

MINUTES
INFRASTRUCTURE REVIEW ADVISORY BOARD
Oak View Library
February 2, 2011 8:30 a.m.

Members and Alternates Present

Jeff Schmitt, Steve VanBuskirk, Preston Mettler, Scott Hofer, Steve Brockmueller, Tim Galbraith, Mark Vellinga

Members and Alternates Absent

Mark Cotter, Chad Huwe, Mike Cooper, Matt Carlson, Myron Adam, Bill Kemmis, Pat Beckman

Others Present

Mark Perry, Jon Brown, Jeff DesLauriers, Doug Hoy, Albert Schmidt, Clayton Jamison, Chuck Point, Cynthia Monnin, Jarrod Smart, Tom Gould, John Maxwell, Daniel Graber, Trent Lubbers, Brad Stango, Tanya Miller, Kris Ronning, Gary Harr

Approval of Minutes of Last Meeting

A motion was made by Mark Vellinga to approve the October 6, 2010 meeting minutes; the motion was seconded by Tim Galbraith. Roll call: Yeses- Schmitt, VanBuskirk, Hofer, Brockmueller, Galbraith, Velinga - 6. Noes, none. A motion was made by Mark Vellinga to approve the January 5, 2011 meeting minutes; the motion was seconded by Steve Brockmueller. Roll call: Yeses- Schmitt, VanBuskirk, Hofer, Brockmueller, Galbraith, Velinga - 6. Noes, none.

Business

Jeff Schmitt introduced LuCinda Wilson from Engineering. LuCinda will be taking over the meetings from Betsy Odden.

a. Wastewater Regionalization Study Updates

Mark Perry, Principal Engineer-Sanitary Sewer, introduced the presenters John Maxwell and Tom Gould from HDR Engineering.

John Maxwell, HDR, presented a PowerPoint presentation giving an update on the Comprehensive Wastewater Regionalization Study. The same presentation was given to the City Council on January 31. HDR, along with City staff, met on February 1st with the surrounding communities involved in the study. Approximately 30 people attended that meeting. John explained that not a lot of communities are stepping up and wanting Sioux Falls to take over right away. They are more interested in looking for a "Plan B" for their current system. The communities are looking for what the City is offering for capacity. HDR has recently received the budget and flow numbers from the communities, at this time all of the data has not been completely tabulated. This information should be completed sometime this spring and will be presented to the group at that time.

The purpose of today's presentation is to update the group on some of the conclusions the study has come up with, draft policies, and what the next steps are going to be. A brief history as to the objective and purpose of this study was given.

The question was asked as to the amount of capacity that would be taken if all regional customers connected. It is estimated at around 10% for all customers. Mark Vellinga asked if the existing contract holders are concerned about what is going to happen with their contract expires? All the communities that are currently under contract with the City were present at the February 1st meeting. John feels they are concerned as to what the numbers are going to show and how much this will cost them.

Steve VanBuskirk is concerned about the 10% capacity on the system and what are the economies of scale for Sioux Falls. The greatest advantage is for the smaller communities to tie in. There is a benefit to the Sioux Falls area, not just for the sewer system.

Chuck Point expressed concern that the developers are taking the brunt of the cost, and then when the other communities get into trouble, the City is there to bail them out. He feels that the developers are paying for it all up front and that the communities will benefit from this in the future. John explained this is a business transaction, and if they connect when they have a problem, it could cost them more. This comes back to following the cost of service and assigning a cost to the regional system. There is an element within the rate calculation to earn a fair return on their investment.

With potential stricter discharge requirements from the EPA regarding nutrient removal, small communities with a lagoon may provide a benefit to the City for buffer peak flow but not for treatment. The City of Sioux Falls will be in a position to handle these changes when they arise in the future to allow those communities to tie into the system.

A draft copy of the Governance and Regional Wholesale Wastewater Service Policy has been given to the City last week. At this time, John could not release specific details of this draft policy.

An overview of the Policy outline is as follows...

Section	Title
I	Purpose
II	Organization & Responsibilities
III	Duration
IV	Project Components
V	Governance
VI	Amendments to Agreements
VII	Service Requirements
VIII	Financing, Budgeting, Rates, and Charges
IX	System Infrastructure and Regulatory Compliance Standards

Section II – Organization & Responsibilities. The City of Sioux Falls will retain ownership and operation and maintenance (O & M) responsibilities. Some of the communities interested in this partnership were concerned that they would not be fairly represented. It is not suggested that a new layer of government is needed or a partnership of ownership. Since Sioux Falls has invested and paid for the current facility, the recommendation is to have a wholesale customer and contract relationship.

