FY 2021 Appropriations and Funding Recommendations

May 21, 2020

Resolutions
1411, 1412 and 1413
Proposed FY 21 Budget Focused on Maintaining Safe, Reliable and Affordable Services

- Proposed budget $962M
- Down slightly from FY 20
- New investments for home weatherization and energy/water efficiency
- Capital budget includes $94M for Century II
- $47M new bonds help fund capital budget
- No rate increases in FY 21
## Proposed FY 21 Budget: $962M

<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>$412.7</td>
<td>$55.1</td>
<td>$---</td>
<td>$---</td>
<td>$467.8</td>
</tr>
<tr>
<td><strong>O&amp;M</strong></td>
<td>$66.9</td>
<td>$22.7</td>
<td>$30.1</td>
<td>$38.4</td>
<td>$158.1</td>
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<tr>
<td><strong>Capital</strong></td>
<td>$75.9</td>
<td>$32.0</td>
<td>$44.7</td>
<td>$58.6</td>
<td>$211.2</td>
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<tr>
<td><strong>Debt Service</strong></td>
<td>$24.9</td>
<td>$10.5</td>
<td>$14.9</td>
<td>$35.6</td>
<td>$85.9</td>
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<tr>
<td><strong>Taxes and Equivalents</strong></td>
<td>$20.3</td>
<td>$8.3</td>
<td>$4.6</td>
<td>$5.9</td>
<td>$39.1</td>
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<tr>
<td><strong>Total</strong></td>
<td>$600.7</td>
<td>$128.6</td>
<td>$94.3</td>
<td>$138.5</td>
<td>$962.1</td>
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</table>

$ in Millions
# Proposed FY 21 Budget Down Slightly

<table>
<thead>
<tr>
<th></th>
<th>FY 21</th>
<th>FY 20</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proposed</td>
<td>Budget</td>
<td>(Decrease)</td>
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<tr>
<td>Energy Cost</td>
<td>$467.8</td>
<td>$481.6</td>
<td>($13.8)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Lower wholesale energy prices</td>
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<tr>
<td>O&amp;M</td>
<td>$158.1</td>
<td>$145.8</td>
<td>$12.3</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Energy/water efficiency initiatives</td>
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<tr>
<td>Capital</td>
<td>$211.2</td>
<td>$210.9</td>
<td>$0.3</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Vegetation management; Pension/OPEB</td>
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<tr>
<td>Debt Service</td>
<td>$85.9</td>
<td>$86.2</td>
<td>($0.3)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Lower interest rates</td>
</tr>
<tr>
<td>Taxes &amp; Equivalents</td>
<td>$39.1</td>
<td>$39.8</td>
<td>($0.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Knox County property tax equalization rate</td>
</tr>
<tr>
<td></td>
<td>$962.1</td>
<td>$964.3</td>
<td>$(2.2)</td>
</tr>
</tbody>
</table>

$ in Millions
## Wholesale Energy Budget Driven by Customer Demand

<table>
<thead>
<tr>
<th>Energy Type</th>
<th>Quantity</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric power</td>
<td>5.5 billion kWh</td>
<td>211,000 customers</td>
</tr>
<tr>
<td>Natural gas</td>
<td>11.7 million dekatherms</td>
<td>105,000 customers</td>
</tr>
</tbody>
</table>

**FY 21 Wholesale Energy = $468M**

- Electric power = 88%
- Natural gas = 12%

$413 million

- $413 million in Electric power
- $55 million in Natural gas

$ in Millions
FY 21 O&M = $158M

- **Labor-related costs**
  - Payroll: $57M
  - Benefits and training: $11M
  - Post-employment benefits: $7M

- **Outside services**
  - Vegetation management: $11M
  - Facilities maintenance: $4M
  - Weatherization: $1M
  - Energy/water efficiency: $0.75M

- **Materials/other costs**
  - Utilities: $9M
  - Stock materials: $5M
  - Chemicals: $3M
Capital Budget Continues
Century II Programs

