

FY 2018 Appropriations and Funding Recommendations

May 18, 2017



**Resolutions
1361, 1362, 1363,
1364, 1365, and 1366**

Financial Plan/Budget Workshop

- Continue Century II
- Begin water plant redundancy
- Maintain balanced funding approach
- Slow growth of wastewater debt/rates
- Improve customer growth
- Maintain financial flexibility
- Adopt next 3 years of rate increases
- Approve Century II funding resolution

Proposed FY 18 Budget Continues Century II Funding

- Proposed budget \$942M
- Up 5% due to higher energy prices and system infrastructure investments
- O&M stable
- First year of new series of annual rate increases
- \$97M in new bonds
- \$12M line of credit for Natural Gas System

Proposed FY 18 Budget: \$942M

| | Electric | Gas | Water | WWater | Total |
|----------------------------------|----------------|----------------|---------------|----------------|----------------|
| Energy Cost | \$425.9 | \$54.8 | \$ -- | \$ -- | \$480.7 |
| O&M | \$58.3 | \$19.3 | \$25.1 | \$33.0 | \$135.7 |
| Capital | \$87.5 | \$30.7 | \$35.0 | \$58.7 | \$211.9 |
| Debt Service | \$22.6 | \$10.4 | \$12.2 | \$32.6 | \$77.8 |
| Taxes and Equivalents | \$18.6 | \$8.0 | \$4.4 | \$5.2 | \$36.2 |
| | \$612.9 | \$123.2 | \$76.7 | \$129.5 | \$942.3 |

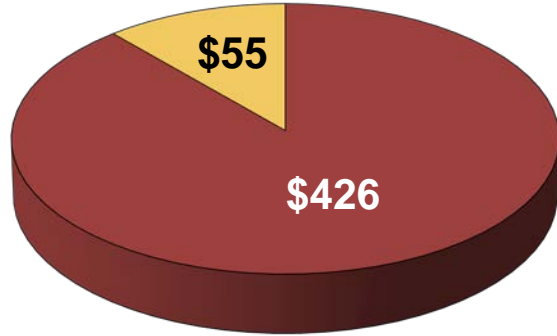
Proposed Budget Up 5%

Reflects System Infrastructure Investments

| | FY 18 Proposed | FY 17 Budget | Increase (Decrease) | |
|--------------------------------|-------------------|-----------------|------------------------|--|
| Energy Cost | \$480.7 | \$466.8 | \$13.9 | Higher purchased energy costs |
| O&M | \$135.7 | \$135.0 | \$0.7 | Stable operating costs |
| Capital | \$211.9 | \$183.7 | \$28.2 | Water plant redundancy; gas main relocations for road projects; CD required wastewater treatment plant project |
| Debt Service | \$77.8 | \$74.3 | \$3.5 | \$97M new bonds in FY 18 |
| Taxes & Equivalents | \$36.2 | \$34.0 | \$2.2 | Century II capital investments |
| \$ in Millions | \$942.3 | \$893.8 | \$48.5 | |

Wholesale Energy Budget Driven by Customer Demand

FY 18 Wholesale Energy = \$481M



■ **Electric Power = 89%**

■ **Natural Gas = 11%**

■ Electric

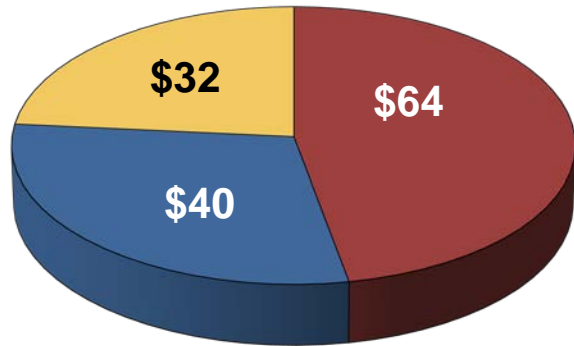
- 5.6 billion kWh
- 203,000 electric customers

■ Natural Gas

- 9.8 million dekatherms
- 100,000 natural gas customers

O&M Budget Supports Reliability

FY 18 O&M = \$136M

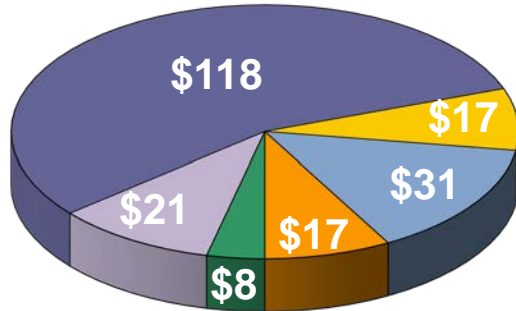


- Labor-Related = 48%
- Outside Services = 28%
- Materials/Other = 24%

- Labor-related costs
 - Payroll \$48M
 - Benefits and training \$10M
 - Post-employment benefits \$ 6M
- 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 18 Capital = \$212M



