

**AGENDA ITEM 3-a**

MINUTES OF A REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD MONDAY, JUNE 28, 2021, AT 3:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

*(NOTE – THIS REGULAR U.C. MEETING WAS HELD ON-SITE (WITH MASKS AND SOCIAL DISTANCING) AND WITH LIMITED ON-SITE PUBLIC PARTICIPATION – VIA APPOINTMENTS)*

Chairman Holcomb called the Regular Meeting of the Utilities Commission to order. Commissioner Davenport led in the Pledge of Allegiance and Commissioner Conrad provided the invocation.

Safety Message by Tom West – Water Reclamation Services – Community Safety and Protection:

Chairman Holcomb then stated safety message by Mr. Tom West.

Mr. West initially went to the dais to hand them a piece of equipment. He stated this is for a little show and tell, if you would pass that on. That's one of our new water meters, we started using those about in the last year. It actually has a backflow preventer, it's integral with the water meter, and it's got a lot to do with the subject I'm going to talk about. Going to give a quick discussion about reclaimed water, safety aspects related to reclaimed water and give a little bit of history as well. So in the United States we've had reclaimed water in use since 1912, started in San Francisco, reclaimed water used for a small urban park, called Golden Gate State Park. In Florida the first reclaimed water, extension reclaimed water to be used, was in Tallahassee – Tallahassee Reclaimed Water Farm. And Florida lays claim to the first large scale urban reclaimed water usage and that was in St. Petersburg, Florida.

Mr. West continued, so what does it do for us, reclaimed water. So we treat that water at the wastewater plant, 24 hours a day, 365 days a year. Without any other option we'd be putting that water into the river and ultimately into the Atlantic Ocean. There was a push made to have us take that water, treat it to high water quality standards and provide that to our customers as a service. Allowing them to use it for irrigation and other beneficial reuses. So what it does for us, it takes demand off of our potable water system. Every drop of water that I put out in the reclaimed water system is a drop of water that we don't have to pull out of the ground from our potable water wells. So it's saving us time, its saving us money because we're not treating it to that high standard, that potable drinking water standard. It reduces or even eliminates, in our case for quite some time, the need for us to discharge that water to surface water. And it also postpones costly investment in future water resources and supplies because I continue to add reclaimed customers over time. For every wastewater customer that we have it takes about five to six wastewater customers to be able to supply one reclaimed water customer. So there's a lot of water lost in the process but again it's water that I don't have to pump out of a potable well and I don't have to treat through filtration and additional pumping. We use it for, it's allowed to be used for landscape irrigation, agricultural irrigation and even aesthetic ponds and fountains.

Mr. West continued and stated here's the safety piece of it, right (displayed a Do Not Drink sign). So we've got this great resource going out throughout New Smyrna Beach. No body

Safety Message by Tom West – Water Reclamation Services (cont.):

contact, this includes, and this is going back, some of our old signs, don't drink and don't swim. So we've got some ponds out there, don't swim in it, we're not supposed to have body contact with it. You're not supposed to use it to fill your pools or your spas. In fact you're not supposed to plumb it into the house at all, it's only supposed to be in the underground irrigation systems. You're not supposed to use it on your edible vegetables or herb gardens or if you do, you're supposed to use drip irrigation or bubble irrigation. So no spray irrigation with regards to your vegetable gardens. And the water meter that's going around, that's the other piece of it. Every year we have to go out, we have to inspect all of those properties. Our certified backflow preventer inspectors are going out, they're checking our residential customers who have reclaimed water and they're making sure that they haven't inadvertently or purposely tied that irrigation system into their homes. And they're also making sure that that backflow preventer, or we also have meters that have separate backflow preventers connected to them or above ground, making sure those are working properly. That's a testable device, so that tells the backflow operator that goes out there, they are able to connect some hoses to it and a pressure gauge and make sure that that's working properly and keeping water from going back into the potable water system for greater New Smyrna Beach.

Mr. West continued, so we've got about 3,400 customers on our reclaimed system now, 60 miles of pipe. We've got eight major customers, irrigation ponds, mostly golf courses. They take about 38% of our supply, the other 62% goes to residential customers. And just for sake of comparison, for water customers we've got about 28,500 customers and about 1.9 billion gallons a year. And for the reclamation plant (wastewater) we've got about 23,000 customers and about 1.3 billion gallons treated a year.

Mr. West stated on June 25, 2019, we received a proclamation from Volusia County recognizing our record of being off the Indian River for ten years. That anniversary just passed, we're now at 12 years off of the river, no discharges since June 11, 2009. And we're currently, we just bid out a project for our reclaimed pond. We have a 22-acre pond at the Water Reclamation Facility, we're going to increase the size of that. Excuse me, it's a 13-acre pond we're increasing to 22 acres, it's going to be about a 64% increase in volume. Which is going to give us additional supply for customers in the dry period and additional volume to store in the wet. So that will allow us to more reliably stay off of the river going forward. That construction project is expected to take 180 days to construct and it's about \$1.8 million to do that, and that's expected to be on the July Commission meeting for approval.

Mr. West concluded by stating thank you for all your help, thank you for everything you do to continue to allow us to stay off the river.

Commissioner Davenport stated I have a comment.

Chairman Holcomb stated go ahead.

Commissioner Davenport stated you said five to one a while ago. You know 3,400 I've come up with 680, what does this 680 do?

Safety Message by Tom West – Water Reclamation Services (cont.):

Mr. West stated that's actually relative to our Water Reclamation customers, so that's relative to that 23,000 customers.

Commissioner Davenport stated so you're telling me, am I understanding this right when you have five on reclaimed and we're getting one for free?

Mr. West stated no, so what that is in regard to, in order for me to be able to supply enough water in irrigation to a typical residential reclaimed customer, I need about five wastewater customers to make up that volume. Goes through the plant, gets treated, goes back out into the reclaimed system and supplies them with that irrigation water. Again some of that is because of those larger customers.

Commissioner Davenport stated what about this one statement you made, you said monthly or yearly you go inspect water meters, did I hear you say to make sure they hadn't hooked it back into their house?

Mr. West stated hadn't hooked it into their house or...

Commissioner Davenport stated explain that to me, why would you run reclaimed water back into your house?

Mr. West stated well, I don't know why anybody would want to other than it's a lot cheaper, it's a lot cheaper than potable, but it's not allowed by law.

Commissioner Davenport stated interesting, thank you.

Mr. Bunch stated question Mr. West, so you mentioned we're conserving potable water reserves, resources and you don't have to drill additional wells. Any idea since we've been using reclaimed water what's that done to maybe our average customer or average meter consumption over the last 20 some years.

Mr. West stated well in combination with more efficient water using appliances and faucets and toilets and such in the homes, water use has actually reduced year over year. For example last year we were at about 191 gallons per connection per year per day. And in 2021 we dropped that by another four gallons per capita per day. So year over year over year we're seeing less, and less water used by our customers. And another example of that is we've continued to grow you know, New Smyrna Beach grows year after year after year, you just have to look west of 95 to see evidence of that. And the last three years water consumption, potable water consumption has actually dropped all three of the last three years.

Chairman Holcomb stated so maybe we don't have as much growth as we thought.

Mr. West stated I don't know, we have that growth, that's for sure.

Chairman Holcomb stated 3%, I still struggle with that number being big. But what I like about this is we're working backwards to save or to reutilize a resource we already have. So by the potable, turning the potable into the reclaimed and then it beats down the usage and

Safety Message by Tom West – Water Reclamation Services (cont.):

obviously, technology and efficiencies come into play too, that you're taking every avenue to recognize the savings. And then the environment is being kept a little cleaner because we're staying out of the rivers and out of the oceans. So there's a lot to that and it seems like the trends going this way so as we, you know one of the big concerns in the market which always bugged me was that there was this fear of water. You know we're going to run out of water, we're going to run out of water, people would push that through the community for whatever reason and one Commissioner in general. But if we keep going in that direction it seems like we could meet the demand for quite a while and we're not going to run into that problem.

Mr. West stated we're in relatively good shape and due primarily to the Commission's decisions and a lot of recommendations of staff prior to me. Mr. Hoover certainly put us in a good place.

Chairman Holcomb stated so it's great job to all of you, there's a lot in that.

Mr. West stated thank you.

Commissioner Smith stated I lived in the Keys for seven years and they had the lowest per capita water consumption in the state. And the reason they have the lowest is because it's expensive. And the first thing you'll see down there, and we noticed when we came back here, you have a bathroom and you have a toilet and you have a shower and a sink. We came back up here looking at homes and they looked like some kind of Greek sauna. I've never seen so many ways to waste water than in the design of these bathrooms, you know it just seemed ludicrous. But they've been able to keep that low consumption, but it is, water is very expensive.

Mr. West stated it is, certainly in comparison to other places I've been, it's even expensive here; but it's all of our jobs to conserve it. There's a lot of ways you can do it, we've got a lot of great tips on our website as well.

Chairman Holcomb stated we appreciate it, anything else?

Commissioner Smith stated thank you.

Chairman Holcomb stated that's it, thank you, it was very informative. Then stated Mrs. Simmons please call the roll.

Roll Call: All of the U.C. Commissioners were in attendance as follows:

Commissioner James Smith  
Commissioner Lillian Conrad  
Commissioner James Davenport  
Commissioner Richard Hawes  
Chairman Jack Holcomb

Roll Call (cont.):

Others in attendance were as follows: J. Bunch, General Manager/CEO; E. Chavez, Director, Finance/ CFO; J. Couillard, Director, Engineering; T. Beyrle, Director, System Ops.; B. Keehn, Director, Information Technology; T. West, Director, Water Resources; B. Beck, Director, Central Services; R. Walsh, Interim Director of Electric Ops.; Laquavius Green; Help Desk Technician; M. Spellers, Sr. Help Desk Technician; D. Simmons, Exec. Services Mgr./ Recording Secretary; General Counsel Thomas Cloud Esquire – Gray|Robinson Attorneys at Law; Henry Thomas, Raftelis Financial Consultants, Inc. (arrived later in the meeting), Randy Halley, Summit Utility Advisors, and John Moss, a member of the public.

(1) Agenda Changes, Additions and Deletions:

Chairman Holcomb then stated Mr. Bunch, any agenda changes, additions or deletions?

Mr. Bunch stated one change and I just want to provide a note. So one change in four, I want to switch the order of b. and a. I'm sorry, I meant to say switch the order of item 7-b. and 7-a. We're waiting for one of our consultants from the rate study so for the time being at least I want to plan for 7-b. to be going before 7-a.

Chairman Holcomb stated all right.

Mr. Bunch stated and then provide a note on 3 (consent items), items f., g. and h., are all being accomplished in this year's budget and it's just a matter of providing a few extra dollars to fund the continuation of replacing poles that need replacing and then in the case of two work awards, to award work to contractors that are going to do work. It was planned work under the existing budget, it just has to be done through a formal contract award to them. That's all sir.

Chairman Holcomb stated all right, any questions.

(2) Public Participation:

Chairman Holcomb then stated I'd like to invite anybody up right now that would like to speak. This is the public participation part of the agenda; anybody is welcome to come up and state your address and your issues. Doesn't look like there's anybody out there, so we'll close that section and we'll move to the consent items.

(3) Approval of Consent Items:

Chairman Holcomb then stated any Commissioners would like to pull anything?

Commissioner Davenport stated I want to pull g.

Chairman Holcomb stated okay, I want to pull f.

Commissioner Smith stated f.

Chairman Holcomb stated all right, so I need a motion to approve consent items a., b., c., d., e., and h.

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

Commissioner Hawes stated so moved; specifically a motion to approve the consent items – item 3-a. Minutes of Regular U.C. Meeting Held 5-24-21 (*Annotated Version*), approve as submitted; item 3-b. Granted and Accepted Third Party Utility Easements, ratified the acceptance of the third party granted utility Easements, granted to UCNSB for the west side of Ocean Gate Boulevard / Ocean Gate Commerce Center, LLC, 392 Flagler Avenue / Beaulieu Holdings, LLC, Sporty’s Car Wash / New Smyrna Auto Spa Services, LLC, and U.C.’s 16” Subaqueous Water Main / State of Florida; attached hereto and hereby submitted to the Commission; item 3-c. Purchase – Sherman Reilly Underground Puller, approve the purchase of a Sherman Reilly DDHX-75 Underground Puller at a cost of \$137,084 from Sherman & Reilly, Inc. (state contract / budgeted funds); item 3-d. Advanced Metering Infrastructure Project – Phase 1 (Quanta Technology, LLC), approve this project, Phase 1, in the amount of \$112,000 for FY2021 (full project approval forthcoming), and award Phase 1 Owner’s Engineering Services to Quanta Technology, LLC (under existing FMPA/Quanta Technology Master Services Agreement dated 8-23-17) in the amount of \$111,963, and authorize the General Manager/CEO or his designee to execute all documents associated with this matter; item 3-e. Ratification of Award – ITB No. 12-21 – Three Phase Reclosures (Feeder Reliability Level 1 Projects (6) ) – ratify the award of ITB No. 12-21 to Southern States, LLC in the amount of \$389,760.00. Previous overall project authorization, referenced in agenda item summary, for the General Manager/CEO or his designee to execute all associated project documentation is ongoing; and 3-h. Assignment of Work – Pike Electric and Asplundh – Increases in Annual Projects Budget, approve the increases in the annual budgets as outlined in the agenda item summary and the issuance of the listed purchase orders to Asplundh, Inc. in the total amount of \$102,250.00 and to Pike Electric, LLC in the total amount of \$609,069.00 to complete the outlined annual FY2021 planned work, and authorization for the General Manager/CEO or his designee to execute all documents associated with this matter.

Chairman Holcomb stated I need a second.

Commissioner Conrad stated second.

Commissioner Hawes’ previous motion then passed unanimously on a roll call vote.

(3-f) Osiose Reject Pole Replacement Project – Increase in Annual Project Budget:

Chairman Holcomb stated okay, we’ll go with, just in order here, we’ll go with f. first.

Mr. Bunch stated okay, I’ll ask Ms. Julie Couillard to come up and address both of those for us; thanks.

Ms. Couillard stated sure.

Chairman Holcomb stated it’s really, I understand what we’re doing but I’m going to kind of get off the tracks a little bit with this because we’re going to study the rates later, which is being efficient with our dollars and in spending them right. So as we raise rates, we’ve got to protect the dollars we currently have. We’ve had the issue with some of the communications companies trying to attach, our fees are under attack or questioned on how we’re doing that.

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

I've talked to Mr. Cloud and I've talked to CEO Mr. Bunch on this. And the reason I want to bring it up is I know that they're in negotiations, but it doesn't sound like it's a clear, Mr. Cloud when we talked about this, I don't think there's a clear end to this yet or a clear resolution to this. And where I stand is, you know, when we look at these numbers and we say okay what are spending per pole \$3,000 to \$5,000 I think is the number that we looked at and they're attaching at \$31 I believe per pole is what our fee is. And you think about that, \$31.00 and \$3,000 to \$5,000, and then you look at the investment we've made in maintenance, clearing the lines, taking care of the system that holds those lines, that for me it's one of those things we really need to... I know there were a couple of meetings and I know there was a hearing and there was a motion made and I think it better serves us, because when you start looking at that number, it's a couple \$100,000 a year I think is what we've identified as being exposed in lost revenue if they were to get their way. And basically what I say is just transferring the dollar from them to us is the end of it. In learning these expenses, I'm thinking \$31.00 to have no capital investment to attach to our pole and then basically ride our investment and then our maintenance programs to maintaining their systems, doesn't seem unreasonable to me and it seems worth defending. So one thing I wanted to ask is that moving forward we have representation until this is resolved. I know that we have a collective representation with FMPA, is that right?

