

FY 2017 Appropriations and Debt Recommendations

Resolutions 1342, 1343, 1344, and 1345



Proposed Budget Flat

Century II on Track

- \$894M total budget
- Up \$5M or 0.6 percent
- FY 17 rate increases unchanged
- \$130M for Century II
- First year of advanced meter deployment
- \$97M in new bonds to fund capital
- Modest customer growth

Proposed FY 17 Budget: \$894M

	Electric	Gas	Water	WWater	Total
Energy Cost	\$419.8	\$47.0	\$ --	\$ --	\$466.8
O&M	\$57.5	\$20.6	\$24.0	\$32.9	\$135.0
Capital	\$80.5	\$23.8	\$33.7	\$45.7	\$183.7
Debt Service	\$21.3	\$10.0	\$11.2	\$31.8	\$74.3
Taxes and Equivalents	\$17.1	\$7.8	\$4.2	\$4.9	\$34.0
	\$596.2	\$109.2	\$73.1	\$115.3	\$893.8

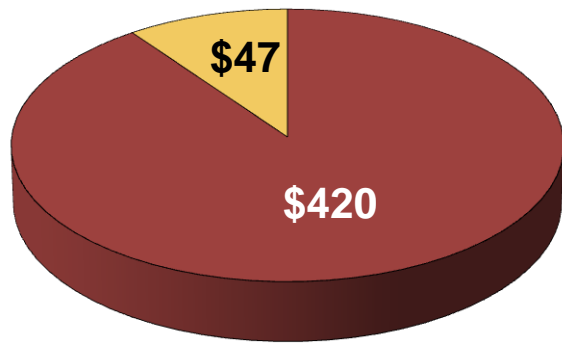
Proposed Budget Up Less than 1%

	FY 17 Proposed	FY 16 Budget	Increase (Decrease)	
Energy Cost	\$466.8	\$479.9	-\$13.1	Lower natural gas commodity prices
O&M	\$135.0	\$129.6	\$5.4	Labor-related/vegetation management
Capital	\$183.7	\$179.0	\$4.7	First year of Grid Modernization
Debt Service	\$74.3	\$67.9	\$6.4	\$97M new bonds in FY 17
Taxes & Equivalents	\$34.0	\$32.4	\$1.6	Century II capital investments
	\$893.8	\$888.8	\$5.0	

\$ in Millions

Wholesale Energy Budget Driven By Customer Demand

FY 17 Wholesale Energy = \$467M



■ **Electric Power = 90%**

■ **Natural Gas = 10%**

■ Electric

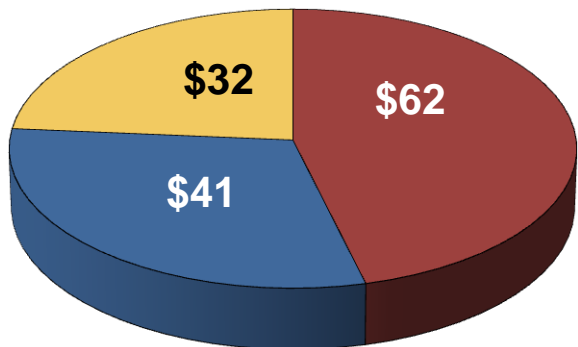
- 5.7 billion kWh
- 202,000 electric customers

■ Natural gas

- 9.6 million dekatherms
- 100,000 natural gas customers

O&M Budget Supports Reliability

FY 17 O&M = \$135M

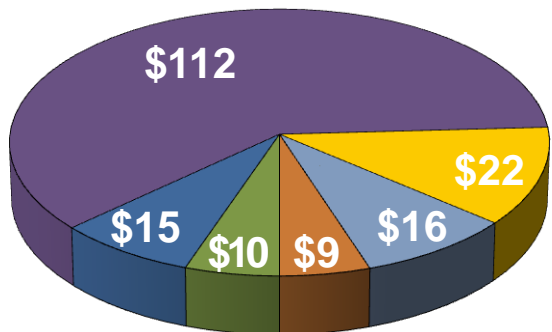


- **Labor-Related = 46%**
- **Outside Services = 30%**
- **Materials/Other = 24%**

