

City of Milwaukie, CCSD I Wastewater Negotiations

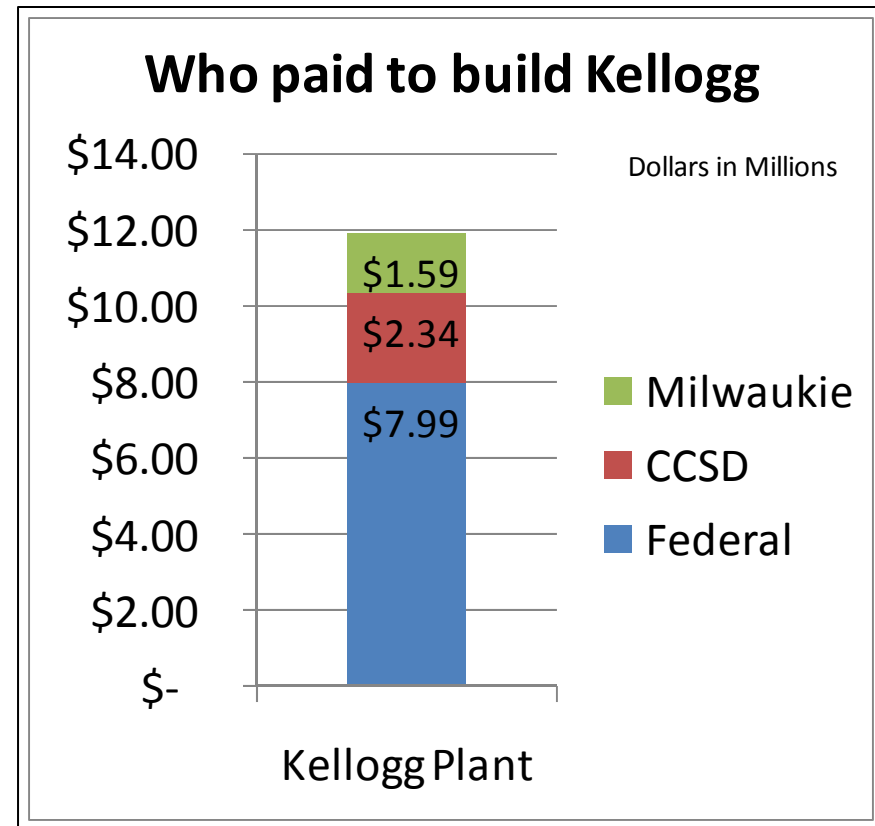
- Wholesale Contract**
- Partnership Agreement**
- Kellogg Plant Improvements**
- Kellogg Plant Study**

