



## **MINUTES OF MEETING** **CLEVELAND UTILITIES BOARD**

**February 1, 2016**

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; John Corum, Safety Director; Rev. Joe White; Larry Bowers, *Cleveland Daily Banner*. Following the Pledge of Allegiance to the American Flag, Rev. Joe White, CU Network Administrator II and Chaplain of the Colonel Benjamin Cleveland Chapter of the Sons of the American Revolution, delivered the invocation.

### **MINUTES OF JANUARY 7, 2016**

On motion by Eddie Cartwright and seconded by Mayor Tom Rowland, the Board of Public Utilities voted unanimously to approve the January 7, 2016, minutes as written.

### **MANAGER'S UPDATE AND ANNOUNCEMENTS**

#### **Offices Closed**

Cleveland Utilities will be closed Monday, February 15, 2016, to observe the Presidents' Day holiday. Regular emergency and standby service will be maintained.

#### **Awards Banquet**

Cleveland Utilities Annual Awards Banquet will be held on Wednesday, March 2, 2016, to honor employees with service awards and perfect attendance recognition. The banquet will be held in the Tom Wheeler Training Center. Board Members were invited and encouraged to attend this event as these achievements are acknowledged. Service awards will be given to 37 employees. In addition, 71 out of 185 employees (39 percent) will receive perfect attendance awards.

### **DIVISION REPORTS**

#### **Financial**

Marshall Stinnett reported on the following:

1. A chart tracking the kilowatt-hour cost in residential retail electric rates for the months of February 2012 through February 2016 was reviewed. For the month of February, the residential electric rate will change to 8.695 cents per kilowatt-hour, a decrease of 2.55 percent over January's rate of 8.923 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 December 2015 financial and statistical statements were presented to the Utility Board. During the month of December, the cost of purchased power as a percentage of retail sales was 80.3 percent, as compared to 84.7 percent for

the month of November. The year-to-date percentage is 82.5, compared to a budgeted percentage of 82.8 for FY 2016. The results for December are electric sales revenue of \$7,263,554, which was offset by purchased power of \$5,829,190. This resulted in an operating margin of \$1,434,364. This is compared to a budgeted margin of \$1,355,101 for the month of December. Operating expenses for the month were \$1,430,011, compared to a budgeted operating expense of \$1,511,090. The division serviced 30,827 customers. Net income for the month was \$137,083. This brings the year-to-date net income to \$641,915, of which \$700,508 is related to the net pension adjustment. Without the pension adjustment, the year-to-date loss would be \$58,593. As a reference, the year-to-date loss was \$324,441 for this same period last year.

3. For December 2015, water sales revenue was \$1,017,084, which is compared to the budgeted amount of \$983,789. Other revenue sources added an additional \$109,241 for the month. The division serviced 30,947 customers. Operating expenses for December were \$1,123,256. This can be compared to the budgeted amount of \$1,112,370. The division recorded an operating income of \$3,069, which can be compared to a budgeted operating loss of \$34,378 for the month.
4. For December 2015, wastewater treatment revenue was \$899,282, compared to the budgeted amount of \$910,756. Other revenue sources contributed an additional \$66,073 for the month. The division serviced 18,422 customers. Operating expenses for December were \$864,177 and can be compared to a budgeted amount of \$858,254. The division recording an operating income of \$101,178, compared to a budgeted amount of \$130,707 for the month.
5. Stinnett advised all three divisions came in really close to the budget for December. The budget planning process for FY 17 has begun. Volumes are being projected, and capital plans for all divisions are being prepared.

### Electric Division

Bart Borden reported on the following:

1. In reference to the ongoing work at the Harrison Property, the final financial report was reviewed. Actual cost of the project was \$712,649.34, compared to the estimated amount of \$562,000. Although the amount for the site work was considerably higher than the anticipated estimate, it was correct in evaluating the bid and price.
2. In reference to the design to relocate the 69/13.2 kV lines for the new Honorable Mayor Tom Rowland Interchange at Stone Lake Road, very little work was performed by the electrical contractor during December due to the phase of the project and CU's system load. A temporary transmission pole was installed at the line double dead-end point on Old Stone Lake Road. The eastern most circuit 69 kV conductors were transferred to the temporary pole, while the western most circuit was transferred to the pole previously occupied by the eastern most circuit. This work will now allow TVA to begin their tower installation at this location. The contractor is now working on the assembly of the two piece steel poles, so the relocation work for S-654 can begin.

