

KUB

FY 2019 Appropriations Review

May 16, 2019



FY 2019 Budget Performance

- \$11.5M or 1.7% under budget
- All systems under budget
- Weather impacted O&M
- Timing of capital projects major factor
- Debt issued earlier than planned
- Sales exceeded budget

\$11.5M Under Budget

	Electric	Gas	Water	Wastewater	Total
Energy Cost	\$4,764	\$735			\$5,499
O&M	(642)	967	(\$1,145)	\$25	(795)
Capital	1,958	17	2,311	3,560	7,846
Debt Service	(377)	(100)	(462)	(213)	(1,152)
Taxes and Equivalents	149	(76)	(5)	32	100
	\$5,852	\$1,543	\$699	\$3,404	\$11,498

\$ in Thousands

() = Over Budget

FY 2019 Projections by System

	Electric	Gas	Water	Wastewater	Total
Sales Revenue	(\$8,808)	\$178	\$566	\$672	(\$7,392)
Energy Cost	4,764	735			\$5,499
Sales Margin	(\$4,044)	\$913	\$566	\$672	(\$1,893)
Other Revenue	5,876	455	148	963	\$7,442
Expenditures	1,088	808	699	3,404	\$5,999
Net Cash	\$2,920	\$2,176	\$1,413	\$5,039	\$11,548

\$ in Thousands

() = Less Cash

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FY 2020 Appropriations and Funding Recommendations

May 16, 2019



Resolutions

1393, 1394, and 1395

Proposed Budget Focused on Maintaining Safe, Reliable, and Affordable Services

- Proposed budget \$964M
- Flat compared to FY 19 forecast
- Capital budget includes \$105M for Century II and \$15.4M for Grid/Meter Modernization
- \$63M new bonds help fund capital budget
- FY 20 rate increases already adopted

Proposed FY 20 Budget: \$964M

	Electric	Gas	Water	WWater	Total
Energy Cost	\$429.3	\$52.3	\$ ---	\$ ---	\$481.6
O&M	\$61.3	\$21.2	\$27.1	\$36.2	\$145.8
Capital	\$75.7	\$28.8	\$44.8	\$61.6	\$210.9
Debt Service	\$26.2	\$10.9	\$14.5	\$34.6	\$86.2
Taxes and Equivalents	\$20.6	\$8.6	\$4.9	\$5.7	\$39.8
\$ in Millions	\$613.1	\$121.8	\$91.3	\$138.1	\$964.3

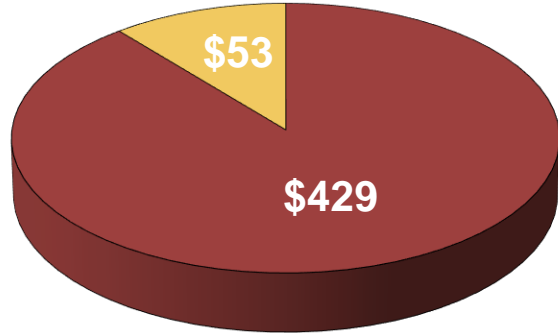
Proposed FY 20 Budget Flat

	FY 20	FY 19	Increase	
	Proposed	Forecast	(Decrease)	
Energy Cost	\$481.6	\$476.3	\$5.3	TVA rate increase and customer growth
O&M	\$145.8	\$141.9	\$3.9	Labor-related costs
Capital	\$210.9	\$224.3	(\$13.4)	Engineering Building construction in FY 19
Debt Service	\$86.2	\$83.1	\$3.1	\$63M in new bonds
Taxes & Equivalents	\$39.8	\$36.9	\$2.9	Investment in utility infrastructure
	\$964.3	\$962.5	\$1.8	

