

**MINUTES OF A JOINT STUDY SESSION OF THE PRINCETON CITY COUNCIL AND PRINCETON PUBLIC UTILITY COMMISSION  
HELD ON MAY 6, 2021 4:30 P.M.**

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Mayor Thom Walker called the meeting to order. Council members present were Vicki Hallin, Jenny Gerold, Jules Zimmer and Jeff Reynolds. Staff present, Community Development Manager Stephanie Hillesheim, Clerk Shawna Jenkins, and Fire Chief Ron Lawrence.

Public Utility Commission Chair Greg Hanson, Commissioners Dan Erickson and Richard Schwartz, General Manager Keith Butcher and Secretary-Treasurer Kathy Ohman.

**Approve Agenda**

Walker would like to move this to the regular meeting next week since it is an action item. Lawrence responded that he had talked to McPherson about adding it to the Study session due to the fact that the supplies are selling very quickly, and he was worried about waiting to the next meeting. Hallin agreed it should be on the regular meeting agenda. J Gerold asked Lawrence to call the company and see if they will hold the items for us.

WALKER MOVED TO APPROVE THE AGENDA WITH THE REMOVAL OF THE CIP FIRE DEPT RESCUE BOAT PURCHASE. HALLIN SECONDED THE MOTION. VOTE 4:1 WALKER, HALLIN, J GEROLD AND ZIMMER IN FAVOR, REYNOLDS OPPOSED. THE MOTION CARRIED

**CIP – Authorize Purchase of Rescue Boat**

**Joint Meeting with Princeton Public Utility Commission**

Walker stated that he sees this portion of the meeting is to find out where everyone is on the various issues.

**PILOT Program**

McPherson reported Public Utilities Manager Butcher and her 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
<b>Total:</b>	<b>\$159,870.59</b>

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.

Zimmer refreshed the Council on what transpired at the special meeting that was called regarding the ballot question. He was placed on a subcommittee to have some informal meetings with the PUC to work on reinstating the PILOT program. They did come to an agreement on a fixed amount of \$4,000 per month beginning in October, and ending in July 2021. By then, they hoped to come up with a permanent solution. He brought that proposal to the council, but it was rejected and the Council voted 3:2 to place the question on the ballot. At that time, the subcommittee meetings ended. He feels those meetings should begin again.

Greg Hanson stated that the Commission determined to put the PILOT payments on hold as they were not in the financial position they needed to be. The decision to make the \$4,000 a month payment was an attempt by the commission to have a little time to analyze their finances and work together and plan for a more permanent kind of relationship. He does not feel that PILOT should be a method of increasing the City's income. He would like to see a PILOT be determined if the PUC had a surplus in the budget, a portion would be paid to the City. It would also be nice to set that aside for particular projects or programs, such as the park system.

Zimmer asked for clarification about when the PUC made the decision to not consider the PILOT payments and that the budget was the deciding factor on why that was stopped. Hanson re-

sponded that it was discussed at the budget meetings. J Gerold added that she attended all of the meetings and never recalls it being discussed. She said she had heard that it was discontinued due to Mayor Schumacher and him wanting to increase the PILOT fees. She stated she also heard it was a stalling tactic that was going to be reinstated if a new Mayor was elected.

Hallin stated that they were not at the meetings, but heard a lot about them. At this point in time, she is not concerned with what happened in the past. She doesn't care what was said, or who said it, let's wipe the slate clean and move forward.

Walker said his concern for the last decade or so is the utility rate and the tax rate. Every dollar the PUC puts into PILOT is going to affect rates. But if a PILOT is not paid, then there is a concern about the utility rates. He said Butcher has stated that the PUC is in the middle of the pack in terms of utility rates, but those companies pay taxes to the municipalities. If PUC is going to compare their rates to other utility companies, they should compare fairly.

Butcher added that they do other things for the City. One is the City has a government rate, which reduces the cost for the City approximately \$17,000 per year.

Dan Erickson stated that when he was appointed to the PUC, the Cash Reserves were being brought up. So, the PUC looked into it, and they had 0 cash reserves. They looked around and it seemed that 180 days of cash reserves was a common number for electric. They looked at how they could set a cash reserve and create a policy. However, the Cash Reserve Policy has not been adopted as of yet, because if they did adopt it now, they would be out of compliance, which would affect their's and the city's bond rating.

Walker added that the Auditors usually provide suggestions on cash reserves.

Richard Schwartz stated that he did some research himself into how much cash reserves is enough. As a business, he thinks there should be at least 180 days. Butcher responded that they are currently at 125 days of cash reserves and working towards that 180 days.

J Gerold said that she believes they had an overabundance of cash reserves in the water fund and asked what they are doing with that. Butcher replied that they are using it to update their meter reading equipment. It allows them to read the meters and even do shut offs from the office. J Gerold asked if they did not have funds already set aside for that. Butcher replied that they do have funds set aside for that, but they are also setting aside funds for repainting a water tower in a few years.

Erickson added that he believes that there is some debt that will be paid off in the next several years, so it looks like they might have the lowest rates coming if you look at the financials coming down the pipeline.

