



MINUTES OF MEETING
CLEVELAND UTILITIES "CALLED" BOARD

April 7, 2015

The Board of Public Utilities met at 10:00 a.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; Eddie McDaniel, Water Distribution General Foreman; Chris Mitchell, Owner of Chris Mitchell Management Consultants (CMMC); and Rick Norton, *Cleveland Daily Banner*. Following the Pledge of Allegiance to the American Flag, Mr. Eddie McDaniel, Water Distribution General Foreman, delivered the invocation.

NEW BUSINESS

Fiscal Year 2016 Budget

President/CEO Webb thanked everyone for attending the "called" meeting and welcomed Chris Mitchell to the meeting. Chris Mitchell owns Chris Mitchell Management Consultants and previously worked twenty years for TVA; the last six years, he served as a Vice President and TVA's Chief Risk Officer. Mitchell has been working with staff for several months developing the needed adjustments in the electric division being requested.

Mitchell explained the aspects of the detailed Cost of Service study. A graph was reviewed for margin analysis-net income for Fiscal Years 2012-2015. As expenses have gone up, the cumulative net income has decreased every year since 2012. Mitchell stated this is a trend and it is time to take action to address this issue. Expenses continue to increase, and usage, on the volume basis, is not keeping up with the pace of inflation on costs. There was less volume sold in 2014 than in 2010. A certain amount of growth is needed to fund costs. Mitchell said, "You have to do some increases in revenue to feed that inflation." This issue is extremely common. Mitchell noted he is working with 57 other distributors who are in the same predicament. Small increases in revenue are needed to fix the issue over time.

The Cost of Service study calls for an increase in the customer charge. The customer charge is the fixed portion of a bill; this amount is paid regardless of usage. By placing the increase in the fixed component, the revenue collected is more certain and it helps manage risk and financials. Mitchell stated this is appropriate. Utilities have an obligation to provide reliable power and there is a cost associated with that duty.

In the residential class, the cost of service supports an increase of \$6.74 to the current charge of \$8.09 for a total charge of \$14.83. In order to minimize the impact on residential customers, the \$6.74 adjustment in customer charge would be accommodated by a \$2.74 (2.15%) increase effective July 1, 2015, a \$2 increase effective October 1, 2015, and a \$2 increase effective April 1, 2016. In the GSA 1 class, the cost of service supports a decrease of \$1.02; however, staff elected not to implement the decrease. In the GSA 2 class, the cost of service supports an increase of \$5.60 (0.15%) to the current charge of \$46.22 for a total of \$51.82 effective July 1, 2015. In the GSA 3 class, the cost of service supports an increase of \$41.61 (0.09%) to the current charge of \$154.05 for a total of \$195.66 effective July 1, 2015. In outdoor lighting, the cost of service supports an increase of 0.01590 to the current energy rate of 0.07222. Staff is only proposing an increase of 0.00210 (2/10 of 1 cent) in the kWh charge, which is 20 percent of the recommended change.

An estimate of the collections associated with the July 1, 2015 requested rate adjustments for all classes and outdoor lighting is \$918,540. A breakdown per class is as follows: The \$2.74 increase associated with the residential rate effective July 1, 2015 will contribute an estimated \$847,460 in revenue; the \$5.60 increase associated with GSA 2 class will contribute an estimated \$38,858 in revenue; the \$41.61 increase associated with the GSA 3 class will contribute an estimated \$9,404 in revenue and the increase in outdoor lighting will contribute an estimated \$22,818 in revenue.

As stated by Mitchell, this is a journey through time; he predicts there will be rate adjustments needed in the future. As costs continue to increase, the rates will need to be adjusted.

In 2011, TVA made a change in their rate structure. End-use rates were eliminated and demand and energy rates were implemented. This increased risk and volatility for distributors. Energy is bought from TVA at a different rate than what it is sold for. In October 2015, there is a proposed rate change estimated to be \$368,911 (not approved by TVA's board to date). This increase would be distributed evenly as a percentage across all classes. In addition, there is a potential rate adjustment from TVA (not approved and yet to be determined) that could impact distributors. In Mitchell's opinion, the adjustment could be in the approximate range of 1.5 percent. The cost of service study recommends any proposed changes by TVA to be passed-through to customers.

Webb advised these changes have been reflected in the proposed FY 2016 budget. Vice Chairman Cartwright asked if this is Webb's recommendation. He assured board members it is.

Webb continued with the budget presentation. Overall, a 1.537 rate increase is being recommended in electric. A 1.5 percent increase was projected for 2016 at the time the 2015 budget was prepared. 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. Additionally, staff is recommending developers be responsible for costs associated with conduit installation in new residential developments beginning with plats received by the "City Plat Review Committee" after October 1, 2015. This puts the electric division on an equal footing with the water and sewer departments relating to the installation of facilities in new residential developments and also in line with neighboring utilities.

