

Appendix A.

Payments in Lieu of Taxes and Other Contributions to State and Local Government

A Basic Guide for Understanding and Evaluating a Publicly Owned Electric Utility's Policies and Procedures

There are more than 2,000 public power utilities in the United States, and they all strive to provide low-cost, reliable electricity to their local communities.¹ They are integral components of small and large towns and cities, serving customer loads with as few as 20 and as many as 1.5 million residential customers. Whether small or large, many provide transfers to the city's general fund as a payment in lieu of tax. This can constitute a significant annual expense, and some utilities pay substantial sums as a percentage of their overall electric operating revenues.

Due to economic pressures, many local governments have experienced severe budget shortfalls. In some cases, cities look to their local electric utility to help ease the burden of reduced revenues.

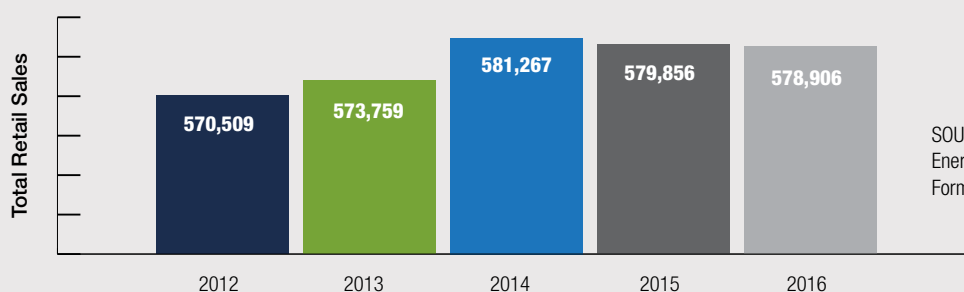
General fund transfers are often viewed as a way to avoid the often-painful political task of raising tax rates. Some utilities, already dealing with flat or reduced sales due to stagnant growth (see table below), have been asked to contribute more money to their local government. Doing so may mean utilities must raise rates to make up for reduced sales and increased fund transfers. This in turn leads to

customer dissatisfaction and may lead to a call to sell the utility to an investor-owned utility or electric cooperative, particularly if the public power utility's rates are higher than those of neighboring utilities.

Public power leaders must be prepared to respond to proposals to increase the electric utility's contribution to the city. They must also be prepared to discuss the pros and cons of high fund transfers with their local government officials and develop a transfer amount that is fair for both the utility and the local government.

To avoid conflict over the level of support for city services, utility officials must first establish a cooperative working relationship with city officials. Second, there must be internal discussion within the utility to understand the impact of these contributions on the utility and to define how these fund transfers fit into the scope of a utility's budget. Finally, developing a clear policy on the level of annual contributions strengthens the public power utility's financial stability and is therefore viewed favorably by credit rating companies.

TABLE A.1 Public Power Utility Sales to Ultimate Consumers (in thousands of MWhs)



SOURCE:
Energy Information Administration
Form EIA-861, 2012-2016

¹ This report was created in 2012 by the American Public Power Association, and updated in January 2018 using the most recent data available.

I. Why Utilities Make Payments and Contributions

Public power utilities make a variety of payments and contributions to their state and local governments. Not only do individual utilities vary in terms of type and level of contributions, they also differ in how they view the contributions.

A. What are Payments in Lieu of Taxes?

Public power utility payments to state and local governments come in many forms, and the total value is not always recognized. It is easy to keep track of direct payments, but many utilities do not adequately account for indirect contributions.

Direct Payments

These payments to state and local government have different names in different states and regions but are simple to track since they involve a monetary payment or transfer. The most common payments are “payments in lieu of taxes” or “transfers to the general fund.” In some city government structures, the utility may operate as the “Electric Department” and payments in lieu of taxes may appear as inter-department transfers. In others, a return on investment (ROI) approach is used, particularly when applied to serving customers outside municipal boundaries. Public power utilities may also pay other types of taxes and fees, such as gross receipts taxes and property taxes (generally on property outside the city limits), franchise fees, payments to state public utility commissions, environmental fees and licenses.

Free or Reduced-Cost Services

Indirect contributions are more difficult to track and often require prorating or estimating the cost of services. Typical examples are services such as free or reduced-price electricity, use of electric department employees and use of electric department vehicles and equipment. Indirect contributions are more likely to be underreported, especially if the contribution occurs regularly. Over time, both the utility and the city government may view free services as routine and expected, and they may not realize that these services would not be free if the city were served by an investor-owned or cooperative utility.

Rationale for Making Tax Payments and Contributions

General fund transfers or payments in lieu of taxes are ways for publicly owned electric utilities to contribute to the local community. Here are common rationales for making payments and contributions to the municipalities:

- The payments are considered tax equivalents, based on the amount of money the city would otherwise collect from a taxable entity.
- It is reasonable for the municipality to receive a fair rate of return on its investment in the electric system.
- The utility should help fund general municipal services because, just like other businesses in the community, the utility benefits from police and fire protection, street and highway maintenance and various general and administrative services.

II. Understanding the Full Value of All Contributions

Payments and contributions to the city and state governments can become a substantial portion of a utility’s operating expense. Despite this, many utilities do not fully and accurately account for these expenses. Utilities sometimes underreport direct payments and transfers. More commonly, utilities fail to factor in indirect contributions, such as free or reduced-price service, to the city. The first step in developing a sound policy on contributions is to quantify their value.

Common Problems with Accounting for Contributions

Cities typically use a system of segregated accounts or groupings called “funds.” One of these funds would cover accounting for the electric utility. For each self-balancing fund, the city records cash and revenue, together with related liabilities. The result is a separate balance sheet and operating statement for each fund.

The basic accounting model is self-contained for each fund, but there may be transactions between funds of governmental units that create debtor/creditor relationships. These may be between the utility and the city government or between electric, gas, water and broadband funds within the utility. When these transactions occur, inter-fund receivables and payables are created, and their balances are appropriately reflected in each fund’s balance sheet.

- A “reimbursement” is required when one fund pays for goods and services provided by another fund.
- A “transfer” is the use of money from one fund to another fund, with no services received in return.

Records should be kept of all transfers and reimbursements between funds, and it is important to distinguish between the two.

For a public power utility, problems with fund accounting arise when the electric system is not treated as a separate business enterprise, distinct from other municipal operations.

Common problems with fund accounting for electric system revenues can include:

- Electric revenue transfers are inaccurately recorded or reported in financial statements.
- Electric fund money is transferred to the general fund without retaining enough for electric operations and an adequate level of reserves.
- Electric fund money is mixed with money from other funds in a capital improvement fund, rather than having separate capital improvement reserve funds for each operation.
- Electric fund money pays for activities and services that are unrelated to electric operations.
- Meters are not installed on municipal facilities, so the electric fund does not bill the general fund for streetlighting and electric service to government buildings. (Even if the decision is made not to bill these customers, they should be metered and accounted for).
- The electric fund pays the full cost of reading electric and water or gas meters.
- The electric fund does not reimburse the general fund for administrative services that the city provides.

Treating electric operations as a separate business enterprise helps city officials in decision-making and in communicating to citizens how municipal funds are used. Whether to use electric department resources to support other governmental functions is a local policy decision, but reasoned decisions are easier to make if the accounting system quantifies the payments and contributions.