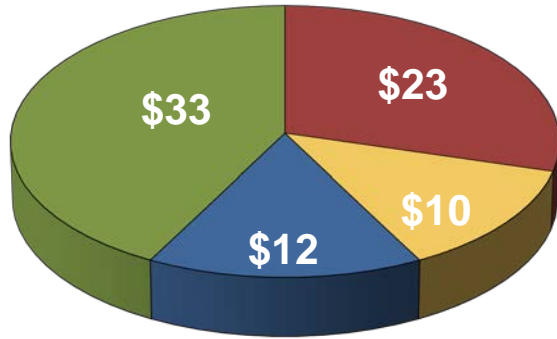
- Information Technology = 4%
- Facilities/Equipment = 10%
- System Infrastructure = 8%
- System Improve/Replace = 56%
- Growth = 8%
- Plant Improvements = 14%
- Relocations = 8%

\$ in Millions

- Distribution system improvements **\$89M**
 - Electric substation upgrades **\$ 7M**
 - 16 miles of electric transmission line improvements **\$15M**
 - 2,600 poles **\$ 6M**
 - 6 miles of natural gas main **\$ 3M**
 - 12 miles of water main **\$11M**
 - 22 miles of wastewater main **\$22M**
- Plant improvements **\$31M**
 - Water plant redundancy **\$ 7M**
 - Kuwahee Combined Heat & Power **\$ 5M**
 - Kuwahee sludge pump **\$ 4M**
 - Kuwahee sludge heater **\$ 4M**
- Grid Modernization **\$29M**
- Utility relocations for road projects **\$17M**

Debt Budget Reflects Investments in Infrastructure

FY 18 Debt Service = \$78M

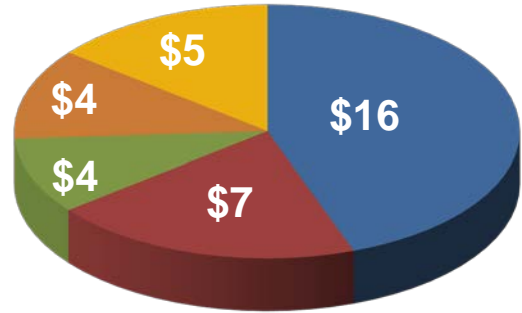


- **Electric = 29%**
- **Natural Gas = 13%**
- **Water = 16%**
- **Wastewater = 42%**

- FY 18 principal \$36M
- FY 18 interest \$42M
- \$1B in total outstanding bonds
- \$97M in new bonds proposed for FY 18

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

FY 18 Taxes and PILOTs = \$36M



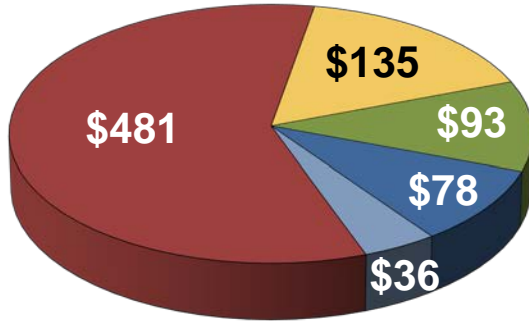
- Electric = 44%
- Natural Gas = 20%
- Water = 10%
- Wastewater = 12%
- FICA = 14%

\$ in Millions

- PILOTs \$31M
 - City \$20M
 - Knox County \$10M
 - Other counties \$ 1M
- PILOTs up 7% over current year
- Payroll tax expense \$5M

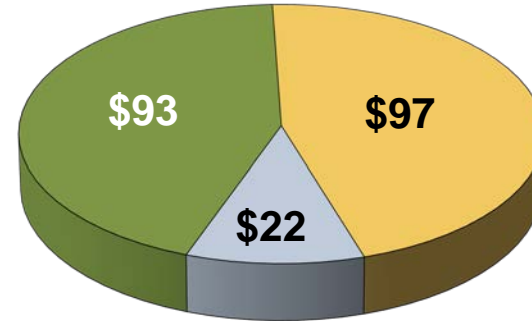
Funding FY 18 Budget

Revenue = \$823 Million



- Wholesale energy = 59%
- O&M = 16%
- Capital = 11%
- Debt Service = 10%
- Taxes and Equivalents = 4%

