

August 9, 2010

The regular meeting of the Council of the City of Martinsville, Virginia, was held on August 9, 2010, in Council Chambers, Municipal Building, at 8:00 PM, with Mayor Kim Adkins presiding. Council Members present included: Mayor Kim Adkins, Vice Mayor Kimble Reynolds, Jr., Gene Teague, Mark Stroud, Sr., and Danny Turner. Staff present included: Clarence Monday, City Manager, Brenda Prillaman, Leon Towarnicki, Eric Monday, Eddie Cassady, Wayne Knox, Dennis Bowles, Jim Taipalus and Gary Cody.

Following the invocation by Council Member Mark Stroud, Sr. and Pledge to the American Flag, Mayor Kim Adkins welcomed everyone to the meeting.

On a motion by Gene Teague, seconded by Danny Turner, Council approved with a 4-0 vote (Mayor Adkins abstained as she was member-elect at that time), the minutes of May 25, June 8, and June 21, 2010 Council meetings.

In the absence of Jim Tobin of Piedmont Community Services, City Manager Clarence Monday reported that state law requires the PCS contract to be submitted each year for review and approval by the local government and this approval does not make the local government a party to the contract and creates no additional responsibility. On a motion by Gene Teague, seconded by Kimble Reynolds, with a 5-0 vote, Council approved the FY11 Performance Contract between Piedmont Community Services and the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services. Mr. Monday indicated that Mr. Tobin will be giving Council an update in the near future on the agency and the impact of budget cuts.

Clarence Monday, City Manager, introduced Gary Cody and Jim Taipalus to report on the Mustangs season. Jim distributed copies of surveys done of baseball fans who attended the games this past season to get an idea of the market being served. More than 21 percent of the people at the games are from outside the community including Franklin and Patrick counties and Rockingham County, NC. Gary Cody presented the following 2010 Season Report for the Mustangs as well as a powerpoint presentation:

DATE: August 9, 2010 **SUBJECT:** Martinsville Mustangs 2010 Season Report
Team Information - Summary

Sixth season in the Coastal Plain League completed.

Week 1 – Jonathan Cornelius was CPL Player of the Week. Best ERA on the team, third best in the CPL for season. Led CPL in Strikeouts at 91.

Mathew Black - 4th in CPL in RBIs and made the home run derby contest at Forest City, NC. 2nd in CPL for On Base Percentage - 44%.

Brian Dice – 2nd in CPL in throw outs when opposing teams' steal bases

Jonathan Cornelius, Matthew Black, & Taylor Oldham made All-Star Team.

Overall season record was 22 wins & 33 losses.

Fiscal Year & Basis For Report - 2010 Season Report

This annual report covers the 2010 season and as noted last year, the process of developing the report is somewhat complicated by the fact the City's budget cycle runs from July 1 to June 30 and the summer baseball season spans from roughly May to August, overlapping two budget years. For this report, revenues and expenditures have been compiled from data from both the FY10 and FY11 budgets, beginning approximately in October of FY10 and extending through September of FY11 in an effort to capture data specifically related and attributed to the just-completed 2010 season.

Revenue for the 2010 season is currently calculated to be \$151,068, compared to \$157,987 for the 2009 season and \$130,145 for the 2008 season, which is still over \$20,000 more in profits from 2008 season. The 2010 game day revenue (comprised of gate, concessions, beer, and souvenirs) came in at \$86,055 compared to \$86,054 in 2009, while advertising revenue decreased slightly from \$59,640 in 2009, to \$53,109 in 2010 (\$6,531 off from last season).

August 9, 2010

Additional sources of revenue include season and general admission ticket sales, donations, baseball camps, and a pay supplement from NCI's summer intern program.

Expenditures for the 2010 season through the first week of August are \$189,174 with anticipated additional costs of approximately \$6,259 bringing the total anticipated 2010 season cost to \$195,433 (Note: \$780,567 total for Parks and Recreation Budgets). While every effort has been made to determine expected additional costs, it is anticipated there may be minor revenue/expense adjustments as the season is closed out. Subtracting revenue from expenses leaves a net cost to the City for the 2010 season of \$44,365, an approximate 22% reduction over the net 2009 season cost of \$56,888. The just-completed FY10 budget for the Mustangs projected revenue at \$120,600 and expenses at \$213,686 (budgeted net cost of \$93,068), while the current FY11 budget projects revenue at \$136,600 and expenses at \$215,610 (for a budgeted net cost of \$79,010). In addition to total revenue, it should be noted the Mustangs' operation also benefited by receipt of approximately \$20,000 in value of traded services which saved the City \$20,000 that would have been calculated in expenditures.

Overall Attendance Figures

- 26,534 for 31 home games, 1,299 less fans in the Ball Park from 2009
- Combination of hot weather and a lot of afternoon showers contributed. Rule of Thumb – if it looks like a thunderstorm, people just will not come out to the Park.
- Attendance Figure is still higher than 2007 (24,649) and 2008 (25,792) seasons
- Noted: Mustangs' Staff surveyed people coming through the gate on 7 random nights (7/16-7/31) toward the end of the season: Results-Martinsville–20%; Henry County – 59%; Franklin Co – 7%; Patrick Co – 6%; and “others” – 8%. Improvements in the 2010 season

Compared to the 2009 season, the entertainment venue bar was raised for Mustangs' games this year. With our new addition to the Mustangs' Organization, Jim Taipalus has improved the overall atmosphere at Hooker Field during game nights. Customer Service has been exceptional this season with no complaints coming into the Mustangs' office or Parks and Recreation Dept. and I have only heard great comments on how the operations for the Mustangs played out this year from game night to the player's hospitality services to the excitement at the Park. Many positive notations have been made from dedicated fans toward Jim and he has thrown many different curve balls of amusement at the Park this year which attracts all types of people, even if they are not baseball fans. He is really personable with clients, players, and coaches and tends to their needs in the utmost professional courteous manner.

