

**ADVISORY INFORMATION**

Date Prepared: October 1, 2008

Subject: Service Availability Charge (SAC) Policy Update and SAC Payment Deferrals in Certain Economic Development Circumstances

Proposed Action:

That the Metropolitan Council approves changes to the Service Availability Charge (SAC) policy, attached as exhibit A.

Summary of Committee Discussion / Questions:

Staff summarized the deferral proposal, and other minor updates proposed for the SAC policy. In addition, staff mentioned a discussion with MetroCities about this proposal - whose interest is primarily that deferrals be optional for communities. It is so proposed.

Highlights of the questions follow:

- CM Bowles asked for clarification as to whether this is an option for any business, providing a municipality would allow it, and if there is a concern if a lot of deferrals are requested. Staff responded that criteria and procedure were not yet developed; however, the proposal is that each deferral would have to be of economic significance to the region. Deferrals would involve some administrative effort, so it is not proposed to allow small deferrals. At this time there are ample funds in the SAC reserve. The sufficiency of the reserve will continue to be reviewed in the future and staff will write the procedure to allow a discontinuation of deferrals if cash flow in the SAC reserve becomes a concern.
- CM Scherer asked whether the interest rate charged should be the investment rate earned on the Council's SAC funds (in the long-term investment portfolio). Staff stated that the Council is restricted, by statute, to the Council's approximate cost of interest on our bonds outstanding.
- CM Scherer indicated that SAC fees on stadiums and restaurants are a substantial burden and to some extent represent the relocation of sewer load, so we should give them this financing option. Staff agreed, discussed the SAC payments made for the new Gophers and Twins stadiums, and noted that those SAC fees are appropriate as they represent the maximum capacity that the sewer system must stand ready to serve in each location.
- CM Bowles requested that an information item outlining the criteria and procedure be brought to the Committee. She commented that municipalities may also have to develop criteria.
- CM Wittsack asked whether a municipality could make the upfront payment to the Council but allow a deferral of the payments to them by the business. Staff answered that would be acceptable to the Council; however, having a sufficient cash balance to finance a big SAC payment would be a hardship for some municipalities.
- CM Leppik asked whether this was requested by DEED for use for an industry that may move out of state. Staff acknowledged that DEED did originally request this tool for that purpose, but that the proposal is written generally for the benefit of the metro region and could also be used to attract a business to the region.



Environment Committee

Meeting date: September 23, 2008

For the Metropolitan Council Meeting of October 8, 2008

ADVISORY INFORMATION

Date:	Sept. 12, 2008
Subject:	Service Availability Charge Policy Update and SAC Payment Deferrals in Certain Economic Development Circumstances
District(s), Member(s):	All
Policy/Legal Reference:	Policy 3-2-5 and MN Statute 473.517 subd. 6
Staff Presented/Prepared:	Jason Willett 651-602-1196
Division/Department:	MCES c/o William G. Moore 651-602-1162

Proposed Action

That the Metropolitan Council approves changes to the Service Availability Charge (SAC) policy, attached as exhibit A.

Background

Market forces on corporations seeking potential expansion locations in the metropolitan area are pushing them to be more competitive and thus lower their overall capital costs. The Minnesota Department of Employment and Economic Development (DEED), in response to industry feedback about overall government imposed costs in comparison to those required in other states, has contacted MCES about identifying ways to assist heavy water and wastewater users lower their upfront capital costs.

The Council recently went through a public input process and then changed rules to allow communities the option to transfer SAC credits under certain circumstances. In addition to that tool, DEED has asked MCES to explore the option of allowing companies to defer the SAC payments due on a new site for up to 10 years as a way to lower the upfront cost of development of new manufacturing facilities that will have a significant economic impact on the State's economy. Payment terms are not a matter of SAC rules but rather Council policy.

The proposed policy change will allow a voluntary deferral of SAC payments for a community where a substantial economic issue is involved; and where the community takes the default risk, agrees to interest on the deferred amount, and also agrees to defer its own local SAC fees, if any. Staff also proposes editorial changes to update to the Council's SAC policy – a redlined version of the Policy which shows the changes is Exhibit B.

Rationale

Providing this option to communities may help prevent jobs and tax base from moving out of the metro region.

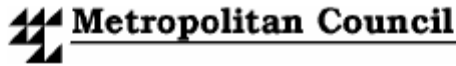
Funding

If a business leaves the metro region, no SAC revenue at all will be collected. If this keeps a business here or attracts one this is a gain of funding as well as an increase in our economy of scale for operations in general.

