



TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

226 ANNE DALLAS DUDLEY BOULEVARD, SUITE 508, NASHVILLE, TENNESSEE 37243 • WWW.TN.GOV/TACIR

TENNESSEE VALLEY AUTHORITY'S PAYMENTS IN LIEU OF TAXES

Background

Each year, the Tennessee Valley Authority (TVA) makes payments in lieu of taxes (PILOT) to the eight states in which it owns power property, based on 5% of its prior-year proceeds from power sales. The PILOT is divided among the states based each state's share of power sold by TVA and the value of TVA property located in each state. The Electric Generation and Transmission Cooperative Act of 2009 directed TACIR to monitor changes in the wholesale distribution of electric power by the TVA and its distributors and report any potential effects on the Authority's PILOTs. Since 2010, the Commission has continued to monitor the power supply situation and reports to the General Assembly annually to bring attention to anything that could affect TVA's payments to the state and its local governments.

Findings

The Commission sees no immediate need for legislative action at this time. The 2021 report describes the possible effects of various factors on TVA's PILOTs and calls attention to several key items:

- TVA's total PILOT for federal fiscal year (FFY) 2019-20 increased by \$4 million. Tennessee's share also increased, and TVA's payments to the state in FFY 2019-20 increased by \$5.5 million.
- However, several factors—including reduced demand for electricity amidst the COVID-19 pandemic—caused TVA's power revenue to fall by \$1 billion in FFY 2019-20. As a result, TVA's PILOT estimate for FFY 2020-21 decreased by \$52 million; payments to Tennessee are estimated to decrease by \$33 million to a total of \$340 million. For the state's 2020-21 fiscal year, allocations will decrease by \$7.5 million for counties, by \$3.2 million for cities, and by \$11.6 million for state agencies.
- With continued economic uncertainty and additional pandemic relief credits for its customers, TVA projects its revenue in FFY 2020-21 will be similar to 2019-20, which means the PILOT for FFY 2021-22 is not likely to increase.
- Memphis Light, Gas, and Water (MLGW)—TVA's largest customer—is studying whether to leave the TVA system. If it chooses to do so—a decision that may take 12-18 months—the resulting loss of revenue would reduce the PILOT significantly. Moreover, local governments in the MLGW service area (i.e. Shelby County) would no longer receive PILOT funds through the state's allocation formula. But because there is a five-year termination period before MLGW's contract can end, any possible effect on the PILOT won't begin until 2028 or 2029.

See TACIR's full report at the following link for additional information: <https://www.tn.gov/tacir/tacir-publications.html>.