There were a number of notable season highlights – the individual success achieved by several team members; all the new advertising money brought to the program with Jim T. having only two months to get to know business owners and pursue sponsorships while working on host families and other operational needs, and the fact that game day revenue and advertising revenue stayed about the same in spite of local economic and unemployment issues in the area; Meals were planned much better for the players this year with two key sponsors and arrangements made as well as coordination with our host families cooking home cook meals for the players; a party deck was built to accommodate parties up to 25 to have their own private location to watch and be served during the game; game promotions were increased with more donated prize giveaways such as shirts and other sponsors' novelties, Mustang mugs, promotional cups all the way to fresh-squeezed lemonade to Buffalo Wild Wings and funnel cakes; again the nights sponsored by the M-HC Chamber and an newly added Patrick Co. Chamber Night were very well attended; the July 3rd game and fireworks show was a huge success resulting in the season's highest game day revenue of all time according to the records I have from 2007 to now which broke the old record by over \$3,000 – made \$8,522.75. This crushed the record for sales from 2009's report of \$5,489.10 (\$3,033.65 more in sales); even the beer wagon and snow shack had record sales this year on particular nights; all of the “thirsty-Thursdays” were a big success; other added entertainment was a home run derby, two different nights of bands playing before and during the game, between inning entertainment extras; and the “throwback Tuesdays” when the Mustangs wore replica Martinsville Oilers jerseys as a tribute to the Connie Mack League Oilers team that played at Hooker Field (English Field previously) in the 1970s.

We also had a few disappointments – few games it rained throughout the game and attendance was low those nights and low attendance on Monday-Wednesday's games which is a norm across the CPL (All team owners complain about). Acknowledgements – Reflecting on the work and efforts that went into this past season, there are many groups as well as individuals that made significant contributions to the 2010 season. Again, City Council certainly should be recognized for support and funding of the team. Thanks go out to the Mustangs players and coaches for their efforts on the field as well as the impact they all made in our community during their stay definitely as our youth look up to these role models while they visit our home grounds in Martinsville. The host families deserve recognition and thanks for providing accommodations to the Mustangs' players during the summer and providing all the great meals they put together too. Thanks to our loyal President of the team, Doug Christman and his wife Sandy for putting their heart and soul into the ball club and working wonders with fans and listening to our dedicated fans and giving some great advice in areas to improve; Thanks to the Martinsville Comm. Recreation Assoc. members and Baseball Heaven's members for putting all their effort into working game nights; Thanks to all those who advertised whether on the outfield fence signs, on the pocket schedules, sponsored a night at the ballpark, or in any way contributed to the 2010 season. We are very appreciative of Amanda Witt and the Chamber of Commerce for putting Jim Taipalus on the right track to local sponsorship opportunities in the Community. A big thank-you to the fans who came out during the season to support the Mustangs. Thanks to the approximate 20-member game-day staff who sold tickets, concessions, sold souvenirs, announced the game, ran the scoreboard, handled the promotions and kids' events, and everyone who had a hand in making the visit to the ballpark an enjoyable experience. Also, thanks to Ross Anderson and NCI for allowing Ross to do his internship through the Mustangs' organization. Ross was a key piece to the success of operations at the field where he helped in many areas. We certainly could not have enjoyed the success we had without all these efforts from a multitude of staff and volunteers.

August 9, 2010

General Comments As the 2010 season began, there were high hopes that the difference between revenues and expenditures could be improved. Revenues stayed about the same, but this was personally my first year with the Mustangs and Jim, other staff, and I have really learned a lot in how to improve the future for this organization. E.g., adding Chamber Nights from all the adjacent Counties surrounding M-HC, which was learned by signing on Patrick Co. Chamber Night, it being a huge success this year. Unfortunately as we have found with other budgets in the City, expenditures also increase with time, such does inflation. With bringing Jim Taipalus on board February 1, he hit the ground running, but didn't have the adequate time to fulfill the sponsorship level he wanted to pursue due to many other operations that had to take place to bring in our Players and Coaches comfortably as well as other League requirements. He worked diligently making his contacts, whereas he had to learn the area, local faces, and the businesses to pursue in such a short time compared to our situation in the past where the Chamber already had these contacts, but I may add they were a major help to start the fundraising efforts. Another highlight is now we have a new energetic Tourism Director, Jennifer Doss, which really helped us promote the Team Regionally through publications, Virginia.org, and other media outlets. She even set up a package where outside people could buy a package which included tickets, meals, and motel stays while in Martinsville and we responded with a few souvenir give-aways and an official CPL ball signed by the whole team. **Jennifer provided me with a quote she wanted me to read, "The Martinsville-Henry County Economic Development Corporation's Tourism & Film Division supports the Martinsville Mustangs. Not only does the team's presence enhance quality of life for our residents, but it also provides a family friendly attraction for tourists to enjoy as well. Since May 2010, 8% of visitor surveys completed by out-of town guests indicated that their primary purpose for visiting Martinsville-Henry County was to see a Mustangs Game. Through continued out-of-area marketing we expect to see this number grow in the coming years."** Economic Impact: The economic impact of drawing tourist to our area to spend money in our economy is noteworthy, especially from the data received from surveying fans coming through the gate and discovering where they are traveling from. Numerous studies have been conducted and much information published regarding the economic impact to the local economy of having a professional or minor league baseball team in operation. It is reasonable to assume there is a local economic impact from operation of the Mustangs, although the impact is difficult to measure.

Of the annual expenditures to operate the team, a significant amount is spent in the local community for the purchase of supplies, materials, printing, advertising, etc., all of which certainly has a positive impact on the local economy. On game days, the Mustangs' operation employs 20 to 25 individuals in varying capacities related to food and beverage sales, press box operations, on-field activities, etc. The Martinsville Community Recreation Association provides staffing for concession operations and money raised by the organization is typically given back to the community to help offset costs related to youth sports programs that in turn help offset costs that might otherwise be provided by the local government. Visitors to the ballpark will often spend locally for travel expenses, gas, and/or food. The exposure generated by publicity surrounding the team certainly has a positive impact, not only in this area but in other communities visited by the Martinsville Mustangs. This was a learning curve for future promotions from a regional stand point, which will be pursued immediately if the Team resides.

As we look forward to the 2011 season, the FUTURE IMPROVEMENTS will be made:

Hire a new Head Coach immediately; **deadline-Sept. 4, 2010**

Developing a Booster Club to help with overall fundraising, promotions, ticket sales, meals Explore other partnership opportunities to maximize revenues and minimize expenses, especially in travel expenses.

Pursue outside of the City and County for sponsorships as well as long-term sponsors.

Although the goal is to turn baseball into a revenue/expense neutral venture (or better yet, generate a profit), develop an acceptable net cost range to work toward.

Continue to explore options for capital improvements at Hooker Field including (but not limited to) improved concession/press box facilities/covered seating, which would allow us to bring in the All-Star and Petit Cup Playoffs.