\$ in Millions

Wholesale Energy Budget Driven by Customer Demand

FY 20 Wholesale Energy = \$482M



■ Electric power = 89%

■ Natural gas = 11%

■ Electric power

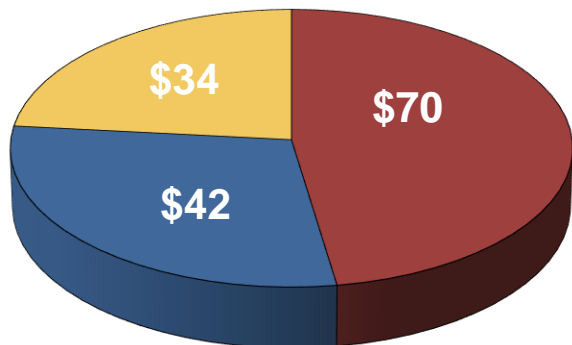
- 5.5 billion kWh
- 209,000 electric customers

■ Natural gas

- 11.7 million dekatherms
- 104,000 natural gas customers

O&M Budget Supports Reliability

FY 20 O&M = \$146M

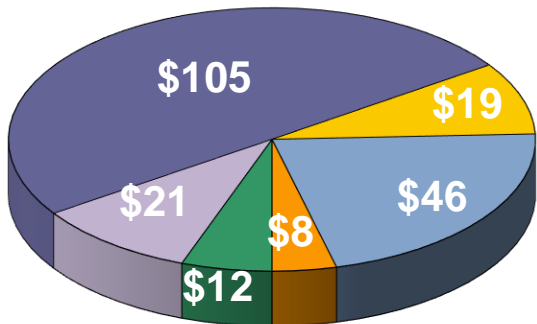


- Labor-related = 48%
- Outside services = 29%
- Materials/other = 23%

- Labor-related costs
 - Payroll \$53M
 - Benefits and training \$11M
 - Post-employment benefits \$ 6M
- Outside services
 - Vegetation management \$11M
 - Facilities maintenance \$ 4M
 - Contract meter reading \$ 2M
- Materials/other costs
 - Utilities \$ 8M
 - Stock materials \$ 5M
 - Chemicals \$ 3M

Capital Budget Continues Century II Programs

FY 20 Capital = \$211M



- Information technology = 6%
- Facilities/equipment = 10%
- System infrastructure = 84%
- System improve/replace = 50%
- Growth = 8%
- Plant improvements = 22%
- Relocations = 4%

\$ in Millions

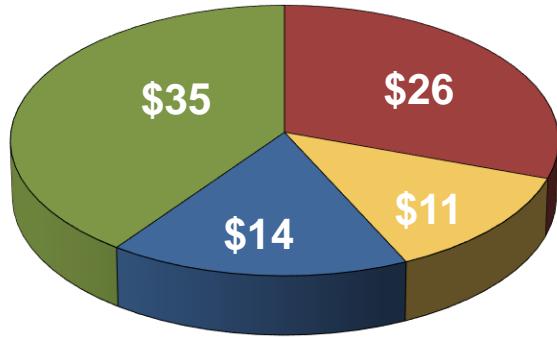
- Distribution system improvements **\$88M**
 - Electric substation upgrades **\$ 9M**
 - 17 miles of electric transmission line improvements **\$ 11M**
 - 1,900 poles **\$ 5M**
 - 18 miles of natural gas main **\$ 7M**
 - 15 miles of water main **\$ 11M**
 - 20 miles of wastewater main **\$ 26M**

- Plant improvements **\$46M**
 - Biologically Enhanced High-Rate Clarification Project (CD) **\$ 19M**
 - MBW Filters **\$ 13M**
 - MBW Emergency Generator **\$ 7M**

- Grid/Meter Modernization **\$15M**
- Customer growth **\$19M**

Debt Budget Reflects Investments in Infrastructure

FY 20 Debt Service = \$86M

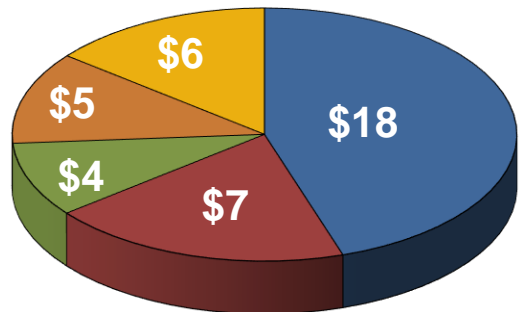


- Electric = 30%
- Natural gas = 13%
- Water = 17%
- Wastewater = 40%

- FY 20 principal: \$42M
- FY 20 interest: \$44M
- Outstanding bonds: \$1.1B
- New bonds proposed for FY 20: \$63M

