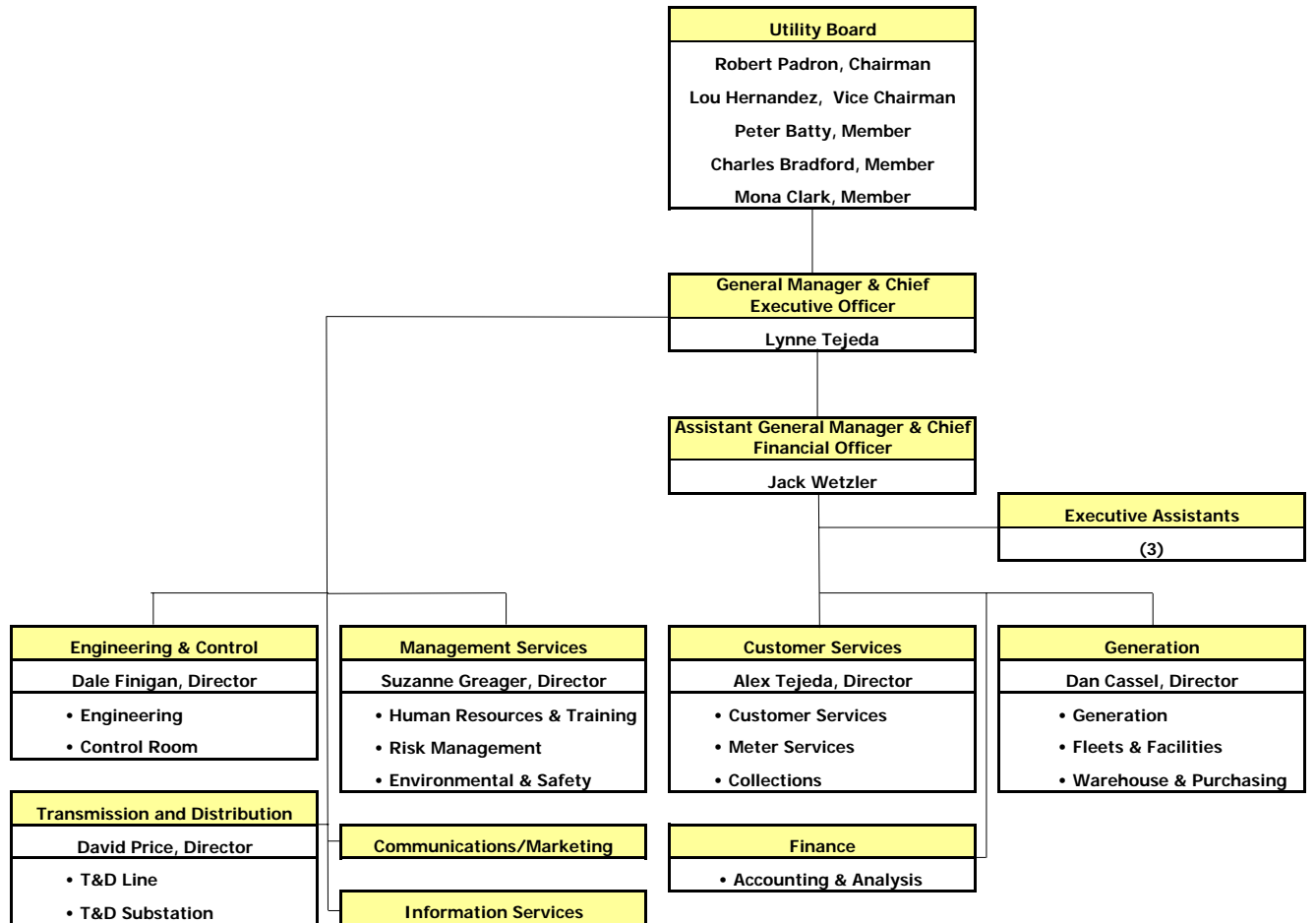


Organizational Chart - Overview



Organizational Chart - Count by Section

(Budget)

