



City of Columbia

701 East Broadway, Columbia, Missouri 65201

Department Source: City Utilities - Water and Light

To: City Council

From: City Manager & Staff

Council Meeting Date: August 19, 2024

Re: Report regarding the annexation of the Water Treatment Plant and the utilization of Payment in Lieu of Taxes (PILOTs)

Executive Summary

At the July 1, 2024 City Council meeting, Council requested a report regarding the annexation of the Water Treatment Plant; also requested was an understanding of the utilization of PILOTs.

Discussion

Annexation and Zoning

At the February 18, 2019 City Council meeting, the City Council voted under the Consent Agenda to annex approximately 468.24 acres of land into the City's corporate limits and to apply the A (Agriculture District) zoning to the site as its permanent zoning. The annexed acreage was contiguous to the City along its northwest boundary. The property is being used by the City for the Water Treatment Plant operations; the treatment plant was built in 1973.

The agriculture designation was consistent with Columbia Imagined, which reserved the subject parcel for Open Space/Greenbelt and Residential Districts. The property was located within the Urban Services Area as depicted within the City's Comprehensive Plan.

Columbia Imagined designated the property as a part of the Open Space/Greenbelt District, which is intended to provide for the recreational and aesthetic needs of the residents of Columbia. The Open Space/Greenbelt District is also intended to protect sensitive areas such as floodplains and hilly terrain from development and preserve prime natural areas.

The City's Water Treatment Plant was the existing use pre-dating the annexation and zoning request and given that the site is entirely located within the Perche Creek and Missouri River floodplain and/or floodway, usage of the property for purposes other than what was currently in operation was unlikely. The City's ownership and usage of the site, while not directly in keeping with the then land use designation, is for the benefit of the residents of Columbia and provides for preservation of natural areas outside those that are developed to support the Water Treatment Plant's operations. The property is bisected by the MKT Trail, the City provides long-term maintenance of the trail as it passes through the acreage.

The Planning and Zoning Commission considered the proposed permanent zoning at their December 20, 2018 meeting. No members of the public commented and after limited discussion, the Commission voted (9-0) in favor of the requested permanent zoning.

The City Council held a Public Hearing for the consideration of annexation and permanent zoning at their January 22, 2019 meeting. During the discussions a question was asked about



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the purpose for this action. Staff stated that it was City-owned property, the main facility for the water utility and was located within the City's service area, so it would be reasonable that if the city has the opportunity to annex a major city asset it should.

There was a question about how long the property had been contiguous to municipal boundaries, staff stated that it had been contiguous for a while. There was also a question, if this process would make a difference as the City did not pay property tax. Staff stated that the process would be revenue neutral.

Because this property was part of the operations for the municipal water utility; it would be subject to municipal PILOTs (payment in lieu of taxes). So, there are some distinctions; a PILOT is not a tax. It is a payment in lieu of tax. PILOTs represent the fair value of the use of public property, including provision for maintenance and repair on account of wear, tear and damage attributable to the utility. Staff perhaps could have done a better job explaining the difference between a tax and a PILOTs, but legally speaking there is no generation of new tax revenues by virtue of the annexation of tax-exempt property. A transfer of funds from one fund to another does not result in additional revenue to the City.

Community Development staff processed the annexation application. The calculation of the PILOT is a function of the Utilities and Finance Departments.

Payment in Lieu of Taxes

The City process for collecting general revenue funds through the Water Utility PILOTs have two processes; what would be considered gross receipt taxes and what would be considered property taxes. This is the same process that would be utilized by a private utility company.

The property tax portion of the PILOT is established in Section 102 of the City Charter, which contains this language: "...and to pay into the general revenue fund of the city annually an amount substantially equivalent to that sum which would be paid in taxes if the water and electric light works were privately owned." The full text of Section 102 is contained below.

Section 102. Rates and Finances.