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

FY 20 Taxes and PILOTs = \$40M



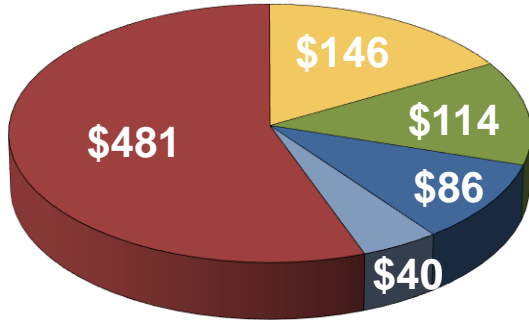
- Electric = 45%
- Natural Gas = 19%
- Water = 10%
- Wastewater = 12%
- FICA = 14%

\$ in Millions

- PILOTs \$34.1M
 - City \$21.7M
 - Knox County \$11.4M
 - Other counties \$ 1.0M
- Payroll tax expense \$5.7M

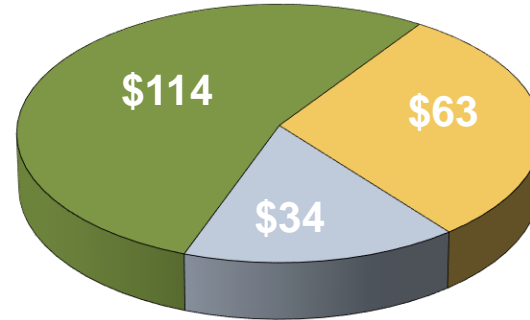
Funding FY 20 Budget

Revenue = \$867M



- Wholesale Energy = 55%
- O&M = 17%
- Capital = 13%
- Debt Service = 10%
- Taxes and Equivalents = 5%

Capital = \$211M



- System Revenues = 54%
- Bond Proceeds = 30%
- General Fund Cash = 16%

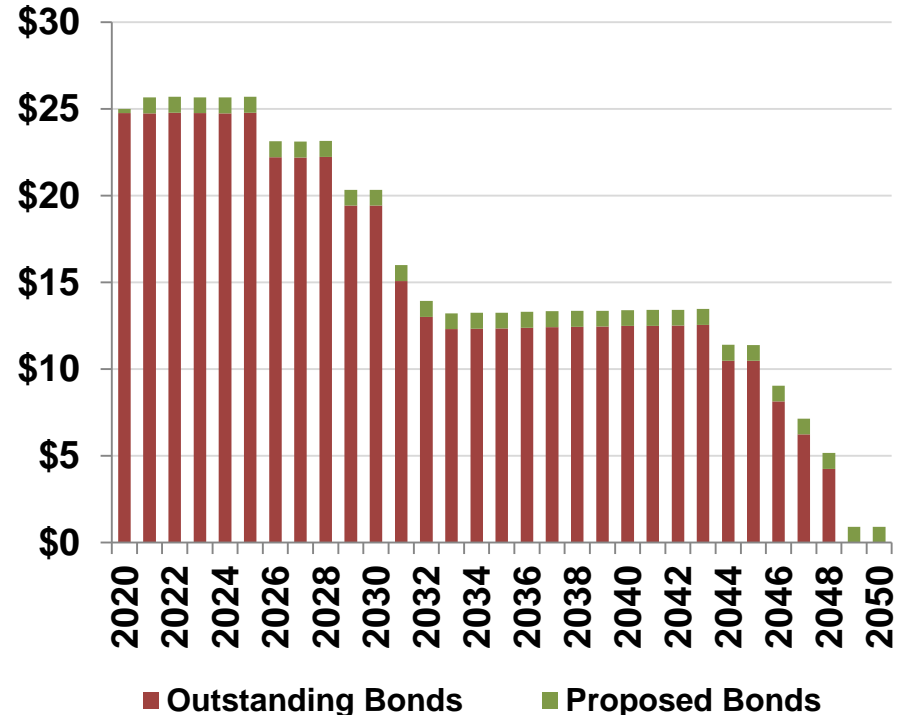
New Bonds Will Help Fund System Capital Budgets

