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# 2015 Governance Survey

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## Introduction

In April 2015 the American Public Power Association conducted its ninth “Governance Survey.” The purpose of the survey is to determine the type of control local governments exercise over publicly owned electric systems. This report summarizes the survey data, presenting information on the type of governing bodies that oversee public power systems, term limits and compensation of governing body members, and the authorities granted to utility governing bodies.

Questionnaires were mailed to almost 1,900 local publicly owned electric systems in the United States, and 534 completed survey forms were returned to APPA. Excluded from the survey are public power systems, such as joint action agencies, that sell power primarily at wholesale. Although 534 utilities completed the survey, not all of the respondents answered every question.

## Profile of Respondents

Since the composition of survey respondents is heavily weighted toward utilities with a relatively small number of customers, most survey results are presented by customer size class. As shown in Table 1, 86 percent of respondents serve less than 20,000 customers, and the two largest customer size classes account for the remaining 14 percent of respondents.

**Table 1**  
**Number of Respondents by Customer Size Class**

<u>Customer Size Class</u>	<u>Number of Responses</u>	<u>Percent of All Respondents</u>
Less than 5,000 Customers	323	61%
5,000 to 20,000 Customers	134	25%
20,000 to 50,000 Customers	47	9%
Greater than 50,000 Customers	30	5%
TOTAL	534	100%

Ninety-three percent of respondents are municipally owned utilities. The other 7 percent are state-owned utilities or political subdivisions, for example county-wide utilities, public power districts or public utility districts in Washington, Oregon and Nebraska, and irrigation or utility districts in Arizona and California.

The majority of respondents, or 56 percent, are governed by a city council, while the remaining 44 percent are governed by an independent utility board. (The term “city council” includes similar entities such as a county council, town council, borough council or board of selectmen.) Results vary significantly when summarized by customer size class as the smallest customer size class is the only one in which the majority of utilities are governed by a city council. Sixty-eight percent of the respondents with less than 5,000 customers are governed by city councils compared to only 23 percent of respondents with greater than 50,000 customers.

Independent utility boards that are appointed are more than twice as common as utility boards that are elected. However, almost all public utility districts and public power districts are governed by elected utility boards. Virtually all city councils are elected. Table 2 summarizes survey respondents by customer size class and the by type of governing body which exercises primary control over the utility.

**Table 2**  
**Type of Primary Governing Body**

<u>Customer Size Class</u>	<u>Number of Responses</u>	<u>Independent Utility Board</u>		<u>City Council</u>
		<u>Elected</u>	<u>Appointed</u>	
Less than 5,000 Customers	323	9%	23%	68%
5,000 to 20,000 Customers	134	19%	42%	39%
20,000 to 50,000 Customers	47	23%	34%	43%
Greater than 50,000 Customers	30	23%	54%	23%
TOTAL	534	14%	30%	56%

City councils play a large part in determining the make-up of appointed utility boards as they either appoint or approve the board in most cases. Fifty-four percent of the boards are appointed by the mayor, but 86 percent of the time, the mayor’s choices must be approved by the city council. The city council appoints the board jointly with the mayor for 7 percent of the utilities and on its own for 29 percent of the utilities.

Eighty-seven percent of utilities with independent utility boards have either residency or service territory requirements for board members. These require board members to be a resident of the city or to be a customer of the utility.

Independent utility boards name their own chair in 86 percent of the cases, and this is true whether or not the board is elected or appointed. In regard to city councils, the mayor is the chair in 66 percent of the cases, the city council names its own chair in 28 percent of the cases, and in another 12 percent of the cases, the chair is elected as chair in the general election. Table 3 summarizes this information.

**Table 3**  
**How Governing Body Chair is Named**

<u>Type of Governing Body</u>	<u>Mayor Is the Chair</u>	<u>Chair Named in General Election</u>	<u>Governing Body Names Chair</u>	<u>Chair is Appointed</u>
Elected Utility Board	3%	10%	86%	1%
Appointed Utility Board	1%	6%	86%	6%
City Council	66%	12%	28%	4%

### Term Length of Governing Body

The average term length for governing bodies is 3.9 years. Term lengths range from one to ten years, and nearly 40 percent of respondents report term lengths of four years. Almost all of the utilities reporting governing body term lengths of more than four years are governed by independent utility boards. Table 4 shows, for each type of governing body, the percent of respondents by length of governing body term.