City Council
September 1, 2009



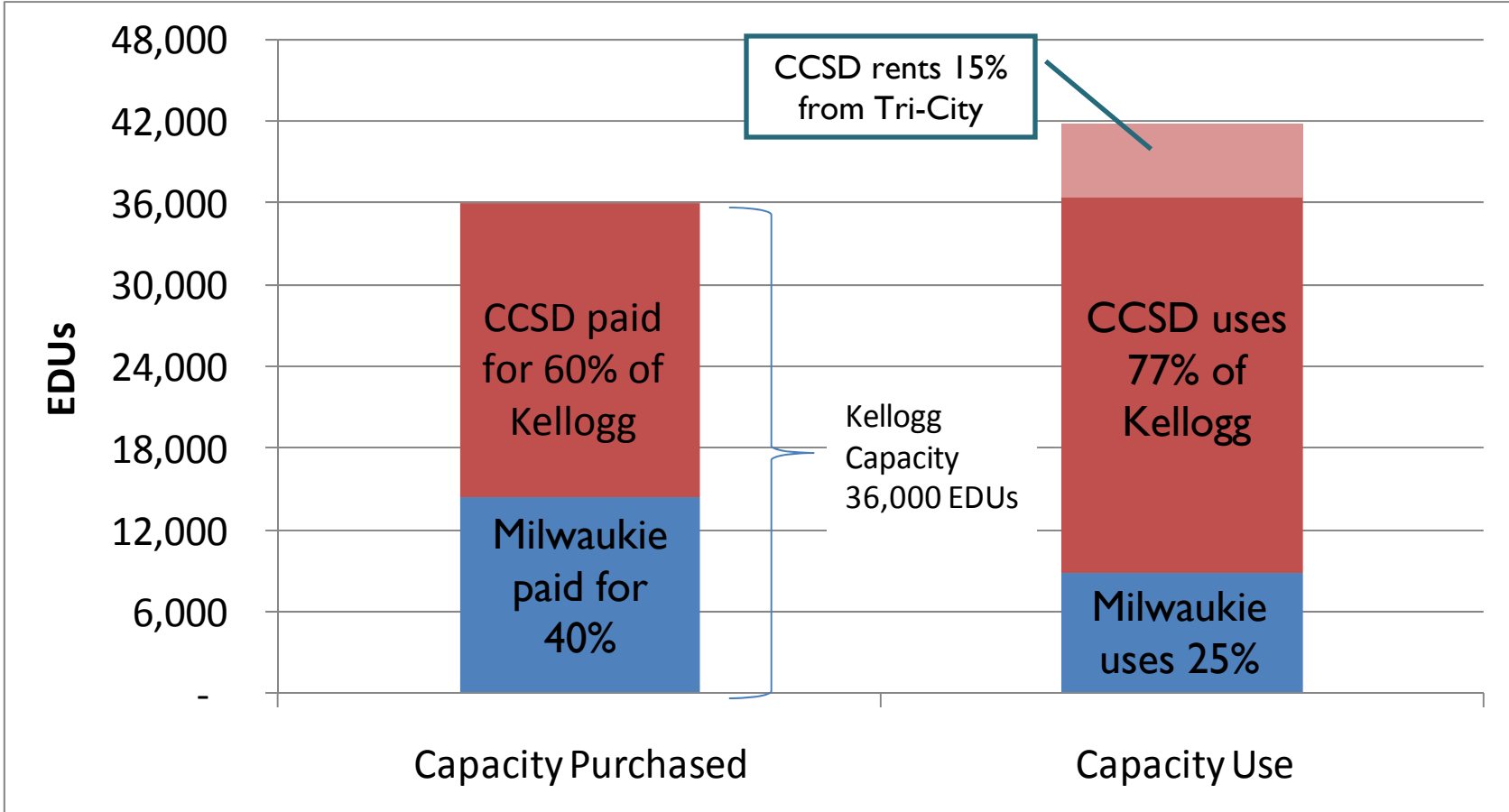
Kellogg Background: 1970

- Agreement 1970
 - City pays for share operating costs at Kellogg
 - Shares based on total annual flow to Kellogg
 - City pays for 40% of project cost to build Kellogg
 - After deducting any grant funding (i.e. local match)



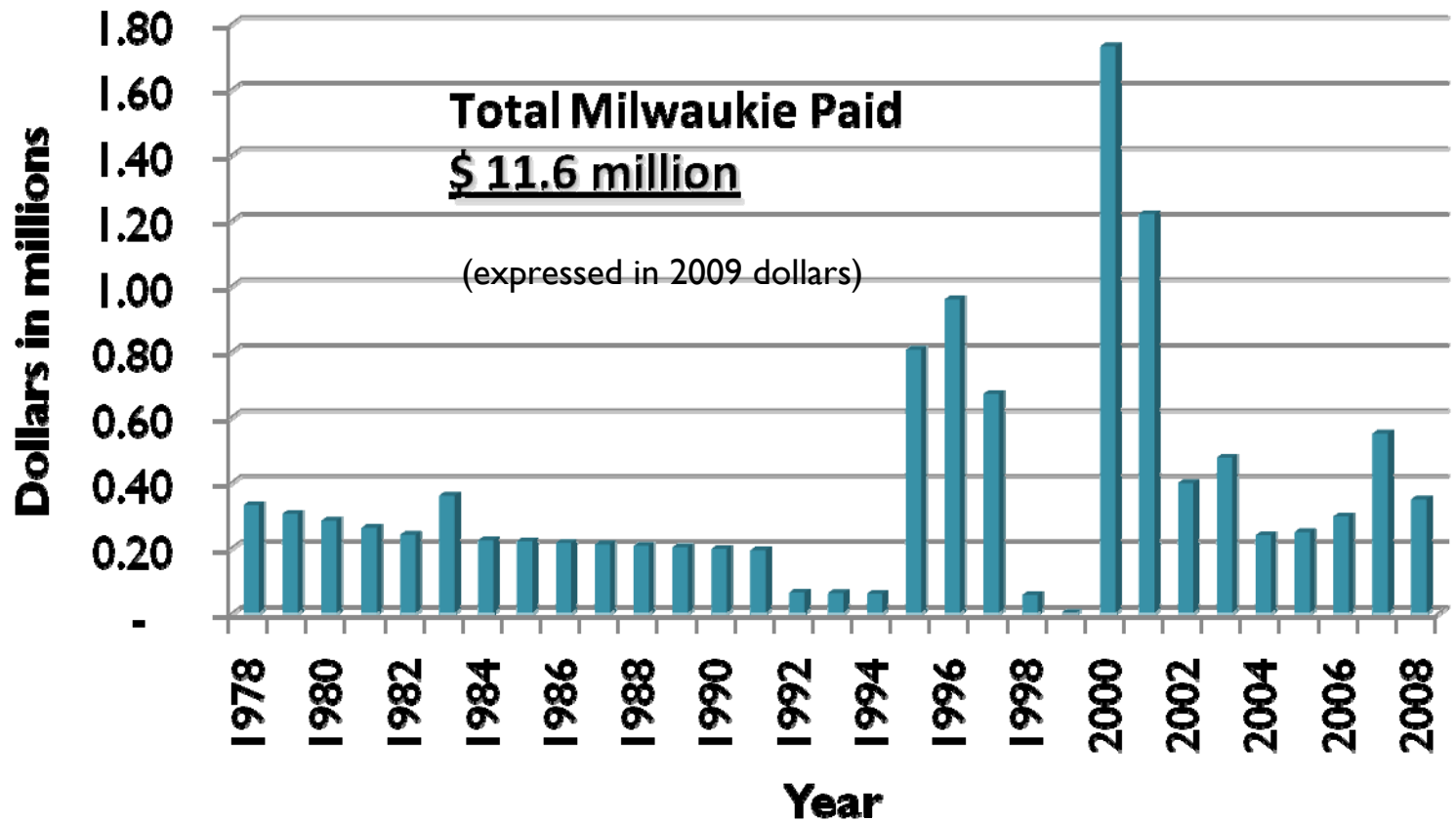
Note: Dollars are final project cost not converted to current year dollars.

Kellogg Background (present day)



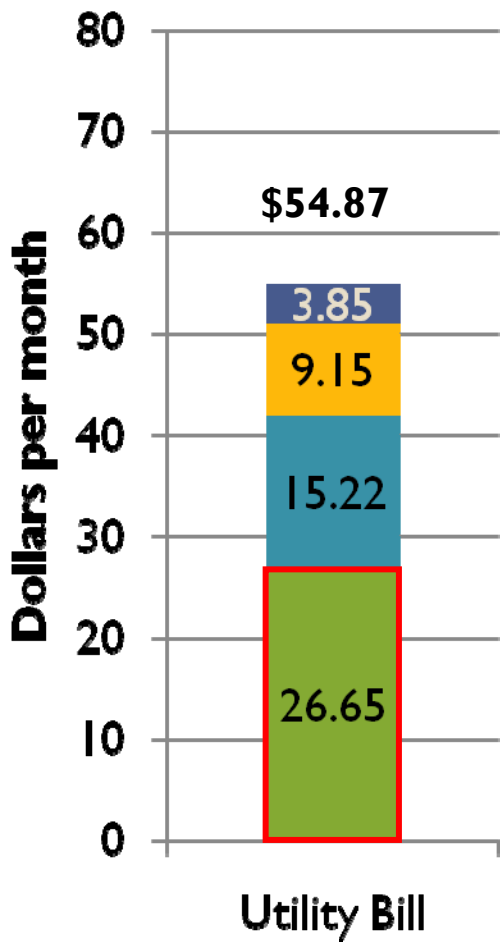
Kellogg Background: 1978 - 2008

Capital Payments

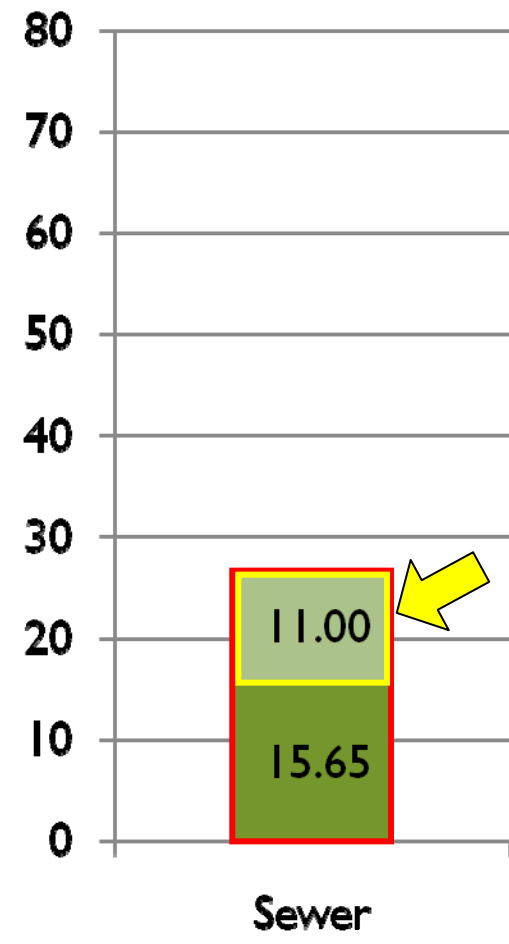


Question: What did Milwaukie purchase for its \$11.6 million contribution to Kellogg??

Current Monthly Utility Bill



- Street
- Storm
- Water
- Sewer



- Treat
- Collect

Wholesale Contract Negotiations

- Nov. 2007 – BCC adopts policy (or gives direction to WES) requiring Milwaukie to pay an “equitable share” of the District’s current capital needs (beyond Kellogg)
- Nov 20, 2007 – CCSD discusses new Milwaukie rate w/ Board of County Commissioners (\$20.12)
- Dec. 4, 2007 – CCSD presented this rate to City at a Council work session
- Apr. 1, 2008 – WES Letter with new rate proposal (\$22.13)

Wholesale Contract Negotiations

- June 13, 2008 – City receives first draft of new contract (does not include a rate; only BCC authority to set Milwaukie treatment rates)
- August 19, 2008 – District staff attends Council work session (discusses need for immediate action and rate of \$20.12; \$9.00 monthly increase)
- December 18, 2008 – City receives second draft of new contract (does not include a rate; only BCC authority to set Milwaukie treatment rates)

Wholesale Contract Negotiations

- April 27, 2009 – City drops “historic overpayment” claim to move the negotiation forward
- May 6, 2009 – letter from County sets May 19 deadline to reach new agreement
- May 13, 2009 – CCSD provides rate methodology for a new Milwaukie rate of \$23.22 (\$12 monthly increase)
- May 22, 2009 – Two-hour negotiating session between City and WES staffs

CCSD & Milwaukie's May 22 Positions

District Proposed Rate Structure	Monthly Cost	Milwaukie Pays	Reasoning
Kellogg O&M	\$6.48	\$6.48	Milwaukie shares because we use the Kellogg Plant
Kellogg Capital Improvements	\$1.10	\$1.10	Milwaukie shares because we use the Kellogg Plant
Expansion at Tri-City to Download Kellogg	\$5.90	\$5.90	Milwaukie will pay toward permanent load reduction at Kellogg (as a step toward plant removal)
Expansion at Tri-City to replace rented capacity	\$5.41	\$0	Milwaukie will not pay because this capacity is only for District customers
Tri-City O&M	\$0.76	\$0	Milwaukie will not pay because Milwaukie flow is not treated at Tri-City
Risk Premium	\$4.75	\$0	Milwaukie will not pay because Milwaukie's participation does not add to financing risk.
Total Wholesale Rate	\$24.40	\$13.48	
Current Wholesale Rate		\$11.81	Average of the last four years

Other Issues Discussed – May 22, 2009

Item	Milwaukie Proposal	CCSD Response
Kellogg Future	Milwaukie leads work with neighbors and other jurisdictions to make Kellogg a better neighbor (decommissioning is not the only solution)	Discussed as part of the partnership
Treatment Rates	Milwaukie participates in the rate review	District unilaterally sets the rates
Input on future capital projects	Milwaukie participates in capital improvement plan and budgeting	District has sole discretion on capital improvement plan and budgets

Wholesale Contract Negotiations

- May 22, 2009 – City offers rate of \$13.48 (\$2 monthly increase); rejected by CCSD officials after meeting
- June 25, 2009 – CCSD officially terminates the 1970 agreement effective July 31, 2009
 - CCSD will continue to provide treatment service
 - Will charge Milwaukie a “market” rate based on actual cost of providing service
 - Will notify Milwaukie of its new rate

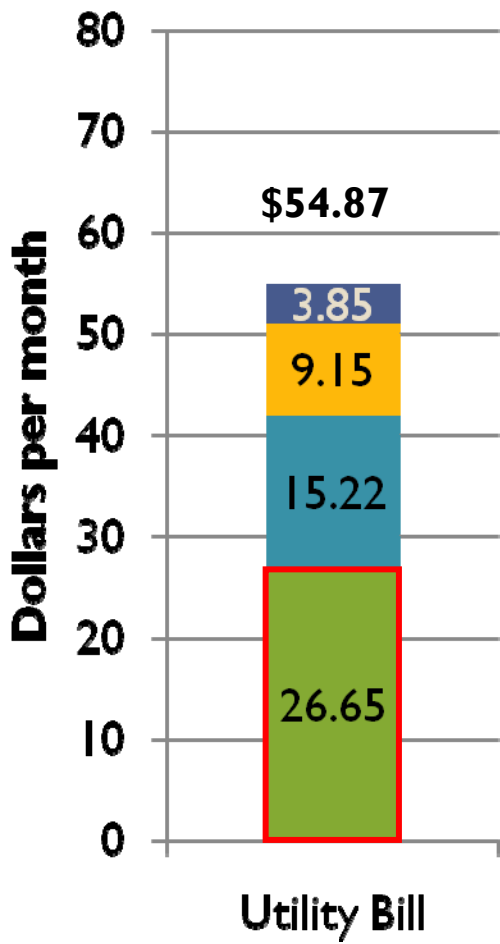
Wholesale Contract Negotiations

- July 23, 2009 -- CCSD imposes new rate of \$25.31 on Milwaukie (\$14 monthly increase)
 - Offers Milwaukie until February 28, 2010, to reach terms with the District on a new contract
 - Failing agreement, provides Milwaukie 5 years to get treatment services elsewhere
 - Imposes new rate based on:

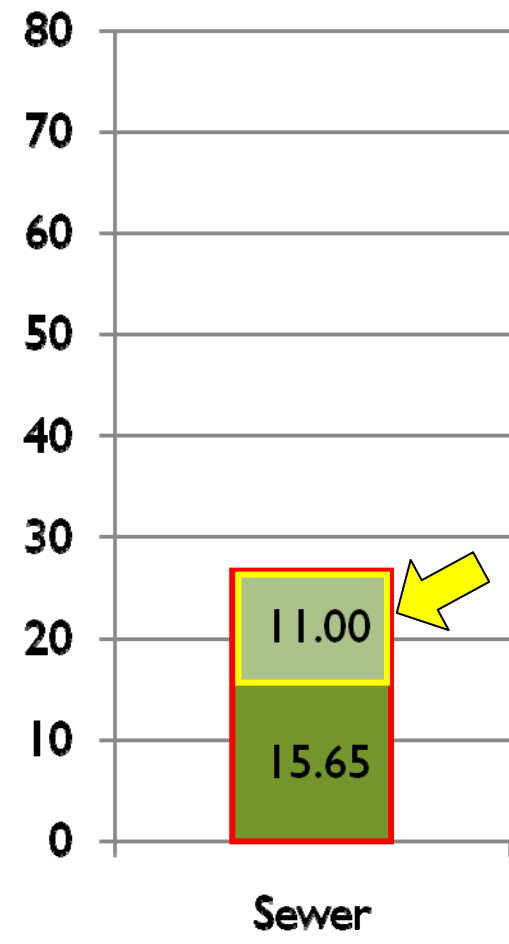
Item	Amount
Rate CCSD Customers Would Pay without Milwaukie	\$43.67
Less retail costs (Collection System Operations)	-10.32
Less the cost of future growth	-8.04
Total Treatment Rate	\$25.31

The current
CCSD rate is
\$34.85

Current Monthly Utility Bill

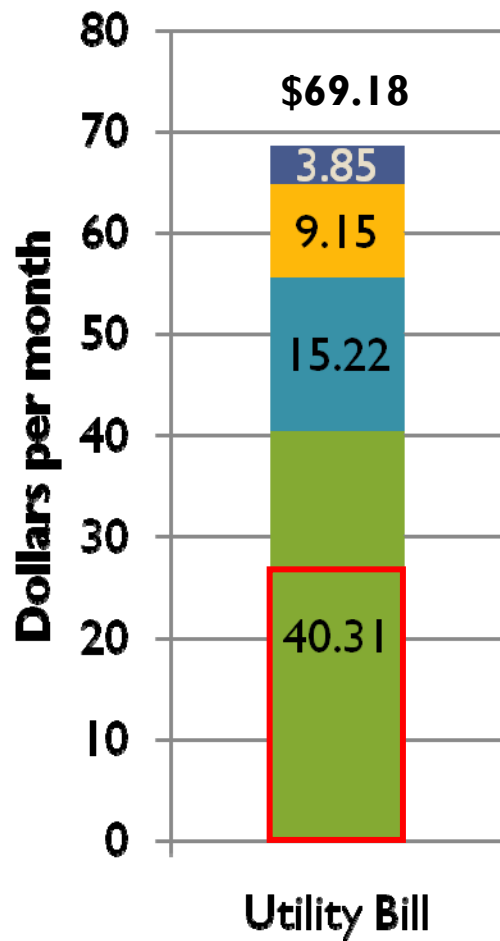


- Street
- Storm
- Water
- Sewer

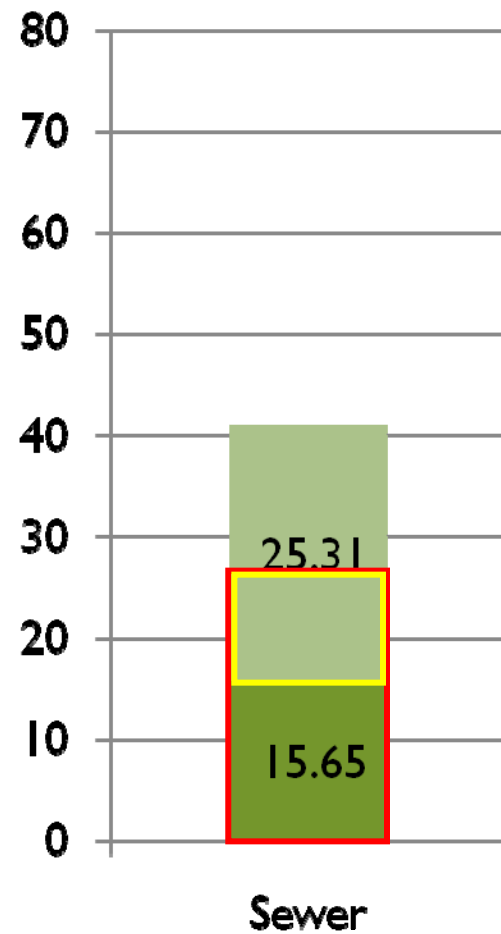


- Treat
- Collect

Imposed New Rate beginning 8/1/09



- Street
- Storm
- Water
- Sewer



- Treat
- Collect

Negotiation Hurdles

- Does Milwaukie have any ownership interest (e.g. rights of usage) in Kellogg, given history and the City's \$11.6m investment in the plant?
- Should Milwaukie pay for capacity it does not need and will not use?
- Should Milwaukie pay to correct CCSD capacity deficit?
- Should the new contract provide Milwaukie with expanded rights concerning the future use of Kellogg?

What's Happening Now?

- Sharing Public Records
 - So the City can better understand what was intended in the original 1970 agreement
- Wholesale contract negotiations will continue after District provides information to the City
- Updating the Citizens Utility Advisory Board (CUAB)

Community Partnership Negotiations

- Jan. 2, 2008 – Blue Ribbon Committee formed to study:
 - Working across jurisdictions on wastewater treatment, especially regarding future investments
 - Equity Issues: At what point are all the jurisdictions on equal footing?
 - How will future decisions be made?
 - Governance Models

Community Partnership Negotiations

- May 2008 - Blue Ribbon Committee Recommendations:
 - Money could be saved by partnering
 - Capacity parity was a prerequisite
 - Equity could be reached but how was not settled
 - Current county service districts structure to be retained
 - A new Advisory Committee to be created

Community Partnership Negotiations

- Fall 2008 – BCC Appoints Provisional Committee to draft a “Partnership Agreement”
- Jan 2009 – First draft agreement distributed
- May 2009 – Agreement submitted to cities for signature
- July 2009 – No cities sign the agreement
- August 2009 – New Advisory Committee bylaws proposed; BCC hosts WW 101 for cities

Negotiation Hurdles

- Can Milwaukie “partner” with CCSD (and others) given the current state of the wholesale contract negotiations?
- Should Milwaukie agree to share wastewater utility assets and/or debt obligations?
- Should the City formally agree to advise the County, as part of a larger group, on future plant expansions?
- Does it make sense for the new Partnership to recommend City of Milwaukie sewer rates to the BCC?
- Does the proposed agreement adequately meet Milwaukie’s needs regarding Kellogg?

Kellogg Plant Improvements

- Upgrade Aeration Blowers
 - Replace rusting air piping
- Add chemical to improve settling in:
 - Primary Clarifiers
 - Secondary Clarifiers
- Replace backup disinfection tanks & pipe
- Build secondary process bypass pipe
 - to handle high flow events
- Replace plant control system

Kellogg Plant Improvements

- Jun 11, 2008 – Preapplication Conference between WES and city staff to review project; discuss anticipated permits; District advised that land use review would be required for the estimated \$7m project
- May 7, 2009 – District notifies City of plans to proceed without land-use review
- May 11, 2009 – District applies for electrical permit for screenings compactor; city denies permit citing land use review requirements from 2008

Kellogg Plant Improvements

- June 2, 2009 – District applies for permit again using a “Clackamas County” address for the plant, rather than “City of Milwaukie”; City denies again
- June 3, 2009 – District provides City with “courtesy copy” of project (100+ drawings; 500+ pages of specs)
- June 12, 2009 – City reiterates and clarifies request for information to help assess necessary permitting

Kellogg Plant Improvements

- August 6, 2009 – District notifies City it will be applying for an electrical permit for a portion of the 2008 project, stating that the work is for maintenance upgrades no longer associated with the larger project
- August 10, 2009 – City repeats request for information to assess appropriate land use review process
- August 17, 2009 – District clarifies that the 2008 project will not be bid as a single project; again requests City approval of electrical permit at the Plant

Kellogg Study

- August 2009 – District kicks off Kellogg Plant Strategic Plan Process (task force)
 - What's Kellogg's role in a future system
 - Signals for the end of useful service life
 - Engineering, Financial, Legal, Regulatory considerations
 - Economic impacts for continuing to use the site to host Kellogg (not in original scope)



Questions?