



MINUTES OF MEETING
CLEVELAND UTILITIES BOARD

August 27, 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 & Wastewater VP; Walt Vineyard, Information Technology VP; Tim Henderson, VP Administrative Services; Jan Runyon, Assistant VP Administrative Services; Annette Townsend, Customer Service Representative; Jamie Creekmore, Customer Relations Representative; Rev. Edward Robinson; Larry Bowers, *Cleveland Daily Banner*; and Paul Leach, *Chattanooga Times Free Press*. Following the Pledge of Allegiance to the American Flag, Rev. Edward Robinson, Pastor at Pleasant Grove Missionary Baptist Church, delivered the invocation.

MINUTES OF JULY 23, 2015

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted unanimously to approve the July 23, 2015, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS

Annette Townsend Recognition

Recently, Annette Townsend received some rather unique recognition from one of CU's customers. East-West Media was in the office signing up for service at a new location, and Annette waited on them. She did her normal great job of taking care of the customer, and they decided to acknowledge her on their new billboard at the intersection of Keith & 25th Streets. Webb recognized Annette for her excellent customer service skills and stated he is proud of Annette, as well as all of CU's employees. A picture of the billboard featuring Annette was displayed for everyone to see.

Office Closed

Cleveland Utilities will be closed on Monday, September 7, 2015, in observance of Labor Day. Regular emergency and standby services will be maintained.

Annual Picnic

Cleveland Utilities' annual family picnic will take place on Thursday, October 22nd, at Fletcher Park beginning at 5:00 p.m. This annual event is an excellent opportunity to enjoy tasty food, good fellowship, various games and door prizes.

Resolution Passed by City Council

The City Council passed a resolution in July endorsing CU's efforts to provide telephone and Internet services. A copy of this resolution was included in the board folders. Webb expressed appreciation to Mayor Rowland and the City Council for their support. The next step with the consultant will be presented under old business in today's meeting.

United Way Volunteer Day

A short video was presented of CU's volunteers participating in the United Way's Day of Action. Employees were divided into two groups. The first group of volunteers worked on landscaping, painting chairs and bookshelves, and cleaning at the Boys and

Girls Club Unit at Cleveland State Community College. Those employees were Jamie Creekmore, Amy Ensley, Tim Delk, Karen Hall, Tim Henderson, Jan Runyon, Ashley Sermons, Marshall Stinnett and Ken Webb. The second group worked on pressure washing, applying mulch, among various other tasks at the Blythe-Bower Elementary School. Those employees were Brenda Carter, John Corum, Lisa Harris, Dustin Hicks, Deanna Hitch, Kenny Longley, Peyton McConnell, Shane Peels, Mark Wells and David Yost. Webb said, "We try to promote a culture of community, because without this community, we are not needed. When we have the opportunity to help in our community, we try to do just that. I appreciate the employees who participate and give back to the community."

Volleyball Tournament

CU will have a team participating in the River Counties Association of Realtors "Volley for a Cure" Volleyball Tournament tonight, August 27, at Cleveland State Community College. All proceeds will benefit the American Cancer Society. The first game will begin at 6:50 p.m.

DIVISION REPORTS

Financial

Marshall Stinnett reported on the following:

1. As of today, the auditors were leaving CU's facilities. Their financial report should be finalized sometime during September. Stinnett is hopeful to present the audited financial statements in September; however, this will depend on when the information is received.
2. The new online bill system is now fully functional. All customers can view/pay their bill online free of charge. Prior to the change, approximately 700 customers were signed up for e-statements, and as of yesterday, there were almost 1,600. This converts to a savings of almost \$900 a month due to not paying postage charges, printing, etc.
3. A chart tracking the kilowatt-hour cost in residential retail electric rates for the months of September 2011 through September 2015 was reviewed. For the month of September, the residential electric rate will change to 9.279 cents per kilowatt-hour, a decrease of 1.87 percent over last month's rate of 9.456 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.
4. The June and July 2015 financial and statistical statements were presented to the Utility Board. During June, the cost of purchased power as a percentage of retail sales increased to 83.2 percent as compared to 78.6 percent for the month of May. The year to date percentage was 83.6 percent, compared to a budgeted percentage of 83.2 for FY 2015. The results for June 2015 are electric sales revenue of \$9,495,587, which was offset by purchased power of \$7,901,718. This resulted in an operating margin of \$1,593,869. These revenue numbers were driven by a customer base of 30,808. The results for FY 2015 are electric sales revenue of \$97,856,518, which was offset by purchased power of \$81,846,712. This resulted in an operating margin of \$16,009,806. The net income for June before the pension adjustment was \$128,147, compared to a budgeted net income of \$64,443. This brings the division to a combined net loss of \$714,273 for the year to date before the pension adjustment and can be compared to the prior year's net income of \$954,236 for FY 2014. The pension adjustment for the

year was a decrease in expense of \$1,059,472. This brings the division to a net income of \$345,199 for the year. Stinnett reminded the current pension expense is reported on the income statement and all prior expenses fall under liabilities. The cash requirement is still there, although it does not flow through the income statement.