Reliable accounting information is also useful in addressing cross-subsidy charges—for example, with cost allocation for administrative and general expenses, especially when a significant portion of the city’s administrative and general expense is allocated to the electric department. These charges to the electric department and the cost allocation methodologies on which they are based should be reviewed regularly. If the electric department is allocated more than its justifiable share of administrative and general expenses, the utility is, in effect, making a financial contribution to general government. If the utility and the city government agree to an allocation in excess of the utility’s justifiable share, then the excess amount should be listed as a fund transfer. From a public policy standpoint, this helps citizens and politicians understand the true cost of local government services and leads to more informed decisions.

Account for Payments and Contributions to State and Local Government

The American Public Power Association has developed a survey form to help public power utilities account for all payments and contributions to state and local government. The form, “Survey of Local Publicly Owned Electric Utilities: Tax Payments and Contributions to State and Local Government,” is included in section VII. The following are instructions for completing the form and calculating the utility’s net contributions.

Account for Direct Payments to State and Local Government

In section I of the form, record your utility’s direct payments to state and local government.

Taxes and Fees

Not all localities use the same name for all taxes and fees. The most common names are included on the survey to guide you in identifying all payments. Utilities often pay only one or two (if any) of the taxes or fees on this list. Also, these taxes and fees include only those payments made directly by the utility to the government. Pass-through taxes, i.e., taxes or fees collected by the utility *on behalf of another entity* and then forwarded to the government by the utility, should **not** be included. For example, some state and local jurisdictions impose sales taxes on utility service. In that case, the utility is merely acting as a tax collector for the government. This money is not included on the utility’s financial statement either as operating revenue or as an expense.

The following are the direct taxes and fees included on section I, part A of the form:

- **Gross receipts tax paid by the utility:** These are taxes applied to the utility’s gross receipts or rate revenues for service provided to various customer classes. Typically, the gross receipts tax is treated as an operating expense on the utility’s income statement and therefore should be reported as a tax. Do not include it, however, if it is treated as a sales tax (as described above).
- **Property taxes:** Public power utilities typically do not pay property taxes on property located within the city. Some pay property taxes on facilities located outside city limits.
- **Other taxes:** These include franchise fees paid to local government, assessments paid to the state public utility commission, and any other taxes or fees using the guidelines above.

Do not include sales taxes paid on the utility's purchases, such as gasoline and other fuels. Sales taxes on such purchases are a direct cost and should be charged to the same account as the materials on which the tax is levied. State unemployment, Social Security, and other payroll taxes should also **not** be included because these are standard costs of doing business.

Payments in Lieu of Taxes

In section I of the survey, part B, "Payments in lieu of taxes," report all tax-equivalent payments or transfers to the general fund. Do not include payments in retirement of loans or advances to the utility or payments for services received from the city.

Section I, part C asks for the method used to determine the amount of payments in lieu of taxes. Some utilities use more than one of the listed methods, while others use an alternative arrangement. This information is not part of accounting for payments, but it is important for the utility to have a clear and consistent policy on setting payments.

Account for Contributions of Services to State and Local Government

Section II of the survey form is a list of services that publicly owned electric utilities commonly provide to state and local government. This is not meant to be an exhaustive list of all possible contributions but rather a useful guide in helping utilities determine what contributions they have made. Some managers will initially say "we don't make contributions," however, after reading through the list, many will realize that they do make some of the contributions listed.

If the electric utility provides a service, but the value of the service is not clear, fill in the form with a reasonable estimate. The process of checking into which of the services the utility provides and estimating the value will provide useful information about how these contributions affect the utility's operating costs.

Estimate Value of Free or Reduced-Price Electric Service Provided

In survey section II, part A, record the value of electricity provided by the utility for streetlighting, municipal buildings, water pumping, water or sewer treatment facilities, recreational facilities, traffic signals and security lighting. If the utility receives fair compensation through direct billing, accounting procedures or transfer of funds, then the service should not be included here.

There are two columns for entering the contributions: "Free" (for services provided without charge) and "Reduced Price" (for those billed, but at a below-market rate). For example, if the local government pays only three cents per kilowatt-hour ("kWh") for electricity while typical commercial customers pay six cents, this is considered a reduced-price service.

If the dollar amount of the service is not known, estimate the amount from the kilowatt-hours supplied and an average rate per kilowatt-hour. For example, if the utility provides 50,000 kWh of free service for recreational facilities and the average commercial rate for the utility is eight cents per kWh, the estimate of free service provided would be 50,000 kWh multiplied by \$.08/kWh, or \$4,000 for that time period.

In accounting for reduced-price service, the dollar amount should reflect the difference between what the utility typically charges a customer for the service and what the utility receives from a similar customer for that same service. For example, if the utility charges the city \$2,500 for 50,000 kWh of electric service for recreational facilities, the utility is receiving five cents per kWh for its service. If the average rate that would normally be charged for the service is eight cents per kWh, the utility is providing a reduced price to the city of three cents per kWh multiplied by 50,000 kWh, or \$1,500.

If municipal facilities do not have meters, it will be difficult to estimate the value of free electric service. The utility should install meters to quantify the value of services provided to the city.

Estimate Cost of the Use of Electric Department Employees for Non-Electric Services

In many public power utilities, particularly smaller towns, resources are often shared among departments and not always accounted for completely. Section II of the survey quantifies the value of the services the electric utility provides to other municipal departments. (Conversely, section III measures the value of services the utility receives from other municipal departments.) Sharing services would not be an option if the municipality received its electricity from an investor-owned or cooperative utility.

Section II, part B, records the cost of the use of electric department employees for non-electric services. Include only services for which the utility is not reimbursed by direct billing, through accounting procedures or by transfer of funds. If the dollar amount is not known, estimate by multiplying the number of employee-hours provided

and an average hourly labor rate. Services provided may include:

- Installing temporary lighting for special events
- Maintaining traffic signals
- Electric repair, maintenance or rewiring of municipal buildings
- Tree trimming for other departments
- Reading water meters
- Putting up city signs or event banners
- Providing technical expertise (including resources and staff hours) for engineering, economic or environmental studies
- Non-utility locates for stakes, wires and pipes
- Installing meter bases (for joint utility use)
- Installing or repairing wires, cables or other equipment in connection with broadband services offered by the city or a utility department
- Telephone answering service for city during non-business hours
- Assignment of power plant personnel to other tasks during non-generation periods

In part C, record the estimated value of the use of electric department vehicles and equipment by other municipal departments. For example, other city departments may use utility bucket trucks, ditching equipment, computers and copiers. If the city or a utility department offers broadband services, include pole attachments for which the electric utility charges no fee or a reduced fee.

In part D, record the estimated value of the use of electric department materials and supplies, such as wood poles, wiring and herbicides.

If the electric department does not have the necessary data on non-electric services provided to the city, the value of services will have to be estimated. Make the best possible estimates for the purpose of completing this survey and then consider ways to improve the accuracy of those estimates in future years.

In section III, record the cost of goods and services **provided by the city to the electric utility.** These are goods and services for which the city is not reimbursed by the utility. Examples include free property maintenance, water, office space, and engineering or legal services. Do not include payments in retirement of loans or repayments of advances from the utility to the city.

