

# FY 2019 Appropriations and Funding Recommendations

May 17, 2018



**Resolutions**

**1377, 1378 and 1379**

# Proposed FY 19 Budget Continues Century II Funding

- Proposed budget \$969M
- Up 2.8% over current year budget
- Reflects timing of capital projects
- Capital budget includes \$134M for Century II and \$42M for Grid/Meter Modernization
- \$82M in new bonds
- FY 19 rate increases already adopted

# Proposed FY 19 Budget: \$969M

	<b>Electric</b>	<b>Gas</b>	<b>Water</b>	<b>WWater</b>	<b>Total</b>
<b>Energy Cost</b>	\$427.0	\$53.7	\$ --	\$ --	\$480.7
<b>O&amp;M</b>	\$59.5	\$20.2	\$26.9	\$34.2	\$140.8
<b>Capital</b>	\$96.4	\$30.4	\$41.3	\$60.5	\$228.6
<b>Debt Service</b>	\$24.7	\$10.9	\$12.9	\$33.4	\$81.9
<b>Taxes and Equivalents</b>	\$19.2	\$7.9	\$4.5	\$5.4	\$37.0
	<b>\$626.8</b>	<b>\$123.1</b>	<b>\$85.6</b>	<b>\$133.5</b>	<b>\$969.0</b>

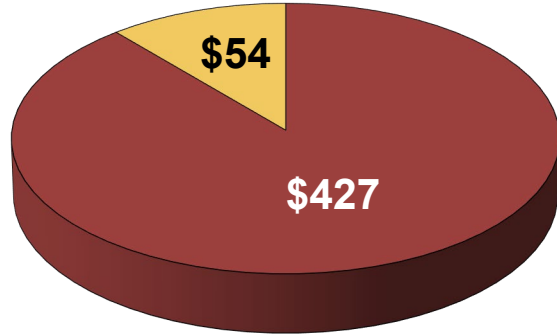
# Proposed Budget Increase Reflects Timing of Large Capital Projects

	<b>FY 19 Proposed</b>	<b>FY 18 Budget</b>	<b>Increase (Decrease)</b>	
<b>Energy Cost</b>	\$480.7	\$480.7	\$0.0	
<b>O&amp;M</b>	\$140.8	\$135.7	\$5.1	Wage growth; Employee medical coverage
<b>Capital</b>	\$228.6	\$212.0	\$16.6	CD Kuwahee project; Generators MBW
<b>Debt Service</b>	\$81.9	\$77.8	\$4.1	\$82M in new bonds
<b>Taxes &amp; Equivalents</b>	\$37.0	\$36.2	\$0.8	Investment in utility infrastructure
	<b>\$969.0</b>	<b>\$942.4</b>	<b>\$26.6</b>	

**\$ in Millions**

# Wholesale Energy Budget Driven by Customer Demand

**FY 19 Wholesale Energy = \$481M**



■ **Electric Power = 89%**

■ **Natural Gas = 11%**

## ■ Electric

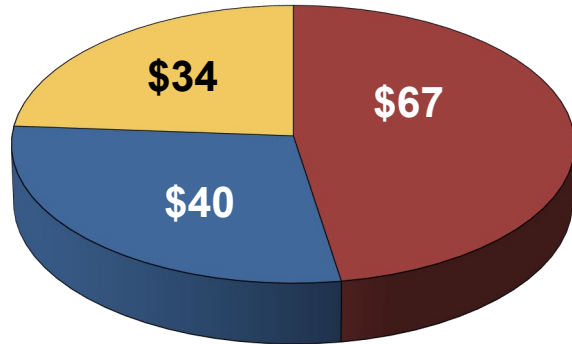
- 5.6 billion kWh
- 207,000 electric customers

## ■ Natural Gas

- 11.4 million dekatherms
- 103,000 natural gas customers

# O&M Budget Supports Reliability

**FY 19 O&M = \$141M**

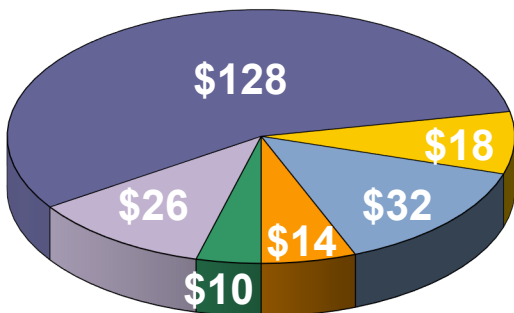


- Labor-Related = 47%
- Outside Services = 29%
- Materials/Other = 24%

- Labor-related costs
  - Payroll \$51M
  - Benefits and training \$11M
  - Post-employment benefits \$ 5M
- Outside services
  - Vegetation management \$ 9M
  - Facilities maintenance \$ 4M
  - Contract meter reading \$ 3M
- Materials/Other costs
  - Utilities \$ 8M
  - Stock materials \$ 4M
  - Chemicals \$ 3M