Section III – Duration. The agreement would be a perpetual agreement in which a customer, or the City, must give a year notice for any service termination. During that one year period, the City must provide a continuation of service to the wholesale customer while awaiting conversion to new service provider.

Section IV - Project Components. This section consists of all new and existing wastewater facilities, infrastructure, equipment, and components necessary to provide appropriate wholesale service. A regional system map and database of assets has been created. City design standards are to be applied to the project components.

Section V - Governance. Responsibilities lie with the City of Sioux Falls. The City will make daily and strategic decisions in the best interest of the wholesale wastewater customers. The city will continue to

manage, administer, finance, and operate the system in a businesslike manner. They will also implement financial and rate making policies, establish and enforce system design standards, and operate and maintain the wastewater system. In addition to these responsibilities, the City will update the wastewater customers with information meetings. During these meetings, the customers will be briefed on financing strategies, rate increases, O & M and capital budgets prior to adoption by the Sioux Falls City Council. Water quality, treatment, or other technical issues will also be provided.

Section VI - Amendments to Agreements. All amendments will need to be approved by the Sioux Falls City Council.

Section VII – Service Requirements (Part 1)

Retail = Connected directly to and serviced by the City of Sioux Falls wastewater system

Wholesale = Connected directly to the City of Sioux Falls regional system

Technical = Advisory assistance, upon request

Part 2 of the Service Requirements is that a Wastewater Service Agreement (WWSA) is required between the City and the wholesale customer. Any changes to service requests by existing customers are to be negotiated between both parties. Any Federally required industrial pretreatment requirements are not negotiable. Disputes that may arise on WWSAs will follow the dispute resolution process outlined in the individual agreements.

Section VIII - Financing, Budgeting, Rates, and Charges. In regards to future extensions to the City's wastewater system, costs not covered through joint financing programs are the responsibility of the connecting wholesale system. Funding for internal repair, upgrades, expansion, or other costs for collection facilities of a wholesale customer are that of the connecting wholesale system.

The City shall develop and provide annual briefings to outside regional customers. Monthly rates and system development charges (SDC) prepared in accordance with WEF Manual and the City provides briefing to outside regional customers. Cost of service and rate design studies should be conducted at least every five years.

Section IX - System Infrastructure and Regulatory Compliance Standards. The City is responsible to maintain regulatory compliance. The wholesale customers are required to implement the City's industrial pretreatment program. Failure to comply with the program is cause for enforcement action to the industry or wholesale customer.

Key regional principles are that the City will maintain sole ownership of the regional system and of its local wastewater collection system. Regional customers will own their local wastewater collection and local treatment system. The "Regional System" is comprised of the City's wastewater treatment facilities and regional interceptor lines. Extensions required to connect a customer to the regional interceptor shall be paid for/funded by the local benefiting regional customer. In regards to capacity reservation, each customer will designate their capacity requirements. New or future customers will buy into the reserved capacity via a regional SDC. Future expansion of capacity by existing customers beyond existing reserved capacity levels will be subject to the regional SDCs. Reservation of capacity does not impart or imply "ownership" of the regional wastewater facilities. However, reserved capacity cannot be bought or sold between customers and any capacity returned to the City shall be returned at no cost or obligation to the City. Some of the communities questioned whether the capacity would be there when they needed it. There is still discussion going on with this issue and no decisions have been made.

Financial planning and rate setting will be "generally accepted" financial planning and rate setting techniques to establish rates and fees. There will be no separate accounting for a "regional" system. A cost-of-service analysis will be used to allocate costs between the regional system and the City's retail customers. All regional customers will be separately metered. The City, as owner of the system, shall earn a "fair" return on its investment to serve regional customers. Method of determining a "fair" return

is to be determined. Rates for regional customers are being evaluated presently. Remaining issues to be resolved are strength of waste and equalization.

