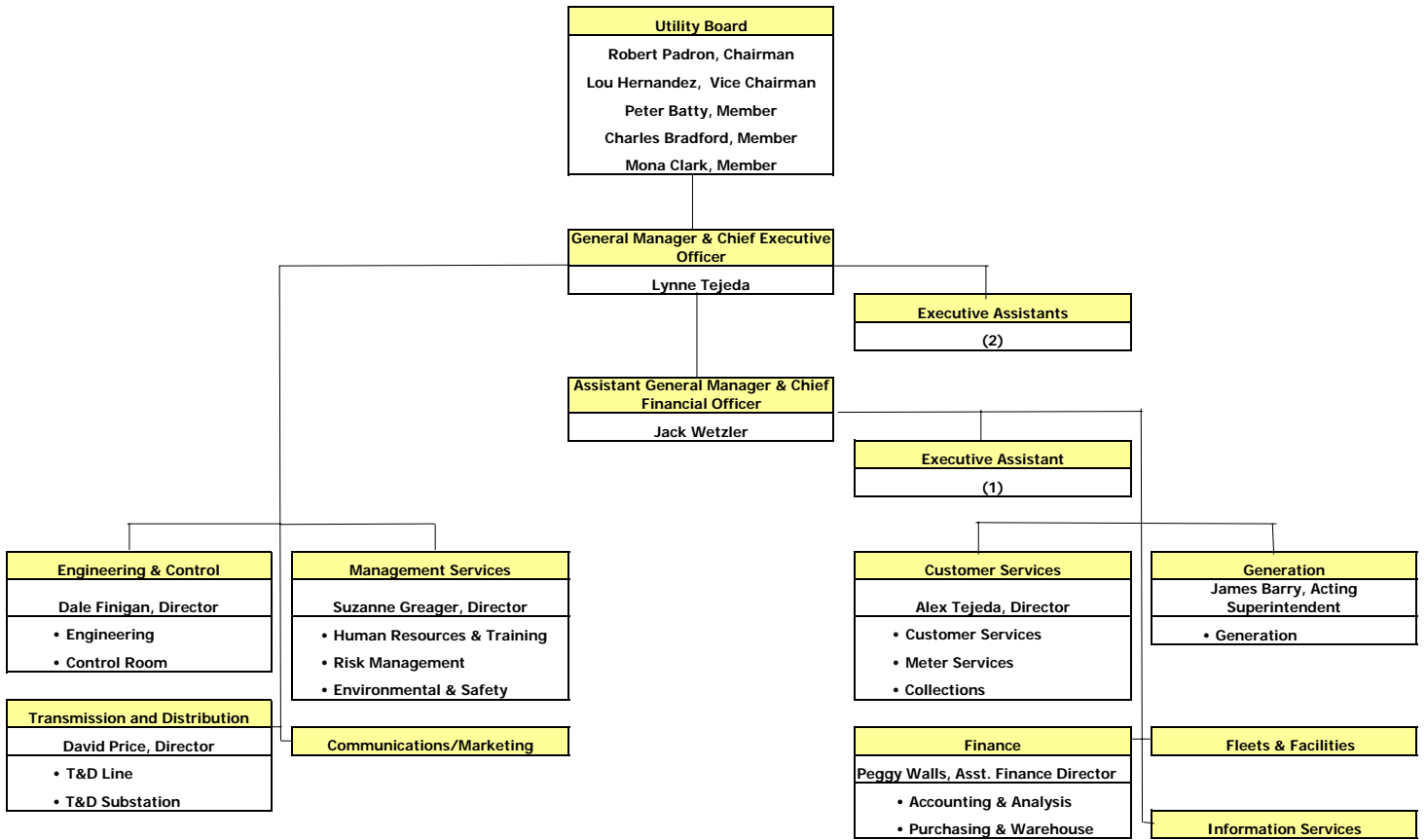


Organizational Chart - Overview



Organizational Chart - Count by Section

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Number of Authorized and Budgeted Positions

Dept #	Department Name	Budget FY 2007	Actual @ 7-31-07	Authorized FY 2008	Budget FY 2008
11	Executive	3	3	3	3
20	Information Services	5	5	5	5
21	Communications	1	1	1	1
22	Human Resources	6	6	6	6
23	Finance	11	11	11	11
24	Purchasing	4	4	4	4
25	Facilities	7	7	8	8
30	Engineering	11	12	12	12
31	Control Center	9	9	10	10
32	Risk Management	1	1	1	1
33	Environmental/Safety	1	0	1	1
34	Fleets	5	4	4	4
35	Warehouse	2	2	2	2
40	Customer Services	21	21	21	21
50	Meter Services	12	12	12	12
60	Transmission & Distribution	37	36	38	36
70	Generation	<u>22</u>	<u>23</u>	<u>24</u>	<u>24</u>
	Total	158	157	163	161

