

E Environment Committee
Meeting date: August 25, 2009

For the Metropolitan Council Meeting of September 9, 2009

ADVISORY INFORMATION	
Date:	August 19, 2009
Subject:	Adoption of 2010 Wastewater Rates and Charges
District(s), Member(s):	All
Policy/Legal Reference:	MS 473.517; Water Resources Policy Plan (pages 43-44); and Council Administrative policies 3-2-3 (re. municipal wastewater charges), 3-2-4 (re. industrial charges), and 3-2-5 (re. SAC)
Staff Prepared/Presented:	Jason Willett, 651/602-1196
Division/Department:	MCES c/o William G. Moore, 651/602-1162

Proposed Action

That the Metropolitan Council adopts the following wastewater rates and charges to be effective January 1, 2010:

- Municipal Wastewater Charge (annual) total of \$169,390,108;
- Sewer Service Availability Charge (SAC): \$2,100 per unit;
- Add-on Service Charge (for temporary capacity use): \$1.05 per thousand gallons;
- Industrial Strength Charge: \$.158 per excess pound of TSS (total suspended solids);
- Industrial Strength Charge: \$.079 per excess pound of COD (chemical oxygen demand);
- Standard (septage) Load Charge: \$48.07 per thousand gallons;
- Holding Tank Load Charge: \$3.01 per thousand gallons;
- Portable Toilet Waste Load Charge: \$61.20, per thousand gallons;
- Collar County Load Charge: \$58.07 per thousand gallons;
- Strength component of Industrial Load Charge \$.3150 per excess pound of TSS;
- Strength component of Industrial Load Charge \$.1575 per excess pound of COD;
- Inflow & Infiltration (I/I) Surcharge Exceedance Rate: \$379,000 per mgd, and
- Industrial Permit Fees as shown on Attachment A (these increase 6.1% on average).

Further, that the Metropolitan Council authorizes the SAC reserve fund minimum exception for an economic downturn as stated in Council policy 3-2-5 allowing the balance to go as much as \$6 million below the minimum balance during 2009 and through calendar year 2010.

Background

On May 12 and May 26, staff presented information to the Environment Committee on the 2010 preliminary budget and rates. In June, this information was shared with community customers at two municipal Customer Forums and with industrial customers at an Industrial Customer Forum. The Environment Committee approved these rates and

charges (item 2009-246) at its meeting July 14, 2009. However, the Council did not act on that item.

Staff analyzed a proposed change in the methodology for computing reserve capacity (summarized in Attachment B). The Environment Committee at its July 28 meeting authorized holding a public meeting on this proposed change and its financial impacts.

A public meeting was held August 13 to solicit public comments on this proposed change. A few comments were made at the meeting and letters were received from the City of Falcon Heights (Attachment C) and Metro Cities (Attachment D). The written comment period goes through August 23. Any additional comments received will be brought to the Environment Committee meeting on August 25. At the public meeting, Metro Cities suggested that a task force be formed to look at the equity and sustainability of the proposed change. Staff supports this idea but suggests waiting until the summer of 2010 to form this task force to better determine the health of the economy and the impact of these changes. Metro Cities also suggested retaining the 3.1% increase in Municipal Wastewater Charges that received public comment in June. This could be accomplished in two ways (or a combination of the two): 1) use an additional \$3 million of the wastewater operating fund reserve or 2) instead of a two year phase in, phase in the reserve capacity change over three or four years.

As in the July rate action, charges and rates as noted in the proposed motion above, are based on a regional cost-of-service philosophy and are based on formulas we have used for many years, with the exceptions that 1) the reserve capacity is changed as described in Attachment B and partially phased in for 2010, and 2) the increase on the holding tank load charge is capped at 25% (as was done for 2009 rates). Revenue to be raised through Municipal Wastewater Charges in 2010 is \$169,390,108, a 5.0% increase from these charges in 2009. Included in the budget is a transfer of \$2 million from the operating reserve fund to the operating fund for this budget. Capital Project expenses paid directly from operating revenues ("pay-as-you-go") are \$1 million which is a \$4 million decrease from the prior year. The I/I Surcharge Exceedance Rate has been increased only by inflation (the CPI for the Twin Cities metropolitan area) as anticipated in the program. In the preliminary budget that these rates are based upon, total revenues decrease .8% and total expenses decrease .3% (this is mostly due to the \$4 million reduction of pay-as-you-go). The proposed 2010 "rate sheet" which includes a short description of MCES rates can be found on Attachment E. A summary of the preliminary budget for which these rates are based and a comparison to the 2009 budget is Attachment F.

Rationale

The proposed change to reserve capacity computational methodology is an improvement that reduces reserve capacity as SAC units are paid for that capacity (this has not happened under the current methodology). The reserve capacity methodology change being proposed would require a substantial increase in 2010 Municipal Wastewater Charges (\$14.5 million or 12%), but this will be partially mitigated by the pay-as-you-go reduction and deferral of some of the change to later year(s).