**Table 4**  
**Term Length of Primary Governing Body**

<u>Type of Governing Body</u>	<u>Number of Responses</u>	<u>1 to 3 Years</u>	<u>4 Years</u>	<u>5 Years or More</u>
Independent Utility Board	227	31%	23%	46%
City Council	277	30%	68%	2%

### Term Limits on Governing Body

Only 12 percent of electric utilities' governing bodies are subject to term limits. Restrictions range from one to five terms, with two terms reported as the limit 69 percent of the time. Responses varied significantly by customer size class, with utilities in the largest classes most likely to have term limits applied to the governing body. Table 5 summarizes term limits by customer size class.

**Table 5**  
**Term Limits on Governing Bodies**

<u>Customer Size Class</u>	<u>Number of Responses</u>	<u>Percent with Term Limits on Governing Body</u>
Less than 5,000 Customers	323	4%
5,000 to 20,000 Customers	134	19%
20,000 to 50,000 Customers	47	26%
Greater than 50,000 Customers	30	53%
TOTAL	534	12%

### Citizens Advisory Committee

Ten percent of respondents reported that there is a citizens advisory committee or board that serves in an advisory capacity to the governing body. Utilities governed by city councils are more likely than those governed by independent utility boards to have a citizens advisory board: 14 percent of respondents governed by a city council reported having a citizens advisory board, as compared to 5 percent of respondents governed by an independent utility board.

The incidence of electric utilities with a citizens advisory board increases by customer size class, with the percent ranging from 7 percent of respondents in the smallest size class to 26 percent of respondents in the largest size class.

### Compensation of Governing Body Members

Overall, 84 percent of utility governing bodies are paid, and this percentage is the same for both city councils and independent utility boards. The percentage of paid city councils is higher for smaller utilities than large, as 87 percent of utilities in the less than 5,000 customer class are paid versus 71 percent for those in the over 50,000 customer class. The same is true for appointed independent utility boards, as 79 percent of smaller utility boards are paid, as compared to 56 percent for boards of the largest utilities. There is almost no variation by customer class for elected boards, where 82 percent of members are paid.

Survey respondents reported compensation data on either an annual, monthly or per meeting basis, and all responses were converted to an annual average. Table 6 shows the median compensation for each type of governing body and customer size class.<sup>1</sup> Median compensation increases as customer size class increases, with the exception of elected independent utility boards. The highest median compensation in this category is the 20,000 to 50,000 customers class, which is dominated by Washington public utility districts.

**Table 6**  
**Median Annual Compensation of Governing Body Members**  
 (Number of Responses in Parentheses)

<u>Customer Size Class</u>	<u>Independent Utility Board</u>		<u>City Council</u>
	<u>Elected</u>	<u>Appointed</u>	
Less than 5,000 Customers	\$ 1,100 (20)	\$ 825 (64)	\$ 1,500 (164)
5,000 to 20,000 Customers	5,000 (17)	2,400 (46)	5,460 (31)
20,000 to 50,000 Customers	19,656 (9)	3,000 (9)	7,068 (10)
Greater than 50,000 Customers	11,700 (6)	3,600 (7)	N/A (3)*
<b>TOTAL</b>	<b>\$ 4,098 (52)</b>	<b>\$ 1,300 (126)</b>	<b>\$ 1,800 (208)</b>

\*Note: Medians are not calculated for fewer than five responses.

Survey respondents were asked whether governing board members were eligible for either the city's or utility's medical benefit plans. Twenty-five percent of utilities with independent utility boards and 16 percent of utilities with primary oversight from the city council have governing bodies that are eligible for employee benefit plans. The results differ significantly by customer class, with 9 percent of respondents in the smallest customer class offering medical benefits, rising to 57 percent of respondents in the largest customer class.

