June 6, 2017

A Special Board meeting of the Electric and Water Plant Board of the City of Frankfort, Kentucky, was held at Frankfort Plant Board Administration Building, located at 151 Flynn Ave, Frankfort, Kentucky, on Tuesday, June 6, 2017 at 1:00 p.m.

ATTENDANCE:

Ralph Ludwig, Board Chair
Walt Baldwin, Vice Chair
Dr. Scott Green, Secretary/Treasurer
Anna Marie Pavlik Rosen, Board Member
John Cubine, Board Member
James Liebman, Board Attorney
Monique Avery, Customer Service Director
Herbbie Bannister, General Manager
David Billings, Chief Water Engineer
David Columbia, Business Product Specialist
Harvey Couch, Marketing Video Content Coordinator
Katrina Cummins, Asst. Finance Director
David Denton, Finance Director
Sharmista Dutta, Water Engineer
Vent Foster, Chief Electric Engineer/Asst. GM Operations
Dana Goodlett, Cable Installation & Processing Manager
Adam Hellard, Security/Broadband Technology Manager
John Higginbotham, Asst. GM Cable/Telecommunications
Scott Hudson, Electric Supt.
Casey Jones, IT Director
Cathy Lindsey, Public Information Coordinator
Kim Phillips, Safety Director
Kathy Poe, Executive Assistant
Hance Price, Staff Attorney/ Asst. GM Administration
Mark Redmon, Support Services Director
Julie Roney, WTP Superintendent
Dianne Schneider, HR Director
Alan Smith, Water Dist. Supt.
Jeremy Blackburn, Videographer
Alfred Miller, State Journal

AGENDA

The Agenda for the Board Meeting was received and entered into the Minute Book as follows:

June 6, 2017 1:00 p.m. SPECIAL BOARD MEETING AGENDA

1. **Informational Item:** **Review of FY 17-18 Budget.**

BOARD ACTION

Mr. Ludwig called the meeting to order. Ms. Poe called the roll and noted five (5) board members in attendance.

1. **Informational Item:** **Review of FY 17-18 Budget.**

Mr. Denton explained company structure as an independent, non-profit municipal utility under KRS 96:176-188. He explained the four components for revenue needs: operating expenses, infrastructure needs, pay down debt service, and healthy reserve balance. The statute requires FPB to have an annual external audit from a certified CPA firm, this year the board has retained Crowe Horwath. FPB is not a component of the City of Frankfort, however, the City of Frankfort does pay $95,398 annual for the billing of Sewage fees. FPB is required to pay the City of Frankfort rent for the downtown office, and fees for use of city facilities. FPB is also considered a Special Purpose Governmental Entity (SPGE) under KRS 65A. Specific guidelines include having a budget approved by July 1st, the beginning of the fiscal year. The budget must be posted to the Department for Local Government website by July 16th. The adopted budget amendment must also be posted to the website.

Throughout the budget process, the board will be asked to approve a one-year budget and will be presented with an additional four-year layout. The adopted budget may be changed throughout the fiscal year using the same processes. Budget estimates are calculated using historic trends, current operating costs, and future known circumstances.

The budget structure is as follows: The Executive Summary highlights each service and plan over the next five years. The Budget Assumptions lists the primary and larger assumptions. The Company Wide section shows combing the three divisions and the financial performance prospective, including the Statement of Revenue and Expenses, and the Statement of Net Position. The Funding Summary section is provided companywide and for each line of business. The electric, water and cable/telecommunication sections have a funding summary, statement of revenue and expenses, and change of net position. The administrative overhead section walks through each of the administration overhead departments. These sections include General Administration, expenses by the Board of Directors, Customer Service Department, Finance Department, Fleet Services, Human Resources, Information Technology, Meter Reading, Safety Department, and the Support Service Department. The Line Item Detail section lays out each item of the budget and what makes up each line item.

Mr. Denton discussed budget assumptions including the compensation plan, payroll, cost of living increase, and healthcare. He also discussed healthcare cost and the pension plan.

