

Environment Committee

Meeting date: May 10, 2011

For Metropolitan Council Meeting of May 11, 2011

ADVISORY INFORMATION

Date:	May 2, 2011
Subject:	Authorization to Hold a Public Hearing on the Sewer Availability Charges (SAC) Transfer Amount which impacts (SAC) and Wastewater Reserves
District(s), Member(s):	All
Policy/Legal Reference:	Council Admin. Policies 3-2-5 (SAC) and 2-1 (Public Hearings); Waste Resources Management Policy Plan's Policy on Rates and Charges, and Minn. Statute 473.517
Staff Prepared/Presented:	Jason Willett, 651-602-1196
Division/Department:	MCES c/o William G. Moore, 651-602-1162)

Proposed Action

That the Metropolitan Council authorizes staff to schedule and hold a public hearing to gather public input on the Sewer Availability Charge (SAC) Transfer Amount proposed for the 2012 MCES Budget.

Background

State law requires that the Metropolitan Council charge local government units the costs of 'reserve capacity' (i.e. unused wastewater capacity in our pipes and plants) that was and is built into the metropolitan sewer system for future use. Since 1973, the Council and its predecessor agencies have complied with this law by implementing the SAC system. The SAC fee has allowed the Council to efficiently build reserve capacity for future users into our capital projects. It has moved the cost of this reserve capacity from a direct city (lump sum) cost, as was charged prior to SAC, to a pay-as-you-build system and, as a result, transferred the development risk from cities for which the reserve capacity is built to the region. Moreover, this method has mitigated that risk because of the regional diversity in development; that is, if development was not occurring in one city it was in others.

Paid SAC units collected by the Council for its first 30+ years averaged about 20,000 units paid per year. In 2009, this dropped to a record low of 6,675 units. 2010 saw a slight recovery with the collection of 8431 units. However, 2011 to date is running below that pace. This decline in collections caused the SAC reserve fund balance to drop to about \$20 million at year end 2010. If development and associated SAC receipts continue to remain low, there is a high risk of depleting this reserve fund and not being able to make the statutorily required SAC transfer towards wastewater capital project costs.

Currently, development throughout the entire metro region is slow in all sectors. Moreover, predictions are not for a quick recovery. SAC rates cannot be raised enough to make the normal SAC Transfer Amount without exacerbating the difficulty of development. Due to this developing situation, legislation was passed in 2010 to allow for a reduction in the SAC Transfer Amount when financially needed. A reduction in the SAC Transfer Amount means that operating reserves will need to be used or the municipal wastewater charges will need to be raised to cover the amount not transferred from SAC (a "shift" of costs from future users to current users). Without a reduction in

the SAC Transfer Amount, the SAC rates would have to be increased at a rate that might drive development out of the sewerred area and/or might inhibit an economic recovery in the Region.

At this Committee meeting, staff will present analyses of the need for a shift, as well as discuss other 2012 rate and budget concepts and related matters.

Rationale

The 2010 SAC law allows the Council, "if after appropriate study and a public hearing" to make a determination "that for the next fiscal year a reduction in the (normal) SAC Transfer Amount is necessary or desirable to insure adequate funds remain in the wastewater reserve capacity fund, based on a goal of maintaining at least the next years' estimated SAC Transfer Amount in the Wastewater Reserve Capacity Fund." Analysis indicates that a reduction in the SAC Transfer is likely needed for 2012 (as it was in 2011). We expect to continue to develop and provide details of the recommended shift and further study thereof to the Committee, at a Public Hearing and to our regular municipal and industrial customer forums. However, because of the long lead time expected for notice of a formal public hearing, scheduling it soon is necessary to proceed with our normal rate setting schedule.

Funding

The regional wastewater systems costs will continue to be fully funded by fee and miscellaneous wastewater related revenues.

The impact of the shift that will be proposed is a *reduction* in the SAC Transfer Amount for 2012, which would result in a larger portion of the expenses of incurred capital project costs (mostly debt service) being paid by current users. The legislation requires that when development picks up and the wastewater reserve capacity fund is rebuilt to twice the expected SAC Transfer Amount, the shift will reverse, restoring (roughly) the equity between current and future users.

The wastewater operating and contingency fund is well above the Council's target, and will be proposed to be used to cover the shift (instead of increasing the Municipal Wastewater Charge).

Known Support / Opposition

Last year, Metro Cities and the Public Facilities Authority supported the bill to get this authority. Moreover, the SAC task force supported it as well in their final report. However, the analysis necessitating a 2012 shift has not yet been shared with the public.

Calendar

The following is tentative schedule for a hearing on this shift and adoption of 2012 rates and charges:

Environment Committee authorization to conduct the public hearing:	May 10
Council authorization to hold a public hearing (SW to max notice time to public)	May 11
Environment Committee review of proposed 2012 operating budget,	June 14

rates, and SAC shift (information for customer forums)

Regular customer forums (municipal and industrial)	Late June
Formal Public Hearing on SAC shift	June 28
	(before EC meeting)
Formal public input period on SAC shift ends:	July 8
Environment Committee review of public input, and recommendations for operating budget, rates and charges for 2012	July 12
Potential Council approval of charges and rates	July 27
Notice to cities of 2012 rates and charges	August