Town of Reading
Meeting Minutes

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2018 APR 24 AM 9: 14

Board - Committee - Commission - Council: Payment To The Town Of Reading Sub-Committee

Date: 2017-03-12 | Time: 5:30 PM

Building: Reading Municipal Light Building | Location: Winfred Spurr Audio Visual Room

Address: 230 Ash Street | Session: Open Session

Purpose: General Business | Version: Final

Attendees:

Members - Present:

Philip B. Pacino, Chair, RMLD Board of Commissioners
John Stempeck, Commissioner, RMLD Board of Commissioners
George Hooper, Chair, Citizens' Advisory Board
Neil Cohen, Member, Citizens' Advisory Board
Dan Ensminger, Secretary, Reading Board of Selectmen

Members - Not Present:

Others Present:

RMLD Board of Commisisoners:
David Hennessy, Vice Chair
Tom O'Rourke, Commissioner
Dave Talbot, Commissioner

Town of Reading Board of Selectmen:
John Arena, Chairman
Barry Berman, Vice Chair

Town of Reading Finance Committee:
Vanessa Alvarado, Member

RMLD Staff:
Coleen O'Brien, General Manager
Tracy Schultz, Executive Assistant

Public:
Chris Pollart, KP Law, PC

Minutes Respectfully Submitted By: Philip B. Pacino, Secretary Pro Tem

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Topics of Discussion:

Call Meeting to Order

Chair Pacino called the meeting to order and explained that discussion would be limited to members of the Sub-Committee, with Ms. O'Brien, Ms. Markiewicz, and Attorney Pollart providing technical information as needed.

Review of Prior Discussions

Chair Pacino held up a chart showing RMLD's quick response to the storm-related outages on March 8 2018. 2,000 customers were out, and the Department's response should be

Review of Prior Discussions
complimented. Chair Pacino then stated that a White Paper has been shared with the Board of Selectmen, and since the last Sub-Committee meeting there has been a Board Meeting,

Return to Town of Reading Discussion
Ms. O'Brien began the presentation with a review of the laws that govern the RMLD. In 1990, special legislation authorized RMLD to move payments to all four towns, from below the line to above the line, at two percent of net plant. RMLD is the only municipal that has special legislation that makes these payments an expense obligation as a cost of production above the line. The same legislation did not preclude below the line voluntary PILOTs from being made from unappropriated earned surplus. However, the Department of Public Utilities and the Massachusetts Supreme Judicial Court have both stated that municipal light plants are not tax-collecting devices and therefore have no legal obligations to make payments in lieu of taxes (PILOT).

Ms. O'Brien then highlighted the benefits of the Twenty-Year Agreement. Economies of scale through bulk power purchase load shaping through the blending of customer classes across the service territory for cost savings.

Ms. O'Brien then stated RMLD is a financially secure and conservative organization. As a utility, RMLD should have operating cash for two to three months of operating expenses. Ms. O'Brien explained that sales are projected to decline at the rate of one percent a year and the service territory is considered at this time, with only small pockets of potential economic growth.

Ms. O'Brien continued, explaining that in 2013 RMLD assessed its system and found significant deficiencies in maintenance and infrastructure. A GIS data collection subsequently unveiled more issues. A preliminary study by an economist indicates that RMLD should utilize an $8 million capital investment per year plan.

Ms. O'Brien presented a list of municipal utilities. RMLD pays 539 percent higher than the average for just below the line voluntary Pilot for Reading, and more than 856 percent higher than the average when you combine the below the line with the above the line payments as a total PILOT.

Voluntary below the line PILOT payments are increasing and represent more than 39 percent of operating income. When combined with the above the line, it adds up to 60.6 percent of operating income. The convergence of the below the line payment with the current track for reduction in revenue is an issue which the RMLD must act, study, and strategize going forward.

Chair Pacino then presented RMLD's proposal, which was to advance the Town of Reading up to one year of a below the line PILOT payment at low interest for five years This would be subject to discussion, analysis, written contract terms and a payment schedule. RMLD would offer three years of a flat payment with a two-and-a-half percent increase per year, or CPI, whichever is greater. This would have a ceiling of five percent and would commence in FY18. RMLD would offer three years of an additional 0.5 percent below the line payment to all four towns based on the above the line two percent net plant, commencing in FY18. A formal study will be performed in CY19 addressing the voluntary PILOT payments to the Town of Reading as an integral part of a comprehensive study that evaluates the long-term revenue, financial plan, and projections of the RMLD.

