



MINUTES OF MEETING
CLEVELAND UTILITIES BOARD

March 26, 2015

The Board of Public Utilities met at 3:00 p.m. at the Tom Wheeler Training Center. Present were the following: Aubrey Ector; Chairman; Eddie Cartwright, Vice Chairman; Tom Rowland, Mayor; Chari Buckner, Cleveland Utilities Board; Joe Cate, Cleveland Utilities Board; Ken Webb, President/CEO; Amy Ensley, Utility Board Secretary; Marshall Stinnett, CFO; Bart Borden, Electric Division VP; Craig Mullinax, Water and Wastewater VP; Walt Vineyard, Information Technology VP; Tim Henderson, VP Administrative Services; Jan Runyon, Assistant VP Administrative Services; Philip Luce, Water and Wastewater Engineering Manager; Greg Clark, Sewer Rehab Manager; Bobby Rogers, Field Serviceman; Larry Bowers, *Cleveland Daily Banner*; and Paul Leach, *Chattanooga Times Free Press*. Following the Pledge of Allegiance to the American Flag, Dr. Jay McCluskey, Pastor at North Cleveland Baptist Church, delivered the invocation.

MINUTES OF MARCH 4, 2015

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted unanimously to approve the March 4, 2015, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS

President/CEO Ken Webb welcomed Mayor Tom Rowland to the meeting after being absent due to recent knee surgery.

Employee Retirement

Webb congratulated Field Serviceman Bobby Rogers on his retirement effective March 27. Rogers began work at Cleveland Utilities on October 1, 1974 and has had a long and very successful career. Webb advised Rogers probably knows where 29,500 of the 30,000 water meters are located and stated Bobby will be missed.

Offices Closed

Cleveland Utilities offices will be closed on Friday, April 3, 2015, in observance of Good Friday. Regular emergency and standby service will be maintained.

Customer Letters

Webb read a letter he received from a customer, Mrs. Martha Brown, thanking CU Board of Directors, Cleveland City Council and State Representative Kevin Brooks for their efforts and support to encourage state legislature to pass the broadband bills.

In addition, Webb read an excerpt from a letter received from Cleveland Director of Schools Dr. Martin Ringstaff. This letter thanks CU for efforts related to the broadband bills and seeking innovative ways to serve local residents. Ringstaff said, "Our need for fast and reliable access has gone from a luxury to a necessity in the last decade."

Broadband Legislation

The broadband bills in the House and Senate, HB 1303 and SB 1134, were supposed to be heard in a committee session this week; however, both bills were rolled to March 31. This legislation is important to all of Tennessee. Webb emphasized the need to get these bills passed, as it will open up many more options. Representatives Kevin Brooks and Dan Howell, Senators Todd Gardenhire and Janice Bowling all deserve credit for their involvement and sponsoring and cosponsoring these bills.

Safety Awards

Tim Henderson reported on a safety milestone reached in the electric division. CU tracks the number of hours worked without a lost time injury, and 500,000 hours have been reached. Henderson advised nothing is more important than the safety of the employees and thanked the Utility Board and management for their support of the safety program. Webb reiterated the strong emphasis placed on safety and advised it is the utility's number 1 priority to provide a safe working environment for employees and safe environment for members of the community.

Strategic Plan Update

A strategic plan update will be presented at the April 23 meeting by Amy Ensley and John Corum. Ensley has assumed the role as Strategic Plan Implementation Coordinator in addition to her current duties, and she and John will be informing of the progress made to date.

AMI/AMR Water Project Update

Philip Luce presented an update on the AMI/AMR water project funded through the State Revolving Fund (SRF). The project is divided into two phases. In reference to Phase I (CU's first loan application in the amount of \$2.5 million with loan forgiveness in the amount of \$500,000), approval to proceed was received today from the SRF Board. Within the next month, the process will begin to convert approximately half of the existing water meters to AMI meters.

In addition, on February 26, the SRF Board approved CU's second loan application in the amount of \$2.5 million with loan forgiveness in the amount of \$175,000. The first phase will take approximately one year to complete. Phase II will not begin until phase I is completed.