Executive (3)	Transmission and Distribution (37)	Generation (40)	Customer Services (33)
General Manager & CEO (1)	Director (1)	Director (1)	Director (1)
Executive Assistant (2)	Secretary (1)	Department Staff Assistant (1)	Department Staff Assistant (1)
	Project Engineer (1)	Secretary (1)	
Management Services (8)	T & D Line	Generation	Customer Services
Director (1)	Supervisor T&D Line (2)	Supervisor - Generation (1)	Supervisor - Customer Services (1)
Human Resources	Line Leader (2)	Shift Leader (1)	Supervisor - Branch Office (1)
HR, Training & Grants Coordinator (1)	Journey Lineman (9)	Control Room Operator (2)	Supervisor - Collections (1)
Department Staff Assistant (1)	Apprentice Lineman (7)	Auxiliary Operator (4)	Customer Service Leader (1)
Human Resource Specialist (1)	Tree Trimmer (2)	Instrument & Electrical Leader (1)	Customer Service Rep (8)
Compliance Administrator (1)	General Helper (2)	Instrument & Electrical Technician (1)	Receptionist (1)
Mail Courier (1)		Apprentice I&E Technician (2)	Delinquent Accounts Rep (1)
Risk Management	T & D Substation	Maintenance Leader (1)	Final Bill Representative (1)
Risk Management Officer (1)	Supervisor T&D Substation (1)	Welder Generation Technician (1)	Senior Customer Accts Rep (1)
	Substation Electrician (8)	Diesel Generation Technician (4)	Customer Accounts Rep (3)
Environmental	Apprentice Electrician (1)	Apprentice Power Plant Mechanic (1)	
Environmental & Safety Officer (1)			Meter Services
	Engineering & Control (20)	Fleets & Facilities	Supervisor - Meter Services (1)
	Director (1)	Supervisor - Fleets & Facilities (1)	Meter Service Leader (1)
	Engineering	Fleets Leader (1)	Senior Meter Service Technician (1)
Finance (11)	Supervisor (1)	Auto Diesel Vehicle Technician (2)	Meter Service Technician (3)
Asst General Mgr & CFO (1)	Secretary (1)	Apprentice Vehicle Technician (1)	Meter Service Technician DA (1)
Executive Assistant (1)	Project Engineer (2)	Maintenance Leader (1)	Meter Reader Leader (1)
Supervisor - Accounting & Analysis (1)	GIS Operator (1)	Maintenance Person (3)	Meter Reader (4)
Accounting & Financial Analyst (3)	Auto Cad Operator (1)	Pipe Fitter Generation Technician (1)	
Accounting Services Coordinator (1)	Engineering Field Rep (4)	Apprentice Power Plant Mechanic (1)	Information Services (5)
Accounting Representative (4)		Apprentice Maintenance Person (1)	Supervisor - Information Services (1)
	Control Room	Warehouse	Systems Analyst (3)
	Supervisor-Power System Control (1)	Storekeeper (1)	PC Technician (1)
	Power System Coordinator (5)	Apprentice Storekeeper (1)	
	Load Dispatcher (3)	Purchasing	Communications (1)
		Supervisor - Purchasing (1)	Communications/Marketing Coordinator (1)
		Buyer (3)	

Authorized positions - 160

Budgeted positions - 158

Generation - 2 positions (Tree Trimmer & General Helper) authorized, but not budgeted

Number of Authorized and Budgeted Positions

Dept #	Department Name	Budget FY 2005	Budget FY 2006	Budget FY 2007
11	Executive	4	5	3
20	Information Services	5	5	5
21	Marketing	1	1	1
22	Human Resources	6	6	6
23	Finance	10	10	11
24	Purchasing	6	5	4
25	Facilities	6	6	7
30	Engineering	11	11	11
31	Control Center	9	9	9
32	Risk Management	1	1	1
33	Environmental/Safety	1	1	1
34	Fleets	5	5	5
35	Warehouse	3	2	2
40	Customer Services	20	20	21
50	Meter Services	12	12	12
60	Transmission & Distribution	35	39	37
70	Generation	<u>19</u>	<u>20</u>	<u>22</u>
	Total	154	158	158

For 2007:

Asst General Manager moved from Executive to Finance

Compliance Administrator moved from Executive to Human Resources

Authorized positions - 160

Budgeted positions - 158

Generation Dept - 2 positions (Tree Trimmer & General Helper) authorized, but not budgeted



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UTILITY BOARD OF THE CITY OF KEY WEST

November 20, 2006

Members of the Utility Board of the City of Key West, FL

Dear Utility Board Members:

Summary

The Grand Total Budget of \$104.9 million is an increase of \$2.6 million, or 2.5% as compared to the 2006 Amended Budget.

Significant Events

This year's budget and five year financial plan presented Keys Energy Services (KEYS) with a challenge to balance the budget with lower sales and higher costs. Several scenarios of issuing bonds and raising rates were considered. The option that seemed the best for rate payers and KEYS was raising rates by 4% and issuing a \$42 million bond.

The increase in rates gives KEYS the ability to keep up with rising costs. Additionally, the five year plan incorporates rate increases in Fiscal Year 2009 and Fiscal Year 2011.

The bond allows KEYS to augment capital projects budget in the current fiscal year as well as the next four years.

Sales of Electricity

Due to lower than budgeted sales for 2006, the 2007 sales of electricity are conservatively planned at 2.5% over the 2005 actual sales.

	Amended Budget FY 2006	Budget FY 2007	2007 Budget vs. 2006 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Number of Customers	29,731	29,731	0	0.0%
Sale of Electricity - kWh	<u>742,485,780</u>	<u>742,485,788</u>	<u>0</u>	<u>0.0%</u>
Increase (decrease) from prior year	2.56%	0.00%		

In the future years of the Five-Year Financial Plan, annual percentage increases for sale of electricity are 1.75%.

	FY2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of Customers	29,731	29,976	30,220	30,469	30,713
Sale of Electricity - kWh	742,485,788	755,479,289	768,700,177	782,152,430	795,840,097
Increase compared to prior year	0.00%	1.75%	1.75%	1.75%	1.75%

Electric Revenues

Electric Revenues are \$96.8 million, which is \$3.3 million, or 3.5% above the 2006 Amended Budget. The increase in rates accounts for higher revenues for both the current fiscal year and the five year plan.

