

Impacts of Slow Development on Service Availability Charge (SAC)

Presented to the Council

Wednesday, June 11, 2008

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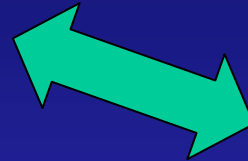


SAC

Today's Agenda

Housing in Metro Area

(Metrostudy presentation dated 4th quarter 2007)



SAC Economics

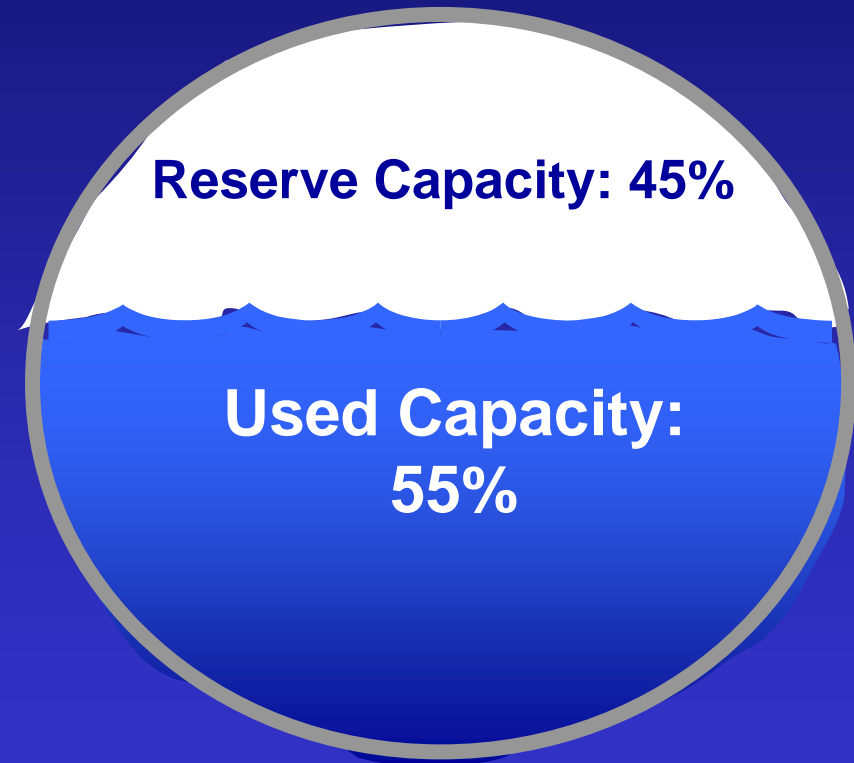
- Background
- History
- Current Status
- Analysis Scenarios

SAC web site:

http://www.metrocouncil.org/environment/RatesBilling/SAC_Program.htm

Statute 473.517:

The current costs of acquisition, betterment, and debt service which will not be used to total capacity....shall be paid [proportionally] by local government units for which unused capacity is reserved for future use.



