
Payments and Contributions by Public Power Distribution Systems to State and Local Governments, 2010 Data

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Executive Summary

Public power systems provide a direct benefit to their communities in the form of payments and contributions to state and local government. The total value of the contributions made by the publicly owned utilities often comes in many forms and is not always easily recognized. In addition to payments such as property-like taxes, payments in lieu of taxes, and transfers to the general funds, many of the utilities make other contributions in the form of free or reduced cost services provided to states and cities. APPA calculated net payments and contributions for 284 public power systems in the most current data year of 2010 and determined that the median amount contributed was **5.2 percent of electric operating revenues**.

In 2010, investor-owned utilities paid a median of 3.9 percent of electric operating revenues in taxes and fees to state and local governments.

It is a common misconception that investor-owned utilities provide a benefit to the local communities by paying taxes that the publicly owned utilities do not. This report demonstrates just the opposite. When all taxes, tax equivalents and other contributions to state and local government are considered, the median amount contributed by public power systems in 2010, as a percent of electric operating revenues, was 33 percent higher than investor-owned utilities (5.2% vs. 3.9%).

I. Overview

Public power systems provide a direct benefit to their communities in the form of payments and contributions to state and local government. Using the most current data year, APPA calculated net payments and contributions for 284 public power systems for fiscal year 2010 and determined that the median amount was **5.2 percent of electric operating revenues**. The payments are property-like taxes, payments in lieu of taxes, and transfers to the general funds. The contributions are made in the form of free or reduced cost services provided to states and cities.

Many communities are not fully aware of the payments and total value of contributions made by their publicly owned electric utility, and some utilities do not quantify all their payments and contributions. APPA conducted a detailed survey of public power systems in order to get a more accurate estimate. The results are presented in this report, which focuses on the “rate” and “type” of payments and contributions made by public power distribution utilities.

The report includes:

- Summaries by revenue size class and region of the country for both publicly owned and investor-owned utilities;
- Details on which types of payments and contributions are most common;
- A listing of the typical methods used by utilities to calculate the amount of payments in lieu of taxes or transfers to the general fund of the city.

Caution should be used when making direct comparisons with the previous reports (published biannually between 1992-2008) because the utilities included in each year’s report are not identical. In addition, in earlier years’ reports APPA was able to include information collected from the Energy Administration Administration’s Form EIA-412. However, EIA has discontinued that form, so payment and contribution data are now collected exclusively from the APPA survey. Thus the number of public power systems included has fallen from 573 in the 2002 report to 284 in the 2010 report.

Appendix 1 describes the data sources and methodology used for this study and Appendix 2 defines the geographic regions.

