



IOWA
ASSOCIATION OF MUNICIPAL
UTILITIES

**IAMU Payments and Contributions to State and Local
Governments Report for 2002**

August 2004

Executive Summary

It is well known that Iowa's municipal electricity utilities provide service at affordable rates to their customers. However, these utilities also directly assist their communities with many payments and contributions, including property taxes, payments in lieu of taxes or similar transfers to city funds, and free or discounted services to city and state facilities.

Unfortunately, these municipal contributions often come in many forms and are not always recognized. Because of this, it is widely thought that investor-owned utilities benefit local communities to a greater extent than their municipal counterparts. This is a misconception. Both IAMU and the American Public Power Association (APPA) have recently conducted surveys which show that municipal utilities make substantial contributions to their local communities. In fact, the latest APPA survey on payments and contributions to local governments reveals that nationally, publicly owned utilities actually contribute a greater percentage of their electric operating revenues than investor-owned utilities pay in taxes and franchise fees¹.

IAMU conducted a statewide survey based on the national APPA study. Using the responses of 59 municipal electric utilities, IAMU calculated net payments and contributions in 2002 and discovered that the median amount contributed to state and local governments was 5.2% of gross electric operating revenues. This result demonstrates that Iowa municipal electric utilities provide considerable assistance to their local communities.

The Need for an Iowa-Specific Study

While important, the APPA survey on payments and contributions only has results for the

¹ Payments and Contributions by Public Power Distribution Systems to State and Local Governments, 2002 Data. Available at <http://www.appanet.org/about/statistics/statistics.cfm>.

nation and 9 composite regions of the United States. Furthermore, the study makes many comparisons between the contributions of municipal and investor-owned utilities, in order to help dispel the myth that “investor-owned utilities provide a benefit to the local communities by paying taxes that the publicly owned utilities do not.”

The IAMU survey differs from the APPA study in that it is focused solely on Iowa. Instead of comparing the contributions of municipal and investor-owned utilities, IAMU has focused on providing a more detailed picture of the types and amounts of contributions that municipal utilities make to their communities. This extra level of detail will allow Iowa municipal utilities to make more specific comparisons of their levels of transfers with other utilities of similar size.

When comparing levels of payments and contributions, do not interpret the percentages too literally. Every municipal utility has a different way of determining the types and amounts of payments and contributions it makes to state and local governments. As a result, the percentages included in this survey are **only an estimate** of the true levels of payments and contributions among Iowa municipal utilities. [Since they are only estimates, do not feel that your utility must change its spending habits if your levels of payments and contributions differ from these listed here.](#)

Also exercise caution when comparing this survey with the APPA surveys from the present and past, as the utilities in the APPA surveys are not identical to those in the IAMU survey.

With the help of the APPA, IAMU was able to use a survey that was identical to the APPA survey except for one question². In future years, the APPA and IAMU will work in conjunction to administer the APPA survey to Iowa municipal electric utilities.

Data Sources and Methodology

For each municipal utility, payments and contributions were divided by the utility’s gross electric operating revenue³. The numbers obtained are the percentages of gross electric operating revenue that the utility spent on services and contributions.

The value of contributions and/or services provided by the local government to the utility is deducted from total services and contributions to yield the utility’s net amount contributed. The net amount is divided by the gross electric operating revenue to obtain the net percentage.

The median is the value where 50% of the utilities had payment and contribution rates

² IAMU added the category “Payments to support non-utility personnel” to Section II B, “Estimated value of the use of electric department employees for non-electric services.”

³ The gross electric operating revenues were obtained from the ME-1 form collected annually by the Iowa Utilities Board.

greater than the median and 50% contributed less than the median. For example, half of the responding utilities provided total services and contributions less than 5.78%, and the other half gave services and contributions greater than 5.78%.

Quartiles have been used for the summary categories in this report (i.e., “Taxes and Fees” and “Free or Reduced Cost Electric Services”). By definition, one-half of utilities fall between first and third quartiles. For instance, 50% of the 59 utilities in this report made taxes and fees contributions between 0.14% and 1.37%. Quartiles were not calculated for any category that had fewer than 9 responses.

The minimum and maximum percentages were given for every category in this analysis, since many categories had fewer than 9 responses.

For further size comparisons, IAMU divided the 59 utilities among three revenue size classes: less than \$1,000,000, \$1,000,000-\$2,000,000, and greater than \$2,000,000.

