

MINUTES OF REGULAR MEETING
CLEVELAND UTILITIES BOARD
MARCH 22, 2019

The Board of Public Utilities met at 12:30 p.m. at the Tom Wheeler Training Center.

Present were the following: Aubrey Ector, Chairman; Eddie Cartwright, Vice Chairman; Joe Cate, Cleveland Utilities Board; Chari Buckner, Cleveland Utilities Board; Councilman David May, Jr., Cleveland Utilities Board; Tim Henderson, President/CEO; Bart Borden, VP Electric; John Corum, VP Administrative Services; Amy Ensley, Utility Board Secretary; Craig Mullinax, VP Water & Wastewater; Marshall Stinnett, VP/CFO; Walt Vineyard, Executive VP; Greg Clark, Manager Wastewater Collections; Shantae Thompson, Electric Operations Coordinator; Mike Ward, Wastewater Treatment Plant Supervisor; Dean Watson, Electric Operations Manager; and Tim Siniard, *Cleveland Daily Banner*. Following the Pledge of Allegiance to the American Flag, Dean Watson delivered the invocation.

MINUTES OF FEBRUARY 22, 2019

On motion by Chari Buckner and seconded by Vice Chairman Eddie Cartwright, the Board of Public Utilities voted to approve the February 22, 2019, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS

Good Friday Holiday

Cleveland Utilities will be closed Friday, April 19, 2019, to observe Good Friday. The Call Center will be open and regular emergency and standby services will be maintained.

Tree Line USA Award

CU was again recognized as a Tree Line USA utility by the Arbor Day Foundation. Electric Division VP Borden advised this marks 19 years of recognition as a Tree Line USA recipient for Cleveland Utilities. Tree Line USA is a national program recognizing public and private utilities for practices that protect and enhance America's urban forests. Cleveland Utilities Utility Forester, Nick Romito, makes every effort to ensure CU's contractor, ABC Professional Tree Services, Inc., utilizes effective urban forest management in order to deliver safe and reliable electricity while maintaining healthy community trees. Operations Coordinator Shantae Thompson was recognized for her hard work in making sure all the required submittals and steps are followed to ensure this impressive run continues.

APPA Excellence in Reliability Achievement

President/CEO Henderson announced CU was recently honored by the American Public Power Association (APPA) with a "certificate of excellence" for exceptional electric reliability in 2018. Borden advised 143 public power utilities received this recognition nationwide. The data was compiled through the eReliability Tracker Service software and compared to the top quartile of system outage duration from national data collected by the Energy Information Administration. Operations Coordinator Shantae Thompson logs outage and restoration data into the eReliability Tracker Service and utilizes it to run reports to track outages and their causes throughout the year. Borden advised he personally believes these two awards go hand in hand as there has been a noticeable decrease in tree related outages since Romito came onboard and the new contract with ABC Professional Tree Services. Borden expressed appreciation to the employees responsible for making this recognition possible. Other Tennessee utilities to earn the distinction are Bristol Tennessee Essential Services; CDE Lightband in Clarksville; Lewisburg Electric System; McMinnville Electric System and Tullahoma Utility Authority.

Safety Council Event

Safety Supervisor Nathan Vann will be speaking on Workplace Accident Investigations, the How and the Why on March 26, 2019, at the Cleveland/Bradley Chamber of Commerce.