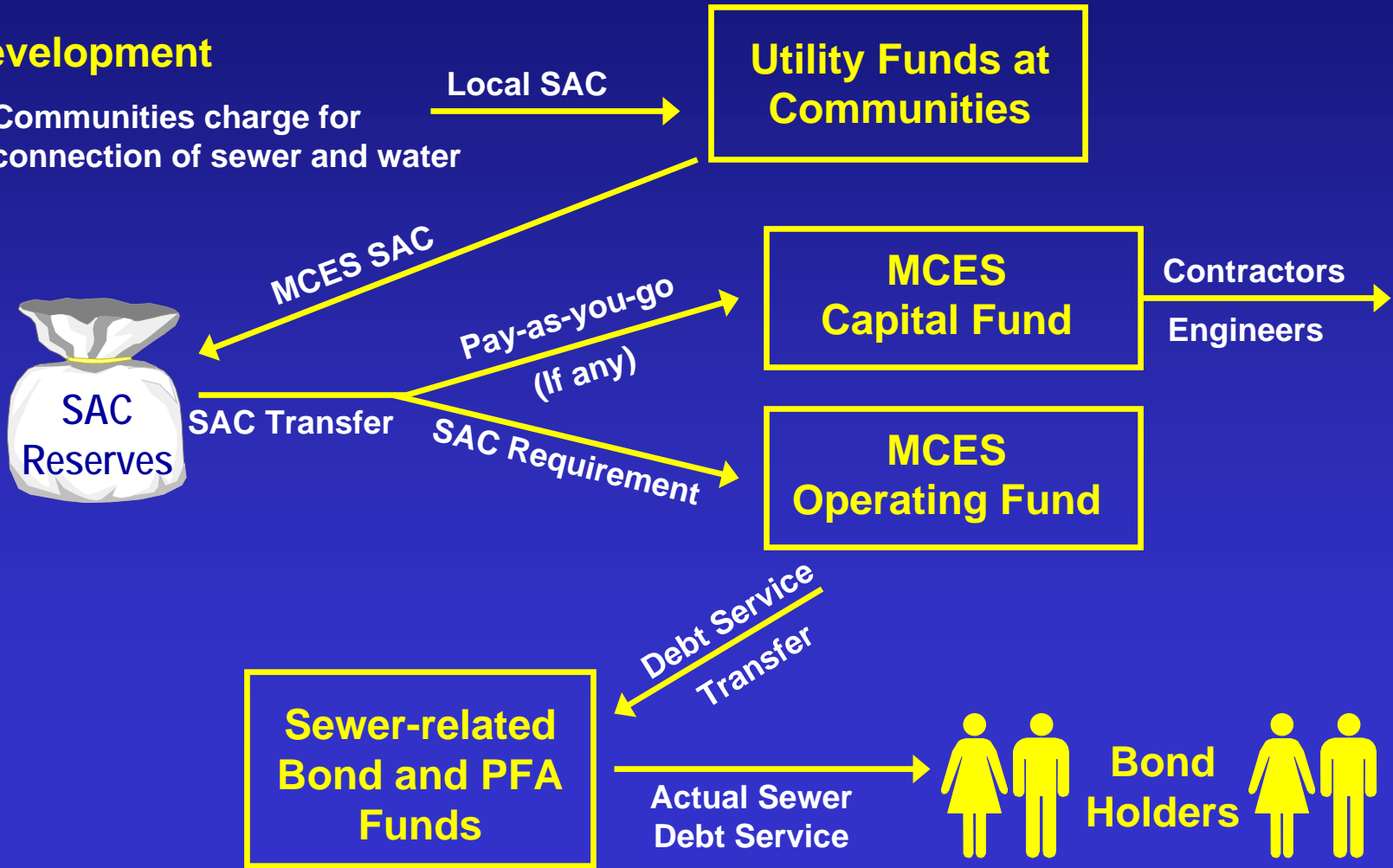
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Service Availability Charge



Development

Communities charge for connection of sewer and water



**SAC**

Debt Service – SAC responsibility

\$ in millions

	<u>Wastewater Debt Service</u>	<u>SAC Portion</u>	
		<u>\$</u>	<u>%</u>
1999	\$63.4	\$17.7	27.9%
2000	63.3	20.9	33.0%
2001	64.6	24.8	38.4%
2002	67.9	25.1	37.0%
2003	68.1	26.3	38.6%
2004	66.0	26.1	39.5%
2005	73.5	32.3	43.9%
2006	78.0	36.0	46.2%
2007	81.4	34.6	42.3%
2008	87.1	38.7	44.4%

- Flow has a significant impact on the reserve capacity percentage

- SAC also pays its own admin costs

- SAC may pay for reserve capacity via pay-as-you-go



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Service Availability Charge

A service fee, charged to cities, for new connections or increased demand to the Metropolitan Disposal System.

- **Freestanding single-family residence = one SAC unit. Other building types pay based on estimated flow capacity (1 SAC unit per 274 gal. of daily wastewater flow demand).**
- **Uniform Rates (all urban communities pay same rate, rural growth centers will not).**
- **Credits apply for release of capacity.**



Historical SAC Rates

Base Rate	SAC Rate	Increase	Percent Change
1999	\$1,050	\$50	5.0%
2000	\$1,100	\$50	4.8%
2001	\$1,150	\$50	4.5%
2002	\$1,200	\$50	4.3%
2003	\$1,275	\$75	6.2%
2004	\$1,350	\$75	5.9%
2005	\$1,450	\$100	7.4%
2006	\$1,550	\$100	6.9%
2007	\$1,675	\$125	8.1%
2008	\$1,825	\$150	9.0%



