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Board Meeting Agenda
Thursday, January 16, 2014
Noon

Call to Order

Roll Call

Approval of Minutes

Official Action

Oath of Office for Sara Hedstrom Pinnell

Election of 2014 Officers

President's Report

Other Business

Public Comments

Adjournment

MINUTES

**Knoxville Utilities Board
Board Meeting
Minutes
Thursday, December 19, 2013, Noon**

Call to Order

The Knoxville Utilities Board met in regular session in the Larry A. Fleming Board Room at 445 S. Gay Street, on Thursday, December 19, 2013, pursuant to the public notice published in the January 5, 2013, edition of the *News Sentinel*. Chair Anderson called the meeting to order at 12:00 p.m.

Roll Call

Commissioners Present: Bruce Anderson, Joel Connell, Kathy Hamilton, Celeste Herbert, Pace Robinson, Nikitia Thompson, and Eston Williams

Commissioners Absent: None

Approval of Minutes

The Minutes of the November 21, 2013, Board Meeting were approved as distributed upon motion by Commissioner Connell and second by Commissioner Williams.

Old Business

None

New Business

Resolution 1301, A Resolution Expressing the Intent of the Knoxville Utilities Board of Commissioners (the "Board") to Fund Ten Years of Century II Asset Management Programs of the Natural Gas and Wastewater Systems for the Purpose of Replacing Aging Infrastructure and Endorsing Ten-Year Plans to Fund those Century II Programs

President Roach recommended adoption of Resolution 1301 on first and final reading. Her written recommendation is included in Attachment 1.

December 19, 2013

President Roach reminded Commissioners that in 2011 the Board adopted a resolution that formally endorsed the electric and water Century II infrastructure programs and ten-year funding plans for both systems, and that the Board earlier this year expressed a desire to adopt a similar resolution for the natural gas and wastewater Century II programs. Ms. Roach recognized Mark Walker, Vice President and Chief Financial Officer, who reviewed KUB's Century II funding timeline, the highlights of the natural gas and wastewater funding plans, and the resolution. Mr. Walker reminded the Board that at the September and October meetings, respectively, staff provided the Board with reports on the infrastructure needs for the gas and wastewater systems. Mr. Walker also noted that at the November meeting, staff reviewed recommended ten-year funding plans for both systems with the understanding that at the December meeting the Board would be provided a resolution for consideration that formally endorsed the gas and wastewater Century II programs and expressed the Board's intent to adopt budgets, rate increases, and bond issues to fund the programs over the next ten fiscal years.

Upon a motion by Commissioner Williams and a second by Commissioner Connell, Resolution 1301 (*Attachment 1*) was adopted by a roll call vote on first and final reading. The following Commissioners voted "aye": Anderson, Connell, Hamilton, Herbert, Robinson, Thompson, and Williams. No Commissioner voted "nay".

President's Report

Strategic Development Presentations

President Roach reminded Commissioners of the renewed effort to enhance leadership development at KUB. The program spans from the senior level to those employees who are emerging as leaders. She advised Commissioners that today's presentation would summarize some of the work that has been going on at the senior level over the past year. Ms. Roach recognized Dr. Alex Miller, William B. Stokley Chair in Management at the University of Tennessee's College of Business Administration, who addressed the Board regarding KUB's senior leadership development efforts. Dr. Miller introduced three strategic projects that are a component of the senior leadership development program, including KUB's Water Strategy, Workforce Strategy, and Smart Grid Strategy. The Water Strategy team's presentation was made by John Gresham, Manager of Plants, and Mike Patterson, Manager of System Operations; the Workforce Strategy team's presentation was made by Paul Randolph, Vice President, and Brooke Sinclair, Manager of Safety and Technical Services; and the Smart Grid Strategy team's presentation was made by Derwin Hagood, Vice President, and Jamie Davis, Manager of Procurement.

December 19, 2013

Other Business

Commissioner Williams, Chair of the Nominating Committee announced that the Committee met today to nominate a slate of officers for 2014. The following individuals were nominated: Bruce Anderson, Chair; Celeste Herbert, Vice-Chair; and Mark Walker, Secretary. He also announced that the election of officers would be conducted in January 2014, as required by the Charter.