FY 2008

163 Authorized positions

161 Budgeted positions

2 T&D - Tree Trimmer & General Helper authorized, but not budgeted

163 Authorized positions



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 PO Box 6100
 Key West, FL 33040-6100
 www.KeysEnergy.com

UTILITY BOARD OF THE CITY OF KEY WEST

October 2, 2007

Members of the Utility Board of the City of Key West, FL

Dear Utility Board Members:

Summary

The Budget is the financial guide for the operation of Keys Energy Services (KEYS) during the upcoming fiscal year and a financial plan for the next four years. The Revenue, O&M, and Capital Budgets were approved August 8, 2007. The budget represents a realistic plan of growth, which is tempered, due to the new condominiums which have been built and are vacant owing to the speculative nature of the housing market. KEYS service to new customers continues to grow, but at a slower pace than anticipated.

The business priorities established during the 2007 Strategic Planning session helped guide the preparation of this budget.

The Grand Total Budget of \$109.0 million is an increase of \$4.7 million, or 4.5% as compared to the 2007 Amended Budget. The five year plan incorporates rate increases in Fiscal Year 2009 and Fiscal Year 2011.

The balanced budget which represents expenditures for a set period against expected revenues for the same period has been approved.

Sales of Electricity

Due to lower actual sales for 2007, the 2008 sales of electricity were budgeted closer to the actual sales for 2006 and therefore are lower than the 2007 amended budget.

	Amended Budget FY 2007	Budget FY 2008	2008 Budget vs. 2007 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Number of Customers	29,731	29,976	245	0.8%
Sales of Electricity - kWh	742,485,788	705,361,498	(37,124,289)	-5.0%
Increase (decrease) from prior year	2.56%	-5.00%		

The future years of the Five-Year Financial Plan, annual percentage increases for sale of electricity are as follows:

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Number of Customers	29,976	30,220	30,469	30,713	30,959
Sales of Electricity - kWh	705,361,498	724,324,010	743,810,301	758,267,056	771,250,521
Increase compared to prior year	-5.00%	2.69%	2.69%	1.94%	1.71%

Electric Revenues

Electric Revenues are \$96.7 million, which are \$102,139 lower or -.01% lower than the 2007 Amended Budget. The decrease in projected sales of kWh accounts for the lower revenue for FY2008. The future four years of the Financial Plan show an increase in projected sales of kWh in anticipation of a recovery in the housing market.

	Amended Budget FY 2007	Budget FY 2008	2008 Budget vs. 2007 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Revenues				
Energy and Demand	90,039,967	85,585,792	(4,454,175)	-4.9%
Power Cost Adjustment (PCA)	4,514,181	8,846,184	4,332,003	96.0%
Customer Charge	<u>2,201,077</u>	<u>2,221,110</u>	<u>20,032</u>	<u>0.9%</u>
Total Electric Revenues	96,755,225	96,653,086	(102,139)	-0.1%

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues					
Energy and Demand	85,585,792	90,525,134	92,949,487	97,629,827	99,285,345
Power Cost Adjustment (PCA)	8,846,184	8,905,907	10,073,871	11,452,495	12,937,023
Customer Charge	<u>2,221,110</u>	<u>2,341,935</u>	<u>2,363,912</u>	<u>2,490,162</u>	<u>2,511,172</u>
Sub-Total Electric Revenues	96,653,086	101,772,976	105,387,270	111,572,484	114,733,540
Gross Receipts Tax (GRT)	<u>2,478,185</u>	<u>2,609,459</u>	<u>2,702,130</u>	<u>2,860,718</u>	<u>2,941,768</u>
Total Operating Revenues	99,131,271	104,382,435	108,089,400	114,433,203	117,675,308

All Other Major Revenues

Historical trends were used as a basis for 2008 in all categories.

The Five-Year Financial Plan includes:

- Credits from Florida Municipal Power Agency (FMPA) - \$6.7 million
- Capacity credits from the Florida Keys Electric Cooperative - \$2.2 million
- The KWSP redevelopment lease provisions - \$2.1 million
- SO₂ Emission Credit revenue - \$4.1 million

	Amended Budget FY 2007	Budget FY 2008	2008 Budget vs. 2007 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Other Operating Revenues	2,553,882	3,173,239	619,357	24.3%
Non-Operating Revenue (Interest Income)	1,703,924	1,945,553	241,629	14.2%
Non-Operating Revenue (Other)	<u>837,120</u>	<u>4,734,704</u>	<u>3,897,585</u>	<u>465.6%</u>
Total Other Revenues	5,094,925	9,853,495	4,758,570	93.4%

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Other Operating Revenues	3,173,239	3,231,913	3,291,625	3,352,811	3,415,514
Non-Operating Revenue (Interest Income)	1,945,553	1,806,386	2,029,277	2,165,061	1,979,629
Non-Operating Revenue (Other)	<u>4,734,704</u>	<u>1,214,234</u>	<u>2,541,534</u>	<u>2,613,159</u>	<u>2,692,123</u>
Total Other Revenues	9,853,496	6,252,532	7,862,437	8,131,031	8,087,266

Operations & Maintenance Expenses

The Total O&M Budget increased \$3.0 million, or 3.2%, to \$95.1 million.