	Amended Budget FY 2006	Budget FY 2007	2007 Budget vs. 2006 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Revenues				
Energy and Demand	57,984,669	90,039,967	32,055,298	55.3%
Power Cost Adjustment (PCA)	33,391,809	4,514,181	(28,877,628)	-86.5%
Customer Charge	<u>2,116,421</u>	<u>2,201,077</u>	<u>84,656</u>	<u>4.0%</u>
Total Electric Revenues	93,492,899	96,755,225	3,262,326	3.5%

	FY2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues					
Energy and Demand	90,039,967	91,598,928	95,993,271	97,655,639	102,372,523
Power Cost Adjustment (PCA)	4,514,181	7,100,695	9,186,739	11,734,965	10,187,540
Customer Charge	<u>2,201,077</u>	<u>2,221,110</u>	<u>2,341,935</u>	<u>2,363,912</u>	<u>2,490,162</u>
Sub-Total Electric Revenues	96,755,225	100,920,733	107,521,944	111,754,516	115,050,225
Gross Receipts Tax (GRT)	<u>2,480,804</u>	<u>2,587,608</u>	<u>2,756,863</u>	<u>2,865,386</u>	<u>2,949,888</u>
Total Operating Revenues	99,236,029	103,508,341	110,278,807	114,619,902	118,000,112

All Other Revenues

The 2006 trends in all categories were used as a basis for forecasting.

The Five-Year Financial Plan includes:

- Sale of Workforce Condo - \$13.6 million
- Sale of William Arnold Service Building - \$8.0 million
- Credits from Florida Municipal Power Agency (FMPA) - \$8.0 million
- Capacity credits from the Florida Keys Electric Cooperative - \$2.1 million
- The KWSP redevelopment lease provisions - \$2.1 million
- SO₂ Emission Credit revenue - \$2.8 million

	Amended Budget FY 2006	Budget FY 2007	2007 Budget vs. 2006 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Other Operating Revenues	4,997,805	2,453,244	(2,544,561)	-50.9%
Non-Operating Revenue (Interest Income)	632,841	1,064,107	431,266	68.1%
Non-Operating Revenue (Other)	<u>826,565</u>	<u>2,166,905</u>	<u>1,340,340</u>	<u>162.2%</u>
Total Other Revenues	6,457,211	5,684,256	(772,955)	-12.0%

	FY2007	FY 2008	FY 2009	FY 2010	FY 2011
Other Operating Revenues	2,453,244	2,489,855	2,527,133	2,565,092	2,603,742
Non-Operating Revenue (Interest Income)	1,064,107	1,288,982	1,373,218	1,482,998	1,519,316
Non-Operating Revenue (Other)	<u>2,166,905</u>	<u>611,767</u>	<u>3,985,455</u>	<u>16,767,103</u>	<u>5,394,833</u>
Total Other Revenues	5,684,256	4,390,604	7,885,806	20,815,193	9,517,891

Operations & Maintenance Expenses

The Total O&M Budget increased \$2.4 million, or 2.7%, to a level of \$91.9 million.

Purchase Power Costs are higher than 2006 expenses by \$371.2 thousand. This is due to the rates charged by FMPA. The 2006 budget included an energy rate of \$42.50 per MWh while the 2007 budget includes \$54.00 per MWh. This rate is \$2.00 higher to be conservative.

Other Power Supply Expenses are higher than 2006 expenses by \$18.7 thousand.

Transmission Expenses are higher than 2006 expenses by \$403.0 thousand.

Distribution Expenses are higher than 2006 expenses by \$101.3 thousand.

Customer Expenses are higher than 2006 expenses by \$262.4 thousand.

Administrative & General Expenses are higher than 2006 expenses by \$1.3 million. The major increases are:

- Pension Contribution - \$329.6 thousand
- Employee and retiree health insurance premiums - \$184.3 thousand
- A&G Payroll - \$457.6 thousand
- Transportation (leased vehicles and fuel) - \$20.2 thousand

	Amended Budget FY 2006	Budget FY 2007	2007 Budget vs. 2006 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Expenses				
Purchase Power	63,541,863	63,913,044	371,181	0.6%
Other Power Supply	1,138,443	1,157,109	18,666	1.6%
Transmission	3,615,613	4,018,545	402,932	11.1%
Distribution	3,941,736	4,042,999	101,263	2.6%
Customer Service	1,201,793	1,464,183	262,390	21.8%
Administrative & General	<u>16,085,254</u>	<u>17,340,816</u>	<u>1,255,562</u>	<u>7.8%</u>
Total Operating & Maintenance Expenses	89,524,702	91,936,696	2,411,994	2.7%

