136

OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
May 26, 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, May 26, 2009, at 5:30 p.m., CST.

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; Charles Potter, KWPC/KWCC Radio Station; Gary Wieskamp, Erika Cox, Brandy Dulceak and Brenda Christensen of Muscatine Power and Water. Shari Leader and Sherry Leonard were also present.

Chairperson Tubandt asked if there was anyone in attendance who wished to make any public comments.

Shari Leader and Sherry Leonard were there to discuss water quality in their neighborhoods. The Hershey Street/Grover Street area and Nebraska Street area were both discussed and water quality in each area was brought up. Ms. Leonard resides at 102 Grover Street, she showed water filters to the Board members and explained that in a four month period that much discoloration occurred in the filter on her refrigerator. She contacted MP&W in 2007 after the tornado to have her water tested, but had not had any communication since. Ms. Leonard expressed some health concerns in her neighborhood due to the water quality. Ms. Leader explained that her water at 1012 Nebraska Street also had a brownish tinge at times, but not as bad, or as often, as Ms. Leonard's water. Both citizens would like their water evaluated and would like to know what they need to do next.

Chairperson Tubandt thanked Ms. Leader and Ms. Leonard for their comments and told them that someone from the water department would follow-up with them in the next few days. The Board also thanked them for attending and expressing their concerns. There was some discussion between the Board and management on what the Utility follow-up would be and how soon it would take place. Mr. LoBianco stated that follow-up would be within the week and the Board would be given an update at the next meeting.

The minutes of the April 28, 2009, regular meeting minutes were presented, as previously submitted to all Board members in written form. A name change/correction on page five of the April minutes was brought to the Board's attention by Mr. LoBianco and communicated that it would be fixed in the official minutes on file. Trustee Axel moved, seconded by Trustee Carlson, that minutes be approved and placed on file as edited. Motion carried. All Trustees present voted aye.

The list of expenditures and transactions for April was presented as previously submitted to all Board members in written form. Mr. LoBianco stated that expenditures were up from the previous month due to purchased power and inventory/supplies that were associated with the Unit 9 shutdown. After review and discussion, Trustee Carlson moved, seconded by Trustee Ingstad, to ratify payment of $9,114,856.93 for the Electric Utility, $373,893.30 in the Water Utility, and $835,497.43 for the Communications Utility for a cumulative total of $10,324,247.66. Motion carried. All Trustees present voted aye.

Mr. LoBianco stated that all salaried employees are annually evaluated and are eligible for salary adjustments July 1 based on the Salary Administration Program. The Salary Administration Program includes all employees not subject to the bargaining unit agreement. Mr. LoBianco reviewed the recommendation and told the Board that he understood that the Board may have concerns about the recommendation given the challenging economic environment. He explained that a number of alternatives were considered and that management believes the recommendation is a reasonable option that is in line with what peer organizations have provided for salary increases. With this recommendation MP&W will keep its salary program competitive so that we are able to retain key employees and those we are counting on for our succession planning efforts. It also provides the needed support for the performance management system, and would help prevent further aggravation of the existing salary compression issues as a result of ongoing bargaining unit raises that have consistently been at the 3.5% level. Mr. LoBianco stated that the Board's Personnel and Public Relations Committee had also met on May 14, 2009, to review data prepared by management and they agreed with the recommendation. Mr. LoBianco asked Ms. Erika Cox, Director of Employee Services, to further review the salary program and recommendation.

