

June 2, 2015

A Special Board meeting of the Electric and Water Plant Board of the City of Frankfort, Kentucky, was held at Farmers Banks and Capital Trust, located at 125 W, Main Street, Frankfort, Kentucky, on Tuesday, June 2, 2015 at 1:00 p.m.

ATTENDANCE:

Ralph Ludwig, Board Chair
Dr. Scott Green, Board Vice Chair
Rick Pogrotsky, Board Secretary/Treasurer
Arthur McKee, Board Member
James Liebman, Board Attorney
Herbbie Bannister, General Manager
David Billings, Chief Water Engineer
Billy Briscoe, Water Dist. Supt.
Harvey Couch, Marketing and Video Content Coordinator
Katrina Cummins, Asst. Finance Director
David Denton, Finance Director
Vent Foster, Chief Electrical Engineer/Asst. GM Operations
Monique Gilliam, Customer Service Director
Dana Hawkins, Executive Assistant
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
Chris Riddle, WTP Superintendent
Julie Roney, Asst. WTP Superintendent
Kim Phillips, Safety Director
Dianne Schneider, Human Resource Director
Glenn Waldrop, Public Information Officer
Seth Littrell, State Journal Reporter

AGENDA

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

JUNE 2, 2015 BOARD MEETING AGENDA

1. **Informational Item: Review of FY 15-16 Budget.**

BOARD ACTION

Mr. Ludwig called the meeting to order at 1:01 p.m. Ms. Poe called the roll. She noted four (4) board members in attendance and noted Ms. Patricia Lynch absent.

1. **Informational Item: Review of FY 15-16 Budget.**

Mr. Bannister discussed the new budget software and its implantation. He stated that there were a few typos which would be corrected and that Staff believed they could cover the entire budget by the end of the meeting.

Mr. Denton briefly explained the new software and acknowledged his appreciation for the Board's support. He explained the benefits of the new software with budget preparation as well as making revisions and reports for future use. He further explained how the benefits of the software will assist the entire company in the future.

Mr. Denton explained the layout of the new budget and noted that this budget was made up of significantly fewer pages than past budget documents. He explained how revenues and expenses would flow through from each line of business to the pages containing companywide budget numbers and how the numbers would track throughout the document as a whole.

Mr. Denton explained payroll increases and stated that all employees currently below the mid-point of their paygrade who scored a 3.0 or higher on their semi-annual performance evaluation would be eligible for a 2% pay increase on July 1, 2015 and another 2% increase on January 1, 2016. He explained that employees at or above the mid-point of their paygrade were eligible for a cost-of-living adjustment (COLA) and possible merit raises if one or both were approved by the Board. He further explained that historically Staff has used the CPI-U to budget COLA increases and he advised that the CPI-U showed no increase in 2015. Mr. Denton further explained that Staff budgeted no COLA increase and a 1% merit increase for those employees at or above the mid-point of their paygrade for all years of the budget and financial plan.

Mr. Denton further noted that the increase in payroll budgeted for the 15-16 fiscal year was 1.67% and that payroll through the remaining year of the financial plan would increase by 0.04% in fiscal year 17, by 3.33% in fiscal year 18, by 3.35% in fiscal year 19 and by 3.38% in fiscal year 20. He further explained that actual wages for the previous fiscal years of 14-15 and 13-14 were below budget estimates by \$431,156 and \$439,364 respectively.

Mr. Denton discussed a new position for customer service team leader and noted that the paygrade would be changed to a 112. He further advised that there were 16 re-classifications included at an approximate \$50,000 increase in wages for the 15-16 fiscal year.

Mr. Denton discussed a slight reduction in FPB's contribution to CERS for the 15-16 fiscal year. He stated that FPB would pay 17.06% for the 15-16 fiscal year which was down from 17.67%. He further advised that Staff recommended no changes for employee healthcare.

Mr. Denton discussed travel and training costs for the 15-16 fiscal year budget and financial plan. He noted that the estimated actual for the current fiscal year was nearly \$68,000 under budget and that 15-16 budget amount was slightly less than fiscal year 14-15. He further explained amounts for the fiscal years 17-20 as noted in the financial plan.