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 2015 through April 2019 was reviewed. For the month of April, the residential retail electric rate will change to 9.155 cents per kilowatt-hour, a decrease of 3.73 percent over March's rate of 9.510 cents per kilowatt-hour. This rate change is driven by TVA's Fuel Cost Adjustment as well as the move to the transition month rate schedule. As a continued trend, Cleveland Utilities will pass the TVA Fuel Cost Adjustment to its consumers.
2. The February 2019 financial and statistical statements were presented to the Utility Board. During February, the cost of purchased power as a percentage of retail sales was 80.3 percent and can be compared to the budgeted percentage of 78.7 percent for FY 2019. The results for February 2019 are electric sales revenue of \$7,318,214 which was offset by a purchased power expense of \$5,874,816. This resulted in an operating margin of \$1,443,398. Operating expenses for the month were \$1,814,617. These revenue numbers were driven by a customer base of 31,688. The net loss for the month was \$170,475 and can be compared to a budgeted net income of \$472,341. This was driven by the weather.
3. For February 2019, water sales revenue was \$1,134,010. Other revenue sources contributed an additional \$143,338 for the month. Operating expenses for February totaled \$1,303,412. These revenue numbers were driven by a customer base of 31,990. The division recorded an operating loss of \$26,064, which is compared to a budgeted operating loss of \$11,267.
4. For February 2019, wastewater treatment revenue was \$1,012,813. Other revenue sources contributed an additional \$98,567 for the month. Operating expenses for February were \$1,025,553. This is compared to the budgeted amount of \$992,484. These revenue numbers were driven by a customer base of 19,155. The division recorded an operating income of \$85,827, which is compared to a budgeted operating income of \$100,528 for the month.
5. As part of the city's refinancing efforts passed several months ago, bonds were issued and there was an agreement that CU would prepay the June payments for the 2009C and 2009D bonds. Therefore, CU will be issuing the principal and interest payments early. This money was already allocated to be paid, it will just be paid two months in advance.

Electric Division

Bart Borden reported on the following:

1. A Service Electric of Chattanooga crew was scheduled to begin the Peerless Road LED Street Lighting Project the first of March, but with CU's permission was pulled from the project to respond to emergency work in Lee County, Alabama, due to a tornado that touched down. Of course, CU released the crew without hesitation.
2. In reference to the Lang Street to District Substation Transmission Line Replacement Project, Phase II, bids were received for the required 13 steel transmission poles. The order was awarded to low bidder, CHM Industries of Saginaw, Michigan, for \$48,559.50 on February 20, with a quoted delivery of July 10.

3. A total of eight distribution circuits have been flown and inspected with CU's drone collecting photographs and infrared images. Five of the circuits have received line construction inspection and correction of all issues found. The cost to correct the known issues have made a significant impact on CU's Capital Budget, and corrective work for the remaining three circuits has been budgeted for Fiscal Year 2020. Any serious concerns with all of the circuits have been addressed and corrected.
4. A work order has been issued to provide underground fed electrical service to Phase 3 of Stonecreek Subdivision located at New Murraytown Road NW. Phase 3 consists of 37 lots, making the subdivision a 61 lot development. The developer was provided a conduit print for installation. CU's line construction crews will begin as soon as the conduit installation is completed.
5. Requests for bids were sent out for two, 15/20/25 MVA distribution substation power transformers for the new Cherokee Gateway Substation. Bids are due at the end of the month, and delivery quoted is generally in the 32-52 week range.
6. Line construction crews completed the disconnection of all power facilities and the removal of distribution transformers from the King Edward Avenue Whirlpool site. The work was quite extensive and involved a large number of transformer stations.
7. The month of February and into March leading up to this meeting has been quite busy with preparation of the electric capital and expense budgets. Borden expressed appreciation to all electric employees for their time and dedication to help create this roadmap for success and financial stewardship.
8. A report was presented regarding traffic lighting:
 - CU's Traffic Signal Coordinator collected traffic counts and built a Synchro software model for the traffic flow at Paul Huff & Peerless and Peerless at Tomahawk & Valleyhead Roads. The model and simulations will be used to determine possible short term treatments and long term capacity improvements. Additional data will need to be entered after the Traffic Impact Study is complete for Paul Huff Corners. The Traffic Impact Study will be provided by the developer's engineers.

Water Division

Craig Mullinax reported on the following:

1. J.R. Wauford Company is working on studies for the solids handling system, blower system and alternative disinfection at the Wastewater Treatment Plant (WWTP).
2. Haren Construction has completed 85 percent of the Flocculation/Sedimentation Basin Improvements Project at the Cleveland Filter Plant (CFP). All basins have been rehabilitated. Cleanup work remains.
3. W&O Construction has completed the Raw Water Pump Station Project at the Cleveland Filter Plant (CFP). CU is awaiting the final invoice for payment.
4. There have been some air conditioning issues at the CFP. AEED Inc. has been engaged to complete a design for better air flow throughout the system at the facility in the amount of \$10,000.
5. Mayse Construction has completed 25 percent of the installation for the 2010 Annexation Sewer Project on APD 40.
6. The easement acquisition process is ongoing for the 2010/2012 Annexation Project on Benton Pike and Durkee Road. 7 of the 38 required easements are complete.