DIVISION REPORTS

Financial

Marshall Stinnett reported on the following:

1. A graph tracking the residential kilowatt-hour cost from April 2011 through April 2015 was reviewed. The rate for residential customers for April will change to 9.034 cents per kilowatt-hour, an increase from last month's rate of 8.784 cents. This rate change is driven by TVA's Fuel Cost Adjustment. As a continued trend, Cleveland Utilities will pass the TVA fuel cost rate adjustment to its consumers.
2. The February 2015 financial and statistical statements were presented to the Utility Board. In the electric division, the cost of purchased power as a percentage of retail sales was 84.9 percent for the month of February. For

the year to date, this percentage is 84.2 percent as compared to a budgeted percentage of 83.2 percent for FY 2015. Electric sales revenue for February 2015 totaled \$8,830,850, which was offset by purchased power of \$7,497,189. This resulted in an operating margin of \$1,333,661 compared to a budgeted margin of \$1,459,247 for the month of February. These revenue numbers were driven by a customer base of 30,538. Operating expenses for the month were \$1,453,069. The net income for the month was \$9,514. The results for FY 2015 are electric sales revenue of \$67,154,897, which was offset by purchased power of \$56,539,119. This resulted in an operating margin of \$10,615,778. This brings the division to a combined net loss of \$482,092 for the year to date.

3. For February 2015, water sales revenue was \$1,032,738. The division served 30,632 customers during the month of February. Operating expenses for the month were \$1,097,830. The water division recorded an operating income of \$32,487. The results for FY 2015 are water sales revenue of \$8,687,679. Operating expenses for FY 2015 are \$8,849,707. The resulting operating income for FY 2015 is \$601,163.
4. For February 2015, wastewater treatment revenue was \$883,655. The division serviced 18,210 customers during the month. Operating expenses for the month were \$852,458. The wastewater division recorded an operating income for February of \$89,011, which is compared to a budgeted operating income of \$42,259 for the month. The results for FY 2015 are wastewater sales revenue of \$7,091,512. Operating expenses for FY 2015 are \$6,712,931. The resulting operating income for FY 2015 is \$934,208.

Electric Division

Bart Borden reported on the following:

1. In reference to the Harrison building renovation, the transfer and storage of materials continues at this site.
2. In reference to the design to relocate 69/13.2 kV lines for TDOT's APD-40 Interchange at Stone Lake Road, a resolution to pursue eminent domain proceedings was approved by the City Council to acquire an easement with First Bank of Tennessee. A Right of Entry was agreed upon by the Bank.
3. Progress continues to be on hold for Timber Creek Subdivision Phase II, Part 1 due to the weather.
4. The electric service installation for Silver Springs Subdivision Phase II, is on hold for the developer to complete final grade work. The rainy weather has been the main factor for the delay.
5. CU's insurance provider, Hartford Steam Boiler Inspection and Insurance Company, requires scheduled oil samples be provided for their testing and analysis. Hartford reported the Dissolved Gas Analysis for the Ocoee Substation Power Transformer Load Tap Changer (LTC) results were of concern. The combustible gas levels were above the recommended levels and indicated there was possibly arcing occurring. Ocoee Substation was immediately taken out of service and Liberty Power Service was requested to investigate the source of arcing. Upon completion of their inspection,

there were no signs of arcing from the vacuum bottles or any other component in the LTC. The resistance and power factor test indicated the LTC was normal. Liberty Power Service had conducted normal routine testing and inspection on the LTC unit October 23rd and 24th of 2014 and found no problems. They had serviced a transformer with elevated combustible gas levels at another utility prior to servicing our transformer. It is possible CU's unit was cross contaminated by the oil processing equipment. Staff plans to test the oil in the next three (3) months for validation.

6. A work order has been issued to provide electrical service to three new commercial buildings at Ocoee Commons development off of Ocoee Crossing. A 100 KVA pad-mount transformer is being installed to serve the new load.
7. A work order was issued to provide temporary power to Phase II of Brookes Edge Apartments off Adkisson Drive. Five (5) 167 KVA pad-mount transformers are to be installed for the construction of the four new buildings. Two additional 167 KVA pad-mount transformers will be installed in the near future to complete the permanent power installation and serve the anticipated load of 1,004 KW.
8. Engineering staff is working with TNG Contractors LLC on design plans to provide temporary and permanent electric service to a new La Quinta Inn, planned on Interstate Drive NW. All indications are a 225 KVA pad-mount transformer will be required to serve the new hotel.
9. An update was presented on traffic lighting:
 - Several phone calls have been received from businesses located along 20th Street NE, requesting an update on the TDOT traffic light slated for 20th Street at the APD-40 exit ramp. TDOT confirmed the earliest bid letting would be October 16, 2015, but most likely would occur in December of 2015.
 - TDOT's contractor, Stansell Electric, received the replacement mast arms for the intersection at Durkee Road and Benton Pike NE. The contractor completed the installation last week. Complaints were received from drivers during the construction phase due to the intersection being on fixed time and not having vehicle detection on all approaches. Signal timing has been programmed and observation of traffic flow indicates the plan is currently working well. Staff will continue to observe and make any needed adjustments.

