, absolutely if the opportunity presents itself in the right way, I think that's something we should do. I think we owe it to the ratepayers and the citizens of this City. Something happened here, if there's any opportunity to regain anything from that I do think that that's something we do have an obligation to do or we'll be abrogating our fiduciary responsibility to the people who live here.

Commissioner Hall stated I echo Commissioner Diesen's comments and take it one step further, not just civil but also criminal, if it gets to that point.

Mr. Tolley stated may I respond now.

Chairman Para answered please.

Mr. Tolley stated Commissioner Reynolds, while I understand where you're coming from and Commissioner Spangler, yeah, that's good the fire's out. That's not good enough for me, you set fire to my house and just because the firemen put it out that's where I rested. I want to go out and find out who started the fire. Great the fire's out, who started this fire? I think we all know, or a lot of us in this room know who the fire starters were. As far as Commissioner Diesen's statement and Chairman Para's statement, I can tell you that there are people over at the FDLE who if State Attorney Tanner was to ever run across the ones who worked this, he better run quick because they are furious as to how they've gotten hit with this. This internal affairs investigation is starting with their assistance to me. They're actually wanting me to start an internal affairs investigation that many of them know are going to come right to their feet because they are just so furious about how this ended. Is there criminal action here, there's more chapters to that statement that you got from Brent Millikan tonight, yet to be written. But if I got you all right, you're not prepared to do anything, so it's going to have to come from the

Public Participation for items 4-d. and 4-e. (cont.):
ratepayers' side; as a group you're not going to do anything.

Commissioner Reynolds stated I don't think that's what we said.

Chairman Para stated no.

Commissioner Reynolds stated first of all we have 6,000 pages, have you read all that?

Mr. Tolley stated oh no.

Commissioner Reynolds stated I haven't either.

Mr. Tolley stated don't have to.

Commissioner Reynolds stated well I don't go on suppositions, I think I like to go on facts.

Mr. Tolley stated well I tell you what, so you've got another five years to wait while these guys that started the fire are making fun of all of us around town.

Commissioner Reynolds stated you may think that but from what I can tell everybody is disappointed and I get calls at home about this, and I think, if I'm not mistaken, all the information, this 6,000, Millikan's report, everything is out there, and I think that when everybody here judges what should be done, I think that this Commission will do it. I think we have to listen one, to our counsel, two, to our Director (sic General Manager/CEO), and three, there's a separation there. We want the Utilities Commission to get its act together again, have our good employees work hard on this; so there's two sides to this. Our job is to add some positivity to the life of this Utilities Commission, not keep dragging all these people through this stuff, but that does not mean that we're just giving up on this.

Mr. Tolley stated I think there are a lot of employees that are very angry out here that you haven't even heard from that want to see this cleaned up. They've got this hanging over their heads, they don't know which way to turn sometimes, is he coming back, is he going to do this. Look we've got security sitting here tonight, why because they're worried about certain people walking through the door. Let's tell it like it is, these employees are worried, they've got this cross hanging over their heads.

Commissioner Reynolds interjected are you speaking for all the employees of the Utilities Commission.

Mr. Tolley stated no.

Commissioner Reynolds stated well it seems to me you're sort of getting off track of what you're trying to accomplish.

Public Participation for items 4-d. and 4-e. (cont.):

Mr. Tolley stated I will take care of it, no, no, thank you Chairman Para, I will take care of it.

Chairman Para stated all right, thank you, appreciate it, anyone else would like to make some comments.

Mr. Brent Millikan addressed the Commission and stated I would like to say a couple of things. For those of you that know me know that I've been here 31 years, I don't run from anything, never have, never will, I'm not going to start it now. If there's another chapter to be written here, I'm prepared to write it. If there's something that has been done wrong, I'm prepared to disclose it. We have shown that to you and will continue to show that to you. Commissioner Hall, you asked if anything was criminal or not, you know, I'm not Johnny Cochrane, I'm Brent Millikan, and I have the things my momma taught me and I know right from wrong, and there's some things here that are definitely wrong. Now, the proper way to pursue it, I'm not your attorney, and I'm certainly happy to talk with anyone that has an interest about that. We have cooperated with FDLE, one of the frustrating things I have is that I'm not the FBI and I can't go subpoena records because we'd love to do it. We've done everything that we can working with FDLE to help them, encourage them, help them put data together but obviously there are some things that have happened here that are wrong and they make me very angry. As I said I'm not a person that just came to this community, I've been in this community 31 years and I'm going to die here in this community. One of my very first jobs I worked on was the Utilities Commission back in 1972 and that was when the City was thinking in terms of selling the Utilities Commission and I was involved in making sure that we kept the Utilities Commission. One of the reasons I came to New Smyrna Beach was due to that fact and I'm here and I'm going to be here forever. When I was in college I wasn't the sprinter as many of you know, I was a distance runner at Florida State and I ran the 20 miles is what I did. And I'm prepared to run 20 miles now, whatever it takes to bring this to a conclusion. That's what we've done, we have battled this, we have gone through, we had people play games with us, hide information from us. They didn't realize that we had a candidate here for a PhD that can uncover all this stuff they've got on their computer, and how they'd go in doors and close doors and think we couldn't find those things, well we found them. Now, there's a lot more fun in this report and if we want to write some more chapters, there's a whole lot more stuff in there, and as I told you when I started, I'm prepared to be here for three hours tonight if you'd like. I'm that guy that had that report prepared to read every line because we're here. We're here to tell you that we're standing on everything that's there, the documents are there, we have support, and we challenge any of these people to come forward because we're standing on what's there. You know there's some things that have happened here, I've been in town 31 years and never had a person file a suit against me and I'm prepared to go forward with what's happened. He reiterated we stand on what we've done, we're proud of what we've done. It's easy to sit in the back ground and make these little noises but I'm standing right here on the podium, I'm standing here right now and I'm telling you that we want to write every chapter there is and I'm going to be one that leads that charge. He stated now does that answer your question because I don't like to sit here and hear these things, because I'm here, I'm not running, you know that. I heard people call my office and make certain statements and I said you know what you can come back every night after 7:00 to 8:30 I'm here, and I'm going to continue to do that. He then stated thank you all very much, I

Public Participation for items 4-d. and 4-e. (cont.):

appreciate the opportunity of working with you. I can't tell you if something's criminally wrong but I can tell you what my mother taught me and I know that there are some things that are wrong.

Commissioner Spangler stated and even if I'm the one that's the "dove" here, don't misunderstand that I'm not outraged by what's happened and I have a pretty good understanding of what happened. It was clever and it was dirty, but the fact that no law enforcement body has yet seen fit to pursue, this is not our bailiwick. We have asked them to do it and so far they said they don't want to do it. I don't think it's over and no one would like to see it all come out on the front page item by item more than I would but we can't do that. We have asked that it be done and so far, for some reason, and maybe Mr. Tolley will find out through internal affairs, nothing has come of it. I'm not a politician, I'm not a lawyer, and I'm not a law enforcement person. We've done what we can do and that's request that they come in and use the evidence that you all have provided us; so far they have elected not to do that. We hope that something will come of it.

Commissioner Diesen stated that does not include our going forward civilly however.

Chairman Para stated and that's something we can talk about after we read through the documents.

Commissioner Diesen stated yes after we all read the documents. Will we have an opportunity at some point in time to go through the 6,000 pages?

Mr. Rodi stated if you would care to, we'll just make an arrangement to do so.

Ms. Conrad then requested to address the Commission.

Chairman Para stated yes, please, this is an opportunity to get this stuff out.

Ms. Conrad stated I would like to echo Mr. Millikan's words. I've only been here three years but I know there are things that are wrong and it's incredible that it hasn't been followed up. Anything I can do as a citizen I am willing to do to further that effort and I appreciate the fact that you're willing to do something civilly.

Chairman Para thanked Ms. Conrad and asked if there were any other comments from the public. There were none at this time.

After a few comments regarding the next agenda item, and during the set up for the slide presentation, Chairman Para called for a brief recess.

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White:

Mr. Brad Blais, with the firm of Quentin Hampton, addressed the Commission and stated this was his presentation of the wastewater and reclaimed water system facility plan, and as you know we completed the water system elements. The premise is this document was prepared in a format that's consistent with the State Revolving Loan Fund so if you do decide to approach this SRF program for low interest loans you can use this document as a foundation for those applications.

Mr. Blais stated we'll kind of go through these very quickly, you've seen a lot of these types of suggestions and things with a lot of your other reports that have been done. Currently, your annual wastewater flow is approximately 3.6 MGD with peak days of about 4.9 MGD. We have looked at a variety of methodologies to try to do projections from what your ultimate wastewater generation rates are going to be within the U.C. service area. There's quite a few lines up there because there's a lot of data out there that's somewhat conflicting. The pink line is what I would say is the highest estimate for planning and zoning, the lower blue and yellow lines are what other entities have put together, i.e. Burton & Associates which is a subcontractor to St. Johns, tropical analysis zone data (TAZ), which is through the University of Florida, and what we've done is a best historical straight line projection which is the brown line that falls slightly under the planning and zoning number. That is what we use for the remainder of the document as far as all of our planning estimates so it is a little bit on the high side and I would say a little bit conservative.

Mr. Blais stated the next slide, this is the numbers as far as where we see things going through 2025, looking at an average day flow of about 6.3 MGD. What I would like for you to look at though is the average flow peak month, which is about 8.2 MGD, which at that point will exceed your rate capacity which is currently 7.0 MGD at the wastewater plant. You've gone through a permit revision and you're putting in capital improvements currently which will increase your capacity from 6.0 to 7.0 MGD.

Mr. Blais stated but I would say currently that 7.0 MGD treatment process occurs with two process trains. If any one process train needs to go down for any reason, preventive maintenance or anything else, that drops your available treatment capacity to 3.5 MGD. It's virtually impossible to operate a facility like that without periodically taking part of your system offline, your clarifiers, your BTU's, so we definitely recommend getting into the position where you can disrupt another process train so that you will always have that 7.0 MGD capacity available and then during the peak month periods, you'd have up to the 8.3 MGD.

Mr. Blais stated we've done a few different analyses of what your options are and one is no action, expanding existing plant, and literally constructing another wastewater plant. Looking at the cost and non-cost factors, the construction of a third process train on the existing site is the recommended option. That's been through staff and I think everybody is pretty comfortable with that analysis. He stated this is a schedule that has been discussed, I think this is somewhat realistic, that will keep you in the safe zone as far as having available treatment capacity and the

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White (cont.):

ability to maintain your equipment.

Mr. Blais stated the next is somewhat kind of hard to read but you have this in your handout. What we did is we went through every single major process in your wastewater plant, everything from your influent flow, barscreens, all the way down to your sludge handling equipment and put together an estimated useful life for that equipment and a target replacement or a rebuild date for all of that equipment. This can be incorporated into your facilities P&M plans for budget planning in the future.

Mr. Blais stated going through the capital project list this will close this out with an immediate to a long term priority scheduling. This equipment, the sodium hypochlorite, you remember we mentioned this before, and that you currently use gas fluoridation. One ton cylinders out at the wastewater plant are a risk management concern. A lot of other communities are going to liquid sodium hypochlorite, basically 12% household bleach for a disinfection agent. It's a relatively low cost way to maintain safety at the plant. It's essentially a series of 5,000 gallon storage containers, dual wall vessels that can be constructed within the existing area where the tanks are stored, and a mete diaphragm metering pumps.

Mr. Blais stated the other project we've identified is upgrading your dechlorination outfall facilities. Estimated cost for that project is approximately \$200,000, essentially replacing piping, pumps, and electrical equipment that's needed in the facility that's showing a little age.