Chair Pacino opened the floor for Sub-Committee discussion.

Mr. Stempeck stated that it comes to $100,000 a year for the three years, for each Town. During this time, RMLD can study the payments. There has been no economic development to offset the effects of energy conservation on the bottom line. RMLD's costs are fixed. RMLD has an economy of scope when purchasing power for four towns.

Return to Town of Reading Discussion
Mr. Hooper stated that he has concerns about capital. RMLD's reliability is important. There is potential new growth in Wilmington that is aided by lower rates. Mr. Hooper stated that he is not looking forward to any increases or anything that would jeopardize the sustainability of the RMLD.

Mr. Ensminger stated that a formal vote on the proposal by the Board of Commissioners would be helpful because then it becomes an official offer from RMLD.

Chair Pacino stated any vote that the Commission takes will be subject to approval of the offer by the CAB, under the terms of the Twenty-Year Agreement.

Mr. Ensminger made a motion, seconded by Mr. Stempeck, to approve the Sub-Committee minutes of September 17, 2017, with two corrections.

Motion Carried:
5:0:0

The next meeting date was discussed. Wednesday, March 21, 2018 was decided on.

Adjournment
Mr. Hooper made a motion, seconded by Mr. Cohen, 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

RMLD voluntary below the line PILOT payment to the Town of Reading

March 12, 2018

RMLD – Governing Law

- The RMLD is a Municipal Light Plant (MLP) Quasi commercial entity subject to regulation and oversight by the Department of Public Utilities
- Rates are governed by MGL Chapter 164 S 58 and must be cost based
- Can earn up to a maximum of 8% of net plant. *See* DPU 85-121
- Special Legislation from 1990 authorized RMLD to move from below the line to above the line, certain voluntary PILOT payments to all four towns at 2% of net plant. Above the line PILOT payments are an expense obligation as a cost of production.
- The same Special Legislation did not preclude voluntary below the line PILOTS from being made from unappropriated earned surplus.
- DPU and SJC state that MLPs are not tax collecting devices and they have no legal obligation to make payments of in lieu of taxes (PILOT)

The 20 Year Agreement Benefits

- The RMLD is a municipal light plant with a multi-town service territory.
- Ability to capture potential economies of scale through bulk power purchase
- Ability to capture economies of scope by leveraging a fixed cost operation whose services are spread across multiple towns
- Load shaping through the blending of customer classes across the service territory for cost savings… meaning more usage over a longer period of time from commercial industrial areas blended over residential usage

