

Public Power Pays Back

Payments and Contributions by Public Power Utilities to
State and Local Governments in 2016

5.6%

**PUBLIC POWER UTILITIES
GIVE BACK 5.6% OF
ELECTRIC OPERATING
REVENUES TO THEIR
COMMUNITIES**



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Payments and Contributions by Public Power Utilities to State and Local Governments in 2016

Prepared by
Paul Zummo, Director, Policy Research and Analysis
American Public Power Association

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Powering Strong Communities

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

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Executive Summary

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

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

In 2016, public power utilities contributed **5.6 percent of electric operating revenues** back to the communities they serve, according to an American Public Power Association study of 188 public power utilities.

In comparison, investor-owned utilities paid a median of 4.4 percent of electric operating revenues in taxes and fees to state and local governments in 2016.

When all 2016 taxes, tax equivalents, and other contributions to state and local government are considered, the contribution of public power utilities — as a percentage of electric operating revenues — is 27 percent higher than that of investor-owned utilities.

Many communities are not fully aware of the total value of contributions made by their public power utilities. Some utilities do not quantify all their payments and contributions. The Association conducted a detailed survey of public power utilities to get a more accurate estimate. This report presents the results of this survey, which focuses on the “rate” and “type” of payments and contributions made by public power utilities.

The report includes:

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

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

Payment and Contribution Rates by Revenue Class

Net payments and contributions as a percent of electric operating revenue are summarized for public power utilities in seven revenue classes. Medians by revenue class range from 4.5 percent to 14.5 percent, as compared to the national median of 5.6 percent.

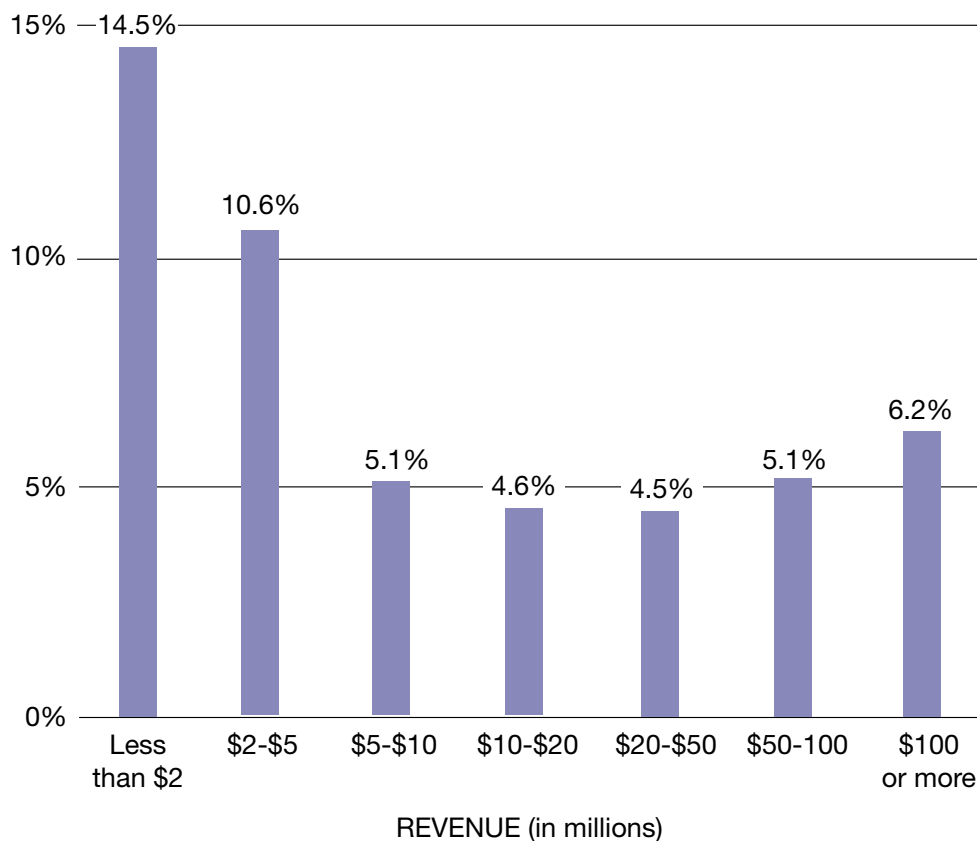
The median is defined as the value where 50 percent of the utilities had greater payment and contribution rates, and 50 percent contributed less.

