

# Public Power Pays Back

Payments and Contributions by Public Power Utilities to State and Local Governments in 2018



AMERICAN  
**PUBLIC  
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80 Years of Powering Strong Communities

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Payments and Contributions by Public Power Utilities to State and Local Governments in 2018

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80 Years of Powering Strong Communities

The American Public Power Association is the voice of not-for-profit, community-owned utilities that power 2,000 towns and cities nationwide. We represent public power before the federal government to protect the interests of the more than 49 million people that public power utilities serve, and the 93,000 people they employ.

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# Executive Summary

Public power utilities provide affordable, reliable, and environmentally responsible electricity to the customers they serve. These community-owned utilities are not beholden to any shareholders and are driven only by the mission to serve their customers and their community.

In addition to providing affordable electricity, public power utilities provide a direct benefit to their communities in the form of payments and contributions to state and local government. These contributions come in many forms — property-like taxes, payments in lieu of taxes, transfers to the general fund, and free or reduced cost services provided to states and cities. The total value of these contributions is not always recognized.

In 2018, public power utilities contributed **5.4% of electric operating revenues** back to the communities they serve, according to an American Public Power Association study of 136 public power utilities.

In comparison, investor-owned utilities paid a median of 4.8% of electric operating revenues in taxes and fees to state and local governments in 2018.

**When all 2018 taxes, tax equivalents, and other contributions to state and local government are considered, the contribution of public power utilities — as a percentage of electric operating revenues — is 13% higher than that of investor-owned utilities.**

Many communities are not fully aware of the total value of contributions made by their public power utilities. Some utilities do not quantify all their payments and contributions. To get a more accurate estimate, APPA conducted a detailed survey of public power utilities. This report presents the results of this survey, and includes:

- Summaries by revenue size, class, and region of the country for public power and investor-owned utilities
- Common types of payments and contributions
- Typical methods utilities used to calculate the amount of payments in lieu of taxes or transfers to the city general fund

Use caution in making direct comparisons with our previous reports (published every two years), as the utilities included in each report can change from year to year.

# Payment and Contribution Rates by Revenue Class

Net payments and contributions as a percent of electric operating revenue are summarized for public power utilities in seven revenue classes. Medians by revenue class range from 4.5% to 6.2%, as compared to the national median of 5.4%.

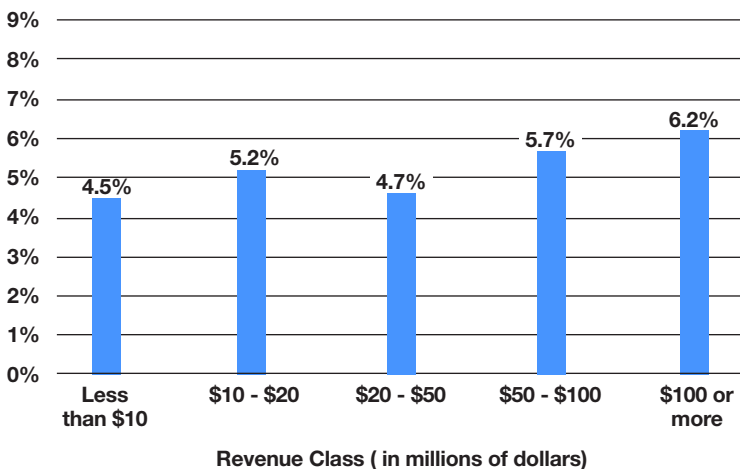
The median is defined as the value where half of the utilities had greater payment and contribution rates, and half contributed less.

Quartiles are another common tool used in analysis. By definition, half of utilities fall between the first and third quartiles. For example, 50% of the 136 utilities in this report made payments and contributions between 3.5% and 6.9% of electric operating revenue.