Ms. Cox stated that compensation goals for salaried employees are to be able to attract and retain employees, and reward performance while keeping pay competitive for the market in which we compete for talent, recognizing the market may be local, regional, or national. Through the annual review and salary adjustment process, MP&W attempts to distinguish high performers, keep pace with market trends, and address compression issues resulting from internal promotions, external hires, and bargaining unit hourly employees' increasing salaries as a result of negotiated general wage increase and aapprentice step increases. Ms. Cox continued that MP&W is in the process of concluding the external salary survey and expects to be able to utilize the results for the July 1 salary adjustments. Preliminary data from the consultant indicates that MP&W pay ranges have remained competitive since the last salary survey in 2004. An observation from the consultant, however, is that for the length of time employees have been in their positions, several have not yet attained mid-point of the range, which you would expect for competently performing, experienced employees. The belief is that this occurs when positions are filled primarily with internal candidates who often start lower in the range and progress through the range to midpoint at a slower rate. If MP&W were to hire the same position with a qualified external candidate, it would likely require a salary offer closer to the mid-point of the range to attract the candidate. The consultants recommend consideration outside of the annual merit budget for those employees that are performing well, but are below the mid-point of their range. The historical salary program information was reviewed with the Board and Ms. Cox stated that due to economic conditions, the recommendation was for less than past years. Ms. Cox explained that also in the past, in addition to the annual merit budget recommendation, the

Board has approved additional dollars to be used at the General Manager's discretion for off-cycle adjustments or hiring bonuses. Mindful of increasing overall payroll costs, these dollars have been used very prudently. The off-cycle allocation amount is similar to the amount the bargaining unit hourly employees receive for apprentice step increases. From an internal perspective, the off-cycle allocation is viewed very favorably by the Management team, giving them additional flexibility that they did not have in the past. Pending results of the salary survey, very little of the approved 2008–2009 off-cycle allocation amount has been used. Ms. Cox recommended the General Manager be authorized the use of up to $60,000 of the 2008–2009 off-cycle allocation budget to adjust salaries for high performing, experienced employees in key positions whose salary's are significantly below midpoint. Ms. Cox also reviewed the final recommendation for the 2009-2010 salary administration program. This recommendation includes executive and salaried employees being eligible for salary adjustments effective 7/1/09, with merit adjustments from 0–7.0% with the average not to exceed 3.00% of payroll for salaried employees and a "off-cycle" allocation of up to 0.50% of salaried employees payroll to be used throughout the year with General Manager's approval. Also included in this recommendation were the Director's salary adjustments based on recommendations by the General Manager. Ms. Cox continued with a review of current open and deferred positions. The Board asked about other local employer increases, Ms. Cox directed the Board to Table 2 on the recommendation which included salary data from other sources that we had access to. Most local companies were still in the process of finalizing adjustments and were therefore not willing to share information. Trustee Carlson stated that he thought 3% was reasonable per local employers that he had contact with and that he agreed the recommendation was well thought out and investigated. Chairperson Tubandt reminded the Board to look at this as an investment in the future of the Utility. He also requested that the management team also remind all employees that the Utility needs to be frugal and that next year could be different if the economy continues to struggle.

After further discussion, Trustee Axel moved, seconded by Trustee Carlson, that the 2009/2010 Salary Administration Program be approved. Motion carried. All Trustees present voted aye.

Mr. LoBianco stated that the City of Muscatine has requested use of a property owned by Muscatine Power and Water adjacent to Weed Park for the construction of additional tennis courts. This property was the location of an elevated water storage tank which has since been demolished. The City has agreed to fund a relocation of a 12-inch water main to facilitate the City's use of the property and MP&W has agreed to provide inspection services for the relocation without charge to the City. An overhead Communications cable will also require relocation; since the Utility already had plans to relocate this cable, MP&W will do so without charge to the City. In exchange for the recreational easement, the City agrees to provide lawn care and snow removal to the property as required. In accordance with the Board Policy Manual, Board approval for the granting of easements is required. Since the conveyance is to a public body for a public purpose, notice and a public hearing are not required. Mr. LoBianco stated that Management recommends Board approval of the City's request to obtain this easement. The Board asked why we were not selling the property to the city. Mr. LoBianco stated that the Utility routinely reviews and assesses needs and will make the recommendation when the property needs to be disposed of; MP&W does not keep land if they do not feel there may be a future need. At this time, the water department is not sure if we will need use of that land anytime in the future, therefore it will be kept.