# Capital Budget Continues Century II Programs

**FY 19 Capital = \$228M**

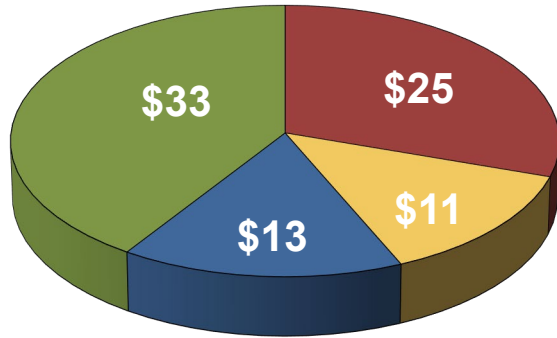


- Information Technology = 4%
- Facilities/Equipment = 12%
- System Infrastructure = 84%
- System Improve/Replace = 56%
- Growth = 8%
- Plant Improvements = 14%
- Relocations = 6%

- Distribution system improvements **\$87M**
  - Electric substation upgrades \$ 7M
  - 15 miles of electric transmission line improvements \$ 14M
  - 2,600 poles \$ 7M
  - 11 miles of natural gas main \$ 7M
  - 11 miles of water main \$ 9M
  - 22 miles of wastewater main \$ 22M
- Plant improvements **\$32M**
  - Water plant emergency generators \$ 8M
  - Kuwahee treatment plant project (CD) \$ 7M
  - Kuwahee sludge heater and pump \$ 9M
- Grid/Meter Modernization **\$42M**
- Customer growth **\$18M**

# Debt Budget Reflects Investments in Infrastructure

**FY 19 Debt Service = \$82M**



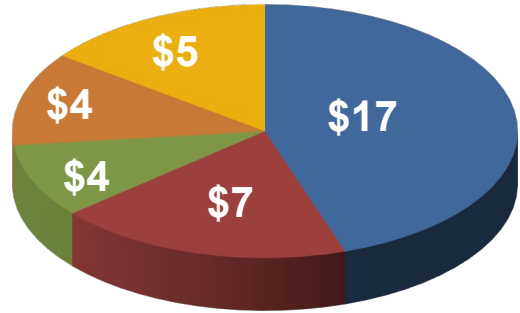
- **Electric = 30%**
- **Natural Gas = 13%**
- **Water = 16%**
- **Wastewater = 41%**

- FY 19 principal \$39M
- FY 19 interest \$43M
- \$1.1B in total outstanding bonds
- \$82M in new bonds proposed for FY 19



# KUB Payments In Lieu of Taxes (PILOTs) Support Local Governments

FY 19 Taxes and PILOTs = \$37M



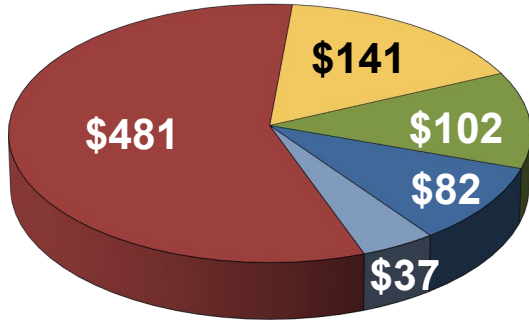
- Electric = 44%
- Natural Gas = 20%
- Water = 10%
- Wastewater = 12%
- FICA = 14%

\$ in Millions

- PILOTs \$31.5M
  - City \$20.2M
  - Knox County \$10.4M
  - Other counties \$ 0.9M
- Payroll tax expense \$5.5M

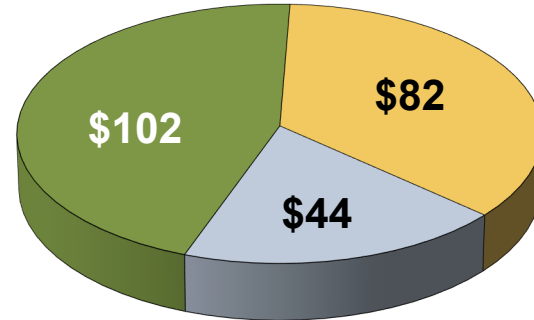
# Funding FY 19 Budget

**Revenue = \$843 Million**



- Wholesale Energy = 57%
- O&M = 17%
- Capital = 12%
- Debt Service = 10%
- Taxes and Equivalents = 4%

