

Meeting date: July 12, 2011

For the Metropolitan Council Meeting of July 27, 2011

ADVISORY INFORMATION

Date:	July 6, 2011
Subject:	Adoption of MCES 2012 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, 2012:

- Municipal Wastewater Charge (annual) total of **\$173,649,000**,
- Sewer Availability Charge (SAC): **\$2,365** per Residence or Residential Equivalent Capacity,
- Temporary Capacity Charge : **\$1.18** per thousand gallons,
- Industrial Strength Charge: **\$.160** per excess pound of TSS (total suspended solids),
- Industrial Strength Charge: **\$.080** per excess pound of COD (chemical oxygen demand),
- Standard Load Charge: **\$49.97** per thousand gallons,
- Holding Tank Load Charge: **\$6.78** per thousand gallons,
- Portable Toilet Waste Load Charge: **\$63.73**, per thousand gallons,
- Collar County Load Charge: **\$64.97** per thousand gallons,
- Strength component of Industrial Load Charge **\$.330** per excess pound of TSS,
- Strength component of Industrial Load Charge **\$.165** per excess pound of COD,
- Out-of-Region Load Charge Component for hauled waste: **\$15.00** per thousand gallons, and
- Industrial Permit Fees as shown on Attachment A.

Further, that the Metropolitan Council authorizes the SAC reserve fund exception for an economic downturn as stated in Council policy 3-2-5 [*Use of the minimum reserve shall be allowed only in an economic downturn or natural disaster and as approved by the Council*].

Background

On May 10 and June 14, staff presented information to the Environment Committee on the 2012 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. Also, a public hearing was held on June 28 in regard to the proposal to reduce the SAC transfer by reducing (shifting) some of the "future user" responsibility to the Wastewater Operations and Contingency Reserve. A combined total of 88 customer representatives attended the four meetings. A summary of the questions and comments are attached.

The revenue to be raised through all Municipal Wastewater charges in 2012 is \$173.6 million, a 0.5% increase from these charges in 2011 (although individual city results vary depending on flows). This increase, together with the other rate changes, comply with the Council policy that wastewater charges should enable MCES to: meet wastewater regulatory requirements, implement MCES infrastructure rehabilitation and repair needs, and provide wastewater capacity for growth consistent with the Council's 2030 Regional Development Framework.

Charges and rates are based on a regional cost-of-service philosophy, the preliminary budget and formulas we have used for many years, with the exception that the increase on the holding tank load charge is limited to a 50% increase and the Permit Fees that are also being slowly phased up to cover the direct program costs.

Rates proposed to have no increase in 2012 are: Encroachment Application Fee (\$600 per easement), Direct Connection Application Fee (\$1,000 per application), and the I/I Surcharge Exceedance Rate (\$377,000 per mgd).

These rates are based on the preliminary budget which has total revenues increasing 3.9% and total expenses increasing 2.6%. This is a balanced budget with both revenues and expenses equaling \$216.8 million. Capital Project expenses paid directly from operating revenues instead of debt (“pay-as-you-go”) are maintained at \$1 million for 2012.

The SAC fund continues to be under considerable pressure due to the recession. On April 1, 2010 legislation was passed allowing Council the flexibility to temporarily reduce the SAC transfer (SAC is paid by future users) and shift the amount necessary to current users. The legislation requires a public hearing which was held on June 28, 2011 (see Attachment B for public comments). The SAC shift included in these proposed rates is \$4.3 million, close to the \$4.5 million SAC shift in 2011. However, while Municipal Wastewater Charges were increased to pay for the 2011 SAC shift, in 2012 it will be funded from the Operations & Contingency Reserve Fund (per Council authorization in Business Item #2011-131).

Once charges are approved and the flow measurements finalized, staff will notify customer communities and businesses. It is important to note that while the Council’s 2012 budget is not adopted, the MCES portion of that budget will be substantially constrained by the revenue anticipated from these rates and charges.

The proposed 2012 “rate sheet” which includes a short description of these rates can be found on Attachment C. A summary of the preliminary budget from which these rates are based and a comparison to the 2011 budget is Attachment D. Public Comments from the customer forums are on Attachment E.

Rationale

Wastewater service rates for 2012 need to be set well in advance to allow communities time to revise their ordinances and businesses time to revise their pricing structures.

Funding

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

The Council this year designated \$15.3 million from the wastewater Operations & Contingency reserve for use for SAC shifts. This budget uses \$4.3 million of that designation, leaving \$11 million still designated for such use in 2013-2015.

