



HINGHAM MUNICIPAL LIGHTING PLANT

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Walter A. Foskett, Vice-Chairman
Kevin J. Bulman, Secretary

To: HMLP Board of Commissioners
From: John G. Tzimirangas, General Manager
CC:
Date: 12/17/2008
Re: PILOT Payment Options

The Board has discussed several options on the method that should be implemented on the calculation of the Payment in lieu of taxes that the Light Plant provides to the Town of Hingham. The Board seems to be comfortable with moving to a formula based approach based on the kilowatt-hour sales of the current year being the method of calculation.

The previous Board discussion have centered on which percentage to use to calculate the final payment. The other factor to consider is the need of the Town to be able to forecast for their budgeting model the amount of the payment coming from the Light Plant.

For the upcoming FY2010, the Town has budgeted \$450,000 for the PILOT payment and the difference in the final decision of the Board would be extra money give to the Town at the proper time.

I have attached a graph with the actual Pilot history and the formula calculations for 2.0%, 2.25% and 2.5% for the same period as a reference. The 2.25% and the 2.5% are in the area of the PILOT payments that was made for those past years.

The majority of the utilities, who use the kilowatt-hour sales approach, use the 2.5% of the sales as their method of calculation.

This approach closely mirrors that payment history we have been on the past 5 years, but ties the future payments to the success of the business in relations to sales of kilowatt-hours.

I would suggest that we consider the 2.5% approach as the future method to calculate the PILOT payment and make it the Board policy, subject to yearly review of the Board.

I would also like to make a modified proposal to this approach. The Town of Hingham is using a baseline figure of **\$450,000** for their budget. The projected PILOT payment based on the 2.5% method for 2009 would be \$487,523.

The modified suggestion would be:

- (1) Provide to the Town General Fund the baseline \$450,000 for the PILOT payment
- (2) Use the additional funds (after the 2.5% calculation), \$37,523 to fund a specific energy program for the municipal buildings to assist with energy conservation, helping reduce operating costs. These funds would be spent each year on a program for a building(s) in the Town.

If we were to adopt this approach, it would be a method to get some energy assistance to the Town, since there has been no action on the Energy Audit reports for the Schools and other municipal buildings since the reports were completed in 2005, at a cost to HMLP of \$30,000.

Recommendation

The Hingham Municipal Light Board approve the new formula method of calculating the PILOT payment based on the following:

$$\text{PILOT Amount} = \text{Kilowatt-hour sales (calendar year)} * 0.025$$

**Consider the alternative of using the \$450,000 baseline as the PILOT payment to the General Fund and the additional funds to fund a municipal energy program targeted at Schools and Municipal Buildings only. These funds would be expended ever year.