

OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
October 30, 2008 - 7:30 A.M.

The Board of Trustees met in regular session at Muscatine Power and Water's Administration/Operations Building, 3205 Cedar Street, Muscatine, Iowa, on Thursday, October 30, 2008, at 7:30 a.m., CDT.

Chairperson Tubandt called the meeting to order. Members of the Board were present as follows: Trustees Warren Heidbreder, Scott Ingstad, Joan Axel and Gary Carlson.

Also present were Jay Logel, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Charles Potter, KWPC/KWCC Radio Station; Melissa Regennitter, Muscatine Journal; Sal LoBianco, Gary Wieskamp, Kris Hatfield, Erika Cox, and Brenda Christensen of Muscatine Power and Water.

Chairperson Tubandt asked if there was anyone in attendance who wished to make any public comments. There were no comments.

The minutes of the September 30, 2008 regular meeting, the September 25, 2008 Special Meeting, and the September 26, 2008 Audit/Finance Committee Meeting were presented as previously submitted to all Board members in written form. Trustee Ingstad moved, seconded by Trustee Axel, that all minutes be approved and placed on file as submitted. Motion carried. All Trustees present voted aye.

The list of September expenditures and transactions was presented as previously submitted in written form to all Board members. Mr. Logel pointed out that a new category called Energy/Appliance Rebates had been added. The rebate program has been in place for sometime, but this will allow a tracking method that the Board can see. Mr. Wieskamp stated that we base our rebates on the Energy Star rating; Energy Star is a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy that rates appliances based on protection of the environment through energy efficient products and practices. Customers receive rebates on select appliances with an Energy Star rating.

After review, Trustee Ingstad moved, seconded by Trustee Heidbreder to ratify payments of \$6,748,801.93 for the Electric Utility, \$595,663.69 for the Water Utility, and \$671,759.97 for the Communications Utility for a total amount of \$8,016,225.59. Motion passed. All Trustees present voted aye.

The preliminary 2009 annual operating budgets for the Electric, Water, and Communications Utilities were submitted under separate cover to all Board members. Mr. Logel stated that the operating budgets were presented for information and comments, and management will request approval at the November Board of Trustees meeting. Mr. Logel informed the Board that the budgets represent many hours of hard work by staff to attempt to meet the needs of the customer/owners at the lowest cost possible, with an eye toward the Critical Issues identified in the Strategic Plan and recognition of the economic uncertainty we are experiencing. The increased importance of energy conservation, the need to carry out careful planning in preparation for employee succession, and increased regulatory demands are reflected in the budgets for all three Utilities. Mr. Logel asked Mr.

Don Kerker, Director of Finance and Administrative Services, to review the previously submitted primary drivers for each budget.

Mr. Kerker reviewed the primary budget drivers for each utility reminding the Board that it is difficult to budget for the future wholesale market because of its volatility, but staff has tried to use existing knowledge to determine expected wholesale sales. The Electric Utility's revenue was derived from native system sales, wholesale sales, steam sales, and investment income in the projected amount of \$85,366,000 for 2009. The Electric Utility expenditure items included fuel and fuel transportation costs, purchased power to cover during Unit #9 outages, the cost for labor and fringe benefits, debt service, and proposed capital items in the estimated total amount of \$91,502,000. The expenditures are higher than the anticipated revenue resulting in a projected negative net cash flow in the amount of \$6,136,000 for the Electric Utility in 2009. The 2009 Electric Utility net income was forecasted to be \$2,216,000 as compared to \$7,526,000 in the Electric Ten-Year Financial Projections presented to the Board of Trustees earlier this year; the difference is a decrease in wholesale sales projections (a \$5 decrease per MWH, approximately 10%, from the 10 year budget projections due to softening market), an increase in our pension contribution cost and an increase in coal handling costs. The budget did not include any price adjustments for the Electric Utility. Trustee Tubandt called attention to the fact that the income statement shows that in two years operating expenses have increased \$11 million due mostly to coal and fuel cost increases. Trustee Ingstad asked if the Utility could justify adding additional people when other companies are decreasing staff. The Board would like additional justification on new positions and salary ranges of these positions before the November meeting. Additional general discussion was conducted on the Electric Utility's 2009 Operating Budget.

