

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

KUB

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 |

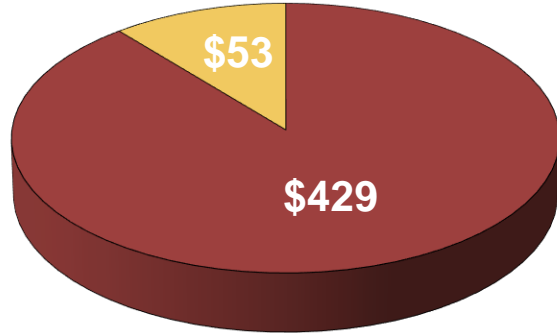
Proposed FY 20 Budget Flat

| | 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

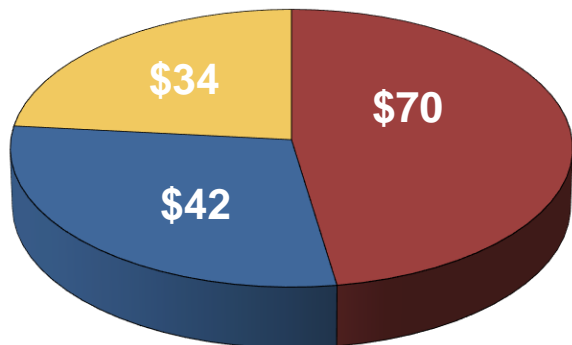
- 5.5 billion kWh
- 209,000 electric customers

■ Natural gas

- 11.7 million dekatherms
- 104,000 natural gas customers

O&M Budget Supports Reliability

FY 20 O&M = \$146M

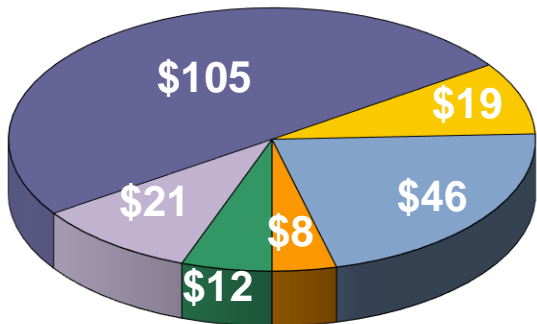


- Labor-related = 48%
- Outside services = 29%
- Materials/other = 23%

- 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

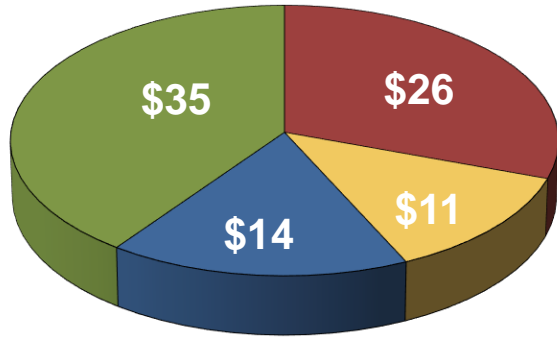
- Distribution system improvements **\$88M**
 - Electric substation upgrades \$ 9M
 - 17 miles of electric transmission line improvements \$ 11M
 - 1,900 poles \$ 5M
 - 18 miles of natural gas main \$ 7M
 - 15 miles of water main \$ 11M
 - 20 miles of wastewater main \$ 26M

- 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

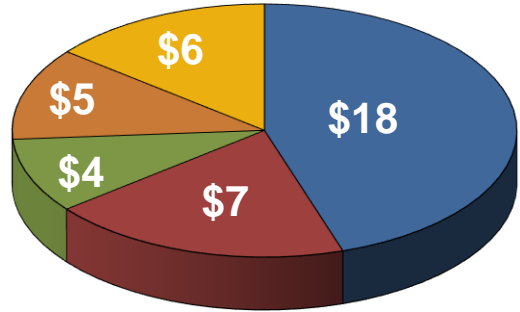


- Electric = 30%
- Natural gas = 13%
- Water = 17%
- Wastewater = 40%

- 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



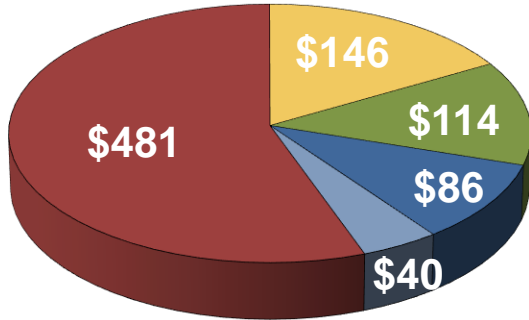
- Electric = 45%
- Natural Gas = 19%
- Water = 10%
- Wastewater = 12%
- FICA = 14%

