



RESERVE CAPACITY/SAC TASK FORCE FINAL REPORT

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The mission of the Metropolitan Council is to develop, in cooperation with local communities, a comprehensive regional planning framework, focusing on wastewater, transportation, parks and aviation systems, which guide the efficient growth of the metropolitan area. The Council operates wastewater and transit services and administers housing and other grant programs.

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Table of Contents

Section	Page
Executive Summary	1
Consultant's Report	3
Reserve Capacity and SAC.....	6
SAC Fee Implementation.....	7
SAC Determination Administration	8
Council Policy.....	8
Growth-Pays-for-Growth Legislation.....	8
Recommendations.....	8

Appendices

Appendix A	Reserve Capacity/SAC Statute (as amended on April 1, 2010)
Appendix B	Minutes of Task Force Meetings
Appendix C	Methodology for Estimating Reserve Capacity
Appendix D	Proposed Guidelines for Growth Portion of Capital Costs
Appendix E	SAC Criteria Technical Memoranda
Appendix F	Council Policy Discussion Paper
Appendix G	Tentative 2011 SAC Legislative Bill
Appendix H	Preliminary SAC Legislation Schedule

Executive Summary

The metropolitan Sewer Availability Charge (SAC) system, implemented in 1973, is based on a Minnesota statutory requirement that the Metropolitan Council Environmental Services (MCES) charge communities for the reserve capacity being built to serve them. The collected SAC fees, by law, are used to fund a part of the acquisition, betterment and debt service costs in the metropolitan wastewater system. The SAC program provides regional equity by imposing these costs for the regional system on cities proportionate to their new capacity demand. The regional pooling of development risk and the SAC pay-as-you-build system has largely relieved the cities of the economic risk of building major new sewer infrastructure.

The number of SAC units (1 unit = 1 home or its equivalent for commercial uses) collected annually has decreased from 20,000 units during 2000-2005 to 6,675 units in 2009. Consequently, the SAC reserve fund has declined from \$72 million in 2007 to \$32 million at the end of 2009. Additional use of the reserve is occurring in 2010 and is expected in 2011. Due to declining revenues and reserves, the Metropolitan Council appointed a Task Force of stakeholders and customers to review and propose changes to SAC-related policies and procedures.

The RC/SAC Task Force was charged with two specific tasks:

- Evaluate current and proposed methods of Reserve Capacity estimation and recommend a method to be used in the future
- Evaluate fees for Reserve Capacity funding (SAC) and recommend changes and implementation methods

The work of the Task Force was to be guided by four underlying principles:

- Wastewater fees must continue to fully fund the Council's wastewater services
- The fee system should maintain the regional cost-of-service approach
- The fee system should ensure adequate financial reserves for
 - Protection of Council's bond rating
 - Economic condition changes
- Recommendations should work within existing statutory authority (preferred)

A summary of the issues discussed at the Task Force meetings included:

- Background information about the metropolitan wastewater systems and SAC
- Alternative methods for determining reserve capacity and their impacts on revenues
- 2010 legislation regarding SAC when SAC resources are inadequate
- Prospective 2011 legislative bill enabling a new methodology for SAC
- Selected SAC Criteria for commercial charges (identified by MCES and members)
- SAC Determination Administration
- SAC policy consistency with other Met Council Policies

Reserve capacity has been defined as the capacity built into capital projects to provide wastewater treatment capacity and interceptor capacity for future growth. SAC is the payment for that reserve capacity by cities (typically, cities pass this through to developers or property owners). The authorization for the Metropolitan Council fees for its regional wastewater services is addressed in Minnesota Statutes, section 473.517. Subdivision (3) addresses SAC. However, the statute does not define or describe reserve capacity or how it is to be determined.

The Task Force concluded that the principle “growth should pay for growth” should be the basis for SAC. Specifically, to implement that basis the Metropolitan Council is recommended to pursue a statutory change in 2011 whereby SAC would pay for the growth portion of MCES capital projects.

Regardless of the amount that *ideally* SAC fees should contribute to the wastewater budget, the Task Force acknowledged that in certain economic times that may not be possible, and thus the 2010 SAC legislation was supported as needed.

Also, the Task Force was asked to review and provide recommendations on the determination of SAC fees for certain types of commercial building uses. The Task Force recommended a temporary use category and revisions to the daycare and restaurant use categories.

Recommendation Summary

The following recommendations for changes were made by the RC/SAC Task Force:

1. Minnesota Statutes Section 473.517, Subdivision 3, should be amended to clearly state that the capital costs to provide additional capacity in the regional wastewater system should be paid by Sewer Availability Charges (SAC) based on the principle that growth should pay for growth.
2. The 2010 statutory amendment that allows a temporary shift of such costs from SAC to municipal wastewater charges should remain in effect as written.
3. SAC criteria should have a technical basis to the extent reasonably feasible.
4. A new charge for the temporary rental of capacity should be developed in lieu of charging SAC for permanent capacity under certain circumstances.
5. Unless there is new technical information justifying separate restaurant categories, SAC for restaurants should be based on a single criterion set at 10 seats per SAC regardless of the restaurant business model.
6. SAC should be based on square footage for all daycare determinations, but the square footage/SAC should be increased because state licensing permits fewer occupants than the square footage implies on average.

Other topics were discussed and the task force recommended no change or further study; these items are detailed in the body of the report and minutes.

Consultant's Report

The metropolitan Sewer Availability Charge (SAC) system, implemented in 1973, is based on a Minnesota statutory requirement that the regional sewer agency charge communities for the reserve capacity being built to serve them. The collected SAC fees, by law, are used to fund a part of the acquisition, betterment and debt service costs and in the metropolitan wastewater system. The SAC program provides regional equity by imposing these costs for the regional system on cities proportionate to their new capacity demand. The regional pooling of development risk and the SAC pay-as-you-build system has largely relieved the cities of the economic risk of building major new sewer infrastructure.

The SAC revenue is used only to pay for a portion of the capital project costs of the metropolitan wastewater system (and the program administration). This revenue typically amounts to \$20-\$40 million per year. Since MCES is entirely funded by fees, this revenue provides a substantial portion of the annual costs of the agency, which otherwise would likely be raised by increasing the volume charges to the cities.

Due to declining revenues due to the housing decline and some controversy over keeping the SAC reserve fund financially viable, a Task Force of stakeholders was appointed and asked to review and propose changes to SAC related policies and procedures. The findings and recommendations of the Task force are described herein.

The Metropolitan Council Environmental Services SAC Procedure Manual January 2010 describes SAC as follows:

The Metropolitan Environmental Services (MCES) SAC is a charge to Local Government Units for the reserve capacity costs of the system. SAC has been levied since 1973 by MCES, and its predecessor agencies, for new demand or increased volume use to the Metropolitan Disposal System (MDS). The regional SAC rate is periodically set by Metropolitan Council (Council) action (and is usually increased effective each January 1st).

SAC is assessed based upon the maximum potential daily wastewater flow, which is in turn based upon the usage of individual properties. Single family houses, townhouses, condos, duplex units and most apartments each equal one SAC per Dwelling Unit. For non-residential, one SAC unit is defined as 274 gallons of daily wastewater flow capacity. Commercial Properties are assessed SAC units based on maximum potential daily wastewater flow proportionate to 274 gallons per day. Industrial Properties are assessed SAC units based on maximum normal daily wastewater flow volume separately for process areas and maximum potential daily wastewater flow volume for Commercial areas.

The number of SAC units collected metro-wide has steadily declined since 2003, due to the housing market and economic recession of the past several years. This is evident in the 31% decline in SAC

units collected from 15,194 in 2007 to 10,470 in 2008 and the 36% decline from 2008 to 2009 when there were only 6,675 SAC units collected as shown in Figure 1.

The impact of the decline in SAC units collected can be shown in the reduction of the SAC Reserve. In 2004, the SAC Reserve had a balance of \$84.0 million. The SAC Reserve steadily declined from 2004 to 2007 mirroring the decline in the number of SAC units collected. The SAC Reserve declined 24% from \$72.0 million in 2007 to \$55.0 million in 2008 and then declined 42% to \$32.0 million by 2009 as shown in Figure 2.

Figure 1

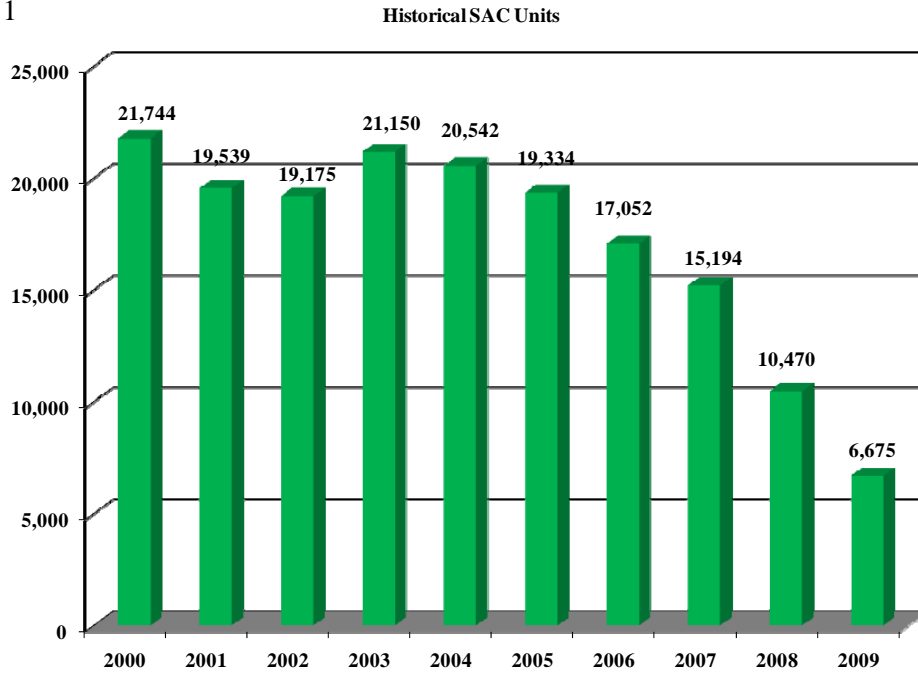
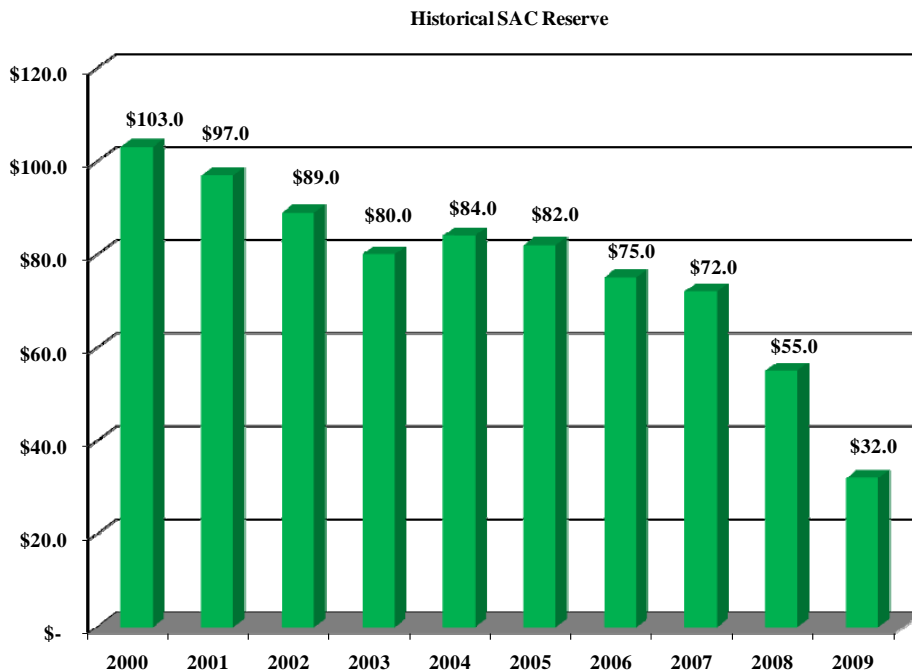


Figure 2



The reduction in SAC units and the corresponding impact on the SAC Reserve placed the Council's ability to comply with state law regarding how to finance improvements to the wastewater system, as well as the Council's AAA bond rating at risk. In response to this risk the Chair of the Metropolitan Council established the Reserve Capacity/Sewer Availability Charge Task force (RC/SAC Task Force). The RC/SAC Task Force was charged with two specific tasks as follows:

- Evaluate current and proposed methods of Reserve Capacity estimation and recommend a method to be used in the future
- Evaluate fees for Reserve Capacity funding (SAC) and recommend changes and implementation methods

The work of the Task Force was to be guided by the following four guiding principles:

- Wastewater fees must continue to fully fund Council's wastewater services
- Maintain regional cost-of-service approach with MCES rates
- Fee system should ensure adequate financial reserves for
 - Protection of Council's bond rating
 - Economic condition changes
- Recommendations should work within existing statutory authority (preferred approach)

The Task Force was comprised of city officials and representatives from other SAC stakeholder groups. The Task Force was chaired by Metropolitan Council Member Peggy Leppik. Task Force Members include:

- Peggy Leppik, Metropolitan Council Member
- Roger Scherer, Metropolitan Council Member
- Joe Huss, Blaine
- Karl Keel, Bloomington
- Noel Graczyk, Chaska
- Bryon Bear, Hugo
- Harlan Van Wyhe, Maple Grove
- Lisa Cerney, Minneapolis
- Andy Brotzler, Rosemount
- Mike Kassan, St. Paul
- Bruce Loney, Shakopee
- Christine Renne, Ecolab
- Patricia Nauman, Metro Cities
- Rick Breezee, MAC
- Dave Siegel, Restaurant Association
- Mark Stutrud, Summit Brewing
- George Anderson, Vision-Ease Lens
- Jason McCarty, Westwood Professional Services

The Task Force met seven times from December 2009 through September 2010.

A summary of the issues discussed at the Task Force meetings included:

- Background information about the metropolitan wastewater systems, SAC roles and responsibilities
- Methods for determining reserve capacity and their impacts on SAC revenues
- 2010 proposed legislation
- 2011 legislative bill enabling growth cost methodology
- SAC Criteria
- SAC Determination Administration
- SAC policy consistency with other Met Council Policies

Reserve Capacity and SAC

Reserve capacity has been defined as the capacity built into capital projects to provide wastewater treatment capacity and interceptor capacity for future growth. SAC is the payment for that reserve capacity by cities (note that typically, cities pass this through to developers or property owners).

The allocation by the Metropolitan Council for its regional wastewater services is addressed in Minnesota Statutes 473.517. The allocation of treatment and interceptor capital project costs and debt service related to capacity reserved for future use is addressed in Subdivision 3 of this statute. However, the statute does not define or describe reserve capacity or how it is to be determined.

MCES used a “Flow Method” to determine reserve capacity each year through 2009. This method used a 5-year preceding average flow to compute the currently used capacity with the remainder of the capacity considered reserved capacity. There are two problems with this method for determining reserve capacity: (1) the recent trend of declining overall wastewater flow which increases the computed reserve capacity in the absence of both capital expenditures to increase capacity and the limited growth; and (2) a weak nexus between the SAC units paid and committed capacity.

In response to these problems MCES staff developed an alternative method it referred to as the “Committed Capacity Method” (originally called the REC method) for determining reserve capacity which was used for the 2010 budget and rates (with a phase-in period for 2010 and 2011). This method expressed total capacity and currently used capacity in terms of committed capacity expressed as SAC units paid (one SAC unit is 274 gallons per day of capacity).

Two alternative reserve capacity estimation methods were also developed by MCES staff for discussion by the task force. These included the Normalized Flow Method and the Combination Method. The Normalized Flow Method uses a 10-year history of wastewater flows to determine used capacity. The Combination Method combines certain aspects of the Committed Capacity and Normalized Flow Methods. Details of all the methods are provided in the attached technical memo in Appendix C.

The Task Force concluded that the principle “growth should pay for growth” should be the basis for establishing SAC. They acknowledged the need to go forward with the Committed Capacity Method for 2011 rate setting, but that the Metropolitan Council should pursue a statutory change whereby SAC would pay for the growth portion of MCES capital projects, without any sort of measurement of reserve capacity and regardless of system use.

The Growth Cost methodology is further discussed in the technical memo included as Appendix D. Further, the Task Force recommended, that if needed prior to statutory change, the Council should consider a revised reserve capacity approach that results in a SAC requirement financially similar to the Growth Cost results.

A Reserve Capacity or Growth Cost methodology is needed to determine the amount that *ideally* SAC fees should contribute to the wastewater budget; however, the task force also acknowledged that in certain economic times that may not be possible, and thus the 2010 legislation was supported as needed, at least temporarily. This legislation is included as Appendix A.

SAC Fee Implementation

The Task Force was asked to review and provide recommendations on the SAC for implementation of the fees. Several of the specific non-residential criteria used to determine the number of SAC units charged to a business type were examined, specifically: speculative office/warehouses, fitness centers, outdoor spaces, restaurants, and daycare facilities. In addition two administrative matters were discussed: the need for a temporary capacity charge and also the staffing for determinations (MCES or City staff). There are technical memos on each of these matters attached to this report.

Temporary uses can result in SAC being charged twice for the same use when one space is used only temporarily. A temporary capacity charge (TCC), in lieu of SAC, is proposed by the Task Force as a solution, but only when there is a predetermined end date.

Speculative office/warehouse criteria initially assume that 30% of the building will be office and 70% will be warehouse. However, speculative office/warehouse buildings are usually built as empty shells with no specific uses identified. The actual build out may result in a different allocation of space. A review of historical records found that on the average, 50% of the space was developed for warehouse with the remaining 50% developed for a higher concentration SAC category. This can be a problem when the change goes unnoticed and/or uncharged for SAC purposes and then the fee needs to be pursued retroactively. Four alternatives were discussed. A SAC based on 50% high concentration and 50% warehouse was recommended by MCES staff. However, the Task Force is not recommending a change and suggested that City staff can be more vigilant in charging the build outs.

Smaller low-amenity fitness centers have requested changes in their SAC criteria because they typically have only one or two showers. Two options were discussed which included the status quo and creating a third criteria for small-low-amenity fitness centers. The consensus of the Task Force was to also leave the criteria unchanged.

Outdoor spaces were provided a 75% SAC discount effective October 2009. The rationale for this change was that peak demand on the sewer system happens during significant rain events when the use of outdoor areas is significantly reduced. In addition, outdoor space is used only during a small portion of the year. The Task Force members agreed this discount seemed appropriate.

The current SAC criteria delineate restaurants into either full-service or fast-food service with different criteria for each. A study of restaurants conducted in 2008 determined that average daily water use was approximately the same regardless of restaurant type. Three alternatives were discussed which included the status quo, a single restaurant SAC criterion, and a new full-service

criterion. The Task Force recommended that SAC for restaurants be based on a single criterion set at 10 seats per SAC regardless of the restaurant business model.

The current SAC criteria for daycare facilities are based either on the licensed occupancy count or the square footage of the daycare facility. The SAC criteria based on licensed occupant count typically results in 25% less SAC than the square footage basis at start-up. When the SAC determination is based on licensed occupant count there is no local permit required to increase the licensed occupant count and therefore the change is not caught until there is a review of SAC compliance by MCES. Options were discussed including the status quo, basing all SAC on the square footage of the daycare facility at the request of the city, and basing all SAC on the square footage of the daycare facility region wide. The Task force recommended SAC be based on the square footage for all daycare determinations, but that the square footage/SAC be increased to reflect the average reduction in demand due to state licensing being less than the square footage implies.

SAC Determination Administration

SAC determination for residential properties are entirely done by city staff and reported to MCES. Determinations for industrial process demand are entirely done by MCES. However for commercial and other establishments, the determination may be done by either MCES or city staff (per SAC procedure manual criteria). Per MCES, this workload has recently shifted to MCES and risks longer waits for determinations. A discount or extra charges were discussed as methods to incent city staff to do more of their own determinations. The Task Force reviewed the SAC determination administration and recommended the status quo be maintained. It was discussed that once development picks up cities will have more staff time and may voluntarily do more determinations, and if not MCES may have to add SAC staff.