Mr. Cloud stated FMEA.

Chairman Holcomb stated FMEA, I get the acronym screwed up, and then, but I think considering that when I look at a \$200,000 to \$300,000 number and you start looking at that over five years you're talking about \$1.5 million and then you look at what we're going to look at later as what we're going to increase our revenue, we can't just say okay we're going to raise this and then just look away from this. I think it's too much money and I think the example I used was, you know, we're going to invest a pawn to protect a queen. And in terms of chess, that \$200,000 a year, if we have to have our own lobbyists representing us to make sure we're getting what we want back for a period of time, I would highly recommend it. And I think, you know, one thing that scares me about government is typically when it gets to the floor the decision's already been made. And if you're not part of the conversation and you're not represented in the meetings you're going to get left behind and it's too late. I don't care how passionate you get or how articulate your presentation is, sort of say the horse is out of the barn. So I just wanted to open that up on f. for me, on the numbers, the investment. I know what the pole replacement, the numbers, but I just wanted to hear your input as this will go on. Obviously, I won't be here a year from now, but I want to make sure that...

Mr. Cloud interjected what makes you think we're going to let you leave?

Chairman Holcomb continued, that we are protecting that you know anywhere from a million to a million-five number. And speaking to Mr. Cloud I feel the investment's worth having our position heard, having our position protected and at least stand there. And again, I don't have a problem with the collective group, having theirs, us having ours, there's a benefit of standing alone sometimes and I think we're still going to get the benefit of the collective agreement. But I, you know talking to Mr. Cloud, talking to Mr. Bunch, understanding the dynamics, the dollars through the course of probably a month, I want to make sure that you all understood that.

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

Mr. Cloud stated yes sir, and three quick things. First, there's no question this Osmose program and the monetary support that this Commission has given in support of things like 3-f. has significantly reduced the backlog of poles that need replacing. I'm not sure there's another electric utility in Florida that has, you know, implemented something on pole replacement that has moved so quickly and effected so many. And yes, it does have a payoff on your reliability, there's no question about that. Second, lobbying issues tend to come in two-year batches, that's just the way the game is played. And we were, I did not realize how lucky we were until I had a conversation with Dean Cannon who's the head of our lobby group and who's a former Speaker of the House of Representatives. And what he did in order to sort of kick the can down the road this past year I'll be happy to share that with each of you individually privately, but he believes the issue is not going to go away and I think that it's a big enough investment that the Commission should consider this. And I don't know that you have to make a decision today, but it is something that in going forward, you know maybe at the next meeting you consider something for the next year, that heightens your presence on this issue. And I know that the Chairman is going to be discussing the issue with a member of the local delegation and so perhaps after that conversation we'll have a better idea of what kind of effort the Commission will need to undergo, you know to make a decision on this at the next meeting. And I point out to you this morning about the numbers because here was a great agenda item that had this data in it about what it costs this utility to replace an electric pole. And that was the third point, that this kind of data is not only important for your ongoing operations but its also very helpful in the issues we have to deal with the state on. You know what your flows are from day to day, what it costs to replace a pole, this information is vital and bringing it forward like this is great, I mean there's no question about it; and that was all I had to say.

Chairman Holcomb stated Commissioner Conrad?

Commissioner Conrad stated Mr. Cloud, are you suggesting that this is something that should be in our 2022 budget or our 2023 budget, and how much?

Mr. Cloud stated well the next, whatever the next year is, the Committees will start meeting in the fall. Okay, and the annual cost will probably be about \$45,000.

Commissioner Conrad stated thank you.

Mr. Cloud continued, and I am recommending it but you know I had a phone conversation with the Chairman last week and I was going to wait until today when I saw your General Manager say this is something we need to talk about. So there is going to be a need for it, no question about it, I just didn't want anybody feeling like they were, you know, this was some kind of heavy push.

Commissioner Conrad stated so, if it's not going to be in the budget that we're going to be voting on today, I don't have any further questions regarding it and I certainly agree. If it's going to be in the budget we're voting on today, CEO Mr. Bunch can you please tell me that it's already baked in?

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

Mr. Bunch stated so we don't have this called out as a line item, but I think we have ample dollars in there for this...

Mr. Cloud stated I do too, I looked at the..., I think you're fine.

Mr. Bunch added and I see Ms. Couillard's head shaking as well.

Ms. Couillard stated yes.

Commissioner Conrad stated good.

Mr. Bunch continued, but I would if at some point in the year I thought the expenditures were going to be larger and needed to be, I would let you know. But I agree with everything the Chairman and Mr. Cloud just said, we should continue to fight the fight. It's really big out of state business trying to reduce their costs on the back of the small municipal utilities like us. And Mr. Cannon did an exceptional job of representing not just us but the whole Florida utility group this year.

Commissioner Hawes stated and just to help be clear with this then, this is the issue from several meetings ago that was discussed, and then... Okay, got you.

Mr. Bunch stated yes, you may recall that at some point last year we approved an increase in the fees, we then renegotiated contracts with AT&T, started charging those new fees. And then this session it was introduced through some Florida internet provider's consortium of very big, out of state companies. They're doing it under the auspice of trying to further rural broadband across the state saying that the municipals are in their way of being able to do this because of high attachment fees. And as the Chairman aptly pointed out, if you're spending \$3,000 on a pole and party B is only paying \$30.00 a year to attach to it, that's a pretty good proposition. I would gladly reverse it, if they wanted to pay for the poles, I'll gladly pay them \$60 a year.

Mr. Cloud stated some electric utilities actually require full-on replacement right off the bat, we don't do that, and that was the point I was trying to make this morning was that we're out there with our own program proactively replacing poles. We're not trying to, you know, throw any of that cost to the people that are attaching other than what our fee is.

Commissioner Hawes stated and the way that I read this issue, kind of that aside, this is just a stand-alone issue for new poles and the other piece Chairman Holcomb I think what you were doing is sort of tying that into this.

Chairman Holcomb stated to the budget, not to the budget, to the rate study.

Commissioner Hawes stated right, yes.

Commissioner Smith stated to quote a reporter that I read in the paper, said no one is safe as long as the legislature is in session.

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

Chairman Holcomb commented that was the first time, an accurate reporter.

Commissioner Davenport stated what about the \$30 a pole, is there any way we could raise that? I mean that's just like, we're just giving it to them for \$30.

Mr. Cloud stated well, you could but when I was asked about this originally the advice I gave was you know I went and I found the APPA, American Public Power Association's formula and I handed it to Mr. Chavez and Ms. Couillard and said this is something that we can bet the farm on and we really would like to stick with that. We do have amongst the highest rates in the state of Florida, that's one of the few times you can say that about our utility, most of the time we're the lowest in the state.

Commissioner Davenport stated for the highest rates for the pole?

Mr. Cloud stated yes.

Chairman Holcomb stated but based on we were the last to raise.

Mr. Cloud stated right.

Chairman Holcomb stated so there's timing, I mean it wasn't by coincidence that we got picked.

Mr. Cloud stated right, state average is \$20.

Chairman Holcomb stated we're the example because.

Mr. Cloud reiterated \$20 is the state average.

Chairman Holcomb stated but I want you, don't get lost in that, look at the numbers of \$3,000 investment, \$31 ride. We're making the capital investment, the ratepayers of New Smyrna Beach at \$3,000. And for the companies not to have to invest to travel their fiber optics through our system or our community for \$31 they get a free ride. Yes, you want to spend the \$3,000 to \$5,000, then you get to maintain it, when it fails, and all the things that go with that lovely, that we've approved through these meetings, you can participate. When I started to look at the numbers, there's some things where when I looked at the math and I started to dig the numbers, what's this number, what's that number, and how to explain this to me. And when I started looking at them, I'm like that's a great deal, like if I'm going to go build a system, I mean I'm in for the \$31, I'm out on the \$3,000 and the liability of maintaining the poles. So once I started putting it together, just from a common-sense approach, I didn't think it was unreasonable. I think there's another agenda here where they're working on their balance sheet, at our expense they're working on their balance sheet.

Commissioner Hawes stated and would this benefit our customer, the 5G that would come on this attachment to the pole? I don't know how that...

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

Mr. Cloud stated who knows, I mean its certainly going to benefit the companies that get a free ride.

Commissioner Hawes stated I don't understand...

Mr. Bunch stated what they alleged was high attachment fees are getting in the way of them being able to extend broadband into rural areas while 99.5% of our customers have a choice of at least one broadband supplier.

Commissioner Hawes stated yes.

Mr. Bunch continued, so there's absolutely no argument that they're making that that applies to our customers. I can't really comment to the accuracy of the rural areas, but I don't really think a few dollars a year is getting in the way of them being able to extend their broadband.

Commissioner Hawes stated no.

Mr. Cloud stated this argument goes back to 2017 when you first started hearing about 5G, you know before there was even a scientific protocol for it, and the larger communications companies, the Verizon's, the Castle group, Crown Castle that does the poles, and Spectrum and all these companies started coming down here demanding the right to put 5G equipment in the public right of way. And the first deal that was cut exempted electric providers and you know this is like the municipal electric lobbyists in that session and I was involved with it at that time, basically said you're not touching our exemption. Well as we've gone forward, you know, we went through this last four-year period and certainly a lot has changed in this country and a lot's changed in the state of Florida, and you know the jury's still out on whether it's good or bad, but whatever it is, it is. So we've seen these attacks every year by the communications companies trying to get more and more freebies in public right-of-way and we're now at about the five-year mark of the fight. And right-of-way is the essence of local government, local government for over 100 years in the state of Florida and every other state, that's where the rubber literally meets the road. The police power literally is keeping the motor ways open and so this is vitally important to the health of local governments.

Commissioner Davenport stated this is for, Mr. Chairman, could we not, I mean this, I just don't, it's pretty basic math and it's very, like everything you said Chairman, but couldn't we put a surcharge or like a pole fee. Okay, we're putting \$3,000, so per pole we'd like for you to put up \$1,000 since you're riding on this pole with us. You're our partner and plus then pay your \$30 a month.

Chairman Holcomb stated so to that, the one thing I did like about how we defend the number is the method in which you calculated it. We don't walk into a room, Mr. Chavez and these guys, don't walk into a room and go we're going to charge \$31. There's an equation, a standard practice that's used by the American, another acronym.

Mr. Bunch stated APPA.

Chairman Holcomb then stated APPA.

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

Mr. Cloud stated it gives you a headache to try and read it, it's got all those funny little symbols you know.

Chairman Holcomb continued, so we have a common tool that's used across the industry to create these numbers, and that's the tool which they used. So you can defend that, you can say no, no this isn't, we're not one off, we're not standing by ourselves, we've used what everybody else used, this is where we've come from. But look at the investment that we've approved in the last couple of years and the dollars we've put into our system, I think we're entitled to \$31 based on what we're providing. It just, it doesn't seem to me unrealistic cost, an unfair charge.

Mr. Cloud interjected it's equitable.

Commissioner Hawes stated I don't want to beat a dead horse either but I'm just sitting here trying to figure out how our customer benefits and...

Chairman Holcomb stated it's real simple, if you take \$31 off and you're losing a couple \$100,000 a year, it's just like flip it.

Commissioner Hawes stated no, I'm sorry what I meant is if they attach to these poles because if people want 5G, I don't know how many of our 28,000 customers base, whatever it is, are Spectrum customers, but they get 5G through Spectrum. And then the question comes is this really, and I'm starting to get out on a limb because I'm not an expert in this stuff, but is this really meant for Verizon and those guys and the question is well maybe it is, but I doubt the bulk of our customers are getting their internet at home or wherever from you know some wireless source, they're getting it from a wired source.

Mr. Bunch stated it's all of the above, it's internet, it's cable, it's 5G, it's everybody that's not the electric utility and that's the consortium.

Commissioner Hawes stated okay, okay, so Spectrum's trying to...

Mr. Bunch stated in terms of the fees, the Chairman's comments, they're not arbitrary. It's my belief that the people in the state are on the very low end and Counsel Cloud knows one that wasn't charging anything, were arbitrary, haven't updated their rates for forever and if they were to plug in and chug their numbers through this template they'd come up with a number that's a lot higher than they're charging today if they were charging anything at all.

Mr. Cloud stated Congress exempted municipal power poles. Investor-owned utilities, FPL, Nextera, Constellation, whatever they're called now, all the big IOU's you know have a charge because they have to let people on the pole. Since 1978 Congress exempted municipal-owned utilities from even having to allow attachments from FCC regulation. They do it though as a matter of common-sense because there are communications that yes, you don't need a bunch of poles in the right-of-way. And we've had a joint use agreement with the incumbent phone company that dates back into the late 1960's. So I mean these kinds of agreements have been around for a while, but it's only been within the last three or four years

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

that the communications companies see this opportunity to come in and steal public rights from the right-of-way at the expense of the electric customers.

Commissioner Hawes stated well, it's a good point Chairman Holcomb.

Chairman Holcomb stated it took me three, four, or five conversations but I finally caught on. Ms. Couillard is there anything you want to add to that or is that, I mean, again because this meeting has so much information with the rate study, pole attachment fees, the dollars, the itemized data, the whole conversation I just felt we needed to bring this topic out of those, which really wasn't attached.

Ms. Couillard stated well that's okay, the one thing I would like to add is when people apply to attach to our poles, we do an analysis and if the pole attachment pushes us over and the pole can't handle then they have to pay to replace the pole. But that doesn't generally happen because it's a small attachment.

Commissioner Hawes stated and Ms. Couillard, just to be clear, all of this other stuff aside, you're recommending these poles be changed because they need to be changed, it's time.

Ms. Couillard stated yes, right, they're beyond time actually, I'm trying to catch up so that every year we have a typical amount that we're replacing.

Mr. Bunch stated so there's a safety aspect, pole inspections were originally required by the National Electric Safety Code. Now the Florida Public Service Commission has adopted a similar requirement, but it originally spurred from the fires, wildfires in California and way back when companies picked up a level of liability because they weren't maintaining their poles. Well, fast forward, last year, I think it was Pacific Gas & Electric got hit with lawsuits again because of poles that were alleged to not being in good shape. So in our case, high winds, hurricanes; at the end of the day if we don't maintain these poles like we should, we could as a utility could potentially be liable within the community. I will say when we had Hurricane Dorian, we had one pole break and wouldn't you know it was one of the poles in our backlog of poles to be replaced. And it did cause an outage over near the hospital area, south of there. But at its root, it's a safety program, it's about making sure your poles are safe and robust and can uphold winds and things, and threats posed by fires.

Chairman Holcomb stated Commissioner Smith you wanted to pull it too.

Commissioner Smith stated yes, and it had absolutely nothing to do with what you were talking about. I was just trying to read, I actually read it four times and I still didn't get it. What went wrong with the program, it seemed like it was mentioned, and I don't know if I can pull it back up or not.

Chairman Holcomb stated the late invoicing and the...

Commissioner Smith stated yes, what happened?

Ms. Couillard stated so...

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

Commissioner Smith interjected just trying to clear it up for me, the point I'm trying to get to, are we making sure that doesn't happen again.

Ms. Couillard stated yes, yes. So we discovered that on a couple of them and we actually, Mr. Chavez and I had a sit-down meeting with those folks and told them you can't be sitting on invoices for six months; we don't operate that way. So they're up to speed, I think we, there was some processing on their end, but we don't have that anymore.

Commissioner Smith stated okay.

