



Knoxville Utilities Board

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**Board Meeting Agenda  
Thursday, February 15, 2018  
Noon**

**Call to Order**

**Roll Call**

**Approval of Minutes**

**Official Action**

Resolution 1373 - Requesting City Council Adopt a Resolution Setting the Electric and Gas Tax Equivalent Payments for Fiscal Year 2018 and Providing for their Allocation to the Affected Taxing Jurisdictions

**President's Report**

**Other Business**

**Public Comments**

**Adjournment**



Knoxville Utilities Board

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February 9, 2018

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

Commissioners:

State law requires City Council, as the municipality's governing body, to pass a resolution setting the in lieu of tax payments (tax equivalents) for KUB's electric and gas systems each fiscal year and providing for their distribution to the appropriate taxing jurisdictions.

Tax equivalents for the electric system for fiscal year 2018 are \$15,542,951. Tax equivalents for the gas system for fiscal year 2018 are \$6,859,312. Both electric and gas tax equivalent payments are the maximum amounts provided for under state law. Electric and gas tax equivalent payments will be made to the respective taxing jurisdictions on the last business day of June. An overview of all tax equivalent payments for fiscal year 2018 is attached for your information.

I recommend adoption of Resolution 1373, requesting the City Council of Knoxville to set the in lieu of tax payments for KUB's electric and gas systems and to establish the allocation of payments to the various taxing jurisdictions for the fiscal year ending June 30, 2018.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Mintha Roach'.

Mintha E. Roach  
President and CEO

## Summary of FY 2018 Tax Equivalent Payments

KUB is required under state law and the City Charter to make in lieu of tax payments (tax equivalents) to the taxing jurisdictions in which its utility systems are located. State law sets forth the basis for electric and gas system tax equivalents, while the City Charter addresses tax equivalents for the water and wastewater systems.

Under state law, the City Council of Knoxville is required to pass a resolution setting the annual tax equivalent amounts for the electric and gas systems, and the allocation of such payments to the respective taxing jurisdictions (i.e. City of Knoxville, Knox County, etc.). The basis for the allocation of payments is also set forth in state law. Since state law is silent on water and wastewater tax equivalents, the KUB Board sets these amounts in a manner prescribed by the City Charter. Water and wastewater payments are made to the City of Knoxville.

Total tax equivalents for FY 2018 are \$29,925,260, representing an increase of \$797,299 or 2.7 percent over last fiscal year, as set forth below.

	<b>FY 2018</b>	<b>FY 2017</b>	<b>Increase</b>	<b>% Increase</b>
<b>Electric Division</b>	<b>\$ 15,542,951</b>	<b>\$ 14,828,556</b>	<b>\$ 714,395</b>	<b>4.82%</b>
<b>Gas Division</b>	<b>\$ 6,859,312</b>	<b>\$ 6,987,365</b>	<b>\$ (128,053)</b>	<b>(1.83)%</b>
<b>Water Division</b>	<b>\$ 3,304,740</b>	<b>\$ 3,294,652</b>	<b>\$ 10,088</b>	<b>0.31%</b>
<b>Wastewater Division</b>	<b>\$ 4,218,257</b>	<b>\$ 4,017,388</b>	<b>\$ 200,869</b>	<b>5.00%</b>
	<b>\$ 29,925,260</b>	<b>\$ 29,127,961</b>	<b>\$ 797,299</b>	<b>2.74%</b>

The increase in tax equivalent payments over last fiscal year is the result of a net increase in utility system assets, reflecting KUB's Century II infrastructure programs. The decrease in gas system tax equivalents and modest increase in water system payments reflects the downward adjustment in property tax rates, which occurs every four years when property values are reappraised.

Total payments to the City of Knoxville for FY 2018 will be \$19,144,877. Total payments to Knox County will be \$9,888,055. Total payments to other taxing jurisdictions will be \$892,328.

Water and wastewater payments will be paid to the City on February 28, 2018. Electric and gas payments will be paid to the respective taxing jurisdictions on June 29, 2018.