Adding more Chamber Nights from Adjacent Counties.

What are our Options

- Continue Baseball on a Year to Year basis
- Multiple Year Commitment
- Continue to seeking partnership opportunities to help operate the Team and alleviate cost
- Moth Ball the Team for one Year
- Sell the Franchise

Staff Recommendations Sign the Letter of Intent to Play; August 31, 2010, which is the deadline; Hire a new coach and assistant immediately and make efforts to recruit Division I players to complement the team roster (some of the players from this year have requested to come back if we have a team from the excellent experience they had here). We are asking City Council to consider a 3 year minimum commitment to return the Martinsville Mustangs to our community, which in turn will help with recruiting, long-term advertising and sponsorship commitment, facility improvements at Hooker Field, and the flow of management and operations without a break of wondering year to year if we will bring the team back or not. This commitment would allow Staff to look at turning Hooker Field into a destination for baseball for years to come.

To consider if Team doesn't play in 2011: Crime Rate in Martinsville is the highest in the State. I spoke with Mike Rogers, Chief of Police on Thursday and he said in the summer months that the crime rate is much higher than fall/winter months. If we moth ball the Team then we are sending the teen population which is 28% of our fan base for the Mustangs to the Streets during these Summer months, which in turn we'll probably see an increase in the Crime Rate. How could it become higher than it already is here? The Mustangs' Games provide a safe supervised environment for our teen and adolescent population, which they are so easily influenced by peer pressure at this age and look up to these role models, our Mustangs' Players. Even though the team has a downfall in revenues vs. expenditures, it provides a huge economic impact to our area while the team is playing, bringing in player's families to stay multiple

August 9, 2010

nights in hotels, fans buying food, merchandise and gas bought in the City for fans returning to areas abroad, as well as showcasing our City to Tourism as mentioned before. A statistic I found when I was researching material for our local skate park to be built - the number one and two reasons why businesses locate to a community is number one, is the population educated; number two, what type of recreational opportunities are there in the area. Games provide an affordable family entertainment option for our surrounding area. Also, these Mustangs' Players are major role models for our Youth when they are here. One other reason is the Socialization Experience for All Ages at the Park, which keeps kids in balance, the middle-aged enlightened, and elderly youthful. Bottom line, this is our Community Team which is one of our largest marketing aspects for the City to draw in Tourism and Businesses who want to locate here and the game-day atmosphere takes away the uncertainties that people face day after day at the present time in our society.

Respectfully submitted: Gary Cody, Martinsville Mustangs and Parks and Recreation Director

MARTINSVILLE MUSTANGS –SUMMARY OF REVENUES, EXPENSES, NET COST

	2008	2009	2010	2011
ACTUAL REVENUE	\$130,145	\$157,987	\$151,068	
BUDGET PROJECTION	\$129,250	\$118,410	\$120,600	\$136,600
ACTUAL COST	\$190,000	\$216,375	\$195,433	
BUDGET PROJECTION	\$182,805	\$191,767	\$213,686	\$215,610
ACTUAL NET	\$60,000	\$56,888	\$44,365	
BUDGET PROJECTION	\$53,555	\$73,357	\$93,086	\$79,010

A video production of baseball fans was shown at the Council meeting with comments from various fans. Mayor Adkins then opened the floor for public comment regarding the Mustangs. Lee Ann Hankins, 909 Jefferson Circle, spoke as a mother, teacher, and a summer worker at the Mustangs games on the value of the team being in the community and the good role models these young men are for the young people of our community; Andrew Wright spoke in favor of keeping the team as people are coming to the game and they spend money; Michael Elder, 923 Childress Drive, encouraged the team leader to introduce kids to baseball so they can get a passion for it; Paul Farrar, 1944 Penns Rd., Spencer, spoke in favor of keeping the team and stated what a good job Jim had done this past season; Chett Bason commented he is totally convinced the team is a major economic development asset and asked Council for a multiple year commitment; Doug Christman, Axton, served as President of the team and stated this is the make it or break it year for the Mustangs—he recommends hiring Jim Tailapus for a multi-year contract. sign the letter of intent to play, and get a head baseball coach by September 4. Council comments included: there was expectation that team would make more progress this season, but commended them for great strides; not comfortable with a multiple year commitment without benchmarks; should consider private investors; Tailapus has done outstanding job and it is good for the city; concerns with the team still operating at a loss and it is hard to be supportive for a 3 year commitment. On a motion by Danny Turner, seconded by Gene Teague, with a 3-2 vote, Council approved the motion to fund the baseball team for one year with expectation of duplicating performance of 20% progress as a condition to go forward. Kim Adkins voted nay and Kimble Reynolds voted nay. Mayor Adkins wanted it noted for the record she voted the motion down because she needed more time to evaluate the information presented. Recognizing there were time constraints, she asked Council to consider calling a special Council meeting prior to its next Council meeting on August 24. Staff was directed to post the Mustangs report on the city website.

Dennis Bowles, Electric Department Director, provided Council with an update on AMP projects which included the follow information:

