



April 20, 2023

Resolution 1475



Grant Authorization Requirement

- KUB applied for \$20.4M covering five counties
- KUB received \$15.3M for four of those counties
- Contracts recently received for those grants
- Terms included previously unknown provision for approval from Board to apply
- Approval can be granted retroactively

Resolution 1475

- Affirms approval for KUB to apply for broadband grants
- Authorization effective upon passage and retroactive to date of application
- Meets requirement of recently executed grant contracts



April 20, 2023

FY2024 Budget



FY2023 – Year in Review

- Continued award-winning performance
- Active response to supply chain, inflation, and labor market pressures
- Launched KUB Community Solar
- Effective response to first-ever TVA curtailment
- \$169.6M in grant applications; \$40.3M already funded
- Progress on strategic initiatives
 - Launch fiber division
 - Continue Century II investments
 - Implement diversity, equity, and inclusion strategy
- Rollout of updated Blueprint

KUB | BLUEPRINT



Our Vision

KUB creates connections and enhances the quality of life in our East Tennessee communities so everyone can thrive.

Our Mission

KUB exists to serve its customers as a trusted partner and steward, providing industry-leading energy, water, and fiber optic services.

We Value

Our Customers

- Our services are safe, reliable, and affordable
- We are committed to great customer service
- Our decisions consider everyone's needs

Our Co-workers

- We put safety first and take care of each other
- We take pride in our hard work and expertise
- We invest in our people

Our Community

- We are committed to a cleaner environment
- We are personally invested in our community
- We help our region grow

Our Culture

- We always do our best and strive for better every day
- We hold ourselves to high ethical standards
- We value diversity, equity, inclusion, and belonging for all

FY24 Strategic Initiatives

Grow Fiber Division

Major construction

Continue construction as planned, including year one buildout in grant-funded areas of Union and Grainger counties.

Customer growth

Make KUB Fiber available to 90,000 customers by the end of FY24.

Low-income program

Initiate pilot program, and seek additional support for expansion to other eligible areas.

Invest in a High-Functioning Organizational Culture

Blueprint deployment

Reinforce the cultural values within the new Blueprint, and build alignment within our growing and changing workforce.

Leadership development

Continue training and development support for leadership staff, including a special focus on new and emerging leaders.

DEI education and outreach strategy

Continue comprehensive DEI training for all employees, and build relationships in the community to support recruiting and other community efforts.

Develop Inflation Response Plan

Review operations and capital budgets

Assess impacts of deferred/reduced spending on Century II and other major initiatives; identify options for reducing expenses, and prioritize them for consideration in next year's long range plan.

Assess long-term funding strategies

Assess current long-term funding strategies regarding the use of rates and debt to fund capital and maintenance programs, including impacts on customer utility bills.

Pursue federal, state, and local infrastructure funding

Continue to seek funding from the Infrastructure Investment and Jobs Act, the American Recovery Program, the Inflation Reduction Act, and other sources of grant/loan funding for utility system infrastructure.

FY2024 Financial Highlights

- Proposed budget - \$1.2 billion
- Represents an increase of \$73 million, or 6%
- Includes capital budget of \$284 million
- \$85 million in new bonds to fund the proposed budget
- Inflationary pressures continue – O&M budget up \$20 million
- No change in previously approved rate increases
 - 5% water increase – July 2023
 - 4% wastewater increase – July 2023
 - 3% electric increase – April 2024

Agenda

- Electric and Natural Gas – John Gresham
- Water and Wastewater – Kurt Stafford
- Break
- Fiber – Jamie Davis
- Financials – Mark Walker

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KNOXVILLE
UTILITIES BOARD



April 20, 2023

Electric FY2024 Budget



Electric System

Customers: 215,264

Service Territory:

688 square miles

Electric Lines: 5,485 miles

Distribution Overhead: 4,075 miles

Distribution Underground: 1,144 miles

Transmission: 266 miles

Infeed Substations: 9

Substations: 63

System Capacity: 3,030 MW

Peak Hourly Demands:

Winter: 1,332 MW (Feb. 2015)

Summer: 1,235 MW (Aug. 2007)



County Lines



City Limits



Service Area



Existing Lines

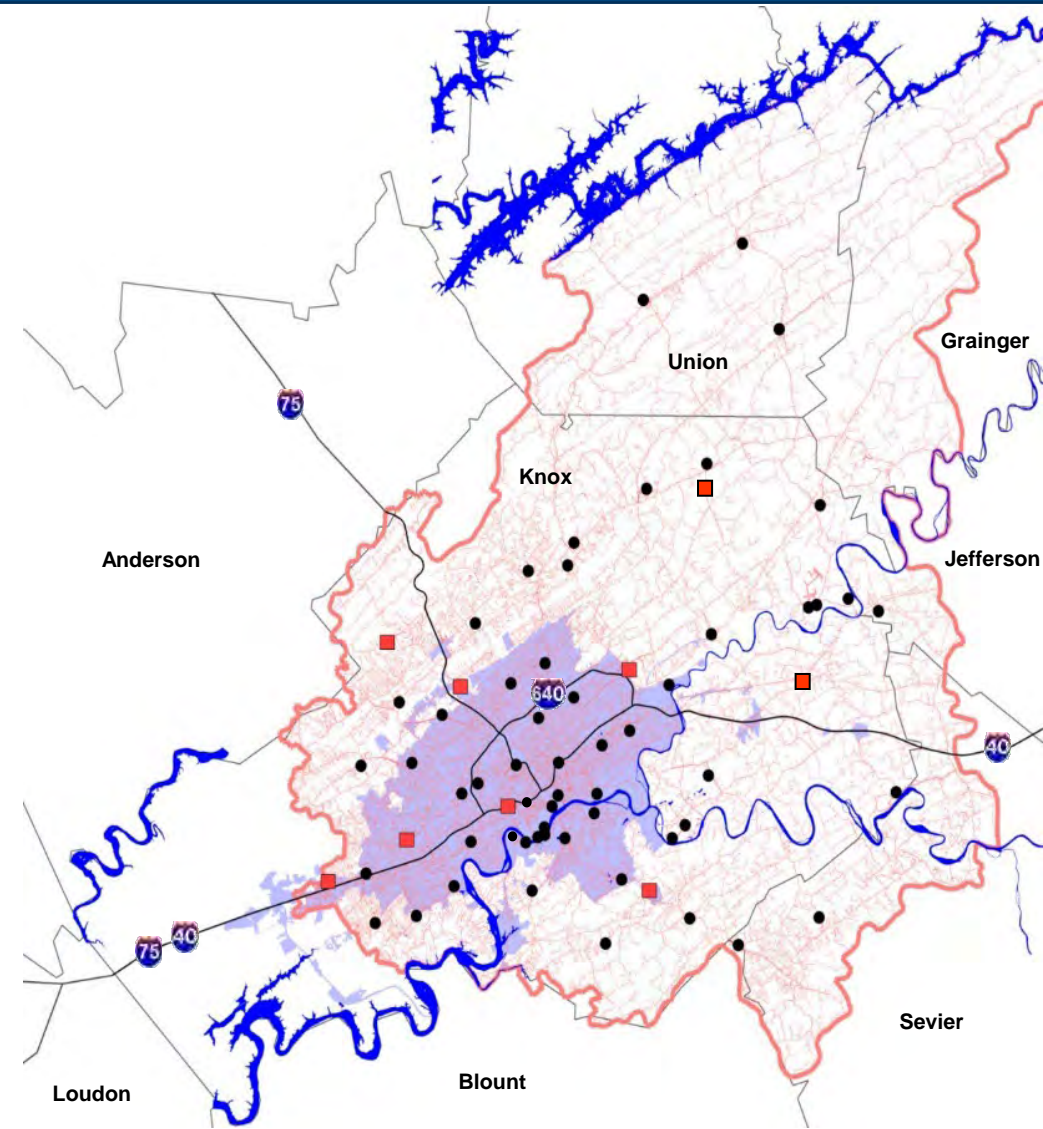


Infeed Stations



Distribution

Stations



FY24 Investments

- Capital \$150.4M (\$81.3M for fiber) and O&M \$86.3M
 - Substations
 - New TVA delivery station
 - Century II substation upgrades
 - Transmission system
 - Rebuild nine miles of 69kV line
 - Distribution system
 - Century II replacement programs
 - Maintenance programs



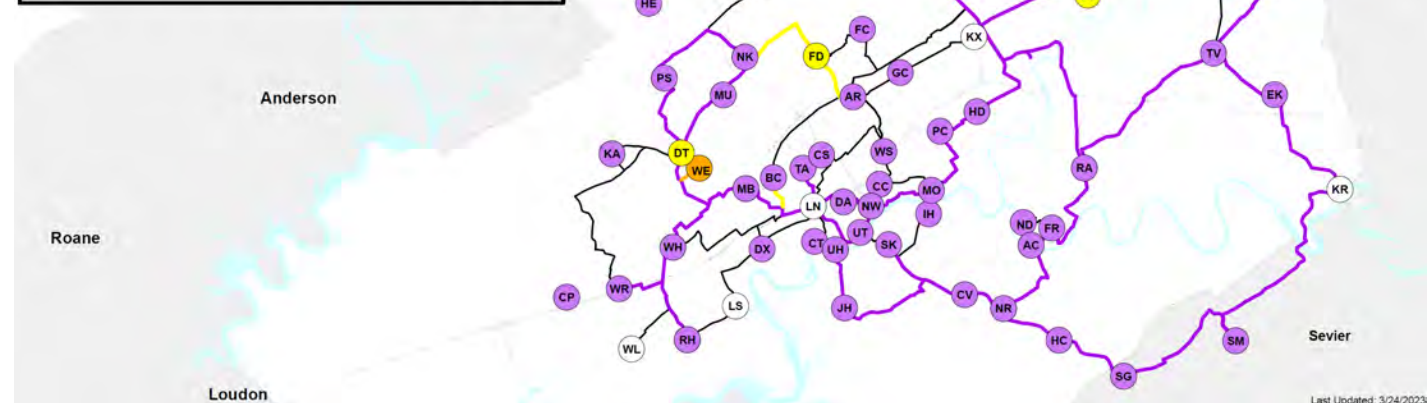
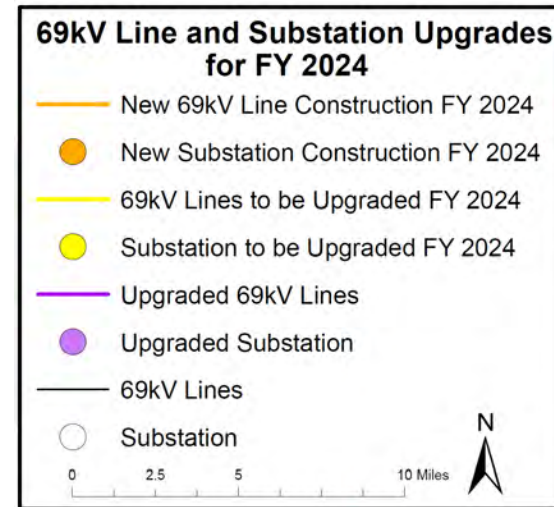
Substation Projects

- Western Avenue (\$0.8M)
 - New TVA delivery point
 - In service Fall 2023
- Century II upgrades (\$6.4M)
 - Two routine station upgrades
- Substation transformers (\$2.7M)
 - Purchase two units
 - Deferred one unit
- Impacts
 - Power transformers cost up 45%
 - Lead times of up to 24 months



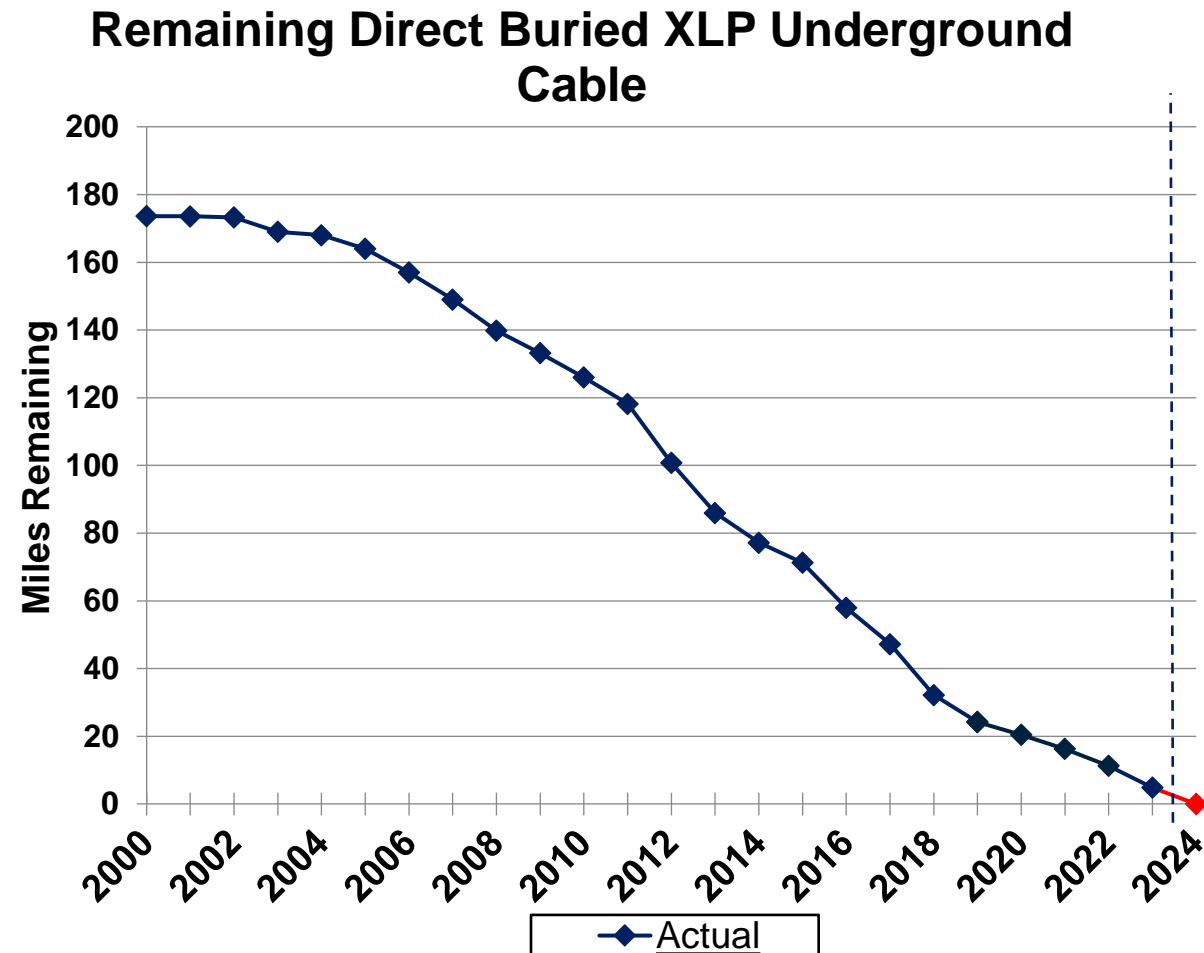
Transmission Projects

- Upgrade nine miles (\$11.8M)
 - Fountain City
 - Luttrell
 - Mascot
- Includes fiber to substations
- Impacts
 - Steel pole cost up 79%
 - Wire cost up 22%
 - Extended lead times



Distribution Projects

- Pole replacement (\$4.4M)
 - 1,400 in FY24
- Cable replacement (\$1.7M)
 - Four miles in FY24
- Distribution transformers (\$6.4M)
 - 1,200 units in FY24
- 13kV line projects (\$6.5M)
- Impacts
 - Transformer costs up 28%
 - Pole costs up 29%
 - Contract crew reduction