Survey respondents were also asked whether governing board members were eligible for retirement benefit plans. Fifteen percent of utilities with independent utility boards and 19 percent of utilities governed by a city council have governing bodies that are eligible for retirement benefit plans. Fifteen percent of respondents in the two smaller customer classes have governing bodies that are eligible for retirement benefits; in contrast, 26 percent of respondents in the two larger customer classes have governing bodies that are eligible for these benefits.

Note that the survey asked only about eligibility for either medical or retirement benefits. It did not ask who was responsible for paying for the benefit plans: the city/utility or the governing board member.

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<sup>1</sup> The median amount represents the middle observation: half of the respondents reported a higher amount, and half reported a lower amount than the median.

### **Authority of Governing Body**

Survey respondents were asked to indicate which governing body or individual has final approval for eight specific actions: setting retail electric rates, approving the utility budget, setting salaries of key utility officials, issuing long-term bonds, making financial investments for the electric utility, approving purchased power contracts, exercising the right of eminent domain, and hiring and firing utility personnel. Except for the last function – hiring and firing – the authority for these functions overwhelmingly resides with the city council for utilities under city council control. However, for utilities under the control of an independent utility board, the results are more mixed. While the independent utility board has authority for a majority of utilities for seven out of the eight functions, the city council – either on its own or jointly with the utility board – retains authority for a significant number of utilities.

The following descriptions and tables summarize the distribution of authority under independent utility boards as the primary governing body and under city councils as the primary governing body.

#### *Independent Utility Board as Primary Governing Body*

Approximately 234 utilities report that an independent utility board is their primary governing body. A majority of these utilities list the independent utility board as retaining final authority for all of the eight functions except for issuing long-term bonds. Utility boards are most likely to have final approval over setting salaries of key utility officials, approving utility budgets, approving purchased power contracts and making financial investments. Boards are least likely to have final approval over issuing long-term bonds and exercising the right of eminent domain.

Table 7 summarizes the results by customer size class. For each of the eight functions, the table shows the percent of responses indicating power of final approval for (1) the independent utility board (2) the city council and (3) other entities.

Most of the “Other” responses shown in Table 7 indicate joint authority between the utility board and the city council. Exceptions include the authority to make financial investments for the utility, which often resides with the financial director, city or town treasurer or general manager, and authority to hire and fire, which typically resides with the general manager of the utility or the city manager. In addition, authority to set retail rates can reside with the state public utility commission, or with the Tennessee Valley Authority, in the case of TVA distribution systems. For some small systems (mainly in Massachusetts) a town meeting provides the final authority to issue long-term debt and to exercise eminent domain.

There are differences when comparisons are made by customer size class, but the same general pattern remains. Larger percentages of utilities report that the independent utility board has final approval over salaries, budgets, financial investments and purchased power contracts, and smaller percentages report that the board has approval over issuing long-term bonds and exercising the right of eminent domain.

**Table 7**  
**Exercise of Specific Authorities for Utilities with Independent Utility Boards**  
**as the Primary Governing Body**

<u>Authorities</u>	<u>Number of Responses</u>	<u>Independent Utility Board</u>	<u>City Council</u>	<u>Other</u>
<b>Less than 5,000 Customers</b>				
Set retail electric rates	102	72%	8%	20%
Approve utility budget	101	86%	12%	2%
Set salaries of key utility officials	102	83%	12%	5%
Issue long-term bonds	100	53%	37%	10%
Make financial investments for utility	101	84%	9%	7%
Approve purchased power contracts	102	76%	15%	9%
Exercise right of eminent domain	101	50%	39%	11%
Hire and fire utility personnel	100	68%	6%	26%
<b>5,000 to 20,000 Customers</b>				
Set retail electric rates	82	66%	17%	17%
Approve utility budget	82	84%	12%	4%
Set salaries of key utility officials	82	87%	8%	5%
Issue long-term bonds	82	41%	55%	4%
Make financial investments for utility	82	81%	6%	13%
Approve purchased power contracts	82	85%	9%	6%
Exercise right of eminent domain	79	51%	43%	6%
Hire and fire utility personnel	81	53%	3%	44%
<b>20,000 to 50,000 Customers</b>				
Set retail electric rates	27	63%	22%	15%
Approve utility budget	27	85%	11%	4%
Set salaries of key utility officials	27	78%	0%	22%
Issue long-term bonds	26	50%	42%	8%
Make financial investments for utility	24	85%	9%	6%
Approve purchased power contracts	26	88%	4%	8%
Exercise right of eminent domain	26	62%	27%	11%
Hire and fire utility personnel	26	38%	0%	62%
<b>Greater than 50,000 Customers</b>				
Set retail electric rates	23	70%	30%	0%
Approve utility budget	23	70%	30%	0%
Set salaries of key utility officials	23	87%	9%	4%
Issue long-term bonds	23	57%	39%	4%
Make financial investments for utility	23	78%	4%	18%
Approve purchased power contracts	23	83%	4%	13%
Exercise right of eminent domain	23	52%	39%	9%
Hire and fire utility personnel	23	57%	0%	43%

