

January 20, 2015

A Board meeting of the Electric and Water Plant Board of the City of Frankfort, Kentucky, was held at the FPB Clubhouse, located at 98 Tanglewood Drive, on Tuesday, January 20, 2015 at 5:00 p.m.

ATTENDANCE:

Ralph Ludwig, Board Chair
Dr. Scott Green, Vice Chair
Rick Pogrotsky, Board Secretary/Treasurer
Patricia B. Lynch, Board Member
Arthur McKee, Board Member
James Liebman, Board Attorney
Herbbie Bannister, General Manager
Billy Briscoe, Water Dist. Supt.
David Billings, Chief Water Engineer
David Denton, Finance Director
Sharmista Dutta, Water Engineer
Vent Foster, Chief Electric Engineer/Asst. GM Operations
Monique Gilliam, Customer Service Director
John Higginbotham, Asst. GM Cable/Telecommunications
Scott Hudson, Electric Supt.
Karl Pitzer, IT Director
Kathy Poe, Executive Assistant
Hance Price, Staff Attorney/Asst. GM Administration
Mark Redmon, Support Services Director
Julie Roney, WTP Asst. Superintendent
Kim Phillips, Safety Director
Dianne Schneider, Human Resource Director
Glenn Waldrop, Public Information Officer
Dave Pike, Cable 10 Videographer
Seth Littrell, State Journal Reporter
Charlie Hamilton, Powell Walton Milward

AGENDA

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

JANUARY 20, 2015 SPECIAL BOARD MEETING AGENDA

1. **Action Item:** Consider Approving Minutes of December 16, 2014 Board Meeting.
2. **Action Item:** Accept Electric, Water and Cable Financial & Statistical Data for December 2014.
3. **Informational Item:** Departmental Reports:
 - Cable Dept.
 - Customer Service
 - Electric Dept.
 - SEPA
 - Safety

- Water Distribution
 - Water Treatment Plant
 - Administration Building
 - Headend Building
4. **Action Item:** Approval of contractor agreements for storm response with Davis H Elliot, Groves Construction, and Bowlin Companies.
 5. **Action Item:** Consider Cable Rate increases: Retransmission surcharge for all Limited, Classic and Preferred tier customers.
 6. **Action Item:** Consider Approval of the Discovery Communications Agreement.
 7. **Action Item:** Consider retaining Mountjoy Chilton Medley LLP to conduct the 2015 financial statement audit for fee of \$31,300 and to conduct a single audit in accordance with OMC Circular A-133 related to Federal funds expended by FPB on KIA project number F13-021 for a fee of \$3,000.
 8. **Action Item:** Consider Service Level Agreement with Telmar Network Technology, Ltd., for SONET services.
 9. **Action Item:** Consider Approving Renewal of FPB's Insurance Policies in the Amount of \$732,491.25.
 10. **Action Item:** Old & New Business:
 11. **Informational Item:** General Manager's Comments.
 12. **Request Permission to have Chair call for a Closed Session** pursuant to KRS 61.810 (1)(c) for the discussion of proposed or pending litigation against or on behalf of FPB; KRS 61.810 (1)(f) for discussions which might lead to the appointment, discipline, or dismissal of an individual employee; and KRS 61.810(1)(b) for the discussion of the future acquisition or sale of real property.
 13. **Closed Door Session:**

BOARD ACTION

Mr. Ludwig called the meeting to order at 4:58 p.m. Ms. Poe called the roll. She noted five (5) board members in attendance.

1. **Action Item:** Consider Approving Minutes of the December 16, 2014 Board Meeting.

Ms. Lynch moved to approve the minutes of the December 16, 2014 Board meeting. Mr. McKee seconded. Mr. Ludwig called for the vote and the motion passed.

2. **Action Item:** Accept Electric, Water and Cable Financial & Statistical Data for December 2014.