Mr. Kerker reviewed the primary drivers for the Water Utility's 2009 Operating Budget. The projected revenue for 2009 is \$6,538,000 with expenditures estimated at \$6,895,000. The revenue will be received from contract customers, residential and business customers, and investment income. External borrowings of \$2 million are also expected. The expenditures were projected to be more than the revenue resulting in a 2009 negative net cash flow projection of \$357,000. The expenditures included the purchase of chemicals, purchased power, proposed capital projects, the cost of labor and fringe benefits, and other operating and maintenance expenses. Capital expenditures include continued main replacements and land purchase for future wells along with re-drilling of some existing wells. There is a significant cost increase in 2009 for chemical costs due to tariffs that have been placed on the overseas market where we get the majority of our chemicals; this cost represents a 48% increase from 2008. The 2009 net income for the Water Utility was budgeted to be \$342,000 which compared to \$373,000 in the Ten-Year Water Financial Projections. A minimal water revenue adjustment of three percent was projected for April 1, 2009 to partially fund the need for replacement production capacity and infrastructure growth and replacement.

Mr. Kerker continued with a review of the budget primary drivers for the Communications Utility 2009 Operating Budget. The 2009 revenues are projected to be \$10,431,000 with expenditures estimated at \$12,789,000. The revenue will be received from CATV and internet/data revenue, along with ad sales and investment income. Expenditures include operating costs and capital costs to continue getting ready for the digital conversion process. The Communications Utility is projected to have a negative

cash flow of \$2,358,000 in 2009 with a net loss of \$1,497,000 compared to a net loss of \$1,509,000 in the Ten-Year Communications Financial Projections. There will need to be external financing in place before 2009. The needs to meet the conversion and increased programming cost will make it necessary to adjust CATV prices.

The 2009 Operating Budgets were presented for informational purposes this evening, Mr. Logel asked the Board of Trustees to provide any additional comments to him regarding the budgets. The comments and suggestions will be incorporated in the operating budgets prior to the November Board meeting. The 2009 Electric, Water, and Communications Operating Budgets will be presented at the November 25, 2008, Board of Trustees meeting for final review and approval by the Board of Trustees. A public hearing will be conducted prior to the November Board of Trustees regular meeting to receive any public comments regarding the budgets.

Mr. Kerker stated the State of Iowa required that a budget summary for all three utilities be prepared and a public hearing conducted on the budget summary to provide the public an opportunity to review and present any comments on the published budget summary. Prior to the November Board of Trustees meeting, the budget summary and public hearing notice will be published in the Muscatine Journal. The budget summary will be posted at City Hall and at Musser Public Library for citizens' information and review. After approval of the budget summary by the Board of Trustees, the budget summary will be provided to the City of Muscatine for submittal to the State of Iowa as an attachment to the City of Muscatine's budget. It was management's recommendation that the public hearing be set for November 25, 2008, at 5:26 p.m. The following resolution was submitted.

RESOLUTION 08-34

WHEREAS, the budget summary of the combined Electric, Water, and Communications Utilities was being prepared for the 2009 calendar year, and it was recommended that a public hearing be established for the review of said budget summary; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa that the budget estimate summary of the combined Electric, Water, and Communications Utilities be placed on file at the office of the City Clerk and at the City Library for any resident, taxpayer, or consumer to view; and,

BE IT FURTHER RESOLVED, that a public hearing be held on the 25th day of November 2008 at 5:26 p.m. in the Board Room of Muscatine Power and Water's Administration/Operations Building located at 3205 Cedar Street, in the City of Muscatine, Iowa, and the notice of said hearing shall be published once in the Muscatine Journal, a newspaper of general circulation published daily in the City of Muscatine, Iowa, not less than ten (10) nor more than twenty (20) days prior to said hearing all as required by the Code of Iowa.

