

a

**Board Meeting Agenda
Thursday, January 15, 2015
Noon**

Call to Order

Roll Call

Approval of Minutes

Official Action

Oath of Office for John Worden

Election of 2015 Officers

Resolution 1323 – 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, 2014 and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions

President's Report

Other Business

Public Comments

Adjournment



Knoxville Utilities Board

January 9, 2015

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 2015 are \$13,309,981. Tax equivalents for the gas system for Fiscal Year 2015 are \$6,081,256. Both electric and gas tax equivalent payments are the maximum amounts permitted 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 2015 is attached for your information.

I recommend adoption of Resolution 1323, 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, 2015.

Respectfully submitted,

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

Mintha E. Roach
President and CEO

Summary of FY 2015 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 2015 are \$25,910,417, representing an increase of \$2,493,098 or 10.6 percent over last fiscal year, as set forth below.

	FY 15	FY 14	Increase	% Increase
Electric Division	\$ 13,309,981	\$ 11,905,037	\$ 1,404,944	11.80%
Gas Division	\$ 6,081,256	\$ 5,761,856	\$ 319,400	5.54%
Water Division	\$ 2,943,719	\$ 2,377,350	\$ 566,369	23.82%
Wastewater Division	\$ 3,575,461	\$ 3,373,076	\$ 202,385	6.00%
	\$ 25,910,417	\$ 23,417,319	\$ 2,493,098	10.64%

The increase in tax equivalent payments compared to last fiscal year is primarily the product of utility plant additions for all systems and an increase in the City of Knoxville's tax rate. The City's property tax rate increase accounts for \$942,799 of the total increase in tax equivalents for FY 2015.

Total payments to the City of Knoxville for FY 2015 will be \$16,535,897. Total payments to Knox County will be \$8,604,444. Total payments to other taxing jurisdictions will be \$770,076.

Water and wastewater payments will be paid to the City on February 27, 2015. Electric and gas payments will be paid to the respective taxing jurisdictions on June 30, 2015.

RESOLUTION NO. 1323**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, 2014 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 the maximum electric and gas tax equivalent payments permitted by law for the fiscal year beginning July 1, 2014, totaling \$13,309,981 for the electric system and \$6,081,256 for the gas system (hereinafter referred to as “Tax Equivalents”).

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	\$ 6,764,881	\$3,251,836	\$10,016,717
Knox County	5,778,737	2,825,707	8,604,444
Union County	319,995		319,995
Sevier County	255,041		255,041
Grainger County	134,961		134,961
Jefferson County	37,880		37,880
Blount County	11,020		11,020
Anderson County	7,466	2,569	10,035
Loudon County	<u> </u>	<u>1,144</u>	<u>1,144</u>
Total	\$13,309,981	\$6,081,256	\$19,391,237

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.

Nikitia Thompson, Chair

Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: _____
EFFECTIVE DATE: _____
MINUTE BOOK 34 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, 2014 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. 1323 on January 15, 2015, 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, 2014, 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, 2014, at a total of \$19,391,237, representing \$13,309,981 in electric Tax Equivalents and \$6,081,256 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	\$ 6,764,881	\$3,251,836	\$10,016,717
Knox County	5,778,737	2,825,707	8,604,444
Union County	319,995		319,995
Sevier County	255,041		255,041
Grainger County	134,961		134,961
Jefferson County	37,880		37,880
Blount County	11,020		11,020
Anderson County	7,466	2,569	10,035
Loudon County	<u> </u>	<u>1,144</u>	<u>1,144</u>
Total	\$13,309,981	\$6,081,256	\$19,391,237

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. 1323 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, December 18, 2014, 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, December 18, 2014, pursuant to the public notice published in the January 4, 2014, edition of the *News Sentinel*. Chair Anderson called the meeting to order at 12:00 p.m.

Roll Call

Commissioners Present: Bruce Anderson, Joel Connell, Kathy Hamilton, Celeste Herbert, Sara Hedstrom Pinnell, Nikitia Thompson, and Eston Williams

Commissioners Absent: None

Approval of Minutes

The Minutes of the November 20, 2014, Board Meeting were approved as distributed upon motion by Commissioner Thompson and second by Commissioner Williams.