Council Policy

Task Force members asked for a review of SAC policy consistency with other policies of the Council, particularly related to supporting redevelopment. While this matter is outside the charge of the task force, it was discussed and the task force recommends that given the limited tools available to the Metropolitan Council, that when doing region-wide planning, without prejudice, it should review all the tools available to it (including sewer fees) to determine how they may contribute to the Council's goals, even across functional boundaries.

Growth-Pays-For-Growth Legislation

Implementation of the growth-pays-for-growth legislation will require submission of a preliminary legislative proposal in early October with formal notification to the Revisor of Statutes by October 31. The process from this point will require approval from the Governor's office before drafting a bill for submission to the legislature. A more detailed discussion of the process is included in Appendix H.

Recommendations

The following recommendations were made by the RC/SAC Task Force:

1. Minnesota Statutes Section 473.517, Subdivision 3, should be amended to clearly state that the capital costs to provide additional capacity in the regional wastewater system should be paid by Sewer Availability Charges (SAC), based on the principle that growth should pay for growth.

2. If the statute is not so amended during the 2011-2012 Legislature, the Council should adopt a reserve capacity determination method that reasonably matches the intent of Recommendation 1. For 2011, the Council should use its current reserve capacity determination method (the Committed Capacity method).
3. The 2010 statutory amendment that allows a temporary shift of debt service costs from SAC to municipal wastewater charges should remain in effect as written.
4. SAC criteria should have a technical basis to the extent reasonably feasible.
5. A new charge for the temporary rental of capacity should be developed in lieu of charging SAC for permanent capacity.
6. Unless there is new technical information, SAC for restaurants should be based on a single criterion set at 10 seats per SAC regardless of the restaurant business model.
7. SAC should be based on the square footage for all daycare determinations, but the square footage/SAC should be increased to reflect the average reduction in demand due to state licensing being less than the square footage implies.
8. The current SAC criteria for speculative office/warehouse, fitness centers, and the outdoor spaces discount will remain unchanged.
9. The Metropolitan Council should review the tools available to it (including sewer fees) to determine if they can reasonably enhance the Council's goals.

Appendix A
Reserve Capacity/SAC Statute
(as amended April 1, 2010)

CHAPTER 212--H.F.No. 2949

An act

relating to metropolitan government; modifying provisions for the allocation of treatment works and interceptors reserved capacity costs; amending Minnesota Statutes 2008, section 473.517, subdivision 3.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2008, section 473.517, subdivision 3, is amended to read:

Subd. 3. **Allocation of treatment, interceptor costs; reserved capacity.** (a)

In preparing each budget the council shall estimate the current costs of acquisition, betterment, and debt service, only, of the treatment works in the metropolitan disposal system which will not be used to total capacity during the budget year, and the percentage

of such capacity which will not be used, and shall deduct the same percentage of such treatment works costs from the current costs allocated under subdivision 1. The council shall also estimate the current costs of acquisition, betterment, and debt service, only, of the interceptors in the metropolitan disposal system that will not be used to total capacity

during the budget year, shall estimate the percentage of the total capacity that will not be used, and shall deduct the same percentage of interceptor costs from the current costs allocated under subdivision 1. The total amount so deducted with respect to all treatment works and interceptors in the system shall be allocated among and paid by the respective local government units in the metropolitan area ~~for which system capacity unused each year is reserved for future use, in proportion to the amounts of such capacity reserved for each of them.~~ through a metropolitan sewer availability charge for each new connection or increase in capacity demand to the metropolitan disposal system within each local government unit. Amounts collected through the metropolitan sewer availability charge (SAC) must be deposited in the council's wastewater reserve capacity fund. Each fiscal year an amount from the wastewater reserve capacity fund shall be transferred to the wastewater operating fund for the reserved capacity costs described in this paragraph.

For

the purposes of this subdivision, the amount transferred from the wastewater reserve capacity fund to the wastewater operating fund shall be referred to as the "SAC transfer amount."

(b) If, after appropriate study and a public hearing, the council determines for the next fiscal year that a reduction of the SAC transfer amount is necessary or desirable to ensure adequate funds remain in the wastewater reserve capacity fund, based on a goal of maintaining at least the next year's estimated SAC transfer amount in the wastewater reserve capacity fund, the council may reduce the SAC transfer amount for that fiscal

year.

If the council reduces the SAC transfer amount for the next fiscal year, the council must then increase the metropolitan sewer availability charge not less than the greater of six percent or the annual percentage change in the Consumer Price Index for the metropolitan region for the previous year plus three percentage points. For the purposes of this subdivision, any reduction in the SAC transfer amount shall be referred to as the "SAC transfer deficit." The provisions of this paragraph expire at the end of calendar year 2015.

(c) The council will record on a cumulative basis the total SAC transfer deficit. In any year that the wastewater reserve capacity fund has a year-end balance of at least two years' estimated SAC transfer amount, the council shall increase the subsequent annual SAC transfer amount in excess of the amount required by paragraph (a) with the goal of eliminating the cumulative total SAC transfer deficit. The annual amount by which the council increases the SAC transfer amount shall be determined by the council after appropriate study and a public hearing.

EFFECTIVE DATE.This section is effective the day following final enactment and applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Presented to the governor March 29, 2010

Signed by the governor April 1, 2010, 10:19 a.m.

Appendix B
Minutes of Task Force Meetings

Meeting Title: Reserve Capacity/SAC Task Force Meeting #1

Date: December 1, 2009 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Peggy Leppik, Metropolitan Council Member; Roger Scherer, Metropolitan Council Member; Joe Huss, Blaine; Karl Keel, Bloomington; Noel Graczyk, Chaska; Bryan Bear, Hugo; Lisa Cerney, Minneapolis; Andy Brotzler, Rosemount; Mike Kassan, St. Paul; Bruce Loney, Shakopee; Christine Renne, Ecolab; Patricia Nauman, MetroCities; Rick Breezee, MAC; Mark Stutrud, Summit Brewing; George Anderson, Vision-Ease Lens; Jason McCarty, Westwood Professional Services; Nick Dragisich, Springsted

Members Absent: Harlan Van Wyhe, Maple Grove; Dave Siegel, Restaurant Association

Staff in Attendance: Bryce Pickart, MCES; Jason Willett, MCES; Kyle Colvin, MCES; Bob Pohlman, MCES; Kay Dawson, MCES; Jessie Nye, MCES; Kelly Barnebey, MCES

Meeting Notes:

Item	Notes
1. Introductions	Peggy Leppik, Metropolitan Council, introduced herself to the task force members and convened the first session. Peggy asked members to introduce themselves.
2. Task Force Charge, Schedule and Plan	<p>Jason Willett, MCES Finance Director, explained the task force was formed in order to 1) "evaluate current and proposed methods of Reserve Capacity estimation and to recommend a method" and 2) "evaluate fees for Reserve Capacity funding (i.e. SAC) and recommend changes and implementation methods."</p> <p>Jason presented a Task Force meeting schedule and the proposed topics for the adoption of recommendations. In addition to the Task Force meetings a public meeting may be needed to solicit other customer input on the recommendations. This would be the first quarter of 2011, leading to the Council's Environment Committee potential adoption of the details in the second quarter of 2011 (affecting the 2012 rates).</p> <p>Jason noted for the Task Force recommendations to impact the 2011 rate discussions, some decisions would need to be made by our third meeting in April of 2010.</p>
3. MCES and SAC Overview	<p>Jason Willett provided background information about the metropolitan wastewater systems; SAC Program background; SAC Roles and Responsibilities; and recent changes in the SAC Program.</p> <p>There was discussion as to what portion of MCES capital costs are paid for by SAC. Staff responded that SAC pays for a part of all types of capital project costs whether for quality improvements, growth, or rehabilitation (capacity renewal). One of the charges of the task force is to make recommendations as to how Reserve Capacity should be computed.</p>

	<p>It was asked why there has been a steady decline in SAC units. Staff responded that this is basically the result of the economic downturn that has almost halted development. The housing decline started 4-5 years ago. It was noted industrial waste conservation plays a small role in this as well.</p>
<p>4. Reserve Capacity Estimation</p>	<p>Bryce Pickart, MCES Assistant General Manager, described the history of Reserve Capacity determination methods: Flow Method and Residential Equivalent Connection (REC)* Methods; as well as two newly identified options: an "Adjusted Flow Method" and a "Combination Flow/REC Method."</p> <p>A question was asked whether 274 gallons per day is still a valid parameter for household use. That figure does not reflect current residential <i>use</i>, but SAC is about the <i>capacity</i> needed which exceeds the average use. Non-residential capacity is based on a maximum day estimate so residential capacity also should be a larger number, and 274 gallons per day seems a reasonable approximation.</p> <p>A question was asked how the reduction of peak flows plays a part in Reserve Capacity. Used capacity for SAC computations now includes standard peaking factors (even though peaks are not used all the time); but used capacity does not include excess peaks caused by Inflow/Infiltration (I/I). That capacity (needed for excess peaks) is considered Reserve and included in the percentage charged to SAC. MCES has a separate program attempting to eliminate or at least limit excessive I/I at the sources and preserve that capacity for growth. MCES appreciates the work of Cities in that I/I program. It is anticipated that the allowed I/I based on the standard peaking factors will indefinitely be needed.</p> <p>Bryce did not finish his presentation and will highlight key points at the next meeting.</p>
<p>5. Questions/Issues for Discussion at future meetings</p>	<ol style="list-style-type: none"> 1. Under the Flow Method the capital to be paid by SAC was 39%, which is high compared to historical averages. What is the typical long-term average for the Flow Method allocation? 2. What do these various reserve capacity determination methods mean for the municipal wastewater service charges?
<p>6. Adjournment</p>	<p>10:30 AM</p>
<p>7. Minutes</p>	<p>Submitted by Kelly Barnebey, Administrative Assistant, Metropolitan Council</p>

*Residential Equivalent Connection: A count of the units of capacity committed to MCES over time, put in residential/household capacity units (274 gallons/day).

Meeting Title: Reserve Capacity/SAC Task Force Meeting #2

Date: February 2, 2010 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Peggy Leppik, Metropolitan Council Member; Lynette Wittsack (for Roger Scherer), Metropolitan Council Member; Joe Huss, Blaine; Karl Keel, Bloomington; Noel Graczyk, Chaska; Bryan Bear, Hugo; Harland Van Wyhe, Maple Grove; Lisa Cerney, Minneapolis; Mike Kassan, St. Paul; Bruce Loney, Shakopee; Patricia Nauman, MetroCities; Rick Breezee, MAC; Dave Siegel, Restaurant Association; George Anderson, Vision-Ease Lens; Nick Dragisich, Springsted

Members Absent: Andy Brotzler, City of Rosemount; Christine Renne, Ecolab; Roger Scherer, Metropolitan Council Member; Mark Stutrud, Summit Brewing; Jason McCarty, Westwood Professional Services

Staff in Attendance: Bryce Pickart, MCES; Jason Willett, MCES; Kyle Colvin, MCES; Bob Pohlman, MCES; Kay Dawson, MCES; Jessie Nye, MCES; Kelly Barnebey, MCES

Meeting Notes:

Item	Notes
1. Introductions and Approval of December 1 Meeting Minutes	Peggy Leppik, Metropolitan Council, asked members to introduce themselves. Motion was made to approve the Dec. 1 Meeting Minutes, motion seconded and approved with no edits.
2. Overview of SAC Task Force Progress	<p>Jason Willett, MCES Finance Director, explained the task force progress and addressed two outstanding questions from Meeting #1:</p> <p>1) What have been the historic numbers for reserve capacity used with the Flow Method allocation?</p> <p>A graph was shown for total reserve capacity percentage from a span of 2000-2010 indicating a trend of small increases over the decade, except for the last year, which reflected the partial change to the Residential Equivalent Connection (REC) also known as the Committed Capacity method.</p> <p>It was asked what the percentage would be if the Flow Method were being used in 2010 to which staff responded it would be 42-43%.</p> <p>A question was asked what the "SAC Transfer" is. There is a diagram illustrating the Reserve Capacity Fund inflow and outflow on the <u>Agency Initiative</u> handout given to members at this meeting. The SAC Transfer is an outflow from the fund and is the required reserve capacity portion of wastewater capital and debt service.</p> <p>2) What do the four Reserve Capacities mean for Municipal Wastewater Charges (MWC)?</p> <p>A simplified chart of the 2010 budget was shown. The point was that MWC (in aggregate) is what is necessary to pay MCES expenses after other revenues are subtracted, and that if SAC revenue is decreased then MWC must go up. A second slide was presented to show the aggregate MWC is not the result that individual cities see (because their charges are also a function of the portion of</p>

	<p>overall flow from their cities). The two factors (SAC shifted) and flow portions are largely independent and both may be quite significant to an individual city's charge.</p>
<p>3. Reserve Capacity Alternatives (cont.)</p>	<p>Bryce Pickart, MCES Assistant General Manager, summarized the Reserve Capacity Methods discussed in the previous meeting. The REC Method is now referred to as Committed Capacity in the models.</p> <p>A question was asked whether the MN Statute 473.517 accounts for growth as well. Subdivision 1 describes our allocation method of current costs that we refer to as the Municipal Wastewater Charges (MWC). Subdivision 3 specifies that future users should pay a portion of all our capital costs (<i>growth</i>, rehabilitation, and quality improvements) and we fund that through SAC receipts.</p> <p>A question was asked if the Growth Method (as an alternative to the reserve capacity method) was introduced in previous legislative sessions and what happened. It was introduced 3 separate times in the past and failed to be enacted. Staff interpreted the failure more as politics of the time than failing on merits.</p> <p>Pertaining to capital costs, it was asked why rehabilitation/renewal is not considered maintenance. Rehabilitation/renewal improvements that extend the useful life of the facility by at least 10 years and cost at least \$100,000 are considered capital projects. Capital projects are considered "betterment" in the statute and so a portion is paid by SAC and a portion by the MWC.</p> <p>A question was asked what percentage of the total capital costs is related to growth. Staff responded that the long-term average has been about 35%, and so while that is not how the required SAC transfer is figured it has approximately paid the cost of MCES growth-related capital projects. Both the SAC transfer and the growth costs will change in the future.</p> <p>The question was asked what would be an ideal split in debt service. Historically SAC (future users) have paid about 35% and MWC (current users) about 65%. Some may see that as ideal, that is, if the ideal split is based on a cost of service approach – that is growth (through SAC) is paying for growth.</p> <p>It was asked whether any of the methods match the allowable I/I that communities can have. Generally the reserve capacity is reserved for future users except that it does get occasionally used for peak flows from excessive I/I. MCES is trying to eliminate that through a separate program and assuming that is successful, this capacity is expected to be available. Note that there is a component of I/I that MCES anticipates and considers allowable, and that is considered "used" and thus not reserve and not charged to SAC.</p> <p>It was asked if the various methods can be summarized for impact on individual communities. The impact of the changes from one method to another has been modeled (and presented by Kay Dawson). It is not generally different from one community to another, although the flow allocation impacts each community differently as earlier described.</p> <p>The question was asked what the trend is for communities who take water out of the system through conservation and I/I mitigation. MCES does think communities' efforts to reduce excessive I/I have made a difference and</p>

	<p>contributed some to reducing flow volume, thus generating additional capacity without construction of new facilities. However, some of the flow reduction is due to weather and declining ground water levels. MCES does not know how much is due to each or other factors. Some of the studied technical approaches credit the reduction to current users.</p>
<p>4. Reserve Capacity Financial Impacts</p>	<p>Jason Willett highlighted 2 key questions for the task force to consider as the data is presented:</p> <ol style="list-style-type: none"> 1) What impacts does Reserve Capacity methodology have on the SAC and MWC rates? 2) What is the impact on Council's Reserve Capacity reserve levels and in particular the impacts from a continuing or future recession? <p>The Council has traditionally by policy strived to keep a minimum in the Reserve Capacity reserve that equates approximately to one year's SAC Transfer and to plan for many years to stay above that level. With the recession MCES cannot do that. And so, alternatively, the modeling presented demonstrates what the SAC and retail sewer rates must be, with economic development assumptions, to keep the SAC reserve above zero (i.e. with no minimum cushion). If subsequent Metro Councils decide it is necessary or desirable to maintain a balance well above zero, the modeling would show higher rates needed.</p> <p>Kay Dawson, MCES Budget Manager, presented data on the Impact of the four SAC RC Methods and growth cost method, using 1) an Optimistic Recovery scenario (assuming SAC Units will increase by 2000/yr) and 2) a Slow Recovery scenario (assuming SAC stays flat for 3 years and then increases by only 1000 units/year). The data included the sewer fees per metro household (a weighted average) which assumes 1.39x the MCES MWC to derive the retail sewer fee estimates.</p> <p>There was a question about how cities were funding I/I and a couple of members indicated that their cities funded it out of regular sewer fees (not SAC).</p> <p>A question was asked how MCES came up with a household average. The weighted average and the factor to scale up to retail rates were based on a comprehensive 2008 retail rate survey – which is available on the Council's website:</p> <p>www.metrocouncil.org/environment/RatesBilling/documents/08RateStudy.pdf</p> <p>A question was asked how many communities have Local SAC or add-ons. Staff responded that MCES does not maintain records on this, but reluctantly added a rough estimate would be 25-50% of the communities. It was noted that additionally some communities generate revenue from the system by not adding on explicitly but by less generous application of SAC credits for the previous use (e.g. sunsets on credits) than applied by MCES to the City.</p> <p>It was asked whether utility fees are considered impact fees. In Minnesota, only park dedication fees are technically impact fees, but our SAC utility fees are similar in nature.</p> <p>It was asked to what extent Met Council's mission is to promote economic development. It was mentioned that efficient development is a goal but that the Council does not have economic development staff and really focuses on orderly</p>

	<p>and planned development through the Comp Plan process.</p> <p>A question was asked if the task force's charge is essentially to protect SAC or to facilitate sustainable growth; which rates should pay what percentage of reserve capacity; and how regional growth policies factor into the equation. Staff's view is the charge is the technical and financial issues around SAC that are needed to continue to fund the wastewater system, and that the larger and valid regional growth policy issues are topics for the Council's framework discussions.</p>
<p>5. Legislation</p>	<p>Jason Willett described the proposed legislation as follows:</p> <ol style="list-style-type: none"> 1) Flexibility to fund wastewater reserve capacity through wastewater charges only when: <ul style="list-style-type: none"> • SAC rates and reserve fund are not sufficient to fund the SAC transfer required by statute capacity <p>Realizing that some cities will not like this shift to MWC, the bill proposes that the Council flexibility only occur after "appropriate study" and a public hearing. Moreover, if this flexibility is used, the shift would be balanced by a mandated minimum increase in SAC rates (6% or CPI + 3%, whichever is greater).</p> <ol style="list-style-type: none"> 2) Requires transparent billing of SAC; clearly display local add-ons to Met Council charges. <p>Note: there was an error in slide 26; the requirement for transparency in billing was not meant to include municipal wastewater charge.</p> <p>Post meeting note: this 2nd provision has been deleted from the bill.</p> <p>It was asked why last summer the Flow Method was characterized as stable for the last 20 years, and now it is not. The SAC system, using the Flow Method, worked for 35 years in the sense that it provided adequate revenue. However, what was said last year is that it appeared to be overcharging in the sense that the percentage was including some capacity that was really committed (via SAC payment) and capacity that is temporarily unused due to drought (less I/I). The change was an improvement technically but maybe not the best approach, and it clearly did not fix the financial problem.</p> <p>A question was asked how "temporary" is characterized in the proposed legislation. It is not described in the bill. Staff responded the length of the need for the shift would be part of the public hearing and appropriate study, and would be examined every year it is exercised.</p> <p>It was asked whether separating the needed gap funding from the regular MWC in billing to cities could be done. Staff said, yes, that could be done.</p> <p>A question was asked if the MWC is used to pay SAC in this proposal, is that considered a loan which would be repaid? No, the legislation is not written as a loan.</p> <p>It was asked how this group's input would factor into the upcoming legislation. Staff responded that participation in the legislative hearings would be encouraged. A special meeting could be called to discuss the final draft of the legislation, and members will be informed of the timeline. It was noted however</p>

