

**Reading Municipal Light Department (RMLD) Board of Commissioners**

**Sub-Committee on the Payment to the Town of Reading**

**Wednesday, September 27, 2017**

**General Manager's Conference Room**

**Start Time of Regular Session: 6:00 p.m.**

**End Time of Regular Session: 7:07 p.m.**

**Committee Members:**

**Philip B. Pacino, Chair**

RMLD Board of Commissioners, Secretary Pro Tem

**George Hooper, Chair**

Citizens' Advisory Board

**Dan Ensminger, Secretary**

Town of Reading Board of Selectmen

**John Stempeck, Commissioner**

RMLD Board of Commissioners

**Neil Cohen, Member**

Citizens' Advisory Board

**Staff:**

**Coleen O'Brien, General Manager**

**Tracy Schultz, Executive Assistant**

**Town of Reading:**

**Bob LeLacheur, Reading Town Manager**

**Call Meeting to Order**

Chair Pacino called the meeting to order and had each attendee introduce him or herself.

**Presentation on RMLD Financial Status**

Chair Pacino announced that some attendees may have seen a previous presentation relative to the payment to the Town of Reading. However, this version of the presentation contains real numbers rather than estimates. Chair Pacino explained that RMLD's financial structure is based upon an actual budget that the Commission has voted for the current fiscal year, which ends in June. The RMLD budget includes power costs, operating costs, and the depreciation fund (which goes toward capital funding). These are taken out of the \$65 million generated by rates. From these come the above the line payment, that is made to the four towns and was put in place by the 20 Year Agreement. It's two percent of the net plant, and is distributed among the four towns based on the previous year's usage.

The RMLD is looking to replace the Wilmington substation because it is well beyond its useful life. Chair Pacino stated that RMLD anticipates the cost to be about \$5 to \$7 million to replace the station, either at a new location or its current site. Because of the two percent, that eight percent will then go up and there will potentially be more revenue for the towns. Where does the eight percent go? It is the return on investment to payment to the Town of Reading, some of it pays for loss disposal, and then it goes into the capital fund. That leaves a bottom line of \$1,064,622. That is the contingency fund for RMLD to use in the event that something goes wrong. Fuel costs are a pass through, if fuel costs for one month were more than we were taking in, then we would look to the bottom line for funds. If, at some point, there is surplus revenue, it is the Board's intent to put it against the OPEB liability.

Mr. Hooper asked if the \$4.3 million depreciation is added to the capital funding from the 8 percent of \$2.5 million? Chair Pacino explained that \$7.6 million has been set for the Capital Budget. The \$4.3 million depreciation fund is three percent of plant that we're allowed under Chapter 164. From eight percent you saw \$2.5 million and \$650,000 from 'Other' (construction revenue). The net of \$174,000 will be paid from existing funds.

Mr. Ensminger asked if the eight percent is a stream of money. Chair Pacino answered that the eight percent is what RMLD is allowed to earn under net plant, by law, per court ruling DPU 85-121. Mr. Ensminger asked who pays the eight percent to RMLD? Chair Pacino answered that it comes from the rates.

Mr. LeLacheur asked, aside from items like substations, which are unusual, does this change much year-to-year? Is this wildly volatile or is this typical? Ms. O'Brien replied that since she has been at RMLD they've been putting \$4.3 million in the depreciation fund and spending upwards of \$10 million on capital improvements for the last

### **Opportunities for Additional Revenue Streams**

Mr. LeLacheur stated that he regularly meets with the three town managers/administrators in the service territory and each of those communities is making a big push for economic development. The issue is regularly discussed. RMLD should be at the table at some point, since the Towns are marketing the electricity as a competitive advantage. RMLD should speak with the Town leaders.

Chair Pacino directed the attendees' attention back to his presentation and referred to the LaCapra Study performed in 1994. In the Executive Summary it asks, 'what is a fair and equitable return to the Town of Reading?' It would be reasonable that the return to the Town be evaluated according to a formula for payment'. The payment was then set for 1997, and then suggested every year by CPI, because no one ever came up with a better formula. Chairman Pacino stated that he has talked to at least six selectmen in the past about having this Committee meet.

Mr. Ensminger said that the original impetus for this meeting was the instructional motion at the April Town Meeting, which in its original form had the clause "consider the sale of the RMLD." It was amended out. The clear intent then was to follow up with this Committee, as per the 1998 CAB minutes, 'to mutually recommend a formula for a payment to the Town of Reading.' Mr. Ensminger clarified that today is the first day that this Committee has ever met.

### **Discussion and Thoughts on Return on Investment Payments to the Town of Reading**

Chair Pacino stated that there is one comment that he wants to make about the Town Meeting. A comment was made that the RMLD is an ATM on Ash Street; Chair Pacino felt that this was very damaging and very offensive. Mr. Ensminger stated that was one individual.

Mr. LeLacheur asked, forgetting the amount of the payment, how important is the predictability of the payment? Does it matter that you can't perfectly forecast it or is the payment to the Town a small drop in the bucket?

