

Environment Committee

Meeting date: October 24, 2017

For the Metropolitan Council meeting of November 8, 2017

Subject: Industrial Pretreatment Incentive Program (IPIP) Contract Approvals

District(s), Member(s): All

Policy/Legal Reference: MN Statute 473.524 (Regarding public-private partnerships)

Staff Prepared/Presented: Ned Smith, 651-602-1162

Division/Department: Environmental Services / ES-Finance

Proposed Action

That the Metropolitan Council authorize its regional administrator to negotiate and execute the IPIP contracts to Kemps for \$.7 million and to Michael Foods for \$11.3 million.

Background

The Industrial Pretreatment Incentive Program (IPIP) was approved by Council on January 14, 2015 (business item 2014-310). Since then, five industrial customers applied to the program and two, Kemps and Michael Foods, are ready to sign contracts and install pretreatment equipment. The capital cost of these projects is \$.7 million for Kemps and \$11.3 million for Michael Foods.

The IPIP is an innovative public and private partnership program that will potentially provide financial benefits to both MCES rate payers and to private industry. The regional benefits promote the Council's interests as expressed in Thrive MSP 2040 by potentially helping industries advance their economic competitiveness.

The program provides two incentives to financially assist high-strength industrial users pretreat their wastewater on their own sites to reduce or eliminate the high strength discharges and the costs to treat those discharges. Council finances the initial capital cost, at low, public financing taxable rates, and leases the equipment to the industrial customer over a ten-year term. The second incentive waives up to 30% of the payments on the financing if strength reduction goals are met, less than 30% if the strength reduction goals are not fully met. The industrial user is responsible for the design, build, operation, and maintenance of the facility and all related costs and risks. In addition, at the end of the agreement term, the applicant agrees to assume ownership of the equipment regardless of its condition or usefulness.

Rationale

IPIP should provide a win-win-win for:

- Council and its wastewater ratepayers by avoiding operating costs and delaying or eliminating the need for facility expansion.
- Private sector by providing an economic return to the participating industrial user, which includes reducing or eliminating strength charges now paid to the Council. For Michael Foods specifically, it allows water reuse which will enable business expansion at their Chaska site.
- General public through less energy use from reducing Council's waste aeration expenses, and from possible energy generation at MCES facilities, and by promoting business growth in the Region.

The economics of pretreatment facilities are often financially prohibitive to the private sector, and the IPIP shares some of the public benefit to make the economics work.

Funding

The direct public benefits include reduced MCES operating costs, mostly energy savings, and an avoidance of future capital costs to expand associated plants. Financial analyses show that the present value of the benefits to Council, energy cost savings and avoided capital costs, are expected to exceed the costs, lost revenue and incentive payment, over the 10-year contract term.

Council will issue \$12 million of taxable bonds to finance the Kemps and Michael Foods industrial pretreatment facilities which will be brought to Management Committee as a separate business item. If the pretreatment facilities are effective, the wastewater rate base would lose strength charge revenue and would incur a cost equal to the difference between the related debt service and the lease payments paid by Kemps and Michael Foods. This difference may be up to 30% of the debt service, but only if, and when, the pretreatment is effective.

Thrive Lens

This action advances the Thrive outcomes of stewardship, prosperity, and sustainability.

These contracts support stewardship by using the council's AAA bond rating to lower the financing costs for industrial customers building pretreatment facilities while preserving the capacity of our existing plants and lowering our operating costs. They support prosperity by enabling water reuse for a customer that was constrained by water use and lowering the strength charges of both customers. Finally, they support sustainability by improving the water quality we receive in our plants as well as supporting energy generation.

Known Support / Opposition

IPIP was approved by the Metropolitan Council in early 2015, this authorization is for signing two contracts and spending \$12 million to establish a lease program for the first two industries participating in the program.