



## Should Kirkwood Sell Its Municipal Utilities?

By David Stokes

Kirkwood is the only municipality in Saint Louis County that continues to provide utility services to its residents. Would citizens benefit if Kirkwood abandoned this service model, instead allowing private, regulated utilities to provide all utility services to residents?

### Summary

Kirkwood is the only municipality within Saint Louis County that continues to operate its own municipal utilities. Would the citizens of Kirkwood benefit if Kirkwood sold its utilities to AmerenUE and Missouri-American Water Company?

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In January 2002, Florissant sold its water distribution system to Missouri-American Water Company for \$14.5 million. That works out to \$268.78 per person. Going by that ratio, Kirkwood could sell its water distribution system for \$7,344,072 (in 2002 dollars), which matches the estimates Kirkwood received in 2004 when it investigated the possibility of selling its water system.

Florissant used the profit from its sale to finance additional street repairs, public works improvements, and police department projects. It then put most of the money, \$10 million, into a reserve fund that earned interest for the city. Kirkwood had to consider a similar decision in 2004 because of the major capital needs of its aging water treatment plant. Officials opted to close the treatment plant and purchase water wholesale from Missouri-American Water, but maintain city operation of the distribution system. Kirkwood Electric operates in the same manner, purchasing electricity wholesale from AmerenUE and reselling it to residents.

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A 1970 study by University of Missouri economists Paul Junk and Richard Wallace demonstrated that private, investor-owned electric utilities had significantly lower operating costs per kilowatt hour than municipal utilities. While that study compared power-generating municipal utilities to private utilities, it is still relevant to the current situation. The study concluded it would be better for municipal utilities to purchase and redistribute power from outside sources, as Kirkwood now does for both electricity and water, rather than produce or treat it themselves, as Kirkwood used to do. Is it now time to move further?

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There are good arguments for maintaining the existing municipal electrical and water distribution systems. Both systems continue to generate excess revenues that can be reinvested into other

Kirkwood services and help keep the city's tax rates lower. The current tax-exempt status of the municipal distribution system decreases pressure on costs and allows more revenue to be returned to other city services. In fiscal year 2005, the electric department returned \$1,380,000. Although it is hard to measure, a sense of civic pride can result from having your own city provide this service, much like community pride in a high school football team.

Kirkwood's own website states that residents pay the same rates for electricity as AmerenUE customers. From a review of the publicly listed rates for water, it seems that Kirkwood residents pay a slightly higher rate for water (\$1.8353 per 100 cubic feet compared to \$1.5253 for Missouri-American) than other county residents, but with Missouri-American's recent rate hike request, the Kirkwood rate may soon be lower. The benefits to Kirkwood residents do not lie in cheaper electricity or water, but in reinvesting resale profits in the city rather than seeing them go to shareholders.

There are also strong arguments for selling off municipal utilities. The one-time profit from a sale of the water distribution system could finance immediate needs, an emergency fund, a long-term, interest-earning reserve fund, and a property tax cut for Kirkwood's residents — all at the same time. While there might be no short-term salary savings from employee layoffs, because the utilities still generate a profit, savings from long-term employee pension costs could be significant. On top of the immediate profits Kirkwood would receive from any sale, AmerenUE and Missouri-American Water are two of the 10 largest property taxpayers in Saint Louis County. Replacing tax-exempt facilities with systems they own would increase Kirkwood's tax base and provide a long-term revenue benefit on top of immediate profits from the sale and budget savings.

While Kirkwood utilities do make "payments in lieu of taxes" back to the city, those payments really just move government money around without generating new revenue or long-term savings. And not every year going forward will result in an operating profit to be transferred to the general fund. According to Kirkwood's 2007 budget report, "The high average age of our (electric) system dictates more replacement and maintenance and drives our operations and maintenance costs up." This situation will not become less expensive for Kirkwood over time.

In my opinion, Kirkwood should follow the example of the other municipalities in our area that have ceased providing utility services, and sell its facilities to investor-owned, regulated utilities. This would allow Kirkwood to focus on services that are not privately provided, such as police and fire protection. Aside from the one-time profit, however, the immediate, quantifiable savings to residents from the sale would be minimal. If the residents and leaders of Kirkwood wish to continue the current system, there are legitimate reasons to do so.

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