Mr. Cubine voiced concerns of the compensation plan. He stated state government employees, state retirees, and teachers will not receive a cost of living increase, and teacher retirees will receive a 1.5% increase. He also voiced concerns regarding state and county retirement systems. In response to Mr. Cubine, Mr. Denton stated that MedBen looked at historical information and provided an estimated claim year. Mr. Cubine voiced concerns over the increase in healthcare cost and salary compensation plan, and stated FPB must stay competitive with city and county governments. In response to Mr. Cubine, Mrs. Schneider stated the city compensation plan included a 2% cost of living increase and a 1.5% merit increase. The county compensation plan included a 2% cost of living increase and a 3% merit increase.

Mr. Denton discussed the funding summary, including income and expenses company wide. The funding summary including a reduction in wholesale power cost. Mr. Cubine asked if SEPA would becoming positive. In responses to Mr. Cubine, Mr. Denton answered, no, because a final decision has not been made. He projected SEPA showing no savings or costs in future years. Mr. Cubine asked if the projection included any KyMEA savings. Mr. Denton stated he had been conservative with the KyMEA savings, and hoping to over deliver with KyMEA savings as FPB moves away from Kentucky Utilities. In response to Mr. Cubine, Mr. Foster stated the AMI expenses are in the capital section starting in 2019.

Mr. Denton discussed debt funding for large projects, including the water reservoir and the open FSN lien lease. He also discussed debt service and payoff of bonds. In response to Mr. Cubine, Mr. Denton stated if the board approved a 1/16th or a flat-roof design, there would be an increase in capital spending. Mr. Cubine asked that since no money had been spent from the Tanglewood project, it would be built into the new budget. Mr. Denton confirmed the money is built back into the new budget.

Mr. Denton projected that FPB would not need to borrow money in the future if the assumptions hold. Mr. Denton discussed cash funding, cash balance, cash available for capital additions, and cash reserve balance. Mr. Cubine asked if future KyMEA savings would lower rates or pay off bonds early. Mr. Denton stated there could be opportunities for greater savings; he also stated that in the first two years, the additional savings would help pay for AMI. He stated in year 2022 FPB and the board can hopefully look into paying off debt to save interest and possible rate decreases.

Electric

Mr. Denton explained revenues, power costs, the funding summary and net position for the electric division.

Mr. Foster discussed four strategic goals the electric department tries to operate by: provide reliable power while maintaining safe working conditions, provide competitive electric rates while maintaining sound financial practices, meet all requests for service in a friendly and timely manner, and be environmental responsible while maintaining competitive rates.

Mr. Foster discussed Advanced Metering Infrastructure (AMI) and believes the best time to start the program will be May 2019, allowing time for FPB to pay for the project without having to raise rates or without borrowing funds.

Mr. Foster discussed revenues and expenses for the electric division and Mr. Hudson discussed tree trimming, its costs and benefits. He further discussed substation projects such as transformer and breaker replacements. Voltage conversion and engineering expense for GIS mapping were other areas noted.

Mr. Foster discussed KyMEA consulting costs. Mr. Baldwin asked what the total number was for KyMEA. In response to Mr. Baldwin, Mr. Foster answered $3.4 Million and explained the reason for the total. Mr. Baldwin asked for an itemized list of expenses, and Mr. Cubine asked when will full time employees be hired for KyMEA. In response to Mr. Cubine, Mr. Foster stated KyMEA hopes to have a CEO hired by ended of 2017 or early 2018. The goal is to have a CEO, CFO, part time attorney, and technical advisor. Mr. Baldwin asked if the administrative resources have been outsourced to Paducah. Mr. Foster responded that the financial person for KEMPA, Paducah and Princeton together, is currently doing some of the KyMEA work. In response to Mr. Baldwin, Mr. Foster stated that most of the staff does not have the power cost expertise and experience, and the additional workload would be too great to add to an already fulltime employee. He also stated the current person from KEMPA, although is the CFO, is currently involved with power supply transactions on a routine basis.

In response to Dr. Green, Mr. Foster stated that E. Main was a voltage conversion. He also stated that in future years, the voltage conversion will continue in the Downtown area and replace a transformer in a substation.

Mr. Cubine asked if there were any unexpected events in the next 12 months that were not included in the budget. Mr. Foster responded that he did not see any unforeseen events likely to happen. Mr. Cubine asked if the board were to ask for $500,000, what would be cut from the budget. Mr. Foster stated he would push some of the re-conductor projects back a year. In response to Mr. Cubine, Mr. Foster and Mr. Hudson stated reducing tree-trimming costs would cause more electric outages. Mr. Foster further stated any savings in tree trimming would be paid out in additional overtime costs.