	FY2007	FY 2008	FY 2009	FY 2010	FY 2011
Purchase Power	63,913,044	67,539,038	70,682,753	74,307,159	73,854,748
Other Power Supply	1,157,109	1,434,848	1,155,676	1,267,863	1,310,226
Transmission	4,018,545	3,940,423	4,031,026	4,191,598	4,280,089
Distribution	4,042,999	4,180,779	4,350,929	4,532,645	4,723,274
Customer Service	1,464,183	1,519,684	1,577,944	1,639,098	1,703,292
Administrative & General	<u>17,340,816</u>	<u>17,608,440</u>	<u>18,252,976</u>	<u>19,269,298</u>	<u>19,869,258</u>
Total Operating & Maintenance Expenses	91,936,696	96,223,214	100,051,303	105,207,662	105,740,888

Multi-Year Capital Plan

Capital projects were budgeted using the Capital Project Prioritization Process. At the 2007 Strategic Planning Session, the following business priorities were identified:

- Develop a methodology to operate with flat or declining sales
- Create a stable, capable, and committed work force
- Maintain a reasonable long-term reliability level compared to industry benchmarks and improve customer perceived reliability
- Maximize benefits to KEYS from FMPA
- Maintain high level of customer service and customer satisfaction

Based upon these priorities, capital projects totaling \$11.0 million are proposed for 2007.

	FY2007	FY 2008	FY 2009	FY 2010	FY 2011
Transmission	938,295	1,026,650	1,430,380	696,630	515,000
Distribution	6,475,000	9,286,500	7,193,100	8,037,185	9,301,544
Generation	1,375,000	985,000	200,000	160,000	350,000
Facilities	752,000	489,500	854,338	209,538	115,128
Fleets	945,000	390,000	355,000	412,000	285,000
Information Technology	470,000	341,000	232,050	308,153	109,310
Other	50,000	2,619,000	8,850,000	9,844,400	50,000
Total Capital Projects	<u>11,005,295</u>	<u>15,137,650</u>	<u>19,114,868</u>	<u>19,667,905</u>	<u>10,725,983</u>
<u>Percentage by Category</u>					
Transmission	8.5%	6.8%	7.5%	3.5%	4.8%
Distribution	58.8%	61.3%	37.6%	40.9%	86.7%
Generation	12.5%	6.5%	1.0%	0.8%	3.3%
Facilities	6.8%	3.2%	4.5%	1.1%	1.1%
Fleets	8.6%	2.6%	1.9%	2.1%	2.7%
Information Technology	4.3%	2.3%	1.2%	1.6%	1.0%
Other	0.5%	17.3%	46.3%	50.1%	0.5%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The above projects will be funded from the newly established Construction (Bond) Fund and by transfers from the Revenue Fund to the Renewal and Replacement Fund.

Major five-year major projects, by function, are:

Transmission:

- Transmission line and substation maintenance - \$1.1 million
- Repair over the water transmission pole foundations - \$815.0 thousand
- Replace transmission oil circuit breakers - \$950.0 thousand

Distribution:

- Work orders & engineering's requests - \$8.3 million
- Distribution Improvements - \$15.7 million
- Construct new substation Stock Island - \$2.2 million
- Replace substation transformers KDS #1 and KDS #2 -\$2.5 million
- Purchase of meters - \$1.3
- Remote metering (study and implementation) - \$4.0 million

Generation:

- Purchase MSD turbo chargers - \$850.0 thousand
- Overhaul HSD at Stock Island - \$220 thousand
- Replace or rebuild MSD turbo chargers - \$250.0 thousand
- Purchase fin fan coolers - \$950.0 thousand

Fleets:

- Replace company vehicles - \$1.8 million
- Overhaul company vehicles - \$240.0 thousand

Information Services:

- Replace or upgrade SCADA system - \$300.0 thousand
- Replace network switching equipment - \$215.0 thousand
- Customer service and financial systems software upgrade - \$225.0 thousand

Fund Balances

The Construction Fund transfers to the Renewal & Replacement Fund will be \$10.5 million for 2007.

The Operating Reserve Fund has sufficient balances to maintain the 90-day requirement established by The Utility Board. The Emergency Reserve Fund balance of \$2.0 million remains unchanged throughout the Planning Period.

Debt Service Coverage

Debt Service Coverage for 2007, before capitalized overhead, is anticipated to be 1.38 compared to the required 1.25 x coverage in Bond Resolution No. 532, Article V, Section 5.01, B.

Payment to the City of Key West

The Payment to the City of Key West combined with projected In-Kind Services exceeds \$700,000 per year.