Old Business

None

New Business

Resolution 1320, A Resolution Adopting a Funding Policy for the Knoxville Utilities Board Defined Benefit Pension Plan in Accordance with Tennessee State Law

President Roach recommended adoption of Resolution 1320 on first and final reading. Her written recommendation is included in Attachment 1.

December 18, 2014

President Roach reminded Commissioners that KUB's retirement system includes a defined benefit pension plan, which was closed to new entrants in 2011. Last spring a new state law was adopted that requires all government pension plans in Tennessee to have a formal funding policy. She recognized Mark Walker, Senior Vice President and Chief Financial Officer, to provide details of the proposed pension plan funding policy.

Upon a motion by Commissioner Connell and a second by Commissioner Herbert, Resolution 1320 (*Attachment 1*) was adopted by a roll call vote on first and final reading. The following Commissioners voted "aye": Anderson, Connell, Hamilton, Herbert, Pinnell, Thompson, and Williams. No Commissioner voted "nay".

Resolution 1321, A Resolution Requesting City Council Approval of the Engagement of Coulter & Justus to Provide Audit Services to the Knoxville Utilities Board Beginning with Audits to be Performed in 2015

President Roach recommended adoption of Resolution 1321 on first and final reading. A written recommendation of Commissioner Thompson, Chair of the Audit and Finance Committee, is included in Attachment 2.

President Roach advised Commissioners that the KUB Charter requires the KUB Board to hire an independent accountant to audit KUB financial records and further requires that the accountant be approved by City Council. She recognized Mark Walker, Senior Vice President and Chief Financial Officer, who reviewed the auditor selection process and provided a summary of the proposals. Mr. Walker then recognized Commissioner Thompson, Chair of the Audit and Finance Committee.

Commissioner Thompson presented the following recommendation:

The Audit and Finance Committee held interviews with two firms on December 10, including Coulter & Justus and Henderson Hutcherson & McCullough. Both firms provided an excellent presentation. While each of the firms is capable of performing KUB's audit and each is relatively competitive from a pricing standpoint, the Committee felt that Coulter & Justus is the overall best fit for KUB.

In selecting Coulter & Justus, the Committee noted the firm's reputation as a high-quality accounting firm located in Knoxville, the firm's experience in auditing other governmental utilities, and its competitive price.

December 18, 2014

I would like to thank the other members of the Audit and Finance Committee, Eston and Joe, and also our Board Chair, Bruce, for their commitment and participation in the interview and selection process. I recommend approval of Resolution 1321 requesting City Council approval of the selection of Coulter & Justus.

Upon a motion by Commissioner Thompson and a second by Commissioner Hamilton, Resolution 1321 (*Attachment 2*) was adopted by a roll call vote on first and final reading. The following Commissioners voted "aye": Anderson, Connell, Hamilton, Herbert, Pinnell, Thompson, and Williams. No Commissioner voted "nay".

President's Report

Smart Grid Strategy Update

President Roach reminded Commissioners that the Executive Leadership Development program includes three projects, and so far they have heard from the Workforce and Water System Redundancy Strategy teams. She recognized Gabriel Bolas, Manager of Electric Systems Engineering and Assistant to the COO, and Dawn Mosteit, Vice President, to report on work completed over the last year on the Smart Grid Strategy project.

Employee Recognition Program

President Roach advised Commissioners that KUB spends a great deal of time and attention managing our utility assets through Century II and PACE 10, and while those are critical to providing safe and reliable utility services, our greatest asset is our employees. She recognized Susan Edwards, Senior Vice President and Chief Administrative Officer, to kickoff KUB's inaugural Employee Recognition Program Awards Presentation. John Gresham, Manager of Plants, presented the award to Josh Johnson and Chris Thomas; Gabriel Bolas, Manager of Electric Systems Engineering and Assistant to the COO, presented the award to Kinsley Adelakin; Julie Childers, Vice President, presented the award to Sharon Deane; and Mark Walker, Senior Vice President and Chief Financial Officer, presented the award to Amy Farmer. Bill Elmore, Executive Vice President and Chief Operating Officer, introduced the Board Chair Award recipients; Jimmy Ballard, Mike Hillard, Andrea May, Tom England, and Mike Rose, who accepted the award on behalf of all the departments who were involved in working the water main break at Main and State Streets on April 3, 2014. Chair Anderson thanked the recipients on behalf of the Board. President Roach thanked the award winners for their hard work, dedication, and service to KUB customers.

