

Info Item: MCES Finance & Budget Intro

Presented to the Environment Committee

April 12, 2011

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Today's Agenda

- 1. Financial Principles & Goals**
- 2. Budget Terminology**
- 3. Budget: Revenues, Expenses, Drivers, Reserve**
- 4. Competitiveness**
- 5. Rates and Charges**

Future Finance Briefings:

- a) Capital Budget and Projects**
- b) Capital Finance**



1) Financial Principles & Goals

■ Principles

- **MCES revenues must provide sufficient funds to meet current and known future regulatory requirements**
- **Meet customer expectations for quality and level of service**
- **Fully fund current cost of all wastewater programs with fees**

■ Goals

- **MCES rates should:**
 - **Maintain competitiveness (with other wastewater utilities)**
 - **Be based on “cost of service philosophy”**
- **Provide that necessary rate changes are moderate, with ample notice to customers**
- **Contribute to AAA bond rating**



2) Budget Terminology

■ Annual Budget

- All sources and uses (per statute M.S. 473.517)

■ MCES Operating Budget

- Excludes debt service, pay as you go (PAYGO)
- Interdivisional charges

■ Council's Unified Operating Budget



■ Rate Basis vs. Accounting Basis

- Accounting → Comprehensive annual financial report



Budget Terminology, cont.

- **Capital *Project* Budgets** Individually approved projects costs
- **Authorized Capital Program** Sum of open & approved capital project budgets (spent and unspent)
- **Capital Budget** Authorized capital project costs expected *in the budget year*
- **Capital Finance Plan** The *plan* to raise capital for capital projects (usually borrowing)
- **Capital Improvement Program (CIP)** Spending *plan* for future capital projects (includes projects not yet authorized)
- **Unified Capital Budget** Sum of all Council capital budgets & all of the above



Budget Terminology

2008 2009 2010 2011 2012 2013

Capital Project 1

Capital Project 2

... Capital Project 50

Sum = Authorized Capital Program

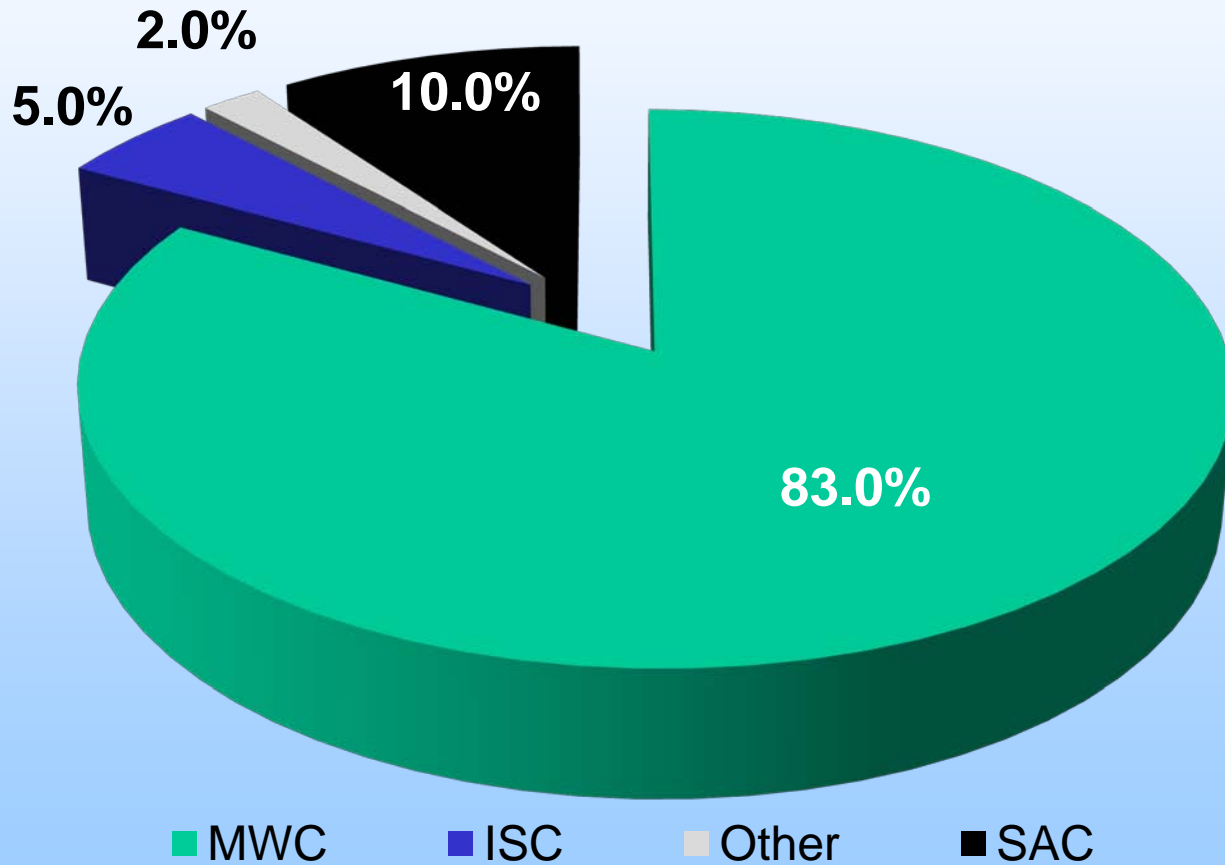
**2011
Capital
Budget**

Capital Improvement Program



3) Budget: Revenue

■ Wastewater costs are 100% user-fee funded; no taxes



MWC = Municipal Wastewater Charge (flow volume)
SAC = Sewer Availability Charge (capacity demand)
ISC = Industry Specific Charges