Resolution 1302, A Resolution of the Knoxville Utilities Board Concerning S. Pace Robinson, Who is Concluding Service as a Commissioner

Chair Anderson offered Resolution 1302 for the Board's consideration recognizing Pace Robinson for his service to the KUB Board of Commissioners. Bill Coley, Board's General Counsel, read Resolution 1302.

Upon motion by Commissioner Herbert and second by Commissioner Connell, Resolution 1302 (*Attachment 2*) was adopted by acclamation and a unanimous voice vote.

Commissioner Robinson expressed his appreciation to the Board, Senior Staff, and employees and stated serving as a KUB Commissioner for almost nine years has been both an honor and a pleasure.

President Roach expressed her appreciation and gratitude to Commissioner Robinson for his service on the Board.

Adjournment

Chair Anderson stated that following adjournment, the Board would continue with an open lunch session where KUB matters may be discussed. There being nothing further to come before the Board, Chair Anderson declared the meeting adjourned at 1:20 p.m.

Bruce Anderson, Chair

Mark Walker, Board Secretary

Attachments

Attachment 1	Recommendation Letter and Resolution 1301, A Resolution Expressing the Intent of the Knoxville Utilities Board of Commissioners (the "Board") to Fund Ten Years of Century II Asset Management Programs of the Natural Gas and Wastewater Systems for the Purpose of Replacing Aging Infrastructure and Endorsing Ten-Year Plans to Fund those Century II Programs	<u>Page(s)</u> 5259 – 5264
Attachment 2	Resolution 1302, A Resolution of the Knoxville Utilities Board Concerning S. Pace Robinson, Who is Concluding Service as a Commissioner	5265 – 5266



December 13, 2013

Knoxville Utilities Board
445 S. Gay Street
Knoxville, Tennessee 37902-1109

Commissioners:

As you will recall, in 2011 the Board adopted a resolution expressing its intent to fund ten years of Century II infrastructure management programs for the electric and water systems and endorsing ten-year funding plans for both programs. While Century II infrastructure programs have been in place for the wastewater (PACE10) and natural gas ("gas") systems, the Board has expressed its desire to adopt a similar resolution for those systems, reflecting its intent to fund the next ten years of infrastructure management programs for the wastewater and gas systems and endorsing ten-year plans to fund those programs.

At the September and October Board meetings, respectively, the Board was provided updated assessments on the wastewater and gas systems, including reports on infrastructure replacement needs for the next ten fiscal years. For the wastewater system, ten years of funding, among other things, would cover the completion of all required capital improvements for the wastewater collection system and treatment plants under the Consent Decree and support an ongoing infrastructure rehabilitation program for the collection system as defined by the Consent Decree. For the gas system, ten years of funding, among other things, would provide for the full removal of cast iron and ductile iron gas main from the system and the completion of the South Loop project.

At the November Board meeting, the Board and Staff discussed proposed ten-year funding plans for the Wastewater and Gas Divisions, including annual rate increases and periodic bond issues, which would fund the projected requirements of the wastewater and gas Century II infrastructure programs for the next ten fiscal years.

Resolution 1301 has been prepared reflecting the Board's endorsement of the ten-year funding plans for the Wastewater and Gas Divisions, and expressing the Board's intent to adopt budgets and annual rate increases and periodic bond issues, as set forth in the ten-year funding plans, in order to fund the expenditures associated with the respective Century II programs.

A draft of Resolution 1301, including the ten-year funding plans in the form of exhibits, is attached for your information. I recommend the adoption of Resolution 1301 on first and final reading.

Respectfully submitted,

A handwritten signature in cursive script, reading "Mintha Roach".

