

Proposal and Plan

**STEPS FOR MITIGATING CHALLENGING
FINANCIAL CONDITIONS FOR MIDDLETOWN
RESIDENTS**

Customer Service Fee

Lower the customer service fee for residential electric customers

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Residential (R) Class Customers: approximately 3,780 customers in Class R

Current Fee: \$10.91 per month (this represents 6% of the average customer's average bill)

Proposed Change A: NOT RECOMMENDED

- For the billing cycles that represent energy use during the months May through September (five months), **lower** the rate from \$10.91 to \$1.91 per electric meter; and
- For the billing cycles that represent energy use during the months October through April (seven months), **lower** the rate from \$10.91 to \$0 per electric meter

Effect:

Annualized Loss of \$458,778.60

or **Tax Increase of \$186 per household per year**

or **Layoff of six employees (9% of workforce); i.e., all but two highway workers**

Proposed Change B: NOT RECOMMENDED

- For the billing cycles that represent energy use during the months May through September (five months), **raise** the rate from \$10.91 to \$26 per electric meter; and
- For the billing cycles that represent energy use during the months October through April (seven months), **lower** the rate from \$10.91 to \$0 per electric meter

Effect:

No Annualized Loss

No Tax Increases

No Layoffs

But too much of a burden on rate payer

Time of Use Rates

Expand Time of Use (TOU) Rate to All Residential Customers

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Residential (R) Class Customers: approximately 3,780 customers in Class R

Current TOU Test offers 28% discount on overnight electricity to qualified indigent senior citizens

Proposed Change A: NOT RECOMMENDED

- Every day and for every customer, the rate for electricity from 1:00 a.m. to 6:59 a.m. (six hours) would be discounted by 28% [specifically, the base rate would drop from the current rate of 8.26¢ + PPCA (15.64¢) to 5.95¢ + PPCA (11.266¢)]
- Every day and for every customer, the rate for electricity from 7:00 a.m. to 12:59 a.m. (18 hours) would be equal to the current residential rate [specifically 8.26¢ + PPCA (15.64¢)]

Effect:

Annualized Loss of \$ 474,338.60

or **Tax Increase of \$182 per household per year**

or **Layoff of seven employees (10% of workforce); i.e., close Middletown Public Library**

Proposed Change B: NOT RECOMMENDED

- Every day and for every customer, the rate for electricity from 1:00 a.m. to 6:59 a.m. (six hours) would be discounted by 28% [specifically, the base rate would drop from the current rate of 8.26¢ + PPCA (15.64¢) to 5.95¢ + PPCA (11.266¢)]
- Every day and for every customer, the rate for electricity from 7:00 a.m. to 12:59 a.m. (18 hours) would be increased by 9.34% [specifically, the base rate would increase from the current rate of 8.26¢ + PPCA (15.64¢) to 9.05¢ + PPCA (17.1¢)]

Effect:

No Annualized Loss

No Tax Increases

No Layoffs

But too much of a burden on rate payers¹

¹ Currently conducting rate analysis; proposal based on best future cost estimates

Extend the Grace Period

Allow relief from late fees

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Since 1962, a 10% late fee has been applied after 15 days; disconnection notice after 27 days; termination within ten days of final disconnection notice (on average 37 days after due date). The schedule cannot be changed (15-day, 27-day, 37-day) without significantly affecting the bill printing, mailing, and computer programming. Each deadline is specified by law, and the number of days are counted to coincide with one entire billing period from one month to the next. Therefore, the implementation of a late fee must be on the fifteenth day, the twenty-seventh day, or not at all.

Proposed Change A: NOT RECOMMENDED

- Reduce the residential late fee to 5% after 15 days.

Effect:

Annualized Loss of \$ 73,853.05

or **Tax Increase of \$30 per household per year**

or **Layoff of 1 Full-Time employee**

Proposed Change B: NOT RECOMMENDED

- Extend the residential late fee grace period to 10% after 27 days.

Effect:

Annualized Loss of \$ 110,779.57

or **Tax Increase of \$43 per household per year**

or **Layoff of 2½ employees**

Proposed Change C: RECOMMENDED

- Allow each account one late fee removed for every twelve billing cycles.