August 9, 2010

PowerPoint presentation text: City's Goal is to become less dependent on volatile power market." Market prices fluctuate daily. During prosperity, economic drivers make prices high, with sharp, unexpected increases that are unpredictable over time. Lately, market prices have been down, but who knows how long this trend will continue? Buying the entire electric load on the market is extremely risky. City's Hydroelectric Dam built in 1905. The City assumed all the risk, cost, and benefits. Self-build or joint owned generation assets have been a City goal for 30+ years. History--Ridgeway Hydroelectric Project--Army Corps Dams were studied to add or increase generation, 1980's. Blue Ridge Power Agency joint venture with other municipals to study a waste to energy plant near Pittsylvania County line. 2005 First Steps--RFP issued (2-1-05) for a full requirements power supply contract effective July 1, 2006, 14 proposals received. Narrowed to four proposals, Cinergy, Constellation, AMP and AEP/APCo. AEP/APCo and AMP proposals were selected for review due to lower cost. AEP/APCo Formula Rate 20 year contract with yearly true up and monthly fuel factor adjustment, no right for customer cancellation. AMP full requirements contract with block market purchases and ability to participate in future generation projects as a member. Council's goal--In 2006 City Council made the decision to embark on a wholesale power supply philosophy that would limit its total dependence on power purchased from the electricity markets and reduce exposure to the volatility of those markets by securing a portfolio of power generation assets for future wholesale power needs. In 2006, City Council decided to contract with AMP as its power supplier based partly on it having the lowest price in the RFP and to gain control over its power purchasing from the market in the shorter term and to develop the City's asset base power portfolio to include projects proposed by AMP or self-build if opportunity exists. In July, 2006 Martinsville started receiving power from AMP purchased in blocks from the wholesale power market. 2007 AMP Projects Subscriptions: Prairie State Energy Campus, 1600 MW coal fired plant under construction in southwest Illinois with AMP having 23% ownership. Cannelton, Smithland and Willow Island hydroelectric projects on the Ohio River at existing Army Corps Dams totaling 208 MW. American Municipal Power Generating Station (AMPGS), 960 MW coal fired plant proposed for construction in Meigs County, Ohio. 2008 AMP Project Consideration--GDS Consultants Inc., power advisory professionals, reviewed the three projects and provided an in-depth overview of the project and input on subscription levels. Brickfield, Burchette, Ritts and Stone PC, attorneys for the City, reviewed the AMP project contracts. AMP project participation was extended to March 1 and City Council requested alternatives to the projects be reviewed. Staff and GDS Consultants approached AEP/APCo to negotiate contract terms similar to the 20 year offering in 2006 or other available power supply options. GDS Associates, Inc.--#1 APCo for long-term contract--#2 Market/AMP-O Projects & Future Projects--#3 Market/AMP-O with three proposed projects--#4 Market. Power Advisory Committee formed to review power supply options and provide input. AEP/APCo was unable to provide a response regarding their ability to supply power to the City by the AMP participation deadline of March 1. Council heard from GDS Consultants, the Power Advisory Committee, Blue Ridge Power Agency and staff with each recommending participation in the AMP projects. Council authorized participation and contract execution agreeing to purchase power from the projects for 50 years--Terms were not negotiable. Power Sales Contract--Localities, including Martinsville, signed contracts in 2008; term is 50 years. Prairie State, AMPGS, and Hydro all have the same contract structure. Contract was designed by AMP to obtain lowest cost financing. AMP owns facilities; participants have control and advisory roles directly or through the Participants Committee. Contract obligates participants to pay their share of construction and generation costs under all circumstances. Participants are obligated to pay even if they later withdraw from AMP or purchase power elsewhere. Prairie State Energy Campus--1600 MW mine mouth coal-fired plant of which AMP's share is 368 MW. 2007 estimate for engineering, procurement and construction (EPC) contract \$2.95 billion representing 75% of total project capital costs. Projected EPC costs have increased over original estimate prompting the owners group to negotiate an agreement to hold costs to approximately \$4.0 billion. Target price contract was only option upon award bid since average construction costs were increasing 30% per year. Plant construction is 50% complete--Turnkey contract now in place, Hydro Projects-- Cannelton 88 MW; Smithland 76 MW; Willow Island 44 MW. All 3 are run of the river projects on the Ohio River providing approximately 4.0 MW of power for the City. Original capital cost estimate was \$701 million, the projected cost has risen to \$989 million due to copper and steel price increases and redesign of equipment to increase power output. Cannelton Hydro Project Status--Ground breaking was on August 5, 2009; Cofferdam and powerhouse excavation are nearing completion; Powerhouse construction bids are being reviewed and negotiations with the finalist are ongoing. Smithland Hydro Project Status--The contract for cofferdam and powerhouse excavation was completed in April 2010; Construction has begun on the cofferdam. Willow Island Hydro Project Status--Willow Island is still in the permitting stage awaiting final 404 and U.S. Section 408 permits. American Municipal Power Generating Station (AMPGS)--960 MW 2 unit, coal fired plant which was slated for construction in Meigs County, Ohio; January 2008 construction cost (not including financing) was \$2.95 billion; City's share of power generation 8.059 MW; Subscription level of approximately 750 MW secured, AMP solicitation of the remaining capacity was ongoing. November 2009, participants terminated the plant due to 37% increase in construction cost causing it to no longer be a feasible project. AMP is exploring options for the Meigs County site. AMPGS Sunk Costs--Total sunk costs have not been determined; as of 3-31-10 AMP reported \$144.5 million. Negotiations and/or litigation with contractors and suppliers is ongoing. An accurate and complete accounting of the total amount due AMP will not be available for many months. AMP is developing options for participants to deal with the unrecoverable expenditures that will be incurred. To date the City has not paid money toward the sunk costs. Next

August 9, 2010

Council meeting: August 24, 2010, AMP representatives will be on hand to answer questions. Blue Ridge Power Agency representative will also be available for comment and questions. Our future with AMP: Landfill methane recovery and generation; Solar power installation(s); Combined cycle natural gas-fired plant(s); Biomass or other advanced energy technologies; "Local" participation in proposed generation projects; Negotiations are on going for long term power contracts to fill capacity requirements; Our contract with AMP allows for consideration of diverse resources now and in the future.
STATEMENT FROM PRAIRIE STATE JULY 22, 2010:



July 22, 2010

CONTACT: Sheri L. Bilderback
618-824-7619

**PRAIRIE STATE AND BECHTEL ANNOUNCE NEW, FIXED-COST EPC AGREEMENT
PROVIDING GREATER ECONOMIC STABILITY**

MARISSA, ILL. – To help keep energy costs low for millions of customers, Prairie State Generating Company, LLC and Bechtel Power Corporation today finalized a revised engineering, procurement and construction (EPC) agreement that will provide a fixed price for the total cost of constructing the power plant at the Prairie State Energy Campus.

"This agreement will provide greater price stability and economic predictability, which will benefit Prairie State owners and the customers they serve," said Prairie State President and CEO Peter DeQuattro. "The agreement supports our mission of delivering low-cost, reliable and environmentally responsible electricity."

Prairie State is scheduled to begin operations of its first unit in the fourth quarter of 2011 and its second unit in the third quarter of 2012. The total cost for construction of the power plant will be approximately \$4 billion. On an installed cost basis, Prairie State will produce energy at a cost lower than other fuel sources, such as integrated gasification combined cycle (IGCC), natural gas, nuclear or geothermal.

"This remains a good investment for our owners and the customers they serve," DeQuattro said. "Equally important, the project will invest approximately \$1 billion in 21st century technologies, making it among the cleanest power plants of its kind anywhere in the nation. Prairie State's carbon dioxide emissions will be approximately 15 percent lower than the typical U.S. coal plant."