Ms. Couillard continued, so I'm just trying to catch up with the backlog.

Commissioner Smith stated and these poles, they were identified some time ago.

Ms. Couillard stated yes, so these in the backlog are from 2017, back to 2012 I think they were identified and that's five years out minimum, so it's time to just get them replaced.

Mr. Bunch stated so the Commission never budgeted money for these replacements, they did the inspections, identified the backlog. So in 2019 when I found out that was the case, I said no, this is National Electric Safety Code, we need to replace these, begin to work it down. So we're down to how many at this point?

Ms. Couillard stated about 200, I think.

Mr. Bunch stated 200 from the original plus or minus 700.

Ms. Couillard stated yes.

Mr. Bunch stated so it's 75% or 80% reduced at this point but that's after several million of money having been spent to replace that backlog.

Commissioner Smith stated when is the decision made to go to from wood to concrete?

Ms. Couillard stated so generally we look at is it a transmission pole, and where it's located on our system. We are increasing the size of our poles in general from a hardening perspective, so things over, as we start replacing over on beachside, we'll put more concrete or fiber poles. And I'm looking at some ductile iron poles, just for options. But generally we try to keep the main trunks bigger and beefier and then as they wind their way out, they get a little bit smaller. But we're not going down to our previous, they call them like a 35"- 4, class 4. I've moved all those to a 2 or a 1 and that's a beefier pole. And for the incremental price, it's so worth it.

Chairman Holcomb stated and how many poles do we have in our system, roughly?

Ms. Couillard asked Mr. Walsh.

Mr. Bunch interjected 12,000.

(3-f) Osmose Reject Pole Replacement Project – Increase in Annual Project Budget (cont.):

Chairman Holcomb stated I knew the answer was coming.

Chairman Holcomb then stated so, so you understand the investment.

Ms. Couillard stated yes.

Chairman Holcomb continued, and you know the attachments and all the things I wanted you folks up here to understand moving forward why we should defend this, all right. Any other conversation on item f.?

Commissioner Smith stated I'm good.

Chairman Holcomb stated I need a motion to approve consent item f.

Commissioner Smith stated so moved; specifically a motion to approve increasing annual FY2021 project budget for Pole Inspections and Replacements in the amount of \$523,000.00 which includes an existing overrun of \$115,000.00 and additional funding for replacement of 136 reject poles in the amount of \$408,000, and authorize the General Manager/CEO or his designee to execute the documents associated with this matter.

Chairman Holcomb stated I need a second.

Commissioner Hawes stated second.

Chairman Holcomb stated Mrs. Simmons please call the roll.

Commissioner Smith's motion then passed unanimously on a roll call vote.

(3-g) Coastal Woods D – Pike Electric, LLC – Additional Funding for Construction Support:

Chairman Holcomb stated okay, g. and h., you pulled those together.

Commissioner Davenport stated I just wanted g.

Chairman Holcomb stated g., okay, I'm sorry g.

Commissioner Davenport stated what I wanted to ask about it, we're paying to do the utilities to put the underground in? I thought the developer was responsible for that, paying that.

Mr. Bunch stated Ms. Couillard, do you want to speak to this, what that covers.

Ms. Couillard stated so the developer installs the water, wastewater, lift stations and potable water and gets it tested and we approve it. For the electric, they install the pads and the conduit, our crews have always installed the cable, the pedestals and the connections into the transformers. So we furnish the transformers, the cable and the labor. We have outpaced our internal resources and Pike has a crew that does this all the time, it's cheaper than our people, and it allows us to focus our folks on higher value work.

(3-g) Coastal Woods D – Pike Electric, LLC – Additional Funding for Construction Support (cont.):

Commissioner Davenport stated one thing I did hear at our meeting that I came to with Mr. Bunch, with the gathering of the developers, was if you'll remember the wiring of how, who was it Spectrum, or AT&T didn't respect it, they just put it everywhere.

Ms. Couillard stated oh yes.

Commissioner Davenport stated remember how they were..., I wish we could put a little teeth into it somehow where we can say hey, when you do this since it's in our right-of-way, yes and they're using it.

Ms. Couillard stated it's in an easement.

Commissioner Davenport stated the guys were complaining, the people, and I think it would be awfully, it would behoove us to try to help them to do it right. You know where we know it is, here's the way it's going in, a pre-planning, that way if it does need to be repaired and our lines are in the ground, we know where it is. But it seems like they just do what they want to do, and I just don't think that's right.

Ms. Couillard stated we try, we try, they don't show up. You know we have communications with them, but you can't force them to come to the pre-con meetings, I mean they rarely show up. So...

Commissioner Davenport commented interesting.

Ms. Couillard stated we've got, I got their attention on 10<sup>th</sup> Street but I had to do some little bit threatening.

Chairman Holcomb stated I've been to a lot of pre-con meetings, I've yet to see them.

Ms. Couillard reiterated they don't show up. They don't, you know, and we've had a lot of conversations with the City as well to say hey, you need to help us with this, and we all try but bottom line they do what they want to do. But if they damage our equipment, I go after them for repair fees; that's the only hammer I have.

Commissioner Davenport but is there anything we can do to tighten this up a little bit?

Mr. Bunch stated this is not an unusual story with cable and telephone companies, they just kind of do things their way and as much as folks like Ms. Couillard try, they don't work for us. As long as they're not breaking the law, they're hard to reel in to get them to do it in a more efficient way. Now I've seen instances where you can do common trench and a lot of utilities share a common trench, but they've got to come to the table and be willing to discuss and negotiate that.

Ms. Couillard added, and we invite them, especially on our CIP projects where we're directionally drilling or we're going to be opening a trench, we say hey do you want to throw pipe in?

(3-g) Coastal Woods D – Pike Electric, LLC – Additional Funding for Construction Support (cont.):

Commissioner Davenport stated then basically, then it sounds like what I'm hearing, we don't have to give them approval to run their lines, they can just go run them.

Mr. Bunch stated and they may not, because they're a competitive commodity, there may be communities where they just say nope, don't want to put it in there and they don't owe an explanation to anybody. Same with gas, the gas companies can decide no, I don't want to go in this community, probably won't get penetration to make money. They don't have that same obligation to serve as the electric and water utility.

Commissioner Davenport stated okay, thank you; I'm good.

Chairman Holcomb stated any other questions on item g.

Commissioner Hawes stated no.

Chairman Holcomb stated I need a motion to approve consent item g.

Commissioner Davenport stated I'll make the motion to approve; specifically a motion to approve additional FY2021 funding to W.O. No. 21-UE106 for New Underground Extensions in the amount of \$268,515.20 and issuance of a purchase order to Pike Electric, LLC to perform the installation of underground electric assets in Coastal Woods D in the amount of \$238,515.20, and authorize the General Manager/CEO or his designee to execute all documents associated with this matter.

Chairman Holcomb stated I need a second.

Commissioner Smith stated so move.

Chairman Holcomb stated Mrs. Simmons, please call the roll.

Commissioner Davenport's motion then passed unanimously on a roll call vote.

(4) General Manager's Report:

Chairman Holcomb stated General Manger's Report, Mr. Bunch.

Mr. Bunch stated okay, I'll ask Mr. Chavez to come up and give us a quick summary on the financial status and the scorecard.

(4-a) Financial Status – May 2021:

Mr. Chavez stated okay, so for purposes of this month we're focusing on the front end, it will be the financials, and then on the back half will be the budget approval. He then proceeded to present and discuss his presentation entitled "May 2021 Financial Performance and Fiscal Year 2022 Budget Presentation". Stated all right, from May year to date, our fiscal year to date financials, we have a change in net assets of about \$300,000. We are seeing increased

(4-a) Financial Status – May 2021 (cont.):

revenue, of course as the weather heats up a bit and continued purchased power favorability; so positive things that we've seen and continued. Of course we have offset increased operating expenses and higher debt expense as we look at versus last year, but we'll go through the waterfall slides and you'll see that as well.

Mr. Chavez continued, on the capital expenditures through May, \$10.8 million. So as we talked earlier, we operate these increases that we asked for on the pole replacements and the other ones, those are within our total capital budget. So we have no issues there, you know it's above \$75,000 so we come here. On the major projects side, PLC replacement, generator replacements, South Beach pump station, 10<sup>th</sup> Street road re-alignment, Station 5 reconstruction, Barracuda Bridge; so some of the major ones. On the annual projects, continued the pole inspection and replacement, meter installations and the one that we're doing as a program now every year for the next several years is sewer relining. So that's where we're spending the money, it's the pipe in place in essence, it's a resin and some sort of material that hardens and fills in those spaces, extends the life of our existing infrastructure, so it's a pretty good return on the money and capital.

Mr. Chavez went to the next slide and stated from an operating income loss perspective, so our "controllable". Last year we were at a \$2.5 million operating loss, this year the loss is a little lower, about \$2.2 million. So primarily driven by the other revenue change and the net purchased power favorability that we continue to have. Operating expense increases, the veg. management, but nothing out of the ordinary. We're still continuing that, and it does have impacts on our KPI's as it relates to the reliability and less outages; good story overall.

Mr. Chavez went to the next slide and stated change in net assets, this is at the very bottom after capital contributions, May year to date of last year \$774,000 and we're at just under \$300,000 in May 2021. So of course same drivers as before, revenue increases, purchased power. Here you'll have the debt expense, of course increasing and interest with the change in rates; not making as much but it is what it is, no one is. Capital contributions is about \$200,000 lower than what it was last year. On the capital contributions side, when we look at that number it's about \$2.9 million from May year to date, that's a combination of cash, connection fees, and others, as well as non-cash which will be easements, contributed capital from developers. So \$2.9 million is the total for May year to date, so that's just \$200,000 under where we were last year. Ms. Couillard and her team have a metric around the developers and their contributions, but that \$2.9 million is more than just contributed capital, it is also cash and the other items, but we'll talk about that a little more. But we do have some indicators on the property portion that is contributed.

Mr. Chavez went to the next slide and stated next we're going to the budget. The FY2022 Budget reflects the following key principles: Vision, Mission, Values of how we operate to serve our customers, but we're always looking at how we operate today and for the betterment of the future and the long-term reliability and sustainability of our infrastructure. The 10-year capital improvement plan is \$180 million. So that's the third year of the detailed prioritized risk assessment project. Previously, just the other day Mrs. Simmons had sent out the budget electronically, I do have your copies (paper), I just forgot them downstairs, so I do have some hard copies for you as well. But the big change in that budget was below the line, we got rid of the infrastructure program and now that is we have capital connection fees which were

(4-a) Financial Status – May 2021 (cont.):

previously capacity fees. So that driving factor is “growth pays for growth”, so the extent that there is water, wastewater, reclaimed projects, as long as its growth related those will be funded by those capital connection fees. For example, the reclaimed pond expansion, that will be funded from there. So we’re looking at multiple ways to see how we can fund our projects. And those capital connection fees money is \$12.7 million, that’s over and above the \$180 million 10-year CIP program. Of course in our plan, 10-year plan, aging infrastructure replacements and investments to extend useful life, such as the sewer relining and there’s a number of reliability improvements on the electric side, a number of lift station reconstructions. So things that we need to do to continue to operate today and for the long term as well.

Mr. Chavez then explained one part that we broke out here, so we have annual and major projects, as part of the major projects we bifurcated between third party projects and everything else. For third party projects in 2022 it’s almost \$5 million. The issue, not an issue per se, but we’re totally at the whim of either the state, county or city; if they tell us the project’s going to go, we have to do our part. If they decide not to do it at all, we have to follow suit. So that’s why we, just from a budgeting standpoint, we wanted to get to more of controllable versus not controllable in that regard. But just more of a breakout in major projects. The one we do have, the very last bullet point on here, we do have the consolidation of our fleet and facilities maintenance and then a number of our field operations and lift station operations. So we do have that in the budget according to the timeline from the consultants but that with the building estimate of about \$7 million, but it would consolidate a number of our entities into one facility, optimize for those groups and their needs. So it will have the respective bays to operate out of and move us off the Swoope site that the City would then use for their future boat ramps. So it’s definitely maximizing the space for our operations.

Commissioner Davenport stated when do you see, Mr. Chavez, this being completed. Actually I’m thinking of the Swoope plant and where I’m sitting, but I’m curious about how long you think this will take.

Mr. Chavez stated if I’m not mistaken, the most recent project timeline on the building was the end of 2024, fully built for our new building.

Commissioner Davenport reiterated 2024, okay.

Mr. Chavez stated now of course, that will change but that’s the preliminary timeline that we’ve received and of course as we proceed, we’ll definitely keep you up to date on the status of it and where we’re at. And we’ll be coming to you with the revised plan in August, you know here’s the, now that we have harder numbers than just budgetary high-level numbers.

Mr. Bunch stated just an additional note, for the boaters and I know you’re on this one Commissioner Davenport, as you go on to the Swoope Street boat ramp area, which is out by the airport, extreme left front portion is this big old steel building. That’s our facilities building that we use for fleet today, so the City just needs us to get out of the way to finish the construction of the parking area. There has been a little bit of a delay because we were working with them to look at the feasibility of building a combined building and then they

(4-a) Financial Status – May 2021 (cont.):

looked at the numbers of what would have been their portion and said maybe our existing site over near the airport is not a bad facility, let's stay there. So we went ahead, but we were a good partner and they said financially probably not the greatest time for us. So we'll now move ahead, and we'll turn that site back over to the City, we may be finished with demolition and will be, I'm assuming, prior to the new building is finished out on the new Western Complex site. But we'll turn that over as soon as we can.

Commissioner Davenport stated and the land right in front of it, just to the west is owned by the City too or the County?

Mr. Bunch stated I think they've loaned the use to the County on this reef construction program.

Commissioner Davenport stated leased it.

Mr. Bunch continued, but it's still the City's land.

Chairman Holcomb stated but did they get what they had on the site out of there, because I know that was phase two and phase three.

Mr. Bunch stated that I don't know, but that's, I think, its still City-owned, they've given use to that for some period of time to that County group that's doing reef constructions.

Commissioner Davenport stated thank you.

Mr. Chavez stated okay, so if you'll go to the next slide, slide six, this will just give additional color around what we've been talking around, sorry, what we've been focusing on and reiterating is the modernization project - that approved modernization roadmap. So this, each year as we do the CIP for the 10-years, we're updating the numbers around the projects, adding more projects in to make sure that we're covered on the most up to date initiatives and the project plan. So right now what we have is AMI, electric and water. In the details that you'll have in your budget book, work management, asset management systems, the telecom strategy which includes the fiber ring that we're in partnership with the City, SCADA upgrades, Glencoe Water Treatment Plant. So that's a big one, enhance capacity and extend the plant life. The pellet softening system, raw water well rehabilitation and monitoring. So what Mr. West had pointed out earlier, just the items that we're putting in the plan and what we're focusing on to make sure that any concern around water and water availability, we're thinking about it and doing what we can. So, Water Reclamation Facility, headworks replacement, lift station, aeration system improvements, biosolids upgrade project. So ultimately the biosolids project will be one where, right now we use lime. So the biosolids will in essence take the wastes that we currently have from the process and convert it into a usable product that you can apply to land, so more of a class A type, almost a fertilizer type product. Okay, electric reliability improvement plan, of course reduce the outage frequency and make the system more resilient. So a three-year plan to reduce that, our target would be less than one interruption per customer at the system level. And then we'll, of course the related equipment, technology and then the system hardening projects to improve that and then meet that goal.