In sections II and III, be careful not to include any services that are directly or indirectly compensated. If the electric

department meter readers also read the water meters and the cost of providing the service is borne entirely by the electric department, then that service should be included in section II. However, if the full costs are prorated between electric and water departments, then it should not be included. Similarly, if the electric department receives Human Resources or Information Technology support from the city's general government, but provides no reimbursement for the support, then the value of the service should be reported in section III. However, if a transfer or some other form of compensation is made for that service, then it should not be listed.

Report the Results

To determine your utility's Total Net Contribution, add the totals from sections I and II (payments and contributions **to** state and local government) and subtract the totals from section III (contributions **from** the state and local government):

$$(\text{Section I} + \text{Section II}) - \text{Section III} = \text{Total Net Contribution}$$

Many public power utilities include information on payments and contributions in their financial statements or annual reports. Two examples are shown in section XIII of this report, and additional methods of communicating this information to the public are described in section VI.

Utility Contributions to Other Local Organizations

The APPA survey form is designed to account for contributions to state and local government only. It does not provide space to record gifts to community organizations.

Public power utilities may contribute money and services to local, nonprofit organizations and community projects. They may provide free or reduced-price electric services to churches, schools, volunteer emergency groups, shelters and recreation centers. Some municipal electric utilities contribute money toward privately funded economic development projects or community centers. Many permit and encourage staff to take time off for local public service projects. As with other contributions, the value of these services is sometimes underreported.

Although the contribution of services may enhance the utility's relationship with local community leaders, failure to account for and control these contributions may adversely affect utility operations and result in higher rates. At a minimum, the value of these contributions should be recorded and reported so citizens learn how the utility contributes to the community, and the governing body has information to help set policy on charitable contributions.

III. Compare Total Contributions

The previous section explained how to calculate a utility's total contribution. This section focuses on the next step, comparing the utility's contribution level with other utilities.

Calculate Net Contributions as a Percent of Electric Operating Revenue

The first step is to express total net payments and contributions as a ratio—a percentage of annual electric operating revenue. This ratio allows comparisons with other utilities of varying sizes. To make the calculation, divide the total contribution (as outlined in section II above) by the utility's annual electric operating revenue:

$$\frac{\text{Total Net Payments and Contributions}}{\text{Annual Electric Operating Revenues}}$$

For example, a public power utility with \$10 million in electric operating revenues contributes \$850,000 in direct

payments and contributions of services to state and local government. The contribution is 8.5 percent of its electric operating revenues, as calculated below:

$$\frac{\$850,000}{\$10,000,000} = .085 \text{ or } 8.5\%$$

Compare Contributions with Industry Data

A utility's contribution ratio may be compared with publicly owned and investor-owned utilities across the country or in geographic regions. This will provide a useful starting point for an evaluation of a utility's policies and practices on contributions.

APPA's most recent survey on payments and contributions shows that for 2014, the median² net payment for public power utilities was 5.6 percent of electric operating revenue. Investor-owned utilities had a median payment of 4.2 percent during the same reporting period. There are significant regional variations in median net payments and contributions, as shown in the following table.

TABLE A.2 2014 Regional Comparison of Median Contributions to State and Local Government

As Percent Of Electric Operating Revenue

| REGION | INVESTOR-OWNED | PUBLIC POWER |
|-------------------------------------------------|-------------------|-------------------|
| Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT) | 6.3% (28) | 34.8% (15) |
| Atlantic (DC, DE, FL, GA, MD, NC, SC, VA, WY) | 4.3% (15) | 7.5% (8) |
| East North Central (IL, IN, MI, OH, WI) | 3.9% (25) | 3.3% (28) |
| East South Central (AL, KY, MS, TN) | 3.7% (10) | 6.1% (28) |
| West North Central (IA, KS, MN, MO, NE, ND, SD) | 4.5% (15) | 4.6% (41) |
| West South Central (AR, LA, OK, TX) | 3.9% (11) | 11.9% (32) |
| Mountain (CO, MT, NM, UT, WY) | NA | NA |
| Pacific Northwest (AK, ID, OR, WA) | 4.8% (6) | 4.7% (13) |
| Pacific Southwest (AZ, CA, NV) | 2.8% (9) | 6.6% (7) |
| TOTAL | 4.2% (123) | 5.6% (176) |

SOURCES:

- Department of Energy, Energy Information Administration, Form EIA-861;
- Federal Energy Regulatory Commission, Form 1 for 2014;
- Tennessee Valley Authority; and
- APPA's 2014 "Survey of Local Publicly Owned Electric Utilities Tax Payments and Contributions to State and Local Government."

Values are medians for utilities primarily engaged in providing retail power. Number of observations is shown in parenthesis.

²The median represents the typical value and is defined as the observation where 50 percent of the observations are higher and 50 percent are lower. When the sample includes entities of very different sizes, such as with public power utilities, the median is often used instead of the average (mean) because the largest entities have a disproportionate effect on the average.

Compare Contributions with Other Utilities

In addition to benchmarking your contributions against regional medians, it is also useful to compare contributions with those of individual utilities in your area. This information will help you evaluate your transfer policies and assist you in answering questions from your local community about how your utility's payments compare with those in neighboring communities.

How to Estimate an Investor-Owned Utility's Local Tax Payments

Investor-owned utilities must report their state and local tax payments to the Federal Energy Regulatory Commission (FERC) annually via FERC Form 1 on the schedule "Taxes Accrued, Prepaid and Charged During the Year" (pages

262-263). State and local taxes are listed in column I, "Distribution of Taxes Charged–Electric" (Account 408.1, 409.1).

In addition, a few utilities do not report franchise fees on this tax schedule. Instead, they report them as part of administrative and general expenses on the schedule "Electric Operation and Maintenance Expenses" (pages 320–323), so this schedule should also be checked. Data are available via the FERC website (www.ferc.gov) or by contacting APPA.

The following table shows the state and local taxes paid by Duke Energy Ohio in 2014. (More recent data on taxes for individual investor-owned utilities are available. The example uses 2014 data to match APPA's most recent report, which is produced every other year.)

TABLE A.3 Duke Energy Ohio, Inc. State and Local Tax Payments, 2014 (in thousands of dollars)

| STATE | |
|----------------------------------------|------------------|
| 1. Income | \$145 |
| 2. Property | \$411 |
| 3. Excise | \$82,887 |
| 4. Commercial | \$4,162 |
| Total State Tax | \$83,605 |
| LOCAL | |
| 5. Property | \$136,946 |
| 6. Municipal Franchise | \$1,276 |
| Total Local Tax | \$138,222 |
| 7. Electric Operating Revenue | \$1,583,255 |
| CALCULATIONS | |
| State Taxes/Electric Operating Revenue | 5.3% |
| Local Taxes/Electric Operating Revenue | 8.8% |

SOURCE:

- Federal Energy Regulatory Commission, Form 1, 2010
 - P. 263; col. (i); line 11
 - P. 263; col. (i); line 14
 - P. 263, col. (i); line 15
 - P. 263, col. (i); line 22
 - P. 263, col. (i); line 20
 - P. 263, col. (i); line 21
 - P. 115, col. (g); line 2

When preparing the list of state and local taxes paid by an investor-owned utility, exclude Social Security taxes, state and local unemployment insurance taxes and other payroll-related taxes. (These taxes were also excluded from the public power calculation).

