

MINUTES OF REGULAR MEETING

CLEVELAND UTILITIES BOARD

DECEMBER 7, 2017

The Board of Public Utilities met at 11:30 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; Tim Henderson, President/CEO; Amy Ensley, Utility Board Secretary; Walt Vineyard, Executive VP; Bart Borden, VP Electric Division; Craig Mullinax, VP Water and Wastewater; Marshall Stinnett, VP/CFO; John Corum, VP Administrative Services; Jan Runyon, Assistant VP Administrative Services; Steve Barger, Director of Environmental & Regulatory Compliance; Lisa Coffey, Supervisor Water Treatment Plants; Karen Hall, Industrial Pretreatment Coordinator; Jamie Creekmore, Supervisor Customer Relations; Lisa Pickel, Executive Director of Cleveland Associated Industries; Mark Lay; Larry Bowers, *Cleveland Daily Banner*; Stacy Greene, Bayer Site Manager; Pete Ochel, Bayer VP of Manufacturing Operations Cleveland/Chatsworth; Ray Duke, Bayer Senior Facility Manager; Christopher Pierson, Bayer Senior HSE Specialist; Lindsey Shipley, Bayer HSE III; and Frank Faulk, Bayer Senior Maintenance Technician. Following the Pledge of Allegiance to the American Flag, Henderson recognized 22-year employee Lisa Coffey for her leadership and role at Cleveland Utilities. Coffey then delivered the invocation.

MINUTES OF OCTOBER 26, 2017

On motion by Mayor Tom Rowland and seconded by Vice Chairman Eddie Cartwright, the Board of Public Utilities voted to approve the October 26, 2017, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS

Presentation of Industrial Pretreatment Award – Bayer-Consumer Health Division

Each year, the Kentucky-Tennessee Water Environment Association awards industries for the outstanding performance in the pretreatment of industrial wastewater. This involves operating complex processes and maintaining permit requirements such as discharge limitations, monitoring and reporting with no violations for at least one year prior to nomination. This year, Bayer-Consumer Health Division received this award.

CU's Industrial Pretreatment Coordinator Karen Hall presented the award to Bayer attendees Pete Ochel, Ray Duke, Christopher Pierson, Stacy Greene, Lindsey Shipley and Frank Faulk. The Consumer Health Division of Bayer is among the largest marketers of over-the-counter medications, nutritional supplements and other self-care solutions in the world. Some of the most trusted and recognizable brands in the world today come from the Bayer portfolio of products. These include Bayer® Aspirin, Aleve®, Alka-Seltzer Plus®, Bactine®, Citracal®, Claritin®, Coppertone®, Dr. Scholl's®, RID®, Phillips'® Milk of Magnesia, Phillips'® Colon Health, Midol®, Afrin®, MiraLAX®, Alka-Seltzer®, and Flintstones™ vitamins amongst others. Bayer is an EPA Energy Star certified for nine of the last 10 years, ISO 14001 Environmental Program Certified since 2007, and VPP (TOSHA – Voluntary Protection Program) Certified since 2003.

Bayer is classified as a federally listed categorical (pharmaceutical) producer and is required to meet both federal and local effluent standards. Bayer's pretreatment system includes flow equalization, pH neutralization, and oil/water separation. They have had no violations issued for the past five years.

Steve Barger and Lisa Pickel were also in attendance for the presentation. Barger directs the pretreatment program for CU. Pickel is the Executive Director for Cleveland Associated Industries. Henderson said, "I can't emphasize enough the importance and cooperation we have with industries, particular in wastewater. It's huge to have this pretreatment program." Additionally, Henderson commended Barger for excellence in managing this department.

Offices Closed-Christmas & New Year's Holidays

Cleveland Utilities will be closed Monday & Tuesday, December 25 & 26, 2017, to observe the Christmas holiday and Monday & Tuesday, January 1 & 2, 2018 for the New Year's holiday. Regular emergency and standby services will be maintained. This corresponds with the city's schedule.

Christmas Luncheon & Call Center Tours

Board members were invited to attend the annual Christmas Luncheon scheduled for Thursday, December 14, 2017, from 11:30 a.m. to 1:30 p.m. at the Tom Wheeler Training Center. The menu will consist of ham, turkey, dressing and all the trimmings. In conjunction with the luncheon, there will be opportunities for small groups to tour the completed Call Center.

