

**METROPOLITAN COUNCIL  
SUMMARY BUDGET  
ENVIRONMENTAL SERVICES DIVISION  
2007**

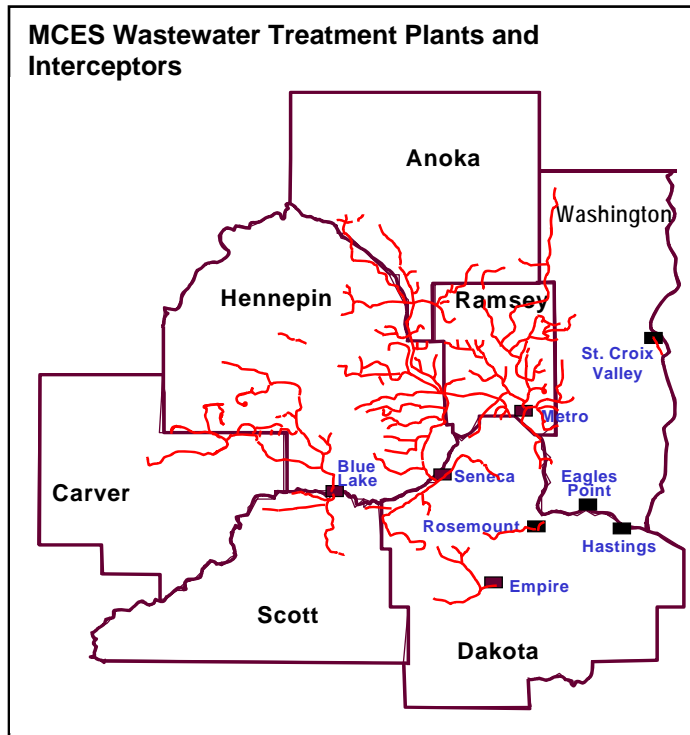
|   | <b>Operations</b>     | <b>Debt Service</b>  | <b>Division Total</b> |
|---|-----------------------|----------------------|-----------------------|
| <b><u>Revenues</u></b>                  |                       |                      |                       |
| Municipal Wastewater Charges            | \$ 98,779,000         | \$ 47,221,000        | \$ 146,000,000        |
| Industrial Waste Charges                | 9,400,000             | -                    | 9,400,000             |
| State Revenues                          | -                     | -                    | -                     |
| Investment Earnings                     | 2,000,000             | -                    | 2,000,000             |
| Other Revenue                           | 690,445               | -                    | 690,445               |
| <b>Total Revenues</b>                   | <b>\$ 110,869,445</b> | <b>\$ 47,221,000</b> | <b>\$ 158,090,445</b> |
| <b><u>Other Sources</u></b>             |                       |                      |                       |
| SAC Transfers                           | -                     | 34,561,000           | 34,561,000            |
| <b>Total Revenues and Other Sources</b> | <b>\$ 110,869,445</b> | <b>\$ 81,782,000</b> | <b>\$ 192,651,445</b> |
| <b><u>Expenses</u></b>                  |                       |                      |                       |
| Salaries & Benefits                     | \$ 57,751,803         | \$ -                 | \$ 57,751,803         |
| Consulting & Contractual Services       | 12,746,566            | -                    | 12,746,566            |
| Materials & Supplies                    | 5,801,692             | -                    | 5,801,692             |
| Chemicals                               | 5,123,525             | -                    | 5,123,525             |
| Utilities                               | 17,118,430            | -                    | 17,118,430            |
| Other Operating Expenses                | 1,046,165             | -                    | 1,046,165             |
| Capital Outlay                          | 1,898,130             | -                    | 1,898,130             |
| Travel                                  | 181,450               | -                    | 181,450               |
| Debt Service                            | -                     | 81,782,000           | 81,782,000            |
| <b>Total Expenses</b>                   | <b>\$ 101,667,761</b> | <b>\$ 81,782,000</b> | <b>\$ 183,449,761</b> |
| <b><u>Other Uses</u></b>                |                       |                      |                       |
| Interdivisional Expense Allocation-MCES | \$ 9,681,224          | \$ -                 | \$ 9,681,224          |
| Planning Chargeback Expense-Referrals   | 21,210                | -                    | 21,210                |
| Operating Capital Chargeback            | 492,900               | -                    | 492,900               |
| Total Council Allocated                 | \$ 10,195,334         | \$ -                 | \$ 10,195,334         |
| Transfer from General Fund              | (993,650)             | -                    | (993,650)             |
| <b>Total Other Uses</b>                 | <b>\$ 9,201,684</b>   | <b>\$ -</b>          | <b>\$ 9,201,684</b>   |
| <b>Total Expenses and Other Uses</b>    | <b>\$ 110,869,445</b> | <b>\$ 81,782,000</b> | <b>\$ 192,651,445</b> |
| <b>Surplus/(Deficit)</b>                | <b>\$ -</b>           | <b>\$ -</b>          | <b>\$ -</b>           |