5. During July 2015, the cost of purchased power as a percentage of retail sales decreased to 82.1 percent as compared to 83.2 percent for the month of June. This can be compared to the budgeted percentage of 82.8 percent for FY 2016. The results for the month were electric sales revenue of \$10,096,825, which was offset by purchased power of \$8,289,732. This resulted in an operating margin of \$1,807,093. Operating expenses for the month were \$1,468,629 compared to a budgeted operating expense of \$1,480,854. The division serviced 30,737 customers during July. The net income for the month was \$466,819 and includes an approximated \$80,000 adjustment for the pension plan.
6. For June 2015, water sales revenue was \$1,219,252. Other revenue sources added an additional \$120,617 for the month. The division serviced 30,928 customers. Operating expenses for June were \$1,086,570. The division recorded an operating income before the pension adjustment of \$253,299. The results for FY 2015 are water sales revenue of \$13,030,917, compared to a budgeted amount of \$13,099,600. Other revenue sources contributed \$1,208,134 for FY 2015. Operating expenses for FY 2015 were \$12,702,860. The resulting operating income before the pension adjustment for FY 2015 totaled \$936,754, which is compared to a budgeted operating income of \$762,117. The pension adjustment for the year was a decrease in expense of \$599,437. This brings the division to a combined net income for the year of \$1,536,191.
7. For July 2015, water sales revenue was \$1,205,715. The division serviced 30,888 customers. Operating expenses for July were \$1,128,128. This included a pension adjustment of approximately \$50,000. The division recorded an operating income of \$173,290, which can be compared to a budgeted operating income of \$230,128 for the month.
8. For June 2015, wastewater treatment revenue was \$973,490. The division serviced 18,440 customers. Operating expenses for the month were \$783,012, compared to a budgeted amount of \$927,523. An operating income of \$321,372 was recorded before the pension adjustment. The results for FY 2015 are wastewater sales revenue of \$10,678,843. Other revenue sources contributed \$923,988. Operating expenses for FY 2015 were \$9,616,593. The resulting operating income for FY 2015 before the pension adjustment totaled \$1,561,896, which is compared to a budgeted operating income of \$892,141. The pension adjustment for the year was a decrease in expense of \$424,342. This brings the division to a net income for the year of \$1,986,238.
9. For July 2015, wastewater treatment revenue was \$961,922. Other revenue sources contributed an additional \$58,998 for the month. The division serviced 18,372 customers. Operating expenses for July were \$836,062. This included a pension adjustment of approximately \$40,000. The division recording an operating income of \$184,858 compared to budgeted operating income of \$238,195 for July.

Electric Division

Bart Borden reported on the following:

- 1. The site contractor for the Harrison Property, Green Star Construction, has been working on the environmental permitting requirements before any site work can begin at the Harrison Building location on Freewill Road. Green Star plans to begin site work by September 7th. Wheeler Communications reported the building security equipment was delivered and installation work began yesterday.**
- 2. In reference to the design to relocate 69/13.2 kV lines for the new Honorable Tom Rowland Interchange at Stone Lake Road, Attorney George McCoin is in contact with First Bank of Tennessee in an effort to resolve their objection for Cleveland Utilities to obtain the necessary transmission line easement for the facility relocation. If this last request fails, Mr. McCoin will file the required court documents to pursue Eminent Domain proceedings. This is the sole remaining required easement. Approximately 1/3 of an acre of the property will be impacted.**
- 3. Timber Creek Subdivision, Phase II, Part 1, still remains 95 percent complete at this time. As reported at the Board Meeting held in August, CU is working with the developer to resolve a final grade issue with the installed pad-mount transformers pad elevation being too low. The contractor has not completed the needed grade work to allow CU's crews to work.**
- 4. Cleveland Utilities provides electrical service to Bayer Manufacturing on Michigan Avenue at the 13.2 KV level. Due to this service voltage, a very large load interrupted is required. The existing interrupter was installed in 1979 and is no longer supported by the manufacturer. Maintenance evaluations have determined the switchgear requires replacement. CU purchased and received an S&C SF6 insulated VISTA interrupter with primary metering voltage and current transformers in an integral unit. At the March meeting, the Utility Board approved the purchase of the replacement switchgear at a cost of \$102,000. The switchgear replacement will include new 15 KV, 750 MCM copper underground conductors and an 8 foot by 17 foot concrete pad that will be formed and poured on site by low bidder, Farmer Brothers Concrete, at a cost of \$5,217. The concrete pad will be 12 to 18 inches thick, due to the elevation changes on the site.**
- 5. An update was presented for the Peach Orchard Hill Road Tie Line Project. As stated in Borden's July report, Cleveland Utilities entered a contract agreement with Environmental Consultant, Bill Phillips, to perform a Bat Study, required by the State of Tennessee for the CDBG Grant. The study results determined no trees were suitable for Indiana and northern long-eared bats to roost beneath the loose bark. This report has been forwarded to the State. CU's engineering department is working with Cleveland Surveying to obtain field survey descriptions for the power line easement legal documents. Power line easements must be obtained from two property owners along Peach Orchard Hill Road.**
- 6. A great deal of the month's work for CU's line crews included the following maintenance related items:**
 - 38 fused cutouts were replaced due to an issue discovered with one manufacturer's porcelain and seals. CU, along with a number of other utility companies, have experienced a significant amount of problems with**