December 18, 2014

Other Business

Commissioner Hamilton, Chair of the Nominating Committee announced that the Committee met today to nominate a slate of officers for 2015. The following individuals were nominated: Nikitia Thompson, Chair; Kathy Hamilton, Vice-Chair; and Mark Walker, Secretary. She also announced that the election of officers would be conducted in January 2015, as required by the Charter.

Resolution 1322, A Resolution of the Knoxville Utilities Board Concerning Joel W. Connell, Who is Concluding Service as a Commissioner

Chair Anderson offered Resolution 1322 for the Board's consideration recognizing Joel Connell for his service to the KUB Board of Commissioners. Bill Coley, Board's General Counsel, read Resolution 1322.

Upon motion by Commissioner Williams and second by Commissioner Herbert, Resolution 1322 (*Attachment 3*) was adopted by acclamation and a unanimous voice vote.

Commissioner Connell expressed his appreciation to the Board, Senior Staff, and employees and stated serving as a KUB Commissioner for seven years has been both an honor and a pleasure.

President Roach expressed her appreciation and gratitude to Commissioner Connell for his service on the Board.

Public Comment

Xavier Presley – 1134 Glade Hill Drive – Knoxville, TN 37909

Adjournment

Chair Anderson stated that following adjournment, the Board would continue with an open lunch session where KUB matters may be discussed. There being nothing further to come before the Board, Chair Anderson declared the meeting adjourned at 1:25 p.m.

Bruce Anderson, Chair

Mark Walker, Board Secretary

Attachments

Attachment 1	Recommendation Letter and Resolution 1320, A Resolution Adopting a Funding Policy for the Knoxville Utilities Board Defined Benefit Pension Plan in Accordance with Tennessee State Law	<u>Page(s)</u> 6436 - 6443
Attachment 2	Recommendation Letter and Resolution 1321, A Resolution Requesting City Council Approval of the Engagement of Coulter & Justus to Provide Audit Services to the Knoxville Utilities Board Beginning with Audits to be Performed in 2015	6444 - 6446
Attachment 3	Recommendation Letter and Resolution 1322, A Resolution of the Knoxville Utilities Board Concerning Joel W. Connell, Who is Concluding Service as a Commissioner	6447 - 6448



December 12, 2014

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

Commissioners:

As you know, KUB's Retirement System program includes a defined benefit pension plan ("Plan"). In 2013 the Tennessee Department of the Treasury conducted a survey of governmental pension plans in the state, which indicated that many plans were significantly underfunded due to plan sponsors failure to consistently fund their plan's actuarially determined contributions (*note: the funded status of KUB's Plan was 95 percent, the second highest in the survey. KUB's current funded status is 103 percent*).

In response to the survey's results and in light of new governmental pension accounting standards, in 2014 the Tennessee General Assembly adopted a new statute that requires the Tennessee Consolidated Retirement System ("TCRS") and those state and local governments that operate pension plans outside of TCRS, such as KUB, to adopt a pension funding policy by July 1, 2015. The statute requires the inclusion of certain provisions in the funding policy, including the requirement to fund 100 percent of each year's actuarially determined contribution. The policy must be filed with the Comptroller of the Treasury within 30 days of adoption by the Board.

Given that KUB's historic and current practice is to fund 100 percent of its Plan's actuarially determined contributions to ensure that Plan assets will be sufficient to fund all benefits expected to be paid to Plan participants and beneficiaries, KUB's proposed funding policy reflects a codification of KUB's existing practices related to the funding of its Plan.

