

**Knoxville Utilities Board  
Board Meeting  
Minutes  
Thursday, June 20, 2019 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, June 20, 2019, pursuant to the public notice published in the January 5, 2019, edition of the *News Sentinel*. Chair Hamilton called the meeting to order at 12:00 p.m.

**Roll Call**

Commissioners Present: Jerry Askew, Kathy Hamilton, Celeste Herbert, Sara Pinnell, Adrienne Simpson-Brown, Tyvi Small, and John Worden.

Commissioner Absent: None

**Approval of Minutes**

The Minutes of the May 16, 2019, Board Meeting were approved as distributed upon a motion by Commissioner Askew and seconded by Commissioner Small.

**Old Business**

None

**New Business**

**Resolution 1399, A Resolution Adopting a Revised Knoxville Utilities Board (“KUB”) Cash Investment Policy**

President Bolas reminded Commissioners that our cash investment policy is reviewed annually to see if any changes are needed. This year’s review has been completed and one minor change related to a new state law was identified. He recognized Mark Walker, Senior Vice President and Chief Financial Officer to provide the details of the change.

President Bolas recommended adoption of Resolution 1399 on first and final reading. His written recommendation is included in Attachment 1.

June 20, 2019

Upon a motion by Commissioner Worden and a second by Commissioner Herbert, Resolution 1399 (*Attachment 1*) was adopted by a roll call vote on first and final reading. The following Commissioners voted “aye”: Askew, Hamilton, Herbert, Pinnell, Simpson-Brown, Small, and Worden. No Commissioner voted “nay”.

## **President’s Report**

### **Water and Wastewater Cost of Service Studies Results**

President Bolas reminded Commissioners that KUB has been conducting cost of service studies on each of its utilities in anticipation of upcoming long-range financial planning discussions. Studies have been completed on the electric and gas systems and those results have been presented to the Board. He recognized Mike Bolin, Vice President of Utility Advancement, to provide the results of the water and wastewater cost of service studies.

### **Customer Engagement Update**

President Bolas advised Commissioners that KUB is committed to serving its customers and meeting their needs and expectations. We continuously focus on improving the customer experience, as we know this is a key to our mission. He recognized Stephanie Tallent, an Analyst in Customer Experience, to share current customer engagement initiatives and an improved bill format to be introduced in the coming year.

### **Energy and Water Savings Workshops**

President Bolas reminded Commissioners that Liz Hannah, Manager of Executive Services and Environmental Stewardship, delivered a presentation in December on our partnership efforts related to energy and water outreach and education. He recognized Liz to provide an update on those efforts. Harley Bryant, a supervisor in Customer Support and Key Accounts, and Anna Freshour, a Customer Counselor, demonstrated a portion of the energy and water savings workshop.

### **TVA Awards – EnergyRight Solutions**

President Bolas welcomed the TVA representatives attending the Board Meeting today. He recognized Cindy Herron, TVA Vice President of EnergyRight Solutions. Ms. Herron presented a 2018 Top Performer award to Chair Hamilton on behalf of KUB. Mr. Bolas also recognized Christy Cagle-Brooks, Program Manager for Energy Utilization and Marketing, Robbie Ansary, Customer Service Manager, and Amy Edge, General Manager, TVA Northeast District.

June 20, 2019

**Other Business**

None

**Public Comment**

Constance Every – 301 N Chilhowee Drive – Knoxville, TN 37914

Ray Hyde – 2407 Dodson Road – Knoxville, TN 37917

Seema Singh – 1012 West Park – Knoxville, TN 37909

Kent Minault – 311 Glenwood Avenue – Knoxville, TN 37917

**Adjournment**

There being nothing further to come before the Board, Chair Hamilton declared the meeting adjourned at 1:23 p.m.