Note that the calculation of an IOU's taxes may not be as simple and straightforward as adding up a column of numbers on the FERC Form 1. The objective is to come up with a total for taxes and contributions that is comparable to the number calculated for the public power utility. While the Duke Energy Ohio example shows taxes divided into state and local categories, many utilities do not report enough details to make this distinction. The most important point is to be sure to exclude all federal and payroll taxes. The state public service commission or Department of Revenue can help you identify specific taxes if you do not know how they should be categorized. APPA can help you obtain FERC Form 1 information for specific utilities.

The investor-owned utility's total of state and local taxes is divided by its annual electric operating revenue, which is reported on the schedule "Statement of Income for the Year" (page 115) of FERC Form 1. Electric utility revenue is reported on line 2, column e.

There is publicly available information for cooperative utilities that have loans from the Rural Utilities Service (RUS). RUS Form 7, Part A includes tax information from cooperatives that have RUS loans.

Compare Your Contributions to Those of Other Publicly Owned Utilities

Contact other public power utilities in the area to find out what percentage of electric revenues they contribute to local government. In addition to data on transfers, they also may be willing to provide information on the formulae and methodologies used to determine their direct and indirect payments to the city. Some information may also be publicly available on the utility's website or in its annual financial report.

Please note that the data reported by publicly owned electric utilities to the APPA survey discussed in section II is confidential.

IV. Examine the Effects of Transfers on Utility Operations

There is no "right" amount of payments and contributions. The APPA report is meant to be a benchmark used for comparison purposes, but the utility manager and

governing board should consider the effect of current policy on utility operations and determine the appropriate contribution amount for both the utility and the city. All parties involved in setting the contribution amount should keep the following points in mind:

- The amount of financial support provided to the city is a local decision.
- There are no "correct levels."
- There is no single procedure recommended for determining the transfer amount.
- Policymakers should establish the amount of the transfer based on complete information and a thorough understanding of the impacts of higher financial contributions.

A primary benefit of public power is local control to meet community needs and priorities. Payments in lieu of taxes and other contributions enhance local control because, unlike with taxes paid by IOUs, these contributions are not disbursed to different levels of government (state, county, etc.). This local control over the allocation of resources results in a variety of methodologies to establish the level of financial support to the local government.

Local officials and customers should know what the utility contributes as well as the adverse effects of contributions that are clearly excessive. If a community's priority is providing the lowest possible rates for homes and businesses, it may result in the electric department transferring fewer dollars to the city's general fund. Conversely, local officials may be willing to charge slightly higher electric rates to support certain revenue transfers to the city. It is a matter of the utility and the city government working closely together to balance priorities and allocate local financial resources.

Dependable, Readily Available Source of Revenue

Local officials may look at the relatively high revenues of the municipal electric utility as a dependable, readily available source of revenue to compensate for municipal budget shortfalls. In some cases, an increase in the utility's payment is easier to accomplish administratively than an increase in the local property tax rate. This is particularly relevant in areas where volatile real estate values make reliance on property taxes less dependable. Municipal electric utilities with the most flexible policies on transfers (those that negotiate the amount of their contribution each year) are more likely to be under pressure to increase transfers.

A public power utility's payments in lieu of taxes may be based on the amount that an investor-owned utility would

pay the city in local property taxes. Therefore, if the electric system transfers significantly more to the local government than a normal business would pay in local property taxes, the excess may be viewed as an additional tax hidden in electric rates. While not a recommended practice, sometimes local officials prefer to increase utility revenue transfers, even at the expense of higher electric rates, rather than increase the local property taxes on homes and businesses. This is the case with Pasadena, California. When the city faced an \$8 million budget shortfall in 2012, it increased the utility's fund transfer by \$3.2 million more than originally planned.³

In addition to decreasing home values, some states and municipalities have caps on the amount that property taxes can be increased.⁴ Therefore, general fund transfers from the utility can be a more stable source of revenue in municipalities that face property tax limits.

Regressive Tax on Consumers

Communities that keep property taxes artificially low and make up the difference through collecting larger transfer payments from the public power utility are effectively collecting a hidden tax from their customers. This hidden tax is regressive, because the effective tax rate falls as the consumer's income rises. A regressive tax places a greater burden on low-income consumers than those at the median- or high-income levels. In addition, homeowners may deduct property taxes for federal income tax purposes, but the tax hidden in electric rates is not deductible.

High Rates

In most states, the public utility commission does not regulate public power rates. Hence, publicly owned utilities have more discretion in raising their rates than do investor-owned utilities. This rate autonomy can work hand-in-hand with setting transfer policies, as utilities and their local governing bodies can determine appropriate levels of ratepayer support. Both the utility and the local government need to balance rates and contribution levels so electric customers are not unduly burdened.

High transfers can lead to sharp rate increases. According to the *Austin American Statesman*, Austin Energy's fund transfer increased significantly from 2006 to 2011, which was one of the principal reasons the utility asked for a rate increase.⁵ Compounding the issue is the fact that Austin Energy's transfer is based on revenues. Since revenues vary, depending on fuel costs, the utility's transfer payment increases as it pays more for fuel.

Dissatisfied Customers

If a utility's electric rates significantly exceed those of neighboring utilities, customers are likely to become dissatisfied and put pressure on local officials to bring rates down. In some cases, a combination of higher-than-average rates and transfer amounts have led to calls for public power utilities to sell their electric systems. Public power utilities in Florida have been criticized by interest groups within the state, and there is an organized effort to put pressure on many of Florida's municipal electric utilities to sell to local investor-owned utilities.⁶

Customers who live outside the city limits are especially angered by excessive fund transfers that lead to higher rates. These customers may feel they are helping to support the city without receiving benefits in return. One consultant in Florida accused cities of "abus[ing] unprotected outside electric customers for the benefit of inside city residents."⁷ Customers outside the city limits of Austin have organized in opposition to Austin Energy's rate increase, with one customer calling the transfer "unfair and unjust."⁸

Suburban customers are not the only ones who have organized in opposition to higher rates and fund transfers. A group of customers in Redding, California, filed suit against the city's utility, claiming that the payment in lieu of taxes (PILOT) was unlawful under California's Proposition 26, passed in November 2010, which mandates that voters in the state must approve of all tax increases. The customers claimed that a 7.84 percent rate hike was a de facto tax increase because of the utility's PILOT payment.⁹ A similar lawsuit was filed against the city of Hermann, Missouri. A state auditor found that the city had raised

³ Adolfo Flores, "City taps deeper into utility funds," *Pasadena Sun*, January 8, 2012, accessed at http://articles.pasadenasun.com/2012-01-08/news/30605350_1_utility-funds-transfer-city-taps.

⁴ For example, the state of New York approved a cap that limits the growth of local property taxes to 2 percent or the rate of inflation. See Thomas Kaplan, "Upset at Cuomo's Property-Tax Cap, Communities Move to Get Around It," *New York Times*, October 24, 2011. Accessed at <http://www.nytimes.com/2011/10/25/nyregion/cuomo-cap-on-property-taxes-rankles-communities.html>

⁵ Marty Toohey, "Austin Energy transferring more every year into city's general fund," *Austin American Statesman*, January 28, 2012.

