

Environment Committee

Meeting date: May 10, 2011

For Metropolitan Council Meeting of May 25, 2011

ADVISORY INFORMATION

Date:	May 2, 2011
Subject:	Authorization for Reserve Designation
District(s), Member(s):	All
Policy/Legal Reference:	3-1 (Budgets), 3-1-3 (Funding OPEB) and 3-8 (Target Fund Balances); M.2. 473.517 subd. 3, M.S. 473.573 subd.1
Staff Prepared/Presented:	Jason Willett, 651-602-1196
Division/Department:	MCES c/o William Moore, 651-602-1162

Proposed Action

That the Metropolitan Council authorizes designation of \$15.3 million within the wastewater operations and contingency reserve fund for use to fund a Sewer Availability Charge (SAC) shift for 2012 and for anticipated future SAC shifts.

Background

The wastewater operating and contingency reserve fund finished 2010 at about \$30 million. About \$9 million of the reserve was from a surplus from wastewater operations in 2010. This large surplus was a result of extraordinary measures taken in response to the recession (and specifically the financial stress in the SAC receipts and fund). The surplus was largely from cost savings from staff and management actions (e.g. holding open vacancies, energy savings and overtime reduction) and prices being less than budgeted, both of which are attributable in part to the recession. In addition, industrial revenue was substantially over its budget.

Council policy targets the operating and contingency reserve at 10% of ongoing wastewater operations and maintenance costs (all costs but those related to capital budget spending) which is about \$12 million currently. Thus this reserve balance is about \$18 million in excess of the Council's target.

However, our current analysis projects that the SAC reserve will remain below target and that \$4.3 million is needed as a "SAC shift" for 2012. In order to avoid increasing the Municipal Wastewater Charges (MWC) for 2012 by this amount, the use of the operating reserve is appropriate, as this is an annual need and annual use of funds. Since this is a shift from "future user" responsibility to "current user" a public hearing on the matter will be held.

In addition, current analysis shows that likely future SAC shift needs for 2013 to 2015 may exceed \$20 million if the economy continues to recover slowly. Thus it is also proposed that the Council designate within the fund an additional \$11 million for the purpose of partially pre-funding those likely future SAC shifts. Around this time each year that analysis will be rerun and the designation could be rescinded if the economy (and SAC receipts) recover. In addition, each year before budgeting for the actual inclusion of these designated funds for a "SAC shift", a public hearing will be held as part of the rate setting process.

The reserve details are included as Attachment A.

Rationale

The recommended designations provide benefit to MCES ratepayers by reducing expected future MWC increases. In addition, this designation of the potential use of these funds for SAC shortfalls is expected to make clear that they are likely needed for this purpose and not available for other purposes (such as OPEB or pay-as-you-go for capital project expenses).

Funding

The operating surplus for 2010 went into the wastewater operating and contingency reserve fund. That reserve has available funds for the designation as shown on Attachment A.

Known Support / Opposition

None

Draft of 4/28/11

Attachment A

Wastewater Operations & Contingency Reserve

	<u>\$'s in Millions</u>	<u>Notes</u>
2010 Year-End Balance	30.2	(1)
2011 Budgeted Use	-2.5	
2011 Budget Amendment	<u>-0.6</u>	(2)
Expected 2011 Year-End Balance	27.1	
Council Policy Target	<u>11.8</u>	(3)
Undesignated	<u>15.3</u>	

Proposed Uses/Designations

2012 SAC shift designation	4.3
2013-2015 SAC shift prefunded	11.0
Transfer to OPEB	<u>0.0</u>
	<u>15.3</u>

Notes:

(1) Unaudited, but final as of 4/30/11.

(2) Carry-forward of 2010 work that was unfinished in 2010; these funds contributed to surplus and went into the reserve.

(3) Based on amended 2011 Annual budget = \$211.8 million; less \$92.5 million debt service; less \$1 million pay-as-you-go = \$118.3 million operating budget.