

MINUTES OF REGULAR MEETING
CLEVELAND UTILITIES BOARD
AUGUST 23, 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; Councilman David May, Jr., Cleveland Utilities Board; Debbie Melton, 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; Mark Davis, Substation Foreman; Doug Wilson, Electrician; and Tim Siniard, *Cleveland Daily Banner*. Following the Pledge of Allegiance to the American Flag, Mark Davis delivered the invocation.

MINUTES OF JULY 26, 2019

On motion by Vice Chairman Eddie Cartwright and seconded by David May, Jr., the Board of Public Utilities voted to approve the July 26, 2019, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS

Upcoming Retirement of Doug Wilson

President/CEO Henderson introduced and recognized employee Doug Wilson who will soon be retiring. His official last day at work will be next Thursday, August 29. Wilson has twenty years of service with CU. He began his career in the Water Division, but has spent the majority of his time in the Substation Department. Everyone congratulated Wilson and wished him all the best.

Labor Day Holiday

Cleveland Utilities will be closed on Monday, September 2, 2019, in observance of Labor Day. The Call Center will be open and regular emergency/standby services will be maintained 24/7.

River Counties Association of Realtors "Battle for a Cure" Volleyball Tournament

CU will have a team participating in the River Counties Association of Realtors "Volley for a Cure" Volleyball Tournament. The event will be held on Thursday, September 5, 2019, in the Cleveland State Community College Gymnasium at 6:30 p.m. CU is the reigning champion and has won four of the five previous tournaments. All proceeds benefit the American Cancer Society.

80th Anniversary Customer Appreciation Day

CU will be hosting an 80th Anniversary Customer Appreciation Day on Friday, October 4, from 10 a.m. to 2 p.m. The event will be held on the lawn of CU's Power Service Center. Throughout the day, training opportunities, refreshments and prizes will be available. The public is invited to attend.

CU Annual Picnic

Board members were invited to attend Cleveland Utilities' annual family picnic scheduled for Thursday, October 24, 2019, at Fletcher Park beginning at 5 p.m.

Introduction of New Board Member, Debbie Melton

Henderson welcomed new board member, Debbie Melton, who was recently appointed to an additional four-year term to expire August, 2023. Melton is the Owner Operator of Don Ledford Automotive. She is married to Ken and they are blessed with three children.

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 September 2015 through September 2019 was reviewed. For the month of September, the residential retail electric rate will change to 9.741 cents per kilowatt-hour, a decrease of 1.80 percent over the rate of 9.920 cents per kilowatt-hour for August. This rate change is driven by TVA's Fuel Cost Adjustment. As a continued trend, Cleveland Utilities will pass the TVA Fuel Cost Adjustment to its consumers.
2. The June and July 2019 financial and statistical statements were presented to the Utility Board. During June, the cost of purchased power as a percentage of retail sales was 76.8 percent. The results for June 2019 are electric sales revenue of \$8,953,086, which was offset by a purchased power expense of \$6,875,540. This resulted in an operating margin of \$2,077,546. Operating expenses for the month were \$1,350,448. This is compared to a budgeted operating expense of \$1,642,678. This variance is driven by the year-end adjustment entries of GASB 68 & 75, reporting for Pensions and Other Post-Employment Benefits (OPEB) plans. These revenue numbers were driven by a customer base of 31,876. The net income for June 2019 was \$901,641.
3. The results for FY 2019 are electric sales revenue of \$101,674,001, which was offset by a purchased power expense of \$79,105,221. This resulted in an operating margin of \$22,568,780. Operating expenses for FY 2019 totaled \$20,738,798. This brings the division to a combined net income of \$4,021,083 for FY 2019 and can be compared to the budgeted amount of \$3,767,272.
4. During July 2019, the cost of purchased power as a percentage of retail sales was 74.6 percent and can be compared to the budgeted percentage of 77.5 percent for FY 2020. The results for the month were electric sales revenue of \$10,451,784, which was offset by a purchased power expense of \$7,799,435. This resulted in an operating margin of \$2,652,349. Operating expenses for the month were \$1,666,826 and can be compared to a budgeted operating expense of \$1,810,008. The division serviced 31,833 customers during July. Net income for the month was \$1,165,212.
5. For June 2019, water sales revenue was \$1,402,293. As a comparison, the budgeted amount was \$1,344,589. Other revenue sources contributed an additional \$144,602 for the month. The division serviced 32,203 customers. Operating expenses for June totaled \$1,047,106. This is compared to the budgeted amount of \$1,348,252. This variance is driven by the year-end adjustment entries of GASB 68 & 75, reporting for Pensions and OPEB plans. The division recorded an operating income of \$499,789, which is compared to a budgeted operating income of \$120,869.
6. The results for FY 2019 are water sales revenue of \$14,401,891. Other revenue sources added an additional \$1,778,525. Operating expenses for FY 2019 were \$15,239,848. This is compared to a budgeted operating expense of \$15,657,300. The resulting operating income for FY 2019 totaled \$940,568 and can be compared to the budgeted amount of \$891,540.
7. For July 2019, water sales revenue was \$1,384,351. This is compared to the budgeted amount of \$1,520,021. Other revenue sources contributed an additional \$155,964 for the month. The division serviced 32,194 customers. Operating expenses for July were \$1,272,448. The division recorded an operating income of \$267,867, which can be compared to a budgeted operating income of \$341,898 for the month.
8. For June 2019, wastewater treatment revenue was \$1,065,598. Other revenue sources contributed an additional \$179,862 for the month. The division serviced 19,300 customers. Operating expenses for the month were \$895,256 and can be compared to a budgeted