The proposed funding policy, as set forth in Resolution 1320, which is attached for your review, was prepared by KUB's Retirement System Administrative Committee in conjunction with KUB's benefits counsel William Mason, and the Plan's independent qualified actuary, Cheiron. The proposed policy was provided to the Tennessee Department of the Treasury for their review and the policy was found to be responsible and reasonable and include all the required elements.

The proposed policy was reviewed by the Board's Audit and Finance Committee and the Committee unanimously adopted a resolution at its October 24 meeting recommending the full KUB Board adopt the pension funding policy.

I recommend adoption of Resolution 1320 on first and final reading.

Respectfully submitted,

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

Mintha E. Roach
President & CEO

RESOLUTION NO. 1320

A Resolution Adopting a Funding Policy for the Knoxville Utilities Board Defined Benefit Pension Plan in Accordance with Tennessee State Law

Whereas, the Knoxville Utilities Board of Commissioners (“Board”) previously adopted Resolution 979, as amended, establishing the KUB Retirement System, including a defined benefit pension plan (“Plan”); and

Whereas, in 2014 the Tennessee General Assembly adopted Tennessee Public Law 990, 2014, “The Public Employee Defined Benefit Financial Security Act of 2014”, that requires the Tennessee Consolidated Retirement System (“TCRS”) and those state and local governments that operate defined benefit pension plans outside of TCRS, such as KUB, to formally adopt a pension plan funding policy (“Policy”) by July 1, 2015 and file the Policy with the Tennessee Comptroller of the Treasury within 30 days of adoption; and

Whereas, in accordance with the new statute, the Policy must include a provision to fund 100 percent of the Plan’s annual actuarially determined contribution, which is consistent with KUB’s historic and current practice for funding its Plan; and

Whereas, the KUB Retirement System Administrative Committee, in consultation with KUB’s benefits counsel and independent qualified actuary prepared a proposed Policy reflecting the requirements of state law; and

Whereas, the proposed Policy was provided to the Tennessee Department of the Treasury for their review; and

Whereas, the Tennessee Department of the Treasury determined the proposed Policy appears responsible and reasonable and includes all the requirement elements; and

Whereas, the Retirement System Administrative Committee approved the proposed Policy as its meeting on August 14, 2014, and recommended its adoption to the President and CEO; and

Whereas, the proposed Policy was provided to the Board’s Audit and Finance Committee (“Committee”) and reviewed by the Committee at its meetings on September 15, 2014 and October 24, 2014, respectively; and

Whereas, the Committee, at its October 24 meeting, unanimously adopted Resolution AF-58, recommending the Board adopt the proposed Policy; and

Whereas, the Board finds it to be in the best interest of KUB and its customers to adopt the proposed Policy.

Now, Therefore, Be It Hereby Resolved by the Board of Commissioners of the Knoxville Utilities Board:

Section 1. That the Board hereby adopts the KUB Pension Plan Funding Policy as set forth in Exhibit A to this Resolution.

Section 2. That the Board hereby directs the President and CEO and/or the Chief Financial Officer to file the KUB Pension Plan Funding Policy with the Tennessee Comptroller of the Treasury within 30 days of the adoption of this Resolution.

Section 3. That this Resolution shall take effect from and after its passage.

Bruce Anderson/s
Bruce Anderson, Chair

Mark Walker/s
Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: 12-18-14
EFFECTIVE DATE: 12-18-14
MINUTE BOOK 34 PAGE 6437-6443

Knoxville Utilities Board Pension Plan Funding Policy

Introduction

The determination of funding for pension contributions for the Knoxville Utilities Board (“KUB”) Pension Plan (“Plan”) has historically been driven by Governmental Accounting Standards Board (“GASB”) statements 25 and 27. While these statements describe the annual required contribution (“ARC”) for recording pension expense for accounting purposes, the ARC was used as a de facto funding methodology for governmental pension plans, including KUB’s Plan. These GASB statements along with the annual actuarial valuation, as performed by the Plan’s independent qualified actuary, determined the proper funding practice for the Plan.