7. Engineering approved plans for Ridgedale Forest Subdivision, Phase 2, comprising 15 lots and 1,483 feet of 6-inch water main. Hampton Backhoe will be the contractor responsible for the installation.
8. An update was provided for Phase 1 of the ongoing Basin 10A-8 Rehabilitation Project. The contractors have completed 100 percent of the mainline rehabilitation, 56 percent of the service lateral rehabilitation and 44 percent of the manhole rehabilitation.
9. The Meter Department set 13 meters through February 2019 compared to 23 for February 2018 and 26 for February 2017. A total of 218 meters have been set for FY 2019. The 13 meter sets were single-family homes.
10. The total amount of rainfall recorded at the CFP as of March 19, 2019, was 4.40 inches for the month (.58 inches below average). Total rainfall in February was 11.53 inches, which is a substantial amount. Greg Clark and Mike Ward reported on a rainfall event in February that impacted the sewer collection system and WWTP. During the period of February 15-24, rainfall totaling 8.69 inches was recorded. Following heavy rainfall of 3.1 inches on February 23 & 24, excessive flooding was prevalent throughout much of the area. On February 25 & 26, the WWTP recorded a record flow of 38.1 MGD. CU staff began looking at potential problem areas by coordinating results and findings from SCADA system data, flow monitors and discussions with WWTP personnel. The area between Lauderdale Highway and the WWTP was identified as the suspect area for problems. While the search area was narrowed down, the suspect area was comprised of approximately 2.5 miles of sewer main and 24 manholes, and the majority of the locations were underwater or inaccessible due to flooding. CU staff continued to explore the area as flood waters continued to recede. On March 1, there was only one location that CU crews had not been able to access, Manhole OF-65. Due to flooding, the only way to access this manhole was to park on the interstate and walk through flooded backwater areas for approximately 1/3 mile. Once the manhole was reached, it was discovered the cover was off the frame and still about a foot under water. The lid was replaced and after 40 minutes, the influent flow at the plant dropped 3.0 MGD and after two hours, it dropped 4.5 MGD. It was estimated that 13 to 15 MGD of water entered the plant from the cover being off on those days.

Mike Ward elaborated on the flows seen at the WWTP during the period and showed two videos of the screw pump operating at maximum capacity. Charts for the Influent Flow at the WWTP, Influent CBOD Concentration and Percent of CBOD Removal for February were reviewed. All flow entering the plant was treated and discharged to the river meeting all permit and water quality requirements. Ward stated although this was an unfortunate opportunity, it gave the chance to test the equipment, facility and operating procedures at a level never before seen, and the plant performed exceptionally well. He attributed this to the board and leadership for the expansion that occurred 20 years ago along with the routine maintenance and upkeep performed.

Clark stated the WWTP personnel should be commended for managing the record flows without having to bypass flow. At Manhole OF-65, the lid has been bolted to the frame to prevent any reoccurrence of this problem. The remaining manholes have been evaluated and plans have been made to make subsequent repairs to leaking manholes and to adjust some additional manhole frames and covers. This was a great example of staff working together to identify a problem, to find the cause and finding a solution.

NEW BUSINESS

Presentation and Approval of FY 2020 Budget

President/CEO Tim Henderson opened the budget presentation by commending the staff and employees for an incredible job in putting the FY 2020 budget together. This budget is a reliable way to move forward into the future, and it will benefit not only the utility, but the community and its economy as a whole. VP/CFO Marshall Stinnett then kicked off the presentation by also thanking the executive staff, all employees for their input in the budget compilation as well as the board members for their support. The budget is a true team project and takes a considerable amount of work and coordination. A comprehensive financial summary of the FY 2020 budget was then presented.

