

Pact eases burden of SMUD shift
By Beth Curda/Enterprise staff writer

A favorite argument of those who want Davis residents and businesses to leave Pacific Gas & Electric Co. and become customers of a neighboring public utility is that they would see cheaper electric bills.

But, on the other hand, the city would lose around \$440,000 in payments it receives each year from private power provider PG&E. That money goes into the general fund.

PG&E pays that money in property taxes and franchise fees that the Sacramento Municipal Utility District, a governmental agency, would not have to pay.

It is a situation faced throughout the region, as SMUD pursues annexation of Davis, Woodland, West Sacramento and unincorporated areas of Yolo County.

Supportive of the move, officials from the cities and county are drafting agreements with SMUD to try to recover money similar to the property tax revenue and franchise fees they receive today from PG&E.

In Davis, the agreement, approved Tuesday by the City Council, removed a sticking point with organizations such as the Davis Chamber of Commerce, Yolo County Taxpayers Association and Howard Jarvis Taxpayers Association. The groups protested an earlier idea for recovering the money, but a representative said this week he expects the options in the latest agreement to resolve the concerns.

The annexation proposal sits today on the desk of the Sacramento Local Agency Formation Commission, which rules on boundary changes in its jurisdiction. The commission is scheduled to vote April 5 and April 20. If it approves the plan, Yolo County voters and SMUD's existing customers would have the final say on ballots in November.

PG&E is fighting the annexation and points primarily to cost estimates quoted in public meetings. PG&E says SMUD and the local government bodies have severely underestimated the costs they would incur to switch providers and says SMUD customers would have to pay more, not less, after the annexation.

Davis would lose about \$358,000 in annual franchise fees (that was the 2004 payment to the city) and up to \$82,000 in property tax, according to city estimates.

The latter is hard to estimate, Public Works Director Bob Weir said, because of two things. First, property tax is levied on electric and gas equipment and facilities. PG&E still would provide gas power to the area after the annexation and pay taxes on the property it still would have here.

Second, when the tax money is distributed, it first is collected by the state, then funneled to the county, then the cities; the process complicates calculation of an estimate.

In 2004, Davis residents, businesses and government offices paid \$35 million to PG&E. SMUD has a history of being significantly cheaper, up to 30 percent less recently. If annexed, the Yolo areas would spend a few years or more paying some extra to cover the costs of the annexation, but the city of Davis

has estimated its community would save \$10 million per year under SMUD.

Each year, Woodland receives about \$250,000 in franchise fees and \$89,000 in property taxes, although the latter number includes gas operations and land.

West Sacramento receives around \$750,000 each year in property tax money and franchise fees paid by PG&E.

The agreements, considered so far by the Davis and Woodland city councils and on the April 5 agenda in West Sacramento, list money-saving options that would be the equivalent of recovering revenue the cities get today from PG&E. In short, the cities would not receive payments, but would save that money in incentives.

That could include rebates for energy-efficient measures in public buildings, said Arlen Orchard of SMUD. It also could include offering a break on energy bills to businesses that move into the area, which he said would boost jobs, sales and property taxes and economic development.

Phillip Marler, assistant city manager in Woodland, found the silver lining in the issue. He mentioned in a staff report to the City Council that, while the PG&E fees and taxes represent just 0.8 percent of the city's general fund revenues, they still are a funding source the city could use.

Then, he added: "And despite (this loss), the overall benefit to the community - likely achieving as much as a 20 (percent) to 29 (percent) reduction in electric cost within five years of annexation - would make this loss of general fund revenue a good investment."

Said Weir, on the agreement: "What the (agreement) is designed to do, is to make it so that there is no visible change to the community, by providing enough revenue to the city municipal operations through one of these mechanisms so that there is no change from what they're currently doing, at the same time allowing for the SMUD annexation to go forward and save the community \$10 million a year."

The change in approach to recovering the costs likely resolves concerns of the Davis Chamber of Commerce, Yolo County Taxpayers Association and Howard Jarvis Taxpayers Association, said Jerry Adler, representing the Chamber.

Two earlier ideas were to charge a utility users tax (or just have the governments take the loss), or for SMUD to charge an extra fee to its new customers, to make up the difference.

The groups did not have a problem with the governments trying for a utility users tax, Adler said, but they opposed the second idea, the fee. They saw it as a special tax that needs a two-thirds vote to pass, he said, and that could have been a problem because the annexation needs just a majority of votes to go forward.

Further, he said, the groups thought the fee idea could have been challenged in court.

The new idea, however, is "much better from, I think, everybody's point of view," he said. Adler said he

was “pleased” with it and thought it “should cure the concerns.”

Orchard, general counsel for SMUD, said the options in the Davis agreement accomplish several goals: They would make the city whole financially, would be in line with programs SMUD provides already for its customers, and would benefit SMUD customers in the new territory and its existing service area.

Said Orchard about the initial ideas: “I think we still believe that approach is legally defensible, but it hasn't been tested in the courts. And, quite frankly, we've heard from a number of customers (in Yolo County and Sacramento) about whether they believe that's appropriate” and SMUD wanted to be responsive to them.

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