

**Knoxville Utilities Board
Board Meeting
Minutes
Thursday, December 17, 2015, 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 17, 2015, pursuant to the public notice published in the January 10, 2015, edition of the *News Sentinel*. Chair Thompson called the meeting to order at 12:00 p.m.

Roll Call

Commissioners Present: Bruce Anderson, Kathy Hamilton, Celeste Herbert, Sara Pinnell, Nikitia Thompson, Eston Williams, and John Worden

Commissioners Absent: None

Approval of Minutes

The Minutes of the November 19, 2015, Board Meeting was approved as distributed upon a motion by Commissioner Williams and seconded by Commissioner Pinnell.

Old Business

None

New Business

Resolution 1337, A Resolution Adopting an Investment Policy of the Knoxville Utilities Board Voluntary Employee Beneficiary Association Other Post Employment Benefit Trust ("OPEB Trust"), Thereby Replacing the Existing Investment Policy of the OPEB Trust

President Roach reminded Commissioners that the Board established a Trust Fund in 2007 for pre-funding KUB's post-employment health care benefits. At that time the Board also adopted an Investment Policy governing the investment of Trust Fund assets. Based on advisement from our retirement system investment consultant and benefits counsel, we are proposing certain changes to the Policy. The proposed changes have been reviewed with the Board's Audit and Finance Committee, which has recommended their approval through the adoption of Resolution 1337. She recognized Mark Walker, Senior Vice President and Chief Financial Officer to review the proposed changes.

December 17, 2015

President Roach recommended adoption of Resolution 1337 on first and final reading. Her written recommendation is included in Attachment 1.

The adoption of this resolution was recommended by the Audit and Finance Committee in accordance with the Board's By-laws. No motion and second were required for this resolution. Resolution 1337 (*Attachment 1*) was adopted by a roll call vote on first and final reading. The following Commissioners voted "aye": Anderson, Hamilton, Herbert, Pinnell, Thompson, Williams, and Worden. No Commissioner voted "nay".

President's Report

Downtown Century II – Phase III Update

President Roach recognized Mark Rauhuff, Manager of Water/Wastewater Systems Engineering, for an update on the Downtown Century II project.

Employee Recognition Program

President Roach advised Commissioners that KUB spends a great deal of time and attention managing our utility assets through Century II, and while those are critical to providing safe and reliable utility services, our greatest asset is our employees. She recognized Susan Edwards, Senior Vice President and Chief Administrative Officer, to provide an overview of the Employee Recognition Program. Ms. Edwards recognized Derwin Hagood, Vice President, who presented the Employee and Public Safety Champion award to Wayne Wilbanks; Mike Patterson, Manager of Electric Engineering, who presented an award to members of the East Knox Substation Project Team; Steve Carringer, Jeff Lowe, Bill Mynatt, Nathan Parker, and Randall Walker; Dawn Mosteit, Vice President, who presented an award to certain members of the Downtown Century II Customer Communications Team; Ann Keener, Stephanie Midgett, and Brian Walker; Jamie Davis, Manager of Underground Construction, who presented an award to certain members of the Century II Grid Modernization Pilot Team; Larry Boggs, Eric Greene, and G.T. York; and Eddie Black, Senior Vice President, who presented the Board Chair Award to certain members of the Round It Up Pilot Program Team; Kristi Altom, Clyde Henderson, Cindy Reed, and Chris Tyler.

Other Business

Commissioner Anderson, Chair of the Nominating Committee announced that the Committee met today to nominate a slate of officers for 2016. The following individuals were nominated: Nikitia Thompson, Chair; Sara Pinnell, Vice-Chair; and Mark Walker, Secretary. She also announced that the election of officers would be conducted in January 2016, as required by the Charter.

December 17, 2015

**Resolution 1338, A Resolution of the Knoxville Utilities Board Concerning
Bruce A. Anderson, Who is Concluding Service as a Commissioner**

Chair Thompson offered Resolution 1338 for the Board's consideration recognizing Bruce Anderson for his service to the KUB Board of Commissioners. Bill Coley, Board's General Counsel, read Resolution 1338.

Upon motion by Commissioner Herbert and second by Commissioner Williams, Resolution 1338 (*Attachment 2*) was adopted by acclamation and a unanimous voice vote.

