

INFORMATION ITEM:

Public Meetings on Preliminary 2016 Rates & Charges

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Environment Committee: May 12, 2015



2016 Rate Setting Schedule

- May 12: Environment Committee Direction for Public Meetings
- June 9: Municipal Customer Forum (League of MN Cities)
- June 11: Municipal Customer Forum (Golden Valley)
- June 17: Industrial Customer Forum (Metro 94)
- July 14: Environment Committee Review of Customer Input and Rate Adoption Recommendation
- July 29: Council Rate Adoption
- Aug. 26: Council Preliminary Operating Budget Adoption

2016 Budget – Executive Summary

- Total Environmental Services Expenses: 5.9% increase over 2015 Budget
 - Driven primarily by increased Debt Service, Pay-as-you-go, salaries, administrative support (Information Services, Human Resources, Rent), and inflation
- Metropolitan Wastewater Charge: 5.5% Increase
- Sewer Availability Charge: No increase
- Industrial Waste Strength Charge: 11.6% Increase
- Industrial Waste Permit Fees: 10.5% Increase

Rate Setting: Budget Assumptions

	2015	2016	\$ Change	% Change
Revenues	\$249.5	\$265.2	15.7	6.3
Expenses	\$250.4	\$265.2	14.9	5.9
Surplus (Deficit)	\$(-.9)	\$0		

Preliminary Budget: Debt Service

- Debt Service (DS) Transfer

- \$109M = 2015B
- \$115.5M = 2016B
- \$6.5M = change (6.0%)

- PAYGO (Pay As You Go)

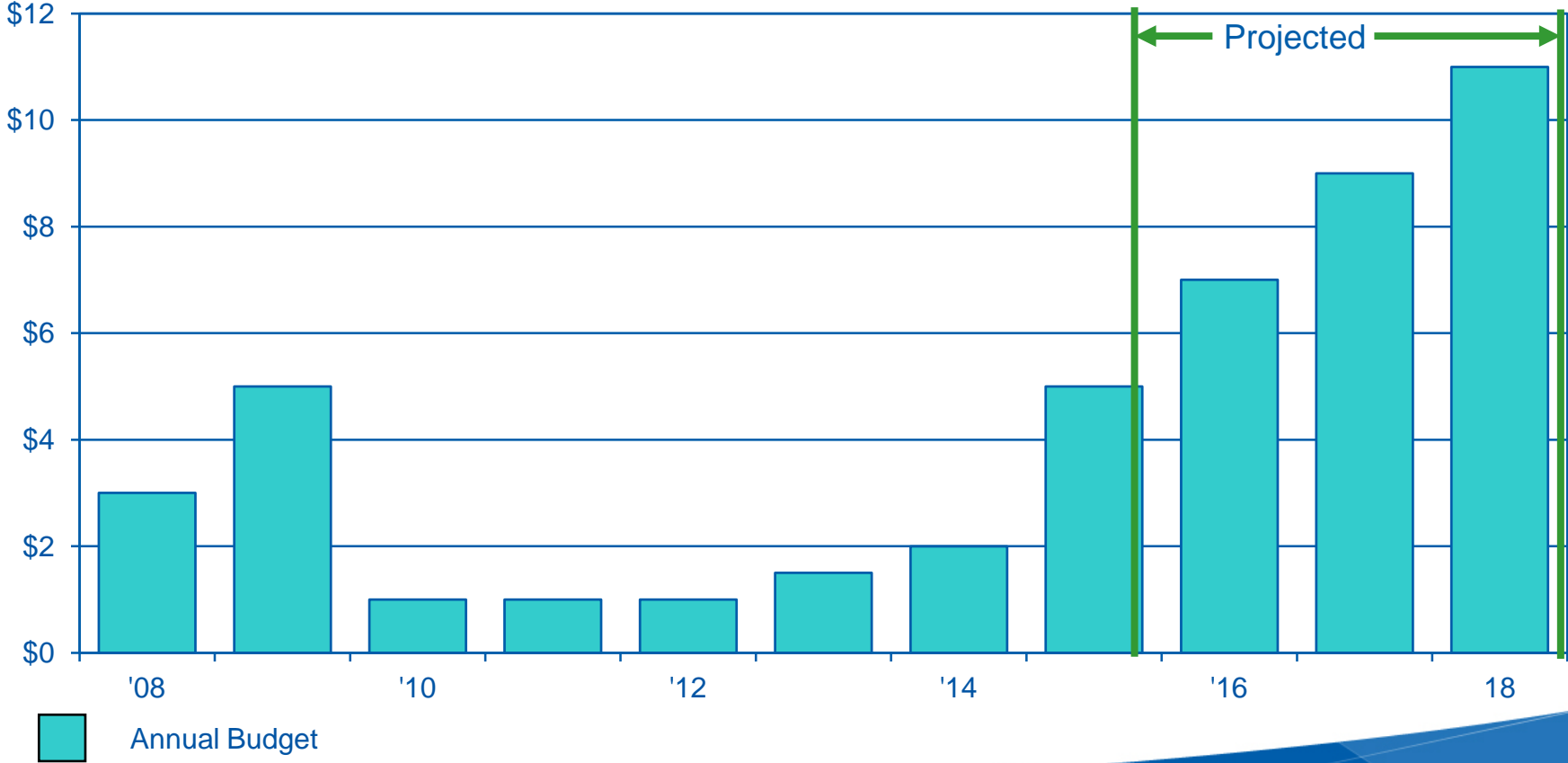
- \$2.0M = 2014
- \$5.0M = 2015
- \$7.0M = 2016