Construction costs of all types of power plants – whether coal, nuclear, natural gas or wind – have significantly increased since work began on the new plant. Rising commodity prices, along with labor costs and other factors, have increased the cost of new power plants by 130 percent between 2000 and 2008, according to IHS Cambridge Energy Research Associates. The cost of steel, for example, increased to more than \$1,150 per metric ton, a more than 350 percent increase over its traditional price of \$200 - \$300.

Prairie State and Bechtel Announce New, Fixed-Cost EPC Agreement

Page 2

"Today, with a more stable market for materials and equipment, and the project moving well toward completion, the revised agreement is a sound approach for Prairie State, Bechtel and, most importantly, the customers who will be served by the new plant," said Alasdair Cathcart, Bechtel Power Corporation Senior Vice President and President, Fossil Power.

The Prairie State Energy Campus in Washington County, Ill., is a 1,600 megawatt state-of-the-art power plant that will deliver electricity to more than 2.5 million customers through its public power owners. Beginning service in the 2011-2012 timeframe, it will provide base load power using a steady, reliable supply of coal from an adjacent underground mine.

The project also has tremendous economic impact. Prairie State is accelerating economic growth in Illinois with more than 150 local subcontractors and 3,500 workers involved in the construction of the project. Overall, Prairie State will employ more than 500 full-time workers and stimulate \$785 million in annual economic activity in the state of Illinois, for a total estimated impact of \$22.6 billion over 30 years.

"This is the right time for the transition to a fixed-price contract that allows us to provide power at a cost less than other new base load power plants," said Raj Rao, CEO of Indiana Municipal Power Agency and Chairman of the Board for PSGC. "The new plant will provide our customers with a reliable and low-cost source of electricity for decades to come."

August 9, 2010

FIVE PAGE LETTER FROM GDS ASSOCIATES FEBRUARY 11, 2008:



Jack D. Madden, P.E.
Vice President

GDS Associates, Inc.
Engineers and Consultants

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February 11, 2008

Mr. Clarence Monday
City Manager
City of Martinsville
55 W. Church Street
Martinsville, VA 24114

Dear Mr. Monday:

Martinsville faces an important decision over the next three weeks, one that will determine the course of the City's electric utility and power costs for decades. This decision must be made without perfect information, but I suppose that is the way all important, long-term decisions must be made.

In order to provide the information that is available, which is in certain aspects limited, and to the best of our ability project power costs given the options available to the City, we have prepared the attached presentation. I will be prepared to walk through this presentation and answer questions at the City Council meeting tomorrow night.

The presentation is based on the direction given by you and Dennis Bowles in our conversation and correspondence of February 4, 2008. Specifically, you asked us to provide projections of wholesale power cost for the following scenarios:

1. Market (all-requirements)
2. AMP-Ohio Projects + Market
3. AMP-Ohio + Future Projects + Market
4. APCo 20 year proposal (all-requirements)

You also asked for a recommended course of action.

A description of the power supply scenarios and cost projections is as follows:

APCo 20-Year Formula-Based Contract

This is a projection of the cost of power under the 20-year formula-based contract offered by APCo, which several other Virginia public power entities have executed: Craig-Botetourt Electric Cooperative, the Cities of Radford and Salem, and Virginia Tech. APCo has indicated that they may offer this arrangement to Martinsville, but with the following caveats: (1) the contract has already been negotiated with the others (including Martinsville a couple of years ago) and will need to be accepted as is by Martinsville; and (2) because the PJM RPM markets have already been established and auctions held, the earliest APCo could bring Martinsville

under their Fixed Resource Requirement ("FRR") alternative to RPM will be the 2011/2012 PJM planning year that begins June 1, 2011. In other words, through May 2011, Martinsville would have to make RPM capacity payments *in addition* to buying formula-rate capacity from APCo - the additional cost is reflected in the attached estimates. The RPM cost on top of the APCo cost sets Martinsville apart from other APCo customers in that the others have substantially lower prices in the initial years than Martinsville would have. With APCo providing its own capacity including reserves, under the FRR alternative it has no RPM payments to PJM.

We have estimated the cost of power from APCo using a partially updated version of the estimating model we prepared over two years ago and benchmarked against the short-term projection APCo provided at that time. While APCo has not to this point been willing to provide a long-term projection of rates under the formula rates, they have said that their earlier short-term projections are "still pretty good." We have done the best we could do in the time allowed and with the information made available to project the rates under the APCo formula rate, but are not confident that the rates will be shown to be accurate. APCo's rates will be highly dependent on the cost of market purchases and, more particularly, the cost and timing of new generation resources they must add as well as capital improvements to existing generation to address environmental requirements. As you know, APCo plans to build a large IGCC plant in West Virginia and take a part of an IGCC plant proposed for Ohio. The cost and timing of these additions is unknown, and we have had to go with the best information available in recent filings made by APCo/AEP.

A significant change to APCo projections made earlier is to put the cost impact of potential Carbon Dioxide (CO₂) legislation on the same basis as is included in the projections of cost of power from Prairie State, AMPGS and purchases from the market. The CO₂ cost projections were prepared for AMP-Ohio by its consultant, R.W. Beck, and were incorporated into the projections of APCo costs. In addition, we have utilized fuel and market price projections in the APCo projections consistent with those used in the costs of the other scenarios reviewed.

Market

As a part of AMP-Ohio's justification for the projects, it commissioned R.W. Beck to prepare Feasibility and Beneficial Use Reports for each potential participant for each project under consideration. As a part of the Feasibility Reports, Beck prepared a projection of long-term market prices. The feasibility report for AMPGS was very recently updated, and we have utilized these projections in our analysis, adjusted to the location where Martinsville typically purchases blocks of power (typically blocks of power for Martinsville are purchased at a Locational Marginal Pricing ("LMP") point referred to as A-D Hub (A-D means AEP-Dayton Power and Light). Essentially, we took Martinsville's actual 2007 cost of power, most of which was purchased at A-D Hub, and escalated this cost using the escalation rates derived from the R. W. Beck market price projection (which was done not for an LMP point but for a wider region). To this estimate, we have added estimates of RPM (capacity market), transmission, new congestion/FTR cost or revenue, etc. We believe this to be a reasonable projection of market prices Martinsville may face, but, as is the case with any long-term projection of volatile markets, the actual cost may turn out very different from the projections.

