

South Hadley Electric Light

Town of South Hadley

85 Main Street
South Hadley, MA 01075-2797

Telephone 413-536-1050
Fax 413-536-0741

Board of Commissioners Minutes of the Meeting January 21, 2016

Present: Kurt Schenker, Dan Whitford, Anne Awad for the Board
Staff present: Michael Conchieri
Consultant present: James Goulet, Goulet, Salvidio and Associates, P.C.

The Board met in Open Session at 3:00 PM. Schenker moved and Whitford seconded a motion to enter into Executive Session in order to discuss payment in lieu of taxation to the Town of South Hadley, discussion of which in Open Session would harm our negotiating position, and to not return to Open Session following adjournment of the Executive Session. The motion was approved by roll call vote: Schenker-aye, Whitford-aye, Awad-aye.

We invited a consultant to join us in this meeting. Mr. James Goulet has a public accounting firm which specializes in municipal utility needs. He has worked with many of the Massachusetts municipal utility companies to determine fair reimbursement of services to the cities and towns they serve. He stressed repeatedly that we should not be using language about payments in lieu of taxation (PILOT) because the Massachusetts Department of Public Utilities (DPU) does not allow PILOTs. DPU requires that all revenues received from the sale of electricity must be used for the expenses of buying or generating that electricity. He said that "reimbursement of expenses" is the correct and legal language to use in determining payments to your municipal government.

His report from our discussion is attached to these minutes. Whitford moved and Schenker seconded a motion to approve negotiation of a reimbursement to the Town for expenses incurred by the Town in dealing with SHELD. The motion passed unanimously. Ms. Awad will draft a letter to this effect and deliver to the Town Administrator.

The Executive Session adjourned upon a motion by Whitford and a second by Schenker to adjourn. By roll call vote (Awad-aye, Whitford-aye, Schenker-aye), the motion passed unanimously. The Meeting adjourned at 4:35.

Approved at Board meeting of July 28, 2016: John Hine moved, Kurt Schenker seconded, unanimous vote to approve.



Clerk

GOULET, SALVIDIO & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

James F. Goulet, CPA, MST
Catherine A. Kuzmeskus, CPA
James R. Dube, CPA

Heather E. Isaacs, CPA
Tracy I. Vaughan, CPA
Shawn J. Goulet, EA

To the Board of Electric Light Commissioners
South Hadley Electric Light Department
85 Main Street
South Hadley, MA 01075

Dear Board Members:

It was a pleasure meeting with you recently to discuss certain financial matters related to the obligations of a Massachusetts Municipal Light Department (MLP), in particular the obligation to make a "Payment in lieu of taxes" (PILOT) to the Town of South Hadley.

As you are aware, MLP's are governed by Chapter 164 of Mass General Laws. This chapter imposes certain restrictions on the ability of the MLP to set its electric rates at a level that will produce a profit that is above a certain threshold. Generally, rates may not be set to produce a rate of return in excess of 8% of the cost of plant of the department. Depreciation expense is an allowable expense up to a rate of 3% or higher, with approval of the Department of Public Utilities (DPU). A PILOT payment to the Town is not a deductible expense for purposes of the rate setting process. The charges for the Town for street lighting costs must not be below the cost of service.

There are several ways the MLP can provide financial support to its Town. Actual expenses and costs incurred in the normal operations of the Department are reimbursed to the Town. These may include salaries and wages, as well as employee benefits, such as retirement, health and life benefits. The Department may share in the cost of insurance, such as Workers' Compensation, liability and property insurance.

Indirect costs for non-electric Town employees who provide ancillary services to the Department, such as the Treasurer's department who handle cash receipts and bill payments, may be allocated by Town Department, and the MLP would share in a reasonable allocation of its benefit.

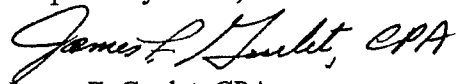
Typically, the MLP provides substantial in-kind services to the Town that is not measured in monetary terms. The MLP may provide assistance to Town departments in emergency situations, provide assistance with holiday decorations, or lend equipment to other departments, such as bucket trucks and tree chippers.

Finally, an MLP may provide financial support by making a PILOT payment. While an MLP is not required to make a PILOT payment, there is much history of various Departments calculating the PILOT payment in a variety of ways, such as Commercial tax rate assessment applied to book value of Plant of MLP, a per KWH amount applied to KWH's sold in the year, or a reduced bill to the Town for street lighting, just to mention a few. While not required, it is not unusual for the MLP to provide a PILOT that recognizes the cost of Government to provide necessary public services to all inhabitants of the community, such as police, fire protection, public health, etc.

The underlying philosophy concerning a PILOT payment is the determination of what is reasonable and justifiable in answering to the ratepayers of the MLP district. Those who are required to support local government services, the property taxpayers, are not the same group as the ratepayers who support the cost of electric service. As you know, taxpayers are assessed a tax on the value of property, whereas ratepayers are assessed a fee based upon their actual consumption of electricity. In Massachusetts, back around 1980, proposition 2 ½ was passed, which places a constraint on the amount of taxes that can be raised in the Town. Some perceive an unusually large PILOT payment to the Town treasury as a way to circumvent proposition 2 ½, and deny the right of the voters to approve an increase in spending beyond its levy limits.

I hope my comments are helpful in providing some direction to a fair and proper use of the Department's revenue in support of your Town finances.

Respectfully Yours,


James F. Goulet, CPA