

MINUTES FROM THE FIVE-YEAR CAPITAL PLAN AND FUNDING WORKSHOP OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA, HELD AT 3:30 P.M. ON WEDNESDAY, APRIL 24, 2019 AT THE KEYS ENERGY SERVICES BOARD ROOM LOCATED AT 1001 JAMES STREET, KEY WEST, FLORIDA

The above referenced workshop of the Utility Board of the City of Key West, Florida, convened at 3:35 P.M., on the above date and location and was called to order by Vice Chairwoman Clark.

Utility Board Members Present

Peter Batty, Chairman
Mona Clark, Vice Chair
Robert Barrios, Member
Timothy Root, Member
Steven Wells, Member

Staff Present

Lynne Tejeda, General Manager & CEO
Jack Wetzler, Assistant General Manager & CFO
Edee Delph, Executive Assistant to GM/CEO & Utility Board
Julio Torrado, HR & Communications Director
Nick Batty, Legal & Regulatory Services Director
Dan Sabino, Engineering & Control Center Director
Erica Zarate, Customers Services Director
Joe Weldon, Generation Director
Cindy McVeigh, Finance Supervisor
Amy Haas, Accounting & Financial Analyst
Jessie Perloff, Accounting & Financial Analyst
Jeanette Williams, Accounting & Financial Analyst

Mrs. Tejeda stated that today's workshop is to discuss the Five-Year Capital Plan, discuss additional projects which need to be completed, review reserve balance and discuss the level of bond issue.

Mr. Wetzler presented a power point presentation to the Board and discussed the following:

- *Items to Consider*
 - Review Capital Funding Needs
 - Irma Costs/Line of Credit
 - Capital Projects
 - Discuss:
 - Targets for Reserve Balances
 - The Bond Issuance Amount
 - Bond Issuance Process
 - Update on Federal Emergency Management Agency (FEMA) - Reimbursements

- *IRMA Cost*
 - KEYS estimated cost of restoration - \$42,137,497
 - KEYS service area - \$37,167,216
 - Work completed - \$36,680,149
 - FEMA Obligated - \$15,463,328
 - FEMA Reimbursements - \$1,173,917
 - FKEC service area - \$4,970,281
 - Work completed - \$1,477,017
 - FEMA Obligated - \$0
 - FEMA Reimbursements - \$0

- *Line of Credit- Bank of America (BOA)*
 - Total line available - \$50,000,000
 - Amount drawn - \$42,500,000
 - Current balance after repayments - \$41,326,083
 - Amount used - \$36,674,630
 - Current unspent proceeds - \$5,825,370
 - Interest paid through March 31, 2019 - \$1,306,356
 - Average - \$2,442 per day
 - Interest Rate Charged by BOA January to March 2019
 - Varies – 2.53% to 2.56%
 - Interest Rate Earned at First State Bank (FSB) on unused line – 2.62%

- *Capital Plan*
 - Current Capital Plan FY 2020-2023 - \$50,685,694
 - Amount Needed above “current plan”
 - Prior to prioritization - \$88,526,966 – referred to handout #1
 - After prioritization - \$21,641,000 - referred to handout #2
 - An additional \$300,000 for O&M was identified
 - Updated Capital Plan FY 2020-2023
 - Proposed \$72,326,694
 - Changes compared with previous project funding
 - 12 projects totaling \$7,744,000
 - New compared with previous project funding
 - 26 projects totaling \$13,897,000
 - Increases to Current plan
 - Replace Front St Transmission Poles - \$2,000,000
 - SIMP – Warehouse Construction - \$2,000,000
 - Big Pine Substation Switchgear Replacement - \$1,950,000
 - New projects
 - Replace 138kV Post Insulators - \$4,000,000
 - Transmission Pole Replacement per Leidos Study - \$3,000,000
 - Line 3,9 & 10 Reconductoring per Leidos Study - \$2,000,000

- *Capital Projects to be Funded by Bond Proceeds*
 - Capital Projects funded by Bond Proceeds must be 85% complete by July 31, 2022
 - Staff recommends the following be funded by bond proceeds:
 1. Replace Front St Transmission Poles - \$4,000,000
 2. Replace 138 kV post insulators - \$4,000,000
 3. Big Pine Substation Switchgear Replacement - \$3,000,000
 4. Kennedy Drive Substation Switchgear Replacement - \$3,000,000
 5. Cudjoe – N-1 - \$2,000,000
 6. SIMP Warehouse Construction - \$10,100,000

- *Fund Balances*
 - Fund Summary
 - Restricted Funds
 - Current Funds

- *Reserve Funds for Operating Expenses*
 - Operating Reserve
 - Current Formula w/Emergency Reserve: 90 days of O&M expenses less power cost
 - Current Actual: \$4,768,410
 - Staff's Recommended Target
 - 30 days of all O&M expenses + 60 days of O&M expenses less power cost
 - \$9,850,000 [includes adding one month ARP billing]
 - Emergency Reserve
 - Current Target: \$2,000,000
 - Current Actual: \$2,000,000
 - Staff's Recommended Target: \$2,000,000
 - Storm Fund
 - Current Target FY23: \$6,000,000
 - Current Actual: \$1,200,000
 - Staff's Recommended Target for Operating, Emergency and Storm Funds: \$30,000,000

- *Bond Issuance / Proposals*
 - 5 Proposals received
 - Raymond James
 - JP Morgan
 - UBS Financial Services Inc.
 - Bank of America- Merrill Lynch
 - RBC Capital Markets, LLC

- Scenarios
 - Amount - \$25M, \$50M & \$75M
 - Term – 20 year & 25 year
 - Debt Service – Level & Wrapped
- *Bond Proceeds*
 - Preliminary staff selection
 - \$50M [plus or minus \$5,000,000], 20 years with level debt service
 - All 5 proposals were similar
 - Bonds to be marketed at a premium
 - Net Proceeds after all costs : \$54,935,337 to \$59,277,239
 - Net proceeds w/ a \$55,000,000 bond - \$64,982,000
 - Total Debt Service
 - \$80,877,917 to \$82,546,167
 - With a \$55,000,000 bond issue - \$90,801,000
 - Total All In Cost of Issuance
 - 3.17% to 3.28%
- *Use of Bond Funds*
 - To obtain tax exempt status, use of proceeds are limited to capital projects
 - Assuming net proceeds after issuance costs - \$59,277,239
 - Payment of outstanding line of credit - \$41,326,083
 - Used to restore/construct capital projects
 - Balance remaining - \$17,951,156
 - Staff's list of projects
 - Prior to prioritization - \$88,526,966
 - After prioritization - \$21,641,000
 - An additional \$300,000 for O&M was identified
 - Options
 - Increase Bond to approx. \$55,000,000
 - Premium brings available funds to approximately \$64,982,000
 - Reduce projects to equal balance remaining
 - Staff Recommendation:
 - Pay off Line of Credit: \$41,326,083
 - Fund Additional Capital for: \$21,641,000
 - Bond Estimated Amount of \$54,000,000 provides net proceeds of approx. \$63,000,000
- *Bond Issuance / Budget Timeline*
 - Issued Request for Proposal (RFP) – March 25, 2019
 - Proposals Due – April 8, 2019
 - UB to Evaluate Scenarios and Approve Underwriter – May 22, 2019
 - UB to Approve Issuance – June 26, 2019
 - Closing – July 30, 2019

- Proceeds Available – August 1, 2019
- UB to Approve FY19 Amended Budget – August 14, 2019
- *FMEA Reimbursement*
 - KEYS estimated cost of restoration - \$42,137,497
 - Reimbursements used to pay down line- \$1,173,917
 - Potential maximum to be reimbursed - \$34,306,685
 - Considers FEMA categories
 - Very unlikely considering FEMA requirements
 - Potential Uses of Additional Reimbursements – must be capital projects to remain tax exempt – referred to handout #3
 - Automated Meter infrastructure (AMI) deployment - \$8,170,000
 - Additional Capital Projects - \$58,415,966
 - Unpredictable FKEC Project Schedule
 - Assist with Mitigation Projects if FEMA Funding is not available

After discussion the Board provided the following direction to staff:

- Hold another Board Workshop in May and provide different scenarios, prior to Board approval.
- Increase Operating Reserve Fund balance to include one month of purchase power costs; Maintain Emergency Reserve Fund Balance; and Create Storm Fund
- Consider hurricane surcharge as a percentage rate as opposed to flat rate.
- Board to review handout #3 regarding Capital Projects that have been cut and advise if any should be kept .

(Documents provided at the meeting are available upon request)

ADJOURNMENT

The Five-Year Capital Plan and Funding Utility Board Workshop of April 24, 2019, was adjourned by Chairman Batty at 4:35 P.M.

APPROVE:

Peter Batty, Chairman

ATTEST:

Lynne E. Tejada, General Manager/CEO & Secretary

/ed