# ***Metropolitan Council 2007 Preliminary Unified Budget Environmental Services Division***

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**MISSION:** The mission of Metropolitan Council Environmental Services (MCES) is to provide wastewater services that protect the public health and environment while supporting regional growth.

**PROFILE:** MCES is an operating division of the Metropolitan Council that:



- Owns and maintains approximately 600 miles of regional sewers that collect flow from 5,000 miles of sewers owned by over 100 communities,
- Treats approximately 300 million gallons of wastewater daily at eight regional treatment plants,
- Continues to achieve near-perfect compliance with federal and state clean water standards,
- Maintains wastewater service rates consistently below the national average,
- Works with approximately 800 industrial clients to substantially reduce the amount of pollution entering our wastewater collection system,

- Provides water resources monitoring and analysis for the region, and
- Provides water supply analysis and planning for the region.

**Water resources management services provided by MCES ensure that:**

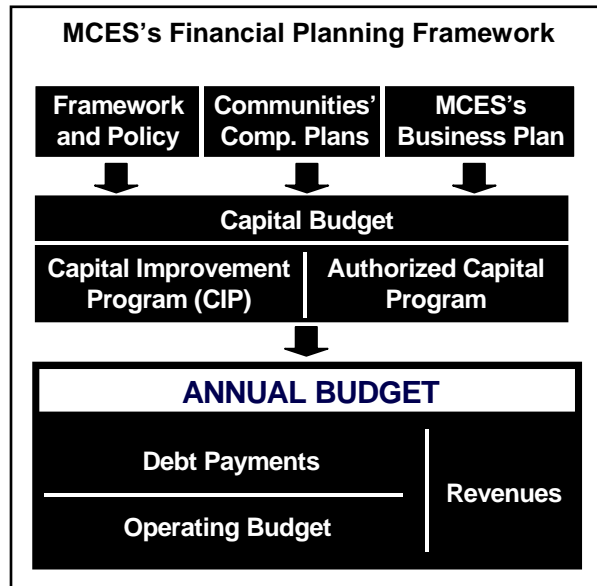
- Sufficient sewer capacity exists to serve planned development,
- Sufficient capital investments are made to preserve water quality in the region,
- Wastewater collection and treatment services are provided in a cost- and quality-competitive manner, and
- Local plans provide for adequate water supply and non-point pollution prevention in the region.

## MCES's FINANCIAL PLANNING AND ANALYSIS

The *Regional Framework*, *Water Resources Management Policy Plan*, and the MCES Strategic Business Plan lay the foundation for MCES's planning process and are reflected in the capital and operating budgets.

The Division's financial planning framework (below) shows the linkage between policy, technical plans, financial plans, and MCES finances.

MCES's integrated financial plan information is presented in four parts. They are as follows:



- **Summary Budget**, which summarizes all the financial planning information of the Division,
- **Capital Budget**, including the Authorized Capital Program and the Capital Improvement Program (CIP), presents the annual and long-term infrastructure costs for the organization,
- **Annual Budget**, includes the detailed annual operating budget, debt service payments, revenues and a forecast of future budgets and municipal wastewater rates, and
- **Capital Finance Plan (CFP)**, which describes the plan to raise the capital required to perform the CIP.

The Summary Budget document contains executive summaries of the other three documents. Each of these documents is made available on the Environment section of the Council's Web site ([www.metrocouncil.org](http://www.metrocouncil.org)). The Summary Budget is also available in hard copy from the Council's data center at (651) 602-1140.