- 3. After receiving approval from the State of Tennessee for the project manual report regarding the Peach Orchard Hill Road Community Development Block Grant Project, CU's Engineering Department issued requests for bids to purchase the required steel distribution poles, insulators and conductor. Consideration for approval to purchase the steel poles will be requested under new business.**
- 4. The Blue Springs Road and APD-40 69 kV line design project installation remains scheduled to begin in the spring of this year, when system load conditions are more favorable.**
- 5. During December, CU's substation maintenance crew and I.T. personnel worked together to install 25 security cameras on the Power Service Center campus. Camera coverage has been greatly improved for CU's pole yard, parking areas, storeroom and office buildings. Four cameras were installed in the Tom Wheeler Building and four in the sewer operations crew area. Additional cameras are presently being installed to complete necessary coverage in the office buildings and grounds.**
- 6. During the Christmas holiday shutdown period, CU's line and metering crews replaced failing primary metering sets at Mars Chocolate North America, LLC and Cleveland High School. The purchase of the primary metering current transformers and voltage potential transformers was an agenda item previously approved.**
- 7. Work is underway to add a new section to Kensington Park Subdivision, Phase 2 on Old Freewill Road. The addition will consist of 11 lots. Initially, only the 3 lots bordering Kensington Park Trail will be built on, and the remaining lots will be completed soon after. To provide service to the first 3 lots, CU's Engineering Department released a work order to install 330 feet of electrical conduit, 150 feet of #1/0 aluminum underground primary, 130 feet of #4/0 aluminum underground secondary and one (1) 37.5 KVA pad-mount, single phase transformer. The developer has stated the 3 lots are sold and houses will soon be constructed. Engineering will release a work order to install the electrical facilities for the remaining lots at a later date.**
- 8. An update was presented on traffic lighting:**
  - A new coordination plan was developed for three signals on McGrady Drive at the intersections of Dalton Pike, Young Road, and APD-40. The plan is designed to prevent traffic from backing out onto APD-40 during the afternoon peak time. The dual left turn onto McGrady Drive from APD-40 will now be a lagging left turn, and the left turns to Young Road and Food City will both become lagging left turns. The coordination plan was installed in the field around mid-January and is currently in the testing phase.**
  - The Engineering Department released a work order and CU's traffic lighting crews installed flashing yellow arrow signals at Paul Huff Parkway & Georgetown Road. Information was provided to the Cleveland Daily Banner and posted on CU's website to inform the public of this new signal type. Flashing yellow arrows allow a permissive left turn, while better notifying the driver the movement is not protected.**

- The Engineering Department released a work order to relocate the flashing school zone sign for Michigan Avenue School on Benton Pike from the west side to the east side of Minnis Road. The relocation was completed two weeks ago by CU's traffic lighting crew. This will give better notification to drivers turning from Minnis Road they are now entering a school zone. The flashing school zone sign was moved at the request of the Bradley County Board of Education.
9. An update was given on the status of the Charter power supplies/amplifiers. After the November 3, 2015, notification of unmetered Charter power supply boxes, CU had no requests in December for meter sets on the power supply boxes. To date, Charter has 138 metered power supplies, 6 of which have not been cut over by Charter to read electric usage. 77 power supplies are unmetered. They have until the end of 2016 to complete this task. Charter contacted CU to work on 6 locations in January. There has been some progress.
  10. Mayor Rowland questioned if residential customers are turning to solar electricity and if there are many installations for permanent generators from the power source. Borden advised there are not many applications or requests for either. The upfront investment for solar electricity is expensive. Stinnett interjected with a comment. He informed it becomes a different situation when discussing leasing options; the rates are designed so other customers are not subsidizing those leasing the equipment. Customers leasing the equipment still receive the same benefits and tax incentives, but they are also getting the benefit of the electric rates. Concerning the permanent generator installations, customers are required to meet the National Electric Code. Incorrect installations could result in back-feed to the transformer and can be extremely dangerous to people working on them. CU's crews are very careful when working these connections. Portable generators are commonly used during power outages.