- Risk factors

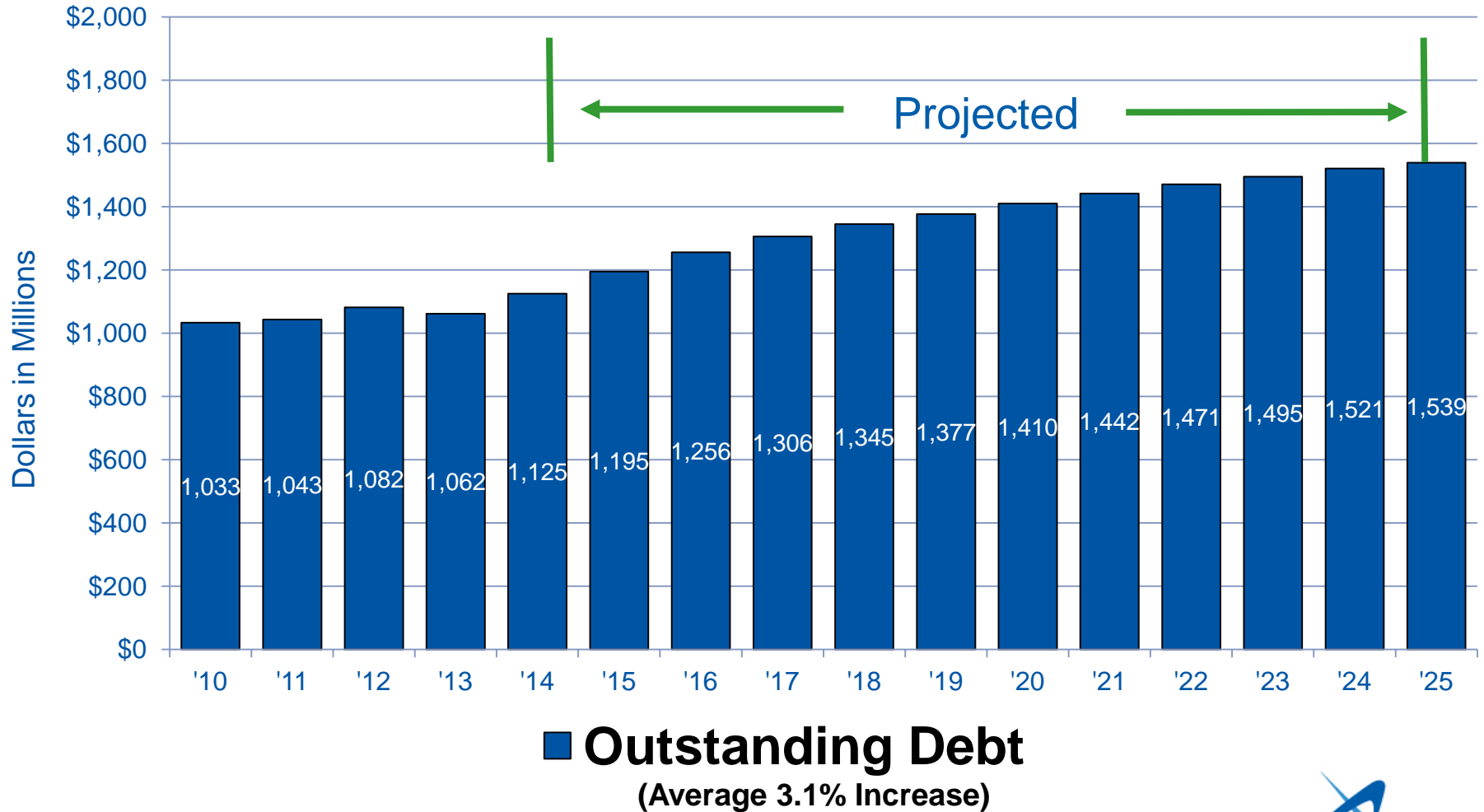
- Capital spending increases (e.g., regulatory)
- Interest rate increases (e.g., market rates, Public Facilities Authority subsidy withdrawal)

Pay-As-You-Go

(millions)



