

MINUTES FROM A REGULAR MEETING AND PUBLIC BUDGET HEARING OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA, HELD AT 5:00 P.M. ON JANUARY 24, 2007 AT THE WILLIAM ARNOLD SERVICE BUILDING LOCATED AT 1001 JAMES STREET, KEY WEST, FLORIDA

The above referenced meeting of the Utility Board of the City of Key West, Florida, convened at 5:00 P.M., on the above date and location and was called to order by Chairman Padron. Present and answering to the roll call were Utility Board members: Peter Batty, Charles Bradford, Lou Hernandez, Mona Clark and Robert Padron. Also present at the meeting: Lynne Tejeda, General Manager & CEO; Nathan Eden, Board Attorney; Jack Wetzler, Assistant General Manager & CFO; Suzanne Greager, Director of Management Services; Alex Tejeda, Customer Services Director; Dale Finigan, Director of Engineering/Control Center; Dan Cassel, Director of Generation; Stan Rzad, Compliance Administrator; and David Price, Director of T&D.

Chairman Padron asked if there were any changes or additions to the agenda.

Mrs. Tejeda responded that she had a few informational items to add to the agenda.

March Meeting Schedule
Insurance Update
Key West Steamplant Project Update

AGENDA ITEM #4 – KEYS’ OUTSTANDING EMPLOYEE – 1ST QUARTER 2007
IDALIA YORBA

Chairman Padron stated that the Board is extremely pleased to recognize Idalia Yorba as the Outstanding Employee for the 1st Quarter of 2007. Idalia is a Customer Services Representative in our Customers Services Department, and has been with Keys Energy Services for a little over two years. Idalia helps to process credit card and check electronic payments, new customers with electric service accounts, billing inquiries, and address changes.

Chairman Padron continued to say that Idalia comes highly recommended from her fellow employees throughout KEYS. He said he takes great pleasure in recognizing you as the Outstanding Employee of the First Quarter.

Ms. Yorba thanked the Board for the recognition.

AGENDA ITEM #5 – INFORMATIONAL ITEMS

Power Supply Report

Mr. Dale Finigan reported that since the last Utility Board meeting there have been no transmission outages, no distribution outages and 2 reclosure outages.

Generation Report

Mr. Dan Cassel reported that there is currently 85 megawatts available for service. MSD #2 is on line for voltage support. The synchronous condenser should be back on line by February 1st, which is fifteen days ahead of schedule. CT #3 is scheduled to be back in service on January 31st. A new station-service transformer is being installed, a borescope inspection is being conducted and bus work on the generator is being installed. CT #2 is scheduled to be back in service next Friday, the generator is being cleaned and the controls are being calibrated. SIHSD #1 is scheduled to be back in service this Friday. The roof is being replaced with stainless steel. All other units are available.

Audit Committee Report

Chairman Padron informed the Board that the Audit Committee met on Monday, January 22nd. He stated that the committee consists of Mr. Bradford and himself. The committee met with staff and the auditors from Oropeza & Parks, Mr. John Parks and Mrs. Denise Rohrer. The purpose of the meeting was for the auditors to present the Audit Committee with a draft of the audit for the year ended September 30, 2006.

Chairman Padron told the Board that the audit will be presented to the Board at the February 14th Utility Board meeting for approval. He referred the Board to the copy of the audit and proceeded to review some of the highlights.

Page 1 – Independent Auditor’s Report

Chairman Padron stated that a clean opinion has been rendered and read the following: *In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, Keys Energy Services as of September 30, 2006 and 2005.*

Page 3 – Management’s Discussion and Analysis

Page 8 & 9 – Balance Sheets

Chairman Padron pointed out that the Total Net Assets have increased by approximately \$2.3 million. Under Assets the Utility Plant has increased a little under

\$5 million. Under Construction in Progress there has been a decrease in 2006 compared to 2005. There is a difference of approximately \$1.2 million, which is now in Utility Plant. Under Due from Other Governments there is an amount of \$823,000 which represents the FEMA grants.

