MINUTES OF MEETING OF THE CLEVELAND UTILITIES BOARD

December 5, 2013

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; Ken Webb, President/CEO; Connie Cooke, Utility Board Secretary; Marshall Stinnett, Controller; 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; Reverend Kevin Mendel; Steven Dyer, Central Service Association; Mark Lay, Arnett, Kirksey, Kimsey, Sullivan, Lay & Hall, PLLC; Rick Norton, Cleveland Daily Banner; and Paul Leach, Chattanooga Times Free Press. Following the Pledge of Allegiance to the American Flag, President/CEO Ken Webb introduced Reverend Kevin Mendel, Pastor of Grace Community Church, who gave the invocation.

MINUTES OF NOVEMBER 1, 2013
On motion by Eddie Cartwright and seconded by Chari Buckner, the Board of Public Utilities voted unanimously to approve the November 1, 2013, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS
Project Round-Up Report
An update was presented on Project Round-Up, a voluntary program where Cleveland Utilities is authorized by customers to round up their monthly utility bill to the next dollar to assist families in Cleveland and Bradley County who are having difficulties paying for utility services and other monthly household needs. Out of the funds collected, 80 percent is distributed for utility needs, and 20 percent is designated for rent and other assistance. The funds are disbursed to the United Way, who in turn transfer them to Neighbors in Need, a division of The Caring Place. Webb stated the success of this program was not CU’s success, but it is the customers who have made this program successful. Project Round-Up was initiated in mid-December of 2012, and through October of this year, 81 percent of CU’s customers are participating in this very worthwhile initiative. Collections through October 2013 have amounted to $174,597.42. It was estimated CU might hit the $100,000.00 mark during the first year. The disbursements through November 22, 2013, have totaled $152,892.78, and the balance on hand remains at $21,704.64. Thus far, 629 families have received utility assistance through the program for a total of $126,703.17, and 98 families have received rent assistance totaling $26,189.61. When the program was being discussed, the average round-up amount was estimated at 50 cents; however, it has averaged 50.6 cents. Webb thanked all the customers who are participating in Project Round-Up. He noted community participation had been exceptional.

2014 Calendar
A 2014 calendar of tentative board meeting dates was discussed. It was noted changes may occur as the year progresses.
Christmas Parade
Cleveland Utilities will again show its Christmas spirit with the “CU Express” train in this year’s annual Christmas Parade taking place on Saturday, December 7th, at 6:00 p.m. A picture of the float was shown at the board meeting. Board members were invited to ride on the float during the hometown parade. Webb thanked all the employees who have worked diligently preparing the train for the fun-filled event.

Christmas Luncheon
The annual Employee Christmas Luncheon will be held on Wednesday, December 18, 2013, from 11:30 a.m. to 1:30 p.m. at the Tom Wheeler Training Center.

Christmas/New Year's Closing
Cleveland Utilities will be closed Tuesday and Wednesday, December 24 and 25, 2013, to observe the Christmas holiday. The city of Cleveland may consider closing on Monday December 23, 2013. Also, Cleveland Utilities will be closed Tuesday and Wednesday, December 31, 2013, and January 1, 2014, in observance of the New Year’s holiday.

SRF Disclosure Form
The State Revolving Fund disclosure forms have been submitted to the State Revolving Fund Board. Two SRF disclosure forms were included in this month’s board packets. These are part of Cleveland Utilities’ loan agreement with the SRF.

Review of Traffic Light Agreement
A review of billing amounts for traffic light service provided by Cleveland Utilities to the city of Cleveland has been ongoing by Ken Webb, Bart Borden, and Marshall Stinnett of Cleveland Utilities; and Janice Casteel and Tommy Myers of the city of Cleveland. Possible adjustments could possibly occur on how this service is managed. A recommendation may be presented to the Cleveland City Council at the January 2014 Strategic Planning Session.