Known Support / Opposition

The public forums did not elicit statements of significant concern or opposition about the proposed rates.

2012 Industrial Discharge Permit Fees

Quarterly Reporters (SIU>50 MGY)	\$6,350
Quarterly Reporters (SIU<50 MGY)	\$5,300
Semi-annual Reporters (SIU>10 MGY)	\$4,200
Semi-annual Reporters (SIU 5-10 MGY)	\$3,150
Semi-annual Reporters (SIU 2-5 MGY)	\$2,100
Semi-annual Reporters (SIU <2 MGY)	\$1,075
Semi-annual Reporters (Non-SIU)	\$1,075
Annual Reporters (Non-SIU > 1 MGY)	\$1,075
Annual Reporters (Non-SIU < 1 MGY)	\$675
Non Significant Categorical user (NSCIU)	\$675
Liquid Waste Hauler (> 1 MGY)	\$1,075
Liquid Waste Hauler (< 1 MGY)	\$675
Special Discharge Permit (quarterly reporter)	\$1,075
Special Discharge Permit (contingency/low impact)	\$675
General	\$100-\$500

SIU = Significant Industrial User - a federal designation.

SAC Transfer Public Hearing
Council Chambers, June 28, 2011 at 2:30
Comment (there is only one to date; however the written comment period is through July 8th):

Thank you for the opportunity to comment today, my name is Patricia Nauman, executive director of Metro Cities, our address is 145 University Avenue, 55103. I just want to say a couple things. First of all, we do understand the need for flexibility to address the decline in SAC revenues. We are well aware of the situation and are as concerned as you are that our utility for the region remains solvent and fiscally sound. While the amount is significant as it was last year, we appreciate the work that has been done by staff to try to mitigate the impact on current users. I do want to recap on last year's legislation which we did support with some provisions, a couple of which are that there is a shifting back mechanism and a sunset date of 2015. I do want to reiterate the significance from Metro Cities' perspective about that 2015 date. And I don't want to sound too alarmist but if the economy does not recover, if it continues to falter for years to come which I certainly hope it does not, our position would be that the Council would need to look at some alternative solutions for addressing this issue. This is not a long term solution but one that would require another look at if the situation does not improve.

I also want to be on record that we do support and will be part of the informal working group that will be addressing an issue with SAC and small businesses and we do support having that group also look at the no-net-credit structure and maybe revisit that a little bit for some flexibility there.

And finally I want to say we also appreciate very much the work by MCES and Met Council in this regard and your approach to this work and working with cities as partners in this, so we very much appreciate that.

Thank you.

[RESERVED for any additional written comments received by 7/8/11]

Metropolitan Council Environmental Services' (MCES) 2012 Charges

1. **Municipal Wastewater Charge:** The charge by MCES to communities for sewer service treatment. All customer communities pay MCES an allocated portion of MCES Municipal Wastewater Charges based on their annual volume of wastewater treated. Most communities cover their own sewer costs by charging a higher “retail” rate to residents and businesses (these rate “mark-ups” are specific to each city).

2012 Municipal Wastewater Charges	
Total MCES Municipal Wastewater Charges in 2012:	\$173,649,000
Total system flow for 2012 charges: in million gallons (mg) (based on estimated flow for July 1, 2010 - June 30, 2011):	
	94,000 mg
Approximate rate per million gallons:	\$1,847.33

2. **Municipal Sewer Availability Charge (SAC):** The sewer availability charge to communities is imposed by MCES for new connections or increased demand to the metropolitan wastewater system. Generally, one SAC unit equals 274 gallons of maximum potential daily wastewater flow capacity. A freestanding single-family residence is charged one SAC unit. Other types of buildings pay a prorated SAC fee, based on the estimated capacity of wastewater required.

2012 Sewer Availability Charges		SAC Rate
Base Unit Fee (Single-Family Dwelling)*:		\$2,365.00
Apartment (without individual laundry facilities)		20% discount
Multi-Dwelling Public Housing (without garbage disposals nor dishwashers)		25% discount
Multi-Dwelling Public Housing (w/o laundry, garbage disposals nor dishwashers)		40% discount
Outdoor Space Discount:		75% discount
Commercial: Base unit fee times number of residential equivalent connections (RECs) where the number of RECs is based on an estimated maximum daily capacity by use type.		
Industrial: Base unit fee times number of RECs where the number of RECs is based on maximum normal process flow plus RECs for commercial spaces		
* Note: Elko New Market, East Bethel and New Germany have higher base rates set by contract.		

