

Proposed GRU Budget for FY 2019

City Commission
July 17, 2018
Item #180170

FY19 Budget Proposal

Budget Process

- There were multiple requests to provide additional informational sessions
- In February, GRU provided its first budget update to the Board and the Commission as well as the results of a month's long cost of service study for four of the five systems
- Internally, the Utility had Budget Kickoff presentations
- The Utility implemented a new financial software system with new cost flows, new general ledger accounts, and new project systems
- In August, GRU started the implementation of BPC – Business, Planning, and Consolidation – basically taking the budget process from excel and entering it into SAP
- BPC went into production in March/April of 2018. In March, we met individually with Commissioners to determine what they wanted to see in the budget year

FY19 Budget Proposal

Budget Process

- In April, GRU provided workshops with the CC and UAB
 - Results of that workshop were that GRU was to prepare a baseline budget – what would it cost to provide safety and reliability and maintain service levels to our customers
 - Each item that would be added that could bring rate pressure was to be added in increments, thereby creating incremental rates for each addition.
 - The CC recommended that GRU assemble four rate structures
 - GRU presented the pieces of the budget of: Revenues, Fuels, GRUCom
- In May, GRU provided additional workshops with the CC and UAB
 - Debt service, Liquidity, and Reserves; O&M expense and Capital expense
 - Debt service expense increased significantly due to the purchase of DHR
 - Base rate pressure existed before the DHR purchase from normal increases in labor and other costs including construction expenditures and GFT
 - GRU has been using cash reserves to mitigate base rate pressure and GRU has been exploring and entering into various liquidity items in order to mitigate base rate pressure
 - Management reviewed the submissions extensively and either cut or deferred close to \$18 million

FY19 Budget Proposal

Budget Process

▪ June workshops

- The baseline budget and the increments from April were discussed at the mid-June meetings with the Board and the Commission
- During the June meeting, a Commissioner requested that a placeholder be added for \$1 million in Total Rewards to the General Manager's recommendation, moving the recommendation from 2.35% to 3.10%.

▪ July workshop

- At the July 9th workshop, a request for GRU to come back to the Board and the Commission with a 0% and 2% option in the electric system

FY19 Budget Proposal

	No ERP	No ERP	\$20M ERP	\$35M ERP	\$35M ERP
	No pay increases	2% pay increase	2% pay increase	2% pay increase	2% pay increase
	No Total Rewards	No Total Rewards	No Total Rewards	No Total Rewards	\$1M/yr Total Rewards
	No new FTEs	6 FTEs	6 FTEs	6 FTEs	6 FTEs
	Shift in GFT payment	Shift in GFT payment	Shift in GFT payment	Shift in GFT payment	Shift in GFT payment
Electric	0.50%	1.00%	1.00%	2.35%	3.10%
Water	0.00%	0.00%	0.00%	0.00%	0.00%
Wastewater	0.00%	0.00%	0.00%	1.00%	2.40%
Gas	0.00%	0.00%	0.00%	0.00%	0.00%

FY19 Budget Proposal

	(1)	(2)	(2)
	\$35M ERP	1 Yr Delay ERP \$35M	\$20M ERP
	2% pay increase	No pay increases	2% pay increase
	\$1M/yr Total Rewards	No Total Rewards	\$1M/yr Total Rewards
	6 FTEs	No new FTEs	6 FTEs
	Shift in GFT payment	Shift in GFT payment	Shift in GFT payment

Electric	3.10%	0.00%	2.00%
Water	0.00%	0.00%	0.00%
Wastewater	2.40%	0.00%	1.85%
Gas	0.00%	0.00%	0.00%

(1) General Manager recommendation plus City Commission request for Total Rewards at \$1M per year

(2) Subsequent City Commission request for 0% and 2% Electric System rate options

FY19 Budget Proposal

Four Residential Electric Rate Structures

- 1) Two Tiers with the Break at 850 kWh
 - no changes from prior year
- 2) Two Tiers with the Break at 750 kWh
 - conservation incentive
- 3) Two Tiers with the Break at 1000 kWh
 - competitive advantage
- 4) Flat Rate
 - reference case, one price for all kWh

FY19 Budget Proposal

- General Manager recommendation to joint CC/UAB meeting July 9

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Electric	3.10%	3.10%	2.65%	2.00%	3.00%	2.00%	2.00%
Water	0.00%	1.50%	0.00%	1.00%	0.00%	1.00%	1.00%
Wastewater	2.40%	2.80%	3.15%	2.00%	3.00%	2.00%	1.00%
Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

- Included in this package

- \$35M in ERP capital costs over three years
- 2% pay increases
- \$1M/year Total Rewards impact
- Six new FTEs
- Shifting \$6M in GFT payment from Electric to Gas & \$1M from WW to Gas

- Electric System Rate Stabilization Fund balances for this proposal

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Electric RSF	27.78 M	19.64M	14.45M	10.66M	9.56M	10.74M	15.24M

FY19 Budget Proposal

- Based on City Commission direction on July 9 staff developed several alternate electric system packages
- First package is a 0% rate increase

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Electric	0.00%	5.00%	5.00%	1.00%	1.25%	1.00%	2.00%
Water	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%
Wastewater	0.00%	3.00%	3.00%	3.00%	3.00%	1.00%	1.00%
Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

- Included in this proposal
 - \$35M ERP capital costs over three year period (delayed until FY20)
 - No pay increases other than current contractual obligations
 - No Total Rewards impact
 - No new FTEs
 - \$7M shift in GFT payment from Electric to Gas and \$1M from WW to Gas

- Electric System Rate Stabilization fund balances for this proposal

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Electric RSF	24.80M	16.60M	15.27M	14.11M	13.18M	12.86M	15.80M

FY19 Budget Proposal

- Final package is a 2% increase to Electric System rates for FY19; proposed rates through the planning horizon for this proposal are

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Electric	2.00%	4.00%	2.65%	2.25%	3.00%	2.00%	2.00%
Water	0.00%	1.00%	1.00%	0.00%	0.00%	1.00%	1.00%
Wastewater	1.85%	2.50%	3.00%	2.50%	2.25%	2.00%	2.00%
Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

- Included in this proposal
 - \$20M in ERP capital costs over three years
 - 2% pay increases
 - 6 new FTEs
 - \$1M/yr Total Rewards impact
 - \$6M shift in GFT payment from Electric to Gas and \$1M from WW to Gas

- Electric System Rate Stabilization fund balances for this proposal

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Electric RSF	26.04M	17.56M	12.44M	9.16M	8.53M	10.18M	15.14M

FY19 Budget Proposal

- During fiscal year 2015, GRU reviewed historical cash balances and noted that the Utility had a significant level of total cash (\$281M)
- Working with the City Commission, the Utility planned a utilization of reserves to assist in mitigating rate pressure during the DHR acquisition over the years 2016, 2017, and 2018
 - Drawdown of cash
 - Substitution of cheaper forms of liquidity (commercial paper and a line of credit)
 - Additional drawdowns of rate stabilization reserves are scheduled in 2019, 2020, 2021, 2022, and 2023

FY19 Budget Proposal

- Forecasts of the next five years reflect a drawdown of reserves to levels below what is financially prudent
 - Rate increases proposed by the General Manager are necessary for operations of the utility and replenishment of reserves
 - The Commission's willingness to raise rates is a criteria utilized by the rating agencies
 - GRU's reserve levels have been identified as a credit weakness by rating agencies
- Decision to not increase rates to adequately replenish reserves may lead to a negative watch outlook and a possible rating downgrade
 - Increase in current and future borrowing costs which will drive rate pressure both immediately and in the future

FY19 Budget Proposal

		FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
(1)	Electric RSF	52.83M	51.61M	35.57M	28.92M	24.80M	16.60M	15.27M	14.11M	13.18M	12.86M	15.80M
(2)	Electric RSF	52.83M	51.61M	35.57M	28.92M	26.04M	17.56M	12.44M	9.16M	8.53M	10.18M	15.14M
(3)	Electric RSF	52.83M	51.61M	35.57M	28.92M	22.83M	9.64M	(.7M)	(9.72M)	(16.17M)	(20.43M)	(21.48M)

- (1) 0% rate increase in FY19. No pay increases, no Total Rewards, no new FTEs, shift in GFT payment, \$35M ERP capital costs over three years
- (2) 2% electric rate increase in FY19. 2% pay increases, \$1M/yr Total Rewards, 6 new FTEs, shift in GFT payment, \$20M in ERP capital costs over three years
- (3) 0% electric rate increase in FY19. 2% pay increases, \$1M/yr Total Rewards, 6 new FTEs, shift in GFT payment, \$35M in ERP capital costs over three years

Proposed Electric Pricing

To Meet 2.0% Base Rate Revenue Requirement

Existing	Residential 850 kWh Break	GS Non-Demand 1500 kWh Break	GS Demand	Large Power
Customer Charge (\$/month)	\$14.25	\$29.50	\$100.00	\$350.00
Block 1 Energy Charge (\$/kWh)	\$0.0680	\$0.0890	\$0.0601	\$0.0563
Block 2 Energy Charge (\$/kWh)	\$0.0930	\$0.1220	N/A	N/A
Demand Charge (\$/kW)	N/A	N/A	\$9.50	\$9.75
Proposed	Residential 850 kWh Break	GS Non-Demand 1500 kWh Break	GS Demand	Large Power
Customer Charge (\$/month)	\$14.25	\$29.50	\$100.00	\$350.00
Block 1 Energy Charge (\$/kWh)	\$0.0716	\$0.0926	\$0.0618	\$0.0577
Block 2 Energy Charge (\$/kWh)	\$0.0881	\$0.1232	N/A	N/A
Demand Charge (\$/kW)	N/A	N/A	\$9.50	\$9.75

Proposed Wastewater Changes

- We have Identified an Increased Revenue Requirement of 1.85%
 - Increase the kGal Volume Charge from:
\$6.30/kgal to \$6.45/kgal
 - 7 kGal Residential Bill Increases from:
\$53.20/month to \$54.25/month

Remaining Systems

- We are proposing no rate increases for the Water System
 - Water and Wastewater Connection Charges are determined separately
- We are proposing no rate increases for the Gas System

W/WW Connection Charges & Related Fees

- Inflationary increase of 3% for*:
 - Water & WW connection charges
 - Water meter assembly & installation
 - Plan review & inspection
 - Water main tapping
 - Temporary water service
 - Fire hydrant service
 - IDistrict Infrastructure Improvement Area fees**

* Inflationary increase based on change in Engineering News Record Construction Cost Index (CCI) from 2017 to 2018

** IIA fees approved by City Commission June 21, 2018

W/WW Connection Charges & Related Fees

- 35% discount on water/WW connection charge for homes $\leq 1,400$ ft² heated & cooled starting in FY2019*

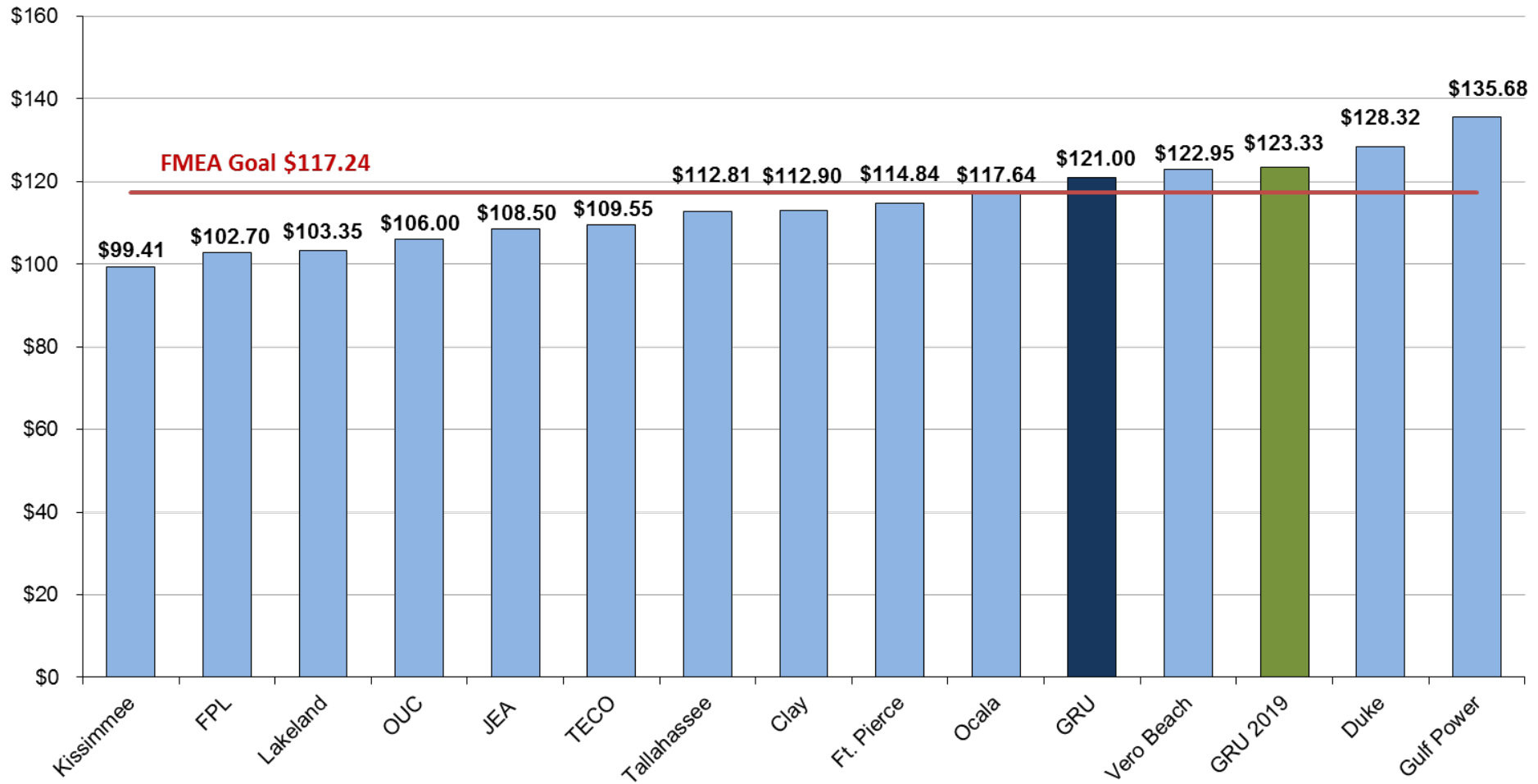
*Per City Commission approval

Bill Comparison Charts for May 2018 and FY2019

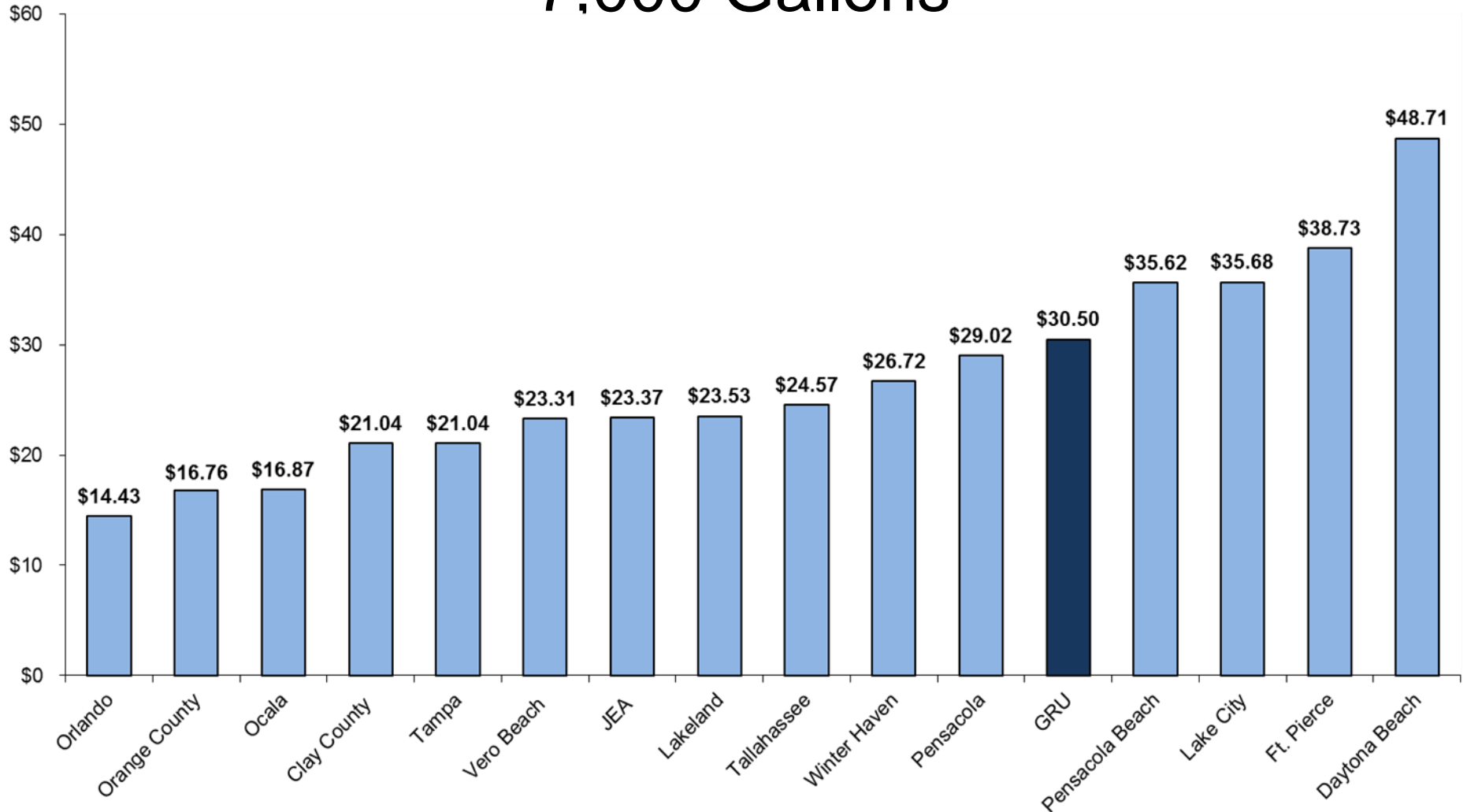
2.0% increase for the Electric System in FY2019

1.85% increase for the Wastewater System in FY2019

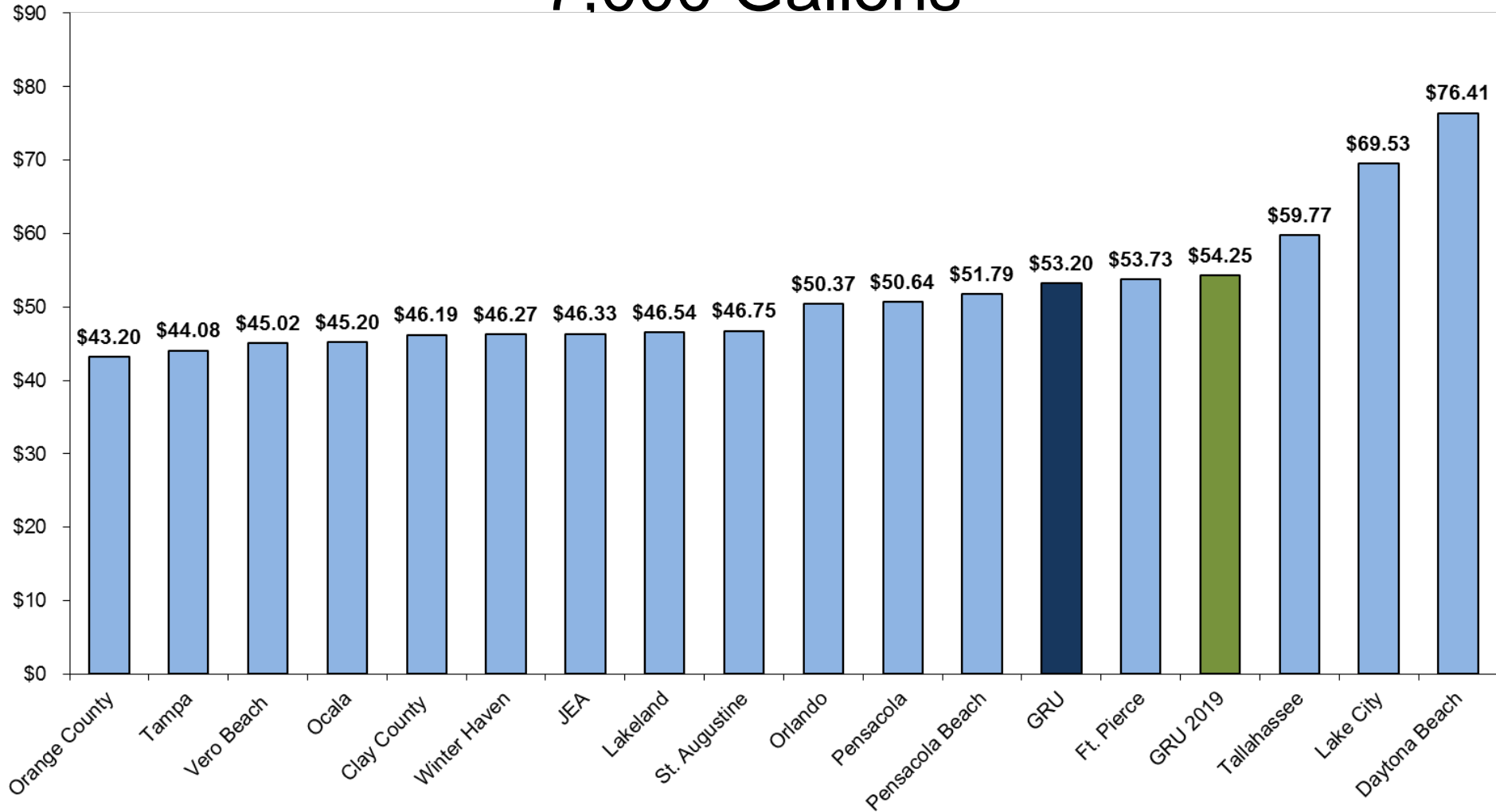
Residential Electric 1,000 kWh



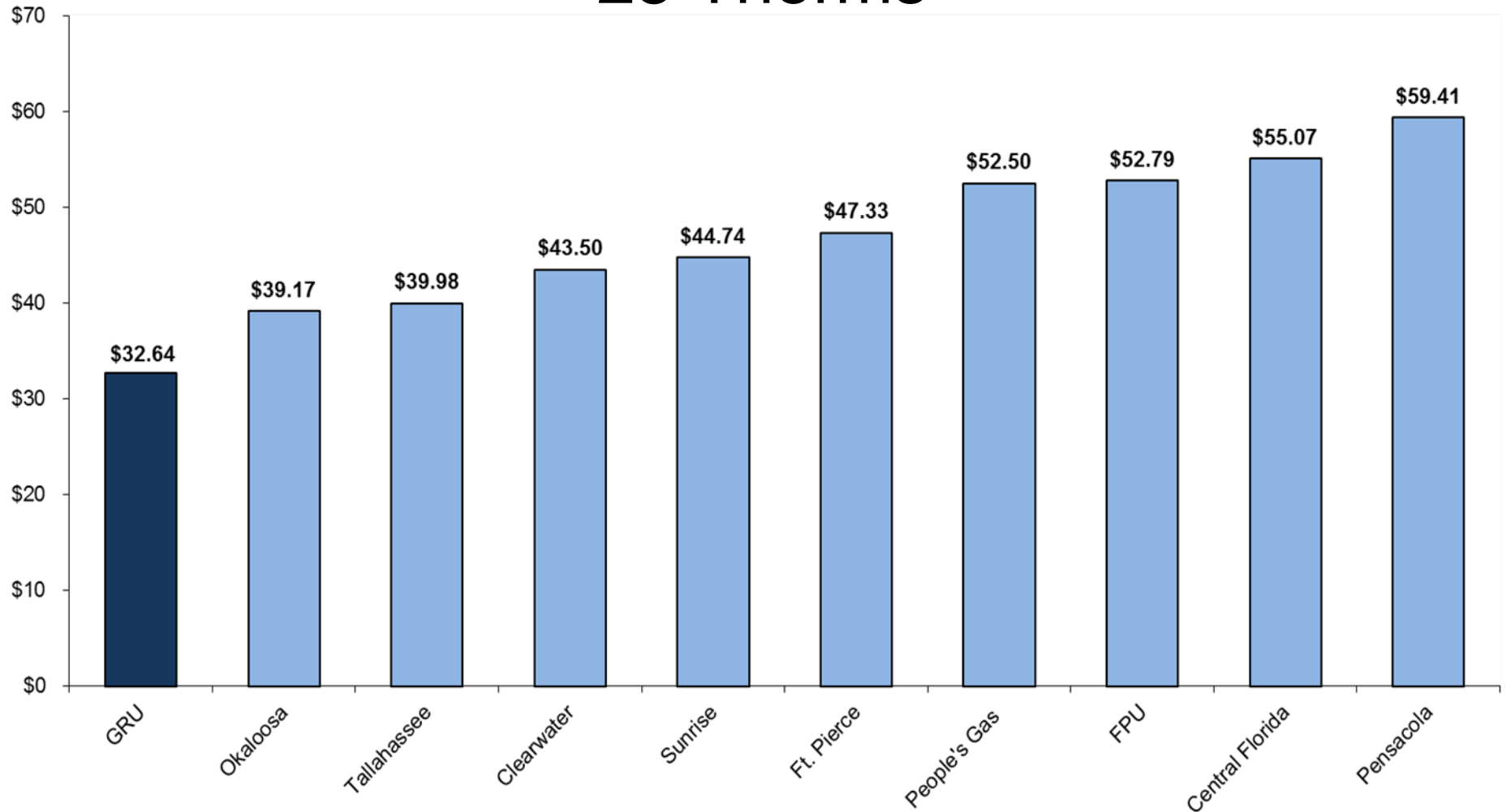
Residential Water 7,000 Gallons



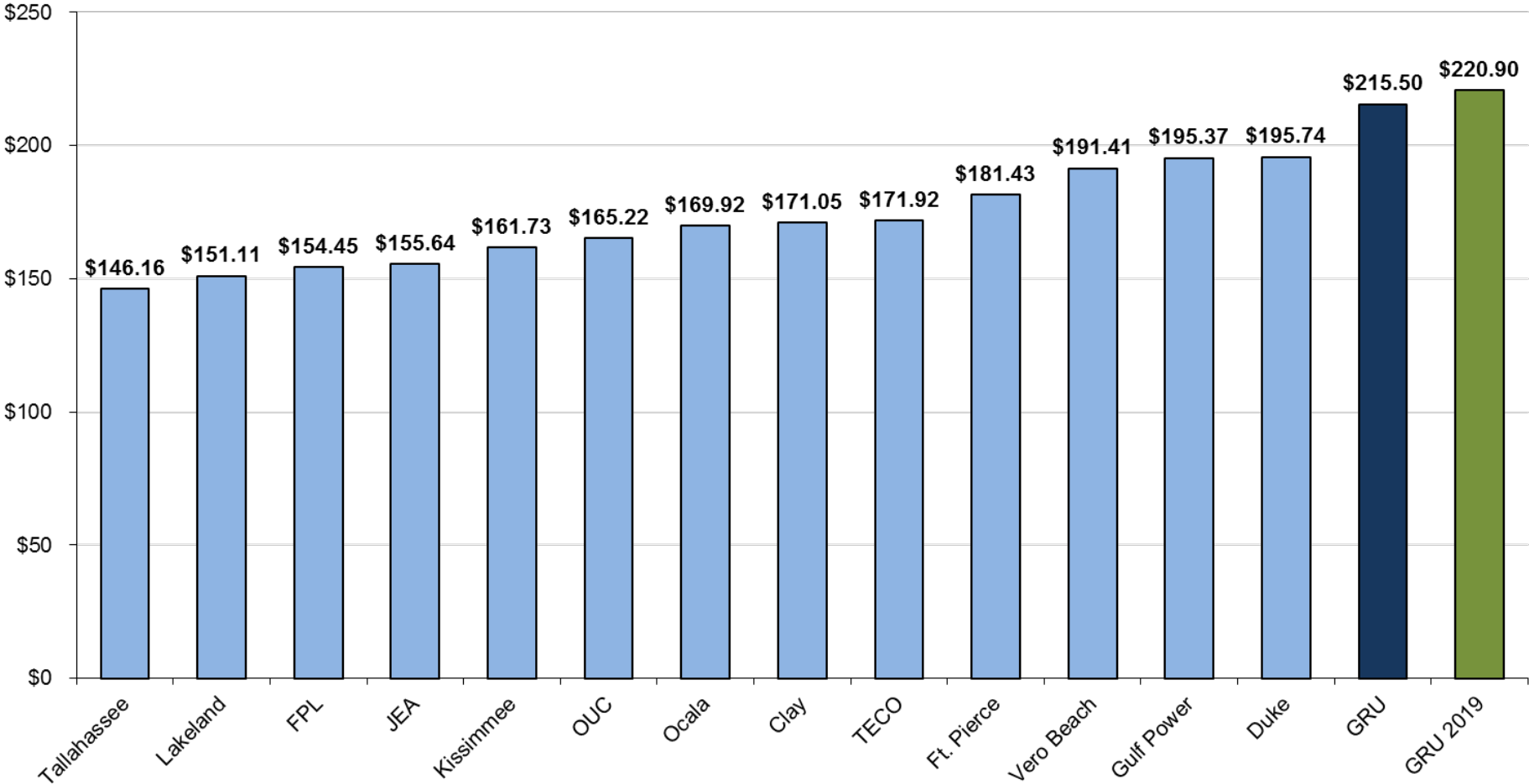
Residential Wastewater 7,000 Gallons



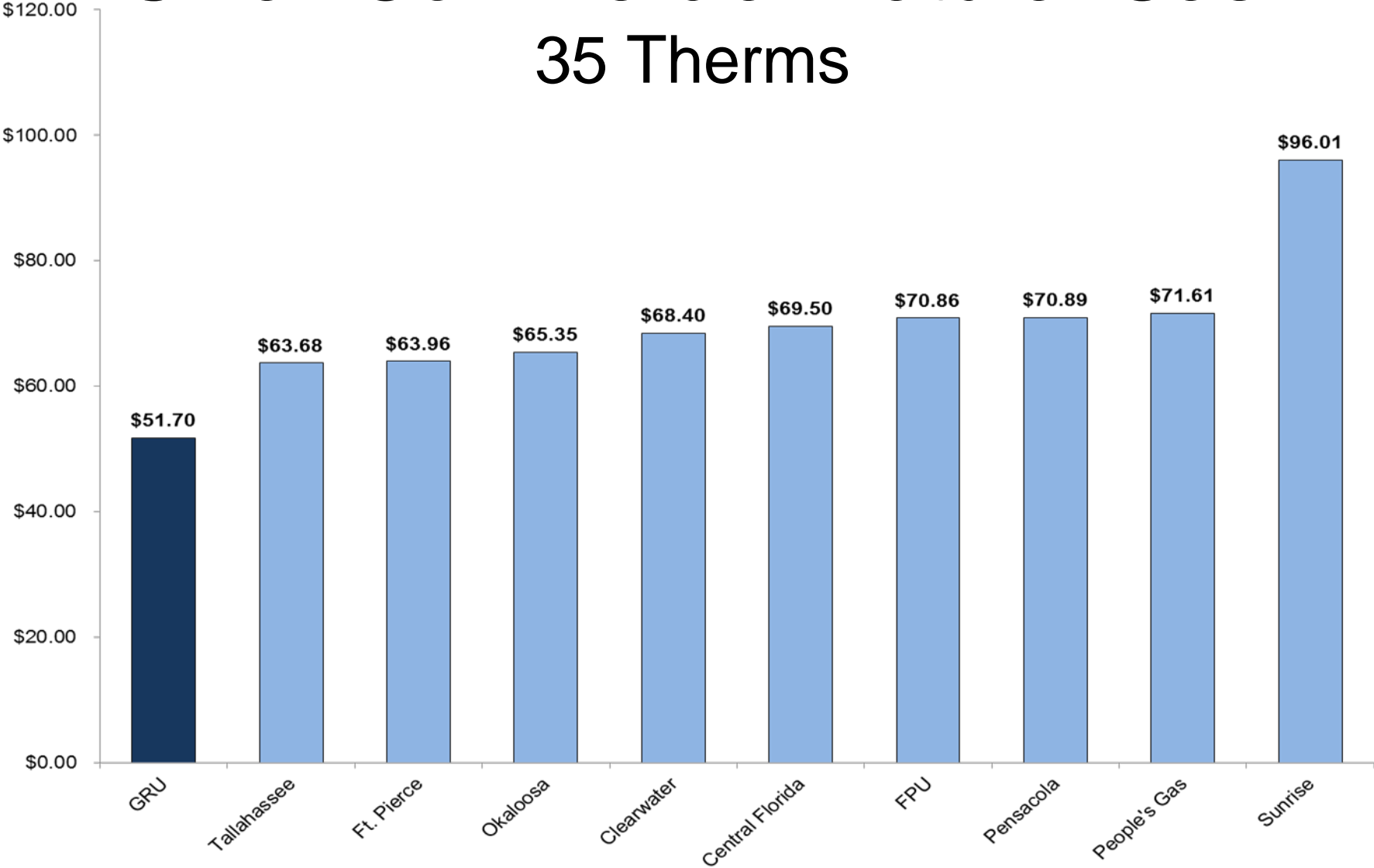
Residential Natural Gas 25 Therms



GS Non-Demand Electric 1,500 kWh

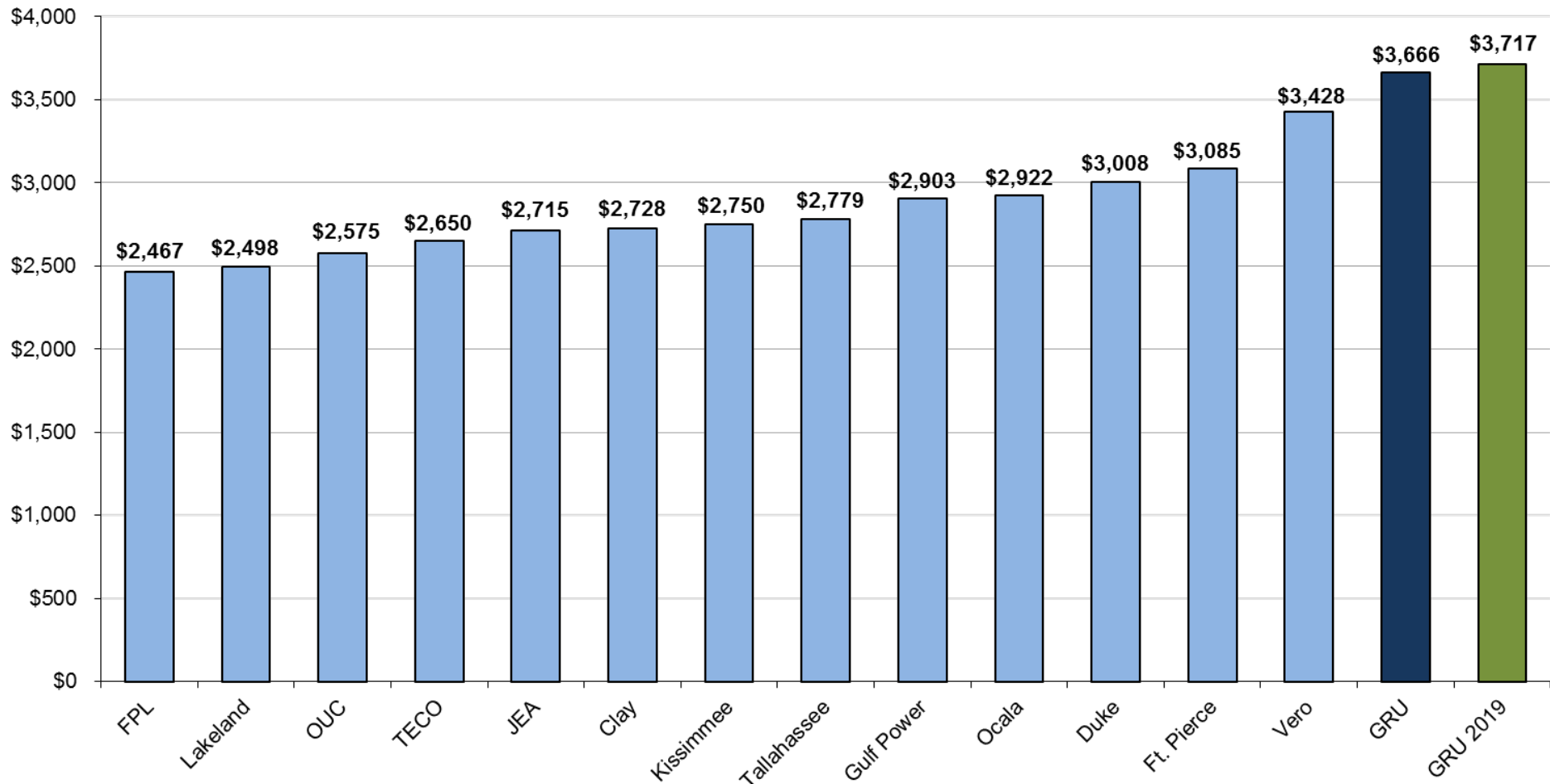


Small Commercial Natural Gas 35 Therms

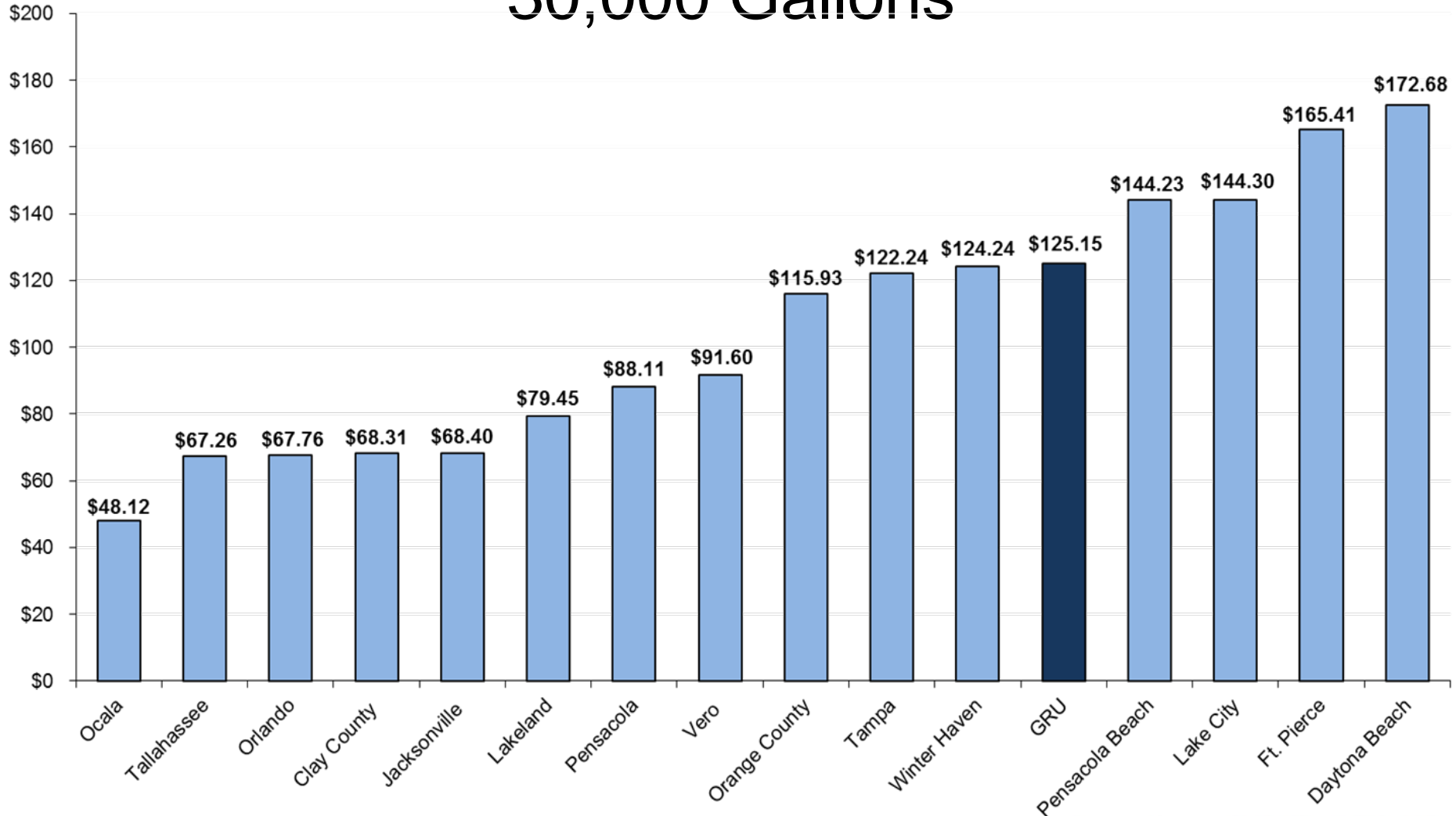


GS Demand Electric

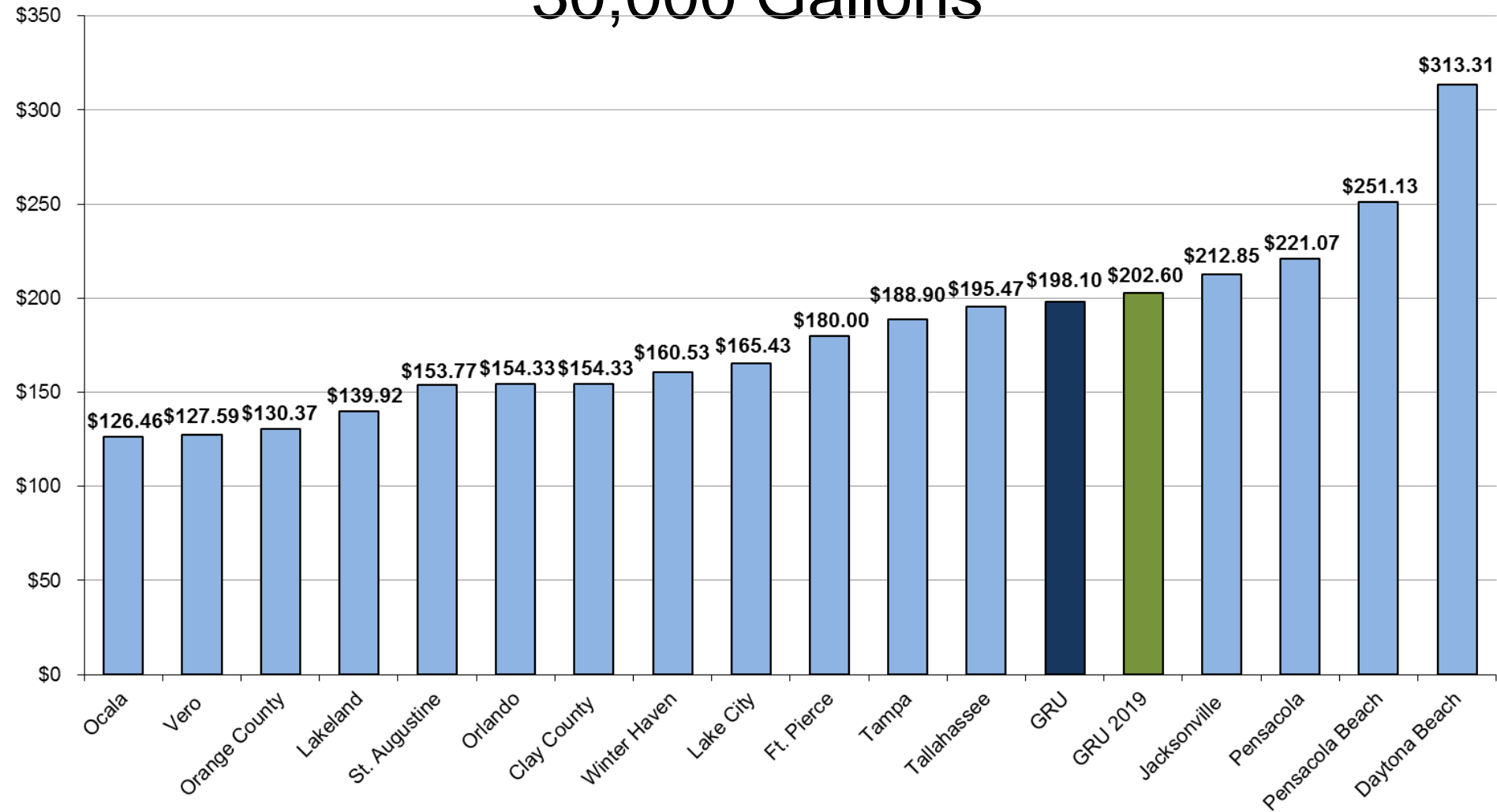
75 kW / 30,000 kWh



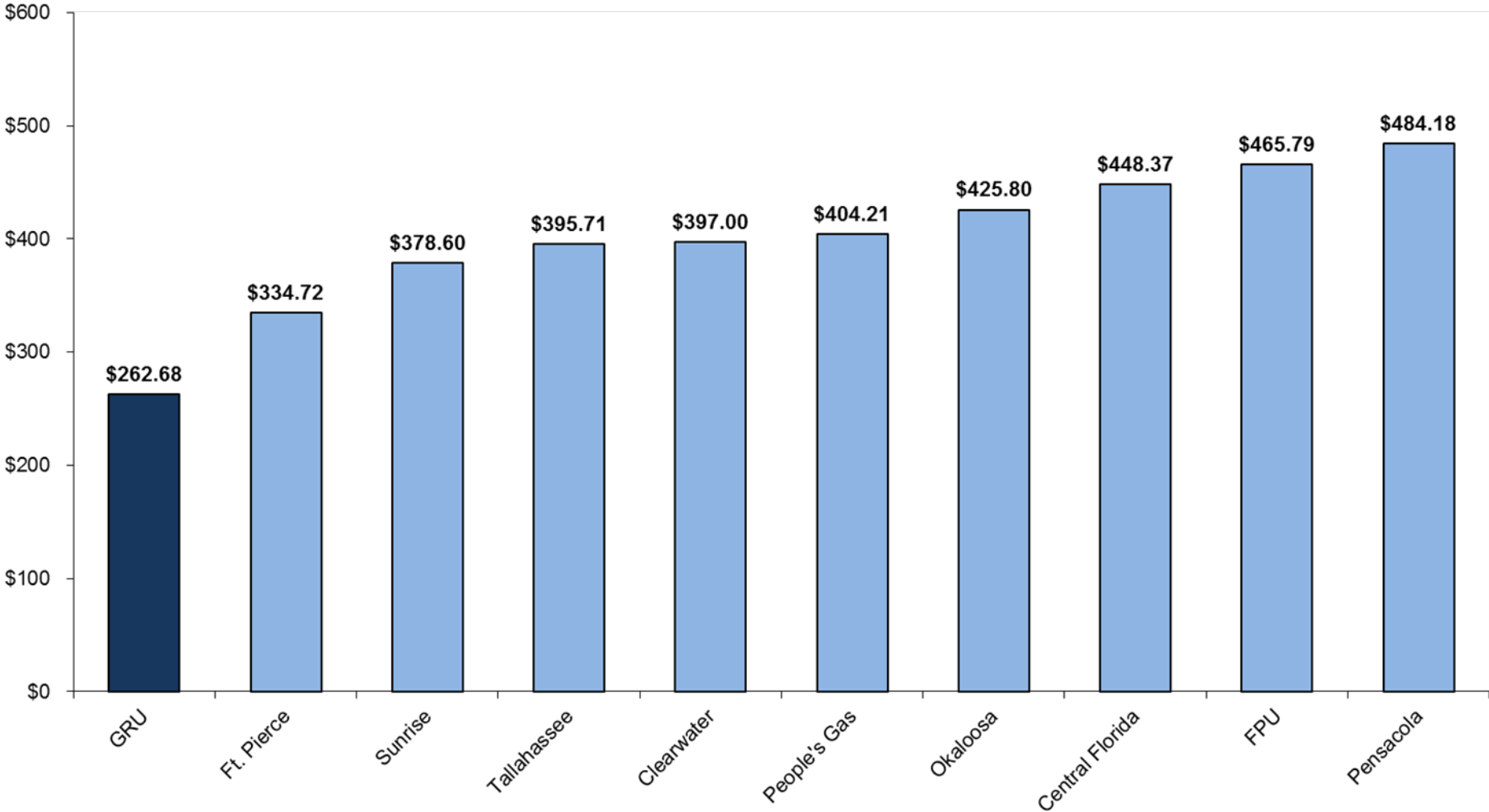
Non-Residential Water 30,000 Gallons



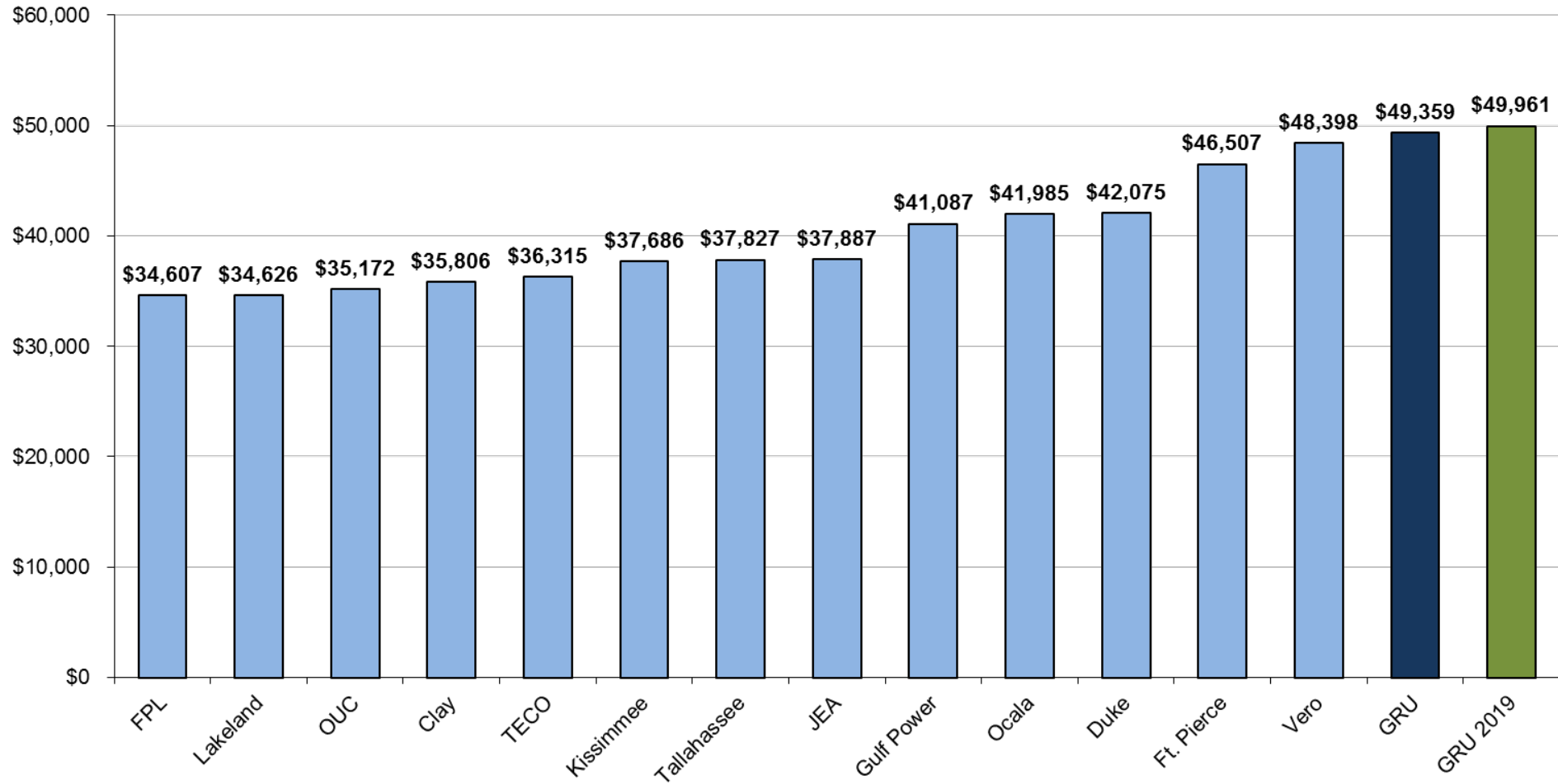
Non-Residential Wastewater 30,000 Gallons



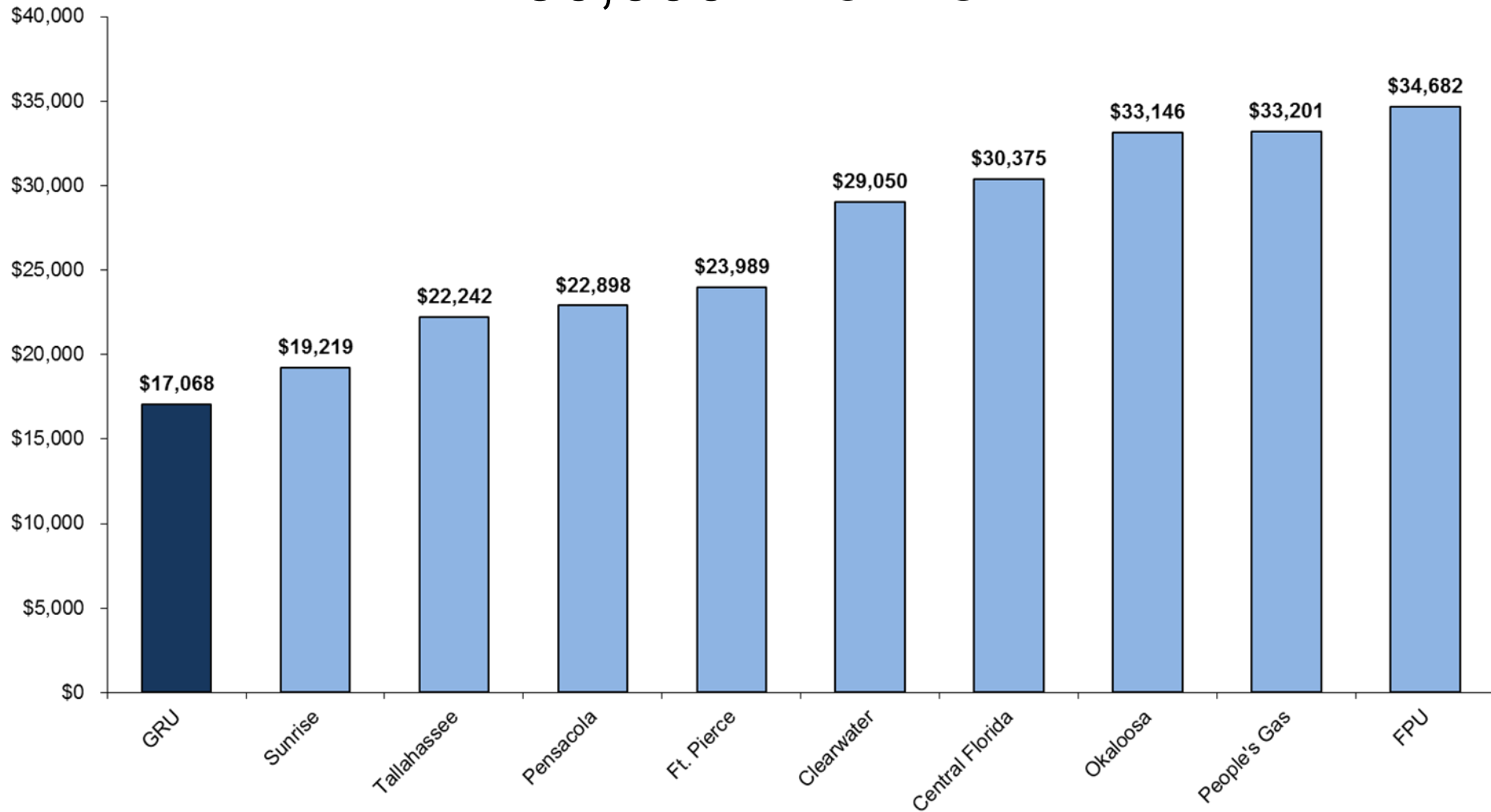
Commercial Natural Gas 300 Therms



GS Large Demand 1,000 kW / 430,000 kWh



Large Volume Natural Gas 30,000 Therms



FY19 Budget Proposal: Recommendation

- City Commission direct the City Attorney to draft and the Clerk to advertise required ordinance language to implement GRU FY19 budget