

Environment Committee

Meeting date: October 23, 2018

For Council Meeting: November 14, 2018

Subject: Proposed Change to Industrial SAC Program

District(s), Member(s): All

Policy/Legal Reference: Council Admin. Policy 3-2-5, MN Statute 473.517 subd. 3

Staff Prepared/Presented: Ned Smith, 651-602-1162; Bob Nordquist, 651-602-4706

Division/Department: MCES c/o Leisa Thompson, 651-602-8101

Proposed Action

That the Metropolitan Council approve a change to Sewer Availability Charge (SAC) assessments for process flows from industrial customers, effective January 1, 2019.

Background

Industries currently pay two SAC components: one for their commercial space and one for their process flows. The commercial SAC component will not change, but this proposal changes the method for paying industrial process flow SAC. The change eliminates the 3-year industrial SAC reviews, done when permits are renewed, and should result in less industrial SAC paid by industries to their communities.

Instead of SAC reviews at initial permitting and at renewals, industries will be directly billed at each reporting period (quarterly, semi-annually, or annually) an Industrial Capacity Charge (ICC) for any volume that exceeds baseline (see Attachment A for description of baseline flow). Industries can still pay additional SAC, but it will now be an option; paying SAC increases baseline flow and will reduce future ICC payments. If an industrial user projects that they will always be 274 gallons per day over baseline (the basis for one SAC unit), an investment in one SAC unit would give them an 11- to 12-year payback on their SAC payment, based on the attached methodology for calculating the ICC rate.

SAC charges will continue to be billed through the industry's community, while ICC will be billed directly by MCES.

Outreach:

- 1) The ICC concept was introduced at the Industrial Customer Workshops in spring 2017 and it was discussed in more depth at the spring 2018 Industrial Customer Workshops. In comments from industry representatives, all favored the change.
- 2) A letter was sent to industries in third quarter 2017 describing the proposed change and notifying them that it would be discussed at the next year's budget workshops.
- 3) A letter was sent in third quarter 2017 to the top ten cities with the highest industrial SAC activity and followed up with phone calls to get an initial gauge of support. (All were positive)
- 4) The proposed change was included in Industrial Waste's newsletter this past spring.
- 5) On August 22, 2018, a letter was sent to key staff of all 114 customer communities describing the proposed change and asking if they want to participate in a stakeholder group to refine the process.
- 6) On October 4, 2018, MCES held the stakeholder group meeting with key staff from Anoka, Shakopee Public Utilities, Eagan, Rosemount, and Metro Cities to discuss reporting issues and options for how cities might handle their add-on fees.

Rationale

Benefits of this change include:

- Industries will be able to control whether they pay SAC or a volume-based ICC, which will eliminate potential for large, one-time payments. This will especially help industries with volatile production cycles.
- The 3-year reviews at permitting will be eliminated; both MCES and industries will benefit because staff time spent on reporting and communication will be reduced.
- MCES will collect ICC revenue each reporting period, rather than waiting three years or longer for SAC payment.

Funding

Paying an Industrial Capacity Charge (ICC) is like renting SAC. Therefore, over the long term this change should be very close to revenue neutral. For example, if an industry is consistently 100,000 gallons per year (the basis for one SAC unit) over their paid baseline flow, they will now have the option of paying \$2,485 for one SAC unit or paying \$210 ICC every year. \$2,485 divided by \$210 is 11.8 years, so an investment in SAC would provide an 11.8-year payback period. In this example, if the industry continually paid ICC, after 11.8 years MCES would receive more revenue than if SAC had been paid. Over time, this new ICC should be close to revenue neutral to MCES.

Thrive Lens

This initiative addressed the Thrive outcomes of prosperity and sustainability and the principle of collaboration. Industrial customers will have a choice when starting or expanding their business and face lower administration fees. Industrial customers who choose ICC may have incentive to implement water conservation improvements, since the benefits will be realized sooner. This change is a request from our customers and has been vetted with MCES customer cities as well as Metro Cities in a collaborative manner.

Known Support / Opposition

Based on their comments, industries have been very supportive of this change.

Comments from city officials have also been positive, even from those whose city revenue could be impacted because they add a city charge to SAC. Approximately two-thirds of all cities do not add a city charge to MCES' SAC, so this proposal will not affect their city revenue. The cities that add a charge to our SAC will need to determine if they want to continue charging their full city-portion of SAC and WAC or if they want to charge a lower rental-type fee when MCES charges an ICC. If a city continues to charge its full fee when an ICC is paid, they will need to keep a separate set of books from MCES to track baseline flow that has been paid for.

This change is also supported by Metro Cities.

Background:

Currently, when MCES issues an industrial permit, MCES makes an initial Sewer Availability Charge (SAC) determination. This SAC determination combines the commercial portion (for business space) with the applicant’s estimate of the maximum industrial wastewater from process flows. The industry’s SAC baseline flow will then be established based on 274 gallons per day (100,000 gallons per year) of maximum wastewater flow per SAC unit. One year prior to the renewal of any industrial discharge permit, the reported average volumes for the facility are compared to the facility’s SAC baseline. The industry may elect to take measures to reduce their discharge or pay for additional SAC units to bring their baseline up to the current SAC determination.

The current system results in the potential for large charges to industries at permit issuance and renewal times. It also is an administrative burden for both the industrial facilities and MCES. If the industrial facility chooses to reduce its wastewater discharge, it must complete a 30-day volume study to demonstrate the reduction. It is the responsibility of MCES permit engineers to determine if this is a permanent process change, or a temporary reduction.

Calculation of the Industrial Capacity Charge (ICC) rate:

The current \$2,485 SAC rate is based on maximum potential daily wastewater flow of 274 gallons per day, which equals 100,000 gallons per year. The SAC rate equals \$1.25 per 1,000 gallons based on MCES’ standard 20-year term used to finance debt [$\$2,485 / (100,000/1000) / 20 = \1.25]. In other words, \$1.25 collected for 20 years on 100,000 gallons of maximum potential flow per year equals paying one SAC unit at \$2,485.

The proposed ICC rate needs to be higher than \$1.25 because \$1.25 is based on maximum potential use, while the proposed volume-based rate would be applied to actual use. For example, if the system-wide actual average volume was 50,000 gallons per Residential Equivalent Connection (REC), half of maximum potential, the \$1.25 would need to be doubled.

In the last 20 years, 1998-2017, the average wastewater flow per REC was 59,411 gallons, so the 2019 ICC will be \$2.10 per 1,000 gallons calculated as follows: $100,000 / 59,411 \times \1.25 .

History of Net SAC units from Industrial Process Flow:

Over the last six years, 1.7% of total MCES SAC units (about \$700,000 per year) have come from industrial process flow SAC:

	Total MCES SAC units	Industrial Process flow SAC	%
2012	14,303	311	2.2%
2013	15,663	320	2.0%
2014	14,589	172	1.2%
2015	18,096	365	2.0%
2016	18,427	382	2.1%
2017	22,560	170	.8%
Total	103,638	1720	-
Average	17,273	287	1.7%