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

2012 Industrial Strength Charges:	
Cost per excess pound of Total Suspended Solids (TSS)	\$0.1600
Cost per excess pound of Chemical Oxygen Demand (COD)	\$0.0800

4. **Liquid Waste Load Charge:** Liquid waste haulers pay MCES directly for septage, leachate and other hauled wastes that are discharged at MCES disposal sites. The load charges combine: i) a strength charge component, ii) a volume component that is based on the MCES municipal wastewater rate and iii) a special facilities component for the discharge sites. Also out-of-region waste is assessed an administrative service component.

2012 Liquid Waste Load Charges (per 1,000 gallons)	
Standard Load Charge	\$49.97
Portable Toilet Waste Load Charge	\$63.73
Holding Tank Load Charge	\$6.78
Collar County Load Charge	\$64.97 (for 10 counties surrounding the Region)
Industrial Load Charge (\$ per excess lb.)	\$.3300 TSS and .1650 COD plus \$6.78/1,000 gal. volume charge (plus \$15.00/1000 gal. service fee for loads generated out of the metropolitan region)

5. **Industrial Discharge Permit Fee:** Those Industrial Users issued a permit must also pay annual permit fees to MCES, 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.

2012 Industrial Discharge Permit Fees:								
Volume (MGY)	>50 m.	<50 m.	>10 m.	5–10 m.	2–5 m.	<2 m.	>1 m.	<1 m.
Quarterly Reporters	\$6,350	\$5,300						
Semi-annual Reporters			\$4,200	\$3,150	\$2,100	\$1,075		
Annual Reporters and Liquid Waste Haulers							\$1,075	\$675
General Permits	\$100-\$500							

6. **Temporary Capacity Charge:** A charge assessed for temporary use of the metropolitan system (e.g. disposal of treated, contaminated groundwater). This charge is assessed in lieu of SAC, due to the temporary nature of the service – essentially renting capacity in the system.

2012 Temporary Capacity Charge: \$1.18 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.

2012 Late Report Fees: \$150–\$1,000 per report (see Web site below for more detail)

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 responsible party associated with spill or enforcement responses, non-routine data requests, special discharge requests, orders to appear, or notices of violation. Two administrative cost recovery fees are the Encroachment Application Fee (\$600) and the Direct Connection Application Fee (\$1,000). Both of these fees are assessed to recover administrative costs for time spent by MCES staff.

Rate Setting Budget

	2011 Adopted <u>Budget</u>	2012 Preliminary <u>Budget</u>	Change <u>(%)</u>
REVENUE & Other Sources: (\$s in thousands)			
Municipal Wastewater Charges	172,785	173,649	0.5
SAC Transfer	24,951	27,400	9.8
SAC Shift	(4,500)	(4,300)	-4.5
Transfer from operating reserve for SAC shift		4,300	
Industrial Charges	11,472	12,745	11.1
Other Sources	<u>4,016</u>	<u>3,016</u>	<u>-24.9</u>
Total Revenue Sources	208,725	216,810	3.9
EXPENSES & Other Uses: (\$s in thousands)			
Wastewater Debt Service	92,500	96,899	4.7
MCES Labor	59,742	61,918	3.6
Interdivisional	9,745	10,024	2.9
Non-Labor	48,237	46,979	-2.6
Pay-as-You-Go for Capital Projects	<u>1,000</u>	<u>1,000</u>	0
Total Expenses	211,224	216,810	2.6
SURPLUS/(DEFICIT) to (from) Op. Reserves	(\$2,500)	(\$0)	
STATISTICS:			
Flow (billions of gallons)	85.3	94.0*	10.2
Employees (Full Time Equivalent)	670	676	.9

* Flow is estimated, the final flow and rate will not be available until August.

**Staff Note Summary from MCES Customer Forum
League of Minnesota Cities
June 28, 2011
(31 public attendees and staff)**

Questions/Answers:

Q: Have you looked at other SAC rate increases like 7% or 8%?

A: *We haven't because of the economic pressures on development and it would not make much difference in the needed SAC shift.*

Q: How much is in the operating reserve?

A: *While the SAC reserve is below its minimum balance per Council policy, the operating contingency reserve, has about \$15 million of excess that the Council designated for future SAC shifts and this is from where the \$4.3 million 2012 shift will come.*

Q: Does this \$4.3 million affect the Municipal Wastewater Charges?