Based on 2011 budget



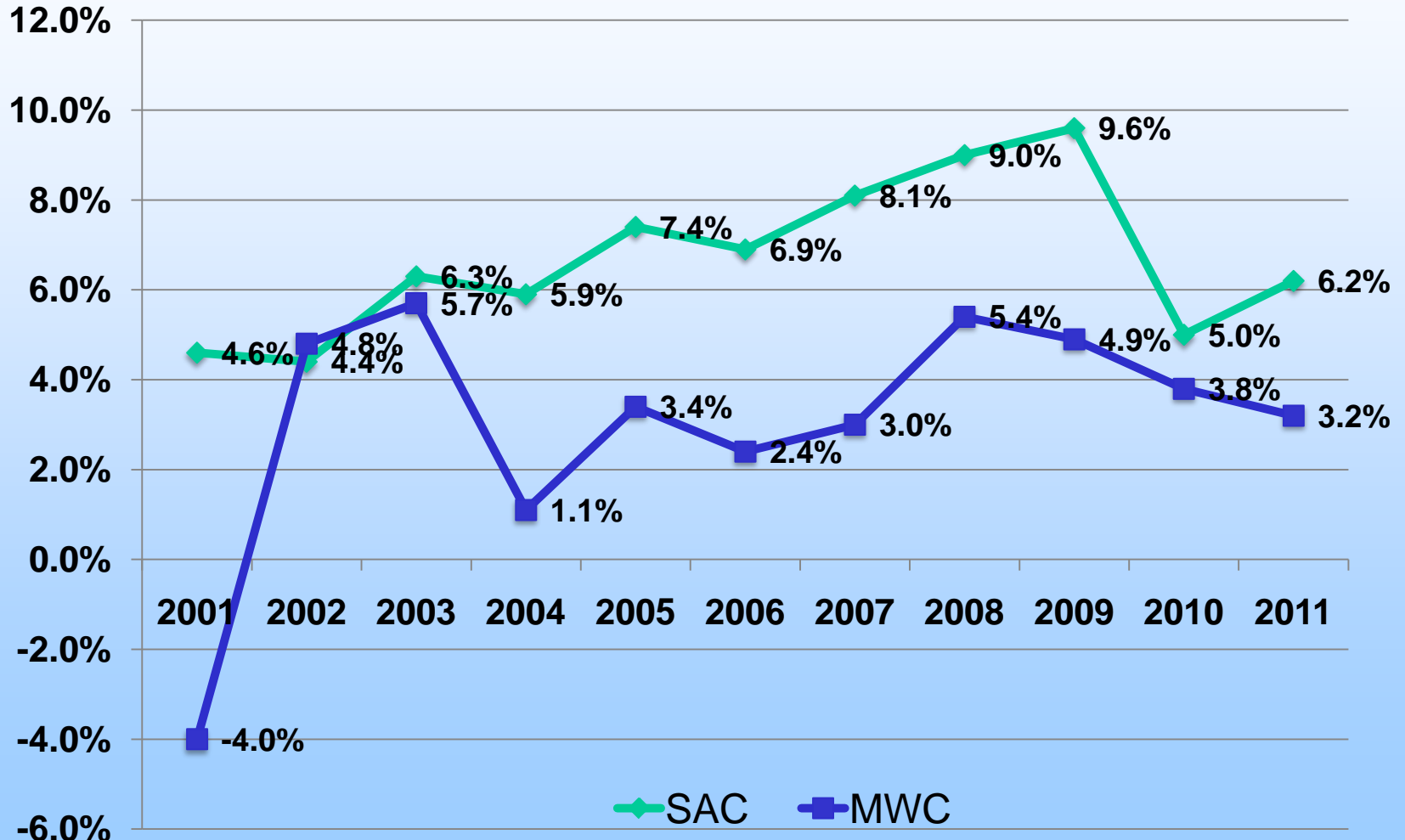
Revenue: M.S.473.517

- **Subd. 1 describes MWCs ...except as provided in subd. 3 (SAC), the estimated costs of operation, maintenance and debt service of the Metropolitan (wastewater) disposal system...and the costs of acquisition and betterment from funds other than bonds...shall be allocated among and paid by all local government units which will discharge sewage...**
- **Subd. 3 describes SAC**
- **Subd. 10 describes Industrial Charges**



Revenue: Historical Fee Increases

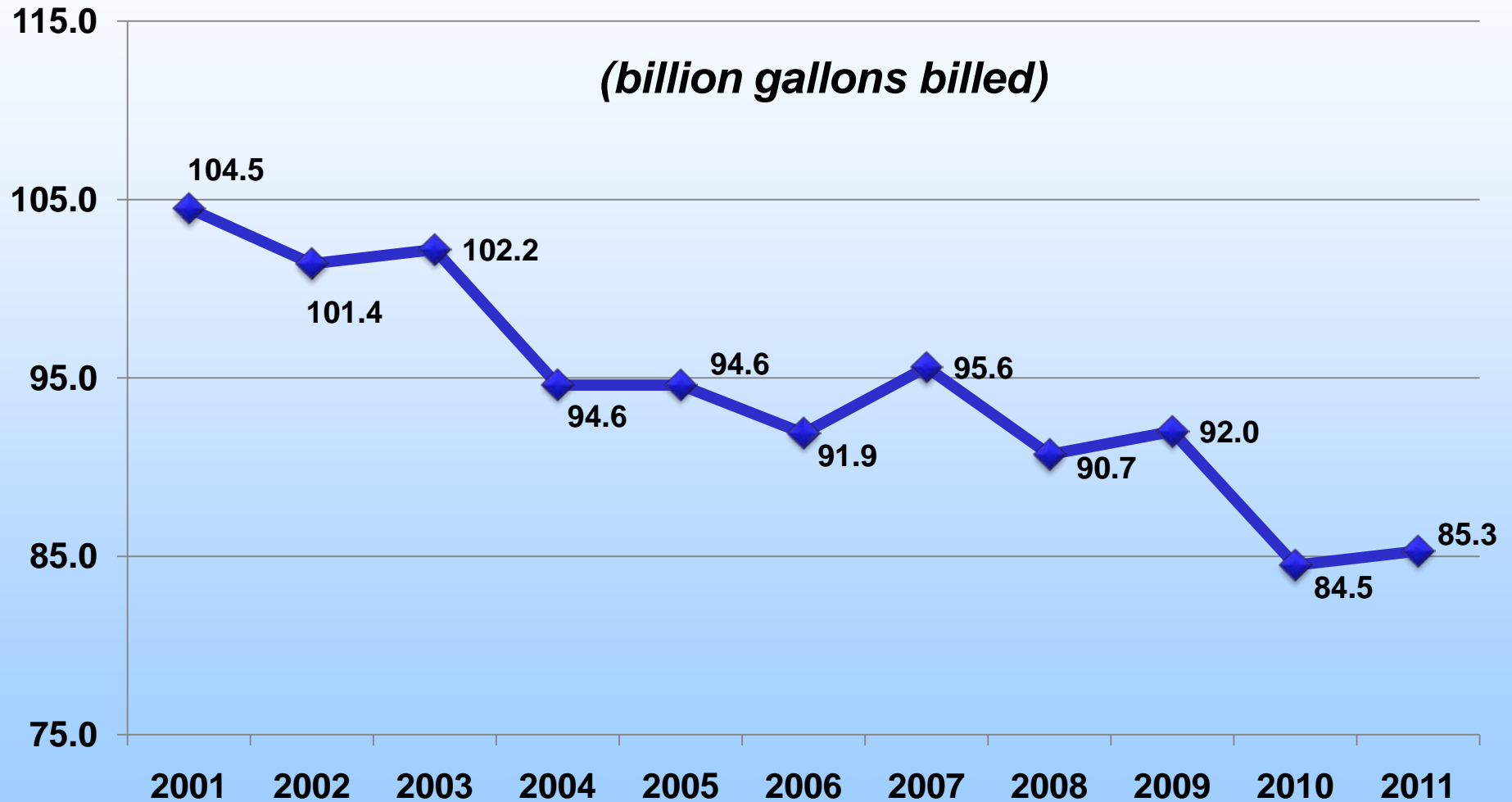
(% Change)



Based on budget without inflation adjustment.