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

This survey was conducted by Bob Haug, Anne Kimber, and Erin Peiffer. Please call Erin at 800/810-4268 or email at epeiffer@iamu.org if you have questions or comments.

IAMU Payments and Contributions to State and Local Government Survey, 2002 Data

Types of Payments & Contributions as Percentage of Gross Electric Operating Revenue
All Revenue Classes

	Percentage of Survey Utilities	Number of Utilities	Median	Minimum	Maximum	First Quartile	Third Quartile
Total Services & Contributions PROVIDED	100.00%	59	5.78%	1.37%	34.19%	3.60%	8.30%
I. (by the Utility to the Municipality)							
<i>Payments in Lieu of Taxes</i>	76.27%	45	3.72%	1.02%	34.19%	2.39%	6.47%
<i>Taxes and Fees</i>	57.63%	34	0.37%	0.01%	8.28%	0.14%	1.37%
Gross Receipts Tax	1.69%	1	8.28%	8.28%	8.28%		
State Public Utility Assessments	27.12%	16	0.13%	0.09%	0.26%		
Franchise Fees	0.00%	0	N/A	N/A	N/A		
Property Taxes	40.68%	24	0.24%	0.00%	2.62%		
Other	13.56%	8	0.24%	0.002%	1.65%		
<i>Free or Reduced Cost Electric Services</i>	61.02%	36	1.25%	0.01%	8.39%	0.81%	2.38%
Streetlighting	47.46%	28	0.80%	0.15%	2.37%		
Lighting for Municipal Buildings	30.51%	18	0.61%	0.18%	6.74%		
Recreational Facilities	30.51%	18	0.12%	0.01%	0.62%		
Traffic Signals	6.78%	4	0.04%	0.02%	0.26%		
Water Pumping	13.56%	8	0.59%	0.11%	5.91%		
Water or Sewer Treatment Facilities	20.34%	12	0.19%	0.01%	2.02%		
Other	15.25%	9	0.07%	0.005%	1.08%		

	Percentage of Survey Utilities	Number of Utilities	Median	Minimum	Maximum	First Quartile	Third Quartile
<i>Use of Employees</i>	77.97%	46	0.66%	0.06%	5.73%	0.28%	1.37%
Installation of Temporary Lighting	49.15%	29	0.09%	0.01%	0.76%		
Payments to Support Non-Utility Personnel	11.86%	7	1.19%	0.35%	3.57%		
Putting up City Signs & Banners	54.24%	32	0.09%	0.01%	0.51%		
Electrical Repair for Other Departments	44.07%	26	0.09%	0.01%	1.80%		
Traffic Signal Maintenance	32.20%	19	0.10%	0.01%	0.63%		
Tree Trimming for Other Departments	35.59%	21	0.28%	0.01%	2.57%		
Other Services	22.03%	13	0.12%	0.01%	0.70%		
Rewiring Municipal Buildings	11.86%	7	0.09%	0.01%	0.59%		
Non-Utility Locates	16.95%	10	0.04%	0.002%	0.15%		
Technical Expertise	13.56%	8	0.06%	0.01%	0.26%		
Reading Water Meters	25.42%	15	0.25%	0.04%	1.88%		
<i>Other Resources</i>	33.90%	20	0.25%	0.005%	3.84%	0.04%	0.40%
Use of Vehicles & Equipment	45.76%	27	0.18%	0.02%	6.55%		
Use of Materials & Supplies	20.34%	12	0.08%	0.01%	1.94%		
Other	22.03%	13	0.20%	0.002%	26.86%		
II. Services & Contributions RECEIVED (by the Utility FROM the Municipality)	49.15%	29	0.22%	0.005%	6.39%	0.08%	0.55%
Use of Employees	22.03%	13	0.10%	0.02%	2.02%		
Free or Reduced Cost Services	23.73%	14	0.09%	0.002%	1.45%		
Use of Materials & Supplies	33.90%	20	0.25%	0.005%	3.84%		
III. Net Services & Contributions PROVIDED (by the Utility to the Municipality)	100.00%	59	5.16%	-0.62%	34.19%	3.24%	8.07%

Types of Payments & Contributions as Percentage of Gross Electric Operating Revenue
Revenues Greater than \$2,000,000