Mr. Blais stated what's identified as an immediate project is upgrading your influent structure. Currently, you don't have the means of metering your influent, so we would recommend installing an influent meter, another self-cleaning barscreen. If the one you have is down you really have no way to do progress screening. And some other necessary work, replacing grit classifier equipment because its being worn out and the next slide is just a schematic of a flow meter installation.

Mr. Blais stated another item that we identified is just some more, kind of PM work, some of this stuff is fairly old. The variable frequency drive equipment pumps, etc., and some bypass channels and piping. This next slide is just to replace clarifiers and RAS and WAS pumps that are going to need rebuilding within, I would say, the next five years.

Mr. Blais stated the big ticket item that's identified in this project estimate is what we alluded to earlier as far as the construction of another 3.5 MGD process train, another clarifier, additional filtration, chlorine contacts, such as you would have in another third process train. This is essentially the biggest ticket item that I see in the wastewater scheduling in the upcoming future.

Mr. Blais stated the next is the preliminary budgets, the eight treatment type projects are identified and the implementation schedules. The only ones that are shown as immediate is the one that's under construction at the wastewater plant and the influent structure upgrades, the rest

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White (cont.):

are short and long term projects.

Mr. Blais stated they basically went through a very, very brief summary. There's more detail in the report about sludge production, what your current residuals production is at this time, and went through some very brief analyses of what some of the different options are available to you for sludge handling. I know you're having another consultant do an in-depth biosolid or residuals handling report and these numbers are there, I would say pretty much as a comparative basis. What they're doing is much more involved as far as the sludge handling procedures are, so I'll not spend a lot of time on this element.

Mr. Blais stated the next slide is kind of hard to read from the back, but what we had done is an analysis of all of your primary lift stations and force mains and looked at the service area that they serve, and projected population within those service areas. It also looked at what stations pump into those and what their re-pump capacity is and identified force mains that are under capacity for velocity. Everywhere that you see a red square on this spreadsheet is a component that is essentially currently, or will be, at or exceeding its capacity. For example this one force main has a calculated peak velocity of 17 fps, the recommended velocity in the system is no more than 6 fps. Again the gravity sewer capacities, if they are exceeded they are shown in this spreadsheet and the pump station flows where they do not equal what is coming in, i.e., if you can pump more into the station than you can pump out, it shows up in red on the spreadsheet, and goes into the capital improvements schedule.

Mr. Blais stated the next item, we had a representative from our firm go to all 80 lift stations, inspect the wet wells, inspect the pumps, inspect the valves and the piping, and prepare a comment regarding each of the stations and a rehabilitation schedule for all 80 lift stations. He stated I'm not going to go through it, this is essentially the format. It gives you your pumping manufacturer, make, model no., capacity, approximate age and condition of all the components, and that was used to develop the project list.

Mr. Blais stated before we get into the project list, another thing that we looked at in this report was infiltration and inflow. The interesting thing about this slide, it's kind of a snapshot, and your February flows which is historically the dry season, fairly low water table, this shows what's your average and maximum flows are during that period. And then a September flow comparison, September is typically a high rainfall, high ground water table. If you look at the differential between what your maximum day is versus your average day, it's about 14% in February and jumps up to about 46% in September. So essentially you have peak day flows that exceed your average day flows by almost 50% during the wet season. We have done more analyses and its drawn out in more detail in the report, but the conclusion to be drawn is infiltration and inflow is a problem, most of your infrastructure is aging. It's particularly vitrified clay pipe, it leaks, it has roots growing in it, and some of the stations that are shown as high run type stations are strictly because of infiltration or inflow.

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White (cont.):

Mr. Blais stated it shows up in this project list of what we see as the immediate problems. Lift station conversions is conversion of your can stations to submersible type or wetwell mounted type stations. That is a priority, it's a safety concern, and its also replacing equipment that's almost 50 years old, it's time is coming on and essentially just needs to be upgraded. The other item, the \$2.6 million item is just miscellaneous lift station upgrades and repairs, i.e., lining wetwells that have coal tar epoxy, they're falling apart, they're leaking, replacing valves, replacing pipes and pumps, those types of things. Item WW-3, the system wide infiltration/inflow assessment, before you can really establish a budget for a sewer lining and repair program you need to do a system wide I&I analysis, which is flow testing, and televising the system. Basically having a specialty consultant or contractor come in and do all of this type of work, then we can get a handle on exactly how much the system needs repair. You have done a pilot program and we summarize the results of the pilot program in the report and the pilot program showed of those systems evaluated, 70% of those looked at needed repair or some type of rehabilitation.

Mr. Blais stated other items shown as immediate, you have a gravity sewer that's currently experiencing surcharge conditions, so that's an immediate improvement. Creating some interceptor force mains where you have multiple re-pumps that take place, wastes energy and also creates a possibility that you can have failures that affect upstream stations without manifolding these systems together; so that's shown as another project. Collection system upgrades at Sugarmill, and also northwest regional lift station and force main improvements. Everything that you'll pretty much see, from WW6 through WW9 are upgrades that are required to accommodate new growth and new development, either in the west or in the areas east of I-95. That totals approximately \$16.2 million worth of capital improvements.

Mr. Blais stated next we go to the reuse element and looking at where you're at, in 2006 you've reused approximately 62% of the flow coming into your plant. He stated 60% is recognized as pretty much the theoretical maximum of what you can reuse without getting into an augmentation type scenario. The reason is during the very dry weather, your wastewater plant flows are at their lowest, so when you need the water the most and you need the most water, you have the least available to sell. So we are looking at getting into a reclaimed augmentation program to sustain your reclaimed system and keep your per capita potable demands for new construction down to a reasonable level.

Mr. Blais stated next are future projects that are out there on the verizon, and this is the flow estimate at about 600 gallons per day (GPD) per unit. This is a fairly conservative number, we've seen documentation that suggests that many owners use a 1,000 GPD connected to ERU for reuse. Compare that to 250 GPD of sewage generated, it takes between three to four sewage customers to supply enough product for one reclaimed water customer. So its pretty easy to see that when you start seeing these big projects come on line your potential flow demands are very high.

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White (cont.):

Mr. Blais stated reuse system conclusions, the U.C. may need to look at limiting service to new development so that you don't put yourself in a position that you cannot provide the service to the customers that you connect. The down side to that is that it will, can possibly lead to an increase in your potable water consumption for those customers that are not served with reuse; so it's a balancing act. Metering is another option, it can reduce per capita consumption, it's proven successful in other areas and its something I think should be seriously considered. Reuse augmentation, even at this level, is required. I think the best source of money out there to help offset your initial cost is SB444 grant money, its available to fund augmentation programs if the programs are set up in accordance with the Florida management districts water supply plan. You all currently have a project that is in the district water supply plan, not exactly tailor-made for what we're looking at doing here, however I think with some work you all could massage that project and build it through the district's water supply plan to get your 40% matching funds. I've spoken this over with Mr. Hoover and by looking at some types of reclaim water storage, possibly some deep well production for reclaim augmentation, and additional horizontal well construction for recovery of other water sources, I think you could tailor this project to be fundable.

Mr. Blais stated quickly going through the projects that we're looking at, the substandard reuse storage, that's currently under construction. State Road 44 reuse extension, that's an immediate project need. If you look in the back of your handouts and up here, I didn't put it up because it really doesn't show well, there are some foldouts. Those foldouts show the existing components and the proposed components. They also list the projects and they're color coded by immediate, short term and long term projects. All of those projects that we're identifying here are shown on that project list that you have in your foldouts. Looking at the western storage tank and pump station, that to me is a short term project and when you look at the modeling results, when you do start connecting customers out toward Venetian Bay, you will be in a condition in the next five years or less that additional storage and pumping will be required to sustain pressures in that area. Pioneer Trail 16" reuse main loop, the southern reuse loop, if it is the intention to serve the area south of S.R. 44. Also shown in here are possible reuse interconnects with your neighbors to the north and south. The big item here is the reuse augmentation project, the preliminary budget number that is out here for that is exactly that. I think this project obviously requires further development before you can really put a good price tag on it but you're looking at approximately a \$6 to \$7 million project with the additional soft costs. I think that will at least get you in the ball park of where you need to go. It's pretty much outside the scope of this report to really define the augmentation program per se, just saying that is a required element that needs to be looked at closely in the near future. Mr. Blais concluded by stating with that, I'm open for questions.

Commissioner Spangler asked Mr. Blais if he was in the elevator with him when he came up this evening.

Mr. Blais stated I don't believe so.

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White (cont.):

Commissioner Spangler stated I was telling somebody that these reports are long and not a lot of fun to read sometimes but this was just such an excellent report. If you're the source, I want to thank you.

Mr. Blais stated he appreciated Commissioner Spangler's remarks.

Commissioner Reynolds stated you based the report on the projected growth which is what we asked you to do correct?

Mr. Blais stated yes.

Commissioner Reynolds asked how would you recommend that we go about factoring our plans based on the actual growth. In other words we know when permits are pulled and we can sort of see the trend. For instance, now building has been terrifically reduced from what it was going, and permits drawn. If we could have a moderate line of what we think will happen in the next five to ten years, would you be able to say okay, based on that here are the types of improvements and costs that you would recommend. In other words now I know you're worse case for us is what we're looking at, but actually, somewhere between worse and least case there is some kind of middle ground that we might be able to get a handle on these costs so that we're not one, implementing systems that could perhaps never be used, who knows. So I wonder if you took a look at that or did you just look basically in the worse case.

Mr. Blais stated this report was prepared using those projections that I showed you at the beginning of the report. I would say that some of your treatment elements, some of your augmentation elements, and those types of things can be forestalled as road initiates the need. I would also say though to try to save money by putting in smaller pipes, for example, than what is necessary for the ultimate build out would be fairly shortsighted.

Commissioner Reynolds stated that would be, I agree with that. I'm talking about some of the other equipment, storage, etc. If we were writing a business plan as a company, we would take a look at the potential growth but we would also factor in what we believe is the historical growth or how it might come in the cycles that it does. In other words the long term projects that from start to finish might take two years, those are what you would have to look at very carefully to determine do we really want to wait until it may be too late because the project may not be finished. But some of them as I see in here from a calendar year, once you make the decision to go with it, other than putting in pipe of course, but talking about pumps and things of that nature, they're relatively fast brought up on line.

Mr. Blais stated we could do a sensitivity analysis. What that would mean is basically taking the slope of that line, essentially adjusting it, and importing that into the model data and say okay, if we looked at a 3% for your growth rate versus a 6% for your growth rate, where would that put us in 5, 10, 15 years out, and we could do an analysis on that basis.

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White (cont.):

Commissioner Reynolds then asked Mr. Rodi if that was some kind of an analysis that could be done in-house or something that you would want Mr. Blais to do.

Mr. Rodi stated I think that maybe there's a couple of elements with this. What we've done is actually created a range to work with. What we've said is how well will our existing system perform and I think that by breaking out the new growth components from the existing system, and added I also want to compliment Mr. Blais. These reports have shown that the existing systems need work and where they need work in an immediate fashion. We've also built the worse case situation which is in reality not driven by us. We can put another point in the middle and that's essentially what the conversation is right now, but the answer will be driven by the developers. By using the addendum agreement that was recently passed, we then are able to comply with Senate Bill 360 which is causing us to put infrastructure in the ground in order to meet the needs of the new development and the answer for financing that we came up with was the developers pay for it. So by breaking out these projects based upon new construction and existing infrastructure, what we're able to do is move at the pace that we receive developer agreements through here. He stated on the front end of this process, which is the next step for us, maybe its appropriate for me to talk about now, the format that we chose for all of these reports, whether they're the electrical report or the water report or this reuse and wastewater report, is breaking out immediate, short term, long term, and putting them on a map. Our next step is to consolidate the maps, and the next step after that is to look at the transportation study that is coming in with regard to the three cities and that will help the P&Z part of this. Mr. White and I have been meeting, over the last two weeks, with Mark Rakowski because there are all kinds of next steps to go through to plan what really happens. For example, where will we need to protect our investment. That's driven by what roadways are going to be widened and whether or not we have major facilities that are to go into those roadways. Those particular investments may be driven by either rehabs to the existing system like the Smith Street to the Water Treatment Plant on Glencoe, or they may be what Mr. Johnson is now doing in building a new line that comes from his development that will come all the way down to essentially Glencoe. Those two methodologies are funded in different ways. The existing system is going to be funded through bonding, the new infrastructure is being funded by the developers. So that what happens to us is if the pace of construction picks up, we will have more and more developments come through here with the addendum costs. Essentially, it's going to be a foot race to get it in the ground and stay on top of it. Another part of the agenda tonight is talking about some of the projects that we have that we must move forward on now to get the engineering going so that we don't lose our timeline for what we're facing.