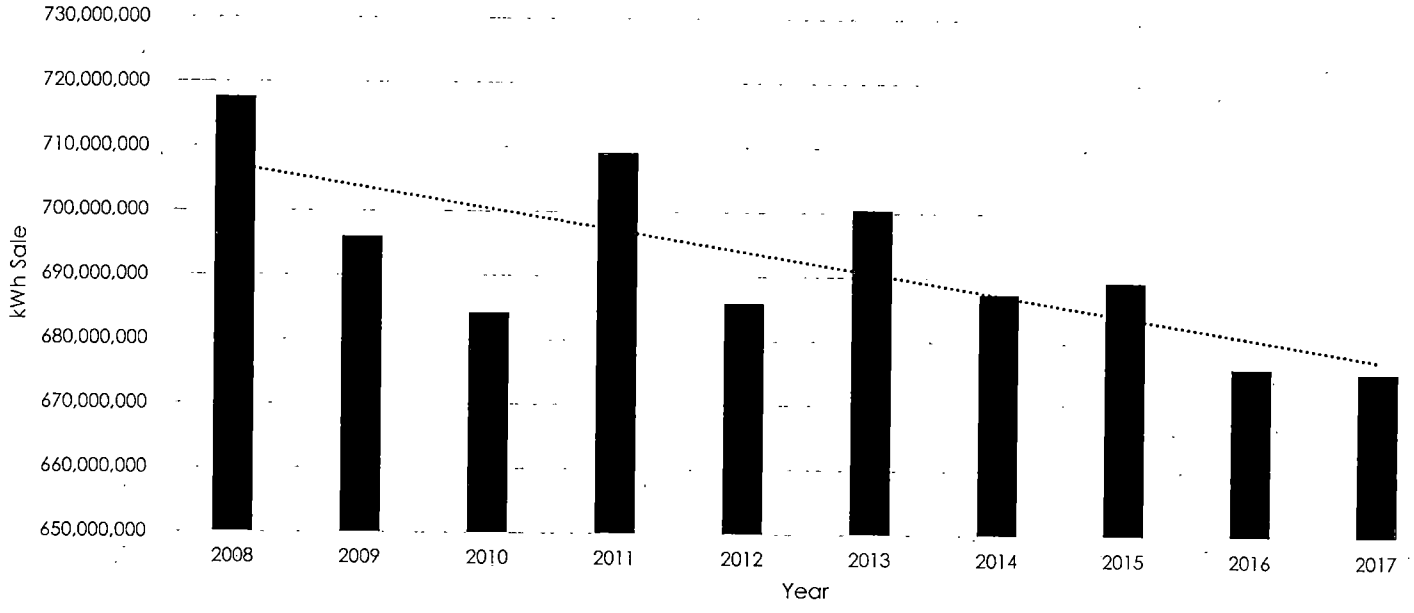
RMLD – Financials and Operation

- The RMLD is a financially secure and conservative organization
- Utility financial standards as supported by the auditor; the RMLD should have approximately operating cash of 2-3 months of operating expenses. The RMLD pays its accounts payable at approximately $7M - $10M per month. A combination of the operating fund, the rate stabilization fund and the reserve fuel fund, would help support some major catastrophic events such as the loss of the largest customers, and critical system infrastructure failures, with the exception of the loss of a main substation.
- Capital infrastructure is funded by the annual 3% depreciation expense (regulated by the DPU) in addition to a transfer of operating funds to the construction fund. Long term strategic system planning forms the basis for short, medium and long term capital outlay.

Revenue Decline

- Sales are projected to continue to decline at a rate of 1% per year.
- Decline can be attributed to the installation of energy efficiency measures by the customer, predominately commercial as the greatest impact
- A 2.5MW natural gas fired unit and a soon-to-be 5MW battery storage unit will help mitigate costs associated with peak energy pricing.
- New revenue seeking programs such as electrical vehicle charging stations, etc. have been promoted, but penetration has been slow by the consumer. Heat pump conversions and other avenues are being evaluated.
- The service territory is considered fairly saturated with only several viable pockets within each service town.

