

**PUBLIC HEARING OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
JANUARY 27, 2009**

The Board of Trustees conducted a public hearing at Muscatine Power and Water's Administration Building, 3205 Cedar Street, Muscatine, Iowa, Tuesday, January 27, 2009.

The roll was called and the following members of the Board were present: Trustees Doyle Tubandt, Warren Heidbreder, Joan Axel, Gary Carlson and Scott Ingstad.

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Duane J. Goedken, Board Attorney; Lacey Loewe, David Fee and Greg Shane of Principal Financial Group; Mr. Charles Potter, KWPC/KWCC Radio Station; Jay Logel, Ray Danz, Gary Wieskamp, Erika Cox, Brandy Dulceak, and Brenda Christensen of Muscatine Power and Water.

The purpose of the hearing was to receive any citizen's comments regarding the West Hill 24" Water Main & Pump Header Modifications Projects.

At 5:28 p.m. the Board Chairman opened the public hearing for the West Hill 24" Water Main & Pump Header Modifications Projects.

Chairperson Tubandt asked Secretary Kerker if any written or oral comments had been received regarding this project, and the Secretary replied that no comments had been received. The Chairperson asked the Secretary if the notice of hearing and taking of bids in connection therewith had been published as required by the Code of Iowa and the Secretary replied that they had been published.

The Secretary asked if anyone in attendance wished to make any comments regarding this project. There were no comments. The following resolution was submitted.

RESOLUTION 09-01

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa has given tentative approval to plans and specifications for West Hill 24" Water Main & Pump Header Modifications Projects; and,

WHEREAS, bids have been received and there are no written or oral objections to proceeding with this project; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, that the plans and specifications for West Hill 24" Water Main & Pump Header Modifications Projects be adopted.

Trustee Axel moved, seconded by Trustee Carlson, that the resolution should be passed, approved, and adopted this 27th day of January 2009. On roll call Trustees Tubandt, Heidbreder, Axel, Carlson and Ingstad voted aye. Voting nay, none.

The Secretary closed the hearing.

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

A handwritten signature in cursive script, reading "Donald W. Kerker".

Donald W. Kerker
Board Secretary

OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
JANUARY 27, 2009 – 5:30 P.M.

The Board of Trustees met in regular session at Muscatine Power and Water's Administration/Operations Building, 3205 Cedar Street, Muscatine, Iowa, on Tuesday, January 27, 2009 at 5:30 p.m., CDT.

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

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Duane J. Goedken, Board Attorney; Lacey Loewe, David Fee and Greg Shane of Principal Financial Group; Charles Potter, KWPC/KWCC Radio Station; Jay Logel, Gary Wieskamp, Ray Danz, Erika Cox, Brandy Dulceak, 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 public comments.

The minutes of the December 23, 2008 regular meeting were presented as previously submitted to all Board members in written form. Trustee Carlson moved, seconded by Trustee Axel, that minutes be approved and placed on file as submitted. Motion carried. All Trustees present voted aye.

The list of expenditures and transactions for December was presented as previously submitted to all Board members in written form. Trustee Carlson asked about a payment to Burlington Northern Santa Fe for railcar repairs. Mr. Kerker explained that this was for repairs of several cars and while the history of repairs has been very low, the age of the cars is going to increase future repairs needed. After review and discussion, Trustee Heidbreder moved, seconded by Trustee Ingstad, to ratify payment of \$5,126,191.99 for the Electric Utility, \$475,147.96 in the Water Utility, and \$948,359.76 for the Communications Utility for a cumulative total of \$6,549,699.71. Motion carried. All Trustees present voted aye.

Mr. LoBianco asked Ms. Erika Cox, Director of Employee Services, to introduce the next agenda item and the representatives from Principal Financial Group. Ms. Cox explained that Muscatine Power and Water (MP&W) provides a defined benefit pension plan for its employees. All full-time and part-time employees, except those participating in the Iowa Public Employers Retirement System (IPERS), are eligible to participate in the plan. Employees of municipal water utilities are eligible for IPERS participation and there are currently twelve water utility employees participating in IPERS.

MP&W's pension plan has been fully funded for a number of years. The pension plan investment policy provides for a diversified asset allocation strategy. For a number of years, the plan benefited from the diversified portfolio with investment gains in excess of the plan's assumed rate of return (currently 7.75%). MP&W, like many others, experienced significant investment losses in 2008 and the pension plan, as a result, is now estimated to be about 68% funded. Ms. Cox reminded the Board that the pension plan has a long-term focus and while the pension plan is less than fully funded, the plan provides for a 20-year payment schedule to reach 100% funded status, as well utilizing a 4-year actuarial methodology of smoothing of

investment returns, will lessen the impact on the Utility's annual required contribution following a year with significant investment losses. MP&W is committed to maintaining a viable pension plan for employees and although it was a difficult year in terms of investment losses and change in market value, we feel that plan provisions and maintaining a long-term perspective will allow us to regain fully funded status.