### Water Division

Craig Mullinax reported on the following:

1. Baird Contracting completed the first phase of the AMR/AMI Water Project funded through the State Revolving Fund (SRF) by converting the remaining 150 meters. The project was funded in the amount of \$2.5 million, and the entire amount was spent. The notice to proceed for Phase 2 was effective January 25, 2016, and two crews have converted 600 meters. This week, three crews will be working on the project. The contractors are moving at a quick pace.
2. In reference to the 24-inch water main project from Tasso Lane NE, to the Hiwassee Utility Commission (HUC) Water Treatment Plant, Philip Luce is working on the easement acquisition. 70 properties will be crossed during the project; however, 36 of those already have existing right-of-way easements, reducing the total to 34 for CU to obtain. To date, 5 of the 34 required easements have been attained. The goal is to begin construction in June.
3. Hampton Backhoe Service completed the water main installation on Cabrera Lane SE. The testing process is currently underway.

4. The project to replace the water main on Morgan Johnston Circle, 13<sup>th</sup> Street SE and 24<sup>th</sup> Street NW will be presented under new business.
5. The Barneys Lane sewer replacement project has been delayed due to the weather. Norris Brothers Construction has been onsite fusing the pipe together, and the pipe bursting will begin when the rain subsides.
6. Hampton Backhoe Service encountered rock on the Pleasant Grove Church Road sewer extension project. There is a rock clause in the bid and estimates. CTI Engineers performed calculations from excavations along the sewer main and estimated a value of approximately \$10,000 above the budgeted amount for rock excavation. This does not necessarily mean the entire project will be over budget by \$10,000; there could be cost savings on other items in the project.
7. Engineering has approved plans for Kensington Park, Phase 2. The development will consist of 11 lots and 376 feet of 6-inch water main and 385 feet of 8-inch sewer main. Dennis Epperson is the developer.
8. Updates were given for the following developments under construction:
  - Hampton Backhoe Service has completed the installation and testing of 400 feet of 8-inch water main for the Cleveland Regional Jetport Med-Trans Hangar. The water meter is ready to be set.
  - Hampton Backhoe Service has completed the installation of 2,070 feet of 6-inch water main and 1,550 feet of 8-inch sewer main in phase 2 of Eagle Creek Subdivision. Testing is in progress.
9. The following plans are under review:
  - The installation of 370 feet of 6-inch water main and 400 feet of 8-inch sanitary sewer in The Meadows Subdivision on North Mouse Creek Road. Originally, the subdivision name was Brook Bridge Subdivision, but has since changed to The Meadows.
10. Work is progressing on the Wastewater Rehabilitation Project:
  - AITC renewed 392 services and installed 294 cleanouts for the Basin 31-45 (Phase 2) and 10-36 (Phase 1) Rehabilitation project.
  - Westco cleared approximately 25,250 feet of sewer line easement.
  - Morgan Construction lined 5,371 feet of pipe for the Wildwood and Inman Rehabilitation project (the additional work started in the Inman Street area on January 18). In addition, 96 services have been renewed, 72 cleanouts have been installed and 42 manholes have been lined.
11. The meter department set 25 meters through December 2015, compared to 37 for December 2014 and 22 for December 2013. Of the 25 sets, 17 were for single-family homes, 3 were for townhomes, 4 were for apartments, and 1 was a 6-inch commercial meter for Polartec. The 6-month average for meter sets is 34 (the highest in the past 8 years).
12. CU is taking extra measures to notify drivers when steel plates are used to cover cuts made in the roadways. Two, 4-foot by 4-foot, fluorescent signs with stands are being utilized. A “caution steel plate ahead” sign is placed approximately 100 feet before the steel plate, and a “caution bump” sign is located at the plate.