Commissioner Anderson thanked the Board, President Roach and the Senior Management Team for all they do. But most importantly, he thanked the employees, who are KUB's greatest asset. He stated serving as a KUB Commissioner for fourteen years has been both an honor and a pleasure.

Public Comment

Xavier Presley – 1134 Glade Hill Drive – Knoxville, TN 37909

Adjournment

Chair Thompson 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 Thompson declared the meeting adjourned at 1:05 p.m.


Nikitia Thompson, Chair


Mark Walker, Board Secretary

Attachments

Attachment 1	Recommendation Letter and Resolution 1337, A Resolution Adopting an Investment Policy of the Knoxville Utilities Board Voluntary Employee Beneficiary Association Other Post Employment Benefit Trust ("OPEB Trust"), Thereby Replacing the Existing Investment Policy of the OPEB Trust	<u>Page(s)</u> 7239 – 7246
Attachment 2	Resolution 1338, A Resolution of the Knoxville Utilities Board Concerning Bruce A. Anderson, Who is Concluding Service as a Commissioner	7247 – 7248



December 11, 2015

Knoxville Utilities Board
445 South Gay Street
Knoxville, Tennessee 37902-1109

Commissioners:

As you may recall, the Board previously adopted an Investment Policy ("Policy") for the investment of assets of KUB's Other Post Employment Benefit Trust ("OPEB Trust") and delegated certain responsibilities for the administration of the OPEB Trust and Policy to the OPEB Trust Board.

The OPEB Board has recommended the Policy be amended to change the OPEB Trust's target asset allocation from a 90/10 equity/fixed income allocation to a 70/30 equity/fixed income allocation, adjust the tactical asset allocation ranges, and update the Policy to reflect the current Governmental Accounting Standards Board ("GASB") statement regarding the fair market value of assets.

Strong investment performance and a consistent practice of funding actuarially determined contributions have produced an actuarially funded ratio of 100 percent for the OPEB Trust. Given the funded status and the fact KUB's retiree medical plan is closed, the OPEB Trust's investment advisor, Mercer Investment Consultants, advised the OPEB Board it would be prudent to take some equity risk out of the OPEB Trust portfolio by reallocating a portion of assets to fixed income investments. A letter from Mercer Investment Consultants supporting the reallocation of OPEB Trust assets is enclosed for your information.

Staff has reviewed the proposed changes to the Policy with KUB's benefits counsel and with the OPEB Trust actuary. Letters from each of them are also enclosed for your information.

The proposed changes to the Policy were discussed with the Board's Audit and Finance Committee at the Committee's meeting on October 16. The Committee adopted Resolution AF-61, which is enclosed for your information, recommending the Board amend the Policy to reflect the proposed changes. The Policy may only be amended upon action by the full Board.

A red-lined version of the Policy highlighting the proposed changes is also enclosed for your review.

Resolution 1337 has been prepared adopting a revised Policy. I recommend approval of Resolution 1337 on first and final reading.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mintha Roach".

Mintha E. Roach
President and CEO

RESOLUTION NO. 1337

A Resolution Adopting an Investment Policy of the Knoxville Utilities Board Voluntary Employee Beneficiary Association Other Post Employment Benefit Trust ("OPEB Trust"), Thereby Replacing the Existing Investment Policy of the OPEB Trust

Whereas, Board Resolution No. 1168, as amended, established an OPEB Trust for the purpose of pre-funding KUB's liability for other post-employment benefits, and a Policy for the investment of assets of the OPEB Trust; and

Whereas, through Resolution No. 1168, as amended, the Board delegated certain responsibilities for the administration of the OPEB Trust and Investment Policy to the OPEB Board; and

Whereas, the OPEB Board, upon the advisement of the OPEB Trust's Investment Advisor and Counsel, has recommended certain amendments to the Policy to the President and CEO; and

Whereas, the proposed amendments to the Policy have been presented to and reviewed by the Board's Audit and Finance Committee ("Committee"); and

Whereas, the Committee finds the proposed amendments to the Policy to be appropriate and in the best interest of KUB and the OPEB Trust; and

Whereas, the amendments to the Policy have been recommended by the Committee through the adoption of Resolution AF-61; and

Whereas, the Policy may only be amended upon approval of the Board; and

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

Section 1. The Investment Policy of the OPEB Trust, attached hereto and incorporated herein as Exhibit A to this Resolution, reflecting the aforementioned amendments, is hereby adopted in its entirety and as of and after the effective date of this Resolution shall be applicable in place of the existing Investment Policy of the OPEB Trust.