Trustee Heidbreder moved, seconded by Trustee Axel, that the said resolution should be passed, approved and adopted this 30th day of October 2008. On roll call Trustees Tubandt, Heidbreder, Axel, Ingstad, and Carlson voted aye. Voting nay, none.

Mr. Logel informed the Board that we will need to hold a public hearing on the Issuance of Debt for the Communications Utility and asked Mr. Kerker to give the Board the details.

Mr. Kerker reminded the Board that at the July meeting, the Board passed a reimbursement resolution regarding anticipated debt issuance for the Communications Utility. Staff met with the Staff Attorney, Financial Advisor, Bond Counsel and local bank representatives to determine the feasibility of issuing tax-exempt bank qualified debt in the form of private placement loans to finance the Communication Utility's digital transition and related projects. Staff presented local bank representatives with a proposed term sheet relating to the financing, and each of the banks has expressed willingness to participate in financing the project on the proposed terms. A copy of the term sheet for the loan was included with the memo to the Board included in the meeting packet.

Mr. Kerker explained that Iowa Code Section 384.83 provides that the governing body of a city utility may authorize a loan agreement pursuant to a resolution of the governing body adopted at a regular or special meeting by a majority of the total number of members to which the governing body is entitled. Prior to authorizing the loan agreement, a public hearing must be held following a published notice. Following the hearing and at the same meeting at which the hearing is held, the governing body may take action to authorize the loan agreement, although any resident or property owner of the city may appeal the decision of the governing body within 15 days. It was management's recommendation that the public hearing be set for November 25, 2008, at 5:28 p.m. The following resolution was submitted.

RESOLUTION 08-35

WHEREAS, it appears in a written report from the Board's staff that a public hearing for the Issuance of Debt for the Communications Utility should be conducted; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa that a public hearing be conducted on the said Debt for the Communications Utility in the office of the Board of Trustees on the 25th day of November 2008 at 5:28 p.m. in the Board Room of Muscatine Power and Water's Administration/Operations Building located at 3205 Cedar Street, in the City of Muscatine, Iowa, and the notice of said hearing shall be published once in the Muscatine Journal, a newspaper of general circulation published daily in the City of Muscatine, Iowa, not less than ten (10) nor more than twenty (20) days prior to said hearing all as required by the Code of Iowa.

Trustee Axel moved, seconded by Trustee Heidbreder, that the said resolution should be passed, approved and adopted this 30th day of October 2008. On roll call Trustees Tubandt, Heidbreder, Axel, Ingstad, and Carlson voted aye. Voting nay, none.

It was also management's recommendation that the following resolution be approved to fix a time and place of meeting for the institution of proceedings for the borrowing of not to exceed \$4,800,000 to finance improvements to the municipal communications system of the City of Muscatine, Iowa.

RESOLUTION 08-36

WHEREAS, the City of Muscatine, in Muscatine County, Iowa (the "City"), did heretofore, pursuant to an election theretofore held, establish a municipal communications system (the "Communications Utility") in and for the City; and

WHEREAS, the Communications Utility is managed and controlled by the Board of Water, Electric and Communications Trustees of the City, established and appointed as provided by law; and

WHEREAS, it will be necessary to construct improvements to the Communications Utility, including without limitation upgrades and equipment in connection with the conversion of the cable television system to a digital format; and

WHEREAS, it is contemplated that the construction of said improvements will be financed through the borrowing of not to exceed \$4,800,000 pursuant to the provisions of Sections 384.24A and 384.83 of the Code of Iowa; and

WHEREAS, before proceedings for the borrowing of money for such purpose are instituted it is necessary to fix a time and place of meeting of this Board at which it proposes to take action for such purpose and to give notice thereof by publication in the manner directed by Section 362.3 of the Code of Iowa;

NOW THEREFORE, Be It Resolved by the Board of Water, Electric and Communications Trustees of the City of Muscatine, Iowa, as follows:

Section 1. That this Board meet on the 25th day of November, 2008, at the Administrative Offices of said Board at 3205 Cedar Street in the City of Muscatine, Iowa, at 5:30 P.M., at which time and place proceedings will be instituted and action taken in connection with the borrowing of money in the principal amount of not to exceed \$4,800,000, as referred to in the preamble hereof.