- **Labor-related costs**
 - Payroll \$44.4M
 - Benefits \$9.4M
 - Post-employment benefits \$7.6M
- **Outside services**
 - Vegetation management \$8.6M
 - Contract meter reading \$3.3M
 - Facilities maintenance \$3.4M
- **Materials/Other costs**
 - Utilities \$7.9M
 - Stock materials \$4.2M
 - Chemicals \$2.7M

Capital Budget Continues Century II Programs

FY 17 Capital = \$184M



■ Information Technology = 5%

■ Facilities/Equipment = 8%

System Infrastructure = 87%

■ System Improve/Replace = 61%

■ Growth = 12%

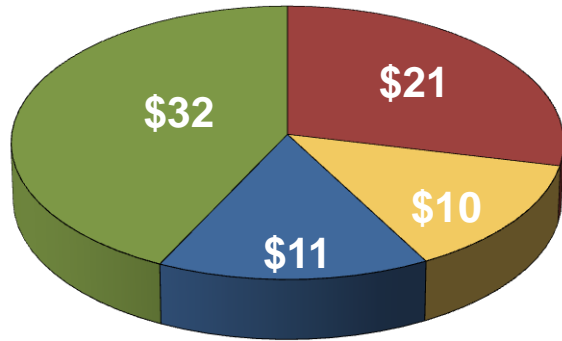
■ Plant Improvements = 9%

■ Relocations = 5%

- Distribution system improvements \$57M
 - Lonsdale, North Knox Substations \$7.6M
 - 21 miles of electric transmission line improvements \$8.9M
 - 2,600 poles \$5.7M
 - 6 miles of natural gas main \$3M
 - 17 miles of water main \$10.1M
 - 20 miles of wastewater main \$19.6M
- Plant improvements \$15.3M
 - MBW Disinfection \$3.9M
 - Kuwahee WWTP \$5.6M
 - Fourth Creek WWTP \$3.6M
- Advanced meters \$12M
- CNG fueling station \$ 2.3M

Debt Budget Reflects Investments in Infrastructure

FY 17 Debt Service = \$74M

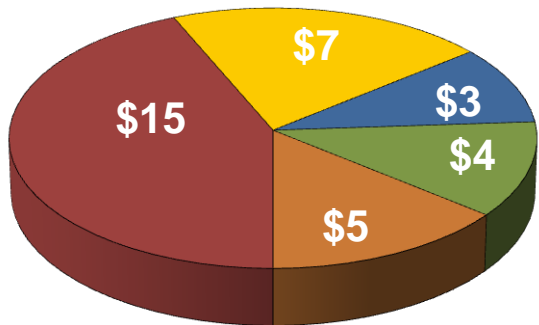


- Electric = 29%
- Natural Gas = 13%
- Water = 15%
- Wastewater = 43%

- FY 17 principal \$33M
- FY 17 interest \$41M
- \$976M in total outstanding bonds
- \$97M in new bonds to help fund FY 17 capital

KUB PILOTs Support Local Governments

FY 17 Taxes and Equivalents = \$34 Million

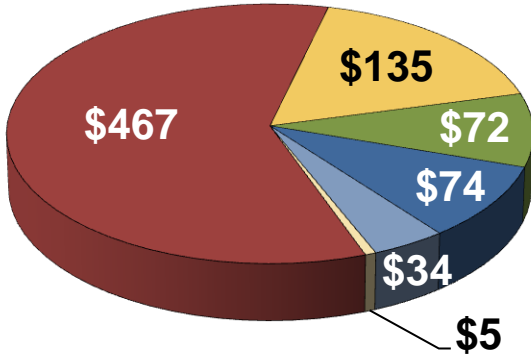


- Electric = 43%
- Natural Gas = 21%
- Water = 10%
- Wastewater = 12%
- FICA = 14%

- Tax equivalents \$29M
 - City \$18.6M
 - Knox County \$9.6M
 - Other counties \$0.9M
- FICA expense \$5M