amount of \$1,036,590. This variance is also driven by the year-end adjustment entries of GASB 68 & 75, reporting for Pensions and OPEB plans. An operating income of \$350,204 was recorded, which is compared to a budgeted operating income of \$139,666 for the month.

9. The results for FY 2019 are wastewater treatment revenue of \$12,046,614. Other revenue sources contributed an additional \$1,220,943 for the month. Operating expenses for FY 2019 were \$11,823,828. This is compared to a budgeted operating expense of \$11,919,575. The net income for FY 2019 totaled \$1,443,729 and can be compared to the budgeted amount of \$1,503,893.
10. For July 2019, wastewater treatment revenue was \$1,033,598. Other revenue sources contributed an additional \$91,298 for the month. The division serviced 19,285 customers. Operating expenses for the month were \$986,266. An operating income of \$138,630 was recorded, compared to a budgeted operating income of \$205,119.
11. An engagement letter was submitted to the Board by the CPA accounting firm of Arnett, Kirksey, Kimsey, Sullivan, Lay & Hall, PLLC. A copy of this letter was included in the board folders.

Electric Division

Bart Borden reported on the following:

1. The concrete pillar foundation work continued at the Cherokee Gateway Substation site and is approximately 2/3 completed to date. Additionally, the chain link fencing has been installed and the site is now more secure.
2. In reference to the Lang Street to District Substation Transmission Line Replacement Project, Phase II, construction started on the transmission line earlier than anticipated. CU crews completed 20 percent of the pole installations by the end of July.
3. Operations personnel are presently scheduling the work for the Valleyhead V-234 Underground Feeder Conductor Upgrade Project, which has been delayed due to personnel shortage and other pressing jobs to provide customers with service.
4. Engineering is working with the contractor of a new industrial building to be located at the corner of Barney Lane and 20th Street NE. At this time, it is not known what company will occupy the building, which will be 50,000 square feet. Engineering provided the contractor with specifications for the primary conduit and details for the pad-mount transformer to serve the location.
5. Construction began on the new RaceTrac on APD-40 at Holloway Road. This RaceTrac will be the same as the new one on 25th Street. A work order was released in July to connect the temporary service for a job trailer. Engineering is presently working with the construction manager and property developer to design the required electrical facilities for permanent service. The RaceTrac will be located on a corner lot that has been subdivided from a large piece of property. The owner of the property wants to make sure the facilities are installed to serve future loads of other businesses that may purchase sections of the property. A plan was finalized to the satisfaction of the developer who is installing the conduit.
6. The second phase of Stone Creek Subdivision, located on New Murraysville Road, is under construction. The first phase of this subdivision contained 24 lots and is fully populated. The second phase will contain 38 building lots. It is estimated that 1,305 feet of #1/0 aluminum primary, 1,824 feet of underground triplex (#4/0 and #350) and four single phase pad-mount transformers will be installed in the new phase to serve the estimated load of 304 kW when