In response to Mr. Ludwig, Mr. Foster stated that most of the facilities at the Tower property set for demolition were State owned. He further advised that FPB's facilities were on the outer part, and would continue at that their current location and would have capacity for any future development. He stated that minor upgrades would be needed but would not be significant. In response to Mr. Baldwin, Mr. Foster stated that the load in the system had not changed but had moved to other areas. He stated that with a new facility we could see a decrease in load due to being more efficient.

In response to Ms. Rosen, Mr. Foster stated as you raise the voltage, you reduce the amount of current. The size of the conductors can be reduced, reducing the number of losses in the system and creating more efficiency.

Ms. Rosen asked about the total budget and actual result. Mr. Denton responded that the difference would be the administrative being lower than budget. Ms. Rosen asked if the figures were a good representation. Mr. Denton believed it was because of the significant change being payroll and new positions being added. Ms. Rosen asked if FPB was under budget, could FPB look into AMI earlier. Mr. Denton responded that it was a possibility, but it was best to see the results of KyMEA before making bigger changes. Mr. Baldwin asked if staff realized how much money was left on the table for not realizing the efficiencies of AMI. In response to Mr. Baldwin, Mr. Denton stated he didn't have a number, but he would feel comfortable starting the AMI project sooner.

In response to Mr. Baldwin, Mr. Foster stated the City has applied for a grant for a portion of the lighting, but he was not sure if the grant was approved. Mr. Foster also stated that as the city lights were going out, they were currently being replaced with LED lights.

Mr. Ludwig asked if the double payment was in the budget once FPB moves to KyMEA and would have to make a payment to Kentucky Utilities and KyMEA. Mr. Denton confirmed that the payments were in the current budget.

Mr. Denton stated at 5:00 p.m. on June 6, 2017, there would be a public hearing on a rate increase. It would be a pass-through from Kentucky Utilities. He stated the rate setting change is due to the Kentucky Utilities wholesale increase passed on to FPB and is included the budget.

Water

Mr. Denton discussed revenue from usage and other fees, usage numbers and rates based on usage.

Mr. Cubine asked if there were any debt service payments for the Reservoir in the 17/18 budget. Mr. Denton stated that there would not be any due to the construction phase of the project and that those payments would start in the 18/19 budget. In response to Mr. Cubine, Mr. Denton stated that the potential to receive KIA funds looked good for the Reservoir project. Mr. Billings stated that there was a cap of $4 million on KIA funds, but more could be requested.

Mr. Billings discussed the reservoir project and an additional City permit for street paving. Mr. Cubine asked who else was effected by the paving permit. Mr. Billing stated FPB, Columbia Gas, and the Frankfort Sewer Department.

Mr. Billings discussed projected revenue and a reduction in consumption. Mr. Cubine asked for clarity on how wholesale customers affect rates. In response to Mr. Cubine, Mr. Billings stated the wholesale customers help pay the bills. Mr. Billings confirmed that without wholesale revenue, residential rates would be higher. Mr. Billings further stated that competitive rates were the only way to compete with other providers. He stated that because of water service agreements, it was complicated to get additional wholesale customers.

In response to Ms. Rosen, Mr. Billings stated that distilleries were good water customers. In response to Mr. Cubine, Mr. Billings stated he would love to see a dew distillery and FPB would have more than enough capacity for them.

In response to Ms. Rosen Mr. Billings confirmed that the water treatment plant was running at 50% capacity. He stated that capacity was based on the customer's needs. Mr. Billings further stated that the WTP was already running "barebones" already. Mr. Cubine added that anytime FPB takes water from the Kentucky River, it pays a fee to the Kentucky River Authority, whereas Louisville water does not have to pay a fee for taking water from the Ohio River. In response to Mr. Baldwin, Ms. Roney stated that the water treatment plant and the sewer treatment plant were not at all similar in that FPB only produces the finished product.

Ms. Roney discussed operating costs on a five-year average. She discussed how the treatment plant was about 75% new, and other 25% was original from 1972. She stated that the capital budget covers replacement parts and equipment.