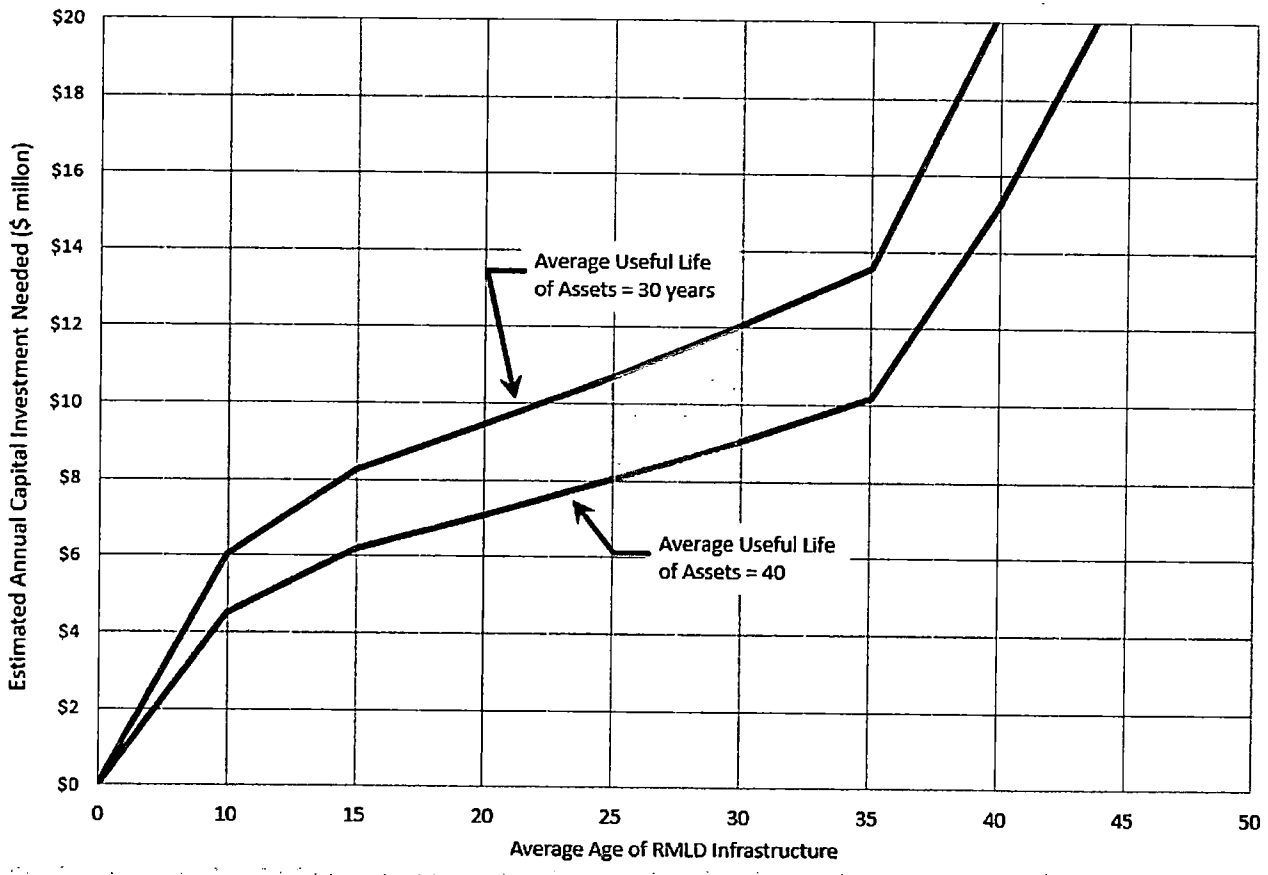
FY 2008-2017 kWh Sales



RMLD – Capital Outlay

- In 2013 the RMLD assessed its system and found significant deficiencies in maintenance and infrastructure.
- A formal Reliability Study was performed by Booth and Associates.
- The Study called for a GIS system infrastructure collection, an outage management system, a work order and asset management system.
- The GIS data collection unveiled failure rates of assets at a magnitude beyond the original projection increasing the capital outlay.
- Based on a preliminary study by economist at Jacobs, and based on the GIS data, including age, and condition, and for the size of the RMLD service territory, the RMLD should utilize a $8M capital investment per year plan.
- The RMLD in its strategic planning increased its rate of return from 5 to 7.75% of net plant for a short term to increase the construction fund to avoid bonding and to target the 6 year capital outlay plan.

Estimated Annual Capital Investment Needs



2% of Net Plant, above the line PILOT payments to all four towns 2013-2017

	Reading	North Reading	Lynnfield	Wilmington	Total 4 Towns
2013	$ 287,132.00	$ 253,834.00	$ 88,936.00	$ 767,132.00	$ 1,397,034.00
NET PLANT UTILITY	$ 69,851,692.00				
2% DISTRIBUTION	$ 1,397,034.00				
KWH SALES	142,052,218	125,578,270	43,998,847	379,520,541	691,149,876
KWH% OF TOTAL SALES	20.553%	18.169%	6.366%	54.911%	100.000%
2014	$ 287,368.00	$ 253,164.00	$ 91,112.00	$ 765,863.00	$ 1,397,507.00
NET PLANT UTILITY	$ 69,875,363.00				
2% DISTRIBUTION	$ 1,397,507.00				
KWH SALES	143,225,697	126,177,717	45,410,596	381,708,768	696,522,778
KWH% OF TOTAL SALES	20.563%	18.115%	6.520%	54.802%	100.000%
2015	$ 288,256.00	$ 254,610.18	$ 90,330.06	$ 760,752.55	$ 1,393,949.00
NET PLANT UTILITY	$ 69,697,353.00				
2% DISTRIBUTION	$ 1,393,947.00				
KWH SALES	141,114,831	124,643,049	44,220,762	372,423,010	682,401,652
KWH% OF TOTAL SALES	20.679%	18.265%	6.480%	54.575%	100.000%
2016	$ 291,901.00	$ 256,089.00	$ 91,389.00	$ 767,367.00	$ 1,406,746.00
NET PLANT UTILITY	$ 70,337,310.00				
2% DISTRIBUTION	$ 1,406,746.00				
KWH SALES	143,716,794	126,085,135	44,995,350	377,811,691	692,608,970
KWH% OF TOTAL SALES	20.750%	18.204%	6.497%	54.549%	100.000%
2017	$ 298,673.00	$ 266,071.00	$ 95,345.00	$ 799,451.00	$ 1,459,540.00
NET PLANT UTILITY	$ 72,977,009.00				
2% DISTRIBUTION	$ 1,459,540.00				
KWH SALES	138,206,363	123,120,767	44,119,595	369,935,097	675,381,822
KWH% OF TOTAL SALES	20.463%	18.230%	6.533%	54.774%	100.000%
TOTALS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Town Payments of Municipal Electric Utilities