fully built out. The contractor is presently installing the required conduit. The conductor and transformers are scheduled for installation in September.

7. Line construction crews installed two 150 kVA pad-mount transformers, 1,120 feet of underground primary conductor and 140 feet of secondary conductor to serve Paul Huff Corners, a new four building development at the corner of Paul Huff Parkway and Peerless Road. The services to each building will be installed by their electrical contractor when the buildings are ready for permanent service.
8. A comprehensive Reliability Statistics report was presented:
 - The ASAI (Average Service Availability Index) statistic is the percentage of time that the system was available through the year. CU has achieved 99.9894 percent for 2019 to date, compared to 99.9889 percent in 2018, 99.9816 percent in 2017 and 99.9843 percent in 2016. Data was also provided for similar utilities who utilize the same software. The ASAI percentage for the APPA Region 7 (which includes data from 19 reporting utilities) was 99.91 in 2018.
 - CAIDI (Customer Average Interruption Duration Index) is defined as the average length of time that a customer's outage lasts in minutes. This year to date, CU has experienced 44.032 minutes per customer average, compared to 63.492 minutes in 2018, 78.862 minutes in 2017 and 72.932 minutes in 2016. The APPA average for Region 7 was 97.24 in 2018.
 - SAIDI (System Average Interruption Duration Index) is the average outage duration for each customer served. CU's total to date for this year is 31.918 minutes, compared to 57.974 minutes in 2018, 93.91 minutes in 2017 and 95.941 minutes in 2016. The APPA average for Region 7 was 98.47 minutes in 2018.
 - SAIFI (System Average Interruption Frequency Index) is the average number of interruptions that every customer would experience. The average for CU is 0.725 for 2019 to date, compared to 0.913 in 2018, 1.2 in 2017 and 1.217 in 2016. The APPA Region 7 average was 1.38 in 2018.
 - A graph for the ASAI was provided comparing the actual percentage to the moving average.

Borden reminded that CU was recognized as one of the top tier reliable utilities in the nation by the American Public Power Association for 2018. Borden commended the engineering and operations employees for their hard work and dedication in making the system reliable. Additionally, the tree management program has played a big part in this improvement. As always, the goal is to have the system available 100 percent of the time; however, it is very difficult to achieve.

9. A report was presented regarding traffic lighting:
 - Engineering released a work order to convert the signal heads at 20th and Old Tasso from incandescent to LED and traffic crews completed the conversion.
 - Traffic Signal Coordinator Tad Bacon collected data from the intersection of Ocoee and 3rd Street South for the conversion of signal heads to LED. These traffic signals are the only remaining incandescent lamps inside the City of Cleveland. Additional right-of-way may be required to redesign this intersection for the improvements needed.
10. There was a great amount of activity in the site plan and plat review process for the month of July. Plans submitted for review included a total of 28 apartment units, 169 townhomes, 93 subdivision lots, 8 commercial lots, 10 commercial buildings and 1 industrial building.