	<p>that hearings sometimes can come up on short notice.</p> <p>The question was asked what is driving the cost of SAC so high. In addition to the units collected being way down, the Reserve Capacity percentage paid has increased due to the Flow decrease; and that combined with capital improvement cost increases are the main drivers. In addition, MCES no longer receives federal grants so we are incurring debt for almost all our capital projects.</p>
<p>6. Questions/Issues for Discussion at future meetings</p>	<p>Staff would like a recommendation on the long-term approach for reserve capacity methodology at the next meeting. The short-term issue necessitated by the financial situation can be dealt with separately.</p> <p>Members would like to see an acceptable SAC rate increase that would create balance and are concerned that what the task force proposes in the short term will impact the communities' growth strategy overall. Staff mentioned that for balance, in these temporary circumstances, MCES thinks MWC increases can be kept at or below SAC rate increases.</p> <p>Members would like to see a comparative graph between the changes in the MWC and SAC rate over time. They would also like to see a history of SAC rates. These will be provided at the next meeting.</p> <p>Members would like to know how our system ranks nationally in terms of SAC. It is hard to get comparable data because of the way the rates are structured in each area and how the fees are defined.</p> <p>Another member question was "how much SAC is too much before it hinders development?" Staff will attempt to address this at the next meeting.</p>
<p>7. Adjournment</p>	<p>10:35 AM</p>
<p>8. Minutes</p>	<p>Submitted by Kelly Barnebey, Administrative Assistant, Metropolitan Council</p>

Meeting Title: Reserve Capacity/SAC Task Force Meeting #3

Date: April 6, 2010 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Peggy Leppik, Metropolitan Council Member; Karl Keel, Bloomington; Noel Graczyk, Chaska; Bryan Bear, Hugo; Harlan Van Wyhe, Maple Grove; Lisa Cerney, Minneapolis; Andy Brotzler, City of Rosemount; Mike Kassan, St. Paul; Bruce Loney, Shakopee; Christine Renne, Ecolab; Mark Stutrud, Summit Brewing; Patricia Nauman, MetroCities; Rick Breezee, MAC; George Anderson, Vision-Ease Lens; Nick Dragisich, Springsted

Members Absent: Roger Scherer, Metropolitan Council Member; Joe Huss, City of Blaine; Dave Siegel, Restaurant Association; Jason McCarty, Westwood Professional Services

Staff in Attendance: Bryce Pickart, MCES; Jason Willett, MCES; Kyle Colvin, MCES; Bob Pohlman, MCES; Kay Dawson, MCES; Jessie Nye, MCES; Kelly Barnebey, MCES

Meeting Notes:

Item	Notes
1. Introductions and Approval of February 2 Meeting Minutes	Peggy Leppik, Metropolitan Council, asked members to introduce themselves. Motion was made to approve the February 2 Meeting Minutes, motion seconded and approved with no edits.
2. Task Force Progress & Deferred Questions	<p>Jason Willett, MCES Finance Director, highlighted the new meeting dates since the task force has chosen to meet the first Tuesday of <i>every</i> month instead of every other month.</p> <p>Jason addressed a question from the previous meeting regarding the impact of the SAC shift on individual cities (hypothetical): using the illustration of city share of Municipal Wastewater Charge (MWC) with and without an addition \$8 million shifted from SAC responsibility to MWC.</p> <p>Addressing another deferred question, a graph of the MWC and SAC <i>annual</i> percent increases from 2001-2010 was shown. Staff was asked to talk about the drops on the slide. 2001 was the third year of a 3-year major initiative involving staff reductions and other cost cutting in the division.</p> <p>At the previous meeting staff was asked to detail prior capital improvement spending. A graph was shown with historical MCES/wastewater capital project spending since 1970, adjusted to 2010 dollars.</p> <p>Another graph showed the current Capital Improvement Plan for 2010-2015. This is being proposed for substantial cuts (25%); however, staff emphasized that because SAC looks back by paying debt service on projects that have already occurred, the cuts in the CIP going forward minimally impact the current SAC shortfall.</p> <p>Another deferred question was how high is too high for SAC rates before it inhibits growth or pushes growth out of the sewered part of the metro area? Jason mentioned septic system costs and also that he had spoken to Dr. Thomas Musil, a professor at the University of St. Thomas who has studied the</p>

	<p>impact on development of such governmental fees for infrastructure. The professor indicated that the impact of these fees is difficult to predict because so many factors are involved in development decisions (commuting costs, crime, schools, etc.). A related paper was passed around.</p> <p>A question was asked what percentage of capital is typically spent for expansion. Staff answered 35% in recent years.</p>
<p>3. Legislative Update</p>	<p>Jason Willett showed members the presentation that was given to legislators during the hearings on the SAC bill. In the bill language itself, paragraph (a) adds language to explain the SAC practices, but does not include changes to practices that have been used since 1973. Paragraph (b) of the legislation allows the Council flexibility to temporarily “shift” between wastewater fee sources (SAC responsibility shifted to municipal wastewater charges) with the following conditions:</p> <ol style="list-style-type: none"> 1) Limited to when financially necessary; 2) Requires study and a public hearing; 3) Balanced by mandatory minimum SAC rate increase; and 4) The authority sunsets in 2015. This was requested by MetroCities. <p>Paragraph (c) requires a shift back when the fund balance recovers. This was requested by MetroCities and several cities.</p> <p>The likely shifts will not undermine the quite competitive sewer rates we have in the region. When an illustration of comparative rates around the country for participants in the National Association of Clean Water Agencies (NACWA’s) survey was shown, a question was asked if the survey takes into consideration that not all cities include all costs in their rates. NACWA tries to consider these factors, but may not catch them all (for example, for years, Milwaukee only showed rates and ignored that much of their capital project expenses are levied on property taxes; NACWA now corrects for that). Also, there is a non-response bias among reporting cities – in other words, some decide not to report their rates perhaps because they are substantially higher than others.</p> <p>The fiscal impact of an annual shift is expected to be in the range \$0-1.20/month (\$1.20 would occur if we needed to shift about \$22 million) per household or REC. A more detailed analysis will be available at the public hearing once other budget matters are settled. If the legislation was not adopted, the SAC rate may have had to be increased 100% or more, and the Council and PFA bond ratings could have been adversely affected.</p> <p>The proposed legislation was signed into law on April 1, 2010.</p>
<p>4. Additional Financial Matters</p>	<p>Kay Dawson, MCES Budget Manager, provided analysis of the likely shift for the various Reserve Capacity (RC) methods and using the current Committed Capacity Method with either a 2-year and 3-year phase in. It was noted this was an illustration and based on assumptions about how low the Council would allow the SAC reserve to go, how many SAC units will be collected in a 5-year period, and how high of SAC rate increases would be adopted. The shift analysis will be annual and subject to a Public Hearing every year a shift is proposed.</p> <p>It was asked why the MWC is the same regardless of how much is shifted in Kay’s analysis. Staff noted that differences in what SAC ideally pays between the methods are offset by the different shift, leaving MWC the same.</p>

	<p>It was noted that in 2015, the reserve balance is different because under the current Committed Capacity Method, SAC can make its ideal contribution and begins to rebuild the reserve – albeit not to a level to yet allow the shift back. A question was asked if the shift is “this dismal” beyond 2015, to which staff responded the models show beyond 2020 before the reserves are high enough to allow a shift back.</p> <p>A question was asked how higher SAC rates would affect the numbers in Kay’s models. Higher SAC rates, would show less need for a shift in the model. However, if the higher rates result in less development and thus less <i>actual</i> SAC collection, the shift would need to be higher in the following year(s). Staff pointed out that these are forecasts (hopefully conservative) and are subject to staff analysis, a public hearing and Council’s review and approval every year.</p> <p>A member indicated that his city utilizes SAC only for growth and not so much for other debt service. This statement led into the next topic on the agenda.</p>
<p>5. Ideal Reserve Capacity Method Discussion</p>	<p>Bryce Pickart, MCES Assistant General Manager, emphasized the purpose of the discussion was 1) to come to a consensus on the ideal Reserve Capacity methodology under <i>the existing statute</i>, that is, that SAC pays the reserve capacity portion of all capital costs; and/or 2) to potentially recommend a statutory change that would allow SAC to ideally pay the growth portion of capital costs and none of rehabilitation or other non-growth projects.</p> <p>A question was asked what the difference is between the growth portion of capital costs and the reserve capacity portion of capital costs. Reserve capacity is affected by weather, ground water tables (i.e. inflow and infiltration), and actual development (or lack thereof). The existing statute says that SAC pays a portion of all our wastewater capital project costs, but only a portion. A statutory change could mean that SAC would pay only the growth portion of capital project costs, but all of them.</p> <p>It was asked if we are currently using Committed Capacity, then is SAC not paying for the cost of growth? The Committed Capacity Method results in SAC paying less than full cost for growth. However, this method was just accepted last summer for 2010 rate setting and with a 3-year phase in period, so it is not fully implemented. Staff will bring back information at the next meeting as to how the actual SAC transfers have compared with a hypothetical growth cost derivation.</p> <p>Bryce provided a comparison of the SAC Transfer percentage among the 4 RC Methods. The figures account for both existing and projected debt. A question was asked why only the Growth Cost Method shows the percent paid by SAC in 2011, 2015 and 2030. Why not show the same span for the Adjusted Flow, the Combination Method and the Committed Capacity Method? The percentage for Adjusted Flow and the Combination Method are relatively constant for 2011-2015. More of a span was shown for the Growth Cost Method to demonstrate its downward trend, particularly because staff thought that the task force seemed to be leaning in favor of recommending a statutory change to a growth cost methodology.</p> <p>A question was asked if the Adjusted Flow SAC Transfer would be similar to the Growth Cost SAC Transfer in the way it decreases over time (from 35% in 2011 to 25% in 2030). Bryce answered that no, the projected Adjusted Flow SAC Transfer is higher than the projected Growth Cost SAC Transfer in the future with the current assumptions.</p>

	<p>Some comments during the discussion:</p> <ul style="list-style-type: none"> --It is reasonable that SAC pays for cost of growth, so whatever methodology replicates that idea is most desirable. It is less desirable that current users have to subsidize growth. --Growth should pay for growth. --Local SAC usually pays for expansion/growth, and this should be the way the regional fees work also. --The Growth Method seems fairer from a lay person's perspective and is technically easier to understand. --The task force is looking for the ideal methodology from a technical standpoint, then an economic standpoint, then technical again. It is hard to keep straight when thinking of long-term impacts. --Theoretically the group is talking about two shifts to the MWC: 1) by the methodology change (last summer) and 2) by the new statute. The Growth Cost Method would reverse the first shift somewhat, but that will increase the need for the 2nd statutory "shift." --Financially the Committed Capacity Method is sound and would likely be favored by the Council. <p>A question was asked what would happen if the Growth Method was not favored in spite of being recommended by the task force. Assuming the Growth Cost Method is agreed to by the Council, we would still have to pursue the legislative authority in 2011. We do not know the make-up of the Council, the Governor, or the Legislature in 2011, so this is a risk. However the goal of the task force is to make an ideal recommendation regardless what happens with it.</p> <p>Staff asked if then the consensus was that ideally members want to recommend the Growth Cost Method. Some members said yes. Then it was asked if anyone objected, and no one did so. Staff mentioned then that they will work on implementation issues for discussion at the next meeting.</p> <p>Staff asked if the task force would want to make an interim recommendation (until legislative authority for the Growth Cost approach is secured), because this would affect the accumulated shift which will eventually be shifted back under the new law. One member said, no he did not favor 3 changes in methodology in 3 years but suggested staff look instead at asking for authority to "repair" the underpayment of SAC. No other comments regarding the need for an interim approach were recorded.</p>
6. SAC Charge Methods Introduction	Due to time, this topic will be introduced at the May 4 task force meeting.
7. Adjournment	10:20 AM
8. Minutes	Submitted by Kelly Barnebey, Administrative Assistant, Metropolitan Council

Meeting Title: Reserve Capacity/SAC Task Force Meeting #4

Date: May 4, 2010 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Peggy Leppik, Metropolitan Council Member; Roger Scherer, Metropolitan Council; Karl Keel, Bloomington; Noel Graczyk, Chaska; Bryan Bear, Hugo; Harlan Van Wyhe, Maple Grove; Andy Brotzler, Rosemount; Mike Kassan, St. Paul; Bruce Loney, Shakopee; Patricia Nauman, MetroCities; Jason McCarty, Westwood Professional Services; Nick Dragisich, Springsted

Members Absent: Joe Huss, Blaine; Lisa Cerney, Minneapolis; Christine Renne, Ecolab; Rick Breezee; MAC; Dave Siegel, Restaurant Association; Mark Stutrud, Summit Brewing Co; George Anderson, Vision-Ease Lens

Staff in Attendance: Bryce Pickart, MCES; Jason Willett, MCES; Kyle Colvin, MCES; Bob Pohlman, MCES; Dan Schueller, MCES; Jessie Nye, MCES; Karon Cappaert, MCES; Kelly Barnebey, MCES

Meeting Notes:

Item	Notes
1. Introductions and Approval of April 6 Meeting Minutes	Peggy Leppik, Metropolitan Council, asked members to introduce themselves. Motion was made to approve the April 6 Meeting Minutes, motion seconded and approved with no edits.
2. Task Force Schedule	The task force came to the consensus that the July 6 meeting should be cancelled. Also, Jason Willett, MCES Finance Director, informed members of the upcoming SAC "Shift" Public Hearing on June 16 (it was mistakenly listed as July 16 on the slide), the MCES Municipal Customer Forums on June 15 and June 22, and the MCES Industrial Customer Forum on June 17.
3. Growth Cost Implementation Issues	Jason Willett referred to the handout on a potential 2011 legislative bill enabling the growth cost methodology. The proposed new language in paragraph (a) "to provide additional capacity for either the treatment works or interceptors" would replace the reserve capacity language. It was asked if this language was similar to the last task force's to which Jason answered that it was not the same. The legislation that failed 3 times, more than a decade ago, was more complex – it originally included other ideas, but was modified from year to year to try and make it more acceptable. The language proposed for 2011 is as simple as we could make it. It was also asked why there were large deletions in page 1 of the proposal. That's due to the simplification eliminating the redundant language calling for reserve capacity separately for treatment works and interceptors. In the previous meeting a member suggested that the legislation might also include an interim "repair" to recover the 2011 billed difference between the growth cost method and the method being used by the Council. Jason presented a graph showing the variance between the current Committed Capacity Method and the Growth Cost Method for years 2009-2011. If the growth cost legislation

	<p>is passed in 2011, it was suggested there was no need to “repair” for past SAC transfers as the difference in this period (as well as a decades long review) shows sometimes SAC paid more than growth costs and sometimes less, and it works out pretty close. The task force agreed for simplicity to skip mentioning a repair type concept in the legislative recommendation. The TF recommendation will say that the growth Cost method is recommended for 2012 implementation. If it takes longer to get authority to implement, the Council would know that is inconsistent with this recommendation and could take additional action.</p> <p>Staff defined: i) growth projects as MCES capital projects that increase either regional wastewater conveyance or treatment system capacity; and ii) the SAC responsibility for capital project costs as acquisition or betterment for growth projects, or debt service of growth projects – the acquisition or betterment language comes from the existing statute and means that SAC has the same responsibility whether the project is financed (causing debt service) or is paid out of current funds (“pay-as-you-go”).</p> <p>Examples of multi-purpose projects were presented. A member suggested one way to look at the growth portion of costs is to first determine the costs associated with quality and fixing an existing problem – that portion goes to existing users of the system. The rest of the costs are then assigned <i>incrementally</i> toward growth. Another idea is that an increase in an interceptor pipe that is essentially doubling capacity would have the cost split 50/50 (this is a <i>proportional</i> assignment of costs).</p> <p>It was asked what SAC currently pays for. This year, SAC pays for about 35% of all types of capital projects. This would be less under the “committed capacity” method adopted last August; however, the reduction is temporarily reduced with the 3 year phase-in to that method.</p> <p>It was asked if the forcemain example and the treatment plant rehab example imply that SAC would be responsible for reliability of the system in the Growth Cost Method. The answer is no, SAC would be responsible for the capacity expansion portion of costs that serve new areas.</p> <p>A member questioned how the recent Empire plant expansion that also included a new (larger and relocated) effluent pipe through Rosemount to the Mississippi River would be handled from a growth cost perspective. This is a complex situation. Plant capacity increased from 12 million gallons/day to 24 millions gallons/day, or a 50% increase. Pipe capacity increased to 18 million gallons/day (forcemain portion) and 36 million gallons/day (gravity portion). Rehab was also involved on the plant. Characterization of the quality improvement portion of the project is difficult, because the trout stream designation of the Vermillion River could have been met with treatment technology improvements at 12 million gallons/day, while plant expansion with discharge to the Vermillion was opposed by stakeholders.</p> <p>The task force asked staff to recommend language for discussion at the next meeting that provides a guiding technical approach, although it was recognized that all future situations cannot be handled using specific language written now. Staff mentioned that an opportunity for public comment on the allocation could be included in such projects’ public process.</p>
4. 2015 Sunset in Legislation	Paragraph (b) in MN Statute 473.517 subd. 3 (the SAC shift provision) includes the sentence “The provisions of this paragraph (b) expire at the end of calendar year 2015.” Staff asked if the task force would be comfortable recommending

	<p>that language be deleted so as to make clear to the Bond Rating Agencies that the Council can make its debt service payments for wastewater bonds regardless of what happens with the receipts for SAC. This provision had been added to the bill amending the statute this year at the request of MetroCities in order to respect the ongoing task force process.</p> <p>A member expressed a concern that under the shift-back provision current users of the system will pay most of the growth because the payback is not occurring within the specified 5 years before the sunset occurs, as the finance models indicate the payback will not occur before 2015. Staff pointed out that the shift back provision is in paragraph (c) and so not sunset; that is, the shift back would happen eventually. Moreover, the financial models are conservative about the amount of new SAC collections, so hopefully shift back would happen sooner than indicated. Also, growth projects are being drastically reduced in the MCES Capital Improvement Plan (CIP), and the existing debt service will fall somewhat under existing rules – and growth costs will fall more under the terms of the new method and proposed legislation - so this might also accelerate the shift back.</p> <p>It was asked what staff would say to the Legislature to justify eliminating the sunset language when it was just passed. Staff responded that we would say simply we are trying to codify for the rating agencies that we can handle a continuing or future recession that impacts SAC receipts. The sunset was there to be respectful of the task force process which would then be completed.</p> <p>Another member was concerned about making a recommendation before even the first “shift” hearing and process has occurred.</p> <p>Staff was asked to table this topic for possible discussion at a future meeting.</p>
5. SAC Program Overview	<p>Jessie Nye, SAC Program Administrator, explained procedural roles and responsibilities for both MCES and municipalities; SAC credits and the 2010 credit changes; common questions and issues; and the outdoor spaces discount. This frames the discussion for commercial criteria the task force may review at the next meeting.</p>
6. Industrial Waste Overview	<p>Bob Pohlman, MCES Principal Environmental Scientist, explained the Industrial Waste section’s roles and responsibilities with permitted industries. He described 3 types of industrial discharge permits: 1) Standard permits which are subject to SAC liability; 2) Liquid Waste Hauler permits (that have no SAC component); and 3) Special Discharge permits which have an Add-On-service charge component (in lieu of SAC) and volume-based service fees. Permitted industries are subject to a 3-year volume review whereby MCES reviews self-monitoring data one year prior to permit expiration. A community is liable for SAC should the increased use in the sanitary sewer system from the industrial site be greater than the SAC assigned to the site. It was noted that the industry is given one year prior notice to reduce flows and avoid the incremental SAC.</p> <p>It was asked why when SAC is initially assigned it is based on maximum potential capacity, yet the 3-year industrial review is based on average flow. Staff answered that it is a practical administration of the program and has developed over time.</p>
7. Possible SAC Criteria Topics	<p>The task force has been asked to examine the outdoor seating discount approved last fall and other contentious SAC criteria for potential recommendations. Staff suggested the following criteria that in recent years have</p>