2007 Financials (unaudited*)

\$s in millions

Sources
of
Funds

SAC Receipts	\$ 25.1
Interest Earnings	\$ 4.7
	<u>\$ 29.8</u>

Use of
Funds

SAC Pay-As-You-Go	-0-
SAC Requirement	\$ 34.5
	<u>\$ - 4.7</u>

Change in SAC reserves

12/31/07 Reserve Balance \$70.6*

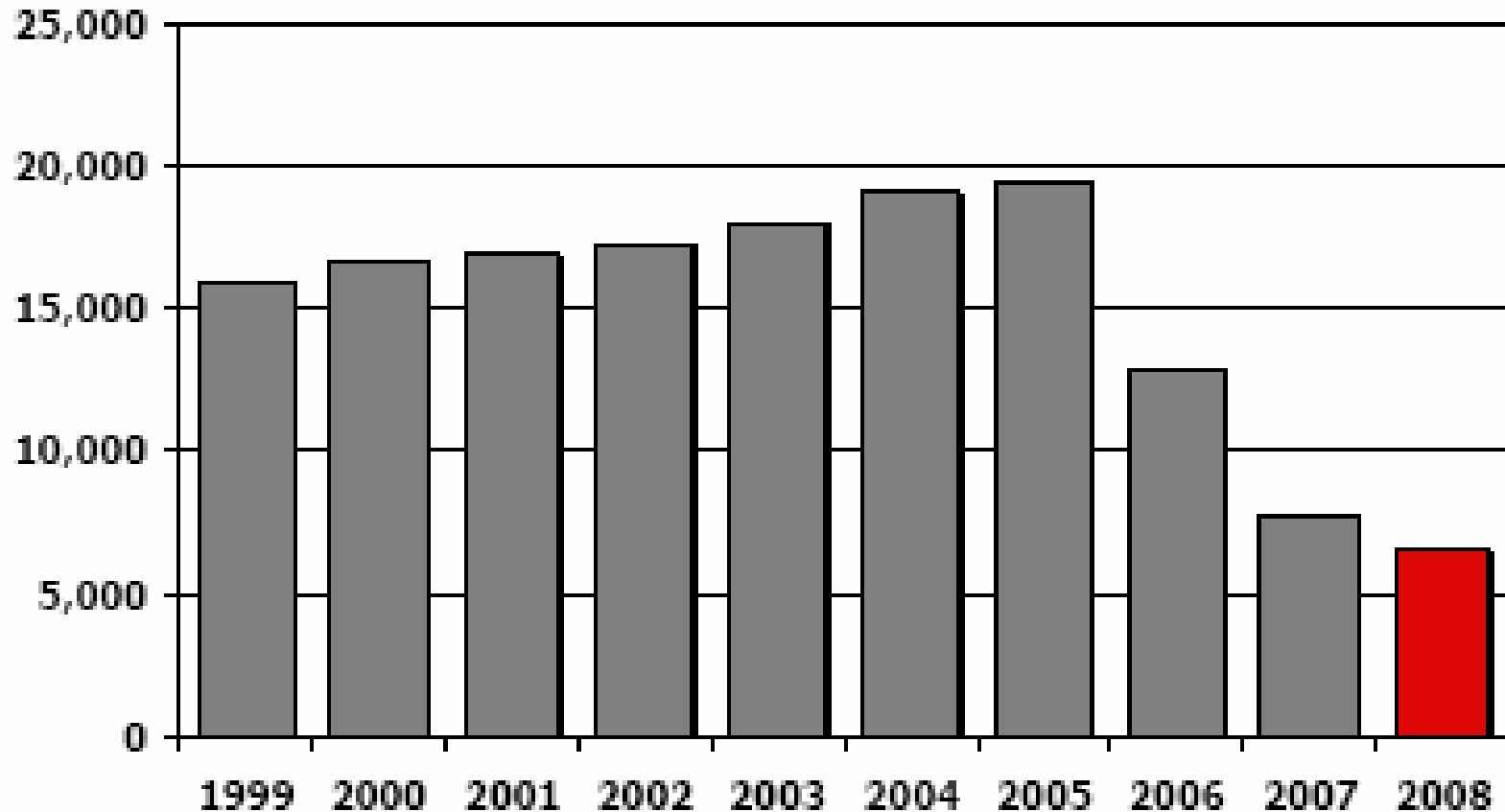
Reserve
Balance

- SAC rates must be sufficient to maintain a fund balance that allows the “SAC requirement” to be funded every year (specifically to cover a 20% shortfall for five consecutive years).
- “Use of the minimum reserve shall be allowed only in an economic downturn or natural disaster and as approved by the Council.”