Section 2. That the Secretary of this Board is hereby directed to give notice of the meeting at which it proposes to take such action, setting forth the maximum amount of the borrowing and the purpose thereof, the city utility whose net revenues will be used to repay the borrowing and the time and place of said meeting, by publication at least once not less than four (4) nor more than twenty (20) days before said meeting in the Muscatine Journal, a legal newspaper published at least once weekly and having general circulation in the City. Said notice shall be in substantially the following form:

*Notice of Meeting Regarding the Borrowing of Money to
Finance Improvements to the Municipal Communications
System of the City of Muscatine, Iowa*

The Board of Water, Electric and Communications Trustees of the City of Muscatine, Iowa, will meet on the 25th day of November, 2008, at the Administrative Offices of said Board at 3205 Cedar Street, in said City, at 5:30 P.M., at which time and place proceedings will be instituted and action taken in connection with the proposed borrowing by said City of not to exceed \$4,800,000 for the purpose of paying costs of improvements to the municipal communications system of said City. The obligation of said City to repay said loan, including interest thereon, will not constitute a general obligation of said City nor be payable in any manner by taxation, but said obligation will be payable solely and only from the future net revenues of the municipal communications system of said City.

At said meeting the Board of Trustees will receive and consider any oral or written objections from any resident or property owner of said City to such proposal. By order of the Board of Water, Electric and Communications Trustees, this 30th day of October, 2008.

Section 3. That all orders or resolutions or parts of orders or resolutions in conflict herewith be and the same are hereby repealed.

Section 4. That this meeting be and the same is hereby adjourned to meet again at the time and place hereinbefore fixed for further consideration of the matters herein set forth.

Trustee Axel moved, seconded by Trustee Carlson, that the said resolution should be passed, approved and adopted this 30th day of October 2008. On roll call Trustees Tubandt, Heidbreder, Axel, Ingstad, and Carlson voted aye. Voting nay, none.

The next item on the agenda was a recommendation to approve the General Manager selection. Mr. Tubandt informed the Board that the efforts of the Search Committee, assisted by Little and Associates, identified approximately 80 potential applicants for the position of General Manager for Muscatine Power and Water, which was reduced to a short list of potential candidates that were interviewed and tested to determine who might best meet the requirements of the position going forward. That effort resulted in the identification of a candidate that the committee felt certain would be best qualified to lead the organization.

Thanks to the efforts of the Search Committee, the staff of Muscatine Power and Water and Little and Associate, we are pleased to recommend for the Board's approval, the appointment of Sal LoBianco to the position of General Manager effective January 1, 2009.

Trustee Axel moved, seconded by Trustee Carlson to approve the appointment of Sal LoBianco to the position of General Manager of Muscatine Power and Water effective January 1, 2009. Motion carried. All Trustees present voted aye.

Mr. Logel stated that in July 2006, the cost estimate for the 2007 Well Motor Control Replacement Project (WD070121) was developed. The project was approved as part of the 2007 operating budget at a cost of \$69,200. The first Variable Frequency Drive (VFD) was installed in December 2006; so when the project was included in the 2007 operating budget, it was still undetermined what the completed installation would cost. It was believed at that time that minimal changes would be required, both electrically and physically, to install VFDs versus the traditional soft start controllers; this turned out to be untrue and the complexity of the project and its cost increased rapidly.