Christmas Parade Report

Cleveland Utilities participated in the annual MainStreet Cleveland Christmas Parade and placed first in the Civic/Non-Profit category. For years, CU has had a train float; however, this year employees came up with a new theme, a gingerbread house float. All of CU's services were highlighted in the float, and the detail was very impressive. Numerous employees from all divisions came together and were instrumental in working on the float, and approximately 40 employees were involved in the parade itself. Customer Relations Supervisor Jamie Creekmore added, "This is the most visual form of advertisement we have and certainly a good way to cobrand with the city." Henderson stated he was proud of the cooperative effort that took place. A video created by Creekmore was shown.

DIVISION REPORTS

Financial

Marshall Stinnett reported on the following:

1. A spreadsheet for the Key Performance Indicators (KPI's) as of June 30, 2017, was reviewed. Five critical ratios for the Electric Division were provided: 1) Revenue per Operating Unit, 2) Debt to Total Assets, 3) Current Ratio, 4) Earnings before Interest & Taxes per Revenue Dollar, and 5) Total Operating & Maintenance Expense per Operating Unit. The following metrics were provided for the Water & Wastewater Divisions: 1) Return on Assets, 2) Debt Service Coverage Ratio, 3) Debt Ratio, 4) Days Cash on Hand, and 5) Operating Ratio. Data for FY16, FY17, and FY18 budget information was compared, as well as benchmarks within each industry. Stinnett pointed out the Current Ratio for the Electric Division is getting much closer to the industry average. This is a function of what CU has done over the past several years with rates and preparations to get this number

higher in the event of an accident or emergency type situation. In the Water Division, the Debt Ratio is significantly higher than the industry average. This is related to the phase CU is in with replacing or repairing assets and is also reflected in the Cash Ratio. These are items staff has planned and continues to plan for the next four to five years. In the Wastewater Division, the metrics are tracking closely to the industry averages and some of the peers. The Return on Assets is somewhat higher, but is slightly skewed because of the rate increases CU has implemented for the SCOPE 10 project. The steps taken on the financial side are being reflected in these numbers and are following a lot of the same trends as others in the same categories. This data will be updated and presented on an annual basis and in conjunction with the audit report.

2. A chart tracking the kilowatt-hour cost in residential retail electric rates for the months of December 2013 through December 2017 was reviewed. For the month of December, the residential retail electric rate will change to 9.364 cents per kilowatt-hour, an increase of 2.53 percent over November's rate of 9.133 cents. This rate change is driven by TVA's Fuel Cost Adjustment, as well as the transition into the winter rate. As a continued trend, Cleveland Utilities will pass the TVA fuel cost rate adjustment to its consumers.
3. The October 2017 financial and statistical statements were presented to the Utility Board. During October, the cost of purchased power as a percentage of retail sales was 81.9 percent as compared to the budgeted percentage of 80.9 for FY 2018. The results for the month were electric sales revenue of \$7,086,324, which was offset by a purchased power expense of \$5,804,650. This resulted in an operating margin of \$1,281,674. Operating expenses for the month were \$1,552,752 and can be compared to a budgeted operating expense of \$1,555,989. The division serviced 31,457 customers. The net loss for the month was \$110,252, which is compared to a budgeted net income of \$45,982.
4. For October 2017, water sales revenue was \$1,255,126. Other revenue sources contributed an additional \$121,465 for the month. The division serviced 31,652 customers. Operating expenses for October totaled \$1,278,998 and can be compared to the budgeted amount of \$1,260,259. The division recorded an operating income of \$97,593, compared to the budgeted operating income of \$150,591.
5. For October 2017, wastewater treatment revenue was \$1,050,562. Other revenue sources contributed an additional \$65,480 for the month. The division serviced 18,891 customers. Operating expenses were \$926,607. The division recorded an operating income of \$189,435, which is compared to a budgeted operating income of \$166,544.

Electric Division

Bart Borden reported on the following:

1. The Harriman Road/Spring Branch Industrial Park transmission line project was delayed because of a few design changes that were necessary due to a guardrail location and elevation changes in the commercial development area. The changes required a few pole heights and locations to be changed. The design is now complete and will allow crews to begin construction.
2. In reference to the new overhead line for annexation of Freewill Road to 22nd Street, all of the construction was completed on the Freewill Road section and pole installations continued on 22nd Street. Underground facility installation began in the Ashwood Place

Subdivision NW, a residential development of 26 lots, and progressed through the month of October. This development is in the annexed area served by the new distribution lines. The need to acquire easements, trim and cut trees, along with the relocation of the overhead lines delayed the 22nd Street line construction.

