

E Environment Committee

Meeting date: February 27, 2007

ADVISORY INFORMATION

Date:	February 21, 2007
Subject:	Preliminary 2006 Operating Results
District(s), Member(s):	All
Policy/Legal Reference:	MS 473.517(1) and Council policies 3-1, 3-1-3
Staff Prepared/Presented:	Jason Willett, 651/602-1196
Division/Department:	MCES c/o William G. Moore, 651/602-1162

Financial results for 2006 will not be final until the completion of the annual audit expected in late spring or early summer; however, the close of 2006 accounting indicated that actual expenses and revenues for the year will result in a surplus of approximately \$7.2 million, \$5.2 million in excess of the budgeted \$2.0 million surplus. Savings have been realized in several areas: labor due to a number of vacant positions, contracted services, chemicals, capital purchases and interdivisional charges. Offsetting those savings were higher charges for utilities (electricity) and materials.

Recent action by the Environment Committee would shift one million of that amount to the 2007 budget to support projects carried over from the 2006 budget. The remaining surplus transfers to the ES Reserve/Contingency Fund.

Council policy 3-8 establishes a target for ES operating reserves of 10% of annual budgeted expenses, exclusive of debt service. The reserves at the beginning of 2007, after the designation of the one million for 2007 carry-forward operations, will represent 13.7% of 2007 operations, exceeding the 10% target by \$4.2 million. The Council could allocate the surplus to achieve wastewater purposes, other than the contingency reserve. Listed below is some background information on two key options.

Retiree Health Insurance Reserve

This reserve accumulates resources to pay the division's actuarially accrued liability for future retiree health insurance costs for eligible current employees. The ES liability was actuarially reevaluated in 2006, and indicated the division's liability at the end of 2006 to be \$68.2 million. At the close of 2006, \$23.9 million was funded. Council policy calls for a review of applying part of all of surpluses to this reserve.

Pay-as-you-go for Capital Projects

At the end of fiscal years 1994-1997, MCES experienced significant favorable surpluses and put more than \$17 million toward capital projects, thus reducing current debt service. The current plan calls for pay-as-you-go from Annual Budget revenues of \$1 million in 2007 with \$2 million/year increases thereafter. Nevertheless, Council wastewater debt is expected to reach \$1 billion by 2008 and annual debt service of \$100 million by 2010.

Discussion at this meeting is intended to identify and start discussion of any additional options that the Committee would like considered. A business item to implement any decision will be brought to the Environment Committee meeting following the final audit of the 2006 results.