### *City Council as Primary Governing Body*

Three hundred utilities report that the city council is their primary governing body. For all customer size classes combined, 85 percent or more of these utilities indicate that the city council has final approval for six of the eight functions surveyed. The two exceptions are making financial investments for the electric utility and hiring and firing utility personnel. These two functions are still performed by the city council for the majority of respondents, but an individual controls these decisions in many other cases. The city treasurer, city manager, financial director, or other utility staff are the individuals most often listed as making financial investments, while the utility general manager or the city manager most often have final hiring and firing authority.

The “Other” category is of significant size for two additional functions: setting retail rates and setting salaries. State utility commission authority makes up the largest part of the “Other” category for setting retail rates, and the city manager (or other city administrator) is the “Other” category for setting salaries.

There are differences in the city council’s authority when comparisons are made between customer size classes. For example, the proportion of city council that maintains authority for hiring and firing decreases as utility sizes increase. In addition, city councils have final approval over salaries and making financial investments for a smaller percentage of utilities in the larger customer size classes.

Table 8 summarizes the results by customer size class. For each of the eight functions the table shows the number of responses and the percent of responses indicating power of final approval for (1) the city council and (2) other entities.

**Table 8**  
**Exercise of Specific Authorities for Utilities with City Councils as the Primary Governing Body**

<u>Authorities</u>	<u>Number of Responses</u>	<u>City Council</u>	<u>Other</u>
<b>Less than 5,000 Customers</b>			
Set retail electric rates	219	87%	13%
Approve utility budget	219	94%	6%
Set salaries of key utility officials	218	89%	11%
Issue long-term bonds	213	92%	8%
Make financial investments for utility	219	89%	11%
Approve purchased power contracts	218	89%	11%
Exercise right of eminent domain	215	93%	7%
Hire and fire utility personnel	216	70%	30%
<b>5,000 to 20,000 Customers</b>			
Set retail electric rates	51	90%	10%
Approve utility budget	52	94%	6%
Set salaries of key utility officials	52	77%	23%
Issue long-term bonds	52	90%	10%
Make financial investments for utility	52	79%	21%
Approve purchased power contracts	52	92%	8%
Exercise right of eminent domain	51	98%	2%
Hire and fire utility personnel	52	37%	63%
<b>20,000 to 50,000 Customers</b>			
Set retail electric rates	20	90%	10%
Approve utility budget	20	95%	5%
Set salaries of key utility officials	19	58%	42%
Issue long-term bonds	20	100%	0%
Make financial investments for utility	19	79%	21%
Approve purchased power contracts	20	90%	10%
Exercise right of eminent domain	18	94%	6%
Hire and fire utility personnel	19	5%	95%
<b>Greater than 50,000 Customers</b>			
Set retail electric rates	6	100%	0%
Approve utility budget	7	100%	0%
Set salaries of key utility officials	6	50%	50%
Issue long-term bonds	6	100%	0%
Make financial investments for utility	6	67%	33%
Approve purchased power contracts	6	83%	17%
Exercise right of eminent domain	6	100%	0%
Hire and fire utility personnel	6	33%	67%

## Referenda

Tables 9 and 10 present information on actions required to issue bonds and to sell the utility system. Nineteen percent of respondent utilities require a voter referendum to issue bonds, and smaller systems are more likely than large utilities to require a referendum.