Funding

100% of wastewater operations, maintenance, debt service and capital expenses are funded by these rates. Revenue from these rates and charges are not used for non-wastewater purposes.

Known Support / Opposition

The three public forums held in June did not elicit statements of significant concern or opposition about the rates, however the increase in Municipal Wastewater Charges presented at those forums was 3.1% not the 5.0% now proposed and presented at the August 13 public meeting. Other than the comments and two letters (Attachments C and D), the only rate related comment made at the August 13 public meeting was from the Executive Director of Metro Cities (discussed above).

2010 Industrial Discharge Permit Fees

Quarterly Reporters (SIU>50 MGY)	\$5,575
Quarterly Reporters (SIU<50 MGY)	\$4,650
Semi-annual Reporters (SIU>10 MGY)	\$3,675
Semi-annual Reporters (SIU 5-10 MGY)	\$2,750
Semi-annual Reporters (SIU 2-5 MGY)	\$1,850
Semi-annual Reporters (SIU <2 MGY)	\$950
Semi-annual Reporters (Non-SIU)	\$950
Annual Reporters (Non-SIU > 1 MGY)	\$950
Annual Reporters (Non-SIU < 1 MGY)	\$600
Non Significant Categorical user (NSCIU)	\$600
Liquid Waste Hauler (> 1 MGY)	\$950
Liquid Waste Hauler (< 1 MGY)	\$600
Special Discharge Permit (quarterly reporter)	\$950
Special Discharge Permit (contingency/low impact)	\$600
General	\$50-500

SIU = Significant Industrial User - a federal designation.



Summary of Reserve Capacity Methodology Change

Current SAC System

Financial Problem:

- Lowest SAC units in history in 2008 (and forecast again for 2009)
- Costs that SAC cover are largely sunk
- SAC reserve balance will fall below the Council established minimum balance and/or SAC rates must be dramatically increased

Technical Problem:

- Reserve capacity paid (SAC) is not reducing reserve capacity despite limited new capacity construction
- Prior year flow of 84.6BG is lowest in 30 years
- Weather has a significant impact on measured reserve capacity

Current Methodology

Interceptors:

- Physical measurement of each plant's pipe sizes added together for total system capacity (now 228 billion gallons a year)
- Used portion of this capacity based on average wastewater flow in interceptors for the preceding 5-year period (for 2010 = 91.2 billion gallons)
- Reserve capacity is the difference (136.8 billion gallons in 2010, or 60%)

Plants:

- Liquids capacity is based on design engineering/ NPDES permit (131.0 billion gallons in 2010)
- Solids capacity uses the same basis but in dry tons per day then converted to gallons (126 billion in 2010)
- Used portion of capacity is based on the average wastewater flow for the preceding 5-year period metered at each plant (92.7 billion gallons)
- Remainder is reserve capacity (31% for liquids; 26% for solids in 2010)
- Capacity is the lesser of liquids or solids capacity systems

Proposed Approach

Interceptors:

- Total capacity in SAC units (274 gallons per day) is approx. 2,300,000 units
- Used capacity is the cumulative total of currently allocated SAC units (1,537,000)
- Reserve capacity is the difference (763,000 or 33%)

Plants:

- Total capacity in SAC units is 1,620,000
- Used capacity is 1,325,000 SAC units based on rolling 20-year plant expansion and rehab cycle
- Reserve capacity is the difference (295,000 units or 18%)

Financial Impact of Proposed Approach

- The full impact of this change in 2010 is a \$14.5 million cost shift from SAC to Municipal Wastewater Charges
- The new approach will be phased in to reduce the impact in 2010 (e.g. \$7.1m instead of \$14.5m if phased in over two years)
- Also to help mitigate this increase, \$4 million of originally planned pay-as-you-go spending will be eliminated
- A \$2,100 SAC rate is proposed for 2010, a 5% increase over the 2009 rate

Municipal Wastewater Charges (MWC)

	<u>Millions</u>	<u>increase</u>
2010 MWC before change	\$166.3	3.1%
PAYG eliminated	\$(4.0)	
Plus SAC Transfer change	<u>\$7.1</u>	
2010 MWC	\$169.4	5.0%



CITY OF
FALCON HEIGHTS

Attachment C

2077 W. Larpenteur Avenue
Falcon Heights, MN 55113-5594

email: mail@ci.falcon-heights.mn.us
website: www.ci.falcon-heights.mn.us

Phone - (651) 792-7600
Fax - (651) 792-7610

August 13, 2009

Metropolitan Council Members

Thank you for the opportunity to respond to the proposed changes in wastewater charges and SAC fees.

Fee increases are always evaluated as to their fairness and can be very political. This looks like another fee increase that each municipality will be receiving from MCES that will have to be passed on to the citizens, businesses, and other organizations within the city. This fee increase doesn't appear to be very fair. Fully developed communities are going to be required to help subsidize the reserve capacity capital costs associated with the developing communities through user fees instead of the SAC fees.