⁶ Kenric Ward, "Ratepayers Would Save Millions if 'Munis' Sell Out to FPL: Study," *Sunshine State News*, March 6, 2012. Accessed at <http://www.sunshinestatenews.com/story/ratepayers-would-save-millions-if-munis-sell-out-fpl-study>.

⁷ Ibid.

⁸ Toohey, "Austin Energy transferring more every year into city's general fund."

⁹ Scott Mobley, "REU rate hike sparks lawsuit," February 7, 2011, accessed at <http://www.redding.com/news/2011/feb/07/reu-rate-hike-sparks-lawsuit/>.

electric rates without a vote of the people “to generate millions of dollars in surplus funds, which it was using to pay for ordinary governmental operations in violation of Article X, Section 22(a) of the Missouri Constitution.”¹⁰

Both Redding and Hermann prevailed against these suits, with the courts ruling that the rate increases were not the equivalent of tax increases.¹¹ Though the utilities prevailed here, these examples provide cautionary tales about the potential for ratepayer discontent with high rates, and they emphasize the need for utilities and cities to exercise caution when setting fund transfer rates.

While residential customers may merely express dissatisfaction, industrial and commercial customers have much more flexibility. These customers may employ self-generation or cogeneration, switch to a natural gas supplier or leave the area to obtain utility service at lower rates. Some industrial customers may move production to a facility in another location. The community may lose existing business establishments—and the jobs and tax revenues that come from them—or fail to attract new business and industry.

Lower Credit Rating

Another possible consequence of high transfers is lower credit ratings resulting in potentially higher interest rates on borrowed funds. A report by Moody’s Investors Service noted there may be added pressure for utilities to increase their transfers to the city in order to relieve some of the financial pressures of a weak economy. These higher revenue transfers “are a credit negative because they tend to reduce the public power electric utility’s internal liquidity and capital reserves and increase retail rates that are already pressured.”¹²

Additionally, if utilities take funds from their surplus in order to cover higher transfers, “this leads to reduced liquidity for capital investment or for unexpected impacts on cash flow from things like increased fuel costs.” Ultimately, reduced reserves and cash flow problems can result in lower debt service coverage and lower bond ratings.¹³

Declining Reliability, Safety, Service

Another possible negative consequence of excessive transfers is a decline in the electric utility’s reliability, employee safety and level of service to customers. Municipal electric utilities have few discretionary funds after paying for wholesale power, fuel, debt service, operation and maintenance, system repair and replacement, and administrative and general expenses. The obligation to make a substantial contribution in support of local government will result in either a rate increase or a cutback in one or more areas of operations.

If cutbacks occur, the electric utility may not be able to hire competent employees at competitive wages, purchase up-to-date equipment or retain the financial resources to ensure reliable, high-quality electric service. This in turn could lead to a neglect of system maintenance, longer duration of outages, failure to have adequate reserves for emergencies, reduction of business office hours and less timely installation of service.

Long-Run Deterioration of the Electric Utility

Years of neglecting routine maintenance and system improvements will result in the deterioration of the utility’s physical assets as well. As Moody’s noted, added political pressure due to increased rates may force utilities to avoid critical upgrades or needed infrastructure investment. Some of the nation’s largest public power utilities have cut capital programs due to ratepayer reaction to rate hikes. For example, in 2009 a solar capital improvement plan in Los Angeles was voted down by referendum.¹⁴

Ultimately, system repairs will cost far more than if they had been done in a timely manner, and the city may be reluctant to allocate money for this purpose. In many cases, the result is poor service and a crisis for the city and its electric utility. During such a crisis, city officials may suggest that the system be sold to avoid the high cost of continuing its operations or the high cost of infrastructure investments needed.

¹⁰ Dave Marner, “Missouri Supreme Court to hear Hermann utilities rate case,” *Gasconade County Republican*, September 22, 2010. Accessed at <http://www.gasconadecountyrepublican.com/news-mainmenu-45/gasconade-county-mainmenu-27/3683-mo-supreme-court-to-hear-hermann-utilities-rate-case.html>.

¹¹ Sean Langoria, “Judge thwarts REU ratepayers; ruling says rate hike didn’t need approval,” December 22, 2011, Accessed at: <http://www.redding.com/news/2011/dec/22/judge-thwarts-reu-ratepayers/?partner=RSS>; Andrew Denney, “High court rules in favor of Hermann,” *Columbia Daily Tribune*, June 1, 2011. Accessed at: <http://www.columbiatribune.com/news/2011/jun/01/high-court-rules-in-favor-of-hermann/>.

¹² Moody’s Investors Service, U.S. Public Power Electric Utility Outlook – 2010, June 15, 2010, p. 7.

¹³ Bridget Mintz Testa, “Transfer Pressures,” *Public Power*, May 2009, p. 25.

¹⁴ Ibid.

V. Establish a Clear Policy on Contributions

After a utility measures the value of its current contributions, compares it to others and examines the effect on utility operations, the next step is to establish a clear and consistent policy for contributions. This should be a written policy statement, with a fixed formula or methodology to determine the amount and should be reviewed periodically to assure the intended goals are accomplished. A written transfer policy will also prove to be valuable in utility planning when there are changes in local elected officials or utility staff.

Contribution policies, like all public power utility policies, should be based on public power’s primary mission: to provide customer-owners with reliable electric service at the lowest reasonable cost. A well-formulated policy may allow modest flexibility to increase or decrease the contribution as long as the primary goals are achieved.

Concerns of “No Set Policy”

The greatest benefit of an established transfer policy is predictability. Predictability serves two primary purposes. First, a well-defined policy with a predictable formula for determining PILOT leaves little room for disagreement and debate between utility and city officials. This allows utility managers and policymakers to focus on key strategic issues and not spend time debating the amount of the transfer during each budget cycle. Second, risk or uncertainty is generally viewed unfavorably by the credit

rating agencies. Volatile or unpredictable transfer amounts can have a negative effect on the utility’s credit rating and thus increase the interest rate available on financing options.

Fitch Ratings lays out the importance of establishing a clear-cut policy:

Payment characteristics that support credit quality are clearly defined and set by charter. In addition, payment characteristics that use a formula tied to less volatile metrics such as net income or retail sales and also contain a hard cap on the transfer are also more supportive of credit quality.¹⁵

Absent an established methodology, the city may decide to base the transfer amount on the needs of the general fund budget. While this allows significant flexibility, year-to-year variations in the transfer amount make it difficult for utility management to establish multi-year electric system operating and capital budgets or plan long-term projects. Establishing a fixed formula provides certainty for both the city and the utility.

Select a Formula or Methodology to Determine Transfer Amount

The most common method used to determine the transfer amount is percent of gross electric operating revenue. According to APPA’s 2014 survey, nearly one-quarter of the respondents used this method. The table below shows other methods used to calculate the transfer.

TABLE A.4 Methods Used to Calculate Payments in Lieu of Taxes

| | |
|-------------------------------------------------|-----|
| Percentage of Gross Electric Operating Revenue | 22% |
| Assessment of Electric Utility and City Budgets | 18% |
| Property Tax Equivalent | 15% |
| Flat Amount Paid Annually | 12% |
| Charge per Kilowatt-hour Sold | 9% |
| Percentage of Net Utility Plant in Service | 4% |
| Percentage of Income (Net, Operating or Total) | 2% |
| Other (usually a combination of the above) | 18% |

SOURCE: APPA’s 2014 “Survey of Local Publicly Owned Electric Utilities Tax Payments and Contributions to State and Local Government.”