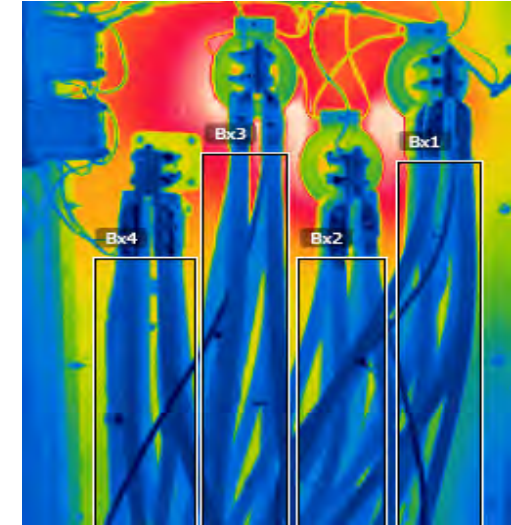
Leveraging Fiber

- FLISR deployment
 - Mohawk/Park City (Burlington)
 - Arlington/Fair Drive
- FY24 deployment
 - 144 additional units (\$5.8M)
- Saved over 10M customer minutes of interruption since 2018
- Impacts
 - Recloser cost up 10%
 - Material costs up 8%
 - Extended lead times



Preventative Maintenance Programs

- Primary assets
 - Substation transformers
 - Circuit breakers
 - Control/automation systems
- Programs
 - Electrical testing
 - Transformers – four years
 - Breakers – four years
 - Control systems – three years
 - Oil analysis – six months
 - Thermography – annually
- Contract service costs increasing



Vegetation Management

- Transmission system (\$1M)
 - Five-year cycle, 50 miles
- Distribution system (\$10M)
 - Four/five-year cycle, 950 miles
- Hazardous tree removals (\$2M)
 - 1,800 trees
 - Supported by internal crew
- Storm response (\$2M)
- Impacts
 - Contract labor cost up 13%



Focused on Reliability & Modernization

- Capital investments
- System/asset renewal programs
- Preventative maintenance programs
- Investing in grid modernization



American Public Power Association



**SMART
ENERGY
PROVIDER**

American Public Power Association



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UTILITIES BOARD



April 20, 2023

Natural Gas FY2024 Budget



Natural Gas System

Services: 108,092

Service Territory:
297 square miles

Mains: 2,566 miles
Distribution

Steel: 144 miles

Plastic: 2,349 miles

Higher pressure

Steel: 66 miles

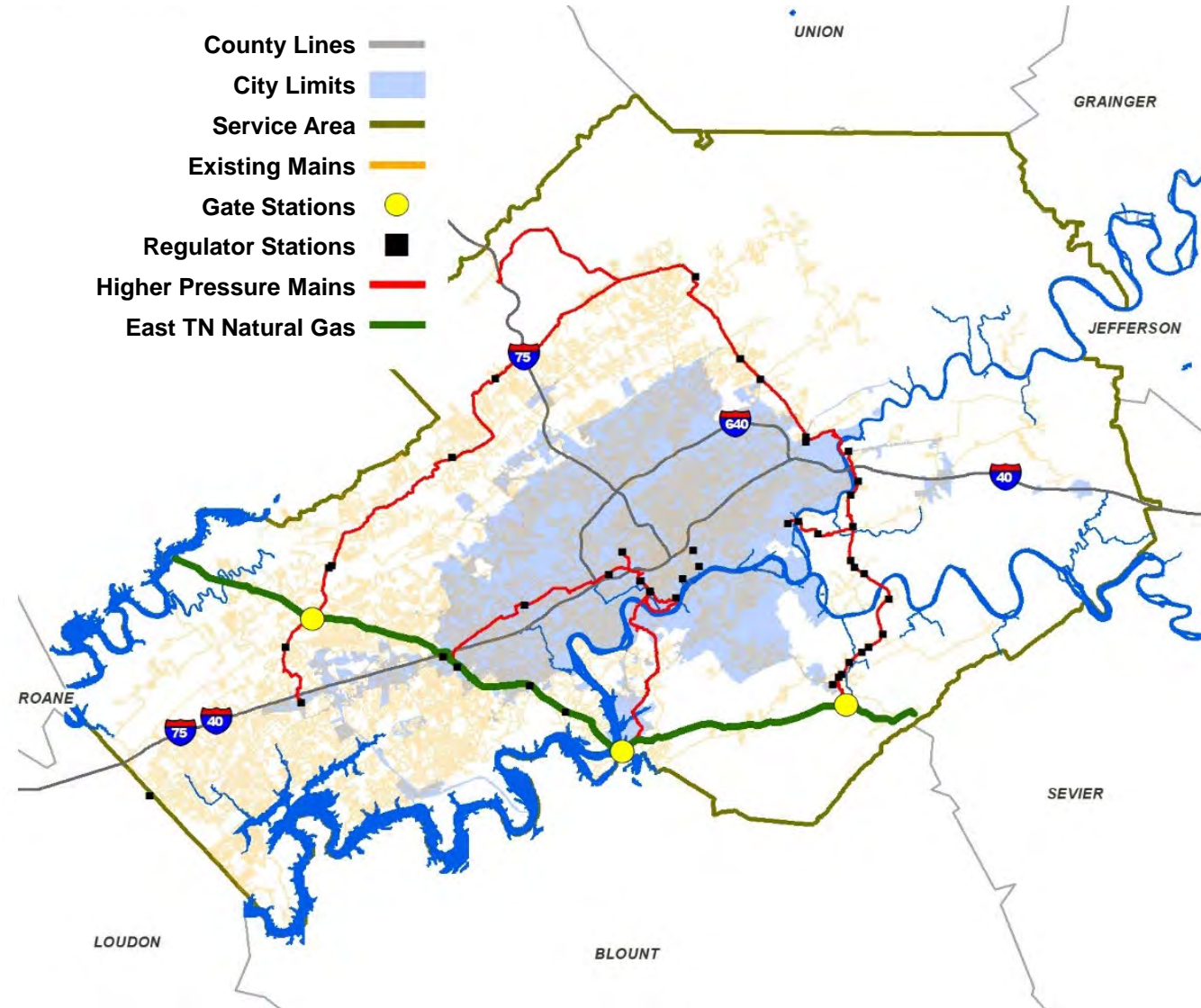
Plastic: 6 miles

Gate Stations: 3

Regulator Stations: 46

System Capacity: 157,381 dth

Peak Demand: 169,458 dth (Dec. 22, 2022)



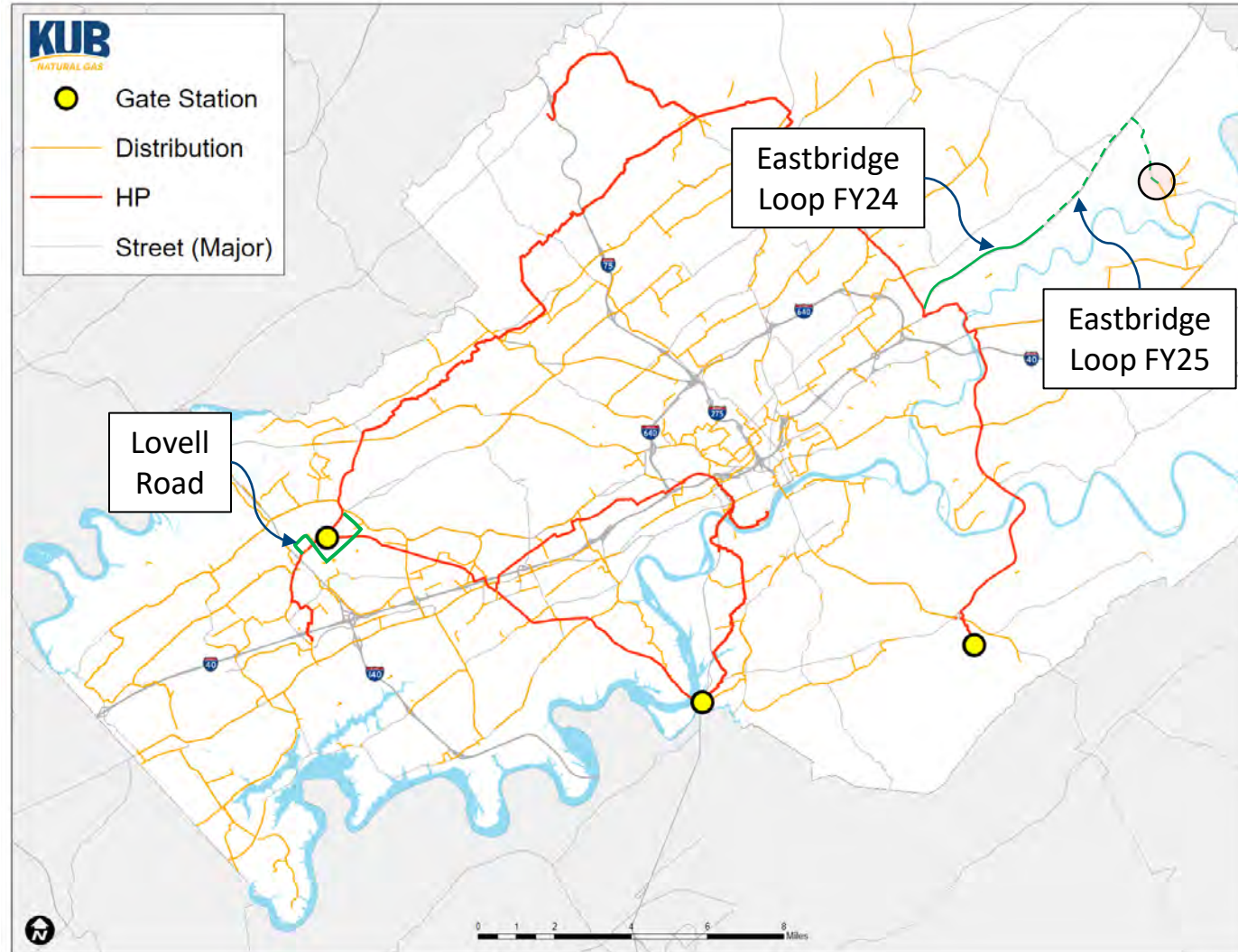
FY24 Investments

- Capital \$28.7M and O&M \$27.6M
 - Higher pressure system
 - Stations and equipment
 - Distribution system
 - Maintenance programs
 - Growth



Higher Pressure System Projects

- Lovell Road (FY23-24)
 - \$1.7M in FY24
 - Two miles of 16" higher pressure steel
- Eastbridge Loop (FY24-25)
 - \$2.6M in FY24
 - Three miles of 9.5 miles of 12" HDPE



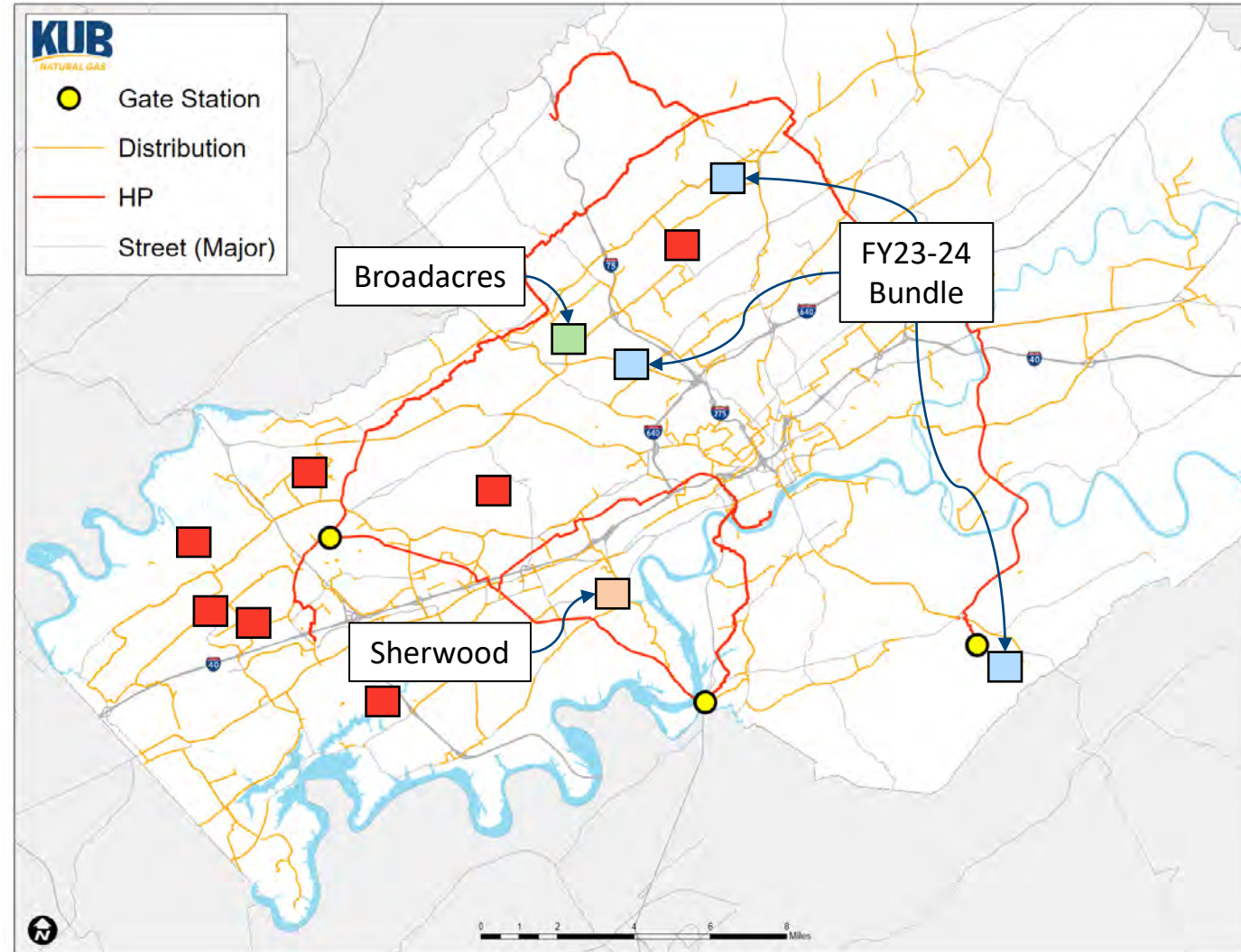
Station Projects

- Topside gate station
 - Meter capacity increase (\$575K)
- Century II regulator station upgrades (\$125K)
 - Harris Road
 - Cherokee Trail
 - Westbridge
- Regulator station additions (\$125K)
 - Eastbridge loop adds two stations



Distribution System Projects

- Coupled steel replacement
 - Sherwood 1.8 miles (\$0.7M)
 - Bundled projects 3 miles (\$1.5M)
 - Broadacres 3.5 miles (\$1.9M)
- Resiliency projects (\$0.5M)
 - Cedar Crest North
 - Bakertown Road
- Relocation projects (\$3.7M)
 - Chapman Highway
 - Pleasant Ridge Road
 - Canton Hollow Road