- Up to \$63M
- 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 2019

Proposed Electric Bonds: \$17M

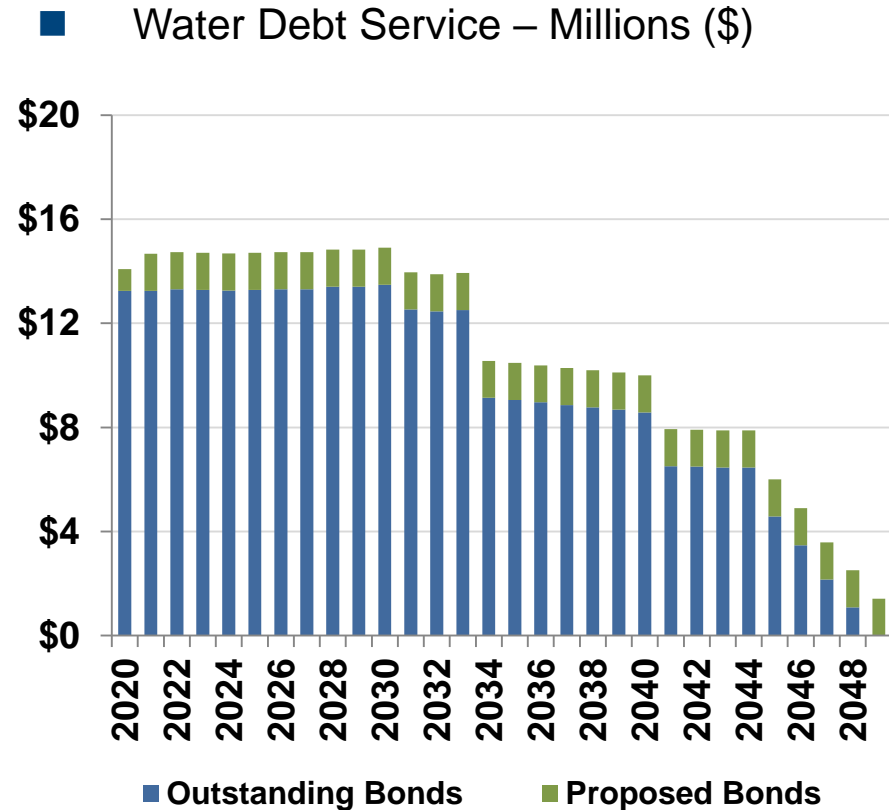
- Interest cost: \$10.7M
- Mature July 2049
- Electric debt ratio: 44%
- Weighted average interest rate: 3.53%
- 45% of total principal repaid in 10 years
- Outstanding bonds rated AA/Aa2

■ Electric Debt Service – Millions (\$)