Other items in the proposed budget include:

1. 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 amount was worked out with the contractor providing the service. The number of people paying over the internet is increasing.
2. Deposit amounts have been updated to reflect current charges.
3. In the water division, staff is recommending a 1.19 percent rate increase. The increase is the result of an anticipated cost increase for purchased water from Hiwassee Utilities Commission. The increase is the same as was projected for 2016 at the time the 2015 budget was prepared.
4. In sewer, an internal rate increase of 6.37 percent is proposed for fiscal year 2016. The increase is made up of two components: 4.5 percent is the third increase out of 4 increases related to the ongoing SCOPE 10 project and was projected for 2016 at the time the 2015 budget was prepared. The additional 1.87 percent is the result of the payment in lieu of tax from the sewer division to the City. This is a new line item in the budget this year at the request of the City.
5. An option for access fees for water and sewer was discussed at the meeting on March 26. Initially, it was proposed to go to a time and materials cost. After internal discussion, staff realized there were problems with the idea. Calculations were made to develop the average cost of each meter size based on a short-side connection. The required adjustment was then examined and management is proposing to make the adjustments over a three year period. An example was illustrated for a 5/8 inch meter with a current access fee of \$575. The average cost of installing the meter is \$965. In 2016, the access fee would increase to \$705; in 2017 the fee would be \$835 and \$965 in 2018. This would need to be monitored over time as average costs increase. No change is being made to the sewer access fees. At some point in time, consideration may be requested where casing is installed under state roads in order to install the new line; this adds considerably to the costs and is required by the State.

Mayor Rowland questioned how long it has been since there has been an increase in the pole attachment fees for phone and cable companies. Per Webb

this is reviewed on an annual basis. With the cable companies, the rate is developed through a formula. With the telephone companies, the rate is established through negotiations with Tennessee Valley Public Power Association (TVPPA).

In closing, Webb said "It is a fair budget; we have been conservative in our estimates. We have been conscious in the fact it is the customers paying the bill, but we feel like in order to keep the system up-to-date, functioning and the system the customers deserve, we are required to spend money on it."

CFO Marshall Stinnett thanked everyone who helped during the budget process and presented a financial summary of the FY 2016 budget. Electric sales volume for the upcoming fiscal year is projected at 1.1 billion kilowatt hours, water sales volume at 2.8 billion gallons, and wastewater sales volume at 1.9 billion gallons of wastewater treated. A breakdown of expenses for the new budget year includes \$102,052,048 in electric, \$13,794,113 in water and \$10,404,639 in sewer. Total revenue for the electric division with the proposed rate increase is forecast at \$103,006,512. Water and sewer are collectively \$14,599,589 and \$12,480,254. Fiscal year 2016 reflects positive net incomes of \$954,465 in electric, \$805,476 in water and \$2,075,614 in sewer. Stinnett pointed out the net income in sewer being over \$2 million is attributed to the fact there is debt service that will be coming on for the SRF projects. \$30 million was proposed for Phase I and this is part of funding the debt service.

Debt at the beginning of FY 2016 is \$17,128,450 for electric, \$25,068,489 for water and \$26,014,957 in sewer. New debt will be added in the amounts of \$2,500,000 for electric, \$4,230,000 for water and \$4,175,280 for sewer. Payments made on existing debt will total \$1,259,250 for electric, \$1,583,359 for water and \$2,349,115 for sewer. Debt total at the end of 2016 will be \$18,369,200 for electric, \$27,715,130 for water and \$27,841,122 for sewer. Although debt balance increases in 2016, there will be a reduction in debt over a ten year period as noted by Stinnett.

In the 2016 budget, the number of budgeted equivalent employees is 191. Of this number, 83 are in electric, 62 in water and 46 in sewer. This number remains fairly steady over a five-year period. The proposed budget includes a 3.5 percent merit increase for employees who pass an evaluation and have not reached the maximum amount of their pay scale.

Stinnett reviewed a graph representing bond coverage for years 2015 to 2025. As shown, all years projected for electric, water and sewer are above the mark of 1.25 for most rating agencies and CU's conservative estimate of 1.4; this is a very good sign in relation to debt that is carried along with the amount of cash generated.

A chart representing in-lieu of tax payment was reviewed for 1985 through 2016. As the investment in plant value continues to grow, the in-lieu of tax payments increase. Stinnett pointed out for the first time in CU's history, the electric division will pay more than \$2 million for in-lieu of tax payments to the city of Cleveland.

Electric Division VP Bart Borden reviewed capital projects in the proposed 2016 budget totaling \$5.324 million. Categories for commercial load additions, industrial load additions, residential overhead and underground and security lighting were budgeted based on trending history. Borden pointed out the 2015 projected budget is 19.2 percent below what was actually budgeted for the capital portion. The reason is due to the delay in some very major projects that are tied to TDOT projects. In addition, other projects have been delayed and are included in the proposed 2016 budget.