Mintha E. Roach
President and CEO

RESOLUTION NO. 1301

A Resolution Expressing the Intent of the Knoxville Utilities Board of Commissioners (the “Board”) to Fund Ten Years of Century II Asset Management Programs of the Natural Gas and Wastewater Systems for the Purpose of Replacing Aging Infrastructure and Endorsing Ten-Year Plans to Fund those Century II Programs

Whereas, aging utility infrastructure is a nationwide issue, with some reports estimating needed funding for improvements at several hundred billion dollars over the next five years; and

Whereas, the Knoxville Utilities Board (“KUB”) completed an assessment of its electric, natural gas (hereinafter referred to as “gas”), water and wastewater systems infrastructure in 2011 and developed Century II asset management plans for each system; and

Whereas, in 2011 the Board adopted Resolution No. 1248, expressing the Board’s intent to fund ten years of the Century II asset management programs for the electric and water systems and endorsing ten-year funding plans for each program; and

Whereas, the Board has previously funded the infrastructure improvement and replacement programs of the gas and wastewater systems by adopting budgets and the necessary rate increases and bond issues to ensure the funding of those programs; and

Whereas, based on the funding plan resolution adopted by the Board for the electric and water Century II programs in 2011, the Board has expressed its desire to adopt a similar resolution for the gas and wastewater systems, thereby expressing its intent to fund the next ten fiscal years of the gas and wastewater Century II asset management programs and endorsing ten-year funding plans for those programs; and

Whereas, at its meeting on September 19, 2013, the Board was provided an updated assessment of the wastewater system and infrastructure replacement needs for the next ten fiscal years, which, among other things, provides for the completion of all required capital improvements for the wastewater collection system and treatment plants under the federal Consent Decree and supports an ongoing infrastructure rehabilitation program for the collection system as defined by the Consent Decree; and

Whereas, at its meeting on October 17, 2013, the Board was provided an updated assessment of the gas system, including a report on infrastructure replacement needs for the next ten fiscal years, which, among other things, provides for the removal of all cast iron and ductile iron gas main from the system, the completion of the South Loop Project, and the implementation of a replacement program for low pressure steel gas main; and

Whereas, at its meeting on November 21, 2013, the Board discussed with Staff proposed ten-year funding plans for the Gas and Wastewater Divisions, which include annual rate increases and periodic bond issues, that would fund the projected requirements of the Century II asset management programs of the gas and wastewater systems for the next ten fiscal years; and

Whereas, ten-year funding plans for the Gas and Wastewater Divisions, attached herein as Exhibits A and B respectively, have been recommended to the Board, which create a course of action for funding the gas and wastewater Century II asset management programs, including annual rate increases and periodic bond issues to fund the expenditures necessary to execute the programs over the next ten fiscal years; and

Whereas, the funding plan for the Gas Division, a copy of which is attached to this resolution as Exhibit A, includes annual rate increases, as well as the periodic issuance of long-term gas system revenue bonds over the next ten fiscal years; and

Whereas, the funding plan for the Wastewater Division, a copy of which is attached to this resolution as Exhibit B, includes annual rate increases, as well as the periodic issuance of long-term wastewater system revenue bonds over the next ten fiscal years; and

Whereas, the Board has determined, based on the projected level of expenditures for the Gas and Wastewater Divisions over the next ten fiscal years, that the funding plans are appropriate and necessary, and that it is in the best interest of KUB and its customers that the funding plans be implemented.

Now, Therefore, Be it Hereby Resolved by the Board of Commissioners of the Knoxville Utilities Board:

Section 1. The Board hereby endorses the Century II gas and wastewater programs, and the associated ten-year funding plans for the Gas and Wastewater Divisions attached hereto as Exhibits A and B respectively; and expresses its intent to adopt budgets and rate increases and authorize bond issues to support their implementation.

Section 2. The Board hereby directs the President and CEO to provide for the funding of Century II gas and wastewater programs in annual budget requests to the Board consistent with the ten-year funding plans, attached as Exhibits A and B to this resolution, respectively. In conjunction with the annual budget requests, the President and CEO is also directed to provide updates on the progress of implementation, and report on any conditions which may necessitate adjustments in the ten-year funding plans.

Section 3. Any material modification to the Century II gas and wastewater infrastructure programs or the funding of said programs over the next ten fiscal years, as set forth in the ten-year funding plans attached as Exhibits A and B to this resolution, respectively, as determined by the Board and President and CEO in their sole discretion, shall require an amendment to this resolution.

Section 4. That this resolution shall take effect immediately upon its passage.