Correspondence from the Metropolitan Council informs us that the SAC fee system and its computational methodology have been reasonably successful for more than 35 years. But a lack of new development throughout the entire region resulted in few SAC receipts. The SAC reserve fund will be depleted in 2-3 years. With the economy improving, why make a solution to the current financial problem a permanent solution? Why is there not a sunset provision? Without a sunset provision there will be no incentive to ever raise the SAC fees up to a necessary level to truly reflect the cost of new reserve capacity caused by development since everyone will be helping to pay for the new reserve capacity through the user fee instead. This would be definitely unfair and politically incorrect.

Please stop the rush to a solution and take some time for a fair and equitable solution.

Sincerely,

Roland O. Olson
Finance Director
MBA

HOME OF THE MINNESOTA STATE FAIR AND THE U OF M INSTITUTE OF AGRICULTURE



PRINTED ON RECYCLED PAPER



August 19, 2009

Mr. Jason Willett
Finance Director
Metropolitan Council Environmental Services
390 North Robert Street N
St Paul, MN 55101

Dear Mr. Willett:

Thank you for the opportunity to comment on the proposed Sewer Availability Charge (SAC) reserve capacity methodology change under consideration by the Metropolitan Council's Environmental Services (MCES) Committee. We appreciate your consideration of our comments and recommendations regarding this proposal.

Metro Cities recognizes the serious challenges facing the SAC fund due to the economic recession and lack of new development, and we appreciate the difficult task in front of you in trying to address these challenges. We commend you and your staff for your work in identifying options to stabilize the SAC funding structure.

As we understand it, several approaches to address the decline in SAC revenues have been identified, including: (1) borrowing from the MCES operating reserve (2) seeking legislation to allow a transfer of responsibility from the SAC fund to the operating fund, or (3) changing the methodology for calculating capacity, the proposal currently under consideration.

The proposal under consideration shifts more of the burden for financing SAC debt service costs onto the Municipal Wastewater Charge (MWC) and would mean increases in the MWC beyond those originally proposed earlier this summer. With cities facing their own budget constraints, an additional increase in the MWC, proposed subsequent to and outside of the budget process, would present further financial challenges for communities. Furthermore, this proposal presents significant changes to a system that has functioned, successfully, for 35 years. Such change warrants study and consideration apart from the need to address the urgent challenges at hand.

As you consider these changes, Metro Cities urges that any changes allow for addressing current SAC revenue challenges with the opportunity for an examination of SAC funding issues and options for the longer term. Specifically, we recommend that any changes made at this time be made provisionally, with a sunset date, and a phase-in structure that allows the MWC charge to remain at the 3.1% increase proposed for 2010, with the simultaneous establishment of a work group, that includes local officials, to examine issues and options for SAC funding. While we understand the need to move ahead with 2010 budget planning, the changes proposed are

significant and deserve comprehensive study that requires more time than the timeframe for the adoption of MCES' 2010 budget allows. A process that allows for a complete analysis of the SAC funding structure and potential options will allow metro area communities a voice in the process as permanent changes are considered, and the opportunity to fully weigh the policy and financial implications of any structural changes to the SAC program.

Again, we appreciate this opportunity to provide comments and recommendations, and look forward to continuing work with you and your staff on these important issues.

Sincerely,

A handwritten signature in cursive script that reads "Patricia A. Nauman". The signature is written in black ink and has a long, sweeping tail that extends to the right.

Patricia A. Nauman
Executive Director

Metropolitan Council Environmental Services' (MCES) 2010 Charges

1. **Municipal Wastewater Charge (MWC):** This “wholesale” charge by MCES to communities connected to the regional sewer system if for standard sewer service. All customer communities pay MCES an allocated portion of MCES Municipal Wastewater Charges based on the volume of wastewater treated. Most communities cover their own sewer costs by charging a higher “retail” rate to residents and businesses. Those rates are specific to each community.

2010 Municipal Wastewater Charges	
Total MCES Municipal Wastewater Charges in 2010 (Allocation to individual communities is based on percent of system wide flow)	\$169,390,000
Total <i>preliminary</i> system flow for 2010 charges: (Based on estimated flow for July 1, 2008 - June 30, 2009)	in million gallons 84,500 mg
Approximate rate per million gallons (preliminary)	\$2,004.62

2. **Municipal sewer Service Availability Charge (SAC):** This “wholesale” charge to communities is imposed by MCES for new connections or increased capacity demanded in the regional wastewater system. A freestanding single-family residence is charged one SAC unit. Other types of buildings pay a prorated SAC fee, based on the estimated volume of wastewater they could generate in a day.

