

E Environment Committee

Meeting date: October 12, 2010

For the Metropolitan Council Meeting of October 27, 2010

ADVISORY INFORMATION	
Date:	October 6, 2010
Subject:	Adoption of Sewer Availability Charge (SAC) Rates, and Authorization to Negotiate and Execute Wastewater Service Agreement with the City of East Bethel
District(s), Member(s):	All
Policy/Legal Reference:	MS 473.517; Water Resources Policy Plan (pages 43-44); and Council Administrative policy 3-2-5 (re. SAC)
Staff Prepared/Presented:	Jason Willett 651-602-1196 and Bryce Pickart 651-602-1091
Division/Department:	MCES c/o William G. Moore 651-602-1162

Proposed Action

That the Metropolitan Council adopts an initial base SAC rate* of \$3,300 for the rural growth center community of East Bethel, subject to the community entering into an agreement on this matter with the Council.

In addition, that the Council authorizes the Regional Administrator to enter into an agreement with the community of East Bethel 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.

*Rates are per residence or residential equivalent capacity, per SAC rules. Discounts will apply in the same manner to this base SAC rate as to the urban SAC rate.

Background

Council policy requires separate cost pools and SAC rates for the reserve capacity charges for Rural Growth Centers. East Bethel currently does not have a municipal wastewater system. In November 2009, the Met Council authorized a design agreement to build a water reclamation plant to serve East Bethel. Before this plant is completed mid-to late 2012, MCES will require a SAC rate for developers in East Bethel who plan to connect to the new sewer system.

Because of the recession, development occurring now or projected in the near term is limited. Low utilization results in high reserve capacity. This would lead to high SAC rates and thus the request to defer a part of these costs to future years so that the community can charge a retail SAC that will not further depress growth or lead to a competitive disadvantage with neighboring communities. The proposed contractual mechanism is the same as was recently approved for the City of Elko New Market. Also, 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 East Bethel, the unique land application of the treated wastewater) 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.

Rationale

A SAC rate needs to be set for East Bethel to be ready when new permits are issued by developers who plan to connect to the system.

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. Capital spending under component 1 is wholly assigned to the East Bethel cost pool for determining SAC. Component 2's capital costs assigned to the City include a local trunk sewer benefit and the incremental cost of incurring the service now. These component 2 costs are covered by a cost sharing agreement that the Council has previously authorized and so are not included in the SAC computations.

As with the urban SAC system, a portion (the non-reserve capacity portion) of capital costs are recovered through regular municipal wastewater charges that are paid by all cities connected to the MCES sewer system. 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).

The \$3,300 SAC rate will be adjusted if the final capital cost or interest rate are materially different than planned. Also, each year the SAC rate will be increased per the formula in the agreement.

Known Support / Opposition

City staff supports this contractual approach to mitigating the initial SAC rates.

Key terms of the proposed East Bethel SAC Agreement:

- 1) The Council's (wholesale) SAC rate setting for the City will use the individual 2030 Comprehensive Plans' forecast of residential equivalent connections 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 City's SAC rate be less than that set for the urban area.
- 2) Reserve capacity methodology and actual costs for the City cost pool will be consistent with the methodologies for the urban SAC computations at the time and as specifically determined for the City pursuant to Council policy (interpreted in the sole discretion of the Council). A smoothing mechanism for SAC rates may be included so long as the present value of the expected cost recovery through SAC 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 the City, 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 City, pursuant to M.S. 473.517 subd. 6. The Agreement may fix the interest rates for such loans for the term of the Agreement.
- 4) The City shall pay on such Reserve Capacity Loans, 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 City'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 City to ramp up their retail sewer charges to cover the Loan payments.
- 5) The Council agrees that if at any time during the term of the Agreement: a) the City meets the conditions of the Council's then adopted policies to become a Developing Community (that is, they are no longer deemed a Rural Growth Center), or b) another City is provided service using the East Bethel wastewater treatment plant, c) the City reaches its 2030 Comprehensive Sewer Plan population forecast, or d) at the latest, at the conclusion of the 2030 Water Resources Policy Plan (i.e. in the year 2030), the East Bethel SAC rate may be frozen at its then current rate and retained at a higher rate than the urban SAC until the outstanding loans are entirely repaid. This Agreement term shall survive until all the entire Loans are repaid, or the condition in section 6 occurs, at which time the SAC rate for the City 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 such Loan, substantial planned growth has not occurred, and expectations at that time are that it is expected to continue to be below forecasts, the parties Agreement will include a requirement to renegotiate in good faith to provide for an end to the Loans that does not require an unreasonable burden on the sewer rates of the still small City.