On Georgetown Road, numerous cuts were made as a result of the rehabilitation work. Unfortunately, the cuts were done when the weather was

colder, and the cuts were not completely smooth. A company out of Knoxville was contracted to heat the asphalt patches, add more asphalt and reroll the asphalt. This method is called “burning in” and works really well. Eddie Cartwright agreed it makes for a smooth transition when driving over the plates. The cost for this work on Georgetown Road was in the range of \$5,000 to \$6,000.

## **OLD BUSINESS**

### **Approval of Drug & Alcohol Policy**

On motion by Mayor Tom Rowland and seconded by Eddie Cartwright, the Board of Public Utilities voted unanimously to approve a Drug & Alcohol Policy. This policy is patterned after the City’s recently adopted policy and was customized to match CU’s operations. President/CEO Webb advised updating policies is a major goal in CU’s Strategic Plan. Safety Director John Corum informed the revisions made to the City’s detailed and comprehensive policy includes job titles to match CU’s positions, the definition for safety sensitive positions (the City’s policy addresses fire, police, and people in charge of children; CU’s policy is primarily for CDL holders), and the addition of a Department of Transportation (DOT) 5-panel drug test.

### **Approval of Project Round-Up Contract Amendments**

On motion by Joe Cate and seconded by Chari Buckner, the Utility Board approved contract amendments for the expansion of agencies for Project Round-Up. The contracts are between the United Way and CU, and 1) The Caring Place; 2) Bradley/Cleveland Community Services Agency; 3) Family Promise; 4) The Refuge; 5) Salvation Army; 6) Foundation House Ministries; 7) Harbor Safe House; and 8) American Red Cross. Since inception of the program, all of the project funds have been distributed to The Caring Place. The new allocation of Project Round-Up funds will be 80 percent to The Caring Place and the remaining 20 percent amongst the other agencies listed. Targeted areas of assistance will be utilities, housing, food, medical and other basic living necessities.

### **Approval of Contract with USI Consulting Group**

On motion by Chari Buckner and seconded by Mayor Tom Rowland, the Board of Public Utilities took action to approve a contract with USI Consulting Group in the amount of \$7,500 (allocated between electric, water and sewer) to conduct a provider search, build a Request for Proposal (RFP) and assist with the plan set-up and design for an Other Post-Employment Benefits (OPEB) Trust. Stinnett advised the Governmental Accounting Standards Board (GASB) replaced GASB Statement 45 with GASB Statements 73 and 74, mandating governments to report a full liability for the OPEB they provide. As part of this, there is an option to form a trust. A trust allows employers to invest its OPEB assets in investments yielding higher returns. Without a trust, the liability for CU is in the range of \$26 million; with a trust, the liability is approximately \$13 to \$14 million. A trust reduces the liability significantly by showing there is a return on those assets already funded.

There are different ways of forming a trust. After discussion, management has determined the best suited option for CU would be a sole trustee model. USI will be searching for trustees with the ability to be a 3(38) organization. They would have the ability to invest, be a fiduciary trustee, administer the plan, and follow the

investment strategy approved by CU. Most eligible organizations will be larger banking institutions with an investment management group and a trust group. It will take approximately 3 to 4 weeks for USI Consulting Group to compile the RFP, and firms will have around 30 days to submit a proposal. To receive the benefit, the trust has to be funded with the minimum contribution by the end of FY 2016. The minimum contribution for FY 2016 is an estimated \$300,000 and was budgeted in FY 16. Webb advised CU has a good working relationship with USI Consulting Group. They have been calculating the liability for GASB 45 since implementation in 2009.

### Fiber Update Presentation

Walt Vineyard reported on the ongoing fiber study conducted by Uptown Services. In May 2015, the original study was conducted and staff requested Uptown Services to reevaluate the study. The updated study included reevaluations with a lower overhead rate, a reduced head count, a 5 year buildout instead of the original 3 year buildout, and the evaluation of a phased-in approach versus a complete build.