¹⁵ A Fitch Ratings, *Transferring from Power: Transfer and PILOT Payment Characteristics in the Public Power Sector*, Public Power Special Report, April 25, 2011.

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. According to the 2014 APPA survey, 18 percent of publicly owned electric utilities based their contributions on this non-formula approach.

Fifteen percent of utilities responded that they base their payments on a property tax equivalent. This is important to highlight when communicating with customers about the rationale behind general fund transfers, as it more clearly demonstrates the link between the fund transfer and property taxes. Even if a utility does not use this formula, estimating hypothetical property taxes provides another benchmark for evaluating the level of payments to the city. Demonstrating how much the utility pays compared to a hypothetical property tax also helps to rebut charges that the utility has a special advantage over other entities.

Another consideration when establishing a formula is the variability of transfers based on revenue or sales. In recent years utilities have urged customers to cut back on their energy use through energy-efficiency programs. However, energy-efficiency improvements conflict with maintaining the level of general fund transfers; as customers consume less energy, utility revenues decrease. If the fund transfer is based on revenue or sales, then the fund transfer would in turn decrease. When establishing a formula for the payment in lieu of tax, it will be important to consider what, if any, implications energy-efficiency programs could have for the transfer payment.

Prepare a Written Policy Statement

The utility should develop a written policy statement on contributions to state and local government. The policy will guide future governing boards in decisions on transfers and will give utility management the consistency and predictability necessary for stable, well-planned financial operations. In some cases, transfer policies are legally set in the city charter or by ordinance. In other cases, state agencies have the authority to approve or recommend transfer levels, or set transfer ceilings.

In 2004, local officials in Springfield, Illinois, enacted an ordinance limiting the amount that an enterprise could transfer to the city’s general fund. Transfers were capped at 3.5 percent of revenues received by an enterprise. (The city’s electric revenue fund is an “enterprise,” as is water and sewer).

The Jamestown, New York, public power utility has its rates reviewed and approved by the state Public Service Commission (PSC). Since any transfer payment is part of the utility’s rate structure, transfer levels are approved by the PSC as well. The annual transfer to the city’s general fund is 5 percent of gross electricity sales within the city of Jamestown, plus 1 percent of book value of all real estate holdings.¹⁶

Due to a recently enacted ordinance, Lincoln Electric System in Nebraska pays a “City Dividend” for the city of Lincoln’s ownership of the utility. The dividend supplements the utility’s payment in lieu of tax and is assessed monthly on electric bills. Customers pay the city dividend based on their energy use, “so that no customer or class of customers bears a larger share of the cost.”¹⁷

A statute in Washington state limits the transfer from enterprise activities to a city’s general fund to 6 percent of gross electric operating revenues. That amount can be raised to 8 percent if approved by local referendum.

Implement New Policy: Adjust Level of Support to Local Government

A public power utility’s newly developed policy on contributions may result in a change in the amount of direct and indirect payments to the city. Policymakers who have been involved in developing this new policy are more likely to support an adjustment in contributions and to work with other city officials to implement the change. If there is to be a significant reduction in payments and contributions, the utility and city officials may decide to phase in reductions over a period of years. Other considerations include how the new policy may affect rates and how the city will replace the money it was receiving from the utility.

Reviewing the Policy

Both city and utility officials should periodically review the level of contributions to make sure that city and utility managers understand the level of contributions the utility is making and the reasons for the policy. A successful review will educate any new officials and increase support from the city and utility governing bodies. The review process may result in changes to the policy, but if the city and utility are working together, they should still arrive at a contribution level that will provide benefits to the community while allowing the utility to achieve its goals. As outlined in *Public Power* magazine, the key is to approach these discussions

¹⁶American Public Power Association, “10 Questions: Mayor Sam Teresi, Jamestown, N.Y.,” *Public Power* magazine, May–June 2004.

¹⁷LES Press Release, August 22, 2011, accessed at: https://app.les.com/applications/_news/default.aspx?Article=279.

with a “positive, win-win” attitude. Other recommendations include:

- **Dialogue and negotiation.** Compare your utility’s payments with those of other cities (using, among other things, APPA’s report) so the city better appreciates where you stand.
- **Don’t say no.** Utilities cannot just say no to transfer requests. Instead, make clear to city officials that an increased transfer will mean an increase in rates or a cut in service and therefore a reduction in the city’s competitiveness.
- **Think long-term.** Ratings companies value negotiated transfer levels or multi-year agreements. “This is the type of agreement Moody’s likes to see because it precludes transfers from becoming a political issue.”¹⁸

VI. Tell the Customers

A public power utility’s customers, as well as local officials, may be unaware of the direct and indirect payments and contributions the utility makes to local government. Thus, the utility should take every opportunity to publicize the financial support it provides to the local community. The utility should also emphasize the rationale for the fund transfer, explaining that other taxes (including property taxes) would potentially be higher absent the transfer payment.

This is particularly important if the utility becomes the subject of a buyout offer from an investor-owned or cooperative utility. A common charge levied against public power utilities is that they do not pay their fair share of local government taxes, and therefore the local government would have greater financial strength if it had a tax-paying utility serving the territory. Officials of public power utilities can counter this claim by showing data on the utility’s contributions. As the 2014 APPA report shows, the median amount contributed by public power utilities was 5.6 percent of electric operating revenue, compared to 4.2 percent for investor-owned utilities. Of course, too high a contribution can be used against the utility, so it is important to develop an amount that is fair for both the utility and the local government.

Describe Financial Benefits

The utility’s annual report should tell its customer-owners about direct and indirect payments to state and local governments. (See examples in section VIII.) However, a

utility does not need to wait for the annual report for this communication. Regular communication with customers is important and helps set expectations about the level of annual contributions from the utility. This can be accomplished in many ways, as the following examples show.

Some utilities include payments in lieu of taxes directly on the bill or as an insert with the bill. Two public power utilities in Missouri—Chillicothe and Trenton—began showing transfer payments as a separate line item on customers’ bills several years ago.

The city of Loveland, Colorado, includes in its schedule of rates, fees and charges a separate per kilowatt-hour charge “PILT” and provides the following explanation:

Payment-in-lieu of taxes (PILT) is not a new fee, but is being separated out in preparation for a deregulated electricity marketplace. The PILT funds are paid by the electric utility to the City’s general fund.¹⁹

The Borough of Middletown, Pennsylvania, lists on its main webpage the services that the Electric Department and its employees provide to the city, including:

- Hanging and installing the borough’s many holiday decorations
- Hanging banners over highways
- Inside electrical work in all borough-owned facilities
- Tree trimming²⁰

Omaha Public Power District in Nebraska makes a public presentation of the check to the treasurer of each county it serves and invites the media to cover the event. The utility customizes a news release for each county and, where possible, includes information on where the money will be distributed.

Other ways to communicate about this important contribution to the community include:

- Explaining utility policies and practices on transfers in a customer newsletter, with specific examples of the kinds of services the payment supports
- Discussing the utility’s contributions in a news release, distributed during Public Power Week, to educate the community about the broad range of services the utility makes possible

¹⁸ Testa, “Transfer Pressures,” p. 26.