Effect:

Annualized Loss of \$ 6,512.55

or **Tax Increase of \$3 per household per year**

or **No layoff**

Reconnection Fee

Allow relief from the cost of restoring power when disconnected

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Residential (R) Class Customers: approximately 3,780 customers in Class R

Current fee: \$60 per reconnection, and reconnection only during business hours

Proposed Change A: NOT RECOMMENDED

- The current fee of \$60 would be reduced to \$30

Effect:

Annualized Loss of \$ \$5,800

or Tax Increase of \$2 per household per year

Proposed Change B: RECOMMENDED

- Institute a graduated fee based upon the number of disconnections incurred in the account history:

| | |
|---------------------------------------|-------|
| First reconnection for account: | \$0 |
| Second reconnection for account..... | \$15 |
| Third reconnection for account..... | \$60 |
| Fourth or more reconnections | \$100 |

Effect:

No Annualized Loss

No Tax Increases

No Layoffs

Establish an Assistance Program

Provide assistance to those who cannot pay their bills

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Must be a self-managed program (i.e., cannot rely on Red Cross or Interfaith for management), and must use set criteria (i.e., income qualifications) published by another agency (i.e., HUD Section 8 or LIHEAP) to provide relief to customers.

Currently, the Borough provides discount electricity to churches and free electric to the Red Cross and the food bank.

Proposed Change A: NOT RECOMMENDED

- Each year, in January, an amount equal to ½ of the residential late fees collected in the previous calendar year will be put into a separate “Electric Assistance Program” fund. These funds will be used to assist Borough residential electric customers who are unable to pay their electric bill. Individuals who exceed by no more than 10% the income eligibility requirements, and other rules under the Dauphin County LIHEAP program or any successor program, may apply. Assistance provided by this Electric Assistance Program shall be limited to no more than 10% of the applicant’s outstanding electric charges in any year, if funds are available. **Spent until the fund runs out; estimates are this money will be used in total by February each year.**

Effect:

Annualized Loss of \$ 73,853.05

or **Tax Increase of \$28 per household per year**

or **Layoff of 1 employee**

Proposed Change B: NOT RECOMMENDED

- Levy a \$2 per month fee on every account for the Electric Assistance Program as described above (\$96,000 per year).

Effect:

No Annualized Loss

No Tax Increases

No Layoffs

But too much of a burden on rate payers

Incentive for the Removal of Baseboard Heat

Provide credit on electric bills to remove and replace this heating source

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Must be a self-managed program (i.e., cannot rely on a private contractor), must involve complete removal and replacement of baseboard heat from the entire living area, and must be verified by the Borough Engineer or designee.

Statistics demonstrate that electric baseboard heating is one of the least efficient heating types, and although it provides much revenue to the Borough, it creates large bills for consumers.

Proposed Change A: RECOMMENDED

- A rebate of \$100 would be offered to any electric customer who removes and disposes of all electric baseboard-style heating units from all living spaces at the electric service address. The rebate would be applied against the customer's utility account in equal monthly credits of \$10 per month. The Borough Engineer or his designee shall inspect the living quarters of any applicant to confirm that the electric baseboard-heating units have been entirely removed. The rebate will have no cash value and cannot be redeemed for cash or transferred to another account.

Effect:

Maximum One-Time Loss of \$ 350,000

or withdrawal of \$350,000 from the Electric Rate Stabilization Trust Fund

Incentive for the Installation of Energy-Efficient Heating & Cooling Appliances

Provide credit on electric bills to install Energy Star HVAC appliances

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Must be a self-managed program (i.e., cannot rely on a private contractor), must be a qualified installation using criteria established by the Energy Star program and Commonwealth Keystone HELP Energy Assistance program for the installation of energy-efficient heating and HVAC, and must be verified by the Borough Engineer or designee.

Statistics demonstrate that inefficient appliances are the cause of some of the highest electricity uses and, although they provide much revenue to the Borough, they create large bills for consumers.

Proposed Change A: RECOMMENDED

- A rebate of \$50 would be offered to any residential electric customer who installs an Energy Star Certified heating, hot water, or HVAC improvement in his/her dwelling with a total cost in excess of \$150. The Borough Engineer or his designee will confirm the installation and that the appliance meets the eligibility definition of the Commonwealth Keystone HELP Energy Assistance program, or its successor. The rebate shall be applied against the applicant's utility account in equal monthly credits. The rebate will have no cash value and cannot be redeemed for cash or transferred to another account.

Effect:

Maximum One-Time Loss of \$ 175,000

or withdrawal of \$175,000 from the Electric Rate Stabilization Trust Fund

Establish a Residential Electricity Notification Program

Inform customers of anticipated electricity bills

Implementation

May be Adopted by Resolution – Thirty to Sixty Days to Implement per State Law

Must be a self-managed program (i.e., cannot rely on private contractor), must maintain confidential information about previous customer at said service address, and may make certain property owners attempting to sell or rent property unhappy.

The Borough could give NEW customers a much better idea of what we anticipate they will pay for heating and/or air conditioning at the service location when they open a new customer account.