Mr. Rodi stated I think what happens to us is that we have an overall road map that has been developed, we have a sense of timing about what need to be done with what we have now, and we have a sense of how to react for what we don't know about. So I think that's the boundary that we tried to put on this and to articulate it in terms of maps and plans. He confirmed with Commissioner Reynolds he had answered his questions.

(4-f) Presentation of Wastewater/Bright Water Analysis – Final – Brad Blais, Quentin Hampton – Jim White (cont.):

Commissioner Spangler commented he liked the sense of boundaries on what we don't know anything about.

Mr. Rodi stated you don't know what you don't know.

Commissioner Diesen commented it is, what it is.

Chairman Para thanked Mr. Blais for his presentation, very professionally done. He then asked Mr. White if he had something to add.

Mr. White stated just to address the comment about pacing variable growth rates. Mr. Rodi handled that pretty well and we have three types of projects. One, that we need now, irrespective of growth, we need done. The other type is time based and the third is population based. Time based projects are just related to age, wear and tear, obsolescence, that sort of thing, we will have to do over time, regardless, irrespective of population. And the population phase we pace not according to the calendar but according to developers, cash flow and where they fund.

Chairman Para stated I think the best money that I see you're spending is that \$500,000 to hire the contractor to photo all the lines and do an assessment on the whole system. Because we're operating from a poor foundation if we don't establish what we've got and prevent that infiltration because that's killing us with the amount of influent we have to deal with because you're picking up all the storm water along with it which is hurting our ground table as well. So it's like this exponential factor that we're working against which could be addressed if we established number one, what's the extent of that, contract limits, and then go ahead and start fixing the problems and working our way back.

Mr. Rodi stated I think another thing Mr. Blais was very delicate about was if we don't do something about it, it prematurely will cost us another plant. It has all kinds of ramifications so he was being very delicate about explaining what we need, to really get our arms around.

Chairman Para stated plus its running up our costs currently and wearing out the stuff we've got now.

(5) Commission Counsel's Report:

Mr. Preston stated I have no report. He stated I usually have no report with the assumption you don't really want to hear the day to day activities of what I do. But I don't say that in jest, if it is what you would like for me to report on, I'm happy to do that, either in written form or verbally at the meetings. Most of the items would cover other agenda items anyway but I had that as a question to you, just so I want to give as much as you want to receive. He commented there's a lot you don't want to receive though.

(5) Commission Counsel's Report (cont.):

Commissioner Reynolds stated I would like to ask Counsel a question, based on the conversation we've had about previous losses in the Utilities Commission, do you have any recommendation of what we should consider in terms of avenues of approach that we can be proactive in or do we want to be passive in waiting for some citizen like Mr. Tolley to make things happen.

Mr. Preston stated if you are asking a legal opinion as to whether the facts as I know them would merit pursuing either delivery of information to those who can make the decision regarding criminal matters or whether or not we should pursue something civilly, then I can answer that question. Other than that, I think it's your opinion as to how you want to handle, as a Commission, whether or not to pursue those actions. Do you want me to answer those two?

Commissioner Reynolds stated yes.

Mr. Preston stated in terms of the potential criminal activity, we have explored by delivering information to FDLE as we all know. Right or wrong, they have come to the decision as Dr. Diesen said, not to pursue it further. Is there another opportunity, yes, there is, there are other bodies that are available that if we wish to provide these same materials for their deliberation and determination we can do so. We spoke of some Federal bodies in particular, so you have that avenue available to you. Civilly, anyone can file a law suit against anyone else any time, let me put it that way. If you want a trial attorney's opinion as to whether or not you have sufficient evidence now before you to pursue something civilly, then my best role for you is to find the best trial attorney for you to meet with to deliberate with him or with her as to whether or not they recommend pursuing litigation in that matter.

Commissioner Reynolds stated good answer. So in essence, what we the Commissioners could do is have a motion for you to pursue a trial lawyer to review the evidence and make a determination of whether that was worth going to a civil trial.

Mr. Preston stated if you wanted to pursue that direction that would be my recommendation as to what you do. We have begun the claims process, just so that you know this, with our insurance carrier for the activity from the former Director Mr. Vaden, to recover losses in that regard, so just to let you know there has been some action taken to try to recover some of the losses to the carrier.

Commissioner Reynolds stated I would like to entertain a motion that you pursue identifying a trial lawyer, and with our Director turning over the information that we have, to make that determination. In fact, he could also make a determination in his opinion, is there sufficient evidence in there for criminal pursuit.

Chairman Para stated let me try to understand what you're saying, I think you've got two people, and I want to make sure that the roles are clear. Our Director would provide the information to the lawyer who's the one best suited for making that assessment, correct, and recommendation for a civil lawyer, that's one. So we have a civil discussion and then the other we have a

(5) Commission Counsel's Report (cont.):

criminal discussion, and you're asking that Mr. Preston be directed to pursue those, is that what I'm understanding?

Commissioner Reynolds stated yes.

Chairman Para so really we have two things going on, one is he needs to tell us about a civil trial lawyer, make that recommendation, and the other thing would be for him to tell us about criminal complaint that we could file with maybe some more people that make take it.

Commissioner Reynolds stated and that he would make a recommendation to do that.

Commissioner Diesen stated make a recommendation for a criminal attorney or for the action that could be taken with other Federal agencies, let's clarify that.

Commissioner Reynolds stated the action that could be taken with other Federal agencies.

Commissioner Diesen stated okay, I think he's done that in the past, but, she stated to Mr. Preston, you could reiterate that for us.

Mr. Preston stated we wouldn't seek a criminal attorney anyway. The most that we can do is make what information we have available to those that have been charged either by our Federal government or by our State government to enforce the laws. We have done that to one agency, there are other agencies available, and if that's what you're saying is to make that information, we now have a lot of information that we can provide to other agencies, if that's what you choose to do.

Commissioner Diesen commented and there's a lot missing too.

Chairman Para stated could our nice people from the IT Department or somebody scan all that stuff and put it on a CD or some sort of a document so that it's a little bit easier, is that something that staff can do?

Mr. Rodi stated we would have to hire a firm with a high speed scanning system to do that, and index it, which can be done.

Chairman Para stated then that information could be easily disseminated to these folks, from whichever law enforcement agency that you choose.

Commissioner Spangler commented easy after the difficult part is accomplished.

Mr. Preston stated can I maybe simplify just a minute, discuss as a body the civil matter and determine whether or not you want to pursue a civil matter, and then make a recommendation that I find an attorney who can then review the information with me and render an opinion as to

(5) Commission Counsel's Report (cont.):

whether or not we should pursue a civil matter, and then deal with or discuss the whether or not you all as a Commission wish to pursue, then you can direct me or otherwise to contact and deliver.

Commissioner Diesen commented we have a motion on the floor.

Chairman Para stated correct, is there a second.

Commissioner Diesen seconded Commissioner Reynolds earlier motion.

Chairman Para asked do we all understand the motion? Actually there's two motions, am I correct, it has two parts.

Commissioner Diesen stated to Chairman Para, you split it apart, he didn't.

Chairman Para commented well I was trying to understand what I'm voting for.

Commissioner Reynolds stated I was using the same guy to provide counsel in determining whether there's sufficient evidence there for a civil suit and also make a recommendation if there was sufficient evidence for a criminal suit about how we might go about notifying different agencies, or take it from there.

Mr. Preston asked is that your motion?

Commissioner Reynolds stated that's the motion, that's what I meant to say.

Mr. Preston stated you don't need that but if you want to go that, you really don't need that second part of your motion.

Commissioner Reynolds stated okay, so I'll amend the motion for our counsel to seek expert counsel in determining whether the evidence available will support a civil action.

Commissioner Diesen stated right, so I will second the amendment to the motion. She stated now I think we have to vote on the amendment first don't we and then the motion.

Chairman Para stated yes, we'll vote on the amendment first, further discussions, call the roll.

Commissioner Reynolds' amendment to his motion then passed unanimously on a roll call vote.

Commissioner Diesen stated now we have to vote on the original.

Chairman Para stated the original motion which was to do both but you're saying we don't need to do both.

(5) Commission Counsel's Report (cont.):

Commissioner Diesen stated no, the amendment took out the second part.

Commissioner Reynolds stated the amendment took that out, now we have to vote on the actual motion.

Commissioner Diesen stated right, the actual motion without the criminal part.

Chairman Para then asked if there was any further discussion.

Commissioner Spangler stated I would like to make one comment. I don't think there's a lawyer in the world that wouldn't say that we could pursue this, and I know it's probably improper, they wouldn't do it on a contingency basis for us would they? Otherwise we're going to get legal advice that of course we should pursue this.

Commissioner Diesen stated well, he can explain that to us, that's what we have counsel for, when he comes back he can say, you know.

Commissioner Spangler stated okay, but did I make my point though.

Chairman Para stated yes, you did, and I would agree.

Commissioner Spangler stated okay, I'm for pursuing this though.

Chairman Para confirmed no further discussion and requested a roll call vote be taken.

Commissioner Hall asked what's the question.

The recording secretary stated the original motion without the criminal.

Commissioner Reynolds motion, (Commissioner Reynolds stated I would like to entertain a motion that you pursue identifying a trial lawyer to provide counsel in determining whether there's sufficient evidence for a civil suit, and with our Director turning over the information that we have to make that determination,) then passed unanimously on a roll call vote.

Chairman Para stated now we were talking about the Counselor, and as he mentioned, would you like to change the format. I think that if I could take us back there, as you had said you could provide us a lot more information, and that you're leaving that up to us. He then commented Commissioner Hall's watching the clock, I got that.

Commissioner Diesen stated whatever he sees is necessary for us to know.

Chairman Para stated I like that approach.

(5) Commission Counsel's Report (cont.):

Mr. Preston stated and that's what I've done, and that's what I'm glad to do.

Commissioner Diesen added on a need to know basis.

Mr. Preston stated thank you, and reiterated that's what I've done and I'm glad to continue that too.

Chairman Para stated okay, I think we've resolved that and then thanked Counselor Preston for his efforts.

(6) Committee Meeting Reports:

(6-a) Approval of Commissioner's Travel Expenses – FMEA/FMPA 2005 Annual Conference – Chairman Para:

Chairman Para then asked the Commission if they would like to hear what he had found out when he was at the conference?

After a few comments about being brief and watching the clock, Chairman Para stated he would be giving his opinion on what he's observing in the utility industry. There are two things that seem to be of great concern that we see happening, something that's been discussed at a couple of these conferences. One is the aging demographic of our employee base of which we're aware, we've discussed that, it's been brought out before here, and I think that there's now sort of this evolution of thinking that says maybe we just need to change our approach in attracting new help and look at different ways and actually create an environment that the GenXr's and GenYr's can interface with us and become a part of the social structure, the fabric of who we are. So all that to say, I think there's actually good things occurring in that, I don't see the negatives.

