

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

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Energy Cost	\$8,763	\$5,570			\$14,333
O&M	175	1,550	(1,446)	764	1,043
Capital	3,403	4,907	3,881	20,517	32,708
Debt Service	(282)	(145)	151	(97)	(373)
Taxes and Equivalents	590	318	209	104	1,221
	\$12,649	\$12,200	\$2,795	\$21,288	\$48,932

\$ in Thousands

() = Over Budget

FY 2018 Projections by System

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

\$ 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

Resolution 1376

- 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

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FY 2019 Appropriations and Funding Recommendations

May 17, 2018



Resolutions

1377, 1378 and 1379

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

	Electric	Gas	Water	WWater	Total
Energy Cost	\$427.0	\$53.7	\$ --	\$ --	\$480.7
O&M	\$59.5	\$20.2	\$26.9	\$34.2	\$140.8
Capital	\$96.4	\$30.4	\$41.3	\$60.5	\$228.6
Debt Service	\$24.7	\$10.9	\$12.9	\$33.4	\$81.9
Taxes and Equivalents	\$19.2	\$7.9	\$4.5	\$5.4	\$37.0
	\$626.8	\$123.1	\$85.6	\$133.5	\$969.0

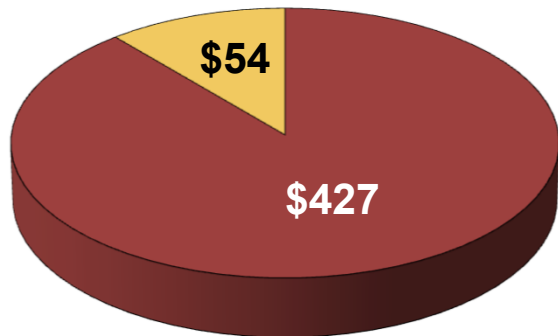
Proposed Budget Increase Reflects Timing of Large Capital Projects

	FY 19 Proposed	FY 18 Budget	Increase (Decrease)	
Energy Cost	\$480.7	\$480.7	\$0.0	
O&M	\$140.8	\$135.7	\$5.1	Wage growth; Employee medical coverage
Capital	\$228.6	\$212.0	\$16.6	CD Kuwahee project; Generators MBW
Debt Service	\$81.9	\$77.8	\$4.1	\$82M in new bonds
Taxes & Equivalentents	\$37.0	\$36.2	\$0.8	Investment in utility infrastructure
	\$969.0	\$942.4	\$26.6	

\$ in Millions

Wholesale Energy Budget Driven by Customer Demand

FY 19 Wholesale Energy = \$481M



■ Electric Power = 89%

■ Natural Gas = 11%

\$ in Millions

■ Electric

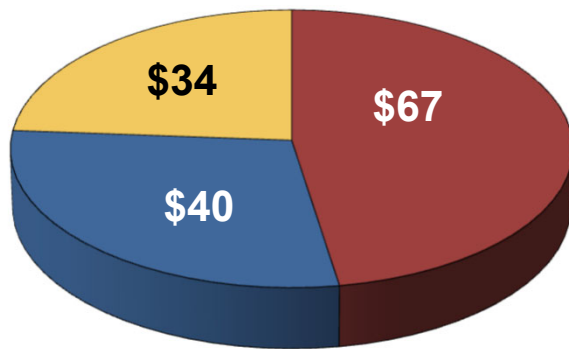
- 5.6 billion kWh
- 207,000 electric customers

■ Natural Gas

- 11.4 million dekatherms
- 103,000 natural gas customers

O&M Budget Supports Reliability

FY 19 O&M = \$141M



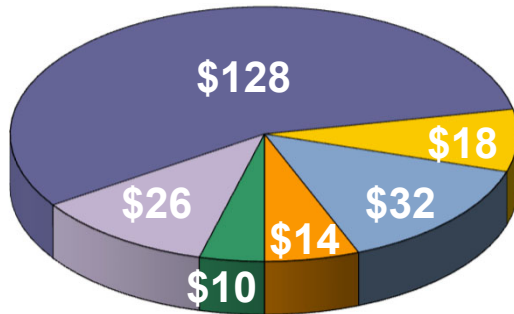
- Labor-Related = 47%
- Outside Services = 29%
- Materials/Other = 24%