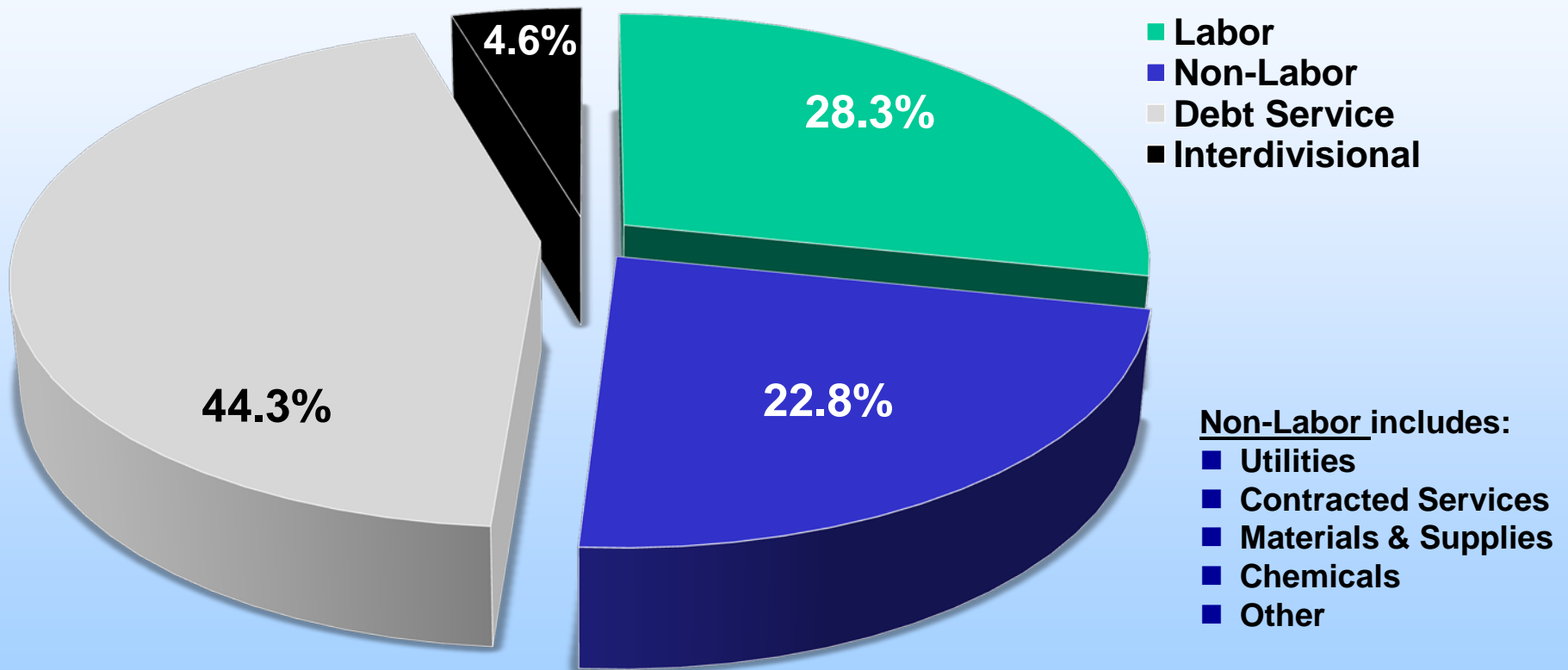
Revenue: Flow Volume*



**Years shown are billing years—not flow years.*



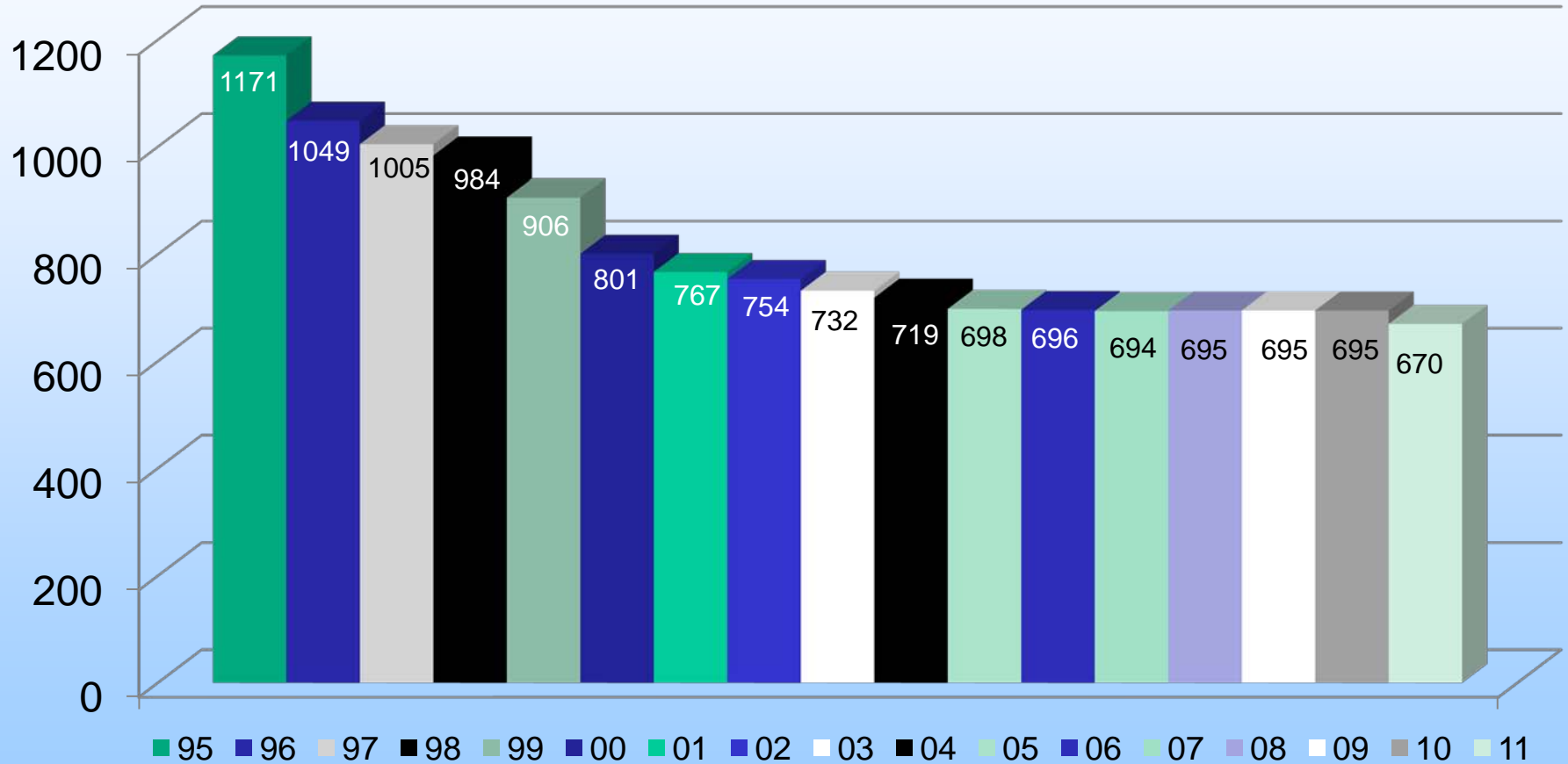
Budget: Expenses



Based on 2011 budget



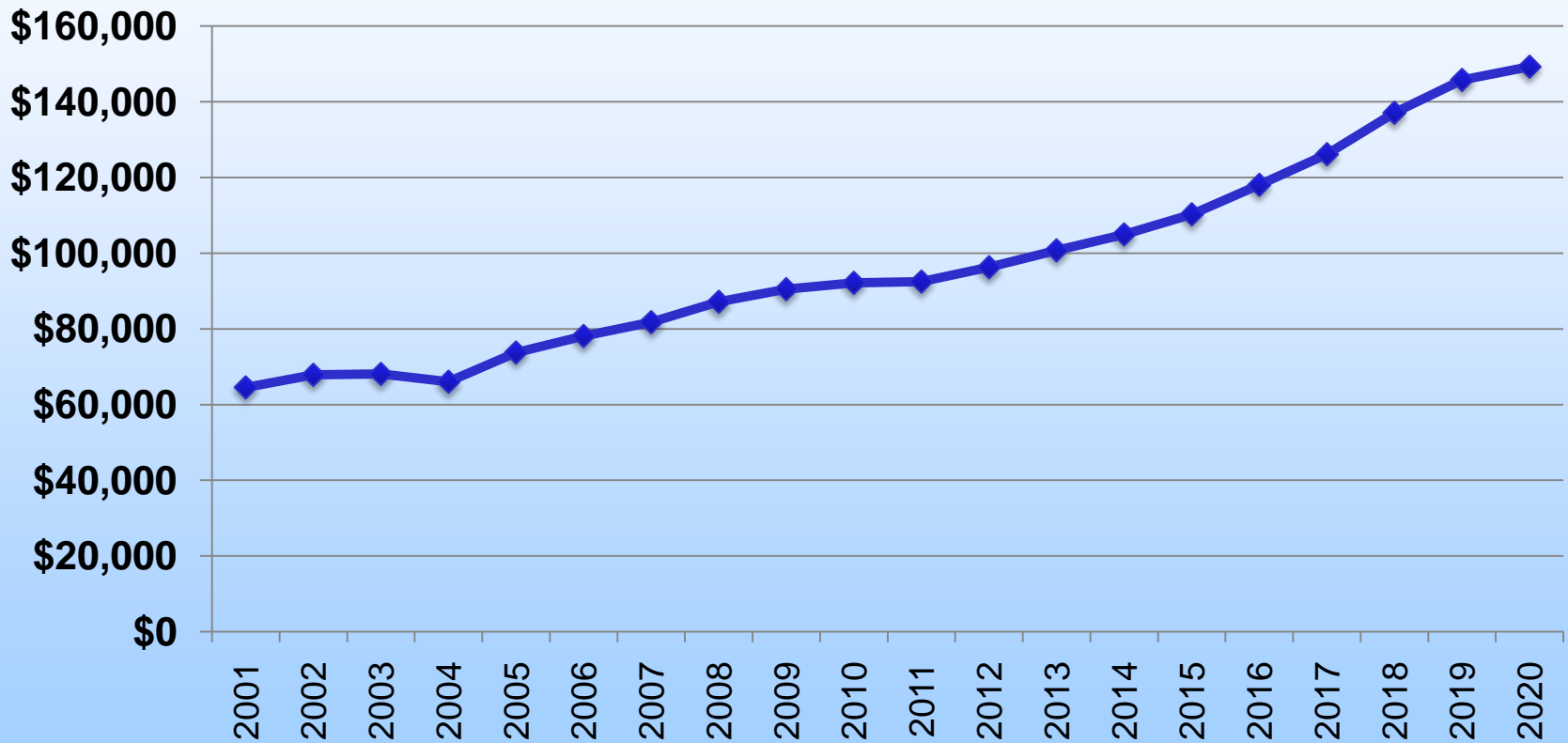
Expense Drivers: Full Time Employees (FTEs)





Expense Drivers: Debt Service*

MCES Total Debt Service (\$ in millions)



** Actual through 2010, projected thereafter based on CIP and level debt service on all new debt.*



Overview: Reserves

- **\$30.2M = Operating and Contingency**
- **\$20.4M = SAC**
- **\$8.5M = Debt Service**
- **\$39.4M = Other Post Employment Benefits (OPEB) or retiree medical**

(Estimated balances on 3/31/10)



Operations/Contingency Reserves

(\$ in millions)

2010 Year-end Balance	\$30.2
2011 Budgeted Use	-2.5
2011 Budget Amendment	-0.6
2011 Year-end Balance (expected)	27.1
Council Policy Target Balance	11.8
Undesignated	15.3



Operations/Contingency Reserves

■ Possible uses

- **Funding for Other Post-Employment Benefits (OPEB)**
- **2012 rate mitigation**
- **Future rate mitigation**
- **SAC Shift funding**
- **PAYGO for capital projects**



Overview: 2011 Expenses/Uses

(\$ in millions)	2011 Budget*
Debt Service	92.5
Labor	59.7
Non-Labor	48.3
Interdivisional	9.7
PAYGO	1.0
TOTAL Expenses	211.2

**Before amendments*



Overview: 2011 Revenue/Sources

(\$ in millions)	2011 Budget
MWCs	172.8
SAC Transfer	20.5
Industry-specific	11.4
Other	4.0
TOTAL Revenue	208.7
→ Planned Reserve Use	2.5