Chairman Para stated the other thing is, along with that same kind of a like a baby boomer body going through the pipeline, there's a group of folks, and please I'm not trying to be irreverent to anyone here, that of one mindset when it comes to generation. Because I think if I could say anything out of that, I saw a different take on the faces of the people there. The year before it was all about telecommunications, and we all jazzed up, how are you guys doing, and we got this legislation passed. I think people are finally smelling the coffee, it's 8:00 a.m. and they're figuring out now they're going to have to do something when it comes to generation. A guy named Jeffery Flyash with Progress Energy, really neat guy, very dynamic guy, delivered a good PowerPoint presentation I was trying to get. He then commented I knew it would be long and I'm trying to wrap it up. In essence when I looked at the thing, it was a picture literally worth a 1,000 words, and when you looked at all the different opportunities to generate electricity, there are only really two viable alternatives. That is clean coal technology, and of course Commissioner Reynolds went and attended a seminar on that, and then the other is natural gas. Of course the question came back down, and it always amazes me when I see these, and I'm going to use the monopoly word loosely here, I'll be very careful not to libelous this company,

(6-a) Approval of Commissioner's Travel Expenses – FMEA/FMPA 2005 Annual Conference – Chairman Para (cont.):

but when you have a small group of people that control all the assets and you watch the costs of natural gas go up and then all of sudden down, and now we're all starting to voice again natural gas. It's frustrating that we're talking natural gas again when it's like a trap, it's a bait and switch. Yeah, we'll trap you back into building a natural gas system and then up goes the market again, so I indemnified us to be able to say these are all my comments. The bottom line is that there really isn't a lot of good options out there when it comes to generation with development trends continuing the way that they're going, it looks bleak all the way around. I quite candidly caught a glimpse of deep concern on service people's faces, so that's something that I think, along with a lot of other people, is of great concern for us, and want to continue to watch that. Tim is doing a great job and lots of folks are out there but the aging populace comes into it is that you have a lot of folks that did energy one way for a lot of years and to get them to change that mindset is a "bugaboo". That's going to be a really difficult thing and we've got to start looking at renewables. You knew I was going to end up here, I'm closing with this, we've got to go to a green energy mentality, it's a mindset that we've got to solve this problem. He added for sovereignty issues, for issues when it comes to local sovereignty, as well as national. So, I'll just end with that, I see a lot of opportunities out there and there's a new generation of people coming along who aren't presuming that the only way to do energy is fossil fuel.

After a few comments, Commissioner Reynolds made a motion to approve Chairman Para's travel expenses in the amount of \$1,198.02, for the FMEA/FMPA 2006 Annual Conference. Commissioner Diesen seconded the motion and it passed unanimously on a roll call vote.

(7) Old Business

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule "A" Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge:

Mrs. Mudge addressed the Commission and stated on a good note, we need people. She stated to Chairman Para, you took some of my fire. Demographics have changed, are changing, will change, baby boomers are leaving, GenXr's and Y's we want to come. That's why we're proposing, in one sense, the amendment to the Personnel Practices Manual and the amendment to the Collective Bargaining Agreement. It will award those people who have been here and served us greatly and those that are coming in will be rewarded immediately to stay with us and hopefully continue on with us. This is a great company, I've worked here 21 years and I've seen improvements from where we've been to where we are going. Change is good and this is change.

Mrs. Mudge stated I want to mention to you before you bring some questions, that the proposal we have for Brown & Brown to continue on as an agent, there was one correction to make in there. Mr. David Brown, was Mr. David Bishop, and he is no longer with them. I received news late last week, now we have Jennifer Botting and Tony Grippa, but we still stand as a staff in

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

asking not to have an agent with UHC this year.

Chairman Para then asked if there were any questions.

Commissioner Diesen stated I have a few, I looked over this cafeteria plan and there's some things I would like for you to explain to me, because I think they appeared on both A & B. I noticed that the one is lumped too with the idea of whether we're going to use an agent, and that's a separate issue in my estimation. She then stated talk to me about occurrences, people have three occurrences when they're getting into this plan and when they don't smoke they get this and what about alcohol? How do you know somebody stops smoking and they don't smoke, or they exercise three times a week if they choose to do it on their own. I'd like to know how you base this because it means U.C. dollars to them.

Mrs. Mudge stated that is correct. They do give us the name of the doctors that they have had a physical with that year. We are taking their word that they are doing the others and that they have stopped smoking. Other people in the organization keep an eye on this for us.

Commissioner Diesen commented well if I was one of you I would smoke at home, outside, behind a bush.

Mrs. Mudge commented smokers cannot just smoke at home, trust me.

Commissioner Diesen stated I noticed they don't get any rewards for not doing drugs or alcohol.

Mrs. Mudge stated we are a drug free work place.

Commissioner Diesen stated that includes alcohol, I'm assuming. She stated okay, then tell me about occurrences, what's an occurrence.

Mrs. Mudge stated an occurrence is, let me give you an example, it would be easier to realize it. If I call in on Friday, I'm sick, that's an occurrence because I have not given notice that I'm going to be sick.

Commissioner Diesen stated but what if you wake up and it's the 24 hour flu and you're throwing up everywhere.

Mrs. Mudge stated an occurrence can go for a week, for a month, 15 minutes, an hour. In other words if I call in Friday, I'm still sick on Monday and the rest of the week, that's one occurrence.

Commissioner Diesen stated yes, but why would it be an occurrence because I'm upchucking all

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

over the place and you don't want me at work. That counts against me right, what if that happens to me three separate times.

Chairman Para interjected then she would bring her stuff to me and then I would be unhappy.

Mrs. Mudge stated, on an average, occurrences happen between once and three times at the most. Those that overuse occurrences are those that we don't want here. We have not dismissed anybody, in the past ten years I can say, for seven occurrences.

Commissioner Diesen stated I would like to have this on an agenda at a later time and discuss it, there's something weird about it. I mean if I get sick in the morning, or I get sick at 3:00 a.m. and I can't tell you the day before, and then I get charged with an occurrence; that doesn't seem right, there's something strange about that.

Chairman Para asked should we just table it?

Commissioner Diesen then continued by stating maybe you have a good reason for it.

Chairman Para then asked is there a reason to vote on this tonight.

Commissioner Diesen stated that's just something separate and apart that needs to be, I think, discussed.

Mrs. Mudge stated we can always come back to that part of it later.

Mr. Rodi stated it exists now and it can be brought back for further discussion but I don't think Mrs. Mudge was pointing this out, but depending upon the history in an organization, incidents or occurrences are often used to deal with major disruptions within the work force. If you have workers out that are working in teams and you have a person that doesn't report to work and does that with some frequency, you disrupt that whole team for the day so what often happens is there's a combination of occurrences in overall durations, so as Mrs. Mudge said, you can have someone who an occurrence would be someone who has a coronary. They're going to be out maybe a very long time, and on the other end, it's the example that you provided where someone who has the flu, and they may fight with that during the week and be in and out. So that's the other part of the extreme that you want to talk about, and we can do that, but the primary driver usually comes from the work force where that person's absence becomes so disruptive and you have multiples of this that you lose a tremendous amount of time, aside from the issue of whether or not the person is treated properly and other items.

Commissioner Diesen stated I understand that and I can see that and I think there are some people that are probably at work that are as much of a nuisance while they're there as they are at

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

home. With that being said, that wouldn't be an occurrence, but I'd like to talk a little bit about it because I'd hate to think I got the flu three times in one year which could happen and comes on suddenly, then I'm at my limit and I've got to go to work whether I'm sick or not.

Commissioner Spangler stated I think this just says you're not going to be rewarded for having the flu four times, over three times. You're going to be rewarded if you don't, if you wash your hands every time you're exposed in public and all of that.

After a couple more comments, Mr. Rodi stated we can bring that part of this back.

Chairman Para stated right now we have other things to talk about, let's go with the next part of this.

Mrs. Mudge stated that's all I had to present to you, there's both parts I presented.

Chairman Para stated okay, we've had both parts presented.

Mr. Rodi asked Chairman Para if there was someone from the floor, I think Mrs. Mudge introduced some names and I didn't know what her intent was.

Chairman Para stated yes, there's someone who's been patient and asked earlier if he could talk.

Mr. Tony Grippa addressed the Commission, thanked them and added whatever you're paid it's not quite enough, I can assure you. Mr. Grippa stated I have a dual role, I'm also a County Commissioner in Leon County and I never thought I'd find anything more interesting than a Leon County Commission meeting on Tuesday night, but I may have. He stated so I'll be brief because the only thing more exciting that what we were talking about is insurance, I'm sure. Mr. Grippa then stated he was Executive Vice President with Brown & Brown Insurance Company and also Executive Vice President with Public Risk Insurance Agency which is owned by Brown & Brown. We insure 220 governmental entities in the state of Florida so some of the questions you're having regarding employee handbooks and benefit levels, those are things that we can simply go to a file and copy for you and be able to give you additional information on things like that, and where they've worked and where they haven't worked.

Mr. Grippa stated but specific to this agenda tonight, first let me say that your staff has been very professional, they're terrific to deal with, if not for one little line in this agenda item, we'd be in complete agreement. And that little line is where it says to approve the recommendation not to renew Brown and Brown; it sounds like fire to me, but we were kind of wondering why. You know I think the name Brown & Brown speaks for itself, and I think service that we've provided and happen to bring each and every time. He then showed a file and stated this is your particular file, for your organization, your phone calls over the last year, but now won't be fielded by

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

Brown & Brown as your representative but will instead go to a health insurer named United Health Care. I guess the first reason why people usually leave their insurance agent is to “save money”; but there’s zero savings. If you look in your handout, you’re going to pay the commission whether we’re your broker or not. And that was particularly troubling to me because I would like to think with the 220 entities, we represent everything from South Daytona to Ponce Inlet to Volusia School Board, we add value, especially given the fact it wouldn’t cost you one dime extra to retain us.

Mr. Grippa stated one of the ideas also is by having an independent insurance agency, if for example you switched to United last year, which by the way I think was at our recommendation when we took over the account as your agent. But if you would have decided next year, for example United says we got you this year, not that they would because they’re a fine company, but let’s say their rates increased 20% and Blue Cross’s went down, or let’s say Florida Health Plan was a better rate; you’re now stuck with one insurance carrier rather than having access to all the insurance companies that do business, not only in this area, but in the world. And so with no fiscal impact, what I’m respectfully asking you all is to consider adopting the item with retaining us, and if we have not performed in the manner or the service that we have, that has been up to par, then I promise you all I’ll bring the rope next year because I don’t go to many of these accounts, and I’ll hang myself right here.

Chairman Para interjected okay, we don’t want you to do that, and jokingly added it would run our rates up. Chairman Para then asked Mrs. Mudge what she says.

Mrs. Mudge thanked Mr. Grippa, very professional, and then addressed the Commission again. She stated I have to say that I’d still stand with the proposal unfortunately for Mr. Grippa and Jennifer. They’re very professional and I appreciate them coming to me. I only met Jennifer today but she gave me the information that I needed to go on to add to my understanding of what was already given to me by Mr. David Bishop. We can do those things with an agent from United Healthcare. She stated the services they’re recommending are great services, but with the new Great Plains we’re getting, 9.0, there is a Human Resources portal in there that will assist us with that, with what they have said they can assist us with, which are great assets. Also, it costs us \$16,000 to go out for a PO, that gentleman was with Risk Management, Al Waters. If we have to go out next year, if United Health Care costs go up, we will use him again, it turned out successfully this time. I proceed that our experience, as in the past, will be lower than 75% causing United Health Care to give no increase. If its higher than 75%, we’ll go from there; one step at a time.

Chairman Para stated okay and then added may be you guys have been in the system longer than I, I’m trying to understand why there’s a problem here, can somebody explain.