Page 10 – Statements of Revenue, Expenses, and Changes in Net Assets

Chairman Padron stated that the Operating Revenues increased by approximately \$14 million. Although sales were down this reflects the Purchase Power Adjustment, the increase in fuel prices as compared to 2005. As you can see the Purchase Power increased by approximately \$10 million in 2006. The Miscellaneous Non-Operating Revenue indicates an amount of \$2.25 million as compared to 2005. This is from the FEMA grants.

Page 11 – Statements of Cash Flows

This represents where revenue comes from and where they are paid out.

Page 13-27 Notes to Financial Statements

Chairman Padron pointed out Note 16 on page 27 – Extraordinary Events which refers to Hurricane Wilma which caused \$3.1 million in damages. Note 17 – Subsequent Events is a reference to the \$42 million Bond Issue.

Page 28 – Schedule of Revenues Earned

Chairman Padron stated that this is where the drop in sales is indicated. The Electric Revenues in 2006 was \$59,750,375 as compared to \$60,954,878 in 2005.

Mr. Batty asked if a notation will be made in the 2006-2007 indicating that there was a rate increase.

Mr. Wetzler stated that it will be noted.

Page 29 – Schedule of Revenues and Expenditures – Budget to Actual

This page compares the budget to actual expenditures.

Page 30 – Independent Auditor's Report on Compliance with Bond Covenants.

Chairman Padron stated that the auditors rendered a clean opinion.

Page 31 – Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Chairman Padron stated that the auditors rendered a clean opinion. This section deals with Compliance and Internal Control over Financial Reporting.

Page 33-53 – Statistical Section

Chairman Padron informed the Board that this is a new format. He pointed out the information on Page 48 outlining the Demographic and Economic Information for Monroe County for the past ten years.

Page 54 & 60 – Single Audit

Chairman Padron stated that a single audit was required due to monies received from FEMA related to hurricane damages that exceeded half a million dollars.

Page 56 – Report on Compliance and Internal Control over Compliance Applicable to each Major Federal Awards Program

Chairman Padron stated that this is the auditor's letter on compliance to internal controls regarding federal programs.

Chairman Padron referred the Board to the copy of the Management Letter as required by Florida Statutes and Rules of the Auditor General and the Audit Communication Memorandum. The auditors have rendered a clean opinion. As stated in the Management Letter, there were no significant findings or recommendations made on compliance and internal control issues during the preceding annual financial audit.

Chairman Padron stated that the auditors have provided staff with a management memorandum indicating some suggestions to help strengthen the internal controls of the organization. However, there were no findings to be reported to the Auditor General.

March Utility Board Meeting

Mrs. Tejada stated that typically there is a Board meeting held on the second and fourth Wednesday of each month. During the month of March, the Board will be participating in Federal level legislative rallies in Washington, DC during the second week of the month and then will be attending rallies at the State level in Tallahassee, FL during the fourth week of the month. There is a requirement that the Board must meet once a month. March 21st has been selected for a Board meeting date. The Board was in agreement.

Insurance Update

Mrs. Tejada stated that the time is approaching when the Property Boiler Machinery Insurance is due to expire and new insurance is written. The current policy expires on March 31, 2007. Staff's goal is to have the insurances ready for renewal at the March 21, 2007 Utility Board meeting. Staff also hopes that the insurance will be renewed at the March 21, 2007 meeting so that the Board does not have to give the General Manager authorization to bind the insurance.

Mrs. Tejada proceeded to say that in September of 2006, KEYS engaged McNeary Inc. Consulting Services to assist staff in placing general liability, automobile and excess liability coverage. McNeary Consulting was recommended to KEYS by Florida Municipal Power Agency. As KEYS' consultants staff asked them to find the best available coverage at the best price. In assisting KEYS, they pursued and used direct placement and were able to save KEYS more than \$60,000. Due to the significant savings enjoyed in the casualty insurance, KEYS engaged McNeary Consulting again to assist with placing the Property Boiler and Machinery insurance. Staff asked McNeary to find the best program at the best cost while including Key West Insurance as a potential writer. On KEYS' behalf, Mcneary has approached Aegis London in the London market, which is one specific market of several that the insurance can be written to. They selected London broker Jardine Lloyd Thompson, for a direct write between KEYS and the London broker. Key West Insurance is also pursuing Aegis London through the domestic broker Marty Crow with AmWins who will utilize London broker, R.K. Harrison. Aegis London has said that they will only deal with one broker and are looking for direction from KEYS to advise them on whether to use Jardine Lloyd Thompson, a direct write from KEYS to the London broker or R.K. Harrison who comes with the local agent, Key West Insurance and domestic broker AmWins.

