

Business Item 2015-186 **East Bethel Contract** **Amendment #2**

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Environment Committee August 11, 2015



Chronology

- 2003: 2030 Development Framework
- 2005: 2030 Water Resources Management Policy Plan
- 2007-9: Facility Plan, Site Acquisition, and Preliminary Design
- 2010: Environmental Permitting, Agreement with City
- 2013: Wastewater Service Agreement amended
- 2014: Treatment Plant Completed
- 2015: Proposed Contract Amendment #2

Rates & Charges SAC Policy 3-2-5

- Municipal wastewater (volume) charges are allocated to communities uniformly based on flow.
- Rural Center pays a higher City-specific SAC rate that is based on the debt service and reserve capacity specific to the Center.

Problem

- Very low growth since construction of plant began
- Unexpected burden on East Bethel tax payers
- City's bond rating at risk
 - Rating agency concerned if more than 20% of the City's tax levy is needed to pay debt payments.
 - Another \$2 million of debt would bring this ratio to 21%.

Note: East Bethel Mayor and staff available to discuss details.

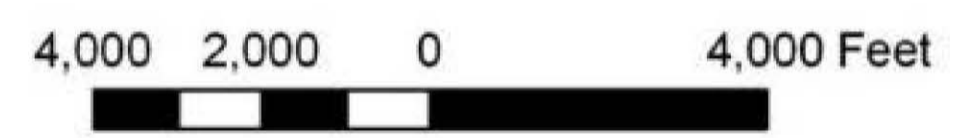
Work Group

- Formed in late 2014
- Included 7 city officials
 - St. Paul
 - Roseville
 - Andover
 - Golden Valley
 - Apple Valley
 - North St. Paul
 - Metro Cities
- Met four times