	<p>come into question by customers and/or the Council:</p> <ul style="list-style-type: none"> • Outdoor Space Discount • Temporary Uses • Low Amenity Fitness Centers • Restaurants (full service vs. fast food) • Office/Warehouse speculative buildings <p>Staff asked if there were other issues to be considered. Staff asked members to email additional issues to Jason soon, hopefully within the next week, so MCES staff can prepare background information for the next meeting.</p> <p>There was a question whether the task force would discuss the permanent process change credit provisions. Because of the broader 2010 credit changes, and specifically “no net credits” (no credits beyond what is useful on the site), the permanent process change situation no longer can generate net credits and so has not been considered for this list.</p> <p>It was also asked what the impetus was behind the 2010 credits changes. Staff answered that it was multifaceted and included: 1) an administrative simplification (too hard to get good 1973 data anymore; no one wants to keep SAC payment and determination data very long); 2) not wanting to encourage a de-intensification of water use where the infrastructure was already in place; and 3) a rationale based on equity - that SAC pays for capacity but that regular MWC fees pay for the maintenance of the capacity so if a large amount of capacity is unused and not being supported by sewer fees it eventually should be discounted or depreciated (and should have to be paid for again by SAC should it be used again many years later). It was mentioned that the 7-8 year Look-Back Period was simply a compromise as to how long was appropriate. Staff suggested since these changes were fairly recent and were derived from a work group (city reps organized by MetroCities) that MCES was not suggesting revisiting these issues. Task force members did not ask that they be revisited.</p>
8. Adjournment	10:20 AM
9. Minutes	Submitted by Kelly Barnebey, Administrative Assistant, Metropolitan Council

Meeting Title: Reserve Capacity/SAC Task Force Meeting #5

Date: June 1, 2010 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Peggy Leppik, Metropolitan Council Member; Roger Scherer, Metropolitan Council; Joe Huss, Blaine; Karl Keel, Bloomington; Noel Graczyk, Chaska; Bryan Bear, Hugo; Lisa Cerney, Minneapolis; Andy Brotzler, Rosemount; Mike Kassan, St. Paul; Bruce Loney, Shakopee; Christine Renne, Ecolab; Patricia Nauman, MetroCities; Mark Stutrud, Summit Brewing Co; George Anderson, Vision-Ease Lens; Jason McCarty, Westwood Professional Services; Nick Dragisich, Springsted

Members Absent: Harlan Van Wyhe, Maple Grove; Rick Breezee; MAC; Dave Siegel, Restaurant Association

Staff in Attendance: Bryce Pickart, MCES; Kyle Colvin, MCES; Bob Pohlman, MCES; Kay Dawson, MCES; Dan Schueller, MCES; Jessie Nye, MCES; Karon Cappaert, MCES; Kelly Barnebey, MCES

Meeting Notes:

Item	Notes
1. Approval of May 4 Meeting Minutes and Agenda	Motion was made to approve the May 4 Meeting Minutes, motion seconded and approved with no edits.
2. Growth Cost Principles	<p>Bryce Pickart, MCES Assistant General Manager, defined growth cost as a portion of acquisition, betterment, and debt service on capital projects that increase either the regional wastewater conveyance or treatment system capacity.</p> <p>Projects designated as 100% growth could include:</p> <ul style="list-style-type: none">• Interceptor extension• Interceptor capacity relief• Treatment plant capacity expansion• New treatment plant <p>A question was asked whether extending an interceptor would be deemed 100% growth. If it is servicing a new area, yes. A project is considered growth when it is increasing capacity.</p> <p>Projects that would be designated as non-growth would be:</p> <ul style="list-style-type: none">• Those meeting new or stricter regulations• Rehabilitation of existing facilities• Those that increase reliability, efficiency or effectiveness• Liquid waste receiving facilities (costs are fully covered via load charges) <p>A question was asked whether we ever have rehab projects on pipes that are not fully used yet, to which staff answered yes. How often does this happen? Frequently, because pipes are designed for long-term capacity needs which may not happen before the need for rehabilitation.</p>

	<p>It was asked what typical MCES projects are. Most are rehabilitation or growth.</p> <p>Bryce defined multi-purpose projects as growth projects that also include rehabilitation/replacement and/or quality improvement. The principles of the allocation for this type of project are: 1) the quality improvement cost portion of the project shall be estimated and subtracted from total project costs then project costs for growth and rehab/replacement shall be allocated proportionate to flow; and 2) quality improvement driven exclusively by growth shall be considered a growth cost.</p> <p>A question was asked what “quality” means in this definition. Quality is regulatory upgrades or other improvements that increase reliability, efficiency and effectiveness.</p> <p>Staff was asked to provide an illustration of these principles which are on slides 9 and 10 of the presentation. Several questions arose from these examples:</p> <ol style="list-style-type: none"> 1) Why take out the quality upgrade up front? 2) To what extent would the Council weigh in on growth cost judgments? 3) Why not ascribe growth cost to what is left after upgrades and rehab? <p>A member indicated the incremental cost basis (instead of the flow proportion method) is more fair even though it is more complex. Another member was in favor of the flow proportion method to be equitable to future users of the system. In the discussion of what is “fair” it was asked if staff could give a set of guidelines to work from as they viewed the growth principles for multi-purpose projects.</p> <p>It was pointed out that implementation of the proposed growth-cost legislation would require detailed analysis of project budget allocations (to growth and no-growth), however only a few MCES projects each year fit in the multi-purpose project category.</p> <p>In the interest of time, staff was asked to move to the next topic in the agenda and address members’ questions about growth cost in the next meeting.</p>
<p>3. SAC Criteria</p>	<p>Jessie Nye, MCES SAC Program Administrator, introduced the criteria for discussion:</p> <ul style="list-style-type: none"> • Temporary uses • Speculative office/warehouses • Fitness centers • Outdoor spaces • Restaurants • Daycares <p>Temporary uses have been and are treated the same as permanent uses for SAC purposes. Two examples were given in which the customer did not feel it was fair to pay SAC twice – first for the temporary use of a space while the permanent use was under construction and again when the permit was issued for the permanent location.</p> <p>Staff identified two options: 1) the status quo – leave the SAC criteria as it is and the full SAC is due for the sewer capacity commitment for all spaces or 2) implement a Temporary Capacity Charge (TCC). A TCC would likely require a</p>

voluntary 3-way agreement among the customer, the City and MCES. It would be similar to the Industrial Waste Add-On Service Charge that is currently used for groundwater remediation projects. The City would need to be willing to monitor the situation. A temporary use would be a specific use with a predetermined end date; staff suggested a maximum term of 36 months. It is important to note this option would not commit capacity for the permanent use, i.e. the next tenant would not receive SAC credit for the temporary use.

It was asked if the City would benefit from the net credits that result when a business with lower capacity occupies a space that previously demanded a higher use. Because the credit rules have changed, there are no longer any net credits.

The consensus was to recommend Option 2, a Temporary Capacity Charge.

Speculative office/warehouses are now determined for initial SAC as 30% office and 70% warehouse. This has been the criterion for 20+ years. Most office/warehouse buildings are built as empty shells, and as tenants purchase or lease the space, build-out permits are issued by the City. Many of the build-out permits have missed SAC and then this deficiency is found during the MCES Community Review. This can result in cities having to collect SAC years later. Jessie sampled 100 records from the SAC database from 1990-2010. The mean for warehouse was 50% and the mean for the higher concentration use (office, retail, conference, showers, etc.) was 50%.

Staff identified 4 options: 1) the status quo – to leave the criterion as 30% office, 70% warehouse; 2) to base the initial SAC percentage on the data presented, using 50% office, 50% warehouse; 3) to use 100% office thereby ensuring SAC would be collected for the highest use; or 4) base the initial charge on a percentage determined by the builder with more attention by City staff to build-outs.

Staff was asked why 50/50 is the option staff is recommending. The data that Jessie sampled and presented was 100 SAC records for 1990-2010. It indicated a mean of 50% for both warehouse and higher concentration use (office, retail, etc.). A member noted however the 50/50 alternative would still result in some customers feeling they were overcharged and would not eliminate build-outs being missed.

It was asked if Option 2 could include a mandatory review so that a refund can be made if the use turns out to be lower. What if the build-out is largely warehouse such as cold storage – would there be no refund to the City in that case? Under current rules for all types of commercial buildings, there would be no refund or credit to the City because there are no longer net credits allowed with 2010 SAC credit rule changes.

The consensus was to leave the criterion as is, with the understanding that communities will be recommended to look closely at build-out permits.

Fitness Centers with showers are determined by the square footage of the fitness area, regardless of the number of showers present. In recent years the low amenity fitness centers with only 1-2 showers have stated this criterion imposes undue hardship since most of their customers do not utilize showers.

Staff identified 2 options: 1) the status quo – leave the criteria as fitness with showers = 700 sq. ft./SAC Unit and fitness without showers = 2060 sq. ft./SAC

Unit or 2) create a third Low Amenity criterion. Customers with only 1-2 showers would be determined at 2060 sq. ft./SAC Unit for the fitness area plus 0.5 SAC/shower. This assumes only half the customers are taking showers, which is unverified by MCES. Examples were given as to the difference in SAC charges with Option 1 vs. Option 2. It was also noted that if a third fitness center criterion is added, large fitness centers might also argue only half their clientele take showers so they should receive a discount as well.

In discussion of these options it was asked how "low amenity" is characterized. Presumably these are centers that are open 24 hours/day but not staffed at all hours, with only 1-2 showers and no locker rooms, and low membership dues.

A member commented that SAC should be charged on the highest use, not how consumers may behave. Another member indicated it is administratively difficult to speculate a business type at the time of determination.

The consensus was to leave the criteria as is.

Outdoor Spaces

On September 10, 2009, after numerous complaints about how outdoor restaurant seating was charged and a public hearing, the Council adopted a 75% outdoor space discount to be effective October 1, 2009 due to the minimal use during times of capacity stress to the metropolitan wastewater system. At that time staff was asked to examine this topic in this task force. It was noted that due to the discount on outdoor spaces SAC rates in general will eventually increase approximately 1.4%.

Since implementation, there have been very few complaints, and those that arose were usually due to confusion about the discount or its implementation date.

The consensus is to leave this discount as it is.

Restaurants are currently determined as 8 fixed seats/SAC Unit for full service and 22 seats/SAC Unit for fast food. These criteria are based on 1970s MN Department of Health (MDH) criteria for Septic System Design Standards and Uniform Building Code. The issue that has come up in the last few years is the distinction between full service and fast food is less clear. More restaurants have a mixture of disposable and washable items.

In 2008, MCES and a consultant conducted a water use study of 90 food establishments of varying categories. They were located within 33 individual metro communities. Staff looked at three categories: 1) full service; 2) fast food; and 3) hybrid (combination of disposable and washable items).

A slide was shown of the 2008 water use summary and the recognized design standards from MDH. MDH's gallons per day data is based on max day and the data culled for the water use study is based on average day. In the average day column there is little distinction in the gallons per day used among the 3 categories. It was noted that there could be a perception that water usage could be affected by product carry-out (drive-thru and counter service). MCES attempted to gather carry-out counts and peak day information but was prohibited by fast-food restaurants from conducting a study on that.

A potential approach is to apply reasonable peak/average usage factor. If the criteria resulted in a more uniform 10 seats/SAC across the categories, new full

	<p>service restaurants would see a -20% reduction in SAC. New fast food restaurants would see a 120% increase in SAC, and new hybrid restaurants would have a SAC ranging from -20% to 120%.</p> <p>Staff identified two options: 1) the status quo – 8 fixed seats/SAC Unit for full service and 22 seats/SAC Unit for fast food. This does not address hybrid classifications and what criterion to use for those. The peak/average day factor is based on system-wide characteristics, not specific business characteristics. 2) Implement a single restaurant criterion. With this alternative there is no need to classify the type of operation.</p> <p>A question was asked if Option 2 was adopted when it would go into effect. Staff will recommend a public hearing on the issue and could ask for input on the implementation date. Like the outdoor spaces discount the new criteria would not likely be retroactive.</p> <p>Due to the time, staff was asked to revisit the Restaurant criteria at the next task force meeting and present the Daycare options then.</p> <p>Members were reminded the July 6 meeting was cancelled.</p>
4. Adjournment	10:40 AM
5. Minutes	Submitted by Kelly Barnebey, Administrative Assistant, Metropolitan Council

Meeting Title: Reserve Capacity/ SAC Task Force Meeting #6

Date: August 3, 2010 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Peggy Leppik, Metropolitan Council Member; Roger Scherer, Metropolitan Council; Joe Huss, Blaine; Karl Keel, Bloomington; Noel Graczyk, Chaska; Bryan Bear, Hugo; Lisa Cerney, Minneapolis; Mike Kassan, St. Paul; Bruce Loney, Shakopee; Rick Breezee, MAC; Patricia Nauman, MetroCities; Dave Siegel, Restaurant Association; George Anderson, Vision-Ease Lens; Jason McCarty, Westwood Professional Services; Nick Dragisich, Springsted

Members Absent: Andy Brotzler, Rosemount; Christine Renne, Ecolab; Mark Stutrud, Summit Brewing Co.

Staff in Attendance: Bryce Pickart, MCES; Jason Willett, MCES; Kyle Colvin, MCES; Bob Pohlman, MCES; Kay Dawson, MCES; Jessie Nye, MCES; Kelly Barnebey, MCES

Meeting Notes:

Item	Notes
1. Approval of June 1 Meeting Minutes and Agenda	Motion was made to approve the June 1 Meeting Minutes, motion seconded and approved with no edits.
2. Review of Written Summary Documents	<p>Bryce Pickart, MCES Assistant General Manager, summarized and expanded on the Growth Cost discussion from the previous meeting. He defined growth cost as a portion of acquisition, betterment, and debt service on capital projects that increase either the regional wastewater conveyance or treatment system capacity.</p> <p>Projects designated as 100% growth could include:</p> <ul style="list-style-type: none">• Interceptor extension• Interceptor capacity relief• Treatment plant capacity expansion• New treatment plant <p>Projects that would be designated as non-growth would be:</p> <ul style="list-style-type: none">• Those meeting new or stricter regulations• Rehabilitation of existing facilities• Those that increase reliability, efficiency or effectiveness• Liquid waste receiving facilities (costs are fully covered via load charges) <p>Bryce defined multi-purpose projects as growth projects that also include rehabilitation/replacement and/or quality improvement. The principles of the allocation for this type of project are: 1) project (and sub-project) costs will be allocated directly among growth, rehabilitation/replacement, and quality improvement objectives to the extent feasible and reasonable; 2) driving forces for the project, and the likely alternative project if growth was not a factor, will be evaluated; and 3) remainder of costs will be allocated based on proportion of flow (usually) or on incremental cost (when appropriate) to ensure fair and equitable cost allocation between current and future users.</p>

The growth cost portion of capital costs would be recommended to be included in the Council's annual capital budget or the public process to approve it. Once a project is completed, the funding allocation (growth vs. non-growth percentages) will not be revised. Savings from bond refunding will be assigned proportionately to the allocation for the original bond. Cost sharing revenue to MCES shall be subtracted from the project's capital costs.

It was asked whether this growth vs. non-growth allocation will be determined at the beginning of each project. MCES staff has not given it much internal discussion, but the analysis of growth vs. non-growth costs can be more accurate if completed after construction bids have been received. Debt service must be taken into consideration also. The conceptual analysis and preliminary project cost allocation could be presented in the year when construction authorization is requested, and then the project cost allocation can be finalized during the following year's capital budget process.

A member asked if funding has to be identified prior to the bid process to which staff answered no, the SAC requirement does not have to be identified when securing a loan or selling a bond issue; however, knowing which fees will pay the debt service is a factor in the rate setting each year.

It was asked if staff could give a "ballpark average" of work that would be funded strictly by growth and strictly as multi-purpose. Bryce pointed to Table 5 in his Reserve Capacity summary document; 34% of the 2010 capital costs would have been paid by Sewer Availability Charge (SAC) then a gradual decline to 31% in 2015.

Bryce described a case study using the Empire Wastewater Treatment Plant expansion and outfall. Table 4 of his Growth Cost summary document presents an example cost analysis to determine the growth cost portion. Plant costs specific to growth are allocated 100% to growth. The quality improvement components are analyzed next. Then the remaining costs for replacement and growth are analyzed. The flow proportionate method is also applied to the outfall cost. The overall result is 60% of project cost allocated to growth.

A member said the expanded plant capacity from 12 million gallons/day to 24 million gallons/day is growth by definition but the flow proportion method for the rest of the analysis seems fair to users. The challenge comes from not being overly speculative as each project is evaluated.

Bryce summarized the tentative task force recommendations:

- Growth should pay for growth, i.e. pursue statutory change whereby SAC pays growth portion of capital costs
- Use the Committed Capacity method in the interim
- If the statute is not changed, use a reserve capacity method that approximates the results of the Growth Method

It was asked what would compel the legislature to adopt the Growth Method if it thinks there is a viable alternative. Staff said, the idea that "growth pays for growth" is easy to understand and makes sense to lay people. In fact most of the public assume this is already the basis for SAC. To get this passed, it will be important that there is a united front for the Growth Method, and perhaps some help from members at the legislature or in writing. A member described this as "housekeeping" because the statute has been vague. Another member remarked

	<p>the technical aspects of this topic will be the kicker to selling the Growth Method.</p> <p>Jason Willett, MCES Finance Manager, asked if the task force is comfortable with these recommendations. No one voiced opposition.</p> <p>Jason asked members to review the SAC Criteria documents for temporary uses, speculative office/warehouse buildings, fitness centers, and outdoor spaces. Each document summarizes key points from our June 1 meeting to include a consensus statement.</p> <p>A member asked staff to specifically address the issues with speculative office/warehouse – and the fact the criterion will remain 30%/70% - with cities, and let them know that MCES is vigilant in finding changes in use that may have been missed.</p>
<p>3. SAC Criteria for Restaurants and Daycare</p>	<p>Kyle Colvin, Assistant Manager for Technical Services, expanded on the Restaurant discussion from the previous meeting. Restaurants are currently determined as 8 fixed seats/SAC Unit for full service and 22 seats/SAC Unit for fast food. These criteria are based on 1970s MN Department of Health (MDH) criteria for Septic System Design Standards and Uniform Building Code. The issue that has come up in the last few years is the distinction between full service and fast food is less clear. More restaurants have a mixture of disposable and washable items, so we get a lot of contention over which definition fits</p> <p>In 2008, MCES and a consultant conducted a water use study of 90 food establishments of varying categories. They were located within 33 individual metro communities. Staff looked at three categories: 1) full service; 2) fast food; and 3) hybrid (combination of disposable and washable items).</p> <p>A slide was shown of the 2008 water use summary and the recognized design standards from MDH. MDH's gallons per day data is based on max day and the data culled for the water use study is based on average day. In the average day column there is little distinction in the gallons per day used among the 3 categories. It was noted that there could be a perception that water usage could be affected by product carry-out (drive-thru and counter service). MCES attempted to gather carry-out counts and peak day information but was prohibited by fast-food restaurants from conducting a study on that.</p> <p>A member asked if a water study had been done 30 years ago, would we have seen such a difference among the 3 categories. Fast-food restaurants then were less mainstream, which is not the case anymore. Hybrid restaurants have begun to emerge in the last 10 years.</p> <p>A member asked how the 1.5 peaking factor was derived. This is the diurnal pattern average. The member then asked why that is used in this case; to which staff said it reflects 50% greater use for a peak day. However, it is not specific to a restaurant type. This issue will be analyzed further.</p> <p>It was asked whether the water records collected reflect our peaking factor assumption. Water records are quarterly and to answer that question we would need daily monitoring, so we don't know.</p> <p>It was asked how this analysis relates to the size of service pipes based on fixture units. The member thought that would be a better way to judge restaurant criteria. Staff replied it is not used as the basis for other SAC criteria.</p>

A member asked what the peaking factor was for other uses. We do not generally use a peaking factor but are suggesting it could be used for restaurants only because we may not have any better data on daily demand.