Proposed Change A: RECOMMENDED

- At the time of application for service, the Electric Department will notify each new residential customer of the historic winter and summer peak-electricity use at the service location. The Finance Director will develop a method of notification.

Effect:

No Annualized Loss

No Tax Increases

No Layoffs

Spend Electric Late Fees on Middletown Youth

Use fees collected on opportunities for our children

Implementation

May Only be Adopted by Ordinance – Sixty to Ninety Days to Implement per State Law

Must be a self-managed program (i.e., cannot rely on a citizen group or Olmsted Recreation), must maintain public benefit, and must be eligible municipal expense.

In difficult times, it is usually the least fortunate amongst us (including our youth) that first suffer from the loss of disposable income. Municipal government is authorized to spend money on the care of these populations.

Proposed Change A: NOT RECOMMENDED

- Each year, beginning in 2009, the Finance Director would transfer an amount equal to 1/8 of the residential late fees collected in the previous calendar year to a special Fund called The Recreation/Skate Park Fund. This money could be used to establish and maintain any recreation program in any park, or a Skate Park in Hoffer Park. Authorized expenses would include the building, insuring or maintaining of any recreation project. All expenditures must be approved by the Recreation Committee of Borough Council.

Effect:

Annualized Loss of \$18,463.26

or Tax Increase of \$8 per household per year

Build Confidence in Our Electric Meters

Institute a mandatory testing system for electric meters

Implementation

May be Adopted by Resolution – Thirty to Sixty Days to Implement per State Law

Must be a self-managed program (i.e., cannot rely on a private contractor), must use Elster electric testing equipment, and results must be fully transparent to Council and the public.

Proposed Change A: **RECOMMENDED**

- The Electric Department will be required to randomly select, remove, and test four (4) meters per month for accuracy. Any malfunctions will be repaired or corrected and shall be reported to Borough Council.

Effect:

No Annualized Loss

No Tax Increases

No Layoffs

Service Cuts to Mitigate Proposals

Other possible cuts offered to illustrate choices available to Council

Implementation

Previous Proposals and their costs

| | |
|--|---------------------------|
| Proposal 1: Customer Service Fee | \$458,778.60 |
| Proposal 2: Time of Use Rates..... | \$474,338.60 |
| Proposal 3: Extend the Grace Period..... | \$110,779.57 |
| Proposal 4: Reconnection Fee | \$ 5,800.00 |
| Proposal 5: Assistance Program | \$ 73,853.05 |
| Proposal 6: Baseboard Heat Program | \$150,000.00 ² |
| Proposal 7: Energy Star Program | \$ 75,000.00 ³ |
| Proposal 8: Electric Notification Program..... | 0.00 |
| Proposal 9: Middletown Youth..... | \$ 18,463.26 |
| Proposal 10: Electric Meter Testing..... | 0.00 |
| Total Annual Loss | \$1,142,013.08 |

Potential Cost-Saving Measures and Their Impact

| | |
|---|--------------------|
| 1. Eliminate Borough payment of athletic field, MCSO, & Main Street Gym lighting, either by eliminating lighting or by establishing a reimbursement system for users of the athletic facilities..... | \$7,410.00 |
| 2. Eliminate Borough payment of overtime or personnel expenses for parades, street festivals, Holiday in the Park, and the Craft Fair, either by eliminating events or by establishing a system for private donations to reimburse Borough expenses | 6,800.00 |
| 3. Eliminate tree lighting, decorative sign lighting, hanging banners, downtown lighting, flowers, flower baskets, and all decorations including gateways & parks; only public safety lighting & tree maintenance would be acceptable expenses | 12,800.00 |
| 4. Implement an administrative hiring freeze to include no new Administrative hiring and no management pay increases for non-bargaining unit members for 18 months from date of passage of these measure | 32,747.00 |
| 5. Eliminate Mayor, Council, Planning Commission & Zoning Hearing Board stipends | 21,600.00 |
| Total Annual Savings | \$81,375.00 |

Annual Net Shortfall or additional lost revenue after all these cuts\$1,060,656.00

² Withdrawal from Trust
³ ibid

Personnel Cuts to Mitigate Proposals

Other possible cuts offered to illustrate choices available to Council

Implementation

UNEMPLOYMENT INSURANCE: Middletown Borough is “self-insured” for unemployment insurance. In other words, when we fire or layoff an employee, the Borough is responsible for payment of the benefit if the worker is unable to find work or if the new job pays less than their Borough job. The payment is generally 50% of their weekly earnings and continues for approximately 59 weeks (over one year).