Electric sales volume for fiscal year 2020 is projected at 1,056,343,216 kilowatt hours, water sales volume at 2,847,197,879 gallons and wastewater sales volume at 1,910,209,939 gallons. Total revenue for the electric division is forecast at \$105,653,441. Water and sewer are collectively \$17,295,457 and \$13,943,769. A breakdown of expenses for the new budget year includes \$102,547,680 in electric, \$15,524,407 in water and \$12,428,779 in sewer. Fiscal year 2020 reflects net incomes of \$3,105,761 in electric, \$1,771,050 in water and \$1,514,990 in sewer. Stinnett advised these net income figures are higher in comparison to previous years; however, this is a factor of the Governmental Accounting Standards Board (GASB) changes and how they require certain expenditures be reflected on the income statement. The same cash expenditures are still there for some of the benefits CU pays. Investment in new facilities is budgeted at \$9,627,100 in electric, \$6,035,829 in water and \$10,287,201 in sewer.

Next, Stinnett highlighted information for the rate increases forecast in the FY 2020 budget. He pointed out these are the exact same percentages reflected for 2020 when the 2019 projections were presented last year. The proposed FY 20 budget includes an internal rate increase in electric of 1.500 percent. Rates for water are projected to increase by 6.13 percent effective July 1, 2019. This includes a 5.00 percent internal rate adjustment applied across all customer classes as well as an expected 1.13 percent pass-thru increase from Hiwassee Utilities Commission for purchased water. Rates for wastewater services are projected to increase by 4.00 percent applied across all customer classes effective July 1, 2019.

Stinnett provided a more in-depth overview of the internal rate increase CU is recommending in electric effective July 1, 2019. Changes in the residential and GSA 1 class are through the customer charge (fixed portion of the bill) and are supported with the new Cost of Service study performed by Chris Mitchell. This is the same strategy employed over the last five years and is directly correlated with CU's expenses as well as ensuring extreme weather events are not over or under-collected. Below is an outline of the rate adjustment proposals:

- In the residential class, CU is proposing a \$2 increase in the customer charge. The current residential customer charge is \$17.23, and the increase would bring this to \$19.23 per month.
- In the GSA 1 class, CU is proposing a \$3 increase in the customer charge which would bring this to \$22.41 per month.
- Additionally, CU is proposing an increase of \$2 per month in the outdoor lighting pole rental fee for existing outdoor lighting (OL) contracts. The current pole rental rate is

\$4.03 and the increase would bring this to \$6.03. For reference, there is still great room to increase this rate to get to what CU's true cost is. This is not how lighting contracts are handled currently. The new contracts are parking light (PL) contracts and the pole rental is a factor of what the customer pays in investment. As existing OL contracts expire, the customer is required to move to the new PL style contract.

- In the GSA 2 class, CU is proposing a 0.00320 increase in the kWh rate; there would be no adjustment to the customer charge for this class.
- Additionally, CU is proposing to pass any TVA rate adjustment thru to the customer.

A further breakdown was given as to how these adjustments will impact customers. Residential customers will see an increase of \$2.00 on their electric bill. Residential inside city customers will see average increases of \$1.12 and \$1.60 for water and sewer respectively. Staff feel the adjustments are warranted and meet what CU is trying to achieve with the capital investment and debt structure moving forward.

Debt at the beginning of FY 2020 is expected to be \$14,886,548 in electric, \$30,723,153 in water and \$27,419,453 in sewer. New debt will be added in the amounts of \$3,000,000 for electric, \$3,500,000 for water and \$6,135,710 for sewer. Payments made on existing debt will total \$1,253,422 for electric, \$2,259,706 for water and \$2,303,943 for sewer. Debt at the end of FY 2020 is projected to be \$16,633,126 for electric, \$31,963,447 for water and \$31,251,221 for sewer. Stinnett added based on the current information available for the three divisions, debt is expected to decrease over the next ten years, which is a great sign. Investments are still being made, but improvement is expected toward the debt structure.

In the fiscal year 2020 budget, the number of budgeted equivalent employees is projected at 201, compared to 202 for 2019. Also, the proposed budget includes a 3.5 percent merit increase for eligible employees with a successful performance evaluation. This is consistent with what the city is proposing in their FY 2020 budget. Total payroll for 2020 is calculated to be \$15,259,601.

Lastly, Stinnett reviewed graphs representing bond coverage for years 2019 to 2029. 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.