2012 Budget Schedule

■ Annual Operating Budget/Rates

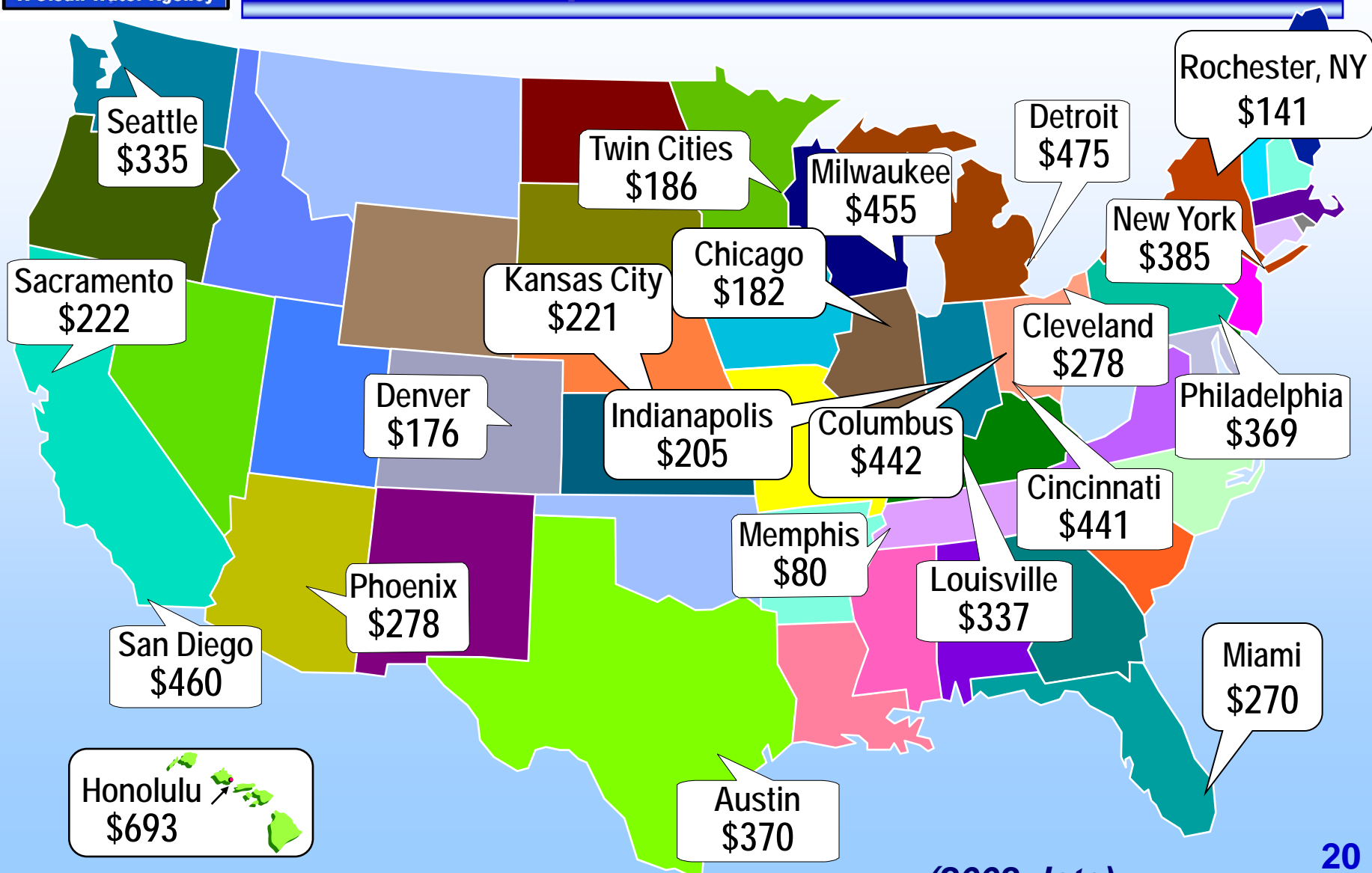
- April Internal budget development
- May Discussion with Environment Committee
- June Discussion with public
- July Rate adoption
- July/Aug Council prelim unified operating budgets
- Nov Public hearing
- Dec Council adoption

■ Capital Budget/ACP/CIP

- Aug Discussion with Environment Committee
- Sept Prelim unified capital budgets
- Nov Hearing
- Dec Adoption



4) Competitiveness

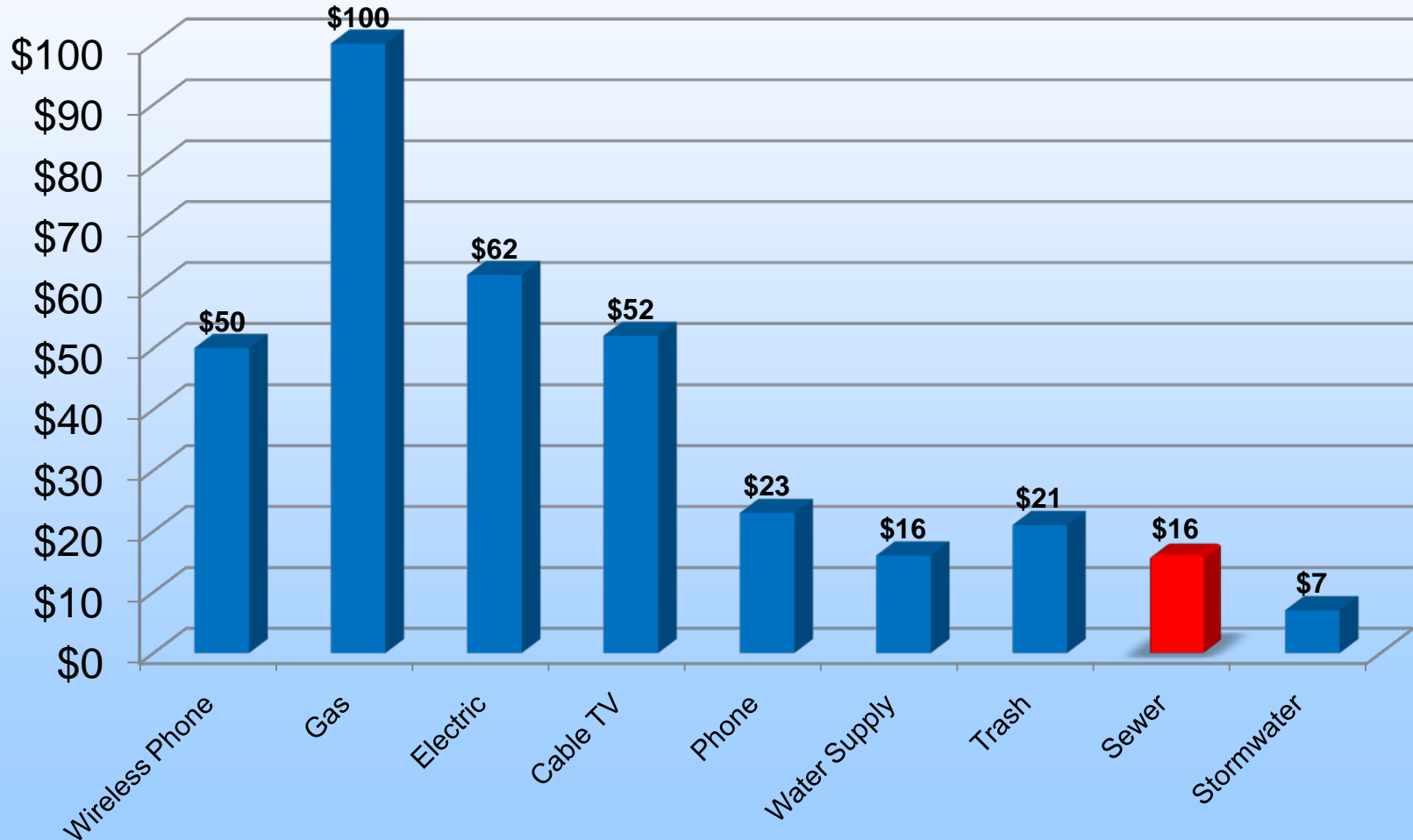


(2008 data)