Capital = \$212 Million



- System Revenues = 44%
- Bond Proceeds = 46%
- General Fund Cash = 10%

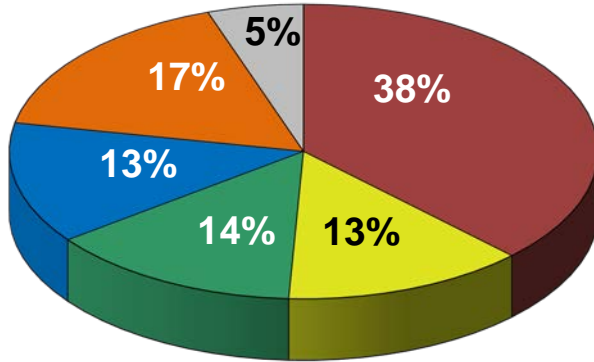
Proposed Rate Increases: FY 18 – 20

- Residential electric/natural gas: applied to fixed monthly customer charge
- Residential water/wastewater: applied to fixed monthly customer charge and commodity charge
- Commercial and industrial impacts will vary
- Increase in private fire line rates
- Update private lighting rates to include LED

Residential Monthly Bill Increases

193,000 Residential Households

Only 17% Have all Four Services



- Electric only
- Gas only
- Electric and Gas
- Electric, Water, and Wastewater
- All four
- Other

| | FY 18 | FY 19 | FY 20 |
|-------------|--------|--------|--------|
| Electric | \$1.50 | \$1.50 | \$1.50 |
| Natural Gas | \$0.75 | \$0.75 | \$0.75 |
| Water* | \$1.50 | \$1.50 | \$1.50 |
| Wastewater* | \$3.00 | \$3.00 | \$3.00 |

- Water and Wastewater increases reflected on August bills
- Electric and Natural Gas increases reflected on November bills

* Less for customers using < 2 CCF water

New Bonds Will Help Fund System Capital Budgets

- Up to \$97M for all systems
- Mature over 30 years
- Secured by system revenues
- City Council authorization required
- Comply with KUB Debt Management Policy
- Competitive public sale late summer 2017

Proposed \$97M New Bonds

| System | Amount | Interest Cost* | Final Maturity | Debt Ratio** |
|-------------|--------|----------------|----------------|--------------|
| Electric | \$40M | \$25.2M | July 1, 2047 | 45% |
| Natural Gas | \$12M | \$ 7.4M | March 1, 2047 | 35% |
| Water | \$20M | \$12.4M | March 1, 2047 | 50% |
| Wastewater | \$25M | \$15.6M | April 1, 2047 | 63% |
| Total | \$97M | | | |