Trustee Ingstad moved, seconded by Trustee Heidbreder, that the City's request for a recreational easement for use of property owned by MP&W be approved. Motion carried. All Trustees present voted aye.

Mr. LoBianco requested that Mr. Kerker review a request for transfer of funds. Mr. Kerker explained that Electric Utility bond covenants require that funds equal to at least one-half of the maximum debt service requirement, in the current or any succeeding fiscal year, be maintained in a Bond Reserve Fund. However, in lieu of maintaining and depositing moneys and investments, covenants also allow for the use of an irrevocable letter of credit or surety bond policy issued by a domestic or foreign bank, insurance company or other financial institution whose unsecured long-term debt obligations are rated in one of the two highest rating categories of each rating agency then rating any of our bonds, in a face amount equal to all or any portion of the Debt Service Fund Requirement. In December 1998, the Utility paid approximately $108,000 for a surety from Ambac Assurance Corporation (Ambac) for an amount up to $8,306,653.13. Ambac was then rated AAA by both Fitch Ratings and Standard and Poor's, who also provide the underlying ratings on the Electric Utility bonds. Ambac ratings have since been downgraded to a level that the Ambac surety bond fails to meet the rating requirement of the bond covenant. The bond covenants provide that if the rating of the insurer drops below the two highest ratings, the Utility has 12 months to replace the surety with a letter of credit, another surety or to put the necessary moneys or investments in the Debt Service Reserve Fund.

Mr. Kerker continued that one-half of the remaining maximum annual debt service is approximately $7,005,000. Management considered purchasing a replacement surety, but is now proposing to make a transfer to the Reserve Fund to avoid the expense of a new surety that is estimated to cost nearly as much as the original. Funding the reserve fund will restrict use of the funds until January 1, 2012, when current debt is paid off. Earnings on the investments are not restricted and are available for other Utility expenditures. The Electric Utility bond covenants, Ambac ratings and recommended solution to the surety deficiency have been reviewed with bond counsel and staff attorney. They have agreed with and approved this solution. Therefore, management is requesting authorization to transfer the necessary funds from the Rate Stabilization Fund and the Extraordinary O&M Account to provide for funding of the Debt Service Reserve Fund on or before June 26, 2009. The Board requested clarification of the rate stabilization fund and were given examples of how the fund has been used over the years, which has been mostly for capital improvements. The money that is put into the Electric Bond Reserve Fund will most likely be used as part of the last bond principal and interest payment in January 2012. The Board asked if there was any recourse on Ambac for the money that we had paid to them and Mr. Kerker said that there was no recourse.

Trustee Ingstad moved, seconded by Trustee Carlson, that approximately $5,980,078 from the Electric Utility's Rate Stabilization Fund and $1,500,000 from the Revenue Fund be transferred to the Electric Bond Reserve Fund and that $1,500,000 from the Extraordinary O&M Account be transferred to the Revenue Fund. Motion carried. All Trustees present voted aye.

Mr. LoBianco informed the Board that computer hardware and software upgrades of the Supervisory Control and Data Acquisition System (SCADA) are required for participating in the MISO Energy Market. The costs, ($127,000) for these upgrades were not included in the 2009 operating budget due to the belief that MP&W would not be joining MISO in 2009. Mr. LoBianco reminded the Board that there was recently a replacement of the SCADA system, but this is an additional upgrade needed that we did not need at the time. To offset some of this cost, other budgeted SCADA software upgrades totaling $75,000 will be deferred until 2010.

Trustee Carlson moved, seconded by Trustee Ingstad, to approve the SCADA Upgrade project. Motion carried. All Trustees present voted aye.

In the General Manager's report, Mr. LoBianco reviewed his previously submitted memorandum to all Board members.