Mr. Denton explained purchased power costs. He noted the FERC formulated rate utilized by Kentucky Utilities (KU) and stated that historically the KU increase had averaged 5.5%. Mr. Denton advised that KU had notified FPB that they would increase wholesale power by 8% effective July 1, 2015. He further advised that an 8% revenue increase had been budgeted to cover the increase from KU. Mr. Denton advised that a 5.5% increase in electric power costs was included in years 17-20 of the financial plan.

Mr. Denton stated that Staff anticipated increases in Cable programming in the fiscal year 15-16 budget and financial plan. He noted an average increase of 11.41% in programming costs in fiscal year 16, a 6.37% increase in fiscal year 17, a 7.27% increase in fiscal year 18, a 6.29% increase in fiscal year 19, and a 5.33% increase in fiscal year 20. He noted that the cable trend could be reviewed on page 27 of the budget document.

Mr. Denton explained electric revenues. He advised that electric revenues were projected to increase in the 15-16 fiscal year with continued increases of approximately 6% throughout the remainder of the financial plan. He noted that the corresponding information could be reviewed on page 20 of the budget document. He discussed the budgeted rate increases of 8% for fiscal year 15-16 and 6.5% for the fiscal years 17-20 which includes a 1% FPB increase needed to meet revenue

requirements. Mr. Denton advised that the last true FPB electric rate increase came in 1996 and in 2009.

Mr. Denton explained water revenues and noted an increase in revenues through all years of this proposed budget and financial plan. He advised that the revenue increases were due to budgeted water rate increases of 3% in the 15-16 fiscal year and 5% increase each year in fiscal years 17-20. He explained that the increases were necessary to meet revenue requirements and were allocated to all customer classes except the first 5,000 gallon base for county customers and wholesale non-water producers.

Mr. Denton explained Cable/Telecom revenues for the 15-16 fiscal year and financial plan. He stated that revenues were based on the projected customer demand. Mr. Denton advised that customer numbers were predicted to hold steady through the 15-16 fiscal year and the financial plan. He further advised that Staff expected increases from its cable programmers, and he reviewed and explained projected rate changes.

Mr. Denton explained the history of FPB telephony services. He stated that FPB was experiencing customer losses at the rate of approximately 40 customers per month for the past five (5) years. He explained upgrades necessary to maintain quality of service and stated that FPB would be searching for a third-party provider to assist with telephony services. Mr. Denton discussed the benefits which a third-party provider would offer to FPB and its customers.

Mr. Denton discussed overall debt services including balances, future borrowing and principal payments, as well as ending balances through the budget and financial plan. He further discussed draw downs on current bond funds and bank loans for the ongoing large capital projects and from the KIA loan to complete the water treatment plant back-up generator project.

In response to Mr. Pogrosky, Mr. Denton explained the previously approved raises for employees whose current salaries were below the midpoint of their pay grade. He noted that those employees would receive a 2% increase on July 1, 2015 and another 2% increase on January 1, 2016 contingent upon an acceptable bi-annual performance evaluation score. Mr. Denton advised that approximately 75% of FPB employees were below the midpoint of their pay grade. He further explained that employees who were at or above the midpoint of their paygrade would receive no COLA increase because the CPI-U was negative, and a 1% Merit increase if this budget was approved.

At the request of Dr. Green and Mr. McKee, Mr. Denton explained the performance evaluation process and how the evaluations are utilized to award COLA and/or Merit increases. He further stated that no employees received the same increase twice. Mr. Bannister explained that performance evaluations are completed by management on a calendar year basis. He further advised that it is possible for an employee to receive a COLA increase and then receive a promotion or reclassification later if certain criteria are met, at which time the employee could receive another salary increase based on the promotion or reclassification.

At the request of Mr. McKee, Mr. Denton and Mr. Bannister further explained the reclassification process for each line of business.

Mr. Denton reviewed the overall company financial figures. He explained total revenues and expenses as well as direct expenses allocated to the three main lines of business. He explained interest expenses and borrowing for fiscal year 15-16 including funds for the Headend and Administration building projects. Mr. Denton discussed funding option and additional funds necessary for the Administration building.

