



City Council Agenda Item Summary Report

Meeting Date: January 17, 2017	Submitted by: James Fisher, City Manager
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Item Title:
Discuss and consider an industrial rate contract for water and sewer charges with Smurfit Kappa.

Consent Item [<input type="checkbox"/>] Public Hearing Item [<input type="checkbox"/>] Action Item [X]	Documentation Attached: Smurfit Kappa Proposal
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Recommended Action:
Staff recommends approval of an industrial user agreement with Smurfit Kappa.

Item Summary:
Smurfit Kappa approached the City in November 2015 to request an industrial user agreement for both water and sewer consumption. They are the largest volume commercial user in the City with an employee base in excess of 200 positions. They have recently invested \$9 million in a sewer pre-treatment system within the Forney paper mill. This has enabled them to significantly increase production which in turn has increased the amount they are billed for water and sewer. Smurfit Kappa is currently the only industrial user with more than 200 employees within the City limits.

During the past year the City and SK have met to discuss various methods to manage the water and sewer costs at the facility. It has been determined that a separate contract needs to be created that allows them to purchase services from the City at a different rate than currently permitted.

The City met with SK again on December 21, 2016, to discuss specifics of a contract for both water and wastewater services. We are proposing a rate structure that includes both variable cost (actual amount charged by NTMWD) as well as a fixed profit margin that would increase at 3% per year. The same structure is being proposed for both water and sewer with a different fixed profit margin for each. The table below shows a comparison of the proposed structure vs. estimated billing for FY 17.

Water	FY17		Sewer	FY17	
	FY17	Proposed Contract		FY17 Estimate	Proposed Contract
Billed Revenue	896,046.44	740,242.11	Billed Revenue	720,000.00	628,000.00
Actual Cost	550,242.11	550,242.11	Actual Cost	504,000.00	504,000.00
Profit	345,804.33	190,000.00	Profit	216,000.00	124,000.00
Difference		155,804.33	Difference		92,000.00

Water proposal: Fixed profit margin of \$190,000 to increase at 3% per year for a term of 6 years.
Current NTMWD variable cost of \$2.53 per 1,000 gallons of water

Sewer proposal: Fixed profit margin of \$124,000 to increase at 3% per year for a term of 6 years.
Current NTMWD variable cost of \$1.88 for wastewater treatment and \$1.48 transmission cost (total \$3.36) per 1,000 gallons

Discussions with SK began just after the close of FY 2015. Therefore, the proposed profit margin was originally based on FY 15 actual numbers.

The contract would provide an increasing profit margin for the next six years as follows:

City Profit Margin			
Water		Sewer	
2017	\$ 190,000	2017	\$ 124,000
2018	\$ 195,700	2018	\$ 127,720
2019	\$ 201,571	2019	\$ 131,552
2020	\$ 207,618	2020	\$ 135,498
2021	\$ 213,847	2021	\$ 139,563
2022	\$ 220,262	2022	\$ 143,750

The City budget was adopted with FY 17 projections listed above. To lessen the impact of the decreased profit margin, the City is proposing an effective date of January 1, 2017.