In 2012 GASB adopted statements 67 and 68 to amend statements 25 and 27. Among other things, these new GASB statements separate accounting for pension expense from pension funding methodology. GASB statement 68 determines the method in which pension expense and pension liability are to be calculated and recorded in the plan sponsor’s financial statements, but leaves it to pension administrators to determine the funding policy for actuarially financing the pension obligations accruing under the pension plan. Now that GASB 67 and 68 have taken effect, KUB finds it desirable to establish a formal funding policy.

In addition, the Government Finance Officers Association has recommended that state and local governments offering defined benefit pension plans formally adopt funding policies that provide reasonable assurance that the cost of pension benefits will be funded in an equitable and sustainable manner. In 2014 The Tennessee General Assembly enacted Tennessee Public Law 1990, 2014, “The Public Employee Defined Benefit Financial Security Act of 2014”, that requires the Tennessee Consolidated Retirement System (“TCRS”) and those state and local governments that operate defined benefit pension plans outside of TCRS, like KUB, to formally adopt a funding policy, and fully fund their annual actuarially determined contributions. The policy that follows is intended to fulfill these requirements and reflect KUB’s historical practice of fully funding its actuarially determined annual contribution.

Policy

This is the Funding Policy for the KUB Plan, a closed defined benefit pension plan covering certain active, inactive and retired participants and their beneficiaries.

KUB’s practice has been to fully fund the annual employer contribution, which previously was equivalent to 100 percent of the ARC. Consistent with historical practice and the requirements of the Knoxville City Charter that KUB operate the Retirement System on a financially sound basis in accordance with generally accepted actuarial

and accounting principles, it is the policy of KUB to fully fund the annual employer contribution for the Plan each fiscal year, whereby said contribution will be at least 100 percent of the actuarially determined contribution (“ADC”) as calculated in accordance with the funding elements set forth in this Funding Policy.

The primary goal of this Funding Policy is to document the method KUB has adopted to provide assurance that future KUB and employee contributions and current Plan assets will be sufficient to fund all benefits expected to be paid to current active, inactive and retired Plan participants and their beneficiaries.

While actuarial assumptions are an essential part of the actuarial valuation process for the Plan, unless explicitly stated otherwise, the selection of actuarial assumptions is outside the scope of this Funding Policy.

Objectives

- This Funding Policy seeks to manage and control future employer contribution volatility to the extent reasonably possible, consistent with other goals.
- This Funding Policy shall be in compliance with all applicable legal requirements.
- This Funding Policy supports the general public policy objectives of accountability and transparency.

Funding Elements

1. Actuarial Cost Method

An actuarial valuation of the Plan is performed every year by an independent qualified actuary. The actuarial valuation has two purposes. One is to determine the funded status of the Plan at that specific point in time. The second purpose is to determine the appropriate level of contribution to the Plan by KUB to maintain the Plan in an actuarially sound manner.

The Plan will use the Individual Entry Age Normal Actuarial Cost method to determine costs. Under this funding method, a normal cost rate is determined as a level percent of pay for each active Plan participant and then summed to produce the total normal cost for the Plan. The annual normal cost represents the present value of benefits accrued on the behalf of active Plan participants during the year.

The Plan’s actuarial liability is the portion of the present value of projected benefits that will not be paid by future employer normal costs or participant contributions. The difference between the actuarial liability and the actuarial value of assets accumulated as of the same date is referred to as the unfunded actuarial liability.

The unfunded actuarial liability is amortized over a period of time, as provided for in this Funding Policy, to develop an additional cost or savings, as applicable, which is added to each year's normal cost to develop the ADC for that year.

Under the Individual Entry Age Normal Actuarial Cost method, actuarial gains and losses are directly reflected in the size of the unfunded actuarial liability. Actuarial gains and losses represent the difference between actual experience and that expected based on actuarial assumptions during the period of time between actuarial valuation dates.