In looking at the lower overhead rate, the original study indicated a 14 year break-even point with a 42.3 percent data penetration rate and was considered marginally feasible. The updated study indicated a slight improvement with a 13 year break-even point. In the reduced headcount, there were no incremental broadband-only customer service representatives. It also outsourced preinstalls and premise installs with contractors, and the result lowered the break-even point to 12 years. The slower 5 year buildout compared to the 3 year buildout in the original study did not reduce the funding requirement nor did it de-risk the plan financially. It increased the break-even point by 1 year to 14 years.

The phased-in evaluation includes a pilot area with 3,000 premises passed. This strategy does not cash flow and is not a viable deployment strategy for the Fiber to the Premises (FTTP). While the capital requirements for a pilot launch strategy scales down efficiently, the opex requirement does not. This is primarily due to the fact the headcount is only partially tied to customer count. The upfront cost for infrastructure and back office equipment does not work out financially with the smaller customer base. The break-even point for the phased approach is greater than 15 years, which is not feasible.

CU staff determined the 42.3 percent penetration rates are optimistic. The consultant was asked to lower those rates to 38.1 percent (a 10 percent reduction) and to 33.8 percent (a 20 percent reduction). Both cases resulted in the break-even point moving back to 14 years. If the penetration rates were to drop to 25 percent (a real possibility without the video component), then the project moves to beyond 15 years break-even. The video component was determined to be non-feasible in the original study.

The project is very expensive for all scenarios, and the working capital involved is very high. Webb interjected with a comment, "The working capital has to come out of current funds. It is not part of borrowing." The long-term debt would be \$40.7 million for the original study and updated baseline; \$42.8 million for the reduced headcount; \$41.7 million for the 5 year buildout; and \$5.3 million for the phased-in

pilot project. Working capital would be \$3.9 million for the original study; \$2.4 million for the updated baseline; \$1.5 million for the reduced headcount; \$4.4 million for the 5 year buildout; and \$25.9 million for the phased-in pilot project. Total funding required would be \$44.6 million for the original study; \$43.1 million for the updated baseline; \$44.3 million for the reduced headcount; \$46.1 million for the 5 year buildout; and \$31.2 million for the phased-in pilot project.

Staff and the consultants both determined delaying the decision to enter the telecommunications arena at this time does not have any apparent downside. In addition, without knowing the outcome of the current broadband legislation in the Tennessee Legislature, CU does not want to make any final recommendations until all options that may or may not be available in the near future are evaluated. President/CEO Webb said, "There are too many moving parts in this to make a final recommendation. We don't need to spend money to reinvent the wheel in Cleveland when there may be other options." There could be the possibility to joint venture with EPB or someone else. Webb was also quick to note those other options may or may not work. Chairman Ector responded, "I believe board members are in agreement this is the prudent approach." A press conference in Nashville is scheduled for Wednesday, February 3, at 1:00 p.m., to promote the broadband bill. Webb plans to attend this meeting. Momentum has been growing with more people in support of getting the bill passed.

## **NEW BUSINESS**

### **Safety Internal Performance Measures (IPM's)**

Safety Director John Corum presented the Safety Internal Performance Measures (IPM's) for January 2015 through December 2015 as part of CU's Strategic Plan.

The overall results for 2015 are as follows:

- ***OSHA Recordable Incident Rate*** (a calculation that describes the number of employees per 100 full-time employees that have been involved in a recordable injury or illness)– a combined total of 3.51 for both divisions; 3.39 for the electric division; and 3.69 for the water division
- ***DART Rate*** (a calculation that describes the number of recordable incidents per 100 full-time employees that results in lost or restricted days or job transfer due to work-related injuries or illnesses)– a combined total of 2.01 for both divisions; 2.54 for the electric division; 1.23 for the water division
- ***Lost-Time Case Rate*** (a calculation describing the number of lost times cases per 100 full-time employees in any given time frame) – a combined total of 0.5 for both divisions; 0.85 for the electric division; 0 for the water division
- ***Vehicle Accident Rate*** (a calculation resulting when an insurance claim is filed for an accident) – a combined total of 6.84 for both divisions (a decrease of approximately 50 percent from the 2014 total); 8.25 for the electric division; 5.85 for the water division

The following data went into the calculations:

- A total of 363,763 consecutive hours have been worked by both divisions combined without a lost-time injury (LTI). Electric division employees contributed 23,497 of those hours, with the last lost-time injury occurring on

November 20, 2015. The water division has reached 340,266 hours, with the last lost-time injury occurring on November 15, 2013.