A: *Not directly as it is coming out of the operating reserve fund. However, once it is taken out, it won't be available to reduce future MWC increases, so it could have an indirect future impact.*

**Staff Note Summary from MCES Customer Forum
Seneca Wastewater Treatment Plant
June 23, 2011**

(9 public attendees, Council Members Wulff and Đoàn, and staff)

Questions/Answers:

Q: When will the city Municipal Wastewater Charges be ready?

A: *Sometime in mid to late August.*

Q: Will cities be notified of I/I flow exceedances?

A: *As has been done in the past, whenever excessive I/I peaks occurs, we still notify the city, even though there are no surcharge consequences right now.*

Q: How will capital cost reductions affect your capital projects planned?

A: *We will defer new growth-related capital projects as long as we can. However, some rehabilitation projects can't be deferred and regulatory mandated projects may occur.*

Comment: One thing our city [Maplewood] did that helped was to give a restaurant owner that felt burdened with paying 11 SAC units was to pay half the amount and create a loan that would get collected via property taxes if it wasn't repaid as contracted.

**Staff Notes from MCES Industrial Waste Forum
St. Paul (Metro 94 Building)
June 21, 2011**

(43 Industrial users attended and MCES staff)

Questions/Comments:

Q: Regarding the wholesale rate, are there credits back to the cities once actual 2012 volumes are known?

A: *No, we use the "firm flow" method of cost allocation (the last known flow for the year prior to rate setting). So the cities know in advance the flow which they will pay for and there is no adjustment later required.*

Q: Regarding the Fridley receiving station, 1) when is bay 2 going to re-open? 2) how often are the mag meters checked?

A: *Bay 2 should be open (it was later stated that bay 2 will re-open following modifications on July 1). The mag meter has been checked since installation. I think it is scheduled for testing again this year.*

Comment: Regarding your statement on Mercury in amalgam, dental amalgam does contain 20% silver.

Q: Can you explain the criteria used for permit fee determinations?

A: *For standard permittees, the prior year's wastewater volume and the permittees SIU (Significant Industrial User) status are the primary factors for determining permit fees.*

Q: If a company's volume increases and SAC is due, what is the procedure?

A: *A determination (wastewater volume review) is done 1 year prior to permit renewal. If the review shows a SAC liability, the permittee is notified by IW staff and is given the year to undertake wastewater reductions. The permittee is also sent a "SAC intent form" which asks the company to state to MCES if the company will pay the SAC due or undertake wastewater reductions measures. At the 4 month mark prior to renewal, MCES staff sends a second letter reminding the company of the SAC liability. Reminder that the SAC if eventually due, is a charge of and is paid to the City (whom then pays MCES).*

Q: What if volumes go down?

A: *There is no charge or refund. The capacity remains available on the site; that is what is recorded as the baseline number for SAC.*

Q: What are the credit rules?

A: *Those are rules in place to determine SAC credit or liability for reuse of an existing site. The example given was a Kinko's copy center (2 SAC units) and a restaurant (10 SAC units); if restaurant replaces the Kinkos, 2 credits are applied and only 8 need be paid; if the Kinkos replaces the restaurant no SAC is due at all due to the credit for the prior use.*

Q: Has there been a reduction in the number of SIUs?

A: *Yes, there were 253 SIUs in 2010 down from nearly 300 in past years. The printed circuit board industry, for example, has lost a number of businesses in our service area.*

Q: Could you define SIU?

A: *There are several criteria defining a Significant Industrial User. First, permittees subject to federal categorical standards are SIUs. Next, those companies with more than 25,000 gallons of process wastewater per day are SIUs. Any industry that contributes 5% of the treatment plant's flow or 5% of the organic loading is a SIU - although, no permittees currently in our system meet that criteria. Last, anybody with the potential to cause pass through interference or a permit violation at our plants can be designated a SIU.*

Q: Does the Mercury reduction (shown in slide 44) cover the entire MCES wastewater system?

A: *The graph applies only to the Metro Plant. However, the Metro Plant treats about 75% of the system's wastewater.*

Q: Why wasn't the new plant in East Bethel designed to accept septage?

A: *This is a small plant and septage would increase the loading significantly. Also, because the plant doesn't discharge to receiving water, the wastewater limits are more stringent. Further discussion included a comment that the Fridley receiving station is not far from East Bethel.*