

MINUTES OF REGULAR MEETING
CLEVELAND UTILITIES BOARD
MARCH 23, 2017

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; Joe Cate, Cleveland Utilities Board; Chari Buckner, Cleveland Utilities Board; Tim Henderson, President/CEO; Amy Ensley, Utility Board Secretary; Marshall Stinnett, VP/CFO; Bart Borden, Electric Division VP; Philip Luce, Water and Wastewater Engineering Manager; Walt Vineyard, Information Technology VP; John Corum, VP Administrative Services; Jan Runyon, Assistant VP Administrative Services; Greg Clark, Sewer Rehab Manager; Jill Beaty, Accountant; Freddie “Pokey” Gray, Field Service Foreman; Joe Fivas, City Manager; and Larry Bowers, *Cleveland Daily Banner*. Following the Pledge of Allegiance to the American Flag, Freddie Gray delivered the invocation.

MINUTES OF FEBRUARY 23, 2017

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted to approve the February 23, 2017, minutes as written.

MANAGER’S UPDATE AND ANNOUNCEMENTS

Weather & Outage Report

A significant weather event occurred on Tuesday, March 21. The system fared extremely well considering the magnitude of the storm. CU’s Fletcher Substation locked out, impacting approximately 2,400 customers. There were other smaller groups without power mainly due to trees. Full power restoration was completed by early Wednesday morning. CU representatives managed all of the telephone calls in-house. Additionally, CU’s buildings and fleet received hail damage. Staff is still in the assessment process; however, preliminary investigations indicate there are approximately 50 vehicles affected.

Trousdale School Achievement

Trousdale School received recognition for winning the 2016 Keep America Beautiful Challenge. In 2015, Cleveland Utilities began donating corrugated material to Trousdale. Through this program, Trousdale takes the donated material and has it processed. The funds received are put back into their school. The program creates jobs for three students at the school. A letter was included in the board folders from Trousdale School expressing appreciation to CU for their partnership in this endeavor.

Offices Closed

Cleveland Utilities will be closed Friday, April 14, 2017, to observe Good Friday. Regular emergency and standby services will be maintained.

Jill Beaty Recognition

President/CEO Tim Henderson recognized Jill Beaty for passing the Certified Public Accountant Exam. Beaty has been with CU since November 2014 and works in the General Accounting department. She obtained both a bachelor’s degree and a master’s degree from the University of Tennessee, Chattanooga. Beaty was congratulated on this great achievement.

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 April 2013 through April 2017 was reviewed. For the month of April, the residential electric rate will change to 9.085 cents per kilowatt-hour, a decrease of 2.12 percent over March's rate of 9.282 cents. This rate change is driven by TVA's Fuel Cost Adjustment and the change in the seasonality rate.
2. The February 2017 financial and statistical statements were presented to the Utility Board. During the month, the cost of purchased power as a percentage of retail sales was 79.9 percent, as compared to 83.7 percent for the month of January. The year-to-date percentage is 80.7, compared to a budgeted percentage of 80.9 for FY 2017. The results for February are electric sales revenue of \$7,064,223, which was offset by purchased power of \$5,642,180. This resulted in an operating margin of \$1,422,043 and can be compared to a budgeted margin of \$1,727,301 for the month. Operating expenses for the month were \$1,476,097, compared to the budgeted amount of \$1,529,541. The division serviced 31,263 customers. Net income for the month was \$96,222 and can be compared to a budgeted net income of \$333,573.
3. For February 2017, water sales revenue was \$1,085,063, compared to the budgeted amount of \$981,517. Other revenue sources contributed an additional \$116,649 for the month. The division serviced 31,270 customers. Operating expenses for February were \$1,201,890. The division recorded an operating loss of \$178 and can be compared to a budgeted operating loss of \$63,203.
4. For February 2017, wastewater treatment revenue was \$1,004,259, compared to the budgeted amount of \$938,133. Other revenue sources contributed an additional \$74,078 for the month. The division serviced 18,657 customers. Operating expenses were \$885,298 and can be compared to a budgeted amount of \$895,422. The division recorded an operating income of \$193,039, compared to the budgeted amount of \$123,080 for the month.