* Average interest rate 3.50%

** As of FY 18 year end

Estimated Issuance Costs for Bonds

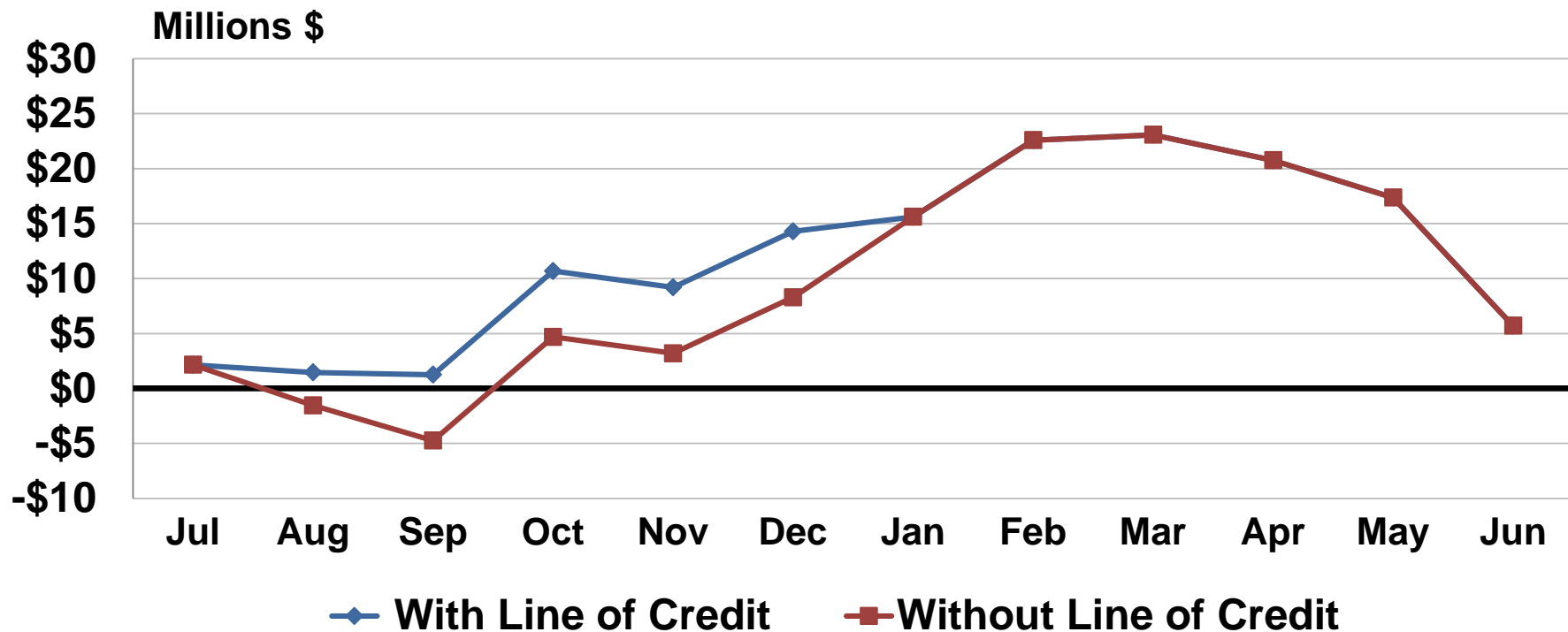
| Cost | Professional Firm | Fee |
|---|-------------------------------|------------------|
| Financial Advisor | Cumberland Securities | \$148,000 |
| Bond Counsel | Bass, Berry & Sims | \$113,000 |
| Rating Agency | Moody's | \$81,000 |
| Rating Agency | Standard & Poor's | \$73,000 |
| Rating Agency | Fitch | \$66,000 |
| Paying Agent | Regions Bank | \$10,000 |
| | | \$491,000 |
| Other Costs (POS, OS, Advertising) | | \$25,000 |
| | | \$516,000 |

Line of Credit Helps Manage Seasonality of Cash Flow

- Up to \$12M for Natural Gas Division
- Issued in form of Revenue Anticipation Note(s)
- One-year maturity
- Competitively bid
- Any draw(s) will fund purchased natural gas costs
- Approval required from State Comptroller

Projected Cash Flow FY 18

Natural Gas Division



FY 18 Commitment Appropriations

- Authorizes commitment of expenditures subsequent to June 30, 2018, for commitments entered into on or before June 30, 2018
- FY 18 total: \$113.4M
 - Electric \$11.9M
 - Natural Gas \$ 8.6M
 - Water \$27.6M
 - Wastewater \$65.3M

Projects Supporting Need for Commitment Appropriations

- Wastewater system main replacement
- Utility relocations for highway improvements
- Water plant emergency generator
- Consent Decree required wastewater treatment plant improvements
- Electric transmission line improvements

Resolution 1361

- Replacing the existing rate schedules of the Electric, Natural Gas, Water, and Wastewater divisions
 - Adopts rate increases for all services in next three fiscal years
 - Water and wastewater rate increases effective July (August bills)
 - Electric and natural gas rate increases effective October (November bills)
 - Requires two readings (second reading in June)

Resolution 1362

- Requesting City Council approval of bond issues for the Electric, Natural Gas, Water, and Wastewater divisions
 - Authorizes issuance of up to \$97 million in revenue bonds
 - Electric \$40 million
 - Natural Gas \$12 million
 - Water \$20 million
 - Wastewater \$25 million
 - Requests City Council authorization of bonds

Resolution 1363

- Requesting authorization for a short-term line of credit for the Natural Gas Division
 - Authorizes issuance of up to \$12 million line of credit for Natural Gas Division
 - Funds wholesale natural gas costs in event of cash shortfall in general fund

Resolution 1364

- Requesting approval for the fiscal year 2018 budget appropriations
 - Adopts budget appropriations of \$942.3M for FY 18
 - Electric \$612.9M
 - Natural Gas \$123.2M
 - Water \$ 76.7M
 - Wastewater \$129.5M

Resolution 1365

- Requesting approval for fiscal year 2018 commitment appropriations
 - Adopts commitment appropriations of \$113.4M for FY 18
 - Electric \$11.9M
 - Natural Gas \$ 8.6M
 - Water \$27.6M
 - Wastewater \$65.3M

Resolution 1366

- Expressing continued commitment to KUB's Century II utility system asset management programs and its intent to fund the next 10 years of Century II programs for the Electric, Natural Gas, Water and Wastewater systems

KUB