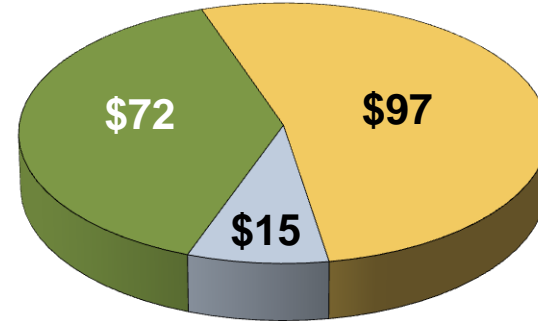
Funding FY 17 Budget

Revenue = \$787 Million



- Wholesale energy = 59%
- O&M = 17%
- Capital = 9%
- Debt Service = 9%
- Taxes and Equivalents = 4%
- Cash Reserves = 1%

Capital = \$184 Million



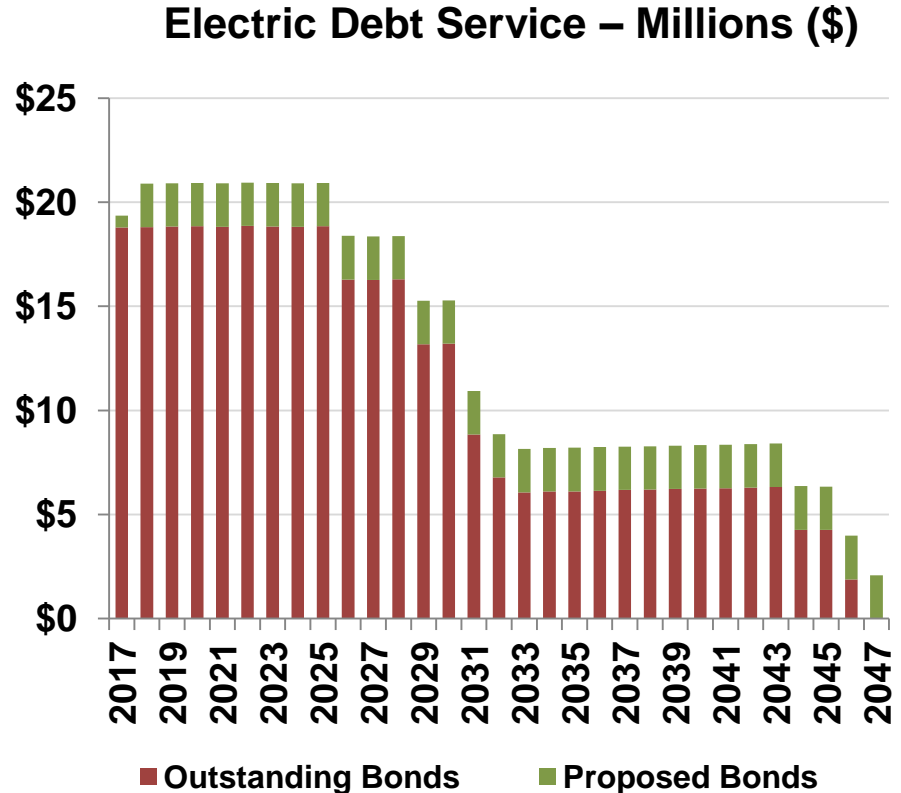
- System Revenues = 39%
- Bond Proceeds = 53%
- General Fund Cash = 8%