Water Division

Craig Mullinax reported on the following:

1. The project for the second floor remodel including the control room at the Cleveland Filter Plant is expected to be complete by March 31, and Mullinax stated P&C Construction has done a tremendous job. The changes made to the facility are incredible.

2. Phase II of the 20-inch and 24-inch water main extension project from Tasso Lane, NE to Benton Pike is complete with the exception of cleanup work. With the installation of this line, three major tie-ins occurred on Overhead Bridge Road, Stuart Road and Tasso Lane. This project has had positive impacts seen to date including ease of maintaining the water on the south end, in particular, at the Eldredge Drive tank. Another improvement noticed is not utilizing the Eastside Utility connection on South Lee Highway as often.
3. In reference to the AMR/AMI water meter pilot project, a total of 1,389 meters have been converted.
4. The water line replacement project at Wesdell Lane, Park Avenue and Steed Street is expected to begin May 1. Hampton Backhoe Service will be performing the work for this project.
5. The following projects are scheduled to be bid in April:
 - McDonald School Road water line replacement
 - 2010 Annexation Area 2 Water System Improvements North-South of APD 40 between South Lee Highway and Exit 20
6. K. Berry Construction has completed 80 percent of the Chatata Creek pump station improvements. The project is anticipated to be completed within two weeks.
7. Engineering has approved plans for Henegar Farms subdivision located on Mouse Creek Road. This development will consist of 11 lots and 1,736 feet of 6-inch water main. Dee Burris is the developer.
8. Developments under construction are:
 - Timber Creek Subdivision, Phase 2, located on Peach Orchard Hill Road. The project is 95 percent complete and will be placed in service upon testing.
 - Projects for Silver Springs Subdivision, Phase 3, Kings Cove Subdivision, The Haven at Glenwood and Barker Development are complete.
9. Work is progressing on the Wastewater Rehabilitation Project:
 - AITC has lined 23,267.9 feet of pipe for the Basin 31-45 and 10-36 Rehabilitation project. In addition, 45 point repairs have been completed at various locations, 42 services renewed and 56 cleanouts installed.
10. Greg Clark reviewed several photographs where an emergency sewer overflow occurred off of Church Street on March 7. An electric division employee observed discoloration in the creek and notified the water division. Upon arrival, water crews found sewer discharging into the creek and immediately began to try and unstop the line. Crews worked all day to get the line exposed and stopped the overflow into the creek that evening; however, the flow was still partially restricted. A second blockage point was found downstream where the line was almost completely obstructed by tree roots. Two trees had to be removed. During the tree removal work, a section of pipe came out. The following morning, crews ran the jet truck removing roots from the line and were able to establish flow back into the

pipe.

The following Monday, staff met and made the decision to replace the line due to age and structural condition. The pipe was estimated to be between 70 and 90 years old. TDEC has been active during the process and is very pleased with the way the situation was handled. The line was placed back in service on March 25. Cleanup work still continues. Staff is completing condition assessments of other lines in the area. Webb commended the employees and management for a job well done under adverse conditions.

OLD BUSINESS

Approval of Change Order with Altec Industries

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Utility Board took action to approve a change order for purchase order 76397 with Altec Industries for an increase in the contract amount by \$700. This increase is for the installation of a backup camera and a 5-inch, dash-mounted color display screen with an audible proximity alarm on new Altec Digger Derrick Line Truck, Unit #126. Since the original purchase of this vehicle, staff decided all line and bucket trucks should be equipped with a backup camera to assist with backing larger type vehicles in a safe manner. The purchase order amount will increase from \$232,765 to \$233,465.

Approval of Change Order with P&C Construction

The Board of Public Utilities approved Change Order No. 1 with P&C Construction for an increase in the contract amount by \$16,131.45. The increase is for the repair of a plumbing drain line, change in lab cabinetry material, change in the style of stair railing and the removal of mold in the kitchen as part of the 2nd Floor Remodel including Control Room Project. The project will increase from \$239,430 to \$255,561.45. Webb commented, "The project is proceeding nicely, and the difference in the looks of the plant is incredible."

