

# Info Items 1 & 2: Sewer Availability Charge (SAC)

- 1) SAC Work Group
- 2) SAC Legislation

**Presented to Environment Committee**  
**September 13, 2011**

**Jason Willett, MCES Finance Director**



# Background

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## **1. 2010 SAC Task Force**

- Recommended bill
- Elimination of sunset on SAC shift?

## **2. 2011 SAC Work Group**

- “SAC surprise”
- Net Credit issue



# 1) 2010 SAC Task Force

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## ■ Meetings

- December 1
- February 2
- April 6
- May 4
- June 1
- August 3
- September 7

## ■ Members

- Peggy Leppik, Council Member & Chair
- Roger Scherer, Council Member
- Joe Huss, Blaine
- Karl Keel, Bloomington
- Noel Graczyk, Chaska
- Harlan Van Wyhe, Maple Grove
- Lisa Cerney, Minneapolis
- Andy Brotzler, Rosemount
- Mike Kassan, St. Paul
- Bruce Loney, Shakopee
- Christine Renne, Ecolab
- Patricia Nauman, MetroCities
- Rick Breezee, Metropolitan Airport Commission
- Dave Siegel, Restaurant Association
- Mark Stutrud, Summit Brewing
- George Anderson, Vision-Ease Lens
- Jason McCarty, Westwood Professional Services



# 2010 Task Force Recommendation Highlights

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## ■ Reserve Capacity:

- **MN Statute 473.517 (3) should be amended so all MCES capital project costs that provide additional capacity are paid by SAC**
  - **If statute is not amended during 2011 Legislature, Council should adopt a reserve capacity determination method that matches intent of above recommendation**

## ■ SAC Shift:

- **2010 amendment allowing temporary shift should remain in effect as written**



# Recommendation Highlights, cont.

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## ■ SAC criteria:

- **Should have technical basis to extent reasonably feasible**
  - **SAC for restaurants should be based on single criterion regardless of restaurant business model**
  - **SAC for all daycare determinations should be based on square footage**
  - **New charge for temporary rental of capacity should be developed**



# Potential Bill Language

- **Minnesota Statutes 2008, section 473.517, subdivision 3, is amended to read:**
  - a) In preparing each budget the Council shall estimate the current costs of acquisition, betterment, and debt service, only, **to provide additional capacity** for either the treatment works or interceptors in the metropolitan disposal system, and shall deduct the same from the current costs allocated under subdivision 1.



# Bill Rationale

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- **Equity: Growth should pay for growth**
  - **Regardless of use/reserve capacity**
  
- **Financial:**
  - **Similar to current method in \$s (on average)**
  - **If economy continues to struggle, allows better match:**
    - **E.g., If SAC receipts and reserve down ⇒ Council delays growth related projects, then SAC \$ required will go down (eventually)**



# SAC 'Shift' Amendment\*

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- **Signed into law 4/1/10**
- **Paragraph (a) describes current SAC practices (no changes)**
- **Paragraph (b) allows Council flexibility to temporarily reduce the SAC transfer and shift this amount to Municipal Wastewater Charges**
  - Limited to when financially necessary
  - Requires study and public hearing
  - Balanced by mandatory minimum SAC rate increase
  - Sunset in 2015
- **Paragraph (c) requires shift back when fund balance recovers**