2010 Service Availability Charges		
	Discount	SAC Rate
Base Unit Fee (Single-Family Dwelling):		\$2,100
Apartment (<i>without individual laundry facilities</i>)	20%	\$1,680
Multi-Dwelling Public Housing (<i>without garbage disposals or dishwashers</i>)	25%	\$1,575
Commercial: Base Unit Fee times number of residential equivalent connections (RECs) where the number of RECs is based on an estimated <i>maximum</i> potential flow.		
Outdoor space discount (for less demand in wet weather)	50%	
Industrial: Base unit fee times number of RECs where the number of RECs is based on <i>maximum</i> normal process flow volume.		
Prompt Payment Discount (to municipalities)	1%	

3. **Industrial Strength Charge:** Strength charges are MCES “retail” fees to connected industries for the additional treatment costs caused by industrial wastewater that has more pollutants than typical residential wastewater. These strength charges are based on the concentration of pollutants (as measured by Total Suspended Solids and Chemical Oxygen Demand) as well as the volume of the discharge. Industrial Users are also subject to normal sewer charges and SAC from their host communities.

2010 Industrial Strength Charges:	
Cost per excess pound of Total Suspended Solids (TSS)	\$0.158
Cost per excess pound of Chemical Oxygen Demand (COD)	\$0.079

Continued

4. **Liquid Waste Load Charges:** Liquid waste haulers pay MCES “retail” fees for septage, leachate and other hauled wastes that are discharged (at approved MCES disposal sites). Each load charge combines a strength charge component, a volume component that is based on the MCES municipal wastewater rate and a special facilities component for liquid waste discharge facilities.

2010 Liquid Waste Load Charges (per 1,000 gallons)	
Standard (septage) Load Charge	\$48.07
Portable Toilet Waste Load Charge	\$61.20
Holding Tank Load Charge	\$3.01
Collar County Load Charge	\$58.07 (for counties adjacent to the metro Region)
Industrial Load Charge (\$ per excess lb.)	\$.315 TSS and .1575 COD plus \$3.01/1,000g volume charge and facilities component (and if applicable, \$10/1000g service fee for loads generated outside the metropolitan region)

5. **Industrial Discharge Permit Fee:** Industrial Users issued a permit must also pay annual permit fees, which recover a portion of the costs to administer the industrial pretreatment program. Permit fees are based on permit type, annual volume of wastewater, Significant Industrial User (SIU) status, and self-monitoring reporting frequency. First-year permit fees for Liquid Waste Haulers and Special Dischargers are required at the time of permit application.

2010 Industrial Discharge Permit Fees:		(MGY=million gallons per year)						
Volume (MGY)	>50	<50	>10	5-10	2-5	<2	>1	<1
Quarterly Reporters	\$5,575	\$4,650						
Semi-annual Reporters			\$3,675	\$2,750	\$1,850	\$950		
Annual Reporters and Liquid Waste Haulers							\$950	\$600

6. **Add-on-service Charge:** A charge assessed in lieu of SAC, due to the temporary nature of the capacity requirement. The most common application is assessed to special discharge permittees for disposal of treated, contaminated groundwater.

2010 Add-on-service Charge: \$1.05 per 1,000 gallons

7. **Late Report Fee:** A fee assessed to permittees who fail to submit a complete self-monitoring report on a timely basis. The late fee amount is based on the frequency and severity of late reports.

2010 Late Report Fees: \$100–\$1,000 per report (see Web site for detail)
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8. **Stipulation Agreement Payment:** These are negotiated monthly payments and daily penalties intended to negate the economic advantage of noncompliance with federal pretreatment standards or local limits.
9. **Cost Recovery Fees:** These fees are used to recover costs from any party responsible for additional costs incurred by MCES. Related to industrial wastewater these include costs associated with spill or enforcement responses, non-routine data requests, special discharge requests, orders to appear, or notices of violations. Related to the interceptor system these include the Encroachment Application Fee (\$500/impacted easement) and the Direct Connection Application Fee (\$900).

For more information, visit our Web site at: <http://www.metrocouncil.org/environment/RatesBilling/index.htm>

Last Updated: August 17, 2009

Rate Setting Budget

	2009 Adopted <u>Budget</u>	2010 Preliminary <u>Budget</u>	<u>Change</u>
REVENUE & Other Sources: (\$s in thousands)			
Municipal Wastewater Charges	\$ 161,322	\$ 169,390	5.0%
SAC Transfer	37,860	28,385	-25.0%
Industrial Charges	9,997	9,665	-3.3%
Other Sources	<u>3,530</u>	<u>3,601</u>	<u>2.0%</u>
Total Revenue/Sources	\$ 212,708	\$ 211,041	-8%
EXPENSES & Other Uses: (\$s in thousands)			
Debt Service	90,479	92,147	1.8%
MCES Labor	59,275	60,301	1.7%
Interdivisional	10,635	10,054	-.5%
Non-Labor	48,319	49,539	2.5%
Pay-as-You-Go for Capital Projects	<u>5,000</u>	<u>1,000</u>	<u>-80.0%</u>
Total Expenses	213,708	213,041	-.3%
SURPLUS/(DEFICIT) to (from) Reserves	(\$1,000)	(\$2,000)	
STATISTICS:			
Flow (billions of gallons)	92.0	84.5*	-8.2%
Employees (Full Time Equivalents)	695	695	0%

* Estimated.