Quartiles are another common tool used in analysis. By definition, half of utilities fall between the first and third quartiles. For example, 50 percent of the 188 utilities in this report made payments and contributions between 3.2 percent and 8.9 percent of electric operating revenue.

Table 1
Net Payments and Contributions by Public Power Utilities as Percent of Electric Operating Revenue, 2016

Revenue (in millions)	Number of Utilities	Median	First Quartile	Third Quartile
Less than \$2	13	14.5	7.1	22.4
\$2 - \$5	18	10.6	4.6	21.0
\$5 - \$10	16	5.1	2.9	8.5
\$10 - \$20	29	4.6	3.5	5.9
\$20 - \$50	48	4.5	2.9	6.6
\$50 - \$100	30	5.1	2.9	7.7
\$100 or more	32	6.2	5.4	8.7
TOTAL	188	5.6	3.2	8.9

Figure 1. Median Net Payments and Contributions by Public Power Utilities as Percent of Electric Operating Revenue, 2016



Payment and Contribution Rates by Region

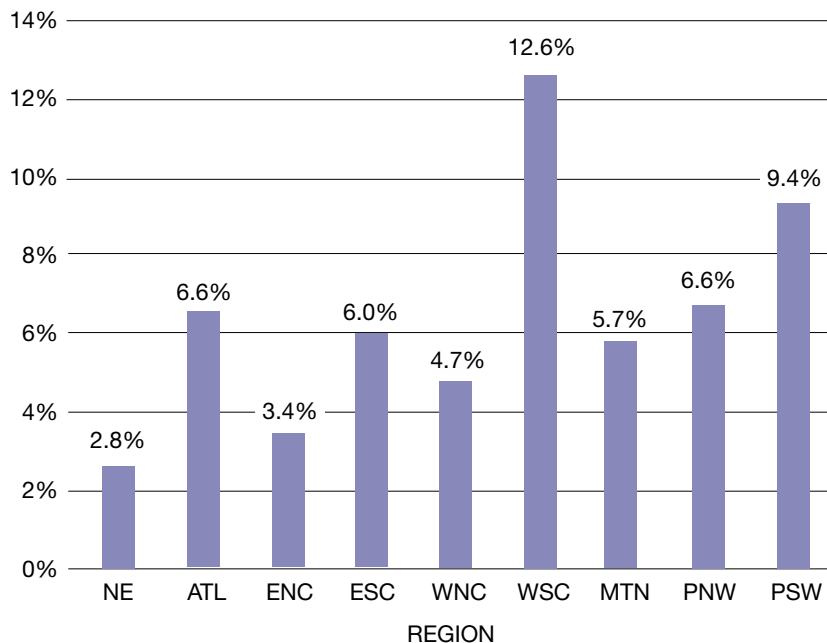
Regional variations in median net payments and contributions range from 2.8 percent in the Northeast to 12.6 percent in the West South Central. Regions are defined in Appendix 2.

Table 2
Net Payments and Contributions by Public Power Utilities as Percent of Electric Operating Revenue, 2016

Region	Number of Utilities	Median	First Quartile	Third Quartile
Northeast	12	2.8	1.2	5.0
Atlantic	19	6.6	2.9	11.5
East North Central	29	3.4	1.7	4.6
East South Central	22	6.0	5.5	6.3
West North Central	49	4.7	3.5	7.3
West South Central	36	12.6	7.7	21.8
Mountain	7	5.7	*	*
Pacific Northwest	9	6.6	5.0	9.7
Pacific Southwest	5	9.4	*	*
TOTAL	188	5.6	3.2	8.9

* Quartiles not provided for fewer than 9 responses.

Figure 2. Median Net Payments and Contributions by Public Power Utilities, as percent of Electric Operating Revenue, 2016



In 2016, investor-owned distribution utilities paid a median of 4.4 percent of electric operating revenues in taxes and fees to state and local governments. Utilities in the middle 50 percent of contributions made payments ranging from 3.2 to 7.2 percent. In comparison, public power utilities paid a median of 5.6 percent in net payments and contributions as a percent of electric operating revenue, with a middle range of 3.2 to 8.9 percent.