  
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Kathy Hamilton, Chair

  
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Mark Walker, Board Secretary

**Attachments**

Attachment 1	Recommendation Letter and Resolution 1399, A Resolution Adopting a Revised Knoxville Utilities Board ("KUB") Cash Investment Policy	<b><u>Page(s)</u></b> 9483 – 9494
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Knoxville Utilities Board

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June 14, 2019

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

Commissioners:

The Board has previously adopted a cash investment policy for the management and investment of public funds by KUB, reflecting the limitations and requirements of state law governing the investment of public funds. The policy does not cover retirement system investments, as those are governed by separate investment policies adopted by the Board.

The cash investment policy established an Investment Advisory Committee, including the Chief Financial Officer and Manager of Accounting, to provide oversight of KUB's cash investment activities. The policy provides for the Committee to review the policy annually and recommend any changes to the President and CEO and the Board's Audit and Finance Committee.

The review for 2019 has been completed. One change to the policy has been identified, clarifying that a recent state law regarding banking services is not applicable to KUB per consultation with the State Comptroller's Office.

The proposed policy change was discussed with the Board's Audit and Finance Committee at its March 26 meeting. A red-lined version of the policy highlighting the proposed changes is enclosed for your information.

Resolution 1399 adopts a revised cash investment policy, and I recommend its approval on first and final reading.

Respectfully submitted,

A handwritten signature in black ink that reads "Gabriel Bolas".

Gabriel J. Bolas II  
President and CEO

Enclosure



## RESOLUTION NO. 1399

### **A Resolution Adopting a Revised Knoxville Utilities Board (“KUB”) Cash Investment Policy**

**Whereas**, as part of its ongoing operations and responsibilities, KUB is charged with the management and investment of public funds; and

**Whereas**, the KUB Board of Commissioners (“Board”) previously adopted Resolution 1381, providing a comprehensive KUB Investment Policy (“Policy”) for the management and investment of such funds; and

**Whereas**, the Policy established an Investment Advisory Committee for providing general oversight of the investment activities of KUB; and

**Whereas**, the Policy requires the Investment Advisory Committee review the Policy on an annual basis; and

**Whereas**, as a result of the recently completed review, the Investment Advisory Committee has proposed a change that clarifies a new state law regarding banking services is not applicable to KUB; and

**Whereas**, the proposed change was discussed with the Board’s Audit and Finance Committee at its meeting on March 26, 2019; and

**Whereas**, the Board finds it to be in the best interest of KUB and its customers to effectuate these modifications by adopting a revised Policy.

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

**Section 1.** That the KUB Investment Policy attached hereto as Exhibit A is hereby adopted and replaces the existing KUB Investment Policy previously adopted by the Board through Resolution 1381.

**Section 2.** That the President and Chief Executive Officer is hereby authorized to implement and maintain the Investment Policy in accordance with its terms and under the laws of the state of Tennessee, and to execute all agreements that may be required or necessary to effectuate the intent of said Investment Policy.

**Section 3.** That the Investment Policy shall always be subject to Tennessee state law provisions governing the deposits and investments of public funds and to the extent any such laws conflict or impose stricter standards than those required under the Investment Policy, the provisions of the Investment Policy shall be conformed and construed to comply with the requirements of state law.

**Section 4. Effective Date:** That this resolution shall take effect immediately upon its passage.

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Kathy Hamilton, Chair

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Mark Walker, Board Secretary

APPROVED ON 1<sup>st</sup>  
& FINAL READING: 6-20-19  
EFFECTIVE DATE: 6-20-19  
MINUTE BOOK 41 PAGE 9484-9494

**Knoxville Utilities Board  
Investment Policy**

**June 2019**

**I. Scope.**

This Investment Policy (“Policy”) of the Knoxville Utilities Board (“KUB”) governs the investment of all non-pension funds of KUB, whether invested directly by KUB, or on behalf of KUB by a third-party (portfolio manager). These funds include the following:

- General Fund
- Operating Contingency Reserve Fund
- Bond Sinking Fund
- Bond Proceeds Fund
- Economic Development Fund
- Other Funds approved by the KUB Board of Commissioners