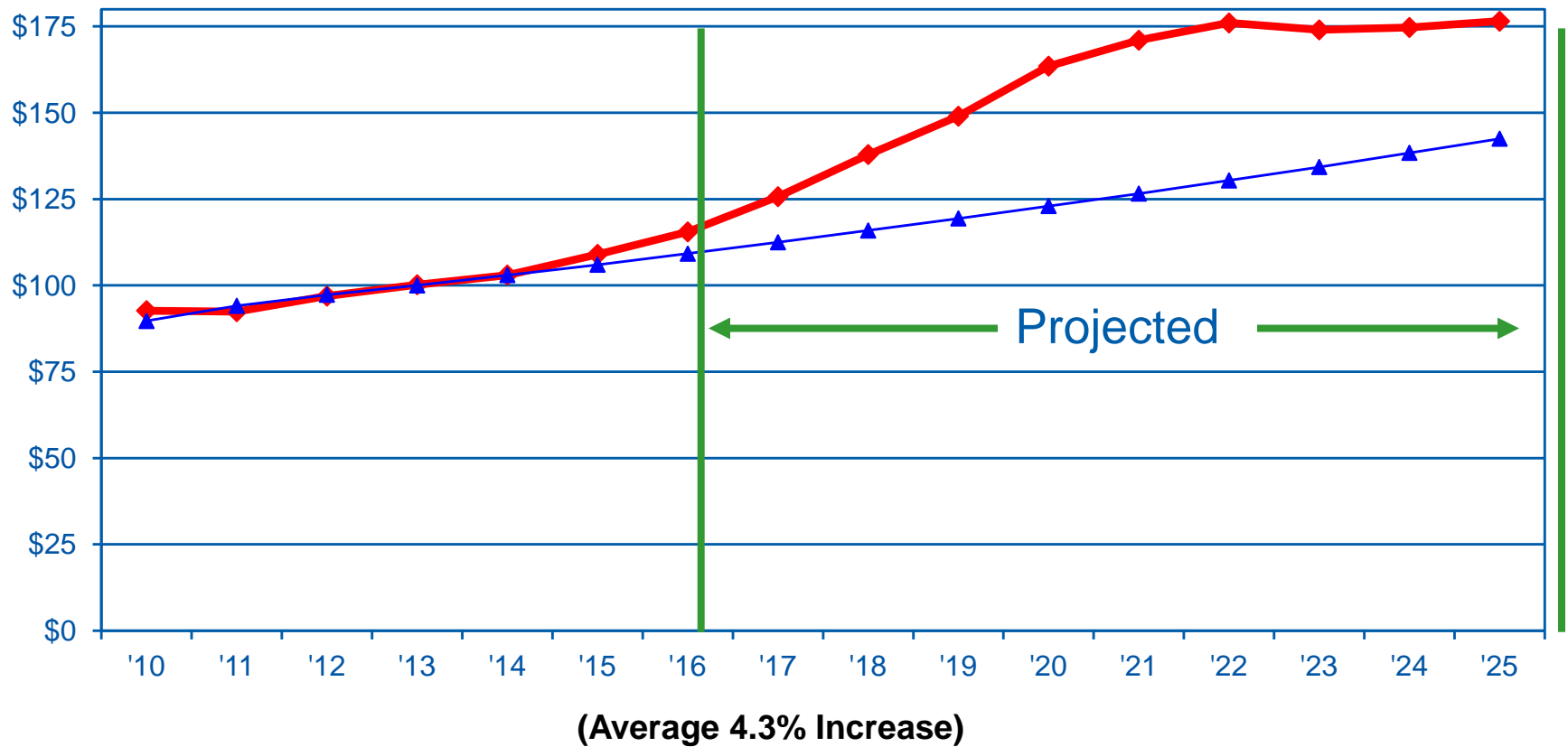
Wastewater Outstanding Debt



Budgeted Debt Service

History and projections

- (millions)
- 2010-2014 Actual Debt Service, projected thereafter
 - 2014 Debt Service with 3% inflation (in 2014 dollars)



Peer Agencies

Debt Service as a % of budget*

Rochester, NY	22%	MCES	45%	Boston	64%
Los Angeles	24%	Sacramento	46%	Seattle	66%
St. Louis	27%	Phoenix	49%	Dallas	80%
Virginia Beach	29%	Washington,DC	54%	Atlanta	89%
Chicago	31%	Austin	55%		
San Antonio	38%	Columbus OH	55%		
Denver	40%	Philadelphia	56%		
Cleveland	41%	Milwaukee	57%		
Miami	44%	Louisville	62%		

* 2013 data from 2014 National Association of Clean Water Agencies (NACWA) survey

Peer Agencies

Debt per capita (person)*

Los Angeles	\$188	Philadelphia	\$766	Seattle	\$2,607
Denver	\$370	Sacramento	\$922	Boston	\$2,647
MCES	\$392	Milwaukee	\$930		
Virginia Beach	\$451	Washington, DC	\$939		
Orange County	\$464	Cleveland	\$987		
Chicago	\$473	Miami	\$1,037		
Phoenix	\$525	Austin	\$1,259		
San Antonio	\$622	Columbus	\$1,514		
St. Louis	\$653	Louisville	\$1,971		

* 2013 data from 2014 NACWA survey

Preliminary Budget: Overview

Source of Expense Increases

	<u>\$ (M)</u>	<u>% Growth in Rate</u> <u>From Item</u>
FY15 Budget	250.4	
Debt Service	6.5	2.6%
PayGO	2.0	0.8%
Salary (raise, fringe)	2.1	0.8%
Inter-divisional Charge*	1.4	0.6%
Chemicals & Utilities	1.4	0.6%
Contract Services/Materials	0.9	0.4%
Other (grants)	0.4	0.2%
Total 2016 Expense Budget	265.2	5.9%

* *Under review*

Preliminary Budget: Labor

- Labor
 - \$64.8M = 2015B
 - \$66.9M = 2016B
 - \$2.1M increase = 3.3% increase
- 683 FTEs versus 702 in 2015
- 2% general salary increase, plus steps
- Fringe factor
- Risk factors: unresolved bargaining agreements, attrition rates, workforce planning, and health care costs (self insured)

Preliminary Budget: Non-Labor

- Non-Labor (excludes DS, PAYGO, Interdivisional)
 - \$58.9M = 2015B
 - \$61.7M = 2016B
 - \$2.8M = change (4.8%)
- Detail
 - 18.0 (2015B), 19.4 (2016B) = Contract Services
 - 17.7 (2015B), 18.5 (2016B) = Utilities
 - 16.3 (2015B), 16.4 (2016B) = Materials, Supplies, Chemicals
 - 3.4 (2015B), 3.0 (2016B) = Capital Outlay
 - 3.5 (2015B), 4.4 (2016B) = Other
- Risk factors
 - Utility rates
 - Emergency repairs