Competitiveness

Average Monthly Utility Costs



(2007/2008 data)



5) Rates and Charges: MWC

- **MCES charges communities a wholesale fee for annual volume:**
 - **Firm flow allocation method**
 - 2011 billings based on flow percent for period of July 1, 2009–June 30, 2010
 - Communities pay portion of MWC corresponding to their percent of total flow

- **Communities charge businesses and residents a retail fee for sewer volume**
 - **Usually quarterly**
 - **Biannual survey**



MWC: Top 10 Payers in 2010

COMMUNITY	2010 MWC	PERCENTAGE
1. MINNEAPOLIS	\$31,583,386.59	18.28
2. ST. PAUL	\$15,567,087.84	9.01
3. BLOOMINGTON	\$6,079,895.05	3.52
4. PLYMOUTH	\$4,850,019.37	2.81
5. EAGAN	\$4,447,745.17	2.57
6. EDINA	\$4,383,690.83	2.54
7. COON RAPIDS	\$3,956,823.98	2.29
8. MINNETONKA	\$3,914,688.30	2.27
9. BURNSVILLE	\$3,864,145.74	2.24
10. MAPLE GROVE	\$3,849,945.21	2.23



Municipal Wastewater Charges

Examples of Charge Variability Due to City Flow

2011	flow (mg)	% of system flow	MWC
City ABC	10,000	11.83%	\$ 20,443,332
City XYZ	550	.65%	\$ 1,124,383
All others	73,969	87.52%	\$151,217,285
System Flow	84,519		\$172,785,000

2012	flow (mg)	% of system flow	MWC	% Increase
City ABC	10,000	12.20%	\$ 21,071,341	3.1%
City XYZ	600	.73%	\$ 1,264,280	12.4%
All others	71,400	87.07%	\$150,449,378	-.5%
System Flow	82,000		\$172,785,000	0%



SAC: Source of Funds

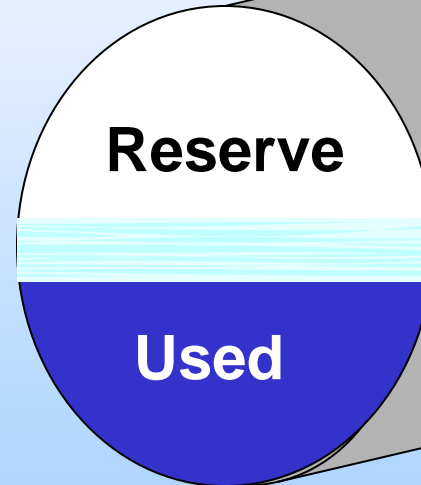
- **Charged to municipalities (wholesale)**
 - Revenue reduces volume charge to cities
- **For new connections or increased demand (available capacity) to regional wastewater system**
- **1 SAC unit charged per 274 gallons of maximum daily wastewater flow availability**
- **Availability ≠ Treatment**
“Capacity we stand ready to serve”



SAC: Use of Funds

■ Funds pay:

- Portion of capital or debt service (payments) on MCES debt
 - Portion paid is based on the “reserve capacity”
- Administrative costs of SAC program





SAC: 2011 Rates

Rates	2011 SAC
Base Unit Fee: Single Family Dwelling	\$2,230
Apartment (without individual laundry facilities)	20% discount
Multi-Dwelling Public Housing (without garbage disposals nor dishwashers)	25% discount
Multi-Dwelling Public Housing (without garbage disposals, dishwashers nor individual laundry facilities)	40% discount
Qualified Outdoor Spaces (effective 10/1/09)	75% discount
Commercial: Base unit fee times number of residential equivalent units (REUs) where the number of REUs is based on estimate maximum potential flow	
Industrial: Based on fee times number of REUs where the number of REUs is based on maximum normal flow volume	