II. Payment and Contribution Rates by Revenue Size Class

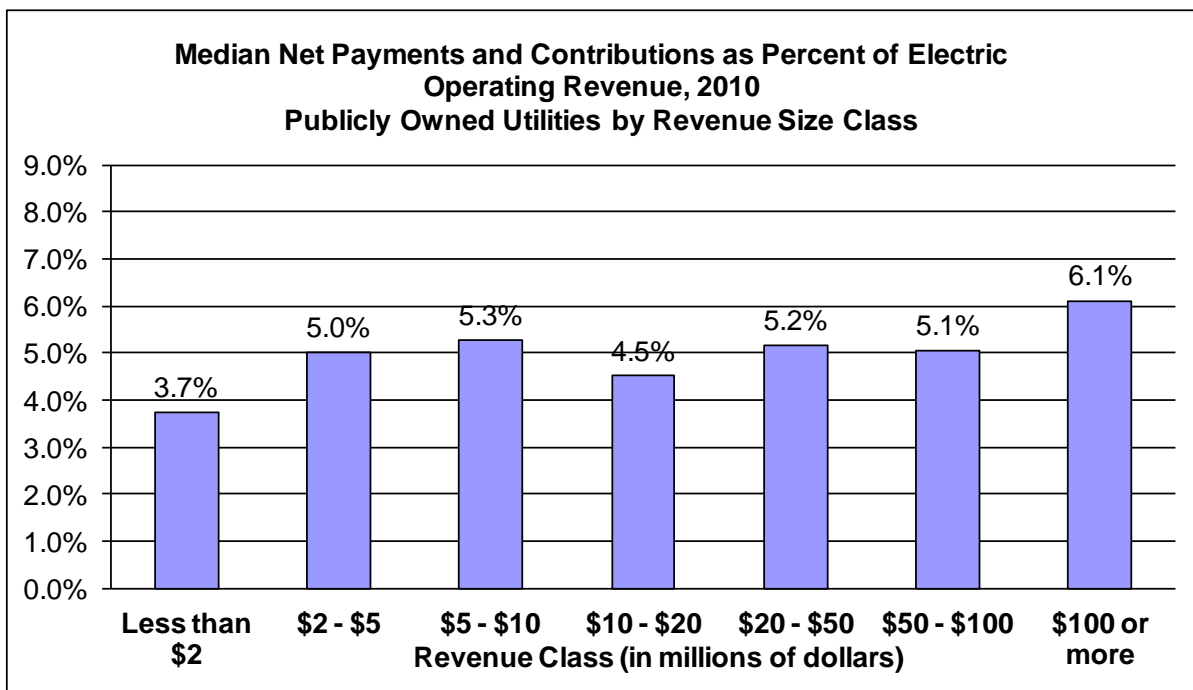
Net payments and contributions as a percent of electric operating revenue are summarized for seven revenue classes. Medians by revenue class range from 3.7 percent to 6.1 percent, as compared to the national median of 5.2 percent.

The median is defined as that value where 50% of the utilities had payment and contribution rates greater than the median and 50% contributed less than the median.

Quartiles are another common tool used in analysis. By definition, one-half of utilities fall between the first and third quartiles. For example, 50% of the 284 systems in this report made payments & contributions between 3.0% and 7.2% of electric operating revenue.

TABLE 1
Net Payments and Contributions as Percent of Electric Operating Revenue, 2010
—Publicly Owned Utilities by Revenue Class—

<u>Revenue (in millions)</u>	<u>Number of Utilities</u>	<u>Median</u>	<u>First Quartile</u>	<u>Third Quartile</u>
Less than \$2	26	3.7	1.2	9.9
\$2 - \$5	29	5.0	3.0	8.2
\$5 - \$10	43	5.3	2.7	8.9
\$10 - \$20	39	4.5	3.0	6.9
\$20 - \$50	74	5.2	2.7	5.9
\$50 - \$100	30	5.1	3.5	6.1
\$100 or more	43	6.1	4.6	9.8
TOTAL	284	5.2	3.0	7.2