Bruce Anderson/s
Bruce Anderson, Chair

Mark Walker/s
Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: 12-19-13
EFFECTIVE DATE: 12-19-13
MINUTE BOOK 32 PAGE 5260-5264

Resolution 1301 - Exhibit A

**Gas Division - Ten Year Funding Plan
December 2013**

	Year 1 F/Y 14-15	Year 2 F/Y 15-16	Year 3 F/Y 16-17	Year 4 F/Y 17-18	Year 5 F/Y 18-19	Year 6 F/Y 19-20	Year 7 F/Y 20-21	Year 8 F/Y 21-22	Year 9 F/Y 22-23	Year 10 F/Y 23-24
Beginning General Fund Balance	\$31,650,000	\$17,025,000	\$16,401,000	\$11,096,000	\$15,912,000	\$10,249,000	\$16,710,000	\$11,572,000	\$14,625,000	\$10,012,000
Sales Revenue	102,106,000	104,263,000	113,542,000	115,889,000	118,166,000	120,353,000	122,571,000	124,691,000	126,839,000	129,015,000
Capital Project Reimbursements	41,000	41,000	68,000	68,000	68,000	68,000	68,000	68,000	68,000	68,000
Other Revenue	4,567,000	4,561,000	2,090,000	2,085,000	2,076,000	2,075,000	2,075,000	2,057,000	2,040,000	2,038,000
Total Revenue	\$106,714,000	\$108,865,000	\$115,700,000	\$118,042,000	\$120,310,000	\$122,496,000	\$124,714,000	\$126,816,000	\$128,947,000	\$131,121,000
Wholesale Gas Costs	\$57,106,000	\$57,335,000	\$63,311,000	\$63,587,000	\$63,905,000	\$64,224,000	\$64,545,000	\$64,868,000	\$65,192,000	\$65,518,000
O&M	19,634,000	20,182,000	20,861,000	21,661,000	22,191,000	22,801,000	23,431,000	24,082,000	24,754,000	25,468,000
Long-Term Debt Service	9,558,000	9,901,000	10,172,000	10,544,000	10,909,000	11,275,000	11,629,000	11,852,000	12,096,000	12,032,000
Short-Term Debt Expense	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Taxes & Equivalents	6,809,000	7,473,000	7,783,000	7,942,000	8,199,000	8,431,000	8,639,000	8,840,000	9,035,000	9,226,000
Total Expenses	\$93,127,000	\$94,911,000	\$102,147,000	\$103,754,000	\$105,224,000	\$106,751,000	\$108,264,000	\$109,662,000	\$111,097,000	\$112,264,000
Cash Generated from Operations	\$13,587,000	\$13,954,000	\$13,553,000	\$14,288,000	\$15,086,000	\$15,745,000	\$16,450,000	\$17,154,000	\$17,850,000	\$18,857,000
Capital	27,230,000	25,476,000	17,876,000	20,370,000	19,767,000	20,182,000	20,606,000	21,039,000	21,481,000	21,932,000
Long-Term Debt Issuance	0	12,000,000	0	12,000,000	0	12,000,000	0	8,000,000	0	8,000,000
Long-Term Issuance Cost	0	(120,000)	0	(120,000)	0	(120,000)	0	(80,000)	0	(80,000)
Non-Appropriated, Net	(982,000)	(982,000)	(982,000)	(982,000)	(982,000)	(982,000)	(982,000)	(982,000)	(982,000)	(982,000)
Ending General Fund Balance (Target = \$10M)	\$17,025,000	\$16,401,000	\$11,096,000	\$15,912,000	\$10,249,000	\$16,710,000	\$11,572,000	\$14,625,000	\$10,012,000	\$13,875,000
Rate Increase Percentage	1.60%	1.60%	1.60%	1.60%	1.60%	1.50%	1.50%	1.40%	1.40%	1.40%
Annualized Rate Increase Revenue	\$1,848,000	\$1,878,000	\$1,908,000	\$1,938,000	\$1,969,000	\$1,876,000	\$1,904,000	\$1,803,000	\$1,829,000	\$1,854,000
	Target									
L.T. Debt as % of Capitalization	35% or less	38.4%	39.0%	36.9%	37.2%	34.9%	35.1%	32.7%	31.9%	29.5%
Max Debt Coverage	>= 3.00	2.73	2.69	2.99	2.91	3.04	2.96	3.07	3.04	3.14
Rate Increase - Residential Monthly Bill Impact *	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00

* Staff recommendation is for Board to adopt three years of increases in Spring 2014 for FY 2015 - FY 2017, then consider other increases at appropriate time(s) in future.