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Housing Starts Trend & Forecast

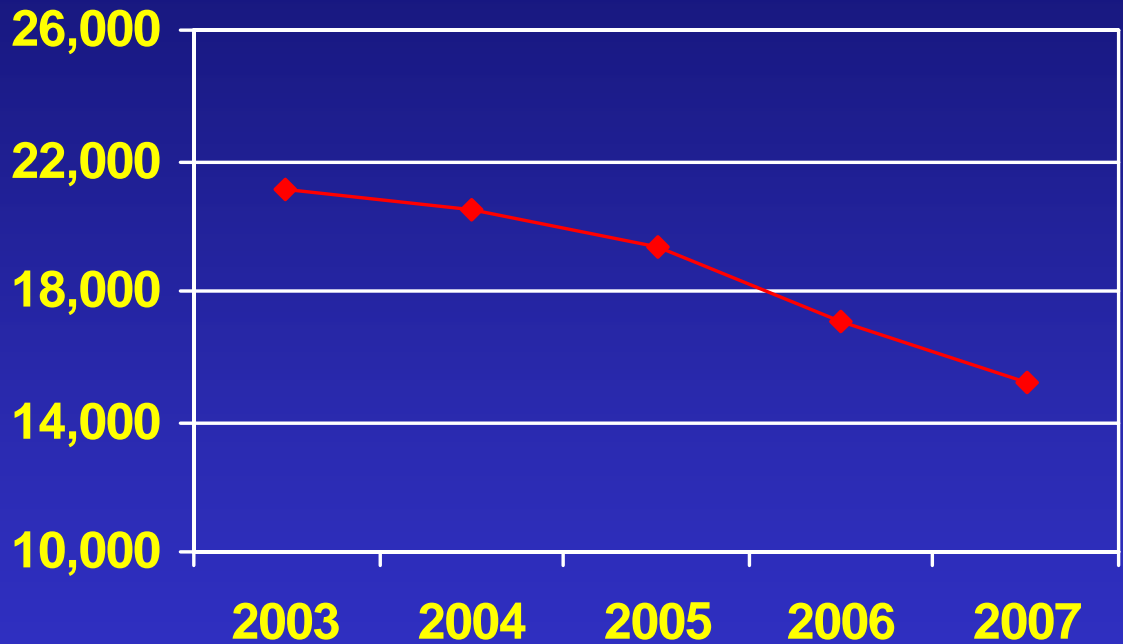
Figure 10: Housing Starts Trend & Forecast





5-year SAC Units Paid

- 2003: 21,150
- 2004: 20,542
- 2005: 19,334
- 2006: 17,052
- 2007: 15,194



Averages	{	Life of program:	19,780
		20-year:	19,100
		10-year:	19,968
		5-year:	18,654



SAC Units Paid – Recent History

SAC units by category (net of credits):

	<u>Residential*</u>	<u>Commercial</u>	<u>Industry</u>	<u>Total Units</u>
2003	16,553	4,061	536	21,150
2004	15,611	4,571	360	20,542
2005	13,856	4,629	849	19,334
2006	8,050	7,659	1,343	17,052
2007	5,808	8,371	1,015	15,194

* Includes homes, townhomes, duplexes, condos and apartments.



Scenario Analyses:

Paid SAC Units

Recovery:

Quick

Slow

None

Worse

2008	16,000	14,000	14,000	10,000
2009	18,000	15,000	15,000	10,000
2010	20,000	16,000	15,000	10,000
2011	20,000	17,000	15,000	11,000
2012	20,000	18,000	15,000	12,000
2013	20,000	19,000	15,000	13,000
2014	20,000	20,000	15,000	14,000
2015	20,000	20,000	15,000	15,000
2016	20,000	20,000	15,000	15,000
2017	20,000	20,000	15,000	15,000



SAC Assumptions

Key financial analysis assumptions that are the same for all scenarios:

- **\$1.6 billion 10-year Capital Improvement Program.**
- **5% interest earnings rate.**
- **93 billion gallons of flow annually.**
- **SAC rates exclude the impact of acquiring rural growth centers.**



Scenario Results Summary

SAC rate increases needed

Recovery:	<u>Quick</u>	<u>Slow</u>	<u>None</u>	<u>Worse*</u>
2008	\$150	\$150	\$150	\$150
2009	\$145	\$180	\$350	\$400
2010	\$145	\$180	\$350	\$400
2011	\$145	\$180	\$350	\$400
2012	\$145	\$180	\$350	\$400
2013	\$145	\$180	\$350	\$400

* In this scenario the fund balance falls well below the minimum required balance (but it stays above \$20 million).