(4-a) Financial Status – May 2021 (cont.):

Mr. Chavez went to the next slide, slide 7, and stated so just to focus on the 2022 capital, \$28.3 million. So right now that \$28.3 million, third party projects, is about \$4.4 million. So that's the part that really, we don't have much control on, we have to just go along for the ride. But if you look at our normal \$15 million of major projects, Glencoe Water Treatment Plant, \$3.4 million in water, AMI the water portion. Then \$3.3 million on wastewater which is the WRF improvements, lift station improvements. On the electric side, reliability improvements, the AMI electric, and the outage management system. \$3.4 million on the common, municipal fiber ring and the start of the consolidated Field Ops. and Fleet Maintenance building. On the annual projects, which is our normal annual preventative and reactive capital, pole replacements, meter installations, the sewer relining that we discussed earlier. So that's some of the items that we have in this 2022 budget capital.

Mr. Chavez went to the next slide and stated so this one I know is an eye chart, but it's got the annual at the top, major projects in the middle and then the third party towards the bottom. To that extent that reflects pretty much all of our capital year by year, but we wanted to break out that third party.

Mr. Bunch stated just to add a comment, so in this chart, jumping back to the prior slide, the total in the prior slide refers only to the dollars in those major projects that occur in fiscal year 2022. So some projects have multiple years, that \$28.3 million amount and the other millions that are mentioned in the prior slide are those that are anticipated to occur this coming fiscal year.

Chairman Holcomb stated actual dollars to fund the projects.

Mr. Bunch stated correct, dollars to be spent in this coming fiscal year.

Mr. Chavez stated exactly, so for example in that, to Mr. Bunch's point, the \$3.4 million of common, that includes what we budgeted in 2022 for the building, the Field Ops. and Fleet Maintenance building, but that really is over several years.

Chairman Holcomb stated right.

Mr. Chavez then went to the next slide, slide 9, and stated so a part of that annual budget process we look at our operations, maintenance program and objectives and then the key performance targets. So we're always looking to make sure, and that primarily is on the O&M side, so that's where we're looking at to make sure that we have the right headcount, the right dollars for the maintenance. So for example in 2022 we have the transmission right of way program which is similar to the veg. management, but it's focused on our transmission line, so we've got that factored in. In the budget, from a revenue standpoint we've baked in the rate study recommendations that we'll be going through next, so our revenues reflect the recommended rate study recommendations. But we'll go into greater detail on that in that portion. On the operating O&M expenses, including the purchased power, we're going up about 5% from the FY21 budget to the FY22 budget. So our O&M for FY2022 is about \$56.4 million, so that's 5% higher but if you'll recall from last year's budget, we actually went down 2.1%. So if you look at a two-year budget, just looking at FY20 to FY22, that's just a net 3.6% increase. So nothing, it may look year over year a little higher, but when you

(4-a) Financial Status – May 2021 (cont.):

look at those two years... So we are actively, and we do this every year, making sure we're looking at new projects that will reduce the O&M and wherever we can to optimize the spend that we have.

Mr. Chavez went to the next slide, slide 10, and stated \$56.4 million O&M for FY2022, so that's increased employee-related costs, healthcare and employee benefits, and first year of transmission right of way multi-year clearance initiative. Right now that's approximately \$400,000 that we have budgeted for it and similarly to the regular vegetation management we're very closely, our crew with the contractor selected, to make sure the work's getting done. The focus areas are being done and we're doing it with the highest priority of what needs to get cleared first. The staffing level's 183, so that reflects three additional FTE's from FY2021's budget, but in reality, that's the same as the FY2019 budget of 183 heads that we had back then. When we add the Commissioners in, we're at 188, but we always, from an operational standpoint, 183 would be the number. So to achieve that Vision and the modernization goals we've got a position for IT Applications and Operational Technology Manager, SCADA Engineer and the Director of Strategic Programs, so a total of three FTE's but it's what we need to operate the business for today and the future. For the last part, so \$24.6 million is our purchased power budget, what we've done in this year's, no real net change to the bottom on the purchased power but we do have it from a reporting standpoint. So the St. Lucie, we had a portion of the St. Lucie, we had below and other production expense, in reality it's all purchased power, so we just appropriately state it correctly. Now from a clean reporting standpoint what we'll do is it will start with the new budget year. Meaning 10-1-2021, that's when we'll have it all in purchased power and the rate in that is another recommendation out of the rate study. So in the rate study recommendation everything is consolidated into the purchased power that should be.

Mr. Chavez went to the next slide and stated next steps, slide 11, ideally without hopefully much issue, approve the 2022 budget. We will go to the City, we will provide them this version of the budget by Wednesday, end of day June 30<sup>th</sup>. So previously, in other years, it had been, the budget was required to be submitted by the end of May, now we've got end of June, which as part of the City's Charter revision, they had done that. And then of course the City will have two readings in August and September, similar to what's been done in previous years and then Ms. Couillard, myself or Mr. Bunch will attend and discuss accordingly. He paused and asked if there were any questions, comments?

Commissioner Davenport stated I do, I just want to say Mr. Chavez, this is really great. You know we say it and Chairman we've been here a while and see this transparency and understand what's going on is really, really, I mean it's important and it's very clear here how hard you work, what you put into it; so great job you all have done here.

Mr. Bunch stated it's the staff, they've been relentless.

Mr. Chavez stated yes, it's a whole team effort.

Commissioner Hawes stated I'm sorry, did you say that you had sent the 2022 budget.

(4-a) Financial Status – May 2021 (cont.):

Mr. Chavez stated yes, Mrs. Simmons had sent it in an email last week to each of you. And I have the books.

Mr. Bunch added and you said you have paper copies for everybody?

Mr. Chavez stated yes, I have to bring them up, but I'll bring them up before we...

Mr. Bunch then stated so a question Mr. Chavez from a process standpoint, under 7-b. we have the budget and I said we were going to move that up in advance of 7-a. Do you want to move to that item now if there are no additional questions or what would you like to do from a process standpoint.

Mr. Chavez stated well, I mean I guess from a process just to wind this out, is it okay if we ask for approval to approve the budget item, would that be acceptable?

Mr. Bunch stated okay, trying to be efficient with the Commission's time and save Mr. Chavez steps back and forth.

Chairman Holcomb stated so you need approval for the...

Mr. Bunch stated fiscal year, what do we need to say?

Mr. Cloud stated a motion to approve the budget and transmit to the City Commission for final approval.

Commissioner Hawes stated the 2022-2023 budget, is that the...

Commissioner Davenport stated I'll make that motion.

Commissioner Conrad interjected 2021-2022.

Commissioner Hawes stated okay.

Mr. Chavez then stated it's the 2022 budget (fiscal year).

Commissioner Davenport stated the 2022 budget.

Mr. Cloud stated right.

Commissioner Davenport stated I'll make that motion; specifically a motion approving the FY2022 Budget and Capital Improvement Plan (FY2022-2031) and U.C. Resolution No. 2021-08. (Upon approval, the FY2022 Budget Estimate will be forwarded to the City of New Smyrna Beach. Final, formal adoption of the FY2022 Budget is pending City Commission approval by Ordinance.)

Commissioner Conrad seconded this motion.

(4-a) Financial Status – May 2021 (cont.):

Chairman Holcomb stated Mrs. Simmons call the roll.

Mrs. Simmons stated okay, this will be for U.C. Resolution No. 2021-08. Commissioner Davenport's previous motion then passed unanimously on a roll call vote.

Mr. Bunch then stated, and Chairman then we will need to move to the General Counsel's portion; I don't want to forget that step.

Mr. Chavez then stated thank you.

(4-b) Balanced Scorecard and Enterprise Metrics – May 2021:

*(Note only -- Associated monthly information for this agenda item submitted within the agenda package but not discussed during this meeting.)*

(5) Commission Counsel's Report – General Counsel:

Chairman Holcomb referenced the agenda for the meeting and indicated this is called number 5. on my sheet - Mr. Cloud.

Commissioner Davenport commented the Chairman was checking them off.

Mr. Bunch concurred and added that would be number 5.

Mr. Cloud stated right and then continued, we apparently got notice that the judge is going to rule in the Hypower case, we don't know how but it was delayed considerably, and we're told it was because of COVID and the pandemic. But supposedly within the next couple of weeks he's going to render a ruling in it, so we'll know something, finally. I discussed in response to the Chairman's request the pole attachment issue. Williamson Boulevard, we have agreement on the alignment, I would say an agreement on the terms. The last thing that's going on as we drag this corpse, I mean this agreement across the finish line, is the legal description for the alignment. We had a very productive meeting with Volusia County on it and so I'm cautiously optimistic the next meeting we will have an agreement for your execution and approval.

Commissioner Davenport stated excuse me, that is the alignment of the road?

Mr. Cloud stated yes sir it is, as well as our ability to connect into it and to put our utilities along it. And we're doing it by giving them the easement and we keep the fee.

Commissioner Davenport stated have we got some pictures we could see, preliminary, soon?

Mr. Cloud stated absolutely, we'll have a full alignment, I know Ms. Couillard has done a considerable amount of background work on the layout.

Chairman Holcomb stated are we at "e" or "f"? I mean were moving down the alphabet pretty fast there for a while. They've been meeting with "a", "b", and "c", and the last time I heard something we were at "e".

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

Mr. Cloud commented I think its "f", which means finally. And then continued to we have been revamping the Developer's Agreement. In virtually every other City I work in, okay, which you know is all sort of like City and then the Utility as a department, Developer Agreements usually last a minimum of 30 years. But because of our unique Charter provision that says four years, we have this goofy form, okay, which I've been polishing on for a while now, since I got here, and I'm waiting for final input from Ms. Couillard and her folks. But I have also sent a copy of it to the City Attorney because what it has in it, understand the significance of this agreement, it absolutely commits the property owner to become our customer, this becomes our territory, it is covenanted to us forever. So they are important agreements and they need to last more than four years. So in the form I've got that as long as they build everything in four years then the agreement, you know all the covenants survive, and I'm getting the City Commission to approve the form. So you won't have to run all the agreements before the City Commission, just the form and they've agreed to a clause in it that says if there's a change, an amendment to the agreement, that this can be worked out by Mr. Bunch (U.C. GM-CEO) and the City Manager without having to submit it to the City Commission; so that's moving in a very healthy direction. And I think at some point in time, you know Mr. Bunch probably knows more about this than I do, there'll be a hydrant agreement with the County which I think will be a vast improvement over what went before. I know that Mr. Bunch and the staffs met and that is at some place, I'm not quite clear on, you know, but that will be coming in the coming months. And that was all I had.

Mr. Bunch stated we met with the County Manager, George Recktenwald, and some of his staff. So we have agreement in principle at this point for us to do the hydrant inspections for the County at cost using our contractors and our oversight. So we won't charge them for the project management and oversight, it's basically the same thing we're doing for the City. And great meeting with Mr. Recktenwald and staff and they've nodded in agreement. Mr. West is working with their Fire Chief I think, to try to get it moving forward, with the anticipation that it will happen sometime very soon.

Mr. Cloud then stated that's it.

Chairman Holcomb stated all right, any questions for Mr. Cloud?

There were none.

(6) Old Business:

Chairman Holcomb then stated no old business and we'll go to New Business.

(7) New Business:

Chairman Holcomb then inquired are we still going to swap b. and a.?

Mr. Bunch stated we just did the budget, correct Mr. Chavez. Okay, so now we did that, now we can move to a., the rate study. Then he apologized, if he caused any confusion there, it was an attempt to try to simplify, and may not have been successful.

(7-a) 2020-2021 Utility Rate Study – Presentation and Scheduling of Public Hearings with FPSC Electric Rates Submittal (Raftelis Financial Consultants, Inc. and Summit Utility Advisors, Inc.):

Mr. Bunch then stated Mr. Chavez, who has been leading this effort for about a year is going to run the presentation for us today. And in advance, I want to thank him and both the folks from Raftelis, Henry Thomas and Randy Halley, attending today, who will be part of the presentation with Mr. Chavez; with that I'm going to turn it over.

Mr. Chavez stated thank you, and there's been a big effort by the full staff just from the standpoint of it's been such a long time in the sense that we've looked at documents to make sure we've got pretty crisp and up to date language. So let me begin by saying the purpose for today's presentation is informational for the Commission, our customers and the community. At the end of the presentation staff will be asking the Commission to formally approve the presentation recommendations through proposed resolutions presented at the July or the first public hearing and to also schedule another public hearing for August for final public input. The approval of the resolutions will then be requested during the Regular U.C. Meeting immediately following in August. Any approved revisions to the rates and our fees would become effective October 1, 2021, and then for rates only additionally on the 10-1-2022 and 10-1-2023. So what we're doing is we're going for three years, electric rates and fees you'll approve today (final in August) and that will stay the same for the full three years. Water, wastewater, reclaimed, those will be one set of rates for FY2022 and then they change again in FY2023 and FY2024. In the presentation that we'll continue to go through, you'll see the impact to the customers as well.

Mr. Chavez went to the first slide and stated as background, we began with our Mission that the Commission approved in 2019, as the foundation for how we serve the community and the customers that we serve. Specifically our Mission is to operate and maintain infrastructure that provides essential, reliable services. We strive to maintain and build upon the confidence that we earn as a trusted water resources and energy advisor by providing sustainable, conservation-focused utilities. We are characterized by community stewardship, volunteerism, charitable giving and will operate with a strong focus on pride in our community. While we strive to keep the rates as low as possible, we have an inherent obligation to ensure our infrastructure and systems are effectively maintained. And that we also invest in capabilities and services to meet the involving needs and expectations of our customers.

Mr. Chavez went to the next slide and stated the remainder of the presentation will provide a brief history of U.C. rates, review the current rate study approach, recommended rate changes required to support daily operations and the approved Capital Improvement Plan, along with next steps. To provide some background I want to start with the reminder that the Commission has not had a utility rate increase for electric and potable water since 2006. In 2006 electric rates increased modestly by 6.1%. Water and wastewater increased similarly by 7.5%. Wastewater and reclaimed rates were last updated in 2012. In 2012 wastewater and reclaimed rates increased by about 7.3%. Moreover during the time since the 2006 increase, cumulative inflation over this 14-year period was more than 29%. So as everyone knows, every year, things raise 2% to 3% on average over time, and just looking at this 14 year, 14 plus year window, 29%. The U.C. as a local community partner has kept rates low and controlled costs, despite upward pressure on the general cost of doing business. We remain

(7-a) 2020-2021 Utility Rate Study (cont.):

committed to affordable rates while maintaining utility services infrastructure for the long-term benefit of the greater New Smyrna Beach community. To support the continued affordability the proposed rate increases would be incrementally implemented over the next three fiscal years. In 2024, in accordance with our governance resolutions, we will then begin the next rate and fees assessment. So we're, going forward we've committed to ensuring that we are looking at our rates and ensuring our rates are able to provide for the long-term sustainability and reliability of our infrastructure.

Mr. Chavez went to the next slide and stated since the 2006 rate increases, U.C. staff managed operating expenses, utilized Renewal and Replacement funds, leveraged existing assets with no major asset additions or replacements, 1% to 2% customer growth and no significant headcount changes to partially offset cost increases over this 14 plus years. Interestingly, against recommendations made by the consultants in the 2012 rate study, the Commission opted to not increase electric and water utility rates. They believed that they could avoid a rate increase by deferring capital projects. While not adjusting electric or potable water rates they did however make a modest 7.3% increase to wastewater and reclaimed. However, wastewater and reclaimed represents about 17% of our total revenue in 2020. After 2012 capital spending was reduced for a short time but in the five-year period from 2012 to 2016 that the study was based on, the U.C. essentially expended what was originally planned. With no increases since then, the Renewal and Replacement fund balance has also declined from 2016 to 2020 by about \$12.5 million or 43%. These cash balances now need to be replenished to maintain appropriate O&M reserves. These were identified when we went to Wall Street through Fitch and Moody's, they also identified these as something of concern and to plan for the future. The target recommended by the rate consultants is to have 90 days of O&M in reserves. The declining R&R balance in cash on hand was also noted by Fitch and Moody's during the bond issuance as a trend that should be addressed. And Mr. Bunch and I assured them that we would address that as part of this rate study.