**Capital = \$228 Million**



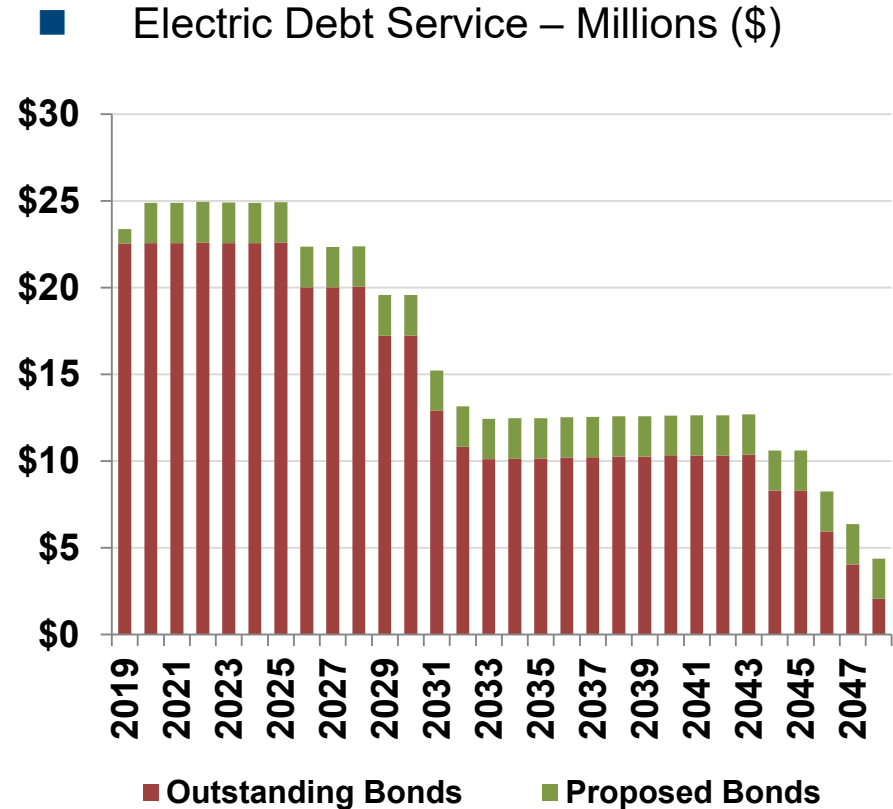
- System Revenues = 45%
- Bond Proceeds = 36%
- General Fund Cash = 19%

# New Bonds Will Help Fund System Capital Budgets

- Up to \$82M for all systems
- Mature over 30 years
- Budgeted interest rate 4%
- Secured by system revenues
- City Council authorization required
- Comply with KUB Debt Management Policy
- Competitive public sale summer 2018