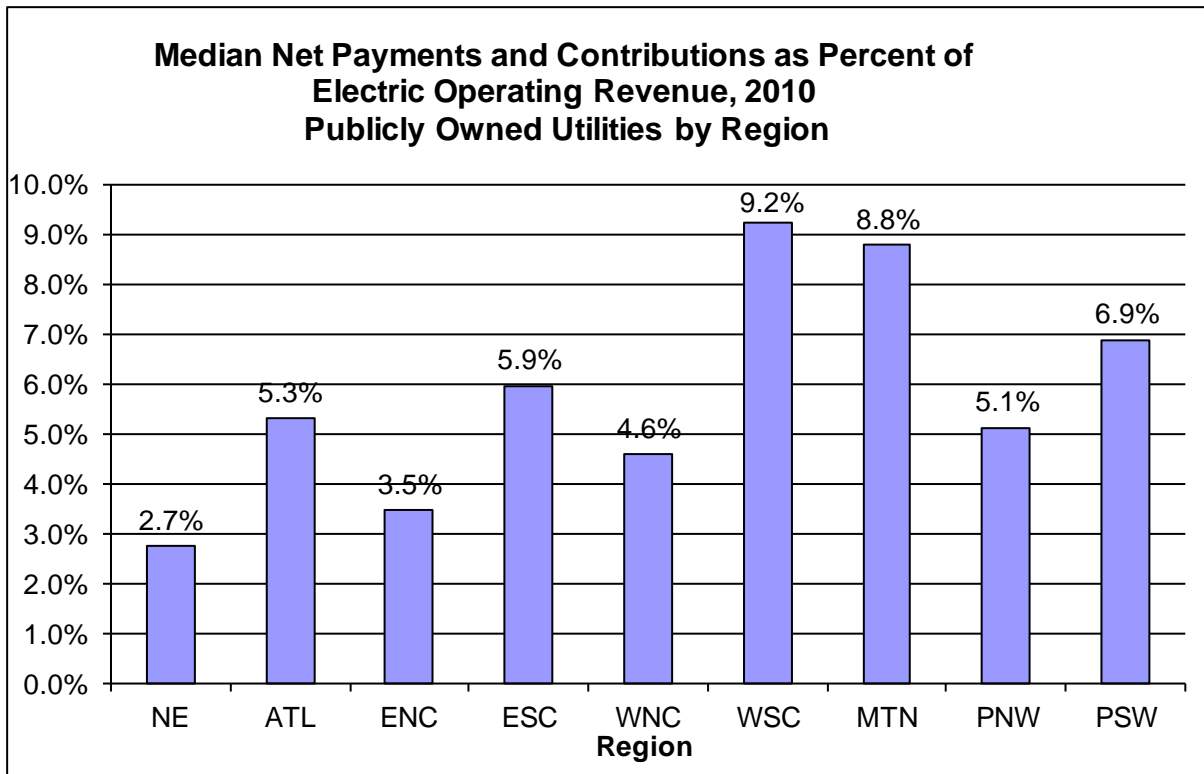
III. Payment and Contribution Rates by Region

Regional variations in median net payments and contributions range from 2.7 percent in the Northeast to 9.2 percent in the West South Central. Regional definitions are included in Appendix 2.

TABLE 2
Net Payments and Contributions as Percent of Electric Operating Revenue, 2010
 —Publicly Owned Utilities by Region—

<u>Region</u>	<u>Number of Utilities</u>	<u>Median</u>	<u>First Quartile</u>	<u>Third Quartile</u>
Northeast	27	2.7	1.0	5.3
Atlantic	26	5.3	2.2	9.6
East North Central	48	3.5	2.3	4.9
East South Central	37	5.9	5.5	6.8
West North Central	79	4.6	3.1	6.4
West South Central	21	9.2	3.8	11.0
Mountain	15	8.8	6.3	12.8
Pacific Northwest	23	5.1	4.4	7.9
Pacific Southwest	8	6.9	*	*
TOTAL	284	5.2	3.0	7.2

* Quartiles not provided for fewer than 9 responses.



IV. Comparison with Investor-Owned Utilities (IOUs)

In 2010, investor-owned distribution utilities paid a median of 3.9 percent of electric operating revenues in taxes and fees to state and local governments. The 50 percent of utilities in the middle range made payments ranging from 2.5 to 5.8 percent. In comparison, publicly owned distribution utilities paid a median of 5.2 percent in net payments and contributions as a percent of electric operating revenue, with a middle range of 3.0 to 7.2 percent.

In this study, most IOUs (93%) had more than \$100 million in operating revenues while most of the publicly owned systems had less than \$100 million (85%). The median values of taxes paid by IOUs and tax payments and contributions by publicly owned systems (as a percentage of electric operating revenue) vary by utility size and are summarized below:

	<u>Investor-Owned</u>	<u>Publicly Owned</u>
Large Utilities (over \$100 Million)	4.0%	6.1%
Small Utilities (under \$100 Million)	3.2%	5.0%

The median value for investor-owned systems was the largest in the Northeast, Atlantic, and Pacific Northwest, and smallest in the West North Central and Pacific Southwest. Table 3, on the following page presents data grouped by geographic region for investor-owned utilities.