Presentation from Steven Dyer
Steven Dyer, chief technology officer for Central Service Association, presented an update of an ongoing biannual audit of Cleveland Utilities' IT security procedures. Dyer is an IT professional and has worked 18 years as a government contractor in security with 16 years in the utility industry. He has conducted approximately 250 utility audits and ranks utilities after each audit. Dyer said this particular audit has not been completed; however, as per other audits CU ranked in the top 10 of the utilities audited. This was very positive and goes back directly to the staff of Cleveland Utilities. He stated CU’s IT system had less than 1 percent criticality rate, which is exceptional for an internal scan. This comes from an IT staff that takes security extremely seriously and is updated on the latest trends. Ken Webb praised Walt Vineyard's performance as Vice President of Information Technology. In return, Vineyard commended the IT staff. Dyer’s only major suggestion to the organization was to keep up the ongoing diligence and continue the hyper-focus from the staff. Webb said IT is a critical part of CU’s operation, and the security of that department and the work they do is taken very seriously.
DIVISION REPORTS

Financial

Marshall Stinnett thanked the Utility Board and management for this opportunity. He said if anyone has questions, or if he can assist in any way possible, his door will always be open. He reported on the following:

1. A chart tracking the kilowatt-hour cost in residential retail electric rates for the months of April 2006 through December 2013 was reviewed. For the month of December, residential customers will see a rate increase of 3.9 percent to a rate of 8.736 cents per kWh. This rate is less than the prior December 2012 rate of 9.317 cents per kWh. The change in retail rates is driven by the Fuel Cost Adjustment that TVA passes along to its distributors. In return, Cleveland Utilities passes these changes on directly through to its customers.

2. The October 2013 financial and statistical statements were presented to the Utility Board. In the electric division, the month of October began the slow process of regaining ground compared to the FY 2014 budget. During the month of October, the cost of purchased power as a percentage of retail sales decreased to 82.2 percent as compared to 87.2 percent for the month of September. This is more in line with expectations, as 83.8 percent was budgeted for the month of October. This decrease was driven by a more consistent temperature range for the month of October as compared to September, resulting in a lower wholesale demand charge from TVA. As additional evidence, there was a very small fluctuation in the number of heating and cooling degree days from September (280) to October (271). A chart was reviewed explaining how these heating and cooling degree days have affected the bottom line profitability of the division for FY 2014. Revenue from the sale of electricity was $6,449,676, which was offset by purchased power of $5,307,159. This resulted in an operating margin of $1,142,517 for the month. These revenue numbers were driven by a customer base of 30,175, an increase of 99 from the prior month of September. Expenses for October were $6,651,978, leaving a net loss for the month of $74,161.

3. For the month of October, the water division sold 242,983,500 gallons of water, as compared to 239,413,500 gallons for October 2012. Total division revenue was $1,150,657 with expenses at $1,046,793, leaving a net income of $103,864. The water division has continued to control costs and exceed projected expenses for the month. The division serviced 30,432 customers during the month of October.

4. Total division sewer revenue for the month was $937,423, as compared to a budgeted amount of $925,657. Expenses for October were $829,885, leaving a net income of $107,538. For the fourth straight month, the wastewater division continued to exceed budgeted numbers for FY 2014. In addition, the division continued to increase the customer base during October to 18,008.
Electric Division

Bart Borden reported on the following:

1. The District Substation upgrade continued with the completion of control wiring, relay and SCADA programming, and field testing by CU personnel. Liberty Power finalized the commissioning testing on November 14th and the substation transformers, bus work, and underground feeds were energized. The substation was placed in service November 15, 2013, and was removed from service to begin construction on March 21, 2013. Delays were experienced during construction due to the weather. This extensive project took 166 working days to complete.

2. Engineering released a work order to relocate portions of the 69 and 13 kV lines along Durkee Road for the TDOT road widening project. Construction is scheduled to begin next week with weather permitting.

3. In reference to the design to relocate 69/13.2 lines for TDOT's APD-40 interchange at Stone Lake Road, multiple coordination meetings have taken place to obtain information concerning the relocation of TVA's 161 kV transmission towers and lines and the impact to CU's 69 kV transmission line that presently parallels TVA's structures. TVA is not permitted to locate towers inside of TDOT or publicly owned right-of-ways. This is creating an issue on the north end of the project and could create the need for TVA to relocate an additional tower.