2. Actuarial Value of Assets

The actuarial value of assets is the market value of Plan assets as of the actuarial valuation date, adjusted by a five-year smoothing of asset investment gains and losses on a market value basis. Each of the previous five years' investment gain or loss is determined as the difference between the actual market return and the expected market return using the assumed rate of investment return. The actuarial value is adjusted to remain within 20 percent of the market value as of the actuarial valuation date.

Employer contributions to the Plan scheduled to be made between the actuarial valuation date and the beginning date of the KUB fiscal year that commences 18 months after the actuarial valuation date are considered to be receivable contributions for the Plan. These receivable contributions are discounted to the actuarial valuation date using the assumed rate of investment return and added to develop the final actuarial asset value and market asset value.

3. Amortization Methods

The Plan was closed to new entrants effective January 1, 2011. Accordingly, the Plan's unfunded actuarial liability is amortized as a closed 30-year level dollar amount from January 1, 2011, decreasing by one year each year. As a result, the unfunded actuarial liability is scheduled to be fully amortized at December 31, 2041. The closed amortization period shall be applied to any unfunded actuarial liability as of the effective date of this Funding Policy as well as to any change in the unfunded actuarial liability due to actuarial gains and losses, changes in actuarial assumptions, or Plan amendments until January 1, 2026.

At January 1, 2026, any unfunded actuarial liability at such time will continue to be amortized to December 31, 2041. Changes in the unfunded actuarial liability that occur after January 1, 2026 due to actuarial gains or losses, changes in actuarial assumptions, or Plan amendments will be "layered" and separately amortized over closed 15 year periods from the actuarial valuation date at which each such change is first recognized.

If the Plan achieves a surplus position (meaning the actuarial value of assets exceeds the actuarial liability) as of any valuation date, any such surplus will be amortized over 30 years from that actuarial valuation date as a “rolling amortization.” If a subsequent actuarial valuation results in an unfunded actuarial liability, the application of the amortization methods stated in the preceding paragraphs of this section will resume, with the amount of the unfunded actuarial liability in years after leaving a surplus position being amortized to 2041 if the actuarial valuation date occurs before January 1, 2026 or for 15 years if the actuarial valuation date occurs on or after January 1, 2026.

4. Assumed Rate of Investment Return

The assumed rate of investment return will be set from time to time by the Retirement System Administrative Committee upon the advisement of the Retirement System’s independent qualified actuary and in consultation with KUB’s President and CEO. Any change in the rate of investment return shall be discussed with the Audit and Finance Committee of the KUB Board of Commissioners (“Board”) prior to said change being effective.

The assumed rate of investment return shall not exceed by more than .50 percent (50 basis points) the assumed rate of investment return utilized by the TCRS, in accordance with state law.

5. Assumption of Mortality Improvements

Mortality assumptions shall include the effect of expected mortality improvements.

6. Other Actuarial Assumptions

All other actuarial assumptions not provided for in this Funding Policy shall be determined by the Retirement System Administrative Committee on the advisement of the Retirement System’s independent qualified actuary in consultation with KUB’s President and CEO. All such actuarial assumptions shall be reflected in the annual valuation report.

7. Actuarial Experience Studies

An actuarial experience study for the Plan will be conducted for the Retirement System Administrative Committee by the Retirement System’s independent qualified actuary every five (5) years for the purpose of reviewing and revising, if necessary, the demographic and economic assumptions utilized in annual actuarial valuations.

8. Actuarially Determined Contribution

Actuarial valuations for the Plan will be performed for the Retirement System Administrative Committee as of each January 1. The ADC shall be calculated as part

of the annual actuarial valuation and shall be in accordance with the Actuarial Standards of Practice established by the Actuarial Standards Board and this Funding Policy.

The ADC shall include the following components: the normal cost of the Plan, the amortization of any unfunded actuarial accrued liability (or surplus), as applicable, and interest from the actuarial valuation date to the assumed payment date of the contribution.

For each applicable KUB fiscal year, KUB will contribute an amount to the Plan of at least 100 percent of the ADC. Such contribution shall be approved by the Retirement System Administrative Committee in accordance with authority delegated by Board Resolution 979, as amended, and included in the fiscal year budget as approved by the Board.