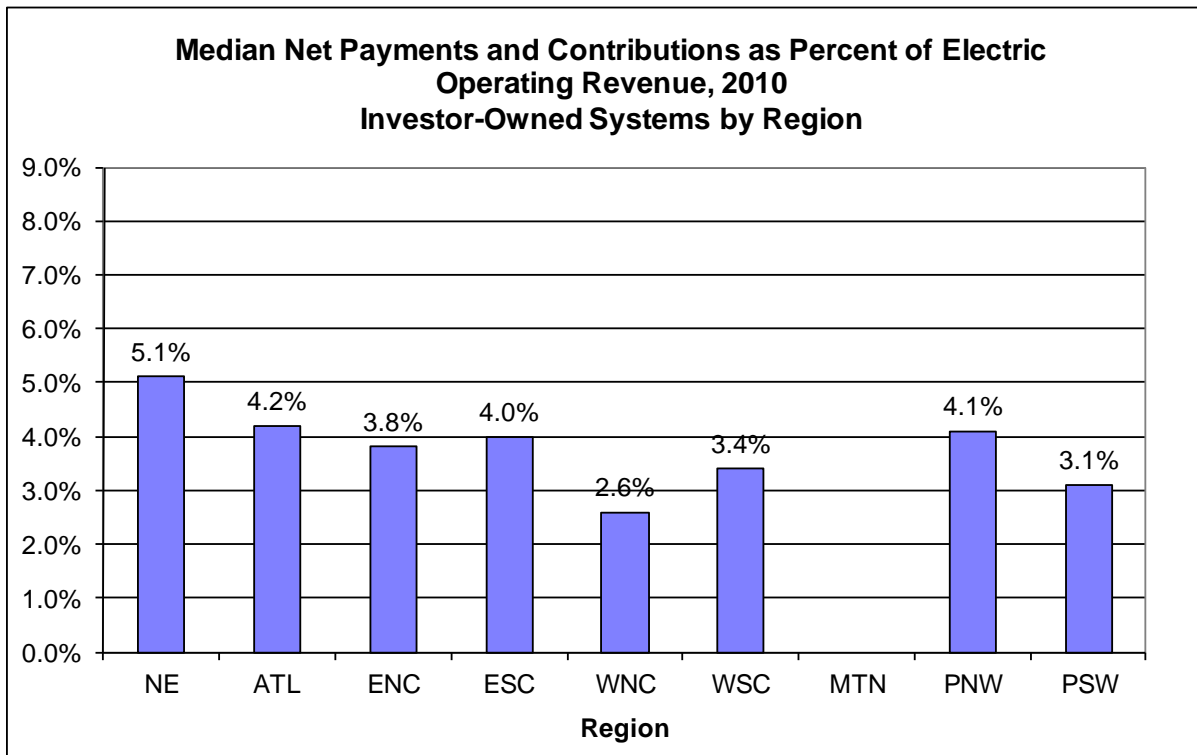
The number of investor-owned utilities has fallen from 144 in the 2000 study to 119 in the 2010 study. This is primarily the result of mergers and the elimination of several utilities in Maine and Texas that no longer report sales to consumers. Retail choice laws in those two states changed how utilities account for sales.

Net Taxes as Percent of Electric Operating Revenue, 2010

---Investor-Owned Utilities, by Region---

Region	Number of Utilities	Median	First Quartile	Third Quartile
Northeast	28	5.1%	3.8%	7.0%
Atlantic	16	4.2%	2.5%	5.7%
East North Central	27	3.8%	2.9%	5.6%
East South Central	7	4.0%	*	*
West North Central	13	2.6%	2.3%	4.7%
West South Central	12	3.4%	2.9%	4.4%
Mountain	2	NA	NA	NA
Pacific Northwest	5	4.1%	*	*
Pacific Southwest	9	3.1%	2.2%	3.4%
Total	119	3.9%	2.5%	5.8%

* Quartiles not provided for fewer than 9 responses.



V. Summary of Amounts and Types of Payments & Contributions

The study is based on a survey sent by APPA to all publicly owned utilities. The next two sections (sections V and VI) of the report summarize results for 256 public power systems that completed the survey. (Excluded from the summaries are 28 Tennessee Valley Authority distribution utilities, because these utilities' payments and contributions are limited under the terms of their wholesale power contract with TVA.)