Section 2. This Resolution shall take effect from and after its passage.

Nikitia Thompson/s
Nikitia Thompson, Chair

Mark Walker/s
Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: 12-17-15
EFFECTIVE DATE: 12-17-15
MINUTE BOOK 35 PAGE 7240-7246

**KNOXVILLE UTILITIES BOARD (KUB)
OTHER POST EMPLOYMENT BENEFITS (OPEB)
TRUST INVESTMENT POLICY
December 17, 2015**

1. Policy

It is the policy of KUB to invest OPEB Trust funds in a manner that will provide sufficient investment return to meet current and future OPEB benefit cash flow demands for retiree health benefits under the KUB Health Plan (Plan) while conforming to all State statutes governing the investment of such OPEB dedicated Trust funds.

2. Scope

This Policy covers all OPEB funds held in Trust and invested for the purpose of meeting the OPEB obligations under the Plan.

3. Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall Portfolio.

4. Objectives

The primary objectives, in order of priority, shall be:

- Legality - conformance with federal, state and other legal requirements
- Liquidity - ability to meet OPEB obligations without forced sale of assets
- Safety - preservation of capital and protection of investment principal
- Yield - attainment of market rates of return

The Portfolio should be reviewed periodically as to its effectiveness in meeting KUB's needs for safety, liquidity, rate of return, and its general performance.

5. Delegation of Authority

Management and administrative responsibility for the investment program and implementation of this Policy is delegated to the OPEB Board created by the OPEB Trust pursuant to KUB Board of Commissioners Resolution No. 1168.

The OPEB Board may contract with or employ technical and professional advice from one or more qualified firms or individuals as may be needed to provide investment advice or execution of this Policy provided such services are rendered to the Trust on a fixed fee and non-commissioned basis and do not involve any direct investment with or through the firm providing such financial advice.

The initial investment asset allocation is appended to this Policy. The OPEB Board shall recommend from time to time modifications to the investment asset allocation through KUB's President and CEO to the KUB Board of Commissioners for approval. The asset allocation in effect from time to time shall be appended to this Policy.

6. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the Portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Trust.

7. Authorized and Suitable Investments

Investments may be made in any type of security instrument allowed for in T.C.A. 8-50-1203. The following asset types are among those approved for investment (definitions included for less commonly known terms):

Fixed Income Investments

- Certificates of Deposit — Certificates of deposit and other evidence of deposit at financial institutions, bankers' acceptances, and commercial paper, rated in the highest tier (e.g., A-i, P-i, F-i, or D-i or higher) by a nationally recognized rating agency.
- Money Market Mutual Funds — Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar denominated securities.
- Stable Value Funds — Stable value funds maintain the value of the principal and all accumulated interest regardless of interest rate moves because of the investments held by the fund. A stable value fund generally holds a mix of high-quality, intermediate-term bonds and guaranteed-interest contracts (GICs) from insurance companies.

Government Securities Investments

- U.S. Government Notes and Bonds - U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.

Variable Investments

- Bond Funds - A mutual fund that invests in bonds, typically with the objective of providing stable income with minimal capital risk.
- Balanced Funds - A mutual fund that buys instruments of or a combination of common stock, preferred stock, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk.
- Domestic Equity Funds - A broad category of mutual funds that invest primarily in instruments of or shares of stock of U.S. companies.
- International Equity Funds - A broad category of mutual funds that invest primarily in instruments of or shares of stock of companies from outside the U.S.
- Equities - Shares of domestic or international stock to include common and preferred.

All investment and allocation decisions shall reflect the current and future projected cash flow needs of the Plan. The projected cash flow needs shall be determined in part from the data compiled for the OPEB actuarial study conducted at least every two (2) years as required by GASB and KUB's workforce analysis and retirement projections.

