



Meeting Date: May 2, 2016

Report No. SUA-16-23

Agenda Item No. 5-a

Status: General Orders

Purpose: To present a written policy statement on the transfer from the SUA to the General Fund that will guide future Councils and Board of Trustees in their decisions on transfers and will provide utility management with the consistency and predictability that is necessary for stable, well-planned financial operations of the utility.

Background Summary:

Current Policies (summary)

The SUA Trustees may transfer surplus revenues to the General Fund. The transfer shall not include:

- Any sales tax dollars; or
- Electric revenues that are designated for the electric rate stabilization fund; or
- Water and wastewater revenues; or
- The first \$250k of surplus revenue generated by waste management annually until a waste management fund balance/reserve of \$1M has been established.

Detailed information about each of these policies is provided at the end of this document.

Transfer History

	2015		2014		2013		2012		2011		2010	
Electric	\$ 11,315,502	23%	\$ 11,709,097	24%	\$ 11,875,789	26%	\$ 11,883,087	25%	\$ 9,812,311	21%	\$ 15,409,988	34%
Water	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -	
Wastewater	\$ -		\$ 596,464	13%			\$ -		\$ -		\$ -	
Waste Management	\$ 1,082,080	22%	\$ 1,290,414	27%	\$ 973,144	21%	\$ 510,726	12%	\$ 668,143	16%	\$ -	
SUA Fund Balance	\$ 2,290,612		\$ -		\$ -		\$ -		\$ -		\$ 409,889	
Total Transfer	\$ 14,688,194	22%	\$ 13,595,975	21%	\$ 12,848,933	20%	\$ 12,393,813	19%	\$ 10,480,454	16%	\$ 15,819,877	25%
Total Transfer % based on all SUA revenue excluding sales tax.												

Transfer Methods

The American Public Power Association (APPA) reports that the most common method used to determine the transfer amount is a percentage of the gross operating revenue in the form of a PILOT (payment in-lieu of taxes). Other methods identified by the APPA are:

- Flat amount paid annually.
- Property tax equivalent.
- Charge per kilowatt-hour sold.
- Assessment of utility and city budgets.
- Percent of net utility plant in service.
- A combination of the above or other.

Stillwater has traditionally used the assessment of utility and city budget method and made transfers on an as needed basis.

Survey

Forty-two public power cities within Oklahoma and the surrounding states were contacted to enquire about policies for transfers to the general fund from the utilities and 10 responded. Four of the respondents reported that they have a written policy for transfers to the general fund from utilities. The written policies included:

- Transfer portion of surplus revenue after meeting utility revenue requirements.
- PILOT: 7% of revenue.
- PILOT: 5% of revenue.
- Charge per kilowatt-hour (\$0.00175) equal to approximately 3% of revenue.

Stillwater's Uncommon Situation

Most municipally owned utilities are considered enterprises and rely solely on utility rates and charges as their sources of revenue. The SUA is the recipient of a 1-cent sales tax that may be used for any utility purpose. Thus, the sales tax enables the utility to:

- Reduce the amount of revenue that must be recovered from rates and charges; or
- Create a larger amount of surplus revenue generated from rates and charges.

Since the retirement of debt for the Kaw pipeline, Stillwater has used all of the sales tax revenue to partially pay for the purchase of wholesale electricity. By paying a portion of the utility expenses with the sales tax, a larger amount of surplus revenue has been available to transfer to the General Fund.

Budget Impact: Creation of a written policy should have no impact on the current or the proposed budget for FY17. The recommended policy is consistent with the practice that has been followed administratively in preparation of the current and the proposed budget for FY17.

Prior Council Action or Part of an Approved Project: No

Related Items: None

Alternatives:

1. Continue the current practice of identifying the General Fund transfer amount as part of the evaluation of the utility and city budgets with the approval of the budgeted transfer occurring with the approval of both the SUA and city budgets.

The General Fund transfer amount could be approved independently or as part of the overall budget approval. This alternative would maintain the greatest amount of flexibility but for all practical purposes would not change the current approach.