Mr. Chavez continued, to ensure the long-term reliability and sustainability of the U.C.'s infrastructure the Commission and staff contracted with Raftelis to perform a rate adequacy study incorporating the following elements. All-in costs of service for all lines of business, five-year CIP including the modernization initiatives that we just discussed, working capital or available cash targets and 90 days in O&M and operating expense cash reserves. Going forward the U.C. is committed in our governance resolution to perform an assessment of rates and fees every three years. This will ensure that we're periodically reviewing our rates and fees and that they're appropriate for the long-term capacity, reliability, and sustainability of the U.C.'s infrastructure for today and the future.

Mr. Chavez went to the next slide and stated as part of this rate study we also looked at all the miscellaneous service fees that were reviewed and updated that were in accordance with what our consultants recommended and also that they were in line with our peers. We eliminated service fees which were no longer applicable or duplicative. Confirmed that U.C. fees were in line with U.C. peers, on the municipal side OUC, and on the investor-owned utilities, FPL and Duke. This approach is aligned with our core values of transparency and financial prudence and will ensure that our rates support the U.C.'s utility infrastructure costs for the long-term benefit of the community. Two of the rate study consultants, Henry Thomas and Randy Halley, will now walk you through the balance of the slides to detail the rate

(7-a) 2020-2021 Utility Rate Study (cont.):

assessment process and the results and recommendations of the rate study. I'll turn it over to Mr. Thomas and then after their presentation I will be back to wrap it up and discuss next steps.

Mr. Thomas came to the podium and stated thank you to Mr. Chavez and then stated his name and title – Henry Thomas, Vice President, Raftelis. I want to start by apologizing for the late arrival, but I did make it even though there was a tractor trailer across I-4, through the median, pretty bad accident. So we're going to talk about the rate study that we've been involved in. As Mr. Bunch indicated it's been about a year, early on we kind of changed our tack to be involved in the bond issue and make sure that effort got taken care of. But I would like to start out by one making an observation, that based upon where my sense of where we were in terms of financial position and cash flow, I think the results that came out of this are extraordinarily modest. So I think we've come up with a way to solve the issues without any major changes in rates and we'll show you that right off the bat. And secondly, I want to say that in the last year we've had a great relationship with your staff. They worked very hard at this and this was something they had not been through here at the U.C. As you know it's been a long time since there's been a rate increase, but they gave us support at every turn and really did a thorough job and uncovered all the information we needed to do a good job; so I appreciate that effort.

Mr. Thomas then stated so our task in the study, essentially the major task was to develop a financial forecast and we projected costs through fiscal year 2025. This is consistent with the bond study that we had prepared. We looked at customers and revenues, operating expenses, capital improvement and funding. This includes your full capital plan, including your modernization initiatives to the extent they're in that budget period going up through 2025. We also looked at the debt service payments associated with the Series 2020 Bonds and Mr. Halley and his efforts on the electric side, also looked at the true up balances on the electric rates as well as the base rates for service. And then finally in an important part of this whole strategy is we looked at your operating reserves, your cash reserves, and you know coming into this that was probably the biggest challenge we faced. And it was, while not overly critical, it was a weakness and you know as Mr. Chavez indicated, those reserves had been in decline. And we've come up with a strategy to turn that around and stabilize those reserves. Finally, based upon all those individual pieces, we assembled them in a way that we could estimate the revenue requirements from future rates. And then in order to serve the needs of the system including capacity needs, reliability resiliency, you know to support operations, we came up with a rate path. Now the rate recommendations that Mr. Halley is going to talk about for the base rates is a one-year recommendation. For the water, wastewater rates we have spread those increases out over time so that they're incremental. In some cases the rate increases in the first couple of years are higher to make sure that we made all of our metrics. But finally, we looked at existing rates and tried to phase in the increase in costs and the increase in rates the best we could. The philosophy of spreading it out over time, at least in our experience, the customers appreciate smaller incremental changes annually than holding off and doing large changes on a less periodic basis. Now this is going to put a little bit of work on staff because they're going to have rate resolutions to implement each year over the next several years but it means that the impact on customers' bills in any one year is going to be fairly modest and for those on fixed incomes, that's a good strategy.

(7-a) 2020-2021 Utility Rate Study (cont.):

Mr. Thomas continued and requested all to go to page seven (slide 7). This is the outcome of the study and we can talk more about how we got there. And this is for what we review as typical bills, so these bills are for a water and wastewater customer with a 5/8" meter which is your standard meter size for that class, using 4,000 gallons. For the electric, its single-phase service using 1,000 kilowatt hours (kWh) and as you know that's a fairly standard industry comparison that utilities state-wide use. We do have data on other customer use levels and commercial customers but for the purpose of this discussion this is residential use, typical residential use. And as you can see the electric bill currently is at \$97.85 and the water, wastewater bill is at \$50.88, for a total of \$148.73. The first rate increase, which actually includes a reduction in the purchased power adjustment factor, is a decrease for electric down to \$94.43, the water, wastewater bill would increase to \$55.66, the overall increase for all those services, a customer receiving all those services is \$1.36 or less than 1%; so that's a pretty good start. When we look at the remaining years the increases are in the \$4.00 to \$5.00 range except for the third year, it's \$3.21, and those increases represent overall 3.3%, 3.4% and 2%. With the bill rising from \$148.73 over the next four years it would rise to \$163.52. Again, if you look at the fact that we're fully funding the CIP which was an aggressive CIP and one of the strategies that you used to help mitigate the rate increases was the bond issue you did. Because there are a lot of projects in that bond issue, that normally had we been increasing rates annually in the past we may have been able to do on a pay as you go basis. But at this point in time the most effective strategy was to actually issue some debt, get those Renewal and Replacement costs caught up and that \$65 million actually helps a lot. You don't have a lot of leverage on your system so you have room to do it and we could build up the pay as you go funding required to sustain this into the future; so that's what we tried to do.

Mr. Thomas continued and stated if you look at the capital plan which is really the biggest driver, you know, notwithstanding that operating expenses, labor costs, and such will increase, but the capital spending by line of business is on the next chart and it's in total about \$116 million. Of that, you can see we've broken it down by enterprise and \$38.1 million is electric, or about 1/3. Then water accounts for \$35.6 million, that's a pretty big chunk, 31% for water. Wastewater and reclaimed at 32% and then there's certain common costs that are common to all three utilities that represent about 10% of that overall spending plan. So how did we come up with a strategy to fund? Well one of the things that we did is we asked you a while back to adopt new capital connection fees. And that was in an effort to make sure that growth helped pay for growth. And you adopted those fees and they will be implemented so they're factored into this plan and that does give us additional funding to work with that can be used on growth related projects.

Mr. Thomas stated so when we look at the sources of funding on the next chart, the funding sources, 56% or \$65 million are those bonds that were issued. And then when we look at the R&R Fund, which is essentially balances available plus annual additions. Now in the bond covenants that you developed with the new bonds your plan was to put a minimum of 6% in but historically we used 8%. So that's kind of the starting level of funding for R&R, 8% of revenues annually is deposited into the R&R Fund. But when we looked at the expenditure needs through 2025 and the fact that we're still seeing, even with the bond issue residual needs from the years of deferring expenditure, that we had to fund more than just the 8% than we would normally like to do. So we actually accounted for that in the rate revenues as well, because all the monies for the R&R Fund come directly from rates annually and that's our pay

(7-a) 2020-2021 Utility Rate Study (cont.):

as you go capital funding component, as opposed to something we would borrow money for. And it's really projects that are ongoing, such as the replacement of underground facilities that need to be replaced, lift stations, things that you need to reinvest in every year to extend the life of the assets and maintain their viability. So those annual costs that reoccur every year you really don't want a long-term practice of financing them with debt because you'd start to build up a lot of interest expense over time. So we've built into this, once those bond monies are used up, the remaining monies in the R&R Fund are built up so that we have enough money each year to complete the capital plan, the \$116 million capital plan. And a big part of this is the impact fees or capital connection fees which about \$28 million is used to fund those projects.

Mr. Thomas continued and stated so in developing the assumptions relative to the operations of the utility, we're left with having to look forward and we look back historically. And as Mr. Chavez indicated your operating expenses have been fairly well controlled in the couple of percent a year level. So our general inflation rate we used is 2%, our repair and maintenance is a little higher at 3%, labor expense at 3%, health insurance at 5% annually, that's to make sure, health insurance tends to be a little lumpy, it doesn't really come on like wage increases. One year you might have to pay more, the next year you might get a reprieve for a while, but we allowed for 5% a year in growth and benefits. Electric customer growth is just shy of 2.3% over that period, water customer growth is 1.9%, wastewater customer growth again approximately 1.9%, and then the utility enterprise if you will, that's growing the fastest is the reclaimed water and they're growing at a little over almost 3% a year. So we factored in that new customer growth based upon the rate trajectory from year to year, we applied the rates that we were recommending in the given year, times the new customer growth plus the existing customer base to come up with the revenues, to compare those to revenue requirements.

Mr. Thomas continued and stated some other assumptions that were made is that no additional debt will be used during the five-year forecast period; so we're not assuming any more debt issuance. The five-year capital improvement program that you have reviewed with the utilities is fully funded. The rate study does assume the adoption of the rates and the capital connection fees, they satisfy all the requirements of the bond covenants. So the rates are designed to, in the study we test for that, and if you have adequate R&R funding built into your rates you should make coverage without a problem because basically debt service coverage is gross revenues less operating expenses. That's the monies available to pay debt and then you divide that by debt and you're looking for a multiple like 1.5 times that. But that extra cushion is not only there to give comfort to the bond holders, it's also there for you to use for capital investment, reinvestment in the system, transfers to the City of New Smyrna and those numbers, if you have adequate R&R funding, you generally make coverage. And the bond holders, their intent there is not only do they want a little cushion, but they also want you to maintain the system in a going concern basis. So the bond holders are looking to see that you have enough adequate cash flow to reinvest in the system. You met all those requirements, including the R&R Funding requirement.

Mr. Thomas continued, the other thing we did, and this is really not captured really in bond resolutions, but we targeted 90 days of O&M expenses for all utilities as our reserve. Now to some degree we exceeded that, but this is a pretty standard metric that's used in the industry

(7-a) 2020-2021 Utility Rate Study (cont.):

to measure the health of utilities. The rating agencies always say cash is king, the more cash you have the better they like it. You know there are utilities out there with 200 days of cash on hand, they're kind of the top of the market if you will in terms of financial position. But because of that extended period of time without rate increases and the need to fund essential capital we had to play a little catch up to get to the 90-day level. Now once we're down the road maybe and things are stabilized, we can look at do we want to add a little to that reserve. One of the reasons for having the reserve is the ability to have flexibility. If you went through a year like we went through last year where the economy took a big hit, presumably from COVID-19 and you had a scheduled rate increase, you'd like to implement that but if the community would be better off without it, if you had adequate reserves you could burn a little bit of the reserves to put that off a year. So there's some value in having operating reserves, not only for contingency, not only for financial strength to the outside lending community but to give you as policy makers some flexibility in how you have rates move forward in the future. But we're not there yet so we need to work towards improving our cash position.

Mr. Thomas continued and stated the over-recovery target is \$5 million (FPPCAC), the current balance is \$7.6 million. So one of the reasons the electric rates are going down is we're going to use some of that over-recovery, reduce the rates and bring that amount down. Now that does impact cash, but it is technically an over-recovery and ultimately, we should find a way to put it back in to rate reductions over time.

Chairman Holcomb stated I think we have a question.

Mr. Thomas stated sure.

Commissioner Davenport stated yes sir, you just mentioned when we get ourselves back in that, I guess, good positive position in cash. How long is the timeline and what is the cash amount you're talking about again?

Mr. Thomas stated well, I'm going to have a chart that speaks to that specifically.

Commissioner Davenport stated okay, I'm getting ahead of you.

Mr. Thomas continued, but within this period we want to get you to a minimum healthy level. So a lot of it will depend on the growth that we actually experience and other factors, but I think when we look at the next rate study it's worth having a discussion on it. We would look to your financial advisor who helps you go to the bond market and they also work with a lot of utilities like we do, and we would look at what the standards are for your rated bonds, the bond ratings you have and come up with a strategy. I think we're going to be in pretty good shape. I will tell you this, it would maybe be wonderful to have 200 days in cash but some of my clients that get some of the more positive remarks from the rating agencies, it isn't that they have an excess amount of cash flow or cash, it's that their very consistent in their performance every year. And they also look carefully at your management team, so if you're keeping things up to date and you're managing things well, and you're hitting your metrics, and you said your goal was 90 days and you're never getting below 90 days, that's a positive. So you know these things, some of these metrics, you know I can make recommendations, but it has to be something that works for the community as well.

(7-a) 2020-2021 Utility Rate Study (cont.):

And so I've got some clients again that you know the 90-day standard is all they ever strive to meet. So I think we'll talk about that maybe in about three years in terms of where you're at and do we need to improve on it anymore.

Mr. Thomas continued and stated so, the next chart just shows graphically the components of the electric rates, the purchased power being the largest one, your distribution operating expenses, the local business costs is the next one and kind of the dark green. Debt service, again in the electric system, very little debt, and you can see the pink bar represents the transfers to the operating fund and how we're building that up a little bit each year, is going into the fund. And then the other, the piece at the top in purple are the transfer payments to the City, the R&R transfer, including the minimum plus the amount necessary to meet the R&R funding. And as you can see, the electric system rates overall, when you take into account the fuel adjustment relationship, the rates are pretty sound. So that's why electric really has only one increase built into it and we're doing it the same time that we're reducing the fuel component and Mr. Halley is going to talk more about that with you.

Mr. Thomas went to the next slide and stated the water revenue requirements are the ones that needed the most change. And you have fairly stable operating expenses in water, obviously water operating expenses are the largest part. Again the debt service is fairly minimal, you're not a highly leveraged system. And then again you can see we built in transfers to the operating fund and then also for the water system capital plan you can see that piece at the top is growing. And that's to build up and be able to fund the R&R within the five-year capital plan. So water, as Mr. Chavez indicated, was the one that the rates have gone the longest without change, all the way back to 2006. The wastewater rates, the same bar chart...

Commissioner Smith indicated he had a question.

Chairman Holcomb stated go ahead.

Mr. Thomas stated sure, I'm sorry.

Commissioner Smith stated I'm looking at that one line, water revenue from existing rates and that's not showing any change over the five-year period. Is that, wouldn't that change somewhat from...?

Mr. Thomas stated, and it does mathematically, I can give you, I can go back and dig the numbers out, but it's going up about 1.9% a year.

Commissioner Smith stated it just doesn't show it on this graph.

Mr. Thomas stated the frame of reference here on the chart doesn't highlight it.

Mr. Bunch stated does your dotted green line show the trajectory of the recommended revenues?

Mr. Thomas stated yes, yes.

(7-a) 2020-2021 Utility Rate Study (cont.):

Commissioner Smith stated right, I was saying this line here looks flat.