Mr. LoBianco informed the Board that the Electric Utility wholesale energy revenues are down and electric generation costs are increasing. Because of this, along with the general impact of the current economic situation, management was directed to update its procedures for setting of wholesale energy minimum sales prices, generation units' energy dispatching, and NOx allowance acquisitions. A committee was formed, led by Don Kerker, to address these issues including implementation of the NOx allowance strategy approved by the Board at its February meeting. New procedures were documented and an Excel model was created that allows management to evaluate several components that affect the purchase and sale of wholesale energy and operation of our generating units. The model calculates incremental generation production costs by unit (including fuel, allowance costs, and other variable O&M costs). This information assists in determining which generating units should run or not run and their relative order and level of dispatching. Coal inventory management is also factored into the decisions. The committee meets at least monthly to adjust to changing market conditions. Thus far no NOx allowances have been purchased. This is possible because Unit 8 was idle in recent months as a result of the analysis by the committee. Unit 8's high incremental production costs, when compared to the wholesale energy market prices, have negated the benefit of running it. Also, the need to purchase NOx allowances has been mitigated due to the purchasing of wholesale energy at times when its cost is well below MP&W production costs. Management has good procedures in place and is monitoring the evolving markets in an attempt to reduce costs and maximize margins. Mr. Kerker added that the whole MP&W team is being very diligent and is doing what is best for the Utility in light of these challenging economic times.

The next item on the GM Report was coal contract negotiations. Relative to vendor selection, pricing, and volume, coal contract negotiations have been completed. Mr. LoBianco informed the Board that a request for proposal was sent to eight vendors with seven responding. The responses were evaluated by the Fuel Procurement Committee (FPC), led by Don Kerker, with assistance from our coal/rail consultant. The results of this effort are a tentative contract between MP&W and Arch Coal. The contract, subject to Board approval and a successful test burn of the coal in our generating units, provides for 100,000 tons of test burn coal in May and June of this year. The test burn is currently underway and its cost was included in the 2009 operating budget. During December 2009, an additional 25,000 tons will be delivered for use in Unit 8. That coal should reduce natural gas needs due to the higher BTU content of the coal, 8,800 vs. 8,350 from the current supplier. The contract calls for 500,000 tons of coal per year in 2010 and 2011. In recent years MP&W coal burn has averaged approximately 1.1 million tons per year. Coal burn could be reduced significantly in future years due to the depressed economic climate affecting both retail and wholesale energy sales. The FPC is reluctant to recommend a longer term contract or a contract that calls for more annual tonnage without flexibility with respect to volume. The contract expiring this year gave MP&W flexibility to take from 600,000 to 1,100,000 tons per year. No suppliers that responded to the request for proposal were willing to provide that flexibility. The FPC has requested its coal consultant to update the near-term contract and spot market cost projections. The delivered cost for base tonnage in the contract for 2010 and 2011 is slightly higher than the cost that was included in the most recent Electric Utility Financial Projections presented to the Board in August 2008. Subject to a successful test burn and finalization of terms and conditions, a proposed contract will be presented to the Board at its July meeting for approval. MP&W's coal/rail consultant may attend the Board meeting to advise the Board on the relative impact of this contract on MP&W's competitive position in current and future energy markets and answer any questions. The Board had some questions about the price difference between the current contract and the proposed contract ($6 vs. $13). Mr. Kerker explained that the past contract had been very advantageous to MP&W when the price was set and that the market is currently much higher than where the previous contract had been set, and now we are negotiating at the price of the current market. The market is expected to lower some, which is why MP&W is negotiating a shorter contract than the last.

