Knoxville Utilities Board
Board Meeting
Minutes
Thursday, November 17, 2022 Noon

Call to Order

The Knoxville Utilities Board met in regular session in the Larry A. Fleming Board Room at 445 S. Gay Street, on Thursday, November 17, 2022, pursuant to the public notice published in the January 4, 2022, edition of the *News Sentinel*. Chair Jerry Askew called the meeting to order at 12:00 p.m.

Roll Call

Commissioners Present: Jerry Askew, Claudia Caballero, Ron Feinbaum, Kathy Hamilton, Celeste Herbert, Adrienne Simpson-Brown, and Tyvi Small.

Commissioner Absent: None

Approval of Minutes

Upon a motion by Commissioner Simpson-Brown and a second by Commissioner Herbert, the October 20, 2022 Board Meeting minutes were approved by a roll call vote. The following Commissioners voted "aye": Askew, Feinbaum, Hamilton, Herbert, Simpson-Brown, and Small. No Commissioner voted "nay".

Old Business

None.

New Business

Resolution 1467, A Resolution Adopting a Revised Debt Management Policy of the Knoxville Utilities Board ("KUB") to Recognize the Fiber Division and Clarify Certain Debt Management Practices

President Gabriel Bolas recognized Mark Walker, Senior Vice President and Chief Financial Officer, to present a resolution adopting a revised Debt Management policy for the purpose of recognizing the new Fiber Division and clarifying certain debt management practices.

As the adoption of this resolution was recommended by the Audit and Finance Committee, no motion and second were required for this resolution. Resolution 1467 *(Attachment 1)* was adopted by a roll call vote on first and final reading. The following Commissioners voted "aye": Askew, Caballero, Feinbaum, Hamilton, Herbert, Simpson-Brown, and Small. No Commissioner voted "nay".

Resolution 1468, A Resolution Requesting City Council Approval of the Engagement of Coulter & Justus to Provide Audit Services to the Knoxville Utilities Board for a Two-Year Term Beginning with Audits to be Performed in 2023

President Bolas recognized Chris Hood, Director of Finance, to present a resolution requesting City Council approve the proposed resolution hiring Coulter & Justus to provide audit services to KUB for a two-year term.

As the adoption of this resolution was recommended by the Audit and Finance Committee, no motion and second were required for this resolution. Resolution 1468 *(Attachment 2)* was adopted by a roll call vote on first and final reading. The following Commissioners voted "aye": Askew, Caballero, Feinbaum, Hamilton, Herbert, Simpson-Brown, and Small. No Commissioner voted "nay".

President's Report

Natural Gas Purchasing Authority and Winter Update

President Bolas reminded Commissioners that staff provides an update each fall on the natural gas industry and KUB's compliance with natural gas purchasing requirements and a winter energy bill forecast. He recognized Sherri Ottinger, Manager of Rates, to provide this year's update.

United Way Campaign Overview

President Bolas advised Commissioners that we recently completed our annual employee-funded United Way campaign. He recognized Leslye Hartsell, Director of Community Relations, to share an overview of the campaign. He also recognized Matt Ryerson, Chief Executive Officer of United Way of Greater Knoxville, who attended today's meeting.

Annual and ESG Reports

President Bolas advised Commissioners that our 2022 Annual Report and KUB's first Environment, Social & Governance (ESG) Report were in their portfolios. He advised the reports will be posted on KUB's website.

Other Business

Chair Askew announced that from the nominees selected by the Board, Mayor Kincannon recommended Cynthia Gibson for City Council approval, and that action was recently taken by Council to approve Ms. Gibson's appointment. He thanked Mayor Kincannon and City Council for their consideration.

Public Comment

None

Adjournment

There being nothing further to come before the Board, Chair Askew declared the Board meeting adjourned at 12:55 p.m.

J Askew

Jerry Askew, Chair

Mark Walker

Mark Walker, Board Secretary

Attachments

Attachment 1	Recommendation Letter and Resolution 1467 – A Resolution Adopting a Revised Debt Management Policy of the Knoxville Utilities Board ("KUB") to Recognize the Fiber Division and Clarify Certain Debt Management Practices	**Page(s)** 11820 - 11846
Attachment 2	Resolution 1468 – A Resolution Requesting City Council Approval of the Engagement of Coulter & Justus to Provide Audit Services to the Knoxville Utilities Board for a Two-Year Term Beginning with Audits to be Performed in 2023	11847 - 11849

KNOXVILLE UTILITIES BOARD

November 10, 2022

Knoxville Utilities Board
445 S. Gay Street
Knoxville, Tennessee 37902-1109

Commissioners:

The November 17 Board meeting agenda includes two official action items, including the adoption of a revised KUB Debt Management Policy and approval of a two-year contract extension with Coulter & Justus for KUB financial audits. Both items come with a recommendation for approval by the Board's Audit and Finance Committee.

An overview of each official action item is provided below:

Resolution 1467
The Board previously adopted a Debt Management Policy ("Policy") for KUB providing oversight for KUB in the issuance of debt. The Policy was initially adopted in 2011 and was subsequently amended in 2012. The Policy may only be amended upon approval of the Board.

The Policy requires the President and CEO and CFO to review the Policy on an annual basis. This year's review identified several proposed changes, including the recognition of the new Fiber Division, the use of interdivisional loans, and clarifications to certain debt management practices. The proposed modifications were reviewed by KUB's General Counsel and Bond Counsel.

The proposed changes were discussed with the Board's Audit and Finance Committee at the Committee's October 25 meeting. The Committee adopted Resolution AF-89, which is enclosed for your information, recommending the Board adopt a revised Policy reflecting the proposed changes.

Resolution 1467 adopts a revised Policy. A draft of the Resolution, the revised Policy, and a summary of the proposed modifications are enclosed for your review. I recommend the adoption of Resolution 1467 on first and final reading.

Resolution 1468
As you may recall, the City Charter requires the Board hire an independent accountant to audit KUB's financial records and further requires the accountant be approved by City Council.

The completion of the fiscal year 2022 audit by Coulter & Justus marked the final year of a three-year engagement term as KUB's financial auditor. This followed a previous five-year audit engagement term with Coulter & Justus, which began in 2015.

Upon direction of the Audit and Finance Committee, Coulter & Justus provided the Committee with a proposal to extend the KUB audit engagement for an additional two years, beginning with audits to be performed in 2023. The Committee determined it would be appropriate to extend the duration of the Coulter & Justus engagement based on the professional nature of their services and the knowledge the firm has gained of KUB's financial operations, including the new Fiber Division.

Staff reviewed the proposal at the Committee's October 25 meeting. Following discussion, the Committee adopted Resolution AF-88, which is enclosed for your information, recommending the Board adopt a resolution requesting City Council approval of an engagement with Coulter & Justus to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023.

A draft of Resolution 1468 is enclosed for your review. I recommend its adoption on first and final reading.

Respectfully submitted,

Gabriel J. Bolas II
President and CEO

RESOLUTION NO. 1467

A Resolution Adopting a Revised Debt Management Policy of the Knoxville Utilities Board ("KUB") to Recognize the Fiber Division and Clarify Certain Debt Management Practices

Whereas, KUB, from time to time, directly issues debt for operational purposes, or has debt issued on its behalf by the City of Knoxville, acting by and through KUB, for the purpose of funding utility system assets; and

Whereas, the KUB Board of Commissioners ("Board") previously adopted Resolution 1253, as amended by Resolution 1279, formally establishing a Debt Management Policy ("Policy") for KUB; and

Whereas, the Policy requires the President and CEO and CFO of KUB to review the Policy on an annual basis; and

Whereas, the Policy has been reviewed, and Staff has proposed the Policy be amended for the purpose of recognizing the new Fiber Division, and clarifying certain debt management practices; and

Whereas, the proposed modifications to the Policy have been reviewed by KUB's General Counsel and Bond Counsel; and

Whereas, the proposed modifications to the Policy were provided to the Board's Audit and Finance Committee ("Committee") and discussed with the Committee at its meeting on October 25, 2022; and

Whereas, the Committee, at its October 25th meeting, unanimously adopted Resolution AF-89, approving the proposed modifications to the Policy and recommending the Board amend the Policy to reflect said modifications; and

Whereas, the proposed amendment to the Policy is in the best interest of KUB, its customers, and all stakeholders to KUB's debt transactions.

Now, Therefore, Be it Hereby Resolved by the Board of Commissioners of the Knoxville Utilities Board:

Section 1. The Board hereby approves the revised Policy as set forth in Exhibit B to this Resolution, reflecting the proposed modifications set forth in Exhibit A to this Resolution.

Section 2. That this Resolution shall take effect immediately upon its passage.

J. Askew/s
Jerry Askew, Chair

Mark Walker/s
Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: 11-17-22
EFFECTIVE DATE: 11-17-22
MINUTE BOOK 45 PAGE 11822-11846

Resolution 1467 – Exhibit A

KUB Debt Management Policy
Proposed Modifications

In November 2011 the KUB Board adopted a Debt Management Policy for the purpose of formally establishing debt management objectives and practices for KUB. The Policy was most recently amended in September 2012. The Policy is to be reviewed each year by the President and CEO and the CFO. This review has been completed for 2022 and, as a result, certain modifications to the Policy are being proposed. Adopting a revised Policy requires approval of the full KUB Board of Commissioners.

In addition to minor housekeeping edits, the proposed modifications to the Policy are as follows:

- The Policy recognizes KUB's four operating divisions as named in the City Charter and the authority under which each shall issue debt.

  Staff is proposing amendments to recognize the creation of the Fiber Division and the authority under Tennessee State law for the division to issue debt similar to the other divisions (TCA 7-52-601 et seq.).

- The Policy denotes that capital leases may be used as appropriate and that KUB will evaluate the economics of the capital lease prior to execution. Recent changes in State Law require approval from the Comptroller's Office for capital lease agreements greater than $100,000 individually or in the aggregate.

  Staff is proposing to add a provision that changes the term 'capital leases' to 'financing leases' and denote that any financing lease be in accordance with the requirements of State law or any other applicable laws.

- The Policy provides conditions for the issuance of Revenue Anticipation Notes.

  Staff is proposing to modify the conditions to clarify that state law limits the duration of a Revenue Anticipation Note to fund operating costs to one year.

- The Policy does not specifically mention the provision of interdivisional loans.

  Staff is proposing the inclusion of a provision to allow loans between divisions, as appropriate, when other types of debt are not feasible or impractical.

- The Policy provides for certain minimum and maximum levels, or ratios related to the debt for each division.

  Staff is proposing decreases to the maximum percentage of debt allowed for each division, as follows: Electric 60% to 50%, Gas 60% to 50%, Water 60% to 50%, and Wastewater 70% to 60%.

Staff is also proposing an increase in the minimum percentage of principal to be repaid within 10 years for the wastewater division to match the other operating divisions. Wastewater would change from 20% paid within 10 years to 30%. Staff also proposes the elimination of prior references to ratios from 6/30/11.

- The Policy outlines the parameters for when the CFO will consider refinancing outstanding bond debt. The current Policy sets a 3 percent net present value savings threshold. Recent refunding opportunities were complicated when rates moved quickly between the time the Board approved a refinancing and the sale date of the refinancing making the 3 percent threshold difficult to determine until bids were received.

  Staff is proposing language to clarify that any advanced refunding would still require a minimum 3 percent net present value savings at the time approved by the Board, while current refunding opportunities may be considered using any savings threshold that generates positive net present value savings.

- The Policy mentions the specific use of certain securities to fund escrows when restructuring debt through advanced refundings.

  Staff is proposing to remove these specific references and note more generically that KUB shall utilize the least costly securities available in structuring refunding escrows and shall comply with all applicable federal tax laws in such circumstances.

- The Policy specifically calls out certain notices that KUB will file through the Electronic Municipal Markets Access system, as required by the Securities and Exchange Commission (SEC).

  Staff proposes removing these specific references and noting more generically that KUB will file such necessary information to be in compliance with the SEC guidelines.

Resolution 1253
Resolution 1279
Resolution 1467

Knoxville Utilities Board
Debt Management Policy

November 2022

KUB Debt Management Policy

Table of Contents

Section I - Introduction

The purpose of this Debt Management Policy is to formally establish the objectives and practices of debt management for the Knoxville Utilities Board ("KUB") and to provide guidance in understanding KUB's approach to debt management.

The Charter of the City of Knoxville ("City") delegates the operation and management of the City's electric, gas, water, and wastewater systems, and any other utility or related service system that the Board is authorized by law to operate or provide, including fiber, to KUB. Each of these systems or divisions operates as a distinct financial entity independent from the other divisions. Each division may issue debt, which is secured by the revenues of the issuing division. The requirements set forth in this Debt Management Policy shall be applied to each division.

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of KUB are charged with maintaining this Debt Management Policy and ensuring that the debt issuance activities of KUB are in compliance with this Debt Management Policy.

Section II - Governance

KUB is authorized to issue debt under Tennessee state law (TCA 7-34-101 et seq., TCA 7-52-601 et seq. and TCA 9-21-101 et seq.) and Article XI of the City Charter. The KUB Board of Commissioners ("Board") has sole authority to approve the issuance of debt provided the final maturity of the debt issue is five years or less. Any debt issue with a final maturity greater than five years must be approved by the Board and the governing body of the City, which is the City Council.

Section III – Policy Statement

In managing its debt, it is KUB's policy to:

- Ensure its ability to repay debt obligations
- Maintain appropriate levels of financial flexibility
- Ensure high credit quality
- Achieve the lowest cost of capital
- Manage interest rate risk

Section IV - Goals and Objectives

In general practice it is KUB's strategy to employ a conservative debt strategy utilizing revenue bonds and revenue anticipation notes to fund capital needs and, for purposes of managing cash flow seasonality, wholesale energy purchases.

This Debt Management Policy will help ensure that financings undertaken by KUB meet certain objectives, which allow KUB to protect its financial resources in order to meet its long-term capital needs.

This Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio to meet KUB's funding needs; helps ensure the ability to repay financial obligations; and provides for consideration of existing legal, economic, and financial and debt market conditions. Specifically, the policies and procedures outlined in this document are intended to assist in the following:

- To guide KUB in policy and debt issuance decisions
- To maintain appropriate capital assets for present and future needs
- To promote sound financial management
- To preserve high quality credit rating(s)
- To ensure the legal use of debt
- To evaluate debt issue alternatives

Section V – Credit Quality and Credit Enhancement

Credit Ratings

KUB seeks to achieve and maintain high quality credit ratings for the long-term debt of each division. KUB will have its long-term debt rated by no less than two nationally recognized credit rating agencies. The CFO will maintain appropriate relationships with the rating agencies. The CFO, in conjunction with KUB's Financial Advisor, will provide any necessary financial or other information to the rating agencies for the purpose of rating both new and existing debt.

KUB currently uses Standard & Poor's and Moody's Investor Service to rate its long-term debt. The addition or removal of any credit rating agency for the purpose of rating KUB's debt must be approved by the Board's Audit and Finance Committee before such change is implemented.

Credit Enhancements

KUB may directly purchase credit enhancements (i.e. bond insurance) for the purpose of achieving a higher credit rating for a particular debt issue. The direct purchase of any credit enhancement must be approved by the Board's Audit and Finance Committee, based upon a recommendation from the CFO, prior to the sale of any such debt. KUB shall consider the balance between the cost of the credit enhancement and the benefit of a higher credit rating. KUB will look for a material cost savings as the primary determinant in recommending the use of any credit enhancement.

Section VI – Types of Debt

KUB will usually issue federally tax-exempt debt, meaning the holder of the debt shall not be subject to the payment of federal income taxes on interest received from KUB. However, there may be instances when KUB will issue debt as federally taxable debt, if there are federal programs that encourage the use of taxable debt or if the use of the proceeds of the debt should so require.

The following types of debt may be issued by KUB:

Revenue Bonds

Revenue bonds are longer-term bonds, typically with maturities extending out beyond ten years. These bonds are secured solely by the revenues of the issuing division. In accordance with state law, KUB is not permitted to pledge capital assets as a form of security for the repayment of debt. Revenue bonds will be issued for the purpose of funding KUB's long-term capital needs.

Revenue Anticipation Notes

Revenue anticipation notes have a shorter-term duration than revenue bonds, typically with a maturity not to exceed five years and with a one-year limitation under State law on certain types of revenue anticipation note financings issued to finance operating costs. Revenue anticipation notes will be secured solely by the revenues of the issuing division. Revenue anticipation notes may be issued for the purpose of funding capital improvements or for the purpose of funding wholesale natural gas or wholesale electric power purchases.

Bond Anticipation Notes

Bond anticipation notes may be issued for the purpose of funding capital improvements in the short-term in anticipation of a future longer-term revenue bond issue, which would be used, in part, to retire the bond anticipation note. Bond anticipation notes will be secured by the proceeds of the bonds to be issued to refinance such notes and the revenues of the issuing division.

Financing Leases

Financing leases, within the meaning of Tenn. Code Ann. § 9-24-101 et seq. (the "Lease Financing Act"), may be used as deemed appropriate for the purpose of financing shorter-term capital assets (i.e. copiers, computers, etc.). Prior to the execution of any financing lease, KUB will evaluate the economics of the financing lease compared to the purchase of the asset or the financing of the asset using traditional debt financing. Prior to entering into a financing lease, KUB shall comply with the requirements, to the extent applicable, of the Lease Financing Act.

Interdivision Loans

Loans between KUB's divisions may only be made to the extent permitted by applicable law. Any such loans will be secured solely by the revenues of the division receiving the loan. Utilization of interdivision loans should be considered only when other types of debt are not feasible or are impractical given the nature of the funding. Interdivision loans shall be approved by the full Board.

Other Types of Debt

Other types of debt instruments may be utilized, provided the use of any such instrument is in compliance with all applicable laws and provided the debt instrument is approved by the Board's Audit and Finance Committee, prior to a recommendation to the full Board. In the event an alternative form of debt financing is used, this Debt Management Policy shall be modified to reflect the appropriate policies and procedures for the use of the debt instrument.

Section VII – Debt Issue Requirements

KUB will be responsible for setting forth all terms and conditions relating to the issuance of debt. Proceeds for debt issues will be used only for purposes allowable by state law. Debt issues should adhere to the following requirements unless otherwise authorized by KUB.

Term (Duration)

The term of any revenue bond issue shall not exceed 40 years, as provided for in state law. Generally, revenue bonds will be issued with terms extending out in the 20 to 30 year range, however, longer maturities may be considered dependent on the funding circumstances of a particular division. Capital improvements funded through the issuance of revenue bonds will be financed for a period so that the weighted average maturity of the bonds does not exceed the average useful life of the funded assets.

The term of any revenue anticipation note issued for the purpose of funding capital improvements shall not exceed five years. Capital improvements funded through the issuance of a revenue anticipation note will be financed for a period so that the weighted average maturity of the note(s) does not exceed the average useful life of the funded assets.

The term of any revenue anticipation note issued for the purpose of funding wholesale energy purchases shall not exceed one year.

The term of any bond anticipation note will not exceed two years.

The term of any financing lease will not exceed five years.

Debt Service Structure

The debt service payment structure for an individual debt issue will typically have a level structure (the same payment amount each year over the life of the debt issue), although alternative debt service structures (i.e. front-loaded, balloon, or bullet maturities) may be utilized to achieve a more level repayment structure for the issuing division's overall debt portfolio or a lower borrowing cost for the issuing division.

In the case of a non-level debt service payment structure, the CFO will provide an appropriate justification to the Board, at a meeting of the Board, of the need and prudency of the proposed debt service structure prior to the consideration by the Board of a resolution authorizing the issuance of the debt.

Call Provisions

In general, KUB's revenue bond issues will include a call provision, which provides for the early redemption of bonds prior to maturity. Call provisions will be no later than ten (10) years from the maturity date of the bonds. KUB will avoid the sale of longer-term non-callable revenue bonds absent careful evaluation of the value of the call option.

Most short-term debt of KUB, such as revenue anticipation notes and bond anticipation notes, will be callable at any time, and KUB will not agree to limitations on the prepayment of short-term debt without the approval of the Board.

Original Issuance Discounts/Premiums

Revenue bonds with original issuance discounts or premiums, as applicable, shall be permitted. The original issue discount shall not be in excess of 3 percent of the total bond issue. The maximum original issue premium shall be established by the President and CEO and CFO in connection with the sale of revenue bonds. The sale documents for the revenue bonds shall provide that KUB may downsize the principal amount of any revenue bonds due to the original issue premium so that the proceeds of the revenue bonds do not exceed KUB's purpose for the financing.

Debt Management Products

KUB may consider the use of alternative debt management products, including swaps, options, and other derivatives, for the sole purpose of hedging interest rate risk associated with variable-rate debt. The use of such products shall be in accordance with applicable state guidelines. KUB will not use such products for speculative purposes.

The use of any such debt management product must be previously approved by the Board's Audit and Finance Committee prior to a recommendation to the full Board. As part of this approval process, the CEO and CFO must demonstrate the economic advantage of using the product and an understanding of the potential risks associated with the use of the product.

Section VIII – Interest on Debt

Fixed Rate Debt

For any debt issue with a final maturity in excess of one year, KUB will give preference to debt that carries a fixed interest rate. KUB, however, may consider variable rate debt for such indebtedness, provided that, at any time, the percentage of variable rate debt outstanding for a division shall not exceed 25 percent of a division's total outstanding debt (excluding revenue anticipation notes and bond anticipation notes with original maturities of two years or less).

Variable Rate Debt

In addition to the use of variable interest rates for longer-term indebtedness (as described above), the use of variable rate debt for revenue anticipation notes and bond anticipation notes with a maturity of one year or less may be considered.

Section IX - Debt Planning & Metrics

KUB determines its future debt needs as part of its annual financial planning process. This process includes the development of a long-term funding plan, which includes the projection of revenues, operating expenses, and capital expenditures over a ten-year period for each division. The plan also includes anticipated rate adjustments and debt issues to ensure the projected operating and capital programs will be fully funded, while maintaining compliance with certain key financial metrics.

KUB seeks to balance the cost of its utility systems infrastructure, consisting primarily of long-lived assets, between both current and future customers (ratepayers). The use of debt will help achieve this objective. The day-to-day working capital needs of KUB are typically funded by system revenues. The need for debt, particularly revenue bonds, arises when the projected outlay for capital expenditures exceeds the projected level of cash available for capital after the payment of operating expenses.

As part of the process of evaluating future debt issues, KUB will utilize certain metrics to assess the impact of the debt issue on the financial position of each division.

Debt Management – Primary Metrics

The following metrics are an integral part of KUB's debt management process. Compliance with the primary metrics is essential to maintain the financial soundness of each KUB division. The metrics described below represent, as applicable, maximum or minimum levels that must be achieved in order for a respective division to issue additional long-term indebtedness. KUB may utilize more restrictive levels for these metrics in its long-term financial planning process.

Long Term Debt as a Percentage of Capitalization

This metric helps ensure that KUB does not have a disproportionate amount of long-term debt for a particular division. The metric is calculated by dividing total long-term outstanding debt by total capital structure (long-term debt plus net assets). This metric does not include short-term debt (revenue anticipation notes, bond anticipation notes, etc.).

For example, if KUB's Electric Division had $25 million in outstanding long-term revenue bonds and a total capital structure of $100 million, then the Electric Division's long-term debt to capitalization ratio would be 25 percent.

The maximum long-term debt to capitalization ratios are as follows:

KUB Division	Maximum % Allowed
Electric	50%
Gas	50%
Water	50%
Wastewater	60%

Maximum Debt Service Coverage

Maximum debt service coverage is used by KUB to ensure that KUB generates an annual revenue stream, which, after payment of operating expenses, is sufficient to repay debt service on its long-term debt obligations. This metric is calculated by dividing net earnings available for debt service by the maximum annual amount for long-term debt service (over the life of the division's outstanding bonds). The minimum level required for this metric is also included in each division's respective bond covenants.

For example, if the Electric Division's maximum annual debt service payment (over the life of its outstanding bonds) is $10 million, and the division's net earnings available for debt service is $35 million for a given year, then the division's maximum debt service coverage ratio would be 3.50.

The minimum levels for the maximum debt service coverage ratio are as follows:

KUB Division	Minimum Ratio Allowed
Electric	1.20
Gas	1.20
Water	1.20
Wastewater	1.20

Percentage of Principal Paid within 10 Years

This metric helps ensure that KUB maintains a balanced debt service structure for each division by ensuring a minimum amount of principal will be retired within ten years. This metric is calculated by dividing total long-term principal payments over the next ten years by the total amount of outstanding principal on long-term bonds.

For example, if the Electric Division had $200 million in total outstanding bonds, of which $100 million was scheduled to be retired in the next ten years, then the Electric Division's ratio would be 50 percent.

The minimum requirements for this metric are shown are as follows:

KUB Division	Minimum % Required
Electric	30%
Gas	30%
Water	30%
Wastewater	30%

Percentage of Variable Rate Debt

This metric is used to limit the amount of variable rate debt an individual division may have outstanding at one time. By setting a ceiling on the amount of variable rate debt, the predictability of future debt service payments is increased. This metric is calculated by dividing the amount of variable rate debt for a division by the total amount of outstanding debt of that division. This metric includes both long-term debt and short-term debt with original maturities in excess of two years.

The maximum percentages allowed for this metric are as follows:

KUB Division	Maximum % Allowed
Electric	25%
Gas	25%
Water	25%
Wastewater	25%

Debt Management - Secondary Metrics

KUB may also utilize other metrics for debt management, including but not limited to minimum general fund cash balances and rate competitiveness.

General Fund Cash Targets

KUB will monitor the need for additional funding by forecasting fiscal year-end general fund cash levels for future years for each division. KUB may target minimum fiscal-year end balances for its divisions. Forecasted performance will aid in the forecast of future additional short-term and/or long-term indebtedness.

Rate Competitiveness

KUB seeks to balance a solid financial position with the ability to maintain competitive rates for its customers. KUB's competitive position among local and regional providers is an additional factor to consider in assessing the need for additional indebtedness.

Section X - Refinancing Outstanding Debt

The CFO shall be responsible for analyzing outstanding revenue bond issues for refunding opportunities, in consultation with KUB's Financial Advisor. KUB will consider the following issues when evaluating potential refunding opportunities:

Debt Service Savings

Unless KUB is undertaking a debt restructuring as described below or the refunding is being undertaken to eliminate obsolete or overly restrictive covenants contained in existing debt documents, or for other compelling reasons, a minimum net present value savings threshold of at least three percent (3%) of the refunded debt principal amount on advanced refundings shall be anticipated at the time of approval of the refunding by the Board. However, current refunding opportunities may be considered using any savings threshold if the refunding generates positive net present value savings.

Debt Restructuring

KUB will consider refunding outstanding bonds for the purpose of restructuring a division's debt portfolio when it is in the best financial interest of KUB and the division. Such refunding will be limited to restructuring in order to meet unanticipated revenue changes, achieve cost savings, mitigate irregular debt service payments, or remove unduly restrictive bond covenants.

Term of Refunding Issues

KUB will typically refund bonds within the term of the originally issued bonds. KUB may consider maturity extension when necessary to achieve a desire outcome, provided that such extension is legally permissible. KUB may also consider shortening the term of the originally issued bonds to realize greater savings.

Escrow Structuring

In the case of an advanced refunding, KUB shall utilize the least costly securities available in structuring refunding escrows and shall comply with all applicable federal tax laws in connection with such advance refunding. Under no circumstance shall an underwriter, agent, or Financial Advisor sell escrow securities to KUB from its own account.

Arbitrage

In the case of an advanced refunding, KUB shall attempt to optimize its escrow and to manage the impact of any negative arbitrage on anticipated debt service savings (negative arbitrage results when the interest rates on escrow securities are lower than the refunding bond yield, thus lowering anticipated savings from the refunding) while still utilizing only eligible investments in the escrow.

Section XI - Debt Issuance Process

The determination of the need for short-term and/or long-term debt issues for each division typically occurs during the annual financial planning process.

Prior to submitting any resolution to the Board authorizing the issuance of debt, including revenue bonds, revenue anticipation notes, and bond anticipation notes, the CFO, at a meeting of the Board, will present the rationale for the debt issue, the proposed amount and maturity structure of the debt issue, projected interest cost, the proposed method of sale, the identification of known consultants/professionals that will assist in the debt issuance process, and a detailed estimate of the issuance costs associated with the transaction.

Any resolution authorizing the issuance of debt must be considered by the Board at a meeting of the Board. In the case of revenue bonds or any debt issue with a term exceeding five years, the Board resolution shall also request City Council authorization, and upon adoption, a copy of said resolution shall be provided to City Council for consideration. Upon adoption by the Board and/or City Council, as applicable, the CFO shall begin the process of preparing for the sale and issuance of the respective debt issue(s).

Additional requirements regarding disclosure of information to the Board and other stakeholders regarding debt transactions is set forth in Section XIV, entitled "Transparency".

All debt issued by KUB shall be in accordance with the terms and conditions set forth in the authorizing resolution, this Debt Management Policy, and all applicable state and federal laws and/or regulations.

Section XII – Debt Issuance Consultants/Professionals

KUB will employ the use of certain debt consultants/professionals during the debt issuance process for both short-term and long-term indebtedness. The consultants/professionals may include but are not limited to Financial Advisor, Bond Counsel, Issuer's Counsel, Payment Agent, Registration Agent, and Underwriter (in the event of a negotiated sale). KUB will require that any such consultants/professionals provide objective advice and analysis and maintain the confidentiality of KUB's financial plans.

KUB shall require that all consultants/professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both KUB and the lender or conduit issuer, if any. This includes "soft" costs or compensations in lieu of direct payments.

All debt issuance consultants/professionals will be required to provide full and complete disclosure, relative to agreements with other consultants/professionals employed by KUB in the debt issuance process. The extent of such disclosure may vary dependent on the nature of the debt issue.

Financial Advisor

KUB will utilize a Financial Advisor to assist in its debt issuance and debt administration processes. The Financial Advisor will assist KUB with the structuring, analysis, planning, and execution of debt transactions. The Financial Advisor will also assist KUB in assessing debt capacity and other long-term debt planning.

In a competitive sale, the Financial Advisor shall not be permitted to bid on, privately place, or underwrite any debt issue for which the Financial Advisor has provided debt advisory services to KUB.

KUB shall enter into a written agreement or contract with each person or firm serving as Financial Advisor in debt management and transactions, which, among other things, will include a schedule of fees and a definitive term. The term or the duration of the written agreement or contract will be for a period of time mutually agreeable to KUB and the Financial Advisor, and the agreement can be terminated by KUB at any time in accordance with the terms of the agreement.

Bond (Debt) Counsel

KUB will procure the services of a Bond Counsel with extensive experience in public finance and taxation issues. Bond Counsel will provide a written opinion for each debt issue affirming KUB is authorized to issue the debt, that KUB has met all legal requirements necessary for the issuance of the debt, and, if applicable, a determination of the proposed debt's federal income tax status. Bond Counsel will prepare all documents related to the closing of the sale of the debt issue.

KUB shall enter into an engagement letter agreement or contract with each lawyer or law firm representing KUB in a debt transaction, which, among other things, will include a schedule of fees and a definitive term. The term or duration of the engagement letter agreement or contract will be for a period of time mutually agreeable to KUB and the respective lawyer or law firm and can be terminated by KUB at any time in accordance with the terms of the agreement.

Issuer's Counsel

KUB will utilize the services of its General Counsel as needed for debt issuance transactions. General Counsel will provide a written opinion for each debt issue, affirming that no known actual or pending litigation impairs KUB's ability to issue the debt. General Counsel may also be utilized for other debt issuance and debt administration matters.

Paying/Registration Agent

KUB will utilize the services of a bank or other financial institution to serve as KUB's Paying/Registration Agent for longer-term debt issues, such as revenue bond issues. For each specific debt issue for which a Paying/Registration Agent is retained, KUB will enter into a contract with the respective institution for debt payment/registration services.

Section XIII - Method of Issuance

Revenue bonds will typically be sold through competitive bidding. However, dependent on bond market conditions, KUB may deem a negotiated sale the more prudent and practical method of sale. In order for revenue bonds to be sold through negotiation, the Board's Audit and Finance Committee must approve this method of sale prior to the sale of the bonds.

Revenue anticipation notes and bond anticipation notes may be sold through competitive bidding or through a negotiated sale, which may include a request for proposal (RFP) process where financial institutions are requested to submit financing proposals. For any revenue anticipation note or bond anticipation note with a maturity in excess of two years to be sold through negotiation, the Board's Audit and Finance Committee must approve this method of sale prior to the sale of the note(s).

Competitive Sale

In a competitive sale, the debt issue will be awarded to the bidder (underwriter) whose bid results in the lowest true interest cost to KUB, including any underwriter's discount or fees.

Negotiated Sale

Bond market conditions may warrant the sale of revenue bonds through negotiation with an underwriter. Conditions warranting a negotiated sale include periods of significant rate volatility or lack of overall market activity (which could result in KUB receiving limited or no bids).

In the event of a negotiated sale, the CFO, in consultation with KUB's Financial Advisor, will identify candidates to serve as the senior or lead underwriter for the transaction. The selected senior underwriter will be approved by the Board's Audit and Finance Committee. The selection criteria to be utilized by the CFO in selecting a senior underwriter for recommendation to the Audit and Finance Committee will include but not be limited to the following:

- Firm's ability and experience in negotiated bond sales
- Prior experience with KUB
- Quality and experience of personnel assigned to bond sale
- Financing plan
- Underwriting fee

Co-underwriters, if any, will be selected on the same basis as the senior underwriter and will also be subject to approval by the Board's Audit and Finance Committee.

The CFO will evaluate the proposed underwriter's discount and/or fees against comparable negotiated sales in the market. If there are multiple underwriters involved in the bond sale, the CFO will determine the allocation of fees among underwriters prior to the sale of the bonds. A cap on all fees associated with underwriter(s) will be established by the CFO and communicated to all parties prior to the sale of the bonds.

The underwriter(s) in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the CFO in advance of the pricing of the debt.

The CFO will evaluate any negotiated bond sale after completion of the sale to assess the following: cost of issuance, including underwriter's compensation; pricing of the bonds in terms of the overall interest cost on a maturity-by-maturity basis, and the distribution of the bonds.

If a revenue anticipation note or bond anticipation note is sold a through a request for proposal (RFP) process, the note will be issued to the financial institution that provides the best proposal as determined by the President and CEO and the CFO taking into account the proposed interest rate and other loan requirements, such as financial covenants.

Section XIV - Transparency

KUB shall comply with all legal requirements for notice and for public meetings related to debt issuance, including all Board meetings and meetings of the Board's Audit and Finance Committee. KUB shall specify on the agendas of said meetings when matters related to debt issuance will be considered. In the interest of transparency, all costs, including interest, issuance, continuing, and one-time, shall be disclosed to the ratepayers, Board, and other stakeholders in a timely manner.

Prior to submitting any resolution to the Board authorizing the issuance of new debt, including revenue bonds, revenue anticipation notes, and bond anticipation notes, the CFO, at a meeting of the Board, will present the rationale for the debt issue, the proposed amount and maturity structure of the debt issue, projected interest costs, the proposed method of sale, the identification of known consultants/professionals who will assist in the debt issuance process, and a detailed estimate of the issuance costs associated with the transaction. In the event the proposed maturity structure would result in a non-level payment structure of principal and interest over the life of the debt, the CFO will provide appropriate justification for the proposed schedule. Within a reasonable period of time following the meeting of the Board, the CFO's report shall be made available through the KUB website.

Prior to the sale of any new long-term debt at public sale, the CFO, in conjunction with the Financial Advisor and Bond Counsel, will prepare a Preliminary Official Statement ("POS"), which fully describes the debt transaction and is fully compliant with all laws and filing requirements of the Securities and Exchange Commission ("SEC"), the Municipal Securities Rulemaking Board ("MSRB"), and other applicable state or federal laws and regulations. The CFO, in conjunction with the Financial Advisor, will be responsible for the distribution of the POS.

Within seven (7) business days of the sale of new long-term debt at public sale, the CFO, in conjunction with the Financial Advisor and Bond Counsel, will prepare an Official Statement ("OS"), which fully describes the debt transaction and is fully compliant with all laws and filing requirements of the SEC, the MSRB, and other applicable state or federal laws and regulations. The CFO, in conjunction with the Financial Advisor, will be responsible for the distribution of the OS.

Within six (6) weeks of the closing on the sale of new debt, the CFO shall provide a report to the Board, at a meeting of the Board, of the details of the debt transaction, including a listing of bids received (in the event of a competitive sale) expressed in terms of true interest cost, the final schedule of principal and interest payments, a list of all consultants/professionals who assisted in the debt issuance process, and a detailed schedule of the actual costs of issuance. In the event of a negotiated sale, the CFO will also disclose the selected underwriter(s) (if applicable) and the interest cost on the bonds. Within a reasonable period of time following the meeting of the Board, the CFO's report shall be made available through the KUB website.

Prior to submitting any resolution (to the Board) authorizing the issuance of refunding debt, the CFO, at a meeting of the Board, will present the rationale for issuing the debt, including a report on the expected savings (net of estimated issuance costs) from the refunding, the proposed maturity structure of the debt issue, projected interest costs, the proposed method of sale, the identification of known consultants/professionals who will assist in the debt issuance process, a detailed estimate of issuance costs, and a discussion of any potential risks associated with the transaction. In the event the proposed maturity schedule of principal varies from that of the refunded bonds, the CFO will provide appropriate justification for the proposed schedule. Within a reasonable period of time following the meeting of the Board, the CFO's report shall be made available through the KUB website.

Within six (6) weeks of the closing on the sale of refunding debt, the CFO shall provide a report to the Board, at a meeting of the Board, of the details of the debt transaction, including a listing of bids received (in the event of a competitive sale) expressed in terms of true interest costs, the final savings on the refunding, the final schedule of principal and interest payments, a list of consultants/professionals who assisted in the debt issuance process, and a detailed schedule of the actual costs of issuance. In the event of a negotiated sale, the CFO will disclose the selected underwriter(s) and the interest cost on the bonds. Within a reasonable period of time following the meeting of the Board, the CFO's report shall be made available through the KUB website.

Section XV - Disclosure

KUB will provide timely and accurate economic and financial information for each division to the MSRB's Electronic Municipal Market Access ("EMMA") filing service, as required by the SEC. KUB will also file such information necessary to remain in compliance with the Continuing Disclosure requirements of the SEC, including notice of any required material events under applicable SEC regulations.

Section XVI - Conflicts of Interest

Consultants/professionals involved in a debt transaction hired or compensated by KUB shall be required to disclose to KUB existing client and business relationships between and among all other consultants/professionals to the transaction, including but not limited to Financial Advisor, Bond Counsel, Issuer's Counsel, Payment/Registration Agent, Underwriter, Swap Advisor, Swap Counsel, Counterparty, Remarketing Agent, as well as any conduit issuers, sponsoring organizations, and program administrators. This disclosure shall include that information reasonably sufficient to allow KUB to appreciate the significance of the relationships.

Consultants/professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

Section XVII - Investment of Debt Proceeds

Any proceeds from debt issues that are not immediately expended for the purposes of the debt issue will be invested in accordance with all state and federal laws and KUB's Investment Policy. Debt proceeds should be invested independent of all other KUB funds. Debt proceeds should be invested in a manner consistent with the certifications included in the debt issue closing documents, most notably the Arbitrage Certificate.

Section XVIII - Debt Assurances

KUB will take no action that will jeopardize the tax-exempt status of any debt issued as tax-exempt debt.

KUB will take all appropriate actions related to the investment of the proceeds of any revenue bond issue to ensure compliance with IRS safe harbor provisions, including the timely drawdown of proceeds.

KUB will take all appropriate actions to ensure its revenue bonds will not be classified as "Private Activity Bonds." The CFO will be responsible for the documentation of all capital expenditures funded by the proceeds of a revenue bond issue for the purpose of ensuring that any proceeds of tax-exempt debt funding for the benefit of private enterprise are within the maximum allowable limits determined by the IRS.

Section XIX – Special Provisions Relating to Fiber Division

The application of this Debt Management Policy shall only apply to the fiber division where the division has elected to utilize the specific form of debt authorized by the policy. Outside of those specific applications, the Debt Management Policy shall not apply to the fiber division. Specific ratios and metrics, along with other policy amendments, will need to be adopted as a condition of issuance of any long term debt not considered to be an interdivision loan.

Section XX - Debt Policy Review

The debt policy guidelines set forth in this Debt Management Policy are intended to provide direction and guidance on the future use of debt. KUB maintains the right to modify its Debt Management Policy with approval of the Board.

This Debt Management Policy will be reviewed on an annual basis by the CEO and CFO.

Section XXI - Glossary

Advanced Refunding: a refunding bond issue in which new bonds are issued more than 90 days prior to the redemption date of the refunded bonds. The proceeds are then invested, and when the outstanding bonds become callable, they are paid off with the invested proceeds.

Arbitrage: the difference between the interest paid on tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Arbitrage Certificate: closing document for a debt sale, through which the issuer of the debt certifies the issuer will undertake certain actions related to debt proceeds to achieve compliance with the IRS safe harbor provision for arbitrage. In the event the issuer does not comply with the safe harbor provision, issuer will be required to perform rebate calculations to determine if positive arbitrage occurred, and, if so, make the appropriate rebate payments to the IRS.

Balloon Maturity: a later maturity within an issue of bonds that contains a disproportionately large percentage of the principal amount of the original issue.

Bullet Maturity: a bond maturity structure in which there are no principal payments until the final maturity of the bond issue.

Call Provision: the terms of the bond giving the issuer the right to redeem all or a portion of a bond prior to its stated date of maturity at a specific price, usually at or above par.
Competitive Sale: method of debt sale in which potential underwriters submit confidential bids to purchase the bonds.

Continuing Disclosure: the providing of accurate and complete economic and financial information by the debt issuer, which potential investors would likely consider material in making investment decisions.