\$ in Millions

- 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

Capital Budget Continues Century II Programs

FY 19 Capital = \$228M



- Information Technology = 4%
- Facilities/Equipment = 12%
- System Infrastructure = 84%
- System Improve/Replace = 56%
- Growth = 8%
- Plant Improvements = 14%
- Relocations = 6%

\$ in Millions

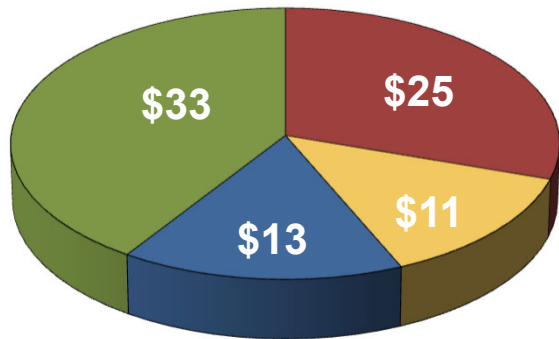
- Distribution system improvements \$87M
 - Electric substation upgrades \$ 7M
 - 15 miles of electric transmission line improvements \$ 14M
 - 2,600 poles \$ 7M
 - 11 miles of natural gas main \$ 5M
 - 11 miles of water main \$ 9M
 - 22 miles of wastewater main \$ 22M

- 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

Debt Budget Reflects Investments in Infrastructure

FY 19 Debt Service = \$82M



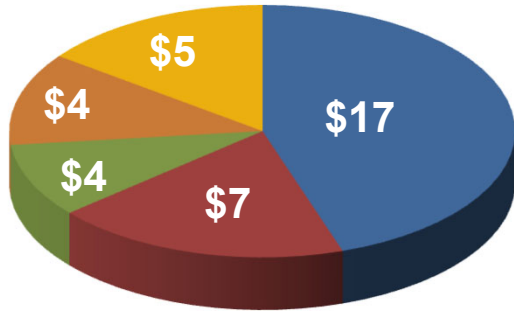
- **Electric = 30%**
- **Natural Gas = 13%**
- **Water = 16%**
- **Wastewater = 41%**

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

\$ in Millions

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

FY 19 Taxes and PILOTs = \$37M



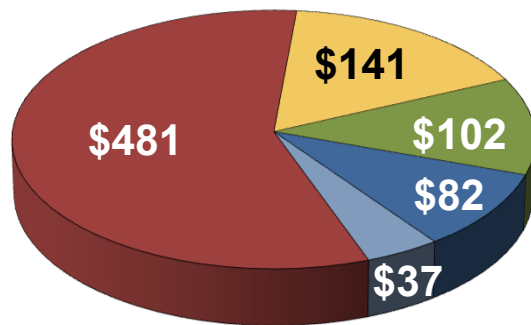
- Electric = 44%
- Natural Gas = 20%
- Water = 10%
- Wastewater = 12%
- FICA = 14%

\$ in Millions

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

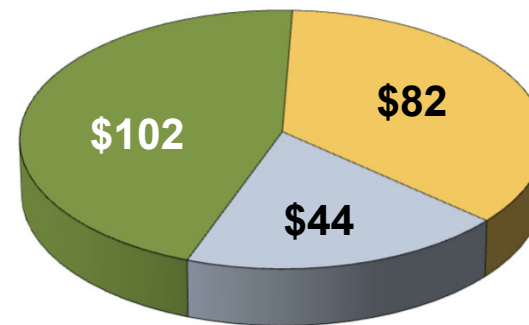
Funding FY 19 Budget

Revenue = \$843 Million



- Wholesale Energy = 57%
- O&M = 17%
- Capital = 12%
- Debt Service = 10%
- Taxes and Equivalents = 4%