The process used to develop the 2007 Annual Budget included interaction with the MCES management team, regional administration staff and municipal and industrial customers. A draft, high level budget was prepared in the spring of 2006 by budget staff. This effort incorporated responses requested from program managers regarding significant anticipated changes and proposed initiatives, as well as input from our municipal and industrial customers received at five budget planning meetings held in June. The result is financial planning that incorporates funding for new and existing programs essential to the short-, mid- and long-term goals of the Council, MCES and our customers. The draft budget was used to establish the 2007 municipal wastewater revenue requirement. After approval of the 2007 wastewater revenue goal by the Council, MCES community customers were notified in August of their individual 2007 charges. This approach allows them time to plan their wastewater rates and budgets. The final, detailed 2007 budget will be completed in October 2006.

## 2007 Budget Planning

The 2007 Annual Budget focuses on meeting the objectives and expected outcomes that align with the Council and MCES's strategic goals.

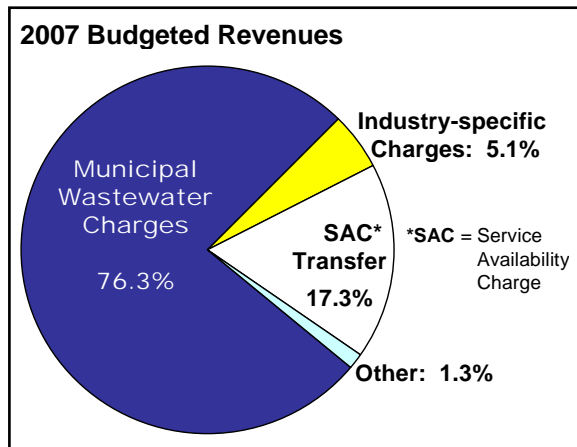
The following considerations were the top priorities during the planning of the 2007 budget.

- Meeting regulatory requirements.
- Retaining competitive rates and charges.
- Meeting customer expectations for quality and level of service.
- Fully funding the current cost of all programs and adding to operating reserves.

Meeting current and future regulatory requirements continues to be the top priority for MCES. The near-perfect record of compliance is a commendable achievement, but it carries an inherent challenge: regulatory changes that cause additional capital and operating expenses. To meet these future challenges, MCES is committed to achieving the highest level of quality possible with the resources available and preserving its outstanding record of compliance with regulatory requirements while providing cost-effective service. MCES is committed to providing the wastewater infrastructure necessary to meet the needs of a changing metropolitan area and helping the region to be a good place to work, raise a family and grow a business.

## MCES's Revenues

MCES is a user-fee-based organization, which is run as an enterprise. The Council's rate setting



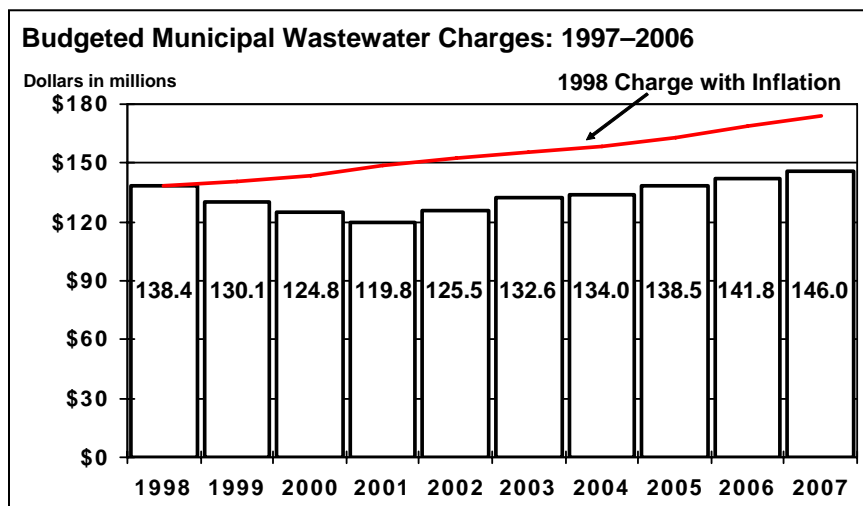
philosophy is that user classes should pay the "cost of service." Revenues include the municipal wastewater charge (based on volume), industry-specific charges; service availability charges (SAC) and miscellaneous revenues. The graphic on the left depicts the percentages of the 2007 budgeted revenue that is derived from each source.