Ms. Cox introduced Lacey Loewe, David Fee and Greg Shane of Principal Financial Group to provide an update on the status of the plan's 2008 year-end allocation, investment results, and funding status as required by the investment policy. Ms. Loewe thanked the Board for continuing to work with Principal Financial Group and provided an overview of Principal Financial Advisors, Inc. Mr. Fee continued the presentation with portfolio and strategic asset allocation review and portfolio performance review. He stated that while Principal is disappointed with the performance of the past year, they feel they are in a position to start recovery mid-to-late 2009, with latest recovery being spring of 2010. Mr. Fee also reviewed the investment options performance. Trustee Ingstad expressed displeasure on the results and asked what changes the group has made to ensure a successful future. Mr. Carlson mentioned that fixed income funds performance seems to be three times worse than past years. There was some discussion on change in allocations from January 1 – December 31 and how to better handle this in the future. Mr. Shane reviewed the 2009 Pension Funding Issues and gave a review of how funding is figured. Mr. Shane also gave a review of public vs. private sector plans. Trustee Tubandt requested that another session be set up with the Principal Group in the next quarter to review progress – where the plan is and where it is headed. It was the consensus of the Board that they would like to more closely monitor this in the near future.

Mr. LoBianco reviewed the previously submitted memorandum to all Board members regarding the receipt and evaluation of bids for West Hill 24" Water Main and Pump Header Modifications. Specifications pertaining to the project were mailed to 37 potential bidders. A total of ten bids were received, opened publicly, and read aloud on January 13, 2009, at 3:00 p.m. Fourteen bidders attended the opening. Bids were received on the basis of unit adjustment prices for total extended bids. The apparent low bid was submitted by Sulzberger Excavating, Muscatine, Iowa in the amount of \$1,172,944.75. The total approved expenditure for this project is \$1,176,000. The published estimate for the portion of work covered in this public letting was \$951,840. The balance of project work will be performed by MP&W personnel.

Staff have reviewed the bids and established conformance to the specifications of the low bidder. There were no exceptions or clarifications to the bid documents taken by the low bidder. Therefore, it is recommended that award of the contract for West Hill 24" Water Main and Pump Header Modifications be made to Sulzberger Excavating, Muscatine, Iowa, for a total price of \$1,172,944.75. The above award is based on the extension of estimated units for this work. Final contract dollars will be based on installed units at the time of completion.

After review of the project the following resolution was submitted.

RESOLUTION 09-02

WHEREAS, it appears in a written report from the Board's staff that the bid as submitted by Sulzberger Excavating, Muscatine, Iowa in the amount of \$1,172,944.75 was the best and lowest bid received; now therefore,

BE IT RESOLVED by the Board of Water, Electric, and Communications Trus-

tees of the City of Muscatine, Iowa, that the proposal of Sulzberger Excavating, Muscatine, Iowa in the amount of \$1,172,944.75 was hereby accepted as submitted; and,

BE IT FURTHER RESOLVED, that the Chairperson and Secretary of the Board be and they were hereby authorized, empowered, and directed to execute a contract in the sum heretofore approved by the said Board of Water, Electric and Communications Trustees; and,

BE IT FURTHER RESOLVED, that the bid security be returned to the unsuccessful bidders.

Trustee Ingstad moved, seconded by Trustee Axel, that the said resolution should be passed, approved, and adopted on this 27th day of January 2009. Trustees Tubandt, Heidbreder, Carlson, Axel, and Ingstad voted aye. Voting nay, none.

Mr. LoBianco advised that the next agenda item was a recommendation by staff to approve a contract change order for Water Main Improvements – 2008 Projects. At the Board meeting on March 31, 2008, a Contract was awarded to Volkens Excavating, Inc. for a total of \$469,280.00 for water main improvements. The award was made based upon estimated quantities and unit adjustment prices. After award, an additional water main on Ash Street required replacement due to multiple leaks, and associated street repair further drove up the costs. The magnitude of changes to the estimated quantities incurred to date and the addition of the Ash Street location caused the 10% threshold to be reached where the General Manager can no longer approve change orders by Board policy. Therefore, we are requesting that the Board approve the following change order to adjust the Contract total to \$522,705.62 therefore establishing a new threshold for additional changes. Contract Change Order No. 1 was issued on January 20, 2009, to Volkens Excavating, Inc. covering WCDs #1 - #4. This change resulted in a net increase of \$53,425.62.