Respectfully Submitted,

Jack Wetzler
Assistant General Manager & CFO

CC:
Lynne Tejada, General Manager & CEO

Comparison of Projected Operating Results

	Actual FY 2005	Amended Budget FY 2006	Budget FY 2007	<u>2007 Budget vs. 2006</u> <u>Amended Budget</u>	
				Amount Inc (Dec)	Percent Inc (Dec)
Number of Customers	29,545	29,731	29,731	0	0.0%
Sales of Electricity - kWh	<u>723,977,676</u>	<u>742,485,780</u>	<u>742,485,788</u>	<u>8</u>	<u>0.0%</u>
Increase (decrease) from prior year	-0.28%	2.56%	0.00%		
Revenues					
Energy and Demand	\$ 56,842,376	\$ 57,984,669	\$ 90,039,967	\$ 32,055,298	55.3%
Power Cost Adjustment (PCA)	19,451,322	33,391,809	4,514,181	(28,877,628)	-86.5%
Customer Charge	<u>2,106,597</u>	<u>2,116,421</u>	<u>2,201,077</u>	<u>84,656</u>	<u>4.0%</u>
subtotal Electric Revenues	78,400,295	93,492,899	96,755,225	3,262,326	3.5%
Gross Receipts Tax	<u>2,005,905</u>	<u>2,397,158</u>	<u>2,480,804</u>	<u>83,646</u>	<u>3.5%</u>
subtotal Operating Revenues	80,406,200	95,890,057	99,236,029	3,345,972	3.5%
Other Operating Revenue	3,072,535	4,997,805	2,453,244	(2,544,561)	-50.9%
Non-Operating Revenue (Interest Income)	613,525	632,841	1,064,107	431,266	68.1%
Non-Operating Revenue (Other)	<u>2,773,691</u>	<u>826,565</u>	<u>2,166,905</u>	<u>1,340,340</u>	<u>162.2%</u>
subtotal Other & Non-Operating Revenues	<u>6,459,751</u>	<u>6,457,211</u>	<u>5,684,256</u>	<u>(772,955)</u>	<u>-12.0%</u>
Total Revenues	86,865,951	102,347,268	104,920,286	2,573,018	2.5%
Expenses					
Revenue Related Expenses:					
Purchase Power	49,287,046	63,541,863	63,913,044	371,181	0.6%
Other Power Supply	1,074,167	1,138,443	1,157,109	18,666	1.6%
Transmission	3,646,679	3,615,613	4,018,545	402,932	11.1%
Distribution	3,017,736	3,941,736	4,042,999	101,263	2.6%
Customer Service	1,280,590	1,201,793	1,464,183	262,390	21.8%
Administrative & General	<u>15,006,644</u>	<u>16,085,254</u>	<u>17,340,816</u>	<u>1,255,562</u>	<u>7.8%</u>
Operating & Maintenance Expense	73,312,862	89,524,702	91,936,696	2,411,994	2.7%
Transfers					
Senior Lien Debt Service	8,509,645	7,013,275	8,386,900	1,373,625	19.6%
Transfer to Renewal & Replacement	3,372,000	3,483,614	415,295	(3,068,319)	-88.1%
Transfer (from) to Emergency Reserve	(931,073)	-	-	-	0.0%
Junior Lien Debt Service-FMPA Pooled Loan	15,553	284,400	976,440	692,040	243.3%
Transfer (from) to Rate Stabilization	(250,000)	500,000	1,400,000	900,000	180.0%
Transfer (from) to Operating Reserve	120,000	715,000	1,620,000	905,000	126.6%
Payment to City of Key West, Florida	<u>340,548</u>	<u>373,460</u>	<u>377,762</u>	<u>4,302</u>	<u>1.2%</u>
O&M Expenses and Transfers	\$ 84,489,535	\$ 101,894,451	\$ 105,113,093	\$ 3,218,643	3.2%

SIGNIFICANT POLICIES

Accounting Policies

The accounting policies of the Utility Board have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

Basis of Accounting

The Budget, as well as the financial statements, is prepared on the accrual basis; accordingly budgeted revenues are recognized when earned and budgeted expenses are recognized when incurred.

Disbursements and Bidding Threshold Amounts

On October 13, 1999, the Utility Board approved Resolution No. 679 regarding disbursements and bidding threshold amounts. A policy regarding payments under Section 11 of Florida Statute 69-1191 is as follows:

1a) Payments related to bond principal and interest, customer deposit refunds, payroll, power costs, and transmission expense, may be made by staff, without first seeking approval of the Board.

1b) The staff may also make disbursements under \$25,000, for all other expense categories related to Operations and Maintenance and Capital Projects, without first seeking approval of the Board, provided that such expenditures are within the existing Budget.

1c) Disbursements related to Operations and Maintenance and Capital expenses, over \$25,000, require prior Utility Board approval, unless otherwise specified as outlined in Paragraph 1a.

1d) Staff will present two listings to the Utility Board at each meeting. The first will show all disbursements made since the last Board meeting. The second will be a "To Be Paid" listing whereby disbursements will be made after Utility Board approval. Board approval of both reports means that all items listed are approved, whether they are over \$25,000, or any of the already paid items listed above.

A policy regarding contracting under Section 13 of Florida Statute 69-1191 is as follows:

1a) All construction, reconstruction, repairs or work of any nature by the Utility Board, where the entire costs, value, or amount of such construction, reconstruction, repairs or work, including the labor and materials shall exceed \$25,000, shall be done only under contract or contracts to be entered into on approval by the Utility Board.

SIGNIFICANT POLICIES

1b) All supplies, equipment, machinery and materials costing more than \$25,000, shall be purchased only after the provision of competitive bidding.