Commissioner Reynolds stated, correct me if I’m wrong Mrs. Mudge, but when the agent that we

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

selected, the insurance, they have a relationship with Brown and Brown, is that correct. Don't they go to Brown & Brown for administrative support like that or do they do it independent.

Mrs. Mudge stated she didn't understand what he was saying.

Commissioner Reynolds stated our insurance company, United. As I recall in the discussions they were saying that they have the capability to do that and because they're a large company, they provide or can provide us reports on a periodic basis, like every two weeks.

Mrs. Mudge interjected quarterly.

Commissioner Reynolds stated so consequently if we need that kind of financial data they do provide it.

Mrs. Mudge stated correct.

Commissioner Reynolds stated they also provide the services that Brown & Brown provided, is that correct.

Mrs. Mudge stated yes, they have a Florida health care agent.

Commissioner Diesen stated and you said that we're going to upgrade Great Plains to the next edition which has a portal that will also provide this.

Mr. Grippa addressed the Commission again and stated the two questions you asked were excellent ones. The answer to the first one is the United agent only works for United, so in other words, doesn't work for anybody else, so its a captive agent, so when those rates come in and I know you have a top notch HR staff but I can assure you when you start looking at the variables, whether it be the census, where you're located, your experience, I can't figure them out and I do it all day long. I would doubt, you may or may not, be able to within your staff but Jennifer will know, and Jennifer is the one that goes out and markets and keeps competitive even if you decide you're going to stay with United. They get quotes from Blue Cross, quotes from Florida Hospital or Health Plan, and they bring them together and she negotiates them amongst themselves, which got you, by the way, your quotes of the last year. That's number one, number two, you won't get the reports, and United Health Care called her today to let her know that once Brown & Brown stops being your agent, we don't represent you. It's only because we do so much business with them, with the 200 and some odd public entities, that you'll actually get those quarterly reports. You will no longer get those and that is something called, because we are a platinum agent with United Health Care.

Commissioner Reynolds stated that is something that I was trying to bring out, that in essence

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

what they're saying is because they get these reports from you, therefore we would get those reports. What you're saying is we will not get those quarterly reports.

Mr. Grippa stated and I may be wrong but I think a United agent, or a United Health Care person called you today to say just that, and also I think, though I could be wrong, but they also recommended staying with Brown & Brown.

Commissioner Diesen then asked are you the only agent that represents United Health Care, in this area?

Mr. Grippa stated no, there are probably ten, eleven agents.

Commissioner Diesen stated well I don't think we could even choose you if we wanted to.

Mr. Grippa stated we're your current agent, we're getting fired tonight.

Commissioner Diesen stated but I think it would be common to go out on a bid basis.

Mr. Rodi stated if I could just interject a little bit here. We hired Waters Consulting who's truly an independent agent, and before we had Brown & Brown, we had Mr. Ascherl standing up there giving us his views; these are valid views. What we're doing with this meeting tonight is following the advice of the independent agent, there's not enough value here, you can do it if you want, but someone pays for this. Right now the amount of money isn't going to change, I agree with that comment, but it still rolls into the profit line for United Health Care and the assumption is if the experience is correct, then you should start to see a change. If not, we still have to judge next year with an independent agent as to whether or not we made the right decision. Part of all of this, and I guess it points out again, you heard earlier that we did not have the correct kind of management reports to monitor a business, this is another aspect of it. We have an older version of Great Plains that needs to be updated and as a result of that, a lot of these modules will help provide analyses from the information we have on hand or can get. So this is where the crossroads is tonight and we're following the advice of the outside consultant that you heard briefly from, I guess it was last month. So I wanted to add those comments.

Commissioner Hall stated we still haven't answered the question are we dissatisfied with Brown & Brown's performance.

Commissioner Diesen stated or do we not just need them.

Mrs. Mudge stated I can answer that, we are not dissatisfied. We are trying to make the most value of what we can supply ourselves, and if we're to go on a business model, like Mr. Rodi says, if you keep the profit inside of United Health Care, then that should mean that if we go next

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

year with them, that profit's still there.

Commissioner Hall commented that's not quite the way it worked in my former life.

Chairman Para stated before we get out of kilter here because I think we're heading in the wrong direction. Commissioner Reynolds was actually charged with the responsibility of doing exactly what we're ending up now doing in trying to micro-manage this at the tail end of it. You brought a recommendation with Mr. Waters last time we came here, that recommendation was followed through. I appreciate the fact you have excellent background, Brown & Brown is an excellent company, I think much of them, also Jack Ascherl's an excellent company too, and I see now clearly why we're making this shift, it has value. So, unless you all have got something to add to that, I'd like us to get a motion and move on.

Commissioner Reynolds stated let me explain the profit, and you're exactly right, that 3%, with or without an agent, the insurance company gets, however it does give you a negotiating point next year because you know that's 3% of profit. Whereas with the agent, you're tacking on that 3% and therefore it doesn't go into their bottom line and consequently you don't have a negotiation, and 3% makes a big difference in this insurance program.

Commissioner Diesen asked Chairman Para if he was ready for a motion.

Chairman Para stated yes.

Commissioner Reynolds stated I make a motion that we discontinue with Brown & Brown.

Chairman Para asked if there was a second.

Commissioner Diesen seconded the motion.

Chairman Para stated call the roll.

Mr. Preston then stated you have a point of order. What you have is, are you going to pursue the recommendation that's given by staff and if so you may want to include in your motion the entire recommendation.

Commissioner Reynolds stated I include in my motion what is recommended by staff since I don't have it right in front of me.

Chairman Para asked if that was clear, further clarification, or do we need to do an amendment.

Commissioner Spangler stated this is agenda item 7-a., is that correct. He then proceeded to

(7-a) Modification of Personnel Practices Manual – 2006 Cafeteria Plan (Flex Plan) and Cafeteria Plan Schedule “A” Maximum Amounts of Elective Contributions and Agenda Recommendation – Barbara Mudge (cont.):

state the recommended action, a motion to approve the modified Personnel Practice Manual....

Commissioner Reynolds then joined in and completed stating the motion was to approve the modified Personnel Practice Manual to reflect the changes referenced in the agenda item regarding the cafeteria plan, and the cafeteria plan, schedule A, to become effective October 1, 2006, and to approve the recommendation not to renew David Brown (sic Bishop) of Brown & Brown as agent for United Health Care for the 2006-2007 budget year, and to instead to work directly with a UHC representative.

Chairman Para stated all right we had an initial motion an a second, is this an amended motion you're offering now.

Commissioner Reynolds stated its a clarification of my motion.

Chairman Para confirmed with Commissioner Diesen that was acceptable to her as she had seconded the motion.

Commissioner Reynolds motion then passed with a majority of the Commissioners voting yes, Commissioner Hall voted no.

(7-b) Modification of Collective Bargaining Agreement – Cafeteria Plan Increase – Barbara Mudge:

Mrs. Mudge stated this is basically the same proposal as 7-a., except for the Collective Bargaining Unit.

Chairman Para asked if there were any questions.

Mr. Rodi stated I wanted to inject something here. As you may recall, the Business Manager of Local 2088, had come here with respect to the salary increase and we were at that point also discussing health care. What we had indicated was that when we went through our review of health care that we would take into account some of the reservations the Business Manager was expressing at the time. This item fulfills that obligation and as I understand it this issue will not be a part of the upcoming negotiations when we open in February, he then asked Mrs. Mudge if he was correct.

Mrs. Mudge stated that's my understanding.

Mr. Rodi stated I wanted to comment that was the fulfillment of an intended obligation, that we would seriously consider it and discuss it, and this is the representation of that.

(7-b) Modification of Collective Bargaining Agreement – Cafeteria Plan Increase – Barbara Mudge (cont.):

Commissioner Reynolds made a motion to ratify the modified Collective Bargaining Agreement to reflect the revisions as shown in the agenda item regarding the cafeteria plan, and increase as shown in the attachment to the item to become effective October 1, 2006. Commissioner Spangler seconded the motion and it passed unanimously on a roll call vote.

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi:

Commissioner Spangler stated recommended action is direction regarding payment of invoice, and then stated we had no previous direction on this?

Mr. Rodi stated what we had previously done with this item was to say we needed to review the actual plan that was being proposed in order to understand what value there would be for this item. Consequently, there were a number of actions that occurred. One of them was there was a recommendation sent to the City Commission that we should extricate ourselves as a City, not the U.C., from WAV, which then subsequently occurred. What I'd like to do is address some of the peripheral items because in that joint meeting with the City Commission, there was a question asked, well what would it cost us if we just stopped this item rather than pay the amount. That answer was just recently received, but there's a lot more to the story. He stated I think its important to continue this dialogue because its very current and very important. The answer to the question from Mr. Mowery was in a memorandum to City Manager John Hagood, dated July 24th, that it would cost the City of New Smyrna Beach over \$60,000 to stop the work on the interconnect. The amount on the invoice to then City Manager Roberts was around \$36,000, somewhere around there. So from a money standpoint I think its relatively clear, its a money decision, but it would also seem though that any payment that would be made should be a reimbursement because we're not a member of WAV.

Mr. Rodi stated so if I may, the rest of the story as Mr. Paul Harvey used to say and maybe still does, over about the last week or so there's been an awful lot of activity with regard to modifying the Interlocal Agreement. I think currently there's a version four of the Interlocal Agreement which has been sent to me and since this Commission has said we are not a member of WAV and the City Commission has officially said they want to extricate themselves from WAV, I have not attended any of the Manager's Meetings; we're not a member, I have intentionally done that. I've been listed as a member and by definition I could not be, but regardless of that, I had sent, and you had received from the WAV organization these various Interlocal representations. I was asked a question, Jim White and I were together in a meeting talking about other sundry things, and I was asked my opinion about the Interlocal Agreement, version four, I think it is. As I understood reading it, it was returning to a voluntary organization, which I could support. Secondly, it had still no opt out provision and what I thought was important was that there should be a unilateral opt out on the part of the member.

Commissioner Diesen stated if you're voluntary, you can't opt out?

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

Mr. Rodi stated well, there was no provision that related to that. He stated and I have a presentation I need to make too, so we'll fire this up. What was also important though, it still does not change what I call the legal thicket. My original understanding of the creation of WAV required that only City officials, elected officials, could be Directors in the organization. But regardless of that, it would seem that if there is any modification then it would have to have the U.C. as a signatory, with the City providing their Charter oversight as they do normally with this Commission. So from that perspective, it's very unclear about what direction or how any change will be made because we as a City are on the books as saying we want to extricate ourselves from that. He stated so I wanted to start with that because if you choose to support payment for the automation of this existing interconnect, and my preference would be that it be a reimbursement since the billing was to the City and then we subsequently would own that asset. I looked at whether or not there are any secondary ramifications because there are grants from EPA and they usually have some indirect requirements. Those requirements as I read it would fall upon both the WAV and the City as the member organization, so I don't fully comprehend all of the grant impacts, but I do know that if it does not proceed, then that grant money would not come forward either.

Commissioner Diesen stated in other words if WAV goes away, the grant money goes away.

Mr. Rodi stated well I don't know because it seemed to be managed more through the projects implementation than the organization. The money was granted for the project as opposed to granted solely to WAV, but I'm not the expert on that.

Commissioner Diesen stated wasn't that Federal money.

Mr. Rodi stated yes it is.

Commissioner Diesen stated that came down through the State to WAV, so WAV is just getting the administrative overhead for the grant.

Mr. Rodi stated yes it is and it's being administered from an engineering standpoint from Quentin Hampton, they've been on top of this thing.

Commissioner Diesen stated so in other words if we elected to approve this we could do it with the proviso that this in no way connects us to or obligates us to any way shape or form anything that has a WAV in it.