**II. Objectives.**

The primary objectives of KUB’s investment activities in descending order of priority are as follows:

1. Safety. Safety of principal is the most important objective of KUB’s investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the total investment portfolio.
2. Liquidity. KUB’s investment portfolio should remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
3. Yield. KUB’s investment portfolio shall be designed with the objective of attaining an approximate market rate of return throughout economic cycles, taking into account the safety of principal and liquidity needs. KUB will establish a benchmark target(s) for measuring performance results as applicable, with said benchmark(s) to be determined by the Investment Advisory Committee, as provided for in Section IV below, and approved by the KUB Board of Commissioners’ Audit and Finance Committee.



### III. Investment Parameters.

1. Diversification. KUB will, to the extent possible, reasonably diversify its investments by type of investment and institution.
2. Maturities. KUB will limit its investments to securities having the maximum stated maturity provided for under state law, unless specific approval is received from the Comptroller of the Treasury or the Comptroller's designee for a longer maturity than the maximum allowed. As of July 1, 2004, the maximum is four (4) years from the date of investment (T.C.A 6-56-106).
3. Placement. If all higher investment objectives as set forth in Section II of this Policy are satisfied, investments will generally be placed with the institution whose percentage yield produces the greatest interest income to KUB.

Excluding any investments made on behalf of KUB by a third-party investment manager, investments will, to the extent possible, be placed through a formal and competitive process requiring the solicitation and evaluation of at least three (3) bids. In this case, the offer that provides the highest rate of return while meeting KUB's overall investment objectives will be accepted. In the event a security must be sold, the bid which generates the highest net sales price will be accepted. Investments may be moved from one institution to another when the rate of return (net of any transaction fees) can be improved, provided that safety and liquidity requirements are not diminished.

### IV. Standard of Care and Oversight.

1. Prudence. The standard of care by which investment decisions shall be judged shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio.

A "prudent person" standard of care is generally defined as requiring investments to be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital. (See T.C.A. 35-14-112).

2. Ethics and Conflicts of Interest. KUB employees involved in the investment process shall not be directly interested in either a financial institution in which KUB funds are deposited, or in the business of a third-party with which KUB contracts for investment services. "Directly interested" means any contract with the KUB employee personally or

with a business in which the KUB employee is a sole proprietor or a partner or in which the KUB employee owns or controls more stock than any other individual (T.C.A. 12-4-101 and 6-54-107). If any KUB officer or employee involved in the investment process has any direct interest or material indirect interest in either a financial institution in which KUB funds are deposited or in the business of a third-party with which KUB contracts for investment services, such interest shall be reported in writing to the Chair of the Investment Advisory Committee. KUB officers and employees involved in the investment process shall refrain from undertaking personal investment transactions with the same employee or officer of a financial institution or a broker or dealer with whom business is conducted on behalf of KUB. A representative of the Investment Advisory Committee shall perform a periodic survey of KUB officers and employees involved in the investment process to help ensure that no such conflicts exist.

3. Investment Advisory Committee. KUB shall establish an Investment Advisory Committee, whose members shall be appointed by the President and CEO. The Investment Advisory Committee will be chaired by the Chief Financial Officer ("CFO") and consist of a minimum of three members, including the Vice-President of Finance and the Manager of Accounting. The Investment Advisory Committee will be responsible for general oversight of KUB's investment activities and for establishing any written procedures and/or internal controls (not provided for in this Policy) for the operation of the investment program. The Investment Advisory Committee shall meet on an as needed basis; however, this should not be less than once each fiscal year. A representative of the Committee will take minutes for each meeting and keep them on record.
4. Management Authority. The CFO shall be responsible for all transactions undertaken under this Policy. The CFO shall designate those KUB employees authorized to execute investment transactions on behalf of KUB. The Manager of Accounting (or such other individuals designated by the CFO) shall be responsible for the daily operation of KUB's investment program, and shall carry out any established written procedures and/or internal controls for the operation of the investment program.
5. Third-Party Portfolio Management. KUB may utilize the services of a third-party investment firm to invest a portion of or all of KUB investment funds on behalf of KUB. The selection of any such third-party portfolio manager shall be conducted through a Request for Proposal (RFP) process. The selection of any such portfolio manager must receive the approval of the KUB Board of Commissioners' Audit and Finance Committee. The portfolio manager shall be required to abide by all applicable requirements for investing KUB funds as provided for under Tennessee state law and this Policy. A representative of the portfolio manager shall be required to report investment results to at least one



