



# TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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## 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 PILOT. 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 2022 report describes the possible effects of many factors on TVA's PILOT and calls attention to several key items:

- TVA's total PILOT for federal fiscal year (FFY) 2020-21 decreased by \$52 million. Although Tennessee's share of the PILOT increased for the third year in a row, TVA's payments to the state in FFY 2020-21 still decreased by \$33 million.
- With businesses recovering from the pandemic-related shutdowns of early 2020, energy sales increased in FFY 2020-21, helping boost TVA's PILOT for FFY 2021-22 by an estimated \$12 million. Payments to Tennessee are estimated to increase by \$5.7 million to a total of \$345 million in FFY 2021-22. For the state's 2021-22 fiscal year allocations will decrease by \$1.6 million for counties, by \$0.7 million for cities, and by \$2.0 million for state agencies.
- Decreases in both the state's share of TVA's power revenue and the value of TVA power property caused Tennessee's share of the overall PILOT to decrease in FFY 2021-22 for just the second time since 2008-09. As TVA rebalances its generation fleet, shifts in the value of power property from state to state could continue to affect each state's share of the PILOT.
- Memphis Light, Gas, and Water (MLGW)—TVA's largest customer—continues to evaluate whether to leave the TVA system and may reach its decision by the end of 2022. If MLGW chooses to leave—and new contracts are approved by Memphis City Council—the resulting loss of revenue would reduce TVA's 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 in the existing contract with TVA, the soonest those potential changes might take effect is fiscal year 2028-29.

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