A member felt that fast-food restaurants seem to use less water. Staff indicated patrons of fast-food restaurants have high bathroom use and we think bathroom use is much more important than kitchen wastewater (especially with low flow appliances). Staff also pointed out the distinction between peak capacity or demand and actual usage in this discussion.

Kyle indicated if the criteria resulted in a more uniform 10 seats/SAC across the categories, new full service restaurants would see a -20% reduction in SAC. New fast food restaurants would see a 120% increase in SAC, and new hybrid restaurants would have a SAC ranging from -20% to 120% (depending on which category they would be counted as today).

He identified two options: 1) the status quo – 8 fixed seats/SAC Unit for full service and 22 seats/SAC Unit for fast food. This does not address hybrid classifications and what criterion to use for those. 2) Implement a single restaurant criterion. This alternative has a large administrative advantage in that there is no need to classify the type of operation.

A question was asked if Option 2 was adopted when it would go into effect. Staff will recommend a public hearing on the issue and could ask for input on the implementation date. Like the outdoor spaces discount the new criterion would not likely be retroactive. Only new seats in a restaurant expansion would be charged, but there could be a difference in how we credit existing seats in an expansion. Staff was asked to provide examples of charges and credits using Options 1 and 2, which will be given in the next meeting. Also, a member wanted to see the 2008 water study data. To the extent we have relevant data, that document will be provided to members by the next meeting.

A member suggested the SAC criteria should be evaluated more frequently and take changes in business patterns into consideration.

It was asked what the political implications of adopting Option 2 would be. Another member responded the restaurant industry may challenge that the water data are inadequate to support the change. This issue will be discussed again at the next meeting.

Kyle introduced the Daycare criteria issue and started by providing background. The criteria are based on current International Building Code for occupancy loading: 35 square feet per occupant, and Department of Health 1970s criteria for wastewater: 20 gallons per day (gpd) per occupant. Thus the SAC criteria:

- 14 occupants @ 20 gpd = 280 gpd = 1 SAC
- 14 occupants @ 35 sq. ft. = 490 sq. ft. = 1 SAC

The issues are a majority of determinations are based on licensed occupancy which is typically 25% less SAC than the square footage basis. Once a business is established, a license can be renewed for higher occupancy without the need for a local permit. The Local Community is not notified of the licensing change, and may not know until and unless it is caught during an MCES Community Review. This typically results in additional SAC due, which is hard for a community to collect without a related permit.

	<p>Kyle identified options: 1) the status quo – 14 occupants/SAC Unit for licensed daycares and 490 sq. ft./SAC Unit for unlicensed daycares. This does not address the issue with re-licensing and communities owing additional SAC as a result of the increased use. It does allow daycare operators to start business at a lower start-up cost. Communities would need to recognize the potential for license changes and perform periodic reviews (they can find out using the State website, as MCES does). MCES would encourage communities to incorporate license counts in separate agreements or tie them to Certificate of Occupancy to provide a mechanism to collect additional SAC for license changes. 2) Adopt a new criterion based on square footage usable space. This would result in an approximate 25% increase in initial SAC for daycares but would eliminate the potential for additional SAC to be owed by communities if the license changes. This option does not recognize restricted use through State licensing. 2a) the status quo but also allow application of the square footage criterion at the formal request of the Community (that does not want to monitor or charge for license changes).</p> <p>It was asked if the current criteria reflect the fact that infants do not generate as much sewer waste, and that infant rooms in daycares do not have toilets. Although it is true that infants do not generate much, if any, wastewater volume themselves, other factors do represent wastewater generation which tend to offset lower infant generation rates. Daycare licenses require greater daycare provider-to-infant ratios, thereby increasing the total number of daycare providers in the overall facility. Also, hand washing by providers is a higher occurrence with infant care than with older age clients. It was pointed out by another member that it is common practice by some providers to first flush the solid material in diapers in the toilet before throwing them in the trash.</p> <p>This was not resolved and needs to be discussed further at the next meeting.</p>
<p>4. Other Metropolitan Council Policies that interact with SAC</p>	<p>While this task force is not charged with issues beyond SAC, there is some interaction and some discussion was requested.</p> <p>Patty Nauman mentioned that we may be able to recommend issues for consideration by the Council in its next policy planning framework.</p> <p>Bryce Pickart emphasized these key principles from the Water Resources Policy Plan:</p> <ul style="list-style-type: none"> • Cost of service <i>in the region</i> is used for fee setting, not any sub regions • The Metropolitan Wastewater Charge (MWC) is based on flow for each community • SAC is charged uniformly across the metro region, except for the special case related to a rural growth center (that must pay more). This uniformity treats redevelopment needs (for incremental capacity) the same as new development, which has been a discussion. <p>Due to the time, this topic was not discussed in depth. <i>Members were asked to email specific policy issues they wanted to address to either Bryce or Jason.</i></p> <p>The task force was in agreement to meet on September 7, despite it being the day after Labor Day. October 5, November 2, and December 7 are considered contingency dates.</p>

5. Adjournment	10:40 AM
6. Minutes	Submitted by Kelly Barnebey, Administrative Assistant, Metropolitan Council

Meeting Title: Reserve Capacity/ SAC Task Force Meeting #7

Date: September 7, 2010 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Peggy Leppik, Metropolitan Council Member; Roger Scherer, Metropolitan Council; Joe Huss, Blaine; Karl Keel, Bloomington; Noel Graczyk, Chaska; Bryan Bear, Hugo; Harlan Van Wyhe, Maple Grove; Mike Kassan, St. Paul; Bruce Loney, Shakopee; Christine Renne, Ecolab; Rick Breezee, MAC; Patricia Nauman, MetroCities; Nick Dragisich, Springsted

Members Absent: Lisa Cerney, Minneapolis; Andy Brotzler, Rosemount; Dave Siegel, Restaurant Association; Mark Stutrud, Summit Brewing Co.; George Anderson, Vision-Ease Lens; Jason McCarty, Westwood Professional Services

Staff in Attendance: Bryce Pickart, MCES; Jason Willett, MCES; Kyle Colvin, MCES; Kay Dawson, MCES; Jessie Nye, MCES; Karon Cappaert; MCES; Kelly Barnebey, MCES

Meeting Notes:

Item	Notes
1. Approval of August 3 Meeting Minutes and Agenda	Motion was made to approve the August 3 Meeting Minutes and today's agenda, motion seconded and approved with no changes.
2. Restaurant and Daycare Criteria	<p>Kyle Colvin, Assistant General Manager in MCES Technical Services, summarized the Restaurant Criteria discussion from the previous meeting.</p> <p>He identified three options: 1) the status quo – 8 fixed seats/SAC Unit for full service and 22 seats/SAC Unit for fast food. This option would not address hybrid restaurants and the criterion to use for those. 2) Recommended by MCES staff - implement a single restaurant criterion of 10 seats/SAC Unit, based on the average wastewater demand of all restaurants. This alternative has a administrative advantage in that there is no need to classify the type of operation. 3) 10 seats/SAC Unit for full service (implementing the single criteria for these) but temporarily leave the 22 seats/SAC Unit for fast food. The Council would conduct additional studies to potentially develop new criteria in the future based on better technical information, but this would require the cooperation of the fast food facilities.</p> <p>During discussion a member asked how the task force could support a system that is not supported by the data (i.e. anything but Option 2). With that, a motion was made to adopt Option 2. Motion was seconded and adopted with no objections.</p> <p>Kyle then summarized Daycare Criteria from the previous meeting. He described three options: 1) the status quo – 14 occupants/SAC Unit for licensed daycares and 490 sq. ft./SAC Unit for unlicensed daycares. This does not address the issue with re-licensing and communities owing additional SAC as a result of the increased use. It does allow daycare operators to start business at a lower start-up cost reflecting only the capacity related to the amount for which they are licensed. Communities would need to recognize the potential for license changes and perform periodic reviews (they can find out using the State website, as MCES does). MCES would encourage communities to incorporate license</p>

counts in separate permits or tie them to Certificates of Occupancy to provide a mechanism to collect additional SAC when/if licenses change. 2) Recommended by MCES staff - the status quo but also allowing a community to request all daycare facilities be determined using the square footage criterion (for communities that do not want to monitor or charge for license changes). 3) Use only the criterion based on square footage usable space. This would result in an approximate 25% increase in initial SAC for many licensed daycares but would eliminate the potential for additional SAC to be owed by communities if the license changes. This option does not recognize restricted use through State licensing.

It was asked how many cities have the issue of having to pay additional SAC at the time of Community Review. Most cities have handled it during the Community Reviews and collected the additional SAC with no problem or formal protest.

It was asked if a daycare increases its licensed capacity and the City does not know, can MCES collect directly from the business. Unfortunately “no, because MCES has statutory authority only to collect from Cities, not local businesses.”

It was discussed as to whether the State could be asked or be compelled to let cities know when the licensure increased, but it was thought that due to the State budget issues, any additional administrative effort would be resisted.

A member asked whether Minneapolis that initially had objections to the Daycare criteria now supports staff’s recommended Option 2. Jason said that knowing the Minneapolis representative could not attend, he had discussed this with Pierre Willette at the City who did not object to the recommendation.

Staff was asked to explain whether not recognizing the restricted use through State licensing in Options 2 and 3 would cause the cities to be in conflict with the State’s licensing authority. No, because the licensing is not related to or connected to sewer capacity charges.

A member commented that the square footage criterion recognizes maximum potential, the way other SAC criteria are applied, which seems fair.

It was asked whether the 25% increase in initial SAC for licensed daycares under Option 3 was quantified. The 25% was an illustrative small sample, and staff did not gather enough data to estimate the dollar impact of allowing the license based approach.

A member asked why MCES does not increase the allowable square footage per occupant – our criterion is already different than the State’s. To that another member commented it seemed inequitable to other business types if daycares are given a break or discount. He was in support of Option 2. However, daycare facilities are unique in that their demand is limited by the State licensing restrictions.

A motion was made to approve Option 3 – one criterion based on square footage – but to adjust the square footage from 490 sq. ft./SAC Unit upwards to reflect the average restriction in use due to the state licensing less than the demand implied by the square footage. The motion was seconded and adopted with no objections. It was recognized this still could adversely impact small startups (because their reduction due to the licensing is less than the average adjustment to be made). *The approval is contingent on members seeing the technical memo*

	<i>edited and clearly explained.</i>
<p>3. SAC Determination: Administrative Workload Issue</p>	<p>Jason Willett, MCES Finance Director, brought this issue to the task force so it is aware of a potential change in the future should the determination workload impact customer service. He explained that commercial SAC determinations have been made by either MCES staff or the cities. Industrial determinations have been and will continue to be determined by MCES staff.</p> <p>Recently the determination workload has grown due to increasing rates and acrimony, and the need for enhanced documentation. Cities that may have made determinations in-house are shifting the workload to SAC staff. There is an issue both of equity (some cities do their own) and good customer service (responsiveness could be slow especially when the economy recovers).</p> <p>Jason presented three options: 1) status quo – this can continue as is; 2) allow a 1% discount for SAC for cities that complete their own determinations; or 3) implement an additional charge for cities that want MCES to do the determinations (but limited to those with substantial markups; that is, those that are also using the SAC to raise city funds)</p> <p>A member asked how the work is divided between cities and MCES. Each City decides itself which commercial determinations it will do on a case by case basis.</p> <p>Several members expressed that part of the impetus behind transferring more determinations to MCES is that they have experienced a Community Review (some refer to it as an “audit”) that resulted in substantial SAC due – perhaps because some determinations were done incorrectly by city staff. If city staff opts to do more determinations, even with a 1% discount, the concern would be they could still be done incorrectly. A member felt some criteria are applied differently or applicability to a certain business type is up for interpretation and so it is more consistent if MCES does the determinations.</p> <p>It was asked whether this workload increase is an issue now since there are fewer determinations due to the slow economy. Currently MCES’s turnaround is 1-2 weeks and often longer when the applicant does not provide all documentation initially. In the interest of customer service and not delaying anyone’s permit, our standard has been to shoot for a 1 week turnaround; we are concerned that if the economy picks up this will get longer and longer.</p> <p>A member asked whether city staff have been given additional SAC training. In 2009, 3 large forums were held for the cities to learn about the 2010 credit rule changes, and in 2010 8 or 9 smaller discussion groups were held for city staff. Also, City staff is always encouraged to call or email with questions.</p> <p>A member pointed out that relieving the administrative burden with a 1% discount means the SAC rate will eventually be higher. Would the discount be less costly then for MCES to hire new staff? Staff did not have an answer for that but mentioned the equity issue would remain.</p> <p>A motion was made to keep the status quo. It was seconded and adopted with no objections.</p>
<p>4. Metropolitan Council Policies</p>	<p>Bryce Pickart, MCES Assistant General Manager, referred to his policy discussion document “Metropolitan Council Policy” that was sent prior to today’s</p>

	<p>meeting and included in the handouts. Previously a few members expressed an interest in the inter-relationships and consistency of the Metropolitan Council's (Council) policies regarding SAC, and other Council policies, particularly related to encouraging redevelopment. While this issue was seen as somewhat outside the purview of the task force, MCES staff suggested they may want to recommend that the next Council review the situation at the time of the next update to the <i>Water Resources Management Policy Plan</i>. One factor which might be examined was the policy of uniform urban sewer availability charges (the interceptor portion of SAC had been suggested to be differential by a prior task force).</p> <p>A member indicated that the Council has limited tools to implement all of its goals; therefore, it is reasonable to ask the Council to consider each tool it does have (including the SAC fee structure) when doing region-wide planning. It should review all the tools available to it (including sewer fees) to determine how they may contribute to the Council's goals. It was recognized this is a broader issue and could not be addressed in detail in this task force.</p> <p>It was noted that a prior Metro Council adopted a limited waiver of SAC in support of inclusionary housing and that this was quite controversial.</p> <p>A motion was made to recommend such a review in future planning efforts (by the next Council). It was noted that this would be just a recommendation for review, not necessarily for adoption of such cross functional impacts.</p>
5. Executive Summary	<p>Nick Dragisich with Springsted Inc. referred to his draft Executive Summary document that was sent prior to today's meeting and included in the handouts. He asked that members funnel any comments or questions through Kelly Barnebey, MCES Administrative Assistant.</p> <p>A member asked that Nick include more years in the Historical SAC Units and Historical SAC Reserve graphs. MCES staff agreed to provide the data.</p> <p>A member suggested the document include an implementation schedule for the legislation required to implement the Growth Cost methodology that is being recommended.</p> <p>Nick indicated his Executive Summary would include the information and suggestions from today's meeting.</p>
6. Task Force Closure & Next Steps	<p>A member asked staff to summarize the 2010 SAC credit rule changes before adjourning. Jason Willett said these changes were adopted by Metropolitan Council in 2006. MetroCities assisted in facilitating meetings among Cities prior to the adoption. Cities were given advance notice of the pending changes in subsequent SAC mailings and at the SAC training sessions.</p> <p>As of January 1, 2010 the highlights of the adopted changes were:</p> <ul style="list-style-type: none"> • Credits are based on the prior demand, in SAC Units, over the seven-eight years prior to the year of permitting (currently 1/1/03), rather than based on SAC payments and grandparenting. • If a property was vacant for the entire look-back period, no credits are granted. • SAC credits are limited to the amount needed on site for the new use. Net credits (available anywhere in the city) no longer occur.

	<ul style="list-style-type: none"> Existing city-wide credit balances remain available to cities until they are depleted. <p>Jason discussed next steps. Future task force meetings appear not to be necessary. The revised final report will be sent to members to comment on through email. Members were encouraged to contact staff if there were questions after today's meeting. An additional meeting will be scheduled only if issues arise in the final editing. The contingent meetings for October, November and December will be cancelled.</p> <p>In September MCES will begin the State's process for policy initiatives on the SAC 2011 legislation. Also, at the request of the task force, the Council's Environment Committee will be asked to authorize a public meeting on all the recommendations (including the Restaurant Criteria and Growth Cost legislation), with a public meeting to follow in October.</p> <p>Finally, task force members were thanked extensively for their participation by Chair Peggy Leppik.</p>
7. Adjournment	10:15 AM
8. Minutes	Submitted by Kelly Barnebey, Administrative Assistant, Metropolitan Council

Appendix C
Methodology for Estimating Reserve Capacity

METHODOLOGY FOR ESTIMATING RESERVE CAPACITY

RESERVE CAPACITY/SAC TASK FORCE

Introduction

The Reserve Capacity/Sewer Availability charge (SAC) Task Force has been charged by the Metropolitan Council with evaluating current and proposed methods of reserve capacity estimation, in accordance with Minnesota Statutes 473.517, and recommending a reserve capacity method for Council consideration. This technical memorandum summarizes the reserve capacity evaluation and the Task Force recommendations.

Statutory Authority

Allocation of costs by the Metropolitan Council for its regional wastewater services is addressed in Minnesota Statutes 473.517. Subdivision 1 addresses allocation of operation and maintenance costs and a portion of capital costs, i.e. debt service and costs for acquisition and betterment to be paid from funds other than bond proceeds. Subdivision 3 addresses allocation of treatment and interceptor capital costs, separately, with respect to capacity reserved for future use. These reserved capacity capital costs are paid from Sewer Availability Charge (SAC) revenues. The statute does not describe “reserved capacity”, nor does it specify how to determine reserve capacity.

Reserve Capacity Estimation Method through 2009 (Flow Method)

General. Capital project costs associated with reserve capacity determinations are divided into two facility categories, by statute: (1) Interceptors; and (2) Wastewater Treatment Plants. These costs are debt service and costs for acquisition and betterment paid directly, i.e. without borrowing (aka pay-as-you-go).

Capacity was determined annually for each facility category. Revisions were made related to new or modified facilities in the year that facility construction is initiated, i.e. when significant capital project expense began to be incurred.

In recent years, the currently used portion of that capacity was computed annually based on the average waste-water flow for the preceding five-year period, which was intended to mitigate the effects of varying infiltration/inflow, i.e. clear water entry into the sanitary sewer system and smooth the financial changes. For wastewater treatment plants, the entire system flow was considered. For interceptors, flow from communities not served by an interceptor (e.g. Hastings, Stillwater) is excluded. Reserve capacity was the difference between total capacity and currently used capacity, for each facility category.

Note that the SAC Transfer is the sum of the computed reserve capacity for each type of facility times the capital project costs associated with each category. For example, interceptor reserve capacity is multiplied by interceptor debt service (or avoided debt service through pay-as-you-go). The following table illustrates the calculation.

TABLE A

Facility Category	Debt Service	Reserve Capacity	SAC Transfer
Interceptors	\$33 M	0.56	\$18.5 M
Plants	\$57 M	0.19	\$10.8 M
Total	\$90 M	-	\$29.3 M

Note: Reserve capacity of 0.56 means that 44% of capacity is being used and 56% is reserved for future use.

Interceptors. Interceptor sewers convey wastewater flow from the various communities in a wastewater treatment plant service area. Within an area, these interceptors are designed as a system. Consequently, interceptor capacity was determined by summing the capacities of the interceptors at their confluence with the treatment plants.

For example, interceptor capacity for the Metropolitan Plant is the sum of the capacity of the Joint Interceptor and the South St. Paul Interceptor, which each enter the plant separately. Similarly, the Blue Lake, Empire, and Seneca Plants have two interceptors entering each plant, so the capacities are summed. The Eagles Point and St. Croix Valley Plants have only one interceptor entering each plant. The Hastings Plant has no interceptor.