Mr. LoBianco also stated that due to the nature of this work, and the continual changes required in the field prior to completion, it is anticipated that there may be additional changes to this contract prior to completion which is not anticipated until spring. At this time, it is estimated that they will not exceed 10% of the adjusted contract price. Any additional changes within that limitation will be presented to the Board with the recommendation for final acceptance of this contract.

After review of the project the following resolution was submitted.

RESOLUTION 09-03

WHEREAS, the Board of Water, Electric, and Communications Trustees of the City of Muscatine, Iowa, on March 31, 2008, awarded a contract to Volkens Excavating, Inc. for a total of \$469,280 for Water Main Improvements - 2008; and,

WHEREAS, a Contract Change Order has been prepared to said contract in the increased amount of \$53,425.62 and said contract change order was reviewed by the Board and the Board's staff has recommended approval of said contract change order; now therefore,

BE IT RESOLVED, by the Board of Water, Electric, and Communications Trustees that said contract change order in the increased amount of \$53,425.62 and the same was hereby approved for an amended final contract price of \$522,705.62.

Trustee Axel moved, seconded by Trustee Carlson, that the said resolution should be passed, approved, and adopted on this 27th day of January 2009. On roll call Trustees Tubandt, Heidbreder, Carlson, Axel, and Ingstad voted aye. Voting nay, none.

In the General Manager's report, Mr. LoBianco reviewed his previously submitted memorandum to all Board members. He reminded the Board that after 42 years of service, in many capacities at Muscatine Power and Water, this will be Jay Logel's last Board Meeting as an employee of MP&W. Mr. LoBianco recommended that a resolution to recognize Jay for all of his contributions to Muscatine Power and Water and service to the Muscatine Community be approved by the Board. The following resolution was submitted.

RESOLUTION 09-04

WHEREAS, Mr. Jay Logel has provided dedicated service to Muscatine Power and Water in many capacities since 1966; and

WHEREAS, his 42 years of service have been dedicated, productive and conducive to the development of the municipal Water, Electric and Communication Utilities of the City of Muscatine Iowa. Mr. Logel has willingly contributed his knowledge and time toward the betterment of the community and of the Utility; now therefore,

BE IT RESOLVED, that the Board of Water, Electric and Communications Trustees of the City of Muscatine, Iowa, meeting at Muscatine Power and Water's Administration/Operation Building on this 27th day of January, does hereby commend Mr. Jay D. Logel for his contributions to Muscatine Power and Water, on behalf of the Board of Trustees, the Employees of Muscatine Power and Water and of the citizens of Muscatine, Iowa; and,

BE IT FURTHER RESOLVED that this resolution be included in the minutes of the Board Meeting and that a copy be presented to Mr. Jay D. Logel as a token of the Board's appreciation and thanks.

Trustee Ingstad moved, seconded by Trustee Axel, that the said resolution should be passed, approved, and adopted on this 27th day of January 2009. On roll call Trustees Tubandt, Heidbreder, Carlson, Axel, and Ingstad voted aye. Voting nay, none. Trustee Axel suggested that the Board also forward a copy of the resolution to the Muscatine City Council.

Mr. LoBianco next reviewed the organizational study that began the week of January 19th. John Miner, Betsy Aylin and Ron Bond of Collaboration Unlimited were at MP&W on Tuesday, Wednesday and Thursday. The goal of the study is to review our current organizational structure, gather input from various levels of the organization and provide recommended organizational structures that address short term organization structure issues and longer term succession planning issues. John and his two associates had in-depth interviews with every director and manager, along with 12 other individuals that were selected as a general representation of our supervisory team. John and his associates also facilitated two focus group meetings, which each included twenty randomly selected individuals from all areas of the Utilities. Mr. LoBianco informed the Board that John's next visit would be on February 3rd & 4th and would include a management team work session for presentation and discussion of initial findings and recommendations.

Mr. LoBianco next reminded the Board that a Compensation Study was recently contracted with Public Sector Personnel Consultants to review, externally survey, and provide updated recommendations regarding the compensation plan for salaried employees. MP&W

has committed to externally survey the market every 3-5 years to ensure the compensation plan remains competitive with the external market. The last external survey was completed in 2005. A meeting will be scheduled with the Board's Personnel and Public Relations Committee to review the status of recruitment, retention, and employee compensation activities and to gather input for the compensation study. The project should be completed in time for use with Salary Administration activities in July.