Resolution 1301 - Exhibit B

Wastewater Division - Ten Year Funding Plan
December 2013

	Year 1 FY 14-15	Year 2 FY 15-16	Year 3 FY 16-17	Year 4 FY 17-18	Year 5 FY 18-19	Year 6 FY 19-20	Year 7 FY 20-21	Year 8 FY 21-22	Year 9 FY 22-23	Year 10 FY 23-24
Beginning General Fund Balance	\$11,304,000	\$22,173,000	\$9,815,000	\$22,343,000	\$14,191,000	\$28,691,000	\$16,043,000	\$34,361,000	\$13,567,000	\$34,098,000
Sales Revenue	\$79,893,000	\$84,354,000	\$89,084,000	\$94,215,000	\$98,090,000	\$102,670,000	\$107,468,000	\$111,428,000	\$115,538,000	\$119,802,000
Capital Project Reimbursements	35,000	0	0	0	0	0	0	0	0	0
Other Revenue	3,548,000	3,734,000	3,693,000	3,615,000	3,779,000	3,622,000	3,716,000	3,642,000	3,649,000	3,616,000
Total Revenue	\$83,476,000	\$88,088,000	\$92,777,000	\$97,830,000	\$101,869,000	\$106,292,000	\$111,184,000	\$115,070,000	\$119,187,000	\$123,418,000
O&M	34,000,000	34,145,000	35,310,000	36,375,000	37,371,000	38,402,000	39,469,000	40,569,000	41,707,000	42,901,000
Long-Term Debt Service	29,930,000	31,841,000	34,192,000	36,513,000	38,908,000	41,285,000	43,114,000	45,913,000	46,556,000	48,234,000
Taxes & Equivalents	4,327,000	4,542,000	4,776,000	5,018,000	5,273,000	5,544,000	5,831,000	6,135,000	6,458,000	6,800,000
Total Expenses	\$68,257,000	\$70,528,000	\$74,278,000	\$77,906,000	\$81,552,000	\$85,231,000	\$88,414,000	\$92,617,000	\$94,721,000	\$97,935,000
Cash Generated From Operations	15,219,000	17,560,000	18,499,000	19,924,000	20,317,000	21,061,000	22,770,000	22,453,000	24,466,000	25,483,000
Capital	49,517,000	44,424,000	49,836,000	57,263,000	53,325,000	59,407,000	54,016,000	48,254,000	49,267,000	50,303,000
Long-Term Debt Issuance	65,000,000	0	80,000,000	0	80,000,000	0	60,000,000	0	55,000,000	0
Proceeds from Prior Year Debt Issue	(15,483,000)	15,483,000	(30,164,000)	30,164,000	(26,675,000)	26,675,000	(5,984,000)	5,984,000	(5,733,000)	5,733,000
Long-Term Issuance Cost	(650,000)	0	(800,000)	0	(800,000)	0	(600,000)	0	(550,000)	0
Non-Appropriated, Net	(3,700,000)	(977,000)	(5,171,000)	(977,000)	(5,017,000)	(977,000)	(3,852,000)	(977,000)	(3,385,000)	(977,000)
Ending General Fund Balance (Target = \$10M)	\$22,173,000	\$9,815,000	\$22,343,000	\$14,191,000	\$28,691,000	\$16,043,000	\$34,361,000	\$13,567,000	\$34,098,000	\$14,034,000
Rate Increase Percentage	6.00%	6.00%	6.00%	5.00%	5.00%	5.00%	5.00%	4.00%	4.00%	4.00%
Annualized Rate Increase Revenue	\$4,504,000	\$4,759,000	\$5,028,000	\$4,475,000	\$4,661,000	\$4,880,000	\$5,110,000	\$4,280,000	\$4,439,000	\$4,604,000
L.T. Debt as % of Capitalization	Target <=65%	64.7%	63.2%	65.2%	63.6%	65.2%	63.5%	64.1%	62.4%	62.7%
Max Debt Coverage (Pre-PILOTs)	>= 1.50	1.52	1.66	1.55	1.66	1.55	1.63	1.58	1.64	1.59
Bond Principal Paid in Ten Years	>=20%	25.4%	26.6%	26.1%	27.3%	26.9%	28.4%	28.5%	30.1%	30.4%
Rate Increase - Residential Monthly Bill Impact *	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00