Mr. Rodi stated and I would just suggest that but to me its an economic decision at this point from a standpoint of what it will do as far as resolving this project. Now from an operative standpoint there's not a whole lot of water flow that could be accomplished with this. There aren't pumping stations on either side of this interconnect, the interconnect isn't that large, our water pressure's higher currently on this side than the Port Orange side. So from an operating

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

standpoint, right now its mechanically oriented, and you still have to have phone calls to the different dispatchers who are managing the pressures in order to coordinate what goes on. Those calls will still have to occur, just a matter now of you can do it more remotely, then you have to go look at it and make sure that something didn't go wrong.

Commissioner Diesen asked what do we have with Edgewater.

Mr. Rodi stated we don't have any automated interconnect and confirmed that with Mr. Hoover. He stated there are two, you'll see in the Quentin Hampton report, there are two interconnects indicated. Those are brand new and they don't have anything to do with this particular issue. There's one that is scheduled for Edgewater with the build out, and another one with Port Orange.

Commissioner Reynolds stated we're really paying for somebody's engineering effort who didn't bother checking with us.

Mr. Rodi stated I don't know, this goes all the way back to WAV's predecessor and the RAMP program that was there, so what has occurred is this is a cascading item that just went from one organization to another and it was in the process and frankly it just looks like they were just trying to execute it to get it done because it was there.

Chairman Para stated and I think in previous conversations, if I remember back to April's meeting, you gave the same, similar summary. Yes, it is remote, it would have a facet to it but its not something we have to have, and Mr. Hoover said that. But the reality is I think also that the parts had been ordered so its kind of an untangling, and as Commissioner Diesen said so correctly, as long as this doesn't get us into that whole milieu of are we in WAV or are we not in WAV. We're simply paying an invoice for a hardware item that's going to potentially improve our network.

Mr. Rodi stated that's right.

Chairman Para stated so I'm in favor of this.

Commissioner Diesen stated the Daytona one with Port Orange, is it Port Orange with Daytona, have they already automated.

Mr. Rodi stated theirs I think is finished.

Commissioner Reynolds stated from a standpoint, does it make any sense to, if we are going to vote on paying this, should we send a check to the City so the City can pay for it since it was billed to them.

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

Mr. Rodi stated what I suggest is that it be stated as a reimbursement so that they would authorize the payment because the billing was to them, and that upon payment they would just produce an invoice to us showing that they did it and we would reimburse that way.

Chairman Para stated all right, is there a motion to that effect?

Mr. Rod stated before you get to that, I would like for you to hear the rest of this because this all gets tangled together. One of the reasons why I wanted to make this public statement tonight is I was asked an opinion and I offered that opinion about the evolution of where WAV may be going and there's always benefits with many minds together but I have no idea as to how this is going to turn out and whether or not the Interlocal, as reformatted, would be brought back to the City Commission for open discussion, as to whether or not they're in support of changing their stance on this because they said we're out of here.

Commissioner Diesen stated well, they were suppose to say that, but the other part of that is the Charter, the original Charter, isn't it.

Mr. Rodi stated it gets complicated. He then stated I have some handouts here and then proceeded to his presentation.

Mr. Taylor asked if the Commission was going to allow public participation from the citizens before they vote on this.

Chairman Para stated we have established that pattern this evening, yes.

Mr. Rodi stated you notice I keep pushing the vision every time I have a chance, it's "Connecting You With the Quality of a New Smyrna Beach Life". Well, inherently, a lot of this fundamentally deals with water. I'll go through some of these that you've seen again before and they're included in your handout. But in the last presentation that I made, the emphasis that I was trying to make with this chart, was the percentage change on the accounts, and that was from both new growth and existing homes that previously were on wells that moved to the water or wastewater system. So that you see from very high growth rates that are continuing to occur and why I say that is as you listen to individuals who have been brought into the City, they're very interested in obtaining water and then of course we changed the amount of contribution. Rather than just having a partial contribution, the whole amount needs to be paid for a water line extension, and that was to avoid our subsidizing the costs of the extensions for others to potentially benefit if they ever paid. So it all ties in with what we're doing about with regard to new growth and the extension of our system, and it ties in also with our allowances.

Mr. Rodi stated I showed this slide before and it's busy, but I wanted to make a point again, and Brad Blais was poking at some things that I think need to be said a little more directly. From May through July of this year, now we've been in this drought period, and you can see that it

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

hasn't abated. We've had a number of issues with reuse water in the last week where we went out and put some notices, it got ahead of us, from a standpoint of what was happening at the municipal golf course with all of the rework there and the drought, they need a lot of water, and at the same time, when we need the water, we have the least amount of water coming into the system for redistribution. But you can see here this number is 5.312 for those three months, this is our potable water amount. Over here is our CUP allowance which is 5.58 for 2006. What starts to happen if you look at this projection, with 16,000 potential new homes in the pipeline, at what pace they occur we really don't know, but our average has been a little over 200 gallons per account for potable water, but you heard if we don't provide the reuse, there's a 600 gallon per day on top of that, that has to come from somewhere, for just normal irrigation. This relationship becomes very important, especially with all the new subdivisions that are in the queue, and there's enough of this going on right now. The area along Sugar Mill Drive, and you see Venetian Bay, even with the housing market somewhat stalled, there's still a lot of investment and activity occurring.

Mr. Rodi stated that particular relationship becomes very, very important because in 2012 we go to our maximum with our CUP, which is the 8.33. Just looking at this level, with this lower level, and not knowing what would happen there, you could see how we could quickly bump up against our potable water CUP allowance. I've been attending a number of other meetings where there have been discussions about how much water's there, whatever. Right now, we're fine but what we're talking about is planning for the future and that's why all of these reports start to put some boundary around what we need to do.

Mr. Rodi stated I wanted to show the next slide because its really important. This came from the WAV on the St. Johns CUP Water Allocation Table. The comments that were made when our CUP was granted was that St. Johns did not see that they are going to continue to increase CUP allocations in the future. That was a very significant statement, I paid attention to that, and this is out of the WAV plan summary. What it shows is the allocation that we have, which is projected out to 2025. Our CUP only goes to 2020, so this was projected out to 2025, and here's that 8.33, but you can see we hit that maximum in 2012, and then there's nothing after that. He stated I'd like to point out something that's very important, if you look at Volusia County. We're going through the WAV and what shape will it take and where's water's going to come from, and then there's some County Charter amendments that are put on there that are talking about a Planning Authority. If you look at this number, there's a severe difference as to what will be needed versus the amount that is there for Volusia County. So there's a very, very significant issue, and if you start to look at all the other cities you can see that Port Orange is doing well from a standpoint of managing and we are. But when you start to look at Edgewater and then a new subdivision that's going in there, that's going to have a very dramatic impact.

Mr. Rodi stated the next slide came from the St. John's 2005 Water Plan, and I'm just showing it from a standpoint of their representation of how you recharge areas, and where the different aquifers are, and we've talked about this. He stated we're actually getting our water from this

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

level. He stated I've put this chart up before but I've added some new pieces to this thing and we have new wells that we're putting in right now on our property at I-95 and S.R. 44. Looking at this well at this intermediate level, these are like 300 to 400 ft. depth wells and one of the things I wanted you to pay attention to is the 60 ppm of chlorides we expect to be in the locations where we're looking for the wells. One of the things we have tendered to you in the last meeting is to have a deep well that goes into the 1,200 ft. level and the reason for this is this level previously was thought to have chlorides in the 5,000 to 10,000 range and we're being told it may be at 500, it may be at 400. What that may mean for us is that if we draw water from here and we use a reverse osmosis membrane or some type of distillation system, this water can pretty readily be processed. It isn't anywhere near as what we thought it had been. Now all of this has to be validated but this is a significant water source as opposed to pulling it out of the bay where you have a lot of biosolids and other issues to deal with, that is a much better draw. We also were talking about the surficial horizontal wells for pulling off around the wetlands. One of the things when you see this is what would happen if we could pull this out of here, process it over here, and pump it back down into this aquifer for storage for potable. So when we need it we have a below ground area that would also help with mixing. So this is the thought process that we're examining from a potable standpoint. Likewise, if this is pretty readily processed, then what we would hope to do is have a dry byproduct. In other words when you run these reverse osmosis systems, which are much more efficient than the distillation methods that have been around for many years, you normally end up with a wet, more concentrated brine, and it keeps getting more and more concentrated. It's probably best to end up having a solid where you can maybe have some commercial byproduct, whether its salt or any of the other minerals, and have an easier disposal methodology and still be able to have the flexibility of making potable water if you need it or irrigation water if you need that. It's very clear that we seem to be headed down that road.

Mr. Rodi stated in thinking about this, one of the thoughts I've been examining and I've been tendering this now for about a year in different pieces is what can be done with the land that we have on I-95. This become very, very important because when I first came here one of the questions I had was well what is that land out there and have we looked at how we can use it, and then there's been all of the things that have occurred since then. So what I tried to do was put down these discussion points, but these are the impacts that I think involve this land. Just going through them, we know that we are going to have to expand the wastewater treatment plant, we're talking right now to FPL for a 230 KV substation so that we can meet the future demands of the electrical load as well as to provide a very solid connection to the grid. We're talking about putting in the new wells, and I just spoke about this 1,200 ft. irrigation area. This modular new technology is a hybrid that we may be able to use with the rom (reverse osmosis membrane) flash distillation, can produce water in the quantities that we need, and we can also make the potable water out of it.

Mr. Rodi stated we can store irrigation water in above ground ponds, so that right now what we have is a 13 acre pond out there, we're trying to put more water into and take advantage of using

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

that as a resource area but all of a sudden that can be very scaleable in order to meet our future needs as we move along. In looking at how much, a 50 day supply, if you have a 2 MG per day shortfall, means that you need roughly 100 MG. In order to get 100 MG you have to get about 150 acres of land and you have to use the highlands, you can't use the existing wetlands that are there. So some of this might be reserved for brine concentration and we're looking at what kind of underground storage, and we may also be able to take from the upper Floridan and store it in the lower. So part of what our consultant is evaluating for us at this stage is what are the various opportunities to go through and what opportunities can there be, in what states, in the future.

Mr. Rodi stated another item, I ran across that Bert Fish may request a 100 acre parcel. There's I-95 widening and they want borrow pits on that property. There's the extension of Williamson Boulevard to run through the property and we met today, Jim White and I, and they're not talking about a 100 ft. road right-of-way, they're talking about a 130 ft. So that is even more and there are borrow pits to go with this. So then we also have the issue of ancillary functions for training grounds for potentially new employees.

Mr. Rodi stated so in starting to look at this, part of what I wanted to look at was the order of magnitude costs. If we start to explore this for testing and permitting, and these are just very, very rough, about a million dollars for this. A 1,200 ft. deep well was around \$750,000. If we look at a rom unit that gives us 750,000 gallons per day, its another \$750,000. Then you have piping and pumps and storage, you can see there's not a lot of money you would have to spend to get into this concept. So what we did is we said okay, if we tried to represent this on a map. This is the area that we still have retained here, in looking at this path, I pulled this from a powerpoint presentation that had occurred here on some capital budget plan, and this is the path that was laid out for Williamson Boulevard. This is the FPL corridor that is 160 ft. wide, here is the FPL substation, and what we tried to represent in the blue, these are the potential wetlands, because these haven't been certified, these areas here represent the 150 acres. So we're assuming that you would be permitted to dig out the highlands, have storage above ground, and we would put the water processing plant right here in the center so that you could just start to expand this as you need it to meet your reuse flows. Bear in mind, we have our reuse piping, we have our new wells that are here so that we can manifold into this system. This is our existing pond and if we need generation, this could occur, and if its renewable this yellow area is a lay down area. When you look at that you say that's pretty big but the reality is that you need about 30 tons per day per megawatt. That's a lot of wood or biomass and odds are depending upon what kind of methodology you use, whether you try to gasify that or whether or not you use a more traditional approach, you can see that there would be a lot of activity. Well, what's left is this area right in through here.