3. Work on the Randolph Samples Road tie line project progressed at a very good pace. It was determined the three-phase dead end pole on Bates Pike required changing to a taller structure. This additional work is not reflected in the initial cost estimate; therefore, the financial comparisons will be impacted with an increased cost.
4. Engineering released a work order to provide temporary service for the construction of the new Fire Hall #6 located on Westland Drive. The work will consist of installing 230 feet of underground primary conductor, a 75 kVA pad-mount transformer and connection of temporary service conductors.
5. Permanent service was connected for Lee University's Bell Tower. Construction crews installed 900 feet of underground primary conductors, a 75 kVA three phase pad-mount transformer and connected the customer owned underground service conductors to serve the new load.
6. Temporary service was provided for the Perry Stone Ministries Azusa Road project off of Urbane Road. CU's construction crews extended overhead primary lines 490 feet, installed 4,800 feet of underground primary conductors, a 225 kVA three phase pad-mount transformer and connected the customer's temporary pole to provide construction power for a new operations center for the ministry. The contractor's load sheet indicates the new load will be 189 kW.
7. An update was provided for the purchase of the East Cleveland 161/69 kV Power Transformers to replace the failed and aging units. Cleveland Utilities' engineering and operations personnel, accompanied by Fisher Arnold Consulting engineers, conducted a plant visit and evaluation of the Virginia Transformer facility located in Rincon, GA, which is in the Savannah, GA, area. It was observed to be a very modern and extremely clean facility. Every aspect of design, engineering, materials, construction and testing was deemed to be of high quality by the evaluators. Based on this evaluation and a recommendation by CU's consulting firm, Virginia Transformer has been accepted as an approved supplier. A copy of Fisher Arnold's recommendation letter was distributed. Staff was able to negotiate a reduction of 2.5 percent for the third transformer based on the fact their engineering work was already in place for the first two units. This will result in an additional \$11,455.55 savings for the third unit. The transformers are scheduled to be shipped by the middle of September to the first of October, provided no issues arise in the manufacturing process.
8. An explanation was provided for modifications in the Tree Management Contract and Specifications (details for approval of this contract and purchase order are under New Business). One of the main tasks assigned to the new Utility Forester was to rework the existing tree management contract and specifications to address requirements for contractors to work by individual distribution circuits. These changes now allow Cleveland Utilities to request a lump sum price by distribution circuit. The prior method in requesting bids was for an annual requirement, with an option to renew the contract up to three full years where each of the contractors bid employee and equipment hourly rates. The

change to a lump sum price by circuit total was based on reduced costs and more thorough trimming and brush removal other utilities have experienced from this method. All of the utilities CU personnel spoke with have their own Utility Forester to inspect the contractor work and evaluate the volumes they are removing. This inspection process will allow the ability to control the costs and work more effectively. The contract and purchase order will cover a six-month period of tree trimming services beginning January 1, 2018, for three distribution substations that have a total of ten circuits under the new requirements and specifications. Borden thanked Utility Forester Nick Romito for the hard work and hours he put into making sure the contract and specifications thoroughly covered CU's needs in the tree management area going forward.

9. There were no significant traffic lighting projects to report for the month. Timing studies, equipment settings and evaluations were conducted for various intersections and thoroughfares.
10. There was a significant amount of activity in the Plat and Site plans submitted and reviewed by the City Plat Review Team.

Water Division

Craig Mullinax reported on the following:

1. Work is expected to begin in the near future on the Raw Water Pump Station project at the Cleveland Filter Plant (CFP) consisting of electrical improvements, building improvements and replacement of the screens. The project is budgeted in the amount of \$160,000. AEED Engineers and CTI are working on the design, and Cleveland Utilities will be completing the improvements.
2. The Georgetown Road Water Storage Tank, Booster Pump Station and Water Main Extension project will begin Monday, December 11, 2017. Crom will be performing the tank construction, and Angel Construction will be the contractor for the construction of the water main and booster station. The budgeted amount of the project is \$1.15 million.
3. Work for the Savannah and Spring Street water main replacement project is progressing. Hampton Backhoe has installed 1,700 feet of 6-inch water main on Savannah Avenue.
4. Engineering staff worked with Stantec to provide budget information in order to be eligible for reimbursement for the Georgetown Road Utility Relocation project. There was a deadline, which was met, and TDOT will be paying for the relocation. This involves the widening of Georgetown Road from Davis Circle to Eureka Road.
5. The overflow pump station modifications project is 75 percent complete.
6. In reference to the 2010 annexation sewer project on APD 40, only two easements remain in the easement acquisition process.
7. The final cost of the Villa Drive sewer extension project was \$44,825 and \$5,550 under the budgeted amount.
8. CTI Engineers will be preparing the design for the Sewage Pump Station to serve Olin and United Hydrogen. The project is being accelerated due to funding from the Cleveland/Bradley County Industrial Development Authority.
9. Rardin and Carroll Architects have been engaged to prepare the design for the interior improvements project to the maintenance office area, bunker room and breakroom in the CU Water and Wastewater Administration Building.