If a relocating metro business would have stayed in the Region even without this deferral, the Council will not lose on this proposition as it will be made whole because the deferral will require interest – such that the same SAC revenue is collected in real dollars. Because we have substantial funds in the SAC reserve the deferred timing of the collection will not be a problem.

Known Support/Opposition

DEED requested and approves of this SAC deferral proposal.



POLICY – SERVICE AVAILABILITY CHARGE

Section/Number:	3-2-5	Total Pages:	2
Dept. Responsible:	MCES Office of Financial Management and Planning	Effective Date:	9/11/98
Special Note:	Subordinate to <u>2030 Water Resources Management Policy Plan</u> policies on "Rates and Charges"	Revision No.:	4 (draft)

I. Policy:

Metropolitan Council Environmental Services (MCES) shall maintain a municipal Service Availability Charge (SAC) system for funding the reserve capacity portion of the Council's capital project expenses for the Metropolitan Disposal System (MDS).

SAC rates shall be based upon MCES's projected and actual reserved capacity, capital project costs, residential equivalent connections (RECs) for connection directly or indirectly to the MDS, and the Council's financing decisions (borrowing or pay-as-you-go). Municipal SAC rates will be computed by staff and approved by the Council.

SAC will be uniform within the urban service area of the region. SAC for a Rural Growth Center where the Council owns a treatment facility will be based on the reserve capacity of that plant and the Council's wastewater debt service specific to the Center. SAC for a Rural Growth Center where interceptor facility(s) are owned by the Council will be the urban SAC plus a charge based on the reserve capacity of the specific interceptor(s) and the Council's wastewater debt service specific to the Center.

Except in a multi-year economic downturn, the Council will set rates to maintain a SAC reserve fund with a minimum balance requirement at the end of each year. That minimum balance will be the average of the required SAC transfer projected for each of the five following years. Use of the minimal reserve shall be allowed only in an economic downturn or natural disaster and as approved by the Council.

MCES will maintain municipal SAC Rules to assure consistent treatment of all municipalities in the region. MCES staff is authorized to maintain the SAC Procedure Manual, including the rules, and make editorial or non-substantive changes as needed. MCES will review municipal records at least once every three years to assure conformance and consistency to its SAC Rules. The SAC Procedural Manual (available on the Council's website) is authorized as part of this policy.

MCES will maintain a credit system to tally reduced capacity demanded in a municipality through the change of use on properties. These credits shall be allowed to offset municipal SAC that would otherwise occur for new development or new capacity demand within the municipality.

For issues of region-wide significance, SAC payments by municipalities may be amortized over a period of up to ten years. Payments must include interest and a guarantee of payment by the municipality.

At least every third year, MCES will review and report on the SAC program's financial performance.

II. Purpose of policy:

Each year, capacity is reserved for and the costs of reserve capacity are allocated to municipalities that are either served by and discharging wastewater into the Metropolitan Disposal System or which will be served by and able to discharge wastewater directly or indirectly into the MDS. This policy provides for the establishment, implementation and review of the municipal SAC system.

III. Background and reasons for policy:

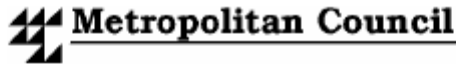
This policy is based on Minnesota Statutes 473.517, subd. 3 and subd. 6 and case law related to the municipal SAC system. The 2030 Water Resources Management Policy Plan provides some additional direction for the municipal SAC rates. EPA User Charge regulation 35.929-2 requires a biennial review, but the annual budget review meets the minimum requirements.

IV. Implementation/Accountability:

MCES's Office of Finance is responsible for calculating and recommending SAC rates to the Council, and for the triennial financial review of the program. In addition, the SAC section within ES Finance is responsible for all Council determinations of SAC units, maintaining all non-industrial SAC determination records, maintaining SAC rules and for reviewing SAC functions in the municipalities. ES Finance will negotiate agreements for any deferral of SAC payments and keep records of these amortizations.

MCES's Industrial Waste and Pollution Prevention section is responsible for SAC reviews of permitted industrial users and for keeping records on SAC baselines for industry.

Regional Administration's Fiscal Services department is responsible for invoicing and accounting for SACs.



POLICY – SERVICE AVAILABILITY CHARGE

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Dept. Responsible:	MCES Office of Financial Management and Planning	Effective Date:	9/11/98
Special Note:	Subordinate to <u>2030 Water Resources Management</u>	Revision No. 3-(12/14/05)	<u>4</u>
(draft)	<i>Policy Plan policies on "Rates and Charges"</i>		

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municipal SAC that would otherwise occur for new development or new capacity demand within the municipality.

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