Mr. Rodi stated so we wanted to start to provide some representation as to if we're going to use this land, does it have a public use. Historically, as I'm repeating what I understand to be true, this land, and a larger parcel even, was all taken by eminent domain, in three takings. The first

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

was for a power plant, the second for a water plant, and the third incorporated the first two for public use. Now, the reason for trying to consider Williamson Boulevard, I've learned is in this area here is a very large subdivision that's suppose to have a mall twice the size of the Volusia Mall in Daytona Beach. There's another large commercial development here that supposedly will have a Volusia sized mall. There's yet another subdivision that's just been announced, it's a DRI, that's suppose to have yet another one. So when you start to look at all of this commercial development, this is an economic corridor. With all of the housing development out here there's certainly going to be a need to move between Pioneer and S.R. 44. And also we put in here an interchange because it appears as if there are a lot of requests for interchanges on I-95, up and down I-95 by landholders that own properties, and when you get those interchanges in, it drives the values of the land up substantially. We know that there's work going on right now on the widening of I-95, I don't know anything about whether or not that's a reality or if its 20 years away on the interchange at Pioneer if that ever occurs.

Mr. Rodi then stated but when you see this, it really seems to imply that there is a very important need for that land that you really can't do elsewhere. The synergy or the combination of value that you get by having a water system that could give you irrigation water, that you could use with your existing system and tie it in, or also have potable water, seems to be an appropriate use and very valuable. Without it, what we start to deal with are the issues of where will the irrigation water come from, and you heard Mr. Blais tonight point that out. If its not taken from there then we're into the surficial wells, the irrigation wells that are all over New Smyrna Beach now, but if you've been listening to people talking about their wells going dry, as people draw down more and more, it raises a question about what's going to happen. He stated this is for the protection of the future so as I have felt for some time, its important to publicly put this out there, get some public judgment on it. All of these different reports, when you look at them in their combined impact, which is so important, that's how you discover this kind of thing, that you have a need, you can manage the need, and there's an alternative which is modular and effective.

Mr. Rodi stated if we have to take land that's wetlands, I've wondered, this happens to be Venetian Bay's Phase II mitigation site, on that parcel that was acquired from us, the U.C. You can see they just go here and they buy this and I don't know if this is the Miami Corp., but it seems like a lot of folks are doing that and developers where they remove trees and wetlands, and then they go down here and they buy that land and its perfectly acceptable. But whether or not we would have to get involved in that or even the County in putting in the roadway, I don't know. And there have been others who have said this land, I'm not making a pitch here I'm just bringing back something that had been a public document previously, that it could be used for other things.

Mr. Rodi stated so in the course of this presentation it all sort of gets tied together because in a previous presentation I made to you, its still a very serious question about where will the water come from. Right now we're fine, you can see we have an issue to address with irrigation water which would be the primary issue, but very quickly behind that it could have a consequent

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

impact on potable, and that we have to build a plan in order to address what we want to do. So that's my pitch and it got connected to what's happening with WAV right now and its connected to the simple thing on really paying for the interconnect, but that's why I wanted to take your time to talk about this.

Commissioner Diesen stated you know that there's rumors rampant that there's a great push to sell the 800 acres. What happens if for instance, and I'm only going to use this as an example because I've had people within 10 days say this to me, what happens if our budget should happen to get held hostage and we couldn't borrow the \$15 million so that would be a wedge to try to force us to sell the 800 acres. What do you think the consequences of something like that would be.

Mr. Rodi stated I think I have been consistent in my statements. We have separated the need for resources between our existing systems and new growth, and we've been pretty careful about that because we need to manage that competing need for resources. The existing systems, and all of these studies have said, that the current infrastructure can not be ignored and I have also said that it appears as if that we would not meet our bond covenants if we don't proceed. That's where this money's going, on the \$15 million or whatever it is, if you look at the total program it may be \$30 million. That becomes very fundamental, and its fundamental about keeping the health of the U.C. In addressing the aspect of well you can just sell this property, and one of the things is its not 800 acres, and the amount of available highlands out there is very limited, 70 some percent of it are wetlands from what we know. If we don't have an area right now where we can have large ponds, like Port Orange has a 100 acre reclaim pond now, this is collectively 150 acres and you can see from the WAV information we're tracking pretty much on that same need. Where would you put the ponds, I haven't if I could, and I'm saying it as an I, I don't mean it that way, as the U.C. and staff can figure out, is there another way we could store reuse, then I think we'll pursue that. But if we can't, where are we going to find 150 acres to store enough reuse on a scaleable basis with expanding costs that we can control. Because if we don't do that, what's going to happen is the building is going to stop, you won't have water for irrigation and it may well impact your potable, and that's what a lot of this information is showing. In addition to it, if you don't reinvest, for example, the 20" main between Smith Street and Glencoe, or if you don't put a force main out to the beach, or if you don't improve the storm sewer to the southern end of the beach, I mean these are major infrastructure needs that are right now and all of them are immediate. So I think what it does is it really does jeopardize our covenants and I had to present factual information, these are not opinions that are up here, and they've been there for public viewing, public comment. The things that are being said are being done by other professionals so that's the basis to which I say it appears as if there's a very legitimate public purpose that is tied with the future of New Smyrna Beach and its manageable from a standpoint of investment. This proposal is simply dealing with New Smyrna Beach's needs but there could be the potential for others to join because as I look at this model I would hope that it could be replicated elsewhere. I think there was a recent League of Cities meeting up in Jacksonville that was starting to address this very same kind of a concept to plan for future

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

water needs and what have you for the communities; that's as directly as I can answer it.

Commissioner Diesen stated I asked the question because I think its an important issue and the vultures have long been circling over the acreage so I just wanted that clarified. I did talk with City Commissioner Grasty about what happened up at the Florida League of Cities and apparently that was an excellent presentation and certainly gave credence to the fact that we need to keep that acreage for what we need it for, which is what you just explained.

Mr. Rodi stated and I've tried to give, as best I'm able to at this point, concrete, specific references, not opinions. We've tried to demonstrate that the technical support is there to indicate there's a real need and its not one that appears to be manufactured. Frankly, any decision can be made, that's fine, but there are consequences, and this I felt was an obligation. I started to say when I had first come here, this land was on a surplus list and I felt it was not surplus just based upon what I had seen with the systems and not knowing about what was going to happen with water and build out rates and just a lot of questions that it needed to be publicly vetted, and I'm still going through this process now.

Commissioner Diesen stated it's for true, we can't ever get it again.

Mr. Rodi stated I don't think so.

Commissioner Reynolds stated good presentation and added it seems to me that we may need to be a little more proactive in formalization. For instance if we were to approve a land concept plan with what you have laid out there and make sure it's a formal document on what we intend to use this for, and of course, we want to coordinate this with the City and ensure that other Commissioners who are not here, hear this presentation and really recognize how important, if not essential, this land is for the future infrastructure of the City. It seems to me that we need to move a little faster just in that, just to commit a concept plan, formalize on the use of this land.

Mr. Rodi stated I agree, I know that what's been happening is as we have obtained information on the report, the last regular U.C. meeting, you remember how uncomfortable Mr. Blais was because I was pushing him to say I need to understand are we going to have enough reuse water, what are your studies showing, what are the infiltration rates, what, what, what. He gave us enough information that caused me to take the next step to pursue and start to lay this concept out so that visually you get a representation. I know that in our budget workshop that Commissioner Richenberg asked the question, what are you doing out there, what are your plans, how are we going to meet the needs, the same questions about do we have enough water, the answer's yes, can we plan for the future, the answer's yes, can we manage the costs, I think the answer's yes; but we have to do it based upon a plan. Then articulating this where you put this together, now our next step is we have to prove some of these concepts. Whether there's 500 ppm of chlorides down there or a 1,000, the process of using the roms, it can do it, it's just going to cost more money to do it, but it is answer and it is controllable. As we learn more then we can

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

make the presentation to other groups and we've been talking with the Planners over at the City, the City Manager, saying hey, we're far enough along. I met with the County Manager so that he could understand what we're trying to do is form a template that may be useful in the County as well. It wasn't any sell, it was just here's what we're thinking about.

Commissioner Reynolds stated it seems to me one of your big hopes is that we can drill 1,000 to 1,300 ft. well and truly find water and truly find that the chloride contents are 500 ppm or less, and once we do that and get a good feel for the volume of flow, then that answers a ton of questions.

Mr. Rodi stated very much.

Commissioner Reynolds stated so it seems to me that would be one of the first projects that we would get underway.

Mr. Rodi stated that's where we are right now, the consultant that we're using has done some preliminary tests to the north of us, and has confirmed in that area. We think in this area it's probably going to be similar but don't know. The waters there, what you saw is a profile from St. Johns indicating that lower Floridan is available to us, drilling wells to this depth is very doable, we're not talking about 6,000 ft. wells which seem to be money eaters, there are other utilities that tried that for brine disposal purposes for the generation end of the business, so there's more and more of an indication, as we've learned just within, or at least it's been revealed within the last year, the flow of water between east and west Volusia from a watershed standpoint. Another previously believed issue was whether or not there's an upward migration or leakage through these confining barriers. Previously they thought yes there was, recent tests are saying the tests were faulty that they ran and there isn't. So using this kind of technique seems to be very viable. So the other part of it that we really have to wrestle with, it has to be within our technology application capability as the U.C. We have this ability so I think that we're able then to grow the skill sets that we need based upon the baseline we're working from and add these components in, because they're not out of reach for what we can do, but we do have to push it out there more and more and that's another purpose of this meeting tonight.

Commissioner Spangler stated well I think the Commission already determined that our needs are not going to be met by WAV on any kind of a time schedule that would be satisfactory and we needed to proceed to provide for ourselves and I think that was the basis for rejecting WAV in the first place. So I think based on the reports we have and based on what you're saying, that it's time to begin to implement some of these technologies. See if they'll work, and if they work for us, they can work for the whole County, but we're in a position to do it right now and they're just in a position to talk about it, so I think it's time we did it.

Mr. Rodi stated I think that's also a very helpful comment because Port Orange could be in the position to replicate this because they have the large 100 acre reuse pond right now and I'm sure

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

they're facing similar issues, especially with the new large subdivision proposed there. But we also owe St. Johns an answer by May of next year as to where our alternate water source will come from, and we're on that time line.

Commissioner Spangler interjected we better start finding out.

Mr. Rodi stated well that's a part of this.

Commissioner Reynolds stated the other thing, just to comment, there's only so much water out there and despite the CUP's that St. Johns has authorized, as some of these cities and parts of counties become in trouble, St. Johns has no alternative other than to re-look at CUPS and if we're in a plus side, they're going to say hey, you've got to give that up, and even though it may be temporarily. But to count on these CUPS out to 2025, I would say its less of a chance of that occurring than us finding good water somewhere.

Mr. Rodi stated you can't, so we've got to have a plan.

Chairman Para then asked if the public would like to participate.

Mr. Ken Taylor addressed the Commission again and stated thank you Mr. Rodi, I enjoyed your presentation, but I would like to bring us back to focus on point. The point was are you going to pay that bill to WAV.

Commissioner Diesen stated no, we're going to pay it to the City.

