

Meeting Title: SAC Task Force Meeting #4

Date: January 26, 2016 Time: 8:30AM – 11AM Location: League of MN Cities

Members in Attendance: Wendy Wulff, Metropolitan Council Member; Patty Nauman, Metro Cities; Steve Ubl, St. Paul; Jim Dickinson, Andover; Ron Hedberg, Apple Valley; Katrina Kessler, Minneapolis; Dave Englund, Roseville; Loren Olson, Minneapolis; Kevin Schmieg, Eden Prairie; Kyle Klatke, Brooklyn Park; Brian Hoffman, St. Louis Park; Merrill King, Minnetonka

Non-Task Force Members in Attendance: Jan Rosemeyer, Roseville; Mary Ubl, Minneapolis; Adam Prock, St. Paul

Members Absent: Sue Virnig, Golden Valley; Dan McElroy, MN Restaurant Association; Bob LaBrosse, Cottage Grove; Tom Thomasser, MN Chamber of Commerce

Staff in Attendance: Cara Letofsky, Metropolitan Council Member; Ned Smith, MCES; Kyle Colvin, MCES; Sara Running, MCES; Jessie Nye, MCES; Cory McCullough, MCES; Toni Janzig, MCES; Jeanne Landkamer, MC

Item	Notes
1. Review and Approve Minutes from Meeting 3	Mary Ubl, Minneapolis, asked for clarification on item 4 - is it the max on any given day, and is that because of the statute? Ned answered no, it's not in the statute, it is Met Council policy. SAC is about the most on any given day. You would have to collect the data daily, so you could not use a water meter because it is monthly. You would have to put a flow meter with daily data collection to measure that. 2 nd page, item 3, 2 nd paragraph: Ron H. – edit: equity grants are funded by the council levy. Meeting 3 minutes approved.
2. Issue 1 Statement Review – Outdoor Seating	The team reviewed the outdoor seating policy which will likely be reviewed by the legislature in the future. A member (Loren O.) asked that the rationale section (back page) be changed. She thinks we can't say it was the rationale since that isn't the reason why people voted no but if we could either remove the rationale section, or not call it rationale and describe what motivated people, or what represents the rationale for this. A member (Merrill K.) suggested we make it "rationales" instead.

	<p>A member (Patty N.) asked would this go into a final task force report. Ned S. answered yes, it will get incorporated into a broader report out.</p> <p>Patty N. also asked if it would be more accurate to say that these were “considerations” by the task force, rather than a summary of ideas. The Chair (Wendy W.) agreed. <i>These were considerations raised in the task force.</i> It was also suggested to combine the “rationale” section with “other considerations” and just call it “Considerations Raised”. The Task Force approved this change.</p> <p>Summary approved.</p>
<p>3. Finish Issue 3 – Simplifying the determination process – background and discussion</p>	<p>Ned S. wanted to confirm the recommendation from the Task Force that water meters were not a viable option. A member (Loren O.) asked what is the water meter option we are proposing. Ned answered the readout from last week was that it is an imprecise science, and there are different codes for different communities. It doesn’t allow us to have consistency. Loren O. was concerned we did not do a deep enough dive into water meters as a criteria option and did not want to permanently table it.</p> <p>A member (Merrill K.) disagreed, saying we already dug deep into the water meter topic and she was comfortable voting it is not a viable option.</p> <p>A member (Brian H.) stated that water meter size isn’t to be used, but asked if we use the water meter flow going into the building for industrial SAC? Kyle Colvin, MCES, answered that we do use water meter flow for industrial. Industrial calculates domestic flow and process flow. SAC determinations calculated for baseline are confirmed by the water meter flow.</p> <p>Wendy W. asked if we have explored water meters enough? The team agreed we do not need to revisit water metering as an option in the future.</p> <p>During Ned’s explanation of the occupancy, a member (Patty N.) asked, why do we need plans for the entire building? Ned answered the reason is because we do a determination on the entire property to figure out what the total charge is, and then we assess what has been already paid (credits). The Chair (Wendy W.) added that there can be net winners in the SAC criteria because what used to be 1 SAC unit per 8 people in a restaurant is now 1 SAC unit per 10 people.</p>