These 256 systems made a total of just over \$1.1 billion in total payments and contributions to state and local government in 2010. As shown in Table 4, the majority is payments in lieu of taxes (also called transfers to the general fund). The second largest category is gross receipts tax.

Table 4
Net Payments & Contributions to State & Local Governments

	<u>Amount</u> <u>(\$ Millions)</u>	<u>Percent</u> <u>of Total</u>
Payments in Lieu of Taxes	\$697.0	62.4%
Gross Receipts Tax	\$202.2	18.1%
Other Taxes and Fees	\$147.1	13.2%
Free or Reduced Cost Electric Services	\$53.9	4.8%
Use of Employees	\$6.1	0.5%
Other, including Equipment and Materials	<u>\$10.1</u>	<u>0.9%</u>
Total	\$1,116.4	100.0%
Less: Services & Contributions RECEIVED by the Utility FROM the Municipality	<u>\$6.1</u> ¹	
Net Payments & Contributions	\$1,110.3	

The number of utilities making each type of payment or contribution is detailed in Table 5.

¹ The 256 utilities received \$6.1 million in contributions and services from the municipality. This amount does not include any contributions or services for which the city has been reimbursed, either through direct billing or a transfer of funds. Free or reduced cost office space and water are the major services provided, while operations & maintenance, legal service, information technology services, engineering services and financial service employees are the predominant type of employee contributions received by the utility. The \$6.1 million in free or reduced cost contributions and services provided by the municipality to the utility is subtracted from the \$1,116.4 billion in payments and contributions from the utility to state and local government. **The result is \$1,110.3 billion in net payments and contributions by the 256 utilities in 2010.**

Table 5
Types of Payments & Contributions (2010)

	Percentage of <u>Survey Utilities</u>	Number of <u>Utilities</u>
I. Payments & Contributions Provided		
Payments in Lieu of Taxes	77.7%	199
Taxes and Fees	59.8%	153
Gross Receipts Tax	23.4%	60
State Public Utility Assessments	22.7%	58
Franchise Fees	12.9%	33
Property Taxes	20.3%	52
Other	16.4%	42
Free or Reduced Cost Electric Service	44.1%	113
Streetlighting	38.7%	99
Lighting for Municipal Buildings	23.0%	59
Recreational Facilities	16.8%	43
Traffic Signals	10.5%	27
Water or Sewer Treatment Facilities	10.5%	27
Water Pumping	9.4%	24
Other	14.5%	37
Use of Employees	57.8%	148
Installation of Temporary Lighting	34.4%	88
Putting Up City Signs & Banners	33.6%	86
Electrical Repair for Other Departments	23.0%	59
Traffic Signal Maintenance	16.0%	41
Tree Trimming for Other Departments	21.9%	56
Other Services	16.4%	42
Non-Utility Locates	11.7%	30
Technical Expertise	10.9%	28
Rewiring Municipal Buildings	8.6%	22
Reading Water Meters	11.7%	30
Other Resources	36.3%	93
Use of Vehicles & Equipment	26.2%	67
Use of Materials & Supplies	13.3%	34
Other	15.6%	40
II. Services & Contributions RECEIVED		
Free or Reduced Cost Service	9.8%	25
Use of Vehicles & Equipment	10.5%	27
Use of Materials & Supplies	3.5%	9
Use of Employees	14.5%	37

VI. Methods Used To Determine Amount of Payments in Lieu of Taxes

Payments in lieu of taxes are generally thought of as payments to local government. However, some utilities, particularly those in Kentucky and Washington, make payments in lieu of taxes to the state government.

Of the 256 utilities defined in Section V, over 77% (199) made payments in lieu of taxes (also called transfers to the general fund), and the median transfer as a percent of electric operating revenue was 3.7 percent.

The most common method used to determine the amount of payments in lieu of taxes was percent of gross electric operating revenue, as shown in the table below.