HEALTH INSURANCE (COBRA): Due to a new federal law, all fired and laid-off employees who received health insurance through the Borough may continue to receive those expensive health insurance benefits. In the past, the separated employee had to pay all costs. However, as of this year, these employees now have the right to demand that the Borough pay 65% of premium costs for the first nine months following loss of employment. For an employee with a family, it would cost the Borough \$10,752.59 per employee terminated.

Between unemployment compensation and COBRA, any benefit from layoffs would not be felt for at least the first year following the termination of an employee.

UNION RULES AND LAY OFFS: due to unbreakable union contracts, the following statements can be made:

1. No police officers can be laid off for economic reasons, and only one officer is near retirement
2. No teamster employees can be laid off and replaced with outside contractors, volunteers, part-time employees, or seasonal workers
3. Teamsters who are laid off can bump less senior persons out of their jobs to stay employed meaning you cannot select who stays and who goes

BUDGET RULES: the electric rates pay for the cost of electricity, operation of the Electric Department, and the payment-in-lieu-of-taxes to the General Fund. Only savings in the Electric Fund or the General Fund will assist in lowering the electric rate. Therefore:

1. Layoffs or cost savings in sewer and water services have no effect on electric rates
2. Not spending capital or bond money on infrastructure projects has no effect on electric rates
3. Not spending police fine money on police cars or equipment has no effect on electric rates
4. Not fully funding Middletown Public Library would result in a cut in state aid (grants) to the Library; state aid is based partially on the Borough’s financial commitment to the facility
5. There is no surplus money, no bonus pay, and already less employees than agreed with union

For example, if any employee were laid off, in addition to not having the position filled and bumping out a less senior employee, the Borough would pay unemployment compensation, and COBRA benefits for over one year. No benefit or reduction in electric rates could be felt until 2011 and no electric rate reduction would be appropriate until benefits stop being paid.

Use Electric Trust Money to Invest in Generation

The Trust can be used to purchase and invest in electricity

Implementation

The original purpose of the Electric Rate Stabilization Trust Fund was to reduce customer electric rates. However, not nearly enough money was agreed upon to be contributed to the Fund. It would quickly be spent down to nothing, with little or nothing to show for the settlement. For example, the Borough could enact a 20% residential rate reduction and deplete the Trust Fund entirely in five years with no perpetual benefit to anyone.

As opposed to giving the money away, Borough Council can save the money, invest it, hope it grows, and use the interest earnings forever. Right now there are no interest earnings, and this plan takes patience. As of March 31, 2009 the balance in the Trust Fund is \$9,367,236.92.

As a third choice, Borough Council can invest the money in projects which, if well designed, could eventually generate money which could be used to reduce customer electric rates forever. This, too, is not recommended because it is a risk. However, Council might prefer a risk.

Proposed Changes: NOT RECOMMENDED

Electric generation is no longer about the physical placement of a generator. All electricity is bought and sold in the marketplace. A generator in Middletown would not be purchased to supply electricity to our customers but, rather, to sell into the grid and earn money for our town. That can equally be accomplished by a generator in New Jersey or West Virginia.

Peak Load Shaving generation is the exception to that rule. This type of generation allows the Borough to lower our demand on electricity when it is profitable to turn down the consumption rate. When demand is high (i.e., summer days) this generation would allow the Borough to use less power off the grid, and we would earn money for having such a back-up plan. Additional revenue, earned every year, might be used to lower electric rates.

Borough Council, with respect to the **Electric Rate Stabilization Trust** could implement the following projects:

1. The Borough could receive bids for the construction of a peak load shaving generation unit. The purchase of this capital investment would be to provide electrical generation during those periods when to do so would lower the consumption, or fees, of the Borough to acquire electricity from the grid. Only Borough Council could authorize such a project, and engineers and consultants would need to be employed to understand the costs and benefits to the town. However, if well designed, such a project might lower customers' electricity bills.
2. The Borough could negotiate with any neighboring municipality that owns and operates electricity generation assets for the purchase of shares in their capital investment. The purpose shall be to provide electrical generation and to earn a rate of return on the Borough's capital investment. Only Borough Council could authorize such a project, and engineers and consultants would need to be employed to understand the costs and benefits to the town. However, if well designed, such a project might lower customers' electricity bills.
3. The Borough could negotiate with any entity that owns and operates alternative energy generation assets (i.e., wind turbine, solar, hydroelectric) for the purchase of shares in their capital investment. The purpose shall be to provide environmentally friendly electrical generation and to earn a rate of return on the Borough's capital investment. Only Borough Council could authorize such a project, and engineers and consultants would need to be employed to understand the costs and benefits to the town. However, if well designed, such a project might lower customers' electricity bills.