Regional Wastewater System Development Charges (SDCs) will be established and assessed for all new future connections. With the exception of Harrisburg, existing regional customers will be "grandfathered" in for purposes of payment of SDCs on the existing number of equivalent residential units (ERUs). Reserved capacities will be assigned for existing "grandfathered" customers and will be exempt from SDC payments. When Harrisburg signed their agreement, it was conveyed they would have to pay for everyone that hooks up to the system. No agreements have been made to this policy, but it is currently HDR's recommendation. Uniform SDCs will be established, regardless of the location of the regional customer. Regional customers may pass SDC costs through to their local customers in any manner that they deem appropriate. In the past, the developers have paid cost recovery fees per acre, with this no relationship to the treatment plant or usage. With the SDC, the charge would be per usage (ERU's). The suggestion also is that these fees would be collected at the time a building permit is requested, unlike the current systems of paying upfront for the whole area.

The question was asked how the cost of the current reconstruction, which will occur in 2011, will be spread between the new and old customers. Costs for renewal or replacement projects will be funded by the ratepayers, as long as the pipe size is not being increased. If there is over-sizing, then the expansion component is placed into the SDC. With the 2011 central main replacement project, there is a portion of up-sizing happening. Concerns were raised regarding adoption of the SDC. At that time, will the cost for new housing units be increased? The current cost recovery process will cease once the regional system is adopted. The cost will be for usage and not for area.

Chuck Point was concerned about the fact that there is only one concept that has been brought to the council. He would like to see additional concepts. John encouraged the group to speak with the council members to let them know their ideas. Jeff Schmitt reiterated that this is just information and no decisions have been made. The comments will be taken back and a follow-up meeting will be sometime this spring.

The board voted to adjourn the meeting at 10:00 to allow voting members to leave if needed.

Discussion was allowed to continue. Tom Gould, HDR, explained to the group that he has taken notes at this meeting and that he has received comments and questions from the different communities. All of these comments/questions are being looked at and reviewed for changes to the policy.

Tom explained the process used to define the regional system. The regional system is defined as the assets (facilities) that will be considered a part of providing service to all regional customers. The "regional customers" include both in-city customers and out-of-city customers. Regional facilities generally are defined as treatment facilities, interceptors, and pumping facilities. If there is a new customer in the "regional" community, the City of Sioux Falls will not necessarily extend the regional facility to serve the new customer. Regional customers may need to build facilities to connect to the regional system. It will be the responsibility of that new regional customer to own, operate, and maintain those facilities to connect to the regional system.

Regional customers should pay for those assets needed to serve the regional customers. Rate methodology earns a "fair" return on investment (net plant assets) needed to serve the regional customers. Now the team will be looking at these assets and separating them by regional components. Something important in the rate process is that we will only receive a return on the investment that we have in the ground today. The key phrase is the "asset needs to be used and useful" meaning that something planned down the road is not necessarily used to calculate the rates today.

There will be four steps to the regional rate methodology. Step 1 is to determine revenue requirements for the City of Sioux Falls wastewater system. This will look at the utility and what it will need for

operation and maintenance and capital projects. Step 2, Cost of Service, is to allocate the City's revenue requirement between regional and City retail, or local costs. The next step in this process is to allocate the regional revenue requirements between the regional customers. In the beginning, there was discussion on wanting one rate for all regional customers. There was a lot of feedback that this might not be the best policy. With this methodology, HDR will incorporate all of the interested customers, even if they are not interested right now. Step 4 will be to develop the unit costs/rate designs for the various regional customers.

Customer rates will be evaluated by flow and the strength of the wastewater. If a customer is pre-treating their wastewater prior to sending it to Sioux Falls, their strength may be lower. Other the other hand, if they can control the flow, similar to Harrisburg, their rate might be different from a customer that is flowing constantly into the system.

This rate evaluation will target a five year period. However, it could be longer depending on the SDC calculations.

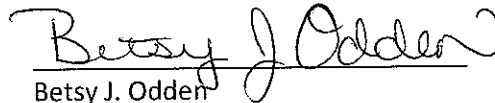
There will be another update given at an IRAB meeting this spring. City council will have final approval of the policy.

Board Action:

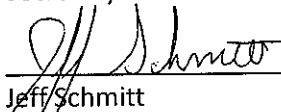
Action Items

Adjournment

The next IRAB meeting is set for February 16th, at 8:30 a.m., at the Oak View Library. A motion was made by Steve VanBuskirk for adjournment at 10:00 a.m.; the motion was seconded by Steve Brockmueller. Roll call: Yeses- Schmitt, VanBuskirk, Hofer, Brockmueller, Galbraith, Velinga - 6. Noes, none.



Betsy J. Odden
Secretary



Jeff Schmitt
Chief Planning and Zoning Official