Ms. O'Brien answered that putting aside that it's a voluntary payment, it's accounted for in the budget; we're not supposed to set the rates to come up with it. If we had a catastrophe we wouldn't be able to pay it. It comes out of the eight percent. Based on the numbers we have today, making the payment is doable. We're trying to fix the entire electric system, get everything back on track, be competitive, meet the future, revitalize revenue, pay the payments, and balance it without putting a burden on the rate payers or incurring debt. So far it seems to be working.

Mr. LeLacheur stated that from his perspective, the Town's budget consists of 30-line items of revenue in any given year. Forgetting the magnitude of what it is, the RMLD payment is lagging behind most revenues and expenses and so it stands out. Mr. LeLacheur stated that this is seen as an unpredictable revenue, especially compared to property taxes under Prop 2-1/2.

Ms. O'Brien stated that in the world of public power, in lieu of tax payments are typically below the line, because it's surplus. There's benchmarked ways to calculate it. They can be a fixed amount. In the American Public Power Association calculations, given as example; it's two percent of kWh sales or 2.5 percent of net plant. kWh sales are fluctuating and going down. If the formula were to be based on plant and then plant flattened out, would we meet again to change the formula?

The point being is there is no sure predictability on electric calculations but that money has to correlate with some benchmark point indicating the health of the utility.

Mr. Stempeck stated that people don't understand the magnitude of the issue. There are four towns involved. If we lose our main customer it's a real threat.

Mr. LeLacheur said that the average Reading person would say you're in very good financial shape and in an industry that's growing. The reality is that it's declining. Ms. O'Brien had mentioned that growth was flat at the fall Town Meeting.

### **Discussion and Thoughts on Return on Investment Payments to the Town of Reading**

Mr. LeLacheur stated that if there was a Town Meeting tomorrow, a Selectman could stand up and feel comfortable stating that the Town and RMLD are making good progress. In terms of money both are not that far apart. However, Mr. LeLacheur said he doesn't know how to dispel the myth that RMLD is financially lucrative.

Ms. O'Brien explained most utilities have contingencies. We can't get a line of credit and we can't go directly to bond. It costs more than \$50,000 a week for a mobile substation if one of our substations went down. For a worst-case scenario, you need to have at least \$15 or \$20 million just sitting in the bank for infrastructure contingencies. If you lose a substation you're going to go through \$10 million quickly.

Chair Pacino stated that there has previously been a mandate that the RMLD and Finance Committee meet every year. This has not happened, and should be an annual occurrence. Ms. O'Brien suggested having the Finance Committee come to the next Sub-Committee meeting and have Chair Pacino do the same presentation as this evening. Chair Pacino offered to go to them. Mr. LeLacheur said he'll ask them.

Mr. LeLacheur added that he thinks the most important message to convey is that the Town isn't looking to empty the RMLD like a piggy bank.

Mr. Hooper said that it's the same thing with the general fund in Wilmington. People are looking to spend it and throw it back into the tax base. Mr. LeLacheur stated that Reading just performed a survey. Out of 17,000 voters, 2,000 people responded. The financial awareness of how the town is run is somewhat low and that's a hard thing to bridge. With all the technology out there, it becomes difficult to get facts out once opinions are already out. Part of the solution is education for those who want it.

Ms. O'Brien asked why the CPI was picked. Mr. Stempeck stated that it is a well-recognized benchmark that is independently reported. Chair Pacino explained that before it was whatever the Department decided to do. Mr. LeLacheur said it's a good idea not to have it be the least bit discretionary. Chair Pacino stated that was the problem.

Mr. LeLacheur stated he will broach the subject of a meeting with the Finance Committee at a later date. Mr. Stempeck stated that the CAB needs to be aware of the Sub-Committee meeting and discuss with the Board. Mr. Stempeck said that RMLD is a state mandated entity that must run. Mr. Stempeck said he doesn't even think you could sell it if you wanted to, because the sale would have to be in the best interest of the ratepayers.

Chair Pacino said it is tough to take over another system due to existing power contracts. That was the issue with the Wilmington contracts. Mr. Stempeck stated that he did a search nationwide on whether any municipals have been sold or spun off and couldn't find any.

Chair Pacino mentioned when Raynham was trying to withdraw its electric service from Taunton. That case went to court for thirteen years before they finally settled, and they're still together.

### **Next Steps**

Mr. Hooper stated that the next CAB meeting is on the 25th of October. Chair Pacino could come and make the same presentation. Chair Pacino agreed, and stated after the CAB meeting the Sub-Committee will meet again.

### **Adjournment**

Mr. Stempeck made a motion, seconded by Mr. Hooper, to adjourn.

### **Motion Carried:**

**5:0:0**

A true copy of the Sub-Committee on the Payment to the Town of Reading minutes, as approved by a majority of the Committee.

  
Philip B. Pacino, Secretary Pro Tem  
Sub-Committee on the Payment to the Town of Reading