Mr. Bunch stated so if it was existing rates wouldn't it, are you just showing what the existing rates would have returned if you changed nothing.

Mr. Thomas stated if you did nothing, took no action, just from the customer growth, what would your revenues look like.

Mr. Bunch stated so that's to change nothing, just a little bit of customer growth and then the dotted green line...

Mr. Thomas stated the rate increase.

Mr. Bunch continued, is the proposed rate changes, is that correct?

Mr. Thomas stated yes sir, and you can see that for example to show you that it is trending up, those operating expenses. If in the first year your rates are adequate to cover operating expenses and debt service but the water rates do not recover the monies that need to be transferred to the City or any R&R impacts for the water system. If you go out and look at the rates by 2025 without an increase, they're just above the operating expenses alone. So you wouldn't even be able to pay your debt, at least the water system's share of the debt. Now keep in mind these enterprise funds from the bond holders' viewpoint are all one fund. But we've taken the approach here that each fund should stand alone because they're not all the same customers.

Mr. Bunch stated so if we didn't change rates, we're currently negative revenue, we'd stay negative revenue, even considering a modest customer growth.

Mr. Thomas stated yes sir.

Mr. Bunch stated and your dotted green line shows those phased increases and we don't catch up and break even until 2023, is that correct?

Mr. Thomas stated that's correct.

Mr. Bunch then stated does that help Commissioner?

Commissioner Smith stated yes.

Commissioner Hawes stated so in reality this is a pretty disturbing chart.

Chairman Holcomb stated it is until 2023, but you're basically, you've got one side of the house paying for the other side of the house.

Mr. Thomas stated and a little, you do have a little bit of a reserve to give us some near-term flexibility.

(7-a) 2020-2021 Utility Rate Study (cont.):

Chairman Holcomb stated but we need to balance.

Mr. Thomas stated yes.

Chairman Holcomb added stand alone departments, electric needs to stand alone, water, they all need to stand alone and be profitable.

Mr. Thomas stated yes, I think the philosophy was you know it's been since 2006, we didn't want to then, and when you look at the impact overall on the whole water system it's a big increase percentage-wise but from a bill standpoint it doesn't even move you up a position compared to your peers. So my point to you is that, that was the system that in terms of these financial metrics and ability to cover its costs has suffered the most. But we don't want to try to fix it overnight.

Commissioner Davenport stated Mr. Chairman, would it be a good assumption here to make that if we don't do something to get the rates up, we've got a big problem.

Commissioner Smith stated on this graph.

Commissioner Davenport stated yes, on this graph.

Chairman Holcomb stated yes, on the water.

Mr. Thomas stated yes.

Chairman Holcomb stated I like that you're starting to look at it individually and balance by department to get the department profitable so that when you're moving forward you can see where, you can target more if you're going to borrow money or expenses go, your investment goes, system dollars, everything versus we're kind of taking electric and masking what we're doing in water. So we're giving more clarity to, I think at the end of 2025, on page six or seven, you're actually going to be less than you are right now on your current electric bill, correct?

Mr. Thomas stated that's correct.

Chairman Holcomb stated so all we're doing is balancing, even though and the thing is that the ultimate, the highest number is 3%. And the last time if you read what they did in 2006 and 2012, those numbers that came to come to mind is about 7%. So we're not even meeting the threshold of the investment that was made back in 2006, 2012. And again in 2012, I happened to be sitting on the economic development board and the conversation in these halls were a lot different because we were coming out of 2008. So there was a lot of consideration and the pressures and taxes and dollars we would put on households and income, so it's not a dereliction I would say, it's more of the current times. And I think in this investment the cash for the rainy day, I think it gives you a better understanding of your system and how it performs financially by component. And that's what I'm getting, how we're kind of sorting this right now or readjusting it.

(7-a) 2020-2021 Utility Rate Study (cont.):

Mr. Thomas stated, and I would say anecdotally, based upon the client base that I serve, that ironically a lot of communities will increase the water rates instead of the wastewater rates. And one is because when you turn on the tap there's a more direct benefit there and you can control it by turning off the tap, so you have some control over it. Whereas wastewater, people need it and it's very important to the environment but it's not as clear what's happening because the water leaves your home and it just goes off somewhere to a treatment plant. So I've got clients that will raise water rates, especially with information in the public about the importance of water, you know, part of what's going to affect you in the future is the lack of good ground water resources, those kinds of things; so they're more willing to raise water rates. In this case the rates that have been held back the longest are the water rates. But fortunately, even though there's some fairly large percentage increases to bring them up, you're so low compared to your neighbors that it won't be anything that makes you stand out negatively.

Mr. Thomas continued and stated so the next chart is the wastewater chart, on page 14, similar color scheme. Here there is more debt service allocated to wastewater because more of those capital improvement projects relative to the overall revenue requirements, that are in that \$65 million bond issue, were wastewater improvements. In addition you can see there again we're trying to increase the transfer to the reserves for the wastewater system and again the thing that's making the purple portion at the top go up year over year is obviously the City, it's a proportionality thing. So they get their percentage in equal amounts, but the R&R transfers are being increased in this one as well.

Mr. Thomas went to the next slide and stated so I don't want to, I think percentages can be very misleading when you talk about the size of bills and you've got a water bill that's less than \$20 a month, but here's what the net result of this is, is the system wide rate adjustments for electric are really only one year above 1%. For water, the first year, it's a 19% increase, followed by 15%, 10% and 5%. For wastewater, because we're in a little better shape to begin with, it's 5%, followed by three 4%'s; similarly for reclaimed water. So those are again the impacts if you look at the entire system total revenue increased based on these recommendations. And again if you look at the bill for water, wastewater it's going from \$50.88 to \$55.66. So in spite of those fairly large percentage increases, it's \$4.78 in the first year, \$4.32, \$3.72, and then \$2.77 a month in the final year. So again, as we correct some of these deficiencies and we get out a little further in time, the rate increases hopefully should come back to something like inflation, that's what you're really shooting for in my mind.

Mr. Thomas stated so you asked a question about operation reserve targets and I told you we have some information, so let me share that with you. The operating reserves projections, and this again in the effort to identify each system individually, we've got the electric and they're pretty healthy - starting at 169 days. This does include your balance available for true up, but it stays and actually grows over time to a significant amount of over 300 days a year. The operating reserve fund for revenue, for water, you can see here based upon research, we started out with two days-worth of cash.

Chairman Holcomb commented we're done by Wednesday.

(7-a) 2020-2021 Utility Rate Study (cont.):

Mr. Thomas stated yes, in the water fund, so we didn't have a very strong position on water, hence those larger increases but we do build it up and we do it incrementally, we're not trying, again, to solve the problem overnight. But we do grow it to our 94-day target, so we're hitting the 90-day target. With the wastewater system, again not a lot of cash on hand, hence the bond issue, but again we grow it to a little over 100 days over time and you can also see the balances for R&R Funds and for the Capital Connection Fee. Now that's one area where you were healthy in terms of cash, but it's also the area that's restricted and you're limited on how you can use it. So we did find ways to use it and we've left money in there, we always would like to have a little bit of funding in there, but the fund has come down from \$15.6 million down to a little over \$2 million. And a lot of that again was applied to the capital and as you continued to grow obviously those monies will be available corresponding to the growth.

Mr. Thomas continued and stated so, just to give you an idea and I, you know, Mr. Halley and I have been doing this for a long time. I started out in electric rates in 1978 and I am so thrilled to be able to look at this rate comparison chart and say that the Utilities Commission, New Smyrna Beach, has the lowest electric rates in the state of Florida. And that's just not generally happening in my 40 years of doing this, when you compare to your, particularly investor-owned utilities and to some of the bigger municipal utilities. So the efforts that you made to reconfigure your power supply and take advantage of power contracts that are at low cost, have really paid off big time for your community. And again, the electric rate of the enterprise being the biggest bill that they get, so having the lowest rates there it is really a significant accomplishment in my mind.

Mr. Thomas continued and stated when you look at the water rates on the next chart, you're again, now this comparison, the one before was electric utilities and IOU's in the state of Florida. This comparison here are your neighbors, here in Volusia County, on the east coast. Very few of your neighbors have electric utilities as municipal utilities. But here we've got Port Orange, Eustis, Ormond Beach, Deland, Deltona, Volusia County, Ponce Inlet, Holly Hill, Edgewater. You're at \$15.99, with the increase you'll go to \$19.04, and you're still the lowest water utility after that increase of any in the chart. Now I can tell you one of my associates is in the City of Edgewater this evening, so all of these utilities have plans and needs to increase rates over time. And so this is a snapshot of where we are today, it assumes that \$19.04 assumes that you adopt the water rates, but even having done that you're still going to have the most competitive water rates in the region.

Commissioner Davenport stated and you're saying that Edgewater is \$36.22?

Mr. Thomas stated yes sir.

Mr. Cloud stated go inland and take a look at some of the numbers or the west coast if you want to see some eye-popping numbers. They're really high, some of them are in excess of \$40, \$50 a month.

Mr. Thomas stated combined bills are \$80, \$90 a month for 4,000 gallons of service. So a lot of it has to do with density, it has to do with how well you're utilizing your capacity. So Edgewater has not grown in a while and they've got some capacity to grow, if they would

(7-a) 2020-2021 Utility Rate Study (cont.):

grow it would be very beneficial to them. But you know some utilities with growth pressure, I was working with a utility in central Florida and they hadn't had a rate increase in 16 years, and they wore it kind of like a badge of honor; you know this is a great thing. But they hadn't been doing any R&R and then they grew, they doubled in seven years. So they had to add all sorts of new capacity but at the same time the existing system literally was crumbling, the sewer pipes were falling under the roads and the rate increase we recommended at that time was 60% because they had just waited way too long and then everything just sort of happened all at once to them.

Chairman Holcomb stated so I kind of, just pulling this all together to try to understand, what was passed earlier, which was to revisit this every three years is to not wait for the problem to poke its head out to actually proactively review it every three years to look at the, you know this stuff coming and maintain the system. Because again, if you're not investing in the system the expense is coming sooner or later, it's coming in maintenance or its coming in repair, but it's coming, it's not a deferred option. It's a bill, it's just a matter of when it gets delivered.

Mr. Cloud stated February 27, 2018, Mrs. Simmons can look it up for you, the night I first appeared before you and talked to you about a peer review and I gave you two pieces of advice that night. The first one was to do an optimization study and the second was to do a rate study, why? Because I looked at your background of rate studies and as Mr. Thomas has pointed out, you had not been implementing any. And even, you know, a cracker lawyer that is poor at math knows that over time with inflation, you know there was so much deferred maintenance, so many things that had been put off. And that was the most important, it's your life blood, it's how you stay current.

Chairman Holcomb stated and like I said for me it's, you know, the economy goes up and down and there's always good and bad times to kind of apply this. You can't use that, you've got to use what does the system need and how do we fund it and how do we manage it. And that's kind of what I've learned through this process is that I understand nobody wants to sit up here and raise anybody's rate, but you want to know that a. we're spending the money right, we're managing the system right, we're being efficient with the dollars that we currently have. But I think like everything else with costs, I think Mr. Cloud I've asked you what's the difference in the, I think it was Deltona, he said its investment. If you go to look at the rate there's always a huge investment that drives, like to your point, the 60% rate. There's some huge issue that presents itself, its unknown, they weren't prepared for it, it popped out and there's this spike. And to me this prevents, the three-year term, making this board review it, analyze it, look at it, talk about it, have people present the numbers, to make sure that we understand because we all do have a fiduciary responsibility sitting up here to manage it properly. That that's being done versus waiting for staff to come to us, because you might have a CEO that says I like doing it this way and you might have a CEO who goes no, I've got it, don't worry about it. And I'm not referring to the previous CEO, my point is its just a good review process, I believe, every three years to evaluate where we stand and look, do we have any major capital expenditures, issues, repairs, anything that's looking like its going to hit us. Because that's what I keep hearing is that these quick jolts of investment that drives rates because you've got to have the money right now to make the investment, so that's what

(7-a) 2020-2021 Utility Rate Study (cont.):

spikes the rate. Versus us gradually phasing this in over a period of time and still maintaining a low rate compared to our peers.

Mr. Thomas stated well, the key is good, effective planning. You do it on the operations side, you do it on the capital side, you should do it on the financial side, and I can tell you, you might get a lot of accolades from your customers about not raising rates over time but as soon as the systems start failing, and the reliability goes away, they're not going to focus on the rates so much anymore. So it's important to stay out of that curve, reinvest in the system, it's critical. And again, not only review it every three years but we have smaller increases every year in between. To me that makes it more palatable to the public to have a series of smaller increases each and every year. Most of them that are on fixed incomes, those incomes like Social Security do go up with CPI and so they can manage that. But if you hit a small homeowner with a 50% increase in a utility bill, that can be pretty rough on them. And so you're heading in the right direction, absolutely.

Chairman Holcomb stated right.

Commissioner Hawes stated I guess a couple of things, what I'm kind of hearing is sort of the 14-year issue, meaning we haven't looked at it in 14 years. I'm hearing roughly 3%, meaning the increase of roughly 3% give or take. That we're very competitive in terms of our price structure even after the fact. If we decided for whatever reasons not to do this, I guess the question I would ask is, how do we get by, what is it we're going to do, are we going to trim the capital side of investment, are we going to lay off people. Where does this seem to hit us, where are we going to feel this?

Mr. Chavez stated so let's say, well other than we'd have to look at cutting a number of head count, capital, but the worst, probably immediate impact is that our rating agencies would look at our, there would be a downgrade. That's probably the biggest issue.

Commissioner Hawes stated you know that's actually true, that's my next.

Mr. Cloud stated I think it's this chart right here, page 13.

Commissioner Hawes stated yes, I think my next issue is the bond covenant and when is it we kind of hit that and what does that mean. I don't, and I'm not arguing we shouldn't do it, what I'm saying is there's sort of two choices and the question is, what are the consequences of not doing something.

Chairman Holcomb stated they did call it out though, they actually called it out if I'm not mistaken, they pointed this out and that's on the commitment from Mr. Chavez and Mr. Bunch to fix this.

Mr. Chavez stated that's exactly it, because what we did was, we did the study, we knew we had good enough financials, but we clearly did not have the reserves that were required that they looked at us. We committed to saying that look we know things are tight, but we've committed to doing the rate study. With that they then gave us, consistent with our financials, a pretty solid rating but on top of that I'm required to meet with them every year. I just

(7-a) 2020-2021 Utility Rate Study (cont.):

reviewed, we just finished the CAFR, the rate projects that I gave them was based on the updated rates. So the negative, the downside is really, I mean from a fiduciary responsibility, Mr. Bunch and I would definitely, just say we would have a problem, a serious problem.

Commissioner Hawes stated that's kind of the way it looks.

Mr. Chavez stated yes.

Commissioner Hawes stated and Mr. Cloud I think you're exactly right, it's page 13 that kind of talks about this. And Commissioner Davenport was talking about transparency and I think to me kind of the key to being or part of the key to being transparent is isolating your businesses and taking a look at them and making a determination financially of just exactly what is going on. And Commissioner Davenport and I were talking about this piece and my idea of this chart on that page is this is a horror show if we allow that black line to kind of go. And I know electric has its own set of challenges but to me it's a relatively clear issue. Once again as Chairman Holcomb said we've got a fiduciary or a responsibility, nobody wants to raise rates, but nobody wants to be without power or water service and all of that; so.

