OPPOSE HB 1523 (Busatta) and SB 1704 (Calatayud) relating to Municipal Utilities

The bills impose a 10% cap on revenue transfers from a municipal electric, gas, water or wastewater utility to a municipality's general fund, effective July 2026.

- After payment of costs and reinvestment in the utility, excess utility revenues may be to the municipal general fund for several reasons: cost allocations to reimburse the municipality for services rendered to the; payments in lieu of franchise fees; or to help offset expenses for general government services that city residents and nonresidents use such as transportation and transit, parks and recreation, senior centers, and homeless shelters.
- Imposition of a 10% cap on transfers will have a substantial negative fiscal impact on municipalities:
    - May limit cities from getting reimbursed for services rendered to the utility
    - May derail existing and planned projects that depend on current revenue
    - May impair the ability of municipalities to pay down debt
    - Will hit rural and fiscally constrained municipalities especially hard because they do not have a strong property tax base to cover essential government services.

The bills eliminate current statutory authorization for water and wastewater utilities to impose a 25% surcharge on service to extraterritorial customers, effective July 2026.

- Cities extend water service to extraterritorial areas <u>because they are asked to do so</u>. It's good for economic development, public health and the environment. Areas that request service agree to the surcharge, often through an interlocal agreement with terms negotiated between two duly elected governing bodies.
- Extraterritorial service comes at an additional cost to the municipal utility. The surcharge helps the utility recover the cost differential that comes with serving the extraterritorial area.
- The July 2026 effective date will disrupt numerous interlocal agreements that were predicated on the availability of the surcharge.
- Elimination of the surcharge will disrupt planned and ongoing utility infrastructure projects and impair repayment of debt, including SRF loan repayments.
- Elimination of the surcharge removes any incentive for a municipal utility to provide extraterritorial service or assist these areas by improving failing water systems.
- Elimination of the surcharge will have a disparate and negative impact on rural and fiscally constrained municipalities that do not have a strong property tax base to cover essential government services.