*\*M.S. 473.517 subd. 3.*





# SAC Shift

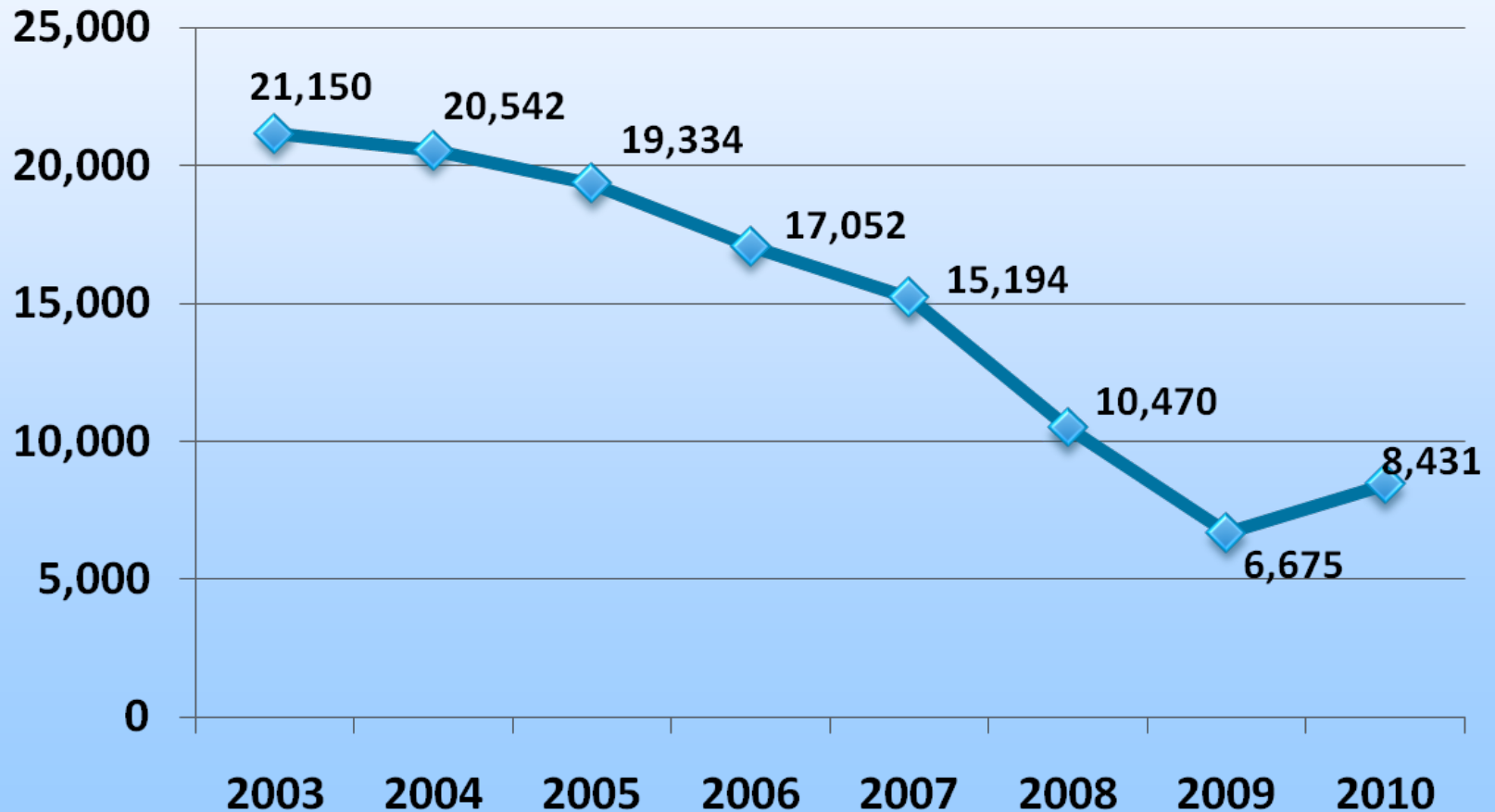
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- **Statute sunsets this authority in 2015**
- **Flexibility may still be needed (Debt Service is typically 20 years)**
  - Bond rating issue
  - Economic issue (SAC rates too high?)
- **Discussed with Metro Cities**
  - Policy committee on 8/31/11
    - Supporting “some flexibility with regard to the sunset date”
    - Metro Cities staff working on language



# SAC Units Collected

- Decreasing SAC units causing pressure on SAC reserve fund balance





# SAC Shift in Preliminary Budget

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- **\$4.3 million SAC shift in 2012**
  - SAC pays \$4.3 million less than reserve capacity computation (was \$4.5M in 2010)
  - Paid from operating reserve fund (not from MWCs like last year)
  - Fiscal impact all in 2012: \$2.65/year (\$.22/month) per household and residential equivalent connection