Capital = \$228 Million



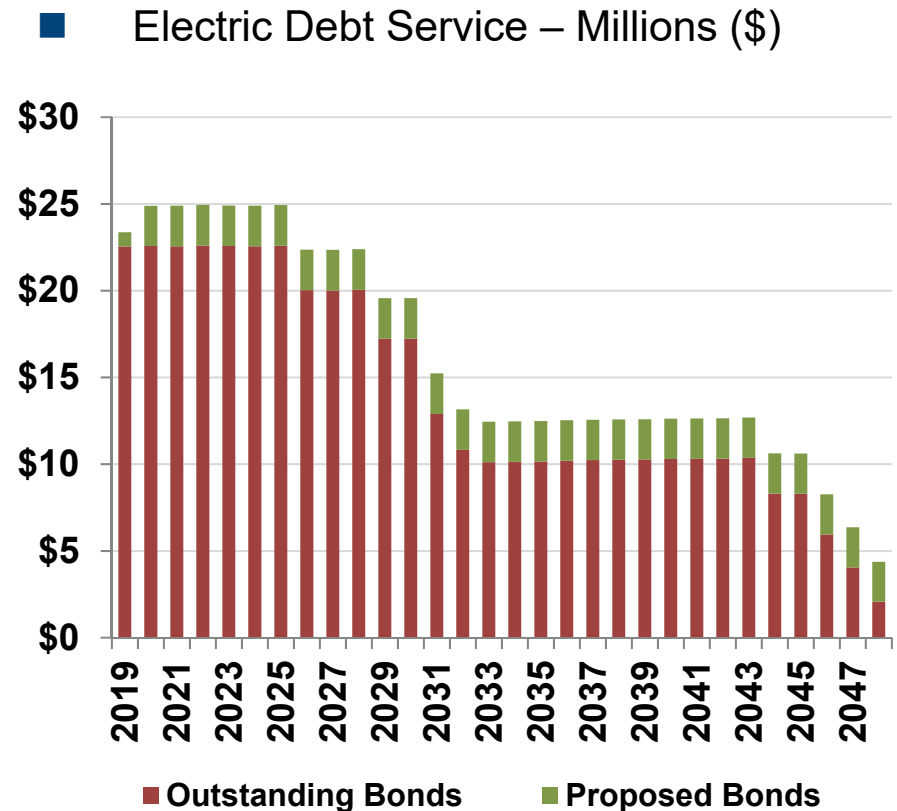
- System Revenues = 45%
- Bond Proceeds = 36%
- General Fund Cash = 19%

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

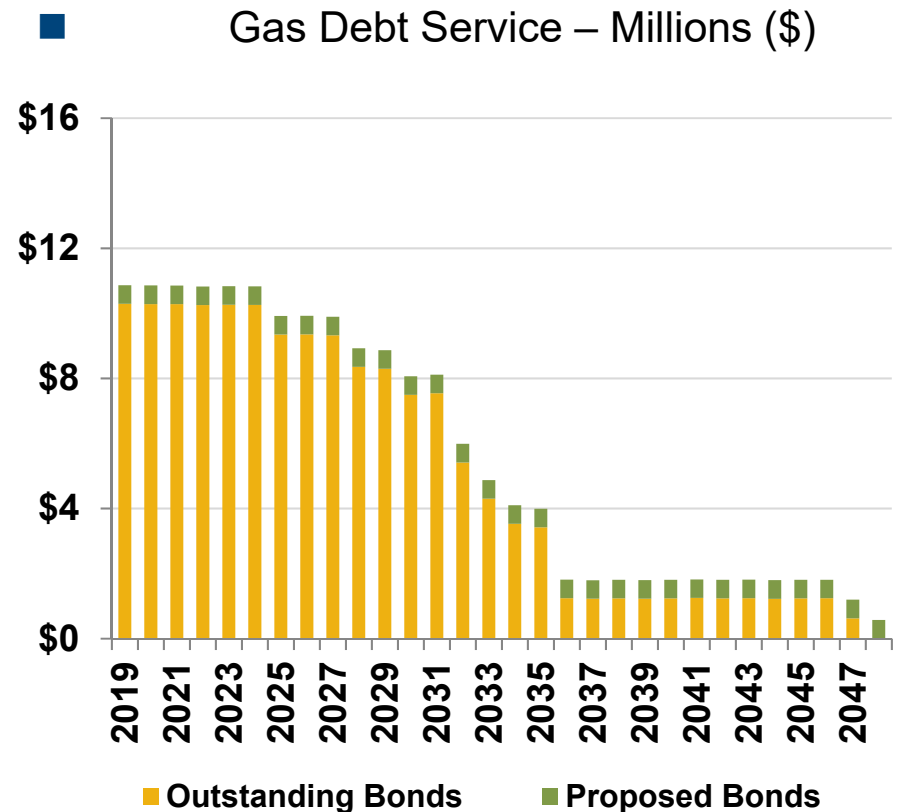
Proposed Electric Bonds: \$40M

- 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



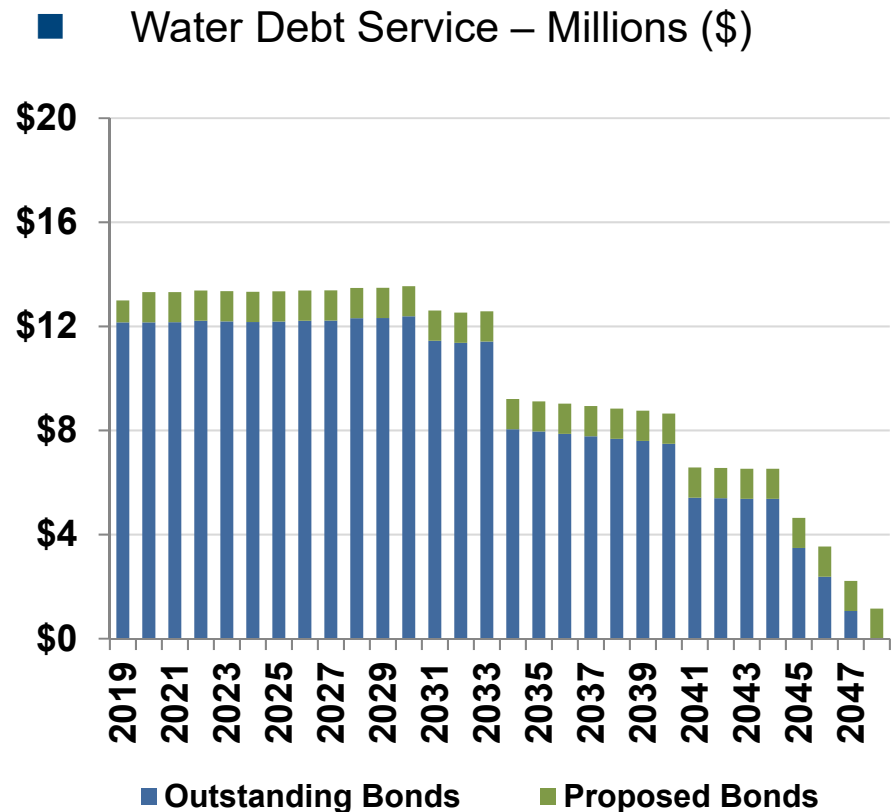
Proposed Gas Bonds: \$10M

- 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



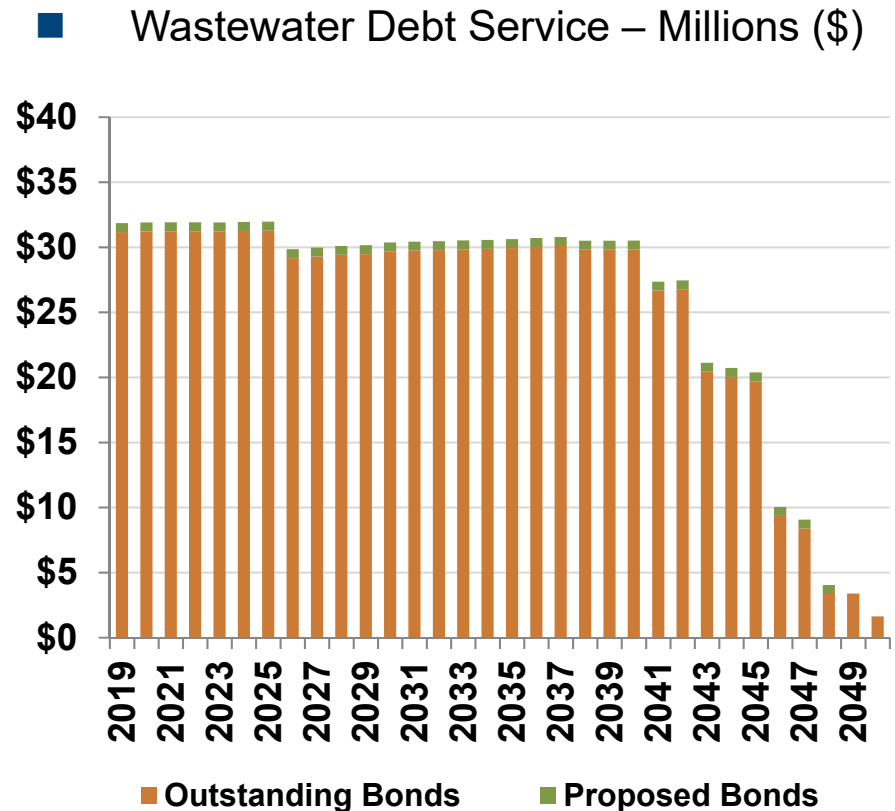
Proposed Water Bonds: \$20M

- 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

Cost	Professional Firm	Fee
Financial Advisor	Cumberland Securities	\$126,000
Bond Counsel	Bass, Berry & Sims	\$98,000
Rating Agency	Moody's	\$98,000
Rating Agency	Standard & Poor's	\$85,000
Paying Agent	Regions Bank	\$3,000
		\$410,000
Other Costs (Escrow, POS, OS, Advertising)		\$25,000
		\$435,000

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

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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

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KUB Recognized for Community Outreach

May 17, 2018





Our Vision:

KUB exists to serve its customers, improving their quality of life by providing utility services that are safe, reliable and affordable.

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
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Keys to Success:

Managing Our Utility System Infrastructure		
Electric	Natural Gas	Water
Wastewater		
Improving The Customer Experience	Managing Our Finances Effectively	Meeting Or Exceeding Regulatory Standards
Investing in A Skilled, Diverse Work Force	Partnering For Economic Development	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

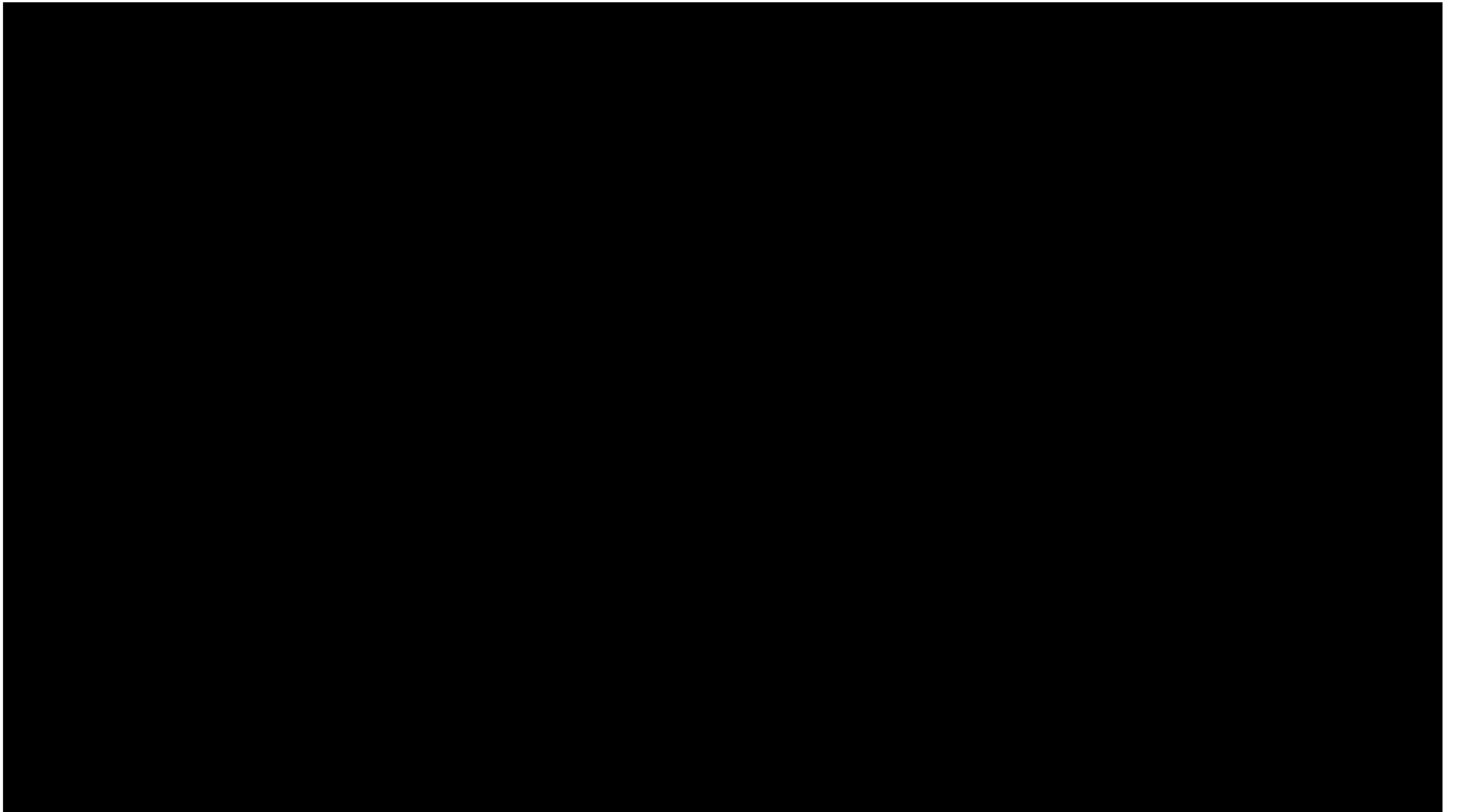
- KUB employees continuously recognized for their time and talent to improve the region
 - Salvation Army - 2017 Helping Hands Award
 - Knoxville Area Urban League - 2017 Corporate Community Leadership Award
 - Volunteer East Tennessee - 2018 East Tennessee Corporation of the Year Award



2017 United Way Champion Company

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







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TVA Grid Access Charge

May 17, 2018

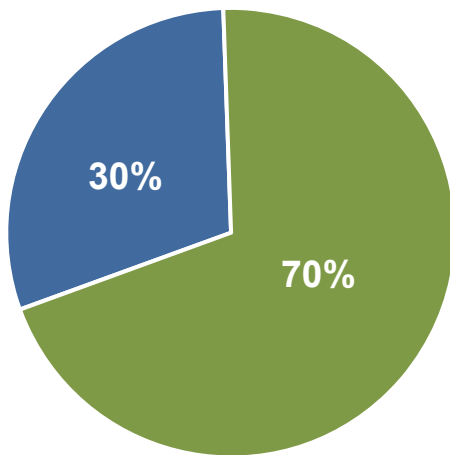


TVA Grid Access Charge Process

- 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

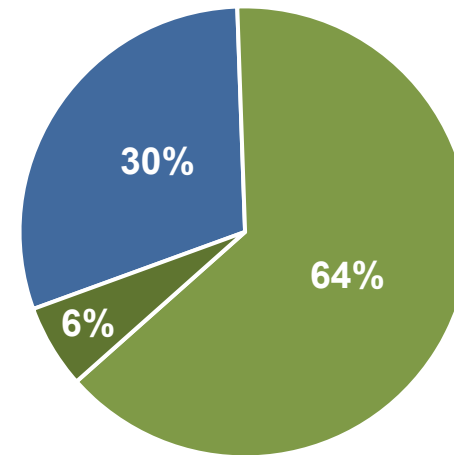
Effect of TVA Grid Access Charge

Current Wholesale Bill
All components vary with usage



■ Demand ■ Energy

Future Wholesale Bill
6% of power bill fixed



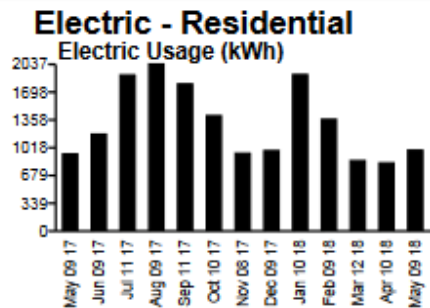
■ Demand ■ Energy ■ Grid Access Charge

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

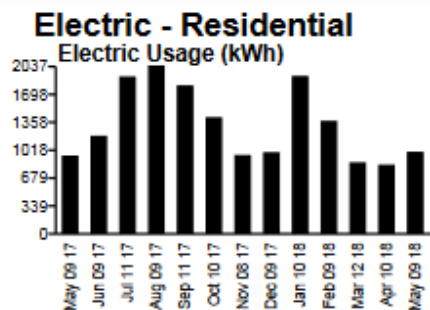
KUB Retail Bill Before TVA Grid Access Charge:



Billing Period: 04/11/18 - 05/09/18
Number of Days: 29
Read Date: 05/09/18
Meter Number: [REDACTED]
Current Reading: 23161
Prior Reading: 22175
Total kWh: 986

Basic Service	\$ 17.50
Electric kWh	\$ 89.46
Total Electric Charges	\$ 106.96

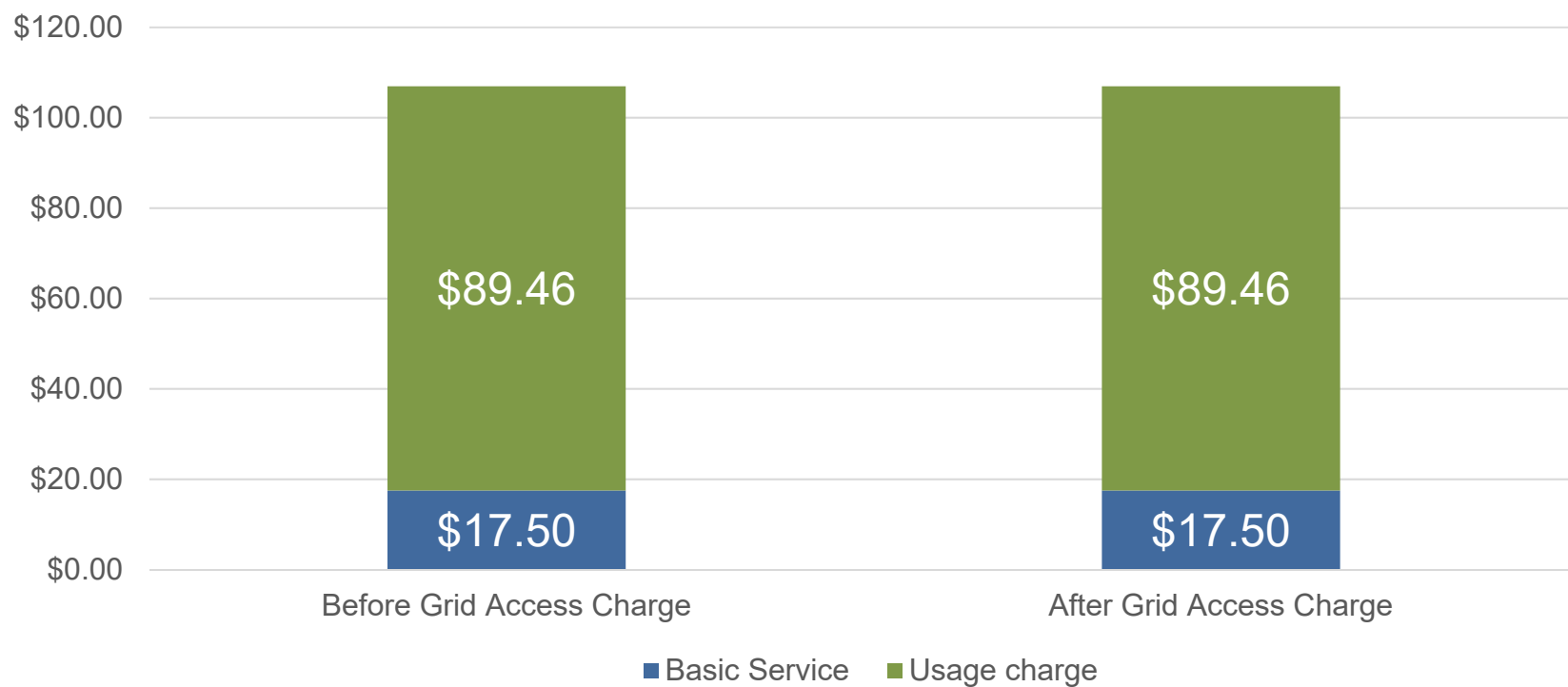
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Based on 986 kWh

KUB