**Table 9**  
**Referendum Required to Issue Revenue Bonds**

<u>Customer Size Class</u>	<u>Number of Responses</u>	<u>Voter Referendum</u>
Less than 5,000 Customers	323	26%
5,000 to 20,000 Customers	134	8%
20,000 to 50,000 Customers	47	9%
Greater than 50,000 Customers	30	10%
TOTAL	534	19%

Forty-six percent of utilities require a voter referendum to sell the utility system. Of those requiring a referendum, 78 percent need the approval of a simple majority to sell the utility, and 22 percent require a supermajority.

Fifty-six percent of utilities require a vote of the governing body to sell the utility, and smaller utilities are more likely to require a vote than larger utilities. Of those requiring a vote by the governing body, 79 percent require a simple majority of the vote and 21 percent require a supermajority. A few entities either did not indicate the action needed to sell the utility or said that state action would be required to sell. Some utilities require both a vote of the governing body and a voter referendum to sell the utility.

**Table 10**  
**Action Required to Sell the Utility**

<u>Customer Size Class</u>	<u>Number of Responses</u>	<u>Voter Referendum</u>	<u>Vote of the Governing Body</u>
Less than 5,000 Customers	323	43%	59%
5,000 to 20,000 Customers	134	56%	52%
20,000 to 50,000 Customers	47	43%	49%
Greater than 50,000 Customers	30	43%	47%
TOTAL	534	46%	56%

## Aggregation of Demand Response

Utilities were asked if their regulatory body had passed an ordinance concerning the aggregation of demand response for sale to the wholesale power market. Eleven percent of utilities have passed such an ordinance. Most of these utilities are in the two smallest customer size classes.

### Payments in Lieu of Taxes

Seventy-three percent of survey respondents make payments in lieu of taxes to their state or local governments. (Payments in lieu of taxes may be called by a different name, such as tax equivalents or transfers to the general fund.) Results differ by customer size class, as only 65 percent of utilities in the smallest customer size class make payments in lieu of taxes, compared to over 85 percent of the utilities in the three largest classes. Seventy-eight percent of utilities with independent boards make payments compared to 69 percent of utilities governed by city councils. Table 11 shows, by customer class, the percent of respondents that make payments in lieu of taxes.

**Table 11**  
**Utilities that Make Payments in Lieu of Taxes**

<u>Customer Size Class</u>	<u>Number of Responses</u>	<u>Percent that Make Payments</u>
Less than 5,000 Customers	323	65%
5,000 to 20,000 Customers	134	88%
20,000 to 50,000 Customers	47	79%
Greater than 50,000 Customers	30	80%
TOTAL	534	73%

Of the utilities that make payments in lieu of taxes, 64 percent use a formula to determine the amount. Utilities in the smallest customer size class are least likely to use a formula, while utilities in the largest classes are the most likely to use a formula. Seventy-four percent of utilities governed by a utility board use a formula to determine the amount of payments in lieu of taxes, compared to only 55 percent of utilities governed by a city council. Table 12 shows, by size and governing body type, the percent of utilities that use a formula to determine the amount of payments in lieu of taxes.

**Table 12**  
**Percent of Utilities Making Payments in Lieu of Taxes that Use a Formula to Determine the Amount**  
(Number of Responses in Parentheses)

<u>Customer Size Class</u>	<u>Primary Governing Body</u>				<u>Total</u>	
	<u>Utility Board</u>		<u>City Council</u>			
Less than 5,000 Customers	64%	(75)	48%	(136)	54%	(211)
5,000 to 20,000 Customers	80%	(71)	62%	(47)	73%	(118)
20,000 to 50,000 Customers	84%	(19)	78%	(18)	81%	(37)
Greater than 50,000 Customers	83%	(18)	100%	(6)	88%	(24)
TOTAL	76%	(224)	53%	(266)	64%	(390)

(More detailed information on payments in lieu of taxes and other payments and contributions is available in APPA's series of reports, *Payments and Contributions By Public Power Distribution Systems To State and Local Government*. The reports include data on the amount and type of payments and contributions, summaries by customer size class and region, and comparisons with investor-owned utilities. The most recent report is available on APPA's website at [http://publicpower.org/files/PDFs/Pilot\\_Report\\_2012.pdf](http://publicpower.org/files/PDFs/Pilot_Report_2012.pdf).)