representative of the Investment Advisory Committee on no less than a quarterly basis.

## V. **Safekeeping and Custody.**

1. Deposit of Funds. All funds received by KUB shall be deposited immediately into an appropriate KUB account in a financial institution designated as a public depository in accordance with requirements of Tennessee state law and KUB Resolution 899. (T.C.A. 6-56-111). When collateralization is required for such deposits, the financial institution shall be required to enter into an agreement to properly collateralize KUB deposits in accordance with Resolution 899 and Tennessee state law (T.C.A. 9-4-504).

The Tennessee General Assembly amended TCA 6-56-110 effective July 1, 2019, to require municipalities in the state to contract with a bank or banks for the deposit of municipal funds based on the best proposal received from the bank or banks, with a required review by the municipality's governing body at least once every four years. As KUB is an independent agency of the City of Knoxville that manages its own investment of public funds, the Comptroller of the Treasury of Tennessee has determined and provided written documentation that the amended TCA 6-56-110 is not applicable to KUB.

2. Internal Controls. The following internal controls will guide the operation of the investment program. The Investment Advisory Committee is authorized to establish any additional controls as deemed necessary.
  - A. Separation of transaction authority from account and record-keeping. The employee who authorizes or performs the transaction shall be separate from the person who records or otherwise accounts for the transaction.
  - B. Custodial safekeeping. Securities purchased from any bank or dealer including eligible collateral (T.C.A. 9-4-103) shall be placed with an independent third-party for custodial safekeeping. A custodial trust agreement shall be executed with all financial institutions designated as custodians.
  - C. Book entry for securities. The buying and selling of securities (including for purposes of collateralization) should be done on a book-entry basis if at all possible. Any securities that must be physically delivered to KUB should be properly safeguarded against loss or destruction. The Manager of Accounting shall be responsible for ensuring the safekeeping of any physical securities.

- D. Clear delegation of authority. The Manager of Accounting (or such other individual designated by the CFO) shall provide for the clear delegation of authority to subordinate staff members responsible for executing investment transactions and accounting for investment transactions. Those individuals responsible for executing investment transactions shall be designated to do so in writing by the CFO.
- E. Written confirmation of telephone transactions and wire transfers. All investment transactions executed via telephone shall be supported by appropriate written documentation. Written communication may be via electronic media or fax if provided on letterhead and the safekeeping institution maintains a list of authorized signatures.
- F. Wire transfer agreements. KUB shall execute wire transfer agreements with applicable financial institutions and third-party custodians. These agreements should outline the various controls and security provisions and delineate responsibilities of each party making and receiving wire transfers.

- 3. Delivery vs. Payment. All investment transactions where applicable will be executed by delivery versus payment. Securities will be held by third-party custodians as evidenced by safekeeping receipts.

## **VI. Investment Services.**

- 1. Any financial institution and broker/dealer who desires to provide investment services to KUB must supply the following information as appropriate:
  - A. Required Federal or State Report with current registrations and current filings.
  - B. Current audited financial statements for parent financial institution.
  - C. Acknowledgement of having received a copy of this Policy.
  - D. Current statement on Collateralization Policy.