The last item on the General Manager's Report was an update on completed retransmission consent negotiations. He informed the Board that staff recently completed the ongoing three-year negotiation cycles for retransmission rights with the local broadcast stations. Three years ago, only one station out of five demanded financial compensation in exchange for permission to transmit the station to our cable customers. In this cycle, all local stations demanded some form of financial consideration. The fourth quarter of 2008 was spent negotiating with each local station to get the best deal we could for our cable customers. Unfortunately, the FCC's retransmission process does not work to the benefit of local cable systems and their customers – stations must negotiate in "good faith" but that is a subjective standard. The FCC rarely intervenes in retransmission disputes, and stalemates are frustrating to customers who expect network programming to be available.

With these latest retransmission agreements, local stations will continue to be carried on our system for the 2009-2012 period. Some of the local stations were open to compensation proposals that included combinations of advertisement purchase commitments from MP&W, promotional spots provided by MP&W, our commitment to pursue fiber feed options to improve reliability of their broadcasts, and per subscriber monthly fees. Some stations were steadfast in the demand for high per subscriber monthly fees. Taking into consideration the ad purchase commitments and per subscriber monthly fees of all the retransmission agreements, MP&W will pay approximately \$1.39 per subscriber per month to provide customers with these local stations over the next three years.

Federal legislation or FCC action is needed to change the inequities in the current retransmission process. MP&W will continue to participate in industry activities to bring attention to this issue and advocate for the necessary policy and regulatory changes to make this process fairer for our customers. MP&W is also making plans to work with other Iowa municipal cable systems and our federal elected officials on this issue.

The year-to-date and unaudited December Financial Operating Statements and Balance Sheets for the Electric, Water, and Communications Utilities were previously submitted to all Board members in written format. Mr. Kerker directed the Board's attention to page four of the year-to-date Electric Utility's statements. One of the drivers for variance from the budget for the Electric Utility included a softening of Native System Sales, resulting in a loss of \$779,446 compared to Budget. The key driver of the increase in operating expense compared to budget was a greater amount of coal burned at a higher average cost, resulting in an increase in costs compared to budget of \$2,759,865. Operations and Maintenance both showed positive results compared to budget. An unusual item that showed up as other on the review was a credit of \$311,874 that is a projected reimbursement from FEMA related to the July 21, 2008 wind storm. The Change in Net Assets was \$1,255,206 less than budget for the Electric Utility.

Page three of the Water Utility's financials showed the results of reduced maintenance and operating costs. The Water Utility Change in Net Assets exceeded the 2008 budget amount by \$52,381.

Mr. Kerker stated that page two of the Communications Utility financials indicated that the CATV and Internet revenue was higher than budget, along with reduced operations expenses and labor costs, resulting in a \$234,614 improvement over budget.

The Quarterly Investment Report was previously distributed to all Board members in written format with the financials. Mr. Kerker briefly reviewed the report.

Trustee Axel moved, seconded by Trustee Carlson, to receive and place on file the Year-To-Date and unaudited December Operating Statements and Balance Sheets for Electric, Water, and Communications Utilities and the 2008 Fourth Quarter Investment Report. Motion carried. All Trustees present voted aye.

The Competitive Quotes for Public Improvements Report was presented as previously submitted to all Board members in written format. There were no items for approval. The report was received and placed on file.

The Quarterly Project Status Report and Variance Analyses were presented as previously submitted in written form to all Board members. There were eight Generation projects and two Vehicle Maintenance projects completed with a variance of ten percent or more of the approved amount. All the variances, except for one, were below the approved budget amounts.

After discussion and review Trustee Carlson moved, seconded by Trustee Heidbreder, to approve the Quarterly Project Status Report and Variance Analyses. Motion carried. All Trustees present voted aye.

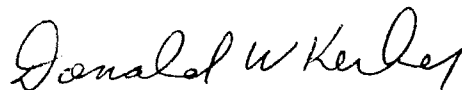
The Quarterly Critical Issues, Priority Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities were previously submitted to all Board members in written format. The critical issue and priority issue indicators were presented by the leader of each issue. Mr. Kerker reviewed the key performance indicators.

Trustee Heidbreder moved, seconded by Trustee Ingstad, to receive and place on file the 2008 Fourth Quarter Critical Issues, Priority Issues and Key Performance Indices for the Water, Electric, and Communications Utilities. Motion carried. All Trustees present voted aye.

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

Chairperson Tubandt asked if there were any other items of business. With no other items of business, Trustee Axel moved, seconded by Trustee Carlson, that the meeting be adjourned at 8:05 p.m.

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



Donald W. Kerker
Board Secretary