TABLE 6
Methods Used to Calculate Payments in Lieu of Taxes

	<u>Percent of Utilities</u>	<u>Number of Utilities</u>
Percent of Gross Electric Operating Revenue	25%	49
Flat Amount Paid Annually	17%	34
Property Tax Equivalent	14%	28
Charge per Kilowatt-hour Sold	12%	24
Assessment of Electric Utility and City Budgets	11%	22
Percent of Net Utility Plant in Service	5%	9
Percent of Income, (Net, Operating or Total)	3%	5
Other	14%	28

The category “assessment of electric utility and city budgets” includes utilities whose payments are set by the city council, the mayor, or a utility commission, and utilities that make payments on an as needed basis. The most common responses in the “other” category are utilities whose payments are based on more than one criterion.

Tennessee Valley Authority distribution utilities are not included in the data above. State law determines the payments in lieu of taxes for utilities in the state of Tennessee. The calculation is composed of two parts: (1) percentage of three year average operating revenue less power cost, and (2) property tax rate applied to net utility plant.

APPENDIX 1

METHODOLOGY AND DATA SOURCES FOR STUDY

Study results for publicly owned utilities were calculated from two sources: data collected on APPA's "2010 Survey of Local Publicly Owned Electric Utilities Tax Payments and Contributions to State and Local Government," and data submitted by publicly owned utilities to the Department of Energy/Energy Information Administration (EIA) on Form EIA-861, "Annual Electric Utility Report."

A total of 284 utilities completed the APPA survey. Form EIA-861 provided information on electric operating revenue. Payments and contributions for TVA distributors include an amount equal to 5 percent of the estimated cost of power purchased from TVA---this payment is made by TVA---plus any payments in lieu of taxes or contributions made by the distribution utility. TVA's wholesale power contracts with municipalities limit payments in lieu of taxes to an amount not exceeding the state and local taxes that the system would pay if privately owned.

Study results for investor-owned systems were calculated from data submitted on the 2010 Federal Energy Regulatory Commission (FERC) Form 1, "Annual Report of Major Electric Utilities, Licensees and Others."

The report includes only distribution utilities that are defined here as those with approximately fifty percent or more of their total kilowatt-hour sales going to retail customers. The investor-owned systems included in the study provide 95 percent of all full-service kilowatt-hour sales to investor-owned utility customers, and the publicly owned systems included in the study provide 36 percent of all kilowatt-hour sales to publicly owned utility customers.

Public power's payments and contributions to state and local governments include taxes and fees such as gross receipts taxes, property taxes (generally on property outside the city limits), franchise fees, payments to state public utility commissions, environmental fees, and licenses. Also included are payments in lieu of taxes (also called transfers to the general fund), and the value of services, such as free or reduced cost electricity, the use of electric department employees and the use of electric department materials and equipment. Federal taxes, Social Security taxes, similar contributions to state unemployment insurance, and other payroll taxes are excluded.

The value of free or reduced cost services contributed by the local government to the utility is deducted from total payments and contributions to arrive at net contributions. The net amount is then divided by electric utility revenue.

Net taxes for investor-owned utilities include state and local taxes and fees as reported on pages 262-263 of FERC Form 1. Federal taxes, Social Security taxes, similar contributions to state unemployment insurance, and other payroll taxes are excluded.

APPENDIX 2

REGIONS

The regions specified in Table 2 and Table 3 are comprised of states as shown below. Hawaii is not included in any of the nine regions, but is included in national totals and in summaries by revenue class.

Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
Atlantic	Washington, D.C., Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and West Virginia
East North Central	Illinois, Indiana, Michigan, Ohio and Wisconsin
East South Central	Alabama, Kentucky, Mississippi and Tennessee
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota
West South Central	Arkansas, Louisiana, Oklahoma, and Texas
Mountain	Colorado, Montana, New Mexico, Utah and Wyoming
Pacific Northwest	Alaska, Idaho, Oregon, and Washington
Pacific Southwest	Arizona, California and Nevada