Purchase Power Costs are higher than 2007 expenses by \$1.4 million. This is due to the rates charged by FMPA. The 2007 budget included an energy rate of \$54.00 per MWh while the 2008 budget includes a charge of \$58.65 per MWh.

Other Power Supply Expenses are higher than 2007 expenses by \$184.1 thousand.

Transmission Expenses are lower than 2007 expenses by \$90.1 thousand.

Distribution Expenses are higher than 2007 expenses by \$434.5 thousand.

Customer Expenses are higher than 2007 expenses by \$70.3 thousand.

Administrative & General Expenses are higher than 2007 expenses by \$1.0 million. The major increases are:

- Pension Contribution - \$178.3 thousand
- Employee and retiree health insurance premiums - \$45.3 thousand
- A&G Payroll - \$203.7 thousand
- Transportation (leased vehicles and fuel) - \$13.9 thousand

	Amended Budget FY 2007	Budget FY 2008	2008 Budget vs. 2007 Amended Budget	
			Amount Inc (Dec)	Percent Inc (Dec)
Expenses				
Purchase Power	63,913,044	65,275,104	1,362,060	2.1%
Other Power Supply	1,315,511	1,499,640	184,130	14.0%
Transmission	4,098,145	4,008,044	(90,101)	-2.2%
Distribution	4,053,000	4,487,465	434,465	10.7%
Customer Service	1,460,025	1,530,354	70,329	4.8%
Administrative & General	<u>17,231,877</u>	<u>18,263,131</u>	<u>1,031,254</u>	<u>6.0%</u>
Total Operating & Maintenance Expenses	92,071,601	95,063,738	2,992,137	3.2%

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Purchase Power	65,275,104	66,851,828	69,578,695	72,113,859	74,637,065
Other Power Supply	1,499,640	1,665,673	1,438,689	1,329,128	1,316,797
Transmission	4,008,044	4,177,898	4,129,219	4,207,554	4,266,959
Distribution	4,487,465	4,678,089	4,607,657	4,654,675	4,792,152
Customer Service	1,530,354	1,563,003	1,611,392	1,661,706	1,713,836
Administrative & General	<u>18,263,131</u>	<u>18,739,279</u>	<u>19,398,805</u>	<u>19,580,201</u>	<u>20,222,581</u>
Total Operating & Maintenance Expenses	95,063,738	97,675,770	100,764,457	103,547,123	106,949,390

Multi-Year Capital Plan

Capital projects were budgeted using the Capital Project Prioritization Process. At the 2007 Strategic Planning Session, the following business priorities were identified:

- Develop a methodology to operate with flat or declining sales
- Create a stable, capable, and committed work force
- Maintain a reasonable long-term reliability level compared to industry benchmarks and improve customer perceived reliability
- Maximize benefits to KEYS from FMPA
- Maintain high level of customer service and customer satisfaction

Based upon these priorities, capital projects totaling \$25.5 million are proposed for 2008. The above projects will be funded from the newly established Construction (Bond) Fund and by transfers from the Revenue Fund to the Renewal and Replacement Fund.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Transmission	1,931,000	1,280,580	926,630	515,000	95,000
Distribution	11,982,802	10,063,098	6,164,998	6,000,298	3,375,804
Generation	1,699,000	960,000	310,000	300,000	300,000
Facilities	69,500	374,338	124,538	80,128	86,138
Fleets	765,000	780,000	220,000	60,000	430,000
Information Technology	875,500	589,550	348,153	84,310	135,525
Other	<u>2,494,500</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>75,000</u>
Total Capital Projects	19,817,302	14,097,566	8,144,318	7,089,736	4,497,467
Projects Carried Forward or Deferred	<u>5,705,000</u>	<u>(1,765,000)</u>	<u>(3,955,000)</u>	<u>1,175,000</u>	<u>3,350,000</u>
	<u>25,522,302</u>	<u>12,332,566</u>	<u>4,189,318</u>	<u>8,264,736</u>	<u>7,847,467</u>
<u>Percentage by Category</u>					
Transmission	9.7%	9.1%	11.4%	7.3%	2.1%
Distribution	60.5%	71.4%	75.7%	84.6%	75.1%
Generation	8.6%	6.8%	3.8%	4.2%	6.7%
Facilities	0.4%	2.7%	1.5%	1.1%	1.9%
Fleets	3.9%	5.5%	2.7%	0.8%	9.6%
Information Technology	4.4%	4.2%	4.3%	1.2%	3.0%
Other	<u>12.6%</u>	<u>0.4%</u>	<u>0.6%</u>	<u>0.7%</u>	<u>1.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Major five-year major projects, by function, are:

Transmission:

- Transmission line and substation maintenance - \$1.3 million
- Repair over the water transmission pole foundations - \$850.0 thousand
- Upgrade transmission relay panels - \$675.2 thousand
- Repair Line 4 over the water transmission pole tops & static wire - \$500.0 thousand

Distribution:

- Work orders & engineering's requests - \$5.2 million
- Purchase transformers - \$5.5 million
- Distribution Improvements - \$12.8 million
- Construct new substation Stock Island - \$2.0 million
- Replace substation transformers KDS #1 and KDS #2 -\$2.5 million
- Install system wide fiber network (backbone) - \$3.7 million

Generation:

- Overhaul MSD #1 at Stock Island - \$500.0 thousand
- Replace Control Cab - \$500.0 thousand
- Purchase fin fan coolers - \$1.3 million

Fleets:

- Replace company vehicles - \$690.0 thousand
- Replace drive thru car wash - \$75.0 thousand

Information Services:

Install integrated voice response & outage management system - \$428.0 thousand

Upgrade PC's - \$245.0

Customer service and financial systems software upgrade - \$225.0 thousand

Fund Balances

The Construction Fund transfers to the Renewal & Replacement Fund will be \$20.4 million for 2008.

The Operating Reserve Fund has sufficient balances to maintain the 90-day requirement established by The Utility Board. The Emergency Reserve Fund balance of \$2.0 million remains unchanged throughout the Planning Period.

Debt Service Coverage

The Debt Service Coverage for 2008, before capitalized overhead, is anticipated to be 1.58 compared to the required 1.25 x coverage in Bond Resolution No. 532, Article V, Section 5.01, B.

In October 2006, KEYS issued \$42.0 million of Electric System Refund and Capital Improvement Revenue Bonds, Series 2006. The bonds refunded the FMPA loan of \$948,000 and will fund several capital projects.

Payment to the City of Key West

The payment to the City of Key West combined with projected In-Kind Services exceeds \$700,000 per year.

Respectfully Submitted,



Jack Wetzler
Assistant General Manager &
Chief Financial Officer

CC:

Lynne Tejeda, General Manager & CEO

Comparison of Projected Operating Results

	Actual FY 2006	Amended Budget FY 2007	Budget FY 2008	<u>2008 Budget vs. 2007</u> <u>Amended Budget</u>	
				Amount Inc (Dec)	Percent Inc (Dec)
Number of Customers	29,507	29,731	29,976	245	0.8%
Sales of Electricity - kWh	<u>704,124,365</u>	<u>742,485,788</u>	<u>705,361,498</u>	<u>(37,124,289)</u>	<u>-5.0%</u>
Increase (decrease) from prior year		5.45%	-5.00%		
Revenues					
Energy and Demand	\$ 55,308,113	\$ 90,039,967	\$ 85,585,792	\$ (4,454,175)	-4.9%
Power Cost Adjustment (PCA)	34,217,993	4,514,181	8,846,184	4,332,003	96.0%
Customer Charge	<u>2,097,779</u>	<u>2,201,077</u>	<u>2,221,110</u>	<u>20,032</u>	<u>0.9%</u>
subtotal Electric Revenues	91,623,885	96,755,225	96,653,086	(102,139)	-0.1%
Gross Receipts Tax	<u>2,344,483</u>	<u>2,480,804</u>	<u>2,478,185</u>	<u>(2,619)</u>	<u>-0.1%</u>
subtotal Operating Revenues	93,968,368	99,236,029	99,131,271	(104,758)	-0.1%
Other Operating Revenue	3,231,697	2,553,882	3,173,239	619,357	24.3%
Non-Operating Revenue (Interest Income)	1,047,716	1,703,924	1,945,553	241,629	14.2%
Non-Operating Revenue (Other)	<u>5,810,074</u>	<u>837,120</u>	<u>4,734,704</u>	<u>3,897,585</u>	<u>465.6%</u>
subtotal Other & Non-Operating Revenues	<u>10,089,487</u>	<u>5,094,925</u>	<u>9,853,495</u>	<u>4,758,570</u>	<u>93.4%</u>
Total Revenues	104,057,855	104,330,954	108,984,766	4,653,812	4.5%
Expenses					
Revenue Related Expenses:					
Purchase Power	59,946,424	63,913,044	65,275,104	1,362,060	2.1%
Other Power Supply	1,482,077	1,315,511	1,499,640	184,130	14.0%
Transmission	3,539,845	4,098,145	4,008,044	(90,101)	-2.2%
Distribution	3,366,439	4,053,000	4,487,465	434,465	10.7%
Customer Service	1,437,689	1,460,025	1,530,354	70,329	4.8%
Administrative & General	<u>15,153,075</u>	<u>17,231,877</u>	<u>18,263,131</u>	<u>1,031,254</u>	<u>6.0%</u>
Operating & Maintenance Expense	84,925,549	92,071,601	95,063,738	2,992,137	3.2%
Transfers					
Senior Lien Debt Service	8,386,900	8,451,538	8,386,900	(64,638)	-0.8%
Transfer to Renewal & Replacement	415,295	415,295	5,062,250	4,646,955	1119.0%
Transfer (from) to Rate Stabilization	1,400,000	700,000	700,000	-	0.0%
Transfer (from) to Operating Reserve	1,620,000	1,660,000	800,000	(860,000)	-51.8%
Payment to City of Key West, Florida	<u>343,341</u>	<u>378,769</u>	<u>370,294</u>	<u>(8,475)</u>	<u>-2.2%</u>
O&M Expenses and Transfers	\$ 97,091,085	\$ 103,677,203	\$ 110,383,182	\$ 6,705,980	6.5%