Summary of Cases under Slow Recovery Scenario

\$ in millions

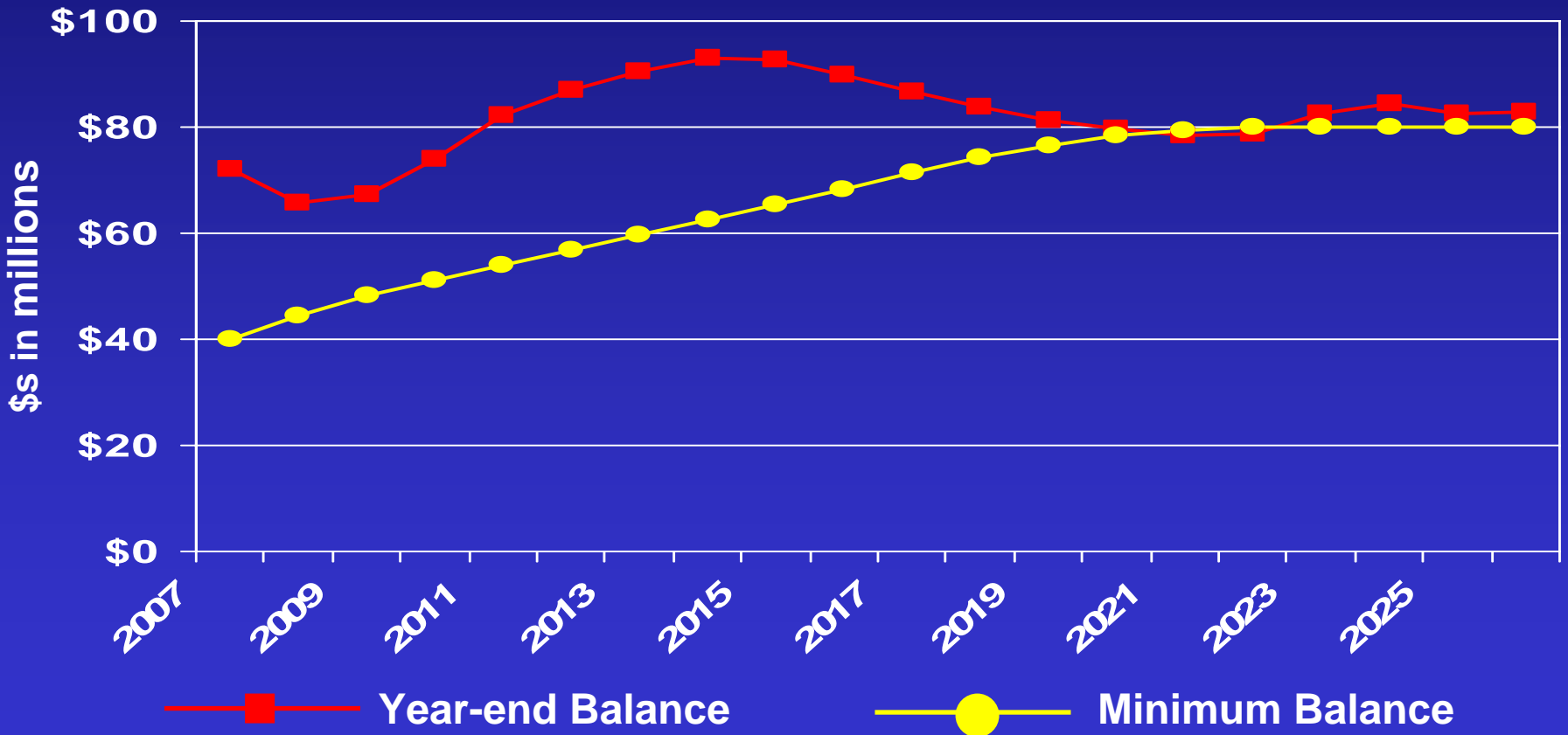
	<u>Excess over (under) minimum reserve</u>			
	<u>\$150</u>	<u>\$175*</u>	<u>\$200</u>	<u>\$225</u>
2010	5.2	5.5	5.9	6.2
2015	(4.9)	(1.7)	1.4	4.6
2020	(6.6)	.5	7.5	14.5

* Proposed 2009 SAC rate increase.