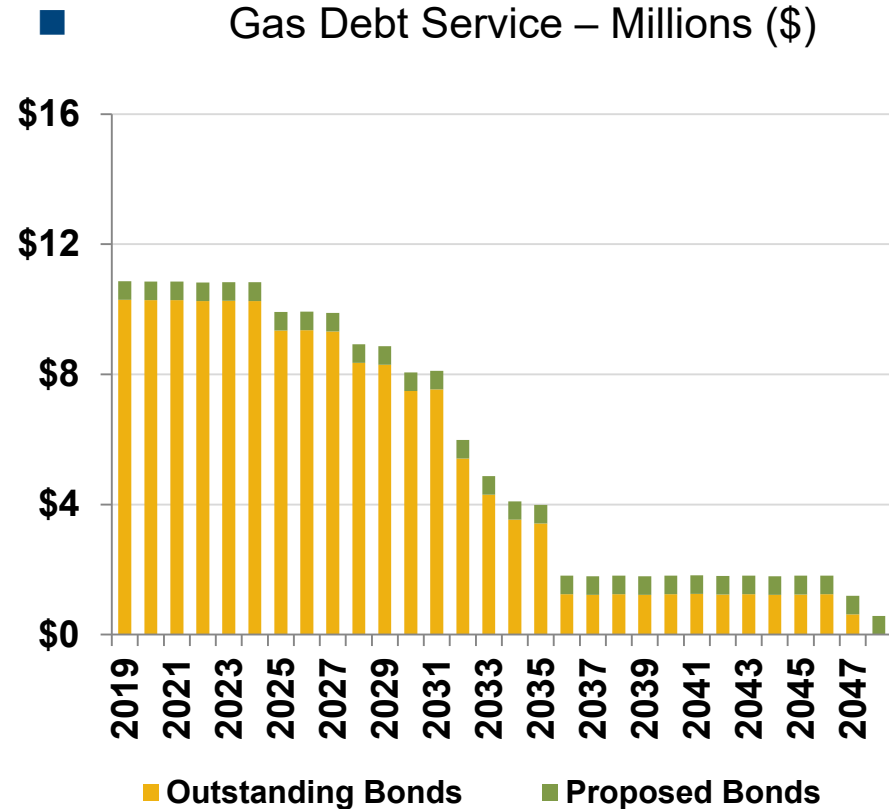
# Proposed Electric Bonds: \$40M

- Interest cost: \$28.3M
- Mature July 2048
- Electric debt ratio: 46%
- Weighted average interest rate: 3.60%
- 47% of total principal repaid in 10 years
- Outstanding bonds rated AA+/Aa2



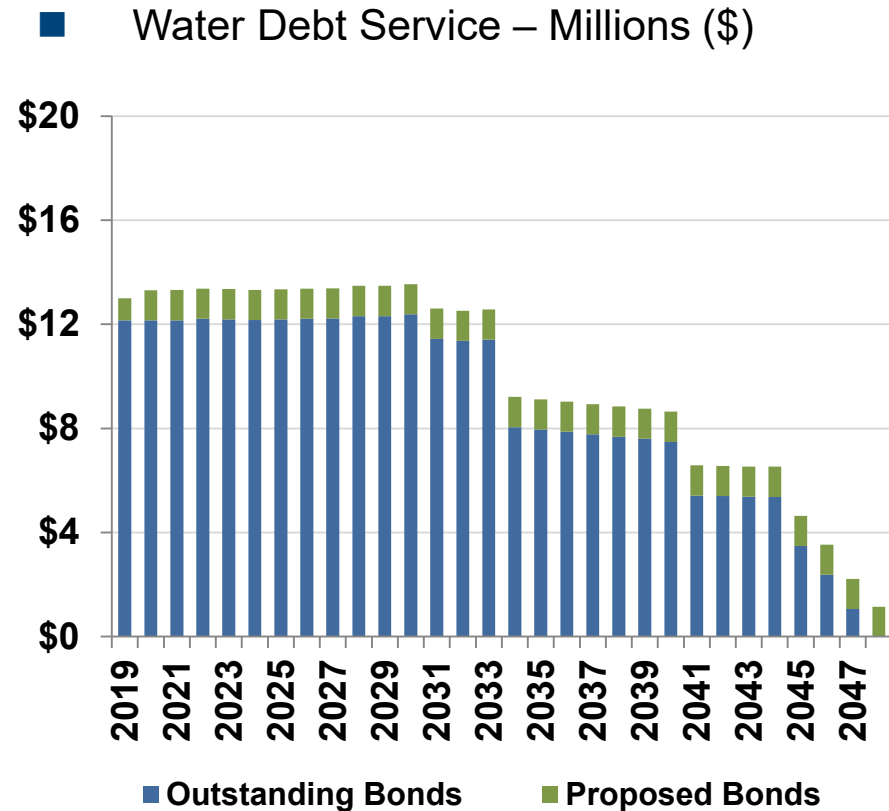
# Proposed Gas Bonds: \$10M

- Interest cost: \$7.1M
- Mature March 2048
- Gas debt ratio: 34%
- Weighted average interest rate: 3.69%
- 57% of total principal repaid in 10 years
- Outstanding bonds rated AA/Aa2



