



**Board Meeting Agenda
Thursday, December 21, 2023
Noon**

Call to Order

Roll Call

Approval of Minutes

Official Action

Resolution 1484 – A Resolution Requesting the City Council of the City of Knoxville to Adopt a Resolution Setting the Tax Equivalent Payments for the Electric, Gas, and Fiber Systems for the Fiscal Year Beginning July 1, 2023, and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions

President's Report

Other Business and Public Comments

Adjournment

Note: The Chair may declare a periodic recess in these proceedings as may be necessary for comfort or convenience.



December 15, 2023

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

Commissioners:

The December 21 Board meeting agenda includes consideration of one official action item, related to tax equivalent payments for fiscal year 2024 for KUB's electric, gas, and fiber systems.

An overview of the resolution is provided below.

Resolution 1484

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

Tax equivalents for the three systems for fiscal year 2024 total \$26,036,228, including \$18,765,814 for the electric system, \$7,259,131 for the gas system, and \$11,283 for the fiber system. The fiber system amount is small given the relatively low value of fiber system assets in place. The electric, gas, and fiber tax equivalent payments are the maximum amounts provided for under state law. These payments will be made to the respective taxing jurisdictions on the last business day of June.

A summary of all tax equivalent payments for fiscal year 2024 is enclosed for your information. Although it doesn't require official action by the Board or City Council, our presentation will also cover the in lieu of tax payments for the water and wastewater systems.

Resolution 1484, enclosed for your information, requests the City Council of Knoxville to set the in lieu of tax payments for KUB's electric, gas, and fiber systems and to establish the allocation of payments to the various taxing jurisdictions for the fiscal year ending June 30, 2024. I recommend its adoption on first and final reading.

Respectfully submitted,

A handwritten signature in black ink that reads "Gabriel J. Bolas II". The signature is written in a cursive, flowing style.

Gabriel J. Bolas II
President and CEO

Summary of FY 2024 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, gas, and fiber 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, gas, and fiber 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 2024 are \$35,319,000, representing an increase of \$1,981,319 from last fiscal year, as set forth below.

	FY 2024	FY 2023	Change	% Change
Electric Division	\$18,765,814	\$17,175,635	\$1,590,179	9.3%
Fiber Division	\$11,283	\$1,158	\$10,125	874.4%
Gas Division	\$7,259,131	\$7,131,007	\$128,124	1.8%
Water Division	\$3,629,904	\$3,646,197	(\$16,293)	(0.5%)
Wastewater Division	\$5,652,868	\$5,383,684	\$269,184	5.0%
	\$35,319,000	\$33,337,681	\$1,981,319	5.9%

The increased level in tax equivalent payments over the prior fiscal year is the result of continued growth in utility system assets, reflecting KUB's Century II infrastructure, fiber network construction, and higher energy sales margins.

Total payments to the City of Knoxville for FY 2024 will be \$24,101,630. Total payments to Knox County will be \$10,196,324. Total payments to other taxing jurisdictions will be \$1,021,046.

Water and wastewater payments will be paid to the City on February 29, 2024. Electric, gas, and fiber payments will be paid to the respective taxing jurisdictions on June 28, 2024.

RESOLUTION NO. 1484**A Resolution Requesting the City Council of the City of Knoxville to Adopt a Resolution Setting the Tax Equivalent Payments for the Electric, Gas, and Fiber Systems for the Fiscal Year Beginning July 1, 2023, 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 state of Tennessee adopted a tax equivalent statute in 1999 (TCA Section 7-52-606) in order to provide the method for calculation of payments in lieu of taxes on the property and operations of all internet (fiber) or other like systems owned and operated by municipalities 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 and/or fiber 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 and/or fiber systems; and

Whereas, the statutes include formulas which establish the maximum annual tax equivalent payment for electric, gas, and fiber 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, TCA Section 7-52-606 provides that a municipality providing internet (fiber) services shall make payments in the same manner established for its electric system, except as provided in the statute; 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, gas, and fiber tax equivalent payments for the fiscal year beginning July 1, 2023, totaling \$18,765,814 for the electric system and \$7,259,131 for the gas system and \$11,283 for the fiber 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</u>	<u>Gas</u>	<u>Fiber</u>	<u>Total Tax Equivalents</u>
City of Knoxville	\$10,429,071	\$4,383,231	\$6,556	\$14,818,858
Knox County	7,318,607	2,872,990	4,727	10,196,324
Union County	532,507			532,507
Sevier County	237,307			237,307
Grainger County	153,816			153,816
Jefferson County	74,595			74,595
Blount County	9,920			9,920
Anderson County	9,991	1,638		11,629
Loudon County		<u>1,272</u>		<u>1,272</u>
Total	\$18,765,814	\$7,259,131	\$11,283	\$26,036,228

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.