It was discovered that the VFDs that were selected featured an external phase-shifting transformer in a separate enclosure. These transformers are generally integral to the VFD itself. The low-harmonic VFD chosen in order to have minimal harmonic impact on the electric system feeding it has a suitably large transformer which will not fit within the normal location. This seemingly minor issue had a dramatic effect on the complexity of the project. The project went from a simple "replace in kind" style of project to an entire rebuild of the well controls. The external transformer requires a separate electric disconnect to safely isolate the transformer for maintenance purposes. The VFD will not fit on the existing pad, which requires a new pad to be poured, equipment to be rearranged to make room, and new conduit and cabling to be installed. This work is completed by contracted electricians. It should also be noted that the cost of the VFDs rose 12% by the time the order was placed in 2007. Even with these significant increases, economic payback is achieved in three years. Staff requests approval of the revised project at a cost of \$124,630 for the 2007 Well Motor Control Replacement Project.

Trustee Heidbreder moved, seconded by Trustee Ingstad to approve the revised project at a cost of \$124,630 for the 2007 Well Motor Control Replacement Project. Motion carried. All Trustees present voted aye.

Mr. Logel informed the Board that he was concerned about a recent decision by the Iowa Association of Municipal Utilities (IAMU) to set aside an earlier enacted resolution that provided that the IAMU Executive Director would not participate in actions promoting the establishment of municipal utilities in Iowa beyond providing information to interested parties. The promotion by IAMU of the development of new municipal utilities in Iowa has/will motivate the investor-owned utilities to pursue legislation that would be harmful to existing municipal utilities, such as Muscatine Power and Water. Approximately five years ago the IAMU Board passed a resolution that provided that the IAMU executive and staff could provide information to aid communities in deciding whether to pursue forming municipal utilities, but prohibited the IAMU executive and staff from promoting the formation of municipal utilities. Iowa City was the key community in question at that time. Recently, several small communities have attempted to form municipal utilities; this was not supported by the Iowa Utilities Board, and of course opposed by the investor-owned utilities. IAMU Board was convinced that it would be beneficial to no longer restrict its executive and staff from promotional activities in order to assist these small communities and therefore has rescinded the resolution. The Utility, and other large municipal operations in Iowa, believe we are better served by harmonious relations with the investor-owned utilities and rural electric cooperatives than we are by forming new municipal operations. We will keep you informed as this matter progresses.

Mr. Logel informed the Board that the American Public Power Association is offering a Public Utility Governance Workshop on December 8 and 9, 2008. It is aimed at new policy makers, but would also be useful to those more experienced in facing today's issues. Participants will examine political, market, and operational forces affecting utilities and discuss governance trends and what boards must do to meet their fiduciary responsibilities. Please let Brenda know if you are interested in attending.

Mr. Logel also informed the Board that the Planning and Operations Committee will be holding a meeting on Tuesday, November 4th to discuss Muscatine Power and Water's participation in the MISO Energy Market. The Board will be given an update at the November Board meeting.

Mr. Logel reported to the Board that Fitch Ratings of New York upgraded Muscatine Power and Water's Electric Revenue Bonds rating to 'A+' from 'A-'.

The October financial operating statements and balance sheets for the Electric, Water, and Communications Utilities were presented to the Board of Trustees as previously submitted in written form to all Board members. Mr. Logel asked Mr. Kerker to present the financial highlights.

Mr. Kerker advised that all three utilities were doing well compared to budget. The Electric Utility experienced wholesale sales through September with a 15.3% higher average sales price, which was somewhat offset by native system sales being lower than expected and on the expense side because a greater amount of coal was burned at a higher average cost, along with higher than budgeted coal handling equipment diesel fuel usage. The Water Utility Sales were lower due to lower consumption by contract, residential and commercial customers, resulting in \$78,305 lower revenue. The Communications Utility cable revenue was higher than anticipated due to more HDTV subscribers, along with greater buys in pay-per-view and VOD, and ad insertion revenues being higher than budgeted, which was somewhat offset by lower digital converter box fee revenue than budgeted. There was additional discussion on how Utility investments are secured.

Trustee Carlson moved, seconded by Trustee Ingstad, to receive and place on file the September financial operating statements and balance sheets for all Utilities. Motion carried. All Trustees present voted aye.

