

Minutes of the Special Meeting of the Gallup City Council, City of Gallup, New Mexico, held in the Council Chambers at Gallup City Hall, 110 West Aztec Avenue, at 3:30 p.m. on Tuesday, March 26, 2019.

The meeting was called to order by Mayor Jackie McKinney.

Upon roll call, the following were present:

Mayor:	Jackie McKinney
Councilors:	Linda Garcia Allan Landavazo Fran Palochak
Arrived late:	Yogash Kumar, Councilor
Also present:	Maryann Ustick, City Manager Curtis Hayes, City Attorney

The Mayor and Councilors conducted a Work Session on the following item:

1. Update on Electric Department 10-Year Financial Plan – Eric Babcock, Interim Electric Director and Erik Harrigan, RBC Capital Markets

Mr. Babcock provided a power point presentation entitled “State of the Grid” which includes an illustration of how power is distributed to family households in the grid, the need for preventive maintenance in the grid, the repairs needed and the upgrades done to the existing electrical substations in the grid, the repairs and improvements needed to electrical poles and switches in the grid, the noninvasive preventative maintenance needed for underground electrical lines, the City’s LED streetlight project and the need to replace, maintain and upgrade the Electric Department’s equipment.

Marco Delpicalo, Engie Services, answered questions regarding the new LED streetlights, including the City’s savings in energy use and lighting output. He also provided information about the study to be done on color temperatures in residential areas compared to industrial areas and the specifications to be made for light distributions per pole.

Mr. Harrigan presented the Electric Utility Finance Plan Overview, which includes the following key highlights from the cash flow model:

- the historical usage and revenues generated by customer class (residential, industrial and commercial) which drives base projections for revenues going forward;
- the goal of the cash flow model, which is to provide sufficient net revenues to meet

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the capital needs of the Utility and to maintain sufficient target cash balances for the future;

- the Capital Improvement Plan (CIP) calls for roughly \$24.5 million in capital projects FY 2019 through FY 2025:
  - by a combination of pay as you go (cash) and debt financings;
    - Bond issuances of \$10 million in FY 2020 and \$7 million in FY 2023 with remaining CIP funded from cash;
- The rate required to meet the cash flow model is 6.15% increase in revenue for FY 2020 to FY 2022, 5% for FY 2023 to FY 2024 and 2.5% from FY 2025 to FY 2026.
- A generally accepted amount of days for cash on hand for utilities of a similar size ranges from 220 to 250 days. Currently, the Utility's cash on hand is 342 days and declines to 206 days by FY 2026.

Mr. Harrigan also presented charts with figures pertaining to the historical total electric system demand by rate class since 2013, the historical total electric system revenue by rate class since 2013 and the average historical total electric system revenue per kilowatt hour by rate class since 2013. He presented a chart consisting of the CIP projects for fiscal year beginning FY 2019 through FY 2025. Mr. Harrigan also presented a summary of the cash flow needed for capital outlay as illustrated in the net revenue available for debt service and coverage from FY 2016 through FY 2026 table. The model incorporates pay as you go capital (cash) and a combination of debt financing. To meet the projected capital needs over the next three years, the City would need to debt finance approximately \$10 million, which includes the \$2.5 million borrowing for the Energy Performance Contract for the street lights and accounted for the savings in the expense side of the model. At the same time, the City is also contributing cash in the following amounts for pay as you go capital projects: \$1.9 million in FY 2019, \$2.1 million in FY 2020, \$1.3 million in FY 2021 and \$1.07 million in FY 2020. The plan also provides for an additional borrowing of approximately \$7 million in FY 2023 to keep the capital fund balance from going to zero. In order to meet the cash flow model, the rate required for FY 2020 through FY 2022 is a 6.15% increase in revenue, dropping down to 5% in FY 2023 through FY 2024 and down to 2.5% in FY 2025 through FY 2026.

Discussion followed concerning the bonding capacity for the Utility; the importance and the priorities of the projects listed in the CIP; the extensive planning needed for the City's electric system prior to considering the purchase of the solar plant and generating power; the process for adopting an ordinance for the proposed rate changes to become effective July 1, 2019; the discussion and timing needed for the Energy Performance Contract

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financing for the LED streetlight project, which will require an application with the New Mexico Finance Authority and approval of an Application Resolution; and the discussion and timing for the first CIP borrowing which may occur in the fall of 2019.

Mr. Harrigan provided an overview of the current municipal market conditions including the reduction in interest rates over the past four months.

Further discussion followed concerning the priorities of the improvements to be made to the City's existing substations, the process for proceeding with the projects listed in the CIP, the decrease in demand by residential users, the hybrid approach for using cash on hand for pay as you go projects and issuing bonds for financing the remaining projects in the CIP and the rates and terms under the existing Power Purchase Agreement with Continental Divide Electric Cooperative, Inc.

Patty Holland, Chief Financial Officer, answered questions concerning the proposed cash flow model for financing the electric projects in the CIP.

There being no further business, the Work Session adjourned until the Regular Meeting at 6:00 p.m.

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Jackie McKinney, Mayor

ATTEST:

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Alfred Abeita II, City Clerk