Mr. LoBianco next gave the Board a summary of the 2009 Iowa Legislative Session. This session focused primarily on flood recovery, reaction to the recession, and the state's budget. A number of the bills expected at the outset of the session that would have significantly impacted the Utility did not come to pass (such as renewable energy portfolio standards, energy efficiency spending mandates, and climate change related mandates). Mr. LoBianco reviewed some of the bills that specifically affected the Utility:

- Standings/Appropriations Bill SF 478 included a provision affecting pension plans authorized by Chapter 412, such as MP&W's plan and plans at four other municipal utilities. Good faith negotiation is now required for the amount or rate of any employee assessments to fund the pension plan and method of payment for such assessments. The operation and management of the pension fund is not affected by this bill, but any future employee assessments must now be negotiated. MP&W does not currently have an employee assessment, as the prior 2% assessment was eliminated after the last contract negotiation and the movement to align bargaining unit and salaried employee medical benefits. Ms. Cox explained to the Board that there are only four 412 Plans left in the state of Iowa and MP&W's is one of them.
- HF 243 requires gender balance on all appointed boards of political subdivisions, such as MP&W's Board of Trustees. Organizations must make a three month good faith effort to appoint a qualified person to fill a vacancy using a fair and unbiased method for selecting candidates. Reappointment of existing board members is allowed until 2012.
- Spending bills, such as SF 376, included dollars for the Alternative Energy Revolving Loan Fund, flood control and protection programs, and allocations for the expansion

of broadband technology. Some of these programs may provide funding opportunities for Utility projects.

- Many wind energy related bills were introduced early in the session. In the end, the legislature passed wind related bills that establish small wind innovation zones, expand the time frame for applicable state tax credits, and require the IUB to create a model interconnection agreement for wind projects. Projects like IAMWind could benefit from the changes to the wind energy tax credits.
- A number of new and shifted responsibilities were given to the Office of Energy Independence in anticipation of obligations that will come with the distribution of federal stimulus monies, including establishing a grant program for energy efficiency projects and transferring authority for certain energy related measures from IDNR. Management is monitoring OEI's development of programs and funding opportunities to evaluate those which may benefit the Utility.

The next item on the GM Report was the Pella Power Sales Agreement. MP&W continues to work with the City of Pella, Iowa, to enter a new power sales agreement for five megawatts of energy. The current agreement for seven megawatts expires on May 31, 2009. MidAmerican and Muscatine's entry into the MISO Energy market has created issues that must be worked through before this agreement can be signed. The desired term for the new agreement is June 1, 2009 through December 31, 2009; however, the agreement may have to terminate on the effective date of MP&W's participation in MISO. According to Board policy, the length of term and dollar amounts associated with this agreement do not require Board approval.

Mr. LoBianco also informed the Board that the Waxman-Markey Bill, also known as the American Clean Energy and Security Act of 2009, if passed will have a significant effect on the Electric Utility Industry and Muscatine Power and Water. The proposed legislation would create a fairly comprehensive national energy policy. Management has been following this piece of legislation and trying to analyze its potential effects on MP&W. The Board was given a summary prepared by Don Pauken, Manager of Environmental Affairs, which analyzed sections of the proposed Act that would affect MP&W. The Board commented that the summary had been very well prepared.

The Year-to-Date and April financial operating statements and balance sheets were presented as previously submitted to all Board members in written form. Mr. LoBianco commented that the Electric Utility is being affected by low wholesale market. Management feels that wind energy is having some effect on wholesales sales since it has to be used as available. There is some recovery expected in summer months due to less wind and more demand due to higher temperatures. While everyone is trying to mitigate costs it is still having a big effect on financials. The Electric Utility is performing below budget, while the Water and Communications Utilities are performing above budget but not as well as last year. Mr. Kerker drew the Boards attention to the Year-to-Date April Electric Utility's statements. One of the drivers for variance from the budget for the Electric Utility included a continued softening of the wholesale sales energy market, along with lower native system sales, resulting in reduced revenue of $4,410,003 compared to budget. The Utility is purchasing power at prices below its production costs during off peak times, but can only take the units down so far to take advantage of low market prices. Steam Sales exceeded budget by $725,997, due mostly to a pass through of NOx costs charged to GPC. A key driver of the increase in operating expenses compared to budget was additional costs of $1,203,620 for NOx emissions allowances that were not budgeted, but which were offset largely by billings to GPC's for steam sales. Operation's expense showed positive results of $843,566 compared to budget, due in part to wholesale commission's expense being down as a result of lower wholesale sales. Overall Operations and Maintenance expenses showed positive results compared to budget. Interest income showed $208,292 less than budget due mostly to a negative mark-to-market adjustment of $179,014. The Change in Net Assets was $2,104,500 less than budget for the Electric Utility.