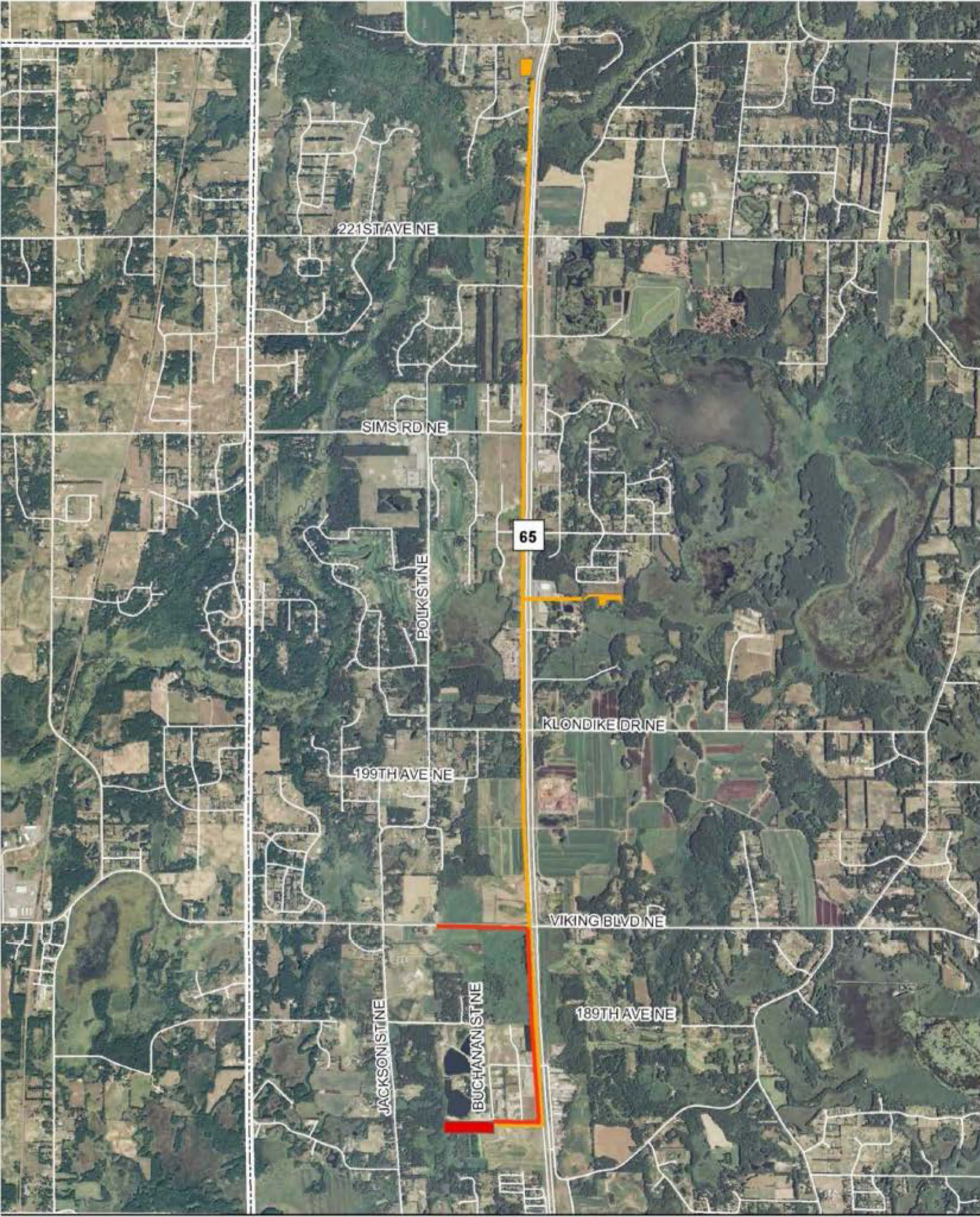
Proposed Solution

- Exclude \$9.5 million of “net” demonstration costs
- Set a \$ 2 million limit on how high the Reserve Capacity Loan balance could go
- Requires a \$700 annual SAC rate increment
- No other changes to the current agreement

PROPOSED EAST BETHEL WASTEWATER FACILITIES



- Interceptor Alignment
- Reclaimed Water Alignment
- Water Reclamation Plant Site
- Land Application Site



Technical/Cost Summary (\$M)

Capital Costs	Total	“Demo” Costs	E.B. Cost Pool
Planning & design	\$2.7	\$1.1	\$1.6
Land Acquisition	\$.9	\$.4	\$.5
Construction	\$19.8	\$7.5	\$12.3
Verification costs	\$1.2	\$.2	\$1.0
Influent hauling	\$.2	-	\$.2
MCES administration costs	\$.6	\$.3	\$.3
Alternative piping cost estimate	<u>\$.4</u>	-	<u>\$.4</u>
Total	\$25.8	\$9.5	\$16.3

Reserve Capacity Loans

Potential Reserve Capacity “loans”:

- Annual loan recognized if SAC units occur less than forecast
- Annual loan payments do not exceed Municipal Wastewater Charges
- Interest rate charged is MCES’s current weighted average borrowing rate of 3.6%

Reserve Capacity Loan Example

Year	SAC units - contract	SAC units	SAC rate	Revenue shortfall (surplus)	Beg. loan balance	Loan payment*	Year End balance
2014	50	47	\$2,720	8,160	0	0	8,160
2015	59	30	\$2,840	82,360	8,160	0	90,814
2016	69	40	\$2,960	85,840	90,814	43,619	136,304
2017	81	90	\$3,090	(27,810)	136,304	52,510	60,892
2018	95	60	\$3,230	113,050	60,892	71,658	104,476

* Each year in this example, the payment equals estimated MWCs.

Note:

- Interest at 3.6% is included.
- SAC units for 2013 and 2014 are combined in 2014 (40 in 2013, 7 in 2014).

Set Limit on Reserve Capacity Loan

Current Contract says:

*“If 30 years after the first Loan is recorded, ...planned growth has not occurred **the parties agree to renegotiate in good faith to provide for an end to the Loan that does not require an unreasonable burden on the sewer rates of the still small City.**”*

First loan projected to be recorded 1/1/16.

Set Limit on Reserve Capacity Loan

Premise is.... help East Bethel avoid credit rating trouble.

Proposal: The Loan balance will be capped at \$2 million

- If/when \$2 million of loan is reached...
 - the East Bethel SAC rate will be fixed at the current rate until the urban SAC rate catches up
 - No further Loan payments will accrue
 - East Bethel will accept a payment plan for the \$2 million

Summary

1. For SAC rate setting, contract terms are mostly preserved.
2. Region-wide benefit of effluent infiltration benefit to be shared by whole region.
3. Consistent with Policy, reserve capacity portion of capital costs is either charged or loaned during 20-year period.
4. Reserve Capacity Loans balance limited to \$2M to reflect shared cost if growth plan not working.

Questions