1c) All purchases of commodities or contractual services under provisions of local, state, and federal purchasing contracts shall be exempt from the competitive procurement requirements, provided that all of the following criteria are satisfied:

- 1) The terms and conditions of the original contract by the federal, state or local government are satisfactory to the Utility Board and such terms and conditions are expressly extended to other municipalities pursuant to the bid documents.
- 2) The original contract by the federal, state or local government was executed within twelve (12) months prior to the proposed purchase of commodities or services by the Utility Board.
- 3) The purchasing agent has performed an informal solicitation to determine if the prices of the original contract are fair and reasonable, and to assure local vendors have an opportunity to compete.
- 4) The Utility Board authorizes such procurement when the cost of commodities (materials) or contractual services (labor and materials) exceeds \$25,000.

Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials and allocated indirect charges, and capitalized interest. Major renewals and replacements are capitalized while minor replacements and repairs are expensed as incurred. Under Federal Energy Regulatory Commission accounting practices, the cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

Debt Administration

Chapter 69-1191, Laws of Florida, grants the Utility Board the exclusive right to issue and sell from time to time revenue bonds against the income of said public utility, at prices determined by said Board, and the exclusive right to incur indebtedness against said public utility; providing for prior approval by the City Commission of the City of Key West, Florida before said Utility Board may validate and issue any bonds.

Revenue bonds may be issued by the Utility Board for the purpose of refunding outstanding revenue bonds as well for any other purposes which the Board deems proper in the management, operation, maintenance, control, improvement, extension, betterment, financing and refinancing of the electric public utility, as well as for purposes of acquisition, purchase, building and construction and operation of additional public utilities which are deemed proper by the Board, and revenue bonds may also be issued against the income of any additional public utilities so acquired.

SIGNIFICANT POLICIES

The granting of such authority to the Utility Board, to issue revenue bonds against income of the electric public utility or against the income of any additional public utilities hereafter acquired by the Board, is exclusive to the Board.

There is no statutory limit on debt. However, the following policies have been used to govern the issuance of debt: *Purposes* – debt may be used to fund projects, property acquisition and/or equipment purchases. *Debt Maturity* – the type of debt incurred and the maturity date should be equal to or less than the life of the asset. *Types of Debt* – long-term revenue bonded debt and short-term loans. *Debt Structure* – the debt structure will be in accordance with applicable Federal, State, and other legal requirements.

Total debt is comprised of four refunding bond issues: 1991, 2000, 2001, and 2006. All outstanding debt has fixed interest rates. All four issues are rated AAA by Standard & Poor's Ratings Group and insured by AMBAC Indemnity Corporation.

Treasury Management

Assets are invested in accordance with the Utility Board policy, which is governed by State Statutes. Moneys must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer.

"Authorized Investments" shall mean any of the following if and to the extent the same are at the time legal for investment of municipal funds:

- (i) Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;
- (ii) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are (x) not callable prior to maturity or (y) as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are insured and thereby rated by, or are otherwise rated by, a nationally recognized bond rating agency within its highest rating category or which are secured as to principal, redemption premium;
- (iii) Bonds, debentures, or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America and whose obligations represent full faith and credit obligations of the United States;

SIGNIFICANT POLICIES

(iv) New housing authority bonds or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions or a requisition or payment agreement with the United States of America;

(v) Direct and general obligations of any state of the United States of America, to the payment of which the full faith and credit of said state is pledged, which at the time of investment are rated by any nationally recognized bond rating agency by a rating which denotes a security with investment characteristics of a security presently rated by Moody's Investors Service, Inc. or Standard and Poor's Corporation, in one of the three highest rating categories;

(vi) Certificates of deposit, whether negotiable or non-negotiable, issued by any bank, savings and loan association, trust company or national banking association (including the trustee, if any, and Paying Agent) which are members of the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation;

(vii) Repurchase agreements with any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation (which may include the trustee, if any or the CO-trustee, if any) or with any government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is (a) fully and continuously secured by obligations described in clause (i), (ii), (iii), (iv) or (v) of this definition, (b) subject to a perfected security interest of the Board, and (c) has a term not to exceed one hundred eighty (180) days;

(viii) Units of participation in the Local Government Surplus Funds Trust Fund established pursuant to Part IV, Chapter 218, Florida Statutes, or any similar common trust fund which is established pursuant to law as a legal depository of public moneys and for which the Florida State Board of Administration acts as custodian;

(ix) Commercial Paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" by Standard & Poor's and which matures not more than 270 calendar days after the date of purchase;

(x) Investment agreements and guaranteed investment contracts which meet the criteria established by AMBAC Assurance Corporation (and any other Credit Facility Provider then having in effect a Credit Facility with respect to any Bonds).

Risk Management

All assets are protected through the Risk Management Program developed and managed by the Management Services section of Keys Energy.

SIGNIFICANT POLICIES

Under this program, coverage is provided for worker's compensation, comprehensive general liability, auto comprehensive and physical damage, crime and fiduciary, errors and omissions, property, boiler and machinery, windstorm, flood and pollution. See the Appendix section for more details.