Electric Division

Bart Borden reported on the following:

1. In reference to the Harriman Road/Spring Branch Industrial Park transmission line, delivery of the steel transmission and distribution poles is expected the fourth week of May.
2. An update was provided on the switchgear and metering project at Cleveland State Community College. Cleveland State's electrical contractor, Massey Electric, has scheduled an outage for the campus on May 12th and 13th to install the new electrical facilities at the college. CU's crews will be coordinating with Massey personnel to energize the new equipment when their work is completed.
3. Construction for Phase I of the District to Lang Street 69 kV transmission reconductor project is scheduled to begin the first of April.
4. A report was provided for a new overhead line for annexation of Freewill Road to 22nd Street. Engineering has requested a project cost from Volunteer Energy Cooperative to construct a joint use distribution line along Freewill Road to 22nd Street NW. Volunteer Energy Cooperative has an existing distribution line in the area along Freewill Road, and it will be advantageous for both utilities to share a common route.
5. A comprehensive Reliability Statistics report for 2016 was presented:
 - The ASAI (Average Service Availability Index) statistic is the percentage of time that the system was available through the year. CU achieved 99.9843 percent in 2016, compared to 99.9799 percent in 2015 and 99.9877 percent in 2014.

Data was also provided for similar utilities who utilize the same software. The ASAI percentage for the APPA Region 7 was 99.978 in 2010 (included 16 utilities), 99.9601 in 2012 (included 18 utilities) and 99.9864 in 2012 (included 9 utilities).

- CAIDI (Customer Average Interruption Duration Index) is defined as the average length of time that a customer's outage lasts in minutes. CU experienced 72.932 minutes per customer average in 2016, compared to 78.42 minutes in 2015 and 53.97 minutes in 2014. The APPA average for Region 7 was 56.64 in 2010, 55.46 in 2012, and 58.64 in 2014.
- SAIDI (System Average Interruption Duration Index) is the average outage duration for each customer served. CU's total was 82.326 minutes in 2016, compared to 93.91 minutes in 2015 and 64.45 minutes in 2014. The APPA average for Region 7 was 60.16 in 2010, 80.85 in 2012 and 76.79 in 2014.
- SAIFI (System Average Interruption Frequency Index) is the average number of interruptions that every customer would experience. The average for CU was 1.129 for 2016, compared to 1.2 in 2015 and 1.194 in 2014. APPA Region 7 averages were 1.31 in 2010, 1.65 in 2012 and 1.51 in 2014.
- In addition, graphs for the four indices were shown for each month in 2016. The actual percentage was compared to the moving average.

Borden said, "We are making efforts to work on these statistics every month. We look at interruptions and how to improve and prevent those interruptions. This is an ongoing process."

6. In reference to the Pleasant Grove Church Road line construction project, CU's crews installed 18 new distribution poles, removed 6 poles, installed 9 overhead transformers, 7,700 feet of vee-phase primary and neutral conductors and removed 3,400 feet of #6 copper conductor along Pleasant Grove Church Road. These new lines will greatly improve reliability in this area, due to the source feed now being from South Lee Highway, rather than the single-phase line from the Stone Lake Road area.
7. An update was presented on traffic lighting. CU's Traffic Signal Coordinator changed the timing plans at the following intersections:
 - Paul Huff Parkway and Peerless Road between 4 p.m. and 7 p.m. Monday through Friday. The new plan provides a longer green time to Peerless Road northbound while maintaining proper queuing and flow along Paul Huff Parkway.
 - Paul Huff Parkway and Mouse Creek Road between 5:20 p.m. and 6:20 p.m. Monday through Thursday and 5 p.m. to 6:30 p.m. on Friday. Also, the midday plan for both Saturday and Sunday was altered. All changes provided additional green time to eastbound left turn lane traffic turning north onto Mouse Creek Road. This movement was observed to have heavy traffic during these time periods.

Water Division

Philip Luce reported on the following:

1. Jacobs Engineering is working on the plans and specifications for the headworks rehabilitation project at the Wastewater Treatment Plant. They are due May 5, 2017.
2. W&O Construction has completed 90 percent of the pipe gallery access improvements at the Cleveland Filter Plant (CFP). There are only minor adjustments remaining in the project.