### Utility Service to Customers Outside of Municipal Boundaries

The public power systems that completed APPA’s survey include both municipally owned utilities and other political subdivisions – such as state-owned utilities, public power districts, public utility districts, and municipal utility districts – that provide electric service. Of the 534 respondents, 495 or 93 percent are municipally owned utilities, and these utilities are the basis for information provided about service to customers outside of the municipality’s boundaries. Sixty-one percent of respondents from municipally owned utilities – or a total of 301 systems – serve at least some customers located outside the municipality’s boundaries.

Utilities that served customers outside of the municipality’s boundaries were asked to estimate the percent of their total customers residing outside of the boundaries. Table 13 shows that 55 percent of these utilities serve a relatively small number of customers – five percent or less of their total customers – outside of the boundaries. At the other extreme, nearly a quarter of the utilities reported that more than 20 percent of their customers are outside of the municipal boundaries.

**Table 13**  
**Percent of Customers Outside Municipal Boundaries**  
(Some utilities did not respond to this question)

<u>Percent of Customers that are Outside Municipal Boundary</u>	<u>Number of Utilities Reporting</u>	<u>Percent with Customers Outside of Boundaries</u>
One Percent or Less	61	24.7%
More than One and Up to Five Percent	78	31.6%
More than Five and Up to Ten Percent	28	11.3%
More than Ten and Up to Twenty Percent	31	12.6%
More than Twenty Percent	49	19.8%
TOTAL	247	100%

The 301 utilities were asked about the relationship between the utility and the customers located outside of the municipality. Two percent of these utilities include on the governing body a representative for customers outside the municipality, and 13 percent make payments in lieu of taxes to jurisdictions outside the municipal boundaries. The pattern is the same for both actions: larger utilities and utilities with independent utility boards are the most likely to have a governing body representative for customers outside the municipality and are most likely to make payments to jurisdictions outside the municipal boundaries. (See tables 14-A and 14-B.)

**Table 14-A**  
**Utilities that Serve Customers Outside Municipal Boundaries**

<u>Customer Size Class</u>	<u>Number that Serve Outside Boundaries</u>	<u>Governing Body Includes a Representative From Outside Municipality</u>	<u>Utility Makes Payments in Lieu of Taxes to Outside Jurisdictions</u>
Less than 5,000 Customers	182	0%	4%
5,000 to 20,000 Customers	79	4%	25%
20,000 to 50,000 Customers	25	0%	40%
Greater than 50,000 Customers	15	20%	20%
Total	301	2%	13%

**Table 14-B**

<u>Type of Governing Body</u>	<u>Number that Serve Outside Boundaries</u>	<u>Governing Body Includes a Representative From Outside Municipality</u>	<u>Utility Makes Payments in Lieu of Taxes to Outside Jurisdictions</u>
Independent Utility Board	117	3%	21%
City Council	184	1%	9%
Total	301	2%	13%

Finally, the 495 municipal electric utilities were asked which other utility services are provided by the municipal government. As shown in Table 15 below, water and sewer are the most common utility services provided by the municipal government.

**Table 15**  
**Other Utility Services Provided by the Municipal Government**

<u>Utility Service</u>	<u>Number that Provide Service</u>	<u>Percent of Municipal Electric Utility Respondents</u>
Gas	104	21%
Water	476	96%
Sewer	422	85%
Wastewater	359	73%
Cable TV	34	7%
Other	95	19%

Respondents included services such as garbage, broadband, telecommunications, Internet, sanitation, and storm water in the “other” category.