Revenue/Sources

	Budget 2015	Budget 2016	% Change
MWC*	\$190.7	\$201.3	5.5
SAC** Transfer	33.4	37.5	12.3
SAC Shift Back	2.7	1.7	(37.0)
Industry-specific	14.3	14.7	3.1
State Appropriations	2.8	4.8	69.6
General Fund Transfer	3.8	3.9	1.9
Other	1.8	1.4	(22.2)
TOTAL Revenue	249.5	265.2	6.3

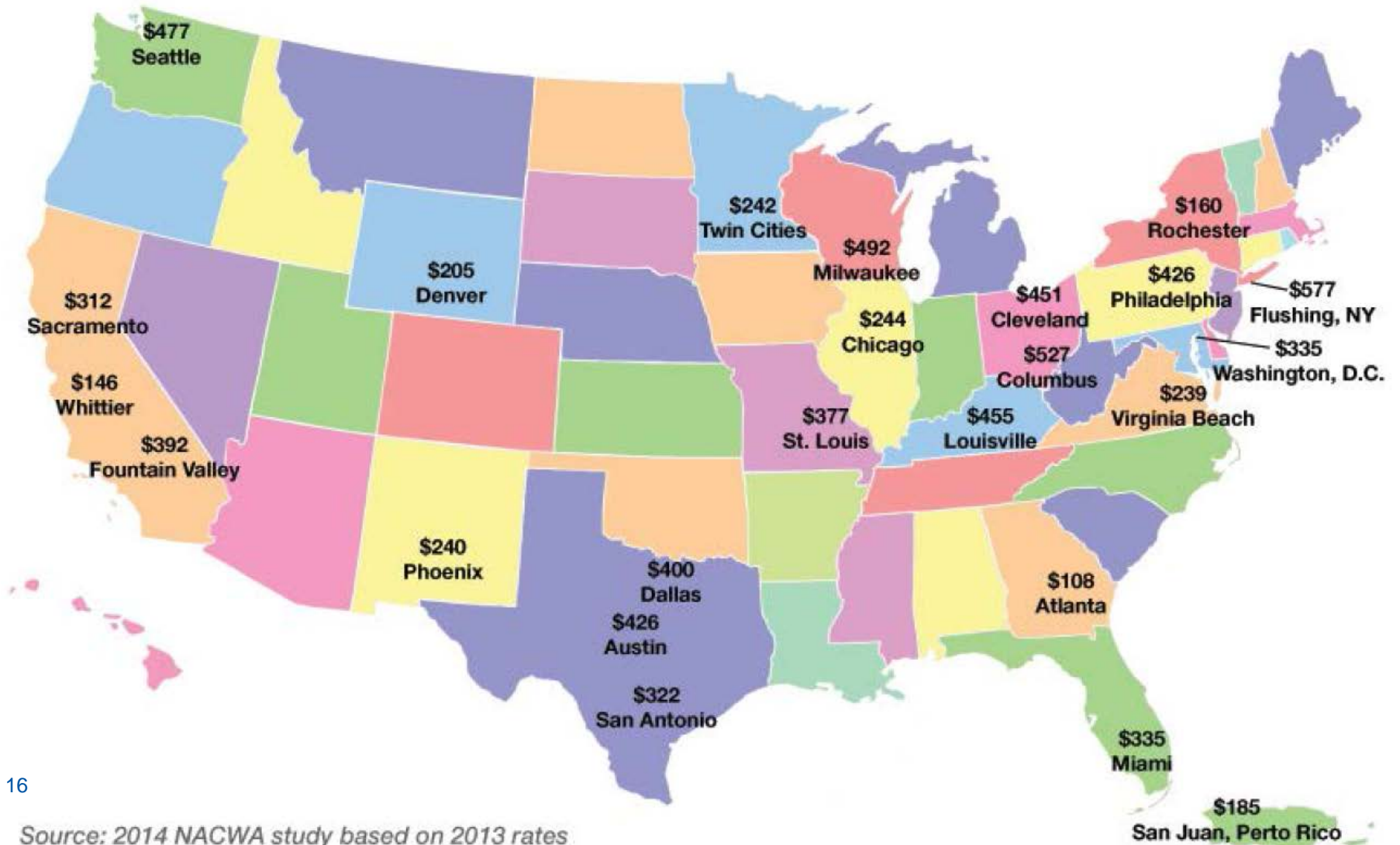
* *Metropolitan Wastewater Charge, which is allocated to customer communities*