**Department of
Public Works**

350 South 5th Street
Minneapolis MN 55415

Business Item 2009-305

(Additional comments received
following publication of agenda.)

August 21, 2009

Mr. Peter Bell, Chair
Metropolitan Council
390 Robert Street North
St. Paul, MN 55101

RE: Proposed changes to the Methodology for determining Reserve Capacity (SAC)

Dear Mr. Bell:

Thank you for the communication regarding Metropolitan Council Environmental Services' (MCES) proposed changes to the reserve capacity calculations and the affected rates and budget. While we understand and are sympathetic to the financial difficulties faced by the steep decline in SAC revenues, we do not believe the timeframe for consideration is reasonable or that the proposed policy changes are equitable across the MCES service area.

On June 11th city staff attended the MCES Customer Forum and understood that a proposed 3.1% rate increase would be presented to the MCES Environmental Committee. Shortly thereafter, MCES staff made its first presentation on the proposed reserve capacity methodology change. Minneapolis staff testified that the proposed calculation change, along with any subsequent rate changes for each individual city, should be shared with municipalities prior to adoption so the effect for all cities could be understood before any changes are made.

While we appreciate the informational meeting that was held on August 13 regarding the change, we believe that a ten day comment period is much too short. It is unreasonable to expect cities to be able understand and communicate both the short and long term impacts of this magnitude of a policy change within this timeframe.

Based on what we know thus far, the City of Minneapolis does not believe the proposal is a fair and equitable policy change. The current policy has been in place and working for 35 years. We are concerned that this proposal is short sighted and disproportionately shifts the burden of the reserve capacity to the municipal rate payers. In essence, the existing rate payers will be paying more for regional sewer expansion, rather than requiring development to assume this cost. The current SAC system appropriately places more of the burden of expanding the system on developing communities. At this point we believe a better approach would be to allow the SAC reserve fund to drop below the established council minimum for the 2010 budget and this economic downturn. If long term funding changes are necessary a regional task force should be created to determine a fair and reasonable financial plan for the region. This shift in funding has major financial and policy implications and should be given the appropriate amount of consideration with input from all affected parties.

As the current proposal was the only option presented to municipalities, it is difficult for our staff and policy makers to feel confident that this is the best solution. The historic method of calculating the reserve capacity versus the new method provides very different numbers. It is difficult to understand how the new methodology provides a better measure of municipalities' proportional costs of the system.




In closing, Minneapolis does understand the urgent financial situation faced by MCES but the solution should be fair and equitable and evolve from an inclusive and thorough process. We believe that the Council should adopt a very short term or provisional fix to the current SAC shortfall and begin a longer term process to ensure all stakeholders have a chance for proper input and time to consider all options to solve this difficult issue.

Sincerely,



R.T. Rybak, Mayor
City of Minneapolis



Sandy Colvin Roy, Council Member
Chair, Transportation and Public Works Committee
City of Minneapolis



Steven Kotke, City Engineer – Director of Public Works
City of Minneapolis

cc: Peggy Leppik, Metropolitan Council Member – District 6, Environmental Committee chair
Annette Meeks, Metropolitan Council Member – District 7
Lynette Wittsack, Metropolitan Council Member – District 8
Tom Weaver, Metropolitan Council Regional Administrator
William Moore, Metropolitan Council Environmental Services General Manager
Jason Willette, Metropolitan Council Environmental Services Director of Finance



Business Item 2009-305

(Additional comments received following publication of agenda.)

August 21, 2009

Mr. Peter Bell, Chair
Metropolitan Council
390 Robert Street North
St. Paul, MN 55101

Re: Proposed Changes to the Methodology for Determining Reserve Capacity (SAC)

Dear Mr. Bell:

The City of Bloomington appreciates this opportunity to comment on the Metropolitan Council's proposed change to the methodology for the computation of reserve capacity that is used to calculate the Service Availability Charge (SAC). Bloomington supports the Metropolitan Council's efforts to develop a financial plan to adequately fund the continued operation, maintenance and judicious expansion of the regional wastewater system. That said, we have several comments and concerns with the proposed changes presented at the August 13, 2009 Public Information Meeting .

General Comments

Bloomington is sympathetic to the financial problems that MCES is currently facing due, in large part, to the extreme economic downturn that has impacted anticipated revenues – especially the collection of SAC fees which are geared to a normal level of development. The City of Bloomington, as with most of the 105 communities connected to the Regional Wastewater System, has experienced similar reductions in several funding streams including State Aids, delinquent payment of taxes and declining development fees. Generally, we anticipate that this economic slump, like others experienced in the past, is a part of a normal economic cycle. While this particular downturn may be deeper than most, organizations often look to reduce expenditures, utilize budget reserves or make modest changes to the way revenue is collected. Bloomington has made a strong effort to retain basic services and to follow the same general policies that have made our community successful in the past.