3. Work is progressing on the liquid fluoride conversion projects at the CFP and Waterville Water Plant. Approximately 35 percent of the work has been completed at both locations.
4. The following new projects at the CFP were reported on:
 - A study on the high service pumps and electrical improvements. Some of the pumps have been in since the 50's and 60's, as well as the electrical. The study will determine what will be involved to upgrade the equipment.
 - Backwash return pit rehabilitation
 - Interior lighting improvements
5. The project to paint the Bryant Drive water storage tank was completed in February. A retaining wall will be installed as part of the project due to a change in the grade. Earthworks Unlimited is expected to begin the work next week.
6. In reference to the 24-inch water main extension from Tasso Lane NE to the HUC Water Treatment Plant, Merkel Brothers Construction has completed the installation of approximately 20,000 feet of water main (73 percent of the project).
7. Angel Construction has completed the water main replacement on Brymer Creek Road. Customers have been transferred to the new line, and the old line has been abandoned. The contractor is now working on Cross Lane.
8. An update was provided on the following projects for sewer collections:
 - Bids for the overflow pump station modifications project are due April 11, 2017.
 - Staff recently reviewed preliminary plans for the 2010 Annexation Sewer on APD 40. This includes the area north and south of South Lee Highway and Exit 20. The project qualifies for a State Revolving Fund (SRF) loan with \$100,000 in loan forgiveness; however, the state will not proceed with the process until the plans are finished.
 - Cleveland Surveying is working on the plans for the 2010/2012 Annexation Benton Pike/Durkee Road project. The plans are due May 1, 2017. This project also qualifies for a SRF loan.
9. The following developments are under construction:
 - Johnson Woods Subdivision, Phase 1A, on Johnson Road. The project will consist of 2,000 feet of 6-inch water main. B&D Real Estate Properties, LLC, is the developer.
 - SunTrust Bank at Mouse Creek Crossing. The project will consist of 120 feet of 8-inch sewer main and 120 feet of 6-inch water main.
10. An update was provided for the Wastewater Rehabilitation Project:
 - In reference to the Basin 10A-8 SSES project, three crews are performing CCTV work (36,000 feet of pipe was completed in the last month), manhole inspections and flow isolations. The work is anticipated to be complete in late May or early June, which will allow staff to put together some rehabilitation plans (additional details will be discussed during the budget presentation under new business).
 - Work is progressing on the Candies Creek Force Main replacement project along Paul Huff Parkway. The last section of pipe bursting was completed today. An estimated 3,000 feet of pipe has been replaced from just east of the Home Depot entrance off of Paul Huff Parkway to the Longhorn Restaurant. The contractor has begun installing the 400-foot bore beneath Mouse Creek

Road. This should be completed next week and will allow for the entire project to be closed out within two weeks.

- A pre-construction meeting will be held on April 4, 2017, for the 2017 Rehabilitation project.
11. The meter department set 26 meters through February 2017, compared to 22 for February 2016 and 20 for February 2015. Of the 26 meter sets, 21 were single-family homes, 4 were townhomes and 1 was commercial.
 12. The total amount of rainfall recorded at the Cleveland Filter Plant as of March 15, 2017, was 8.28 inches for the year (4.19 inches below average).

NEW BUSINESS

Fiscal Year 2018 Budget Presentation

President/CEO Tim Henderson opened the budget presentation by thanking all employees involved in the budget process over the past several months. A considerable amount of time and effort goes into this process.

VP/CFO Marshall Stinnett began his presentation by echoing Henderson's comments and thanking all employees for their input and expressed appreciation to Jill Beaty for being instrumental in the budget compilation. A financial summary of the FY 2018 budget was then presented.

Electric sales volume for fiscal year 2018 is projected at 1,084,742,515 kilowatt hours, water sales volume at 2,837,780,000 gallons and wastewater sales volume at 1,867,792,000 gallons. Total revenue for the electric division is forecast at \$104,060,254. Water and sewer are collectively \$16,259,639 and \$13,027,015. A breakdown of expenses for the new budget year includes \$101,655,198 in electric, \$15,030,391 in water and \$11,511,467 in sewer. Fiscal year 2018 reflects net incomes of \$2,405,056 in electric, \$1,229,248 in water and \$1,515,548 in sewer.

Next, Stinnett highlighted information for the rate increases forecast in the FY 2018 budget. These are the same percentages reflected for 2018 when the 2017 projections were presented last year. The proposed FY18 budget does not include any internal rate increases for the electric division, but does project a 1.500 percent pass-thru rate change from TVA in October 2017. In the water division effective July 1, 2017, a 2.50 percent internal rate increase applied across all customer classes is forecasted, as well as a proposed 1.13 percent pass-thru increase from Hiwassee Utilities Commission (Stinnett reminded that this time last year, CU had forecasted a rate increase from HUC in the proposed FY 2017 budget, and HUC ended up decreasing their rates by 4 percent. If the projected HUC increase does not materialize, it will be removed). There are no projected rate increases for wastewater services.