4. A Mars Chocolate Substation sign was printed by the City Sign Shop and installed by CU crews at the substation site. A photo of the sign was shown.

5. Engineering released a work order to provide temporary and permanent electric service to the Dollar General Store being constructed on Georgetown Road. A 75 KVA single phase pad-mounted transformer and 450 feet of underground primary conductor was installed to supply the expected new load of 60 kW.

6. Permanent electric service was provided to two new commercial businesses locating in the new Publix Shopping Plaza. Great Clips, a hair styling business, and Nail Salon, a nail spa business, are expected to have a total new load of 24 kW.

7. The electric division of Cleveland Utilities has entered into an agreement with Chris Mitchell Management Consultants of Norris, TN. Chris Mitchell was an employee of TVA for 20 years and managed TVA's Risk Management, Economics, and Financial Analysis as a vice president. He earned a B.A. of Business and Economics and an M.B.A. of Finance from the University of Tennessee at Chattanooga. Mitchell now provides 47 of 155 TVA distributors with support in rate development, financial, and risk analysis. Due to recent margin erosion, CU elected to contract with an expert in rate analysis. CU's present wholesale rates from TVA are based on time of use and its retail rates are seasonal demand and energy, except for industrial customers over 5,000 kW, who can elect either TOU or SDE. The difference in billing methods complicates the process in structuring retail rates to cover CU's TVA wholesale bill and operations, maintenance,
and capital project cost. The services provided by Chris Mitchell Management Consultants will include an in-depth analysis of existing retail rates compared to wholesale rates, monthly margin analysis, which includes power cost recovery analysis, a financial forecast and analysis, a wholesale rate structure analysis that includes two possible billing changes by TVA presently under consideration (three-day window of peak and coincident peak analysis), cost of services study to determine customer classes contribution to the wholesale bill, and to prepare a written report of recommendations based on analysis findings. Mitchell has determined this information can be provided prior to CU’s FY 2015 budget preparations. This will be very valuable information to couple with CU’s existing financial processes and will provide feedback and checks on present procedures.

8. An update was presented on traffic lighting:
   - Engineering released work orders to upgrade the signal heads to LED at both ramps of I-75 and Paul Huff Parkway.
   - CU and the city received some concern regarding traffic at Peerless Road and the intersections of Tomahawk Circle and Valleyhead Drive. The Miovision Scout will be used to collect traffic counts approximately two weeks after the opening of Publix. Currently, the average delay of observed vehicles is shorter than it would be with a traffic signal installed. In addition, there is concern the storage distance between this intersection and Paul Huff Parkway is too short to efficiently operate a traffic signal.
   - The Traffic Light Communications report indicated 62 of 79 intersections have the ability to communicate to the office. Since 2011, CU added communication at 22 intersections. Communication from the office allows the time clocks to be synched and program settings to be uploaded and downloaded. Also, CU added a feature that sends alarm messages via text message to the signal technicians. This can alert the technician if the intersection is in flashing operation or experiencing other alarm states.

**Water Division**

Craig Mullinax reported on the following:

1. Two new wastewater treatment plant projects have been added to the monthly report. These include the paving replacement at the emergency generator building and the rehabilitation of the sludge thickener. Engineering staff will assist facilities maintenance and operations on these projects.

2. Engineering has reviewed and will resubmit the design plans to Arcadis for the second phase of the 20-inch and 24-inch water line project. Arcadis will amend and submit the design plans to the state for approval. Attorney John Kimball is preparing the preliminary work for easements required for the project.
3. In reference to the Exit 20 water line relocation, the contractor has completed the two sections of water line that required casing pipe, and the water line has been placed in service. The bridge can now be constructed; however, there are two other water line extensions on both sides that will require the water to be off for a few hours to complete a few connections.