** *Sewer Availability Charge*

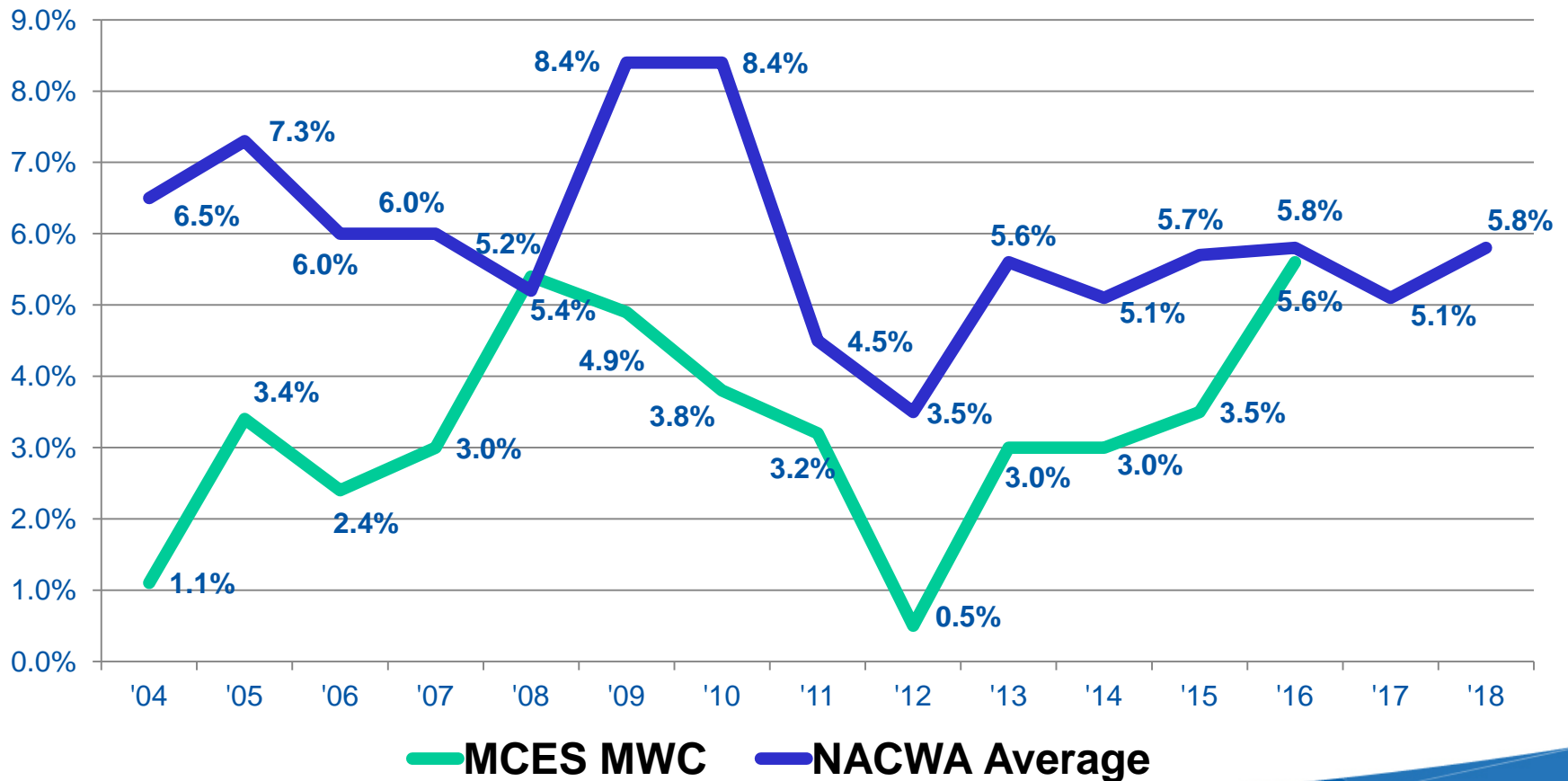
Rates and Charges: MWC

- MCES charges communities a wholesale fee for annual volume
 - Firm Flow allocation method
 - 2016 billings based on flow percent for period of July 1, 2014 through June 30, 2015
 - Communities pay portion of MWC corresponding to their percent of total flow
 - Slight flow increase is projected (1.5% increase thru first 9 months)
- Communities charge businesses and residents a retail fee for sewer volume

Annual Retail Sewer Rates per Household



MWC Increases Compared to NACWA Average



MWC: City Flow Can Impact City Increases

2015	Flow (mg)	% of system flow	MWC
City ABC	10,000	10.93	20,842,600
City XYZ	500	.55	1,042,100
All Others	81,000	88.52	168,825,300
System Total	91,500		\$190,710,000

2016	Flow (mg)	% of system flow	MWC	% Increase
City ABC	10,000	10.78	21,688,000	4.1
City XYZ	550	.59	1,193,000	14.5
All Others	82,250	88.63	178,383,000	5.7
System Total	92,800		\$201,264,000	5.5

5-Year MWC Projections

	MWCs	% Increase
2016	\$201,264,000	5.5
2017	\$216,400,000	7.5
2018	\$230,200,000	6.4
2019	\$244,100,000	6.0
2020	\$260,000,000	6.5
2021	\$271,800,000	4.5

Key Assumptions:

- 3% annual expense inflation
- \$2M annual PAYGO increases
- 5% annual increase in IW* revenue
- No surpluses or deficits budgeted
- Based on most recent CIP**
- Some principal on new debt is pushed out

