

Research Update:

Knoxville Utilities Board, TN Series RR-2026 Electric System Revenue Bonds Assigned 'AA-' Rating; Outlook Stable

December 18, 2025

Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to the [Knoxville Utilities Board](#) (KUB), Tenn.'s \$27 million series RR-2026 electric system revenue bonds.
- We also affirmed our 'AA-' long-term rating on [Knoxville](#)'s electric system revenue debt, issued for KUB.
- The outlook is stable.

Rationale

Security

A first-lien net revenue pledge of KUB's electric division secures the bonds. The series RR-2026 bond proceeds will primarily fund electric system upgrades including line extensions. The electric system had \$485 million in total debt outstanding at the end of fiscal 2025.

Credit highlights

The utility's financial performance remains strong, in our view, with maintenance of healthy coverage in fiscal 2025 and fiscal 2024. Prolonged inflationary pressures resulted in KUB approving additional rate increases of 2%-4% annually through fiscal 2027 to help fund increasing operational and capital expenses.

KUB entered the competitive fiber business in 2022 and the electric division expects to loan out an additional \$10 million to this business through fiscal 2028 on top of the \$44 million already loaned to support its rollout. After a slower-than-anticipated buy-in, KUB's customer acquisition rate for fiber has improved to 23% in fiscal 2026 and it serves 28,000 fiber customers. KUB is roughly half-way through its fiber-to-the-home (FTTH) rollout and its \$230 million in identified five-year capital needs will support extending fiber access to its 220,000 electric customers.

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KUB's total \$725 million five-year capital investment plan will also fund electric system grid modernization improvements, transmission, distribution, and substation upgrades.

KUB forecasts maintenance of a healthy 1.5x fixed-charge coverage (FCC) over the next five years, achieved in part through modest annual rate increases. While total available liquidity increased to a strong 80 days in fiscal 2025, we do not expect it will materially improve through fiscal 2030, which is a limiting credit factor compared with that of higher-rated peers.

The rating further reflects our opinion of the system's:

- Primarily residential and very diverse customer base, which is steadily expanding, and the city's position as an employment anchor for the surrounding seven counties in eastern Tennessee;
- Favorable 20-year, full-requirement contract with Tennessee Valley Authority (TVA), which is one of the largest wholesale public utilities in the country and owns a deep portfolio of generating assets in the central U.S.;
- Consistent track record of regular base-rate increases and automatic pass-through of TVA rates, which we consider supportive of predictable financial results;
- Healthy FCC, averaging 1.4x since fiscal 2023, that is expected to improve to 1.5x over the forecast period; and
- Robust management practices, including maintenance of internal debt, liquidity, and coverage targets that it typically meets, and robust capital and financial forecasts, which aid reliability.

Partly offsetting the above credit strengths are the utility's:

- Increasing inflationary and capital investment pressures, which resulted in increased loan amounts to the fiber system; modestly expanding debt needs; and adopted rate increases through fiscal 2027 concurrent with rate increases in KUB's water and wastewater business units, which could challenge operational flexibility; and
- Slower-than-expected fiber customer roll-out, challenged by service provider competition. If the fiber business is challenged in becoming self-sustaining, the electric system's finances may be pressured, as evidenced by lower coverage metrics or additional cash infusions.

Environmental, social, and governance

KUB's role as a TVA distributor greatly reduces its environmental operating risks. TVA has lowered its production of coal-generated electricity during the past 10 years, to 19% in fiscal 2025, while the contribution of natural gas has increased to 34%. TVA is adding additional gas generation and expects the percentage to continue to increase. Unplanned outages across TVA's nuclear generation fleet in 2025 caused this to represent 33% of energy, down from 43% in prior years. Hydro (10%) and renewables (4%) accounted for the remainder of energy. Knoxville itself is exposed to physical risks associated with extreme weather and increasing average and peak demand, which expose it and peer off-takers to mounting reliability challenges. Knoxville is addressing exposure to severe weather events through significant transmission line and substation hardening, while incoming solar power purchase agreements (PPAs) and battery projects can help in peak-shaving efforts. The board also established a comprehensive vegetation management plan aimed at lowering power outage frequency.

The board's electric rates are competitive when compared with the state average, but we note that inflationary pressures have compelled Knoxville to approve larger-than-expected annual rate increases through fiscal 2027. KUB's weighted-average retail electric rates were 1.4% below

the state average in 2024 based upon data from the Energy Information Administration. Rising debt needs and continued progress through the capital plan could challenge future revenue-raising flexibility, especially as Knoxville's customers experience concurrent increases to bills from its other business units, such as natural gas, water, and wastewater. Because of the high unpredictability of federal policy--along with the economy's stressors and the associated financial pressures that consumers are facing--we are monitoring the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. (see: ["Economic Outlook U.S. Q1 2026: Steady As She Goes But On A Narrow Path,"](#) Nov. 24, 2025).