The Management Services section, through their coordinated and continuous efforts in monitoring potential risk exposures and implementing safety control programs, such as Safety Training Observation Program ("STOP"), coupled with effective claims administration, is striving to meet the goal of continuous no-lost time accidents and minimizing injury claims.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Utility Board of the City of Key West
Florida**

For the Fiscal Year Beginning

October 1, 2005

President

Executive Director

Budget Policy

General Comments

On September 11, 1996, the Board approved changes in the Budget process that eliminated the Amended Budget and allows Budget amendments throughout the year. Known as the Budget Amendment Policy, staff has the authority to make changes within either the Capital or Operations and Maintenance ("O&M") Budget as long as the total amount in either respective Budget does not change. The change is reported at the next Board meeting. Changes in the Budget that exceed the Enabling Act limitation, affect Board approved bids, increase the total O&M or capital Budget, involve a new capital project not previously approved by the Board, or involve transfers between the O&M and Capital Budget, require Board approval.

The Utility Board's balanced budget uses current year's revenues and reserves, when necessary, to fund disbursements and transfers.

Budget Amendment Policy Detail

1. Adopt Budget for Revenues, O&M Expenses & Capital in accordance with Resolution 532, Article V, Section 5.01, (A). The Board shall annually prepare at least forty-five (45) days preceding each of its Fiscal Years, and adopt prior to the beginning of such Fiscal Year, a detailed Budget of the estimated expenditures for the operation and maintenance of the System during such next succeeding Fiscal Year.
2. Staff will have the authority to make changes within the O&M and/or Capital Budgets under the following conditions:
 - a. The combined O&M and Capital Budget do not change.
 - b. Within the Capital, funds may be moved to create a new capital project not to exceed the limitations set forth in Resolution #679 ⁽¹⁾.
3. Staff will recommend budget changes to the Utility Board under the following conditions:
 - a. The combined O&M and Capital Budget increases above prior amount.
 - b. Creating a new capital project exceeds the limitations set forth in Resolution #679 ⁽¹⁾.
 - c. Cumulative line item changes exceed the amounts set forth in Resolution #679 ⁽¹⁾.
 - d. The change will be documented on a Budget Amendment Form.
4. The General Manager reserves the discretion to require that a formal budget amendment be prepared even though it falls within staff's authority.

Budget & Financial Plan Preparation Process

The Board shall annually prepare at least forty-five (45) days preceding each of its Fiscal Years, and adopt prior to the beginning of such Fiscal Year, a detailed Budget of the estimated expenditures for operation and maintenance of the System during such next succeeding Fiscal Year.

⁽¹⁾ Resolution #679, A Resolution Regarding Disbursement and Bidding Threshold amounts, dated 10/13/99.

Budget control is provided by monthly revenue and expense reports. Monthly financial reports are provided to the Board. The Budget & Financial Planning process for the ensuing fiscal year (October 1 to September 30) begins when the staff reviews the load forecast and the Board and staff attend the annual Strategic Planning Workshop. The Department Directors develop and review the proposed Budget & Financial Plan before submitting to the General Manager for review and comment.

Upon completion of the proposed Budget & Financial Plan, a public workshop session is held to review all proposed Budget & Financial Plan items. Subsequently, a public hearing is held to gather additional comments. The proposed Budget & Financial Plan thereupon is submitted to the members of the Board for their final review and adoption prior to the commencement of the succeeding fiscal year. Upon valid adoption, all expenditures in the Budget constitute appropriations and amendments can only be made in accordance with the provisions of law and Board policy.

Budget & Financial Plan Preparation Calendar in 2006

Begin Budget Process – Capital w/Five Year Plan	March 8 - 13
Begin Budget Process – O&M	March 14
Initiate Cost of Service Study	March 22
Strategic Planning Session	April 5 – 6
Prioritize Expenditures	April 25
Commence Electric Rate Study	May 23
Complete Preliminary Budget & Financial Plan	May 31
Review Miscellaneous Service Charges Revenue	June 16
Review Rate Increase & Bond Funding Options	June 19 – 20
Review O&M and Capital Expenditures	June 21 – 29
Finance Committee meeting to select rate increase & bond options	July 6
Deliver Preliminary Budget & Financial to Utility Board	July 21
Finalize Miscellaneous Service Charges Revenue	July 31
Budget Workshop	August 2

Budget & Financial Plan Preparation Calendar in 2006 (cont'd)

1 st Public Hearing	August 23
Approval of Revised Tariff Sheets & Miscellaneous Service Charges	August 23
Approval of Inducement Resolution to Issue Bonds	August 23
Finalize Base Rate Tariff Sheets & Send to FLPSC	August 24
Begin Official Bond Statement	August 24
1 st Draft of Official Bond Statement	August 30
1 st City Commission Meeting	September 6
2 nd Public Hearing Approve Total Budget	September 19
2 nd City Commission Meeting	September 19
Implement Rate Increase and Budget	October 1
Approval of Final Bond Resolution	October 11
Final Official Bond Statement	October 31
Close on Bond	October 31

Key West and Monroe County Demographics and Statistics

	Key West	Monroe County
Population (1)	25,811	80,537
Median Age (2)	38.9	42.6
Population by Race (2)		
White	71.4%	77.2%
Black	8.8%	4.5%
Hispanic	16.5%	15.8%
Other	3.3%	2.5%
Registered Voters (3)	14,472	52,279
Employees by Industry (2)		
Services	N/A	14,440
Retail Trade	N/A	10,882
Government	N/A	3,217
Other	N/A	8,145
Unemployment Rate (1)	2.3%	2.3%
Schools (1)	9	17
Places of Worship (1)	26	82

Key West is an island city located at the end of US Highway 1, approximately 160 miles southwest of Miami, Florida. The City of Key West is the county seat of Monroe County. Monroe is a county of islands connected by an overseas highway with 19.3 miles of bridge spans. The service area for the Utility Board of the City of Key West includes the city as well as half of Monroe County.