Each interceptor's peak hydraulic capacity is converted to an average capacity using the appropriate MCES peak flow factor for each interceptor individually. The sum of these average capacities is the interceptor system capacity. Total interceptor system capacity is 601 million gallons per day (mgd) average flow, or 219 billion gallons per year (BGY). This capacity determination is summarized in Table 1.

Note: The peak flow factor is the ratio of peak hour flow to average flow. The peak flow factor varies with average flow, i.e. as average flow increases, the peak flow factor decreases. The peak flow factor for large MCES interceptors entering MCES plants ranges from 1.7 to 1.9, meaning that we expect the peak hour flow to be nearly twice the average flow.

Comment: Most of the interceptor system was designed and constructed prior to the establishment of MCES and the development of MCES' standard peak flow factors. The Joint Interceptor, which represents 60% of interceptor system capacity, was designed as part of a combined sewer system in the 1930's. The design peak flow factor is unknown, but certainly was higher than 1.7. The Blue Lake interceptor system was designed by the Southwest Suburban Sanitary District using a peak flow factor of 2.5. The Bloomington-Eagan-Burnsville Sanitary District (Seneca Plant) also designed its interceptor system for a peak flow factor higher than 1.7. An argument can be made that the minimum MCES standard peak flow factor should be increased, because codes and practices prior to 1970 allowed more infiltration/inflow into the sanitary sewer system. For example, increasing the minimum standard flow variation factor to 2.0 would decrease total interceptor system capacity by 14%. Consideration of this technical issue was not part of the Task Force's charge.

Treatment Plants. Originally, wastewater treatment plant capacity was based only on liquid treatment average design capacity – that is, how much wastewater could be processed through the liquid operations. Since 2000, liquid treatment capacity and solids processing capacity were evaluated separately, because: (1) construction of solids processing facilities has occurred separately, at different times and different capacities, than construction of liquid treatment facilities; and (2) solids processing has been provided only at the Metropolitan, Blue Lake, Empire, and Seneca treatment plants (sludge from small plants is hauled to one of these plants). Thus, capacities and debt service for liquid treatment and solids processing were evaluated separately through 2009 (i.e. billing year 2009 for which rates were determined in 2008).

Since the wastewater treatment plant system capacity is actually limited by the lesser of liquid treatment or solids processing capacity, the treatment plant system capacity for billing year 2010 was considered the lesser of these two capacities. Treatment plant capital costs for liquids and solids costs have been combined for purpose of determining the currently used capacity and the reserve capacity.

Liquid treatment capacity is based on the treatment plant design criteria that are incorporated into the plant's National Pollutant Discharge Elimination System (NPDES) Permit. It should be noted that NPDES Permit limits utilize maximum month flow, whereas capacity for SAC purposes has been based on average design flow. Total liquid treatment capacity is 358 mgd average flow, or 131 BGY (see Table 2).

MCES has solids processing facilities at its four largest treatment plants. Solids from small plants are hauled to one of these four plants (generally to the Metropolitan Plant). Solids processing capacity is expressed as average capacity in dry tons per day. This capacity is then converted to the equivalent capacity expressed in wastewater flow treated, based on actual solids production of 1.1 dry tons solids per million gallons treated. Total solids processing capacity is 327 mgd average flow, or 119 BGY (see Table 3).

Problems. The preceding 5-year average flow has been used to compute currently used capacity. The remainder of the capacity has been considered reserved capacity.

There were two problems with this historical method for estimating reserve capacity: (1) a recent trend of declining overall wastewater flow, which increased the apparent reserve capacity, even when we had not built additional capacity, and even though there had been growth which consumed some capacity; and (2) a weak nexus to the charging system for SAC units paid, i.e. committed capacity, which is a significant issue regarding commercial and industrial customers. Regarding issue #1, the flow decline has been thought to be partially due to a multi-year drought, which has temporarily reduced infiltration and inflow into the sanitary sewer system. To the extent that the flow decline is due to conservation by current users, the additional capacity is real and appropriately benefits the current users (that is, it can equitably be charged to SAC).

These problems led to development of another method for estimating reserve capacity which has been used for the 2010 budget and rates. That method is described in the following section.

Current Reserve Capacity Estimation Method (Committed Capacity Method)

Concept. The historical method for determining reserve capacity expresses total capacity and currently used capacity in terms of measured wastewater flow i.e., use. For the 2010 budget and rates, the method for estimating reserve capacity was to express total capacity and currently used capacity in terms of committed capacity, expressed as SAC units paid (one SAC unit commits the availability of 274 gallons per day capacity). The technical advantages of this approach include minimizing the impact of annual flow variation and making the capacity determination more consistent with actual SAC charges, i.e. based on committed capacity regardless of use at any one point in time.

Interceptor System. Interceptor system capacity has changed very little since the inception of SAC in 1973, because interceptor system facilities have a long useful life, e.g. 80 years for gravity sewers, and no changes have occurred to the three largest treatment plants' interceptors. Thus, financially and technically, the committed capacity method for interceptor system reserve capacity determination makes sense, since as SAC is paid, the reserve capacity is simply reduced by the capacity represented by each paid SAC (274 gpd). Interceptor system capacity is 2,200,000 SAC units. The cumulative total of allocated SAC units at the end of 2009 was 1,587,000.

Treatment System. Wastewater treatment plants are expanded and/or renewed (rehabilitated) approximately every 20 years. Treatment plant capacity expansions are based on historical liquid flows and loadings (the strength of the wastewater), projected growth of flows and loadings and expected regulatory changes. The committed capacity method for treatment capacity accounts for the renewal of capacity by "re-setting" the cumulative SAC units based on the 20-year treatment plant expansion and renewal cycle. This method uses 10 years' historical flow, prior to the 20-year design period, since that period is typically used for a treatment plant's planning and design. In addition, it uses the SAC count for the most recent 10 years. Using data through 2008, this computation looks like this:

1980 to 1989 Average Annual Flow = 95.8 BG = 958,000 SAC Units

1990 through 2009 Growth = 359,000 SAC Units

2009 (Re-Set for Used Capacity) = 1,317,000 SAC Units

Treatment Capacity = 1,620,000 SAC Units
(using maximum month flows as defined by NPDES Permits)

Reserve Capacity = 18.7%

Treatment system capacity will be "re-set" whenever system expansion is scheduled for construction. This "re-set" adjusts used capacity, based on average wastewater flow over a 10-year period. The next "re-set" is expected to occur for year 2016, when expansions are scheduled for construction at the Blue Lake and Hastings plants. Because of load and regulatory changes, treatment system capacity should be re-set no less frequently than once every 10 years. In addition, if future regulatory action results in de-rating treatment system capacity, resetting total system capacity and used capacity would be triggered at that time.

Discussion. Advantages of the committed capacity method are: (1) it is independent of the effect of precipitation cycle (infiltration/inflow) on wastewater flow; and (2) it has a direct nexus to SAC units paid. Disadvantages are: (1) it fails to recognize the effects of water conservation (e.g. low flow plumbing fixtures) and community I/I reduction; and (2) the method is more difficult to explain than the flow method.

Alternative Reserve Capacity Estimation methods

MCES staff presented two alternative reserve capacity estimation methods: (1) normalized flow method; and (2) combination method.

Normalized Flow Method. This method would improve upon the historical flow method by evaluating flows over a longer period, e.g. 10 years, to offset the effect of dry and wet precipitation cycles, and by accounting for growth over that normalized period, based on average flow per SAC unit. For example, the average flow per SAC unit for 2000 to 2009 was 170 gpd. Cumulative SAC units through 2009 are 1,587,000. Thus, the 2010 normalized used flow is estimated at 98.5 BGY (1,587,000 SAC Units x 170 gpd/SAC Unit x 365 days/year), compared to the 5-year average flow of 91 BGY using the historical flow method.

Advantages of this method are: (1) reduces effects of precipitation cycles; and (2) accounts for water conservation and I/I reduction. Its disadvantage is a weak nexus to SAC units paid (i.e. based on flow not capacity as are the SAC charges).

Combination Method. This method combines an aspect of committed capacity with the normalized flow method. The normalized flow would be used to estimate treatment plant reserve capacity. For the interceptor system, we add the committed capacity which has been paid for and may be used by commercial/industrial customers (the difference between 274 gpd/SAC unit paid versus average use of 170 gpd/SAC unit). This adds 16.7 BGY, assuming 440,000 commercial/industrial SAC units, giving a total used/committed flow of 115.2 BGY for 2010 (for interceptors).

A comparison of these alternative methods to the committed capacity method is presented in Table 4.

Statutory Change to Growth Method

After considering the various methods for estimating reserve capacity, in accordance with current statute, the Task Force concluded that the basic principle for what SAC should pay is that “growth should pay for growth.” Since this is not literally a computation of reserve capacity, the Task Force recommends that the Metropolitan Council pursue a statutory change whereby Sewer Availability Charges would pay for the growth portion of MCES capital project costs.

For 2011 rate setting, the Task Force accepts the continued use of the committed capacity method for reserve capacity estimation. In the event that the statutory change to the growth cost method is not implemented, the Task Force recommends that the selected reserve capacity estimation method should be adjusted to mirror the results of the growth cost method. That

would imply a change from the current committed capacity method to combination method presented herein. A separate memo laying out details of how the growth cost method would be implemented and the analysis of existing capital project costs using this method has been prepared.

Table 5 presents the comparison of the reserve capacity methods to the growth method.

The growth portion of debt service on capital projects will gradually decrease from 34% in 2010 to 31% in 2015. The long-term capital improvement program indicates that the growth portion of debt service on capital projects will continue to decrease to approximately 25% by 2030.

TABLE 1
INTERCEPTOR CAPACITY

Plant	Interceptors	Peak Capacity (mgd)	Peak Flow Factor	Average Capacity (mgd)
Metropolitan	Joint	610	1.7	359
	So. St. Paul	27	1.9	14
Blue Lake	Eden Prairie	80	1.7	47
	Prior Lake/Shakopee	73	1.7	43
Seneca	Burnsville/Bloomington	87	1.7	51
	Eagan	38	1.7	21
Empire	Lakeville-Farmington	48	1.8	27
	Rosemount	30	1.9	16
Eagles Point	Cottage Grove-Woodbury	40	1.8	22
St. Croix	Bayport	4	3.0	1
Total (mgd)				601
Total (BGY)				219

mgd = million gallons per day

BGY = billion gallons per year

TABLE 2. WASTEWATER TREATMENT PLANTS
LIQUID TREATMENT CAPACITY

Blue Lake		
2010 – 2015	32 mgd	
≥ 2016	40 mgd	
Eagles Point	10 mgd	
Empire	24 mgd	
Hastings		
2010 – 2015	2.3 mgd	
≥ 2016	4 mgd	
Metropolitan	251 mgd	
Seneca	34 mgd	
St. Croix Valley	4.5 mgd	
TOTAL		
2010 – 2015	358 mgd (131 BGY)	
≥ 2016	367 mgd (134 BGY)	

TABLE 3. WASTEWATER TREATMENT PLANTS
SOLIDS PROCESSING CAPACITY

Blue Lake		
2009	42 DTPD	Dryer
≥ 2010	45 DTPD	Anaerobic Digesters added.
Empire		
2010	15 DTPD	
≥ 2016	24 DTPD	Anaerobic Digester expansion.
Metropolitan		
2010	250 DTPD	FBI Capacity
≥ 2016	300 DTPD	Biosolids Facility added.
Seneca		
	50 DTPD	
TOTAL		
2010 – 2015	360 DTPD = 327 MGD = 119 BGY	
2016	419 DTPD = 381 MGD = 139 BGY	

Note: Based on 1.1 dry tons solids per million gallons of wastewater.

DTPD = Dry Tons per Day (an analytical method for determining the weight if all water were eliminated).

MGD = Million Gallons Per Day

BGY = Billion Gallons per Year

TABLE 4

RESERVE CAPACITY ESTIMATION FOR THREE METHODS

Parameter	Committed Capacity Method	Normalized Flow Method	Combination Method
Total Available Capacity			
Interceptors			
Flow	219 BGY	219 BGY	219 BGY
SAC Units	2,200,000		
Plants			
Flow	119 BGY	119 BGY	119 BGY
SAC Units	1,620,000		
Used/Committed Capacity			
<u>Year</u>	<u>SAC Units</u>	<u>Flow (BGY)</u>	<u>Flow (BGY)</u>
Interceptors			
2010	1,587,000	98.5	115.2
2011	1,593,000	98.6	115.3
2012	1,600,000	98.7	115.4
2013	1,607,000	98.8	115.5
2014	1,614,000	98.9	115.6
2015	1,622,000	99.0	115.7
Plants			
2010	1,317,000	98.5	98.5
2011	1,323,000	98.6	98.6
2012	1,330,000	98.7	98.7
2013	1,337,000	98.8	98.8
2014	1,344,000	98.9	98.9
2015	1,352,000	99.0	99.0

Basis of Wastewater Flow Projections

1. Growth: 170 gpd/ SAC Unit (2000 to 2009 average).
2. Water Conservation: 0.33% per year system flow reduction, based on trends in water volume sales by municipal water utilities.

TABLE 4 (Cont.)

Parameter	Committed Capacity Method	Normalized Flow Method	Combination Method
Reserve Capacity			
Interceptors			
2010	0.279	0.550	0.474
2011	0.276	0.550	0.474
2012	0.273	0.549	0.473
2013	0.270	0.549	0.473
2014	0.266	0.548	0.472
2015	0.262	0.548	0.472
Plants			
2010	0.187	0.172	0.172
2011	0.183	0.171	0.171
2012	0.179	0.171	0.171
2013	0.175	0.170	0.170
2014	0.170	0.169	0.169
2015	0.165	0.168	0.168

TABLE 5
 PORTION OF CAPITAL COSTS PAID BY SEWER AVAILABILITY CHARGES
 COMPARISON OF GROWTH COST TO RESERVE CAPACITY METHODS

Reserve Capacity Methods				
Year	Committed Capacity	Normalized Method	Combination Method	Growth Cost Method
2010	0.21 (0.33)	0.31	0.28	0.34
2011	0.19 (0.27)	0.30	0.27	0.32
2012	0.19	0.30	0.27	0.31
2013	0.19	0.31	0.28	0.32
2014	0.19	0.32	0.29	0.31
2015	0.19	0.33	0.29	0.31

Note: Committed capacity method fraction during 2010 and 2011 is higher (number in parenthesis) so that the change is gradual.

Appendix D

Proposed Guidelines for Growth Portion of Capital Costs

PROPOSED GUIDELINES
GROWTH PORTION OF CAPITAL COSTS

Introduction

The Reserve Capacity/SAC Task Force has recommended that the Metropolitan Council pursue changes to Minnesota Statute 473.517, such that Sewer Availability Charges (SAC) pay for the growth portion of capital costs, rather than the reserve capacity portion of all capital costs, which includes rehabilitation/replacement, quality improvement, and growth costs. This technical memorandum proposes guidelines for determination of the growth portion of capital costs.

General Definitions

Growth costs are the portion of acquisition, betterment, and debt service on capital projects that increase either the regional wastewater conveyance or treatment system capacity.

Non-growth costs include: (1) capital costs to rehabilitate and/or replace existing wastewater conveyance and treatment facilities at their existing capacity, such that the useful life of the facility has been extended by at least 10 years; and (2) capital costs for quality improvements to meet more stringent regulatory requirements for existing facility capacity or to provide other benefits, such as increased service reliability, reduced external energy consumption, and improved customer service, such as odor control or flow metering improvements.

Multi-purpose projects provide increased capacity (growth costs) as well as rehabilitation/ replacement and/or quality improvement (non-growth costs).

Description of Project Types

- A. 100% Growth-Related Projects (See Table 1)
1. Interceptor extension solely to serve future developing areas.
 2. Interceptor capacity relief project solely to serve future development and/or redevelopment.
 3. Treatment plant capacity expansion project which includes no rehabilitation nor quality improvements.
 4. New treatment plant that does not serve any existing sewered development.
- B. Non-Growth Projects (See Table 2)
1. A project to meet new or stricter regulations.
 2. A project to rehabilitate existing facilities.
 3. A project to increase reliability of existing facilities, such as redundant forcemain or redundant process equipment.
 4. A project done for the purpose of realizing a financial return or to provide additional customer service (e.g. odor control, metering improvement).
 5. Liquid waste receiving facilities (costs are fully recovered via Load Charges).

C. Multi-Purpose Projects (See Table 3)

1. Lift Station and/or forcemain rehabilitation project that also expands capacity.
2. Lift Station and/or forcemain replacement project that also expands capacity.
3. Gravity interceptor that replaces smaller gravity pipe or replaces lift stations and forcemains.
4. Replacement of existing treatment plant with new larger treatment plant.
5. Replacement of existing treatment plant with new larger interceptor.
6. Addition of second forcemain to an existing forcemain to increase reliability and capacity.
7. Treatment plant project that rehabilitates existing facilities, upgrades quality, and expands capacity.
8. Treatment plant project that rehabilitates existing facilities and expands capacity.
9. Master planning studies.

Guidelines for Multi-Purpose Projects

The growth cost portion of multi-purpose projects can be estimated through an engineering analysis of project costs and the objective(s) met by various project elements/components. The non-growth costs, i.e. rehabilitation/replacement and quality improvement, will be estimated for the existing facility capacity. Quality improvement costs for the expanded capacity will be considered growth costs.

Quality improvement that is driven exclusively by growth, i.e. a situation with a fixed mass waste load allocation established by MPCA, shall be considered a growth cost, i.e. concentration must decrease when flow increases. Note: Regulatory requirements are becoming more stringent generally without consideration of capacity expansion, because regulatory agencies generally look to point sources (treatment plants) to achieve water quality objectives, even when nonpoint sources (runoff) are the major contributors.

Projects costs will be allocated directly among the growth, rehabilitation/replacement, and quality improvement objectives, to the extent feasible and reasonable. In large projects with several sub-projects, this analysis will be done for each sub-project. The remaining project costs can be allocated between growth and non-growth costs in one of two ways: (1) proportionate to flow (growth portion is increased capacity expressed as a fraction of total capacity); or (2) incremental cost to increase facility capacity.

For a project of the same type, e.g. a gravity sewer, the flow proportionate method will assign a larger fraction of project costs to growth. Conversely, the incremental cost method will assign a smaller fraction of project costs to growth, and will require a separate engineering cost estimate for the project based on it being implemented only for existing capacity.

For many multi-purpose projects, the comparison of flow proportionate and incremental cost methods is more complex. For example, when a capital project's scope changes from rehabilitation of an existing facility to an expansion project, the rehabilitation component tends to increase in scope and to change to more process equipment and electrical/mechanical system replacement for consistency with the expansion component of the project, for the purpose of efficient and effective operation and maintenance. In this situation, the incremental cost method may yield similar results as the flow proportionate method.

Similar complexity occurs for a quality improvement project whereby the type of capital project may differ significantly between an upgrade of an existing facility and an upgrade/expansion of an existing facility.

Another example is an interceptor to phase out a treatment plant. The driver for plant phaseout typically is growth. In this situation, plant rehabilitation is likely to be the less costly option for existing capacity. Therefore, the incremental cost method would consider the growth cost portion to be the difference between the interceptor cost and the plant rehabilitation cost. In this case, the incremental cost method may assign a higher portion of capital cost to growth than the flow proportionate method.

There are a variety of points of view on these approaches. Arguments in favor of the flow proportionate method include:

1. Growth benefits from existing regional infrastructure, so growth should bear a larger portion of capital costs.
2. The calculation method is simple and requires no additional engineering analysis with its potential subjectivity.

Arguments in favor of incremental cost method include:

1. Federal and state grants in the 1970's and 1980's helped the region maintain low wastewater rates, so current users can share that benefit with future users by only assigning incremental capital costs to growth.
2. This method is similar to the Council's current policy on cost sharing by communities which receive a trunk sewer benefit from new MCES interceptors.

The flow proportionate method is recommended to estimate the growth portion of capital costs for these costs that cannot be directly allocated to growth or non-growth purposes. The incremental cost method should be used for comparison to ensure that the costs apportioned to existing capacity are reasonable compared to the costs had the capital improvement been made only for purposes of rehabilitation/replacement.