**Municipal Wastewater Charges (MWC)**— Communities pay MCES for the flow entering the regional wastewater system. Municipal wastewater charges pay for the conveyance and

treatment of wastewater. Each community pays at the same rate for wastewater services. The revenue generated by the municipal wastewater charges is expected to account for 76.3 percent of MCES's projected total operating revenues and sources for the year 2007.

**Impact of Changes in System Flow.** Despite approximately 20,000 new connections per year, the system has not experienced a corresponding increase in overall total flow. "Flow years" are the twelve months ending June 30 of each year. As recently as the 2003 flow year, the measured flow was 102.2 billion gallons (bg). Actual flow was 95.6 bg for the 2006 flow year.

As a consequence of the decreasing flow, the rate (budgeted revenue divided by flow) of charge to customers per million gallons has risen faster than the total revenues to MCES.



2007 revenue is budgeted to increase 3.0 percent, while the rate per million gallons decreased 1.1 percent.

A 10-year history of budgeted charges is shown in the accompanying bar graph.

**Service Availability Charges (SAC)**—Communities pay MCES for additional capacity demanded by new development or increased industrial or commercial use. Communities collect these one-time SAC fees from property owners at the time of development. Generally, one SAC unit equals 274 gallons of potential daily wastewater flow capacity. A freestanding single-family residence is charged one SAC unit. Each community pays the same rate for SAC. The 2007 basic SAC rate is \$1,675 per residence or equivalent unit.

The SAC revenue is intended to pay the average cost of growth and is used to finance the reserved capacity portion of the capital costs in the wastewater system. The transfer from SAC fees represents 17.3 percent of MCES’s budgeted revenue for 2007.

**Industry-Specific Charges**—Industries pay MCES directly for a variety of charges that are targeted to specific customer services. The following charges/fees are included:

- 1) Industrial strength charges
- 2) Liquid waste hauler load charges
- 3) Industrial discharge and permit fees
- 4) Add-on service charges
- 5) Enforcement fees (e.g., Self-monitoring report late fees)
- 6) Stipulation agreement payments
- 7) Cost recovery fees

These charges are described in detail and the most recent rates are listed on the Council’s Web site at: [www.metrocouncil.org/environment/Rates&Billing/RatesCharges](http://www.metrocouncil.org/environment/Rates&Billing/RatesCharges)

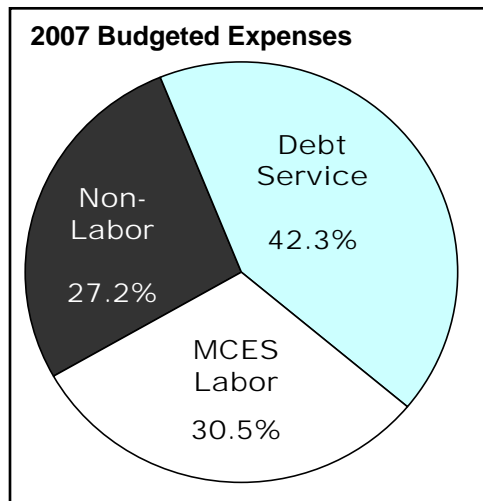
The industrial strength charge provides the majority of the revenue from the industry-specific charges. It covers the higher treatment costs of that industrial wastewater which has more pollutants than typical domestic wastewater. The revenue anticipated from all the industry-specific charges is 5.1 percent of MCES’s 2007 revenues. Industries also pay the MWC and SAC.

**Other Revenue**—the remaining 1.3 percent of MCES’s 2007 budgeted revenue comes from other sources. This includes revenue from interest earnings, water planning study funds transferred from regional administration, a state contract, and miscellaneous revenues.

**Inflow and Infiltration (I&I) Surcharges**—beginning in 2007, MCEs will charge those communities that have excessive I&I a surcharge in addition to the municipal wastewater charge. Surcharge funds collected will be set aside either for rebates to the communities as they do I&I mitigation, or for use by MCEs to provide the demanded capacity. MCEs will not use these funds for work on the MDS before 2015. The funds are not included in this budget, which reflects MCEs’s general operations only.