Forecasted SAC Reserve Balance

Year-end Balance (quick recovery scenario)*



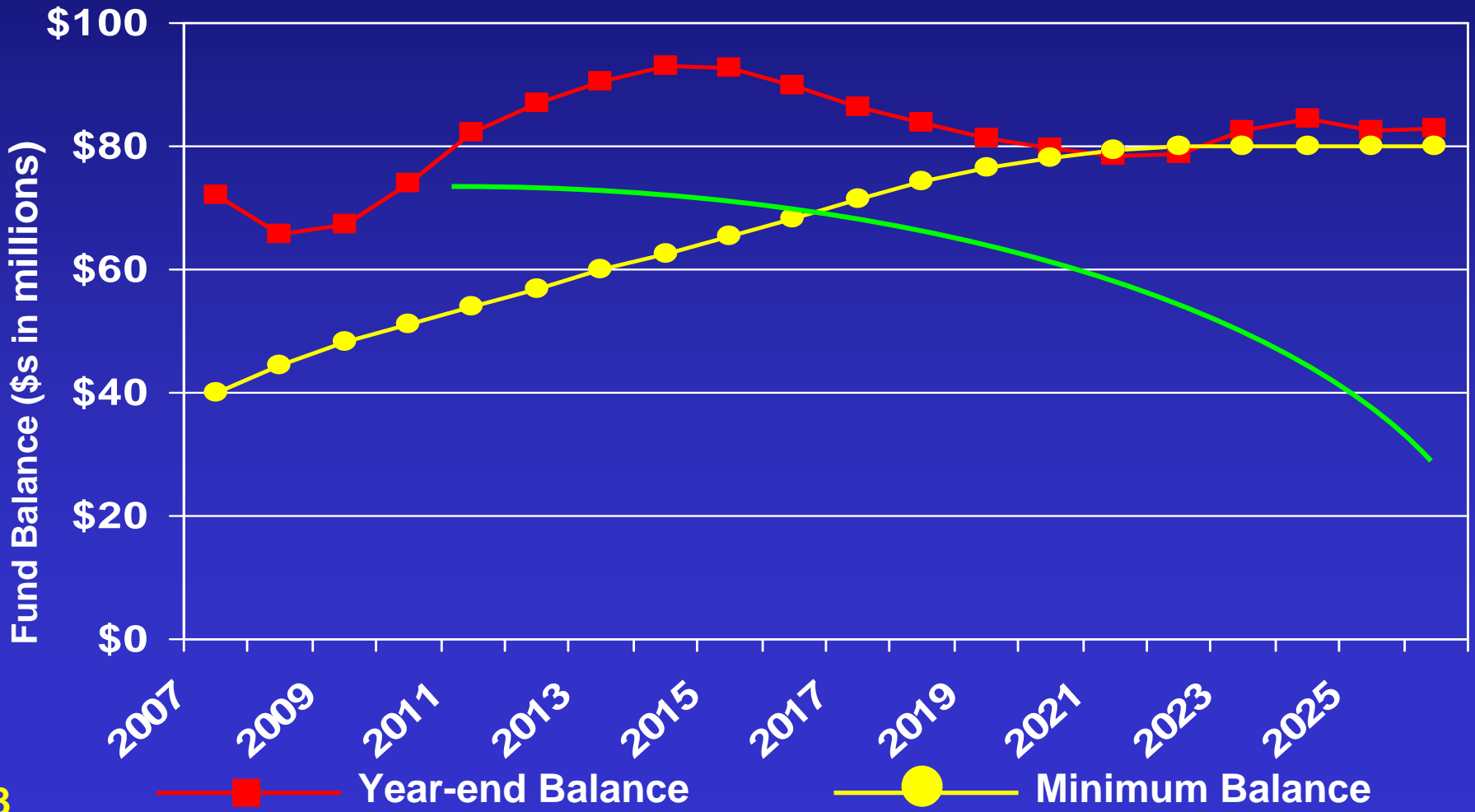
—■— Year-end Balance

—●— Minimum Balance

* Based on quick recovery and annual SAC rate increases of \$145 for the next 15 years.



Sensitivity of SAC Rate on Fund Balance





MCES Customer Forums



Golden Valley
Brookview Community Center (Willow Room)
Wednesday, June 18, 2008: 9:00–11:00 a.m.

St. Paul
League of Minnesota Cities (St. Croix Room)
Monday, June 23, 2008: 1:30–3:30 p.m.



Industrial Customer Forum
St. Paul - Metro 94
Thursday, June 19, 2008: 8:00–10 a.m.



SAC

Questions/Concerns

