
MEMORANDUM



TO: Princeton Public Utilities Commission
FROM: Keith R. Butcher, General Manager
SUBJECT: Recent Social Media Posts
DATE: June 24th, 2020

As part of an ongoing effort to address various misunderstandings, the following response is offered to help the public understand the details and background of items affecting Princeton Public Utilities. For this memorandum, we focus on 10 of the more recent comments on social media. Each statement is handled individually.

1. “Princeton Public Utilities uses over \$5.3 million dollars worth of property, buildings, and infrastructure...”

The choice of the word “uses” is very interesting. In some meetings, it is claimed that Princeton Public Utilities does not own property since we are part of the city. In other situations (like here), the implication is that the property is owned by Princeton Public Utilities’ and therefore taxes must be paid. Traditionally it is the property owner’s responsibility to pay any due property taxes. It would seem that either Princeton Public Utilities is a private utility that owns the land and should pay taxes or Princeton Public Utilities is part of the City and therefore doesn’t pay taxes – not both.

The issue is actually more complicated than can be conveyed in a short social media post. Princeton Public Utilities is a municipal electric and water utility formed under the City of Princeton. That means that we are part of the city and therefore a government entity. However, our founders created PPU to be a financially separate and functionally independent entity governed by a Public Utilities Commission appointed by the City Council. This structure was designed to insulate the utility and protect ratepayers from political opportunism. In other words, it is meant to prevent newly elected politicians from raiding utility funds and force an increase in utility rates on Princeton’s citizens; all the while claiming that they weren’t raising taxes. Simply stated, if the city is underfunded, the proper action for the city council to take is to increase property taxes approved in a clear, open, and transparent forum. The Princeton model is specifically designed to make it harder for elected officials to grow city government by increasing the burden on ratepayers through higher rates and then placing the blame on others. If there is a need for additional utility funds because the city is in financial straits, the Commission believes that any request should include an explanation of what the funds would be used for and a justification for why ratepayers, and not taxpayers, should be responsible.

Over the last year and a half, Princeton Public Utilities has welcomed a new General Manager, a new Electric Superintendent, and three brand new Commissioners all entrusted to protect its ratepayers. All of PPU’s officers and staff are committed to protecting the ratepayers of this

community. It is important to the PUC that any decisions that affect rates be decided in an open and transparent manner with all facts at our disposal.

2. “PPU pays no income tax, no property taxes for roads, sidewalks, parks, law enforcement, fire protection, and pays no taxes to our School District or to Mille Lacs or Sherburne counties.”

PPU is a municipal electric and water utility organized under the City of Princeton as a government entity. PPU is therefore treated the same way as the city itself. Comparing PPU to private, for-profit companies is misleading. A far more appropriate comparison is to compare PPU to another municipal utility such as the City of Princeton’s sewer utility. A better question might therefore be: how much in taxes does Princeton’s sewer utility pay? Both are comprised of infrastructure (pipes and facilities) that is paid for by revenues collected through use.

It is our understanding that the sewer utility does not, in fact, pay a PILOT. Nor do many other not-for-profit entities such as government agencies, hospitals, schools, and churches. The reason is because all of us are community focused and provide valuable services to the community. This is why PPU is different from CenterPoint, Xcel, or Century Link. We are not a profit making enterprise that has shareholders requiring large returns on their investment.

3. “The PUC Commission used high priced lawyers”

Historically, PPU and the city shared the same city attorney. However, due to current political concerns, PPU was notified on August 9th, 2019 by the city attorney that:

“We (Dove Fretland P.L.L.P.) find ourselves in another conflict situation where the City of Princeton and Princeton Public Utilities could have conflicting interests regarding possible claims by the City of Princeton against Princeton Public Utilities, and by Princeton Public Utilities against the City of Princeton. Because of the potential conflicts we must advise you that we cannot represent the legal interest of Princeton Public Utilities with respect to such matters. Therefore, we suggest that you obtain other legal representation that can be available should you need such representation.”

As a result, PPU was forced to find other legal representation. Since our legal needs are minimal, we do not pay a retainer. Rather we pay for legal services as needed. PPU’s legal costs in 2019 totaled \$8,467.38 which is lower than our legal expenses incurred in 2018.

4. “The PUC Commission used high priced lawyers on **our tax dime**”

All of PPU’s revenues come through sales associated with the delivery of electricity and water. PPU does not receive any tax funds. No tax payer funds are used to pay for any part of PPU’s legal needs.