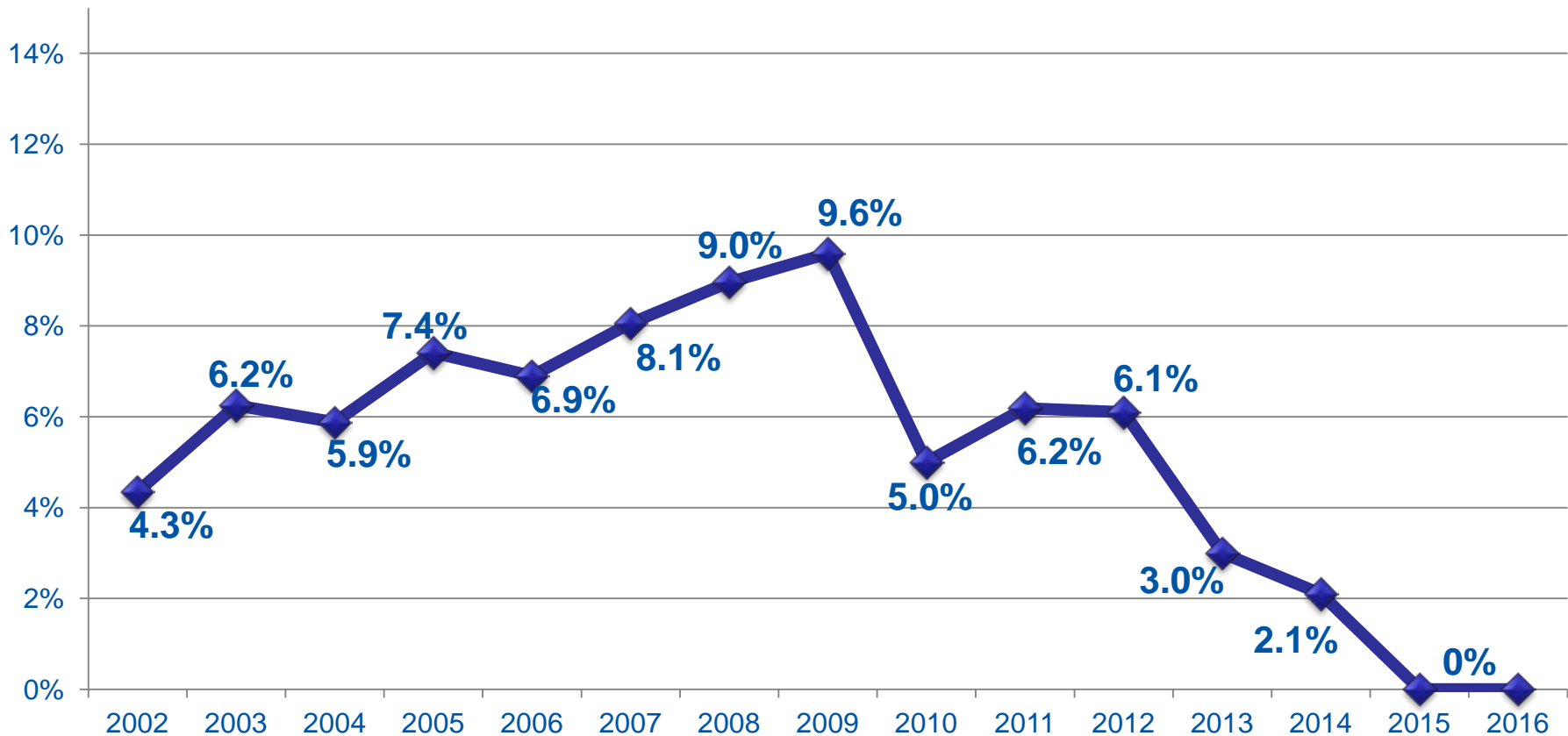
* *Industrial Waste*

** *Capital Improvement Program*

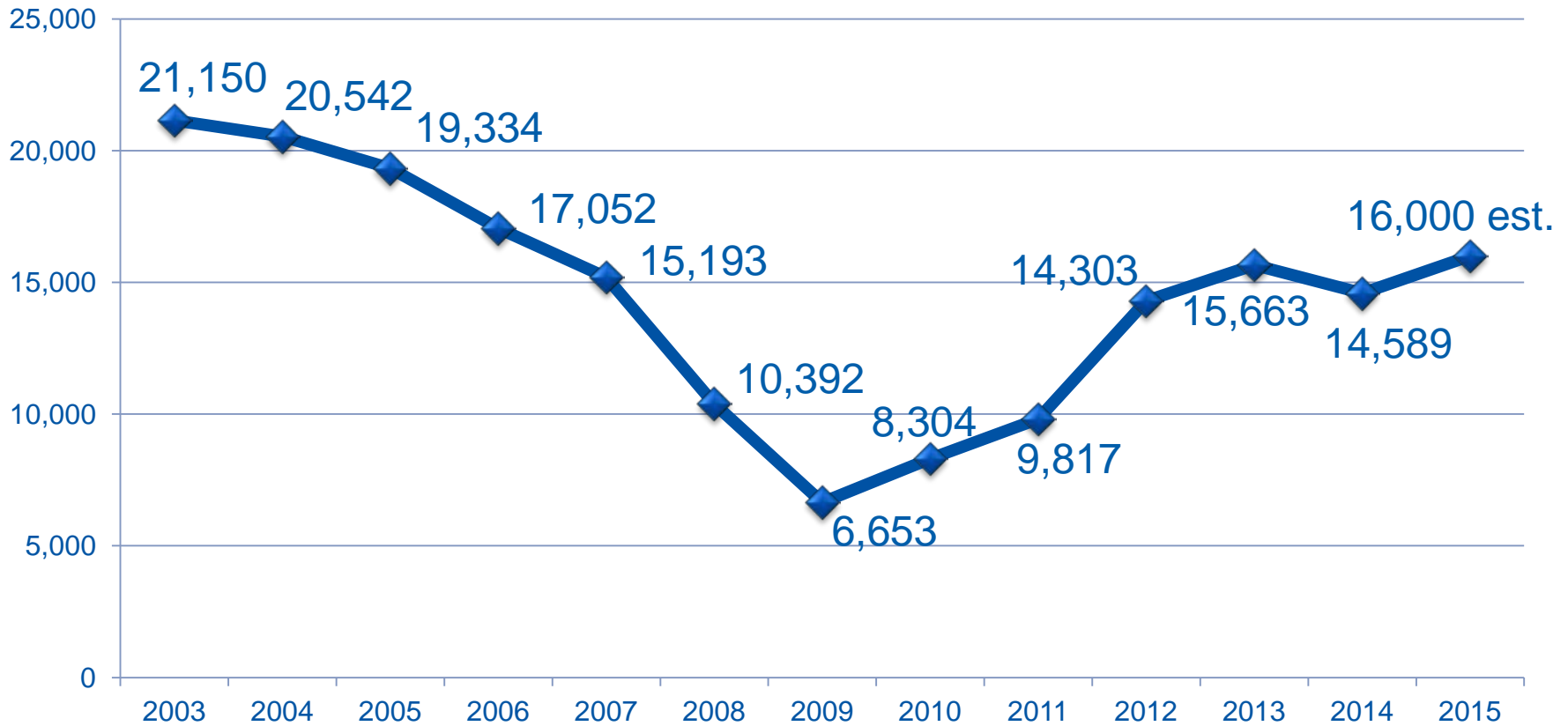
SAC: Source of Funds

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

Historical SAC Rate Increases (%)

