



CITY OF LA CROSSE UTILITIES WATER - SEWER - STORM

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Dear Council Members,

Sanitary sewer service is a great example of regional cooperation in the Coulee Region. Having a Regional Wastewater Treatment Facility has helped the Coulee Region grow and become what it is today through low rates and excellent environmental protection. La Crosse residents benefit from the economies of scale, while partner communities benefit from wholesale treatment agreements, avoiding the financial and technical burden of having to build and maintain individual wastewater treatment plants. One only has to look at the sewer rates in communities in the Coulee Region not served by La Crosse's WWTP to understand the cost of building and operating these smaller plants. Our regional plant is more efficient, uses less energy, provides more and better treatment, has cleaner effluent, and is a single point of discharge to the Mississippi: all this means keeping the environment/river we love safer and cleaner for everyone.

City elected officials have repeatedly pointed out that the availability of regional sanitary sewer service has increased the demand on other City services that benefit the entire region like the La Crosse Center, La Crosse Public Library, La Crosse Parking Utility, La Crosse Parks, Recreation & Forestry Department, and Arterial Roadway Repair and Replacement. Most of the funding for these other City services comes from local property taxes that are paid only by City residents. As a result, City elected officials have indicated that discussions on new regional sanitary sewer service contracts must also include a discussion on contributions to the funding of other regional services. Though it has made sewer contract negotiations challenging and caused delays in facility planning, we have worked diligently to try to find ways to develop regional sewer contracts that include fair sewer rates for La Crosse and for our partnering communities, and that will also allow for a contribution to the regional services offered by La Crosse.

To accomplish this goal, the proposed contracts use the "Utility Method" for rate setting. This is the rate setting method used by investor owned utilities. This method allows the City to make a "Rate of Return on Net Investment" at the WWTP. This Rate of Return is based on the level of investment by and the risk to the City to build and run the plant. If sewer service revenues exceed sewer system expenses, a "dividend" can be paid to the City. This "dividend" can then be used by the City to fund regional services.

The "Utility Method" for rate setting is commonly used by many other regional facilities in Wisconsin and the nation. It is approved and accepted by the Public Service Commission. The "rate of return on net investment" proposed to be used by the City is within the range that has been deemed to be fair and reasonable and compares similarly to what other facilities in the State are charging. It is fair, with every contributing community with a sanitary sewer service contract being asked to pay the same rate per gallon treated, so higher volume users will pay more proportionate to their higher flow volume. And because this is a sewer fee, it will have no impact on our partner communities' levy limits.

The "dividend" paid to the City through this new method will be used for things that benefit the entire region like the La Crosse Center, La Crosse Public Library, La Crosse Parking Utility, La Crosse Parks, Recreation & Forestry Department, and Arterial Roadway Repair and Replacement. Our proposed sewer service contract even included an offer to be part of a regional Technical Advisory Council for the Sewer Utility.

Our goal and plan are for the WWTP to continue to be that shining example of regional cooperation for the next 20 years. Council gave us until March 1st to reach new contracts with our regional partners or move on. Unfortunately, contracts with three of our four regional partners have expired without new agreements in place. Under Wisconsin case law, when contracts expire (Shelby, Campbell, and Onalaska contracts are all expired) sewer service may be provided pursuant to municipal ordinance so we are asking you to update the City's ordinance as attached in the accompanying legislation. The revised ordinance reflects some of the changes we proposed in the new contracts, specifically allowing the use of the Utility Method for rate setting and collecting a rate of return on net investment. A Rate Study has been prepared that shows that the use of this Utility Method beginning in January 2022 will result in enough net income to allow the City to pay itself a "dividend" which can then be used to fund other regional services.

We must continue to move on with our facility plan updates and plant improvements. However, we now are putting the Utility and City in a position of risk by having to upgrade the plant without long-term contracts committing to use those upgrades. Thus, we are doing two things to mitigate that risk. First, in the ordinance you will see language locking the surrounding communities' service area and loading volume to the area and volume the Utility was serving in these partner communities when the contracts expired. Added capacity will not be given without Common Council approval. Until then, communities will not be able to add new sewer service. Second, the ordinance authorizes the City to charge a higher rate of return to non-contracted communities than for contracted communities because of the added risk associated with serving non-contracted communities. The use of a risk adder is recognized as being reasonableness in utility rate manuals. The table below shows how these rates may look.

Contracted Wholesale Customers

Present – Dec 31, 2021 = \$1,970 per Million Gallons
Jan. 1 2022 – Dec 31 2022 = \$2,359 per Million Gallons
Jan 1-2023 and beyond = \$3,090 per Million Gallons

Non-Contracted Wholesale Customers

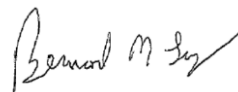
Present – Dec 31, 2021 = \$1,970 per Million Gallons
Jan. 1 2022 – Dec 31 2022 = \$2,610 per Million Gallons
Jan 1-2023 and beyond = \$3,451 per Million Gallons

These rates are based on the draft facility plan; actual rates will be determined with the final facility plan, design, and project estimates and brought back to council for approval.

Note that the rate differential for non-contracted communities is anticipated to first be applied in 2022 when the facility upgrade investment begins. Its full impact is expected to be reflected in rates upon completion of the upgrades in 2023. That gives us time to finalize new wholesale contracts before these higher rates for non-contract wholesale customers come into effect. This is significant because we have made progress on contract negotiations with 3 of the 4 communities. We hope this progress continues and we can have contracts to you soon that allow our partnering communities to grow and prosper while continuing to benefit the region.

The City of La Crosse takes pride, great care, and responsibility in running our WWTP. It is a large plant that takes a great amount of time, effort, skill, and knowledge to run. The City is proud of the contributions Regional Wastewater Treatment has made to the region. Our low rates and dependable service has contributed to the growth and economic vitality of the Region. We have protected the environment and the natural resource we all love. We have minimized energy use and increased sustainability. Staff have worked hard to innovate ideas and today we are proposing a way forward that meets your direction and addresses the concern of our regional partners.

Thank you for your consideration.



Bernard N Lenz, PE – Utility Manager