10. Engineering is reviewing the following plans:
 - Heartland Subdivision (formerly Laurel Ridge Subdivision) on Tasso Lane. The development will consist of 73 lots. CTP Properties is the developer.
11. Engineering has approved the following plans:
 - Eagle Creek, Phase 3, on North Mouse Creek Road. The development will consist of 16 lots and 910 feet of 6-inch water main and 894 feet of 8-inch sewer main.
 - Stone Creek Subdivision on New Murraysville Road. The development will consist of 8 lots and 1,877 feet of 8-inch water main and 1,049 feet of 8-inch sewer main.
 - Stonebriar Subdivision (lots 4A, 4B, 4C & 4D) on Old Tasso Road. The scope of the project is 111 feet of 8-inch sewer main.
12. An update was provided for the following developments under construction:
 - Spring Branch Industrial Park on Cherokee Gateway Boulevard. The project includes 5,800 feet of 8-inch, 10-inch and 12-inch sewer main (57 percent complete), 9,440 feet of 8-inch force main (95 percent complete), 11,700 feet of 8-inch and 12-inch force main (85 percent complete) and one sewer pump station (70 percent complete).
 - Hampton Backhoe has completed the installation of 440 feet of 8-inch sewer main for seven lots in Westmore/Inverness Subdivision on Inverness Road.
 - Hampton Backhoe has also finished the project for Legacy Commons-Senior Living on Candies Lane consisting of 413 feet of 8-inch sewer main.
13. The Wastewater Rehabilitation project is ongoing. Several contractors are performing work.
14. The meter department set 22 meters through October 2017, compared to 20 for October 2016 and 22 for October 2015. Of the 22 meter sets, 14 were single-family homes, 2 were townhomes, 1 was irrigation and 5 were commercial.
15. On November 7, 2017, the State of Tennessee Division of Water Resources performed a Pretreatment Compliance Inspection of CU's Pretreatment Program. Cleveland Utilities received a letter of certification for compliance for another year. Mullinax commended Barger and Hall for an excellent job.

OLD BUSINESS

Presentation of FY 2017 Audit Report by Mark Lay

Mark Lay, representing Arnett, Kirksey, Kimsey, Sullivan, Lay & Hall, PLLC, reviewed the Required Auditors' Communications in relation to the 2017 audit report. He reported the financial statements present fairly, in all material respects, the respective financial position of the Division of the Board as of June 30, 2017 and 2016. The Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position are both new this year. These statements reflect the first steps in funding the Other Post-Employment Benefits (OPEB) Trust. The Net Position of the trust as of June 30, 2017, was \$358,811. In addition, the trust earned just over a ten percent rate of return for the period ending June 30, 2017. The Fiduciary Statements are standalone statements and not added into the Electric, Water or Wastewater Divisions; however, the accumulated assets of the trust reduce the OPEB liability reflected in each of the divisions. Lay commended the board for taking the initial step and continued commitment to funding the OPEB

Trust.

Revenues increased in the Electric Division by \$4,071,909, as well as in the Water and Wastewater Divisions by \$1,795,543. Additionally, both divisions experienced an increase in net position; the increase in the Electric Division was \$3,934,539, and the Water and Wastewater Divisions was \$4,481,521. There is a GASB Statement effective for FY 2018 regarding OPEB. In the past, CU has been required to accrue a liability based on the annual expense to OPEB. Next year, governments will be required to accrue the actuarially determined liability, which is substantially more. The OPEB Trust will make a difference and help offset this going forward. Henderson thanked Lay and their staff for the partnership and work they perform.