5. **“The PUC Commission used high priced lawyers on our tax dime to find a tax loop hole to stop paying the PILOT Program...”**

What has been suspended is the financial transfer from PPU’s electric and water enterprise funds to the city. PPU still continues with various in-kind contributions that are considered part of a “PILOT”. These services are:

- Inclusion of all sewer charges on PPU’s electric and water bills. PPU covers all costs associated the administration, processing, and collection of payments. The city does pay a nominal fee for processing. This nominal fee was set at \$0.75 per bill per month in 2012. Before that it was set to \$0.60 in 2011 and \$0.50 sometime before 2000.
- Operating and maintaining all city street lights (a portion of these costs are recovered through a street light fee (mainly the electricity used) but that does not cover all our equipment and maintenance).
- Providing for adequate fire protection throughout town. This includes providing funding for the installation and upkeep of the city’s fire hydrants.

The financial transfer is just one small part of the total assistance that PPU has provided to the city every year.

6. **“The PUC Commission used high priced lawyers on our tax dime to find a tax loop hole to stop paying the PILOT Program that they have been paying under the same agreement since 1997.”**

Although the agreement has been in place since 1997, our understanding is that the issue has been looked at many times. It is important to note that there have been just as many changes over the years that would justify lowering the PILOT financial transfer as in increasing it. For example, the original agreement was created back when PPU also provided garbage collection services. When that aspect of our operations went away, the PILOT amount remained unchanged even as revenues dropped. In addition, PPU continued to assist the city in various forms. As cost for services provided by PPU increased, with one such example being the cost of credit card fees for all utility charges, the actual financial transfer did not change. As a result, it is our understanding, that representatives from both the City and the Utility have, from time to time, decided that it would be best to simply continue the program as-is.

The point is that the proper way to address this issue is not by focusing on just one small aspect of the program. Rather, a full and comprehensive analysis needs to be undertaken to fully quantify the services provided by PPU to the City. Fortunately such an effort is underway via a workgroup organized by Councilor Jules Zimmer. PPU looks forward to continue working with Councilor Zimmer on this complicated and nuanced topic.

7. “We the people of Princeton are subsidizing the lavish life style of the elite few at Princeton Public Utilities Management.”

Claims of malfeasance continue to surface time and time again without any evidence or support. Our main office building was originally built in 1911. The average age of our fleet is approximately 11 years old. Salaries offered by PPU are designed to remain competitive with our neighboring utilities so that we can recruit and retain highly qualified personnel in a very technical and challenging field. Whereas many small municipal utilities struggle to fill roles, which then jeopardizes service and reliability to customers, PPU has been able to enjoy the benefits of a skilled work force with a long history of service to the community.

In response to statements made about the “rich getting richer” at the PUC, below is a summary of the stipends paid to elected/appointed officials at the City of Princeton:

| | Annual Stipend | per Diem for extra meetings |
|------------------------------------|----------------|-----------------------------|
| Mayor | \$3,600 | \$25 - \$40 |
| City Council | \$3,090 | \$25 - \$40 |
| Chair, Public Utilities Commission | \$1,800 | \$50 |
| Public Utilities Commissioner | \$1,200 | \$50 |

A \$150/\$100 monthly stipend is not what one might call a “lavish lifestyle”. Commissioners often spend many, many hours outside of normal meeting times researching issues, responding to customer concerns, and directing the General Manager in their duties.

8. “PPU has cash balance in their check accounting of \$5,692,468.00 as of the last audit.”

The citation appears to be from page 12 of PPU’s 2018 audit. The breakdown is as follows:

| | Electric | Water | Total |
|--|--------------|--------------|--------------|
| Cash and Cash Equivalents | \$ 2,221,682 | \$ 809,306 | \$ 3,303,988 |
| Restricted Assets | | | |
| Reserve Fund | \$ 474,250 | \$ 97,500 | \$ 571,750 |
| Debt Retirement | \$ 265,822 | \$ 101,602 | \$ 367,424 |
| Improvements and Replacements | \$ 792,948 | \$ 929,358 | \$ 1,722,306 |
| Total Restricted Cash and Cash Equivalents | \$ 1,533,020 | \$ 1,128,460 | \$ 2,661,480 |
| TOTAL | \$ 3,754,702 | \$ 1,937,766 | \$ 5,692,468 |

For the restricted assets, the following definitions apply:

Reserve Fund - Bond and note covenants require a reserve account to be established. Much of this fund is held in escrow.