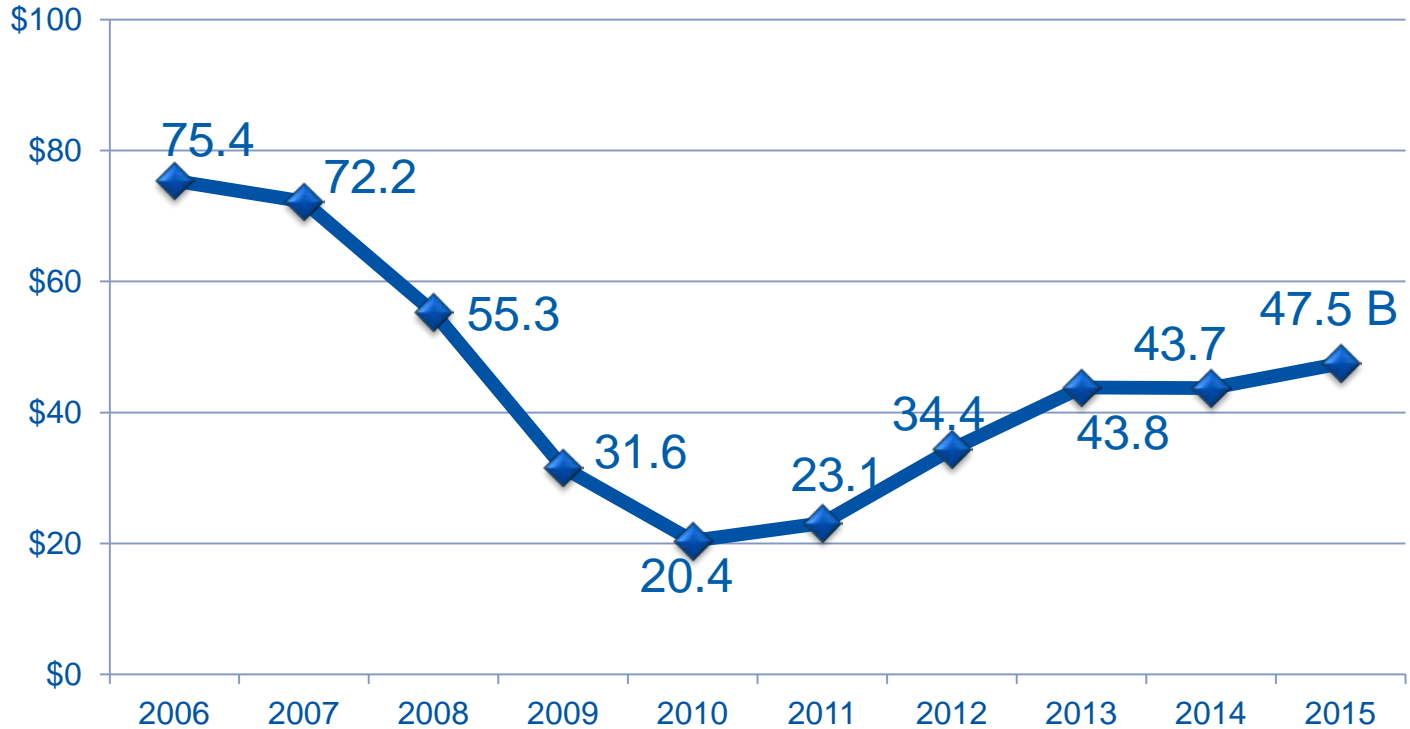


SAC Units: Recovering



SAC: Reserve Fund

	Actual 2012	Actual 2013	Actual 2014	Projected 2015	Projected 2016
Year-end Balance (\$M)	34.4	43.8	43.7	47.5	49.5



SAC Reserve Balance (Projected)

Year	Units	SAC Shift	Year-end SAC Reserve Balance	Minimum balance*
2010	8,304		20.4	29.5
2011	9,817	4.5	23.1	32.0
2012	14,303	4.3	34.4	34.3
2013	15,663		43.8	37.0
2014	14,589	(4.4)	43.7	39.7
2015	16,000	(2.7)	47.5	43.1
2016	16,500	(1.7)	49.5	46.0
2017	17,000		54.7	49.0
2018	17,000		57.7	51.4
2019	17,000		59.4	53.3

Est.