¹⁹ Rate schedule available at <http://www.ci.loveland.co.us/index.aspx?page=345>, accessed May 16, 2012.

²⁰ See <http://middletownborough.com/electric.php>, accessed May 16, 2012.

- Making a presentation at a city council or utility board meeting describing the contributions and the difference they make to the city budget
- Including information on the utility's website, and updating the information with every payment the utility makes
- Using social media to communicate to customers on a regular basis to highlight the utility's contributions to the local community

Communicating to Customers Outside City Limits

A particularly sensitive issue concerns payments made by customers who live outside the city limits. These customers may organize to protest their contribution to the general fund for a government that does not directly serve them. While there are no studies that quantify the benefits that accrue to suburban customers of public power utilities, it is beneficial to communicate with these customers and explain some of the ways they may benefit from the city. Potential benefits to suburban customers include:

- The suburban economy is at least partially tied to the health of the city's economy, and utility fund transfers to the city fund economic development programs that help the city.
- Suburban commuters often use roads and other services funded by the city.
- In certain locations, the city helps cover the costs of public transportation that suburban customers take to commute into the city.²¹
- In some cases, public power utilities make transfers to suburban governments and include suburban residents on their boards.

Describe General Community Benefits of Public Power

In addition to these specific financial benefits, it is important to continue to remind existing customers and educate new customers about the general benefits of public power. The many benefits include:

Lower prices from:

- Not-for-profit status
- Local cost consciousness, including review in a public process of policy decisions, expenses, salaries and management compensation

- Ability to borrow using municipal bonds, which are exempt from federal income taxes

Ownership of the asset:

- Local management control over decisions involving investments, operations, maintenance, power supply choices and customer programs
- Options and choices available only to an owner, including asset leverage, equity borrowing, ratemaking and financial contributions to local government
- Future streams of income to the city general fund

Local control:

- Community control over management decisions, with success measured by how many dollars stay in the local community, not how many dollars leave in the form of dividends to often-distant stockholders
- Citizen-owners with direct say in policies through elected or appointed officials
- Local citizen participation in meetings and access to information on planning alternatives, cost estimates, performance and other reports
- Responsiveness to customers' needs and concerns
- Quick response to outages from crews located in the community
- Power reliability, power quality, safety and efficiency that come from being singly focused on local operations
- Emphasis on long-term community goals with control over special programs (conservation and renewable resources, assistance to low-income, service extension policies, industrial parks, etc.)
- Control over electric distribution system aesthetics and design, including undergrounding choices
- Economic development from lower rates that attract businesses
- Local employment with payroll dollars spent in the community
- Utility management for leadership in innovation, community technology development and environmental stewardship
- Improved local government efficiency through integrated utility operations with electric, water, gas, sewer, garbage and community broadband

²¹ Marty Toohey, "Austin Energy suburban rate debate." For a more detailed discussion of how the economic vibrancy of the suburbs is correlated to the city's economic health, see Andrew F. Haughwout and Robert P. Inman, Should Suburbs Help Their Central City, April 2002. Accessed at <http://www.fednewyork.org/research/economists/haughwout/citysubbrookings.pdf>.

Customer Service

- Responsive and reliable customer service

Communication with customers about the value of the utility and its contributions is especially important when there is pressure to sell the utility to an investor-owned utility. When a candidate for mayor in the city of Plymouth, Wisconsin, advocated the sale of the local city-owned utility, the city commissioned a study to look at the benefits of the utility to the local community. The results of the study showed that city residents would have paid between \$7 million and \$27 million more for electricity over the preceding decade if they had been served by an investor-owned utility. The study also demonstrated the financial benefits of the utility's payment in lieu of tax as well as the free services provided by the utility's employees. This study helped to ensure that the utility was not sold.²²

VII. Sample Survey: Calculating Your Public Power Utility's Payments and Contributions to State and Local Government

This section reproduces the questions in the American Public Power Association's 2016 Survey of Local Publicly Owned Electric Utilities' Tax Payments and Contributions to State and Local Government, for you to use as a worksheet to help define your payments and contributions.

The actual survey is conducted biannually. If you have any questions about the survey, or how to calculate your contributions, contact Paul Zummo, Director, Policy Research and Analysis, at PZummo@PublicPower.org or 202/467-2969.

²² Jeanne LaBella, "Not for Sale," *Public Power*, July-August, 2011, p. 26.

Payments to State and Local Government

Include dollar amounts for items listed below. Do not include (a) sales taxes collected from ratepayers on behalf of state or local government, remitted to the state and not included in operating revenue; (b) sales taxes paid on purchases; or (c) any payroll-related taxes such as Social Security or state unemployment insurance.

1. Taxes and fees:

a. Gross Receipts tax

(Also known as public utility tax or privilege tax; these taxes are included in utility operating revenue and deducted as an operating expense. Do not include "pass-through" taxes, such as sales taxes, defined in (A) above).

Local

\$ _____

State

\$ _____

b. Property taxes (e.g., taxes paid on property outside city limits)

\$ _____

\$ _____

c. Franchise taxes

\$ _____

\$ _____

d. State public utility commission assessments

\$ _____

\$ _____

e. Other Describe: _____

\$ _____

\$ _____

2. Payments in lieu of taxes:

(May also be called transfers to general fund or other tax equivalents)

Local

\$ _____

State

\$ _____

3. Indicate the *method* used to determine the amount of payments in lieu of taxes (check one):

☐ Percentage of Gross Electric Operating Revenue

☐ Charge Based on Kilowatt-hours Sold

☐ Property Tax Equivalent

☐ Percentage of Income (Operating Income or Net Income)

☐ Percentage of Net Utility Plant in Service

☐ Flat Amount Paid Annually/Monthly

☐ Based on an Assessment of Electric Utility and City Budgets

(includes payments that are determined each year by the city council, utility commission or mayor, and payments determined on an as-needed basis)

☐ Other (Please explain below):

4. Has the utility changed its method of calculating the amount of payments in lieu of taxes in the last two years?

☐ Yes

☐ No

If yes, describe briefly why the change was made:

Contributions of Services to State and Local Government

Free or reduced price electric service:

Include the price of all services that the utility is not paid for in any way or provides at below the normal price. (If the utility receives compensation through direct billing, accounting transfers or other transfer or funds, then the service is not free or reduced price and should not be included below). If the dollar amount of the free service is not known, estimate the amount from the kilowatt-hours supplied and an average rate per kWh for commercial service. For example, if the utility provided 40,000 kWh

of free service for recreational facilities, and the average commercial rate for the utility is 8 cents per kWh, the estimate of free service provided would be 40,000 kWh x \$.08/kWh, or \$3,200.