SIGNIFICANT POLICIES

Accounting Policies

The accounting policies of the Utility Board have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

Basis of Accounting

The Budget, as well as the financial statements, are prepared on the accrual basis; accordingly budgeted revenues are recognized when earned and budgeted expenses are recognized when incurred.

Disbursements and Bidding Threshold Amounts

On October 13, 1999, the Utility Board approved Resolution No. 679 regarding disbursements and bidding threshold amounts. A policy regarding payments under Section 11 of Florida Statute 69-1191 is as follows:

1a) Payments related to bond principal and interest, customer deposit refunds, payroll, power costs, and transmission expense, may be made by staff, without first seeking approval of the Board.

1b) The staff may also make disbursements under \$25,000, for all other expense categories related to Operations and Maintenance and Capital Projects, without first seeking approval of the Board, provided that such expenditures are within the existing Budget.

1c) Disbursements related to Operations and Maintenance and Capital expenses, over \$25,000, require prior Utility Board approval, unless otherwise specified as outlined in Paragraph 1a.

1d) Staff will present two listings to the Utility Board at each meeting. The first will show all disbursements made since the last Board meeting. The second will be a "To Be Paid" listing whereby disbursements will be made after Utility Board approval. Board approval of both reports means that all items listed are approved, whether they are over \$25,000, or any of the already paid items listed above.

A policy regarding contracting under Section 13 of Florida Statute 69-1191 is as follows:

1a) All construction, reconstruction, repairs or work of any nature by the Utility Board, where the entire costs, value, or amount of such construction, reconstruction, repairs or work, including the labor and materials shall exceed \$25,000, shall be done only under contract or contracts to be entered into on approval by the Utility Board.

1b) All supplies, equipment, machinery and materials costing more than \$25,000, shall be purchased only after the provision of competitive bidding.

SIGNIFICANT POLICIES

1c) All purchases of commodities or contractual services under provisions of local, state, and federal purchasing contracts shall be exempt from the competitive procurement requirements, provided that all of the following criteria are satisfied:

- 1) The terms and conditions of the original contract by the federal, state or local government are satisfactory to the Utility Board and such terms and conditions are expressly extended to other municipalities pursuant to the bid documents.
- 2) The original contract by the federal, state or local government was executed within twelve (12) months prior to the proposed purchase of commodities or services by the Utility Board.
- 3) The purchasing agent has performed an informal solicitation to determine if the prices of the original contract are fair and reasonable, and to assure local vendors have an opportunity to compete.
- 4) The Utility Board authorizes such procurement when the cost of commodities (materials) or contractual services (labor and materials) exceeds \$25,000.

On May 23, 2007, the Utility Board approved Resolution No. 752 regarding contract change order and inventory purchase threshold amounts. A policy regarding purchases under Section 11 of Florida Statute 69-1191 is as follows:

- 1a) Staff may issue purchase orders for inventory, fuel, and lubricating oil purchases not to exceed \$35,000.00, without prior approval of the Board.
- 1b) Staff may effect change orders to Utility Board contracts provided that the cumulative amount of change orders is not in excess of five-percent (5%) of the original contract amount and not in excess of \$25,000.00, without prior approval of the Board.

Capital Spending Policy

Working as a team, Department Heads and key staff members developed a Capital Project Prioritization Process (CPPP) taking into consideration both expansion and major rehabilitation. After completion, the team met to discuss and to evaluate the CPPP's based on available funding from the Construction Fund and the Renewal and Replacement fund to determine which projects were prudent. The vision of KEYS Mission Statement was the primary consideration in this process.