- A total of 398,450 cumulative hours were worked company-wide in 2015. 110 employees in the electric division worked 235,900 hours, and 74 employees in the water division worked 162,550 hours.
- In addition, a total of 876,844 cumulative vehicle miles were driven by employees in 115 vehicles during 2015. 363,718 miles were driven by electric division employees, and 513,126 miles by water division employees.

Webb added he really appreciates the work Corum does in leading the safety area in CU's operation and assured board members the safety of CU's employees and the public is the number 1 priority from his and the staff's perspective.

#### **Approval of Purchase Order with Southeast Industrial Development Association (SEIDA)**

On motion by Mayor Tom Rowland and seconded by Eddie Cartwright, the Board of Public Utilities voted to approve a purchase order with SEIDA in the amount of \$50,978 for 2016 membership dues. Joe Cate abstained from the vote. This is the same amount as the membership dues for 2015. SEIDA is a regional economic development association that partners with the Tennessee Valley Authority (TVA) and eleven local power distributors. TVA reimburses CU for 50 percent of the purchase order amount. 35 percent of the total is earmarked for local economic development cost. CU's 35 percent is allocated to the local Chamber of Commerce to help offset their economic development expenditures.

#### **Approval of Purchase Order with Power Supply Company**

On motion by Chari Buckner and seconded by Mayor Tom Rowland, the Utility Board took action to approve a purchase order with Power Supply Company in the amount of \$76,906.90 for 58 various class and size galvanized, steel utility poles for the Peach Orchard Hill Road Line Extension Project. Six bids were received, and Power Supply Company submitted the low bid. Borden advised there were concerns regarding the price difference of \$20,837.10 in Power Supply's bid and the next lowest amount submitted, along with the fact these poles have never been purchased from this company in the past. Research was done in order to make sure the poles are a quality product. The manufacturer's representative was contacted with CU's concerns, and the representative assured the poles are a quality product and supplied a list of current utility users in the Tennessee Valley. These users were contacted and positive feedback was received, with the exception of one utility. This particular utility was able to resolve their issue by modifying their line design. CU has received approval from the State for this purchase.

#### **Approval of Purchase Order with Premier Truck Group**

On motion by Eddie Cartwright and seconded by Joe Cate, the Board of Public Utilities voted to approve a purchase order with Premier Truck Group of Chattanooga in the amount of \$181,456 for the purchase of two (2) 2017 Freightliner Dump Trucks. Unit 29 (for the water division) is 17 years old and Unit 73 (for the sewer division) is 14 years old. These trucks are budgeted for FY 2016 at \$100,000 each. Two bids were received and Premier Truck Group submitted the low bid.

#### **Approval of Purchase Order with Hampton Backhoe Service**

On motion by Mayor Tom Rowland and seconded by Joe Cate, the Utility Board took action to approve a purchase order with Hampton Backhoe Service, LLC in the amount of \$158,535 for the installation of 3,066 feet of 6 inch PVC and ductile iron waterline and 1,172 feet of 2 inch PVC waterline along Morgan Johnson Circle NE, 13th Street SE and 24th Street NW. The new waterlines will replace small galvanized waterlines at these three locations. The projects are budgeted for FY 2016 and part of the ongoing efforts to update waterlines in the system. Two bids were received, and Hampton Backhoe Service submitted the low bid.

**OTHER BUSINESS**

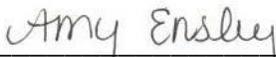
**Future Board Meeting Dates**

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

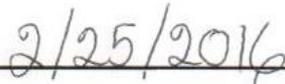
Thursday, February 25, 2016, 3:00 p.m.

Thursday, March 24, 2016, 3:00 p.m.

Thursday, April 28, 2016, 3:00 p.m.

  
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Utility Board Secretary

  
\_\_\_\_\_  
Chairman

  
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Date