- Based on a study performed on annual town PILOT payments from area Mass Municipal Electric Utilities, on a total and unit cost basis, RMLD pays 539% higher than the average for just the below the line voluntary PILOT for Reading, and more than 856% higher than the average when you combine the below the line with the above the line town payments as a total PILOT.

Town Payments of Municipal Electric Utilities

2016 study data

Town	Payment	Unit Cost
Rowley	$30,074	$0.0007
Groton	$32,000	$0.0005
Merrimac	$34,122	$0.0013
Sterling	$100,000	$0.0017
Hudson	$142,496	$0.0014
Shrewsbury	$237,569	$0.0008
Holden	$270,000	$0.0008
N. Attleboro	$300,000	$0.0014
Ipswich	$326,727	$0.0029
Concord	$465,000	$0.0028
Hingham	$500,000	$0.0025
Westfield	$500,000	$0.0013
Belmont	$650,000	$0.0052
Holyoke	$675,000	$0.0030
Middleboro	$702,593	$0.0027
Littleton	$760,000	$0.0026
Danvers	$800,616	$0.0028
Wakefield	$825,000	$0.0044
Braintree	$1,000,000	$0.0042
Reading - All Town payments	$3,764,394	$0.0055

History of voluntary below the line PILOT Payments to the Town of Reading Since 1998 inflated at CPI, which fluctuates

Calendar Year	CPI	% Change	Year Paid	Payment
1997	167.900			
1998	171.100	2.26%	FY99	$ 1,560,414
1999	176.000	2.50%	FY00	$ 1,595,680
2000	183.600	4.32%	FY01	$ 1,635,572
2001	191.500	4.30%	FY02	$ 1,706,229
2002	196.500	2.61%	FY03	$ 1,779,597
2003	203.900	3.77%	FY04	$ 1,826,062
2004	209.500	2.75%	FY05	$ 1,894,829
2005	216.400	3.29%	FY06	$ 1,946,870
2006	223.100	3.10%	FY07	$ 2,010,991
2007	227.409	1.90%	FY08	$ 2,073,332
2008	235.370	3.50%	FY09	$ 2,112,725
2009	233.778	-0.68%	FY10	$ 2,186,670
2010	237.446	1.57%	FY11	$ 2,171,880
2011	243.881	2.70%	FY12	$ 2,205,957
2012	247.733	1.58%	FY13	$ 2,265,427
2013	251.139	1.38%	FY14	$ 2,301,221
2014	255.185	1.61%	FY15	$ 2,332,863
2015	256.716	0.60%	FY16	$ 2,370,445
2016	260.496	1.47%	FY17	$ 2,384,668
2017	267.003	2.51%	FY18	$ 2,419,770
			FY19	$ 2,480,506
	Average	**2.35%**		

History of voluntary below the line payments to the Town of Reading Since 1998 inflated at a flat 2.5% (approximate average)

