FY 2018 Appropriations Review

May 17, 2018

Resolution 1376
FY 2018 Budget Performance

- $48.9M or 5.2% under budget
- All systems under budget
- Timing of capital projects major factor
- O&M expenses $1M under budget
- Water and wastewater sales revenue up
- Gas margin up $6.6M
$48.9M Under Budget

<table>
<thead>
<tr>
<th></th>
<th>Electric</th>
<th>Gas</th>
<th>Water</th>
<th>Wastewater</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Cost</td>
<td>$8,763</td>
<td>$5,570</td>
<td>$14,333</td>
<td>$14,333</td>
<td></td>
</tr>
<tr>
<td>O&amp;M</td>
<td>175</td>
<td>1,550</td>
<td>(1,446)</td>
<td>764</td>
<td>1,043</td>
</tr>
<tr>
<td>Capital</td>
<td>3,403</td>
<td>4,907</td>
<td>3,881</td>
<td>20,517</td>
<td>32,708</td>
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<tr>
<td>Debt Service</td>
<td>(282)</td>
<td>(145)</td>
<td>151</td>
<td>(97)</td>
<td>(373)</td>
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<tr>
<td>Taxes and Equivalents</td>
<td>590</td>
<td>318</td>
<td>209</td>
<td>104</td>
<td>1,221</td>
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<tr>
<td></td>
<td>$12,649</td>
<td>$12,200</td>
<td>$2,795</td>
<td>$21,288</td>
<td>$48,932</td>
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</tbody>
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$ in Thousands  ( ) = Over Budget
## FY 2018 Projections by System

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<th>Wastewater</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td><strong>Sales Revenue</strong></td>
<td>($13,606)</td>
<td>$1,040</td>
<td>$1,077</td>
<td>$2,438</td>
<td>($9,051)</td>
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<tr>
<td><strong>Energy Cost</strong></td>
<td>8,763</td>
<td>5,570</td>
<td></td>
<td></td>
<td>$14,333</td>
</tr>
<tr>
<td><strong>Sales Margin</strong></td>
<td>($4,843)</td>
<td>$6,610</td>
<td>$1,077</td>
<td>$2,438</td>
<td>$5,282</td>
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<tr>
<td><strong>Other Revenue</strong></td>
<td>8,556</td>
<td>76</td>
<td>965</td>
<td>180</td>
<td>$9,777</td>
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<tr>
<td><strong>Expenditures</strong></td>
<td>3,886</td>
<td>6,630</td>
<td>2,795</td>
<td>21,288</td>
<td>$34,599</td>
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<tr>
<td><strong>Net Cash</strong></td>
<td>$7,599</td>
<td>$13,316</td>
<td>$4,837</td>
<td>$23,906</td>
<td>$49,658</td>
</tr>
</tbody>
</table>

$ in Thousands  
( ) = Less Cash
FY 2018 Commitment Appropriations

- Covers commitments for expenditures to be made after June 30, 2018
- Board previously approved $113.4M for FY 18
- Staff reviewed all commitments for expenditures beyond FY 18
- Additional commitment appropriations needed for Electric and Wastewater
Amends fiscal year 2018 commitment appropriations

- Adds $13.3M to FY 18 Electric Division commitment appropriations; increasing from $11.9M to $25.2M
- Adds $13.6M to FY 18 Wastewater Division commitment appropriations; increasing from $65.3M to $78.9M
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Electric</th>
<th>Gas</th>
<th>Water</th>
<th>WW Water</th>
<th>Total</th>
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<tbody>
<tr>
<td>Energy Cost</td>
<td>$427.0</td>
<td>$53.7</td>
<td>$</td>
<td>$</td>
<td>$480.7</td>
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<tr>
<td>O&amp;M</td>
<td>$59.5</td>
<td>$20.2</td>
<td>$26.9</td>
<td>$34.2</td>
<td>$140.8</td>
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<tr>
<td>Capital</td>
<td>$96.4</td>
<td>$30.4</td>
<td>$41.3</td>
<td>$60.5</td>
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<td>Debt Service</td>
<td>$24.7</td>
<td>$10.9</td>
<td>$12.9</td>
<td>$33.4</td>
<td>$81.9</td>
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<tr>
<td>Taxes and Equivalents</td>
<td>$19.2</td>
<td>$7.9</td>
<td>$4.5</td>
<td>$5.4</td>
<td>$37.0</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$626.8</strong></td>
<td><strong>$123.1</strong></td>
<td><strong>$85.6</strong></td>
<td><strong>$133.5</strong></td>
<td><strong>$969.0</strong></td>
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</tbody>
</table>
**Proposed Budget Increase Reflects Timing of Large Capital Projects**

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

$ in Millions
Wholesale Energy Budget Driven by Customer Demand

FY 19 Wholesale Energy = $481M

- Electric
  - 5.6 billion kWh
  - 207,000 electric customers

- Natural Gas
  - 11.4 million dekatherms
  - 103,000 natural gas customers

Electric Power = 89%
Natural Gas = 11%

$ in Millions
FY 19 O&M = $141M

- 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

$ in Millions
Capital Budget Continues Century II Programs

FY 19 Capital = $228M

- 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 $5M
  - 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

$ in Millions

Information Technology = 4%
Facilities/Equipment = 12%
System Infrastructure = 84%
System Improve/Replace = 56%
Growth = 8%
Plant Improvements = 14%
Relocations = 6%
Debt Budget Reflects Investments in Infrastructure

FY 19 Debt Service = $82M

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

$ in Millions

- Electric = 30%
- Natural Gas = 13%
- Water = 16%
- Wastewater = 41%
KUB Payments In Lieu of Taxes (PILOTs) Support Local Governments

FY 19 Taxes and PILOTs = $37M

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

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

$ in Millions
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

<table>
<thead>
<tr>
<th>Cost</th>
<th>Professional Firm</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Advisor</td>
<td>Cumberland Securities</td>
<td>$126,000</td>
</tr>
<tr>
<td>Bond Counsel</td>
<td>Bass, Berry &amp; Sims</td>
<td>$98,000</td>
</tr>
<tr>
<td>Rating Agency</td>
<td>Moody's</td>
<td>$98,000</td>
</tr>
<tr>
<td>Rating Agency</td>
<td>Standard &amp; Poor's</td>
<td>$85,000</td>
</tr>
<tr>
<td>Paying Agent</td>
<td>Regions Bank</td>
<td>$3,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$410,000</td>
</tr>
<tr>
<td>Other Costs (Escrow, POS, OS, Advertising)</td>
<td></td>
<td>$25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$435,000</td>
</tr>
</tbody>
</table>
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
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
KUB Recognized for Community Outreach

May 17, 2018
**Shared Values:**
- We value the safety and well-being of our customers and employees.
- We value fairness, and try always to make decisions that provide the greatest good for the most people.
- We are in a position of trust and hold ourselves to high ethical standards.
- We improve the value of our services through efficiency, innovation and communication.
- We value the commitment and hard work of our employees.
- We are environmentally responsible in our operations and support the sustainability of our communities’ natural resources.
- We participate in the communities we serve.

**Our Mission:**
Our mission is to act as good stewards of our communities’ resources: utility assets, customer dollars, and the environment. We work to safeguard those resources and enhance their value for the people of the communities we serve and generations to come.

**We Measure Our Success by:**
- **Customer Satisfaction**
- **System Performance**
- **Financial Performance**
- **Safety Performance**

**Keys to Success:**
- Managing Our Utility System Infrastructure
- Improving The Customer Experience
- Investing in A Skilled, Diverse Work Force
- Managing Our Finances Effectively
- Partnering For Economic Development
- Meeting Or Exceeding Regulatory Standards
- Being Environmentally Responsible
KUB Cares Program

- Plans and oversees volunteer efforts and initiatives
- Promotes opportunities for employees to support the community
- Acts as a clearinghouse for community service requests
- Partners with other KUB organizations to carry out service opportunities
KUB Employees Give Back

- Volunteer Time Program continues to grow
  - Employees receive 8 hours/year of volunteer time
  - Time carried out within the KUB service territory

- More than 400 employees participated in 2017
  - 3300+ volunteer hours donated
  - 25+ agencies helped
Outreach Opportunities

- FISH Hospitality Pantry
- River Rescue
- Habitat For Humanity
- Ijams Nature Center
- WaterFest
- Adopt-A-Highway
Community Outreach Recognitions

- KUB employees continuously recognized for their time and talent to improve the region
  - Salvation Army - 2017 Helping Hands Award
  - Knoxville Area Urban League - 2017 Corporate Community Leadership Award
  - Volunteer East Tennessee - 2018 East Tennessee Corporation of the Year Award
2017 United Way Champion Company

- KUB 1 of 8 companies recognized at the $1M level
- $221,000 raised
- 100% employee giving
TVA Grid Access Charge

May 17, 2018
TVA Grid Access Charge Process

- Designed to change wholesale rate – not increase TVA revenue
- Adds new fixed cost component to TVA’s wholesale rate
- Involved TVA, local power companies, and TVA direct-served customers plus an environmental assessment
- Process has taken approximately two years
- TVA Board adopted changes May 10th
- Effective October 2018
- Option to defer until October 2019
Effect of TVA Grid Access Charge

Current Wholesale Bill
All components vary with usage

- Demand: 30%
- Energy: 70%

Future Wholesale Bill
6% of power bill fixed

- Demand: 30%
- Energy: 64%
- Grid Access Charge: 6%
No KUB Retail Rate Change Required

- Valley-wide speculation about impact of Grid Access Charge (GAC)
- TVA Board approved GAC less than originally proposed
- Minimal change to wholesale bill
- Staff not recommending:
  - Adjustment to retail electric rates
  - Deferral of GAC to 2019
No Change to KUB Customer Bills

KUB Retail Bill Before TVA Grid Access Charge:

Billing Period: 04/11/18 - 05/09/18

- Number of Days: 29
- Read Date: 05/09/18
- Meter Number: 
- Current Reading: 23161
- Prior Reading: 22175
- Total kWh: 986

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Service</td>
<td>$17.50</td>
</tr>
<tr>
<td>Electric kWh</td>
<td>$89.46</td>
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<tr>
<td>Total Electric Charges</td>
<td>$106.96</td>
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</tbody>
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KUB Retail Bill After TVA Grid Access Charge:

Billing Period: 04/11/18 - 05/09/18

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No Change to KUB Customer Bills

Based on 986 kWh