2. Formally define “surplus revenue” and limit the General Fund transfer to the actual amount of surplus revenue in any given year. Transfers would continue to be made on an as needed basis up to the limit. Occasional transfers from the SUA fund balance could be made when needed for specific purposes.

Nowhere in the adopted policies are surplus revenues defined. It would be pure speculation to assume that those who drafted and approved the Trust Indenture, intended surplus revenues to be those revenues that are remaining after all of the utility systems needs had been met. However, the typical meaning of surplus revenue is the revenue remaining after all needs have been met. In the utility industry, revenue needs are known as revenue requirements and are calculated by a cost of service study. For water and wastewater, the revenue requirements were established by the cost of service study that was completed in the spring of 2015. Using the revenue requirements approach to define surplus revenue provides a relatively high level of consistency and predictability for budgeting purposes.

3. Establish a policy using one of the common transfer methods reported by APPA.

Given Stillwater’s uncommon situation, it may be difficult to develop a policy utilizing the common transfer methods and keep the transfer amount in the range that is typically occurring in public power cities across the nation. In their most recent survey, APPA reports the median amount to be 5.5% of operating revenues with the high end being in the neighborhood of 10%. To hit even the high end of the range would likely result in a significant reduction in funding for general government services.

Recommendation: A proposed draft policy that follows alternative #2 is attached for the Trustees’ consideration. At the Trustees’ direction, the draft policy will be put into the form of a resolution and presented for approval at the next regularly scheduled SUA meeting.

Prepared by: Dan Blankenship, Deputy City Manager

Submitted by: Norman McNickle, City Manager

Attachments: Draft Policy

Current Policies (detailed)

The following provides detailed information about the current policies that directly impact the amount of money that is available for transfer from the SUA to the General Fund.

Section 15, Article V, Powers and Duties of the Trustees, of the SUA Trust Indenture states:

(15) To expend all funds coming into the hands of the Trustees in payment of any obligation properly chargeable against the Trust Estate and from time to time to transfer any surplus funds to the Beneficiary as the Trust in its sole discretion may determine, and.....

In reference to surplus revenues, the section further states:

Provided, however, any surplus revenues generated by the additional sales tax provided for by Ordinance No. 1835 remaining after payment of obligations properly chargeable against the Trust shall be used only for the purpose of purchasing or redeeming bonds or other indebtedness of the Authority or the Beneficiary prior to maturity or any other lawful purpose of the Authority and, further provided, that none of the proceeds of such additional tax shall ever be paid or transferred to the General Fund of the Beneficiary.

Trustee action on February 11, 1988 (report number SUA-88-4) established the electric rate stabilization fund (RSF). Whenever the actual cost of purchase power (monthly basis) is below the power cost base (PCB) established by the Trustees, a portion of the revenues are retained in the electric RSF. Whenever the actual cost of purchase power is more than 5 mills below the PCB, the cost savings are shared between the customers and the electric RSF. The power cost base is an approximation of the average cost per kilowatt-hour of wholesale power over an extended period of time. The current PCB is 5.5 cents and was established by the Trustees on January 5, 2012.

Trustee action on January 5, 2012 (report number SUA-12-04) set aside annually, beginning in FY12, all excess revenue from electric sales to be placed in the electric rate stabilization fund. Excess electric revenue for this purpose is defined as the difference between the actual revenue and the original projected revenue less the difference between the actual purchase power expense and the budgeted purchase power expense. In formula form: excess electric revenue = (actual revenue – original projected revenue) – (actual purchase power expense – budgeted purchase power expense).

Resolution Number SUA-2015-7 stipulates that all revenues generated by water rates and charges be set aside for the purpose of operating, maintaining and upgrading the raw water delivery system, the water treatment facility, and the water distribution system. The resolution also stipulates the same for wastewater rates and charges. The rate design and approval of the resolution by the Trustees was based upon no transfer from water or wastewater to the General Fund.

Trustee action on November 2, 2015 (<http://stillwater.org/agendas/2015/agenda.php?g=10&a=1579>) set aside annually, beginning in FY16, no less than \$250,000 from waste management revenue until such time that a waste management fund balance/reserve of \$1M has been established.