one particular company. Borden explained some of the issues found (hairline cracks, arcing/flashing in the seal areas). Due to these issues and for safety reasons, a large quantity will be removed from the field and replaced with polymer insulators. The polymer insulators are a lighter, organic material and are made in the United States. Porcelain is no longer manufactured in the United States; the majority is manufactured in China and some in Brazil. Due to the difficulty of obtaining a good quality porcelain, most utilities are switching over to the polymer.

- 26 transformers were installed or replaced.
- 59 new services were installed.
- 328 service orders were worked, ranging from removing vines from poles and down guys to prevent outages, to reframing electrical facilities to prevent wildlife contact outages.
- In addition to the maintenance work, the crews completed 92 work orders ranging from the installation of 21 new underground services to installing a 300 KVA, 277/480 volt pad-mount transformer, underground 15 KV primary and connecting the customer's installed underground service at Mueller Company on Industrial Drive.
- The crews also repaired 162 street and security lights and painted 27 pole-mounted transformers in service during July.

7. An update was presented on traffic lighting:

- The Exit 25 TDOT project experienced another delay when TDOT realized they had omitted a pole relocation from their plans. The traffic light pole on the NW corner of Georgetown and Westside Drive will need to be moved. CU's engineering department is working with Steve Williams Construction, NABCO Electric, and TDOT to install a strain pole in a suitable location for the project. NABCO will be responsible for all materials and labor. NABCO did not have a traffic light strain pole in stock and would have had to order one with a 16-18 week delivery. To help expedite the project, Cleveland Utilities agreed to sell NABCO a strain pole CU has in stock at full replacement cost. NABCO has submitted the structure drawings and specifications to TDOT for their approval.
- CU's Traffic Signal Coordinator Tad Bacon attended a pre-construction meeting for changes to the EL Ross and Yates parking lots, drives, and the addition of a deceleration lane on Mouse Creek Road. The flashing school zone sign (near the water division's overflow tank) will need to be moved back 150 feet toward Mimosa Drive to accommodate the deceleration lane. Staff is currently in the process of determining the property owners that will be impacted before the relocation takes place. Cleveland City Schools was given an estimate of \$2,484 to relocate the school zone signal. The work is expected to be completed during the city school's fall break.

8. Borden informed he has several site plans available for viewing, including plans for Nissan of Cleveland.

Water Division

Craig Mullinax reported on the following:

1. King Industries completed the Rehabilitation of the South Sludge Thickener at the Wastewater Treatment Plant. Cleveland Utilities has paid King Industries the contract amount of \$132,500.
2. K. Berry Construction began rehabilitation on the sixth and final spiral lift pump at the Wastewater Treatment Plant. The project is 20 percent complete.
3. The new blower motors for the north blower building project (part of the 50/50 grant from TDEC) are expected to be installed the week of September 21st. Two contractors will be working on the project. King Industries will be fabricating items and installing the motors. Gardner Denver will be aligning and balancing the motors.
4. In reference to the project for the installation of the control valves and new meter at Waterville Springs, the meter has been received. The control valves are on order with an expected delivery date in September. CU will be accepting bids in September for the installation.
5. CU purchased five (5) acres of land from the City at the Waterville Golf Course, including two (2) springs and the treatment facility at a cost of \$25,595. \$1,650 was paid to Cleveland Surveying for the survey, and \$627 was paid to Cleveland Abstract & Title for the legal fees involved.
6. Work is progressing on the first phase of the AMR/AMI Water Project funded through the SRF. A total of 23 routes consisting of 4,351 meters were changed out during the month, and a total of 41 routes consisting of 7,987 meters have been changed out to date. The contractors are moving very quickly. Craig commended two members of his staff for an excellent job of overseeing the project.
7. Hampton Backhoe Service completed installation of 3,470 feet of water line on Wesdell Lane. The entire project also consisted of water line replacements on Park Avenue and Steed Street, which were completed prior to the work on Wesdell Lane. Minimal cleanup work remains on Wesdell Lane.
8. Hampton Backhoe Service will be starting the McDonald School Road project next week.
9. Talley Construction has relocated 3,650 feet of 12-inch water main at the new Honorable Tom Rowland Interchange on APD 40 at Stone Lake Road. The project is on hold awaiting plan revisions from TDOT.
10. Bids were opened for replacement of approximately 3,927 feet of 10-inch sanitary sewer with 15-inch sanitary sewer on Barney Lane. This will be presented under new business.
11. CTI submitted plans to CU's engineering department for review to include the installation of approximately 3,000 feet of 8-inch sanitary sewer on Pleasant Grove Church Road.
12. Lake Mantooth, developer of Falcon Crest subdivision on Frontage Road, submitted plans to install a water booster pumping station for a proposed extension to the subdivision.
13. Engineering is reviewing plans for Exit 20, Pleasant Grove Road Commercial Development to consist of 1,140 feet of 8-inch water main.
14. Work is progressing on the Wastewater Rehabilitation Project:
 - AITC has lined 42,515 feet of pipe for the Basin 31-45 (Phase 2) and 10-36 (Phase 1) Rehabilitation project. In addition, 56 point repairs have been completed at various locations to allow for lining, 187 services have

been renewed, 181 cleanouts have been installed, 103 manholes have been lined, 21 manholes have been raised to grade, and 19 have had damaged castings replaced. Mullinax stated the project is going well and benefits are being seen. One of the key manholes, 22A, is not nearly as active as it used to be.

- Westco was awarded the contract for the sewer maintenance and clearing project. 24,750 feet has been completed to date.
- CES completed approximately 46,000 linear feet of the CCTV interceptor inspection project of the large mains. The data will be reviewed to determine if there are problems.
- In reference to the Wildwood and Inman Rehabilitation project, the notice to proceed was issued on August 1. Morgan Construction began CCTV of the service laterals on August 11.

15. The meter department set 47 meters through July 2015, compared to 27 for July 2014 and 14 for July 2013. Of the 47 sets, 19 were for single-family homes, 16 were for townhomes, 10 were for apartments, and 2 were for irrigation meters at Lee University and FSG Bank.

OLD BUSINESS

Update on Continuation of Fiber Study

Walt Vineyard presented an update on the proposal received from Uptown Services to continue the study and feasibility of providing telephone and Internet services as a phased approach to minimize the upfront funding requirement. The working capital requirement would also be reduced to around \$1 million by doing the project in a phased manner. The proposal presents the consulting tasks to be completed as an incremental analysis to the original study to identify the financial viability of the proposed phased deployment strategy.

The proposed tasks and deliverables proposed by Uptown Services include the following:

1. Update Pro Forma Results
2. Analysis of Overhead Loadings/Management Staff Allocations - This includes strategy options to reduce the FTTP incremental headcount to reduce operational expenses and the overhead loading burden. Options include contracting the installations and combining some of CU's customer service representatives, instead of having designated customer service representatives for a telecom business.
3. Update to Construction Cost Metrics - The study will identify initial deployment areas for the purposes of this project. Total premises of the launch areas will not exceed 3,000 premises in total (10 percent of CU's customer base).
4. Other Scenarios - The final task will also include new scenarios on penetration rate ranges to identify financial feasibility thresholds such that CU can fully understand the risk as a function of Internet penetration outcomes.

Webb stated this is very similar to the approach taken by Erwin Utilities with their FTTP pilot project. As discussed at last month's meeting, staff made a site visit to Erwin and was very impressed with how their project is progressing.

On motion by Mayor Rowland and seconded by Joe Cate, the Board of Public Utilities voted unanimously for staff to continue to study the feasibility of a phased deployment strategy with Uptown Services at a cost of \$12,500 (this fee does not include any travel expenses).