	<p>A member (Kevin S.) said it is more common to gain credits back from fast food versus a regular restaurant. Jessie Nye, MCES, remarked sometimes we don't have the whole business so we want to look at the whole plan, so if we come back 10 years from now we have the whole thing.</p> <p>A member (Brian H.) said that looking at occupancy codes is really looking at occupancy classification, not codes.</p> <p>A member (Loren O.) asked if the challenge is credits and does Met Council have an idea how to address that issue? A member (Kevin S.) replied that is issue 4.</p> <p>A member (Kyle K.) stated the most complaints are restaurants. The difficulty is someone wants to remodel a restaurant and the seating criteria changes, so they get hit for 2-3 SAC and don't move forward with the project. We should average out many different restaurants and find out the maximum seating per restaurant and come up with an occupancy group and load for each based on the total square footage. That way you don't have the credit issue anymore. They can remodel if they are not adding square footage. They would pay more up front but the SAC is easier to get then.</p> <p>A member (Merrill K.) asked if they change storage to seating, would they pay SAC? Kyle K. replied no.</p> <p>A member (Kevin S.) remarked it is intriguing; however, it doesn't simplify it, it makes it more complex with different uses and occupancies, potentially making it more volatile than today. Something more stable needs to come out of it. It should be a one-time charge, and based on the gross square footage, without messing with what type of business it is.</p> <p>The Chair (Wendy W.) remarked we should have the data for existing restaurants and come up with a standard ratio of what is seating space versus other space.</p> <p>A member (Kyle K.) remarked cities would be more willing to complete their own determinations if we could do so by square footage.</p> <p>Mary U. commented that this is similar to the daycare change a few years ago from number of daycare kids or adults to square feet. She does like the concept of square footage, and we should consider it</p>
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further. It is a benefit for plan examiners because if we use similar codes or language, we can have the comparison. The one challenge with this is occupancy classifications, we have a large volume of customers where English is their second language. The question is how do we educate. Wendy W. asked if the daycare change has worked out well? Mary remarked that they have, and only send in when they are adding square feet.

A member (Brian H.) commented that you could add a banquet or seating but the fixture unit count doesn't change. Does it really change flow that much from business if we add seats? If you try to average things out instead of looking at 45 seats vs. 52 seats...you take the gross square footage perspective. When a building is being built, or has additions, that is when the load increases. It makes sense to me to do the square footage idea.

Ned S. asked if we were to frontload, then that would mean we would have more volume, maybe, then the math would work out where we could lower the per SAC fee? Brian H. remarked if you frontload it, you would have a higher fee up front.

A member (Katrina K.) commented that the question is should we look at gross square footage further? Part of the analysis of this should be how do we convert the buckets we have now to other buckets and still come out making the same amount of money? Who are the winners and losers? If it simplifies it for MCES and for Cities that is great; the credits are what is the issue. The analysis needs to think about how we would deal with credits as well.

Ned S. commented the complexity we have now ensures fairness. As a region, we have said we have chosen fairness over simplicity, and this feels somewhat less fair, although not egregious. The winners (in the gross square feet scenario) are remodelers and people taking over businesses; the losers are those building from the ground up or changing the use to a higher capacity demand business.

A member (Kyle K.) said if we look at it in detail the total will average out; some will pay more but most will average out.

A member (Brian H.) remarked, is it less fair if you go to the person who is adding a few seats, and in reality, it increases the sanitary sewer load? I don't think we are really increasing the load that much.

	<p>A member (Merrill K.) remarked she is concerned developments who are starting out will pay more than others. You should take a look at all of the potential winners and losers.</p> <p>The team agreed that we should take a deeper dive into this in the future.</p> <p>A member (Patty N.) asked what would a deeper dive look like? Ned answered we would look at what is the differential, looking at different classes of business. We would also look at differential between developing and redeveloping. We would look at the different scenarios and look at smaller customers versus the larger customers. A member (Brian H.) remarked that they don't have a lot of residential but they do tear down warehouses and build apartments. This would be considered new.</p> <p>A member (Steve U.) commented by doing what we are entertaining, we would have to sell to the business sector that we are discriminating on your business model based on square footage. Many have large seating and small kitchens and vice versa, and there is discrimination there. We need to package it to the consumer that is rational and can execute in a quick manner. Bottom line, the back and forth for remodels and getting the right documentation for everything is daunting. Ned asked if because of the difference in kitchen size, that could have a different implication? Steve U. said yes and he would be concerned about that. He wants something that is palatable to consumers. The Chair (Wendy W.) replied our analysis would include modeling. A member (Kyle K.) remarked you would average out different types.</p> <p>A member (Kevin S.) said we want this sense of fairness. On a peak demand day, we are saying we have an increased density but an average. Kyle Colvin, MCES, remarked the 10 seats per SAC were found using water records for various kinds of restaurants in the area. We found that type of restaurant doesn't dictate the flow per seat. We came up with an average and the assumption of what max day would be with that. Kevin S. replied would it be fair to say we could achieve same level of fairness with square footage? Kyle C. said we are basing it on a model. Kevin S. said we could use an average that on the net, is fair. The Chair (Wendy W.) remarked that it is easy to make it easy for green field development but it is harder to figure out credits for existing development. We need to take the additions out of the remodel/addition numbers to see how many SAC units come from new and additions vs. remodels.</p>
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	<p>A member (Ron H.) remarked that the initial SAC for restaurants would be much higher.</p> <p>Kyle C. mentioned that in the study they are doing for fixture units so far show that his comment at the last meeting about the rate being double is a vast understatement.</p> <p>Cara Letofsky, Metropolitan Council Member, remarked that if you are remodeling that changes the use to an increased capacity demand, and that would incur a charge. We are not sure what reasonable is unless we do an analysis and let the group analyze simplicity versus fairness. Without a deeper dive we can't make that determination today.</p> <p>A member (Kevin S.) remarked on fixtures one thing that causes consternation is showers. For example, showers are installed to encourage bicyclists. Even when the showers are very seldom used, they are 1 SAC, and it doesn't seem right to charge that much. Whenever we combine the SAC with specific fixture counts, he has always had an issue. If you account for it here, why do you account for it somewhere else? Chair (Wendy W.) remarked it is a good point that the use of a shower for commuters is different than the use of a shower in a gym. It would be so small that rolling it into office may be miniscule. It could be something we change. We don't want to penalize people for making accommodations.</p> <p>A member (Kyle K.) agreed with Kevin's earlier comment that fixtures are probably his 2nd or 3rd biggest complaint. Houses that have 4 showers or 1 shower get charged just 1 SAC, but businesses with 2 showers get hit double.</p> <p>Mary U. remarked it goes back to credits. Fixture unit count would be difficult for credits. Historical information doesn't have that detail.</p> <p>The team agreed a fixture unit basis would not be a good idea.</p> <p>A member (Brian H.) remarked is this discussion (on gross square footage) a game changer? He asked we go around the room to see if we want to explore this further.</p> <p>Each Task Force member was asked if we should do a deeper dive on the square footage idea or if they had any other ideas:</p>
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	<p>Brian H. – This discussion is wonderful. The system got to where it is to be fair, which creates a lot of work and effort. Biggest concern is the frustration for small remodel. The business owner just sees the city taking a chunk of their money. We need to be simple, transparent, and not enforce but help people succeed. Right now, we have a system that isn't helping us do the job. The general concept of new buildings and additions is justifiable and is deserving a closer look.</p> <p>Kyle K. – I think it would use a deeper dive. I've been doing commercial plans for over 3 years. It's always been one of the biggest topics of discussion. Other issue is what cities charge for fees. It varies greatly from city to city the other fees that are tacked on. I feel cities are close minded and our city matches it with a WAC that is \$1875/unit and there are cases where we don't need to do that.</p> <p>Kevin S. – Anything to simplify would be better. I agree to frontload it in any way possible. By that same token, if we have to go change of use, there still will be when that original restaurant comes in, there is still going to be the biggest ticket, in just going by square footage. It is less palatable when restaurants make minor revisions. It is hard for us to explain that. To me it is a credit issue.</p> <p>Loren O. – I support looking at the square footage idea. I do think the Task Force's mission has evolved and it's not a bad thing, but I need to help my city understand. I think it might be fair to think about how we proceed with this work overall, and if we have the right people here. We also need time to communicate back to other stakeholders.</p> <p>Mary U. – Another alternative I have expressed is to look at blowing up SAC and moving towards debt service coming out of the rates. But that's a big picture item and you need the right people in the room. Ned added that it would be a 20% rate increase to Municipal Wastewater Charges across the board.</p> <p>Katrina K. – when you do additional analysis come back to the idea of sewer availability capacity in the future. So if you talk about occupancy or fixtures, how does that relate to capacity? If you have that in the back of your mind during the analysis, it would be helpful.</p> <p>David E. – I would like to see the numbers but I agree on the shower criteria change and the square footage idea.</p>
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	<p>Merrill K. – I would encourage the use of frontline people as a feedback on tools like website, educational documents, etc.</p> <p>Ron H. – I like the square footage concept base. The one thing we must keep in mind is that SAC is the future demand and we would switch it if we went to consumption base. SAC is a residential equivalent so if we go to square footage the formulas will change. It is a question of whether it will be acceptable to everyone. Need to look through process on how credits would be based. That would impact everyone.</p> <p>Jim D. – We should just focus on commercial right now because that is why we’re here. Mixed use is most challenging. If you talk about max usage, bigger houses have more max usage but pay the same as a small house. Is that fair? Also don’t think 274 is valid anymore with the low flow fixtures. One size fits all doesn’t fit in these kinds of computations. This is a utility. I think we can learn a lot from our utility friends.</p> <p>Steve U. – The groups I have spoken to in St. Paul are saying simplify it. What we are presenting to businesses is not right. We are charged to find a way to simplify it. If that means occupancy classification or new or additions.</p> <p>Patty N. – I think to discussions we have had at the capital when there are factors involving finance. That could be trickier than any of us know here. SAC suffers from a lot of confusion and the perception of fairness. Those are issues that are worth addressing. I am hoping this work we do we can give it the time it needs to get it right.</p> <p>Wendy W. – I am excited about looking at gross square footage. I would have severe problems with getting rid of SAC. I don’t think it would be received well to be subsidizing someone else’s connection.</p> <p>Ned remarked the statute on SAC says that SAC pays for the portion of reserve capacity. It does not say how we need to calculate it.</p>
<p>4. Issue 4 – SAC Credit Improvements</p>	<p>Ned presented the background on SAC credits and opened it up for discussion.</p> <p>Mary U. commented that it would be helpful if restaurant calculations for seat count were noted in the manual or presentation that when credit is given, it is using the equivalent formula on SAC paid.</p>

(Note: Credit criteria for restaurants can be found on page 23 of the current (purple) SAC Procedure Manual.)

Mary U. remarked the challenge we have is we have historical information on use but not seat count. We need to get more reasonable on what is acceptable. I'm not taking a 150 restaurant and saying there are 500 seats there. That is where there has to be a balance. I'm bringing something within the parameters.

A member (Loren O.) asked, when they do the 80% instead, does it come out excessively high? Would the solution be to make certain assumptions? Is the 80% reasonable? Mary U. remarked we would appeal it to get the lower rate.

A member (Jim D.) remarked this goes back to the 2012 discussion. The reason for getting to this point was some cities have information that go back forever. Those that had the documentation would get this "bonus" of the Long Continuous Demand credit, and others wouldn't. It was meant to be hard to do. We didn't want to penalize communities that had their stuff together versus those that don't.

Chair (Wendy W.) stated that the 5-year expiration of grandparent net credit was to reflect that when flow is not being paid (from discontinued use), maintenance costs for the pipe are no longer being paid. Ned commented that maintenance costs have become a much larger share of the capital program, as the pipes for our 2040 system are already in place.

A member (Loren O.) remarked if the rationale for SAC is you are paying for reserving capacity, I don't understand why the credits would disappear after 5 years because that piece of the reserve capacity. Wendy W. that is why SAC paid credit is different than grandparent. As grandparent didn't pay. Met Council already paid cities for those pipes and rehab is getting expensive.

Ned S. noted that 80% of our capital program is now rehabilitation. Wendy added that is why we stopped the Growth Pays for Growth legislation since SAC would go down and rates would go up.

Mary U. remarked that long continuous demand benefits small businesses. She is curious to see if that trend levels off due to the City being more vigilant with small businesses about telling the business they need to register/submit for SAC.

	<p>Action Item for Jessie, from Ned: Put together a histogram of number of projects getting the Long Continuous Demand credit by the number of units.</p> <p>A member (Kyle K.) asked if we ever run into issues with our recordkeeping? Does the City ever have records that we do not? Jessie N. answered yes, sometimes we do. Mary U. said we find that when addresses change over the years, that can be a problem too.</p> <p>A member (Kevin S.) says the biggest issue is public perception. The biggest issue is with existing space. We have existing space with a modification. For example, I rent an apartment unit and the city comes in and finds a previous tenant didn't pay their water bill. There is a \$3,000 debt on it. I get the bill for it because somebody else didn't pay. Any additional SAC charges are paid by me per the landlord lease. So, I must pay through no fault of my own. People say this is nuts. I would like to see an end date for going back in history, maybe 1-2 audits. After that, we only look at new work. It is difficult to defend that position of others not paying and so our City doesn't charge for it.</p> <p>A member (Merrill K.) mentioned that with utility fees, there is a statute that states we cannot go back more than 6 years on past due utility fees.</p> <p>A member (Brian H.) stated that awareness is critical. You build your own building, tenants move in. City is responsible but tenant pays. Somebody will benefit in the future.</p> <p>Action item for Jessie, from Wendy W.: How much SAC are we collecting due to a mistake that was more than 6 years ago?</p>
5. Next steps	Task Force members discuss the credit issue with your Cities Continue issue 4