	Percentage of Large Utilities	Number of Utilities	Median	Minimum	Maximum	First Quartile	Third Quartile
Total Services & Contributions PROVIDED	100.00%	23	5.10%	1.46%	25.80%	3.92%	7.44%
I. (by the Utility to the Municipality)							
<i>Payments in Lieu of Taxes</i>	91.30%	21	3.79%	1.42%	17.11%		
<i>Taxes and Fees</i>	78.26%	18	0.49%	0.04%	8.28%		
<i>Free or Reduced Cost Electric Services</i>	34.78%	8	1.05%	0.44%	8.39%		
<i>Use of Employees</i>	69.57%	16	0.42%	0.14%	2.82%		
<i>Other Resources</i>	43.48%	10	0.23%	0.002%	8.50%		
II. Services & Contributions RECEIVED (by the Utility FROM the Municipality)	30.43%	7	0.14%	0.005%	2.94%	*	*
III. Net Services & Contributions PROVIDED (by the Utility TO the Municipality)	100.00%	23	5.08%	1.39%	23.52%	3.77%	7.44%

* Quartiles are not provided for any category with less than 9 responses.

Types of Payments & Contributions as Percentage of Gross Electric Operating Revenue
Revenues Less than \$1,000,000

	Percentage of Small Utilities	Number of Utilities	Median	Minimum	Maximum	First Quartile	Third Quartile
Total Services & Contributions PROVIDED	100.00%	23	6.47%	1.37%	33.03%	3.54%	11.61%
I. (by the Utility to the Municipality)							
<i>Payments in Lieu of Taxes</i>	69.57%	16	2.95%	1.02%	23.63%		
<i>Taxes and Fees</i>	43.48%	10	0.17%	0.01%	2.90%		
<i>Free or Reduced Cost Electric Services</i>	73.91%	17	1.38%	0.01%	6.74%		
<i>Use of Employees</i>	86.96%	20	0.73%	0.06%	5.73%		
<i>Other Resources</i>	69.57%	16	0.35%	0.007%	26.86%		
II. Services & Contributions RECEIVED (by the utility FROM the Municipality)	60.87%	14	0.23%	0.02%	6.39%	0.15%	0.81%
III. Net Services & Contributions PROVIDED (by the Utility TO the Municipality)	100.00%	23	5.92%	-0.62%	32.85%	2.84%	11.60%

Types of Payments & Contributions as Percentage of Gross Electric Operating Revenue
Revenue: \$1,000,000-\$2,000,000

	Percentage of Midsize Utilities	Number of Utilities	Median	Minimum	Maximum	First Quartile	Third Quartile
Total Services & Contributions PROVIDED	100.00%	13	6.13%	2.16%	34.19%	2.67%	7.44%
I. (by the Utility to the Municipality)							
<i>Payments in Lieu of Taxes</i>	61.54%	8	3.90%	1.96%	34.19%		
<i>Taxes and Fees</i>	46.15%	6	0.54%	0.06%	1.68%		
<i>Free or Reduced Cost Electric Services</i>	84.62%	11	1.23%	0.22%	3.42%		
<i>Use of Employees</i>	76.92%	10	0.73%	0.17%	3.10%		
<i>Other Resources</i>	53.85%	7	0.23%	0.033%	3.05%		
II. Services & Contributions RECEIVED (by the utility FROM the Municipality)	61.54%	8	0.16%	0.03%	1.24%	*	*
III. Net Services & Contributions PROVIDED (by the Utility TO the Municipality)	100.00%	13	6.04%	1.94%	34.19%	2.54%	7.01%

* Quartiles are not provided for any category with less than 9 responses.

Methods Used To Determine Amount of Payments in Lieu of Taxes to Local Governments

Of the 59 municipal utilities included in this survey, 76% made payments in lieu of taxes (transfers to the general fund). The median payment transferred was 3.72% of gross electric operating revenue.

The table below indicates what types of methods were most commonly used across Iowa to determine the amounts of payments in lieu of taxes. Utilities who did not make any payments in lieu of taxes in 2002 were not included in this table.

Methods Used to Calculate Payments in Lieu of Taxes

	<u>Percent of Utilities</u>	<u>Number of Utilities</u>
Percent of Gross Electric Operating Revenue	11.11%	5
Property Tax Equivalent	8.89%	4
Assessment of Electric Utility and City Budgets	26.67%	12
Flat Amount Paid Annually	22.22%	10
Charge per Kilowatt-hour Sold	17.78%	8
Percent of Income, (Net, Operating, or Total)	2.22%	1
Percent of Net Utility Plant in Service	0.00%	0
Other	11.11%	5

In accordance with APPA methodology, the category "assessment of electric utility and city budgets" included 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.