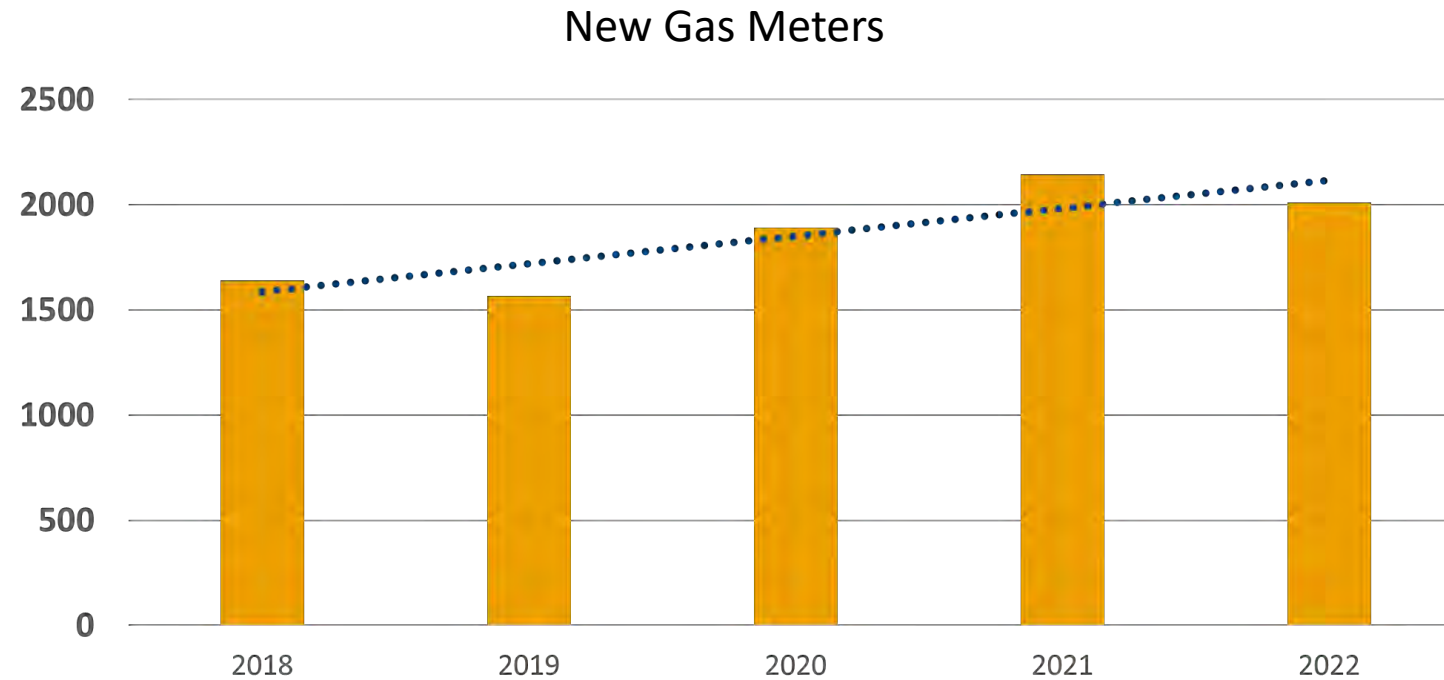
Maintenance Programs

- Leak surveys
 - 40,000 per year
- Valve maintenance
 - 4,500 per year
- Corrosion protection for steel lines
 - 1,400 test points annually
- Regulator stations
 - Annual functional assessment



Growth

- \$12.6M in capital budget
 - Extensions \$2.9M
 - Subdivisions and services \$5.9M
 - New meters \$3.8M
- East Knox County extension



KUB Recognized for Collaboration

- Environmentally focused
 - Founding partner EPA Methane Challenge lowering greenhouse gas emissions
 - 2022 APGA Excellence in Environmental Sustainability
- Safety focused
 - 2021 APGA Gold SOAR Award
- Forward thinking
 - 2022 APGA Public Gas System Achievement Award



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UTILITIES BOARD



April 20, 2023

Water FY2024 Budget



Water System

Customers: 82,279

Service Territory:
188 square miles

Treatment Plant: 1

Pump Stations: 27

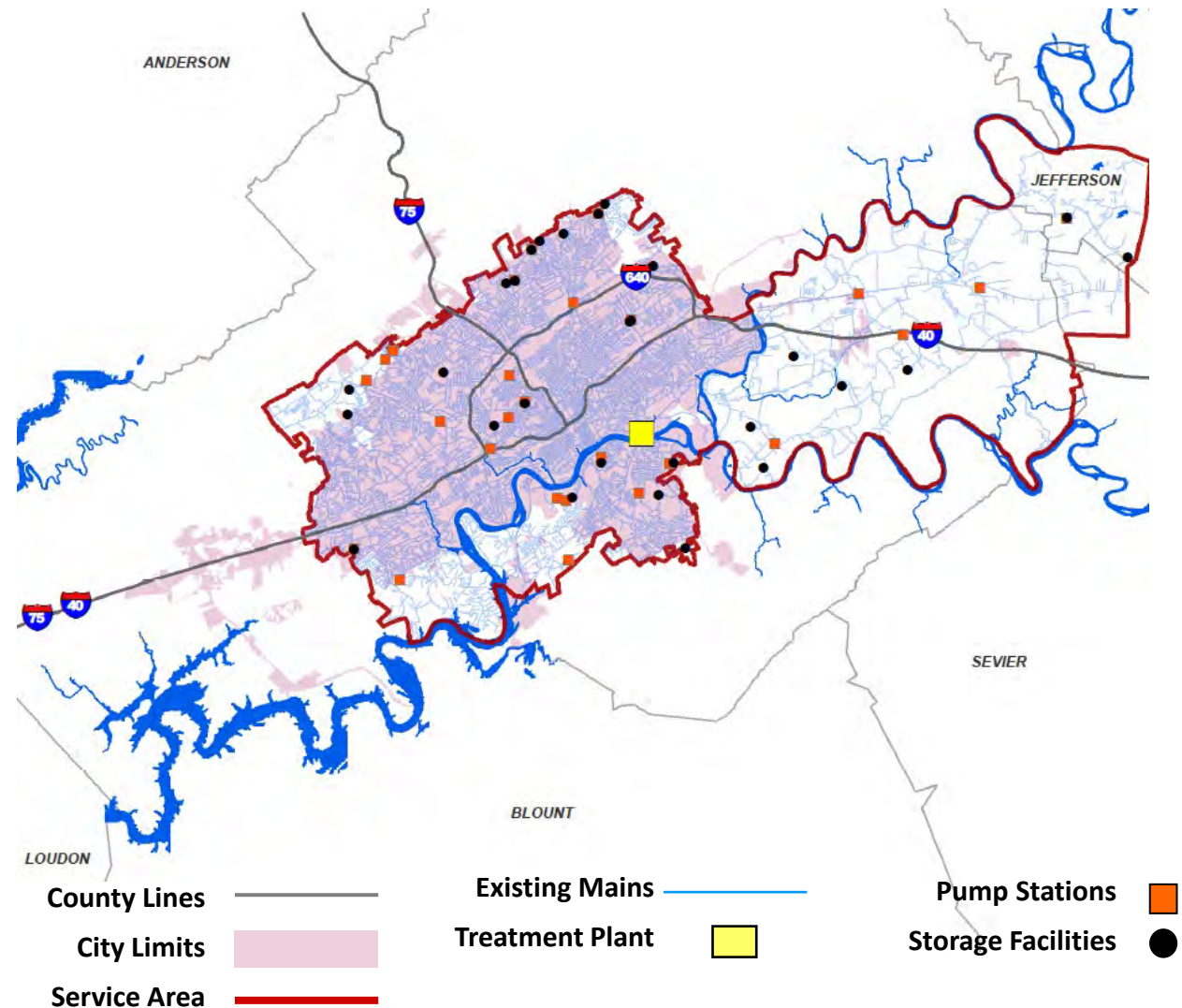
Storage Facilities: 28

Distribution Mains: 1,415 miles

Plant Capacity:
62.9 million gallons/day (MGD)

Reservoir Capacity: 36.9 million gallons (MG)

Treated Water: 12.0 billion gallons annually



FY24 Investments

- Capital \$55.2M and O&M \$36M
 - Treatment plant
 - Filters project
 - Distribution system
 - Strategic replacement of water main
 - Remote sites
 - New booster station increases system resiliency
 - Technology improves reliability



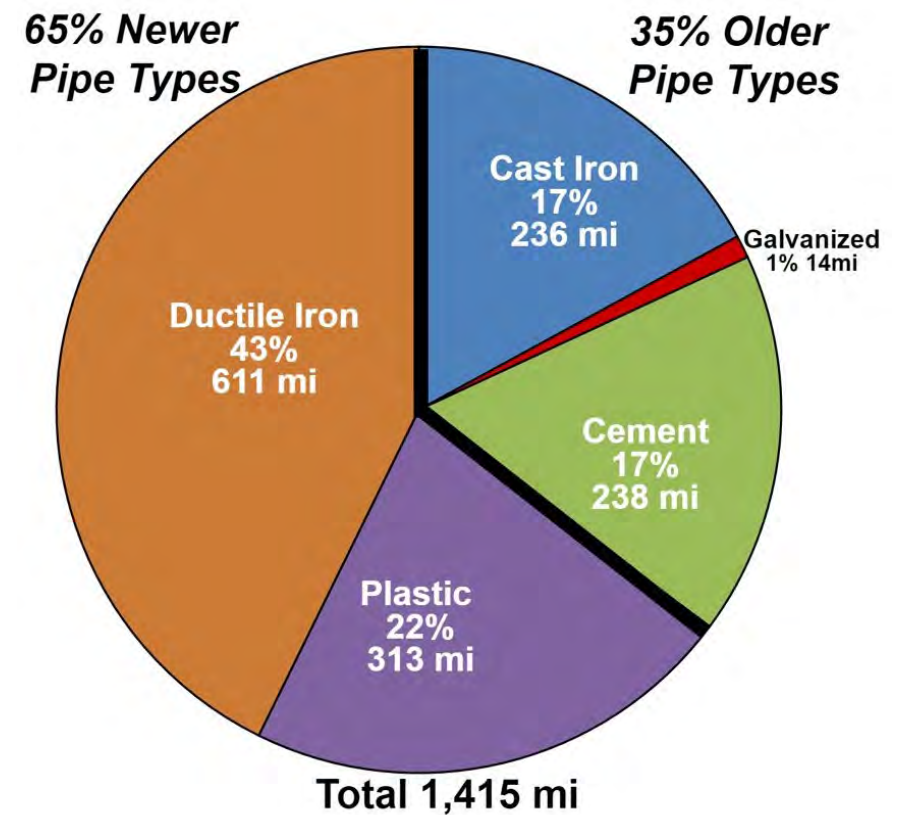
Treatment Plant Projects

- Filters project
 - Largest construction project in KUB history
 - Cornerstone project of Water Supply Master Plan
 - Six new filters, 38 MGD capacity
 - ARPA funding – City of Knoxville and Knox County
- Construction schedule: FY23-FY25
- \$32.7M planned investment in FY24
- Impact
 - 30% inflation in FY23



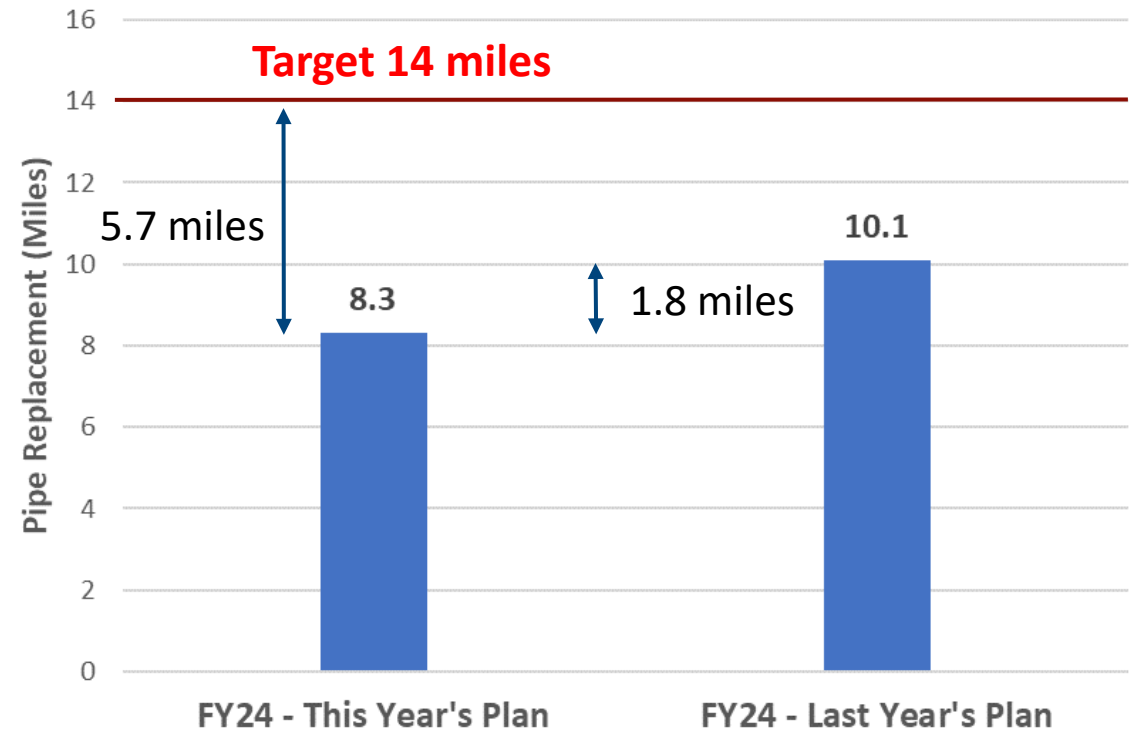
Distribution System Projects

- Includes replacement of distribution and transmission mains
- Cast iron replacement (\$3.5M)
- Galvanized replacement (\$2M)
- Impacts
 - Ductile iron pipe cost up 45%
 - Valves cost up 43%
 - Fire hydrants cost up 39%
 - Contract labor cost up 20%



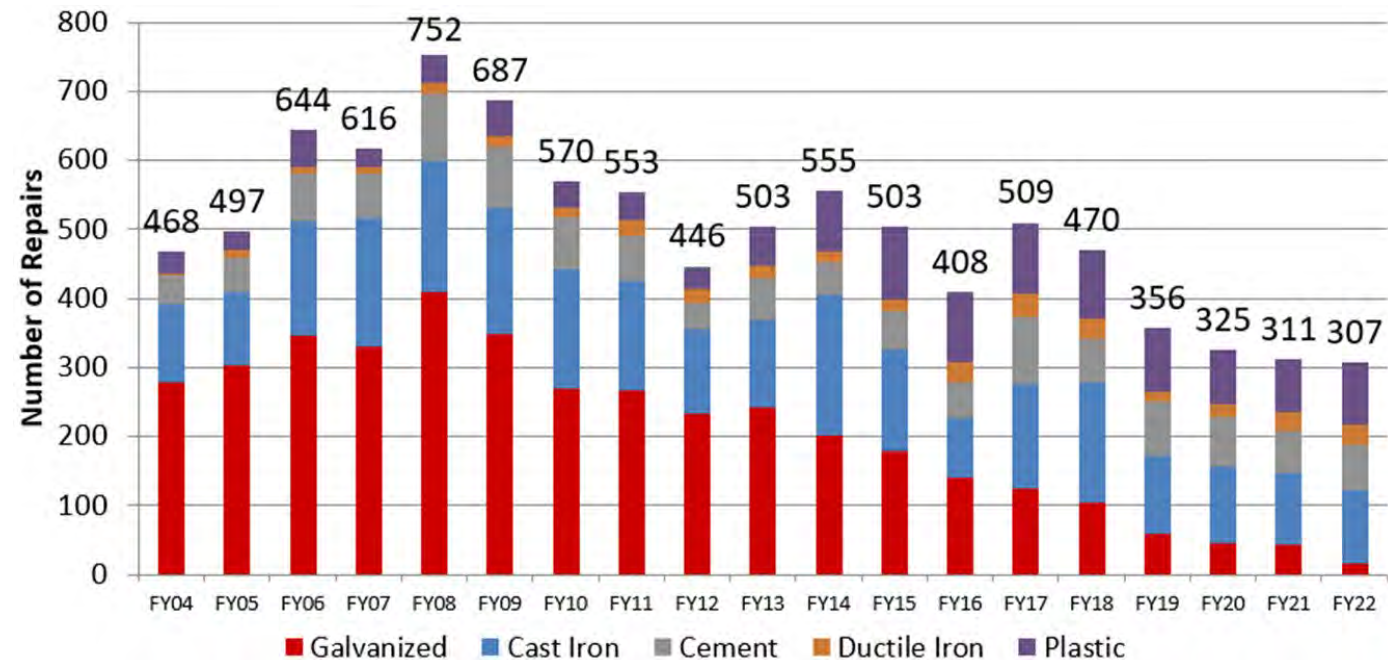
Distribution System - Pipe Replacement Pace Reduced

- Target – 14 miles/year
 - Achieved rate of 1% of system per year
 - 100-year pipe life expectancy pace
- Reducing pace in FY24 due to cost increases
 - Reduced replacement target by 1.8 miles
 - Last year's target 10.1 miles
 - This year's target 8.3 miles
- Impact
 - 1.8 miles to get back to last year's plan
 - 5.7 miles to get back to 14-mile target



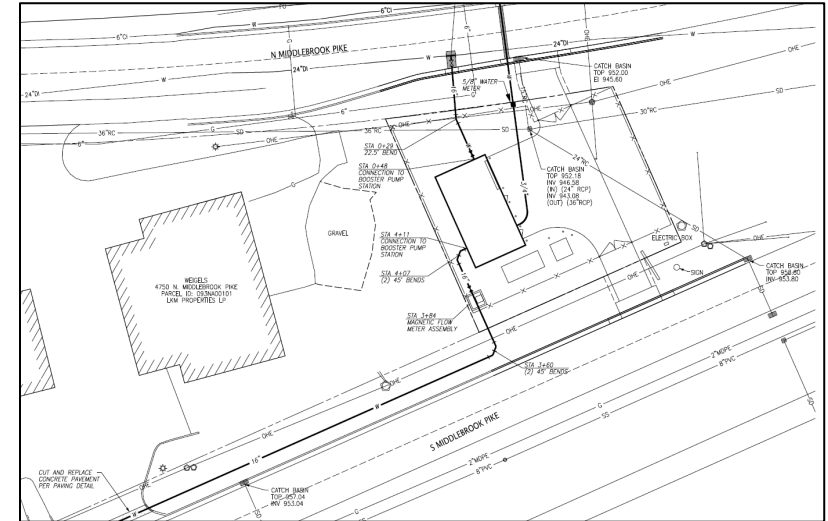
Reduction in Pipe Repairs

- Almost 60% reduction in repairs since 2008
- Eliminate 14 miles of galvanized pipe by 2027
 - Pipe type needing most repairs
 - Two-inch size – least costly replacement
- 474 miles of cast iron and cement pipe remain
 - Older pipe types
 - Six- to 30-inch pipe
 - More costly to replace



Remote Site Projects

- Total spend on stations is \$2.6M
- New Middlebrook Pike booster pump station and Hilton Road pressure-reducing valve
 - Parallels with Third Creek BPS
 - New pressure-reducing valve will feed from Third Creek to West Knox when needed
- Impact
 - Generator and electric equipment lead times



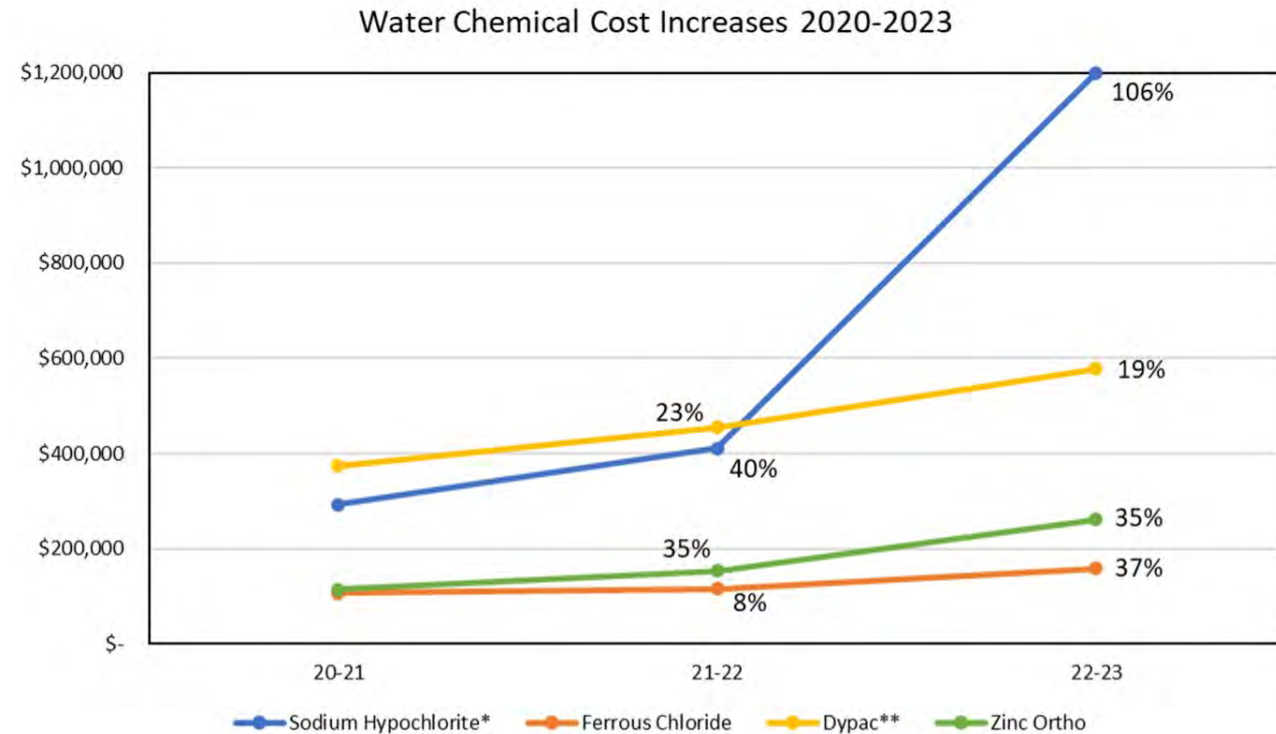
Technology Improves Reliability

- Leak prevention program is key
 - Pressure reduction and management program (\$441K)
 - Soft start/stop pump equipment (system calming)
- Leak detection reduces breaks
 - District metering for automated data collection (\$230K)
 - Analysis detects potential leaks for “find and fix” (\$1M)
- AMI meter technology helps customers
 - Technology identifies problems past meter
 - Helped identify issues in recent winter weather event



Water Treatment Chemicals

- The cost of treating water has significantly increased due to inflation of treatment chemicals
- O&M increase of \$373k for FY24
- Impacts
 - Sodium Hypochlorite cost up 106%
 - Ferrous Chloride cost up 37%
 - Dypac cost up 19%
 - Zinc Ortho cost up 35%



Water Quality & Resiliency is Our Focus

- Filters project will increase treatment resiliency
- Strategic distribution system improvements provide growth and reliability
- New booster pump station will increase system resiliency
- Technology and data assist in leak prevention and detection while also helping quickly identify issues



ASSOCIATION OF
METROPOLITAN
WATER AGENCIES



American Water Works
Association

Kentucky/Tennessee
Section

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UTILITIES BOARD



April 20, 2023

Wastewater FY2024 Budget



Wastewater System

Customers: 73,576

Service Territory:
243 square miles

Treatment Plants: 4

Lift Stations: 64

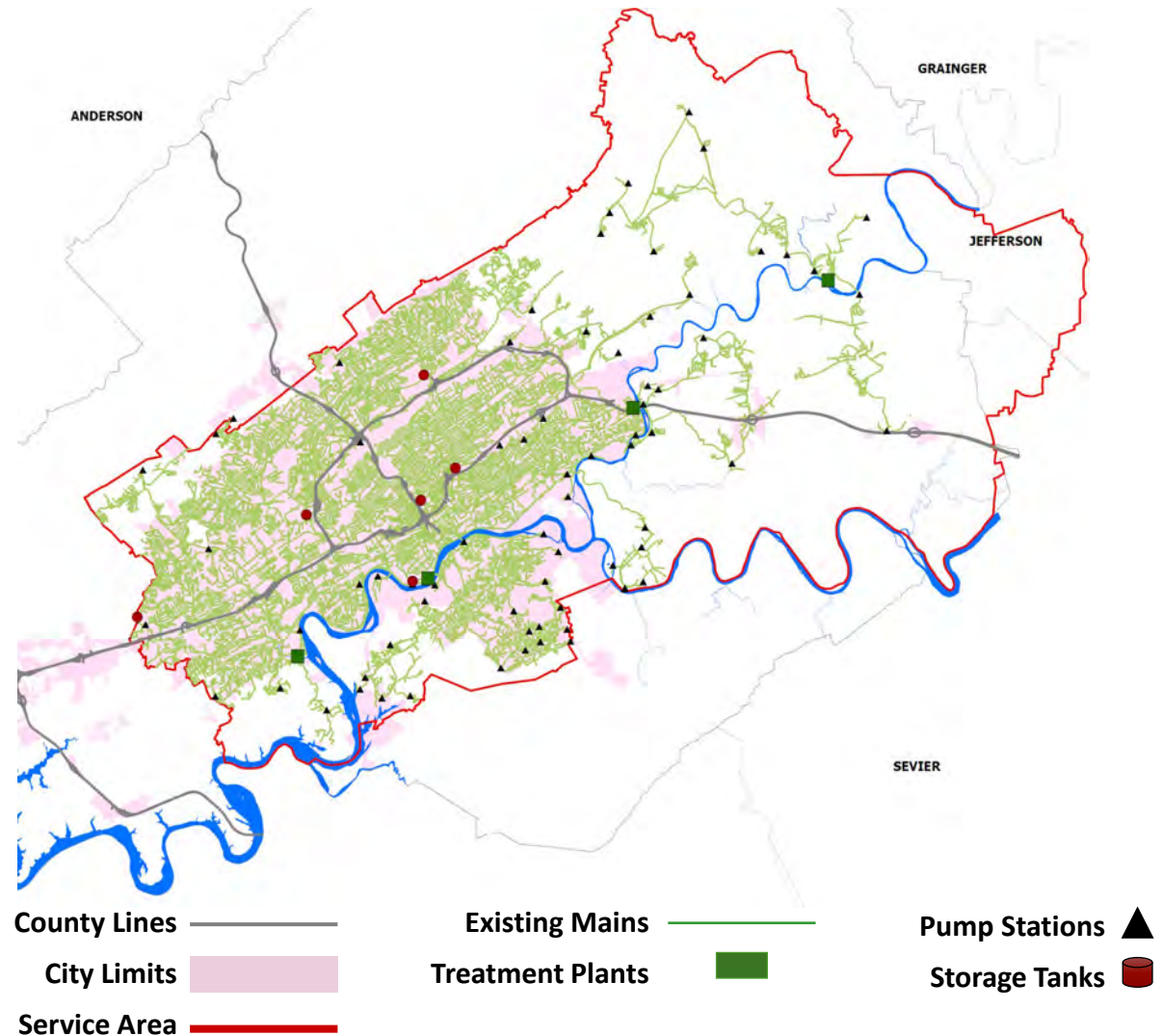
Collection Mains: 1,327 miles

Storage Capacity: 34 MG in 6 tanks

Plant Maximum Capacity: 173 MGD

Average Flow: 37.75 MGD

Consent Decree: 2005 – 2022



County Lines ———

City Limits ———

Service Area ———

Existing Mains ———

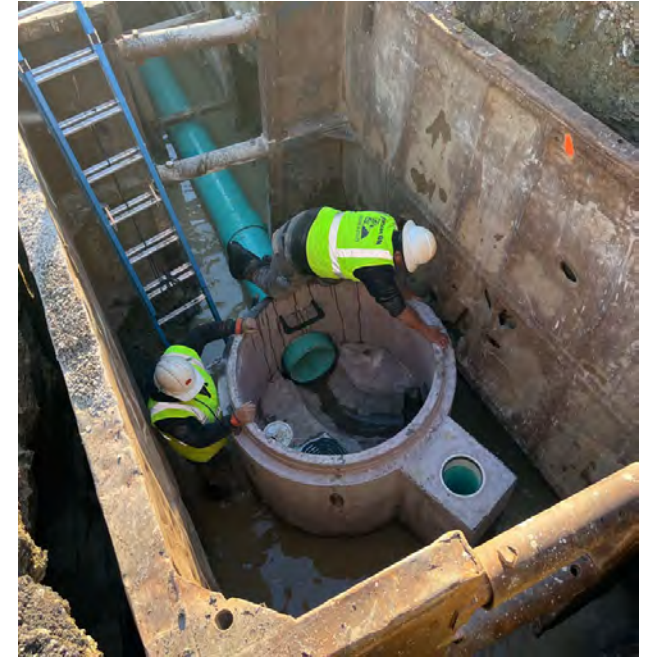
Treatment Plants ■

Pump Stations ▲

Storage Tanks ■

FY24 Investments

- Capital \$47.5M and O&M \$44.6M
 - Treatment plants
 - Holston Hills and Jones Street
 - Collection system rehabilitation
 - Strategic projects reduce overflows
 - System inspection and preventative maintenance
 - Holistic approach yields results



Treatment Plants Projects

- Total spend is \$4.2M
- Consent Decree is complete
- Projects
 - Loves Creek – electrical upgrades (\$965K)
 - Kuwahee – replace final clarifiers two and four equipment (\$1.1M)
- Impact
 - 40% cost increase on clarifier equipment



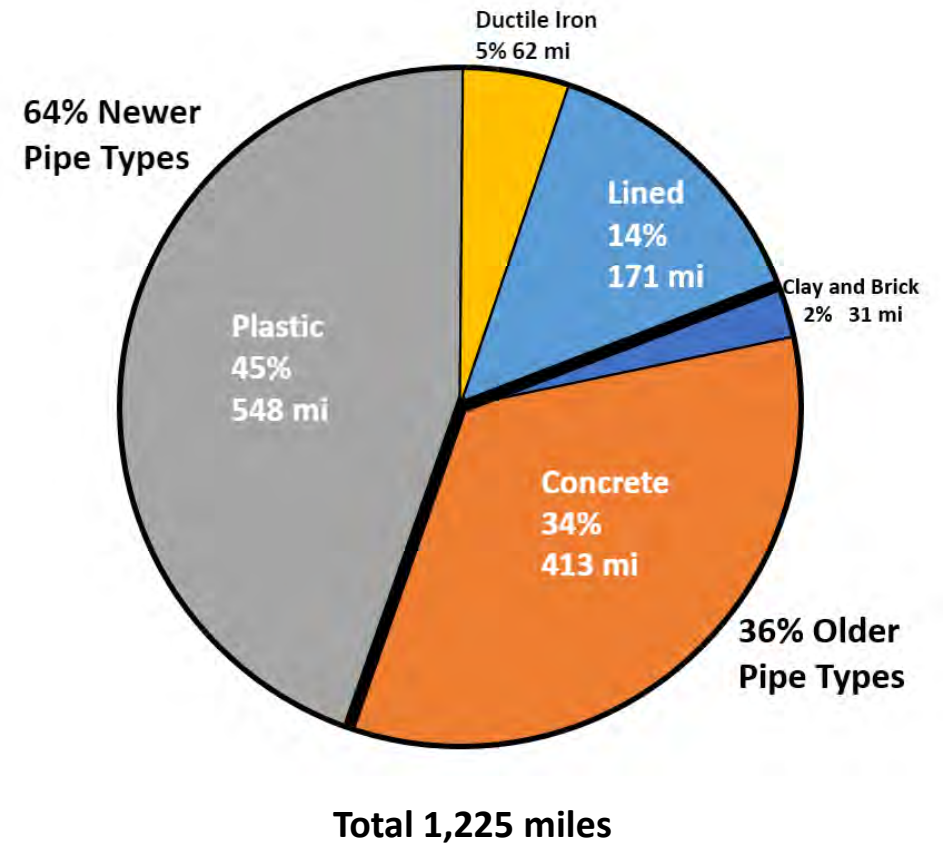
Remote Sites - Holston Hills Pump Station Rehabilitation

- Pump station upgrades (\$9.6M)
- Holston Hills pump station and force main (\$2.1M)
 - Upgrade pumps, wet well, electrical, and generator
 - Construction in FY24
- Jones Street pump station (\$3.8M)
- Impact
 - Generator and electric equipment lead times



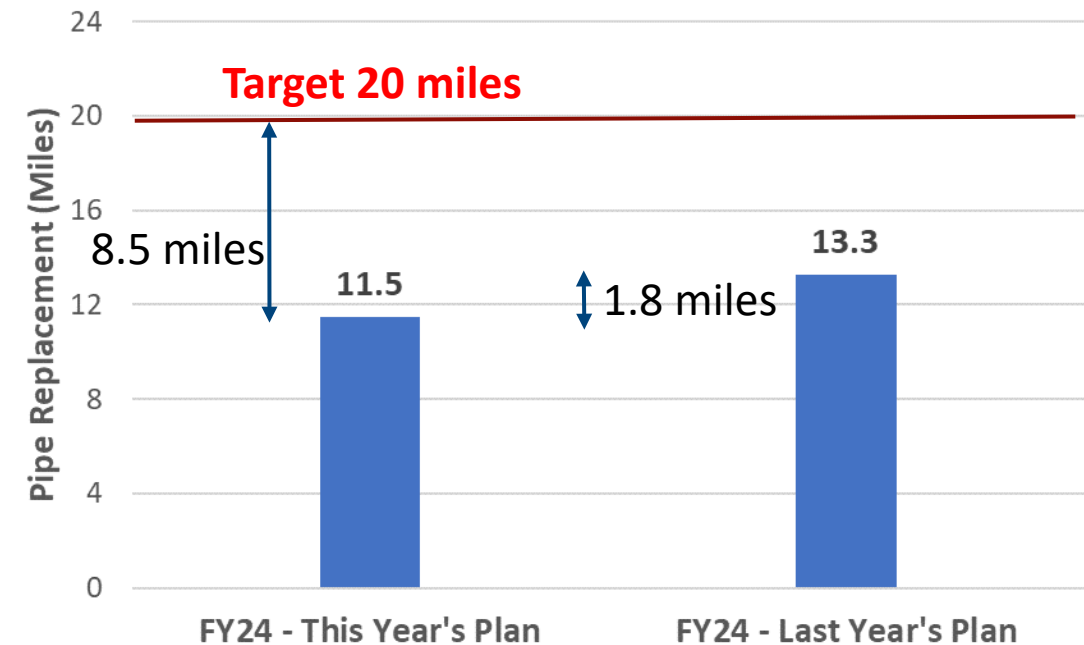
Collection System Rehabilitation

- Total FY24 spend is \$20.8M
- Replace or rehabilitate 11.5 miles of pipe across multiple basin projects
- Match projects to system needs
 - Focus on SSOs
 - Continue to remove older clay and concrete pipe
- Impacts
 - Ductile iron pipe cost up 45%
 - Contract labor cost up 20%



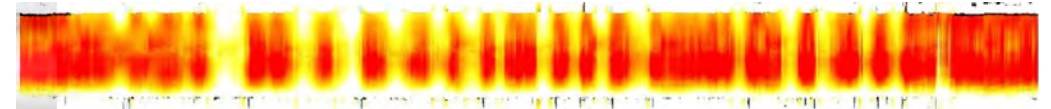
Pipe Replacement Rate Reduced

- Consent Decree avg 25 miles/year, reduced to 20 miles/year
 - Achieved rate of 1.5% of system per year
 - 66-year pipe life expectancy pace
- Reduced pace in FY24 due to cost increases
 - Reduced replacement target by 1.8 miles
 - Last year's plan – 13.3 miles
 - This year's plan – 11.5 miles
- Cost impacts
 - 1.8 miles to get back to last year's plan
 - 8.5 miles to get back to 20-mile target



Neyland Drive Trunkline Rehabilitation

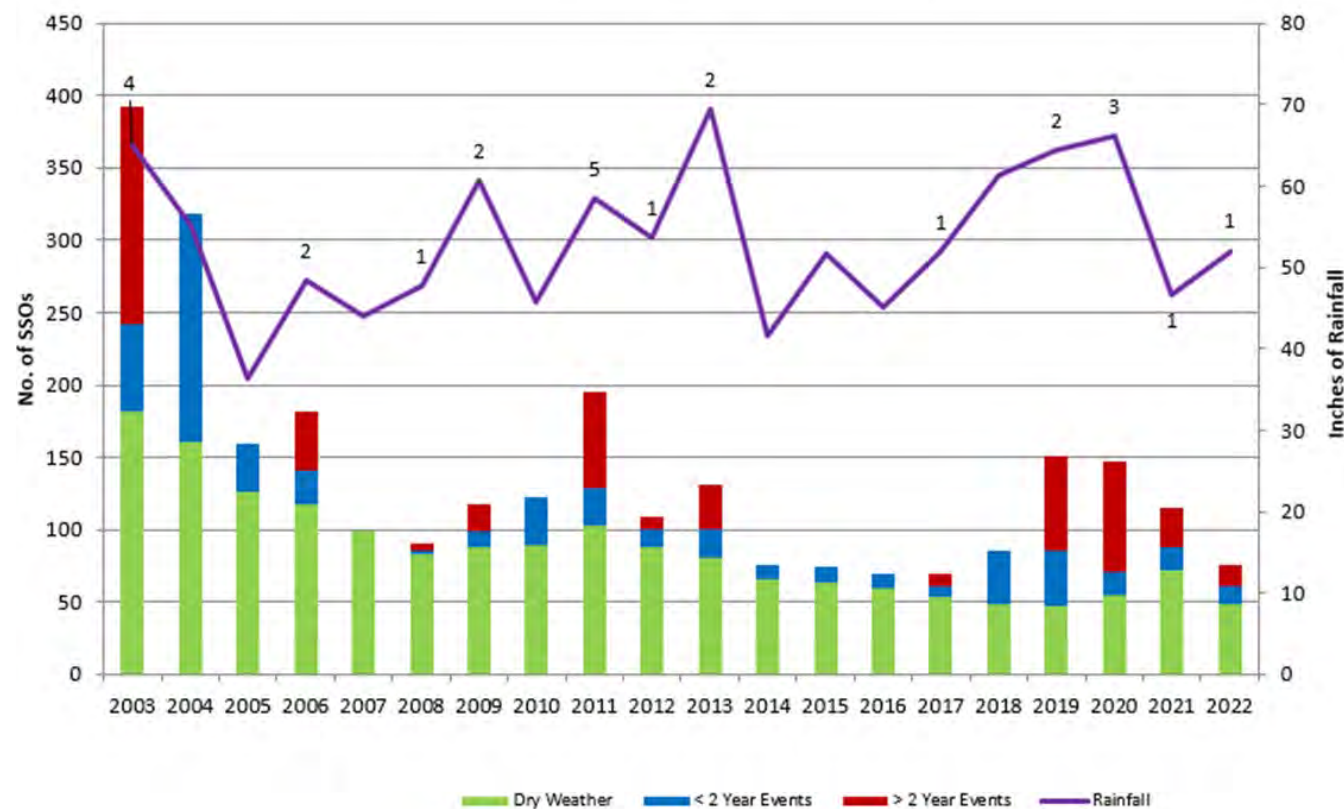
- \$8.8M total
- LIDAR/SONAR inspection of 84-inch and 78-inch trunkline along Neyland Drive
- Concrete trunklines installed in 1950's
- Significant corrosion in locations above wastewater flow line
- Location – Kuwahee to Thompson-Boling



Reduction in Overflows

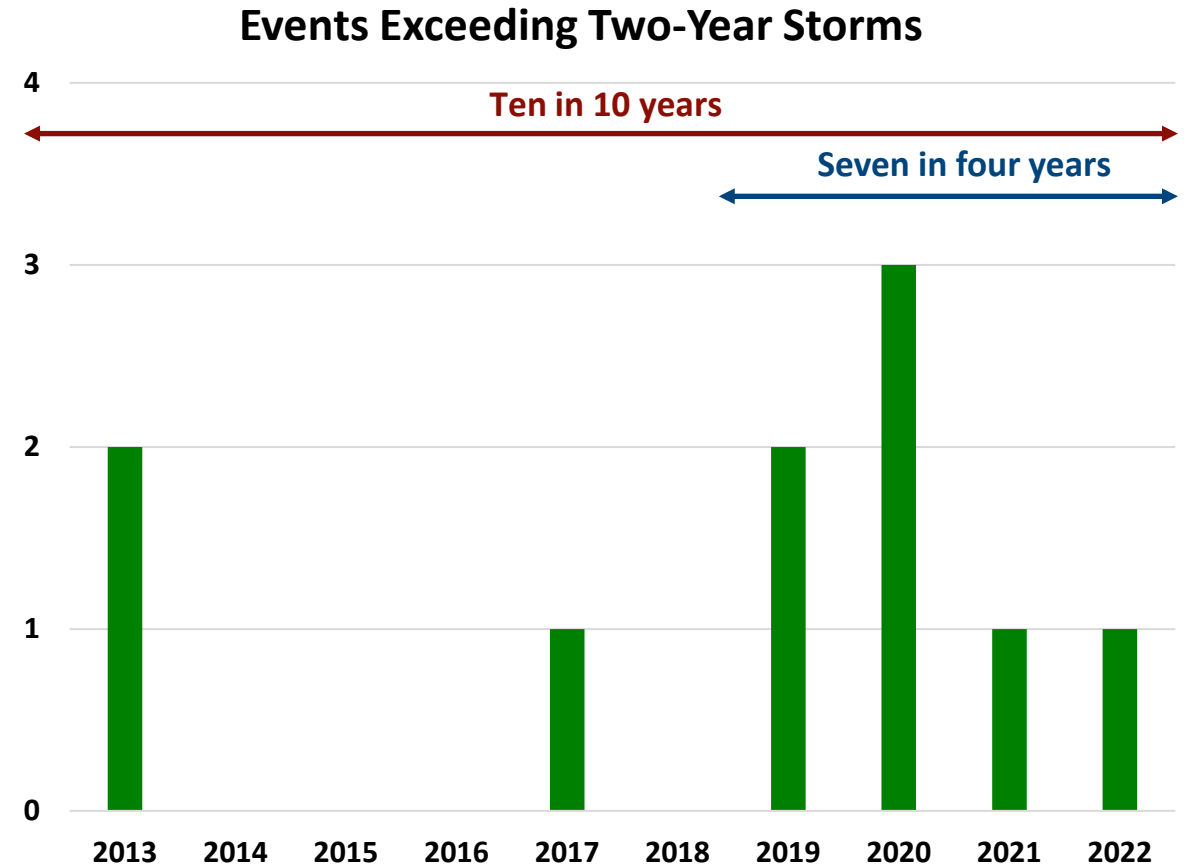
- Overflow reduction from 2003
- Rainfall impacts system performance
 - Intensity and duration
 - Ground saturation level
 - Flooding
- 444 miles of older pipe remain
 - Clay and concrete pipe
 - Increased rainfall impacting overflows

SSO/BBU Trend: 2003 through 2022 with > two-year events



Impact of Increased Rainfall

- Increased overall overflows past four years due to excessive two-year storm events
- Abnormal “two-year” storm frequencies
 - Expect five two-year storms in 10 years
 - Expect two two-year storms in four years
 - Averaged one per year past 10 years



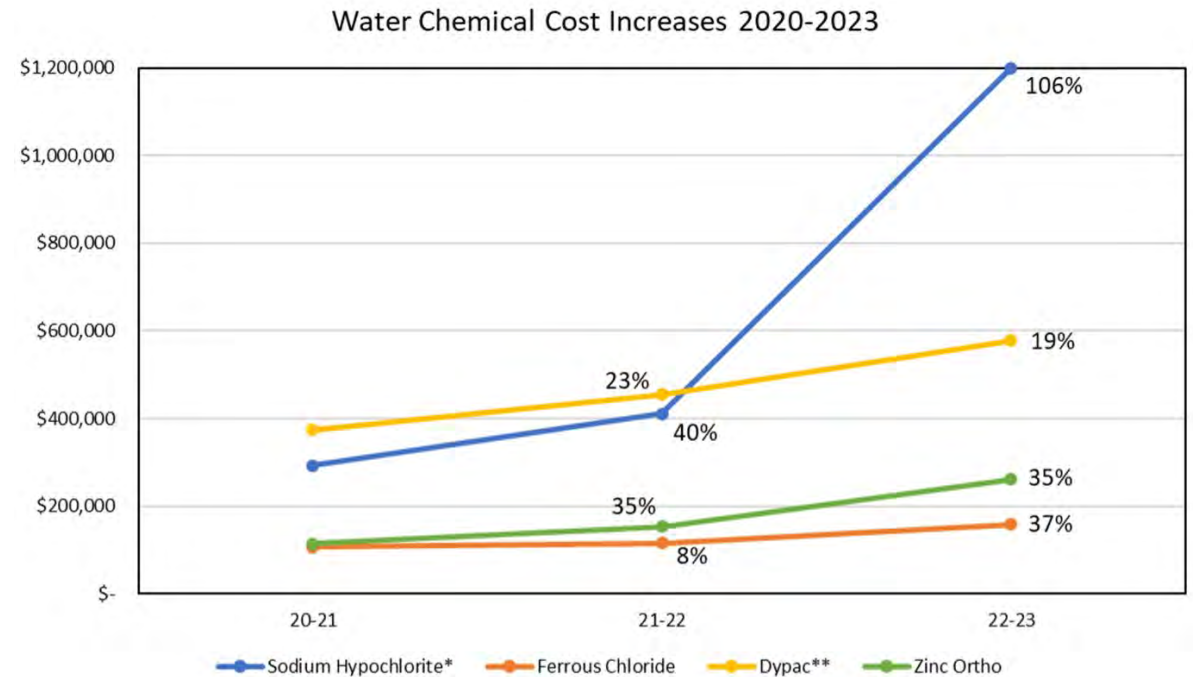
System Inspection & Preventative Maintenance

- Total inspection and preventative maintenance spend is \$2M
- **Video inspection** assesses pipe condition
- **Manhole inspections** detect defects
- **Smoke testing** locates potential sources of inflow/infiltration
- **Blockage abatement** clears pipeline of roots and blockages
- All these programs work together to reduce overflows



Wastewater Treatment Chemicals

- The cost of treating wastewater has significantly increased due to inflation of treatment chemicals
- O&M increase of \$429K for FY24
- Impacts
 - Sodium Hypochlorite cost up 106%
 - Ferrous Chloride cost up 37%
 - Dypac cost up 19%



Focus on System Resiliency & the Environment

- Remote site and plants projects are prioritized to ensure continued system resiliency
- Match collection system rehabilitation projects to system needs
 - Focus on reducing SSOs
 - Continue to remove older clay and concrete pipe
- Monitor overflows and adjust rehabilitation and maintenance as needed
- Coordinated O&M programs extend asset life and effectively reduce SSOs



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UTILITIES BOARD



April 20, 2023

Fiber FY2024 Budget



Fiber Division FY24 Overview

- Deployment update
- Introducing a brand and making new connections
- Competitive landscape
- FY24 financial plan



It's Been a Big Year!

- In “business” July 1, 2021
- Internet pilot launched in July 2022
- First paying internet customers in September 2022
- First business customer in September 2022
- First apartment complex/multiple dwelling unit (MDU) in October 2022
- Television and Phone launched in February 2023



Challenges

- International supply chain issues impacted KUB Fiber
- Primary impacts were electronic related
 - Servers
 - Electronics
 - Vehicles
- Contractors/vendors experienced same impacts
 - Redundant connection to internet backbone delayed due to supply chain constraints



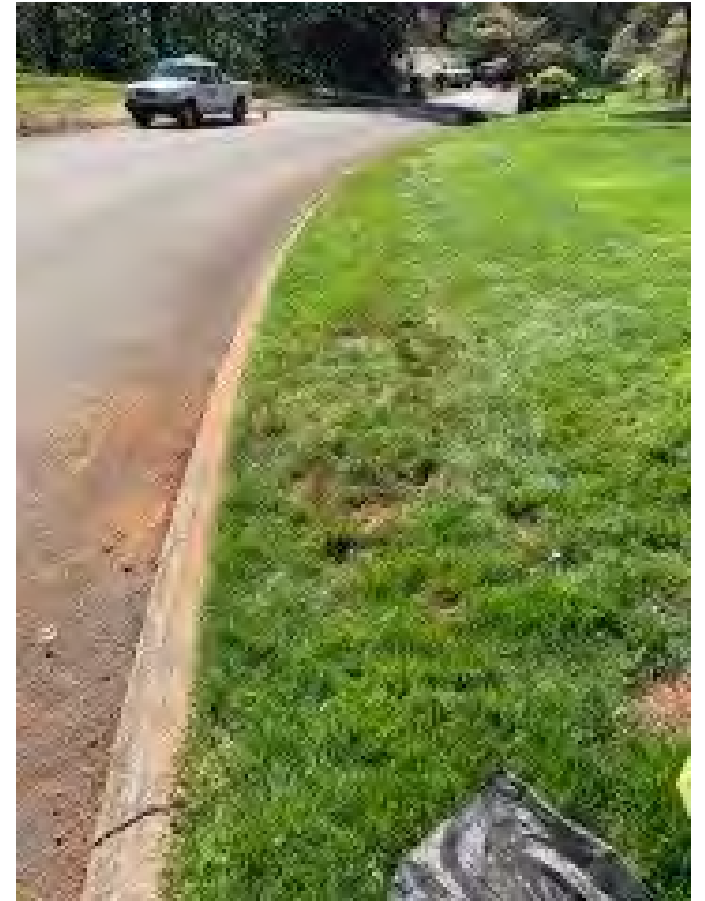
Challenges

- Construction of fiber presents unique conditions
 - Placement of communication infrastructure is in tight corridor
 - Unmarked utilities/infrastructure
 - New contractors for KUB
- Common issues
 - Impact to yards/neighborhood
 - Interruption of existing telecommunication service

Underground Installation Process



Underground Installation Process

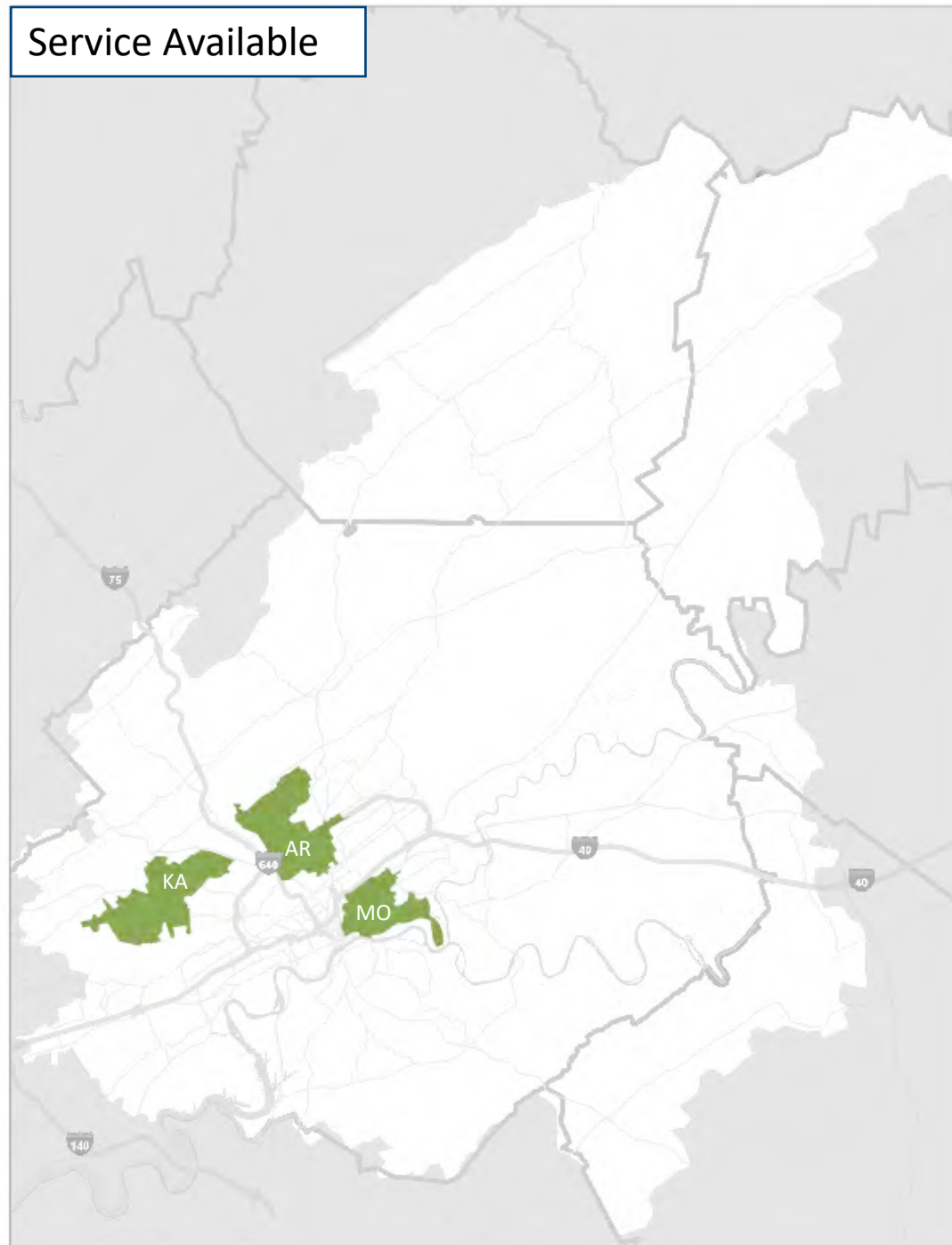


Listening To Our Customers

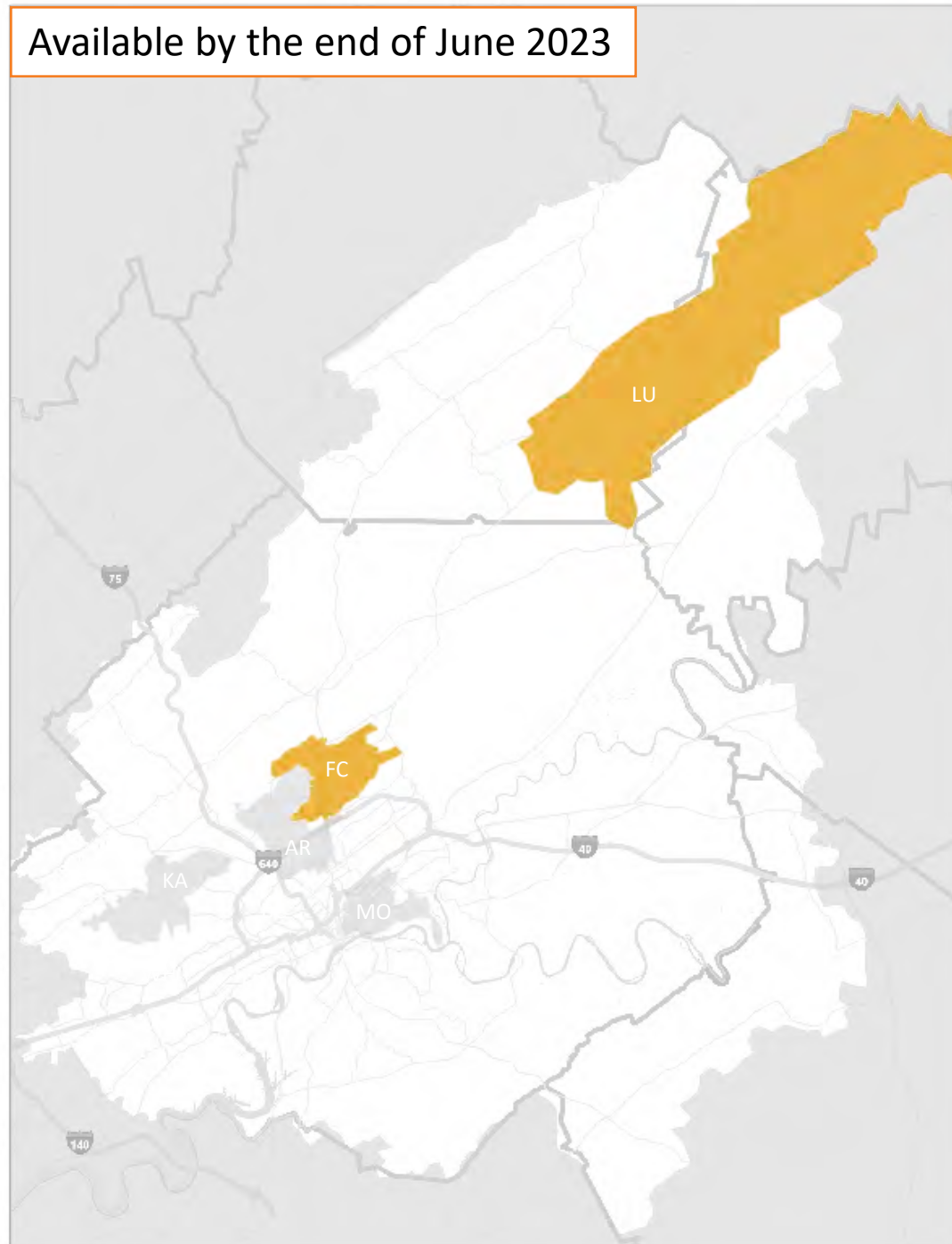
- Enhanced customer notifications
 - Increased visibility in community
 - More customer support reps and inspectors
 - Push for enrollment in text notification
 - Utilization of Nextdoor platform
- Keeping all customers engaged
 - Direct mail and email outreach to customers in later stages
 - Enhanced tracking of customer satisfaction
 - Partnering with HOAs on food truck popups



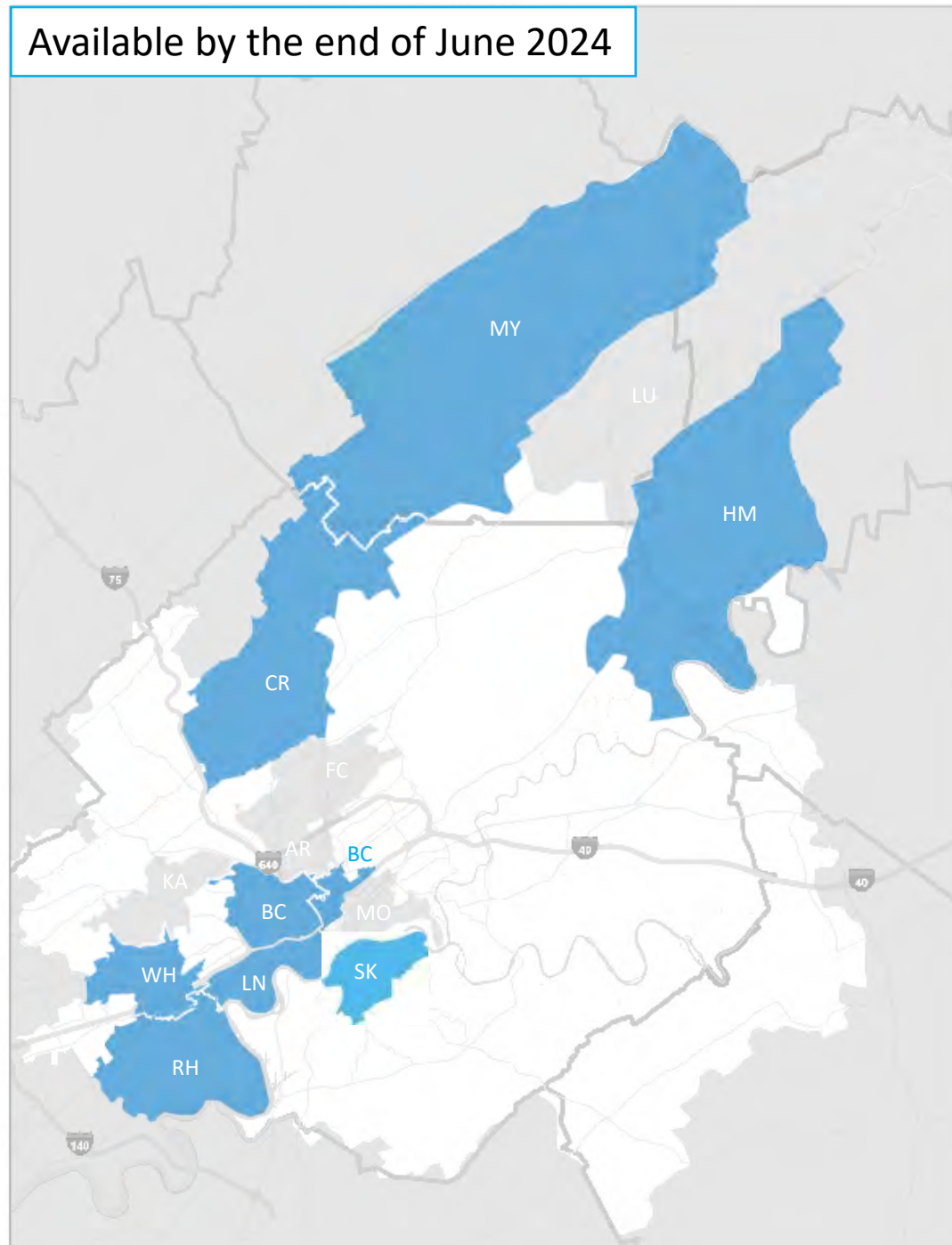
Service Available

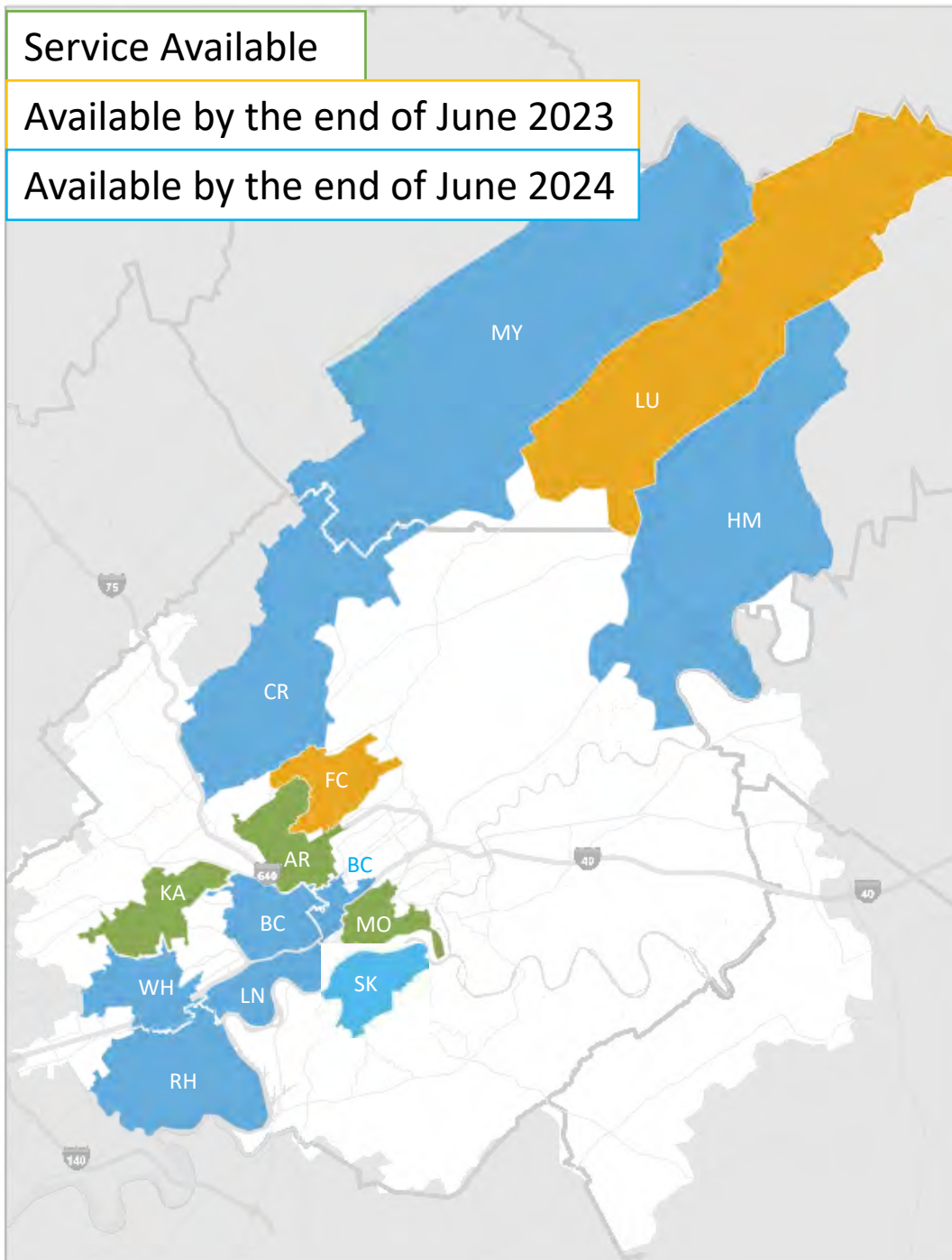


Available by the end of June 2023



Available by the end of June 2024





Supporting Access For All Customers

- Affordable Connectivity Program (ACP)
 - Program went live in March 2023
 - Eligible participants receive \$30 for internet service
- eKnox pilot
 - Effort coordinated by Knoxville Chamber
 - Programs at Pond Gap, Cecil Webb Rec Center, and KnoxWorx
 - 39 students graduated from the five-week program
 - Received Chromebook at course completion
 - Current cohort is at Belle Morris Elementary
 - KUB participated by sponsoring
- ConnectED



ConnectED Pilot Underway

- ConnectED is KUB's student internet program
- Pilot with Teenwork students at Austin-East, Central, and Fulton High Schools
- Funding from City of Knoxville
- Expansion planned in 2023-2024 school year



Competitors Have Responded To KUB Fiber

- Predicted response from competitors
 - Incentives to switch
 - Temporary price reductions
 - Incentivizing contracts
 - Increased service offerings
- Marketing spend has increased
- Responded by upgrading infrastructure

Get up to \$250 in reward cards with online order with promo code 'EXTRA100' See details >

Offer ends in: 00 02 37 41

AT&T fiber

Superfast internet for all that you do

Enjoy our fastest internet speeds and straightforward pricing PLUS up to \$250 in reward cards

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Order online [Call to order 1.800.955.4277](#)

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WOW!

Internet 100 for

\$19⁹⁹ PER MO.*

Plus, get a free streaming device on us

CONNECT	CONNECT MORE	FAST
75 Mbps	200 Mbps	400 Mbps
Save \$15/mo with Mobile	Save up to \$20/mo with Mobile	Save \$25/mo with Mobile
+\$5/mo		+\$40/mo
For 12 months. No term contract. Reward equipment not included. Includes \$10/mo. activation fee. Includes \$10/mo. equipment fee. Includes \$10/mo. equipment fee. Includes \$10/mo. equipment fee.		For 12 months. No term contract. Reward equipment not included. Includes \$10/mo. activation fee. Includes \$10/mo. equipment fee. Includes \$10/mo. equipment fee.
WIFI equipment included	WIFI equipment included	WIFI equipment included
SUPERFAST	GIGABIT	GIGABIT EXTRA
1 SERVICES	2 EQUIPMENT & ADD-ONS	3 CREATE ID & CHECKOUT
		VIEW DETAILS
		ESTIMATED MONTHLY TOTAL
		\$25.00/mo
		Next

Competitive Landscape

	Xfinity 400 MB	Xfinity 1 GB	AT&T 1 GB	KUB Fiber 1 GB
Download speed	400 MB	1 GB	1 GB	1 GB
Upload speed	5 MB	15MB	1 GB	1 GB
Data cap	1 TB	1 TB	Unlimited	Unlimited
Cost per month	\$55	\$75	\$80	\$65

Competitive Landscape

	Xfinity 300 MB	Xfinity 1 GB	AT&T 1 GB	KUB Fiber 1 GB
Download speed	300 MB 400 MB	1 GB	1 GB	1 GB
Upload speed	5 MB	15MB	1 GB	1 GB
Data cap	1 TB	1 TB	Unlimited	Unlimited
Cost per month	\$86 \$55	\$106 \$75	\$90 \$80	\$65

Marketing Efforts Are Raising Awareness

Unaided awareness of KUB is solid for an offering in its infancy, reflective of a service that has established a presence across the region



Unaided Awareness of Tennessee Internet Providers

Unaided Mentions, Among Total Mentions



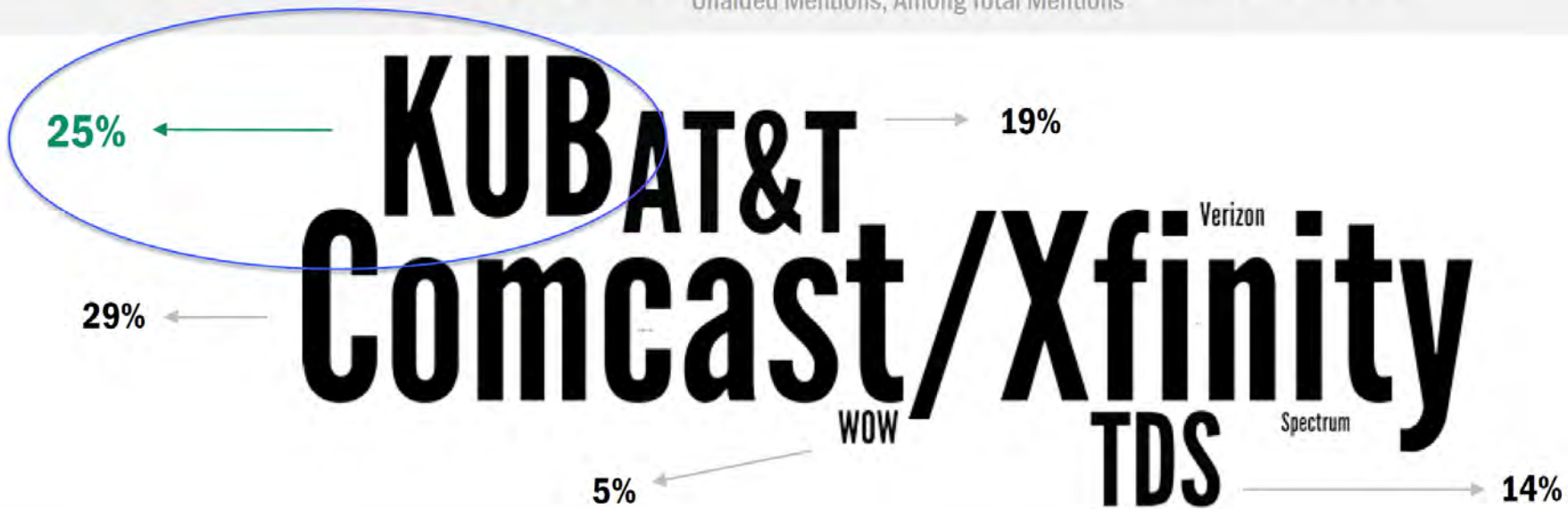
Customers Are Not Only Aware – They're Interested

From an unaided consideration perspective, KUB is at 1-in-4 – exceptional levels that position KUB as top of mind for many and underlines the potential opportunity for acquisition of new users

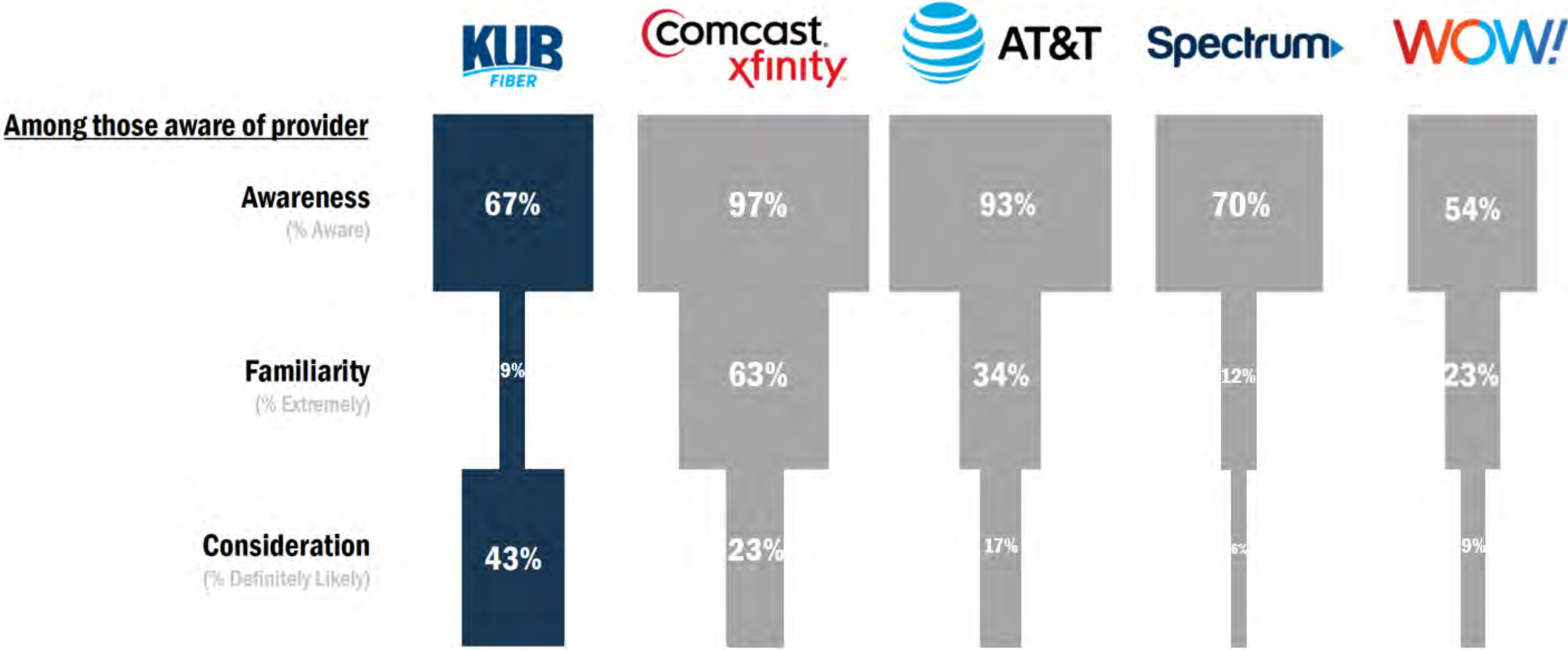


Unaided Consideration Towards Tennessee Internet Providers

Unaided Mentions, Among Total Mentions



Consideration For KUB Is Higher Than Any Other



Educating Our Customers Through Marketing

- Showing the value proposition to customers
- Highlight what KUB Fiber benefits through “What’s the Difference?” campaign
- Meeting our customers where they are using various mediums



WHAT'S THE DIFFERENCE?

THE BIG GUYS

KUB FIBER

This is where we talk about all the little "details" of the contract. Things you should probably know, but we're not going to say. Or at best, we'll be somewhat confusing about it. Stuff like how we reserve the right to slow your service down, as long as we give you that "gig speed" once a week or so. Or how we can add little mystery fees to your bill, which will ultimately result in you paying more for service than you thought you were going to. All the standard stuff that comes in a big contract. It's usually in the "terms and conditions" section, which, let's face it, you probably didn't read. And don't worry, we didn't either. We hired some hotshot lawyer to write it up, we don't even know what most of it means! All we know is that if we show it in an ad somewhere, it somehow makes it okay.

The bottom half of the graphic features a block of small, italicized text on the left and a large, empty blue-outlined square on the right, positioned below the KUB FIBER logo.

Fiber-to-the-Home Overview FY24

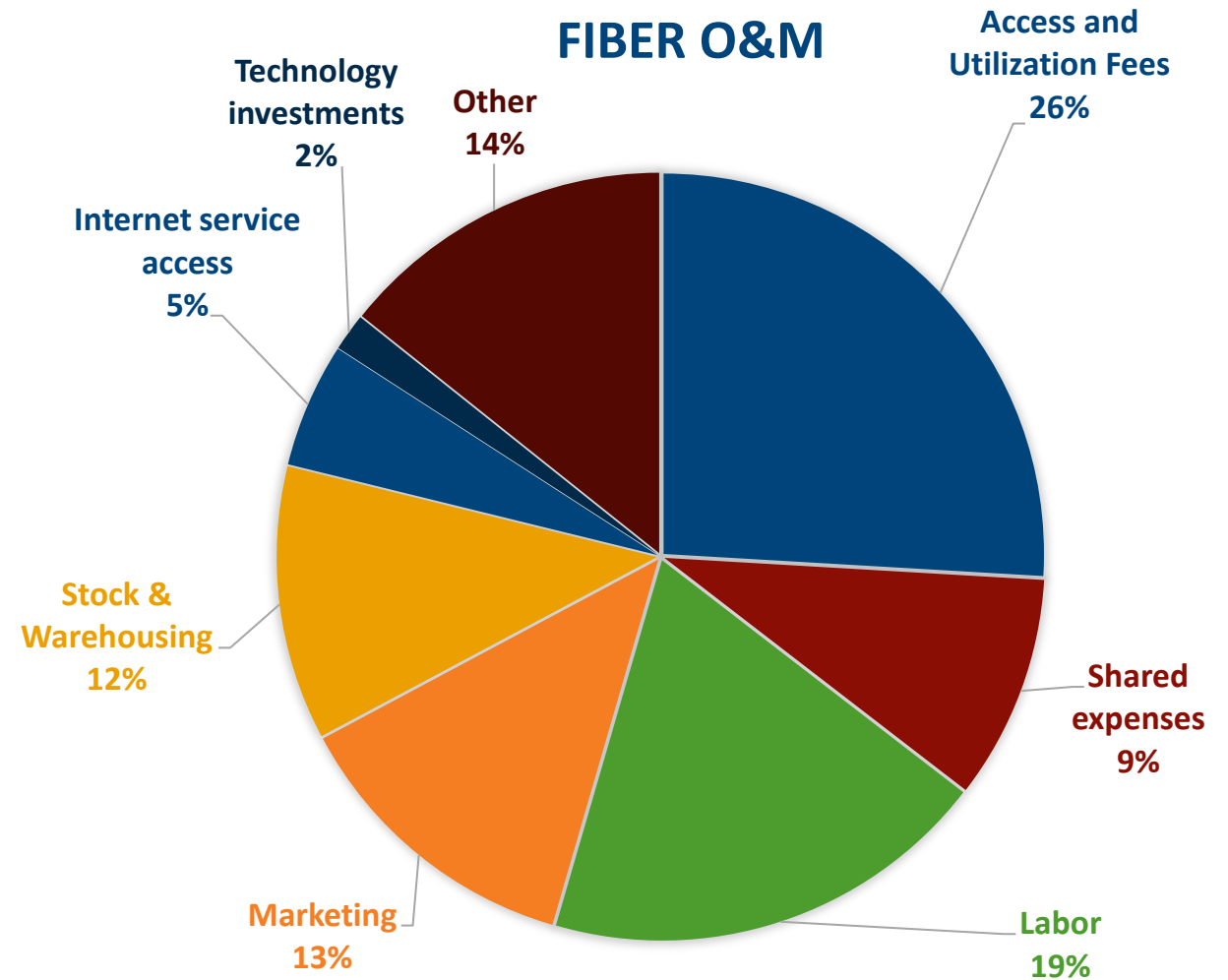
- Electric
 - \$3.2M Operations and Maintenance
 - \$81.3M Capital
- Fiber
 - \$18.9M Operations and Maintenance
 - \$1.7M Capital
- Budget is consistent with previously approved plan