Mrs. Tejada further said that McNeary explains that both London brokers, Jardine Lloyd Thompson and R. K. Harrison, are both capable of writing the insurance and both will receive commission as the placing broker. She said that the concern that McNeary raises is that using R.K. Harrison will add layers of cost as a result of commissions paid to Key West Insurance and AmWins, the domestic broker. Staff is unable to quantify exact dollars; however McNeary indicates that going direct to the London broker could save 10-15%, which is quite significant.

Mrs. Tejada stated that staff is seeking what direction to pursue from the Board.

McNeary recommends pursuing a direct relationship with the London broker, Jardine Lloyd Thompson, for a savings of commission. Staff agrees that McNeary can help KEYS save some dollars on the commission. Staff would like to have McNeary, on KEYS' behalf, work with Jardine Lloyd Thompson and have Key West Insurance continue to work on obtaining quotes from the domestic markets.

Mr. Hernandez asked what the premium was the previous year for the Property Boiler and Machinery insurance.

Mrs. Tejada responded that the premium was approximately \$1.4 million. This year, it is estimated that the premium this year will be anywhere from \$750,000 to \$1.25 million. The savings on commission could be estimated to be approximately \$50,000 on a \$1 million insurance policy. However, until the premiums are written staff does not know what the savings will be, if any. The issue is, a London broker receiving a commission and two additional parties receiving additional commissions.

Chairman Padron stated that when purchasing any other commodity staff sends out a Request for Proposals and receives bids, that cannot be done when purchasing insurance. He stated that he advised the General Manager that this issue has to come before the Board. A policy was set in the past and the Board has to deal with the issue. Several years back insurance companies told staff that they had to obtain an agent and only then would they provide a bid. At that point the Board decided to hire a local agent and that's when staff retained Key West Insurance's services.

Mr. Hernandez asked if Key West Insurance had acquired the insurance the previous year.

Mrs. Tejada responded that they had for Property Boiler and Machinery.

Mr. Hernandez asked if it was through Aegis.

Mrs. Tejada stated that it was through domestic carriers.

Mr. Hernandez stated that he recalled having to wait until the last minute.

Mrs. Tejada stated that the Board had to give her authorization to bind the insurance because the information was not available for the last Board meeting in March of last year.

Mr. Batty stated that for the record he would like to say that this is a deplorable situation. It is not staff's fault. The Board is forced to try and choose something that is literally a "Pig in a Poke". The Board and staff have no idea whether one will be more expensive than the other. It is extremely frustrating.

Mr. Bradford commented that it would be counter intuitive to think it will be apples to apples if you have three layers on one side and one layer on the other. He stated that he understood Mr. Batty's frustration but does not think it is a "Pig in a Poke". He stated that he believed it will be a savings going directly to Aegis rather than going through three brokers.

Mr. Hernandez inquired about going directly to Aegis.

Mrs. Tejeda responded that Aegis London does not permit a direct write; staff must use a London broker. It will be one broker as opposed to an agent and two brokers.

Mr. Hernandez asked if Key West Insurance can try to find someone in the domestic market using the same timeframe.

Mrs. Tejeda responded affirmatively.

Mr. Tommy Stevens, Key West Insurance, addressed the Board regarding what Mr. Bradford had stated, saying that KEYS will not just get one London syndicate, there will be a whole list of syndicates.

Mr. Hernandez asked Mrs. Tejeda to state staff's recommendation.

Mrs. Tejeda stated that based on recommendations from the consultant, McNeary, staff recommends allowing the consultant to facilitate KEYS to have a direct relationship with the London broker to pursue Aegis of London as the lead carrier in the London market and to have Key West Insurance pursue the domestic markets to come up with an insurance program.

Chairman Padron stated that he met with Mrs. Tejeda and Mr. Stevens earlier in the day and the issue of who will service the account was raised.

Mrs. Tejeda responded that it would be Aegis as they do with the casualty insurance. Mr. Bruce Woodard, Risk Manager, will have a direct relationship with them.