FY 21 Capital = $211M

- Distribution system improvements $94M
  - Electric substation upgrades $10M
  - 13 miles of electric transmission line improvements $10M
  - 1,400 poles $6M
  - 14 miles of natural gas main $11M
  - 17 miles of water main $12M
  - 16 miles of wastewater main $16M

- Plant improvements $47M
  - Biologically Enhanced High-Rate Clarification Project (CD) $17M
  - MBW Filters $20M
  - Loves Creek Electrical upgrades $4M

- Customer growth $26M

Information technology = 5%
Facilities/equipment = 12%
System infrastructure = 83%
System improve/replace = 45%
Plant improvements = 22%
Growth = 12%
Relocations = 4%
Debt Budget Reflects Investments in Infrastructure

FY 21 Debt Service = $86M

- FY 21 principal: $45M
- FY 21 interest: $41M
- Outstanding bonds: $1.1B
- New bonds proposed for FY 21: $47M

Electric = 29%
Natural gas = 12%
Water = 17%
Wastewater = 42%
KUB Payments In Lieu of Taxes (PILOTs) Support Local Governments

FY 21 Taxes and PILOTs = $39M

- PILOTs $33.2M
  - City $21.5M
  - Knox County $10.6M
  - Other counties $1.1M
- Payroll tax expense $5.9M

Electric = 45%
Natural Gas = 19%
Water = 9%
Wastewater = 13%
FICA = 15%

$ in Millions
Funding FY 21 Budget

Revenue = $857M

- Wholesale Energy = 55%
- O&M = 18%
- Capital = 12%
- Debt Service = 10%
- Taxes and Equivalents = 5%

Capital = $211M

- System Revenues = 50%
- Bond Proceeds = 22%
- General Fund Cash = 28%
New Bonds Will Help Fund System Capital Budgets

- Up to $47M
- Mature over 30 years
- Budgeted interest rate 3.25%
- Secured by system revenues
- City Council authorization required
- Comply with KUB Debt Management Policy
- Competitive public sale summer 2020
Proposed Water Bonds: $17M

- Interest cost: $9.7M
- Mature March 2050
- Water debt ratio: 50%
- Weighted average interest rate: 3.37%
- 40% of total principal repaid in 10 years
- Outstanding bonds rated AAA/Aa1
Proposed Wastewater Bonds: $30M

- Interest cost: $17.2M
- Mature April 2050
- Wastewater debt ratio: 59%
- Weighted average interest rate: 3.47%
- 33% 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>$75,000</td>
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<tr>
<td>Bond Counsel</td>
<td>Bass, Berry &amp; Sims</td>
<td>$55,500</td>
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<tr>
<td>Rating Agency</td>
<td>Moody's</td>
<td>$62,500</td>
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<tr>
<td>Rating Agency</td>
<td>Standard &amp; Poor's</td>
<td>$58,500</td>
</tr>
<tr>
<td>Paying Agent</td>
<td>Regions Bank</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$254,500</strong></td>
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<tr>
<td>Other Costs (Escrow, POS, OS, Advertising)</td>
<td></td>
<td>$20,300</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$274,800</strong></td>
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</table>
FY 21 Commitment Appropriations

- Authorizes commitment of expenditures subsequent to June 30, 2021, for commitments entered into on or before June 30, 2021
- FY 21 total: $120.7M
  - Electric $25.4M
  - Natural Gas $ 9.0M
  - Water $50.7M
  - Wastewater $35.6M
Projects Supporting Need for Commitment Appropriations

- Electric transmission line improvements
- Electric infeed substation
- MBW water plant filters
- Gas distribution steel main replacement
- Wastewater system main replacement
- Utility relocations for highway improvements
- Vehicles and equipment
Resolution 1411

- Requests City Council authorization of bond issues for the Water and Wastewater Divisions
  - Water up to $17M
  - Wastewater up to $30M
- Board adopts all provisions of City Council bond resolutions
Adopts FY 21 budget appropriations

- Electric $600.7M
- Natural Gas $128.6M
- Water $ 94.3M
- Wastewater $138.5M
Adopts FY 21 commitment appropriations

- Electric $25.4M
- Natural Gas $ 9.0M
- Water $50.7M
- Wastewater $35.6M