

**E** Environment Committee  
For the Metropolitan Council meeting of July 28, 2010

Item: 2010-253

**ADVISORY INFORMATION**

Date Prepared: July 14, 2010

Subject: Adoption of Service Availability (SAC) Rates for of City Elko New Market

**Proposed Action:**

That the Metropolitan Council adopts a base Service Availability Charge (SAC) rate of \$3300, effective upon adoption, for the rural growth center community of Elko New Market subject to the community entering into an agreement with the Council.

In addition, that the Council authorizes the Regional Administrator to enter into an agreement with the community of Elko New Market to specify terms for contingent loans for part of the reserve capacity charges and other SAC matters, including but not limited to the terms on Attachment A.

**Summary of Committee Discussion / Questions:**

Council Member Scherer asked if there are other communities that have special SAC rates. Staff responded that there none currently; however there were some different SAC rates historically and there also is a potential for a few more in the future in other rural growth centers.

Scherer also asked what the "up charge" or impact would be on the regular SAC if this community was aggregated with the rest for SAC purposes. Staff said they would check but did not have the figure because the policy requires the higher SAC, and if not for this proposed approach the SAC rate for this community would be quite a bit higher and probably effectively would not allow the City to grow. Scherer suggested that it might be a good idea to re-examine the policy because the economic situation has changed. Staff mentioned that the policy was a compromise as the rural communities pay the same municipal wastewater charge as the urban communities but a special SAC to cover the extra costs in those areas. It was considered a balance of interests because some urban communities were concerned about subsidizing growth in the rural areas (this policy was hoped to consolidate growth in the rural areas but not attract it from urban areas).

Jason Ponsonby, Elko New Market Mayor and Thomas Terry, Elko New Market City Administrator, expressed appreciation of consideration of this item. They believe Council staff's representation of the item is correct – it is a balance weighing out the region's interest against the practical realities of the current economic situation. The Elko New Market City Council is supportive of what has been proposed. They thanked staff for efforts to find a compromise that will allow the cost of interceptor to be addressed, while not burdening taxpayers or discouraging future growth.

Council Member Wulff agreed that this is a good compromise and solution to a very difficult situation.

Motion to approve proposed action was made, seconded, and passed unanimously.

# **E Environment Committee**

**Meeting date: July 13, 2010**

**For the Metropolitan Council Meeting of July 28, 2010**

<b>ADVISORY INFORMATION</b>	
<b>Date:</b>	July 1, 2010
<b>Subject:</b>	Adoption of Service Availability (SAC) Rates for of City Elko New Market
<b>District(s), Member(s):</b>	All
<b>Policy/Legal Reference:</b>	MS 473.517; Water Resources Policy Plan (pages 43-44); and Council Administrative policy 3-2-5 (re. SAC)
<b>Staff Prepared/Presented:</b>	Jason Willett 651-602-1196; Bryce Pickart 651-602-1091
<b>Division/Department:</b>	MCES c/o William G. Moore 651-602-1162

### **Proposed Action**

That the Metropolitan Council adopts a base Service Availability Charge (SAC) rate of \$3300, effective upon adoption, for the rural growth center community of Elko New Market subject to the community entering into an agreement with the Council.

In addition, that the Council authorizes the Regional Administrator to enter into an agreement with the community of Elko New Market to specify terms for contingent loans for part of the reserve capacity charges and other SAC matters, including but not limited to the terms on Attachment A.

### **Background**

Council policy requires separate cost pools and SAC rates for the reserve capacity charges for Rural Growth Centers. MCES will require a SAC rate for Elko New Market in 2010. Because of the recession, development occurring now or projected in the near term is limited. Thus the reserve capacity in the pipe to the city will be high for a few years and the number of new RECs on which we would charge SAC will be low. This leads to the high SAC rates and the request to defer a part of these costs to future years so that the community can assess retail SAC that will not further depress growth or lead to a competitive disadvantage with neighboring communities. Without such a relief mechanism, the goals of the Water Resource Management Policy Plan may be unachievable. These goals include providing for enhanced treatment in rural growth areas (including specific to Elko New Market, ending the discharge to the Vermillion River, which is a trout stream) and orderly development which is expected to have a long term cost advantage compared to sewerage an area where much property is developed on individual septic systems. The proposed mechanism provides for SAC to be higher than in the urban service pool and through reserve capacity loans it creates a method for the city to defer payment of SAC in those years when growth is below plan.