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 July 2016

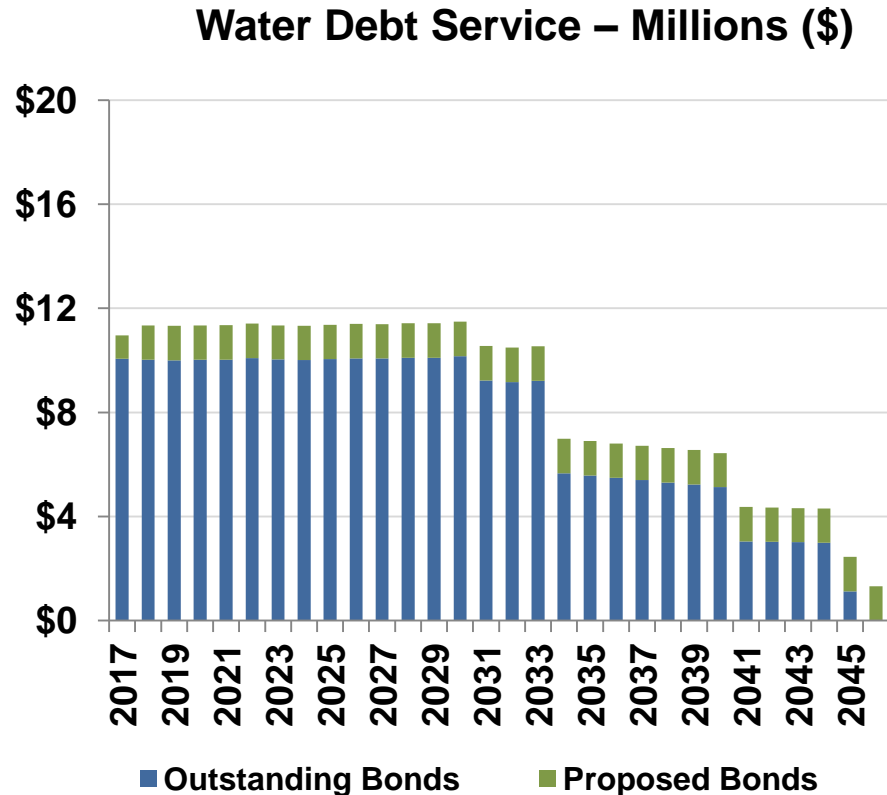
Proposed Electric Bonds: \$40M

- Projected interest cost: 3.25% or \$23.2M
- Weighted average interest rate: 3.64%
- Debt ratio: 44%
- 49% of total principal repaid in 10 years
- Outstanding bonds rated AA+/Aa2



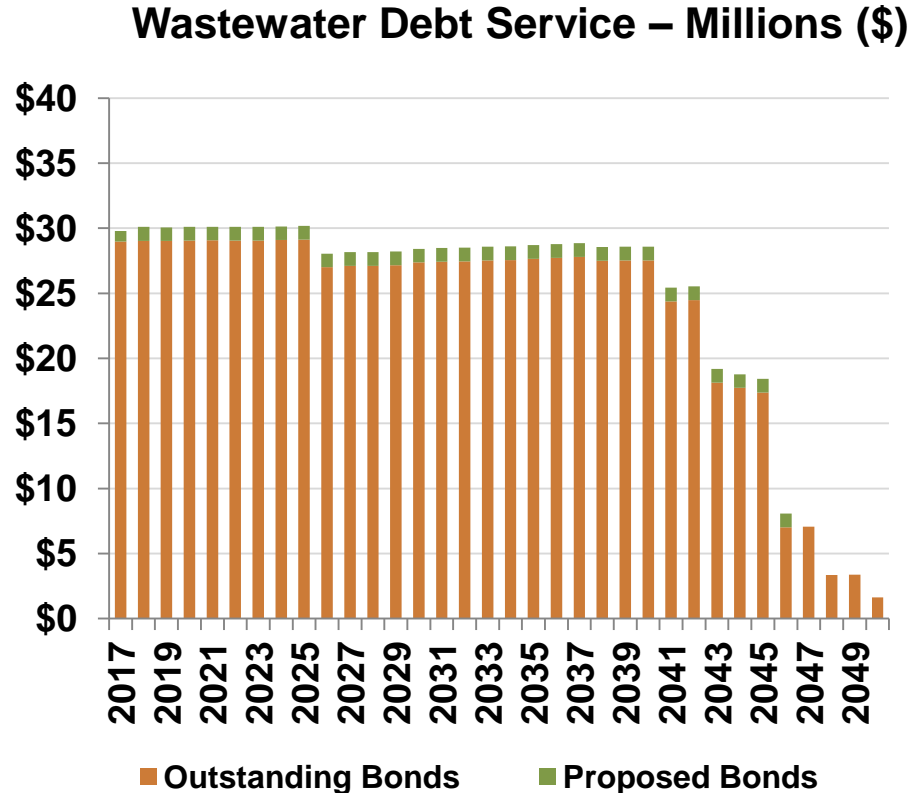
Proposed Water Bonds: \$25M

- Projected interest cost: 3.25% or \$14.3M
- Weighted average interest rate: 3.74%
- Debt ratio: 49%
- 35% of total principal repaid in 10 years
- Outstanding bonds rated AAA/Aa2



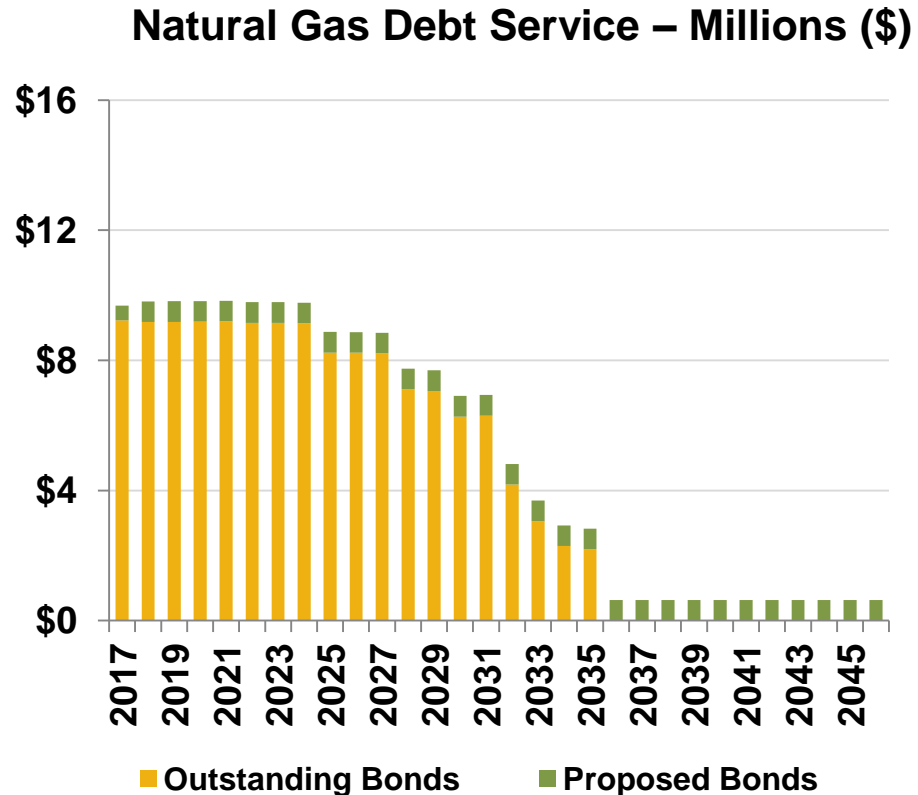
Proposed Wastewater Bonds: \$20M

- Projected interest cost: 3.25% or \$11.4M
- Weighted average interest rate: 3.62%
- Debt ratio: 64%
- 26% of total principal repaid in 10 years
- Outstanding bonds rated AA+/Aa2



Proposed Natural Gas Bonds: \$12M

- Projected interest cost: 3.25% or \$6.8M
- Weighted average interest rate: 3.64%
- Debt ratio: 38%
- 57% of total principal repaid in 10 years
- Outstanding bonds rated AA/Aa2



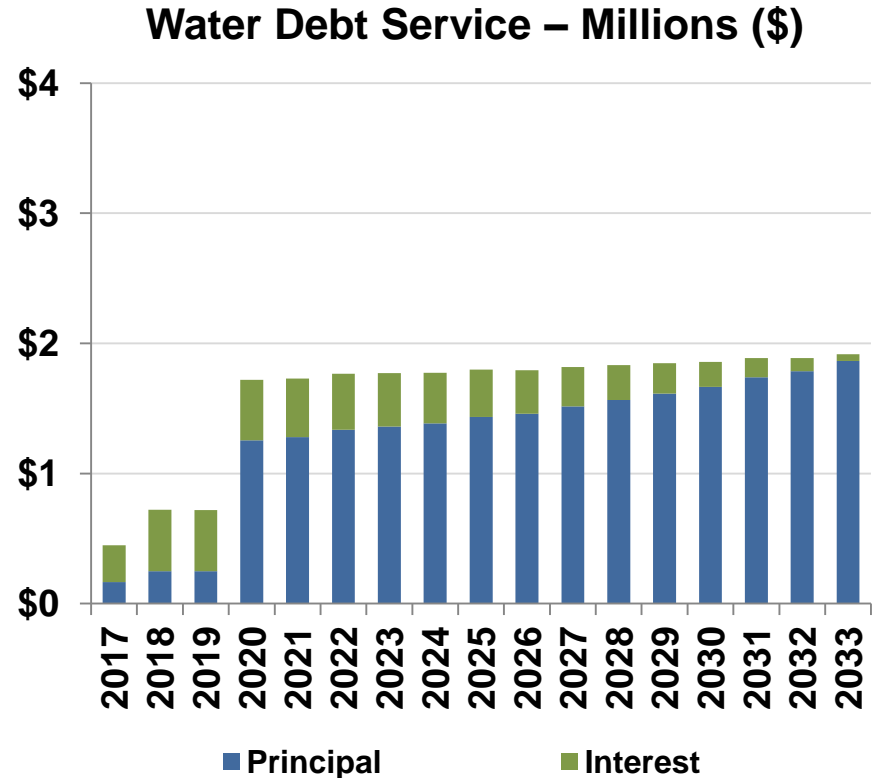
Refinancing Water Bonds At Lower Rates Could Save \$1.7M

- Up to \$22M in refunding bonds
- Refinance outstanding Water bonds sold in 2009
- Projected debt service savings of \$1.7M
- Maturities not extended
- Comply with KUB's Debt Management Policy
- City Council authorization required
- Competitive public sale July 2016

Proposed Water Refunding Bonds: \$22M

Current Debt Service	\$28,998,000
Projected Debt Service	\$27,286,000
Savings	\$1,712,000

- Fully mature in 2033
- Weighted average interest rate reduced from 4.18% to 2.37%
- Weighted average life of bonds reduced from 10.9 years to 10.3 years



Estimated Issuance Costs for Bonds

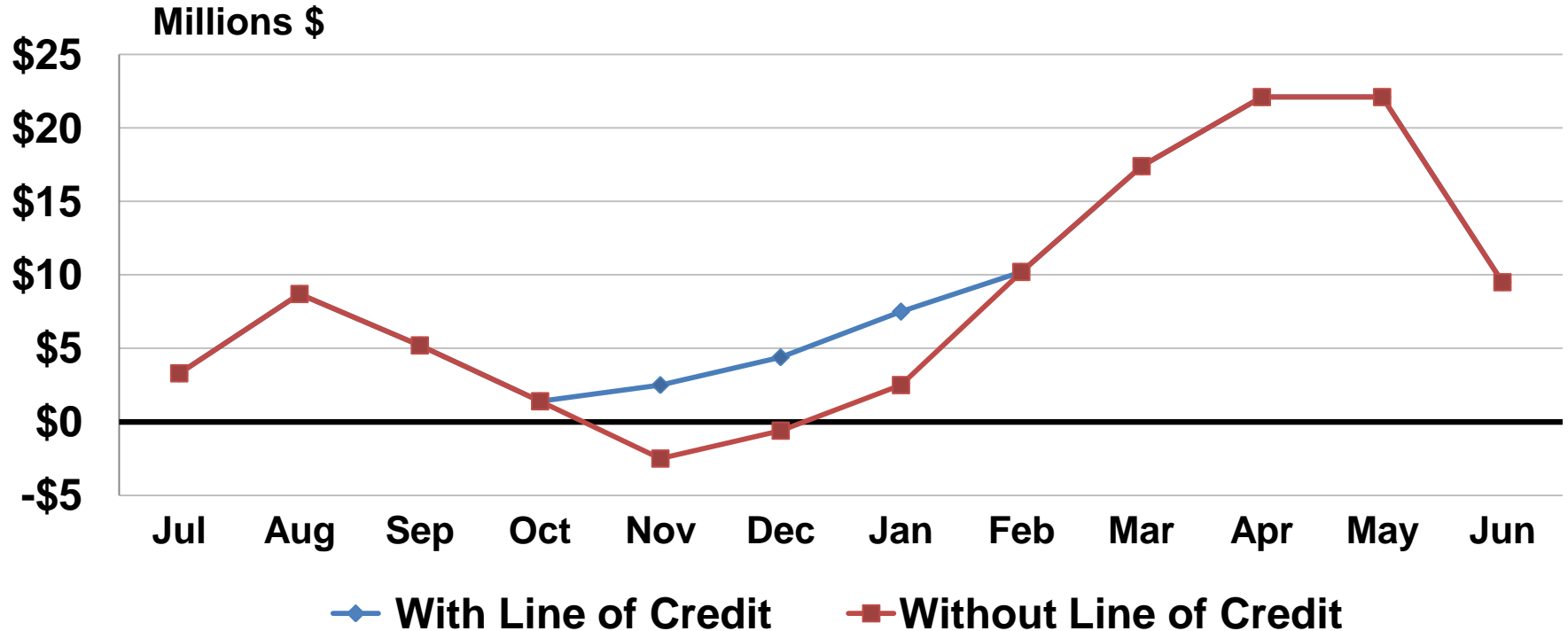
Cost	Professional Firm	Fee
Financial Advisor	Cumberland Securities	\$193,000
Bond Counsel	Bass, Berry & Sims	\$145,000
Rating Agency	Moody's	\$60,000
Rating Agency	Standard & Poor's	\$60,000
Paying Agent	Regions Bank	\$6,000
		\$464,000
Other Costs (Escrow, POS, OS, Advertising)		\$25,000
		\$489,000

Line of Credit Helps Manage Seasonality of Cash Flow

- Up to \$10M for Natural Gas Division
- Issued in form of Revenue Anticipation Note(s)
- One-year maturity
- Competitively bid among local banks
- Any draw(s) will fund purchased natural gas costs
- Approval required from State Comptroller

Projected Cash Flow FY 17

Natural Gas Division



FY 17 Commitment Appropriations

- Authorizes commitment of expenditures subsequent to June 30, 2017, for commitments entered into on or before June 30, 2017
- FY 17 total: \$ 54.8 million
 - Electric \$11.5 million
 - Gas \$ 3.8 million
 - Water \$ 9.5 million
 - Wastewater \$30.0 million

Projects Supporting Need for Commitment Appropriations

- 69kV electric line improvements
- Combined Heat & Power (CHP) Project at Kuwahee
- Sludge heater and pumps for Kuwahee
- Water and wastewater main replacements
- Utility relocations for state and federal highway projects

Resolution 1342

- Authorizes issuance of up to \$97 million in revenue bonds
 - Electric \$40 million
 - Natural Gas \$12 million
 - Water \$25 million
 - Wastewater \$20 million
- Authorizes issuance of up to \$22 million in Water refunding bonds
- Requests City Council authorization of bonds

Resolution 1343

- Authorizes issuance of up to \$10 million line of credit for Natural Gas Division
- Funds wholesale natural gas costs in event of cash shortfall in general fund

Resolution 1344

- Adopts budget appropriations of \$893.8M for FY 17
 - Electric \$596.2 million
 - Gas \$109.2 million
 - Water \$73.1 million
 - Wastewater \$115.3 million

Resolution 1345

- Adopts commitment appropriations of \$54.8 million for FY 17
 - Electric \$11.5 million
 - Gas \$ 3.8 million
 - Water \$ 9.5 million
 - Wastewater \$30.0 million

KUB