## RESOLUTION NO. 1373

### **A Resolution Requesting the City Council of the City of Knoxville to Pass a Resolution Setting the Tax Equivalent Payments for the Electric and Gas Systems for the Fiscal Year Beginning July 1, 2017 and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions**

**Whereas**, in accordance with Section 1101 of the Charter of the City of Knoxville, the purchase, sale, and distribution of electric and gas services by the City of Knoxville are under the jurisdiction, control, and management of the Knoxville Utilities Board (“KUB”); and

**Whereas**, the state of Tennessee adopted electric and gas tax equivalent statutes in 1987 (TCA Sections 7-52-301 et seq. and Sections 7-39-401 et seq.) in order to gain uniformity with respect to payments in lieu of taxes on the property and operations of all electric and gas systems owned and operated by incorporated cities or towns, by counties, and by metropolitan governments in the state of Tennessee; and

**Whereas**, the statutes provide that every municipality may cause an amount to be paid from its electric and/or gas system revenues for tax equivalents which, in the judgment of the municipality’s governing body (i.e. City Council of Knoxville), after consultation with the supervisory body (i.e. KUB), represents the fair share cost of government to be borne by the electric system and/or gas system; and

**Whereas**, the statutes include formulas which establish the maximum annual tax equivalent payment for electric and gas systems; and

**Whereas**, the statutes provide the basis for the allocation and distribution of tax equivalent payments to the various taxing jurisdictions, except to the extent any such payments were allocated and distributed under established arrangements in existence immediately prior to the adoption of the statutes; and

**Whereas**, KUB had an established arrangement for the allocation and distribution of electric and gas system tax equivalent payments, as defined by the statutes, in existence immediately prior to the adoption of said statutes; and

**Whereas**, KUB has prepared a proposed resolution for passage by the City Council of Knoxville, a copy of which resolution 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 the KUB Board of Commissioners (the “Board”), after due consideration, finds that it is in the best interest of KUB and the City of Knoxville to make electric and gas tax equivalent payments for the fiscal year beginning July 1, 2017, totaling \$15,542,951 for the electric system and \$6,859,312 for the gas system (hereinafter referred to as “Tax Equivalents”), with the aforesaid Tax Equivalents being the maximum amounts permitted by law.

**Section 2.** That this Board, after due consideration, finds that the following allocation and distribution of the aforesaid Tax Equivalents to the following taxing jurisdictions is required under the applicable statutes:

	<u>Electric Tax Equivalents</u>	<u>Gas Tax Equivalents</u>	<u>Total Tax Equivalents</u>
City of Knoxville	\$ 7,947,289	\$3,674,591	\$11,621,880
Knox County	6,707,728	3,180,327	9,888,055
Union County	350,536		350,536
Sevier County	343,139		343,139
Grainger County	136,007		136,007
Jefferson County	37,929		37,929
Blount County	12,528		12,528
Anderson County	7,795	2,798	10,593
Loudon County	<u>                    </u>	<u>1,596</u>	<u>1,596</u>
Total	\$15,542,951	\$6,859,312	\$22,402,263

**Section 3.** That this Board hereby formally requests City Council to pass the Proposed Resolution, and this Board does hereby adopt, ratify, approve, consent and agree to each and every recital and provision contained in the Proposed Resolution.

**Section 4.** That this Board finds that the statutory obligation for consultation with the supervisory body (KUB) will be fulfilled by the delivery of this resolution to City Council.

**Section 5.** That upon City Council’s passage of the Proposed Resolution, the President and Chief Executive Officer, or the Chief Financial Officer, is hereby authorized and directed to distribute the Tax Equivalents to the respective taxing jurisdictions in accordance with the Proposed Resolution; provided, however, that the amount of such Tax Equivalents to be paid to any taxing jurisdiction specified in the Proposed Resolution shall be appropriately reduced by the aggregate amount of any qualified state, county, city and other local taxes or charges imposed for such fiscal year by or for the benefit of such taxing jurisdiction, said reduction being required by the statutes.