**Rationale**

A SAC rate needs to be set for Elko New Market as SAC liability to the Council is incurred one year before service is expected to be available (through the pipes we are building).

**Funding**

Capital costs to provide wastewater service to the city includes two components: 1) costs incurred only for the purpose of serving the city and 2) costs that are planned to eventually serve other nearby community(s) but which are incurred now because of the service extension to Elko New Market. Capital spending under component 1 is wholly assigned to the Elko New Market cost pool for determining SAC. Component 2's capital costs assigned to the city SAC cost pool are limited to the incremental cost of incurring the service now (based on the present value of the costs to accelerate the service implementation). Note that per Council Policy 3-2-5 a Rural Growth Center served by a regional interceptor pays the full urban SAC in addition to the described increment specific to the Center. Capital costs not assigned to the Elko New Market cost pool are funded in the same manner as other regional system costs.

In addition, a portion of the capital is recovered in the regular municipal wastewater charges and the urban portion of SAC that will be paid by the city. The recommended loan portion of the city's assigned reserve capacity costs (when and if growth is less than planned) will be deferred using financing from the Council's SAC fund or general investment pool. The financing will be required to be paid back with interest over time (see Attachment A).

**Known Support / Opposition**

To be determined.

Key terms of the proposed and future Council and Rural Growth Center (RGC) agreements:

- 1) The Council's (wholesale) Service Availability (SAC) rate setting for each RGC will use the individual 2030 Comprehensive Plans' forecast of RECs for 2030 (interpolated by a constant percentage per year for growth to 2030, or using a different pattern as may be negotiated by the parties) as the basis for the expected growth in units on which SAC will be paid. However, in no event will the RGC SAC rate be less than that set for the urban area.
- 2) Reserve capacity methodology and actual costs for each RGC cost pool will be consistent with the methodologies for the urban SAC computations at the time and as specifically determined for the RGC, pursuant to Council policy and in the sole discretion of the Council, except that a smoothing mechanism for SAC rates may be included so long as the present value of the expected cost recovery is not materially changed.
- 3) If the wholesale SAC units collected and paid to the Council, on a cumulative basis, are below the forecast of cumulative growth based on the 2030 Plan for a RGC, the uncollected wholesale SAC shall be computed and the annual amount of the deficiency shall be considered a Reserve Capacity Loan from the Council to the RGC, pursuant to M.S. 473.517 subd. 6. The Agreement may fix the interest rate for the term of the loan.
- 4) The RGC shall pay on the Reserve Capacity Loan, at a minimum, an annual payment set by the Council which shall be an amount not greater than the ordinary Municipal Wastewater Charge based on the community's annual flow volume. The payment shall be applied first to interest accrued and the remainder against the cumulative outstanding principal of the loan. During the first five years of the Loan, the Council may require a lesser payment to allow the RGC to ramp up their retail sewer charges to cover the Loan payments.
- 5) The Council agrees that if a) the RGC meets the conditions of the Council to become a Developing Community (that is, they are no longer deemed a RGC) and if the wholesale SAC rate for the community is greater than the urban SAC rate, b) another city or township is provided sewer service through the Elko New Market interceptor, c) Elko New Market reaches its 2030 Comprehensive Sewer Plan population forecast, or d) at the conclusion of the 2030 Water Resources Policy Plan ( i.e. in the year 2030), the SAC rate increment may be frozen at their then current rate for the RGC or retained at a higher rate than the urban SAC until the outstanding loan is entirely repaid. This Agreement term shall survive until the entire Loan is repaid, or the condition in section 6 occurs, at which time the SAC rate for the RGC becomes the urban SAC rate.
- 6) The parties agree that the terms of the agreement will be intended to handle the short or medium term problem that planned growth is deferred from the expectations of the comprehensive plans. However, if 30 years after the first draw on the Loan, substantial planned growth has not occurred and expectations at that time are that it may continue to be below forecasts, the parties agreement will include a requirement to renegotiate in good faith to provide for an end to the Loan that does not require an unreasonable burden on the sewer rates of the still small City.