Debt at the beginning of FY 2018 is expected to be \$14,401,462 in electric, \$30,356,849 in water and \$23,401,437 in sewer. New debt is forecast in the amounts of \$3,500,000 for electric, \$3,995,000 for water and \$8,236,979 for sewer. Stinnett pointed out a large percentage of the water and sewer debt issuances are through the SRF Loan Program, which are fixed-rate, low-interest bonds. Additionally, most include debt forgiveness. The debt issuance for the electric division is slightly higher than what was forecast at this time last year due to projects originally scheduled for fiscal year 2017 that have been deferred to 2018. Payments made on the existing debt will total \$1,126,820 for electric, \$1,964,811 for

water and \$2,408,951 for sewer. Debt at the end of 2018 is forecasted at \$16,774,642 for electric, \$32,387,038 for water and \$29,229,464 for sewer.

In the fiscal year 2018 budget, the number of budgeted equivalent employees is projected at 197, compared to 195 for 2017. The proposed budget includes a 3.5 percent merit increase for eligible employees with a successful evaluation. Total payroll for 2018 is calculated to be \$14,006,001, and is \$705,790 above the 2017 amount (the merit raise is included in this amount).

Stinnett reviewed graphs representing bond coverage for years 2017 to 2027. 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 1.40. Tax equivalent payments from the electric division to the General Fund of the City of Cleveland are expected to exceed \$2,000,000 in fiscal year 2018 for the first time in history.

One of the major initiatives of President/CEO Henderson since assuming his new role has been improving customer service and allowing customers more options. Stinnett informed the Prepay Program is an example of such options. To date, almost 700 customers have enrolled in the program since inception 9 months ago and almost \$25,000 in bad debt has been recovered. The savings in the bad debt write-off has grown to be significant enough that it now needs to be budgeted. Stinnett advised he has reviewed CU's budgets for the last 12 years, and there has never been a forecast for the bad debt write-off. One of the major items in the proposed FY 2018 budget is a fully functional 24/7/365 Cleveland Utilities Call Center. Once operational, CU will no longer contract after-hours calls to Cooperative Response Center (CRC) in Dunlap, Tennessee. It will add an estimated 4 to 5 employees to CU's payroll to perform the duties. The representatives will be able to access all of CU's information and relay it immediately. Another benefit will be the fact these employees will know the local streets and landmarks customers will frequently reference when they call. In addition, the representatives will have the ability to immediately handle disconnects and reconnects of electric meters that are capable. This initiative is expected to be slightly revenue negative in the beginning; however, there is the potential to be revenue positive in the future. It's very difficult to forecast some of the expenses for the after-hours reconnects. A large majority of the reconnects will be able to be performed by the Call Center representatives. Also, there are other utilities that contract out their after-hours calls; there could be opportunities to assist those utilities utilizing the same software and platforms as CU.

Electric Division VP Bart Borden reviewed capital projects in the proposed 2018 budget totaling \$7,402,000. Borden pointed out the transportation figure is higher due to delays in production of some of the larger trucks. There is also shifting of some projects in the line construction area reflecting almost \$2 million. A key item in the electric division includes upgrades to the exterior of the Power Service Center Building to include signage, budgeted at \$400,000. The existing building was constructed in the 70's. This project was in the 2017 budget; however, was delayed, and the only expenditure in 2017 will be for the architectural work. Administrative Services VP John Corum provided an update on this project, as he and Information Technology VP Walt Vineyard are overseeing this effort. The project will focus on Henderson's vision of better serving customers. Along with the renovation to the building's exterior, the project will study potential modifications to the drive-thru design, alternative traffic patterns and the installation of signage to better direct

customers on where they need to go when entering the facilities. An initial meeting was held with the Lewis Group Architects on March 6, 2017, to discuss the vision, goals and schedule. Updates will be provided as the project progresses.

Borden highlighted other major projects for the electric division, including Phase II of the District Substation to Lang Street Substation Reconductor (will include replacing existing poles and framing for parallel #556 AAC primary conductor), \$380,000; a new 3-phase line on Freewill Road to 22nd Street (will be a joint-use line with Volunteer Energy Cooperative), \$250,000; and Benton Pike Reconductor, \$300,000.