In summary, the recommended principles for allocating multi-purpose capital project costs between growth and non-growth objectives are as follows:

1. Driving forces for the project and the likely alternative project if growth was not a factor will be evaluated;
2. Project (and sub-project) costs will be allocated directly among growth, rehabilitation/replacement and quality improvement objectives to the extent feasible and reasonable;
3. Remainder of costs will be allocated based on proportion of flow (usually) or incremental costs (when appropriate) to ensure fair and equitable cost allocation between current and future users.

The growth cost portion of a capital project's cost shall be evaluated and presented for Metropolitan Council approval as part of the annual Capital Budget process. A potential approach is to present the preliminary proposed cost allocation for a capital project when construction authorization is requested, and to present the final proposed cost allocation in the subsequent year, after construction contract(s) have been awarded.

In addition to these technical matters, the following guidelines for financial matters are recommended:

1. Once a project is completed, and the costs have been assigned as growth and non-growth, they will not be revised.
2. If a refunding reduces a bond's debt service, that reduction will reduce the debt service costs assigned as growth and non-growth, proportionate to the assignment to the original bond.
3. If cost sharing receipts are to be received on a capital project, the expected present value of the receipts should be subtracted from the project's capital costs (and thus not paid by SAC funds).

Case Study: Empire Plant Expansion and Outfall

The Empire Plant serves Apple Valley, Empire, Farmington, Lakeville, and Rosemount. Service is being extended to Elko New Market. The above-referenced capital project rehabilitated or replaced existing plant facilities, upgraded treatment for phosphorus removal, simplified plant operations by converting from two-stage to single stage biological treatment, and expanded plant capacity from 12 mgd to 24 mgd average wastewater flow.

Based on stakeholder and customer input, the Council decided that ending discharge to the Vermillion River was the most desirable water quality improvement approach, rather than further upgrading effluent quality to allow continued discharge to the Vermillion River, which has recently been designated as a trout stream. This project included a pump station and 13-mile pipeline to convey treated wastewater to the Mississippi River. The pump station and single forcemain plan was phased and have average capacity of 24 mgd now (with a second forcemain to be constructed in the future). The gravity pipeline from CR46/Biscayne to the River has 36 mgd average capacity.

Table 4 presents an example cost analysis to determine the growth cost portion. Plant costs specific to growth are allocated 100% to growth. The quality improvement components are analyzed next. Then the remaining costs that are common for replacement and growth are analyzed. The flow proportionate method is used for the costs that cannot be separated among project objectives. The flow proportionate method is also applied to the Outfall cost. The overall result is 60% of project cost is allocated to growth.

The incremental cost method would require a separate engineering study. The plant design would have been very different if the 12 mgd plant was simply upgraded for phosphorus removal. Costs would have been lower, since minor modifications to the biological treatment process would have been feasible. Conversely, the incremental cost method would allocate a larger proportion of Outfall costs to serving existing capacity than the flow proportionate method.

Table 1. 100% Growth-Related Projects (Since 1993)

Project Number	Project Description	Project Type	Spending Thru 2009
9004	Elm Creek Interceptor	1	\$58,748,007
9601	Apple Valley Interceptor	1	700,395
8010	Dayton-Champlin Interceptor	1	13,027,971
8016	Rural Area Improvements	1	19,839,203
8032	Northwest Interceptor Improvements	1	2,505,756
8038	Chaska West Interceptor	1	12,936,931
8053	Southeast Anoka Co. Interceptor	1	744,840
8054	Bloomington-Edina-Richfield Interceptor	2	4,593,706
8063	So. Washington Co./Lake Elmo Interceptor	1	5,717,807
8057	Golden Valley Area Interceptor Improvement	2	2010-2015 CIP
8018	Blue Lake Plant Expansion	3	2010-2015 CIP
8016	Rural Area-East Bethel	4	2010-2015 CIP
8062	Metro Plant Biosolids Storage	3	2010-2015 CIP
--	Empire Plant Solids Processing	3	2010-2015 CIP

Table 2. Non-Growth Projects (Since 1993)

Project Number	Project Description	Project Type	Total Spending Thru 2009
8355	MWWTP Fire Detection and Alarm	2, 3	1,211,945
8659	Joint Interceptor Access	2	710,265
8965	Misc. Capital Improvements	2, 3, 4	2,812,498
9001	Interceptor Inspection Program	2	23,703,145
9003	Bloomington Siphon	2	7,450,283
900310	Long Meadow Lake Crossing	2	23,073
9104	Regulator Modifications	2	4,127,474
9105	Small Systemwide Improvements	2, 3, 4	3,367,850
9108	MWWTP Process Computer System	2	40,283,043
9207	MWWTP/Minneapolis Meter Improvements	2	9,214,164
9209	White Bear Lake Lift Station Improvements	2	689,521
9302	MWWTP Centrifuge Dewatering	2	17,265,401
9303	Metro/Seneca WWTP Incinerator	2	254,287
9305	Small System Improvements	2, 3, 4	5,812,805
9306	MWWTP Sidestream Treatment	2	1,709,592
9405	Seneca Ash Landfill Closure	1	1,035,512
9407	MWWTP Master Plan	2, 3, 4	1,951,387
9408	Eagan Forcemain Rehabilitation	2	518,420
9409	MWWTP Locker Room Addition	4	339,231
9410	Mound Interceptor Rehabilitation	2	339,231
9502	St. Bonifacius Interceptor Rehabilitation	2	350,485

9503	Brooklyn Park Flow Detention	3	187,723
9504	South St. Paul Forcemain	2	1,182,640
9505	Lab Services Facility/Admin. Building Rehab.	2, 4	12,120,408
9506	MWWTP Secondary Treatment	1, 2	36,446,774
9508	MWWTP Effluent Pump Station	2	789,928
9509	RBS Sustainability	2	169,787
9602	Battle Creek Siphon Improvements	2	1,761,351
9605	Small System Improvements	2, 3, 4	4,700,348
9703	Metro Plant Solids Processing Improvements	1, 2	172,941,062
9704	Blue Lake Plant Grit Removal	2, 3	950,138
9705	Small System Improvements	2, 3, 4	1,856,632
9706	Metro Plant Liquid Treatment	2, 3	72,952,199
9802	Blue Lake Plant Groundwater Relief	3	5,534,197
9805	Small System Improvements	2, 3, 4	1,718,015
9901	Mound Lift Station 25 Improvements	2	282,313
9905	Small System Improvements	2, 3, 4	3,709,901
7998	Program Management	1, 2, 3, 4	7,243,914
8001	LS Supervisory Control/Field Telemetry	2	3,378,947
8002	Hopkins LS/FM Improvements	2	538,169
8003	Minneapolis/St. Pal Interceptor Improvements	2	17,765,560
8004	Minneapolis Interceptor 1-MN-320 Rehabilitation	2	12,638,498
8005	Seneca Sludge Cake Pumps and Wastewater Facilities Network	2	1,552,952
8006	Hastings WWTP Improvements	2	1,374,047
8007	Interceptor Odor Portland/Washington and Waconia FM Air Release	2, 4	870,321

8008	Interceptor Waste Discharge Site Relocation and MWWTP Administration Building Asbestos	2, 5	1,711,055
8011	Systemwide Meter Improvements	4	2,608,650
8012	System Odor Improvements	4	2,753,621
8013	Interceptor Maple Plain/Long Lake	2	1,753,805
8014	MWWTP F & I No. 1 Demolition	2	34,395
8015	Interceptor Lining Project	2	5,899,512
8017	Facilities Security Improvements	3, 4	8,237,221
8018	Blue Lake Plant Improvements	1, 2, 3, 4	28,128,628
8019	Seneca WWTP Disinfection and Phosphorus	1, 2, 4	19,553,949
8021	Lift Station 11 Improvements	2	1,537,160
8024	RMF Improvements	4	1,711,656
8026	Septage Management	5	3,582,600
8027	South St. Paul LS Improvements	2	7,064,490
8029	Interceptor Facility Reconveyance Program	2, 4	472,854
8033	MWWTP Liquid Waste Discharge Site	5	3,705,829
8034	Brooklyn Park Interceptor/LS Rehab.	2	18,002,776
8035	Interceptor System Standby Power Improvements	2, 3	7,687,582
8040	Interceptor Burnsville Rehabilitation	2	42,332
8041	Interceptor Hopkins System Improvements	2	1,311,401
8042	Interceptor Minneapolis 1-MN-303	2	89,333
8044	Interceptor 1-VH-422 Improvements	2	5,425,969
8046	Interceptor Trout Brook	2, 4	4,035,618
8048	Interceptor Plymouth Forcemain Improvements	2	867,385
8055	Interceptor Lift Station Rehabilitation	2	2,254,274

8056	Interceptor Meter Improvements	2, 4	2,827,968
8059	MWWTP Rehabilitation and Facility Improvements	2, 4	2,425,687
8060	Interceptor 1-MN-320	2	62,492
8061	MWWTP Solids Improvements	2, 4	6,426,936
8064	MWWTP Electrical Cable	2	1,580,678
8066	Interceptor 7023/6904	2	1,175,212
8067	Interceptor Hilltop Rehabilitation	2	111,000
8069	Interceptor Trenchless Rehabilitation	2	260,000
8070	Interceptor Maplewood Rehabilitation	2	67,000
8072	Energy Conservation and Recovery	4	64,000
8090	Interceptor Rehabilitation	2	1,412,306
	Small System Improvement Projects	2, 3, 4	5,801,564

Table 3. Multi-Purpose Projects (since 1993)

Project Number	Project Description	Project Type	Growth Portion	Total Spending Thru 2009	Remarks
8552	Seneca Sludge Handling	7	25%	35,253,047	Replace and expand Thickening and Dewatering; R/R and QI of Incineration
8554	Blue Lake Plant Expansion	7	50%	67,457,401	R/R, QI, and expansion from 20 to 32 mgd
8555	Empire Plant Expansion	8	60%	20,189,530	R/R and expansion from 6 to 9 mgd
8556	Metro Plant Studies	9	33%	4,087,210	R/R, QI, and expansion
8557	Seneca Plant Expansion	7	50%	73,503,722	R/R, QI, and expansion from 24 to 34 mgd
8653	Stillwater Plant Expansion	7	40%	18,062,250	R/R, QI, and expansion from 3.0 to 4.5 mgd
8751	Anoka WWTP Phaseout	5	50%	596,853	R/R and expansion
8754	Minneapolis East-Phase II	3	33%	18,618,683	R/R and expansion
9101	Bayport WWTP Phaseout	5	50%	2,404,532	R/R and expansion
9102	Blue Lake Plant Solids Processing	8	90%	27,350,484	Thickening R/R; new dewatering and drying
9103	Cottage Grove Plant Expansion	8	60%	2,309,206	R/R, and expansion from 1.8 to 2.5 mgd
9106	Lino Lakes Improvements	2	75%	4,509,845	New lift station and forcemain; R/R and expansion
9204	Waconia Improvements	2	50%	6,380,636	New lift station and forcemain

9205	Shakopee Improvements	2	20%	2,573,415	New lift station; R/R and expansion
9206	Chaska WWTP Phaseout	5	70%	14,234,151	New interceptor; R/R and capacity
9208	Rosemount WWTP Phaseout	5	90%	24,600,658	New 12 mgd interceptor replaces 1.25 mgd plant
9304	Levee Expansion Study	9	33%	1,799,538	R/R, QI, expansion
9401	Empire WWTP Expansion	8	75%	12,298,959	Expanded from 9 mgd to 12 mgd with some R/R
9501	Southeast Regional WWTP (Eagles Point)	4	75%	51,114,100	Replace 2.5 mgd plant with 10 mgd plant; R/R, QI
9701	Southeast Regional Interceptors	3	83%	43,260,274	New 22 mgd interceptor with 3.8 mgd existing flow
9702	Empire Area Master Plan	9	33%	332,956	R/R, QI, expansion
9708	Centerville Interceptor Improvements	2	25%	3,971,441	R/R and expansion
9709	Southwest Area Master Plan	9	33%	110,889	R/R, QI, expansion
9801	Interceptor Master Plan	9	33%	207,581	R/R, QI, expansion
8009	Rosemount/Empire Plant Service Areas	7	60%	142,132,845	R/R, QI, expansion (See Table 4)
8022	Lift Station 12 Improvements	2	10%	542,625	R/R and some expansion
8023	Northeast Interceptor Improvements	1, 2	85%	18,541,027	Some R/R, primarily expansion (6901 relief interceptor)
8025	Riverview Siphon	3	10%	8,123,210	R/R and some expansion
8028	Blue Lake Interceptor Improvements	1, 2, 3, 6	50.8%	17,425,314	R/R and expansion (analyzed for each sub-project)

8030	Hastings WWTP	4	40%	321,462	Replace 2.34 mgd plant with 4 mgd plant; R/R, QI
8039	Chaska Lift Station	2	70%	2,224,891	R/R and expansion from 3 mgd to 10 mgd (new lift station)
8049	Maple Plain Forcemain Relocate	2	50%	1,725,882	Replace one forcemain and add second forcemain
8050	Anoka Forcemain	2	80%	744,840	Replace one small forcemain with two larger forcemains

R/R = Rehabilitation/Replacement

QI = Quality Improvement

Table 4. Empire Plant Expansion and Outfall
Flow Proportionate Method

MCES Project No. 800900
(Costs in \$Millions)

Component	Total Cost	Growth Portion	Growth Cost
Plant			
Additional Clarifiers (1)	12	100%	12
Activated Sludge (2)	28	50%	14
Remainder (3)	45	50%	23
Plant Sub-Total	85		49
Outfall (4)			
Gravity	54	67%	36
LS/FM	16	50%	8
Total	155	60%	93

1. Two new primary clarifiers and four new secondary clarifiers.
2. Replacement activated sludge biological treatment includes upgrade for phosphorus removal.
3. New influent pump station, screening, grit removal, disinfection, electrical system, instrumentation and control, and standby power.
4. Takes point of view that new Outfall was a more desirable water quality improvement approach than a plant quality upgrade to meet more stringent effluent limits for discharge to a trout stream (Vermillion River). Growth costs are the portion of additional capacity provided.

Appendix E
SAC Criteria Technical Memoranda

SAC CRITERIA: CHANGES TO TEMPORARY USE

CURRENT POLICY

The current SAC policy, for non-residential and non-industrial uses, assesses communities for all types of uses in a building based on the maximum wastewater demand their space would require of the Metropolitan Disposal System (MDS). This includes temporary uses.

ISSUE

The issue for temporary uses is that MCES charges the community and often the community will charge the underlying building owner (or tenant) for space occupied only temporarily while their permanent location is being built. These situations most likely causes SAC at both locations around the same time period, while the actual demand may occur only at one place at a time (this ignores that the capacity made available at the temporary site is then available to a subsequent use at that site). The Building Owner or tenant feels that it is unfair to be charged SAC twice when they only will be using one space temporarily.

EXAMPLES

A couple of examples of a temporary use that occurred in the last two years are:

- Ramsey County Library, located in Roseville, temporarily moved into an office building March 2009
- St. Croix Prep School, located in Oak Park Heights, temporarily moved into a retail building June 2008

The Ramsey County Library did not need to pay for any additional SAC based on their SAC charges and credits, but they were surprised and upset that they needed to submit for a SAC determination in the first place and asked that the policy be reviewed. St. Croix Prep School had to pay 23 SAC in June 2008 for their temporary space in Oak Park Heights, then an additional 59 SAC in September 2008 for their permanent location in Bayport.

PROPOSED TEMPORARY CAPACITY CHARGE (TCC)

A temporary use provision is proposed for specific temporary uses only when there is a predetermined end date. Council staff suggests a maximum lease term of 36 months. The community would be required to request this treatment for each specific SAC determination where it may apply and further agree to monitor the situation and collect the periodic charges. If the Tenant requests the new criteria, the Council would refer the question to the community.

The Temporary Capacity Charge is not considered a commitment of capacity, rather a rental of the capacity. This type of treatment, in lieu of SAC, would need to be accompanied by a voluntary three-way agreement between the community, building owner and the tenant (if any). MCES will make available a generic form of an agreement.

Such TCC payments, if any, will be required to be reported and paid with the regular monthly SAC reports. The fee is proposed to be a onetime charge based on the lease term (at the then current SAC rate divided by 20 for each whole or partial year). Partial years will be rounded to the nearest whole month. The proposed fee is 1/20th of the then current SAC rate per year or 1/240th per month. The Community may add-on to this MCES fees as permitted by community ordinances and authorities.

Example: St. Croix Prep School with a 20 month lease term at a temporary location:
23 SAC demand determined x current SAC rate of \$2,100/unit x 20/240 = \$4,025 compared to the
current policy 23 SAC x current SAC rate \$2,100 = \$48,300

NOTES

- If the Tenant knows in advance that their lease will be longer than 36 months, the Temporary Capacity Charge would not be applicable and full SAC would be due.
- The Temporary Capacity Charge would not be considered a partial SAC payment, nor used to calculate any Look-Back Period Credit for a future SAC determination on the site.
- This TCC proposal is similar to the MCES Industrial Waste Add-on Service Charge that was adopted in 1991 as a temporary alternative to SAC in certain industrial situations. It eliminates large, up-front payments for groundwater remediation projects, does not commit MDS capacity permanently for a temporary discharge and it provides temporary capacity while the industry implements wastewater volume reduction efforts.

SAC CRITERIA: SPECULATIVE OFFICE/WAREHOUSE

CURRENT POLICY

The current SAC policy for speculative office/warehouse buildings assesses communities initially for the site demand assuming the building will be 30% office and 70% warehouse, and using the criteria for those types of buildings.

ISSUE

The issue for speculative office/warehouse buildings is that speculative buildings are usually built as an empty shell with no specific plan for the walls or specific uses identified. As tenants purchase or lease their space, build-out permits are issued by the community. All such speculative buildings are required by SAC rules to have a SAC determination completed when a tenant moves in, though many build-out determinations are missed. If the build-out is found after the fact, such as during a SAC community review, communities may try and collect SAC from the building owners or tenants years later. This has often been uncomfortable for City staff and can attract adverse news or political involvement for all of us, particularly when the permit is closed.

EXAMPLES

Council staff went through the MCES SAC database and printed a report of the business type "Office/Warehouse". The first 100 tenant finish records that gave enough data information to determine the square feet and if the original use was charged as speculative office/warehouse were used for the report. There were 50 records between 1990 and 1999 and 50 records from 2000 and 2010. The warehouse portion was calculated and the rest of the charges were in a higher concentration category. The results showed that the average percentage of warehouse for a tenant finish was 50%, making the higher concentration category also 50%. The higher concentration category includes: office, retail, conference/training rooms, showers, fixture units/wash bays.

OPTIONS

OPTION #1 (STATUS QUO) – 30% office and 70% warehouse charged for the initial determination on a speculative office/warehouse building then as each build-out occurs, a new determination needs to be completed for the new tenant.

OPTION #2 (HIGH CONCENTRATION CATEGORY) – 50% high concentration (calculated using office criteria of 2,400 square feet/SAC) and 50% warehouse charged for the initial determination on a speculative office/warehouse building then as each build-out occurs, a new determination needs to be completed for the new tenant. This would lessen the problematic collections, but not eliminate them.

OPTION #3 (OFFICE ONLY) – 100% office charged for the initial determination on a speculative office/warehouse building. This could be seen as consistent with charging for maximum capacity and would eliminate the need for subsequent reviews for most build-outs and additional SAC needing to be collected in the future. However, this could overcharge for use when space really is used as warehouses.

OPTION #4 (BUILDER PERCENTAGE) – Initial charge for the speculative office/warehouse building is based on a percentage as specified by the contractor of the building. This would require enhanced attention by City staff on build-out permits and completing the required determinations each time.

NOTES

Council staff informs cities of the determination requirement of build-out permits on speculative buildings through: SAC Procedure Manual, SAC training sessions, original SAC determination letter on the speculative building, and on the SAC community review letter sent to various City employees.