Mr. Thomas stated well, again, if you didn't raise rates you said what are the consequences. Probably a likely first one, because they're looking ahead and the would be the rating agencies with that debt you recently issued. They're going to send a signal to the bond holders that you know things haven't improved. And eventually, if you let it get bad enough you go into default of the bonds and you don't ever want to do that. But you do want to be in a position, because there is still growth to come in this community, you're going to have to expand treatment facilities down the road, so you want to have the ability to borrow so that you can do that.

Commissioner Hawes stated just to hang on that point for just a minute, if we did go into default these are at the end of the day the City's obligation, are they not?

Mr. Halley stated I think they're our obligations...

Mr. Thomas stated the pledge is the revenues of the U.C. as I understand it.

Mr. Cloud stated well, it's not so much the obligation of the City but the people it impacts are the residents and citizens, taxpayers and ratepayers of New Smyrna Beach, so in a larger sense yes, it is the City; it's everybody in the City.

Commissioner Hawes stated and I think, I may be wrong, but I think we borrowed the City's credit rating did we not.

Mr. Cloud stated we actually boosted it the last time around.

Commissioner Hawes stated it's all, my point is, it's not as simple as just the Utilities Commission.

Mr. Cloud stated it's all interrelated, yes sir.

(7-a) 2020-2021 Utility Rate Study (cont.):

Commissioner Hawes stated thank you.

Mr. Thomas stated so, to move ahead we've got the wastewater.

Mr. Bunch stated I think we have another question.

Mr. Thomas stated oh, I'm sorry.

Commissioner Smith stated I've always wondered about this because having worked for the South Florida Water Management District for years, is these projections for revenue, how does water conservation impact them. What if there were significant water conservation measures would that, that would kind of reduce these projections correct.

Mr. Thomas stated well, it's my understanding that most water utilities have been implementing water conservation for well over a decade, okay. And when I look at your per capita use, it's fairly low, so I'm not sure how much more you can squeeze out of conservation. The other thing is the family demographics and the types of households. These bigger homes with lots of fixtures, and lawns, you know they use water. So a lot of that, what's happening is people are retrofitting to more efficient appliances, a lot of that has occurred. And people are building new homes that are more efficient. With that being said even those new efficient homes often use more water than the core homes that were built here in the 50's and 60's for example. So we have not assumed any increase in use, per use per customer or decrease, we've looked at the last several years, it was pretty consistent.

Commissioner Smith stated it was a straight line.

Mr. Thomas stated yes, now the one thing that from year to year, its another reason you want reserves, is rainfall. Because if you have a big rainfall year, water use will go down because the margin, people can irrigate less and save that bill.

Chairman Holcomb stated this goes back to support good processes yield conversation that review these numbers. So all these things that we're referring to, if you review them every three years, which we are now going to do as a Commission, this conversation's going to take place every three years, not once every 12 years or 16. So the process is to review, if it's getting better and we're performing great, there's not saying that you can't go backwards, because you're doing it with electric. You can't say that you can't go backwards on your rates because we're doing it right now, when we approve this, our electric rate is actually going to be less in 2025 than it is today. So you know we can't project the future, we can't project the rainfall, we can't project water consumption. We can plan for it, we can participate, we can do all these things, but the process in which we manage the system and the results of all the things we just talked about, is why we have the three-year process. That's why it's not a good plan to just say we'll deal with it when it basically hits the fan. And that's what I'm hearing from both of you now, where the big major increases come from is, you know, somebody sits there and waits, waits and waits, this major investment comes and we've got no choice and you've got to turn the heat up on the stove. And I think what we're doing is a more planned attack, it's targeted, we're raising water because that's where the investment needs. I don't think anyone can argue with one and two days of cash on hand that that's being

(7-a) 2020-2021 Utility Rate Study (cont.):

run efficiently and it's a strong business. If we were buying, I don't think we would sit there and go buy that business, we would want to fix it. So we've got to look at why we're running with those low reserves. So I think the process to try to project the future and where we're going to be, that's why you have the process to review it, not project it, not speculate, not hope but actually review it and look at real data and make decisions. So I think that's why I like where we're at, I don't think anybody looking at these numbers can say if we haven't raised rates in 2006 and 2012, you just added inflation. You're not in any way being damaged or harmed or it's an unfair number, I think that's easy to make the argument. I think what's more important is the process we have in place to review it on behalf of the ratepayer to make sure things do get better and the system does perform and your water consumption does happen and all these things do happen, that you have the ability, which we've just shown, to reduce a rate. In this study, even though water's going up, there is a rate going down, right. So that's why the process here is more, even though the dollars the consumers going to pay, but for the last 12 or 10 years there's been no increase. But now the bills coming due and we've got to invest in the system and that's what we're doing.

Commissioner Smith stated I think a five-year time frame is a reasonable time frame.

Chairman Holcomb stated yes, 100%.

Commissioner Smith stated as opposed to looking out, once you get past five years you don't know what's going to happen.

Chairman Holcomb stated well, as you all come here, as you all sit up here, if you didn't know, if we didn't have this process in place, you're just doing your job, they're presenting agendas and you're moving on and we're never challenged until there's a problem. Then they go by the way, come to the meeting, they're like hey, by the way, and then you've got to deal with a fire versus a little bit of smoke. And that's why I like, everyone who's sitting on this board, in that period of time is now going to now be forced to review where we stand financially, performance, and go through this review process. That's what I like more about it, but yes, we can be happy that our rates aren't going to be that high, we can sit there and look at all the local communities we're going gauge ourselves against. But what my biggest fear is, is the unknown, and it sounds like to me the biggest burden to these systems is the unknown, or the collapse of them or whatever, or a system where you have to acquisition something. So I think the process, I'll be honest with you I feel lucky and I hate to say this because I don't, whether it's a tax or rate that goes up, I never feel lucky getting a higher tax or rate or anything. But I feel sitting here for six years, listening and watching the investment, I thought the number was going to be higher. I was dreading what I was going to see. So I'm actually relieved a little bit that its not as high. You had the ability, with the electric which is the bigger part of the bill, like you said the percentage, but you haven't given yourself enough credit for where we're lowering through good operations, purchasing, all the things that they've done, we're going to benefit from a reduction there. So I just think process that we leave behind us is going to help not have something just show up in our face and shock the system and the rate.

Commissioner Hawes stated and Chairman Holcomb I think you're exactly right, I mean this is a capital-intensive business and left to ride, it will.

(7-a) 2020-2021 Utility Rate Study (cont.):

Chairman Holcomb stated no, right.

Commissioner Hawes continued, so I think that going through this and going through this in such detail, and I give you credit. I don't know whose idea it was to put the graphs together this way, but it really kind of shows the picture and helps, at least me understand, I'm sure it probably helps others. Because capital investment, I don't know if it's fun or not, but if it's not talked about its going to be a problem.

Mr. Thomas stated and to the Chair's point as a financial professional my skill set is really math, add, subtract, multiply and divide, so there's nothing really scientific about what we think's going to happen in year three or four here, but the process is adaptive, that's generally how I describe it to my clients. If you look at it often enough, you're not going to go astray and that's your point and it's right on.

Commissioner Hawes stated and also the better prepared we are the less harm the bad event is going to cause us. All I think of is like Ms. Couillard with all of her tree trimming, you know what I mean, we're going to have a big wind blow and sometimes it's going to cause some problems, the question is how bad are the problems?

Mr. Cloud stated or some level of government is going to tell you that we have to pump water from a deeper aquifer which is what almost happened in five central Florida counties this year and then suddenly how are you going to get there from here.

Mr. Thomas stated so the wastewater comparison is the next chart and as you can see while you're not the very lowest, you're right at the low sector at \$34.89 and you would move up a spot to \$36.62. But as you can see wastewater bills are significantly higher and that's typically the case. Wastewater bills, with the requirements for treatment now days, to take water and clean it, it's expensive. So that's again, in spite of the lack of rate increases you're in pretty good shape competitively but we have a decent foundation to build on without having the rates be too onerous. And then the next chart just combines the two for those customers that have both services, so they can see where they would be. And again, this is a 4,000 gallon user, it's your typical residential customer.

Mr. Thomas then stated at this point I'm going to turn it over to Mr. Halley and he's going to go on, talk about the electric system cost of service study.

Mr. Halley stated thanks Mr. Thomas and then good afternoon, I'm Randy Halley. I am one of the managing principals of Summit Utility Advisors who was subbed in under Raftelis for the electric side of the work this year. And I'm going to step through a few slides that will take you through some of the purchased power and how the rates have shifted a little bit from your purchased power adjustment factor into it. And I wish I could say I was the one who came up with the rates that make you, you know where you are, you're not having that big of an impact, but it really it's the U.C. staff, has been appropriately using that purchased power adjustment factor over the past several years. Of using that when your purchased power has gone up, they've utilized that to make sure the rates were set where they need to be to recover those costs. So they've done a great job with that, so it did make it very easy coming into this rate study because the rates were where they needed to be, almost, we're just shifting some

(7-a) 2020-2021 Utility Rate Study (cont.):

into the base rate. So I'll step through how that works a little bit. On the slide we have up here (no. 21), this is your purchased power expense. Purchased power expense is roughly 52% of your total expenses for your operations, so being that big of a component, you know that's where a lot of your movement happens when something bad happens in the gas market, as an example. We've broken it down to kind of show you the components that are in that, I'm not going to go through all the details within that. But I do want to point out as Mr. Chavez said in his budget presentation, that \$4.6 million was not originally in your purchased power, it was an operational expense. But it really is a purchased power expense that you incur for buying power. So we've moved that into the purchased power component for this year, but it will still be in your base rates and so I just want to point that out. And the other, the biggest component you have from purchased power is FP&L, that's where you buy most of your power from. And their rates, 70% of that rate is from the energy charge and that energy charge is really, moves from the costs of natural gas. So when natural gas goes up obviously your electric rates are going to go up because that's how they're generating the power. So what we did, we took a look at what was an appropriate level for you all to maintain at a balance within that purchased power reserve I'll call it. We're projecting it to be roughly \$7.8 million by the end of 2021. But as we went through a couple of scenarios, we can go back down to about \$5 million, and I'll step you through how we came to that, and that's one of the reasons you're able to reduce that rate. You're going to start giving some of that money back over the next couple of years to offset the impact of a slight base rate increase.

Mr. Halley stated so what we've done, down toward the middle of that section, we looked at what the cost of natural gas was in our base case, in how we projected the purchased power. You can see \$2.71, \$2.54, \$2.49 and \$2.53 – that was what we projected natural gas to be over this time period. And that's how we came up with the purchased power cost that we've used over this time period. But we did go run some scenarios, what if that gas goes up, you know the cost of gas goes up 25% or 50%. As an example, this past winter with all that mess that happened in Texas, you know gas at the end of January and February was up to \$5.00 and \$6.00 for a while. So there is some, there's still some volatility in natural gas but that's why you want to have something in your reserve to compensate for that. If something happened mid-year, you do have some balance in there to offset that without coming back to your customers on a regular basis to try to reset that. So if, as an example, if gas went 50% above what we projected, that would impact your purchased power by over \$5 million. So the \$5 million amount was an amount we came to that was a good reserve margin that you could maintain moving forward. So that's how we came up with the \$5 million and how we decided to give some of that \$7.8 million back over time.

Commissioner Hawes stated I'm sorry is this on the FPL alone or does this include other...

Mr. Halley stated it's mostly on the FP&L but it's also in the interchange component because your FP&L and your nuclear are your base energy and demand that you're getting. The interchange is what Mr. Beyrle uses to get peak if you will. And I almost forgot to point out, you do have some solar coming on in January 2024 and that was an excellent deal. The cost of that solar is going to be a little bit lower than the cost of the gas that we're projecting, the gas generated energy that you're projecting. So your average cost would drop some as you roll in that 10 MW of solar that you guys agreed to do; so I forgot to point that out. So that was another good move.

(7-a) 2020-2021 Utility Rate Study (cont.):

Mr. Halley stated okay, on this next slide is we summarized the cost of service and basically what we do in a cost of service, we take all the detail you have from your budget which is your purchased power, your salaries, everything to do with engineering, everything it takes to run the business. And we go through and allocate that to all the different customer classes to identify all right who's causing the costs. We know what all the costs are so we go through a process of trying to identify, the best that we can, at who's causing them. And that's where you want to focus how you design your rates, and you'll see on that first set of information, we're saying that you, what we call a net revenue requirement, that's \$46.7 million. That's how much money we need to recover from your electric rates, from a total system standpoint for FY2022. And what we back out of that to come up with this rate increase, and bear with me on this base rate because this base rate that says 4% is going to be zero after we start getting some money back. But I want to step you through where we came up with that. We back out what your current existing rates do, generate revenue. We back out what the current fuel charge is and what it shows us is for 2022 your system needs about a 4% rate increase from a system-wide perspective. If you carry that all the way across, you know the residential, your demand, your non-demand, your large demand, you can see from a cost of service basis it was generating some sizable decreases for your demand and large demand, from a cost of service basis. And then transversely you have to have an increase to offset the decreases, so there was an increase for residential and the non-demand. Now we've looked at that and some of the things you do in a cost of service to allocate these costs are based on things you know. You have the number of customers, you know what the energy's going to be, but part of a lot of these expenses you allocate are based on demand, which is the KW, the maximum demand by rate class. And you don't have that information so what we do to get a proxy for that is grab some of the utilities that do load data, they have actual load data for all their different customer classes so you can see how are these customer classes contributing to the demand of the system.

Mr. Halley stated so we got that from OUC as a proxy and utilized that to allocate the costs, but its not your exact system. So what we decided to do, this is moving us in the right direction from a rate design perspective so what we had decided to do on that, you know after talking with staff, is let's not go and give a sizable decrease to the demand and large demand customer, let's just kind of hold them even. Which does bring down the rate impact that you had for your residential and your non-demand customer, but it also keeps moving you in the right direction as I understand Mr. Chavez and they are looking at doing the AMI meters. AMI meters will allow you to have some load data. Like three years from now when we come back to do your rate study again, hopefully it's us Mr. Chavez, okay, you'll have real load data for each of these classes and we won't have to use a proxy from another utility. Now the proxy method is common because not many utilities today have hourly load data for all their systems. It's a good way, you know, to get you moving in the right direction but we did use that data from OUC to get us moving to where you needed to be a little bit more and I think that showed up in your rate comparisons. Your residential customers are much lower than the rest of the state so you've got some room to come up, but we just chose to do it a little more sequential if you will. Let's get this, make this first move, make that component getting you closer to where your cost of service is. Does that kind of make sense?

Commissioner Hawes stated it does. I guess the question that I have is how, so for example, and I'm not even sure how to ask the question. Under general service demand for example on

(7-a) 2020-2021 Utility Rate Study (cont.):

the adjusted rate design, the \$4,395,000, where does that number come from then. I mean I know up above where it comes from but how did you get the end to zero?

Mr. Halley stated yes, basically what we're saying is we're not going to raise the rates. That \$4.39 million is what the current base rates plus the fuel charge is actually being charged to those customers right now. So it's still covering their costs, it's covering the fuel costs as well, we're just saying we're not going to give them the decrease and the cost of service looked like they may have warranted.

Commissioner Hawes stated yes, okay, I understand.

Mr. Halley stated basically what that does, so your overall, what we did for the rate design, your overall rate increase for base rates only is still the 4%. That bottom section just shows you how we were going to come up with them a different way than just doing from the cost of service. The next slide, and I apologize, Commissioner you like graphs, Mr. Thomas showed you a lot of graphs and I'm kind of put in a bunch of charts, so I apologize.

Commissioner Hawes stated no, that's fine, either is fine.