Calendar Year	CPI	% Change	Year Paid	Payment
1997	167.900			
1998	171.100	2.50%	FY99	$ 1,560,414
1999	176.000	2.50%	FY00	$ 1,599,424
2000	183.600	2.50%	FY01	$ 1,639,410
2001	191.500	2.50%	FY02	$ 1,680,395
2002	196.500	2.50%	FY03	$ 1,722,405
2003	203.900	2.50%	FY04	$ 1,765,465
2004	209.500	2.50%	FY05	$ 1,809,602
2005	216.400	2.50%	FY06	$ 1,854,842
2006	223.100	2.50%	FY07	$ 1,901,213
2007	227.409	2.50%	FY08	$ 1,948,743
2008	235.370	2.50%	FY09	$ 1,997,462
2009	233.778	2.50%	FY10	$ 2,047,398
2010	237.446	2.50%	FY11	$ 2,098,583
2011	243.881	2.50%	FY12	$ 2,151,048
2012	247.733	2.50%	FY13	$ 2,204,824
2013	251.139	2.50%	FY14	$ 2,259,945
2014	255.185	2.50%	FY15	$ 2,316,443
2015	256.716	2.50%	FY16	$ 2,374,354
2016	260.496	2.50%	FY17	$ 2,433,713
2017	267.003	2.50%	FY18	$ 2,494,556
			FY19	$ 2,556,920