8. Diversification

The investments shall be diversified by:

- limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U. S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the Portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

9. Internal Control

The OPEB Board, the custodial trustee and each Investment Manager shall insure that the assets of the Trust are protected from loss, theft or misuse through the implementation of appropriate internal controls.

The OPEB Board shall arrange for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian as evidenced by safekeeping receipts.

10. Performance Standards

This investment Portfolio will be managed in accordance with the parameters specified within this Policy. The Portfolio should obtain a comparable rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to benchmarks with similar investment options as the Portfolio on a regular basis.

11. Reporting

The Investment Manager shall provide an investment report at least quarterly. The report should be provided to the OPEB Board quarterly and it should be available at any other time by request. The report shall be in a format suitable for review by the general public. An annual report shall be provided to the KUB Board of Commissioners.

12. Marking to Fair Value

A statement of the fair value of the portfolio shall be issued to the OPEB Board quarterly and reported to the KUB Board of Commissioners annually as part of the Retirement System annual report. Such statement shall be prepared consistent with the Government Finance Officer Association (GFOA) recommended practices. In defining fair value, consideration should be given to the GASB Statement 72 pronouncement

13. Investment Policy Adoption

Following adoption of the investment Policy by the KUB Board of Commissioners, the Policy shall be reviewed on an annual basis by the OPEB Board and any modifications made thereto must be approved by the KUB Board of Commissioners.

Addendum:
OPEB Trust Investment Policy
Asset Allocation

The target asset mix for the OPEB Trust Fund is as follows:

<u>Asset Class</u>	<u>Portion of OPEB Trust Fund</u>	<u>Tactical Ranges</u>
Domestic Equity		
Large Cap	30%	20%-40%
Small Cap	8%	0%-16%
International Equity		
Developed	16%	10%-30%
Emerging	8%	0%-16%
REITs	8%	0%-16%
Fixed Income	30%	10%-50%
Cash Equivalents	<u>0%</u>	0%-5%
Total Fund	100%	

RESOLUTION NO. 1338

A Resolution of the Knoxville Utilities Board Concerning Bruce A. Anderson, Who is Concluding Service as a Commissioner

Whereas, Bruce A. Anderson became a member of this Board in January 2002 and has now served faithfully for fourteen years, including serving two terms as its Chair; and

Whereas, he was first elected Chair in 2004 and his first job was to preside over the naming of a new CEO; and

Whereas, Commissioner Anderson supported KUB's accelerated wastewater system replacements in 2004 with the \$650 Million PACE 10 program, which addressed requirements from the federal Consent Decree issued to KUB in 2005, and increased KUB's wastewater capital program spending from \$1 million per month to \$1 million per week; and

Whereas, during his tenure, Commissioner Anderson supported the establishment of the Century II program, including long-term funding plans, thereby committing to accelerate investments for aging infrastructure across all systems, allowing for timely replacement of system components; and

Whereas, Commissioner Anderson was an 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, KUB implemented significant cost saving measures, including a 10 percent reduction in full-time staffing, the closure of its defined benefit pension plan to new entrants, and the elimination of non-critical programs, which combined with other cost reductions has saved KUB's customers in excess of \$100 million during his tenure; and

Whereas, Commissioner Anderson recognized the need to eliminate the root cause associated with ongoing emergency energy assistance and supported the implementation of Round It Up, a program which would allow customers to round up their monthly utility bills to the next whole dollar to provide funding for low-income weatherization; and

Whereas, Commissioner Anderson recognized the hard work, dedication and service of KUB employees through the establishment of the Employee Excellence Award, the first ever Board employee recognition program; 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 the Audit and Finance Committee and the Nominating Committee; and

Whereas, Commissioner Anderson has further distinguished himself and KUB through his involvement in the business community; and during the past fourteen 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 Bruce Anderson for his dedicated service to KUB, its employees, customers, and our community.

Section 2. That the Board recognizes Commissioner Anderson'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 Anderson.

Nikitia Thompson/s
Nikitia Thompson, Chair

Kathy Hamilton/s
Kathy Hamilton, Vice Chair

Celeste Herbert/s
Celeste Herbert, Commissioner

Sara Pinnell/s
Sara Pinnell, Commissioner

Eston Williams/s
Eston Williams, Commissioner

John Worden/s
John Worden, Commissioner

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