



Request for City Council Committee Action From the Department of Public Works

Date: March 23, 2004

To: Honorable Sandra Colvin Roy, Chair Transportation & Public Works Committee
Honorable Barb Johnson, Chair Ways & Means Committee

Subject: Memorandum of Understanding Regarding an interim Water Purchase Agreement with the Joint Water Commission

Recommendation:

Authorize the proper City Officials to enter into a Memorandum of Understanding with the Joint Water Commission for an interim water rate increase effective January 1, 2004 and terminating with a long term Water Purchase Agreement or with discontinuance of water service to the JWC.

Previous Directives:

- The City Council approved on March 1, 2002 a Memorandum of Understanding with the Joint Water Commission for an interim water rate increase effective February 1, 2002.

Prepared by: Shahin Rezania, Engineering Services, 4910

Approved by:

Klara A. Fabry, P.E., City Engineer, Director of Public Works

Presenters: Adam J. Kramer, P.E., Assistant Director of Public Works, Director of Water Services

Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain):

Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information:

The Water Works has been supplying water to the Joint Water Commission (JWC), comprised of the Cities of Crystal, Golden Valley and New Hope, since 1962. At the present time Minneapolis is the only source of water of these communities.

The Water Works is negotiating a new contract with the JWC. The contract with the JWC has expired and negotiations have been ongoing. Rather than wait until a final agreement is reached, we are requesting an interim rate increase be implemented effective January 1, 2004, and remain in place until a Water Purchase Agreement is executed or termination of water service to the JWC. In the event the JWC does not enter into a long term agreement for purchase of water, the interim rate from that point will be negotiated to cover the period until termination of service.

The pricing reflected in the Memorandum of Understanding captures the base plus extra capacity costs. The methodology of Base Extra Capacity prorates the costs to all users, including Minneapolis, for costs related to treatment and delivery of the water. The non-Minneapolis customers only pay for the part of the distribution system used to transport water to their reservoir. The suburbs are responsible for the construction and maintenance of their reservoirs and distribution systems. The rate charged to them is based on their share of treatment and delivery costs. The rates to the suburbs increase as the Minneapolis rate increases since they are tied to a percent of the Minneapolis rate; thus they also share all future capital costs.

The expired contract pricing structure was a declining rate meaning that the more water that is purchased the cheaper it is. This is not beneficial to Minneapolis from an economic or conservation perspective. The proposed interim and subsequently final rate is recommended to be a flat rate charge (i.e. same price for every unit of water purchased).

SEE ATTACHMENT FOR A COPY OF MEMORANDUM OF UNDERSTANDING