

Mayor's Column for June 15, 2011 Review

At last October's League of Wisconsin Municipalities annual conference I talked with Don Pohlman, mayor of the City of Plymouth. We spoke about a just completed economic study of the Plymouth electric utility. Plymouth obtained the services of accounting firm Baker Tilly to evaluate the utility operations and financial stability to assist in decision-making about proposed future investments in the utility. The Plymouth Common Council also requested financial information to consider the impacts of a possible sale of the utility. The study can be found on the City of Plymouth website.

There are 82 municipal electric utilities in Wisconsin and Evansville Water & Light is one. The utilities distribute 11.8% of Wisconsin's electricity to more than 250,000 residential, farm, commercial, and industrial customers. The average population for the 82 communities is 5,679.

In the current economic environment, other Wisconsin municipalities have fielded questions from citizens about the sale of their utilities as an avenue to alleviate budget difficulties. The Plymouth study identifies different factors to consider in looking at the community value of a locally-owned electric utility.

Evansville Water & Light was established in 1901 and has provided service to our community for 110 years. In 2010, Evansville had 3,821 electric customers that were served with over 140 miles of electric line, a significant portion being located in the rural areas surrounding Evansville.

All electric utilities, municipal and investor-owned, are subject to direction and oversight of the Public Service Commission of Wisconsin. All requests for electric rate increases must be submitted to the Public Service Commission. Evansville residential electric rates are currently 11% lower than those of Alliant Energy.

The largest asset owned by a municipal power utility is its capital investment in plant infrastructure. The net capital assets of the Evansville Water & Light Utility at the end of 2009 were nearly \$10 million.

Municipal electric utilities are tax exempt and therefore do not pay property taxes. Many municipalities require their utilities to pay a tax equivalent, a payment in lieu of taxes (PILOT), to the municipality. This payment is recorded annually as a "transfer in" to the general fund of the city. In 2010, the combined PILOT transfer for the Evansville Water & Light Utility was \$390,605. The electric utility portion was \$215,194. The City annual general fund budget is approximately \$3 million. The utility PILOT significantly lowers the annual tax burden for our residents. For the five year period from 2006-2010, the PILOT total from our water and light utility was more than \$1,525,000.

This tax treatment is a significant advantage over for-profit investor-owned utilities. A sale of the utility to a taxable entity would not generate a property tax offsetting the PILOT because investor-owned utilities do not typically pay property taxes on

distribution facilities. Municipalities would not receive PILOT charges from an investor-owned utility because it is handled at the state level and proceeds are retained by the state. Keeping the PILOT contribution was one of the major factors in Plymouth's decision to keep its electric utility.

Our city-owned utility provides employment for 13 people. Local jobs provide community stability.

In 2006 Evansville became a member-owner of WPPI Energy. Joint action agencies like WPPI Energy are common providers of energy to municipal utilities as they can provide energy and other services to their member utilities at a lower cost. Some of the additional benefits of affiliation with WPPI Energy are: assistance with preparation of rate cases, joint purchasing of power and supplies, development and marketing of customer energy programs, and customized energy expertise for local commercial and industrial businesses.

Local control is a valuable non-monetary consideration when evaluating a utility. Your local utility is immediately on the scene when needed, with Evansville customers receiving first-priority service. A while ago, a local business owner told me of his gratitude for immediate emergency weekend service by utility staff familiar with his specific electrical needs. Evansville Water & Light employees worked a twenty-seven hour shift during and following last week's storm.

While working with other Pilot Wisconsin Energy Independent Communities in the 25 x 25 Planning Grant program, local control was an issue in several of the communities interested in applying for grant money to upgrade street lights to LED technology. Those communities served by for-profit utilities found it difficult or impossible to obtain the necessary information and/or approvals to make application for funding for energy efficiency upgrades (with related energy cost reductions) to the street lights.

Utility staff provides assistance with unique community electrical needs for festivals like the 4th of July and holiday celebration decorations and lighting. Evansville Water & Light has provided local scholarships and school activity sponsorships, like the Energy Fair and KEEP (K-12 Energy Education Program) training for local teachers.

There are a number of undetermined costs that would be incurred with a sale of an electric utility.

- In a combined water and light utility, the two components would need to be uncoupled. Debt incurred for projects may have included both water and electric components. The cost of debt restructuring and repayment would be necessary as part of the sale. What facilities would need to be retained/sold?
- Our long-term supply agreements with WPPI Energy would likely require financial penalties for early termination, intended for the purpose of protecting the stability of WPPI Energy.

- There would be legal and regulatory transaction costs related to the sale.
- Using one-time money from the utility sale to alleviate municipal budget difficulties does not solve structurally inadequate budgets in the long-term.

There have been three instances of electric utility sales in the past 25 years. In each case there were extenuating circumstances leading to the utility sale. In the 1980s two small communities, each with less than 700 customers, felt that necessary capital improvements were cost prohibitive and instead sold their utility. In the third situation, a city undertook an unsuccessful utility project that resulted in severe financial difficulties for the city.

Municipalities in Wisconsin generally recognize the long-term value of locally-owned utilities.

I have stated on a number of occasions that Evansville is in strong financial shape. We have been balancing our budget through the past few difficult years. Preliminary audit results show that with careful budgeting we added dollars to our general fund balance again in 2010. Our city staff is to be commended for their efforts. We do not need to consider selling off our assets to maintain operations. Lean budgets are necessary for years to come—but we will continue to address them head on.

COMMUNITY ANNOUNCEMENTS

The Evansville Farmer's Market continues to add new items each week—I bought my first local strawberries last Saturday. There are now bakery items available; the sourdough bread is terrific! Check them out at Creekside Place on Saturdays from 9 a.m. to 2 p.m.

I collected out of date prescription and over-the-counter drugs throughout my house last week and used the new drug drop off box to dispose of them. I encourage our residents to use the drop off box to safeguard our groundwater and protect our youth.

COMMUNITY CONGRATULATIONS/THANKS

Evansville thanks our Scouts for their community service. The Girl Scouts recently collected one ton of nonperishable food for the Evansville Food Pantry at the Care Closet. The Boy Scouts recently placed flags at Maple Hill Cemetery in memory of our veterans.

Our community thanks Tim Fischer and Public Works Department staff for readying the cemetery for the Civil War Commemoration and Memorial Day weekends. The cemetery looked great!

Our community congratulates the Evansville Lions Club for 85 years of serving Evansville.

Congratulations to Phil and Nancy Kress for being selected by the United Way of North Rock County Volunteer Network to receive the Family Volunteer Award. Evansville greatly appreciates their continuous commitment to our community's youth.

Our city thanks C-R Stone for donating landscaping material to complete the signage area at the Police Station.

Evansville thanks the Blackhawk Technical College Criminal Justice Club for donating a security camera for the drug drop off box.