Mr. Denton discussed current bonds, loans, restricted and unrestricted accounts, and funds necessary for capital additions projects. Mr. Denton stated that there

were other capital addition projects that would be required in the future but that Staff believed what was included in the budget was all FPB could take on in this budget year.

Mr. Denton discussed purchases and projects for all departments in the budget and financial plan. He further discussed year end cash reserve balances including the minimum reserves necessary as well as the recommended reserve amounts. Mr. Denton discussed the sinking funds, debt service funds, and other reserve and restricted debt service accounts. Mr. Denton stated that the minimum reserve included 30 days of cash on hand and one month expenses minus depreciation. He stated that the recommended reserves included 90 days cash on hand as well as expenses. Mr. Denton stated that Staff would like to build reserves closer to the recommended amounts.

Mr. Denton reviewed the Statement of Net Position Summary for the company as a whole as well as each individual line of business. He explained how revenues and expenses change over time and discussed the change in net position through the budget and financial plan. He further explained the flow of the budget document.

Mr. Denton explained that electric was showing a negative change and stated that the financial plan showed a 1% true FPB electric rate increase over and above the estimated Kentucky Utilities pass through increase in years 2 through 5 of the financial plan.

Mr. Denton further explained the flow of budget numbers from page to page.

Mr. Denton specifically explained electric, water and cable revenues. He stated that electric and water revenues were expected to remain steady throughout the five year plan and noted that Staff utilized historic data for the budget and financial plan.

Mr. Denton discussed Cable/Telecommunications customer demand and costs to provide services. He discussed telephone revenues and expenses through the financial plan. He noted that Staff was researching the possibility of utilizing a third party service provider to provide telephony services which would provide the new equipment necessary at their own expense while continuing to service the local and long distance needs of FPB's telephone customers. Mr. Denton noted that FPB personnel would continue to provide installation and billing services for its telephony customers.

Mr. Denton continued to discuss Cable service revenues and expenses for the current and upcoming fiscal years and discussed capital projects and capital contributions. He explained specific expenses for the Cable/Telecommunications department.

In response to Mr. McKee, Mr. Denton acknowledged that the amounts noted for Administration Consulting included consulting expenses for the entire company. Mr. Denton further clarified the clubhouse expenses due to Headend employees utilizing the clubhouse for office space during the Headend project.

Mr. Denton explained the projected rate track through the financial plan. He discussed projected revenues and expenses, operating income, projected cash balances, debt proceeds, capital improvements and debt coverage ratio, and explained future increases necessary to cover expenses and continue to meet reserve requirements.

Mr. Denton advised that electric would request a pass through increase from Kentucky Utilities of 8% in the upcoming 15-16 fiscal year and an estimated 6.5% electric rate increase for each fiscal year thereafter through 2020. He further advised that the 6.5% increase included a 1% true rate increase to cover the increasing operating costs in the electric department. Mr. Denton stated that the

numbers for the last four fiscal years of the financial plan were estimated for budgeting purposes and may change in future budgets.

Mr. Denton explained income for the water department and discussed negative cash balances. He further explained income for the cable/telecommunications department and noted that most rates would remain unchanged with the exception of cable programming.

In response to Mr. Ludwig, Mr. Denton explained FPB's internal billing for utility usage. He noted that FPB was invoiced for services just like any other customer. He stated that each department was invoiced for services used which is approved and paid each month.

Mr. Denton stated that FPB is a very capital intensive company and explained funds necessary for capital projects. He explained the debt summary for the 15-16 fiscal year, specifically noting loan increases, principal decreases and final balances projected for the end of the 15-16 fiscal year.

Mr. Denton explained debts which would soon be paid in full and the manner in which Staff planned to utilize funds. He further explained additional borrowing necessary for upcoming and current capital projects.

Mr. Denton explained payroll and authorized positions. He advised that some of the authorized positions were not filled and would remain unfilled. Mr. Denton stated that gross payroll would increase by 1.67% in the first fiscal year and approximately 3.5% through the remainder of the five year plan.

Mr. Denton explained base wages and noted that number did not include any benefits. He further discussed overtime wages and noted that FPB's total payroll has been well under budget for the past two budgeting cycles.