* Council policy 3-2-5

Industrial Rates

Rate Type	Prelim. 2016	% Increase
Strength Charge (excess lb TSS*)	\$0.212	11.6
Standard Load Charge (per 1000 gal.)	\$59.77	6.2
Industrial Load Charge (excess lb TSS*)	\$0.417	7.5
Collar County Load Charge (per 1000 gal.)	\$74.77	4.9
Portable Toilet Load Charge (per 1000 gal.)	\$77.16	6.4
Holding Tank Load Charge (per 1000 gal.)	\$9.34	-.5
Annual Permit Fee	\$925-\$8,875	10.5
General Permit Fee	\$100-\$500	0

* *Total Suspended Solids*

Other Fees

- Inflow & Infiltration surcharge (increased 1.4% for inflation)
- Late fees (not increased)*
- Encroachment Application (not increased)*
- Direct Connection (not increased)*

* *Fees not increased annually for administrative simplicity, but inflation-adjusted approximately every 5 years.*

Wastewater General Operating Reserve

- Primary uses in past:
 - Other Post Employment Benefits (OPEB) reserve funding
 - PAYGO for capital projects
 - Decrease budgeted → rate mitigation
 - Reserve for SAC issues
 - Grants related to wastewater
 - Special wastewater projects
- Balance on 12/31/14: \$16.5M (unaudited)
- \$0.9M use of reserves expected in 2015
- Policy target for 2016 is \$14.3M (10% of operating expenses)

2016 Rate Setting Schedule

- May 12: Environment Committee Direction for Public Meetings
- June 9: Municipal Customer Forum (League of MN Cities)*
- June 11: Municipal Customer Forum (Golden Valley)*
- June 17: Industrial Customer Forum (Metro 94)*
- July 14: Environment Committee Review of Customer Input and
2016 Rate Adoption Recommendation
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* *public input*

Customer Forum Topics

- Municipal Customer Forum (June 9, 11)
 - Management Comments
 - Water Sustainability Issues
 - Preliminary 2016 Budget & Rates
 - Thrive MSP 2040
- Industrial Customer Forum (June 15)
 - Water Sustainability Issues
 - Regulatory Issues
 - Hauled Waste Program
 - Preliminary 2016 Budget & Rates

Questions

Appendix

Strength Charges

- \$ per pound of excess strength
- Fees to connected industries for additional treatment costs caused by industrial wastewater that has more pollutants than typical residential wastewater
- 2nd of 5-year phase in of portion of debt service

Rate Type	Preliminary 2016	% Increase
TSS: Total Suspended Solids	\$0.212	11.6
COD: Chemical Oxygen Demand	\$0.106	11.6

Debt Service in Strength Charge Formula

- Prior to last year, formula has not included debt service or PAYGO
- 76.1% of debt service is for interceptors and liquids portion of plants (23.9% for plant solids portion)
- About 30% of debt service is paid by SAC; so 17% of debt service (70% of 23.9%) is included in proposal
- A 5-year phase in results in 3.2% annual increases in the Strength Charge

2015 Strength Charge Calculation

Total MCES Budgeted Expenses	\$265,223,000
Less all Debt Service	\$(115,500,000)
Add 5-yr phase in of portion of DS & Paygo	\$8,330,000
Less PAYGO	\$(7,000,000)
Less Non-wastewater functions	\$(3,630,000)
Less Interceptor Program	<u>\$(14,674,000)</u>
= Strength related budget components	\$132,749,000

2015 Strength Charge Calculation

= Strength related budget components	\$132,749,000
10-year average flow	89.925BG
Strength budget per million gallons (MG)	\$1,476
$\$1,476 \times .5^* \times .6^{**}/(250 \times 8.34)=$	\$.212 per lb. of excess TSS
$\$1,476 \times .5^* \times .6^{**}/(500 \times 8.34)=$	\$.106 per lb. of excess COD

* 50% of solids treatment expenses are for TSS and 50% for COD

** 60% of total expenses are for solids (40% to treat liquids)

Load Charges

- Per 1,000 gallons
- Paid by liquid waste haulers for septage, leachate and other hauled wastes discharged to MCES system

Description	Preliminary 2016	% Increase
Standard Load Charge	59.77	6.2
Holding Tank Rate*	9.34	-.5
Collar County Load Charge	74.77	4.9
Portable Toilet Waste Rate	77.16	6.4
Industrial Load Charge:		
TSS: Total Suspended Solids	0.4170	7.5
COD: Chemical Oxygen Demand	0.2085	7.5

* 2014 was first year at full cost

Permit Fees

- Industrial users issued permit are subject to annual permit fees
 - Goal: recover direct program costs
 - 2016 recommendation: increase permit fees by 10.5%
 - = \$925-\$8,875 for existing types (except general)
- In 2016, permit fees will recover approximately 85% of direct program costs; no indirect costs.

Industrial Pretreatment Incentive Program (IPIP)

- 2016 budget does not include any adjustments for the proposed IPIP
 - The program was approved but the application period is still open
 - The rate base could be responsible for up to \$1M of debt service in 2016 if \$50M is borrowed for this program (30% of a half-year of debt service)
 - Wastewater Operating Reserves available if needed

Preliminary Budget: Interdivisional

-Pending Further Review-

- Regional Administration (RA) Operations
 - \$12.6M = 2015B
 - \$14.1M = 2016B (tentative)
 - \$1.4M = 11.5% increase
- Detail
 - 6.0M (2015B), 6.7M (2016B) = Information Systems
 - 1.0M (2015B), 1.2M (2016B) = Human Resources
 - 0.5M (2015B), 0.3M (2016B) = Legal
 - 0.6M (2015B), 0.7M (2016B) = Diversity
 - 1.7M (2015B), 1.8M (2016B) = RA Finance & Budget
 - 1.2M (2015B), 1.3M (2016B) = Contracts & Purchasing
 - 1.6M (2015B), 2.1M (2016B) = Other Central Services
- Risk Factors:
 - Labor Agreements
 - Hiring
 - Space Needs