\$ in Millions

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

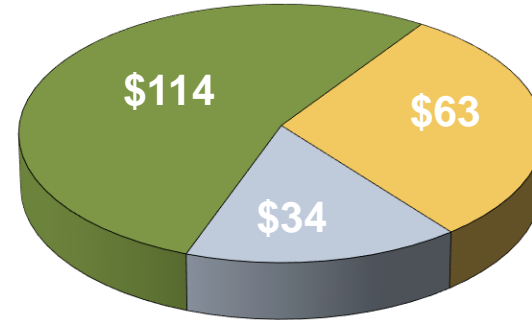
Funding FY 20 Budget

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%

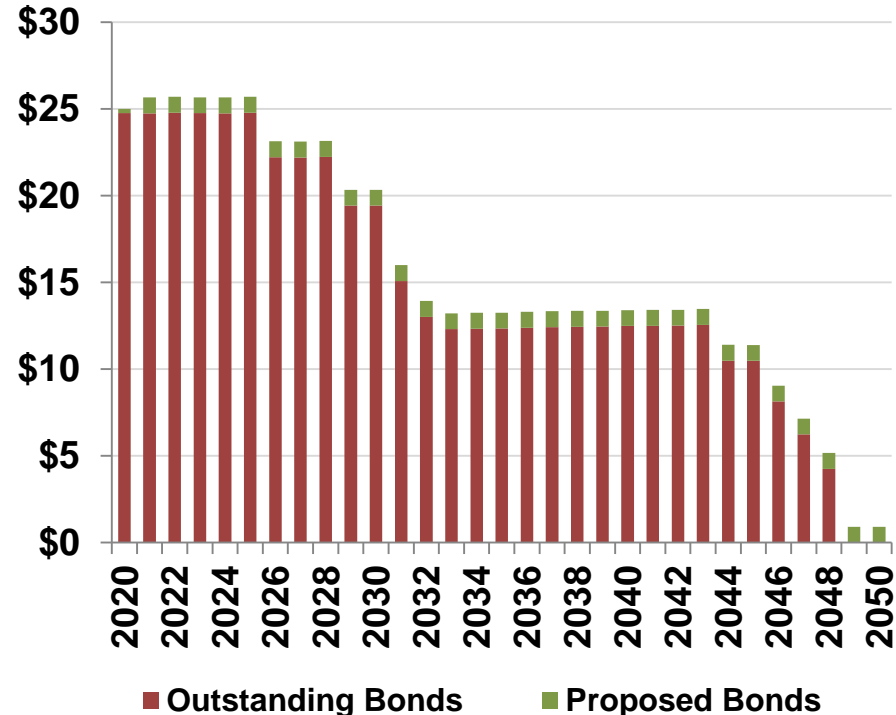
New Bonds Will Help Fund System Capital Budgets

- 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

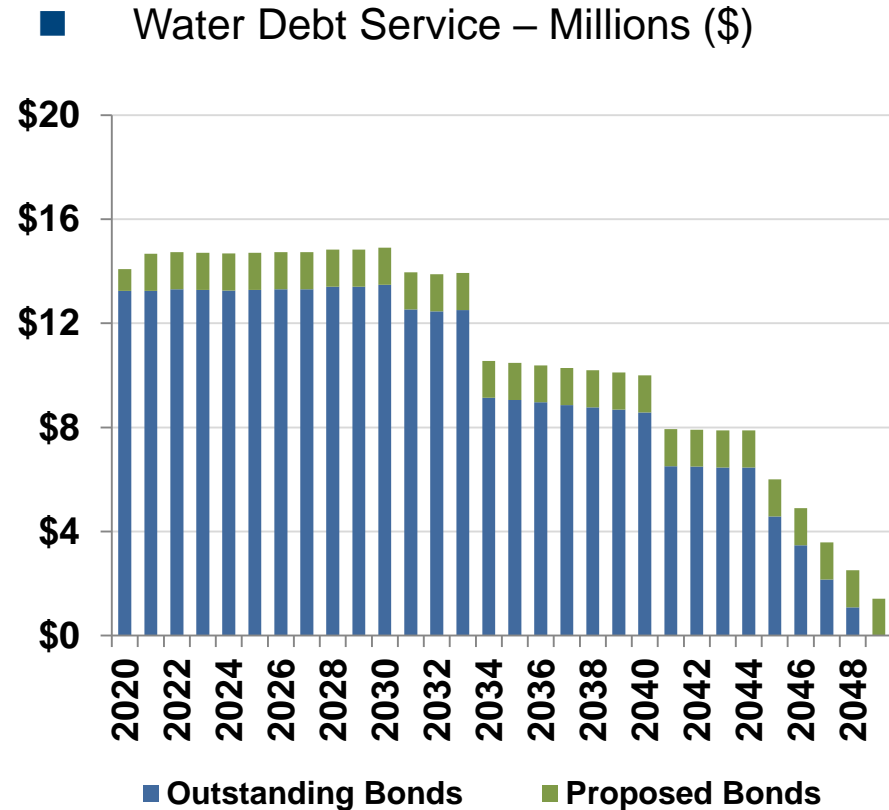
- Interest cost: \$10.7M
- Mature July 2049
- Electric debt ratio: 44%
- Weighted average interest rate: 3.53%
- 45% of total principal repaid in 10 years
- Outstanding bonds rated AA/Aa2

