

INTEROFFICE MEMORANDUM

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

DEPARTMENT: GENERAL ADMINISTRATION

DATE: February 3, 2014

To: President Meany and Members of the Board of Commissioners

From: David St. Pierre
Executive Director

Subject: Summary of the User Charge Ordinance Blue Ribbon Panel Process

At the December 5, 2013 Board of Commissioners Meeting, Commissioner Shore requested a document be prepared for publication that summarized the efforts of the User Charge Ordinance Blue Ribbon Panel. The Monitoring and Research Department has prepared the attached summary in response to the request.

TCG:PK:jvs
Attachment
cc: Mr. N. O'Connor
Dr. T. Granato

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO
User Charge Blue Ribbon Panel Process 2012 - 2013
Summary and Results

On December 15, 2011, the Metropolitan Water Reclamation District of Greater Chicago's (District) Board of Commissioners (Board) directed staff to develop a Blue Ribbon Panel (BRP) of User Charge Program stakeholders to undertake a review of the District's User Charge program. The goals of the BRP were to clarify some elements of the User Charge Program, improve User Charge Ordinance (UCO) administration and compliance, ensure fair assessment of treatment costs, eliminate wide fluctuations of User Charge rates from year to year, and simplify User Charge rate calculation while meeting legal requirements.

In 1980, the United States Environmental Protection Agency (USEPA) approved the District's User Charge System (UCS) proposal based in part on *ad valorem* taxes and an Industrial Cost Recovery System. The District submitted its UCS proposal to USEPA Region V in 1979, in response to its commitment to comply with the User Charge requirements of the Clean Water Act (40 CFR 35.929-1(b), 35.929-2, 35.929-3). The District complies with all pertinent federal laws and regulations applicable to its User Charge Program and operates the program in accordance with the approved UCS proposal. The proposed refinements to the District program are methodological in nature, while leaving the foundation and structure of the approved program in place.

The BRP included representatives from the Illinois Manufacturers Association, the Chicagoland Chamber of Commerce, the Chemical Industry Council of Illinois, the Metropolitan Chicago Healthcare Council, the Industrial Water, Waste, and Sewage Group, the City of Chicago, and a few of the highest payers and consultants from the User Community. The District was represented on the BRP by staff from the Monitoring & Research, Law, and Finance Departments.

The BRP met on June 28, 2012, August 3, 2012, September 27, 2012, and November 14, 2012, and discussed proposed revisions to the UCO and User Charge rate calculation methodology. Based on the consensus reached at the aforementioned BRP meetings the UCO was amended to clarify certain language and to reduce administrative burden on users such as extending the due dates for self-monitoring reports and billing invoice payments. On December 20, 2012, the Board adopted the amended UCO.

The Board also directed the staff to continue the BRP process into 2013 to discuss the remaining issues such as User Charge rate variability from year to year; the allocation of charges to recover costs for operation, maintenance and replacement; costs for treatment of flows not directly attributable to users from rain and infiltration/inflow; revisiting the standard biochemical oxygen demand (BOD) and suspended solids (SS) concentrations for domestic waste, and the recovery of the User Charge administration costs.

The BRP again met on February 28, 2013, April 22, 2013, May 29, 2013, July 8, 2013, August 15, 2013, and September 20, 2013, and discussed all the remaining aforementioned issues. In these meetings, the BRP considered options to reduce the annual variability of User Charge rates and re-examined the allocation of charges for operation and maintenance of flows not directly attributable to users (rain and infiltration/inflow) based on provisions in 40 CFR 35.929-2(d). The District was allocating the rain and infiltration flows and loads among user classes in proportion to the flows and waste loads that each user class contributes to dry weather operation and maintenance costs as provided in 40 CFR 35.929-2(d)(1) and allowed in the approved USC proposal. The BRP recommended a change in the methodology for allocation of

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rain and infiltration/inflow volume and waste loads from the existing method to the method based only on the proportion of dry weather flow volume each user class contributes to the operations, maintenance, and replacement (OM&R) costs as provided in 40 CFR 35.929-2(d)(2)(ii). As a result of these meetings the following consensus decisions were made:

1. Use a representative average annual increase to adjust the User Charge rates over a three-year period. Based on an evaluation of the calculated User Charge rates over the history of the program and a linear regression analysis of the rates over the past 10 years, it was determined that the annual fixed increases to the rates should be 1.8% for Volume, 1.8% for BOD, and 0.9% for SS. The published 2013 rates were used as the base line.