Mr. Denton explained revisions to be made in this budget document. He stated that the new customer service team lead position should have been requested as a supervisory position and noted the pay grade change. He discussed reclassifications for the company as well as the impact on the budget.

In response to Mr. McKee, Mr. Denton explained that the supervisory position in customer services would be filled through a promotion and would not add a new employee.

In response to Mr. McKee, Mr. Denton and Mr. Higginbotham explained the reclassification process. Mr. Higginbotham stated that reclassifications require a minimum time of service as well as other education, testing and certification requirements. He further noted that reclassification is not automatic. Mr. Riddle, Mr. Hudson, and Mr. Briscoe advised that the process was consistent in all departments.

Mr. Denton explained the typographical error in Cable's travel and training budget noting that the \$16,000 for the NCTC Conference should be \$6,000.

Mr. Denton discussed the capital projects budget generally and turned the meeting over to department heads for specifics.

Mr. Higginbotham discussed the Headend project. He specifically explained node division and infrastructure upgrades, as well as engineering for the project. Mr. Higginbotham discussed extending cable services as noted in years 3-5 of the financial plan to bring in new customers. He discussed areas in Franklin County where services could be extended, the number of potential new customers, as well as the additional revenues. Mr. Higginbotham explained the equipment upgrades necessary for cable/telecommunications and discussed reductions in capital projects in an effort to reduce the budget.

Mr. Foster discussed the capital projects budget for electric. He discussed breaker replacement, the East Main substation project, voltage conversion, distribution system improvements, Governor's Place, Kentucky State University, reconductoring of overhead lines, and replacement of substation transformers. He discussed projects that were cut or delayed in an effort to reduce the budget.

In response to Mr. Pogrotsky, Mr. Foster and Mr. Hudson explained equipment and other items that were removed from the 15-16 fiscal year budget because the purchases could be delayed and included in future budget years.

Mr. Pitzer explained the Information Technology capital purchases. He noted that purchases were routine with software and hardware upgrades pursuant to replacement plan with the exception of year two when equipment for the new administration building would be purchased.

Ms. Gilliam explained the capital improvements for meter reading which included replacement of vehicles over the five year plan as well as upgrading meter reading equipment.

Mr. Briscoe explained meter replacements due to the reduction of accuracy over time and the conversion to radio read meters. He further explained water line/main replacements.

Mr. Billings explained the reservoir replacement project and all work related to the reservoir project for the 17-18 fiscal year in the financial plan.

Mr. Redmon discussed vehicle replacement through the budget and the financial plan. He further discussed replacement of the roof and carpet as well as general maintenance at the service center building. In response to Mr. Pogrotsky, Mr. Redmon stated that Staff had removed the skylights from the roof replacement plan in an effort to cut significant costs.

Mr. Riddle discussed current and future capital projects at the Water Treatment Plant. He explained the construction costs for the control valves, high service control project, water laboratory improvements and other projects. He further noted that engineering for the control valve project would be completed in house.

In response to Mr. McKee, Mr. Denton explained take home vehicles and employee uniforms. Mr. Denton noted that uniforms were included in the budget for the upcoming fiscal year. He further noted specifics of rental uniforms for field employees and uniform purchases for office employees. Mr. Bannister stated that \$30,000 was included in the budget for the purchase of office employee uniforms. He advised that Staff was considering changes to the uniform policy to allow professional business attire for office personnel who do not interact with the public daily and continuing the uniforms for customer service personnel. Mr. Bannister stated that the changes were still in the discussion phase. Mr. Ludwig added that the uniform policy needed to be reviewed and changes considered.

Dr. Green discussed footwear and safety equipment requirements included in the uniform budget. In response to Mr. McKee, Mr. Denton stated that the specific costs could be broken out for the Board to review.

In discussion, Mr. Pogrotsky noted that the new budget format was very informative and inclusive. He noted he was in favor of continuing with the individual department budgets on Thursday. Mr. Ludwig agreed and noted the importance of this budget and financial plan due to the number of large ongoing and upcoming projects.

Dr. Green moved to adjourn. Mr. Pogrotsky seconded. The motion passed and the meeting adjourned.







ATTEST: