FY 2019 Budget Performance

- $11.5M or 1.7% under budget
- All systems under budget
- Weather impacted O&M
- Timing of capital projects major factor
- Debt issued earlier than planned
- Sales exceeded budget
### $11.5M Under Budget

<table>
<thead>
<tr>
<th></th>
<th>Electric</th>
<th>Gas</th>
<th>Water</th>
<th>Wastewater</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy Cost</strong></td>
<td>$4,764</td>
<td>$735</td>
<td>($1,145)</td>
<td>$25</td>
<td>$5,499</td>
</tr>
<tr>
<td><strong>O&amp;M</strong></td>
<td>(642)</td>
<td>967</td>
<td>($1,145)</td>
<td>$25</td>
<td>(795)</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>1,958</td>
<td>17</td>
<td>2,311</td>
<td>3,560</td>
<td>7,846</td>
</tr>
<tr>
<td><strong>Debt Service</strong></td>
<td>(377)</td>
<td>(100)</td>
<td>(462)</td>
<td>(213)</td>
<td>(1,152)</td>
</tr>
<tr>
<td><strong>Taxes and Equivalents</strong></td>
<td>149</td>
<td>(76)</td>
<td>(5)</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>$5,852</td>
<td>$1,543</td>
<td>$699</td>
<td>$3,404</td>
<td>$11,498</td>
</tr>
</tbody>
</table>

$ in Thousands  
( ) = Over Budget
<table>
<thead>
<tr>
<th></th>
<th>Electric</th>
<th>Gas</th>
<th>Water</th>
<th>Wastewater</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales Revenue</strong></td>
<td>($8,808)</td>
<td>$178</td>
<td>$566</td>
<td>$672</td>
<td>($7,392)</td>
</tr>
<tr>
<td><strong>Energy Cost</strong></td>
<td>4,764</td>
<td>735</td>
<td></td>
<td></td>
<td>$5,499</td>
</tr>
<tr>
<td><strong>Sales Margin</strong></td>
<td>($4,044)</td>
<td>$913</td>
<td>$566</td>
<td>$672</td>
<td>($1,893)</td>
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<tr>
<td><strong>Other Revenue</strong></td>
<td>5,876</td>
<td>455</td>
<td>148</td>
<td>963</td>
<td>$7,442</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td>1,088</td>
<td>808</td>
<td>699</td>
<td>3,404</td>
<td>$5,999</td>
</tr>
<tr>
<td><strong>Net Cash</strong></td>
<td>$2,920</td>
<td>$2,176</td>
<td>$1,413</td>
<td>$5,039</td>
<td>$11,548</td>
</tr>
</tbody>
</table>

$ in Thousands \( ( ) = \text{Less Cash} \)
FY 2020 Appropriations and Funding Recommendations

May 16, 2019

Resolutions 1393, 1394, and 1395
Proposed Budget Focused on Maintaining Safe, Reliable, and Affordable Services

- Proposed budget $964M
- Flat compared to FY 19 forecast
- Capital budget includes $105M for Century II and $15.4M for Grid/Meter Modernization
- $63M new bonds help fund capital budget
- FY 20 rate increases already adopted
## Proposed FY 20 Budget: $964M

<table>
<thead>
<tr>
<th></th>
<th>Electric</th>
<th>Gas</th>
<th>Water</th>
<th>WWater</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy Cost</strong></td>
<td>$429.3</td>
<td>$52.3</td>
<td>$ ---</td>
<td>$ ---</td>
<td>$481.6</td>
</tr>
<tr>
<td><strong>O&amp;M</strong></td>
<td>$61.3</td>
<td>$21.2</td>
<td>$27.1</td>
<td>$36.2</td>
<td>$145.8</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>$75.7</td>
<td>$28.8</td>
<td>$44.8</td>
<td>$61.6</td>
<td>$210.9</td>
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<tr>
<td><strong>Debt Service</strong></td>
<td>$26.2</td>
<td>$10.9</td>
<td>$14.5</td>
<td>$34.6</td>
<td>$86.2</td>
</tr>
<tr>
<td><strong>Taxes and Equivalents</strong></td>
<td>$20.6</td>
<td>$8.6</td>
<td>$4.9</td>
<td>$5.7</td>
<td>$39.8</td>
</tr>
<tr>
<td><strong>$ in Millions</strong></td>
<td>$613.1</td>
<td>$121.8</td>
<td>$91.3</td>
<td>$138.1</td>
<td>$964.3</td>
</tr>
</tbody>
</table>
# Proposed FY 20 Budget Flat

<table>
<thead>
<tr>
<th></th>
<th>FY 20</th>
<th>FY 19</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proposed</td>
<td>Forecast</td>
<td>(Decrease)</td>
</tr>
<tr>
<td>Energy Cost</td>
<td>$481.6</td>
<td>$476.3</td>
<td>$5.3</td>
</tr>
<tr>
<td></td>
<td>TVA rate increase and customer growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>O&amp;M</td>
<td>$145.8</td>
<td>$141.9</td>
<td>$3.9</td>
</tr>
<tr>
<td></td>
<td>Labor-related costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>$210.9</td>
<td>$224.3</td>
<td>$(13.4)</td>
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<tr>
<td></td>
<td>Engineering Building construction in FY 19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>$86.2</td>
<td>$83.1</td>
<td>$3.1</td>
</tr>
<tr>
<td></td>
<td>$63M in new bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes &amp; Equivalents</td>
<td>$39.8</td>
<td>$36.9</td>
<td>$2.9</td>
</tr>
<tr>
<td></td>
<td>Investment in utility infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$964.3</td>
<td>$962.5</td>
<td>$1.8</td>
</tr>
</tbody>
</table>

$ in Millions
Wholesale Energy Budget Driven by Customer Demand

FY 20 Wholesale Energy = $482M

- Electric power = 89%
  - 5.5 billion kWh
  - 209,000 electric customers

- Natural gas = 11%
  - 11.7 million dekatherms
  - 104,000 natural gas customers

$ in Millions

$429
$53
FY 20 O&M = $146M

- Labor-related costs
  - Payroll $53M
  - Benefits and training $11M
  - Post-employment benefits $6M

- Outside services
  - Vegetation management $11M
  - Facilities maintenance $4M
  - Contract meter reading $2M

- Materials/other costs
  - Utilities $8M
  - Stock materials $5M
  - Chemicals $3M

Labor-related = 48%
Outside services = 29%
Materials/other = 23%
Capital Budget Continues Century II Programs

FY 20 Capital = $211M

- Distribution system improvements $88M
  - Electric substation upgrades $9M
  - 17 miles of electric transmission line improvements $11M
  - 1,900 poles $5M
  - 18 miles of natural gas main $7M
  - 15 miles of water main $11M
  - 20 miles of wastewater main $26M

- Plant improvements $46M
  - Biologically Enhanced High-Rate Clarification Project (CD) $19M
  - MBW Filters $13M
  - MBW Emergency Generator $7M

- Grid/Meter Modernization $15M
- Customer growth $19M

$ in Millions

- Information technology = 6%
- Facilities/equipment = 10%
- System infrastructure = 84%
- System improve/replace = 50%
- Growth = 8%
- Plant improvements = 22%
- Relocations = 4%
Debt Budget Reflects Investments in Infrastructure

- FY 20 principal: $42M
- FY 20 interest: $44M
- Outstanding bonds: $1.1B
- New bonds proposed for FY 20: $63M

FY 20 Debt Service = $86M

Electric = 30%
Natural gas = 13%
Water = 17%
Wastewater = 40%
KUB Payments In Lieu of Taxes (PILOTs) Support Local Governments

FY 20 Taxes and PILOTs = $40M

- PILOTs $34.1M
  - City $21.7M
  - Knox County $11.4M
  - Other counties $1.0M
- Payroll tax expense $5.7M

Electric = 45%
Natural Gas = 19%
Water = 10%
Wastewater = 12%
FICA = 14%

$ in Millions
Revenue = $867M

- Wholesale Energy = 55%
- O&M = 17%
- Capital = 13%
- Debt Service = 10%
- Taxes and Equivalents = 5%

Capital = $211M

- System Revenues = 54%
- Bond Proceeds = 30%
- General Fund Cash = 16%
New Bonds Will Help Fund System Capital Budgets

- Up to $63M
- Mature over 30 years
- Budgeted interest rate 4%
- Secured by system revenues
- City Council authorization required
- Comply with KUB Debt Management Policy
- Competitive public sale summer 2019
Proposed Electric Bonds: $17M

- Interest cost: $10.7M
- Mature July 2049
- Electric debt ratio: 44%
- Weighted average interest rate: 3.53%
- 45% of total principal repaid in 10 years
- Outstanding bonds rated AA/Aa2

Electric Debt Service – Millions ($)

- Outstanding Bonds
- Proposed Bonds

Chart showing electric debt service from 2020 to 2050.
Proposed Water Bonds: $26M

- Interest cost: $16.1M
- Mature March 2049
- Water debt ratio: 52%
- Weighted average interest rate: 3.52%
- 38% of total principal repaid in 10 years
- Outstanding bonds rated AAA/Aa1
Proposed Wastewater Bonds: $20M

- Interest cost: $12.5M
- Mature April 2049
- Wastewater debt ratio: 60%
- Weighted average interest rate: 3.59%
- 30% of total principal repaid in 10 years
- Outstanding bonds rated AA+/Aa2
# Estimated Issuance Costs for Bonds

<table>
<thead>
<tr>
<th>Cost</th>
<th>Professional Firm</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Advisor</td>
<td>Cumberland Securities</td>
<td>$105,000</td>
</tr>
<tr>
<td>Bond Counsel</td>
<td>Bass, Berry &amp; Sims</td>
<td>$77,000</td>
</tr>
<tr>
<td>Rating Agency</td>
<td>Moody's</td>
<td>$75,000</td>
</tr>
<tr>
<td>Rating Agency</td>
<td>Standard &amp; Poor's</td>
<td>$65,000</td>
</tr>
<tr>
<td>Paying Agent</td>
<td>Regions Bank</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th><strong>Total</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$325,000</td>
</tr>
<tr>
<td>Other Costs (Escrow, POS, OS, Advertising)</td>
<td></td>
<td>$20,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$345,000</td>
</tr>
</tbody>
</table>
FY 20 Commitment Appropriations

- Authorizes commitment of expenditures subsequent to June 30, 2020, for commitments entered into on or before June 30, 2020
- FY 20 total: $139.3M
  - Electric $30.5M
  - Natural Gas $9.5M
  - Water $42.4M
  - Wastewater $56.9M
Projects Supporting Need for Commitment Appropriations

- Electric transmission line improvements
- MBW water plant filters
- Gas distribution steel main replacement
- Wastewater system main replacement
- Kuwahee wastewater treatment plant upgrade (Consent Decree)
- Utility relocations for highway improvements
Resolution 1393

- Requesting City Council approval of bond issues for the Electric, Water, and Wastewater Divisions
  - Authorizes issuance of up to $63M in revenue bonds
    - Electric $17M
    - Water $26M
    - Wastewater $20M
Resolution 1394

- Requesting approval for the fiscal year 2020 budget appropriations
  - Adopts budget appropriations of $964.3M for FY 2020
    - Electric $613.1M
    - Natural Gas $121.8M
    - Water $91.3M
    - Wastewater $138.1M
Resolution 1395

- Requesting approval for fiscal year 2020 commitment appropriations
  - Adopts commitment appropriations of $139.3M for FY 20
    - Electric $30.5M
    - Natural Gas $9.5M
    - Water $42.4M
    - Wastewater $56.9M