The information regarding MCES's capital program presented at the Public Information Meeting did not differentiate between capital expenditures to provide additional capacity from capital expenditures needed to maintain the existing system. Under the current system, SAC fees are intended to fund only the capital projects that increase capacity. With the slowing of economic activity and associated SAC collections, there should be a corresponding reduction in capital expansion projects since the the development needing these projects is not proceeding. From the information presented, it is not clear that the MCES has canceled or postponed any expansion projects. This should be the first action to address declining SAC collections.

Mr. Peter Bell, Chair
Metropolitan Council
390 Robert Street North
St. Paul, MN 55101

2

Since the formation of a regional wastewater collection system in the 1970's, the Metropolitan Council has maintained a "pay as you build" policy that assigns the costs to expand the system to the new users that most benefit from the proposed expansion. The current proposal to shift some of the burden of system expansion from new users (SAC fees) to established users (wastewater treatment fees) is a significant policy change. Considering the magnitude of this proposed change and the fact that the existing "pay as you build" approach has served the region well for more than 35 years, we are concerned that the current proposal is somewhat short sighted. The ten day public comment period provided by MCES to the 105 communities which make up the regional system has not allowed for adequate stakeholder input or the dialog necessary to explore other options to address current funding challenges.

As part of its presentation, MCES noted the downward trend of overall wastewater volumes generated in the Region. This trend was described as an anomaly caused by dry weather patterns over the last decade. We would point out that a measurable amount of the decline in overall flow can be attributed to the serious efforts being made by member cities to reduce clear water intrusion (I&I) into their local collection systems, as well as the increase in the number of water efficient fixtures being utilized throughout the region. The pending adoption of conservation rate structures by Minnesota water suppliers may also contribute to lower water use. We would expect that the trend toward lower flows will continue. This trend has the effect of reducing the need to increase capacity in the system since it frees capacity in the existing system. It may also cause the per unit fee for operations to increase.

Comments on Changing to Residential Equivalent Connections (REC) vs. Service Availability Charge (SAC)

As stated in the July 30, 2009 invitation letter from the Metropolitan Council to their Public Information Meeting on August 13, 2009, "The SAC system and its computational methodology have been reasonably successful for more than 35 years". Bloomington believes the current SAC system ("pay as you build") is far more equitable than the Residential Equivalent Connection (REC) method being proposed as a financial stop-gap to address the decline in development across the region. As we understand the proposed REC method, cities would be required to continue paying a SAC-like fee for each new connection to the regional system while also paying what amounts to a surcharge on their annual metered flow to the treatment plant. This "surcharge" would be used to help offset debt service costs for current (and future) MCES projects that are reserve capacity related. While this method appears to begin addressing MCES' declining SAC Reserve issue, we feel that it unfairly burdens cities who have, for more than 35 years, routinely paid their share of the costs associated with needed reserve capacity within the regional system serving their communities.

The current SAC system of "pay as you build" places the burden of expanding the system on developing communities. As such, it has the effect of providing an incentive for (re)development that occurs within urban areas. This built-in incentive is in keeping with the regions overall land use goal of encouraging development where the physical and social infrastructure is already available. The current proposal to shift a portion of the burden for sewer expansion back to those that have already paid reduces the incentive to develop according to the Metropolitan Council's

Mr. Peter Bell, Chair
Metropolitan Council
390 Robert Street North
St. Paul, MN 55101

3

land use plan. When considering structural funding changes, the Metropolitan Council should consider structures that are both fair and equitable and help us meet the overall regional goals.

Recommendation


The City of Bloomington suggest the following to the Metropolitan Council:

- Continue use of the existing SAC method for computing reserve capacity
- We support the use of short-term loans or other financing techniques to cover short-term losses to the SAC reserve fund caused by the current economic downturn.
- If long-term funding changes are needed, we support a system that:
 - Supports the overall regional goal of focusing development where infrastructure already exists
 - Continues to place the burden of reserve capacity on those requiring the expansion – i.e continue the “pay as you build” policy
- Consider a differential SAC system that charges a lower rate to (re)development that is consistent with the Region’s overall land use goals – i.e. provide an incentive to invest where infrastructure already exists.
- The MCES reduce or delay capacity improvements until they are required for development and SAC collections increase (5 – 10 years).

Lastly, we support the formation of a Task Force to equitably address the long-term reserve capacity needs and funding scenarios for future expansion of the regional system. Please delay making changes to the long standing SAC system until adequate input has been received from stakeholders and all other funding alternatives have been considered.

Thank you for seeking comments on the issue of alternate reserve capacity computation methodologies. We hope it marks the start of a healthy exchange of ideas. Should you have any questions regarding this letter, please contact Karl Keel or Bob Cockriel, Bloomington Public Works, at (952) 563-4581.