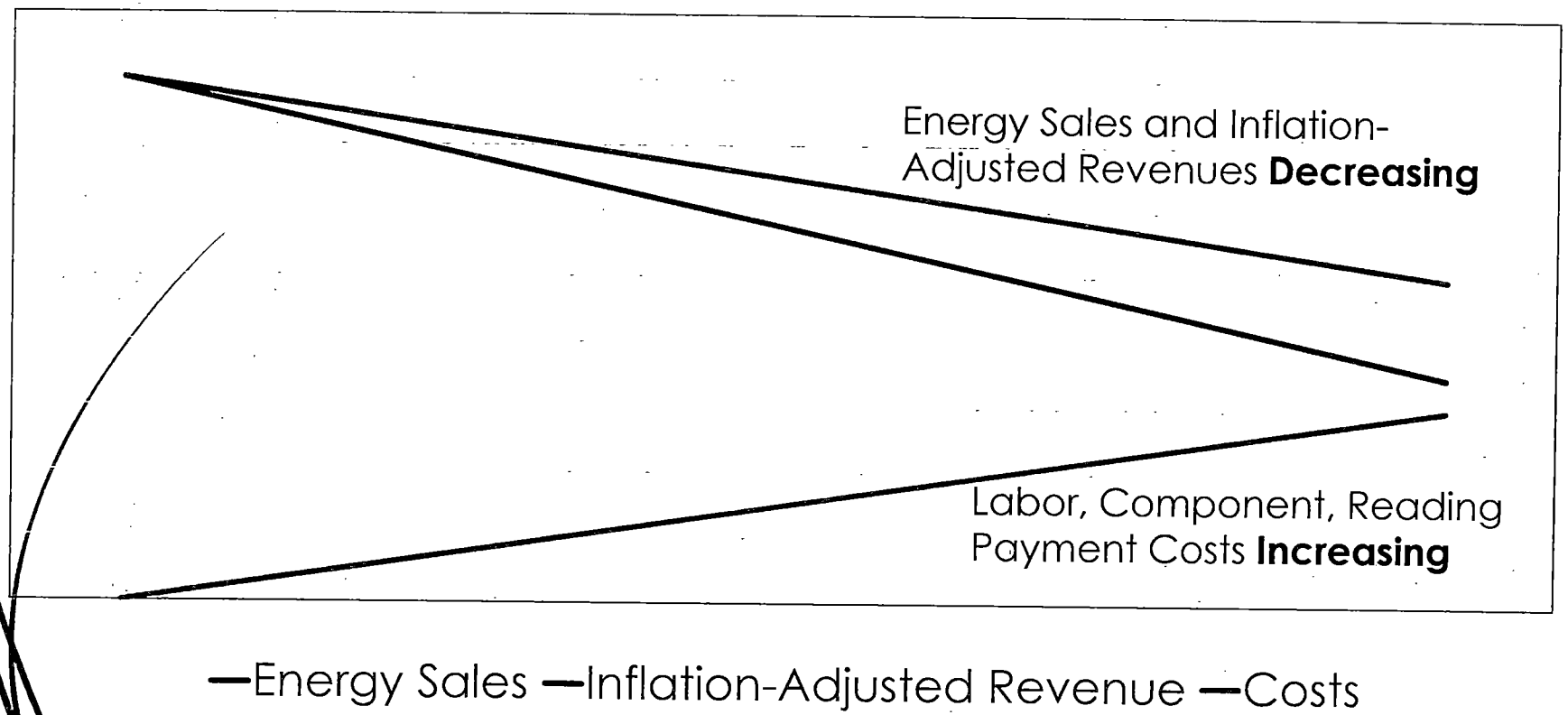
Difference

Calendar Year	Actual Payment	Payment at 2.5%	Δ
1998	$ 1,560,414.00	$ 1,560,414.00	$ -
1999	$ 1,595,680.00	$ 1,599,424.00	$ (3,744.00)
2000	$ 1,635,572.00	$ 1,639,410.00	$ (3,838.00)
2001	$ 1,706,229.00	$ 1,680,395.00	$ 25,834.00
2002	$ 1,779,597.00	$ 1,722,405.00	$ 57,192.00
2003	$ 1,826,062.00	$ 1,765,465.00	$ 60,597.00
2004	$ 1,894,829.00	$ 1,809,602.00	$ 85,227.00
2005	$ 1,946,870.00	$ 1,854,842.00	$ 92,028.00
2006	$ 2,010,991.00	$ 1,901,213.00	$ 109,778.00
2007	$ 2,073,332.00	$ 1,948,743.00	$ 124,589.00
2008	$ 2,112,725.00	$ 1,997,462.00	$ 115,263.00
2009	$ 2,186,670.00	$ 2,047,398.00	$ 139,272.00
2010	$ 2,171,880.00	$ 2,098,583.00	$ 73,297.00
2011	$ 2,205,957.00	$ 2,151,048.00	$ 54,909.00
2012	$ 2,265,427.00	$ 2,204,824.00	$ 60,603.00
2013	$ 2,301,221.00	$ 2,259,945.00	$ 41,276.00
2014	$ 2,332,863.00	$ 2,316,443.00	$ 16,420.00
2015	$ 2,370,445.00	$ 2,374,354.00	$ (3,909.00)
2016	$ 2,384,668.00	$ 2,433,713.00	$ (49,045.00)
2017	$ 2,419,770.00	$ 2,494,556.00	$ (74,786.00)
2018	$ *2,480,506.00*	$ 2,556,920.00	$ (76,414.00)
	$ 43,261,708.00	$ 42,417,159.00	$ 844,549.00

RMLD Operations Summary

- Revenues are declining due to reduced energy usage, energy efficiency measures, adjustable frequency drives, batteries, etc. Expenses are increasing such as labor, electric system equipment, etc.
- RMLD operating revenue is quickly converging with PILOT payments.
- Plant value is increasing at a fairly steady pace from 2014 to 2024 and then should level off, to bring the system into balance for loading, capacity, safety code construction, and to achieve a proactive cyclic maintenance plan; approximately $8 million per year is earmarked long term for capital outlay.
- Voluntary below the line PILOT payments are increasing and represent more than 39% of operating income. Combined with the above the line, the total payments made represent 60.6% of operating income.
- The convergence of the below the line payment with the current track for reduction in revenue is an issue in which the RMLD must take action to study and strategize going forward.

RMLD Financial Trend – Revenue/Sales Decreasing, Costs Increasing



		FY 2018	
FORECASTED kWh SALES		668,775,921	
OPERATING REVENUE:			
SALES OF ELEC - BASE	$	26,337,621	
SALES OF ELEC - BASE CAPACITY		24,476,160	
SALES OF ELEC - BASE TRANSMISSION		13,612,815	
SALES OF ELEC - FUEL			32,491,810
NYPA		(1,200,000)	
FORFEITED DISCOUNTS			800,000
ENERGY CONSERVATION			675,000
TOTAL OPERATING REVENUE	$	97,193,406	
OPERATING EXPENSES:			
PURCHASED POWER - BASE CAPACITY	$	24,476,160	
PURCHASED POWER - BASE TRANSMISSION		13,612,815	
PURCHASED POWER - FUEL		31,291,810	
OPERATING & MAINTENANCE EXPENSE			5,941,700
GENERAL & ADMINISTRATIVE EXPENSE			10,361,361
DEPRECIATION EXPENSE			4,306,000
TOWN PAYMENTS			1,552,300
TOTAL OPERATING EXPENSES	$	91,542,146	
TOTAL OPERATING INCOME	$	5,651,260	
ADD: OTHER NON-OPERATING REVENUE (EXPENSES)	$	487,500	
TOTAL CASH AVAILABLE FROM OPERATIONS	$	6,138,760	
LESS: ROI TOWN OF READING PAYMENT			(2,419,770)
LESS: .5% NET PLANT - 4 TOWNS			(392,447)
LESS: PENSION CONTRIBUTION TRANSFER			(500,000)
LESS: OPEB CONTRIBUTION TRANSFER			(500,000)
LESS: CAPITAL FUNDS TRANSFER			(3,900,000)
TOTAL CASH BENEFIT/(DEFICIT)	$	(1,573,457)	
CASH - OPERATING FUND	$	13,945,858	
CASH-DEPRECIATION FUND	$	2,448,661	
CASH-CONSTRUCTION FUND		3,900,000	
TOTAL CAPITAL FUNDS	$	6,348,661	
Adjusted Net Income for ROR	$	6,138,760	
NET PLANT at END of FY	$	79,119,000	
Allowable 8%	$	6,329,520	
RATE OF RETURN			7.76%