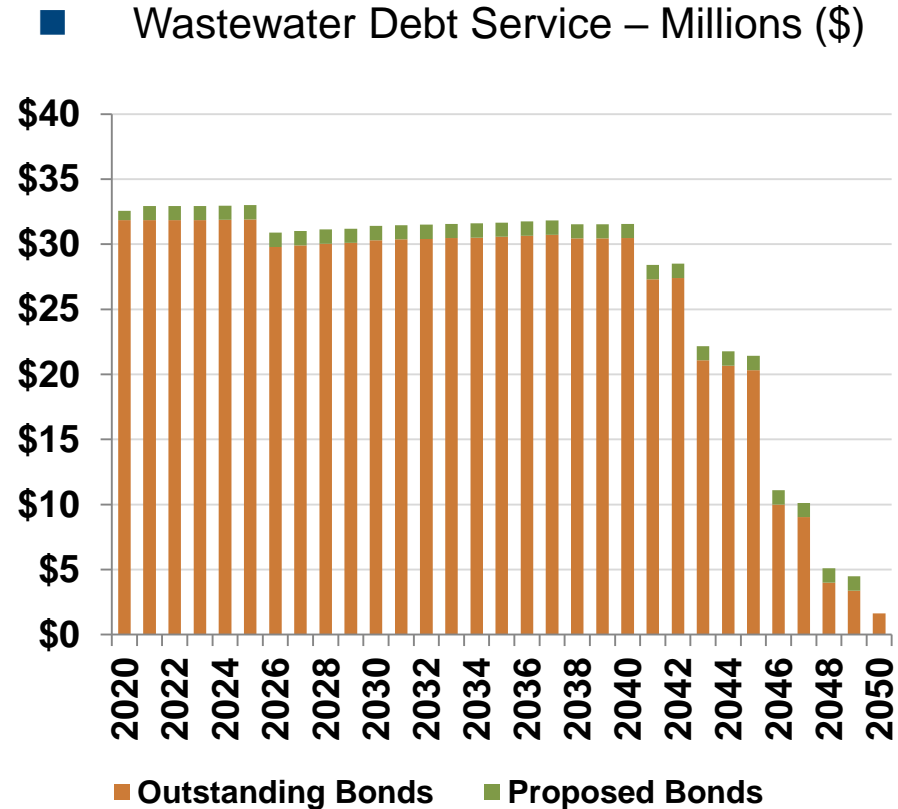
Proposed Water Bonds: \$26M

- Interest cost: \$16.1M
- Mature March 2049
- Water debt ratio: 52%
- Weighted average interest rate: 3.52%
- 38% of total principal repaid in 10 years
- Outstanding bonds rated AAA/Aa1



Proposed Wastewater Bonds: \$20M

- Interest cost: \$12.5M
- Mature April 2049
- Wastewater debt ratio: 60%
- Weighted average interest rate: 3.59%
- 30% of total principal repaid in 10 years
- Outstanding bonds rated AA+/Aa2



Estimated Issuance Costs for Bonds

Cost	Professional Firm	Fee
Financial Advisor	Cumberland Securities	\$105,000
Bond Counsel	Bass, Berry & Sims	\$77,000
Rating Agency	Moody's	\$75,000
Rating Agency	Standard & Poor's	\$65,000
Paying Agent	Regions Bank	\$3,000
		\$325,000
Other Costs (Escrow, POS, OS, Advertising)		\$20,000
		\$345,000

FY 20 Commitment Appropriations

- Authorizes commitment of expenditures subsequent to June 30, 2020, for commitments entered into on or before June 30, 2020
- FY 20 total: \$139.3M
 - Electric \$30.5M
 - Natural Gas \$ 9.5M
 - Water \$42.4M
 - Wastewater \$56.9M

Projects Supporting Need for Commitment Appropriations

- Electric transmission line improvements
- MBW water plant filters
- Gas distribution steel main replacement
- Wastewater system main replacement
- Kuwahee wastewater treatment plant upgrade (Consent Decree)
- Utility relocations for highway improvements

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Resolution 1393

- Requesting City Council approval of bond issues for the Electric, Water, and Wastewater Divisions
 - Authorizes issuance of up to \$63M in revenue bonds
 - Electric \$17M
 - Water \$26M
 - Wastewater \$20M

Resolution 1394

- Requesting approval for the fiscal year 2020 budget appropriations
 - Adopts budget appropriations of \$964.3M for FY 20
 - Electric \$613.1M
 - Natural Gas \$121.8M
 - Water \$ 91.3M
 - Wastewater \$138.1M

Resolution 1395

- Requesting approval for fiscal year 2020 commitment appropriations
 - Adopts commitment appropriations of \$139.3M for FY 20
 - Electric \$30.5M
 - Natural Gas \$ 9.5M
 - Water \$42.4M
 - Wastewater \$56.9M

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