The millions of tourists that visit Key West and the county each year provide the major source of employment for local residents. Retail services, commercial fishing and government employment are the other industries. Currently 32% of county residents live in the city of Key West.

Climatological Data for Key West

	Rain	Temperature
Monthly Average (2)	3.24	78.0
Above (below) Average (2)	0.06	(0.07)

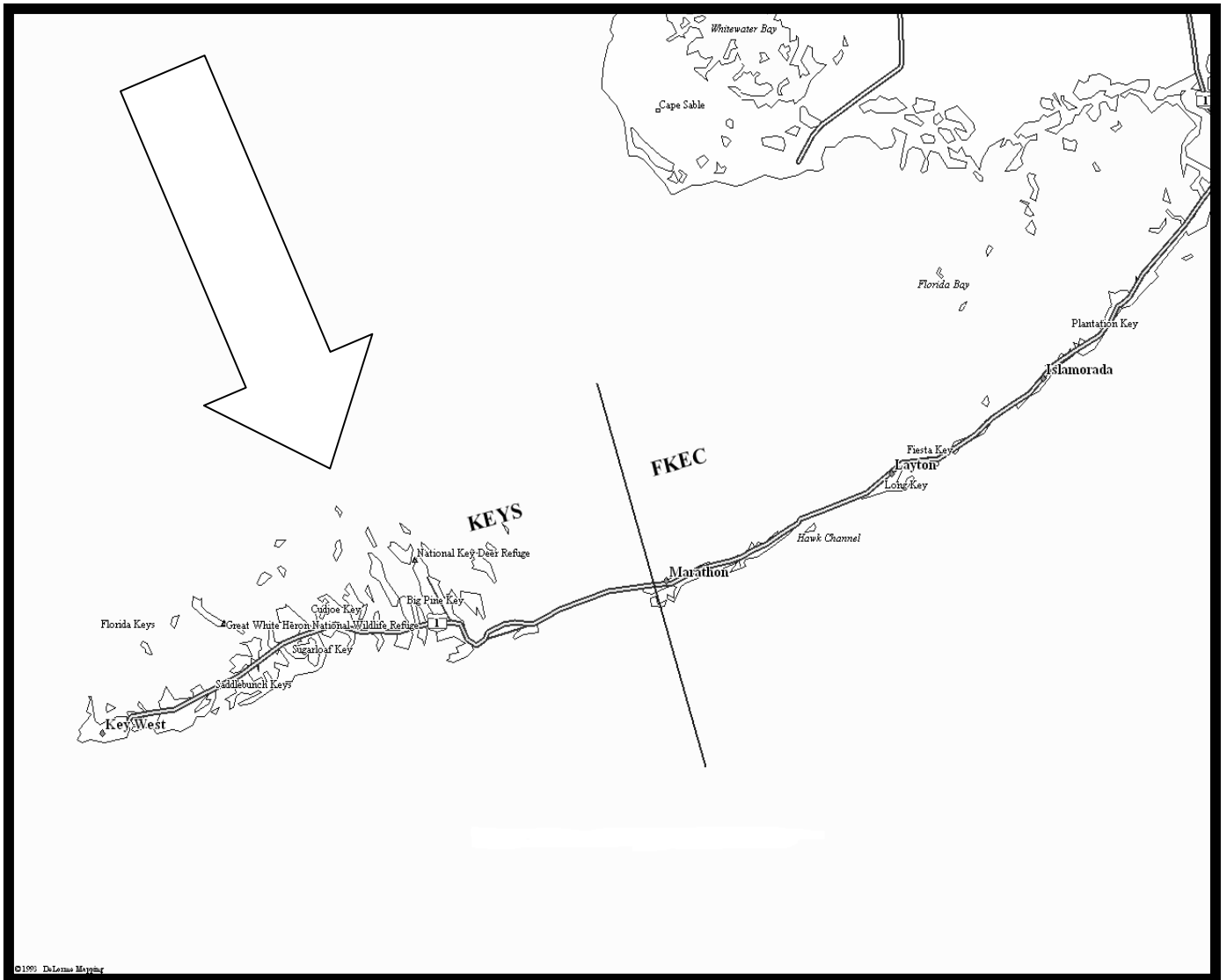
Source: City of Key West Chamber of Commerce

(1) Data as of 2003

(2) Data as of 2000

(3) Data as of 2004

SERVICE AREA



KEYS = KEYS ENERGY SERVICES
FKEC = FLORIDA KEYS ELECTRIC COOPERATIVE