We also had to estimate the cost of capacity under PJM's newly instituted capacity market, Reliability Pricing Model ("RPM"). In this estimate, we used known RPM rates for the period for which these have been set, and assumed there would be a transition from these auction-based costs to the cost of CONE over a five-year period. CONE stands for "Cost of New Entry" and is the theoretical cost to build the least expensive additional block of capacity (usually gas-fired combustion turbine generation). PJM utilizes a consultant, Pasteris Energy (who in turn uses a developer, Wood Group) to develop estimates of CONE and we have used their most recent update and escalated the cost at the rate of inflation. PJM has stated that the price of capacity under RPM should approach CONE over time (in fact, prices under the auction process are capped at $Cone \times 1.5$).

Market/AMPO Projects

This scenario is similar to the Market scenario, except we have assumed that energy and capacity from the three AMP-Ohio resources will displace Market energy and RPM capacity Martinsville would have to procure without the projects. The estimated costs of the projects are taken from the most recent Feasibility Reports provided by AMP-Ohio (AMPGS and Prairie State Feasibility Reports were prepared by R. W. Beck; the Hydro Feasibility Report was prepared by Sawvel and Associates.). The energy/capacity needed to meet the balance of needs are purchased from the Market at projected Market prices.

It should be noted that, in these updated projections, participation in the AMP-Ohio projects brings the expected cost of power down significantly below either the all-market or APCo cases. Participation in other projects, either alone or through AMPO or in conjunction with other Blue Ridge members, should further reduce the cost of power. Based on our earlier discussions with APCo, and consistent with its contracts with other Virginia entities, it should be expected that entering the APCo agreement would preclude Martinsville from participating in any generation projects for the full twenty years of the contract (including City-owned behind-the-meter generation and participation in projects such as that proposed by Ed Brammer). In addition, at the end of the twenty-year term, Martinsville will own nothing and again be on the market or need to negotiate another contract with APCo or implement some other power supply strategy.

The main reason for the improved economics associated with the Market/AMPO Projects scenario compared to the APCo 20-year formula-rate contract scenario is the increased impact of potential CO₂ legislation compared to the earlier projections. While the cost impact of CO₂ legislation has been increased to be consistent with the other projections (market and AMPO projects), the assumed cost impact is perhaps still conservative when compared to assumptions some others have made. Because APCo is so heavily coal-based and its plants older, its cost is significantly affected by the cost of CO₂ mitigation.

Market/AMPO Projects/Future Projects

In order to show the impact of adding additional resources to Martinsville's portfolio, we assumed some hypothetical generation resources would be added over time. While these generation resources are not planned or known at this time, Martinsville needs to begin searching for them. AMP-Ohio and Blue Ridge are actively pursuing potential additional generation resources and Martinsville may utilize those and/or any it may develop. An advantageous feature of the AMP-Ohio relationship is that additional generation resources, either owned or purchased by the City, can easily be accommodated. In fact, AMP-Ohio can possibly be relied upon as a financing vehicle for additional generation resources serving only one or a few members; this has been done with several "joint ventures" among its Ohio members.

To show the effect of adding below-market generating resources to Martinsville's portfolio, we assumed an additional coal-fired resource (essentially a replication of AMPGS) would be available in 2016 and a gas-fired combined cycle resource (intermediate) would be available in 2018. We provided graphs showing the incremental impact of these hypothetical additions and the overall effect of adding them both. As mentioned above, bringing on additional below-market resources helps reduce Martinsville's projected power cost. Of course, resources would only be added if they were expected to result in below-market generation costs and the balance of Martinsville's power supply needs would be purchased from the Market.

Additional Material

We have also provided the following material:

Bar charts showing how much capacity and energy would be supplied by the three AMP-Ohio and future projects, relative to the total requirement, in MW/GWh and percentage.

A Table showing the estimated ¢/kWh cost associated with each scenario described above (by year).

Conclusions and Recommendation

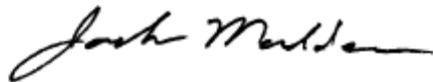
On February 14, 2006, the Martinsville City Council passed a resolution approving the City becoming a member of AMP-Ohio. One of the major benefits foreseen with the AMP-Ohio relationship was the building of a power supply portfolio over time that would help the City keep its electric rates as low and as stable as possible, while helping to manage the risks now seen in the electric utility industry. The overall strategy was to develop a generation asset-based portfolio for the long term with a bridge portfolio of market purchases of varying terms and suppliers. One of the resources being studied at that time by AMP-Ohio and by Martinsville, through Blue Ridge, has since become known as the American Municipal Power Generation Station ("AMPGS"). Since that time, additional opportunities, the Prairie State Energy Campus and the AMP-Ohio Hydro projects, have also come to fruition. These are first and significant steps in reducing Martinsville's current absolute reliance on the wholesale power market, with all of its attendant risks and volatility. We believe these projects are just what were envisioned at

the time Martinsville entered its membership in AMP-Ohio and they appear to have been developed to date with reasonable care and diligence by AMP-Ohio and its consultants. Many other municipal utilities are participating in these projects (approximately 215 in Prairie State, 78 in Hydro and 90 in AMPGS), helping to manage them and keeping the long-term management of the resources in line with the goals of Martinsville as a municipal utility. In addition, the cost projections we have provided, which are largely based on R.W. Beck's forecast of market and project costs, are the best indicator of future costs known at this time, and although these projections are based on limited information, the current cost estimates show significant long-term benefits associated with project participation. For these reasons and on the basis described above, we recommend Martinsville continue the course it began two years ago and participate in all three AMP-Ohio projects.

The other potentially viable alternative for Martinsville is a 20-year contract with APCo albeit at a higher projected cost. While the term of that contract is long, it is not as long as the commitment to the AMP-Ohio projects. However, at the end of twenty years under the APCo contract, Martinsville will own nothing and will be faced with the same decisions it faces today. During the term of the APCo contract, Martinsville will be contractually precluded from buying power from other sources or developing its own. In addition, Martinsville will be tied to whatever decisions APCo makes for twenty years and will be contractually precluded from contesting those decisions and resulting costs at the FERC. For these reasons, we cannot recommend the APCo contract.

Please review the attached and let us know if we can address any questions or concerns you may have.

Sincerely,



Jack D. Madden, P.E.
Vice President

Timeline for City of Martinsville ("City") Membership in American Municipal Power, Inc ("AMP") and Participation in AMP Projects--- August 4, 2010

In 2006, City Council made the decision to embark on a wholesale power supply philosophy that would limit its total dependence on power purchased from the electricity markets and reduce exposure to the volatility of those markets by securing a portfolio of power generation assets for the future wholesale power needs.