Chairman Padron stated that he has an issue not knowing what the savings will be. There is a local agent that wants to go through the London market. Key West Insurance is a local business who hires KEYS' customers. He stated that he has no argument regarding savings but he does have a problem not knowing what the savings will be.

Mrs. Tejeda asked if a motion is needed to add the item to the agenda since it appears there will be a formal vote.

Mr. Eden responded that a motion is needed to place the item on the agenda.

Motion was made by Mr. Bradford and seconded by Mr. Hernandez to place the insurance issue on the agenda.

The roll was called and the following vote was recorded:

Mr. Batty	Yes
Mr. Bradford	Yes
Ms. Clark	Yes
Mr. Hernandez	Yes
Chairman Padron	Yes

Mr. Batty asked how much representation will be needed in the event of a major loss. Will someone local be needed to deal with the issue or is staff comfortable that they can deal with Aegis.

Mrs. Tejada responded that staff felt comfortable with Aegis. They are highly motivated to take on KEYS' account as part of their program with FMPA. They see an opportunity to expand their relationship with FMPA. There is motivation to get KEYS' account and keep us satisfied.

Mr. Woodard stated that the service is through a US service not a foreign one. Someone will come to Key West.

Motion was made by Mr. Bradford to accept staff's recommendation to deal with the London broker, Aegis Insurance.

Ms. Clark asked Mrs. Tejada to repeat staff's recommendation.

Mrs. Tejada stated that staff's recommendation is to pursue a direct relationship with the London Broker, JLT, with McNeary Consultants facilitating; to work with Aegis London to write the insurance and to have Key West Insurance continue working on obtaining quotes from domestic markets for KEYS' insurance program.

Mr. Hernandez seconded the motion for discussion.

Mr. Hernandez stated that he agreed with Chairman Padron in saying that KEYS has a relationship with Key West Insurance which has been a good relationship. Unfortunately, KEYS is facing diminishing sales. A \$50,000 savings may not seem substantial but it is a savings that should be seriously considered. He continued to say that he is hopeful that Key West Insurance will be able to get some decent quotes from the domestic market.

Chairman Padron stated that he agreed with everything Mr. Hernandez stated except for the fact that the actual savings will never be known. He stated that he has an issue not knowing that a \$50,000 savings is guaranteed. Chairman Padron commented that none of it is staff's fault it is the industry's fault.

There being no further discussion the roll was called and the following vote was recorded:

Mr. Batty	No
Mr. Bradford	Yes
Ms. Clark	No
Mr. Hernandez	Yes
Chairman Padron	No

Mrs. Tejeda confirmed that the Board is approving for Key West Insurance to pursue the insurance coverage.

Chairman Padron stated, to pursue the London market.

Mr. Stevens, Key West Insurance, expressed to the Board that he will do everything possible to keep costs down and appreciates the Board's confidence.

Key West Steamplant Update

Mrs. Tejeda informed the Board that Mr. Ed Swift has contacted staff to say that the current contract requires the affordable units to be completed in March and he is seeking an extension due to delays including the Hurricane Season 2005. Mr. Swift is asking for an extension to October. Mr. Swift's attorney, Erica Hughes, is working with KEYS' land attorney, Dan Decubulis on language that will come before the Utility Board at one of the February Board meetings.

AGENDA ITEM #6 – CONSENT AGENDA

- a) Approval of Minutes - Regular Meeting – January 10, 2007
- b) Approve Disbursements Report and Budget Amendment #07-13 Renovations William Arnold Service Building and #07-14 Purchase & Install Security Cameras
- c) Declare Non-PCB Transformers as "Surplus"
- d) Declare Miscellaneous Wire & Metal as "Surplus"
- e) Award Bid – Design Build of Relay Panel Replacement at Stock Island Plant Switch Yard Bid #08B-07

Motion was made by Ms. Clark and seconded by Mr. Batty to approve the Consent Agenda. There being no discussion, the motion passed unanimously.

AGENDA ITEM #7 – ACTION ITEMS

Item #7a – Appoint New Member to Advisory Committee District III

Mrs. Tejeda informed the Board that Mrs. Sandra Walters has been the representative for District III since the Advisory Committee's inception. Her term has

expired. The vacancy was advertised and two applications were received. Mr. John Eicher and Mr. Alan Toriello have applied for the seat. Mrs. Tejada introduced Mr. Eicher and Mr. Toriello. Staff is recommending that the District III vacancy be filled by Mr. Toriello.

