

# Fiscal Autonomy for Public Agencies



## NARUC/ERRA Workshop on Public Utility Regulation in Market Economies

*by*

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# *Overview of Presentations*

- ❖ First Presentation Covers Fiscal Autonomy
  - Present Models used in Vermont designed to achieve this result
- ❖ Second Presentation Addresses the Structure of Regulatory Budgets, using Vermont as example
- ❖ Final Presentation Looks at the Budget Review and Approval Process



- ❖ Adequate funds are essential to effective regulation
- ❖ But equally important are stability and predictability
  - Can adapt activities to budget levels
  - Changing budget levels can be highly disruptive



# *Funding of Regulatory Agencies*

- ❖ Most US States and Federal Government fund regulatory activities as part of overall budget
- ❖ Establishes some risk that when general tax revenues decline or increase less than inflation, regulatory budget will decrease
- ❖ Limited exposure to political influence in practice
  - Typically, legislative and administrative recognition that large changes in budgets can be disruptive
- ❖ Result is stable budgets



## *Two Mechanisms for Funding PSB Activities*

- ❖ Gross Receipts Tax
- ❖ Energy Efficiency Utility
  - Utility is a separate entity, authorized by statute, with a budget set by the Board
- ❖ PSB also manages State Universal Service Fund in same manner as Energy Efficiency Utility



## *Advantages of Vermont Approach to Funding*

- ❖ Funding source is separately identified
- ❖ Also quite stable, since is tied to utility revenues
- ❖ As a result, budget is also stable, as well as relatively predictable
- ❖ As we will discuss with the review process, budget still must be reviewed by Governor and by legislature



# *Gross Receipts Tax*

- ❖ Primary funding source for PSB budget
- ❖ Tax applies to the gross receipts of companies subject to Board regulation



## *Gross Receipts Tax (Cont'd)*

- ❖ 0.5% tax on Electric and Telephone Utilities
- ❖ 0.3% tax on Gas Utility
- ❖ 0.5% tax on Cable Television
- ❖ 0.1% tax on Water Utilities and other companies subject to regulation
- ❖ Lower amounts for Gas/Water reflect differences in nature of regulation



## *Gross Receipts Tax (Cont'd)*

- ❖ Tax generates approximately \$6.3 annually
- ❖ Used for funding of PSB and Department of Public Service --- 40% to PSB, 60% to Department



## TOTAL GROSS RECEIPTS TAX REVENUE BY INDUSTRY - FY 2007

*(PSB share of these revenues is 40 percent)*

Industry	Gross Receipts Tax Rate	Gross Operating Revenue	Tax Paid 2007 to DPS	Tax Paid 2007 to PSB	Percent of Total Paid to PSB
Electric	0.005	\$723,131,156	\$2,169,394	\$1,446,263	57.33%
Telephone	0.005	255,935,350	1,101,219	734,146	29.10%
Cable	0.005	118,088,207	354,078	236,052	9.36%
Gas	0.003	88,025,253	158,446	105,630	4.19%
Water	0.001	1,477,325	846	564	0.02%
Total		\$1,186,657,291	\$3,783,983	\$2,522,655	100.00%



# PUBLIC SERVICE BOARD ACTIVITY BY INDUSTRY - FY 2007

Industry	Dockets Processed		Non-docket Filings		Hearings Held		Decisions Issued	
	No.	Pct. total	No.	Pct. total	No.	Pct. total	No.	Pct. total
Electric	135	63%	226	44%	136	81%	358	62%
Telephone	59	27%	178	34%	14	8%	125	22%
Cable	4	2%	84	16%	1	1%	29	5%
Gas	7	3%	24	5%	11	7%	53	9%
Water	11	5%	6	1%	5	3%	15	2%
Total	216	100%	518	100%	167	100%	580	100%



## *Vermont Regulated Companies by Industry*

Industry	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Electric	22	22	22	21	21
Telecommunications:					
Local Exchange	10	10	10	10	10
Clec/Reseller/Cellular	491	510	524	522	534
Cable TV	21	20	20	20	20
Natural Gas	1	1	1	1	1
Water	33	28	28	28	28
Total	578	591	605	602	614



## *Gross Receipts Tax (Cont'd)*

- ❖ Funds are separate from general funds of the State (i.e., normal tax revenue)
- ❖ Unused portions of gross receipts tax revenues are retained in reserve fund
- ❖ Reserve fund provides buffer for subsequent years or significant expenditures
  - Board and Department can include money from reserve fund to supplement gross receipts revenues



## *Bill-back Authority*

- ❖ Revenue from gross receipts tax is augmented by bill-backs
- ❖ Board and Department are authorized to charge the utilities for the expenses of certain regulatory proceedings
- ❖ Has been used primarily for consulting costs, which can be high in complex proceedings



## *Bill-Back Authority (cont'd)*

- ❖ Even though authorized to bill expenses to utilities, Board cannot necessarily spend the funds
- ❖ Still limited in spending to amount appropriated by legislature
- ❖ Board can request permission from legislative committees or administration to use some of the money from bill-backs to cover consulting costs



## *Special Funds*

- ❖ Board administers two special funds that represent separate model
- ❖ Energy Efficiency Fund
- ❖ Telephone Universal Service Fund
  - Telephone Lifeline
  - Relay Service for Hearing/Speaking impaired
  - E911



## *Energy Efficiency Fund*

- ❖ Purpose: Provide funds for cost-effective energy efficiency measures
- ❖ Programs are funded through a charge on electric service
- ❖ Programs run by efficiency utility are among the most comprehensive in US, and are expected to eliminate growth in electrical usage within Vermont



# *Energy Efficiency Fund (cont'd)*

- ❖ Board authorized to set level of the charge
  - In the past, programs were subject to a statutory cap
  - Cap ranged from \$14 to 17 million annually
- ❖ Two years ago, legislature removed cap
- ❖ Board now can set charge at the level it finds reasonable



## *Energy Efficiency Fund (cont'd)*

- ❖ Now ramping up to approximately \$30 million annually
- ❖ To provide some perspective, the Board's normal regulatory budget is approximately \$2.5 million
  - This fund, managed wholly at the Board's discretion, is 12 times as large



# *Energy Efficiency Fund*

## *(cont'd)*

- ❖ Statute specifically provides that funds belong to ratepayers, meaning that they remain separate from other tax revenue and special funds
- ❖ Legislative and administrative oversight of the funds has been limited
- ❖ Instead, fund rate set based upon balance between reasonable tax rate and need to acquire cost-effective resources



# *Universal Service Fund*

- ❖ As with Energy Efficiency Fund, Universal Service Fund is set by the Board, not legislature
- ❖ Fund is designed to support telephone lifeline program and relay service for the speech and hearing impaired.
- ❖ Programs are funded through a charge on telephone service



## *Universal Service Fund (cont'd)*

- ❖ Also funds Enhanced 911 system, although this is simple pass-through of amounts legislature determines
- ❖ Board has discretion to determine charge, up to statutory limit of 2 % of telephone revenue



## *Universal Service Fund (cont'd)*

- ❖ Separate funding source allows Board the flexibility to set charge to generate amount needed
- ❖ Money is separate from general fund revenues, so no exposure to political pressures
- ❖ As a separate fund, Board can also allow fund to carry significant balances without risk of money being diverted



## *Conclusion*

- ❖ Relatively stable and predictable budget is essential to being effective regulator
- ❖ Separate funding source, even if subject to oversight, facilitates this goal