## **VII. Authorized Investments.**

- 1. Investment Types. KUB is limited to investments authorized by Tennessee state law (T.C.A. 6-56-106). This includes investments made directly by KUB personnel or by an investment manager on behalf of KUB. These investments shall have a maturity of not greater than four years from the date of investment unless a longer maturity is approved by the Comptroller of the Treasury or the Comptroller's designee. These investments are as follows:



- A. Bonds, Notes or Treasury Bills of the United States.
  - B. Nonconvertible debt securities of the following federal government sponsored enterprises that are chartered by the United States congress; provided, that such securities are rated in the highest category by at least two (2) nationally recognized rating services: the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank, the Federal Home Loan Mortgage Corporation, or other securities that are authorized by Tennessee state law.
  - C. Any other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies.
  - D. Certificates of Deposit and other evidences of deposit at state and federally chartered banks, and savings and loan associations. All such deposits shall be collateralized by securities described in T.C.A. 9-4-103 unless (1) the aggregate balance of KUB's deposits then in such a depository does not exceed the amount for which full security is provided for such deposits by the FDIC, or (2) the depository participates in the State Collateral Pool under T.C.A. 9-4-501 et. seq.
  - E. Repurchased Agreements collateralized by obligations of the United States or its agencies, if purchased in accordance with the procedures established by the state funding board, this Investment Policy, and pursuant to the Master Repurchase Agreement adopted in Resolution 723 (See also Section VII(4) below).
  - F. The local government investment pool (LGIP).
  - G. Bonds or notes of KUB or the City of Knoxville.
  - H. Bonds and notes of local governments of the State of Tennessee.
  - I. Prime banker' acceptances, which are eligible for purchase by the Federal Reserve System.
  - J. Prime commercial paper which is rated at least A1 or equivalent by at least two nationally recognized rating services.
2. Proceeds of bonds, notes, and other obligations and reserves. These funds may be invested in obligations, which are rated in either of the two highest rated categories by a nationally recognized rating agency of such obligations. The investment must also be a direct general obligation of a state of the United States, a political subdivision or instrumentality thereof, having general taxing powers, and have a final maturity on the date of investment of not to exceed forty-eight months or that may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than forty-eight month intervals (T.C.A. 6-56-106).



3. Collateralization. In accordance with T.C.A. 9-4-105 and 9-4-111, with the exception of the amount of funds protected by the FDIC, collateralization at 105 percent (valued at market) will be required on all investments. A custodial trust agreement with a Federal Reserve member bank to provide for the custody of the purchased securities is required prior to any transaction (T.C.A. 9-4-107). A security agreement (in the form provided by KUB) with the institution providing the investment is also required prior to any transaction. The security agreement must be in writing and executed by the depository institution contemporaneously with the acquisition of the asset. In lieu of the foregoing, collateralization may be provided by the financial institution through the state of Tennessee collateral pool.

Collateral which is authorized for use is limited by T.C.A. 9-4-103 and this Investment Policy to the following:

- A. Bonds of the United States or any of its agencies.
  - B. Obligations guaranteed by the United States or any of its agencies, the payments of which are fully guaranteed both as to principal and interest by the United States.
  - C. Bonds of the state of Tennessee, including any revenue bonds issued by any agency of the state specifically including institutions under the control of the state board of regents, the board of trustee of the University of Tennessee and bonds issued in the name of the state school board authority.
  - D. Bonds of any utility district, county or Municipal Corporation of the state of Tennessee.
  - E. Bonds that are rated "A" or higher by any nationally recognized rating service and which are issued under the provisions of T.C.A. title 7, chapters 37 (Industrial Building Revenue Bond Act), 53 (industrial development corporations); or T.C.A. title 48, chapter 101, part 3 (health, educational and housing facilities corporations).
4. Repurchase Agreements. Repurchase agreements are the sale by a bank or dealer of a government security with the simultaneous agreement to repurchase the security on a later date. Resolution 723 provides for KUB to utilize repurchase agreements provided they are used in accordance with state law requirements and procedures established by the Comptroller of the Treasury or the Comptroller's designee. These procedures provide that:
    - A. Up to 100 percent of KUB's funds may be invested in repurchase agreements.