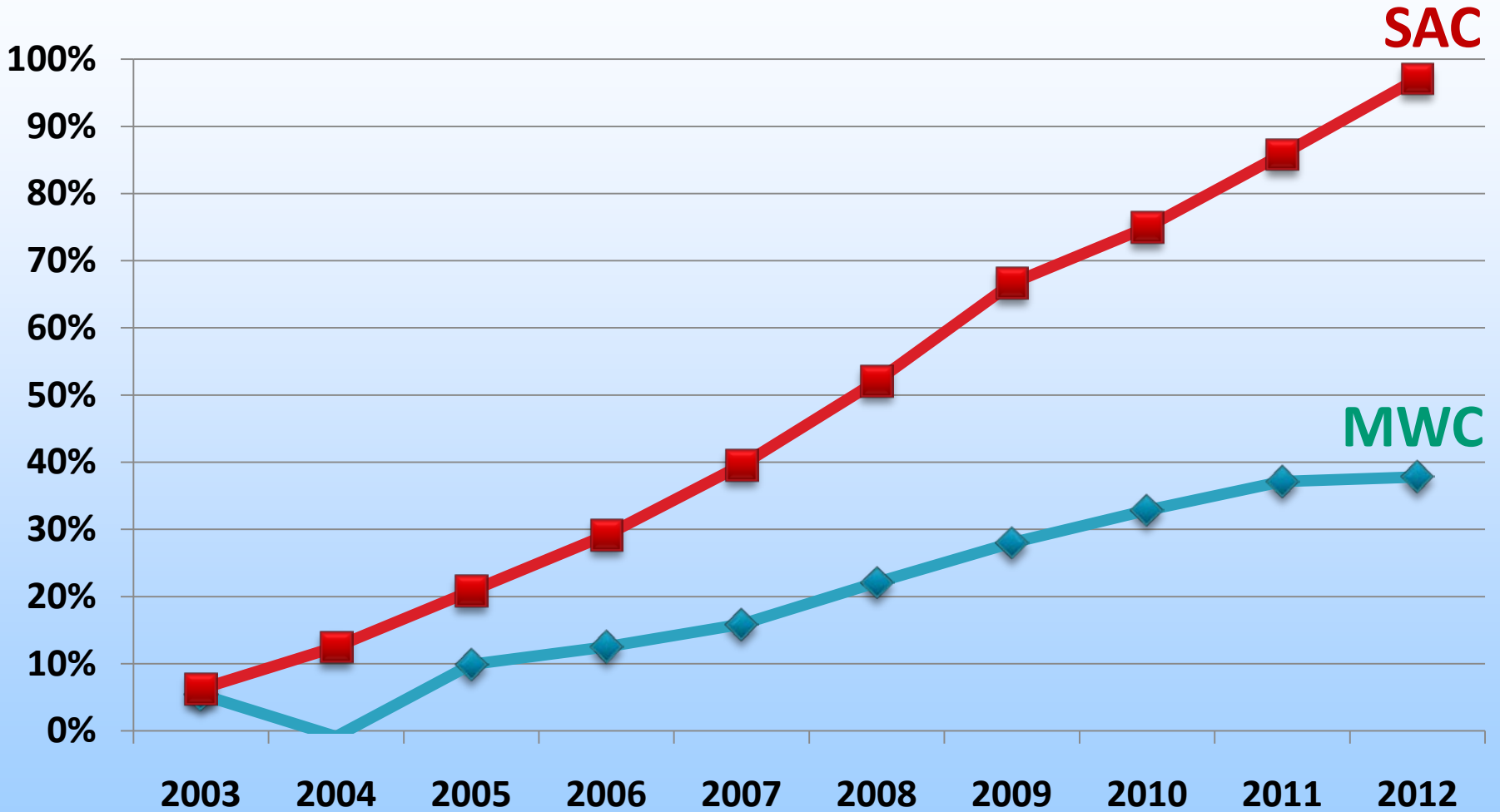
# Historical SAC Rates

*(Per residence or equivalent unit)*





# SAC, MWC Cumulative Increases





# SAC Reserve Balance

| Year/SAC Units |        | SAC Shift | Year-End SAC Reserve Balance |
|----------------|--------|-----------|------------------------------|
| 2007           | 15,193 |           | \$72.1                       |
| 2008           | 10,470 |           | \$55.3                       |
| 2009           | 6,675  |           | \$31.6                       |
| 2010           | 8,431  |           | \$20.4                       |
| 2011           | 7,000  | \$4.5     | \$16.1                       |
| 2012           | 7,000  | \$4.3     | \$10.0                       |
| 2013           | 8,000  | \$9.7     | \$10.0                       |
| 2014           | 9,000  | \$7.2     | \$10.0                       |
| 2015           | 10,000 | \$5.5     | \$10.0                       |

