

OFFICIAL PROCEEDINGS OF THE
BOARD OF WATER, ELECTRIC,
AND COMMUNICATIONS TRUSTEES
OF THE CITY OF MUSCATINE, IOWA
OCTOBER 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, October 27, 2009, at 5:30 p.m., CDT.

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

Also present were Sal LoBianco, General Manager of Muscatine Power and Water; Donald W. Kerker, Board Secretary; Duane J. Goedken, Board Attorney; Amy Cahill, Muscatine Journal; Charles Potter, KWPC/KMCS Radio Station; Ray Danz, Gary Wieskamp, Brandy Dulceak and Brenda Christensen of Muscatine Power and Water.

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

The minutes of the September 29, 2009 regular meeting were presented as previously submitted to all Board members in written form. Trustee Heidbreder moved, seconded by Trustee Axel, that the 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. After review, Trustee Axel moved, seconded by Trustee Heidbreder, to ratify payments of \$5,090,802.23 for the Electric Utility, \$481,503.76 for the Water Utility, and \$841,861.84 for the Communications Utility for a total amount of \$6,414,167.83. Motion passed. All Trustees present voted aye.

The preliminary 2010 Annual Operating Budgets for the Electric, Water, and Communications Utilities were submitted under separate cover to all Board members. Mr. LoBianco stated that the operating budgets were presented for information and comments, approval of the budgets will be requested at the November Board of Trustees meeting. The budget represents many hours of hard work by management and staff to prepare conservative budgets in response to the continued adverse economic conditions. All three budgets include the continued deferral of expense projects and deferral of hiring to fill certain open positions, as well as reduced capital spending. The budgets are an attempt to meet the needs of our customer/owners at the lowest cost possible while supporting the Critical Issues identified in the Strategic Plan.

Mr. LoBianco continued that the Electric Utility budget includes a 4% rate increase effective July 1, 2010 as a proactive response to the reduction in wholesale energy revenues and the associated margin. A continued program to keep operating costs at a minimum, along with the proposed 4% rate increase, provides for a budgeted loss that is projected to be \$8.1 million, nearly \$5 million less than what was included in the Ten-Year Financial

Projections presented to the Board in September. Although January 1, 2010 cash is anticipated to be approximately \$2.9 million lower than projected due to a larger than projected loss in 2009, this is more than offset by the reduced 2010 budgeted loss and lower capital expenditures. The net result is 2010 ending cash of \$18.2 million, approximately \$3.4 million higher than indicated in the Ten-Year Projection.

The Water Utility indicates financial performance similar to what was shown in the Utility's Ten-Year Projection for 2010. The budget assumes a small recovery in retail consumption, but the projected level is still significantly below 2008 levels.

The Communications Utility Budget indicates financial performance similar to what was shown in the Utility's Ten-Year Projection for 2010. Assuming subscriber growth goals are achieved, the budget indicates a return to positive operating income in 2010.

Trustee Carlson asked that more detail be given to the timing of the price increases as the budgets were reviewed in more detail. Mr. LoBianco asked Mr. Don Kerker, Director of Finance and Administrative Services, to review the previously submitted primary drivers for each budget.

Mr. Kerker reminded the Board that the drivers for each Utility are laid out to look at the cash inflows and outflows for each of the Utilities and that the primary difference between these schedules and the income statements is that the schedules show debt principal repayment, capital expenditures and excludes depreciation/amortization. Mr. Kerker stated that he would address the major drivers and the significant changes from the Ten-Year Projections presented last month.

For the Electric Utility one of the major changes from the Ten-Year Projections is that the Unit 9 maintenance outage that was scheduled for the fall of 2010 had be moved to 2011, reducing maintenance costs by approximately \$4.4 million and allowing additional wholesales sales into MISO of \$4.2 million, producing a margin of \$1.2 million, that would not have happened during the outage. Capital expenditures were reduced by \$900,000, taking total capital expenditures to \$3.2 million. Wholesale energy sales and purchases price per MWH were reduced by \$4, from \$29 to \$25, to show a more conservative approach. Trustee Heidbreder asked what the margin was at the projected \$25 and at what point don't the units run? Mr. Kerker stated that the gross margin rate is running at about 16-17% and explained the process that Management uses to review the costs and how the decision is made on what units run and at what rate. He explained that Unit 8 is the closest to the \$25 projection, causing this unit to run less often. Continuing, Mr. Kerker stated that as already mentioned due to the continued softening of the wholesale market, a 4% rate increase is recommended for July 1, 2010 as opposed to waiting until January 1, 2011 for the first of a series of annual 3% increases, as was included in the 10 year financial projections. The increase would provide \$840,000 revenue for 2010. The net deficit for 2010 is now shown at \$8.1 million, an improvement of nearly \$5.0 million from the Ten-Year Projections and ending cash/investments are now shown at \$18.2 million, an improvement of \$3.4 million. There was some discussion by the Board as to whether the price increases could be deferred if wholesale prices were to rebound, and Mr. Kerker replied that this was always an option the Board could pursue.