Sincerely,



Mark Bernhardtson, City Manager
City of Bloomington

Copy: Bloomington Mayor and City Council
Polly Bowles, Metropolitan Council Member - Sector 5
Tom Weaver, Regional Administrator
Denise Engen, Sector 5 Staff Representative

Business Item 2009-305

(Additional comments received following publication of agenda.)

-----Original Message-----

From: Jim Ericson [mailto:JimE@ci.mounds-view.mn.us]

Sent: Friday, August 21, 2009 12:02 AM

To: Willett, Jason

Cc: Mark Beer; Joe Flaherty

Subject: Proposed Wastewater Charges

Jason,

I am writing to provide comment regarding MCES' proposed Reserve Capacity Methodology Change. Had I attended the August 13th meeting, perhaps I would have a better understanding of the relevant issues and the basis for the proposed changes. That said, however....

While I did not attend the August 13th meeting, I was able to review the PowerPoint presentation. While I can appreciate the complexity of the SAC system and the need to maintain adequate reserves into the future amidst the challenges posed through decreasing revenues, I am opposed to shifting more of the burden onto the "users" of the wastewater system. Most of the development that has occurred in Mounds View took place under the existing system whereby new development paid an "entry fee" to access the system. Now that we are fully developed, these same residential/commercial/industrial properties will pay more as a result of the proposed methodology while new development occurring in communities further from the core will pay comparatively less of their fair share to access the system. I am curious about the need to charge more at a time when flowage is decreasing and new development is at a low point. According to the Met Council, there will be significant growth in the metro area in the next 20 or more years, so can it be assumed that SAC fees will rebound rather than decreasing further or remaining flat? If billed flow is down, does that not result in added capacity? Does the added capacity not add value to the system? Changing the methodology at a time of economic recession would seem like a long-term solution to a short-term problem. Finally, passing on a higher than anticipated rate increase through a SAC to MWC shift will strain budgets and place added pressures on our residents and commercial/industrial property owners. I don't think one can legitimately argue against paying their fair share of increasing operational costs, but it would seem inequitable to change the formula midstream such that new growth will pay proportionally less than those who have already bought into the wastewater system.

Would it be possible to obtain copies of the information that will be provided to the Committee for their August 25 meeting?

Thank you.

Jim Ericson
Clerk - Administrator
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Business Item 2009-305

(Additional comments received following publication of agenda.)

Municipal Offices
7701 County Road 110 West
Minnetrista, MN 55364-9552
email: minnetrista@ci.minnetrista.mn.us



August 21, 2009

Mr. Jason Willett – Finance Director
Metropolitan Council Environmental Services
390 North Robert Street N
St Paul, MN 55101

Dear Mr. Willett:

Thank you for the opportunity to discuss with you yesterday and add further comment in this letter on the proposed SAC reserve capacity change under consideration by the MCES committee. I appreciate your consideration of my comments regarding this proposal.

I appreciate the fact that the Metropolitan Council is trying to take a balanced approach to solving the SAC Reserve Fund Balance situation. Analyzing how much is spent through the pay as you go method and phasing in the potential increase are both agreeable approaches for tackling the problem. Considering at least a two year phase-in that limits the overall increase to no more than 5% and taking the 8% increase off the table would make things more manageable. Adopting a potential increase closer to the original 3.1% for 2010 as stated in the Metro Cities article would be even better.

The City of Minnetrista has run a cash deficit in its wastewater fund for the last several years. A portion of this is due to the increase in the MCES monthly charge over the last several years. Any large increase adopted by the Met Council will only further compound the problem and affect potential future rate increases that the City of Minnetrista would need to implement.

I would be potentially interested in serving on a task force or work group and offer any help I can as well as learning more about the overall MCES service area and operations.

Please feel free to contact me at (952) 241-2516 with any additional information.

Sincerely,

A handwritten signature in black ink that reads "Brian Grimm".

Brian Grimm
Finance Officer



Business Item 2009-305
(Additional comments received
following publication of agenda.)

August 21, 2009

Mr. Jason Willett
Finance Director
Metropolitan Council Environmental Services
390 North Robert Street North
St. Paul, MN 55101

Dear Mr. Willett:

Thank you for the opportunity to comment on the proposed Sewer Availability Charge (SAC) reserve capacity methodology change under consideration by the Metropolitan Council's Environmental Services (MCES) Committee. The City of Shakopee appreciates your consideration of our comments and recommendations regarding this proposal.

Shakopee recognizes the serious challenges facing the SAC fund due to the economic recession and lack of new development, and we appreciate the difficult task facing you in addressing these challenges. Shakopee commends you and your staff for your work in moving to quickly identify options to stabilize the SAC funding structure.

Several approaches to address the decline in SAC revenues have been identified, including: (1) borrowing from the MCES operating reserve (2) seeking legislation to allow a transfer of responsibility from the SAC fund to the operating fund, or (3) changing the methodology for calculating capacity, the proposal currently under consideration.