**Section 6.** That the President and Chief Executive Officer is authorized to deliver copies of this Resolution to the Mayor and City Council as formal evidence of this Board’s action in connection therewith.

**Section 7.** BE IT FURTHER RESOLVED that this Resolution shall take effect from and after its passage.

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Celeste Herbert, Chair

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Mark Walker, Board Secretary

APPROVED ON 1<sup>st</sup>  
& FINAL READING: \_\_\_\_\_  
EFFECTIVE DATE: \_\_\_\_\_  
MINUTE BOOK \_\_\_\_ PAGE \_\_\_\_\_

## RESOLUTION

### **A Resolution of the Council of the City of Knoxville Setting the In Lieu of Tax Payments for the Electric and Gas Systems of the Knoxville Utilities Board for the Fiscal Year Beginning July 1, 2017 and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions**

**Whereas**, under the state of Tennessee electric and gas tax equivalent statutes (TCA Section 7-52-301 et seq. and Section 7-39-401 et seq.), the Council of the City of Knoxville, after consultation with the Knoxville Utilities Board (hereinafter referred to as "KUB"), may cause to be paid from KUB's Electric and Gas Divisions an amount for payments in lieu of taxes (hereinafter referred to as "Tax Equivalents") on KUB's electric and gas systems and operations which, in the judgment of City Council, shall represent the fair cost of government properly to be borne thereby; and

**Whereas**, the amount of Tax Equivalents that may be set by City Council is to be in lieu of all state, county, city and other local taxes or charges imposed on KUB's Electric and Gas Divisions for the fiscal year by the various taxing jurisdictions in which the properties of the electric and gas systems are situated, said amount being subject to a maximum limitation that may be paid for a fiscal year; and

**Whereas**, the Tax Equivalents are to be distributed to the respective taxing jurisdictions in accordance with a mandatory distribution formula or under established arrangements with taxing jurisdictions in effect immediately prior to the adoption of the statutes, both as provided for in the statutes; and

**Whereas**, KUB had established arrangements in place with taxing jurisdictions for the allocation and distribution of in lieu of tax payments on KUB's electric and gas systems immediately prior to the adoption of the statutes; and

**Whereas**, KUB, by its passage of Resolution No. 1373 on February 15, 2018, and the delivery of same to City Council, has requested City Council pass a resolution setting the Tax Equivalents for the fiscal year beginning July 1, 2017, and providing for the allocation and distribution of the Tax Equivalents to the affected taxing jurisdictions (hereinafter referred to as "Proposed Resolution"); and

**Whereas**, City Council, having consulted with KUB regarding the setting of the Tax Equivalents and the allocation and distribution thereof to the affected taxing jurisdictions, hereby finds that KUB's Proposed Resolution is in the best interests of the City of Knoxville and KUB.

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

**Section 1.** That pursuant to T.C.A. Sections 7-52-301 et seq. and Sections 7-39-401 et seq., the Council of the City of Knoxville hereby sets the Tax Equivalents for KUB's electric and gas systems for the fiscal year beginning July 1, 2017, at a total of \$22,402,263, representing \$15,542,951 in electric Tax Equivalents and \$6,859,312 in gas Tax Equivalents, said amounts being the maximum amount of Tax Equivalents that may be paid from KUB's Electric and Gas Divisions under law.

**Section 2.** That the aforesaid Tax Equivalents be distributed in accordance with law to the following taxing jurisdictions in the amounts specified below:

	<u>Electric Tax Equivalents</u>	<u>Gas Tax Equivalents</u>	<u>Total Tax Equivalents</u>
City of Knoxville	\$ 7,947,289	\$3,674,591	\$11,621,880
Knox County	6,707,728	3,180,327	9,888,055
Union County	350,536		350,536
Sevier County	343,139		343,139
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Jefferson County	37,929		37,929
Blount County	12,528		12,528
Anderson County	7,795	2,798	10,593
Loudon County	<u>                    </u>	<u>1,596</u>	<u>1,596</u>
Total	\$15,542,951	\$6,859,312	\$22,402,263

**Section 3.** That the statutory obligation for City Council to consult with the supervisory body (KUB) was satisfied by the delivery of KUB Resolution No. 1373 to City Council.