Approval of Purchase Order with CSL Services, Inc.

On motion by Chari Buckner and seconded by Mayor Tom Rowland, the Board of Public Utilities voted to approve a purchase order with CSL Services, Inc., in the amount of \$105,000 for long term flow monitoring of 17 flow meters, which includes annual maintenance, data collection and reporting (Flow monitoring is a tool used to help determine where inflow is occurring and if you are eliminating it. CU has been under contract for the last two (2) years with CSL Services Inc., to provide flow monitoring services.) This is a companion project with the SCOPE 10 project. It is very important to have historical data to analyze to help identify problems. CU has had 14 long term flow monitors in over the past several years, and 3 additional flow monitors (one long term and two short term) are being added. This item is included in the operating budget. CSL Services, Inc., has been used over the past several years, and staff is pleased with their work.

NEW BUSINESS

Approval of Purchase Order with Altec

On motion by Mayor Tom Rowland and seconded by Eddie Cartwright, the Utility Board voted unanimously to approve a purchase order with Altec Industries in the amount of \$212,575 for a 2016 4X4 cab and chassis with an insulated, articulating aerial device to replace Unit #143. Bid requests were sent to Altec Industries, Terex Utilities and O.G. Hughes. Altec Industries was the sole bidder. The 45-foot working height of the aerial device fell between O.G. Hughes two product lines, with one being too small to meet the specifications and the other being too large and cost prohibitive to competitively bid. Terex Utilities produces a unit that meets the required specifications; however, the 4X4 cab and chassis increased the overall height of the chassis and Terex could not meet the legal over-the-road height restriction of 13 feet, 6 inches once the aerial device was mounted. The replacement is a capital budget item.

Approval of Contract with Norris Brothers Excavating, LLC

On motion by Eddie Cartwright and seconded by Joe Cate, the Board of Public Utilities took action to approve a contract with Norris Brothers Excavating, LLC, in the amount of \$582,960.41 for the replacement of 3,927 lineal feet of 10-inch clay sewer main with a 15-inch PVC sewer main. The project is located off Barney Lane NE, 20th Street NE, and Holly Brook Subdivision in the northeast Industrial Park. The Barney Lane Sewer Replacement Project is included in the FY 2015 budget and has been carried over to FY 2016. Six bids were received. Norris Brothers Excavating submitted the low bid. This will be the first time this contractor has been used; however, Philip Luce prequalified Norris Brothers Excavating, prior to the bid.

Sanitary Survey Results of CU's Water System

Mullinax reported the Tennessee Department of Environment and Conservation (TDEC) Division of Water Resources conducted an unannounced inspection of the Cleveland Filter Plant and Water Distribution System on July 15, 2015. The sanitary survey covered the from period from May 2014 to May 2015. This process works off of a point system, with a possible 599 points for a perfect score. CU received a 1 point deduction for areas of rust and peeling paint at the valves and piping at the north

Hickory Glen booster station. The areas were sanded and painted the next day by maintenance staff. Also noted in the letter of the survey were that all end-of-line flushing assemblies have been installed. CU has worked on this project for many years. This keeps CU in compliance with the state mandated flushing program. CU earned 598 points out of a possible 599 for a numerical rating of 99 percent, which reaffirms CU's water system as an "approved" water system. Mullinax said, "I am extremely proud of our operational, maintenance, and management team. Everyone works hard each day to meet TDEC's requirements in the survey. We hope this assures our customers that we provide them safe drinking water each and every day."

OTHER BUSINESS

Update on Reimbursement for 2011 Tornadoes

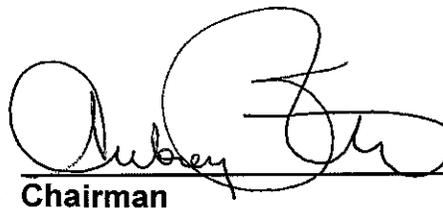
Stinnett informed as of yesterday, an additional \$298,000 was received from FEMA for reimbursement of the 2011 tornadoes. The total event cost of the tornadoes is approximately \$2.7 million. As of yesterday, a total of \$1.85 million in reimbursement has been received, with a total of \$21,000 worth of reimbursement remaining. The total cost to CU for this event is approximately \$900,000. TEMA indicated to Stinnett the remaining portion has been submitted to FEMA for reimbursement.

Future Board Meeting Dates

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

Thursday, September 24, 2015, 3:00 p.m.
Monday, November 2, 2015, 12:00 p.m.

Amy Enslin
Utility Board Secretary


Chairman

9/24/2015

Date