4. The Sunset Trail water line and Bryant Drive pressure zone changes are 99 percent complete. This project has exceeded the contract amount by $13,369 due to working with the County Road Department and their requirement of installing flowable fill in the cuts.

5. Hampton Backhoe Service has completed 4,511 feet of 6-inch water line extension on Van Davis Road. Presently, project cleanup is in progress.

6. A total of 475 water meters have been converted in relation to the AMR/AMI Pilot Water Project.

7. The Durkee Road Outfall Sewer Project has been completed. The total cost of the project included $3,628 to Cleveland Surveying for the design and $114,698 to Hampton Backhoe Service for the construction of 1,016 feet of 8-inch sewer line. The Tennessee Department of Transportation will reimburse CU 50 percent of the project cost.

8. Work is progressing on the Wastewater Rehabilitation Project:
   - To date, 375 manhole inspections have been performed in the Wildwood and Inman Street areas. Smoke testing has been completed, and night-time flow isolations will begin this week if weather permits.
   - In Basin 31-45, Phase 2, and Basin 10-36, Phase 1, rehabilitation plans have been submitted to the State Revolving Fund for review. Approval is anticipated this week. The water division plans to bid the project in early January.

9. Facilities Maintenance has completed the rehabilitation of the Spring Brook Water Booster Station and is presently working on the rehabilitation of the Breckenridge Water Booster Station. Photos were reviewed on these projects.

10. The meter department set 36 meters through October 2013, compared to 25 for October 2012, and 18 for October 2011. Of the 36 meter sets, 19 were single family homes, 8 meters were commercial, 3 meters were townhomes, 4 meters were for one 4-unit apartment, and 2 meters were irrigation.

OLD BUSINESS
Presentation of FY 2013 Audit Report
Mark Lay, representing Arnett, Kirksey, Kimsey, Sullivan, Lay & Hall, PLLC, reviewed the Required Auditors’ Communications in relation to the 2013 audit report. He reported the financial statements present fairly, in all material respects, the financial position of the Division of the Board as of June 30, 2013 and 2012. Board members were requested to review the 2013 audit report and contact Lay if
anyone has questions. Lay commended Stinnett and his staff for the good job on the preparation of the financial statements. The Utility Board will vote on the acceptance of the audit report at the next board meeting.

NEW BUSINESS
Check Signing Authority
On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted unanimously to approve the following employees as authorized check signers for Cleveland Utilities' accounts at CapitalMark Bank & Trust: Ken Webb, Marshall Stinnett, Brenda Carter, Melody Carroll, and Connie Cooke. In order to comply with internal controls established by Cleveland Utilities, two signatures are required on all checks. This is an internal requirement, and CapitalMark Bank & Trust accepts no responsibility for assuring this process is followed.

Resolution for Refinancing of Series 2004 Water & Sewer Tax Refunding Bonds
On motion by Eddie Cartwright and seconded by Chari Buckner, the Utility Board took action to approve a resolution for the refinancing of Series 2004 Water and Sewer Tax Refunding Bonds approving and recommending to the City Council of the city of Cleveland, Tennessee that the city issue water and sewer revenue and tax refunding bonds for the purpose of refunding certain outstanding bonds of the city issued for the water and wastewater system.

Approval of Purchase Order with Chastain Construction L.P.
On motion by Joe Cate and seconded by Mayor Tom Rowland, the Board of Public Utilities voted unanimously to approve a purchase order with Chastain Construction L.P. in the amount of $55,180 for the extension of approximately 800 feet of 12-inch water main on Benton Pike. The following contractors submitted bids for the water main extension: Adams & Sons, $74,266; Mayse Construction, $64,525; Hampton Backhoe Service, $56,505; and Chastain Construction, L.P., $55,180.

OTHER BUSINESS
December Board Meeting
The December board meeting will be held on Tuesday, January 7, 2014, at 3:00 p.m. at the Tom Wheeler Training Center.

_Connie Cooke_ Utility Board Secretary

[Signature]

Chairman

1-7-14
(Date)