In this study, most IOUs (95 percent) had more than \$100 million in operating revenues while most public power systems had less than \$100 million (83 percent).

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

	Investor-Owned	Public Power
Large Utilities (over \$100 million)	4.6%	6.2%
Small Utilities (under \$100 million)	3.9%	5.2%

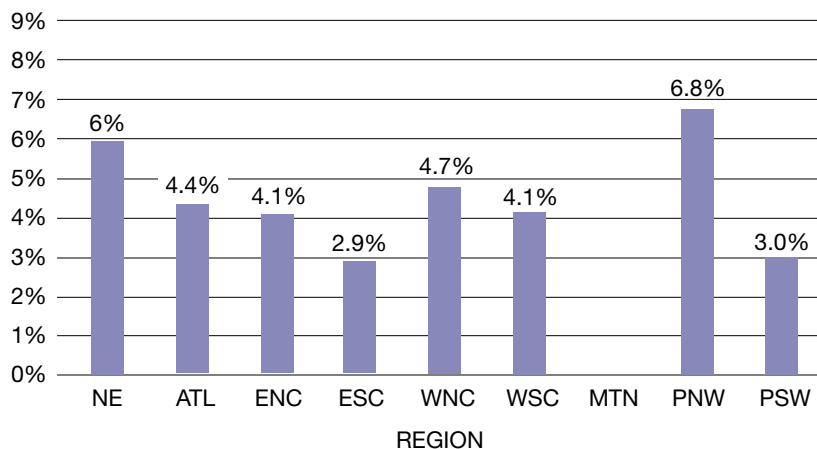
The median rate for investor-owned systems was the largest in the Northeast and Pacific Northwest, and smallest in the East South Central and Pacific Southwest. Table 3 presents data grouped by geographic region for investor-owned utilities.

Table 3
Net Taxes of Investor-Owned Utilities, as Percent of Electric Operating Revenue, 2016

Region	Number of Utilities	Median	First Quartile	Third Quartile
Northeast	23	6.0%	5.2%	8.9%
Atlantic	17	4.4%	3.5%	7.4%
East North Central	24	4.1%	3.4%	5.0%
East South Central	7	2.9%	*	*
West North Central	15	4.7%	3.9%	7.4%
West South Central	11	4.1%	3.1%	5.7%
Mountain	2	n/a	n/a	n/a
Pacific Northwest	6	6.8%	*	*
Pacific Southwest	8	3.0%	*	*
Total	114	4.4%	3.2%	7.2%

* Quartiles not provided for fewer than 9 responses.

Figure 3. Median Taxes of Investor-Owned Utilities, as Percent of Electric Operating Revenue, 2016



Summary of Payments and Contributions

The study is based on a survey the Association sent to all publicly owned utilities. The next two sections of the report summarize results for 171 public power utilities that completed the survey.

The summaries exclude 17 Tennessee Valley Authority distribution utilities that completed the survey, because these utilities' payments and contributions are limited under the terms of their wholesale power contract with TVA.

The 171 utilities made a total of just under \$1.1 billion in total payments and contributions to state and local government in 2016. Payments in lieu of taxes were the largest share of payments and contributions, followed by other taxes and fees.

Table 4
Net Payments and Contributions to State and Local Government

	Amount (in Millions)	Percent of Total
Payments in Lieu of Taxes	\$631.9	59.3%
Other Taxes and Fees	\$220.8	20.7%
Gross Receipts Tax	\$162.2	15.2%
Free or Reduced Cost Electric Services	\$42.1	4.0%
Use of Employees	\$7.2	0.7%
Other, including Equipment and Materials	\$1.5	0.1%
Total	\$1,065.7	100.0%
Less: Services and Contributions RECEIVED by the Utility FROM the Municipality	<u>\$9.1</u> ¹	
Net Payments & Contributions	\$1,056.6	