Mr. Kerker reviewed the significant changes in the Water Utility budget, stating that cash balances and change in net assets were very similar to what had been shown in the Ten-

Year Projections. Contract and other native systems sales showed a 2.1% increase in gallons consumed over 2009. The loan for the IFA-State Revolving Loan Fund Variable Frequency Drives Project was shown to have proceeds of \$198,000 in 2010 at 3.25% with a 10 year amortization (part of the \$465,000 total loan). Chemical costs were shown at a decrease from 2009, along with a decrease in pumping power due to better well efficiency from installation of the variable speed drives.

Next Mr. Kerker reviewed the Communications Utility Budget. CATV Revenues reflect subscriber growth from mid 2009 to mid 2010 of 4%. Ad sales are shown up from 2009 along with Data/Internet subscriber growth. Reduced loan requirements for the digital transition from \$4 million to \$1.2 million were included. Programming reflected a 9.6% increase in cost per subscriber due to new programming and programming cost increases. Capital costs of \$1,984,000 include \$944,000 for the 2010 digital transition and the expenses. Also shown is an additional \$175,000 for promotional expenses compared to 2009. Maintenance increases were included due to headend, ad insertion and MAN equipment maintenance agreements. Additional discussion was had about the anticipated analog to digital conversion date. Mr. LoBianco stated that all digital programming is set to start shortly after January 1, 2010. A lower cost box option is being explored and is expected to be available for the transition, allowing people to put a less expensive box with less capability on their second and third TV's.

Mr. LoBianco stated that the 2009 Operating Budgets were presented for informational purposes this evening and 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 2010 Electric, Water, and Communications Operating Budgets will be presented at the November 24, 2009, 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 24, 2009, at 5:28 p.m. The following resolution was submitted.

RESOLUTION 09-25

WHEREAS, the budget summary of the combined Electric, Water, and Communications Utilities was being prepared for the 2010 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 24th day of November 2009 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 Carlson moved, seconded by Trustee Axel, that the said resolution should be passed, approved and adopted this 27th day of October 2009. On roll call Trustees Heidbreder, Axel, Carlson and Ingstad voted aye. Voting nay, none. Trustee Tubandt was absent.

In the General Manager's report, Mr. LoBianco reviewed his previously submitted memorandum. A brief update was given on the continued integration into the MISO market and the annual IAMU Conference that Mr. LoBianco had attended in October 2009.

The next item on the agenda was to receive and place on file the YTD and September Financial Operating Statements and Balance Sheets for each Utility. Mr. LoBianco stated that the September financial operating statements for the Electric, Water, and Communications Utilities would be reviewed during the Third Quarter Critical Issue and Key Performance Indicator presentation.

Trustee Carlson moved, seconded by Trustee Axel, that the September Financial Operating Statements and Balance Sheets for the Water, Electric, and Communications Utilities and the Quarterly Investment Report be received and placed on file. Motion carried. All Trustees present voted aye.

The Quarterly Project Status Report and Variance Analysis were presented as previously submitted to all Board members in written form. Trustee Axel moved, seconded by Trustee Heidbreder, to approve the Quarterly Project Status Report and Variance Analyses. 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 Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities were previously submitted to all Board members in written format. Mr. LoBianco asked each critical issue leader to review the status of their critical issue, and Mr. Kerker to review the key performance indicators including financials.

During the key performance indicators Mr. Kerker reviewed the third quarter financial results for all three Utilities. Mr. Kerker stated that the Electric Utility's change in net income per revenue dollar was below budget due to continued weak wholesale (42.7% lower average sale prices and 29.3% lower kWh sales) and retail sales, along with lower investment income. This was offset some by lower fuel, maintenance and labor costs. Native system sales revenues were 8.6% lower than budget, along with continued softness of

the wholesale sales and a lower than average sales price resulting in electricity sales being \$14.7 million less than projected in the third quarter budget. Steam sales exceeded budget by about \$1.5 million due mostly to a pass through of NOx costs charged to GPC.

The Water Utility's third quarter financial results showed that net income per revenue dollar was below budget due to lower water sales and higher main repairs; this was offset some by less electric expense. Total chemical and pumping power expense was up compared to budget due to the usage of less efficient wells during other well cleanings and one of the high efficiency variable speed drives on another well being down for maintenance and repair.

Mr. Kerker stated the Communications Utility's third quarter update shows that there has been some loss of MPW Digital TV subscribers to satellite competitors. The loss is being attributed to a very aggressive Dish Network campaign this summer and the local economy. Residential cable modem customers continue to grow. YTD net income per revenue dollar was improved over budget due to lower net interest expense, lower promotional expenses and travel expenses. Operating cash flow is performing close to budget and free cash flow is outperforming budget due to reduced capital expenditures. Monthly cable subscriber revenue is shown higher than budget due to the increase in pay per view rentals and video on demand rentals. Programming expenses were up due to higher programming costs.

Trustee Carlson moved, seconded by Trustee Axel, to receive and place on file the 2009 Third Quarter Critical Issues and Key Performance Indicators for the Water, Electric, and Communications Utilities. Motion carried. All Trustees present voted aye.

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

The meeting was adjourned at 7:25 p.m.

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A handwritten signature in black ink, appearing to read "Donald W. Kerker". The signature is fluid and cursive, with the first name "Donald" and last name "Kerker" clearly distinguishable.

Donald W. Kerker
Board Secretary