SIGNIFICANT POLICIES

Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials and allocated indirect charges, and capitalized interest. Major renewals and replacements are capitalized while minor replacements and repairs are expensed as incurred. Under Federal Energy Regulatory Commission accounting practices, the cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

The following is the capitalization policy:

- 1) The item must have a useful life of two or more years.
- 2) The unit cost must be at least \$5,000 for infrastructure items (items for Transmission, Distribution, and Generation).
- 3) The unit cost must be at least \$1,000 for all other General Plant items.
- 4) The unit cost must be at least \$500 for computer related equipment.

Debt Administration

Chapter 69-1191, Laws of Florida, grants the Utility Board the exclusive right to issue and sell from time to time revenue bonds against the income of said public utility, at prices determined by said Board, and the exclusive right to incur indebtedness against said public utility may validate and issue any bonds.

Revenue bonds may be issued by the Utility Board for the purpose of refunding outstanding revenue bonds as well for any other purposes which the Board deems proper in the management, operation, maintenance, control, improvement, extension, betterment, financing and refinancing of the electric public utility, as well as for purposes of acquisition, purchase, building and construction and operation of additional public utilities which are deemed proper by the Board, and revenue bonds may also be issued against the income of any additional public utilities so acquired.

The granting of such authority to the Utility Board, to issue revenue bonds against income of the electric public utility or against the income of any additional public utilities hereafter acquired by the Board, is exclusive to the Board.

There is no statutory limit on debt. However, the following policies have been used to govern the issuance of debt: *Purposes* – debt may be used to fund projects, property acquisition and/or equipment purchases. *Debt Maturity* – the type of debt incurred and the maturity date should be equal to or less than the life of the asset. *Types of Debt* – long-term revenue bonded debt and short-term loans. *Debt Structure* – the debt structure will be in accordance with applicable Federal, State, and other legal requirements.

SIGNIFICANT POLICIES

Total debt is comprised of four refunding bond issues: 1991, 2000, 2001, and 2006. All outstanding debt has fixed interest rates. All four issues are rated AAA by Standard & Poor's Ratings Group and insured by AMBAC Indemnity Corporation.

Treasury Management

Assets are invested in accordance with the Utility Board policy, which is governed by State Statutes. Moneys must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer.

"Authorized Investments" shall mean any of the following if and to the extent the same are at the time legal for investment of municipal funds:

- (i) Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;
- (ii) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are (x) not callable prior to maturity or (y) as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are insured and thereby rated by, or are otherwise rated by, a nationally recognized bond rating agency within its highest rating category or which are secured as to principal, redemption premium;
- (iii) Bonds, debentures, or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America and whose obligations represent full faith and credit obligations of the United States;
- (iv) New housing authority bonds or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions or a requisition or payment agreement with the United States of America;
- (v) Direct and general obligations of any state of the United States of America, to the payment of which the full faith and credit of said state is pledged, which at the time of investment are rated by any nationally recognized bond rating agency by a rating which denotes a security with investment characteristics of a security presently rated by Moody's Investors Service, Inc. or Standard and Poor's Corporation, in one of the three highest rating categories;

SIGNIFICANT POLICIES

(vi) Certificates of deposit, whether negotiable or non-negotiable, issued by any bank, savings and loan association, trust company or national banking association (including the trustee, if any, and Paying Agent) which are members of the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation;

(vii) Repurchase agreements with any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation (which may include the trustee, if any or the CO-trustee, if any) or with any government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is (a) fully and continuously secured by obligations described in clause (i), (ii), (iii), (iv) or (v) of this definition, (b) subject to a perfected security interest of the Board, and (c) has a term not to exceed 180 calendar days;

(viii) Units of participation in the Local Government Surplus Funds Trust Fund established pursuant to Part IV, Chapter 218, Florida Statutes, or any similar common trust fund which is established pursuant to law as a legal depository of public moneys and for which the Florida State Board of Administration acts as custodian;

(ix) Commercial Paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" by Standard & Poor's and which matures not more than 270 calendar days after the date of purchase;

(x) Investment agreements and guaranteed investment contracts which meet the criteria established by AMBAC Assurance Corporation (and any other Credit Facility Provider then having in effect a Credit Facility with respect to any Bonds).

Risk Management

All assets are protected through the Risk Management Program developed and managed by the Management Services section of Keys Energy.

Under this program, coverage is provided for worker's compensation, comprehensive general liability, auto comprehensive and physical damage, crime and fiduciary, errors and omissions, property, boiler and machinery, windstorm, flood and pollution.