2005

- RFP issued (2-1-05) for full-requirements power supply to replace the American Electric Power ("AEP") 1-year (7/1/2005 thru 6-30-2006) contract that yielded 19 interested suppliers out of which 14 actually submitted proposals.
- June 30, 2005--service under the 1998-2005 Cinergy fixed-price, market-based power supply contract ended. (\$28.00/MWh delivered—MWh = megawatt hour)
- July 1, 2005—service began under the AEP one-year, full requirements, fixed price, market-based contract completed in September 2004 as the result of a 2002 RFP issued by Blue Ridge on Martinsville's behalf. (\$50.00/MWh delivered, a 79% increase)
- AMP and AEP/APCo were the finalists from the RFP from a short list of four (Cinergy and Constellation were the other two).
- AMP offered a strategy of market based block power purchases of varying terms for the near future and the development of an asset-based generation portfolio for long term, reducing market risk and stabilizing rates.

August 9, 2010

- AEP/APCo offered a 20 year, formula-rate, full requirements contract with no right for cancellation by City. The contract allowed for generation from our existing hydro and Southeastern Power Administration (SEPA) only and provided no avenue for development of future power assets. (The City's current landfill methane generation project would not have been allowed).
 - It also allowed for a true up (power cost adjustment) each summer based on APCo's costs to produce power during the prior calendar year.
 - The fuel factor clause could be adjusted monthly based on a largely coal based fuel supply.

2006

- City Council decided to contract with AMP as its power supplier, based partly on it having the lowest price in the RFP and to gain control over its power purchasing from the market in the shorter term and for the long term to develop the City's asset-based power portfolio to include projects proposed/developed by AMP. The City could build its own generation if that opportunity presented itself. (AMP has the capability to schedule and dispatch power, which is necessary for Martinsville to manage its own power supply portfolio.)
- Historically, self-built, jointly-owned opportunities to develop generation projects or long term power purchased from a generating unit have been a quest for the City. In 1905 the City self-built the Smith River Hydroelectric Dam and assumed all the risk, cost and benefits. Over the past 30 years, additional projects were reviewed by staff and/or Council:
 - Hydroelectric power generation development at existing Army Corps sites were explored in the 1980's (Gathright Dam)
 - The Ridgeway Hydroelectric Project was studied in late 1970's – early 1980's
 - With other fellow municipalities in the APCO service territory a waste-to-energy generation plant near the Pittsylvania/Henry County line was studied and considered in the 1990's.
- The City started receiving power through AMP in the form of "blocks" (a portfolio of short term contracts of fixed price varying term lengths) on the wholesale power market (overall quoted price of (\$60.59/MWh "Megawatt hour = 1 million watt hours" delivered, 21% over AEP 2005-6 rate and 116% over Cinergy '98-'05 rate).

2007

- AMP offered members subscriptions in power generation projects, the first being AMP's 368 MW ("megawatt = 1 million watts") share of the Prairie State Energy Campus, a 1,600 MW coal-fired, mine-mouth plant now under construction in southwest Illinois, a jointly-owned facility developed by Peabody Energy with AMP having 23% ownership.
- The next project was from AMP's three hydroelectric projects, totaling 208 MW, on the Ohio River at existing Army Corps dam and lock sites; Cannelton, Smithland and Willow Island.
- The third project was the 2-unit, 960 MW, coal-fired American Municipal Generating Station (AMPGS).
- GDS Consultants reviewed the three project offerings as they were presented.
- Brickfield, Burchette, Ritts and Stone, attorneys for the City reviewed the AMP contacts for the three projects.

2008

- AMP project participation deadline for the City was extended to March 1, 2008 and City Council requested alternatives to the projects be reviewed and instructed staff to negotiate with AEP/APCo for a contract for power in lieu of participation in the AMP projects.
- Staff and Consultants approached AEP/APCo asking for contact terms similar to the 20-year, formula-based, full requirements contract offered in 2006.
- AEP/APCo responded it would take some time to put together a contract and explore their ability to serve our load.
- The Power Advisory Committee was appointed in February 2008 and was comprised of citizens to review the AMP projects as compared to an AEP/APCo contract and provide input to Council.
- AEP/APCo was unable to provide a response on their ability to supply power to the City by the AMP participation deadline of March 1.
- Council heard from GDS Consultants, the Power Advisory Committee, Blue Ridge Power Agency and Staff each recommending to proceed with participation in the AMP generation projects securing 57% of future electric energy needs.
- On February 26, 2008, City Council, after conducting public hearings for citizen input, Council authorizing participation in the three AMP projects for a term of 50 years.

Prairie State Energy Campus

- 1,600 MW, 2-unit, mine-mouth coal-fired plant currently under construction in southwestern Illinois. AMP's share of the facility is 23% or 368 MW of the power output and the balance belongs to the other municipal and cooperative participants, except for the 5% owned by Peabody Energy.
- 2007 estimate for the engineering, procurement and construction ("EPC") contract portion the plant costs was \$2.95 billion, representing approximately 75% of the total project capital costs.
- Ground breaking held in October 2007 and full construction ramped up in February 2008.
- "Mine Mouth" project meaning the coal used for power generation is on site at a mine owned by the owners group.

August 9, 2010

- The plant is 50% complete as of August 2010
- The plant projected EPC costs have increased over the original estimate of \$2.95 billion. Owners cited general increases in industry construction costs as well as rising commodity prices and labor costs as reasons for the increase. The Prairie State Generating Company owners group has negotiated a lump sum turnkey agreement to hold the EPC costs to approximately \$4.0 billion.
- Unit 1 is scheduled to be online in late 2011 and Unit 2 in 2012.
- City's share is 5.112 MW.