**Table 1. Net Payments and Contributions by Public Power Utilities as Percent of Electric Operating Revenue, 2018**

Revenue (in millions)	Number of Utilities	Median	First Quartile	Third Quartile
Less than \$10	28	4.5	3.4	5.9
\$10 - \$20	17	5.2	2.7	8.4
\$20 - \$50	47	4.7	3.5	6.4
\$50 - \$100	17	5.7	2.9	6.3
\$100 or more	32	6.2	5.1	9.3
<b>TOTAL</b>	<b>136</b>	<b>5.4</b>	<b>3.5</b>	<b>6.9</b>

**Figure 1. Median Net Payments and Contributions by Public Power Utilities as Percent of Electric Operating Revenue, 2018**



# Payment and Contribution Rates by Region

Regional variations in median net payments and contributions range from 1.8% in the Northeast to 6.4% in the Atlantic and East South Central. Regions are defined in Appendix 2.

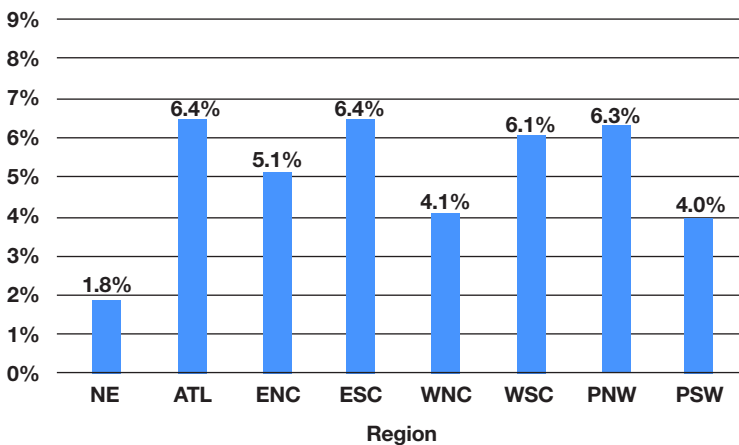
**Table 2. Net Payments and Contributions by Public Power Utilities as Percent of Electric Operating Revenue, 2018**

Region	Number of Utilities	Median	First Quartile	Third Quartile
Northeast	8	1.8	*	*
Atlantic	9	6.4	2.9	13.1
East North Central	26	5.1	3.8	6.4
East South Central	17	6.4	5.7	8.3
West North Central	44	4.1	3.5	6.2
West South Central	13	6.1	3.4	11.4
Mountain	4	**	*	*
Pacific Northwest	7	6.3	*	*
Pacific Southwest	8	4.0	*	*
<b>TOTAL</b>	<b>136</b>	<b>5.4</b>	<b>3.5</b>	<b>6.9</b>

\* Quartiles not provided for fewer than 9 responses

\*\* Medians not provided for fewer than 5 responses

**Figure 2. Median Net Payments and Contributions by Public Power Utilities, as percent of Electric Operating Revenue, 2018**



In 2018, investor-owned distribution utilities paid a median of 4.8% of electric operating revenues in taxes and fees to state and local governments. Utilities in the middle 50% of contributions made payments ranging from 3.3% to 7.1%. In comparison, public power utilities paid a median of 5.4% in net payments and contributions as a percent of electric operating revenue, with a middle range of 3.5% to 6.9%.

**In this study, most IOUs (93%) had more than \$100 million in operating revenues, while most public power systems had less than \$100 million (83%).**

The median percent of taxes paid by IOUs and tax payments and contributions by public power systems as a percentage of electric operating revenue varies by utility size.