Mr. Smith stated the distribution department has significantly reduced the AC & galvanized program. He discussed meter replacement and advised that they will try to replace 7,000 meters before the AMI project takes effect at a cost of approximately $300,000. In response to Mr. Cubine, Mr. Smith confirmed that FPB employees would be replacing the meters.

In response to Mr. Cubine, Mr. Smith stated that paving would be the only additional contracting. Ms. Rosen asked about additional water loss due to cracked pipes or fittings. Mr. Billings stated there were several band categories and advised that FPB is in a good band. Mr. Cubine complemented Mr. Smith and his work with the Parks Department and new Aquatic System.

<u>**Cable**</u>

Mr. Denton discussed the funding summary including assumptions, operating costs, administrating expenses, and additional borrowing. He discussed capital additions and cash reserves.

Mr. Higginbotham introduced Mr. Hellard, Dana Goodlett, and Harvey Couch. Mr. Higginbotham discussed rates over the next five-years. He stated that FPB has the least control over programming rates and that the only rate increases proposed over the next five years will be retail and retransmission rates. He further discussed an increase in the discount for customers who have multiple cable/telecommunication services.

Mr. Couch went into further details on cable retail and retransmission rate increases, and future loss of cable TV subscribers and residential phone. In response to Mr. Cubine, Mr. Couch stated he sees future growth in internet subscribers. He further discussed the need for infrastructure changes and changes other providers have done.

In response to Mr. Cubine, Mr. Higginbotham stated that the next time a program service agreement is due, the board should consider dropping some of the networks to cut costs, improving broadband reliability and retransmission. In response to Mr. Baldwin, Mr. Higginbotham stated at this time, it would be harder for customers to get the retransmission channels elsewhere. Mr. Couch and Mr. Higginbotham both had further discussion between retail rates, retransmission rates and renewals.

Mr. Cubine and Mr. Baldwin further discussed retransmission channels, costs, and their availability elsewhere. Mr. Baldwin asked about which channels were popular and Mr. Higginbotham stated he could provide viewership data for programming.

Mr. Higginbotham discussed internet rates and speeds. He also mentioned older equipment and requesting contract labor due to under staffing. Mr. Hellard discussed replacing the older equipment and increasing bandwidth. Mr. Higginbotham stated he was waiting on the consultant's report for future spending for fiber to home. In response to Mr. Cubine, Mr. Hellard stated the equipment should have been replaced two-three years ago. He also discussed fiber to the home and the costs associated with it. In response to Mr. Cubine, Mr. Hellard stated the life expectancy is 10-12 years, and FPB's equipment is 17 years old. Mr. Denton confirmed the note is shorter than the life-term of the equipment.

Mr. Higginbotham further discussed capital expenses. In response to Ms. Rosen, Mr. Hellard discussed the need for future vehicles once FPB is fully staffed. He also discussed the Head End processes.

Mr. Jones discussed the NOC building and why it was better suited for a data center than the Administration Building or Head End due to access, cooling, storage, etc. In response to Mr. Cubine, Mr. Denton stated that utilities would be the only costs associated with the NOC building. Mr. Hellard stated the NOC is a critical part of the current network and discussed the purpose of the NOC building.

In response to Mr. Cubine, Mr. Higginbotham stated he continued to see a loss on the residential telephone. He further discussed a small increase in business phone customers. Mr. Denton referred to the statement of revenue and expenses for each line of business. He stated each line is self-sufficient at this time.

Mr. Bannister stated there may be an opportunity to rent office space at the NOC. He would meet with the new City Manager for further discussion.

Mr. Higginbotham discussed contract labor on installs. He discussed several employee losses in the last year due to different reasons. He further discussed a reduction in contact labor once new installers are hired and trained. Mr. Higginbotham discussed market trends for contactors and stated that the trend is to contact out all installs and trouble calls.

In response to Ms. Rosen, Mr. Couch stated that security services are bundled for business customers. Mr. Higginbotham discussed the future of security and how moving to Big River phone service hurt the department. They are currently seeing new customers but the market is very competitive. In response to Ms. Rosen, Mr. Couch stated they have heavy marketing to gain new customers or upgrade and retain current services.

Mr. Cubine moved to adjourn. Mr. Green seconded. Mr. Ludwig called the vote and the motion passed unanimously. The meeting adjourned.

____

ATTEST: ______________________________