AMP Hydroelectric Projects

1. Cannelton 88 MW
 2. Smithland 76 MW
 3. Willow Island 44 MW
- Cannelton, Smithland and Willow Island are run of the river hydro projects being developed on the Ohio River and will provide approximately 4.0 MW of power as the City's share. Martinsville's original share was 4.3 MW, the difference of which, for all participants, was offered for replacement by participation in AMP's Meldahl/Greenup hydro project. This occurred because Central Virginia Electric Coop became a participant in the Cannelton and Smithland projects. The City chose not to participate in the Meldahl project due to the hydro portion of the City's portfolio being fulfilled.
 - AMP awarded the turbine/generator contracts for the three plants to Voith Hydro in June 2008 which represents the largest order in the company's 131 year history
 - Original capital cost estimate (not including financing cost) to construct the three projects was \$701 million. The projected capital cost has risen to approximately \$989 million. Reasons cited for this are increases in commodity prices, particularly steel and copper for the turbine-generator units, and new design aspects that increased power output by 17 MW and 141,000 MWh as well as overall escalation and unforeseen contractor risk premiums. The total cost, including financing, will increase to a lesser extent due to lower interest rates for bonds that have been issued and the securing of Federal Clean Renewable Energy Bonds ("CREBs").

Cannelton

- Cannelton ground breaking was on August 5, 2009 for the 88 MW plant and to date the coffer dam construction is complete and excavation for the powerhouse is nearly complete. Powerhouse construction bids have been received and the negotiations with the finalist are in process and will be awarded soon.

Smithland

- Contract for the cofferdam and power house excavation was competed in April 2010 and construction has begun on the cofferdam.

Willow Island

- The project is still in the permitting stage awaiting the final 404 and U.S. Section 408 permits.

American Municipal Power Generating Station (AMPGS)

- A 960 MW 2-unit, coal-fired plant slated for construction in Meigs County, Ohio utilizing new clean coal technology called PowerSpan and estimated in January 2008 to having a total construction cost (not including financing) of \$2.95 billion.
- Approximately 750 MW of the 960 MW was subscribed by AMP members and AMP was actively seeking subscriptions for the remaining power.
- The City subscribed to 8.059 MW from the facility in February 2008.
- AMP offered an additional opportunity to increase subscription levels but recommendations from GDS Consulting and Blue Ridge advised the City to decline the offer.
- On November 24, 2009, participants voted to terminate the coal-fired project due to the EPC contractor suddenly increasing the construction cost estimate by 37% causing it to no longer be a feasible project.
- Presently AMP is exploring options for the Meigs County site including possible conversion of the site to natural gas combined-cycle ("NGCC") generation plant and/or biomass, solar or other advance energy technology plant.

AMPGS Sunk Costs

- As of March 31, 2010, AMP reported a total expenditure of \$144,452,369.00 for the AMPGS Project; (source, American Municipal Power, Inc. Interim Consolidated Financial Statements, March 31, 2010).
- The City will have options for repayment of net sunk costs, which have yet to be determined as negotiations and/or litigation with contractors and suppliers are not yet completed and will not be finalized for many months.
 1. AMP is developing options for its member AMPGS Participants to deal with the unrecoverable expenditures that will be incurred in closing out the cancellation of the plant and all financial obligations to contractors, suppliers, etc.
 2. To date, the City has not been invoiced nor has it paid money toward the sunk costs.

American Municipal Power is a nonprofit organization offering wholesale power supply and services for municipal electric systems and they help member communities control their destinies in the volatile world of power supply.

It is owned and governed by the members and they purchase, generate and distribute electrical power for 128 publicly owned utilities serving more than 570,000 customers in six states — Ohio, Pennsylvania, Michigan, Virginia, Kentucky and West Virginia

August 9, 2010

Council members made brief comments after the presentations and asked that AMP representatives address their questions at the August 24, 2010 meeting.

Business from floor: Michael Elder, 923 Childress Drive, discussed issues and concerns he has with the justice system and City Attorney Eric Monday stated he will issue a written response to Mr. Elder after he has checked with law enforcement officials involved. Gary Cody reported \$89,238 has been raised for the skatepark including in kind contributions and a bid has been award to American Ramp Corp. which will include a concrete pad.

Comments from City Council: Stroud—reported citizen concerns requesting street lights on Spruce St. and that he will turn over the list of names to Dennis Bowles to investigate and report back; Teague—reported National Night Out was a very good event and he received lots of feedback from citizens including need for handicap access on all city sidewalks and coyote sightings in the city—requested that strategic planning session be scheduled within next couple of months—City Manager reported he will be working with the Mayor on the draft itinerary and get dates set by September; Turner-thanked host families who supported Mustangs; Adkins—reported safety concerns of Brian Williams regarding the hydro dam which are being addressed by city staff and asked that Council go by there on the September Neighborhood Tour and invite Mr. Williams to join them.

Comments by City Manager: Mr. Monday updated Council on the Henry Hotel thanking Wayne Knox and staff for good job in getting all the residential tenants relocated; reported one response on the former DSS building RFP has been received from Phoenix Corp. with an alternate use regarding the building Uptown and they have asked for 180 days to assess the property and bring back a proposal to the city and county if Council will authorize (Council agreed by consensus); reported the monthly public session update from the Economic Development Corporation was included in Council packets; reported he appreciated having the fantastic educational opportunity to attend Senior Executive Institute at the Weldon Cooper Center and noted we were able to get a half price deal; he is working to bring a one week version of this training locally to the city department heads.

In accordance with Section 2.1-344 (A) of the Code of Virginia (1950, and as amended) and upon a motion by Kimble Reynolds, seconded by Gene Teague, with following 5-0 recorded vote: Adkins, aye; Reynolds, aye; Teague, aye; Stroud, aye; and Turner, aye, Council convened in Closed Session, for the purpose of discussing the following matters: (A) Discussion or consideration of the investment of public funds where competition or bargaining is involved, where, if made public initially, the financial interest of the governmental unit would be adversely affected as authorized by Subsection 6. (B) Discussion of the award of a public contract involving the expenditure of public funds, including interviews of bidders or offerors, and discussion of the

August 9, 2010

terms of scope of such contract, where discussion in an open session would adversely affect the bargaining position or negotiating strategy of the public body as authorized by Subsection 29.

At the conclusion of Closed Session, each returning member of Council certified that (1) only public business matters exempt from open meeting requirements were discussed in said Closed Session; and (2) only those business matters identified in the motion convening the Closed Session were heard, discussed, or considered during said Session. On a motion by Kimble Reynolds, seconded by Gene Teague, with the following recorded 5-0 vote: Adkins, aye; Reynolds, aye; Teague, aye; Stroud, aye; and Turner, aye, Council returned to Open Session. No action was taken.

There being no further business, Mayor Adkins adjourned the meeting at 10:49 PM.

Clarence C. Monday
Clerk of Council

Kim E. Adkins
Mayor