This table is from the preliminary FY19 unapproved budget, illustrating the RMLD utilizing more than its operating income by over $1.57M to cover the below the line payment to Reading, pension & OPEB unfunded liability gap(in addition to above the line liability OPEB and pension payment obligations)and the scheduled transfer to the construction/capital fund.

RMLD proposal

NOTA BENE: THIS PROPOSAL WAS PART OF A TOWN OF READING PAYMENT SUBCOMMITTEE MEETING DISCUSSION AND WAS NOT VOTED ON BY THE SUBCOMMITTEE. PROPOSALS WOULD NEED TO BE VOTED BY THE SUBCOMMITTEE, BE RECOMMENDED BY THE SUBCOMMITTEE TO THE SELECTMEN AND RECOMMENDED BY THE SUBCOMMITTEE AND THE CAB TO THE BOARD OF COMMISSIONERS.

- ADVANCE THE TOWN OF READING, UP TO ONE YEAR OF A BELOW THE LINE PILOT PAYMENT AT LOW INTEREST FOR 5 YEARS. Subject to discussion, analysis, written contract of terms and payment schedule.
- THREE YEARS: FLAT PAYMENT OF 2.5% INCREASE PER YEAR, OR CPI, WHICHEVER IS GREATER, A CEILING OF 5%, commencing in FY18
- THREE YEARS: ADDITIONAL .5% BELOW THE LINE PAYMENT TO ALL 4 TOWNS BASED ON ABOVE THE LINE 2.0% NET PLANT, commencing in FY18
- FORMAL STUDY WILL BE PERFORMED IN CY2019 ADDRESSING THE VOLUNTARY PILOT PAYMENTS TO THE TOWN OF READING AS AN INTEGRAL PART OF AN COMPREHENSIVE STUDY THAT EVALUATES THE LONG TERM REVENUE/ FINANCIAL PLAN AND PROJECTIONS OF THE RMLD

Projected Impact

	FY 2018	FY 2019	FY 2020
Reading Above the Line Payment	$311,797	$328,254	$344,045
Reading Below the Line Payment at 2.5%	$2,444,285 Increase of $24,515	$2,505,392 Increase Compounded	$2,568,027 Increase Compounded
Additional Below the Line 0.5%	$77,949	$82,064	$86,011
Sub-Total Reading	**$2,834,031**	**$2,915,710**	**$2,998,083**
Other Towns Above the Line Payment	$1,257,992	$1,272,986	$1,334,225
Additional 0.5%	$314,498	$318,246	$333,558
Sub-Total Other Towns	**$1,572,490**	**$1,591,232**	**$1,667,783**
Total All Payments	**$4,406,521**	**$4,506,942**	**$4,665,866**
% of Operating Revenue	4.53%	4.59%	4.83%

NOTA BENE: THIS PROPOSAL WAS PART OF A TOWN OF READING PAYMENT SUBCOMMITTEE MEETING DISCUSSION AND WAS NOT VOTED ON BY THE SUBCOMMITTEE. PROPOSALS WOULD NEED TO BE VOTED BY THE SUBCOMMITTEE, BE RECOMMENDED BY THE SUBCOMMITTEE TO THE SELECTMEN AND RECOMMENDED BY THE SUBCOMMITTEE AND THE CAB TO THE BOARD OF COMMISSIONERS.