The city council shall from time to time fix, establish, maintain and provide for the collection of such rates, fees or charges for water and electricity and water and electric service furnished by or through the water and electric light works of the city as will produce revenues sufficient to pay the cost of operation and the maintenance of said works in good repair and working order; to pay the principal of and interest on all revenue bonds of the city payable from the revenues of said works; to provide and maintain an adequate depreciation fund for the purpose of making renewals and replacements; to provide a fund for the extension, improvement, enlargement and betterment of said works; to pay the interest on and principal of any general obligation bonds issued by the city to extend or improve said works; and to pay into the general revenue fund of the city annually an amount substantially equivalent to that sum which would be paid in taxes if the water and electric light works were



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privately owned. Such revenues so produced shall be devoted to the purposes so enumerated. The provisions hereof shall be subject at all times to the performance by the city of all covenants and agreements made by it in connection with the issuance, sale or delivery of any revenue bonds of the city payable out of the revenues derived by the city from the operation of its water and electric light works, whether such revenue bonds be heretofore or hereafter issued.

The collection of what would be considered property taxes is based on the assessed valuation of the Water Utility's real property, treatment plant and equipment; it is subject to annual depreciation. **The property tax rate is set at the rate charged for all taxing entities in Boone County.** This process for assessing this revenue has been in practice since the inception of the Water Utility and is called out in the City Charter. In 2019 the Water Treatment Plant was added as part of the property tax levy. The total property PILOT for the water utility in 2023 was \$2,647,229.80, which includes the Water Treatment Plant PILOT amount of \$315,505.07.

The collection of what would be considered gross receipt taxes is based on the gross receipts of the utility and is added to the utility service bill to utility customers. The payment in lieu of the gross receipt tax is set forth in Section 27-128 of the city code and has been in existence since 1975. A 7% gross receipts tax (also sometimes referred to as a franchise fee) is paid by any other utility operating within the city limits, thus the PILOTs for the gross receipts tax is also 7%. The formula utilized to calculate the gross receipt PILOTs is .075268, which is also established in Section 27-128 of the city code. The formula for the calculation is due to the payment in lieu of the 7% gross receipts tax being a tax which is imposed on the utility provider (as opposed to a sales tax imposed on the purchaser). The additional .005268 is the mathematical formula for ensuring the proper calculation of the tax if the amount is added to a customer's bill. Once the utility provider collects the gross receipts tax from the customer the payment by the customer becomes part of the gross receipts of the utility upon which the utility provider is required to pay the tax. The total gross receipt collection for 2023 was \$2,115,478.07.

The total PILOT for the Water Utility in 2023 was \$4,762,707.87. Please find attached a spreadsheet that shows the Water Utility PILOT calculations from Fiscal Years 2014 -2023.

Fiscal Impact

Short-Term Impact: None

Long-Term Impact: None

Strategic & Comprehensive Plan Impact

Strategic Plan Impacts:

Primary Impact: Reliable Infrastructure, Secondary Impact: Inclusive Community, Tertiary Impact: Not Applicable

Comprehensive Plan Impacts:

Primary Impact: Infrastructure, Secondary Impact: Not applicable, Tertiary Impact: Not Applicable



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Legislative History

Date	Action
12/20/ 2018	TMP-10241 Planning and Zoning Commission Case # 29-2019 A request by the City of Columbia (owner), seeking permanent A (Agriculture) district zoning on approximately 468 acres of land subject to annexation into the City of Columbia. The subject acreage consists of multiple parcels currently split-zoned Boone County A-1 and A-2 and being used by the City for its Water Treatment Plant which is addressed as 6851 West Route K.
01/07/2019	R2-19 Resolution Setting a public hearing: voluntary annexation of the City-owned water treatment plant property located on the north side of Route K (6851 S. Route K) (Case No. 41-2019).
01/22/2019	PH2-19 Public Hearing held: voluntary annexation of the City-owned water treatment plant property located on the north side of Route K (6851 S. Route K) (Case No. 41-2019). Annexation, Permanent Zoning
02/04/2019	B29-19 Ordinance read: voluntary annexation of the City-owned water treatment plant property located on the north side of Route K (6851 S. Route K); establishing permanent District A (Agricultural District) zoning (Case No. 29-2019).
02/18/2019	B29-19 Ordinance Council authorized voluntary annexation of the City-owned water treatment plant property located on the north side of Route K (6851 S. Route K); establishing permanent District A (Agricultural District) zoning (Case No. 29-2019).

Suggested Council Action

Report for information only.