The Water Utility's Year-to-date financials showed that the lower gallons of water sold to customers was somewhat offset by the efforts to reduce maintenance and operating costs. More costly than expected main repairs were shown in this month at an additional $88,592, along with a savings of $36,769 for well cleaning not yet completed. Change in Net Assets for the Water Utility came in at $20,490 more than budget.

Mr. Kerker stated the Communications Utility Year-to-Date financials indicated that the Data/Internet revenue was $22,765 higher than budget; this, along with greater than budgeted pay-per-view and video-on-demand buys of $25,711 were able to offset the less than budgeted advertising revenue. Lower than budgeted promotional expenses, travel expenses and deferred customer service training helped the operating expenses come in $74,902 less than budget. Reduced maintenance costs also helped to show an improvement of $6,214 compared to budget.

Trustee Ingstad moved, seconded by Trustee Carlson, that the April financial operating statements and balance sheets for the Water, Electric, and Communications Utilities be received and placed on file. Motion carried. All Trustees voted aye.

The monthly Competitive Quotes for Public Improvement Report was presented as previously submitted to all Board members. The backup air conditioning unit for Communications head end contract was awarded to Regan Mechanical at a price of $40,177. Trustee Axel moved, seconded by Trustee Heidbreder, to receive and place on file the Competitive Quotes for Public Improvements ($40,000 to $100,000) report. Motion carried. All Trustees present voted aye.

The departmental reports were presented as previously submitted to all Board members in written form. There were no comments from the Board. Trustee Heidbreder moved, seconded by Trustee Ingstad, to receive and place on file the April departmental reports. Motion carried. All Trustees present voted aye.

Chairperson Tubandt then recommended that the meeting be closed to the public in accordance with Iowa Code Chapter 21.5 (1.i) to review the performance evaluations completed by the General Manager for the Directors and for the General Manager performance evaluation completed by the Board of Trustees.

Trustee Ingstad moved, seconded by Trustee Axel, that the meeting be closed to the public in accordance with Iowa Code Chapter 21.5 (1.i) for the purpose of reviewing management performance. On roll call vote Trustees Heidbreder, Axel, Ingstad, Carlson and Tubandt voted aye. Voting nay, none.

The meeting was closed to the public at 7:00 p.m. All attendees of the meeting except for the General Manager and the Board Members left the meeting. At 7:30 p.m. Mr. LoBianco left the closed session.

At 8:00 p.m. the meeting was reconvened to open session.

Trustee Axel moved, seconded by Trustee Ingstad, to reconvene the meeting to open session.

Trustee Axel moved, seconded by Trustee Ingstad to ratify salary adjustments effective July 1, 2009 as recommended by the General Manager for the five Directors and to adjust the salary of the General Manager in accordance with his performance and the Salary Administration Program. Motion carried. All Trustees voted aye.

Chairperson Tubandt asked if there were any other items of business. With no other items of business, Trustee Heidbreder 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

Donald W. Kerker
Board Secretary

CERTIFICATION FOR RECORDS

It is my understanding that my performance, as an employee of Muscatine Power and Water, is to be discussed by the Board of Water, Electric, and Communications Trustees at their meeting on May 28, 2008. I hereby request that such discussion be conducted in closed session in accordance with Chapter 21.5(1.i) of the Code of Iowa.

Sal LoBianco, General Manager

Donald W. Kerker, Director of Finance &
Administrative Services

Ray Danz, Director of Utility Operations

Gary Wieskamp, Director of Utility Relations

Erika Cox, Director of Employee Services

Brandy Dulceak, Staff Attorney