

October 30, 2018

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FOR IMMEDIATE RELEASE

MP&W Trustees Review 2019 Budget

At the October meeting of the Muscatine Board of Water, Electric, and Communications Trustees, the Board received the Utility's 2019 Operating Budgets and Ten-Year Financial Projections (2019-2028).

Budgets indicate operating expense increasing in all utilities due to current economic conditions, large maintenance projects, and funding of major capital expenditures by each Utility to support community betterment projects and increase system reliability. General Manager Sal LoBianco stated, "The budget assumptions continue to be designed to support the medium-term achievement of financial targets, meet the needs of our customer-owners at the lowest possible cost, and support the Critical Issues identified in the Strategic Plan. The budgets reflect ongoing efforts to keep expenses and capital expenditures at adequate levels in support of our core values of safety, customer service, and reliability."

In presenting the budget and projections, Utility staff laid out a comprehensive plan of major infrastructure projects and enhanced services for Muscatine in the coming years. Muscatine residents and businesses can expect that their utility rates will remain below state and national averages wherever possible, while enjoying the advantage of high service reliability delivered with outstanding local customer service.

The 2019 budget includes these major Utility projects:

- **City of Muscatine Corridor Revitalization Projects** - The Electric Utility will continue to participate in and support the City's multi-year Mississippi Drive Corridor Project. Capital improvements by MP&W for this project total over \$8.0 million dollars, with \$3.7 million dollars budgeted for 2019 to continue moving overhead transmission and distribution lines underground. The Grandview Avenue Corridor Project will also commence, with \$840,000 budgeted in 2019 for Phase 1 to move electric services underground and replace traffic signals and street lights.
- **Water System Development and Construction** – To continue to meet the community's water needs, the Water Utility has budgeted over \$2 million for continued projects and infrastructure upgrades.

- **Fiber to the Home Internet/IPTV/VoIP** – Customer activations to the Communications Utility all-fiber network is over 20% complete. The Fiber to the Home (FTTH) project enables the Muscatine Community to join the elite ranks of Gigabit communities by providing Internet services up to 1,000 Mbps, allows the conversion of the cable TV system to Internet Protocol Television (IPTV), and makes telephone service using Voice over Internet Protocol (VoIP) available to all MP&W customers. This project increases ongoing reliability and will reduce maintenance requirements in the long term. Capital expenditures for completion of the project in 2019 are projected to be \$5.6 million.

Electric Utility

The Electric Utility 10-year projection continues to indicate that the Utility faces ongoing but manageable challenges to ensure reasonable cash balances are available to properly operate and sustain the business. The Utility is projected to remain debt-free throughout this 10-year projection period.

The 2019 budgeted operating expense for the Electric Utility is approximately 4.2% higher than the 2018 forecast driven by increases in purchased power, production fuel, and operation and maintenance expenses. Major maintenance expense includes \$2.2 million for the scheduled overhaul of the Unit 7 Turbine, Unit 9 Boiler inspection, and to partially cover a cell at the CCR landfill.

2019 budgeted capital expenditures for the Electric Utility are \$12.8 million, which includes \$3.7 million (of a multi-year project budget totaling \$8.0 million) to move overhead transmission and distribution lines underground to support the City's Mississippi Drive Corridor Project; \$900,000 to complete an Engineering and Feasibility Study and begin construction of Line 106, a new 161kV transmission line (a multi-year project totaling \$11.3 million); \$840,000 to support the City's Grandview Avenue Corridor Project; \$356,000 for Cedar Street Substation Underground Cable Replacement Project; \$2.2 million for generation, electric infrastructure, and computer system upgrades; as well as \$1.6 million to complete construction on the hardened data center and remodel the A/O Center customer lobby.

The Electric Utility 2019 Budget indicates a net loss before capital contributions and revenue adjustment of (\$5.6 million). The budget assumptions include a 2% native system rate increase, effective August 1, 2019, dependent on results of a Cost of Service Study to be completed in early 2019. Significant drivers that will affect the magnitude of rate increases and any potential borrowings, are the capital expenditures and related increase in O&M expenses.

Water Utility

The Water Utility 10-year projection is similar to those of the previous years. The Utility's revenues deliver a margin that has been preserved by annual rate increases instituted over the past several years. MP&W's water rates, even with the increases, continue to be some of the lowest in the State. The Water Utility issued bonds in 2017 to payback the Electric Utility line of credit and fund the three years of the Utility's capital expenditures. No additional borrowings are anticipated to be necessary in the 10-year projection.

2019 operating expense for the Water Utility is projected to be 6.0% higher than the 2018 forecast due mainly to increases in costs for operation, maintenance, and labor. The operation and maintenance cost increases include: higher well cleaning, pumping power, chemicals, and water main maintenance expenses. Budgeted capital expenditures are \$2.0 million, which

includes \$110,000 for engineering for the West Hill Reservoir Pumping Project, \$633,600 for West Hill Sewer Separation Projects, and \$290,400 for miscellaneous water main replacement projects and infrastructure upgrades.

The Water Utility 2019 Budget includes debt service payments of \$981,265 and indicates a net income before capital contributions of \$413,700. The budget assumes a 5.5% rate increase effective April 1, 2019, budgeted to preserve operating margins.

Communications Utility

The Communications Utility 10-year projection include the continued progress of the FTTH Project and indicate continued positive operating income. With the FTTH system, MP&W will be able to offer more robust choices in internet services and new telephone services to residential and business customers. The Communications Utility borrowed \$10.0 million in 2017 to fund the FTTH project. There are no additional borrowings projected in the ten-year forecast.

Total operating expenses for the Communications Utility are projected to increase 0.9% in 2019. Programming costs continue to be the single largest expense driver in the budget and are expected to continue to increase; additionally, maintenance costs to operate two systems during the FTTH buildout round out the increase for 2019.

Budgeted capital expenditures are \$7.5 million which includes \$5.6 million for the ongoing construction of the FTTH system (part of a multi-year \$15.9 million project) and \$855,000 for Internet system protection and miscellaneous upgrades. The budget includes \$2.7 million in debt service payments.

The Communications Utility budget indicates net income before capital contributions of \$1.8 million. The budget includes a 7% revenue adjustment for various CATV services beginning April 1, 2019, to preserve operating margins. There is no budgeted increase for internet services. Even with escalating CATV prices, communications services remain competitive; their value being further enhanced with growing local content and by the exceptional, local customer service and HelpDesk that MP&W delivers.

“Not-for-profit means we reinvest Utility income into infrastructure, operations and capital improvements that benefit the community. Our customer-owners should feel confident that our proposed budget contains only what is necessary to provide the services they need at the level of service they expect,” said Jerry Gowey, Director of Finance and Administrative Services.

The Muscatine Board of Electric, Water and Communications Trustees will be asked to approve the Utility’s 2019 Operating Budget at their November 27, 2018 meeting.

In other action:

- Accepted contract change order and final acceptance for Round Reservoir Rehabilitation Project with a final price of \$482,200.
- A public hearing for the 2019 Annual Operating Budgets was set for November 27, 2018 at 5:28 pm.
- The Ten-Year Financial Projections were received and placed on file.
- Mr. LoBianco shared a letter from the Mount Pleasant Municipal Utilities thanking MP&W for sending crews and equipment to Mount Pleasant on August 29, 2018 in response to a Mutual Aid Request to assist the utility with electric system restoration efforts after a storm in their area.

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Muscatine Power and Water (MP&W) is a customer-driven, not-for-profit municipal utility, established by the community for the purpose of serving the community responsively, competitively, and responsibly. MP&W provides reliable electricity, high quality water, and state-of-the-art communications services, including broadband, video and phone services, to homes and businesses throughout the Muscatine community at rates below state and national averages with outstanding customer service. MP&W is locally controlled and operated for the benefit and betterment of the community.