Water and Wastewater Engineering Manager Philip Luce provided an update on water capital projects in the proposed 2018 budget totaling \$5,734,450. Key items in engineering include the Georgetown Road Water Storage Tank, Water Booster Pump Station and Water Main Extension project, \$1,150,000 (this project will be funded through the SRF with a \$1,195,000 loan with \$200,000 in loan forgiveness and an interest rate of around 1 percent); and galvanized water line replacements, \$200,000. Cleveland Filter Plant proposed budgetary items include flocculation and sedimentation basins improvements, \$1,800,000; and a high service pump facility study, \$150,000.

Luce and Sewer Rehab Manager Greg Clark reviewed a number of projects in wastewater. Capital requirements for the wastewater division in the proposed fiscal year 2018 budget total \$14,451,908. Several projects at an estimated \$4.5 million in the 2017 budget were deferred to FY 2018. One of the major items in engineering includes sewer improvements in the annexation areas, which includes the Industrial Park, the region north and south of APD-40 between South Lee Highway and Exit 20 and Benton Pike and Durkee Road, all budgeted at \$1,876,000. Greg Clark presented projects for wastewater collections-SCOPE 10. Major budgetary items in this category consist of phase 3 sewer rehabilitation in Basin 10-36 and Basin 31-45 (funding through SRF), \$2,721,608; Basin 10A-8, Tinsley Park to Inman Street (funding through CU and new SRF), \$3,700,000; and Wildwood Avenue Overflow Relief project, \$390,000. Other projects budgeted in wastewater are modifications to the Mouse Creek Overflow Pump Station, \$515,000; and headworks rehabilitation project at the Wastewater Treatment Plant, \$1,900,000.

On motion by Vice Chairman Eddie Cartwright and seconded by Mayor Tom Rowland, the Board of Public Utilities voted to approve the proposed fiscal year 2018 budget. The quorum carried the motion. Board Member Joe Cate exited the room toward the end of the report and was not present during the vote, but reentered just after the vote. Henderson advised the 2018 proposed budget will be presented to the Cleveland City Council at the Budget Retreat on Monday, April 11, 2017.

Approval of Outside Employment Policy

On motion by Mayor Tom Rowland and seconded by Joe Cate, the Utility Board took action to approve CU's Outside Employment Policy. This policy provides guidelines and communicates expectations to employees seeking additional employment opportunities outside of CU. The document has been reviewed by Attorney John Kimball.

Approval of Purchase Order with Sherman & Reilly

On motion by Vice Chairman Eddie Cartwright and seconded by Chari Buckner, the Board of Public Utilities voted to approve a purchase order with Sherman & Reilly in the amount of \$145,290 for a trailer mounted, 2,000 lb., 4-drum rotating turret puller. This apparatus will be equipped with a 49 HP diesel engine and be used by the line crew to pull both overhead

distribution and transmission lines. The item is budgeted for FY 2017. Sherman & Reilly submitted the lowest bid meeting all minimum specifications, with an acceptable delivery date.

Approval of Purchase Order with Dycho Chemical Company

On motion by Joe Cate and seconded by Mayor Tom Rowland, the Board of Public Utilities voted to approve a purchase order with Dycho Chemical Company in the amount of \$60,800 for the annual supply of corrosion control inhibitor for the Cleveland Filter Plant. The purchase is sole source, and the chemical is budgeted for FY 2017.

Approval of Purchase Order with Chemical Feed Systems, Inc.

On motion by Vice Chairman Eddie Cartwright and seconded by Mayor Tom Rowland, the Utility Board took action to approve a purchase order with Chemical Feed Systems, Inc., in the amount of \$68,825 for new ton chlorine scales and displays for the Wastewater Treatment Plant. The old scales were purchased in 1988. The scales exceeded the FY 2017 budget amount of \$30,000; additional money will come from another capital budget project at the Wastewater Treatment Plant. The purchase is sole source.

Approval of Purchase Order with Hampton Backhoe Service, LLC

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted to approve a purchase order with Hampton Backhoe Service, LLC, in the amount of \$106,170 for the installation of approximately 2,826 linear feet of 6-inch PVC waterline, which replaces small galvanized lines located on Craigmiles Street, Ridgeview Drive and Cherokee Drive. The line replacements are budgeted for FY 2017.

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, April 27, 2017, 3:00 p.m.
- Thursday, May 25, 2017, 3:00 p.m.
- Thursday, June 22, 2017, 3:00 p.m.



Utility Board Secretary



Board Chairman

4/27/17

Date