The dollar amount of reduced price service should reflect the difference between the amount the utility receives for the service and the amount the utility would typically charge a customer for the service. For example, if the utility charges the city \$2,000 for 40,000 kWh of electric service for recreational facilities, the utility is receiving 5 cents per kWh for its service. If the average rate that would normally be charged for the service is 8 cents per kWh, the utility is providing reduced-price service to the city of 3 cents per kWh x 40,000 kWh, or \$1,200.

| | Free Services | Reduced Price Services |
|---------------------------------------------------------------------|---------------|------------------------|
| a. Streetlighting | \$ _____ | \$ _____ |
| b. Municipal buildings (offices, public works, garages, etc.) | \$ _____ | \$ _____ |
| c. Water pumping | \$ _____ | \$ _____ |
| d. Water or sewer treatment facilities | \$ _____ | \$ _____ |
| e. Recreational facilities (e.g., parks, baseball fields) | \$ _____ | \$ _____ |
| f. Traffic signals | \$ _____ | \$ _____ |
| g. Other free or reduced-price electric service (specify): _____ | \$ _____ | \$ _____ |

Estimated value of the use of electric department employees for non-electric services:

Include dollar cost of services for which the utility is not reimbursed by direct billing, accounting transfers, or

other transfer of funds. If the dollar amount is not known, estimate an amount using the number of employee-hours provided and an average hourly wage rate (including benefits).

| | |
|---------------------------------------------------------------------------|----------|
| a. Installation of temporary lighting for special events | \$ _____ |
| b. Maintenance of traffic signals | \$ _____ |
| c. Electric repair or maintenance for other departments | \$ _____ |
| d. Rewiring municipal buildings | \$ _____ |
| e. Tree trimming for other departments | \$ _____ |
| f. Reading of water meters | \$ _____ |
| g. Putting up city signs, banners | \$ _____ |
| h. Technical expertise for engineering, economic or environmental studies | \$ _____ |
| i. Non-utility locates for stakes, wires, pipes, etc. | \$ _____ |
| j. Other use of electric department employees (specify): _____ | \$ _____ |

Contributions and Services from the Municipality to the Electric Utility

Include the price of goods and services the electric system receives **from** the city system, for which the city is not paid in any way, or that the city provides below normal price. (Do not include services for which the city has been reimbursed through direct billing or transfer of funds).

1. Estimated value of free or reduced-price service for:

- a. Water \$ _____
- b. Office space \$ _____
- c. Other (specify): _____ \$ _____

2. Estimated value of the use of municipal department employees by the electric department for:

- a. Operations and maintenance \$ _____
- b. Engineering services \$ _____
- c. Financial services \$ _____
- d. Legal services \$ _____
- e. Information Technology services \$ _____
- f. Human Resources services \$ _____
- g. Other (specify): _____ \$ _____

3. Estimated value of the use of municipal department vehicles and equipment by the electric department:

\$ _____

4. Estimated value of the use of municipal department materials and supplies by the electric department:

\$ _____

VIII. Examples of Value Services Provided: A Closer Look at Two Utilities

City Utilities of Springfield, Missouri

TABLE A.5 Payment and Services to the City of Springfield in Lieu of Taxes²³

Fiscal Year Ended September 30, 2011

| | Electric | Gas | Water | Telecommunications | Total |
|-------------------------------------------|--------------------|------------------|--------------------|--------------------|---------------------|
| City Hall | \$216,111 | \$35,572 | \$6,483 | | \$258,166 |
| Health Clinic | 49,557 | 9,490 | 2,733 | | 61,780 |
| Fire Department | 136,998 | 58,934 | 11,606 | | 207,538 |
| Hazelwood Cemetery | 5,585 | 813 | 1,301 | | 7,699 |
| Police Station | 93,950 | 1,926 | 2,532 | | 98,408 |
| Dog Pound | 6,277 | 3,459 | 783 | | 10,519 |
| Municipal Court | 17,390 | 2,081 | 578 | | 20,049 |
| Manpower Human Resources | 41,795 | 7,990 | 571 | | 50,356 |
| Traffic Signal Shops | 7,042 | - | 221 | | 7,263 |
| Service Center | 105,747 | 30,843 | 18,729 | | 155,319 |
| Parking Lots | 5,363 | - | - | | 5,363 |
| Parks | 944,696 | 94,437 | 442 | | 1,039,575 |
| Art Museum | 48,917 | 15,842 | 605 | | 65,364 |
| Airport | 240 | - | - | | 240 |
| Traffic Signals – State | 111,891 | - | - | | 111,891 |
| Traffic Signals – City | 86,532 | - | - | | 86,532 |
| Park Central Square | 4,109 | - | 634 | | 4,743 |
| Storm Warning | 22,069 | - | - | | 22,069 |
| Communications Center | 22,636 | - | - | | 22,636 |
| Street Lighting | 3,278,572 | - | - | | 3,278,572 |
| Fire Hydrant | - | - | 2,517,369 | | 2,517,369 |
| Telecommunications | | | | 645,000 | 645,000 |
| Total Utility Services | \$5,205,477 | \$261,387 | \$2,564,587 | \$645,000 | \$8,676,451 |
| Cash Payments to City in Lieu of Taxes | | | | | \$12,878,226 |
| Electric, Natural Gas & Water Relocations | | | | | \$993,189 |
| Public Transit Services | | | | | \$4,069,126 |
| Other Community Services | | | | | \$274,071 |
| TOTAL | | | | | \$26,891,063 |

²³ Table published in 2011 Annual Report.

Marshall Municipal Utilities, Missouri

TABLE A.6 Total Free Services and Payments in Lieu of Taxes, Fiscal Year 2010/11²⁴

FREE SERVICES

Water:

| | |
|-------------------------------|-----------------|
| Fire Hydrant Maintenance | \$6,750 |
| Depreciation of Fire Hydrants | 5,614 |
| Labor and Material Donated | 14,605 |
| | <u>\$26,969</u> |

Electric:

| | |
|-----------------------------------|------------------|
| Street Lighting Energy | \$145,551 |
| Street Lighting Maintenance | 30,016 |
| Depreciation of Street Lighting | 19,563 |
| Labor and Material Donated | 44,858 |
| Marshall-Saline Development Corp. | 0 |
| | <u>\$239,988</u> |
| TOTAL | \$266,957 |

PAYMENTS IN LIEU OF TAXES

| | |
|-----------------------------------------|--------------------|
| Water Transfers to City General Fund | \$137,689 |
| Electric Transfers to City General Fund | 1,718,618 |
| TOTAL | <u>\$1,856,307</u> |

| | |
|-----------------------------------------|--------------------|
| TOTAL PAYMENTS AND FREE SERVICES | \$2,123,264 |
|-----------------------------------------|--------------------|

IX. Conclusion

This guide has described basic steps to achieve an effective policy on a public power utility's level of payments and contributions to state and local government. Sound business decisions are based on accurate information about the costs of operations, so policy development must start with accounting for all of the utility's direct and indirect payments to the city.

While clearly there is no single correct method or formula for determining the amount of contributions, the utility should have a clear, well-defined policy. The policy should support the basic objective of providing reliable service to consumers at the lowest reasonable cost. Consistency and predictability are critical, and it is important that the policy be a product of the utility and the community working together.

It is useful to compare the utility's contributions with those made by other utilities. Contributions that exceed the norm are a signal to look closely at current practices. A relatively high level of contributions may be a factor in short- or long-term financial and operational problems at the utility. The utility may need to educate local officials on the negative effects of abnormally high contributions as a first step in reducing the community's reliance on high transfer payments.

Finally, customers and local officials may not be fully aware of the benefits their utility provides to the community. Educating the community about the utility's contributions, as well as the other benefits of public power, should be an ongoing mission.

²⁴ Table published in Annual Report, Fiscal Year 2010/11.