



## Council Committee Memorandum

**TO:** Joint Council Committee  
**THROUGH:** Tim Murray, City Administrator  
**FROM:** Travis Block, Public Works Director  
**MEETING DATE:** May 21, 2019  
**SUBJECT:** Municipal Utility Service Outside City Limits

---

**Discussion:**

The Council has recently discussed the potential of allowing properties outside of the corporate City limits to connect to the sanitary sewer system, specifically the proposed Wolf Creek Motorsports Project (at the intersection of County Roads 1 & 46 and Interstate 35) and the city of Medford. A number of issues should be considered when exploring allowing the connection of properties outside the City limits to municipal sewer and water including:

- Property Tax Revenue
- Definition of the Service Boundary
- Ownership & Operation of the System
- Maximum Flows and Loadings
- Funding of System Improvements
- Flow Charges

Staff has recently researched this topic, to include looking at policies/practices of surrounding communities, and based on this has developed some recommendations for Council to consider.

Property Tax Revenue: The development of the property for the Wolf Creek project will provide increased property tax base/collection of property taxes for Forest Township and Rice County, whereby the City of Faribault will not receive any of this benefit. The inability to collect property tax revenues should be considered when determining policies on the rates and fees for flow and connection charges. There could be a time in the future when, if there is insufficient excess capacity remaining at the City's water Reclamation Facility (WRF), that a potential new or expanded business opportunity that would be located on property in the city limits (for which the City receives property taxes) would not be allowed due to its sanitary sewer discharge/treatment needs.

Definition of Service Boundary: Due to the WRF having a finite capacity, the service boundaries need to be clearly established prior to the connection of any services to help keep the allowed flow/discharge under established limits. In the Wolf Creek example, the number of connections should be identified as part of the development process and become incorporated into an agreement (with Rice County) for the Wolf Creek project area, the same way sanitary sewer service connections were allowed in the Roberd's Lake Sanitary Sewer District (under an agreement with Rice County). The number of connections would be fixed at the time of executing the agreement. Should they wish to make a request to increase the number of connections in the future, City review and approval would be required. The cities of Albert Lea, Mankato and Northfield follow this model. In the Medford example, as the community expands, any additional connections would require City approval prior to connecting.

Ownership and Operation of the System: The system should be owned and operated by Rice County (as is the case with the existing RLSSD system) for developments allowed in one of the area townships, or with the connecting community in the case of a separate city being connected (the City of Medford example). The ownership of the system should be up to and including the connection point, including the metering/sampling station. All operating and maintenance costs (including utility locating) of the system and the connection point shall be the responsibility of Rice County or the connecting community. The cities of Albert Lea, Mankato, Northfield and Waseca use this model.

Maximum Flows and Loadings: Maximum flows and loadings from a connecting entity are typically calculated using a wet weather flow maximum. In the Wolf Creek example, there is no wet weather flow due to the system being a new sealed system. In this case, it would be recommended to use their projected average summer flow of 111,000 gallons x 1.15= 127,650 gallons per day. The 15% is a contingency factor used in lieu of an actual wet weather flow value. The loadings should be typical residential strength with a daily limit for BOD of 255 lbs./day, using the maximum daily flow.

For Medford, the maximum flow should use the average wet weather flow as an initial daily maximum flow. This number would be revised as the community wishes to expand towards their long-range projections. The flows and loading strengths should be of residential concentration with surcharges for anything above, similar to our other Significant Industrial Users (SIU's). The agreement should contain language to identify penalties for any flow exceedances and Inflow/Infiltration (I/I) related incidents.

Funding of System Improvements: For Wolf Creek and Medford, revenues from Sewer Availability Charge (SAC) units would be the source of funding for system improvements. SAC fees collected at the time of connection would provide funding for any current improvements and a certain amount of future system improvements. It would be recommended to charge the standard SAC rate (\$1,500/unit) for any existing development, such as Medford. It would be recommended to charge currently un- or under-developed property such as the Wolf Creek Project a SAC charge of 1.5 times the standard rate or \$2,250/unit currently. This would be viewed as an offset to the inability to collect property tax revenues from the improved property being afforded by the connection to the City system.

For the proposed Wolf Creek project, following is a comparison of the calculated connection charges for the standard SAC unit charge (\$1,500/unit) and the proposed surcharged rate (\$2,250):

$$\begin{aligned} 642 \text{ SAC Units} \times \$1,500/\text{SAC Unit} &= \$ 963,000 \\ 642 \text{ SAC Units} \times \$2,250/\text{SAC Unit} &= \mathbf{\$1,444,500} \end{aligned}$$

With the City of Medford, using an estimated 500 SAC units and the standard SAC rate would yield approximately **\$750,000** in connection charges.

Flow Charges: When looking at flow charges it would be recommended to charge all connecting properties outside the City limits a rate of 1.5 times the residential rate (\$0.005415/gallon as compared to the standard rate of \$0.003610/gallon). The following calculations are based on flow only—any elevated discharge (above residential strengths) could be subject to additional load charges under an SIU contract.

In the example of Wolf Creek, the estimated charges at full development would be as follows:

$$\begin{aligned} 127,650 \text{ gallons/day} \times \$0.005415/\text{gallon} &= \$691/\text{day} \\ \$691/\text{day} \times 30.4 \text{ days/month} &= \$21,013/\text{month} \\ \$21,013/\text{month} \times 12 \text{ months/year} &= \mathbf{\$252,159/\text{year}} \\ &(\$168,106 \text{ if no multiplier applied}) \end{aligned}$$

User rates for the City of Medford would be as follows:

$$\begin{aligned} 86,000 \text{ gallons/day} \times \$0.005415/\text{gallon} &= \$465/\text{day} \\ \$465/\text{day} \times 30.4 &= \$14,157/\text{month} \\ \$14,157/\text{month} \times 12 \text{ months/year} &= \mathbf{\$169,883/\text{year}} \\ &(\$113,255/\text{year if no multiplier applied}) \end{aligned}$$

The estimated cost to upgrade the Medford wastewater treatment plant is \$7,080,000, and the cost to connect to Faribault is approximately \$5,870,000, leaving a difference of \$1,210,000. Using the recommended 1.5x rate, it would take approximately seven (7) years of discharging at their current rate for the City of Medford to incur as much cost as making capital improvements to their wastewater treatment plant. In addition, the City of Medford would save additional costs during that time by no longer having to operate and maintain a treatment plant (however, they would still need to operate and maintain their collection system and the new system and connection to Faribault).

Regarding municipal water service, it is not recommended to serve the Wolf Creek project or any other property outside of City limits unless the property is annexed, or there is an annexation agreement in place. The City of Albert Lea uses this model. The City of Northfield has a connection to Dundas for water but does not serve them. Providing water to locations as far out as Wolf Creek would have operational challenges, specifically chemical dosing (disinfection).

Since the Council's last discussion at the March 19, 2019 Joint Committee meeting, the City of Medford has selected connecting to the City of Faribault's sanitary sewer system as their preferred option to meet their future wastewater needs. As the next step in their process, the City of Medford is requesting the sewer service flow and connection charges be established for their use in the final analysis of the connection option.

**Attachments:**

(None)