Chairman Padron asked Mr. Eicher and Mr. Toriello if they would like to address the Board. Both Mr. Eicher and Mr. Toriello presented a brief background on their qualifications and expressed that they would like to serve on the Advisory Committee.

At this time the Board completed the ballots and Mr. Toriello was selected as the person to fill the District III vacancy on the Advisory Committee.

Chairman Padron thanked Mr. Eicher and Mr. Toriello for their interest to serve on the Advisory Committee.

Item #7b – Approve Language for Changes to the Enabling Act (69-1191)

Mrs. Tejada stated that at the last Utility Board meeting the Board approved some conceptual changes to the Enabling Act. Staff has worked on defining the specific language which has been routed to the Board. She informed the Board that Representative Saunder's office is very engaged and helpful in the process required to make changes to the enabling act. A public hearing is scheduled for Wednesday, January 31st at 5:30 p.m. in the Marathon Government Center. The meeting has been publicized as well as the required notification of synopsis of changes. The language has been submitted to Bill Drafting in Tallahassee based on the conceptual approval at the last Board meeting and they can update specific language based on outcome of tonight's meeting. Mr. Bill Peebles has reviewed the notification and it meets requirements. Mr. Peebles is also working with Senator Larcenia Bullard's office on a companion Senate Bill.

Mrs. Tejada informed the Board that she has contacted Mayor McPherson on the changes and he is supportive. A letter has been sent to all the commissioners explaining the changes.

Mrs. Tejada proceeded to review some of the changes:

- Housekeeping was dropped at Bill Drafting's response, staff will not pursue capitalization or gender changes (his, her, etc.)
- Section 2 Lines 111-114 addressing the sum of \$100 payable to the City of Key West, Florida for qualifications to run for the Utility Board. Mr. Eden has recommended that the wording remain the same. He feels that it is not a KEYS issue. It will read as is.
- Section 6 Lines 204-210 dealing with the method of filling a vacancy on the Board. Mr. Eden voiced a concern as to the legality of changing the method. Staff asked Mr. Peebles to look at this section and he has not been able to find anything that will preclude KEYS from making a change. He

has suggested that staff submit the change and when Bill Drafting checks the language they will kick it out if it is in fact not legal.

Mr. Hernandez asked Mr. Eden why he had an issue with the wording.

Mr. Eden explained his concern that it may be required that when someone is appointed to fill an unexpired term the person holding the seat has to run for the next general election.

Mr. Batty asked if it is wise to place language in the approval stating that if it needs to be changed to be in compliance with law that it will not have to come back before the Board for the change to be effective.

Mr. Eden suggested that the wording be part of the motion so that the issued could be handled in Tallahassee.

Mrs. Tejada stated that the only other change is in Section 12. Staff has dropped changing the word Manager to General Manager & CEO throughout the enabling act, it remain as is.

Chairman Padron asked Mrs. Tejada if she had pointed out all of the changes to Mayor McPherson.

Mrs. Tejada responded that she did by using the changes as listed on the Agenda Item Summary. She explained that she highlighted the first item which is eliminating the requirement to go to the City Commission for approval to issue bonds. Mayor McPherson had no issues.

Mr. Hernandez asked if any comments have been received from the City Commissioners.

Mrs. Tejada responded that the letters had been mailed yesterday. They have not had ample time to comment.

There being no further discussion a motion was made by Mr. Batty to accept that anything that is not in compliance with the law may revert back to the existing language without further approval from the Utility Board the motion was seconded by Mr. Hernandez. The motion passed unanimously.

Mr. Hernandez and Chairman Padron commended staff for doing an excellent job in such a short timeframe.

Item #7c – Approve Lease Agreement with BAMA Seafood Products, Inc.

Mrs. Tejada stated that KEYS currently has a property lease with BAMA Seafood Products which has been in place for sometime. The property involved is approximately 0.78 acres adjacent to the Stock Island Generating Facility. Staff has been negotiating with BAMA on a new lease that will be a three (3) year lease with two (2) additional one (1) year terms, if agreed on by both parties. A termination clause has been added to the contract where either party may cancel and terminate with a 360 days notice. The rent is \$40,953 for the first year and will increase each year by 2% or the CPI (All Urban Consumers-Miami/Fort Lauderdale, FL – All Items Index) whichever is greater.