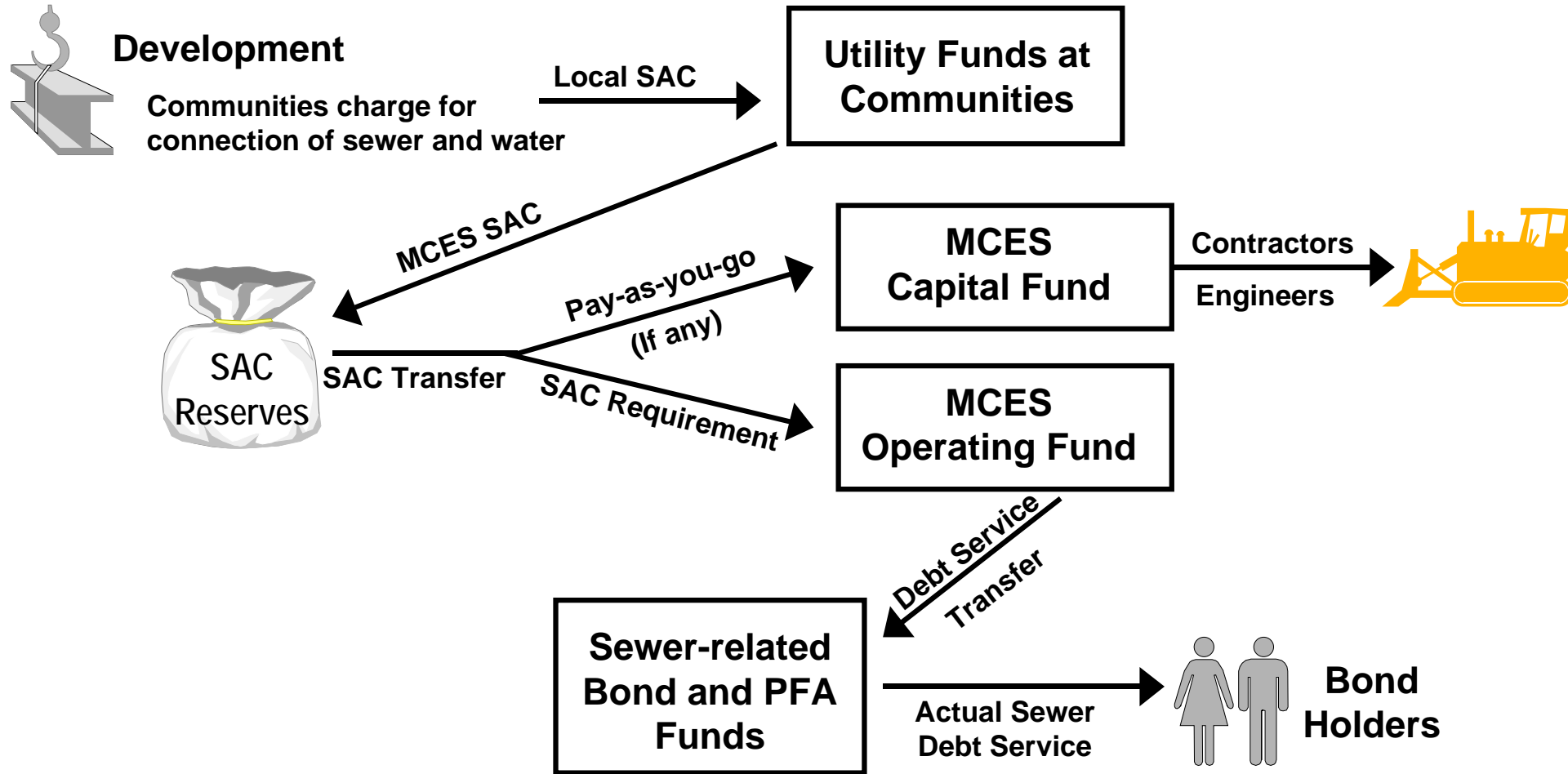


SAC: Top 10 Payers in 2010

COMMUNITY	2010 SAC	PERCENTAGE
1. MINNEAPOLIS	\$3,016,957.25	17.35
2. WOODBURY	\$1,264,032.00	7.27
3. ST.PAUL	\$1,204,266.00	6.92
4. BLAINE	\$983,126.50	5.65
5. BLOOMINGTON	\$837,837.00	4.82
6. MINNETONKA	\$756,781.25	4.35
7. MAPLE GROVE	\$744,122.00	4.28
8. APPLE VALLEY	\$467,775.00	2.69
9. EDINA	\$351,584.76	2.02
10. LAKEVILLE	\$340,956.00	1.96