	Investor-Owned	Public Power
Large Utilities (over \$100 million)	4.8%	6.2%
Small Utilities (under \$100 million)	4.8%	4.8%

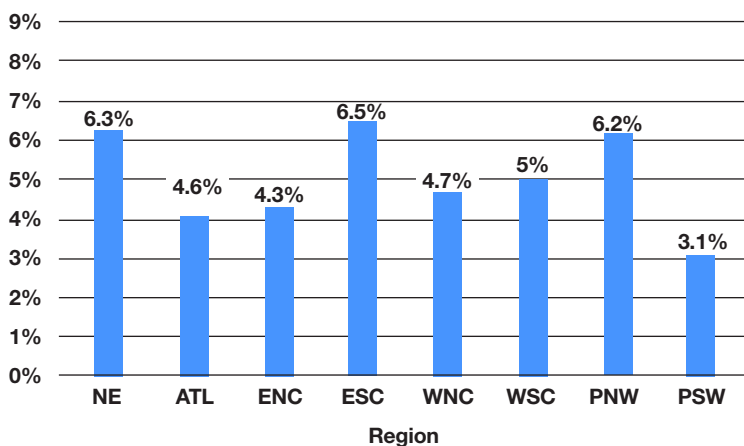
The median rate for investor-owned systems was the largest in the Northeast and Pacific Northwest, and smallest in the East South Central and Pacific Southwest. Table 3 presents data grouped by geographic region for investor-owned utilities.

**Table 3. Net Taxes as Percent of Electric Operating Revenue, Investor-Owned Utilities, 2018**

Region	Number of Utilities	Median	First Quartile	Third Quartile
Northeast	27	6.3%	4.8%	7.9%
Atlantic	18	4.6%	3.5%	8.1%
East North Central	26	4.3%	2.9%	6.0%
East South Central	7	6.5%	*	*
West North Central	14	4.7%	4.1%	5.6%
West South Central	10	5.0%	3.5%	5.5%
Mountain	4	NA	NA	NA
Pacific Northwest	6	6.2%	*	*
Pacific Southwest	8	3.1%	*	*
<b>TOTAL</b>	<b>120</b>	<b>4.8%</b>	<b>3.3%</b>	<b>7.1%</b>

\* Quartiles not provided for fewer than 9 responses

**Figure 3. Median Tax Payments by Investor-Owned Utilities, as Percent of Electric Operating Revenue, 2018**



# Summary of Payments and Contributions

The data in this report come from a survey APPA sent to all public power utilities. The next two sections summarize results for 125 public power utilities that completed the survey.

The data excludes 11 utilities that completed the survey, but which must limit payments and contributions under the terms of their wholesale power contract with the Tennessee Valley Authority.

The 125 utilities combined made over \$776 million in total payments and contributions to state and local government in 2018. Payments in lieu of taxes were the largest share of payments and contributions, followed by other taxes and fees.

**Table 4. Net Payments and Contributions to State and Local Government**

	Amount (in millions)	Percent of Total
Payments in Lieu of Taxes	\$594.5	76.6%
Other Taxes and Fees	\$68.3	8.8%
Gross Receipts Tax	\$64.1	8.3%
Free or Reduced Cost Electric Services	\$40.7	5.2%
Use of Employees	\$6.0	0.8%
Other, including Equipment and Materials	\$3.0	0.4%
<b>TOTAL</b>	<b>\$776.6</b>	<b>100.0%</b>
Less: Services and Contributions RECEIVED by the Utility FROM the Municipality	\$2.5 <sup>1</sup>	
<b>Net Payments &amp; Contributions</b>	<b>\$774.1</b>	