NEW BUSINESS

Approval of Revised Firing Range Agreement

On motion by Mayor Tom Rowland and seconded by Joe Cate, the Board of Public Utilities voted to approve a revised Firing Range Agreement. This agreement more clearly defines the terms and conditions of the Cleveland Police Department's use of a portion of land located at the Cleveland Wastewater Treatment Plant. Henderson has worked closely with Chief Mark Gibson on this agreement. This document will need to be presented to the City Council for consideration of approval.

Approval of Purchase Order with Burell Built, LLC

On motion by Joe Cate and seconded by Mayor Tom Rowland, the Utility Board took action to approve a Purchase Order with Burell Built, LLC in the amount of \$206,753.37 for labor and materials for complete roof replacements at the Power Service Center Main Building and the Tom Wheeler Training Center. This purchase order was signed on November 20, 2017, as an emergency purchase due to significant leaks occurring as a result of the damage incurred from the major hail storm in the spring. Insurance will be reimbursing CU for the total cost.

Approval of Purchase Order and Agreement with ABC Professional Tree Services, Inc.

On motion by Vice Chairman Eddie Cartwright and seconded by Mayor Tom Rowland, the Board of Public Utilities voted to approve an Agreement and Purchase Order for vegetation management services from January to June 2018 with ABC Professional Tree Services, Inc. This bid included both lump sum amounts for specific circuits and hourly rates for various "hot spot" tree work on the system and emergency storm work. ABC Professional Tree Services, Inc. submitted the low bid of \$592,850.40 for the lump sum amount. Since their hourly rates were not low bid, those rates were applied to the estimated required hours of work for the six month period, and ABC's bid for the total of the lump sum and hourly rates was still low bid overall. Four bids were received. Additional details regarding this item are noted under Borden's Electric Report.

Approval of Purchase Order with Utility Specialists, Inc.

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Utility Board took action to approve a Purchase Order with Utility Specialists, Inc. in the amount of \$78,414 for 56 galvanized steel poles ranging in heights of 45 feet to 55 feet. The poles are needed to replenish stock and counts were adjusted for full truckloads to take advantage of shipping costs. Utility Specialists, Inc. was the low bid.

Approval of Contract Agreement with Haren Construction Company, Inc.

On motion by Chari Buckner and seconded by Joe Cate, the Board of Public Utilities voted to approve a Contract Agreement between Cleveland Utilities and Haren Construction Company, Inc.

of Etowah, TN, in the amount of \$1,531,000 for the construction of the Flocculation and Sedimentation Improvements at the Cleveland Filter Plant. The project consists of the construction and improvements to the flocculation and sedimentation basins, yard piping, flash mix system and related equipment. This project is budgeted for FY 2018 in the amount of \$1,800,000.

Approval of Purchase Order with W&O Construction Company, Inc.

On motion by Mayor Tom Rowland and seconded by Vice Chairman Eddie Cartwright, the Utility Board took action to approve a Purchase Order with W & O Construction Company, Inc. of Livingston, TN, in the amount of \$120,600 for the construction of the Repair of Filter No. 2 at the Cleveland Filter Plant. This project consists of coating of the filter walls, repair of the filter underdrain system and replacement of the filter media. The project is not included in the budget. This is one of the original filters, and it is failing. When emergency situations such as this occur, funds in the budget are reallocated or projects are delayed. Fortunately, there was a savings on the flocculation and sedimentation improvements project listed above.

OTHER BUSINESS

Future Board Meeting Dates

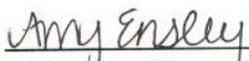
The following list of future board meeting dates to be held at the Tom Wheeler Training Center were furnished on the agenda:

Thursday, January 4, 2018, 3:00 p.m.

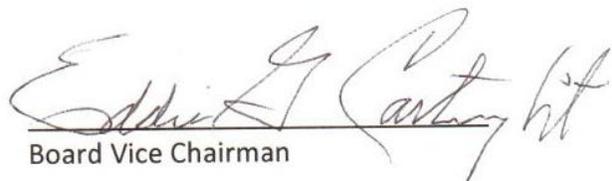
Thursday, January 25, 2018, 3:00 p.m.

Thursday, February 22, 2018, 3:00 p.m.

Chairman Ector advised he has conflicts with all of the above dates. He proposed proceeding with the meeting as scheduled on January 4, 2018, with Vice Chairman Eddie Cartwright leading the meeting. Before addressing the other dates, Chairman Ector requested to consult with Henderson and Mayor Rowland.



Utility Board Secretary



Board Vice Chairman

1-4-18

Date