The proposal under consideration shifts more of the burden for financing SAC debt service costs to the Municipal Wastewater Charge (MWC), and would mean increases in the MWC beyond those originally proposed earlier this summer. With cities facing their own budget constraints, an additional increase in the MWC, proposed subsequent to and outside the budget process, would present further financial challenges for communities. Furthermore, this proposal presents significant changes to a system that has been in place successfully for 35 years. Such significant changes warrant thorough analysis and consideration apart from addressing the SAC revenue challenges and prior to adoption.

As you consider changes to SAC structure, Shakopee urges that any changes be made in a way that addresses current SAC financial challenges but preserves the opportunity to fully examine SAC funding options for the long term. Specifically, we recommend that any proposed changes be done provisionally, with a sunset date, and a phase in structure that allows the MWC charge to remain at the 3.1% increase for 2010, with the simultaneous establishment of a work group

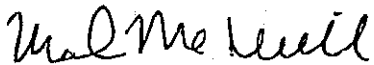
COMMUNITY PRIDE SINCE 1857

129 Holmes Street South • Shakopee, Minnesota • 55379-1351 • 952-233-9300 • FAX 952-233-3801 • www.ci.shakopee.mn.us

that includes officials to examine options for the SAC funding structure for the long term. While we understand the need to move ahead with 2010 budgets, the changes under consideration are significant and deserve thorough analysis that requires time beyond the timelines for the Council's adoption of 2010 rates and charges. Allowing a process for studying long term options for the SAC funding structure will allow metro area communities a voice in the process as permanent changes are considered as well as the opportunity to fully weight the options and implications of any potential changes.

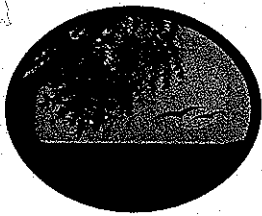
Again, we appreciate this opportunity to provide comments and recommendations, and look forward to continuing work with you and your staff on these important issues.

Sincerely,



Mark McNeill
City Administrator

MM/tlv



**CITY OF
FOREST LAKE**

Business Item 2009-305
(Additional comment received
following publication of agenda.)

Office of Administration

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August 20, 2009

Mr. Jason Willett
Finance Director
Metropolitan Council Environmental Services
390 North Robert Street
St. Paul, MN 55101

Dear Mr. Willett,

Thank you for the opportunity to comment on the proposed Sewer Availability Charge (SAC) reserve capacity methodology change under consideration by the Metropolitan Council's Environment Services (MCES) Committee. We appreciate your consideration of our comments and recommendations regarding this proposal.

The City of Forest Lake recognizes the serious challenges facing the SAC fund due to the economic recession and lack new development. We also appreciate the difficult task in front of you in trying to address these challenges. The City of Forest Lake commends you and your staff for your work in moving to quickly identify options to stabilize the SAC funding structure.

As we understand it, several approaches to address the decline in SAC revenues have been identified, including: 1) borrowing from the MCES operating reserve; 2) seeking legislation to allow a transfer of responsibility from the SAC fund to the operating fund; or 3) changing the methodology for calculating capacity – which is the proposal currently under consideration.

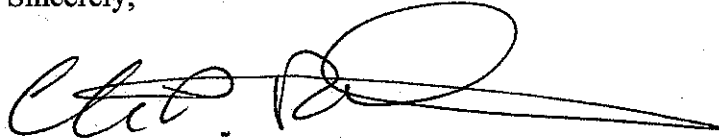
The proposal under consideration shifts more of the burden for financing SAC debt service costs onto the Municipal Wastewater Charge (MWC) and would mean increases in the MWC beyond those originally proposed earlier this summer. With cities facing their own budget constraints, an additional increase in the MWC, proposed subsequent to and outside of the budget process, would present further financial challenges for communities. Furthermore, this proposal presents significant changes to a system that has been in place successfully for 35 years. Such changes warrant thorough analysis and consideration apart from addressing the SAC revenue challenges at hand.

As you consider changes to the SAC structure, the City of Forest Lake urges that any changes be made in a way that allows for addressing current SAC financial challenges with the opportunity for a full examination of SAC funding options for the long term. Specifically we recommend that

any proposed changes be done provisionally, with a sunset date, and a phase-in structure that allows the MWC charge to remain at the 3.1% increase for 2010, with the simultaneous establishment of a work group, one that includes local officials, to examine options for the SAC funding structure for the long term. While we understand the need to move ahead with 2010 budgets, the changes under consideration are significant and deserve thorough analysis that requires time beyond the timelines for the Council's adoption of 2010 rates and changes. Allowing a process for studying long term options for the SAC funding structure will allow metro area communities a voice in the process as permanent changes are considered; with the opportunity to fully weigh the options and implications of any potential changes.

Again, we appreciate this opportunity to provide comments and recommendations. We look forward to continuing to work with you and your staff on these important issues.

Sincerely,



Charles P. Robinson
City Administrator
CITY OF FOREST LAKE