Water Division

Craig Mullinax reported on the following:

1. W&O Construction will soon begin the rehabilitation of spiral lift pump no. 205 at the Wastewater Treatment Plant. The pump was removed on Wednesday, August 21, and the work should take approximately one month to complete.
2. Stantec has been updating drawings for the Georgetown Road Utility Relocation Project based on continued TDOT drainage revisions. The submittal is due to TDOT by August 25.
3. Hampton Construction has been engaged to assist CU with a small portion of the Candies Lane Water Main Relocation Project. The city is making improvements to Candies Lane, which resulted in the necessity to relocate 650 feet of 12-inch water main and raise two manholes. This project has turned out to be challenging due to the line and age of the valves. The estimated project cost is \$75,000 or more.
4. CU's engineering staff is working with the city's engineering staff to mitigate conflicts with the water line and storm drainage on Norman Chapel Road.
5. In reference to the Clingan Ridge Drive water line extension, approval was received from TDEC and easements are being finalized.
6. Hampton Construction is expected to begin the Haney Road Sewer Line Extension Project in a couple of weeks. Jon Sparkman worked with Hampton Construction to adjust the layout of the sewer line to better fit the lot. The design was finalized on August 21.
7. The following information was provided for plans under review:
 - Cherokee Gateway Boulevard Sanitary Sewer Project – CU is waiting on drawings from the developer.
 - Remember Me Assisted Living Facility on King Den Drive – the developer is evaluating whether to be public or private.
 - Savannah Avenue Apartments on Pryor Road – the developer is evaluating whether to be public or private.
 - Spring Crossing Townhomes on 21st Street – CU provided comments and is awaiting revisions from the developer/engineer.
 - Quail Ridge Subdivision on North Lee Highway – approvals to be completed this week.
 - Pinnacle Industrial Park on 20th Street & Barney Lane – comments were provided and the developer is evaluating options.
8. An update was provided for the following developments under construction:
 - Projects at the Enclave at Weeks Drive, Cobblestone Ridge Subdivision, Ridgedale Forest Subdivision Phase 2, Stone Creek Phase 3 and Keith Street Cottages have all been completed.
 - The water main relocation at Bradley Place is 100 percent complete and the sewer main is 95 percent complete.
 - The sewer main installation at Barker Development located at Georgetown Road and Paul Huff Parkway is 100 percent complete. A total of 583 feet of 8-inch water main will also be installed as part of this project.
9. A report was provided for the ongoing Wastewater Rehabilitation Project:
 - The Basin 10A-8 Phase 2 Rehabilitation Project was bid, and the ATA package has been submitted to the State Revolving Fund (SRF) for approval. The contract documents have been compiled and are in the circulation to be signed. An explanation of the SRF Program was requested by Joe Cate for new board member Debbie Melton. Mullinax

provided an overview, and highlighted the significant amount of savings realized by utilizing the program. Henderson and Mullinax both advised although the process takes a considerable amount of work and time, it's very worthwhile and beneficial for the utility and customer base.

- In reference to the Sycamore Drive and East Keith SSES Project, manhole inspections have begun and will be ongoing for around another month. Smoke testing has also begun and should be completed in the next month.
10. The Meter Department set 52 meters through July 2019 compared to 35 for July 2018 and 32 for July 2017. Of the 52 meter sets, 29 were single-family homes, 4 were apartments, 1 was a duplex, 5 were townhomes, 4 were irrigation and 9 were commercial.
 11. The total amount of rainfall recorded at the CFP as of August 21, 2019, was 0.51 inches for the month. This brings the yearly total to 64.29 inches (5.03 inches above average). The projected total for 2019 is now 64.29 inches. Although rainfall totals are theoretically above normal, the trending is now on the dry side. As a result, the water demand continues to be very strong. The projected demand for August is over 415 million gallons.

NEW BUSINESS

Approval of Resolution No. 2019-03 - Long-Term Partnership Agreement with TVA

On motion by David May, Jr., and seconded by Joe Cate, the Board of Public Utilities voted unanimously to approve resolution no. 2019-03 authorizing the President/CEO of Cleveland Utilities to enter into a long-term partnership agreement with TVA. Henderson provided further background. TVA has increased the base rates by 1.5 percent annually for the past six consecutive years. This was part of TVA's previous debt reduction plan under Bill Johnson's leadership, which also included projected rate increases for the next four years. TVA's new President, Jeff Lyash, recently outlined a new financial plan designed to keep rates relatively stable for the next ten years. Yesterday, TVA's board approved a budget suspending the planned wholesale rate increase for FY 2020 for all 154 Local Power Companies (LPC's) in the Valley. Additionally, they will offer optional 20-year agreements to the LPC's. Currently, CU has a 10-year contract with TVA.