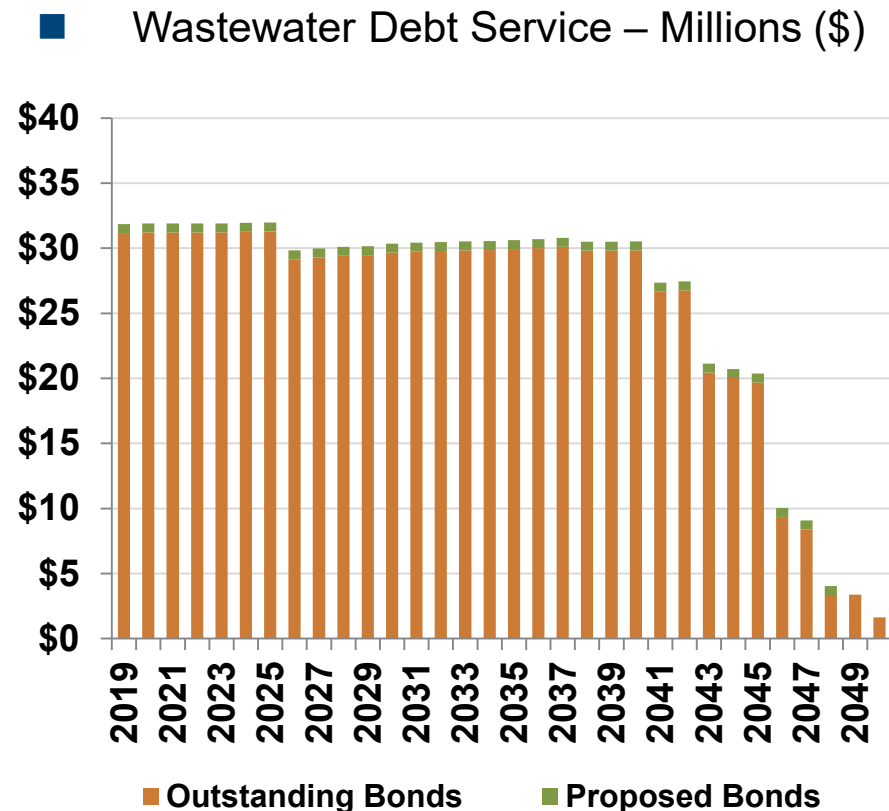
# Proposed Water Bonds: \$20M

- Interest cost: \$14.5M
- Mature March 2048
- Water debt ratio: 51%
- Weighted average interest rate: 3.58%
- 37% of total principal repaid in 10 years
- Outstanding bonds rated AAA/Aa1



# Proposed Wastewater Bonds: \$12M

- Interest cost: \$8.6M
- Mature April 2048
- Wastewater debt ratio: 62%
- Weighted average interest rate: 3.62%
- 28% of total principal repaid in 10 years
- Outstanding bonds rated AA+/Aa2



# Estimated Issuance Costs for Bonds

<b>Cost</b>	<b>Professional Firm</b>	<b>Fee</b>
<b>Financial Advisor</b>	<b>Cumberland Securities</b>	<b>\$126,000</b>
<b>Bond Counsel</b>	<b>Bass, Berry &amp; Sims</b>	<b>\$98,000</b>
<b>Rating Agency</b>	<b>Moody's</b>	<b>\$98,000</b>
<b>Rating Agency</b>	<b>Standard &amp; Poor's</b>	<b>\$85,000</b>
<b>Paying Agent</b>	<b>Regions Bank</b>	<b>\$3,000</b>
		<b>\$410,000</b>
<b>Other Costs (Escrow, POS, OS, Advertising)</b>		<b>\$25,000</b>
		<b>\$435,000</b>



# FY 19 Commitment Appropriations

- Authorizes commitment of expenditures subsequent to June 30, 2019, for commitments entered into on or before June 30, 2019
- FY 19 total: \$114.8M
  - Electric \$11.7M
  - Natural Gas \$ 6.5M
  - Water \$38.8M
  - Wastewater \$57.8M

# Projects Supporting Need for Commitment Appropriations

- Electric transmission line improvements
- MBW water plant emergency generators
- MBW water plant filters
- Wastewater system main replacement
- Kuwahee wastewater treatment plant upgrade (CD)
- Utility relocations for highway improvements

**KUB**

# Resolution 1377

- Requesting City Council approval of bond issues for the Electric, Gas, Water, and Wastewater Divisions
  - Authorizes issuance of up to \$82 million in revenue bonds
    - Electric \$40 million
    - Gas \$10 million
    - Water \$20 million
    - Wastewater \$12 million

# Resolution 1378

- Requesting approval for the fiscal year 2019 budget appropriations
  - Adopts budget appropriations of \$969M for FY 19
    - Electric                      \$626.8M
    - Natural Gas                 \$123.1M
    - Water                         \$ 85.6M
    - Wastewater                 \$133.5M

# Resolution 1379

- Requesting approval for fiscal year 2019 commitment appropriations
  - Adopts commitment appropriations of \$114.8M for FY 19
    - Electric \$11.7M
    - Natural Gas \$ 6.5M
    - Water \$38.8M
    - Wastewater \$57.8M