RECOMMENDATION

Council staff recommendation was consideration for Option #2, charging speculative office/warehouse buildings with 50% high concentration and 50% warehouse based on the 100 record sampling from the SAC database.

DISCUSSION & CONSENSUS

A big concern with the various options other than keeping the current criteria is that the other options would be overcharging SAC on some of the speculative building. Since the new credit rules went into effect January 1, 2010 that does not allow any net credits for the cities to take city-wide and that the SAC charges stay with the building and not with the tenant, they felt the higher SAC charge would be unfair for those tenants. It was noted that the City staff needs to be more on top of requiring SAC determinations for tenant build-outs.

The Task Force members recommended to stay with the current criteria Option #1, 30% office and 70% warehouse charged on speculative office/warehouse buildings.

SAC CRITERIA: FITNESS CENTERS

CURRENT POLICY

The current SAC policy assesses fitness centers with showers at 700 square feet per SAC and fitness centers without showers at 2060 square feet per SAC.

ISSUE

Many smaller low amenity fitness centers were asking for changes in the SAC criteria. They stated since this type of fitness center has only one or two showers they feel SAC should not be assessed in the same manner as the large fitness facilities that have large shower and locker rooms, and more amenities.

OPTIONS

Option #1 (Status Quo) – SAC will be charged at 700 square feet per SAC for fitness centers with showers and 2060 square feet for fitness centers without showers.

Option #2 – Create a third criteria for small low amenity fitness centers. Customers with only one or two showers would be charged at 2060 square feet per SAC plus 0.50 SAC per shower. (This assumes only half of the users would be taking showers which is currently unsubstantiated by MCES.)

EXAMPLES

The Task Force was presented with 13 examples of small fitness centers that have been reviewed in the last year. Some examples of the list that was presented to the Task Force:

- Anytime fitness 2435 square feet with 2 showers: Option 1: 3 SAC charged. Option 2: 2 SAC charged
- Lyn Lake Fitness: 2975 square feet with 2 showers: Option 1: 4 SAC charged. Option 2: 2 SAC charged.
- Snap Fitness: 3373 square feet with 2 showers: Option 1: 5 SAC charged. Option 2: 3 SAC charged

DISCUSSION & CONSENSUS

In discussion of these options it was asked how “low amenity” is characterized. Presumably these are centers that are open 24 hours/day but not staffed at all hours, with only 1-2 showers and no locker rooms, and low membership dues.

A member commented that SAC should be charged on the highest use, not how consumers may behave because that is the premise for SAC.

Another member indicated it is administratively difficult to speculate a business type at the time of determination.

It was asked whether fitness centers might add more showers at a later time and staff answered that to date a determination has not been submitted, but some have been discovered during an MCES Community Review.

The consensus was to leave the criteria as is: 700 square feet/SAC Unit for fitness with showers and 2060 square feet/SAC Unit for fitness with no showers; there are no studies to support changing the criteria so the criteria should stay at maximum potential.

SAC CRITERIA: OUTDOOR SPACES

CURRENT POLICY

On September 9, 2009, Council approved a 75% discount for outdoor spaces effective October 1, 2009. The rationale for making this change was that peak demand on the sewer system happens during significant rain events, but when it rains, the use of outdoor areas is significantly reduced. Therefore, a discount was deemed reasonable assuming SAC is based on maximum capacity during wet weather. This is similar to electric utilities giving a discount to customers who can reduce usage during peak hot weather days.

ISSUE

Prior to this change, MCES received numerous complaints regarding the SAC charge for outdoor seating. The complaints were mainly that this seating is only used during a small portion of the year and is mostly used by existing customers who move outside (when it's not raining). It is estimated that this 75% discount will reduce SAC revenues about 1% which is a couple hundred thousand dollars per year. This will need to be recovered by slightly higher SAC rates.

DISCUSSION & CONSENSUS

The SAC Task Force members confirmed that this discount seems appropriate.

SAC CRITERIA: RESTAURANT / FOOD ESTABLISHMENTS

CURRENT POLICY

The current SAC policy for restaurant eating establishments is dependent on the level of service provided by the business. Establishments that primarily provide food service to patrons while seated (full service restaurants) are currently assigned 1 SAC unit for every 8 seats. Those establishments that primarily provide limited service (fast food restaurants) are assigned 1 SAC unit for every 22 seats. This criterion was originally created at a time when the distinction between these two types of businesses was straight forward.

ISSUE

An issue for assignments of SAC for restaurants today is that many types fall into a category that reflects a combination of a full service and fast food or limited service type establishment. Many restaurants now have business models that include sit down ordering with meals brought out to the table, similar to full service type models, but have limited menu items and food served on non-washable plates, cups, utensils (disposable). It is these types of establishments that make the distinction between full and fast food more difficult. A secondary issue related to the assignment of SAC for restaurants is that with the significant difference between the 8 seat and 22 seat equivalent SAC unit assignment, applicants may falsely represent their business model to receive a lower SAC assignment, thus requiring MCES to ask for substantial documentation (slowing down the process).

STUDY

In 2008 the Council hired a Consultant to collect water use data from approximately 90 restaurant businesses. These restaurants were located in approximately 16 individual communities across the twin city metropolitan. The businesses were located in both stand alone buildings as well as in multi-tenant buildings. Water data collected represented both monthly and quarterly consumption records and included consideration of summer time lawn watering (that is not wastewater). The results of the study indicated that water use per seat averaged to be approximately 18 gallons per day (gpd). The study also found that in terms of water use there was essentially little statistical difference between all restaurant types. Since the study based its findings on monthly and quarterly water consumption records, no clear conclusions were drawn regarding "peak day" demand.

In order to equate average daily use results from the water use study to a peak day demand which is the basis for SAC (the capacity for which the local and regional wastewater systems must stand ready to serve), the following conversion method was developed:

Metro area average wastewater generation per Residential Equivalent Connection (REC): 170 gpd

SAC demand peak day rate: 274 gpd

Peaking Factor (Average daily to SAC demand): $274/170 = 1.6$

$18 \text{ gpd (Average per seat)} \times 1.6 = 28.8 \text{ gpd per seat peak day}$

$274 \text{ gpd per SAC} / 28.8 \text{ gpd peak per seat} = 9.51 \text{ or } 10 \text{ seats per SAC}$

STAFF IDENTIFIED OPTIONS

OPTION #1 (STATUS QUO) – Maintain individual SAC assignment criteria for traditionally defined service and food restaurant establishments. This is 8 seats per SAC and 22 seats per SAC for full service and fast food restaurants respectively.

OPTION #2 (REVISED SAC CRITERIA) – SAC assignments would be uniformly set at 10 seats per SAC regardless of “Restaurant” business model.

OPTION #3 (REVISED SAC CRITERIA IN PHASES) – SAC assignments for full service restaurants would be increased to 10 seats per SAC for 2011. Assignment of SAC for fast food restaurants would be based on the current rate of 22 seats per SAC. As feasible, Council will conduct additional studies, and then develop new criteria for these restaurant types (after 2011).

NOTES

Council will hold a public meeting to present and take comment on final recommended option (in addition to other recommendations of the Task Force). The public meeting is slated to occur October 12, 2010.

STAFF RECOMMENDATION

The recommendation is Option 2, unless the fast food restaurant industry proposed a cooperative study, making Option 3 the recommended option.

DISCUSSION & CONSENSUS

When first presented Task Force members were split in their perceptions of restaurant types and the findings of the water use study. Some felt that the data was reasonable due to higher seat turnover in fast food restaurants and that restroom use represents majority of water use, while some felt that full service restaurants should have higher water usages. Many commented that the basis should continue to be based on technical data to the extent feasible. Final consensus was reached that based on the data available that there is no statistical difference in water use between the various types of restaurants and so a single criterion should be advanced.

The Task Force members recommended that a single criterion of 10 seats per SAC unit be used for all restaurant SAC assignments (Option 2).

SAC CRITERIA: DAYCARE FACILITIES

CURRENT POLICY

The Council's current SAC assignment criteria for daycare facilities uses either; 1) for Licensed Daycares: 14 daycare occupants (i.e. care receivers) per SAC which was based on: 274 gpd / 20 gallons per day (gpd) per daycare occupant = 13.7 or 14 occupants = 1 SAC, or 2) Unlicensed Daycares: 490 Sq. Ft. per SAC which was based on: 14 daycare occupants x 35 Sq. Ft. per daycare occupant = 490 Sq. Ft. per SAC. The 35 Sq. Ft. per occupant comes from the current Uniform Building Code. Current Minnesota Code suggests the use of 23 gallons per occupant for max day generation rate consideration.

Criterion (1) above is used when the daycare facility is licensed by the state. In these situations the maximum number of daycare occupants is set by license, not by facility size. The use of "licensed" counts and the original creation of this criterion were used to address complaints by daycare Owners when facility size was greater than the size necessary to provide daycare services to the number of licensed occupants, and to allow them to pay less SAC when the business was starting up and only had the staff to handle the lower licensed occupant count. The second criterion (2) is currently used only when the facility is not limited by license count but rather facility size, for provided daycare services, or if the daycare is not yet licensed by the State. Note that in-home daycares are not treated as daycare facilities; they are charged by the residential criteria.

ISSUE

The issue with SAC assignments for Daycare facilities occurs when a SAC assignment is made based on licensing information provided by the Owner. A new daycare, when applying for a license, will historically apply for a license count that is approximately 20% less than what the facility could accommodate through its available facility size. Once established, the daycare can renew its license to include additional daycare occupant counts. This license renewal process involves the Owner of the daycare and the State Licensing Board. The Community in which the daycare is located in is not involved, nor typically notified of the increased licensed count. The Council conducts a periodic review of all community SAC activity records, including such daycare facilities. This includes a review of the State Licensing Board's Web site for all licensed daycares located within the community being reviewed. In some cases this review will identify that additional SAC units need to be collected from the community due to an increase in the licensed occupant count. To-date this appears to be a limited issue with only one community expressing its concern over the usage of licensed counts for determining SAC assignments.

STAFF IDENTIFIED OPTIONS

OPTION #1 (STATUS QUO) – Maintain the usage of the two bases for SAC assignments for daycare facilities, 1) based on licensed counts and 2) based on occupant use area. Communities would be encouraged to periodically review the State Licensing Board Web site for daycare facilities located within its jurisdiction for changes and collect and remit additional SAC to the Council as appropriate. Since the community does not manage the licensing a separate permit with the daycare facility may have to be required by the community to provide a mechanism on which the community can collect the additional SAC. Such a community mechanism may avoid the Council finding out the license has increased and pursuing additional SAC substantially after the change has occurred.

OPTION #2 (STATUS QUO WITH COMMUNITY OPTION TO SPECIFY CRITERIA) – Maintain the usage of the two bases for SAC assignments for daycare facilities, 1) based on licensed counts and 2) based on occupant use area. However, *upon the request from the Community*, the Council would only use the area based method for assignment of SAC within that community. This eliminates the potential for future SAC units due from the Community as a result of increases in licensed counts without building or leased area expansion.

OPTION #3 (ADOPT SINGLE AREA BASED CRITERIA) – SAC assignments would be uniformly based on occupant use areas only and would not recognize a reduction based on licensing counts. This may result in an average increase in SAC assignments for a few licensed daycares. Historical SAC records indicate the difference to be approximately 20%.

TASK FORCE IDENTIFIED OPTION

OPTION #3A (ADOPT SINGLE AREA BASED CRITERIA – REDUCED FOR LOWER OCCUPANCY) – SAC assignments would be uniformly based on occupant use areas only and would not recognize an additional reduction based on licensing counts. However the assignment of SAC would be based on an increased square footage basis from that which is currently used to reflect the reduction typically seen through usage of the license count criteria. This new criteria would assign 1 SAC unit for every 620 Sq. Ft. of occupant use area. This would result in a reduction in SAC assignments for non-licensed facilities and generally no change to the licensed facilities.

NOTES

In follow-up to the Task Forces recommended Option 3A, staff has researched the Council’s SAC database and identified records in which both occupant use area and license count information was available. Reviewing these records has determined that on average there is a reduction of approximately 20% between SAC assigned based on licensed counts and what would have been assigned if occupant use areas were used. To reflect this reduction in an area based criteria, the existing criteria of 490 Sq. Ft. per SAC would need to be increased to 620 Sq. Ft. (rounded).

TASK FORCE RECOMMENDATION

The Task Force recommendation was Option #3A, using a uniform but reduced area-based criterion for all (non-home) daycare facilities.

DISCUSSION & CONSENSUS

When first presented to Task Force members there was discussion related to the “actual” water use by daycare facilities in the metro area. It was suggested that water records be reviewed. The Council investigated the availability of daily water use records and found that this data is not widely available. It should also be pointed out that Minnesota Code suggests the use of 23 gallons per occupant whereas, current SAC criteria uses 20 gallons.

In a follow-up Task Force meeting the Task Force originated and recommended the additional option #3A (see discussion above).

The Task Force members recommended that a single area based criteria be established that reflects for all daycare facilities the typical reduction given to licensed daycare facilities. Subsequently, Council staff determined that this area based criterion that satisfies this recommendation is 620 Sq. Ft. per SAC.

Appendix F
Council Policy Discussion Paper

Metropolitan Council Policy

Introduction

A few Task Force members expressed an interest in the inter-relationships and consistency of the Metropolitan Council's policies regarding SAC, redevelopment, and related issues. The Task Force expressed an interest in recommending considerations for policies to be evaluated in the next update of the Water Resources Management Policy Plan.

Discussion

The 2030 Regional Development Framework includes broad policies that support the Council's statutory responsibility to help ensure the coordinated, orderly, and economical development of the seven-county region. The Framework includes a policy to maximize the effectiveness and value of regional services and infrastructure.

The 2030 Water Resources Management Policy Plan includes the following related policies:

1. Policy: Regional Cost-of-Service is basis for wastewater charges.
 - a. Municipal wastewater charges are allocated uniformly based on flow.
 - b. Sewer availability charges (SAC)
 - (1) Uniform across urban service area.
 - (2) Premium specific to each rural growth center served by MCES.
2. Policy: Support redevelopment by funding capital improvements where needed.
3. Policy: Consider cost sharing by community when additional costs are incurred to provide local benefits (e.g. costs to upsize an interceptor to provide local trunk sewer benefit).

The foundation of the *regional* cost-of-service policy is the Council's statutory responsibility to protect the water quality of the 7-county region. Consequently, capital project decisions for wastewater treatment plants are based on what is best for the region's water quality without regard to who pays. Thus, the portion of SAC related to all wastewater treatment plant debt service should remain uniform across the urban service area. However, the portion of SAC related to interceptor capital (30% to 40% of SAC, historically) could be differentiated in a way that provides economic support for the policy to maximize the effectiveness and value of regional infrastructure. The argument is that although a uniform urban sewer rate may be reasonable and equitable for sewer infrastructure; other rate structures could be developed to support more efficient use of all regional infrastructure (mass transit, roads, utilities, schools, etc). However, traditionally the Council has not used sewer rates to try to impact the geography of development.

Options:

- 1) Status Quo – recommend no change or further review.
- 2) The Task Force recommends that, in its next update of the Water Resources Management Policy Plan, the Metropolitan Council should evaluate potential revisions, and seek public input on its policy on uniform urban sewer availability charges to more strongly support the regional goal of efficient use of existing regional infrastructure.

Appendix G
Tentative 2011 SAC Legislative Bill

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A bill for an act

relating to metropolitan government; modifying provisions for allocating treatment works and interceptors ~~expansion reserved capacity~~ costs to; amending Minnesota Statutes 2008, section 473.517, subdivision 3.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2008, section 473.517, subdivision 3, is amended to read:

Subd. 3. **Allocation of treatment, interceptor costs; reserved capacity.** (a) In preparing each budget the council shall estimate the current costs of acquisition, betterment, and debt service, only, ~~of to provide additional capacity for either~~ the treatment works ~~or interceptors~~ in the metropolitan disposal system ~~which will not be used to total capacity during the budget year, and the percentage of such capacity which will not be used~~, and shall deduct the same ~~percentage of such treatment works~~ costs from the current costs allocated under subdivision 1. ~~The council shall also estimate the current costs of acquisition, betterment, and debt service, only, of the interceptors in the metropolitan disposal system that will not be used to total capacity during the budget year, shall estimate the percentage of the total capacity that will not be used, and shall deduct the same percentage of interceptor costs from the current costs allocated under subdivision 1.~~ The total amount so deducted with respect to all treatment works and interceptors in the system shall be allocated among and paid by the respective local government units in the metropolitan area through a metropolitan sewer availability charge for each new connection or increase in capacity demand to the metropolitan disposal system within each local government unit. Amounts collected through the metropolitan sewer availability charge (SAC) must be deposited in the council's wastewater reserve capacity fund. Each fiscal year an amount from the wastewater reserve capacity fund shall be transferred to the wastewater operating fund for the reserved capacity costs described in this paragraph. For the purposes of this subdivision, the amount transferred

1 from the wastewater reserve capacity fund to the wastewater operating fund shall be referred
2 to as the “SAC transfer amount.”

3 (b) If, after appropriate study and a public hearing, the council determines for the next
4 fiscal year that a reduction of the SAC transfer amount is necessary or desirable to ensure
5 adequate funds remain in the wastewater reserve capacity fund, based on a goal of
6 maintaining at least the next year’s estimated SAC transfer amount in the wastewater reserve
7 capacity fund, the council may reduce the SAC transfer amount for that fiscal year. If the
8 Council reduces the SAC transfer amount for the next fiscal year, the council must then
9 increase the metropolitan sewer availability charge not less than the greater of six percent or
10 the annual percentage change in the Consumer Price Index for the metropolitan region for the
11 previous year plus three percentage points. For the purposes of this subdivision, any

12 reduction in the SAC transfer amount shall be referred to as the “SAC transfer deficit.” ~~The~~
13 ~~provisions of this paragraph (b) expire at the end of calendar year 2015 deficit.”~~ The year
14 following the adoption of these changes, the Council may adjust the total SAC transfer deficit
15 to include an amount to reconcile the SAC transfers in each of the preceding 5 years to
16 correspond to the transfers that would have occurred under the methodology change reflected
17 in paragraph (a).

18 (c) The council will record on a cumulative basis the total SAC transfer deficit. In any
19 year that the wastewater reserve capacity fund has a year-end balance of at least two years’
20 estimated SAC transfer amount, the council shall increase the subsequent annual SAC transfer
21 amount in excess of the amount required by paragraph (a) with the goal of eliminating the
22 cumulative total SAC transfer deficit. The annual amount by which the council increases the
23 SAC transfer amount shall be determined by the council after appropriate study and a public
24 hearing.

Please note: line 13 was crossed out in error and remains in the 2011 Legislative Bill, at the recommendation of the Task Force.

METROPOLITAN COUNCIL

DRAFT SAC CHANGE PROPOSAL ~~FOR DISCUSSION ONLY~~

[2011SAC_BILL49_34/37/191](#)

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1 Sec. 2. **APPLICATION.**

2 This act applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott,
3 and Washington.

4 Sec. 3. **EFFECTIVE DATE.**

5 This act is effective the day following final enactment.

Appendix H
Preliminary SAC Legislation Schedule

Preliminary SAC Legislation Schedule

October 8	Preliminary Legislative proposal form submitted by Council to Governor's Office
October 31	Notification to Revisor of the legislative proposal
Mid-Late December	Governor's office or office of governor-elect notifies Council to proceed or not
Mid-January	Council submits bill for formal drafting to Revisor and submits a final initiative proposal form to Governor's office for final sign-off
Mid-Late January	Council discussion with potential authors
Early February	Jacketed bill (ready to be given to authors) is provided to legislative leadership staff. Authors can obtain it, sign and have introduced
Late February – Late March	Policy committee hearings on bill <i>{Task Force members are encouraged to participate in the hearings or write letters of support}</i>
By May 23	Floor action on the bill, with 2011 having the session end on May 23 rd