Next, Electric Division VP Bart Borden reviewed capital projects in the proposed 2020 budget totaling \$9,627,100. Borden pointed out the categories for commercial load additions, industrial load additions, residential (overhead and underground) and street lighting are budgeted based on trending history. The electric budget includes \$300,000 in the buildings and grounds category, which includes the reconfiguration of the main office parking lot in the amount of \$150,000. This will tie into the building renovation project. Another major item in electric under transportation is for large vehicles (bucket and line truck replacements) in the amount of \$820,000. A number of these vehicles have been carried forward from the FY 19 budget due to the long lead times associated with these type purchases, typically around a year. As referenced earlier in the electric report, the three remaining circuit inspections are budgeted for FY 20, \$375,000. Another significant area is the District to Lang Street Substation Reconductor, Phase II (13 poles), \$380,000; and Phase III is also budgeted for FY 20 at \$350,000. The Lang Street Substation remodel, Phase I, is included in the amount of \$300,000. Lang Street Substation was built in 1956 and completed in 1957 by TVA. CU

purchased the substation from TVA, and it has four very old, single phase power transformers. CU will be starting the engineering and site work for this project. The last key project in electric is the Cherokee Gateway Substation Phase II, at \$1,500,000.

Water and Wastewater VP Craig Mullinax then highlighted water capital projects in the proposed 2020 budget totaling \$5,572,100. CU makes every attempt to fund large capital projects (both water and wastewater) through the SRF. One of the key items in engineering is the Cherokee Gateway Water Storage Tank, \$1,000,000. This project is for the construction of a 500,000 gallon water storage tank to serve the Spring Branch Industrial Park and the surrounding area. Also included in engineering is the upgrade of the Dempsey Circle Water Booster Pump Station in the amount \$670,000. The existing Dempsey Street Water Booster Pumping Station has been in service since 1989 and consists of two pumps rated at 500 GPM and 1100 GPM. It was originally installed to be a temporary water booster station but has remained in service. The upgrade will consist of three pumps rated at 2,100 GPM each with variable drives. The new pumps will allow CU to fill the Bryant Drive Tank from the Dempsey Station alone and will be able to provide fire protection to the industrial park. It will also provide redundancy with two standalone stations that can serve the Bryant Drive Tank. Another major item under engineering is the the Georgetown Road Water & Sewer Relocation budgeted at \$40,000. The project costs will be paid by TDOT and are estimated at \$1,692,000. The last key item in engineering is galvanized water line replacements, \$300,000.

Major capital projects at the Cleveland Filter Plant were reviewed and include the conversion from chlorine to sodium hypochlorite in the amount of \$400,000 in FY 20 and \$1,400,000 in FY 21. The project will allow the CFP to disinfect the potable water with sodium hypochlorite instead of chlorine. Another key item at the CFP is the design of the high service pumps and electrical upgrade in the amount of \$250,000. The construction of this project will be budgeted at \$1,250,000 in FY 21 and \$2,920,000 in FY 22. This project consists of modifying the existing high service pump room by replacing the existing pumps with two 5 MGD and one 2 MGD pump with variable frequency drives. An existing outside space will accommodate one 9 MGD (600 hp) vertical turbine pump. A new filter backwash pump will be installed. Also, new electrical and instrumentation will be installed in a new stand-alone, pre-engineered building. Two generators will be installed, one at the plant and the other at the raw water pump station. The plant was built in 1954.

Key projects in wastewater were then highlighted by Mullinax. Capital requirements for the wastewater division in the proposed fiscal year 2020 budget total \$10,287,201. In engineering, the Exit 20 LLC sewer extensions are budgeted at \$300,000. The 2010/2012 annexation sewer improvements in the Benton Pike and Durkee Road area include 8,940 feet of 8-inch gravity sewer and 36 manholes to serve approximately 50 properties, \$1,670,000. The project is being funded through the SRF.

Major budgetary items in wastewater collections-SCOPE 10 are the ongoing sewer rehabilitation projects. Basin 10A-8 Rehabilitation, Phase 2, from Tinsley Park to Inman Street is budgeted at \$2,393,405 and is being funded through the SRF. Also, the Basin 64-14 design and rehabilitation (proposed SRF funding) is budgeted in the amount of \$1,950,000. Mullinax noted a significant difference is being made in the sewer collection system through sewer rehabilitation. The last key item is for a proposed building at the corner of Fredrick & Guthrie, \$400,000. At this point, the concept is to house vehicles in the building and future ideas are being brainstormed.