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

**Table 5. Types of Payments & Contributions, 2018**

	Percentage of Utilities Surveyed	Number of Utilities
<b>I. Payments &amp; Contributions PROVIDED</b>		
<b>Payments in Lieu of Taxes</b>	<b>84.0%</b>	<b>105</b>
<b>Taxes and Fees</b>	<b>42.4%</b>	<b>53</b>
Gross Receipts Tax	21.6%	27
State Public Utility Assessments	17.6%	22
Franchise Fees	9.6%	12
Property Taxes	16.8%	21
Other	10.4%	13
<b>Free or Reduced Cost Electric Service</b>	<b>38.4%</b>	<b>48</b>
Streetlighting	32.0%	40
Lighting for Municipal Buildings	18.4%	23
Traffic Signals	16.0%	20
Recreational Facilities	16.0%	20
Water or Sewer Treatment Facilities	9.6%	12
Water Pumping	9.6%	12
Other	14.4%	18
<b>Use of Employees</b>	<b>47.2%</b>	<b>59</b>
Installation of Temporary Lighting	20.8%	26
Putting Up City Signs & Banners	26.4%	33
Electrical Repair for Other Departments	19.2%	24
Traffic Signal Maintenance	15.2%	19
Tree Trimming for Other Departments	18.4%	23
Other Services	17.6%	22
Non-Utility Locates	7.2%	9
Technical Expertise	5.6%	7
Rewiring Municipal Buildings	5.6%	7
Reading Water Meters	6.4%	8
<b>Other Resources</b>	<b>31.2%</b>	<b>39</b>
Use of Vehicles & Equipment	24.0%	30
Use of Materials & Supplies	11.2%	14
Other	10.4%	13
<b>II. Services &amp; Contributions RECEIVED</b>		
Free or Reduced Cost Service	5.6%	7
Use of Vehicles & Equipment	8.0%	10
Use of Materials & Supplies	3.2%	4
Use of Employees	10.4%	13

<sup>1</sup> The 125 utilities received \$2.5 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 and maintenance, legal services, information technology services, engineering services and financial service employees are the predominant type of employee contributions received by the utility. The \$2.5 million in free or reduced cost contributions and services provided by the municipality to the utility is subtracted from the \$776.6 million in payments and contributions from the utility to state and local government. **The result is \$774.1 million in net payments and contributions by the 125 utilities in 2018.**

# Methods Used to Determine Payments in Lieu of Taxes

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

Of the 125 utilities included in the survey analysis, more than 84% (105 utilities) made payments in lieu of taxes, also called transfers to the general fund.

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 Table 6. The median transfer as a percent of electric operating revenue was 4.0%.

**Table 6. Methods Used to Calculate Payments in Lieu of Taxes**

	Percentage of Utilities	Number of Utilities
Percent of Gross Electric Operating Revenue	33%	35
Property Tax Equivalent	17%	18
Flat Amount Paid Annually	14%	15
Charge per Kilowatt-hour Sold	10%	11
Assessment of Electric Utility and City Budgets	7%	7
Percent of Net Utility Plant in Service	3%	3
Percent of Income (Net, Operating or Total)	1%	1
Other/Did Not Indicate	14%	15

The category “assessment of electric utility and city budgets” includes utilities with payments that 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 which make 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 — percentage of three-year average operating revenue less power cost, and property tax rate applied to net utility plant.



## APPENDIX 1

# Methodology and Data Sources

Results for publicly owned utilities were calculated from two sources: data collected on the American Public Power Association's "2018 Survey of Local Publicly Owned Electric Utilities Tax Payments and Contributions to State and Local Government," and data submitted by public power utilities to the Department of Energy's Energy Information Administration on Form EIA-861, "Annual Electric Utility Report."

A total of 136 utilities completed the 2018 survey. Form EIA-861 provided information on electric operating revenue. Payments and contributions for TVA distributors include an amount equal to 5 % of the estimated cost of power purchased from TVA (TVA makes this payment) 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 2018 Federal Energy Regulatory Commission Form 1, "Annual Report of Major Electric Utilities, Licensees and Others."

This report includes only distribution utilities that are defined as those with approximately 50% or more of their total kilowatt-hour sales going to retail customers. The investor-owned systems included in this report comprise 95% of all full-service kilowatt-hour sales to customers of investor-owned utilities, and the public power utilities included provide 21% of all kilowatt-hour sales to customers of public power utilities.

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 or 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 comprise the following states. Hawaii is not included in any of the nine regions, but is included in national totals and in summaries by revenue class. Utilities serving the U.S. territories did not complete the survey and are not included in this report.

Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
Atlantic	The District of Columbia, 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



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