The long-term proposal will solidify the supply of energy to CU for the long term. With this commitment, CU will receive long-term partner credits in the form of 3.1 percent monthly credits based upon future consumption of the standard service class. These credits are available to those distributors that agree to a 20-year ever green contract with TVA for the extension of the wholesale power contract. This agreement also provides CU assurance that wholesale power rates will remain stable for the long-term. Additionally, this contract would be transferable pending any legislation that would significantly change the ownership of TVA assets. With this commitment, CU is pledging to invest these long-term credits provided by TVA in the following points of interest for the Electric Division long term: 1) continue efforts to maintain rates as low as feasible; 2) strengthen the operating effectiveness of the electric division system and assets; and 3) maintain a conservative financial stewardship.

Vice Chairman Eddie Cartwright questioned if there are any provisions to exit the contract if unforeseen circumstances arise due to changing technology. Henderson advised if rates increase to a certain tier level, the utility could revert back to a 10-year contract. There is also a provision relating to generation flexibility. TVA has proposed to provide enhanced power supply flexibility, for 3 to 5 percent of the distributor's energy, by no later than October, 2021. Henderson noted CU has had

discussions with rate consultant, Chris Mitchell, and his recommendation was to enter into the 20-year agreement.

The long-term agreements increase the length of and strengthen the contractual relationships with TVA and their customer base to help ensure the long-term success of the public power model. Therefore, this enables them to move forward with their financial plan and focus on long-range goals. Approval of this resolution gives Henderson the authority to sign the contract when CU is ready to move forward. Currently, TVPPA's legal staff are reviewing the document in further detail.

Approval of Resolution No. 2019-04 – State of Tennessee Deferred Compensation Plan II (401K)

On motion by Joe Cate and seconded by Vice Chairman Eddie Cartwright, the Utility Board took action to approve Resolution No. 2019-04 authorizing the President/CEO to sign an agreement with the State of Tennessee to participate in the State of Tennessee Deferred Compensation Plan II (401K). The City Council has already approved the same resolution.

Approval of Resolution No. 2019-05 -State of Tennessee Deferred Compensation Plan and Trust (457b)

On motion by Joe Cate and seconded by David May, Jr., the Board of Public Utilities voted to approve Resolution No. 2019-05 authorizing the President/CEO to sign an agreement with the State of Tennessee to participate in the State of Tennessee Deferred Compensation Plan and Trust (457b). The City Council has already approved the same resolution.

Approval of a Purchase Order to Cleveland Utilities OPEB c/o First Tennessee Bank

On motion by Vice Chairman Eddie Cartwright and seconded by Debbie Melton, the Utility Board took action to approve a purchase order to Cleveland Utilities OPEB c/o First Tennessee Bank in the amount of \$684,503 for the annual funding of CU's OPEB Trust. This is a budgeted item.

Approval of a Purchase Order to Hach

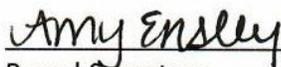
On motion by Debbie Melton and seconded by David May, Jr., the Board of Public Utilities voted to approve of a purchase order with Hach in the amount of \$69,707.14 for the purchase of eight turbidimeters and four controllers at the Cleveland Filter Plant and one turbidimeter and one controller at Waterville Springs. The equipment is budgeted for FY 2020 in the amount of \$65,000. This is a sole source purchase.

OTHER BUSINESS

Future Board Meeting Dates

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

- Friday, September 27, 2019, 12:30 p.m.
- Friday, November 1, 2019, 12:30 p.m.
- Friday, November 22, 2019, 12:30 p.m.


Board Secretary


Board Chairman

9-27-19
Date