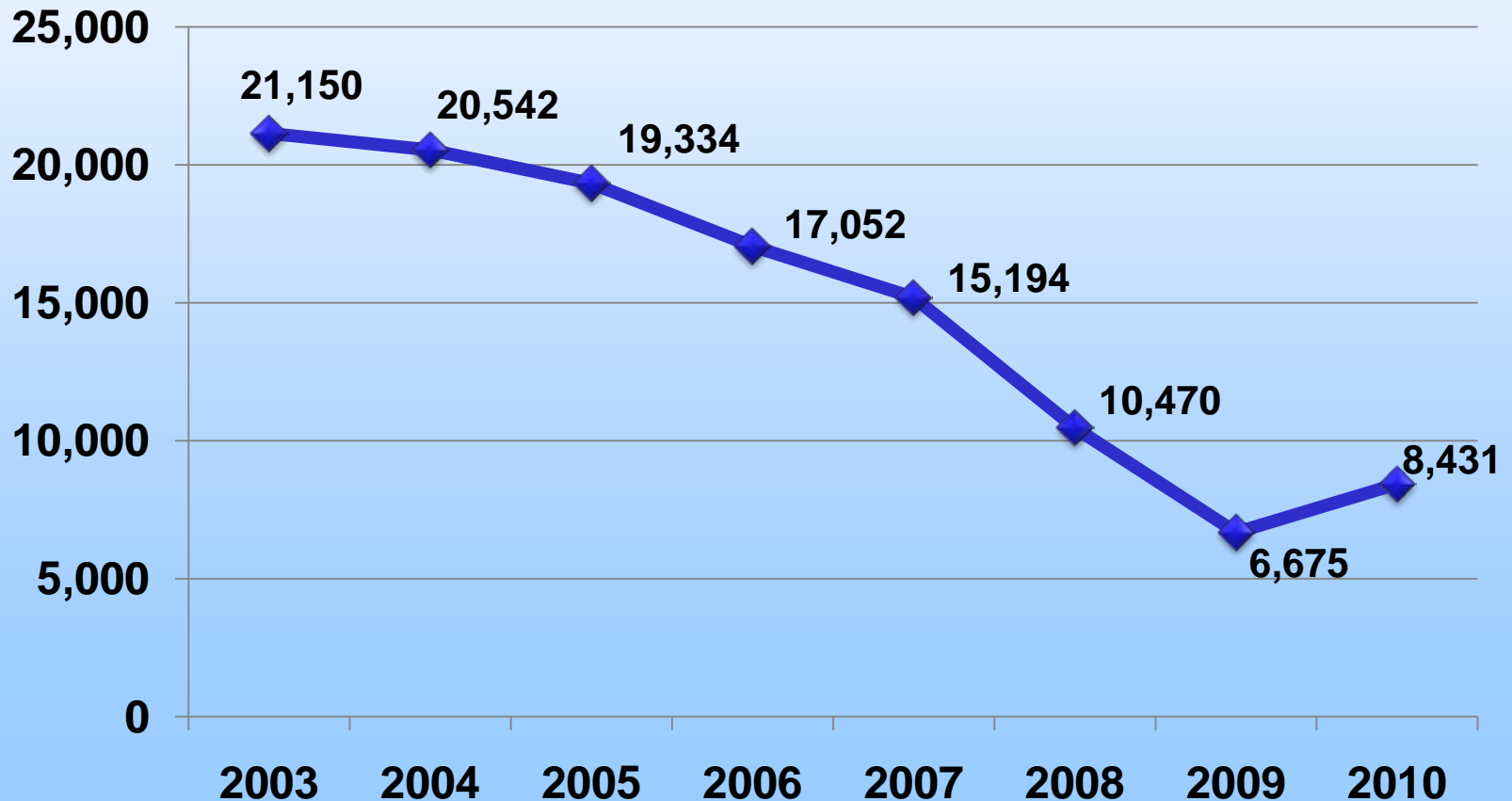
SAC: Funds Flow





SAC: Financial Stress

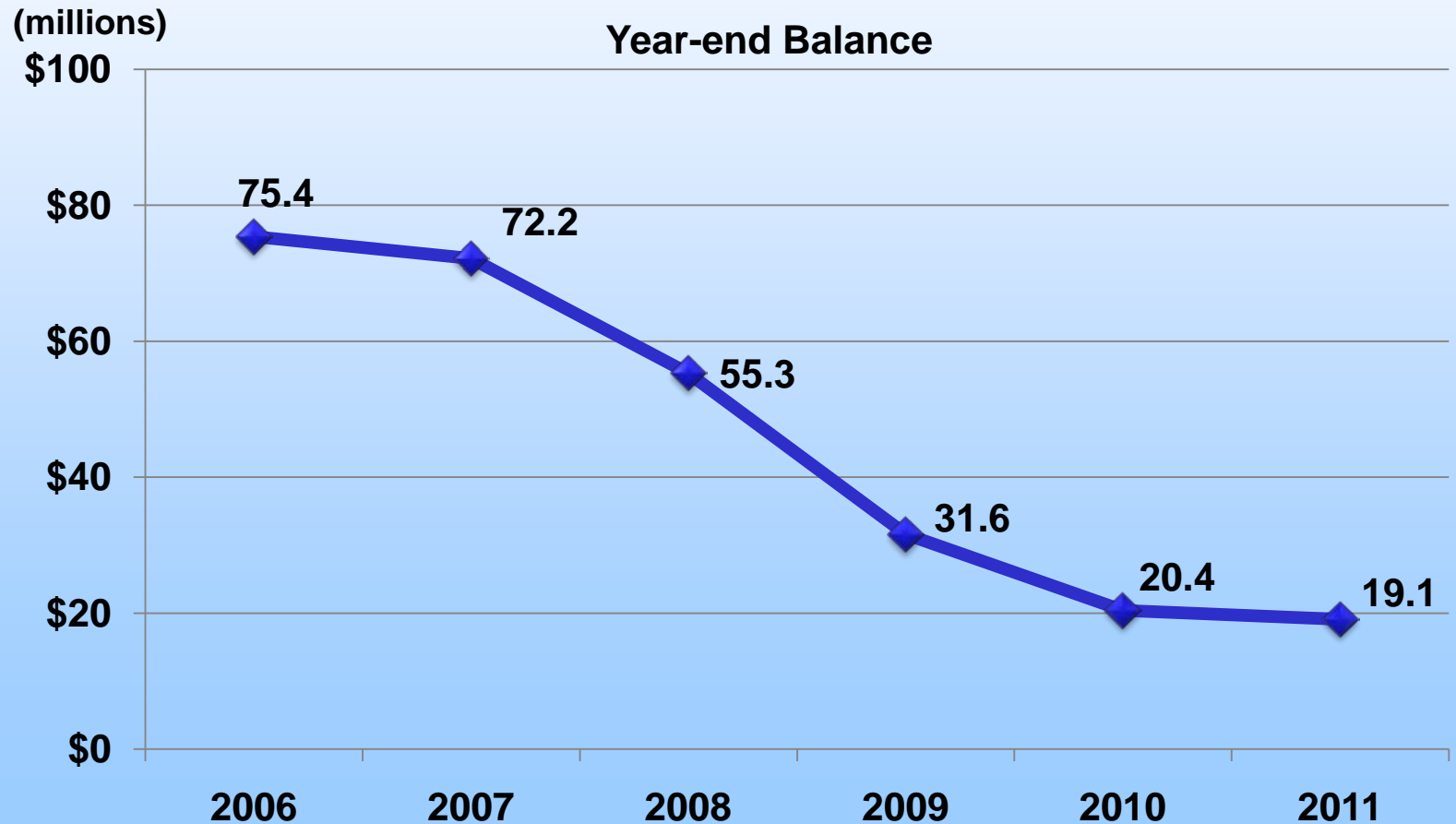
- Decreasing SAC units causing pressure on SAC reserve fund balance





SAC: Reserve Fund

	<u>Actual</u>			<u>Projected</u>
	2008	2009	2010	2011
Year-End Balance	\$55.3	\$31.6	\$20.4	\$18.9





SAC: Mitigation to Date

- **Deferred capital projects based on changes to forecasted service demands**
- **Shifted temporary capacity charges to SAC fund**
- **Refined reserve capacity definition**
- **Tightened SAC credit rules**
- **Appointed task force to develop long term policies for defining and funding reserve capacity**
- **Made budget reductions**



SAC: 'Shift' Amendment*

- **Signed into law 4/1/10**
- **Allows Council flexibility to temporarily reduce SAC transfer and shift amount to Municipal Wastewater Charges (MWC)**
 - Limited to when financially necessary
 - Requires study and public hearings
 - Balanced by mandatory minimum SAC rate increase (usually 6%)
 - Sunset in 2015
 - Requires shift back when fund balance recovers
- **www.metrocouncil.org/newsletter/water2010/SACJun10.htm**

**M.S. 473.517 subd. 3.*



SAC: 2011 Budget Shift

- **SAC pays \$4.5 million less than reserve capacity computation**
- **MWC in aggregate pays additional \$4.5 million**
 - **2011 (all): \$2.78 (\$.23/month) per household and residential equivalent connection**



SAC Reserve Balance

SAC Units		SAC Shift	Year-End SAC Reserve Balance
2007	15,193		\$72.1
2008	10,470		\$55.3
2009	6,675		\$31.6
2010*	8,431		\$20.4
2011	8,500	\$4.5	\$19.5
2012	8,500	\$0.0	\$12.8
2013	9,500	\$3.0	\$10.0
2014	10,500	\$3.8	\$10.0
2015	11,500	\$1.8	\$10.0
.....			
2020	16,500	\$0.0	\$30.9

**Actual through 2010*

(\$ in millions)



Industry Specific Rates

■ Strength Charges

- \$ per lb. of excess strength
- Fees to connected industries for additional treatment costs caused by industrial wastewater with more pollutants than typical residential wastewater
- Based on concentration of pollutants and volume of discharge

	<u>2011</u>
TSS: Total Suspended Solids Rate	\$0.1550
COD: Chemical Oxygen Demand Rate	0.0775



Industry Specific Rates

■ Load Charges

- Per 1,000 gallons
- Liquid waste haulers pay MCES for septage, leachate and other hauled wastes discharged to approved MCES disposal sites

	2011
Standard Load Charge	\$48.99
Holding Tank Rate*	\$4.52
Portable Toilet Waste Rate	\$62.12
Collar County Load Charge	\$61.49
Industrial Load Charge <i>(\$ per lb of excess strength)</i>	
TSS: Total Suspended Solids	\$0.315
COD: Chemical Oxygen Demand	\$0.1575

**not full cost*



Other MCES Rates

- **Permit Fee: \$50-\$1,025**
- **Temporary Capacity Charge: \$1.12 per 1,000 gallons**
- **Self-Monitoring Report Late Fee: \$100-\$350**
- **Enforcement Cost Recovery:**
 - Notice of Violation Fee = \$100 or \$150
 - Order to Appear Fee = \$300
 - Stipulation Agreements = Determined case by case
- **Other cost recovery: Based on MCES costs incurred**
- **Special Discharge Requests: \$150 or \$300**
- **Direct Connection Fee: \$1,000 per connection**
- **Encroachment Fee: \$600 per easement**



Inflow & Infiltration (I&I)

- **2007-2012 surcharges**

- **5 communities had charges deferred beyond 2012**

- **Almost all community preliminary surcharges offset/credited by other City spending**

Does not contribute to MCES revenues



Questions