Fiber-to-the-Home & The Electric Division FY24

- Construction plan still on schedule
 - Total Capital: \$81.3M
 - Network construction: \$54.9M
 - Smart switches: \$6.0M
 - Electronic equipment: \$7.5M
 - Service connections: \$12.9M (at 35% subscription rate)
 - Total Operations and Maintenance: \$3.2M
 - Network operations labor, fiber maintenance, and warehousing
- Additional 60,000 customers made eligible for service
- Fiber network will be fully constructed by FY29

Fiber Division FY24 Details

- Total capital: \$1.7M
 - Facilities: \$0.1M
 - Internet service infrastructure: \$1.0M
 - Information technology investments: \$0.1M
 - Vehicles: \$0.5M
- Total operations and maintenance: \$18.9M
 - Access and Utilization Fees: \$4.9M
 - Shared expenses: \$1.8M
 - Labor: \$3.6M
 - Marketing and advertising: \$2.4M
 - Stock and warehousing: \$2.2M
 - Internet service access: \$1.0M
 - Information technology investments: \$0.3M



Making Positive Connections

- Alleviating pain points through local service, tech support, affordability, and transparency
- Reliability is higher than 99.9%
- Strengthening bonds with our community
- Active customers are extremely satisfied



KUUB

KNOXVILLE
UTILITIES BOARD



April 20, 2023

FY2024 Proposed Budget



FY24 Budget Overview

- Proposed budget \$1.2B
- Up \$73M or 6% compared to FY23 forecast
- O&M up \$20M reflecting inflationary pressures
- \$284M capital budget includes \$135M for Century II and \$81M for fiber infrastructure
- \$85M in new bonds help fund capital budget
- Rate increases for FY24 previously adopted by Board
 - 5% water rate increase (July 2023)
 - 4% wastewater rate increase (July 2023)
 - 3% electric rate increase (April 2024)

Proposed FY24 Budget: \$1.2B

	Electric	Fiber	Gas	Water	Wastewater	Total
Energy Cost	\$470.4	\$6.0*	\$78.0	\$ ---	\$ ---	\$554.4
O&M	\$86.3	\$18.9	\$27.6	\$36.0	\$44.6	\$213.4
Capital	\$150.4	\$1.7	\$28.7	\$55.2	\$47.5	\$283.5
Debt Service	\$33.9	\$3.0	\$9.6	\$14.7	\$33.5	\$94.7
Taxes and Equivalents	\$22.5	\$0.4	\$8.8	\$5.3	\$6.8	\$43.8
Loan to Fiber	\$9.0	\$ ---	\$ ---	\$ ---	\$ ---	\$9.0
\$ in Millions	\$772.5	\$30.0	\$152.7	\$111.2	\$132.4	\$1,198.8

* Fiber Cost of Goods Sold

Proposed FY24 Budget Up \$73M

	FY24	FY23	Increase	
	<u>Proposed</u>	<u>Forecast</u>	<u>(Decrease)</u>	
Energy Cost	\$554.4	\$565.5	(\$11.1)	Wholesale commodity prices down
O&M	\$213.4	\$193.5	\$19.9	Labor-related costs and inflation
Capital	\$283.5	\$218.5	\$65.0	Timing of multiple projects
Debt Service	\$94.7	\$87.9	\$6.8	\$85M in new bonds
Taxes & Equivalents	\$43.8	\$40.1	\$3.7	Investment in utility infrastructure
Loan to Fiber	<u>\$ 9.0</u>	<u>\$20.0</u>	<u>(\$11.0)</u>	
	\$1,198.8	\$1,125.5	\$73.3	

\$ in Millions

FY24 Budget

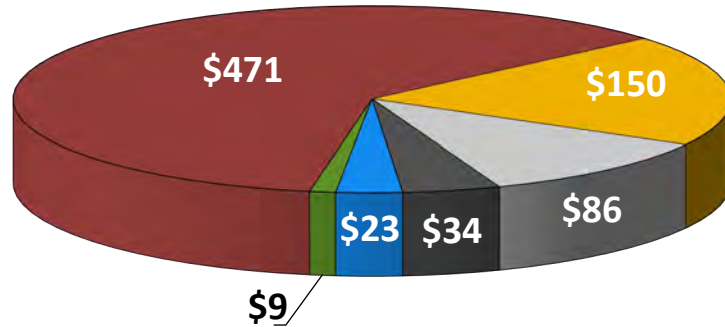
Key Financial Indicators

	Electric	Gas	Water	Wastewater	Fiber
Interest Rate on New Debt	5.0%	-	5.0%	5.0%	4.02%
Outstanding Debt	\$409M	\$71M	\$197M	\$463M	\$36M*
Debt Ratio	43%	19%	44%	52%	-
Debt Ratio Target	45% or less	30% or less	50% or less	60% or less	-
Debt Coverage	3.56	3.74	2.31	1.91	-
Debt Coverage Target	3.0 or more	3.0 or more	2.0 or more	1.5 or more	-
Ending Cash	\$45.3M	\$10.3M	\$8.5M	\$15.9M	\$4.8M
Ending Cash Target	\$45M	\$10M	\$7.5M	\$10M	\$5M

* Loan from Electric Division

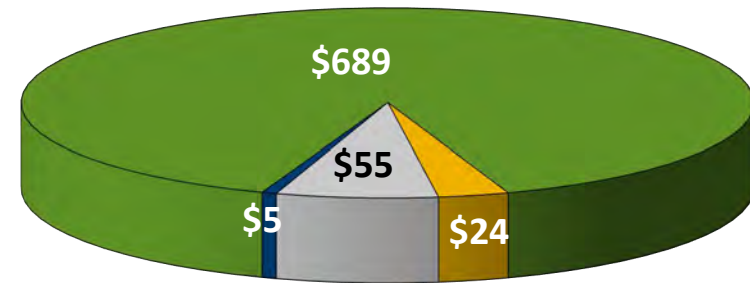
FY24 Electric Budget: \$773M

Budget Uses



- Purchased Power Cost
- Capital
- System Maintenance
- Debt Service
- Taxes & Equivalents
- Loan to Fiber

Budget Funding

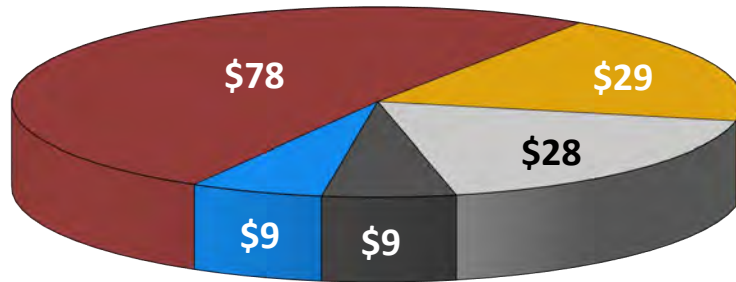


- Revenue
- General Fund Cash
- Bonds
- Grants

\$ in Millions

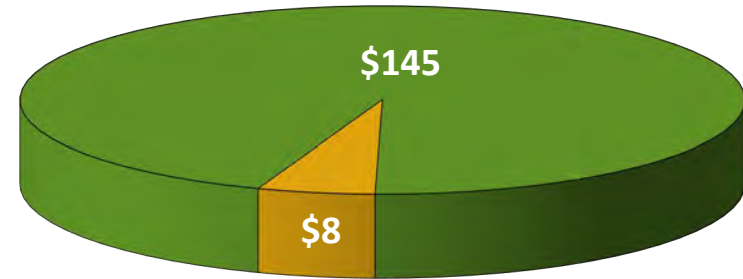
FY24 Natural Gas Budget: \$153M

Budget Uses



- Purchased Gas Cost
- Capital
- System Maintenance
- Debt Service
- Taxes & Equivalents

Budget Funding

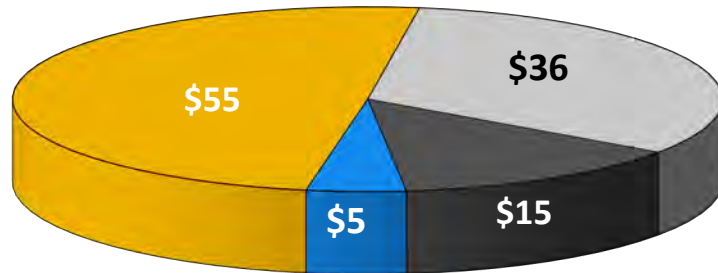


- Revenue
- General Fund Cash

\$ in Millions

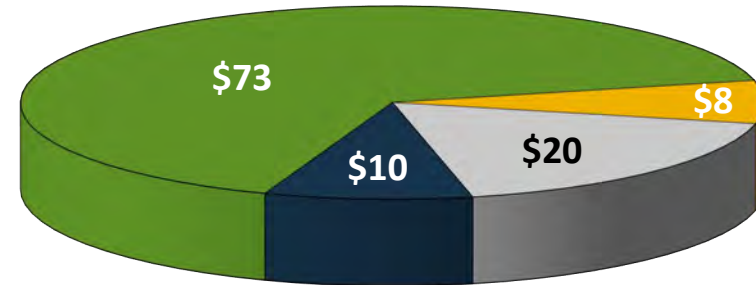
FY24 Water Budget: \$111M

Budget Uses



- Capital
- System Maintenance
- Debt Service
- Taxes & Equivalents

Budget Funding

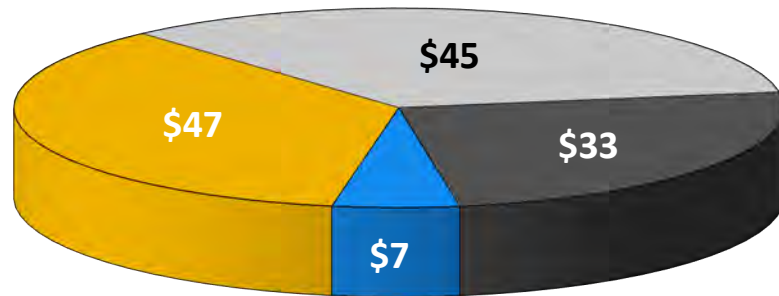


- Revenue
- General Fund Cash
- Bonds
- Grants

\$ in Millions

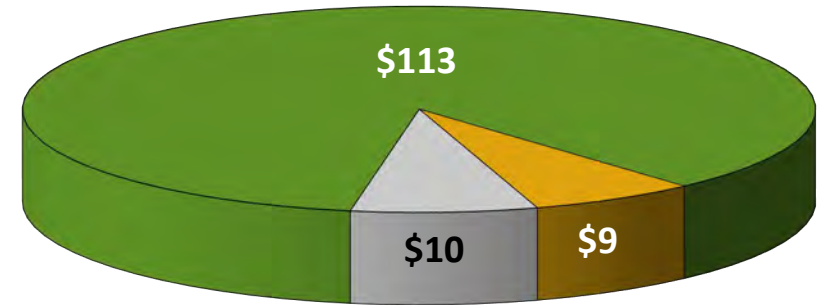
FY24 Wastewater Budget: \$132M

Budget Uses



- Capital
- System Maintenance
- Debt Service
- Taxes & Equivalents

Budget Funding

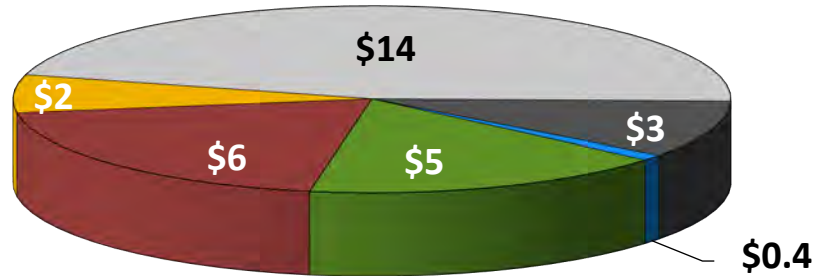


- Revenue
- General Fund Cash
- Bonds

\$ in Millions

FY24 Fiber Budget: \$30M

Budget Uses



- Cost of Goods Sold
- Capital
- System Maintenance
- Debt Service
- Taxes & Equivalentents
- Fees to Electric

Budget Funding



- Revenue
- General Fund Cash
- Loans

\$ in Millions

May 2023 Board Meeting: Official Actions

- FY23 additional budget appropriations
- FY24 budget appropriations
- FY24 commitment appropriations
- \$85M revenue bonds
 - \$55M electric
 - \$20M water
 - \$10M wastewater

FY24 Strategic Initiatives

Grow Fiber Division

Major construction

Continue construction as planned, including year one buildout in grant-funded areas of Union and Grainger counties.

Customer growth

Grow the number of customers connected to at least 13,800 customers across all serviceable areas.

Low-Income Program

Initiate pilot program, and seek additional support for expansion to other eligible areas.

Invest in a High-Functioning Organizational Culture

Blueprint Deployment

Reinforce the cultural values within the new Blueprint, and build alignment within our growing and changing workforce.

Leadership Development

Continue training and development support for leadership staff, including a special focus on new and emerging leaders.

DEI Education and Outreach Strategy

Continue comprehensive DEI training for all employees and build relationships in the community to support recruiting and other community efforts.

Develop Inflation Response Plan

Review operations and capital budgets

Assess impacts of deferred/reduced spending on Century II and other major initiatives; identify options for reducing expenses, and prioritize them for consideration in FY2025 long range plan.

Assess long-term funding strategies

Assess current long-term funding strategies regarding the use of rates and debt to fund capital and maintenance programs, including impacts on customer utility bills.

Pursue federal, state, and local infrastructure funding

Continue to seek funding from the Infrastructure Investment and Jobs Act, the American Recovery Program, the Inflation Reduction Act, and other sources of grant/loan funding for utility system infrastructure.

We've Faced this Challenge Before....

- Century II launched – and paused – due to financial crisis in 2008-09
 - Stepped up investments resumed in FY2011
 - More than a decade of Century II investments improved reliability and resiliency
- FY21 and FY22 – pandemic-related budget adjustments
 - Deferred/reduced planned rate increases (except for electric/fiber plan)
 - Unprecedented assistance for customers
- FY23 – rate increases adopted for water and wastewater
 - Lower than inflation; water increase lower than predicted
 - Further slowed pace of replacement work

...And Yet, This is Different

- Recession of 2008-09 was a less impactful event
 - Temporary delay in the start of work
 - Economic conditions mostly recovered
- Pandemic created systemic changes over the last three years
 - Supply chain and labor markets are challenging
 - Even if inflation eases, baseline costs will not go back down
 - We can't "save" our way out of these economic pressures
 - Current replacement rates not sustainable long term
- Inflation Response Plan will focus on ways to manage these impacts
- Further conversations to come this fall

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