Credit Enhancement: credit support purchased by the issuer to raise the credit rating of a particular debt issue. The most common form of credit enhancements include bond insurance, direct or standby letters of credit, and lines of credit.

Derivatives: a financial product whose value is derived from some underlying asset value.

Escrow: a fund established to hold funds pledged to be used to pay debt service on an outstanding issue. Most commonly used in advanced refundings.

Fixed-Rate Debt: a debt issue in which the rate(s) of interest established with the original issuance remain unchanged over the life of the debt.

Front-Loaded Maturity: a bond maturity structure in which a disproportionately large percentage of principal matures early in the term of the debt payment structure.

Interest Rate Swap: a transaction between a debt issuer and a counter-party, which involved exchanging variable rate interest payments for fixed rate interest payments.

Issuance Costs: Administrative costs and compensation fees for various parties involved in process of debt issuance, including but not limited to rating agency fees, underwriter fees (discounts), Financial Advisor fees, and Bond Counsel fees.

Long-Term Debt to Capitalization: Amount of total long-term debt outstanding divided by total capital structure (total debt plus net assets). Ratio represents level of debt in proportion to total funding.

*Maximum Debt Service Coverage: M*easures issuer's ability to repay its outstanding debt service payments. Net earnings available for debt service divided by the maximum annual principal and interest payment over life of all outstanding bonds.

Negotiated Sale: a method of sale in which the issuer chooses one or more underwriter(s) to negotiate terms pursuant to which such underwriter(s) will purchase and market the bonds.

Net Earnings Available for Debt Service: Amount of operating revenue remaining after payment of operating expenses (excluding tax equivalent payments), available for satisfying debt service payments.

Official Statement: document prepared by the issuer, including the particulars of a specific debt issue, and distributed to designated repositories for public finance documents.

Original Issue Discount: the amount by which the original par amount of a bond issue exceeds the purchase price on bonds paid by the underwriter.

Original Issue Premium: the amount by which the purchase price on bonds paid by the underwriter exceeds the original par amount of a bond issue.

Paying Agent: The entity responsible for transmitting payments of principal and interest payments from the issuer to the debt holders. The paying agent is usually a bank or trust company.

Preliminary Official Statement: debt offering document prepared by the issuer, including certain economic and financial information related to the issuer and the specific debt issue, and distributed to potential purchasers of the debt prior to an established sale date.

Present Value: the current value of a future cash flow.

Private Activity Bonds: bonds issued for the primary purpose of funding projects for private enterprises. The interest on private activity bonds is not exempt from federal income taxes. Issuers of federally tax-exempt debt must certify that any tax-exempt bond proceeds used for the benefit of private enterprise do not exceed the maximum allowable percentage by the IRS.

Underwriter: financial entity (investment bank, commercial bank, broker/dealer) that purchases debt from issuer and resells the debt to investors.

Variable Rate Debt: an interest rate on a security that changes at intervals according to an index or a formula or other standard of measurement as stated in the terms of the debt sale.

RESOLUTION NO. 1468

A Resolution Requesting City Council Approval of the Engagement of Coulter & Justus to Provide Audit Services to the Knoxville Utilities Board for a Two-Year Term Beginning with Audits to be Performed in 2023

Whereas, KUB's Charter, Section 1107(B), requires that an independent certified professional accountant shall be employed by the Knoxville Utilities Board of Commissioners (the "Board") to make such audits and reports as the Board may deem necessary; and

Whereas, the Charter further requires that the accountant to be employed shall be approved by the Council of the City of Knoxville ("City Council"); and

Whereas, KUB has received a proposal from Coulter & Justus for professional audit services and the Board's Audit and Finance Committee has reviewed the proposal and has unanimously recommended that the Board hire the firm of Coulter & Justus to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023; and

Whereas, the Board finds that it is in the best interest of KUB and its customers that the firm of Coulter & Justus be hired to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023; and

Whereas, KUB has prepared a proposed resolution for passage by City Council, a copy of which is attached hereto and made a part hereof (hereinafter referred to as the "Proposed Resolution").

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE KNOXVILLE UTILITIES BOARD:

Section 1. That by adoption of this Resolution, the Board requests that City Council adopt the Proposed Resolution approving the selection of Coulter & Justus to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023.

Section 2. That subject to the approval of City Council, the Board authorizes the President and CEO or his designee to execute an agreement for the engagement of Coulter & Justus to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023.

Section 3. That this Resolution shall take affect from and after its adoption.

J. Askew/s
Jerry Askew, Chair

M. Walker/s
Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: 11-17-22
EFFECTIVE DATE: 11-17-22
MINUTE BOOK 45 PAGE 11847-11849

A Resolution of the Council of the City of Knoxville Approving the Selection of the Accounting Firm of Coulter & Justus to Provide Audit Services to the Knoxville Utilities Board for a Two-Year Term Beginning with Audits to be Performed in 2023, As Required by the Legislative Act Creating the Knoxville Utilities Board

Whereas, KUB's Charter, Section 1107(B), requires that an independent certified professional accountant shall be employed by the Knoxville Utilities Board of Commissioners (the "Board") to make such audits and reports as the Board may deem necessary; and

Whereas, the Charter further requires that the accountant to be employed shall be approved by the Council of the City of Knoxville ("City Council"); and

Whereas, KUB has received a proposal from Coulter & Justus for professional audit services and the Board's Audit and Finance Committee reviewed the proposal and unanimously recommended that the Board hire the firm of Coulter & Justus to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023; and

Whereas, the Board, by adoption of KUB Resolution 1468 finds that it is in the best interest of KUB and its customers that the firm of Coulter & Justus be hired to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023 and has requested City Council approval of its selection; and

Whereas, it is in the interest of the citizens and residents of the City of Knoxville and KUB's customers that City Council approve the selection of Coulter & Justus to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023.

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE COUNCIL OF THE CITY OF KNOXVILLE:

Section 1: That the selection of the accounting firm of Coulter & Justus to provide audit services to KUB for a two-year term beginning with audits to be performed in 2023 is hereby approved.

Section 2: That this Resolution shall become effective from and after its passage, the welfare of the City requiring it.

____
Mayor

____
City Recorder