The Management Services section, through their coordinated and continuous efforts in monitoring potential risk exposures and implementing safety control programs, such as Safety Training Observation Program ("STOP"), coupled with effective claims administration, is striving to meet the goal of continuous no-lost time accidents and minimizing injury claims.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Utility Board of the City of Key West
Florida**

For the Fiscal Year Beginning

October 1, 2006

President

Executive Director

Budget Policy

General Comments

On September 11, 1996, the Board approved changes in the Budget process that eliminated the Amended Budget and allows Budget amendments throughout the year. Known as the Budget Amendment Policy, staff has the authority to make changes within either the Capital or Operations and Maintenance ("O&M") Budget as long as the total amount in either respective Budget does not change. The change is reported at the next Board meeting. Changes in the Budget that exceed the Enabling Act limitation, affect Board approved bids, increase the total O&M or capital Budget, involve a new capital project not previously approved by the Board, or involve transfers between the O&M and Capital Budget, require Board approval.

The Utility Board's balanced budget uses current year's revenues and reserves, when necessary, to fund disbursements and transfers.

Budget Amendment Policy Detail

1. Adopt Budget for Revenues, O&M Expenses & Capital in accordance with Resolution 532, Article V, Section 5.01, (A). The Board shall annually prepare at least forty-five (45) days preceding each of its Fiscal Years, and adopt prior to the beginning of such Fiscal Year, a detailed Budget of the estimated expenditures for the operation and maintenance of the System during such next succeeding Fiscal Year.
2. Staff will have the authority to make changes within the O&M and/or Capital Budgets under the following conditions:
 - a. The combined O&M and Capital Budget do not change.
 - b. Within the Capital, funds may be moved to create a new capital project not to exceed the limitations set forth in Resolution #679 ⁽¹⁾.
3. Staff will recommend budget changes to the Utility Board under the following conditions:
 - a. The combined O&M and Capital Budget increases above prior amount.
 - b. Creating a new capital project exceeds the limitations set forth in Resolution #679 ⁽¹⁾.
 - c. Cumulative line item changes exceed the amounts set forth in Resolution #679 ⁽¹⁾.
 - d. The change will be documented on a Budget Amendment Form.
4. The General Manager reserves the discretion to require that a formal Budget Amendment be prepared even though it falls within staff's authority.

Budget & Financial Plan Preparation Process

The Board shall annually prepare at least forty-five (45) days preceding each of its Fiscal Years, and adopt prior to the beginning of such Fiscal Year, a detailed Budget of the estimated expenditures for operation and maintenance of the System during such next succeeding Fiscal Year.

⁽¹⁾ Resolution #679, A Resolution Regarding Disbursement and Bidding Threshold amounts, dated 10/13/99.

Budget control is provided by monthly revenue and expense reports. Monthly financial reports are provided to the Board. The Budget & Financial Planning process for the ensuing fiscal year (October 1 to September 30) begins when the staff reviews the load forecast and the Board and staff attend the annual Strategic Planning Workshop. The Department Directors develop and review the proposed Budget & Financial Plan before submitting to the General Manager for review and comment.

Upon completion of the proposed Budget & Financial Plan, a public workshop session is held to review all proposed Budget & Financial Plan items. Subsequently, a public hearing is held to gather additional comments. The proposed Budget & Financial Plan thereupon is submitted to the members of the Board for their final review and adoption prior to the commencement of the succeeding fiscal year. Upon valid adoption, all expenditures in the Budget constitute appropriations and amendments can only be made in accordance with the provisions of law and Board policy.

Budget & Financial Plan Preparation Calendar in 2007

Begin Budget Process – O&M	April 3
Begin Budget Process – Capital w/Five Year Plan	April 3
Departments Complete O&M Budget Planning	April 11
Departments Complete Capital Budget Planning	April 13
Prioritize Expenditures	April 30
Deliver Proposed O&M and Capital Worksheet to Departments	May 16
Finance Reviews and Revises Budget	May 17 – Jun 20
Finance Completes Revenue and Fund Transfer Budgets	June 27
Distribute Proposed Budget & 5 Year Financial Plan	July 3
Finance Committee to Review Proposed Budget & 5 Year Plan	July 17
Deliver Proposed Budget & 5 Year Plan to Utility Board	July 18
1 st Public Budget Workshop	July 25
Revise Proposed Budget & 5 Year Plan	July 26 – July 31
Deliver Proposed Budget & 5 Year Plan to Utility Board	Aug 1
2 nd Public Hearing & Possible Approval of Budget	Aug 8
Utility Board Approved Budget & 5 Year Financial Plan	Aug 8

Key West and Monroe County Demographics and Statistics

	Key West	Monroe County
Population (1)	25,811	80,537
Median Age (2)	38.9	42.6
Population by Race (2)		
White	71.4%	77.2%
Black	8.8%	4.5%
Hispanic	16.5%	15.8%
Other	3.3%	2.5%
Registered Voters (3)	14,472	52,279
Employees by Industry (2)		
Services	10,579	14,440
Retail Trade	3,415	10,882
Government	1,737	3,217
Other	2,460	8,145
Unemployment Rate (1)	2.3%	2.3%
Schools (1)	9	17
Places of Worship (1)	26	82

Key West is an island city located at the end of US Highway 1, approximately 160 miles southwest of Miami, Florida. The City of Key West is the county seat of Monroe County. Monroe is a county of islands connected by an overseas highway with 19.3 miles of bridge spans. The service area for the Utility Board of the City of Key West includes the city as well as half of Monroe County.