Adrienne Simpson-Brown, Chair

Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: _____
EFFECTIVE DATE: _____
MINUTE BOOK 46 PAGE _____

RESOLUTION

A Resolution of the Council of the City of Knoxville Setting the In Lieu of Tax Payments for the Electric, Gas, and Fiber Systems of the Knoxville Utilities Board for the Fiscal Year Beginning July 1, 2023, and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions

Whereas, under the state of Tennessee electric, gas and internet (fiber) tax equivalent statutes (TCA Section 7-52-301 et seq., Section 7-39-401 et seq. and TCA 7-52-606), 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, Gas, and Fiber Divisions an amount for payments in lieu of taxes (hereinafter referred to as “Tax Equivalents”) on KUB’s electric, gas, and fiber 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 on KUB’s electric and gas systems 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 amount of Tax Equivalents on KUB’s fiber system that may be set by City Council is to be in lieu of all state, county, city or other local taxes or charges imposed on KUB’s Fiber Division for the fiscal year by the various taxing jurisdictions in which the properties of the fiber system are situated, except as specifically provided in Section 7-52-606; 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, TCA Section 7-52-606 provides that a municipality providing internet (fiber) services shall make payments in the same manner established for its electric system, except as provided in the statute; and

Whereas, KUB, by its passage of Resolution No. 1484 on December 21, 2023, 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, 2023, 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., Sections 7-39-401 et seq., and Section 7-52-606, the Council of the City of Knoxville hereby sets the Tax Equivalents for KUB’s electric, gas, and fiber systems for the fiscal year beginning July 1, 2023, at a total of \$26,036,228, representing \$18,765,814 in electric Tax Equivalents, \$7,259,131 in gas Tax Equivalents and \$11,283 in fiber Tax Equivalents, said amounts being the maximum amount of Tax Equivalents that may be paid from KUB’s Electric, Gas, and Fiber 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</u>	<u>Gas</u>	<u>Fiber</u>	<u>Total Tax Equivalents</u>
City of Knoxville	\$10,429,071	\$4,383,231	\$6,556	\$14,818,858
Knox County	7,318,607	2,872,990	4,727	10,196,324
Union County	532,507			532,507
Sevier County	237,307			237,307
Grainger County	153,816			153,816
Jefferson County	74,595			74,595
Blount County	9,920			9,920
Anderson County	9,991	1,638		11,629
Loudon County	_____	<u>1,272</u>	_____	<u>1,272</u>
Total	\$18,765,814	\$7,259,131	\$11,283	\$26,036,228

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. 1484 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, November 16, 2023 9:00 a.m.**

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, November 16, 2023, pursuant to the public notice published in the January 7, 2023, edition of the *News Sentinel* and on KUB's website. Chair Adrienne Simpson-Brown called the meeting to order at 9:00 a.m.

Roll Call

Commissioners Present: Ron Feinbaum, Kathy Hamilton, Celeste Herbert, Adrienne Simpson-Brown, and Tyvi Small.

Commissioners Absent: Claudia Caballero and Cynthia Gibson

Approval of Minutes

Upon a motion by Commissioner Herbert and a second by Commissioner Feinbaum, the October 19, 2023 Board Meeting minutes were approved by a roll call vote. The following Commissioners voted "aye": Feinbaum, Hamilton, Herbert, Simpson-Brown, and Small. No Commissioner voted "nay".

Old Business

None

New Business

None

President's Report

Natural Gas Purchasing Authority & Winter Update

President Gabriel Bolas reminded Commissioners that staff provides an update each fall on the natural gas industry and KUB's compliance with natural gas purchasing requirements and a winter energy bill forecast. He recognized Wayne Brintnall, an Analyst in Rates & Analytical Services, to provide this year's update.

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American Public Power Association Communications Award

President Bolas recognized Liz Hannah, Manager of Communications and Executive Services, to share details of a recent award from the American Public Power Association. KUB's first Environmental, Social, and Governance (ESG) Report earned the Excellence in Public Power Communications Award of Merit in the Print and Digital category. Commissioner Hamilton offered her congratulations to the Communications and Environmental Stewardship teams on creating the first report in-house and winning a national award for the publication.

United Way Campaign Overview

President Bolas advised Commissioners that we recently completed our annual 100% employee-funded United Way campaign. The annual campaign reflects KUB's mission of service and employee commitment to the community. He recognized Tiffany Martin, Vice President and Chief Customer Officer, to share an overview of this year's campaign.

Other Business

Chair Simpson-Brown announced that from the nominees selected by the Board, Mayor Kincannon recommended Dr. Craig Pickett, Jr. for the new Commissioner position and City Council will vote on Dr. Pickett's election at their meeting on November 28th. She thanked Mayor Kincannon and City Council for their consideration.

Public Comment

None

Adjournment

There being nothing further to come before the Board, Chair Simpson-Brown declared the Board meeting adjourned at 9:34 a.m.

Inflation Response Plan Workshop

President Gabriel Bolas began the workshop with an overview of the Inflation Response Plan and the challenges KUB is facing. Mr. Bolas recognized John Williams, Senior Vice President of Engineering and Construction, to share details of the inflationary impacts on the utility systems. John Gresham, Vice President of Operations, reviewed Century II infrastructure needs and its impact on our ability to provide safe and reliable utility services. Mark Walker, Senior Vice President

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and Chief Financial Officer, shared details of the long-term financial strategy and reviewed potential funding scenarios for each of the utility systems.

Adjournment

Chair Adrienne Simpson-Brown declared the meeting adjourned at 12:16 p.m.

Adrienne Simpson-Brown, Chair

Mark Walker, Board Secretary

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