The Quarterly Project Status and Variance Analyses Report was presented as previously submitted in written form to all Board members. Mr. Logel advised that this was a quarterly report on the status of all Board approved projects. These projects were in excess of \$100,000, and were included in the annual Operating Budget, or approved by the Board as individual projects and therefore incorporated in the Quarterly Project Status Report. Each quarter these reports are provided in written format to the Board of Trustees, management reviews them and requests the Board of Trustees approval of the status reports. The report also includes information on any projects that vary over or under the original project estimate by ten percent.

There was one project completed under budget by more than ten percent. The Unit #8 Restud & Refractory Cyclones project was completed 11.5% below budget due to reduced restudding of the rear and side walls of the furnace chamber at a total cost of \$670,556 vs. the project estimate cost of \$758,000. There was also one project that was

over budget by more than ten percent. The FGD Tower Nozzle Modification project was completed 16% over budget due to some unexpected increases in stainless steel prices that caused this project to increase from the project estimate amount of \$130,000 to \$150,814.

Trustee Carlson moved, seconded by Trustee Axel, that the 2008 Quarterly Project Status and Variance Analysis Report be approved as submitted. Motion carried. All Trustees present voted aye.

The monthly Competitive Quotes for Public Improvement Report was presented as previously submitted to all Board members. There was one project during October for which competitive quotes were received and that was to replace one roof section at the MPW Administration Building. The project approved amount was \$47,000, three quotes were received and the bid, in the amount of \$41,885, from Beckwith Commercial Roofing, Inc. was accepted. It was recommended that the Board approve the competitive quote report.

Trustee Axel moved, seconded by Trustee Ingstad to approve the September Competitive Quotes for Public Improvement report. Motion carried. All Trustees present voted aye.

The Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities were previously submitted to all Board members in written format. Mr. Logel asked each critical issue leader to review the status of the issue, and Mr. Kerker to review the key performance indicators. The critical issues reviewed included: Manage Air Quality Giving Consideration to Demand Side Management and Power Supply Diversity, Succession Planning, Water Supply Management, CATV Digital Conversion, and Wholesale Energy Sales

Mr. Kerker stated the Electric Utility indicators included net income per revenue dollar, revenue per kilowatt-hour, total production expense per kilowatt-hour sold, generation operation and maintenance per kilowatt-hour, debt service coverage, net debt/cash, net generation unit heat rates, the equivalent availability and capacity factor, the average service availability index, and the customer average interruption duration index. The Water Utility indicators included in the Board's meeting material were for the net income per revenue dollar, revenue per one thousand gallons, total chemical and pumping power expense per one thousand gallons sold, and water bonding capacity. For the Communications Utility the indicators provided were residential basic cable television subscribers to home passed, residential cable modem subscribers to homes passed, net income, net income per revenue dollar, EBITDA (earnings before interest expense, taxes, depreciation and amortization), annualized operating cash flow and free cash flow, Communications Utility gross margins, monthly revenue and programming expense per cable television subscriber, monthly revenue and access charges per Internet subscriber, and network reliability. Mr. Kerker reviewed each indicator. The last indicator pertained to safety for all three utilities.

General discussion was conducted on the indices. Summer internships for college students were discussed along with the 260F Payroll Tax that can be diverted to local colleges. The cable television digital conversion project was also briefly discussed. Trustee Ingstad moved, seconded by Trustee Axel, to receive and place on file the 2008

Third Quarter Critical Issues and Key Performance Indicators. Motion carried. All Trustees voted aye.

The departmental reports were presented as previously submitted to all Board members in written form. Trustee Heidbreder moved, seconded by Trustee Ingstad, to receive and place on file the September departmental reports. Motion carried. All Trustees present voted aye.

Trustee Heidbreder moved, seconded by Trustee Carlson that the meeting be adjourned. The meeting stood adjourned at 10:20 a.m.

BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA



Donald W. Kerker
Board Secretary