On recommendation by Joe Cate, the Utility Board advised for staff to establish an amount authorizing the President/CEO of Cleveland Utilities to approve change orders. Webb advised staff will discuss an amount and present it to the board. Currently, if a change order is associated with a contract that previously required board approval, any change order affiliated with that contract is brought back to the Utility Board for consideration. Webb stated this is a great idea and will expedite projects at times.

NEW BUSINESS

Fiscal Year 2016 Budget Introduction

Webb presented a comprehensive overview of the FY 2016 budget proposal. At the called meeting on April 7, Chris Mitchell, rate consultant and former employee of TVA, will be here to discuss the Cost of Service study. Mitchell has been very helpful in analyzing CU's electric rates and will be reviewing his findings. At this meeting, the Utility Board will be asked for approval or modification for the FY 2016 budget.

In the March 2015 edition of Edge magazine, an article was published in relation to cost of living statistics in various cities. Cleveland was one of three cities highlighted, and the magazine reported the cost of living for Cleveland is 9.8 percent below the U.S. average and utilities are 18.1 percent below the U.S. average.

Proposed changes in FY 2016 budget include:

Water:

A 1.19 percent rate increase; the increase is the same as was projected for 2016 at the time the 2015 budget was prepared. As a result of the increase received from Hiwassee Utilities Commission (HUC), this increase will be passed on through CU's rates.

Staff is proposing to update access fees for new connections. This fee has been based on a fixed amount depending on water meter size. As proposed, access fees for water and sewer installations for meters larger than 2 inches will now be based on time and material, not to exceed the time and material for a short side connection.

Joe Cate requested an analysis on the actual cost compared to the fee. Chairman Ector advised it will be helpful to have this information to understand the impact. Webb informed staff has this information and will compile it for the board members.

Sewer:

A 4.5 percent rate increase; this is the same rate increase projected this time last year for 2016 and is a continuation of the rate increases related to the ongoing SCOPE 10 program. This increase has been adjusted an additional 1.87 percent to fund the City's request for in lieu of tax payment from sewer in the amount of \$200,000 for a combined internal rate increase of 6.37 percent.

Electric:

An overall 1.537 percent increase; the allocation of this increase will be based upon the Cost of Service study completed by Chris Mitchell. As proposed, most of the adjustment would be made to the customer charge portion of the monthly bill. It was pointed out the last significant internal increase was in 2009.

Following is a breakdown of the proposed adjustments:

1. In the residential rate, the cost of service supports an increase of \$6.74 to the current rate of \$8.09 for a total of \$14.83. To minimize the impact on customers, the amount would be implemented in phases. The first increase of \$2.74 would be effective on July 1, 2015, an additional \$2.00 effective October 1, 2015 and the remaining \$2.00 on April 1, 2016. An example was illustrated for an average residential electric bill based on usage of 1,118 kilowatt hours per month. The bill under the current rate would be \$109.09.

With the step increases, the bill would be \$111.83 in July 2015, \$113.83 in October 2015 and \$115.83 when fully implemented in April 2016. Neighboring utilities have been surveyed and this would place CU at the average of those utilities with the proposed increase.

2. In the GSA 1 class (demand less than 50 kW), the cost of service supports a decrease of \$1.02 to the current rate of \$15.41; however, staff elected not to implement the decrease.
3. In the GSA 2 class (demand of more than 50 but less than 1000 kW), the cost of service supports an increase of \$5.60 to the current rate of \$46.22 for a total of \$51.82 effective July 1, 2015.
4. In the GSA 3 class (demand between 1,000 and 5,000 kW), the cost of service supports an increase of \$41.61 to the current rate of \$154.05 for a total of \$195.66 effective July 1, 2015.
5. Another adjustment being proposed falls under pole rental for older security light installations. The calculated cost is in excess of \$6 per month for CU to own and maintain the poles. Staff is proposing to adjust the current monthly charge of \$2.03 to \$3.03 effective July 1, 2015, and \$4.03 effective April 1, 2016.
6. In lighting, a 2/10 of 1 cent increase in the kWh charge is being proposed effective July 1, 2015. The Cost of Service study actually called for more of an adjustment; however, this is all staff is proposing at this time.
7. These are internal rate increases. An overall percentage increase of 1.5 percent was projected to occur in the 2016 projections done at the time of the 2015 budget preparation. In addition, the proposed increase by TVA in October 2015 will be passed through to customers, as is customary. Indications are larger industrial customers will see rate decreases, with other classes seeing increases in accordance with the Cost of Service study done by TVA. Webb said, "It is important CU remain revenue neutral as a result of TVA's changes."
8. Other issues addressed in the budget for electric include:
 - a.) Recommending developers be responsible for fees associated with conduit installations in new residential developments effective October 1, 2015.
 - b.) A new customer service initiative to eliminate the current convenience fee of \$3.95 to pay a bill over the internet using a debit or credit card. As a result, payments will be limited to not exceed \$7,500 per month per account. This should be well received by customers and will help address capacity issues in the drive-thru and lobby.
9. Webb reviewed the following charts and trends for the FY 2016 budget that showed history information and further supported the need for the proposed rate increases:
 - a.) Customer Count: the customer count has grown significantly since 2005 and the trend line is ascending.
 - b.) kWh Sold: the kWh sold varies greatly and is very much dependent on the weather. The trend line is descending; this could also be attributed to conservation efforts. Even with the customer count increasing, the kWh usage is down.