9. Timing of Contributions

The ADC as of each actuarial valuation date shall be contributed to the Plan by KUB during the fiscal year that commences 18 months following such actuarial valuation date. For example, for the January 1, 2014 actuarial valuation, the contribution determined in accordance with this Funding Policy will be contributed to the Plan by KUB during the fiscal year beginning July 1, 2015 and ending June 30, 2016. The timing of contributions reflects historical funding practice as the results of a January 1 dated valuation are not available until after the Board has adopted the following fiscal year's budget (i.e. January 1, 2014 valuation results will not be available until after adoption of budget for fiscal year beginning July 1, 2014).

Amendments

This Funding Policy may only be amended by the Board upon a recommendation from the President and CEO. The Retirement System Administrative Committee shall review this Funding Policy annually in consultation with the Retirement System's independent qualified actuary and, if necessary, shall recommend amendments or modifications of this Funding Policy from time to time to the Board through KUB's President and CEO.

In accordance with Tennessee Public Act 1990, 2014, this Funding Policy and any amendments thereto shall be submitted to the Tennessee Comptroller of the Treasury within 30 days of adoption.

Adoption

On the advisement of the Retirement System's independent qualified actuary, this Funding Policy was recommended by the Retirement System's Administrative Committee on August 14, 2014, and adopted by the Board on _____ 2014.



Knoxville Utilities Board

December 12, 2014

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

Commissioners:

The KUB Charter requires the KUB Board to hire an independent accountant to audit KUB financial records and further requires that the accountant be approved by City Council. In addition, the Board's bylaws state that it is the duty of the Board's Audit and Finance Committee ("Committee") to make recommendations to the Board regarding the selection and engagement of outside auditors.

The completion of the FY 2014 audit this past fall by Rodefer Moss and Company marked the final year of a three-year engagement as KUB's auditor. Including a previous five-year engagement, Rodefer Moss has served as KUB's auditor for the prior eight fiscal years. The Committee determined it would be appropriate to issue a request for proposals ("RFP") for professional audit services. Nine firms responded to the RFP and the Committee narrowed that list to two finalists who were interviewed by the Committee on December 10. The firms interviewed included Coulter & Justus and Henderson Hutcherson & McCullough.

Following the interviews, the Committee voted unanimously to recommend that, subject to City Council approval, the KUB Board hire Coulter & Justus to provide audit services to KUB. Resolution 1321 has been prepared approving the selection of Coulter & Justus and requesting City Council approval of the Board's selection. I recommend adoption of Resolution 1321 on first and final reading.

Respectfully submitted,

A handwritten signature in black ink that reads 'Nikitia Thompson'. The signature is written in a cursive, flowing style.

Nikitia Thompson
Chair, KUB Audit & Finance Committee

RESOLUTION 1321

A Resolution Requesting City Council Approval of the Engagement of Coulter & Justus to Provide Audit Services to the Knoxville Utilities Board Beginning with Audits to be Performed in 2015

Whereas, KUB's Charter, Section 1107(B), requires that an independent certified professional accountant shall be employed by the Knoxville Utilities Board of Commissioners (the "Board") to make such audits and reports as the Board may deem necessary; and

Whereas, the Charter further requires that the accountant to be employed shall be approved by the Council of the City of Knoxville ("City Council"); and

Whereas, KUB has issued a Request For Proposals for professional audit services and the Board's Audit and Finance Committee has reviewed the proposals, interviewed finalists, and has unanimously recommended that the Board hire the firm of Coulter & Justus to provide audit services to KUB beginning with audits to be performed in 2015; and

Whereas, the Board finds that it is in the best interest of KUB and its customers that the firm of Coulter & Justus be hired to provide audit services to KUB beginning with audits to be performed in 2015; and

Whereas, KUB has prepared a proposed resolution for passage by City Council, a copy of which 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 by adoption of this Resolution, the Board requests that City Council adopt the Proposed Resolution approving the selection of Coulter & Justus to provide audit services to KUB beginning with audits to be performed in 2015.

