
CITY OF PRINCETON MEMORANDUM
PRINCETON UTILITIES COMMISSION MEMORANDUM 21-14



TO: Mayor Walker and Councilors
Princeton Public Utilities Commissioners
FROM: M McPherson, City Administrator
SUBJECT: **Joint Meeting with PUC, PILOT Program**
DATE: May 6, 2021

Public Utilities Manager Butcher and I met to discuss the history of the PILOT Program, identify cost of services, collaborative opportunities, and to craft options for the PILOT Program for the parties to consider.

History

From a review of the notes, it appears that the PILOT program has been in place for a number of years. The amount paid from PUC to the City has varied over the years:

- Pre-1976: the amount was based on a percentage of revenue from electric (10 percent of gross sales);
- 1976 to 1996: the annual amount was \$36,000;
- 1996: Implemented a Government Rate for Electric, Water, and Trash Collection for the City which removed the customer charges. This was estimated to save the city approximately \$12,000 / year at the then current rates.
- 1996 to 2007: the annual amount was \$52,500;
 - PILOT expanded to include Water and Sanitation Departments
 - Payments
 - Electric = \$37,600
 - Water = \$13,600
 - Sanitation = \$1,300
- 2008 PILOT reviewed and trash collection by PPU ceased.
 - The total PILOT amount was kept the same but reallocated to:
 - Electric = \$31,500
 - Water = \$21,000
 - Unbilled electric and water consumption to the City estimated at \$43,865 for parks, cemetery, sewer jetting/sweeper, and fire department.
- 2020: no cash payment, however a joint work group was close to proposing a payment of \$4,000 per month from August 2020 to July 2021 which would have created an annual payment of \$48,000.

Services Provided/Performed by PUC

The PUC provides the following services for which dollar amounts can be clearly determined:

- Fire Protection: hydrant maintenance, replacement and painting

- Street Lights: maintenance, repair, and replacement; a service fee covers the cost of electricity
- Utility Billing: PUC staff process the City's sewer bills, including providing customer service
 - City payments to PPU have varied over the years:
 - pre-2001 to October 2011 - 50¢ per bill per month
 - October 2011 to March 2012 - 60¢ per bill per month
 - March 2012 to present - 75¢ per bill per month
- Franchise Fee: PUC pays the same franchise fee as other utilities to support park and trail development

Collaborations

PUC staff work cooperatively with city staff for the betterment of city residents. Recent examples of this cooperation are:

- Hanging the holiday decorations on Rum River Drive
- Hanging the lights and helping to work out the bugs for the Light Up Princeton event
- Placing rooftop units at the WWTP
- Assisting emergency response personnel when needed (24/7)

These are activities/services which the PUC has not billed the City.

Options for PILOT

It is important to remember that payments to/from each entity are, with the exception of electric ratepayers in the PUC's territory outside of the city limits, coming from the same pool of residents through either property taxes or rate payments.

Re-establish an Annual Flat Fee

The City and PUC could re-establish an annual flat fee as has occurred in the past. However, this option seems short-sighted and provides little incentive on the part of either party to promote the growth of the city in both tax base and service territory.

Forgive Municipal Water and Electric Fees

There are several public utilities that provide their PILOT payment in this manner. For the City and PUC this would result in forgiveness of, based on 2020 payments:

City Hall Electric:	\$51,519.34
Liquor Store Electric:	\$19,107.20
WWTP Electric:	\$44,794.40
Public Safety Electric:	\$11,194.40
Municipal Water:	\$33,255.25
Total:	\$159,870.59

This type of approach would have to be approved by Southern Minnesota Municipal Power Agency (SMMPA) to ensure that PPU is not in violation of its Power Purchase Agreement with SMMPA. PPU would also need to ensure that this approach is not in violation of its bond covenants.

Annual Payment Based on a Percentage of Electric Sales

Instead of a flat annual payment, the payment be made based on a three or five-year rolling average of sales as audited, multiplied by a target rate per kWh. This encourages the City and PUC to work cooperatively to ensure the continued growth of the City.

In order to assist the city's growth, the payment could be placed in an EDA capital development account that would be used to fund new or the upsized cost of infrastructure (trunk lines) to serve development which increases the city's tax base and the utilities' service territory.

Request

Staff requests that the Council and PUC discuss the options noted above and provide direction to staff as to a preferred alternative. Establishing a subcommittee to further discuss the options and draft a memorandum of understanding between the City and PUC would also be appropriate.