Major items in the electric division include the replacement of line truck, unit #115 (2005 model truck, 45,291 miles, 4,680 hours); although this truck has fairly low mileage, these trucks sit and idle a great deal of time. If the hours were projected to equivalent miles, the mileage would be in the 200,000 mile range. The budgeted amount for the truck is \$310,000, with the trade of another vehicle. Other major items include the re-conductor of South Cleveland S-624, Phase I (replace existing poles and framing to prepare for future addition of parallel conductor, 3.31 miles), \$300,000; the construction of a new line to the South Industrial Park, Phase I (1.56 miles of new distribution line and is a delayed project from the 2015 budget); \$350,000 and the re-conductor of 69 kV transmission line from District substation to Lang Street substation, Phase I (replace every existing pole on the .55 mile pole line and framing for parallel #556 AAC conductor; this line was purchased from TVA in 1958), \$300,000.

Water and Wastewater VP Craig Mullinax provided an update on water and wastewater capital projects in the proposed 2016 budget. Total capital requirements for the water division in the proposed 2016 budget are \$5,665,700. Major items in the water division are the North/South Waterline Extension, Phase 3 (5.2 miles of 24-inch water line from Tasso Lane to the HUC plant), \$1.7 million; galvanized water line replacements, \$200,000; flocculation and sedimentation basins improvements located at the Cleveland Filter Plant (complete renovation), \$350,000; AMI/AMR water meter conversion project, Phase 1 (conversion of approximately 15,000 meters funded through SRF), \$2.5 million.

Mullinax reviewed a number of key projects in wastewater, including Wastewater Rehabilitation, SCOPE 10, \$7,113,273 (this includes continued work in basins 10-36 and 10-35 at a cost of \$3.6 million and is funded through the SRF with an anticipated project completion date of September 2015); improvements to the Wildwood Avenue & Inman Street area, \$1.9 million; Sewer System Evaluation Survey (SSES) for Basin 10A-8 (area begins around Tinsley Park, extends to Inman Street, east of Ocoee Street to APD 40), \$741,000; headwork improvements

project at the Wastewater Treatment Plant (replace exposed electrical panels, wiring and bar screens), \$450,000. Total capital improvements for wastewater in the proposed 2016 budget are \$9,797,673.

Webb added one last comment regarding the budget, "There are a lot of projects that are ongoing; those are being addressed. There are really no surprises in the budget this year compared to what we thought it was going to be this time last year. We have relied on the Cost of Service study to allocate the increases in the electric division. The recommendation is the budget be approved."

On motion by Joe Cate and seconded by Eddie Cartwright, the Board of Public Utilities voted unanimously to approve the 2016 budget. The 2016 budget will be presented to the Cleveland City Council at the Budget Retreat on Monday, April 13, 2015.

Chairman Ector thanked everyone for the hard work on the budget. Chari Buckner questioned how often cost of service studies are conducted. Webb advised he does not recall a study being done for electric in the past. Borden stated these studies will now be completed annually. Stinnett said it is imperative due to the complexity of the TVA rates. Borden informed the AMI meters have proven to be extremely beneficial in knowing where the usage is on a real-time basis.

Approval of Authorization for Change Order Approvals

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted unanimously to authorize the President/CEO of Cleveland Utilities to approve any individual change order up to a maximum amount of \$50,000, not to exceed 10% of original contract price. Mayor Rowland requested a list of approved change orders be reported to the Board. Webb suggesting including a list of approved change orders in board folders.

Approval of Purchase Orders with ERMCO Utilities

On motion by Eddie Cartwright and seconded by Chari Buckner, the Utility Board voted unanimously to approve three purchase orders with ERMCO Utilities in the amounts of \$33,173, \$45,896 and \$40,032 for a combined total of \$119,101 for pad-mount transformers to replenish stock transformer inventory. The purchases are being made through the TVPPA buyer's group contract. ERMCO Utilities is one of the approved bidders and has always provided a quality product.

Approval of Agreement with Littlejohn Engineering Associates

On motion by Chari Buckner and seconded by Joe Cate, the Board of Public Utilities voted unanimously to approve an agreement with Littlejohn Engineering Associates in the amount up to \$103,595 for engineering services and direct management of a subcontractor working on performing CCTV inspections on approximately 60,000 lineal feet of predominately 42 to 48 inch outfall sewer line to the WWTP. Approximately 60 manholes will be inspected. Any defects found will be evaluated and prioritized. All data will be integrated into the Water and Wastewater Division's GIS system. This project is included in the FY 2015 budget.

OTHER BUSINESS

Next Board Meeting

The next regularly scheduled board meeting will be held on Thursday, April 23, 2015, at 3:00 p.m., at the Tom Wheeler Training Center.

Amy Ensley Utility Board Secretary

[Signature] Chairman

4-23-15

(Date)