Mr. Halley stated on this graph, this is showing what I was trying to demonstrate to you. That first column that we have existing, the total, the \$37.9 million for total is what your existing base rates will currently generate right now, based on the forecast that we have. With the current fuel charge, the purchased power adjustment clause you have, that would generate \$7.25 million. So for a total, your base rates and your fuel charge, would generate the \$45.1 million. Basically what we've done for the proposed, up on the proposed column for base rates, that \$47 million is that 4% increase that we talked about on the previous page. And to offset that, you can see underneath the fuel adjustment revenue of the \$1.8 million, that's where we're starting to give some of that over-recovery back. So that \$1.8 million is your customer revenue that you've over-collected over time but we're trying to get you back down to the \$5 million target level that we have and we're doing this over a two-year period right now. So what that does, it brings your total rate increase, for the total system back to right where your current base rates are right now. Now it does shift, you can see it does shift a little bit, and we'll dig a little bit more into the residential rate in just a minute. But your residential class you know is less than a percent increase, on the very bottom when you're looking at the total revenues. Your general service rate class is having about a 1.8% increase as well. But your demand and your large demand are getting a slight decrease, simply because we're giving back some of the over-recovery funds. So that's where those numbers are coming in and of this size, it's designed to capture any true-up or true-down of the costs that you have, as well as maintain a level of reserve for you.

Mr. Halley went to the next slide and stated on the next slide let's look a little bit more at the residential rate because we have recommended a few changes on the residential customers. The first one, the customer charge, we are recommending, if you look at existing, we're going from \$5.65 to \$8.25. Now if you look at, as we did the cost of service, what the cost of service also does is it unbundles the cost so we can identify what are really the costs that are incurred. And you know quite frankly from a residential and your general service non-demand class, you're trying to recover all your customer related costs and you're trying to

(7-a) 2020-2021 Utility Rate Study (cont.):

cover your distribution costs before you deliver any energy at all. And from a cost of service that's about \$45 a month, and you obviously cannot charge that, other utilities cannot charge that because it's just an onerous fixed fee. But what you can do is take a look at what are other utilities doing. Florida Power and Light is at \$8.34 for that same charge so that's why we kept it a little bit below them. But to give you another comparison, Duke is at \$10.63 and OUC just went to \$15.00. So that customer charge, you know we are recommending you come up a little bit more so you can start getting some of your fixed costs covered a little bit more from a fixed revenue, but we're not going anywhere near where Duke and OUC is.

Mr. Bunch stated Mr. Halley, if I could just add a comment, so Mr. Chavez covered some slides when we last increased rates. I believe our last increase in the customer charge was 1999. I may not be exactly right in the year but when we were doing a presentation for six months ago on the topic of rates, I remember looking at some really old resolutions. So while that might look like a large increase, from \$5.65 to \$8.25, I believe that \$5.65 charge has been in place since prior to 1999.

Mr. Halley stated yes, and the other utilities are in a movement trying to get there. I used to work at OUC and when we first started doing our rates up, we were down around the \$7.00 and \$8.00 as well. So OUC has an effort to continue to raise that as much as they can but obviously you can't bring it all the way. You're trying to recover, what they're trying to do there is you have a lot of fixed costs before you sell one kilowatt hour of energy. So they're trying to start collecting some of those more on the fixed basis which helps the cash flow some and the low down, in a bad year. Obviously you can't get to the \$15.00 right now nor would I even recommend you even try. So as we look at this over the next two or three times we do a rate study, you're going to see a little more, more recommendations of moving that up slowly so you do have a little bit representation of how you're trying to recover some of your fixed costs; that's pretty much all that customer charge is.

Mr. Halley continued and stated we also did on the rate block for residential, we also added a, you were just charging a flat kilowatt hour rate for everything used; we are recommending a 1,000 kWh block increase. So what that basically does is for everything up to, for the first 1,000 kWh you have a lower rate, anything over 1,000 kWh you do start paying an incrementally higher rate. What that does, it does send a conservation message if you will, the more energy you use, you are going to be paying a higher rate per kWh for anything you use above what an average customer typically would. The 1,000 kWh threshold is consistent with what FP&L, Duke, OUC and several other municipal utilities use, that same block rate, but the intent is to send the right price signal for conservation. While you still leave your lower block rate somewhat as low as you can so that your normal, just customers who are trying to be in a conservation effort, or lower income, fixed income, they have typically a lower bill. So that's the intent behind the block rate there.

Mr. Halley continued, and then you'll also see for the FPPCAC, the purchased power adjustment, you were charging you know \$.2575 (sic - \$.1575) on the residential rate's dropping to the negative \$.00398, and that's part of the giving some of the money back. So the net impact to an average residential customer is right at that to just below, actually that's your total revenue for your residential class. If we go to the next slide you can see what that does from a comparison, because like I said as you add this block you have a different

(7-a) 2020-2021 Utility Rate Study (cont.):

increase for certain customers that use more. The highlighted one is the 1,000 kWh customer, as Mr. Thomas showed you earlier your existing rate is at \$97.85, your proposed rate is at \$94.43, which still keeps you below FP&L; every one of these rates still keeps you below FP&L. But you can see as the customer starts to use more energy, when they get up to around 1,400, 1,600, they're actually seeing a rate increase, the higher usage customer will have a slight rate increase over the average customer who is having a decrease. And that's simply by adding that block to it, from the conservation perspective.

Mr. Halley stated all right, so, that last slide really just kind of ties everything together. Mr. Thomas had talked about your debt service coverage; you know the minimum requirement at the 1.25. So what this slide is doing, its showing you a combined summary, looking at what your total revenues are, looking at what your expenses are, looking at what the debt service is, this is all combined again so from that perspective your debt service coverage is fantastic over this projected period. The only reason you're showing negative cash flows in 2022 and 2023 is remember we're trying to give back \$1.8 million of the over-recovery in the fuel adjustment charge in 2022 and about \$1 million in 2023. Once you've done that then you're back to, we're at our \$5 million dollar margin, buffer or balance that we want for that fund. Then the fuel adjustment charge is simply true up or true down of what your actual purchased power costs are.

Chairman Holcomb stated just truing that \$2.8 million up over the next three to four years basically.

Mr. Halley stated yes, you are. We have right now we're estimating doing it over 2022 and 2023 and that's one of the reasons that when you looked at the original, the electric charge kind of drops and then goes up a little bit more. It's giving that money back but it's also trying to calculate the difference in what's in the base rates for purchased power and what we're projecting the purchased power to be. But that's something, they'll do that on an annual basis, so we'll see what's needed from that adjustment perspective. All right with that, I'll let Mr. Chavez, you can come back up for next steps.

Mr. Chavez stated thanks to Mr. Halley. So before we go into the final steps, any questions, any comments, just to make sure, I know we've covered a lot but there is..., go ahead Commissioner.

Commissioner Smith stated I'm probably getting ahead of the steps here, that's normal for me. I'm looking at this brochure we got, and I would just make a suggestion, there's a couple of charts that are in this report that I should think would be nice for people to know. Especially comparing what they're paying and what other communities are paying.

Mr. Chavez stated so, you bring up a really good point. That bill insert is focused on, we originally, on one of the versions that we had, we had those other charts, but we couldn't make it usable on a bill insert. What's going to happen is after I explain the next steps and ask for your permission to proceed, we're going to post this whole presentation plus the actual rates themselves on the website. So we're going to have that available and then that customer bill insert is going out in the July billing that's coming up.

(7-a) 2020-2021 Utility Rate Study (cont.):

Commissioner Smith stated and it will tell them how to access that data.

Mr. Chavez stated yes, and its actually the reference to how to access the website is on that bill insert, and it will be the presentation along with the actual rates themselves; but good question.

Commissioner Smith okay, that's what really, to me, it's the band aid of the issue, is to show them that, you know, in comparison you understand, it's very impressive.

Mr. Chavez stated yes, thank you.

Commissioner Davenport stated yes, I wanted to ask a while ago, Mr. Bunch you said there hadn't been a rate increase, a single rate increase since 1999?

Mr. Bunch stated on the customer charge portion, which is your billing, your metering...

Mr. Cloud interjected yes, the base rate for electric.

Mr. Bunch stated that was, used to be \$5.65, now it's recommended to go to \$8 and some change a month.

Commissioner Davenport stated so that's one we haven't had a rate since 1999, on the base rate.

Mr. Chavez and Mr. Cloud stated yes.

Commissioner Davenport stated and then the other one, the rate...

Mr. Chavez and Mr. Cloud simultaneously stated 2006.

Mr. Chavez added for everything else.

Mr. Bunch stated yes, which would be your distribution, transmission charge.

Mr. Cloud stated 15 years.

Mr. Bunch continued, that was 2006.

Mr. Cloud stated unheard of.

Mr. Bunch continued, the water was also 2006 and then wastewater, irrigation, reclaimed water was 2012.

Chairman Holcomb stated and that range in the industry is between 5% and 15% we're doing, we're in the low end of that range, significantly low end.

Mr. Cloud stated yes.

(7-a) 2020-2021 Utility Rate Study (cont.):

Commissioner Davenport stated I don't know, I just sit here as a resident of this town for 47 years and watched this Utilities Commission and I'm sitting here like who is, I don't want, who's been running this thing. I mean how does this thing, I'm just looking, anyway this is the real Buddy coming out, I'm going to shut up, I say too much.

Chairman Holcomb stated I think what you have to, the reason I like the process is you see people working and if you don't have a trigger process that says we're going to. I have audits, multiple audits annually in my business and just like with our, you know with the security, the internet and you know, we went from outsourcing everything to now we have drills and funding and audit processes – all those things are being built in and this is just. That's why I see the biggest thing from this right now is the three-year review. Because people were working and unless there's a big problem or they were short on cash they just didn't, it's not like they neglected it. That's why good process is in your business, to stop you from getting ahead of yourself and all of a sudden looking up and it's been seven years.

Mr. Chavez stated so to that end we operate on the standpoint of we don't want any surprises good or bad.

Chairman Holcomb stated right.

Mr. Chavez continued, because if we had any we don't know our business so that's why we're really focused on doing that.

Mr. Cloud stated and so if there are no more questions, then Mr. Chavez can cover the process very briefly, which is because we're an electric utility the PSC doesn't approve our rates but they do review our rate structure and we do have to file tariffs on the electric only. And that will be the first thing to occur, I'll file a petition with the Public Service Commission with the tariff pages that Mr. Halley prepared that have the rates embedded in them that will go to the Public Service Commission. And then the notice process that we have by our procedural resolution as well as State Statute, which is the bill stuffer, that you know we're trying not to make into a booklet this time like the last time they did it. And then you have two hearings, the first one will be in July and the second will be in August. And then the implementation date for the rates will be later still.

Mr. Chavez stated okay, so to that end Mr. Cloud's in essence referenced perfectly that. So what I do want to request is to schedule the two public hearings as Mr. Cloud referenced. We will work with Mr. Cloud to then file with the PSC, that's required to be filed 30 days prior to adoption. Our adoption is October 1, 2021 which is the start of the fiscal year 2022. You know the budgeted revenues, the budget that you just approved, those revenues are based on these rate recommendations. The bill insert of course has the information we talked about. We'll have the presentation and the rates posted on the website. And then these, we'll have two sets of resolutions, electric resolution and water resolution, those will be presented in, at the July Commission meeting (draft at preliminary public hearing). So all the details we discussed, all of the nitty, gritty details will be in those resolutions that you will see in July. The final resolution approval, so we'll have the August hearing and then after the August hearing, the last, the final public hearing, we will then formally request approval of the, to adopt those two resolutions reflecting these rate recommendations. And then after that, well

(7-a) 2020-2021 Utility Rate Study (cont.):

we're doing it now, concurrently we're working with our I.T. firm to put these rate changes into place, to be effective of course after all the approvals, to be effective 10-1-2021; October 1<sup>st</sup>, that's coming up. We really appreciate the time today to discuss them and your support of the plan for the long-term reliability and the sustainability of the U.C.'s infrastructure. We really appreciate the time and effort that you guys have been, you know patient with us to get this done, and we ask for your support to move to the next step. Mr. Cloud, what else do we need?

Mr. Cloud stated they just need a motion to authorize us to set and advertise the hearings and begin the process.

Commissioner Hawes stated I would make that motion; a motion authorizing the scheduling of two public hearings regarding the proposed rate adjustments for July 26, 2021 and August 23, 2021, preliminary and final respectively, at 3:00 p.m. prior to the Regular U.C. Meetings on those dates, and for General Counsel to submit the electric rates to the Florida Public Service Commission for a required rate structure review.

Commissioner Davenport stated I'll second it.

Chairman Holcomb stated Mrs. Simmons call the roll.

Commissioner Hawes motion then passed unanimously on a roll call vote.

Mr. Chavez then stated thank you.

(7-b) Consideration of U.C.'s FY2022 Budget and Capital Improvement Plan FY2022-2026 and FY2027-2031 (Resolution No. 2021-08):

The FY2022 Budget and Capital Improvement Plan FY2022-2026 and associated U.C. Resolution No. 2021-08 was moved up on the agenda for consideration and approved by the Commission after the Finance presentation above – under agenda item 4-a.

(8) Possible Other Business – Time for Commissioners:

Chairman Holcomb then stated any possible other business, Commissioners? Any comments from anyone?

Commissioner Hawes stated no thank you.

Commissioner Davenport stated yes, I just wanted to say to the staff and Mr. Chavez and Mr. Bunch and everybody, I can't tell you how I'm enjoying sitting on this Commission because of the leadership here and I understand what's going on more than I ever have. And it's you know, I'm not a big numbers guy, but I am, but now I have transparency and I can see what's going on. And all of our, like you've said many times Mr. Chairman, the people in this community want to know it's being done right. And it's being done right, right now, and everyone of us up here are working hard at it, and we can see how hard you all are working so thank you very much. I'm very, very, very impressed. And another thing what I'd like to say

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

is when you were reading a while ago the Mission, Vision statement I want to tell our leader here, our CEO Mr. Bunch, because this utility was not so involved in the charity of our community and getting involved in our community prior to you. And Mr. Bunch when you came on, I said I would like to see that and that's what we're seeing and its being recognized. And that's very important because we are a big organization, so thank you, everybody, very much.

Mr. Bunch stated thank you and added as we speak Ellen Fisher, she was here earlier, is organizing a Habitat for Humanity volunteer event July 23<sup>rd</sup>. So we'll be helping somebody finish the construction of their house locally. And she's working to get us all back out in September for the beach cleanup effort like we did two years ago. I think the last time we had 55 people out there. So Britney Beck and Ellen Fisher are working with folks in the community to get all that started, just in line with that.

Commissioner Davenport stated one other thing I would like to get the help on our FIND board to help us when we clean the intracoastal up; so pretty cool.

Chairman Holcomb stated Commissioner Smith?

Commissioner Smith stated I just wanted to let you know that I saw, I was shown what fiber optic cable looks like by staff; so I appreciate that.

Chairman Holcomb confirmed Commissioner Conrad did not have any further comments and then stated with that, we'll adjourn the meeting.

There being no further business to come before the Commission, the Regular U.C. Meeting closed at 5:47 p.m.

{NOTE – Effective at the U.C.'s 3-22-21 Regular U.C. Meeting, commencing with the minutes for Two Final Public Hearings and Regular U.C. Meeting Held 2-22-21, the Commission will start approving annotated minutes within the agenda package.

These detailed, near verbatim minutes will still be prepared for reference, electronic searches, and will additionally be posted on the U.C.'s website – ucnsb.org.}