Mr. Taylor stated well, should you pay the bill at all. The City made the commitment to join WAV, not the Utilities Commission. The City made the decision, not the Utilities Commission. The City did not take action overtly to include the Utilities Commission in any way in involvement with WAV. The Utilities Commission took an action to get one of its members involved with WAV as an observer, but that is the only position, had no say in what went on. Ultimately, had one of our technical people involved to make sure we knew what the devil was going on. WAV went ahead and made a plan and started implementing a plan to make a connection with Port Orange and then they sent the bill to the City who forwarded the bill to the Utilities Commission. I think I heard Mr. Rodi say, notwithstanding what they did and how much money it would cost, it's not useful for the Utilities Commission and it really isn't useful to Port Orange, it may look that way but it isn't useful. So if it was his money, he wouldn't spend it, that's what I heard him say, my interpretation. Now, he's trying to be kind by saying well you can just pay it to the City and let the City pay it because we're not really involved here. Mr. Taylor stated that's bovine feces, don't pay the bill, they made the decision, let the City pay it, they've got lots of money these days. Believe me they've got lots of money, they can pay a \$60,000 bill, they made the commitment without the aid of technical support and advice from the Utilities Commission. Let them pay the bill and don't get wrapped up in that again unless you

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

have a say in what's going on and your technical people are advising you the best things to do because they usually look at what's best for the utilities ratepayers in the City of New Smyrna Beach.

Mr. Bob Tolley addressed the Commission and stated I need some clarification quickly and the hours late. Friday I went to a meeting of WAV, I believe most of you have gotten the email to that. I go back to the summary from the last U.C. meeting which says during the U.C. meeting held April 7, blah, blah, defer the payment of this invoice until there was a clarification of the WAV Master Plan. Well, I was there Friday and those folks didn't even know how to circle the wagons properly. I sat there for about three hours and I even spoke to Bruce Mowery for 40 minutes after the meeting; WAV is on its last leg. I mean I'm not going to put words in anybody's mouth, but WAV's Master Plan, they can't even get a minor plan. It is so fractured, it is so broke, it is a joke. If we're out of WAV, I just want to make sure I've got it right so I don't go over there and make a stink for nothing, then I don't believe the City should be contacting Mr. Rodi or any of the Commissioners regarding WAV matters. If we don't recognize it, if it doesn't exist, if we're not in it, and by us continuing to have a dialogue with the City regarding WAV, doesn't that wrap us back into it, Mr. Preston?

Mr. Preston stated you're asking me if the dialogue wraps?

Mr. Tolley stated if you keep a dialogue, say between the U.C. and the City side going regarding WAV, does not that implicate us in saying as a U.C. we recognize WAV or we're willing to talk about it.

Mr. Preston stated it depends on what the dialogue is as to what commitment there is, but no, there's not commitment just by dialogue.

Commissioner Spangler stated I know where you're going Bob.

Mr. Tolley stated we don't recognize it, right.

Commissioner Spangler stated we won't go into the legality of this, but just by continuing to talk to WAV, to communicate with WAV, maybe to negotiate with WAV, in my opinion is to continue to recognize WAV and that we have an involvement with them. When the City Commission voted to support us and say we'll get out of WAV, they didn't go far enough because the City Attorney, in my opinion, didn't say we're out to WAV, he said we want to talk to you about getting out. I don't think that was strong enough. We all know, probably, what went on the end of last week, that may be addressed later in the week somewhere, I don't think that was sending the right message, and when we get right down to this thing, yes, we did postpone it until such time as there was a clarification of the WAV Master Plan. Well, I probably don't see anything clearly yet, so if that's the criteria, then we should continue to not look at this. If its going to save somebody \$24,000 or \$22,000 by paying it now instead of

(7-c) Revisiting of Water Authority of Volusia Invoice No. WAV061C-NSB – Construction of Finished Water Interconnects – Robert Rodi (cont.):

paying it later, I still don't think that's our problem. I would recommend the City pay the \$36,000 so they don't have to pay the \$60,000, and that's just my opinion. So, I don't see why we would be wanting to take more action on this, somewhere I'm confused. Does anybody know why, Mr. Rodi, you're just looking for direction and confirmed he wasn't recommending that we pay it. Commissioner Spangler then stated my personal direction as a Commissioner is that there still is no clarification of the WAV Master Plan, the bill still went to the City, if the City's afraid they might have to pay \$60,000, then they should pay the \$36,000, but I don't think we should.

Chairman Para asked if he cared to put that in the form of a motion.

Commissioner Spangler stated agenda item 7-c., I would recommend that we continue to not pay the \$36,000 for the same reason we didn't the first time if we need a reason, until there's some clarification of the WAV Master Plan. Commissioner Reynolds seconded this motion and it passed unanimously on a roll call vote.

Chairman Para thanked the public for their participation.

(7-d) Reconciliation of Infrastructure Fees for Abandonment of Force Main on Tenth Street – Smyrna South – Jim White:

Mr. White addressed the Commission and stated what we have here is the culmination of a developer's agreement and the developer trying to lead his project forward. In this case, much as we did, down in the Tenth Street area, we kind of got caught out in a squall with all our sails up, and we had to relocate some water lines and some wastewater lines, and make some adjustments at substantial expense. There was a wastewater force main in the project area, served a small segment of our customer base, which we have constructed an agreement with Edgewater to transfer that lift station to Edgewater, and they are willing to take over that lift station which allowed us to shut down the force main. The unfortunate thing for the developer, with the relationship to that force main is that was his link to life in as far as wastewater for his project. In order to bring his project back to life, he had to go back to his engineer and develop an alternative connection that involved a little bit more extensive lift station and a force main that's maybe on the order of a half mile long instead of something along the order of a few hundred feet. What this arrangement does is credits that investment the difference in the costs to him to construct an enhanced lift station and force main because of that Tenth Street undertaking and our subsequent abandonment of that force main. To credit that amount of effort to his infrastructure costs and that's what this represents, its based on a cost estimate by the developer's engineer, which we've reviewed, and its indicative of a credit of \$118,000 more or less, the number's in the document, against the infrastructure charge of \$267,000, if I'm not rounding off the numbers exactly, leaving the balance due of whatever that amount is, for infrastructure costs.

(7-d) Reconciliation of Infrastructure Fees for Abandonment of Force Main on Tenth Street – Smyrna South – Jim White (cont.):

Commissioner Spangler asked if this developer is happier than he was a month ago with this arrangement.

Mr. White stated I'm not really sure I could comment on his mental state, I don't know if there's anybody here.

Commissioner Diesen stated he's here.

Mr. White stated he's still here, well he could probably tell you a lot about that.

Chairman Para stated commented he's being conspicuously quiet and the hours late so that's fine.

Commissioner Spangler stated well it seems to me that it works more to his advantage and if staff's happy with it, then we're happy to be helping him a little bit.

Mr. White said I think its acceptable to us, it works, its long life equipment, it will last a long time as part of our infrastructure and over time it may become more of an asset than an operational issue at any rate. The Water and Wastewater Director is satisfied with the arrangement as is the General Manager/CEO.

Chairman Para stated I think what this is, this is extenuating circumstances, we're not setting a precedent here, this individual contacted me quite a few months ago and said look, I'm in between this back and forth, ping pong thing, I need some help. This is exactly what we needed to do, so if there's a motion.

Commissioner Diesen stated I make a motion to approve the Infrastructure Fees Reconciliation Agreement for Smyrna South and authorize the General Manager/CEO to execute this document. Commissioners Reynolds and Hall seconded this motion and it passed unanimously on a roll call vote.

(8) New Business:

(8-a) Engineering Services (Improving Glencoe Transfer Pumping Station, New Smyrna Beach Pumping Station and New Low Pressure Transmission Main Connecting These Stations) – Black & Veatch – Jim White:

Mr. White stated what we have here is one of the early stages of that type one project that I was telling you about earlier. These are projects that are listed on those facilities plans as immediate. They are there because we have other facilities that have just passed their useful life, when we were out sailing or something one day. In order to keep the plant in operation this is what we're going to need to do and this is the first of some more that's going to come along. What is

(8-a) Engineering Services – Black & Veatch – Jim White (cont.):

included in this is the engineering for design, bid and the construction phase of a combination of three projects that are so interrelated that we combined them and linked them together for design, although they may be separate construction bids. It involves the replacement in entirety of the Smith Street pump station, construction of a low pressure force main from Smith Street pump station and tanks to the Glencoe Water Treatment Plant, and reconfiguration of the pumping at Glencoe Water Plant, electronics, switch gear and controls to operate that combined facility and control it from the Glencoe Plant.

Chairman Para then stated we're going to jump ahead to the finance, Mr. Montalvo it looks like we've got the money.

Mr. Montalvo stated based on the recommended action, the summary is stated correctly, but the money has to come from the pre-allocated Restricted Renewal and Replacement Fund, and then as soon as we issue the bonds, we have to reimburse that fund. He reiterated this is the Restricted Renewal and Replacement Fund.

Commissioner Diesen stated what happens if we can't issue the bonds.

Mr. Montalvo stated well the fund will be, we have the money, but its going to be very low.

Commissioner Diesen stated isn't this dependent upon our budget being approved with the \$15 million.

Mr. Rodi stated for putting the money back, yes.

Commissioner Diesen stated I wanted to make sure that if something goes haywire, somebody goes we're not going to approve this, then we're not hanging out for \$1.19 million.

Mr. White stated we're not committing the construction funds here either.

Chairman Para stated all right, then we have a good idea of what it is, any more questions of Mr. White regarding the scope of work and what's out there.

There being none, Commissioner Diesen made a motion to approve and authorize Black & Veatch to proceed with the above referenced engineering services and scope of services, as outlined in the agenda item and in the attachments, for the lump sum amount of \$1,196,000, to be funded from the pre-allocated Restricted Renewal & Replacement Fund, which will be reimbursed to the Restricted Renewal & Replacement Fund after issuance of revenue bonds, and authorize the General Manager/CEO to execute any and all documents related to this matter. Commissioner Reynolds seconded this motion and it passed unanimously on a roll call vote.

(8-b) Electric Pole Line Extensions or Additions Revision – Scheduling of Public Hearings – Jim White:

Mr. White stated this is an addendum to our tariffs and rules and regulations to deal with a

(8-b) Electric Pole Line Extensions or Additions Revision – Scheduling of Public Hearings – Jim White (cont.):

situation that doesn't happen a lot. When it does happen, the situation is an existing customer is requesting a change and expansion in his service. In order to calculate the cost there is a recovery cost that we assess for the payment in lieu of construction costs, in other words the requestor has to pay part of the costs of the construction necessary to provide that additional service. In the past, the way that was calculated didn't allow us to realistically recover our construction costs because the formula included the costs of fuel for the electricity that he was to consume in the future. In doing that calculation, including the cost of fuel, we were capitalizing O&M costs, and commented if I haven't said that backwards. At any rate, we were allowed to assess him a lot less than our costs for upgrading the service. In a recent situation, our costs for upgrading the service was about \$8,000, and Mr. Mitchum could probably give you more exact numbers, but the amount we could recover was less than \$2,000, largely because of that.

Commissioner Diesen stated all you're asking for is the option to have two hearings, right?

Mr. White stated yes, for two public hearings, and we'll try to explain that two more times.

Commissioner Diesen made a motion to schedule two public hearings regarding the revision of the electric pole line extension or addition policy, for September 18, 2006 and October 16, 2006, for preliminary and final hearing respectively, at 6:00 p.m., prior to the U.C. meetings on those dates. Commissioner Hall seconded that motion and it passed unanimously on a roll call vote.

(9) Possible Other Business – Time for Commissioners:

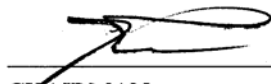
Commissioner Diesen commented we're going to miss you, Commissioner Reynolds.

Chairman Para commented he would say the same to Commissioner Reynolds, we will sorely miss you, you have been a tremendous resource and steward, and thank you for serving with us. Chairman Para also then commented to Mr. Montalvo we will miss you too.

Commissioner Diesen interjected Mr. Montalvo will be at the next meeting.


There being no further business to come before the Commission, Commissioner Hall made a motion to adjourn. Chairman Para closed the regular U.C. meeting at 10:02 p.m.

APPROVED:



 CHAIRMAN

ATTEST:



 SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their
September 18, 2006 meeting.