The millions of tourists that visit Key West and the county each year provide the major source of employment for local residents. Retail services, commercial fishing and government employment are the other industries. Currently 32% of county residents live in the city of Key West.

Climatological Data for Key West

	Rain	Temperature
Monthly Average (2)	3.24	78.0
Above (below) Average (2)	0.06	(0.07)

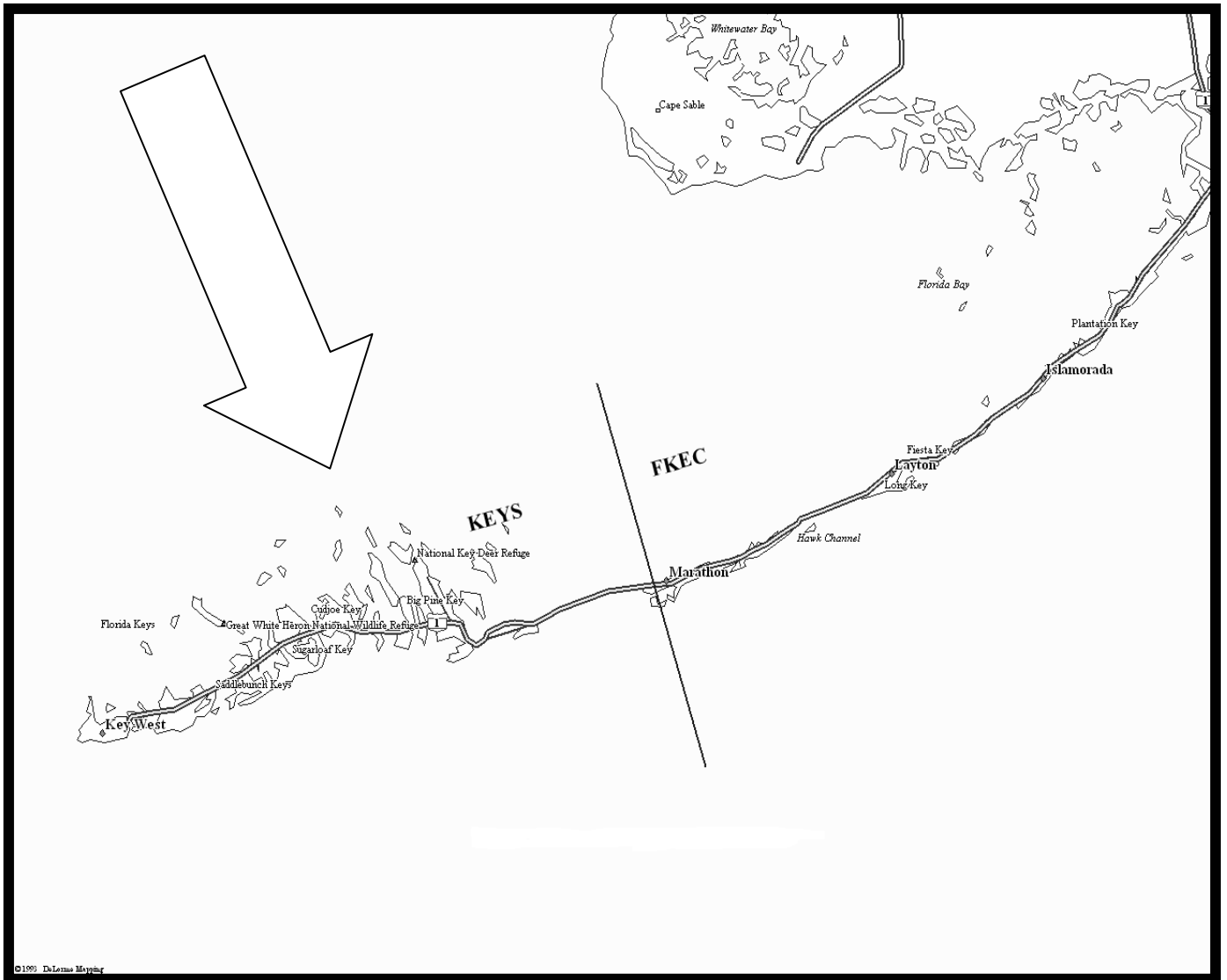
Source: City of Key West Chamber of Commerce

(1) Data as of 2003

(2) Data as of 2000

(3) Data as of 2004

SERVICE AREA



KEYS = KEYS ENERGY SERVICES
FKEC = FLORIDA KEYS ELECTRIC COOPERATIVE