Mr. Denton reviewed the statement of net position for the month of December 2014. He explained revenues, assets, liabilities, and equities. Mr. Denton further reviewed the statement of activities for electric, water and cable, and explained revenues and expenditures for each line of business.

Mr. Ludwig moved to accept the financial and statistical data as presented. Dr. Green seconded. Mr. Ludwig called for the vote and the motion passed.

3. **Informational Item: Departmental Reports:**

Cable: Mr. Higginbotham reviewed the graphs and information provided to the Board. He explained the status of the Headend project and advised that the pre-bid meeting would be held on January 21st at 10:00 a.m. at the FPB clubhouse. He advised that GRW indicated considerable interest for the project. He confirmed that bid opening would be February 6th and that Staff planned to bring a bid to the Board for approval at the February 17th Board meeting.

Customer Service: Ms. Gilliam stated that customer service processed just over 8,000 calls in December. She further noted that more than 7,500 were processed during business hours as well as 2013 walk-in customers. She advised that customer service opened 476 new accounts in the month of December.

Electric: Mr. Hudson stated that there were 20 outages in December and discussed the SAIDI and Why graphs.

SEPA: Mr. Bannister noted a loss of \$16,480 for the month of November and a profit of \$10,316,000 year to date. He advised that SEPA partners had received a higher price per kWh however the amount of energy had decreased.

Safety: Ms. Phillips noted no (0) OSHA recordable accidents and noted one (1) minor vehicle accident.

Water Distribution: Mr. Briscoe noted one (1) new service, one (1) main break, and one (1) outage.

Water Treatment: Ms. Roney noted that the water treatment plant produced more than 214 million gallons of potable water in the month of December with an average daily production of 7.1 million gallons per day.

Mr. Billings presented photos of the traveling screen removal and discussed the re-build process as well as the utilization and purpose of the traveling screen. Mr. Billings discussed the status of the back-up generation project at the water treatment plant. He advised that the substantial completion date for the project is February 4, 2015 and that the project was currently under budget. He further noted that a tour day would be scheduled upon completion.

Administration Building: Ms. Dutta stated that the construction documents are complete for the Administration building and that bids go out January 21, 2015. She further discussed bid advertising, the status of the gas line relocation and exterior facade options. She advised that the majority responses were in agreement on the second option for the exterior facade. Dr. Green and Mr. Pogrosky stated that they were in agreement to proceed with the second exterior option.

Mr. Denton stated that the sale of bonds was successful and advised that the closing would be on January 29, 2015. He further discussed an engagement letter from Mountjoy Chilton Medley in connection with the parody certificate to be completed in connection with this bond sale. He noted that expenses for this work would be paid out of bond proceeds.

9. **Action Item: Consider Approving Renewal of FPB's Insurance Policies in the Amount of \$732,491.25.**

FPB's current insurance coverages expire February 5, 2015. Staff has completed renewal forms and worked with Charlie Hamilton at Powell Walton Milward to obtain the best coverage and prices available. Staff is prepared to renew the coverages shown in the detail section upon the Board's approval.

FPB has 13 different types of policies that cover a variety of risks. These policies are with several different companies. The overall premium to renew is \$732,491.25.

Staff recommends continuing the current insurance program. The coverages are reasonably priced. The total value of insured property has increased 20.2% and the total payroll has decreased 4.9%. The cost of our coverage has increased only 2.4% from last year. More importantly, the companies pay our claims. Unlike some carriers in the past that have denied our claims, FPB currently receives payment for most claims.

Mr. Price advised that Charlie Hamilton of Powell Walton Milward obtained quotes for the various types of general insurance policies purchased by FPB. He further advised that some policies increased and some decreased from the previous year and noted a slight increase in the overall premium due to the liability coverages to be purchased for the Headend and Administration building projects.

Dr. Green moved to approve the renewal of FPB's insurance policies in the amount of \$732,491.25. Mr. Pogrotsky seconded.

In response to Mr. Ludwig, Mr. Price explained the purchase of the builders' risk insurance and advised that staff would utilize project funds for payment of those premiums.

Ms. Poe polled the Board and the motion passed unanimously.

4. **Action Item: Approval of contractor agreements for storm response with Davis H Elliot, Groves Construction, and Bowlin Companies.**

Staff asks that the Board approve agreements with Davis H Elliot, Groves Construction, and Bowlin Companies for storm response. In order for FPB to be eligible for FEMA reimbursements we must have on file agreements with contractors that can provide services to FPB in an outage restoration.

These three (3) companies have provided pricing and would charge these amounts to FPB for work performed in an outage restoration after an emergency such as a storm. These companies are located in Kentucky and perform quality work. Staff asks that the Board move to approve the agreements and rate sheets with Davis H Elliot, Groves Construction, and Bowlin Companies.

Mr. Hudson explained that these agreements were needed in case of a catastrophic event in order to be eligible for reimbursement from FEMA. He advised that the agreements were for one year terms and noted that one contractor had reduced their prices. He further noted that FPB would not utilize these contractors except in the event of a catastrophic event.

In discussion, Mr. Hudson noted that the types of crews FPB would need were discussed upfront with the contractors. Mr. Foster added that this was simply a FEMA formality.

Mr. Pogrotsky moved to approve the contractor agreements for storm response with David H Elliot, Groves Construction, and Bowlin Companies. Ms. Lynch seconded. Mr. Ludwig called for the vote and the motion passed.

5. **Action Item: Consider Cable Rate increases: Retransmission surcharge for all Limited, Classic and Preferred tier customers.**

Staff recommends approval of the increase in the retransmission surcharge as presented, effective February 1, 2015, January 1, 2016 and January 1, 2017.

On December 16, 2014, the Board approved the public meeting notice and that hearing was conducted on January 6, 2015. The notice was printed in the Frankfort State-Journal on December 30, 2014 and disseminated on social media on December 31, 2014. Eight members of the public appeared at the January 6 meeting and provided comments to the Board. Comments included: not being in

support of the rate increase but understood the decision made by the Board to keep all of the channels; keeping all of the channels was the right decision in spite of the increase; those on fixed and low incomes could not afford the increase; and the Board and Staff should look at cutting expenses and not pass all of the increase onto customers or look at getting out of the cable business altogether due to quickly changing technology.

In November 2014, Comer Research conducted a survey for FPB gauging customer preferences on broadcast programming and specific pricing levels. The survey concluded that 65% of customers wanted channels from Lexington and Louisville and were comfortable with as much as a \$5 per month increase.

The public notice proposed to increase the retrans surcharge for the purpose of passing through all charges related to the retransmission of local, off-air broadcast signals. All Limited, Classic, and referred tier customers are subject to this charge. The surcharge is based on the actual fees associated with the ABC, CBS, NBC, and FOX stations in Lexington and Louisville, required multi-cast stations, and associated Video-on-Demand services. The increase is proposed to be effective February 1, 2015. Currently, the retrans surcharge is \$4.32. The retrans surcharge is proposed to increase to \$9.93 effective February 1, 2015. The fee is proposed to increase to \$10.90 on January 1, 2016 and increase to \$12.03 on January 1, 2017.

Mr. Higginbotham reiterated the specifics of the retransmission rate increases. He advised that the recommended retransmission surcharges were for local and off air broadcast channels in the amount of \$9.93 per month to become effective February 1, 2015, \$10.90 per month to become effective January 1, 2016, and \$12.03 per month to become effective January 1, 2017. He reiterated the results of the customer survey and advised that the majority of the customer base was willing to pay the additional surcharge in order to keep all of these channels.

Mr. Higginbotham discussed the public hearing and discussed customer comments received. He advised that Staff recommended approval of the new retransmission surcharges.

Ms. Lynch moved to approve the retransmission surcharges for all Limited, Classic and Preferred tier customers in amount of \$9.93 per month to become effective February 1, 2015, \$10.90 per month to become effective January 1, 2016, and \$12.03 per month to become effective January 1, 2017. Dr. Green seconded. Ms. Poe polled the Board and the motion passed unanimously.

Mr. Ludwig stated that Staff is constantly reviewing contracts for means of reducing costs. He noted that the cable network providers have significant pricing powers to increase their costs to FPB. He stated that the increases are so considerable that FPB must pass those costs on to the customers. He further advised that Staff and the Board continually review revenues and expenses in the budgeting process and in day to day business in order to reduce and control costs.

Mr. Ludwig noted numerous ways in which Staff has reduced expenses and worked to control costs. Mr. Ludwig encouraged customers to send the Board suggestions on ways to improve in any area for consideration.

6. **Action Item: Consider Approval of the Discovery Communications Agreement.**

The Cable Advisory Committee and Staff recommend the approval of the National Cable Television Cooperative (NCTC) agreement for the Discovery Networks, Discovery Digital Networks, OWN, and Discovery Networks/OWN TV Everywhere and VOD. The term of the agreement runs from January 1, 2015 through December 31, 2021. The Classic tier networks include: Discovery, TLC, Animal Planet, and Discovery Life* (formerly Fit & Health – DFH); Preferred tier networks Investigation Discovery (ID), Discovery Family (formerly Hub), Science Channel,

American Heroes Channel, and Destination America; and HD Plus network is Velocity.

The average increase in license fees for the Discovery Networks on Classic Cable is 18%, and FPB budgeted for 20%. The increases in subsequent years average 8% per year. The average increase in license fees for the Preferred Cable networks is 16%, and the budgeted increase was 18%. The average increase in subsequent years for the Preferred Cable Discovery networks is 6%. All of the current year increases came in under budget and therefore all increases in programming expenses will be covered by the January 1, 2015 rate increase.

This agreement requires FPB to migrate ID from the Preferred tier to the Classic tier by October 1, 2015. This channel move was anticipated and is budgeted. The agreement also requires FPB to migrate OWN from the Preferred tier to Classic tier by January 31, 2016. This channel move was not anticipated but will be included in the FY16 budget. It may be advantageous for FPB to consider moving Velocity from its HD tier to Classic and Discovery Life from the Classic tier to Preferred but Staff will follow up with the Board at a later date with specific options.

The AGM-Administration has reviewed the agreement and it meets with his approval.

Mr. Higginbotham noted that the Cable Advisory Committee and Staff recommended approval of the Discovery Communications Agreement. He noted that the agreement was retroactive to January 1, 2015 with a term ending December 31, 2021. He further explained the channels included in this agreement and advised that the agreement included an increase of 18% over the previous agreement. He advised that no additional rate increase would be needed at this time. He further stated that the staff attorney had reviewed the agreement and it meets with his approval.

Ms. Lynch moved to approve the Discovery Communications Agreement. Mr. McKee seconded. Mr. Ludwig called for the vote and the motion passed.

7. **Action Item: Consider retaining Mountjoy Chilton Medley LLP to conduct the 2015 financial statement audit for fee of \$31,300 and to conduct a single audit in accordance with OMC Circular A-133 related to Federal funds expended by FPB on KIA project number F13-021 for a fee of \$3,000.**

Staff recommends the Board retain Mountjoy Chilton Medley LLP (MCM) to conduct the fiscal year 2014-2015 financial statement audit of the Frankfort Plant Board. In addition to the regular financial statement audit FPB will expend more than \$500,000 in Federal awards associated with the KIA water treatment plant generator loan (KIA Project Number F13-021) in fiscal year 2014-2015, which requires FPB to have a single audit in accordance with U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations related to the KIA loan specifically. Attached is the audit engagement letter prepared by MCM for the year ending June 30, 2015 for your review. MCM has proposed a financial statement audit fee of \$31,300, which is a 1.95% increase from the prior year fee of \$30,700. In addition to the financial statement audit fee MCM has proposed a single audit fee of \$3,000. If approved these audit fees will be included in the FY 2015-2016 budget for the Frankfort Plant Board under the administration section.

If the MCM audit engagement letter for FY 2014-2015 is approved it will be the fifth year MCM has conducted the FPB audit. Attached is the audit proposal from MCM dated June 29, 2011. This proposal was for a five year term, so 2014-2015 would be the final year of MCM's audit proposal with future financial statement audits expected to be on similar terms.

Mr. Denton explained the work to be completed in connection with the annual Audit as well as additional auditing to be done in connection with KIA funding. He further explained the costs for both audits.

Dr. Green moved to approve retaining Mountjoy Chilton Medley LLP to conduct the 2015 financial statement audit for fee of \$31,300 and to conduct a single audit in accordance with OMC Circular A-133 related to Federal funds expended by FPB on KIA project number F13-021 for a fee of \$3,000. Ms. Lynch seconded. Mr. Ludwig called for the vote and the motion passed.

8. **Action Item: Consider Service Level Agreement with Telmar Network Technology, Ltd., for SONET services.**

Staff recommends the Board approve the agreement with Telmar. The term of the agreement is one year at a cost of \$8,750. The service level agreement will allow Telmar to provide FPB with SONET trouble shooting assistance, as required. SONET services are described as the primary communication between the phone switch and network devices supporting some local phone business and high capacity data customers. At present, FPB does not have a vendor in place to provide external troubleshooting for SONET services.

While not specifically budgeted, funds are available in the FY15 budget to cover this agreement. The AGM-Administration has reviewed the agreement and it meets with his approval.

Mr. Higginbotham explained the terms and cost for this agreement and explained the need for technical assistance with the telephony equipment. He noted that funds had not been budgeted specifically for this item but that there were unused funds in the budget that would be utilized to pay for this technical assistance. Mr. Higginbotham acknowledged that the staff attorney has reviewed the agreement and it meets with his approval.

In discussion, Mr. Bannister explained that Staff discovered the need for this technical assistance during the recent telephone outages. Mr. Higginbotham explained how the company would offer assistance and advised that this would be utilized for the equipment necessary to provide services for high data customers. He further advised that this company was reputable and highly recommended. Mr. Price advised that the price for this service eliminated the necessity for bidding the services.

Mr. Pogrotsky moved to accept the Service Level Agreement with Telmar Network Technology, Ltd., for SONET services. Mr. McKee seconded. Mr. Ludwig called for the vote and the motion passed.

10. **Old & New Business:**

Mr. Denton discussed the necessity of the parody certificate to be signed by the Auditors for reporting required on the bond issuance. He discussed the engagement letter to be executed by the Board Chairman and noted that the cost for the service was \$3,000. He further advised that the cost of the service would be paid from bond proceeds.

11. **Informational Item: General Manager's Comments.**

Mr. Bannister stated that Staff is working diligently in a logical and methodical manner to address the recent telephone outages. He advised that there would be an independent internal audit performed of the entire department in order to provide more reliable service.

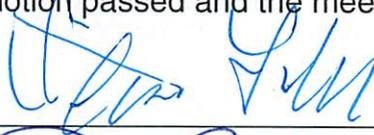
12. **Request Permission to have Chair call for a Closed Session** pursuant to KRS 61.810 (1)(c) for the discussion of proposed or pending litigation against or on behalf of FPB; KRS 61.810 (1)(f) for discussions which might lead to the

appointment, discipline, or dismissal of an individual employee; KRS 61.810(1)(b) for the discussion of the future acquisition or sale of real property.

Dr. Green moved to go into closed session. Mr. Pogrotsky seconded. Mr. Ludwig called for the vote. The motion passed and the Board moved into closed session.

13. **Closed Door Session:**

Dr. Green moved to come out of closed session. Mr. Pogrotsky seconded. The motion passed and the Board moved into open session. Dr. Green moved to adjourn. Mr. Pogrotsky seconded. The motion passed and the meeting adjourned.





ATTEST: