



FY 2019 Budget and Financial Operating Plan

September 17, 2018



Overview

- Development of the Financial Operating Plan
- Growth
- Capital Expenditures
- Operating Expenses
- Rates and Impact Fees
- New and Innovative Budgeting Strategies
 - Actions to Control Costs
 - Actions to Improve Revenue
- Financial Results
- Long-Term Financial Forecast
- Organizational Performance



Development of the Financial Operating Plan



Business Strategy

		Strategic Themes		
		Financially Sound	Community Partner	Responsible
Key Focus Areas	Customer Experience	Secure Appropriate Rates	Be Convenient	Do it Right the First Time
	Our People & Culture	Train, Develop, & Engage Employees	Lead & Communicate Effectively	Care & Empower
	Organizational Resiliency	Maintain Prudent Financial Safeguards	Plan & Build for the Future	Be Sustainable
	Service Excellence	Budget for Excellence	Exceed Expectations	Know & Do the Right Thing

Development of the 5-Year Plan

- Strive for optimal use and mix of major sources of funding:
 - Rates
 - Impact Fees
 - Bonds
- Maintain financial soundness by following parameters in NBU's Financial Policy including:
 - Debt to Total Capitalization Ratio: $\leq 50\%$
 - Debt Service Coverage Ratio: $\geq 2.4x$
 - Days Cash on Hand: ≥ 140 days
- Economic self-sufficiency for each line of business
- Strategically plan for rate and fee increases when appropriate



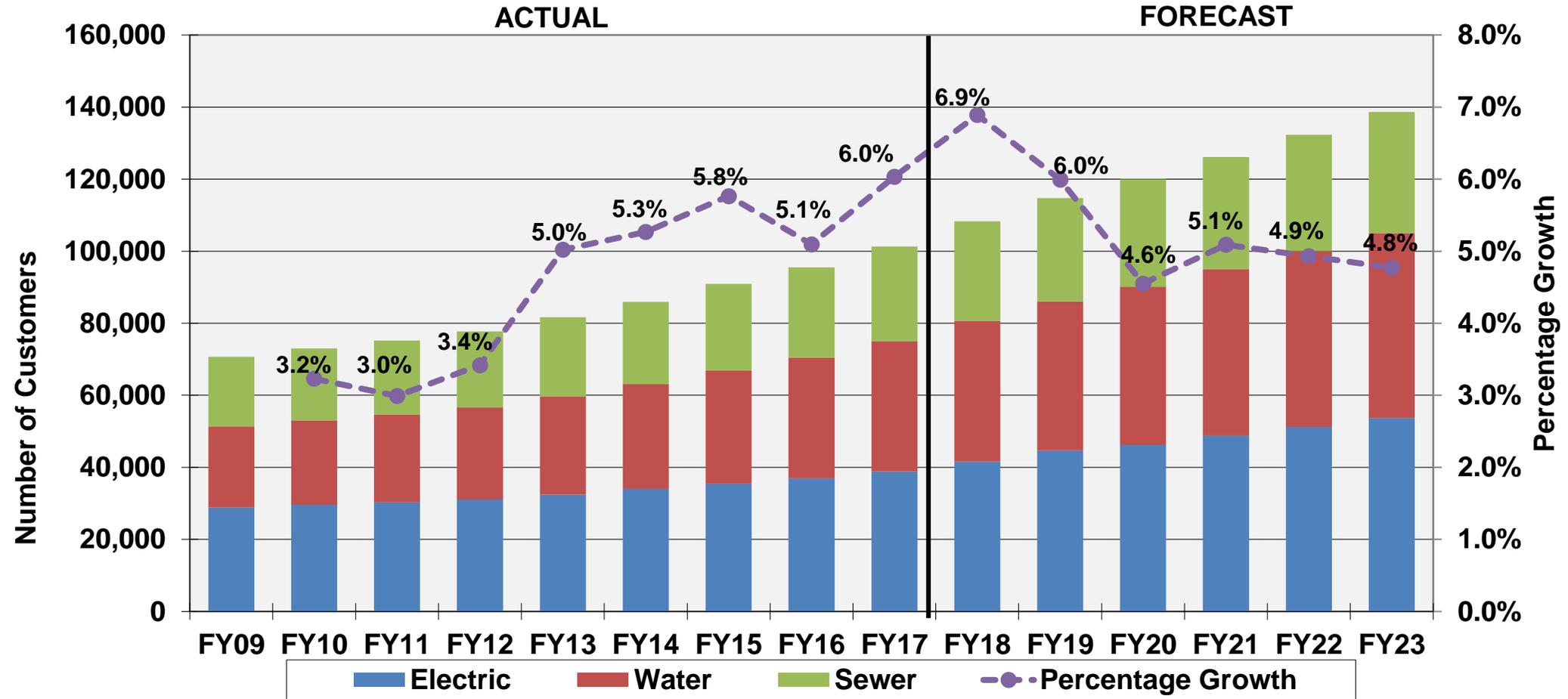
Growth



Population Growth in New Braunfels

- New Braunfels was ranked as the second fastest growing city in 2015 and 2017
- New Braunfels has been in the top 10% of fastest growing cities in the nation for the last 7 years
- New Braunfels growth has ranked 9th in percentile dating back to 2010
- Growth has
 - Rapidly consumed capacity in our infrastructure
 - Strained our workforce
 - Changed customer expectations
- This is an historic time

Combined Meter Growth by Year

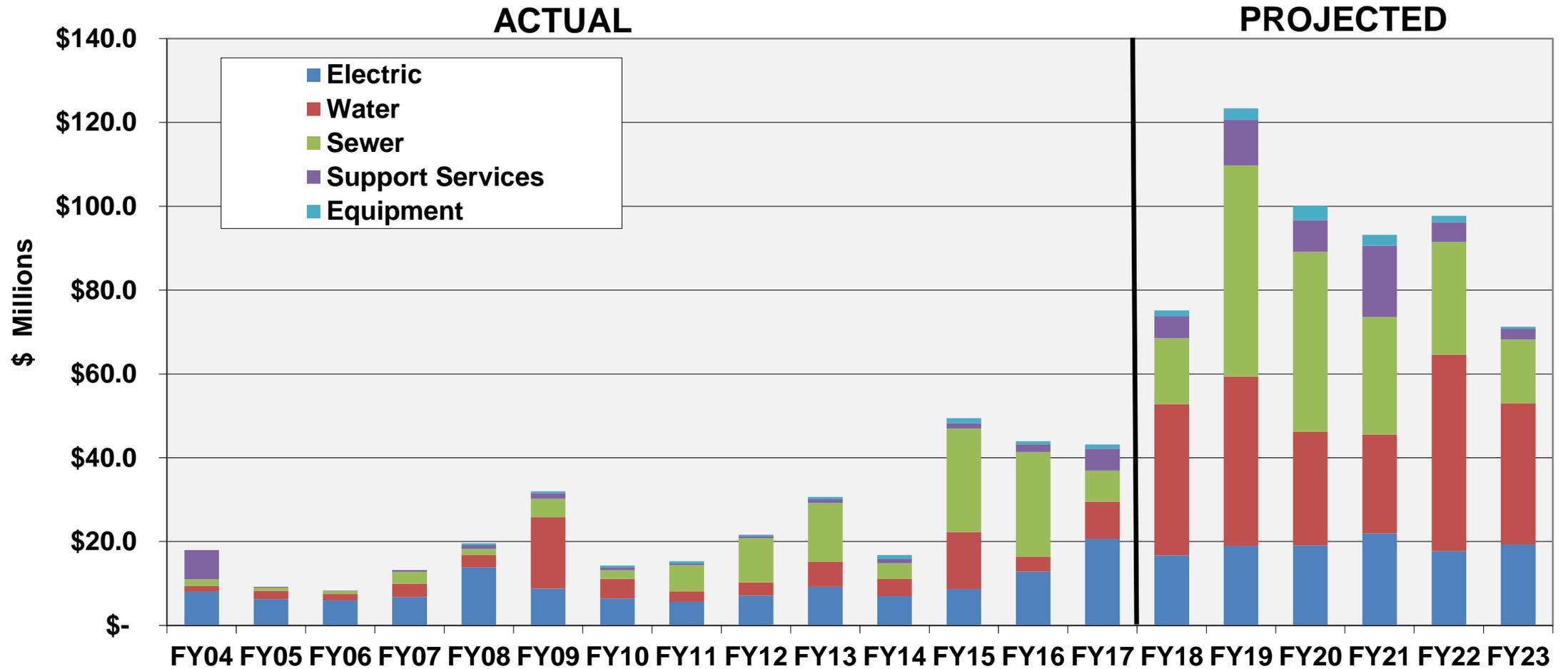




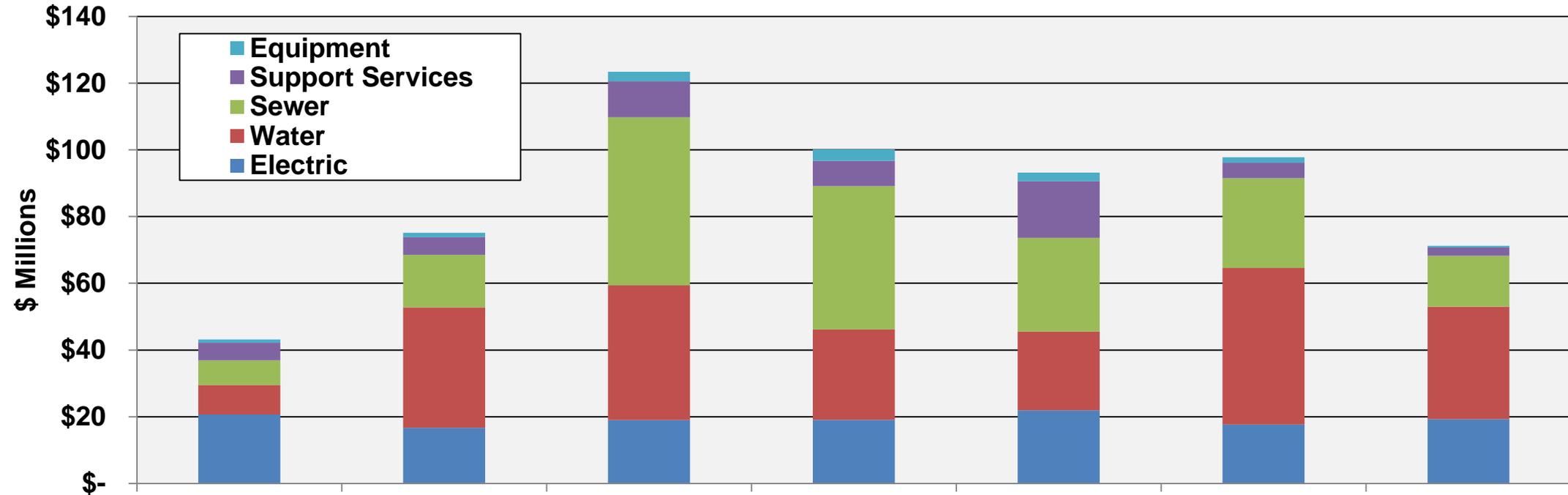
Capital Expenditures



Historical & Projected Capital

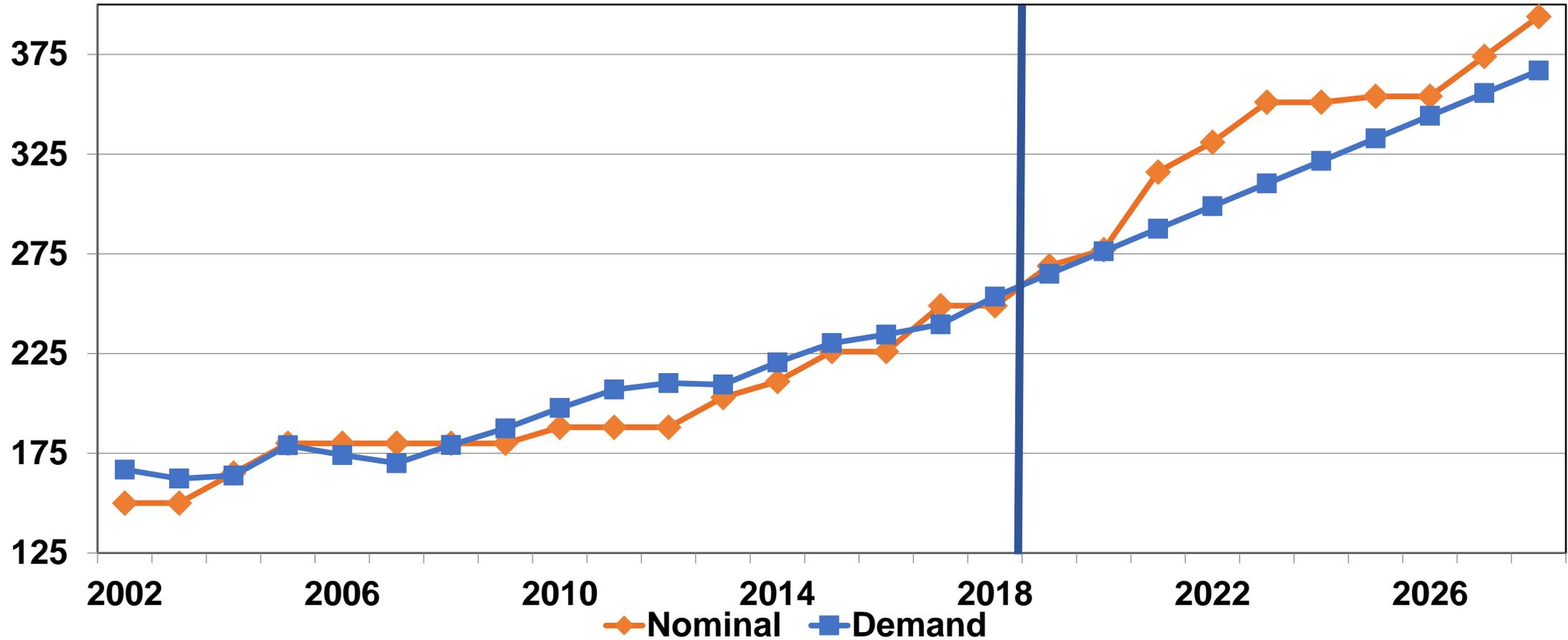


Historical & Projected Capital

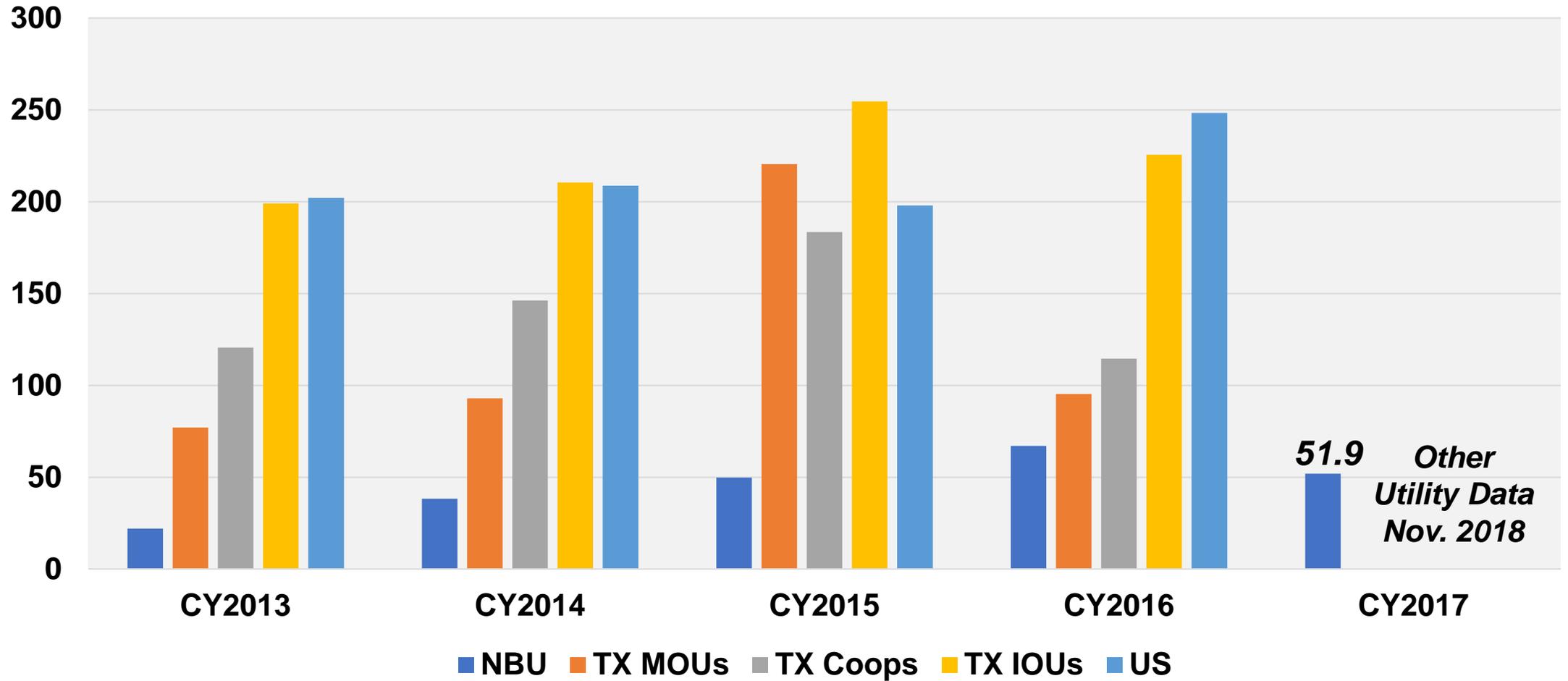


	Actual 2017	Forecast 2018	Budget 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023
Equipment	\$1.0	\$1.3	\$2.8	\$3.4	\$2.6	\$1.6	\$0.5
Support Services	\$5.3	\$5.3	\$10.8	\$7.6	\$17.0	\$4.7	\$2.5
Sewer	\$7.4	\$15.7	\$50.4	\$43.0	\$28.0	\$26.9	\$15.2
Water	\$8.8	\$36.1	\$40.4	\$27.1	\$23.6	\$46.9	\$33.7
Electric	\$20.7	\$16.7	\$19.0	\$19.1	\$22.0	\$17.7	\$19.3
Total Capital Expenditures	\$43.2	\$75.1	\$123.4	\$100.1	\$93.2	\$97.8	\$71.3

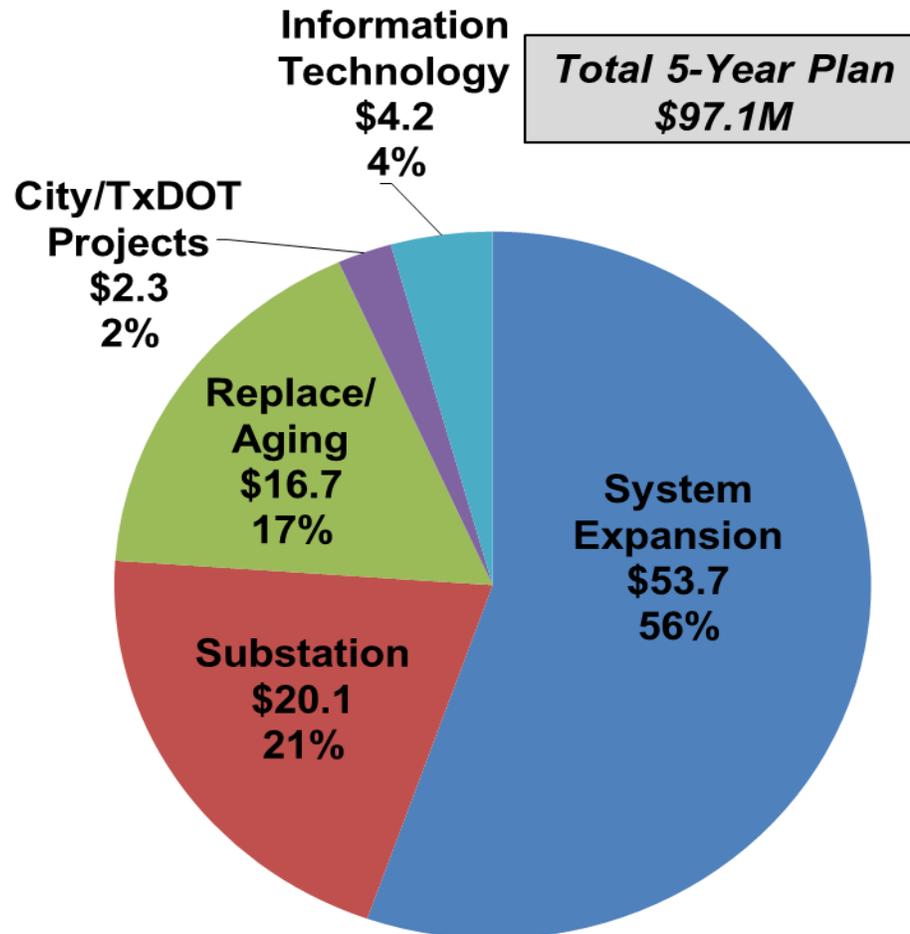
Transformer Demand vs. Capacity



Reliability - SAIDI (Lower is Better!)



Electric Capital Plan



System Expansion

- System Extensions - \$30.6M
- Distribution Transformers - \$9.6M
- Two-Way Metering - \$6.2M

Substation

- Hueco Springs Substation - \$3.9M
- Weltner Road Substation - \$2.2M
- Sheriff's Posse - \$6.3M
- E.C. Mornhinweg T2 - \$3.0M

Replacement/Aging

- Aging Infrastructure - \$10.7M
- Transmission Breaker Replacements - \$4M

City/TxDOT Projects

- TxDOT Road Widening - \$2.3M

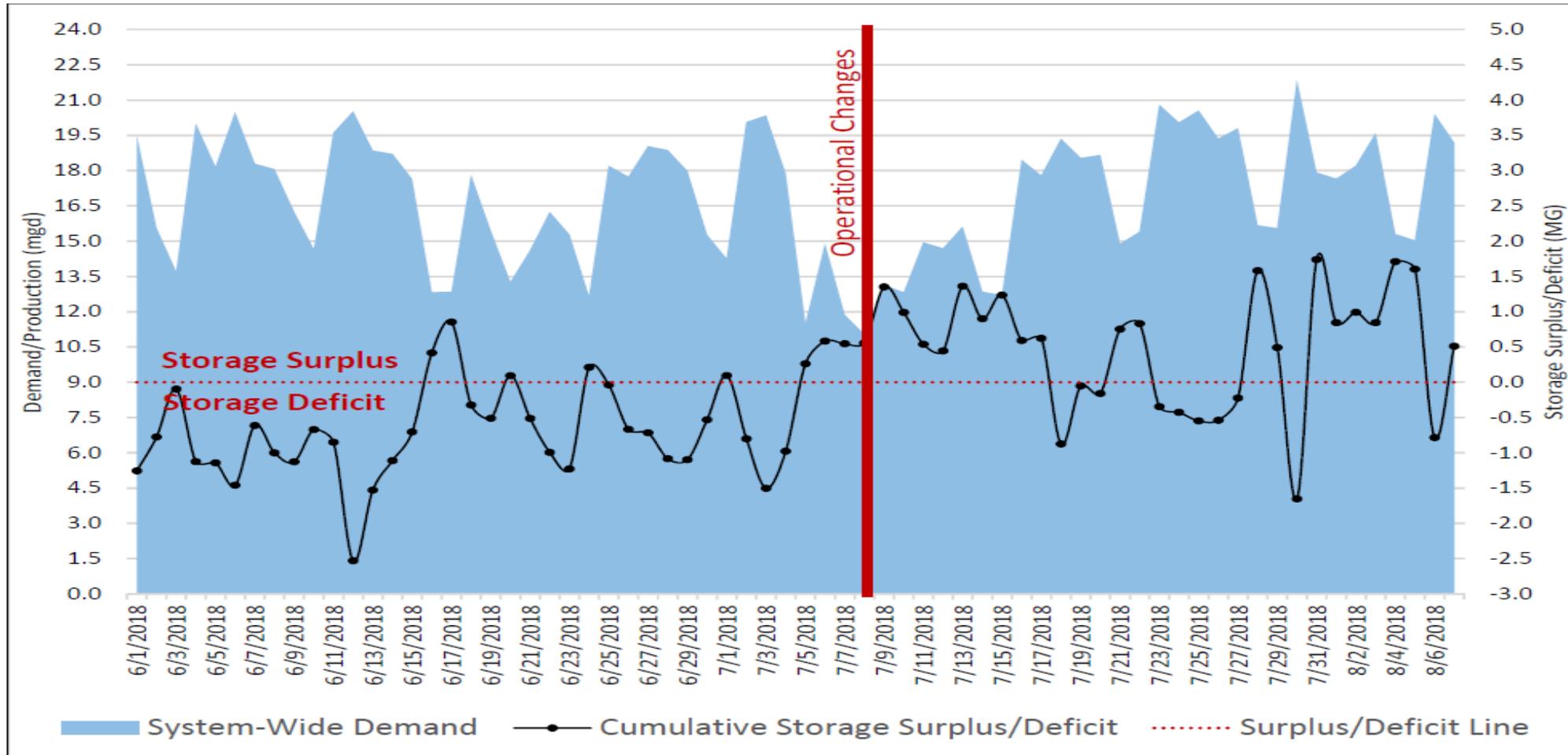
Information Technology

- System Technology Upgrades - \$3.7M

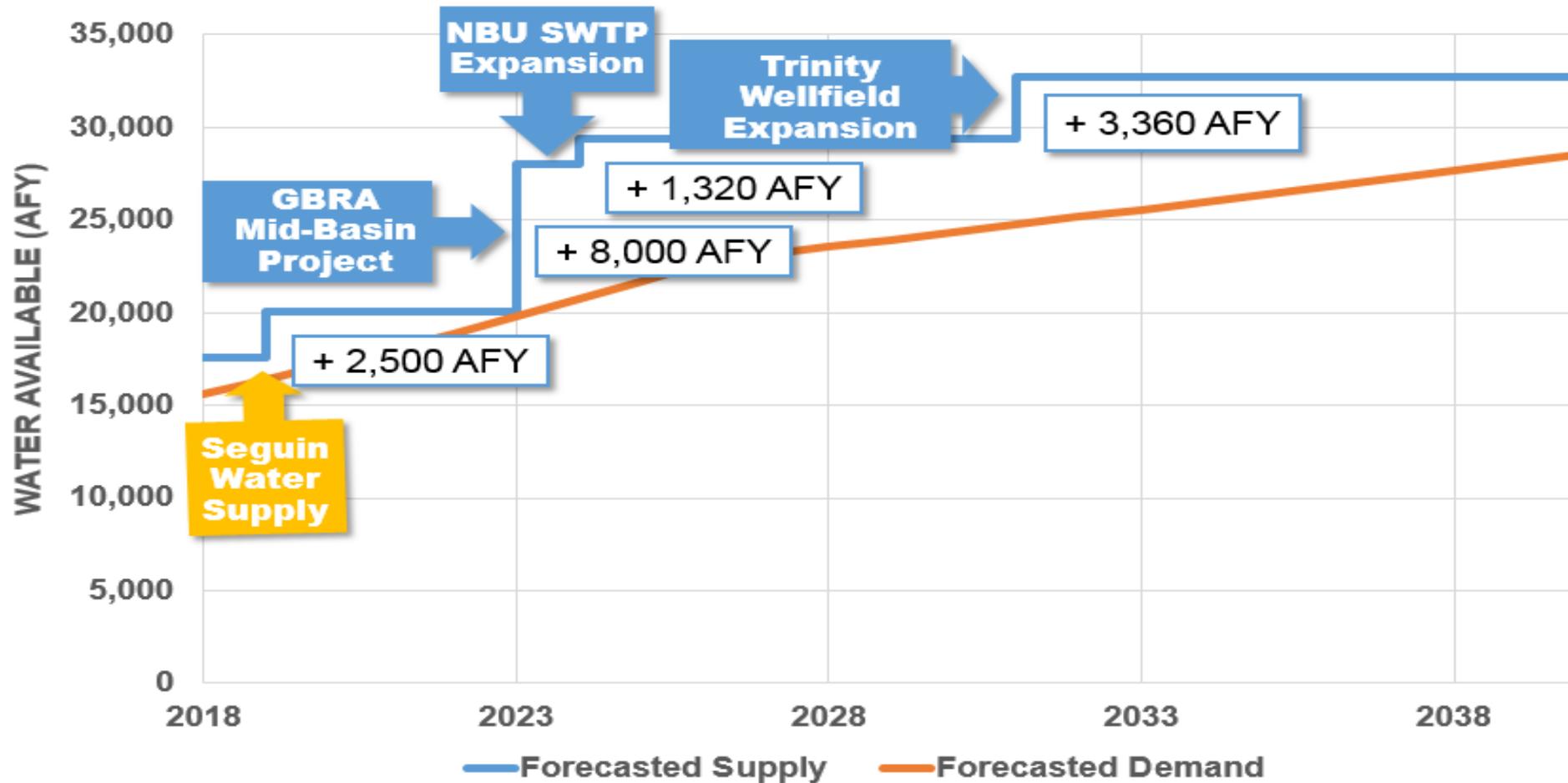
Water Elevated Storage Evaluation

Pressure Zone	Effective Elevated Storage Capacity (MG)	2018 Required Elevated Storage (MG)	2028 Required Elevated Storage (MG)	Needed Volume by 2028 (MG)
Riverchase	0.15	0.47 ❌	0.48 ❌	0.33
Hoffman	0.25	0.41 ❌	0.41 ❌	0.16
Kohlenberg	0.10	0.59 ❌	2.31 ❌	2.21
Downtown	0.42	2.79 ❌	3.81 ❌	3.39
Morningside	1.00	0.74 ✅	1.33 ❌	0.33
Loop	0.14	0.46 ❌	0.76 ❌	0.62
Kerlick	0.85	0.83 ✅	1.10 ❌	0.25
Mission	1.14	0.43 ✅	0.60 ✅	0.00
Copper Ridge	0.50	0.46 ✅	0.50 ✅	0.00

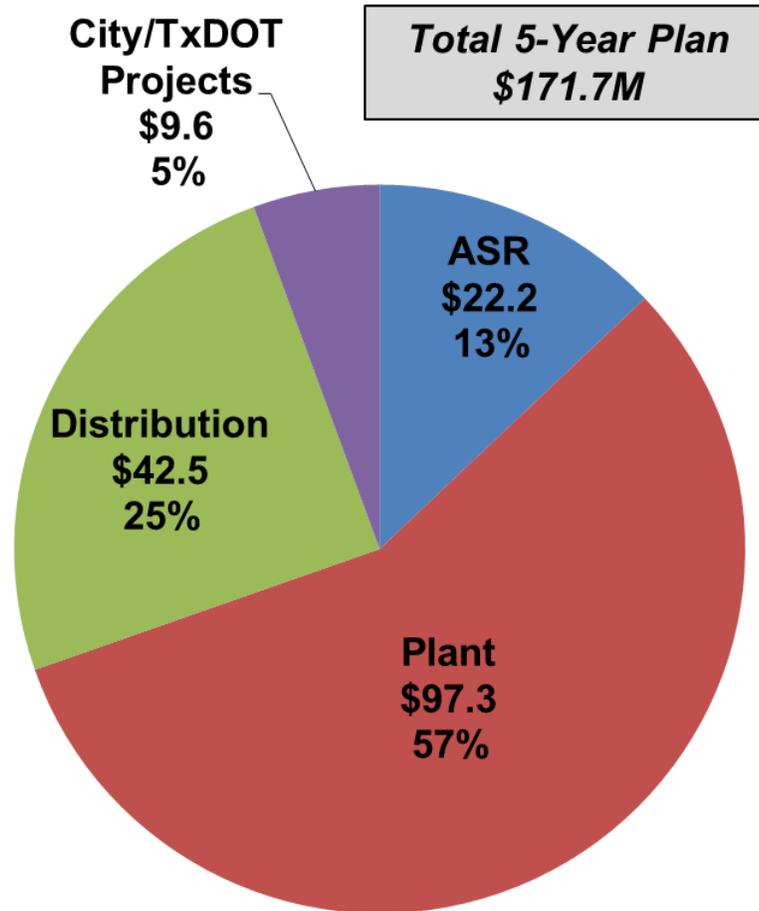
Water Demand and Storage Surplus/Deficit



Proposed Firm Yield Supply



Water Capital Plan



Distribution

- Avery Park 20" Water Main - \$11.3M
- Water Meters (New & Change-Out) - \$8.3M
- System Extensions - \$6.2M

Plant

- Weltner Road Ground Storage/Pump Station-Phase I - \$14.6M
- SWTP Expansion - \$50.1M
- Bretzke Ground Storage - \$13.9M

Replacement/Aging

- Aging Infrastructure - \$6.2M

ASR

- Aquifer Storage & Recovery - \$22.2M

City/TxDOT Projects

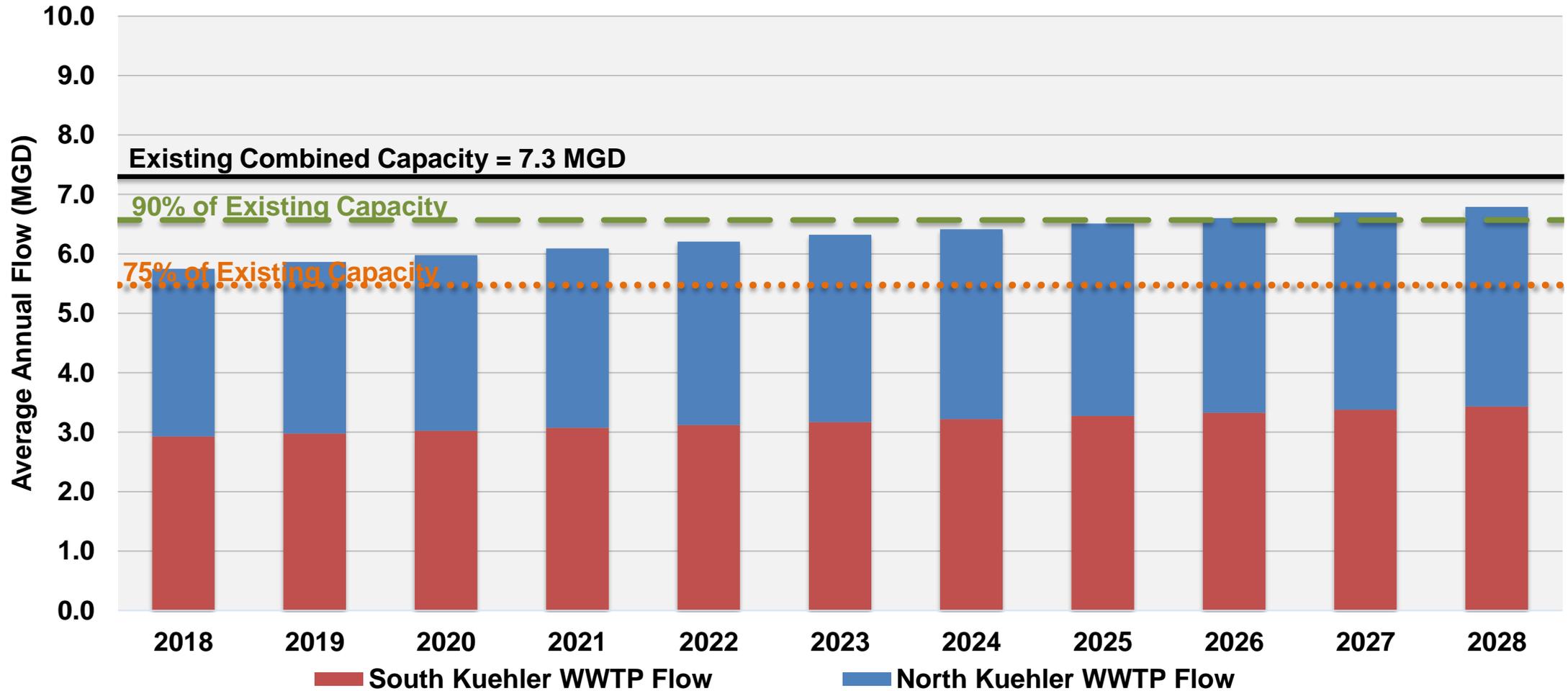
- MSR Reconstruction - \$2.9M
- Castell Ave. Rehabilitation - \$3M

Lift Station Evaluation

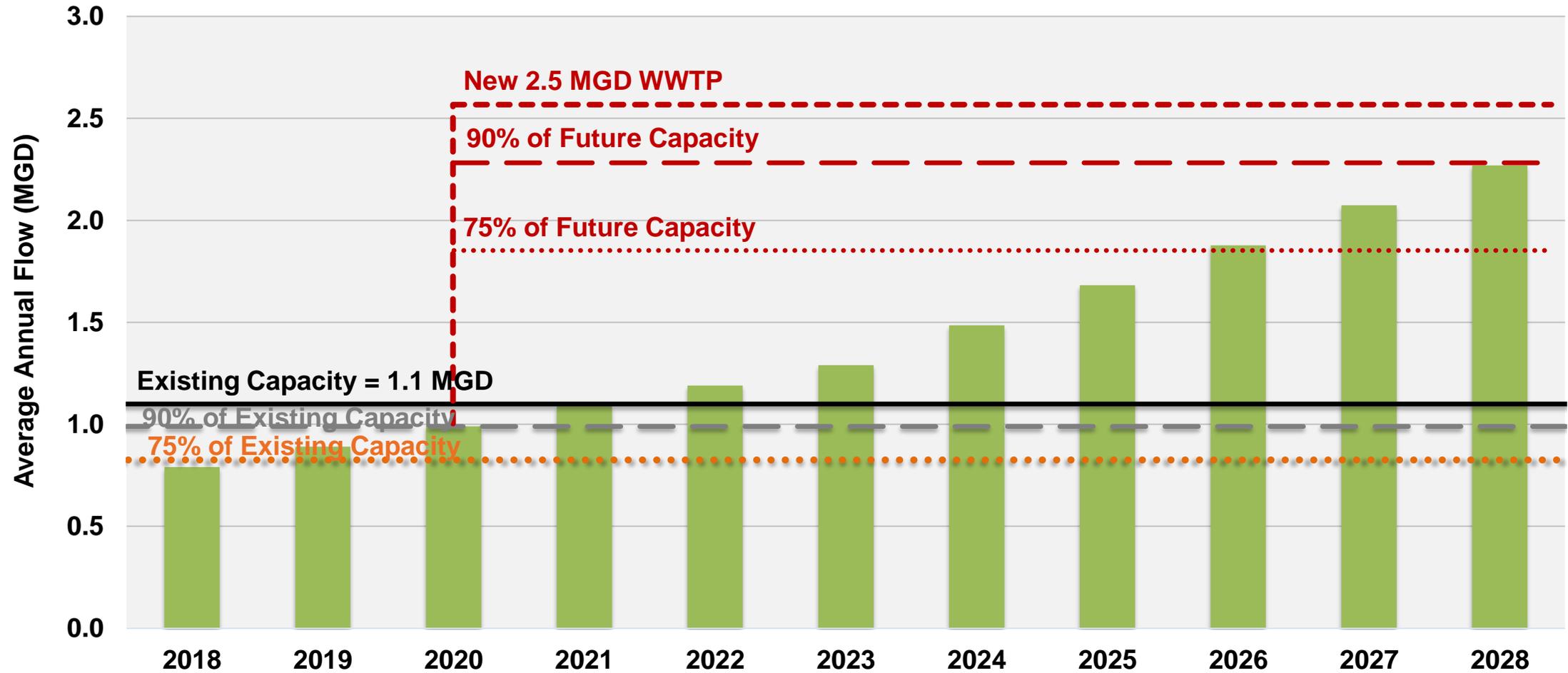
Lift Station	Existing Firm Capacity (gpm)	2018 Recommended Firm Capacity (gpm)	2028 Recommended Firm Capacity (gpm)	Needed Firm Capacity by 2028 (gpm)
Dove Crossing	325	1,846 ❌	2,158 ❌	1,833
Rio	7,831	9,683 ❌	13,936 ❌	6,105
Saengerhalle	1,200	791 ✅	1,784 ❌	584
Solms	1,320	1,775 ❌	2,156 ❌	836

- Expansions needed at 4 of 21 existing lift stations

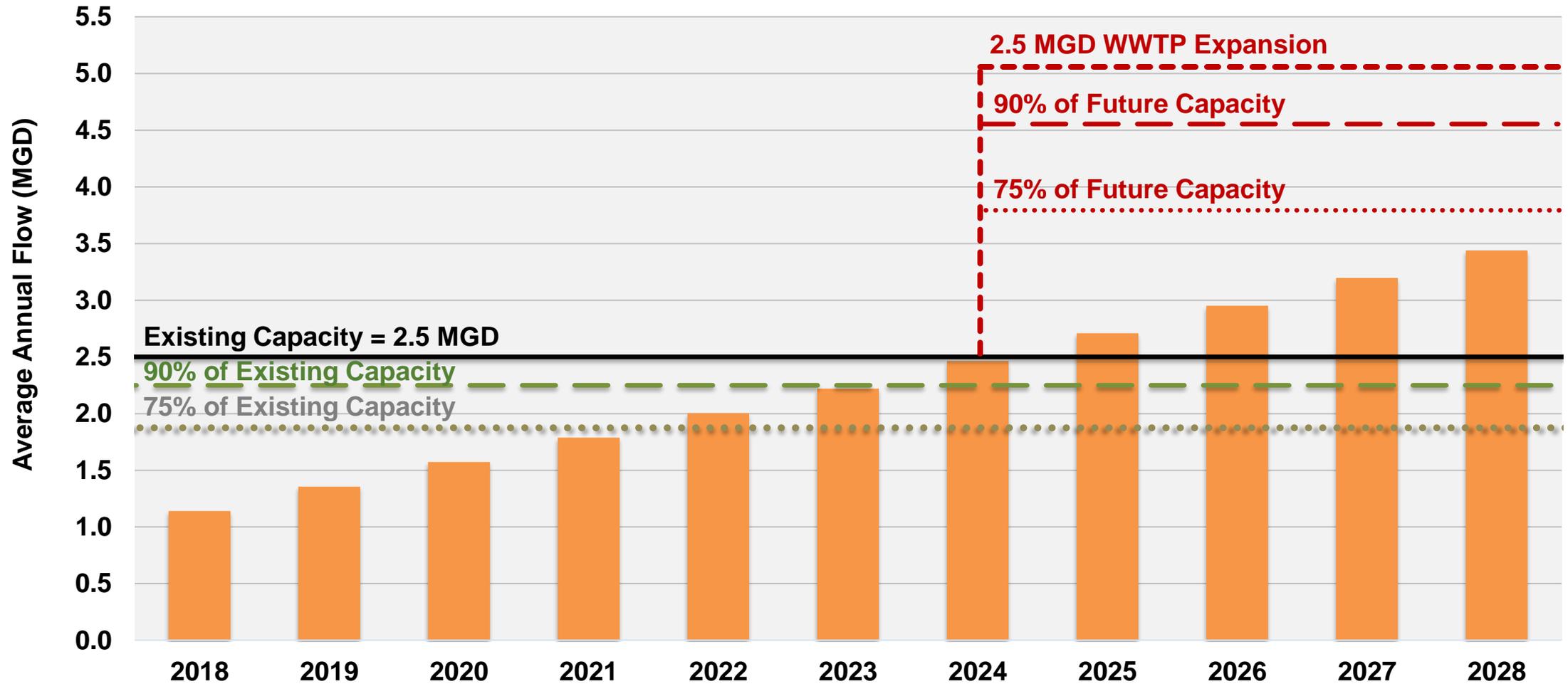
Kuehler Treatment Capacity



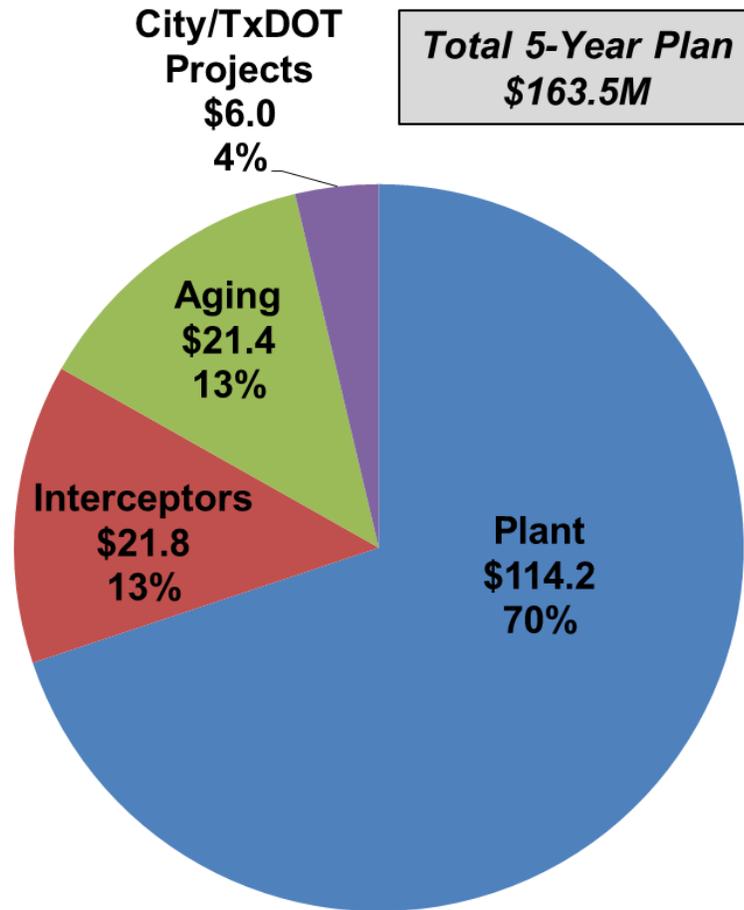
Gruene Treatment Capacity



McKenzie Treatment Capacity



Wastewater Capital Plan



Plant

- Gruene WWTP Relocation & Expansion - \$49M
- N/S Kuehler WWTP Expansion - \$17.7M
- McKenzie WWTP Expansion - \$40.4M

Interceptors

- North Kuehler 43" Interceptor Upgrade - \$7.6M
- North Kuehler 30" Interceptor Upgrade - \$5M
- North Kuehler 33" Interceptor Upgrade - \$4.4M

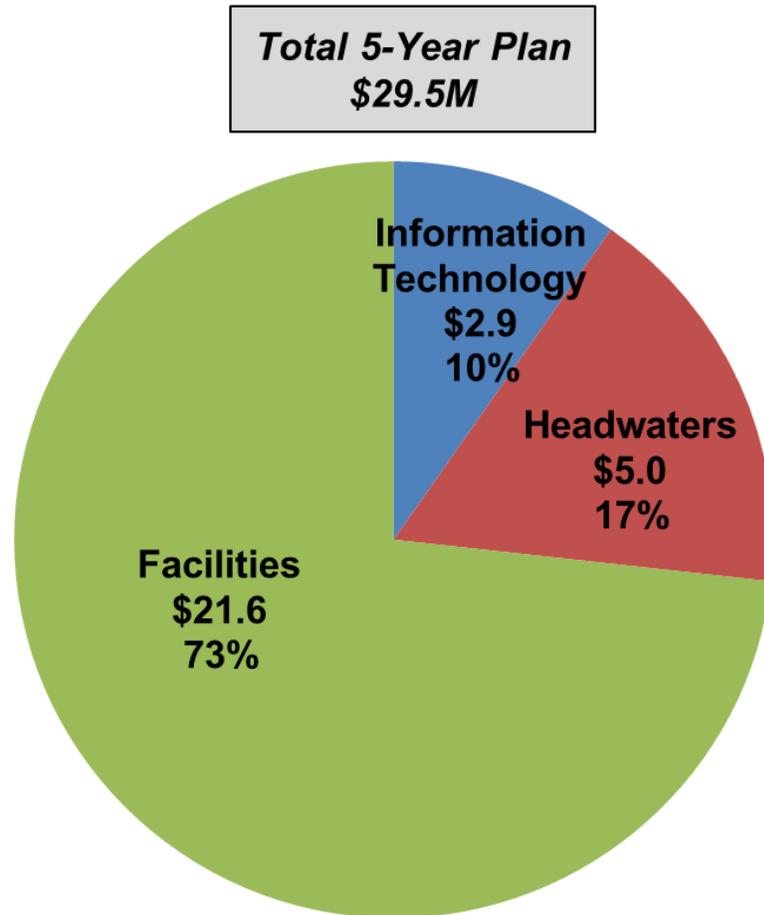
Aging

- Aging Infrastructure - \$6.3M
- South Kuehler Rehabilitation - \$6.2M
- North Kuehler Rehabilitation - \$3.3M
- Manhole Rehabilitation - \$5.5M

City/TxDOT Projects

- Castell Ave. Rehabilitation - \$1.8M
- MSR Reconstruction - \$1.5M
- San Antonio St. Rehabilitation - \$1.1M

Support Capital Plan



Facilities

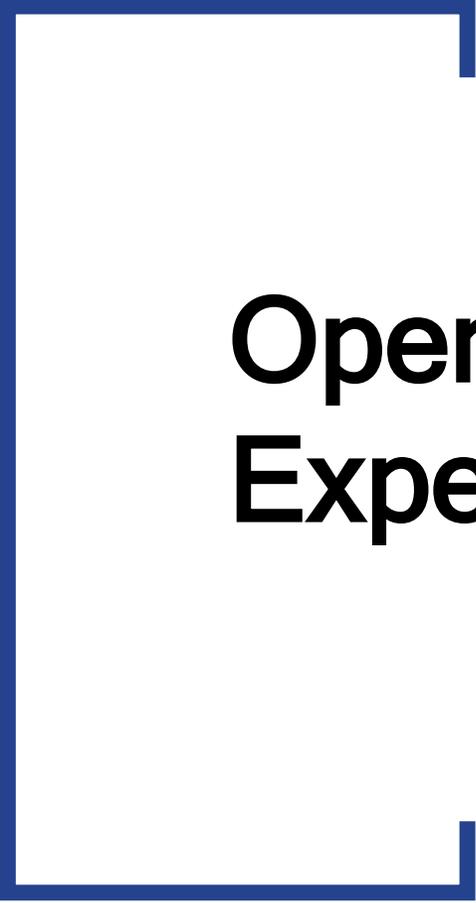
- Building Additions & Remodel - \$20.6M
- Replacement of Board Room Sound System - \$290k

Information Technology

- Software Replacements & Enhancements - \$625k
- Fiber Optic Infrastructure - \$513k
- NBU App - \$372k
- Payment Kiosks - \$205k

Headwaters

- Headwaters Phases 2 & 3 - \$5.0M
 - Net of donations and grants totaling \$13.2M



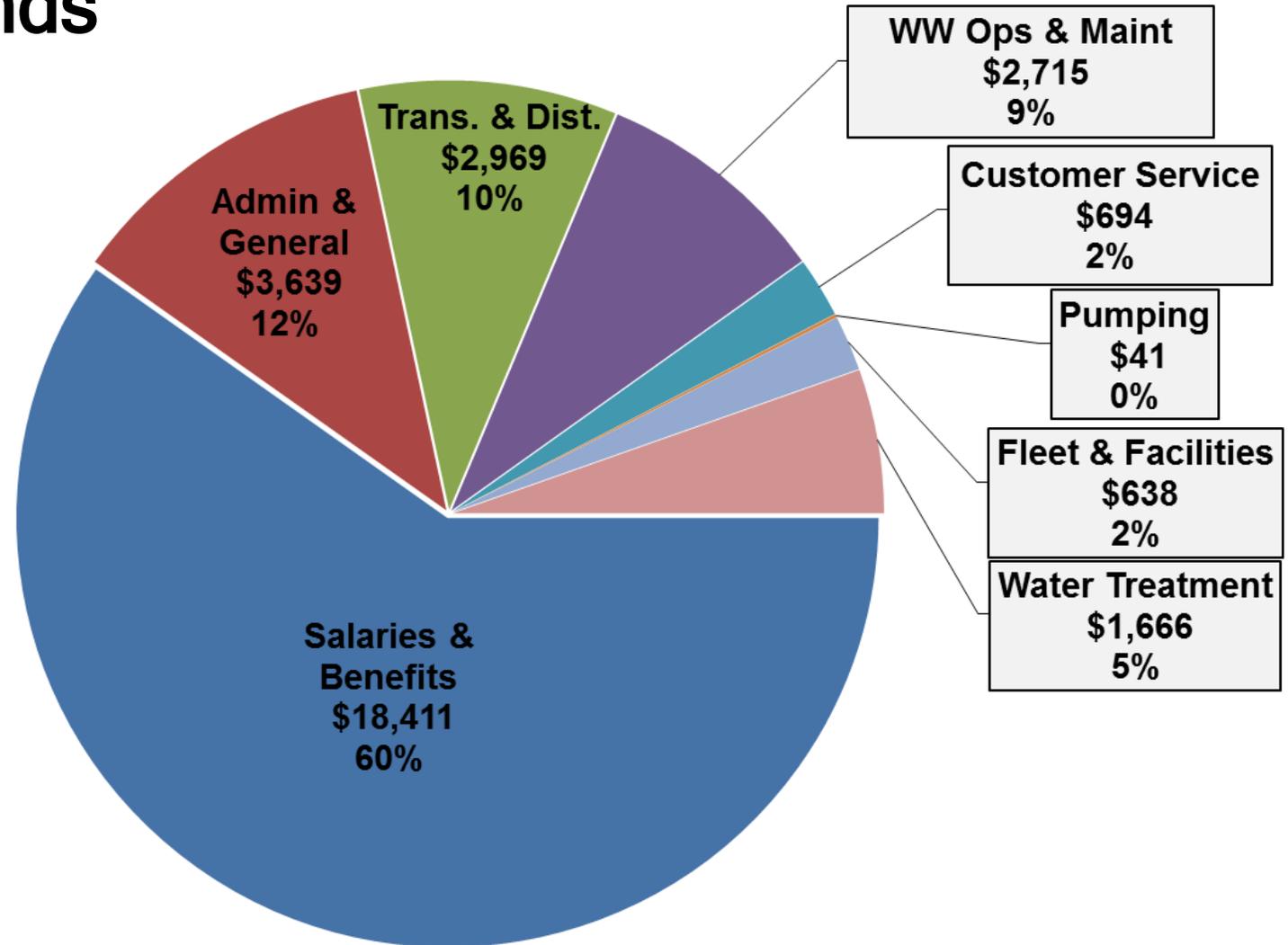
Operating Expenses



Operating Expenses by Category

Amounts in Thousands

Gross	\$42,583,042
Contra	(\$11,809,471)
Net O&M	\$30,773,571



Summary Comparison of Operating Costs and Cost per Meter Data

	Actual FY 2007	Actual FY 2017	Annualized % Chg	Budget FY 2019	Annualized % Chg
Cost Per Meter	\$ 220.68	\$ 236.54	0.7%	\$ 268.11	1.6%
Total NBU Operating Expenses	\$ 14,567	\$ 23,962	4.1%	\$ 30,772	6.4%
NBU Meters/Accounts	66,010	101,301	4.4%	114,771	4.7%
CPI (End of Year)	210.036	246.524	1.6%		
Net Plant (\$ Millions)	\$ 162	\$ 393	9.9%		

New Purchased Water Sources

Totals per 5-Year Plan

- GBRA Mid-Basin - *\$4M**
 - 8,000 Acre Feet @ \$1,470 per AF
- City of Seguin - *\$10.4M*
 - 2,500 Acre Feet @ \$1,039 per AF
- Future Wholesale Supplier - *\$2.5M*
 - 3,000 Acre Feet @ \$152.25 per AF
- Future Edward's Aquifer Rights - *\$940K*
 - 2,000 Acre Feet @ \$94 per AF



Rates and Impact Fees



Overview of Funding

- Funding sources include the following:
 - Revenue - generated through rates
 - Alternative revenue - generated through wholesale contracts and developer recovery fees
 - Impact fees - water and wastewater capital
 - Bonds
 - Contributions in aid of construction
 - Other - Power Supply Fund, grants, etc.
- Our goal is to find the optimal funding sources to maintain a DSC ratio ≥ 2.40

Proposed Rate Increases

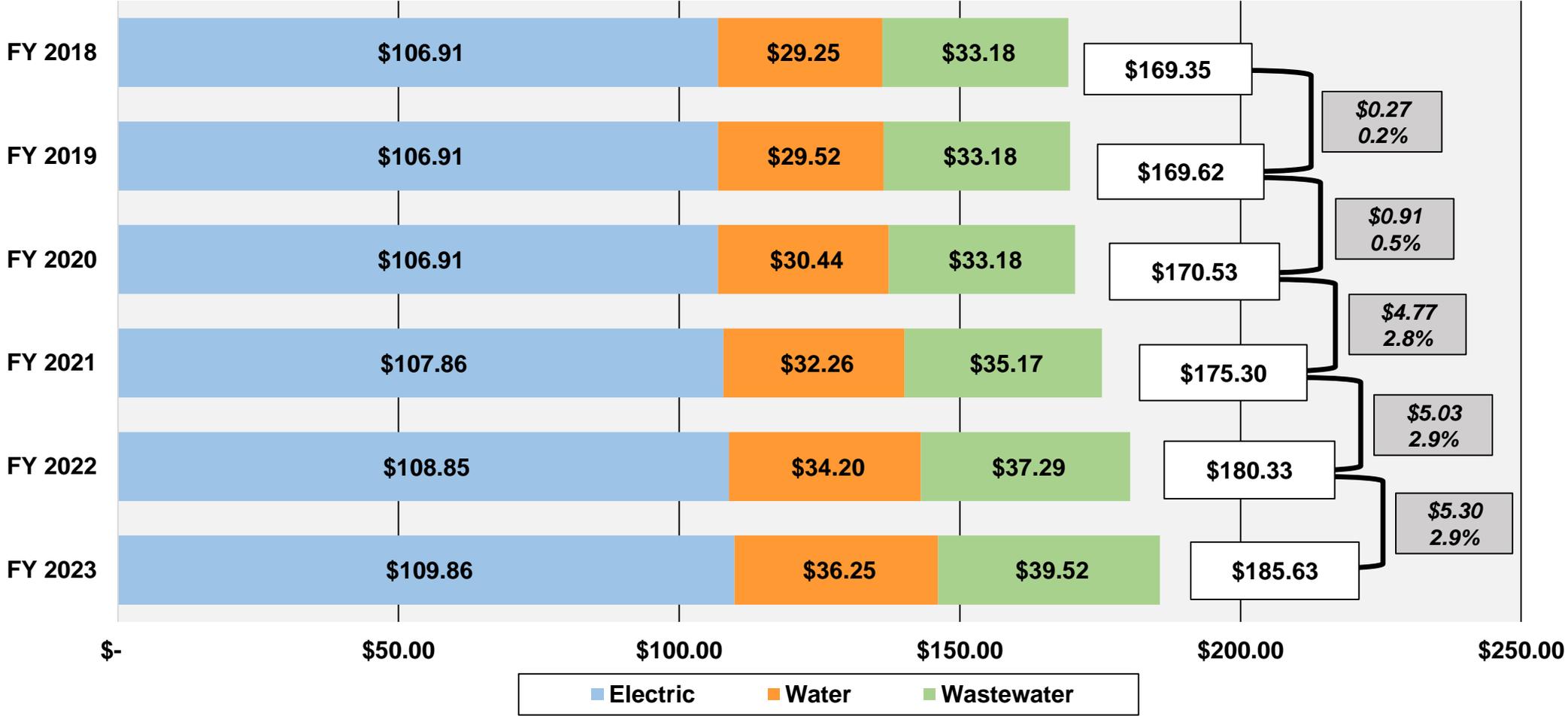
Per FY 2018 FOP					
	FY19	FY20	FY21	FY22	
Electric*	0.0%	0.0%	1.6%	1.6%	
Water	2.5%	2.5%	5.0%	5.0%	
Wastewater	0.0%	0.0%	5.0%	5.0%	

Proposed Rate Increases for FY 2019 FOP					
	FY19	FY20**	FY21**	FY22**	FY23**
Electric*	0.0%	0.0%	1.0%	1.0%	1.0%
Water	6.0%	6.0%	6.0%	6.0%	6.0%
Wastewater	0.0%	0.0%	6.0%	6.0%	6.0%

**Electric rate increases are only applied to the Distribution and Customer Charge, which results in the corresponding percentage increases.*

***Rate increases for FY 2020-2023 are subject to change.*

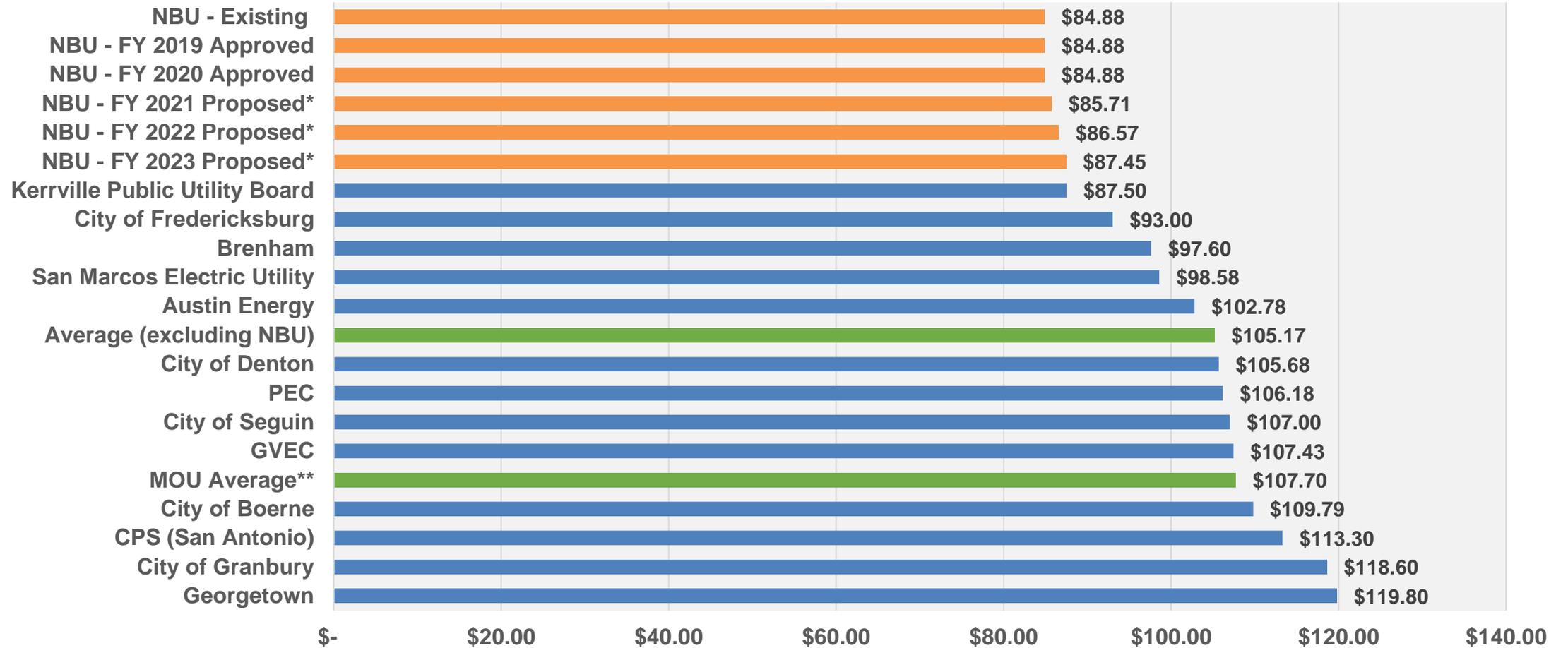
Average Residential Rates - FY18-23



Note: Amounts were calculated assuming electric usage of 1,318 kWh, water usage of 8,900 gallons, and wastewater usage of 4,600 gallons.

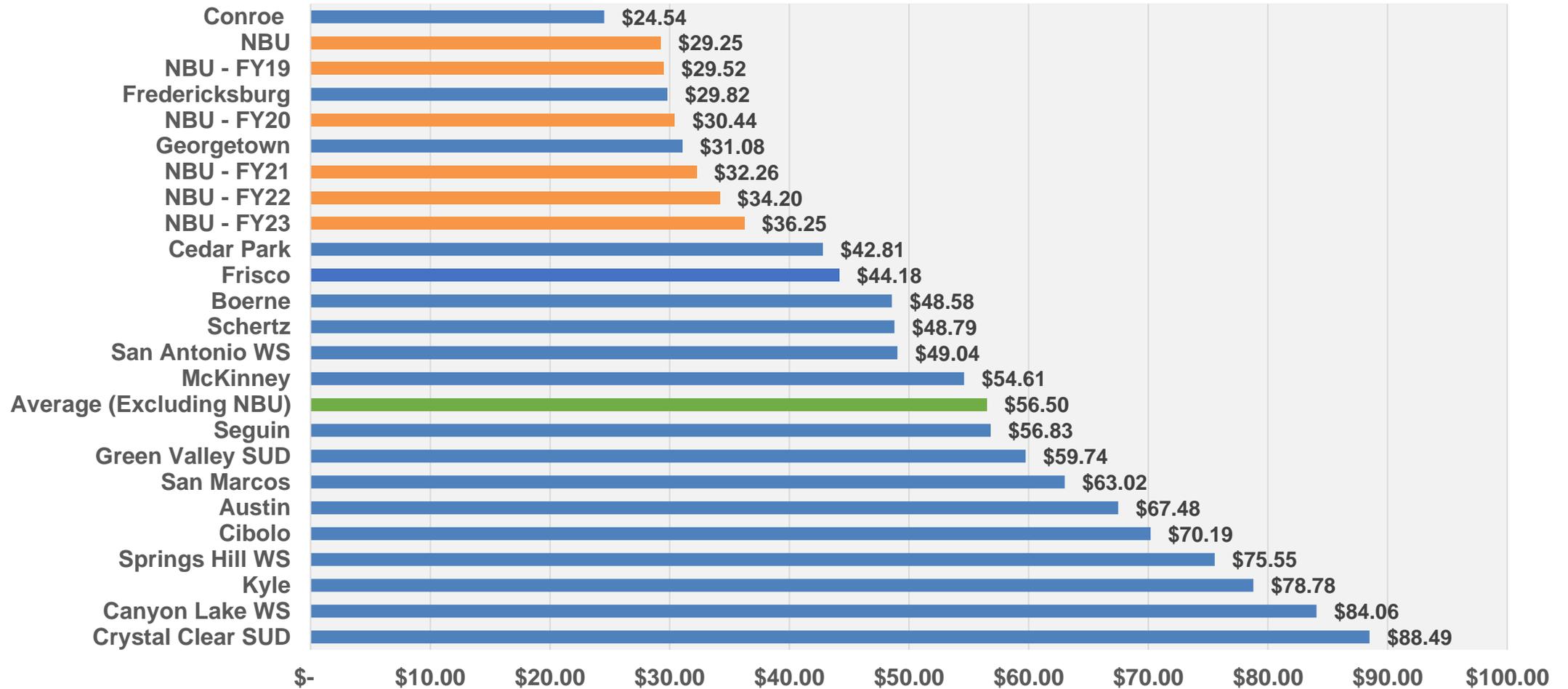
Electric Residential Bill Comparison

Based on 1,000 kWh



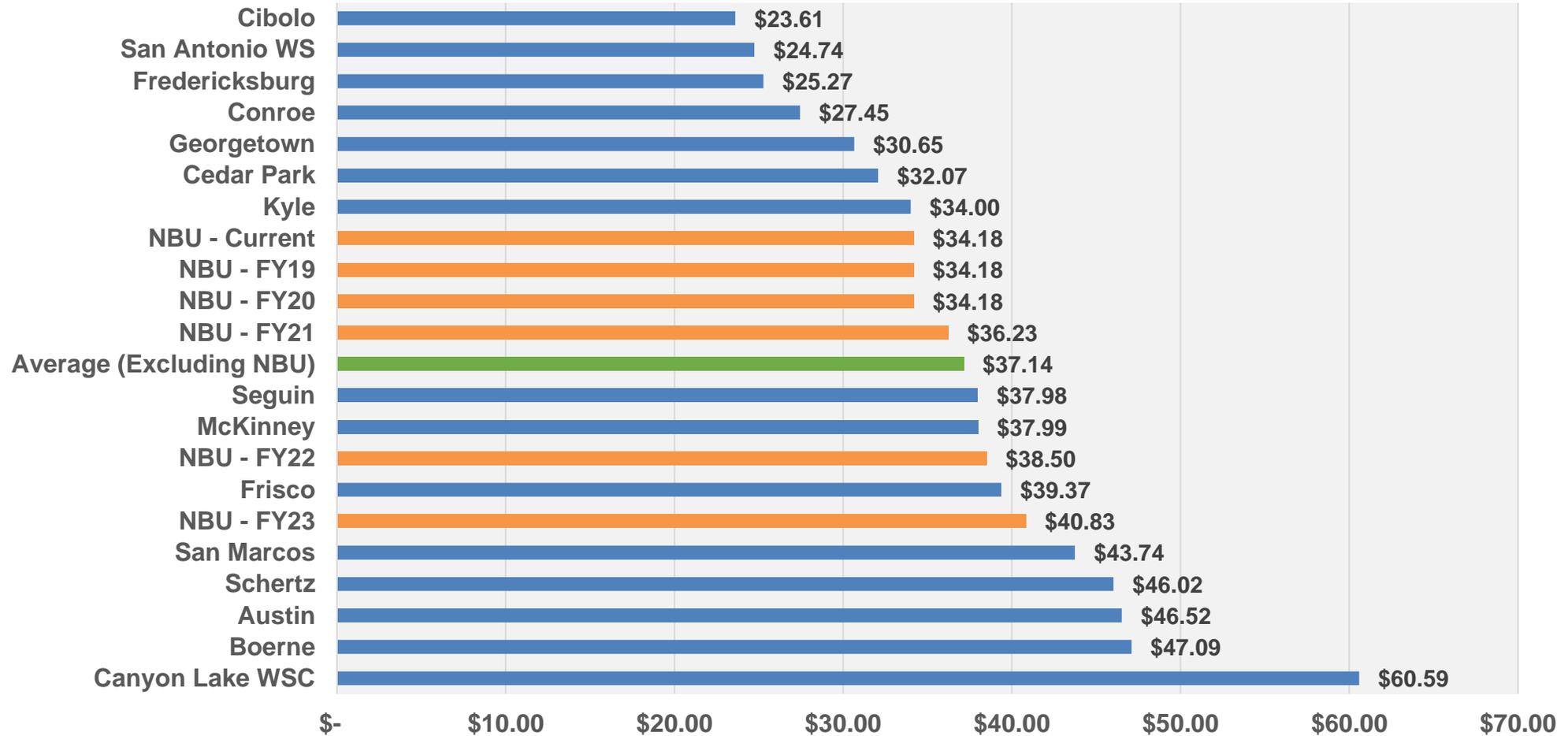
Water Residential Bill Comparison

Based on 8,900 Gallons



Wastewater Residential Bill Comparison

Based on 4,600 Gallons



Impact Fees

- Program D - \$11,240 maximum allowable
 - Water - \$7,989
 - Wastewater - \$3,251
- Prior Program C - \$9,403 maximum allowable
 - Water - \$5,322
 - Wastewater - \$4,081
- 100% of maximum allowable for FY19-23
- Program D is incorporated on a sliding scale based on the estimated number of lots requesting meters each year



New and Innovative Budgeting Strategies



New and Innovative Budgeting Strategies

- Due to the historic needs driven by growth, we implemented innovative ways to classify and reduce costs
 - Allocation of costs to purchased power
 - GASB 62 - regulatory accounting that allows deferral of expensing costs to future years
 - Updated indirect capital allocations
 - Commercial Paper Program
 - Impact Fees - updated, applied to debt financing and incorporated Mid-Basin infrastructure
 - Long term financial forecast

Actions to Improve Revenue

Totals per 5-Year Plan

- Electric
 - Additional contributions due to update to Electric Connection policy - *\$5M*
 - Transmission Cost of Service will be filed in future years to improve rate of return on transmission assets
- Water
 - 400 Acre Development Contract
 - Capital Participation Fee (cost recovery) - *\$1.1M (FY21-23)*
- Wastewater
 - GBRA Wholesale Wastewater
 - Capital Participation Fee - *\$12.3M*
 - Usage Charges - *\$2.8M*
- Impact Fee Update was completed in June 2018
- All service fees are being reviewed to ensure they are covering costs

Actions to Control Costs

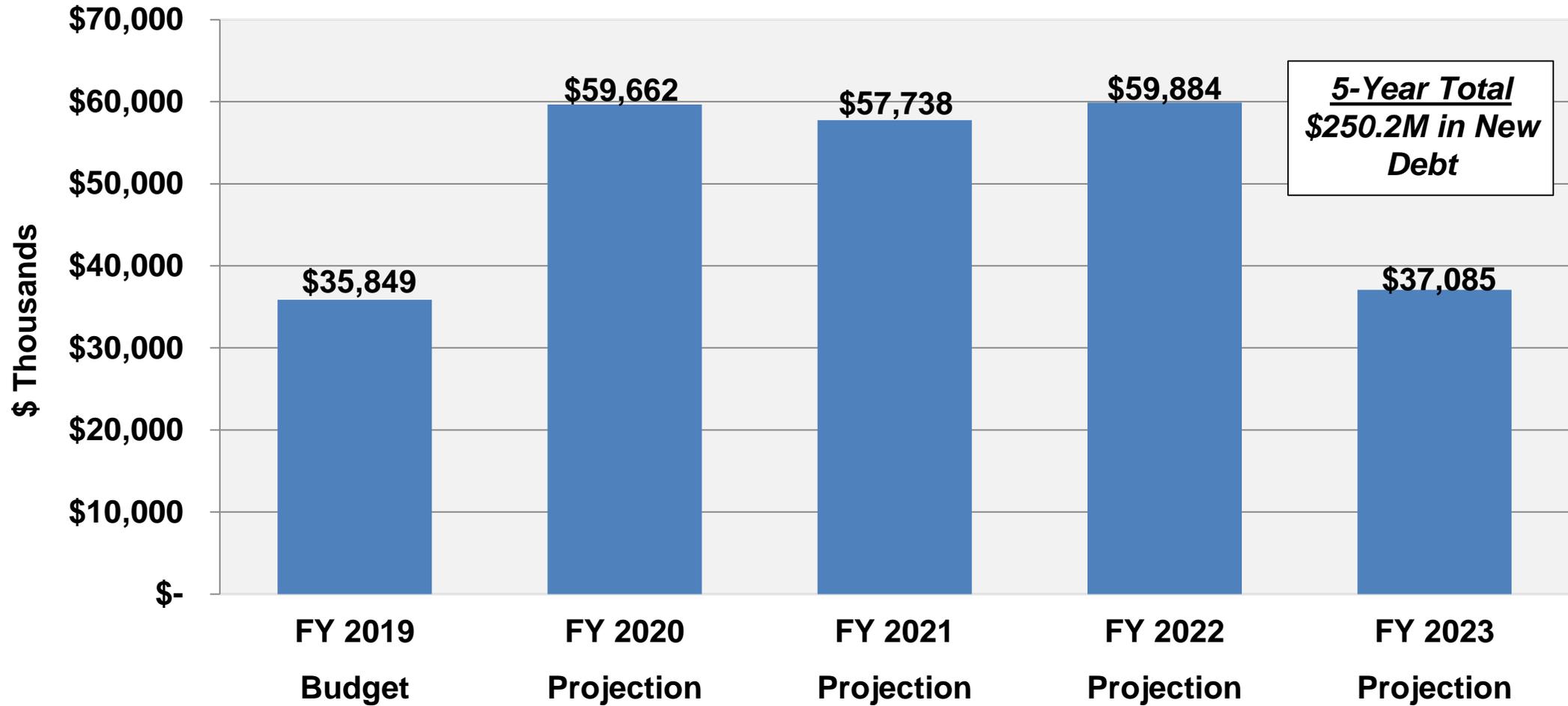
- Using AMI functionality has saved 25,829 truck rolls for which we estimate a cost savings of \$363,414 and 7,533 man-hours since September 1, 2016
- Load-following power requirements filled by NBU staff - 100% of the cost savings is passed through to customers
- NBU has its own Power Supply program and risk policies in place, which resulted in savings of **\$16.50** per month for residential customers
- Currently implementing online, self service, customer functionality to offload work from NBU employees
- Health care premiums flat for 6th straight year due to education and employee wellness programs
- NBU has found a lower cost alternative to protect City investments in parks and therefore was able to delay the Re-Use project of \$11.5 Million.
- Series 2018 debt issued at true interest cost of 3.988% vs. budgeted rate of 4.25% - savings of \$2.5 million over life of bond
- Capital allocations increased for FY19 O&M, was \$7.5M to \$11.1M - savings of \$3.6M
- Commercial Paper Program - Anticipated savings \$4 million over 4 years



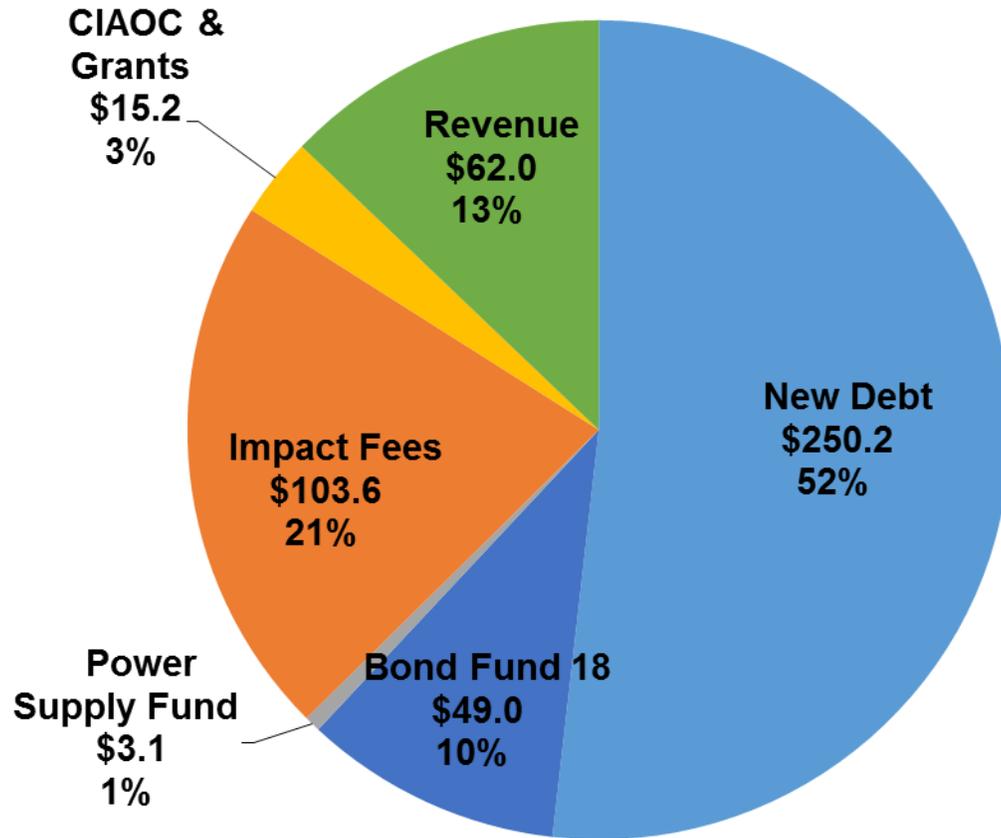
Financial Results



Projected Financings by Year



Funding by Source



62% of capital requirements will be met with existing or new borrowings

Impact Fees are estimated to provide about \$103.6M in funds, or about 21% of capital requirements

Internally-generated funds will provide about 13% of capital requirements

Contributions and other funds will provide about 4% of capital requirements

Historical Funding:
Bond Funds – 41%
Revenue – 37%
Impact Fees – 19%
Other – 3%

Rating Comparison to Other Utilities

	Total Operating Revenue (\$Millions)	Debt Service Coverage Ratio (x)	Days Cash on Hand	Debt to Capitalization Ratio
"AA+" Median	\$ 1,261	2.66	116	50.8%
CPS Energy	\$ 2,465	2.46	215	63.6%
"AA" Median	\$ 318	2.53	264	45.1%
NBU - Per Fitch Report of June 2018 (FY 2017 Data) - Rated "AA"	\$ 133	4.26	171	22.7%
<i>NBU - FY 2019 - Projected</i>	<i>\$ 151</i>	<i>4.68</i>	<i>202</i>	<i>25.4%</i>
<i>NBU - FY 2023 - Projected</i>	<i>\$ 177</i>	<i>2.61</i>	<i>175</i>	<i>40.3%</i>
"AA-" Median	\$ 250	2.70	206	40.2%
Austin Energy	\$ 1,362	2.91	201	43.9%
Guadalupe Valley Electric Cooperative Inc.	\$ 230	3.00	73	41.9%
Pedernales Electric Cooperative	\$ 591	1.90	18	54.8%
"A+" Median	\$ 167	2.05	157	40.5%
Brownsville Public Utilities Board	\$ 216	2.01	171	41.3%
Bryan Utilities City Electric System	\$ 190	2.03	157	57.5%
Bryan Utilities Rural Electric System	\$ 44	3.43	63	28.8%
Lubbock Power and Light Fund	\$ 244	2.44	125	40.5%
Seguin Utility Fund	\$ 50	3.27	251	39.5%
"A" Median	\$ 143	1.72	136	52.5%
Boerne Utility System	\$ 26	2.06	362	37.1%

Source: *U.S. Public Power Peer Study, Retail Systems, June 15, 2018*, Fitch Ratings, Inc.

Rating Factors

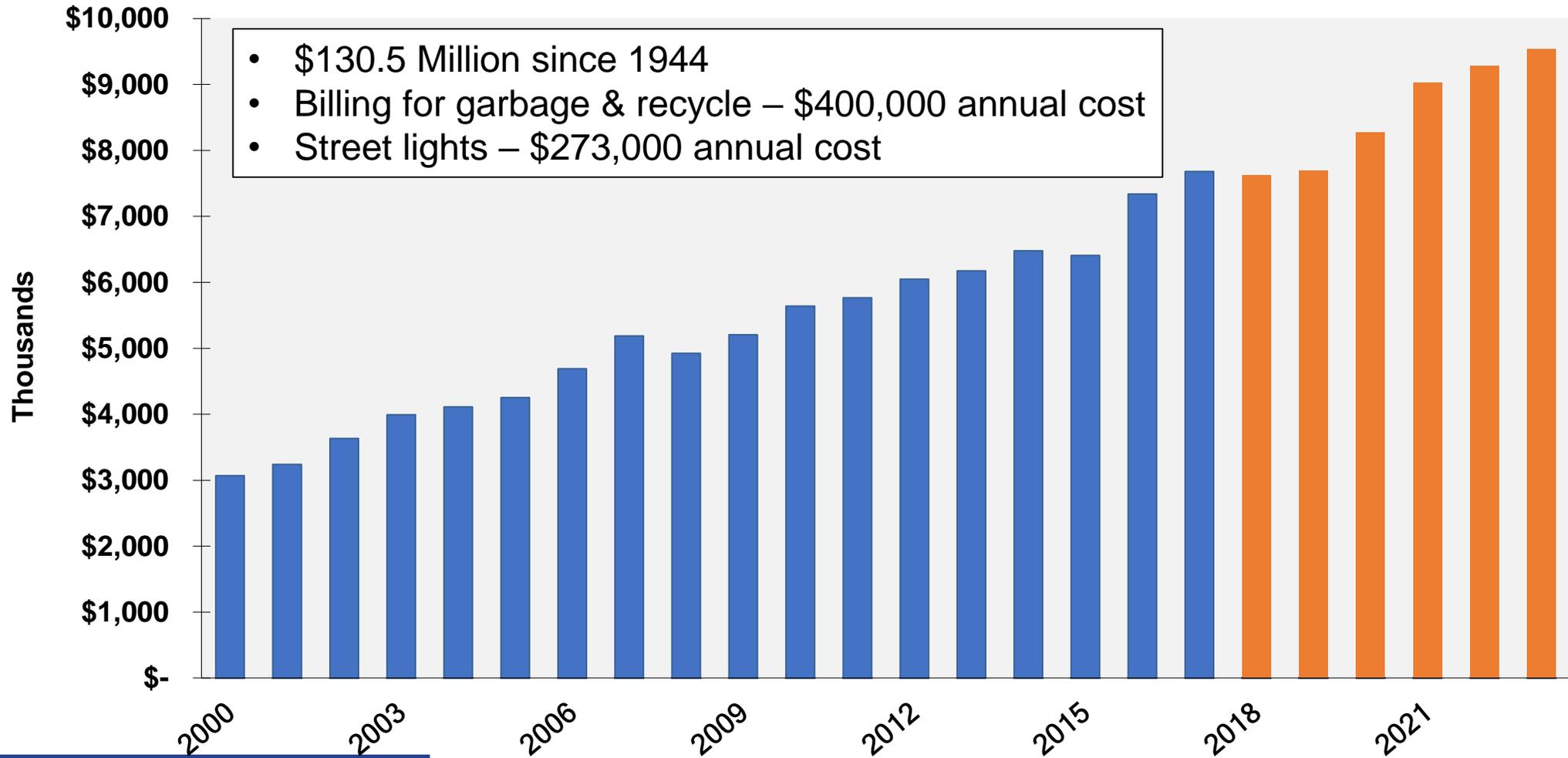
- **Appropriate Rates**
- **Tenured Board and Upper Management**
- **Good Relationship with City Council**
- **Long-Term Planning**

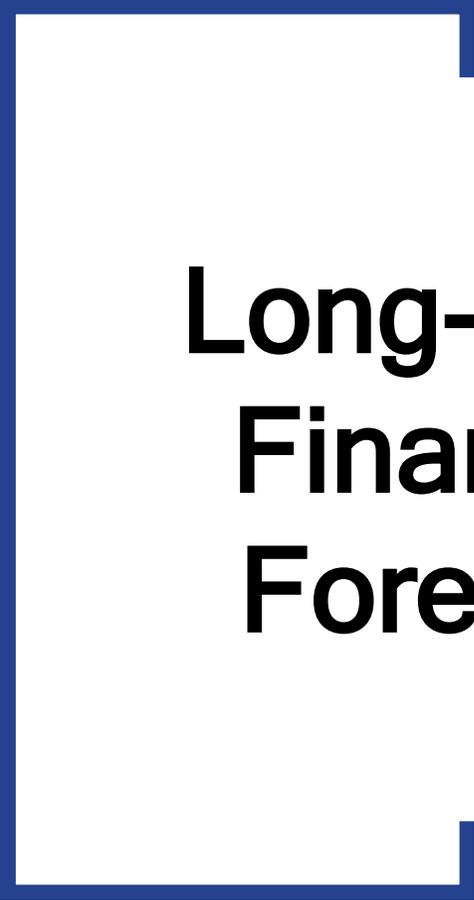
Impacts of Rating Downgrade

- If drop from AA to A, it would cost NBU about an additional \$1.3M per issuance to purchase bond insurance
- Higher Electric Rates
 - Unsecured credit limit with ERCOT would decrease
 - QSE might lower extended credit - more collateral will need to be posted
 - Current credit extended to NBU from counterparties would drop from \$104.5M to \$77M

If a downgrade occurs, extra funds need to be on hand and ready for deployment

Transfers to City of New Braunfels





Long-Term Financial Forecast



Long-Term Financial Forecast Results

Rate Increases	Projection FY 2024	Projection FY 2025	Projection FY 2026	Projection FY 2027	Projection FY 2028
Electric*	1.0%	1.1%	1.1%	1.1%	1.1%
Water	5.0%	5.0%	5.0%	5.0%	5.0%
Sewer	5.0%	5.0%	5.0%	5.0%	5.0%

						Total Capital
Capital Expenditures	\$ 82,473	\$ 94,879	\$ 75,763	\$ 96,230	\$ 96,245	\$ 445,589

						Total New Debt
New Debt	\$ 42,265	\$ 52,299	\$ 30,672	\$ 49,789	\$ 47,357	\$ 222,380

Debt Service Coverage**	2.68	2.59	2.55	2.50	2.45
Adjusted Debt Service Coverage***	2.33	2.25	2.21	2.16	2.11

* Electric rate increases are only applied to the Distribution and Customer Charge, which results in the corresponding percentage increases.

** Net Available for Debt Service / Debt Service

*** (Net Available for Debt Service - Intergovernmental Expense) / Debt Service

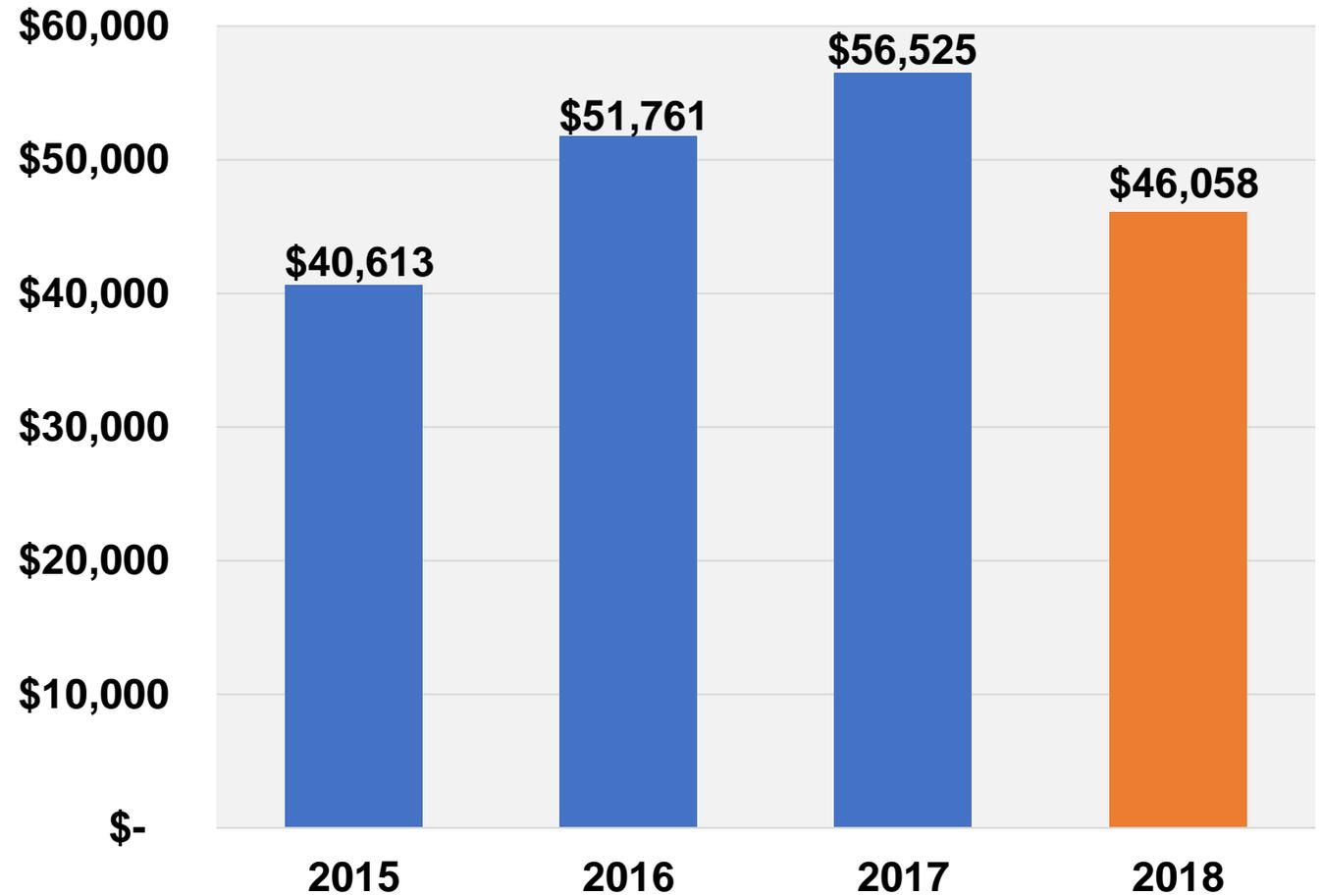


Organizational Performance



United Way Contributions

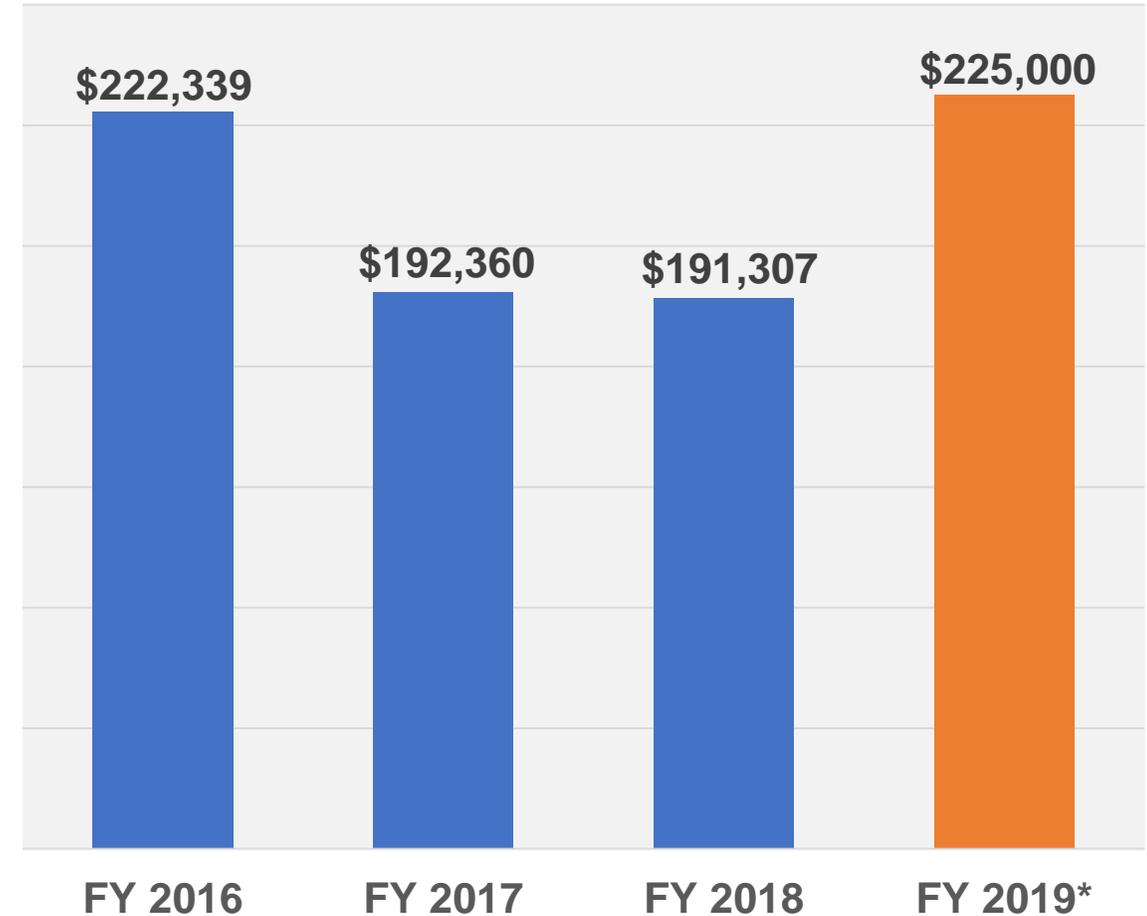
- 100% of contributions are from NBU employees – **No company match**
- NBU is consistently a top donor in Comal County
- The 2018 campaign is currently underway



Customer Assistance Program

	FY18 Total	%
Single Moms	290	33%
Families	219	25%
Single Females	66	8%
Single Senior	89	10%
Couples without Children	51	6%
Seniors with Children	48	5%
Other	23	3%
Seniors (Couple)	36	4%
Single Males	27	3%
Single Dads	29	3%
Total	878	100%

\$240,000
 \$220,000
 \$200,000
 \$180,000
 \$160,000
 \$140,000
 \$120,000
 \$100,000



*FY 2019 represents the budgeted amount

Serving Our Community Is What Matters

- Shred Day
- Operation MedSafe
- Kinderschuhe 5K
- Community Days of Service

NBU contributed more than 1,050 volunteer hours in FY 2018



NBU Employee Satisfaction

Overall Job Satisfaction - 77.8%

- An increase of 2.6% compared to last year

According to Gallup, scores greater than 70% = TOP LEVEL COMPANY



NBU Customer Satisfaction Outpaces Benchmark*

In 2018, NBU scored significantly higher in each of the areas measured against GreatBlue's national municipal utility benchmark for Q1 2018. This benchmark data was collected between January and March of 2018 among 3,000 municipal utility customers. The largest gaps existed in the areas of "being open and honest about company operations and policies," in which NBU scored +28.1 percentage points higher than the GreatBlue benchmark, and having a "helpful and knowledgeable staff," in which NBU scored +27.1 percentage points higher in 2018.

Item: Organizational Characteristics	2018 NBU w/o DK	Q1 2018 GB Benchmark	2017 Annual GB Benchmark
Responding promptly to customers questions and complaints	89.5	69.3	71.4
Overall satisfaction with NBU	91.8	68.7	70.9
Helpful and knowledgeable staff	94.2	67.1	69.7
Being open and honest about company operations and policies	89.7	61.6	63.8
Communicating with customers	87.4	68.2	71.4
Providing good service and value for the cost of services	86.1	64.1	66.8
Community involvement	86.6	64.7	65.4
Average positive ratings	89.3	66.2	68.5

NBU scores higher than GreatBlue benchmark

NBU and Renewable Energy

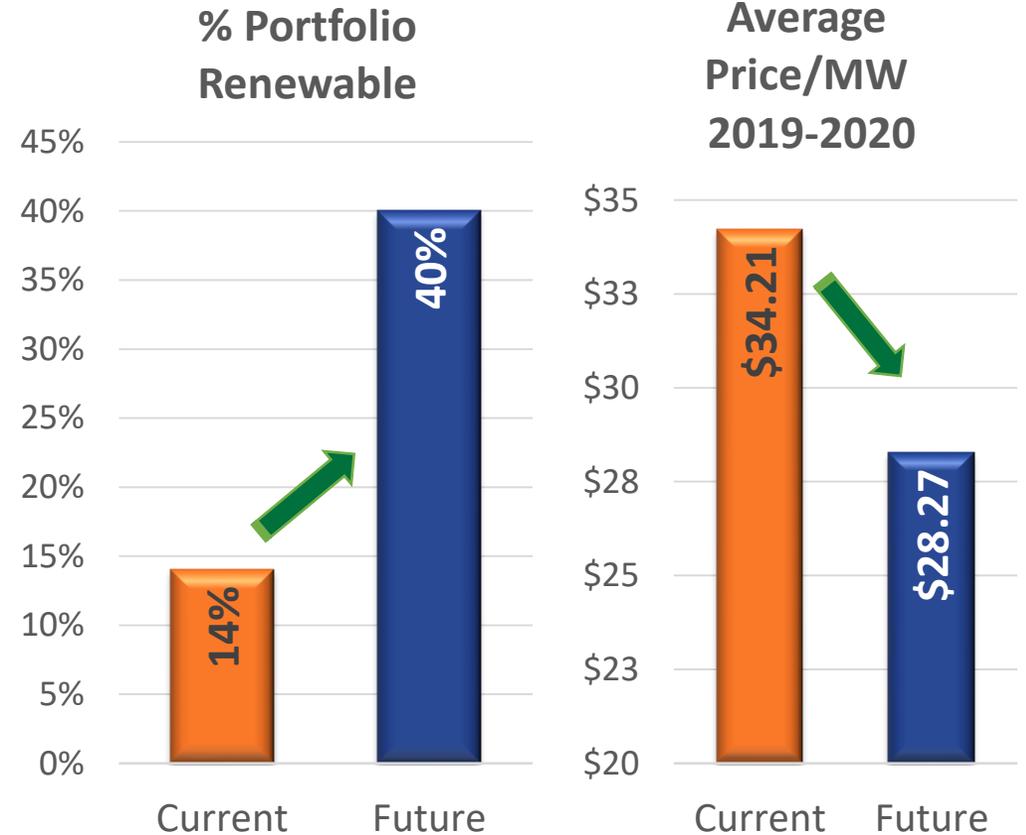
Currently NBU Renewable portfolio:

- Wind, Hydro, Landfill Gas Capture

Future Additions:

- Utility Scale Solar 150-200 MW

NBU's % of portfolio supplied by renewables will increase while the cost of energy will decrease.





Questions?