■ Electric Debt Service – Millions (\$)



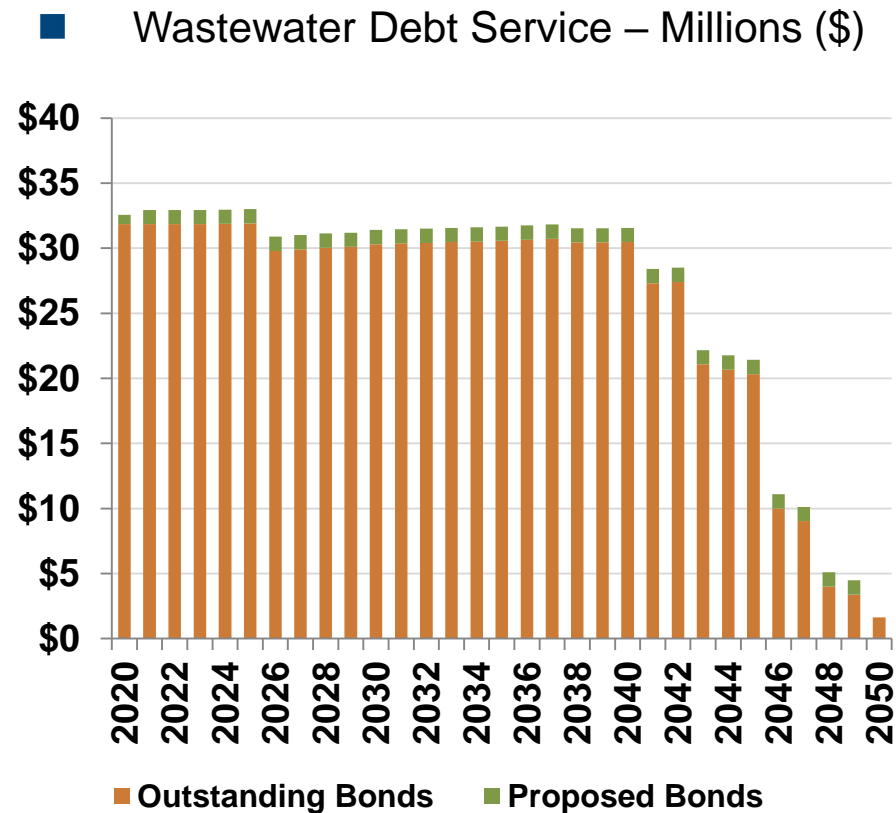
Proposed Water Bonds: \$26M

- 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

KUB

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

KUB

Water System Surplus Real Properties

May 16, 2019



Resolutions 1396 and 1397

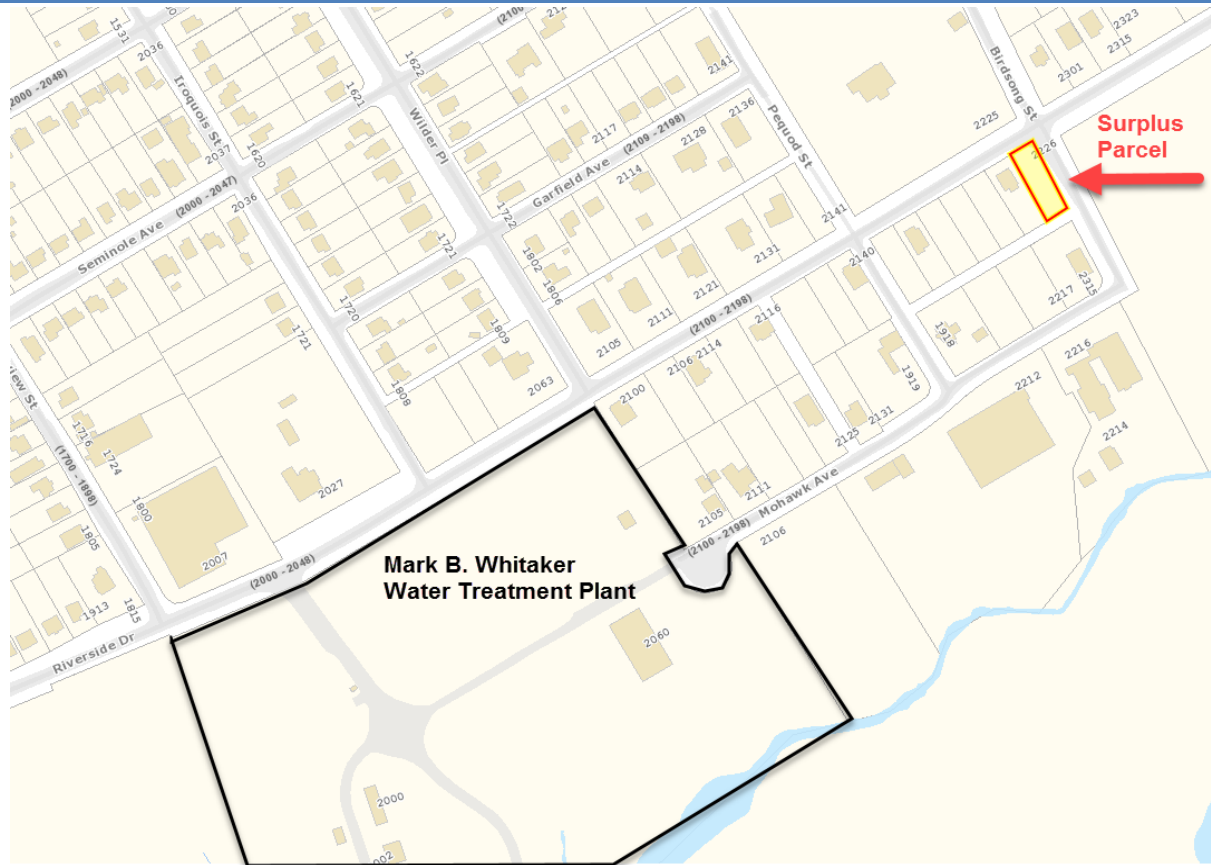
Waverly Street Property

- Approximately 0.326 acres located at 2401 Waverly Street
- Close proximity to Richmond Hill Water Tank
- Property not needed for KUB's water system or any other utility system

Riverside Drive Property

- Approximately 0.15 acres located at 2226 Riverside Drive
- Close proximity to Mark B. Whitaker Water Treatment Plant
- Property not needed for KUB's water system or any other utility system
- Property to be transferred to City of Knoxville as part of prior road closure project

Riverside Drive Property



Resolution 1396

- Declares 0.326 acres on Waverly Street to be surplus real property
- Authorizes President and CEO to sell the property
 - Best interest of KUB and Water Division
 - Consistent with Procurement Procedures and state law
- Directs proceeds of sale to Water Division

Resolution 1397

- Declares 0.15 acres of property on Riverside Drive to be surplus real property
- Authorizes President and CEO to transfer the property to the City of Knoxville

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Natural Gas Service to Raccoon Valley

May 16, 2019



Resolution 1398

Utility District Service Request

- Powell-Clinch Utility District (PCUD) installed gas facilities in KUB's service territory
- PCUD now seeks KUB's permission under TCA 7-82-302 to serve customers in this area
- Resolution 1398 reaffirms KUB's right to serve this area and establishes KUB's intent to serve within 2 months of passage

KUB

Fort Loudon Waste and Recycling Fire

May 16, 2019



Fire Facts

- Fire began May 1
- Fire Dept. on site for days
- Many organizations provided support
- 7.6 million gallons of water were used
- Plant production was up 25%



KUB Response

- Coordinated with Fire Dept. on response
- Disconnected natural gas and electric services for safety
- Maximized water flow and pressure to the area
- Provided a KUB Responder on site around the clock



From WBIR Video

Resilient Water System Supports Fire Response

- Ample plant capacity
- Storage in tanks and reservoirs
- Pipes sized to handle fire flows



Water System Supports KFD

- Century II investments prove beneficial
 - Pipe replacement
 - Maintenance programs
 - Excellent water quality
- Internal training and coordination help ensure strong relationship with KFD



KUB