- c.) **Purchased Power as a Percentage of Electric Sales Revenue:** These numbers fluctuate; however, the trend line is climbing. For every dollar received in the electric division, 83.5 cents is paid to TVA.
- d.) **Margin Percentage:** This is opposite of the chart representing purchased power. The margin percentage is trending downward.
- e.) **Plant Value:** This number has steadily increased since 2005 and is approaching \$125 million by the end of this year; the trend line is rising. Substations have been added over the years and system improvements have been made to continually provide reliable service.
- f.) **Peak Demand Summary:** Demand is increasing and the capacity must be available to meet the demand.
- g.) **Depreciation Expense:** As plant value increases, depreciation expenses increase.
- h.) **Payment In Lieu of Taxes:** This amount has exceeded \$2 million per year in the electric division.
- i.) **Budgeted Equivalent Employees:** Every year an allocation study is completed for the number of equivalent employees for electric, water and sewer. In 2009, there were 206 budgeted equivalent employees. In 2016, there are 191 budgeted equivalent employees. Even with the increase in customer count, there has been a decrease in employees. Staff is doing a good job of managing the head count.
- j.) **Expenses:** Of all expenses in the electric division, purchased power from TVA represents 82.3 percent and depreciation accounts for 4.46 percent of the total; a minimal portion is left for expenses which management has very much control over.

In addition, the budget proposes 3.5 percent wage increases for those employees meeting the eligibility requirements.

Webb said, "This budget is the result of the work of a lot of different people. Marshall and his staff do a final compilation getting the numbers together. We try to include as many people as we possibly can during the budget process."

Approval of Purchase Order with S&C Electric Company

On motion by Chari Buckner and seconded by Eddie Cartwright, the Board of Public Utilities voted unanimously to approve a purchase order with S&C Electric Company C/O Charles W. Ashby Company Incorporated, in the amount of \$102,000 for the purchase of one (1) Vista Pad Mounted Switchgear to replace a 1979 interrupter at Bayer Healthcare LLC (formerly Merck) located on Michigan Avenue. S&C Electric Company is the only approved supplier of this equipment. Borden stated this is another example of replacing older equipment with new equipment, which increases plant value.

Approval of Purchase Order with King Industries

On motion by Joe Cate and seconded by Mayor Tom Rowland, the Utility Board voted unanimously to approve a purchase order with King Industries in the amount of \$132,500 for the rehabilitation of the South Gravity Thickener Tank

located at the Wastewater Treatment Plant. The rehabilitation project was budgeted for FY 2015. Two bids were received in the amounts of \$132,500 and \$240,000. King Industries did rehab on the North Tank several months ago at a cost of \$139,623. The scope of work for the North Tank was somewhat different than the South Tank.

Approval of Contract with Morgan Contracting

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted to approve a contract with Morgan Contracting in the amount of \$1,372,808 for the rehabilitation of approximately 5,713 lineal feet of 8 & 12 inch sewer lines, 138 service laterals, and 34 manholes as part of the Wildwood Avenue Sewer Rehabilitation Project. The budget for the project is \$1,400,000 and was in the 2014 & 2015 budgets. Two bids were opened in the amounts of \$1,372,808 and \$1,687,100; one bid was not opened due to incorrect paperwork. Littlejohn Engineering reviewed the bid and performance of Morgan Contracting and has recommended.

OTHER BUSINESS

Future Board Meeting Dates

Following is a list of future board meeting dates to be held at the Tom Wheeler Training Center:

Tuesday, April 7, 2015, 10:00 a.m., "Called" meeting

Thursday, April 23, 2015, 3:00 p.m.

Amy Ensley Utility Board Secretary

 Chairman

4-23-15

(Date)