- B. A master repurchase agreement (in the form provided by KUB) applicable to all sales and repurchase transactions between KUB and seller must be executed.
- C. A custodial agreement (in the form provided by KUB) with a member bank of the Federal Reserve must be executed prior to any transactions.
- D. A seller under a repurchase agreement shall not also be the custodian.
- E. Reverse repurchase agreements are prohibited.
- F. For each repurchase transaction, the market value of the collateral shall be at least 102 percent of the purchase price of the securities, including interest accrued at the time of purchase.
- G. Eligible securities shall be obligations of the United States or its agencies. The maturity date of the securities shall exceed the term of the repurchase agreement and the market value of the securities must be more than the amount of funds invested.
- H. The term of any repurchase agreement may not exceed 90 days.
- I. All purchased securities shall be delivered simultaneously against payment to the custodian in an account established solely for the safekeeping of KUB.
- J. Unless specifically agreed to by both KUB and the seller, neither party shall have the right to substitute securities for those securities purchased on the date of purchase. Any securities so substituted must be of equal value or greater market value than the securities substituted.
- K. Any transactions effected under individual repurchase agreements shall be confirmed in writing by the seller to both KUB and the custodian.
- L. KUB shall require the custodian to provide, after any daily activity, a written statement of all account transactions.
- M. KUB shall maintain all applicable records pertaining to individual repurchase agreements pursuant to Tennessee state law (T.C.A. 10-7-404).

## **VIII. Reporting Requirements.**

1. Methods. The following reporting requirements shall be applicable for KUB's investment program:
  - A. A daily report of all KUB investment activities, including investments managed directly by KUB and/or a third-party portfolio manager on behalf of KUB, shall be prepared by KUB personnel responsible for such activities. This report shall be provided to the Manager of Accounting.



- B. A monthly report listing all investments held by KUB shall be prepared and submitted to the CFO by the Manager of Accounting. This report shall also be submitted to each member of the Investment Advisory Committee. This monthly report will include investments by division.
  - C. Applicable KUB investments shall be reported monthly on a marked to market basis. The marked to market value of the investment shall be reported on KUB's financial statements accordingly. Values used to reflect the market value of these investments shall be obtained from a reputable and independent source.
  - D. In the event KUB uses a third-party portfolio manager to invest funds on the behalf of KUB, the portfolio manager shall prepare a written report each quarter detailing all investment activity for the period including a discussion on performance in relation to any benchmarks. This report shall be provided to the Chief Financial Officer and each member of the Investment Advisory Committee.
  - E. The Chief Financial Officer and/or the Vice President of Finance shall provide a periodic investment review to the Board's Audit and Finance Committee, the frequency of which shall be determined by the Audit and Finance Committee; however, such review shall occur no less than annually. This review shall include a detailed overview of overall investment performance for the previous year including a comparison against any applicable benchmarks. This review shall also address the impact of investment performance on KUB's overall financial performance for the year, including a discussion of any significant gains or losses from the selling/liquidation of investments prior to maturity.
2. Performance Standards. The investment portfolio shall be managed in accordance with the parameters specified in this Investment Policy. Investment performance should be compared to appropriate benchmarks on a regular basis.
  3. Separate Accounts. KUB shall keep separate books and accounts for the investments of each respective division. Funds of the separate divisions may be combined or pooled when invested to earn a higher interest rate. The distribution of interest income from pooled investments shall be allocated to individual divisions proportionally, based on each division's contribution at the time of investment.
  4. Review and Revision of Investment Policy. The Investment Advisory Committee will annually review this Investment Policy and recommend any necessary revisions to the President and CEO and the Board's Audit and Finance Committee. Any changes to this Investment Policy must be approved by the KUB Board of Commissioners.