Section 2. That subject to the approval of City Council, the Board authorizes the President and CEO or her designee to execute an agreement for the engagement of Coulter & Justus to provide audit services to KUB beginning with audits to be performed in 2015.

Section 3. That this Resolution shall take effect from and after its adoption.

Bruce Anderson/s
Bruce Anderson, Chair

Mark Walker/s
Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: 12-18-14
EFFECTIVE DATE: 12-18-14
MINUTE BOOK 34 PAGE 6445-6446

RESOLUTION NO. 1322

A Resolution of the Knoxville Utilities Board Concerning Joel W. Connell, Who is Concluding Service as a Commissioner

Whereas, Joel W. Connell became a member of this Board in January 2008 and has now served faithfully for seven years; and

Whereas, during his tenure, KUB added approximately 9,000 new customers resulting in a current level in excess of 445,000 customers; and

Whereas, during his tenure, Commissioner Connell has been an advocate for Project Help, an emergency heating-assistance program for people who need temporary help with their heating bills and;

Whereas, Commissioner Connell recognized the need to eliminate the root cause associated with ongoing emergency energy assistance and supported the implementation of Round It Up, a program which would allow customers to round up their monthly utility bills to the next whole dollar to provide funding for low-income weatherization; and

Whereas, Commissioner Connell was an advocate for customers, recognizing the balance between the needs of business and residential customers, the need to invest in the system and the need to manage costs; and

Whereas, KUB implemented significant cost saving measures, including a 10 percent reduction in full-time staffing, the closure of its defined benefit pension plan to new entrants, and the elimination of non-critical programs, which combined with other cost reductions to save KUB's customers in excess of \$100 million during his term; and

Whereas, since the first year of his term, Commissioner Connell demonstrated leadership in the support of long-term funding plans for KUB's Century II and PACE 10 infrastructure programs, including the approval of bond issues and rate increases to balance the cost of needed system improvements over both current and future KUB customers; and

Whereas, during his tenure, KUB sold \$770 million in bonds, including \$515 million to fund system infrastructure improvements and \$255 million to refinance outstanding bonds at lower rates, which resulted in over \$42 million in savings for KUB's customers; and

Whereas, during his tenure, KUB's high-quality bond ratings were upgraded by both Moody's Investors Service and Standard & Poor's, including a historically high AAA rating for KUB's water system bonds by Standard & Poor's; and

Whereas, he oversaw during his term the completion of the 134 wastewater collection system projects mandated by the federal Consent Decree; and

Whereas, Commissioner Connell also demonstrated his leadership by working diligently with staff to develop payment options for utility extension agreements with property developers impacted by the economic recession; and

Whereas, in addition to his active role as a Commissioner during his tenure, he served as Vice Chair of the Board, as well as Chair of the Audit and Finance Committee; and

Whereas, Commissioner Connell has further distinguished himself and KUB through his involvement in the business community; and during the past seven years he has consistently acted in the best interest of KUB and its customers.

Now, Therefore, Be It Hereby Resolved by the Board of Commissioners of the Knoxville Utilities Board:

Section 1. That this Board hereby gratefully acknowledges and commends Joel W. Connell for his dedicated service to KUB, its employees, customers, and our community.

Section 2. That the Board recognizes Commissioner Connell's effective service and that the Board genuinely regrets that his time on the KUB Board of Commissioners has concluded.

Section 3. That this Resolution shall take effect from and after its passage and that a copy shall be provided to Commissioner Connell.

Bruce Anderson/s
Bruce Anderson, Chair

Celeste Herbert/s
Celeste Herbert, Vice Chair

Kathy Hamilton/s
Kathy Hamilton, Commissioner

Sara Pinnell/s
Sara Pinnell, Commissioner

Nikitia Thompson/s
Nikitia Thompson, Commissioner

Eston Williams/s
Eston Williams, Commissioner

APPROVED ON 1st
& FINAL READING: 12-18-14
EFFECTIVE DATE: 12-18-14
MINUTE BOOK 34 PAGE 6447-6448