**Section 4.** That KUB be and hereby is authorized and directed to aforesaid amounts of Tax Equivalents to the respective taxing jurisdictions specified above; provided, however, that the amount of such Tax Equivalents to be paid to any taxing jurisdiction shall be appropriately reduced by the aggregate amount of any qualified state, county, city and other local taxes or charges imposed for such fiscal year by or for the benefit of such taxing jurisdiction, said reduction being required by law.

**Section 5.** That this resolution shall take effect immediately upon its passage, the public welfare requiring it, and a certified copy hereof shall be delivered to the President and Chief Executive Officer of KUB as formal evidence of this Council's action in connection therewith.

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Recorder



**Knoxville Utilities Board  
Board Meeting  
Minutes  
Thursday, January 18, 2018, 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, January 18, 2018, pursuant to the public notice published in the January 6, 2018, edition of the *News Sentinel*. Chair Herbert called the meeting to order at 12:00 p.m.

Chair Herbert recognized Commissioner-elect Adrienne Simpson-Brown and her husband, Charles Brown.

Chair Herbert also welcomed the seven KUB Leadership Development Program employees and the program facilitator attending the Board Meeting today and asked them to introduce themselves.

**Roll Call**

Commissioners Present: Jerry Askew, Kathy Hamilton, Celeste Herbert, Tyvi Small and John Worden

Commissioners Absent: Sara Pinnell

**Approval of Minutes**

The Minutes of the December 14, 2017, Board Meeting were approved as distributed upon a motion by Commissioner Askew and seconded by Commissioner Small.

**Old Business**

None

**New Business**

**Oath of Office for Adrienne Simpson-Brown**

Chair Herbert welcomed Adrienne Simpson-Brown and asked Bill Coley, the Board's General Counsel, to administer the Oath of Office to Ms. Simpson-Brown.

January 18, 2018

### **Election of 2018 Officers**

Mr. Coley stated that the Nominating Committee met on December 14, 2017, and recommended the following slate of officers for 2018: Celeste Herbert, Chair; Jerry Askew, Vice Chair; and Senior Vice President and CFO Mark Walker as Board Secretary. He asked for other nominations and received none.

Commissioner Hamilton moved to elect the proposed slate of officers, seconded by Commissioner Small. The motion was unanimously adopted on a voice vote.

### **President's Report**

#### **Annual Disclosures**

President Roach recognized Elba Marshall, Director of Corporate Services, to review the annual conflict of interest disclosure process for the Board.

#### **Corporate Strategy and Initiatives Update**

President Roach recognized Derwin Hagood, Senior Vice President of Operations, to provide an update on KUB's strategic initiatives, which help to ensure KUB is preparing for the future.

#### **Incident Command**

President Roach reminded Commissioners that KUB regularly responds to unplanned events that affect its utility systems. When events are beyond the routine, the Incident Command System is used to organize an effective response. Ms. Roach recognized John Gresham, Vice President of Operations, to brief the Board on KUB's use of this system.

#### **Cold Weather Event Update**

President Roach advised Commissioners, that in the first week of 2018, Knoxville experienced extremely cold temperatures. Ms. Roach recognized Jamie Davis, Manager of Underground Construction, who provided information on system and customer impacts, and the response by KUB employees to water main breaks.

January 18, 2018

**Engineering Building Update**

President Roach reminded Commissioners they were provided an update last year about plans to construct a new Engineering Building at the Hoskins Campus. Ms. Roach recognized John Williams, Director and Assistant to the Senior Vice President and Chief Engineer, to provide an update on this project.

**Other Business**

None

**Public Comment**

Stephen Smith – 5443 Yosemite Trail – Knoxville, TN 37909

**Adjournment**

There being nothing further to come before the Board, Chair Herbert declared the meeting adjourned at 1:00 p.m.

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Celeste Herbert, Chair

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Mark Walker, Board Secretary

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