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

Table 5
Types of Payments and Contributions, 2016

	Percentage of Utilities Surveyed	Number of Utilities
I. Payments and Contributions Provided		
Payments in Lieu of Taxes	79.5%	136
Taxes and Fees	42.7%	73
Gross Receipts Tax	22.2%	38
State Public Utility Assessments	18.1%	31
Franchise Fees	13.5%	23
Property Taxes	16.4%	28
Other	11.7%	20
Free or Reduced Cost Electric Service	42.7%	73
Streetlighting	38.0%	65
Lighting for Municipal Buildings	23.4%	40
Traffic Signals	15.8%	27
Recreational Facilities	14.0%	24
Water or Sewer Treatment Facilities	11.7%	20
Water Pumping	10.5%	18
Other	12.9%	22
Use of Employees	43.9%	75
Installation of Temporary Lighting	24.6%	42
Putting Up City Signs and Banners	22.2%	38
Electrical Repair for Other Departments	14.0%	24
Traffic Signal Maintenance	11.7%	20
Tree Trimming for Other Departments	15.8%	27
Other Services	12.9%	22
Non-Utility Locates	3.5%	6
Technical Expertise	4.1%	7
Rewiring Municipal Buildings	2.9%	5
Reading Water Meters	6.4%	11
Other Resources	24.0%	41
Use of Vehicles and Equipment	18.1%	31
Use of Materials and Supplies	7.0%	12
Other	9.4%	16
II. Services and Contributions Received		
Free or Reduced Cost Service	23.4%	40
Use of Vehicles and Equipment	12.9%	22
Use of Materials and Supplies	7.0%	12
Use of Employees	2.9%	5
	17.0%	29

¹ The 171 utilities received \$9.1 million in contributions and services from the municipality. This amount does not include any contributions or services for which the city has been reimbursed, either through direct billing or a transfer of funds. Free or reduced cost office space and water are the major services provided, while operations and maintenance, legal services, information technology services, engineering services and financial service employees are the predominant type of employee contributions received by the utility. The \$9.1 million in free or reduced cost contributions and services provided by the municipality to the utility is subtracted from the \$1,065.7 million in payments and contributions from the utility to state and local government. **The result is \$1,056.6 million in net payments and contributions by the 171 utilities in 2016.**

Methods Used to Determine Payments in Lieu of Taxes

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

Of the 171 utilities defined earlier, over 79 percent (136 utilities) made payments in lieu of taxes, also called transfers to the general fund. The median transfer as a percent of electric operating revenue was 4.1 percent.

The most common method used to determine the amount of payments in lieu of taxes was percent of gross electric operating revenue, as shown in Table 6.

Table 6

Methods Used to Calculate Payments in Lieu of Taxes

	Percentage of Utilities	Number of Utilities
Percent of Gross Electric Operating Revenue	26%	35
Assessment of Electric Utility and City Budgets	18%	25
Flat Amount Paid Annually	13%	18
Property Tax Equivalent	10%	13
Charge per Kilowatt-hour Sold	10%	13
Percent of Net Utility Plant in Service	2%	3
Percent of Income, (Net, Operating or Total)	2%	3
Other/Did not Indicate	19%	26

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

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

APPENDIX 1

METHODOLOGY AND DATA SOURCES FOR STUDY

Study results for publicly owned utilities were calculated from two sources: data collected on the American Public Power Association’s “2016 Survey of Local Publicly Owned Electric Utilities Tax Payments and Contributions to State and Local Government,” and data submitted by public power utilities to the Department of Energy’s Energy Information Administration on Form EIA-861, “Annual Electric Utility Report.”

A total of 188 utilities completed the 2016 survey. Form EIA-861 provided information on electric operating revenue. Payments and contributions for TVA distributors include an amount equal to 5 percent of the estimated cost of power purchased from TVA — this payment is made by TVA — plus any payments in lieu of taxes or contributions made by the distribution utility. TVA’s wholesale power contracts with municipalities limit payments in lieu of taxes to an amount not exceeding the state and local taxes that the system would pay if privately owned.

Study results for investor-owned systems were calculated from data submitted on the 2016 Federal Energy Regulatory Commission Form 1, “Annual Report of Major Electric Utilities, Licensees and Others.”

The report includes only distribution utilities that are defined here as those with approximately 50 percent or more of their total kilowatt-hour sales going to retail customers. The investor-owned systems included in the study provide 95 percent of all full-service kilowatt-hour sales to investor-owned utility customers, and the public power utilities included in the study provide 25 percent of all kilowatt-hour sales to public power customers.

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

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

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

APPENDIX 2

REGIONS

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

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



2451 Crystal Drive
Suite 1000
Arlington, Virginia
22202-4803