## MCEs’s Expenses

MCEs’s expenses are categorized in one of three areas: labor expenses, non-labor expenses and debt service expenses. Of the three, debt service is the largest. The graphic on the left depicts the



percentages that each of the expense areas makes up of the total costs.

**MCEs’s Labor**—in 1998, there were 984 budgeted FTEs (full time equivalent employees in the Division). An aggressive budget reduction plan begun in 1998 continues, resulting in a level of 694 FTE’s for 2007. In 2007, staff (labor) expenses account for 30.5 percent of total expenses.

A flexible, skilled and productive workforce includes having the right number of employees, in the right places, prepared with the right skills. The 2007 operating budget supports maintaining the size of the workforce at a competitive level; repositioning the workforce to best meet organizational needs; and, retraining and supporting the workforce to deliver expected results.

**Non-Labor Expenses**—Included in the non-labor expense category are continuing operation expenses and interdivisional expenses. Continuing operational expenses include items such as utilities, materials and supplies, contracted services and security. The interdivisional expenses are for services shared with other Council divisions (e.g. Information systems and Human Resources departments) and are a little over one-fourth of the non-labor portion of expenses. In 2007, non-labor expenses account for 27.2 percent of total expenses. Environmental Services’ interdivisional expenses are eliminated in the Unified Budget as they are attributed to regional administration.

**Debt Service** —Debt service needs are forecast each year as an element of the Capital Finance Plan (CFP), which is based on the projected capital budget outlined in the Capital Improvement Program (CIP). The 2007 annual budget for ES includes \$1 million to directly pay for capital projects (Pay-As-You-Go). This eliminates needed financing in the amount of \$1 million. The CIP details the Division’s capital projects and the associated cash flow requirements. The CFP combines this information with pay-as-you-go funds available, interest rate assumptions, current debt obligations and debt leveling requirements to form a debt service forecast. In 2007, debt service costs account for 42.3 percent of the budget. Debt service is included in the MCEs Annual Budget because it is funded by wastewater revenues, as required by state statute. However, it is not included in the Unified Operating Budget.

## SUMMARY

**Summary of Rates, Revenues and Expenses**—the following table shows MCES rates, revenues and expenses for the years 2005–2007.

| <b>MCES Revenue: 2005–2007</b> (Revenues in 000)  |                        |                         |                        |
|---|------------------------|-------------------------|------------------------|
|   | <b>2005<br/>Actual</b> | <b>2006<br/>Budget*</b> | <b>2007<br/>Budget</b> |
| Flow (bg)   | 94.6                   | 91.8                    | 95.6                   |
| X Rate (per million gallons)                      | \$1,464.56             | \$1,543.33              | \$1,526.67             |
| Municipal Wastewater Charges                      | \$ 137,023             | \$ 141,770              | \$ 146,000             |
| SAC Transfer                                      | 32,290                 | 35,854                  | 33,210                 |
| Industry-Specific Charges                         | 8,683                  | 10,214                  | 9,790                  |
| Other Sources                                     | 2,156                  | 3,279                   | 2,450                  |
| <b>Total Revenue &amp; Other Sources</b>          | <b>\$ 180,152</b>      | <b>\$ 191,117</b>       | <b>\$ 191,450</b>      |
| <b>MCES Expenses: 2005–2007</b> (Expenses in 000) |                        |                         |                        |
|   | <b>2005<br/>Actual</b> | <b>2006<br/>Budget*</b> | <b>2007<br/>Budget</b> |
| Total MCES Labor                                  | \$ 54,659              | \$ 57,587               | \$ 58,356              |
| Total Non-Labor                                   | 43,552                 | 51,026                  | 50,430                 |
| Debt Service                                      | 73,480                 | 78,041                  | 80,896                 |
| St. Paul Repayment                                | 1,250                  | 1,250                   | -                      |
| Pay-As-You-Go                                     | -                      | 1,000                   | 1,000                  |
| Water Supply Planning                             | -                      | 1,032                   | 768                    |
| <b>Total Expenses</b>                             | <b>\$ 172,941</b>      | <b>\$ 189,936</b>       | <b>\$ 191,450</b>      |
| Surplus (Deficit)                                 | \$ 7,211               | \$ 1,181                | \$ -                   |

\*As expected to be amended in November 2006.