We view the board's governance risk, including the increased operating risk of managing its fiber division, as elevated and requiring additional risk-management practices compared with those of other rated utilities. However, we consider its rate autonomy, formula-based payment-in-lieu-of-taxes (PILOT) payments, commitment to maintaining liquidity reserves above established internal targets, and financial planning practices to be credit-supportive. We will continue to monitor the effectiveness of KUB's revised plans to manage its capital risk as it progresses in its FTTH service.

Outlook

The stable outlook reflects our view of the electric system's strong financial performance and the board's willingness to implement rate increases over a multiyear period to support its capital program, including its FTTH investment. We believe KUB's robust financial and risk-management practices associated with its fiber division, including an exit strategy approved by TVA, mitigate some challenges derived from its participation in a competitive industry.

Downside scenario

If, over the next two years, KUB's FTTH business results in lower-than-expected customer acquisition and materially lowers coverage or liquidity metrics below our expectations, we could lower the rating. We could also do so if the utility incurs greater-than-expected capital needs or contingencies, such as potential demands of the fiber division, that diminish coverage and liquidity.

Upside scenario

We do not expect to raise the rating over the next two years because we do not expect KUB's liquidity levels to support a higher rating. In addition, upside is constrained given the challenges and uncertainties presented by its involvement in the competitive fiber industry, which we believe constrains credit improvement during its lengthy capital investment rollout period.

Credit Opinion

We believe KUB entering the competitive fiber business exposes the electric utility to increased operating risk compared with other rated electric utilities and could potentially weaken its strong financial risk profile. The electric division will have provided \$47 million in interfund loans to support the FTTH rollout through fiscal 2026 and will have invested over \$400 million by fiscal 2029. The fiber system has been repaying the electric system for small portions of the loans, but payments will significantly ramp up by fiscal 2028, given the fiber system projects its cash flow will improve.

KUB began marketing its FTTH services in October 2022, and initial buy-in has been below projections, with an 8.8% customer acquisition rate in fiscal 2023 compared with KUB's 16% target. However, customer take rates have improved to 22% for fiscal 2025 and 23% in the year to date. Management cited supply chain challenges and buildout delays as contributing to the slower initial buy-in and has adjusted subsequent forecasts, projecting that the fiber system will produce positive cash flow by fiscal 2029 and repay its loan by fiscal 2032, rather than the initially determined fiscal 2030.

In our view, KUB's financial performance was strong in fiscal 2025 and FCC improved to 1.48x, driven by 2% customer growth, lower-than-budgeted operating expenses, and a 4% rate increase. As total debt increases modestly to \$501 million by fiscal 2027, management forecasts FCC will remain at a robust 1.5x-1.6x. System liquidity remains healthy, in our view, and improved to \$133 million for fiscal 2025, or 80 days' operating expenses. The board has established a contingency cash reserve fund, which, with current liquidity, is expected to generate 73 days of operating expenses through fiscal 2030. Considering the competitive fiber business, we view favorably Knoxville's commitment to maintaining predictable and slightly expanding liquidity reserves on a nominal basis.

The board projects its debt-to-capitalization ratio peaked at approximately 44% in fiscal 2025 and will steadily decline below 40% by fiscal 2028 as it progresses through its capital program. We see this as a manageable debt burden for a utility the size of Knoxville but recognize that a portion of the debt was taken out for FTTH buildout.

Knoxville Utility Board, Tennessee--key credit metrics

	--Fiscal year ended June 30--		
	2025	2024	2023
Operational metrics			
Electric customer accounts	226,224	221,945	218,344
% of electric retail revenues from residential customers	47	46	47
Top 10 electric customers' revenues as % of total electric operating revenue	15	15	16
Service area median household effective buying income as % of U.S.	N.A.	94	93
Weighted average retail electric rate as % of state	N.A.	99	98
Financial metrics			
Gross revenues (\$000s)	753,389	676,318	672,247
Total operating expenses less depreciation and amortization (\$000s)	609,935	561,824	581,650
Debt service (\$000s)	38,866	32,758	28,359
Debt service coverage (x)	3.7	3.5	3.2
Fixed-charge coverage (x)	1.5	1.4	1.3
Total available liquidity (\$000s)*	133,611	96,475	118,737
Days' liquidity	80	63	75
Total on-balance-sheet debt (\$000s)	484,988	412,068	371,867
Debt-to-capitalization (%)	44	43	42

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Ratings List

New Issue Ratings

US\$27,000,000 Knoxville Utilities Board, Tennessee, Electric System Revenue Bonds, Series RR-2026, dated: Date of delivery, due: July 01, 2055

Long Term Rating	AA-/Stable
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Ratings Affirmed

Public Power

Knoxville Utils Brd, TN Retail Electric System	AA-/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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