J Gerold commented that they are just collecting the franchise fee and that can't be included as a PILOT. If the City of Delano includes that in their PILOT calculations, they should not be doing that as they are not the same.

Erickson feels the franchise fee is much more transparent than a PILOT fee, but it all comes from the rate payers.

Zimmer and Hallin said they are in favor of a flat fee. Reynolds asked if they were not considering any PILOT fees until they get their cash reserves up. Hanson said they would like to see where they are at in a few months. The timing is perfect to start discussions again.

J Gerold said if they are only averaging 28 days increase over a year, it will be quite some time until they get the cash reserves to 180 days.

Walker stated that he believes there was a couple people from the Council and a couple from the PUC on the last committee to work on this. He understands they are trying to get to 180 days of cash on hand, but we should be kept in the loop on the progress on that, as the City still has a whole in their budget due to the lack of PILOT

The consensus was for Greg Hanson and Zimmer to be on a committee to work on this.

### **5-member commission**

McPherson reported that this has been discussed in the past, and it will require legislative approval if it were to be agreed upon. Walker stated that it does not really matter to him, since the legislature is the one to approve it, it would be a while before it could happen.

However, it is probably more important for the PUC, as with a 5-member commission they can at least discuss their ideas with one other commissioner, which they cannot do now as it would be considered a quorum. Schwartz responded that he would like to see it changed to a 5-person Commission. Erickson said it makes sense to him as well. Hanson added that he is against it, as he likes that it cannot be discussed with another member. With it only being discussed in meetings, he feels it is more transparent that way.

J Gerold stated she knows previous Councilor Jack Edmonds had talked to Sondra Erickson and she had agreed to write the legislation if the Council and PUC wanted to go this way.

J Gerold added that she feels with 2 more commission members, it adds more experience, knowledge and ideas. Hallin agreed, and said when the 3-person commission was established, the population was much smaller than it is today. She has spoken with other City's Commissions that changed from 3 to 5, and they are really liking the change.

Erickson clarified that while he would like to see it increased to 5 commission members, he feels only one Council member should be allowed. Schwartz agreed.

### **Credit Card processing fee**

McPherson advised that Credit Card companies charge a fee for the use of credit cards at retail establishments or for bill paying. The fees can either be a flat fee per transaction or a percentage of total sales.

In the private sector, these "convenience fees" are typically borne by the merchant, although some smaller businesses, may pass those fees onto the purchaser, noted as a "service charge" on the credit card receipt.

The PUC currently absorbs the credit card fee which is \$2.00 per transaction. Using February as a test case, the total credit card fee amount was \$1,384; extrapolated for the year, credit card fees would total \$16,608. A portion of the bill being paid includes the City's sewer charges.

The City is accepting credit card payments for building permits, online-facility registration and at the splash pad. The convenience fee is being passed onto the purchaser. The County also passes its convenience fee onto its purchasers of building permits, tax payments, birth and death certificates and marriage licenses. More information as to the amount of the convenience fee will be available at the meeting.

In a survey of other electric utilities, only one other SMMPA member (out of 18) is known to charge a convenience fee. In a quick review of electric utilities in Minnesota, 7 out of 66 charge a convenience fee with one of those stating that they will be eliminating their convenience fee this fall.

### **Request**

The PUC is considering adding a convenience fee to those customers who wish to use a credit card for payment. As the City's sewer fees are a component of the total bill, the PUC would like to solicit input from the Council regarding this issue.

Erickson added that you cannot charge a convenience fee on debit cards, so he knows some places do not want to accept debit cards. Hillesheim added that the City is processing them as a credit, so they can collect the convenience fee.

Erickson stated that as more people stop using checks, credit card use has gone up considerably, as have the credit card fees. Hillesheim stated that staff has talked and looked at the value in having people process and pay for services online, as it saves a lot of time for the City.

Hanson commented that Connexus has implemented a fee, but they are doing away with that now as people who wanted to avoid that fee, began paying with cash and checks again, which greatly increases the staff time in processing those payments.

Peters suggesting offering ACH payments. When she worked for the state, they offered a discount for ACH, which encouraged people to pay that way.

Walker suggested the City concur on whatever the PUC decides on credit card fees.

Rick Schwartz needed to leave the meeting at 5:57pm

### **Promoting Princeton Growth**

Erickson said he thinks of Princeton has anyone with a Princeton address, not just those right in the City limits. He would like to keep in mind and look to work together on projects, such as the new Industrial park.

Hanson stated he views the PPU as a resource for the city, as you go talk about companies expanding and the PPU can provide assistance in what companies may require in services.

Walker added that in the EDA they hear about municipal utilities as asset, and if the PPU is on board with, they will begin utilizing that. Erickson stated going back to the PILOT program, he would like to see some of that money set aside to promote growth. It would be a great way to work together.

**Adjournment**

HALLIN MOVED TO ADJOURN THE STUDY SESSION AT 6:08. REYNOLDS SECONDED THE MOTION. MEETING ADJOURNED

Respectfully Submitted,

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Shawna Jenkins Tadych  
City Clerk

ATTEST:

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Thom Walker, Mayor