Mrs. Tejada stated that staff recommends approval of the agreement with BAMA Seafood Products in accordance with the terms and conditions of the lease which have been reviewed by the attorney.

Motion was made by Mr. Hernandez to Approve the Lease Agreement with BAMA Seafood Products, Inc. and seconded by Mr. Bradford.

Mrs. Tejada informed the Board that Mr. Joe O'Connell, Safe Harbor Marina, representing BAMA Seafood Products, Inc. and Mr. Adam Brosius with EE&G, Environmental Consultants, were in the audience.

Mr. Eden pointed out a correction that needs to be made in Paragraph 3. The language "*at the option of the Lessor*", needs to be removed.

Mr. Hernandez corrected the motion to include deleting the language "*at the option of the Lessor*," from Paragraph 3, seconded by Mr. Bradford.

Chairman Padron commented that originally he had some issues with the lease basically due to where KEYS is headed with land use. He stated that his issues were addressed in the lease. A brief discussion ensued on the reassignment of the lease.

Mr. Eden stated that any reassignment is addressed in the lease under Paragraph 7.

Mr. Batty asked if the lease has been reviewed by BAMA. Mr. O'Connell in the audience responded that it has been.

Chairman Padron inquired about the environmental issues on the property.

Mrs. Tejada informed that Mr. Garcia, Environmental & Safety Officer, and Mr. Woodard, Risk Management Officer, had walked the property last week and they feel confident that the environmental issues have been addressed. There are a few items that will be cleared up by February 1st.

There being no further discussion the motion passed unanimously.

Item #7d – Award Piggyback Contract with Cotter Turbine Service, LLC for Various Generation Work and Approve Budget Amendment #07-15

Mrs. Tejada stated that KEYS staff has established a goal to have all generation units and the Synchronous Condenser 100% available for the 2007 Hurricane Season on April 30, 2007. Upon staff's review of all the tasks that need to be accomplished, it has been determined that KEYS staff cannot meet the deadline without outside assistance. Last summer FMPA went out on competitive bids and hired Cotter Turbine Services to perform some work on CT #3. Cotter has been on site and has just recently completed the work for FMPA. Looking at the contract that Cotter has with FMPA staff saw that they provide the same services needed by KEYS.

Mrs. Tejada proceeded to say that staff is recommending a Piggyback contract with Cotter Turbine Services, using the same unit prices that are in FMPA's approved bid. The initial scope of work consists of:

- ✓ CT#1 starting diesel tune up, including new injectors and compression checks
- ✓ CT#1 exhaust work, including inspection and appropriate replacement of check valves
- ✓ Replace roofs on the HSDs - water intrusion is a major cause of unit failure
- ✓ Replacement of MSD expansion joints
- ✓ MSD Stainless Steel fuel piping, replacing existing metal piping

The estimated cost is \$90,000.

Mrs. Tejada stated that staff recommends awarding a Piggyback contract with **Cotter Turbine Services**, based on a competitively bid contract with FMPA, in accordance with the unit prices per the attached schedule, for an estimated cost of **\$90,000** and approve Budget Amendment #07-15

Motion was made by Mr. Hernandez to approve the Piggyback Contract with **Cotter Turbine Services** for an estimated cost of **\$90,000** and approve Budget Amendment #07-15, seconded by Mr. Batty.

Mr. Hernandez asked if staff is pleased with the quality of Cotter's work.

Mrs. Tejada responded that staff is satisfied with their work. FMPA is also pleased with their work.

Chairman Padron made an inquiry on the timeframe.

Mrs. Tejada stated that completion is scheduled by the end of April. Mrs. Tejada commented that it will be a learning opportunity for KEYS staff to work along side of Cotter.

There being no further discussion the motion passed unanimously.

OTHER BUSINESS

There being no further business to come before the Board the Regular Utility Board Meeting of Wednesday, January 24, 2007 adjourned at 6:15 p.m.

APPROVE:

ATTEST:

/sp