Debt Retirement – PPU’s water and electric bond and note indentures require the funds to set aside very specific amounts for payment coverage.

Improvements and Replacements – In 1986, the PUC resolved that any surplus monies in the funds be transferred to a reserve account to be used for emergencies, improvements, and equipment replacements.

The claim that this money is in our “checking account” is a gross misunderstanding of the structure of business finances.

The table below is to help put these numbers in context and come from the City’s last financial audit with PPU’s presented for comparison.

| | PPU Electric | PPU Water | City of Princeton (Total) | Sewer | Liquor Store | Airport |
|---------------------------------|-----------------------------------|-----------------------------------|---|---|---|---|
| Total Operating Revenues | \$7,561,942 (pg. 11 PPU audit) | \$1,398,645 (pg. 11 PPU audit) | \$4,761,277 Total Revenues (pg. 20) | \$1,374,025 (pg. 25: Sales + Charges) | \$4,042,590 (pg. 25: Sales + Charges) | \$110,114 (pg. 25: Sales + Charges) |
| Total Operating Expenses | \$7,139,594 (pg. 11 PPU audit) | \$920,719 (pg. 11 PPU audit) | \$5,138,426 (Total Expenditures pg. 20) | \$1,305,135 (pg. 25: Cost of Sales + Total Operating Expenses) | \$3,548,037 (pg. 25: Cost of Sales + Total Operating Expenses) | \$308,405 (pg. 25: Cost of Sales + Total Operating Expenses) |
| Total Cash and Cash Equivalents | \$3,754,702 (pg. 12 PPU audit) | \$1,937,766 (pg. 12 PPU audit) | \$11,524,464 (pg. 16) | \$773,571 (pg. 24) | \$3,753,110 (pg. 24) | \$16,188 (pg. 24) |

The total amount of Cash and Cash Equivalents that the city has in its Proprietary Funds is \$4,542,869. The total amount of Cash and Investments (including cash equivalents) is \$11,524,464. The financial transfer of the outstanding PILOT payment for 2020 is \$43,750 or less than 1% of the city’s total cash on hand. At less than 1%, there are many other factors which have a greater impact on city resources than this PILOT financial transfer.

9. “If you watch the PUC Meeting the stock pile of cash is plentiful that water fund has so much capital reserves that they could operate for over one year without a single payment for the citizens of Princeton.”

Although a water utility can often require large capital investments (for such things as water treatment plants, water-mains, and water towers) which is very similar to electric utilities, annual water revenues are significantly lower. As a result, many water utilities will build up cash reserves over a long period of time to be used when a major investment is needed. In looking at the Water Department’s long term plan, the following major investments are anticipated at an estimated cost of \$500,000 each.

- Major water main replacement on 7th Avenue North (1-3 years)
- Painting the North Water Tower

In addition, Water Treatment Plant #1 is now 25 years old. If the state changes its standards and determines that our treatment process is no longer appropriate, a significant investment will be required to meet those new standards.

This does not include the other major capital costs that we incur to regularly to repair leaks, relocate water mains (projects such as 5th Street and various roundabouts), and/or prepare for new developments.

The municipal water utility is a very capital intensive industry with small revenue streams. This is why one doesn’t see too many private water utilities serving communities. The water fund is in a position where more and more infrastructure has been depreciated and future investments will be necessary. Thanks to the foresight of our predecessors, the water fund is in a very healthy position to re-invest in the system without having to implement a major rate increase on customers.

10. “The splash pad has been closed because the PILOT was suspended by the PUC.”

The PILOT financial transfer is a deposit from PPU’s account into the City’s General Fund. It was not earmarked for any particular item and the city is free to use these funds in whatever manner it sees fit. The allocation of the City’s General Fund is determined solely by the City Council, not the Public Utilities Commission.

The splash pad was initially closed by the City due to the COVID-19 pandemic. In conversations between a Commissioner and city staff, the splash pad has since remained closed due to ongoing COVID-19 concerns as well as its budgetary impacts. As it was described to us, the splash pad incurs large costs to operate on an annual basis. Normally, the splash pad is not able to cover its costs and therefore operates at a loss. With COVID-19, the splash pad would only be allowed to operate at 50% capacity (and therefore at 50% revenue) even though it would still incur 100% of the operating costs. A financial decision was made to minimize losses to the city and keep the splash pad closed due to the 50% capacity limitation imposed from the COVID-19 guidelines.