* Staff recommendation is for Board to adopt three years of increases in Spring 2014 for FY 2015 - FY 2017, then consider other increases at appropriate time(s) in future.

RESOLUTION NO. 1302

A Resolution of the Knoxville Utilities Board Concerning S. Pace Robinson, Who is Concluding Service as a Commissioner

Whereas, S. Pace Robinson became a member of this Board in March 2005 and has now served faithfully for almost nine years; and

Whereas, during his tenure, KUB has experienced a seven percent expansion of its customer base, with growth from about 414,000 customers accounts to over 444,000; and

Whereas, Commissioner Robinson was a tireless advocate for customers recognizing the balance between the needs of business and residential customers, the need to invest in the system and the need to manage costs; and

Whereas, through cost control efforts during his term KUB reduced the number of employees by nearly 10 percent to help keep O&M cost per customer as low as possible; and

Whereas, in total KUB employees identified \$110 million in savings over six years from reducing staffing levels, reductions in overtime, improved productivity, stepping up internal conservation efforts and finding other cost-saving opportunities; and

Whereas, since the first year of his term, Commissioner Robinson demonstrated support of KUB's PACE 10 program, which has seen federally mandated capital investments grow from \$1 million per month to \$1 million per week allowing KUB to meet Consent Decree requirements; and

Whereas, 125 projects have been completed, upgrading over 200 miles of sewer lines, constructing 34 million gallons of wet weather storage and making significant improvements at the treatment plants; and

Whereas, during his tenure, Commissioner Robinson advocated to adopt two separate resolutions to implement Century II long-term funding plans, thereby committing to accelerate investments for aging infrastructure across all systems; and

Whereas, this funding is allowing for the timely replacement of water and gas mains, overhead and underground electric lines, power poles and equipment at substations, pumping stations and treatment plants: and

Whereas, Commissioner Robinson demonstrated support of KUB's Vegetation Management program, exhibiting leadership during the formation of the policy review process, attending many of the public meetings and supporting implementation efforts including the naming of the first ever Customer Advocate; and

Whereas, in addition to his active role as a Commissioner during his tenure, he served as Chair and Vice Chair of the Board, as well as Chair of both the Audit and Finance and Nominating Committees; and

Whereas, Commissioner Robinson has further distinguished himself and KUB through his involvement in the business community; and

Whereas, over the past nine years he has consistently acted in the best interest of KUB and its customers.

Now, Therefore, Be It Hereby Resolved by the Board of Commissioners of the Knoxville Utilities Board:

Section 1. That this Board hereby gratefully acknowledges and commends S. Pace Robison for his dedicated service to KUB, its employees, customers, and our community.

Section 2. That the Board recognizes Commissioner Robinson's effective service and that the Board genuinely regrets that his time on the KUB Board of Commissioners has concluded.

Section 3. That this Resolution shall take effect from and after its passage and that a copy shall be provided to Commissioner Robinson.

Bruce A. Anderson/s
Bruce Anderson, Chair

Joel Connell/s
Joel Connell, Vice Chair

Kathy Hamilton/s
Kathy Hamilton, Commissioner

Celeste Herbert/s
Celeste Herbert, Commissioner

Nikitia D. Thompson/s
Nikitia Thompson, Commissioner

Eston Williams/s
Eston Williams, Commissioner

APPROVED ON 1st
& FINAL READING: 12-19-13
EFFECTIVE DATE: 12-19-13
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