| 2013 User Charge Rates | | |
|-------------------------------|----------|----------|
| Volume/MG | BOD/Klbs | SS/Klbs |
| \$241.73 | \$250.76 | \$165.24 |

2. Change the allocation of rain and infiltration/inflow (I&I) volume and waste loads based on the proportion of dry weather flow volume each user class contributes to the OM&R costs, as provided in 40 CFR 35.929-2(d)(2)(ii). Because this is a large shift, the BRP decided a 10-year phase-in period was appropriate to dampen the effect of the shift in allocation of cost recovery among the user classes.

| Allocation of Rain, I&I Costs | | | |
|--|--------|-----|-----|
| Basis | Volume | BOD | SS |
| Load Based | 10% | 30% | 15% |
| ↓ | ↓ | ↓ | ↓ |
| Volume Based | 10% | 10% | 10% |

3. No change will be made to the standard BOD and SS concentrations for domestic waste, currently 119 mg/L for BOD and 168 mg/L for SS.
4. Incorporate User Charge Program administration cost of approximately \$5 million into the User Charge rates as had been approved in the original program proposal to ensure full recovery of administrative costs, and eliminate the separate tier table for these charges.
5. Establish a single User Charge rate system applicable to both the Tax Exempt Users (TXE) and Large Commercial-Industrial Users (LCIU).
6. Calculate User Charge rates for the next 10-year period, 2014 through 2023, based on the consensus listed above. Evaluate the effectiveness of the OM&R and program administration cost recovery every three years to ensure that cost recovery requirements are met and if necessary, adjust the fixed annual rate of increase and User Charge rates.

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| User Charge Rates Prior to BRP Decisions | | | | |
|--|------------|------------|-----------|--|
| Year | VOL | BOD | SS | User Charge Program Administration Cost |
| 2013 (LCIU) | \$241.73 | \$250.76 | \$165.24 | Cost Based on Total Wastewater Loading Charges |
| 2013 (TXE) | \$245.18 | \$254.34 | \$167.60 | No Additional Cost |
| Calculated User Charge Rates Based on Implementation of BRP Decisions¹ | | | | |
| 2014 | \$246.08 | \$245.75 | \$159.72 | No Additional Cost |
| 2015 | \$250.51 | \$240.49 | \$154.08 | |
| 2016 | \$255.02 | \$234.95 | \$148.33 | |
| 2017 | \$259.61 | \$229.13 | \$142.47 | |
| 2018 | \$264.28 | \$223.03 | \$136.48 | |
| 2019 | \$269.04 | \$216.64 | \$130.38 | |
| 2020 | \$273.88 | \$209.94 | \$124.16 | |
| 2021 | \$278.81 | \$202.93 | \$117.81 | |
| 2022 | \$283.83 | \$206.58 | \$118.87 | |
| 2023 | \$288.94 | \$210.30 | \$119.94 | |

7. Adjust the Minimum Pretreatment Requirement Charges listed in the UCO to fully recover the Pretreatment Program administration cost of approximately \$3 million over a three-year phase-in period.
8. Publish the User Charge rates for the reporting year before the fourth quarter of the preceding year.

The BRP process was concluded on September 20, 2013, and the District sent a letter to the USEPA requesting review and approval of the proposed changes to the District's UCS. In a letter dated November 14, 2013, the USEPA concluded that the proposed changes are consistent with original UCS and would improve the financial management and promote the overall financial sustainability of the UCS. The resultant User Charge rates for 2014 were presented to the Board as an amendment to the UCO, which was adopted at the Board Meeting of December 5, 2013.

The District will continue to follow the approved UCS methodology after incorporating the approved changes to ensure full recovery of the OM&R costs by utilizing budgeted costs for the previous rate year, actual loading data and unit costs of treatment from two years prior to the rate year. The methodology includes adjustments to budgeted costs based on other revenues and the carrying forward of net assets appropriate to enable the District to correct for the imprecision inherent in the methodology as required in the Federal statutes. As such, the District cannot bill for or collect the exact OM&R costs in a given year; however, the methodology has proven over longer timeframes to be effective at recovering these costs. District analysis indicates that changes made as a result of

¹ The rates are applicable to both TXE and LCIU classes, and the User Charge program administration cost is embedded into the rates. On December 5, 2013, only the 2014 rates were adopted by the Board and future years' rates are subject to Board approval.

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the BRP process would dampen volatility in rates from year to year but would result in complete recovery of OM&R costs over time. This methodology would also enable us to post the rates for the next rate year earlier in the preceding year, which will enable the industrial and tax exempt users to better plan and budget for user charge expenses that they are likely to incur in the next year.