President/CEO Henderson wrapped up the presentation by stating staff did a great job of making sure the utility is where it needs to be with this budget. The increases were held to a minimum and only made where necessary. Having the support and backing from professional rate consultant, Chris Mitchell, provides peace of mind the utility is on track and financially stable. By doing this, CU can continue to improve systems and build necessary facilities, positively impacting customers and the community.

On recommendation by Tim Henderson, David May, Jr. motioned and Chari Buckner seconded for the Utility Board to approve the proposed fiscal year 2020 budget as presented. The Board of Public Utilities voted and the motion carried unanimously. The proposed FY 2020 budget will now be presented to the Cleveland City Council on Monday, April 22, 2019.

Vice Chairman Eddie Cartwright made a statement about the investment CU has in the Spring Branch Industrial Park. Although it has taken a considerable amount of time to install infrastructure and prepare the site, the utility and community will benefit once businesses start coming in. Cartwright advised local leaders have begun exploring sites for another industrial park, and CU needs to be thinking about being asked to help with the funding again. Henderson advised CU is definitely engaged through conversations and interactions with the Industrial Development Board and different organizations. Stinnett added there's always a matter of conservatism when building a budget and looking at the forecast of what expenditures may come. He stated CU has to be a driver in the economic development aspect of the community.

Buckner commented about the budget. She encouraged for CU staff and the counterparts at TVPPA to continue to encourage TVA to keep rates as low as possible for customers. She said, "The 1.5 percent increases seem to be becoming a habit, and the people of Cleveland would like rates as low as possible." Henderson expressed appreciation to Buckner for the comment and advised he, Borden and Stinnett are engaged in conversations with the TVA staff directly on a regular basis concerning rates, and the conversations have been more positive over the last six months. Public power utilities are owned by the customers they serve and the model of keeping rates as low as possible benefits everyone. The recent change in the leadership at TVA with the new President/CEO coming on board as well as several new board members could impact what that philosophy looks like moving forward.

Approval of CU Policy Manual

On motion by Chari Buckner and seconded by Joe Cate, the Utility Board took action to approve the CU Policy Manual. This is a culmination of around four years of diligent work and was a goal in the 2015-2017 Strategic Plan. The policies will be available to employees via the Intranet and specific department locations. This manual contains a total of 52 policies, and the majority have already received prior approval from the Utility Board. Several of the existing policies contain minor revisions and there are also seven new ones, which include Bullying, Computer Systems Usage, Family & Medical Leave Act (FMLA), Flextime, Gambling, Leave without Pay and Maternity. Additionally, revisions have been made to policies addressing Equal Employment Opportunity, Employee Testing & Certification, Preventable Accident/Safety Rule Violations, Overtime, Social Media, Standby, Travel and Tree Removal. The policies have been reviewed by Miller & Martin PLLC. Henderson commended the executive staff for the time and effort involved.

Approval of Purchase Order to Dycho Chemical Company

On motion by Vice Chairman Eddie Cartwright and seconded by Chari Buckner, the Board of Public

Utilities voted unanimously to approve a purchase order with Dycho Chemical Company in the amount of \$72,240 for the annual supply of water corrosion control inhibitor for the Cleveland Filter Plant. The purchase is sole source, and the chemical is budgeted for FY 2019.

Additional Comments

Vice Chairman Cartwright complimented the executive staff for making this meeting go as smooth as it did and all the work that has been done. Board Member May also stated he is very impressed with CU's organization and how seamless it runs.

OTHER BUSINESS

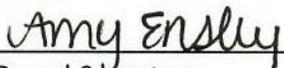
Future Board Meeting Dates

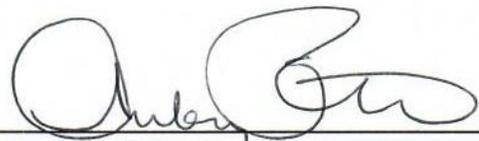
Future scheduled board meeting dates at the Tom Wheeler Training Center are as follows:

Friday, April 26, 2019, 12:30 p.m.

Friday, May 24, 2019, 12:30 p.m.

Friday, June 28, 2019, 12:30 p.m.


Board Secretary


Board Chairman

4-26-2019
Date