(\$ in millions)

  actual

  estimated

*In this scenario, the “shift back” occurs in 2027.*



# SAC Rate Forecast

(\$ in millions)

| Year | Shift Amount | SAC Rate w/ Shift* | SAC Rate w/o Shift** |
|------|--------------|--------------------|----------------------|
| 2012 | \$4.3        | 2,365 (6.1%)       | 2,990 (34.0%)        |
| 2013 | \$9.7        | 2,510 (6.1%)       | 3,640 (22.0%)        |
| 2014 | \$7.2        | 2,665 (6.2%)       | 3,640 (0.0%)         |
| 2015 | \$5.5        | 2,825 (6.0%)       | 3,640 (0.0%)         |
| 2016 | \$0.0        | 2,995 (6.0%)       | 3,640 (0.0%)         |

*\*Assumes \$10 million SAC reserve balance budget minimum.*

*\*\*Assumes high SAC rates do not adversely influence development.*



# SAC Bill Recommendations

- **Proceed with growth cost language**
- **Add language to extend “shift” provision, subject to Metro Cities agreement**





## 2) 2011 SAC Work Group

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### ■ Meetings

- July 11
- July 25
- August 23

### ■ Members

- Wendy Wulff, Council Member & Chair
- Joe Huss, Blaine
- Harlan Van Wyhe, Maple Grove
- Lisa Cerney, Minneapolis
- Mary Ubl, Minneapolis
- Christine Renne, Ecolab
- Patricia Nauman, MetroCities
- George Anderson, Vision-Ease Lens
- Jason McCarthy, Westwood Professional
- Aaron Day, Blue Construction
- John Ryden, CB Richard Ellis
- Gary Lally, Hoyt Properties
- Lorrie Louder, St. Paul Port Authority
- Thomas Trutna, Small Business Assoc.
- John Kimball, Sunrise Community Banks
- Mike Ryan, University of St. Thomas Small Business Development Center
- Steve Wertz, SPEDCO



# Definition of Problems

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## ■ “SAC surprise”

- Some small businesses indicated SAC charge is unexpected and a hardship
- Some city personnel indicated MCES Community Review findings are also an adverse (and acrimonious) surprise

## ■ Some cities want to revisit net credit rules



# Metro Cities Survey of Cities and 'SAC Surprise'

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- **Informal survey of approximately 60 cities**
- **18 responded**
  - 5 said there were no issues
  - None answered specifically about SAC surprise
- **In general they said businesses think SAC rate is too high**



# MCES Loan Idea

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- **SAC charges sometimes not included in customers' loan package and funds may be difficult to procure after making a determination**
- **Cities have authority to provide terms now**
- **MCES staff discussed a loan idea**
  - SAC would be fully collected
  - Met Council would loan funds to Cities that wanted to participate (M.S. 473.517 subd. 6) with interest
  - Cities would enter loan agreement for payments over time from businesses or property owners
  - If default, cities not required to make remaining payments (but also would not receive SAC credit)
- **Cities concerned about administrative effort**



# SAC Outreach

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## ■ MCES:

- **Compiling list of potential small business and association contacts and creating generic presentation**
- **Drafting brochure to make available to cities**
- **RA Communications committed to help**



# SAC Outreach

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## ■ Private sector outreach list to date:

- NAIOP Commercial Development Association Policy Comm.
- Greater MSP
- Department of Employment & Economic Development (DEED)\*
- Capital City Partnership\*

## ■ Other organizations suggested to contact:

- American Institute of Architects (AIA)
- Association of General Contractors
- MN Commercial Association of Realtors
- MN Commercial Real Estate Women (CREW)
- Economic Development Association of MN
- MN Restaurant Association
- Shopping Center Association
- SPEDCO
- University of St. Thomas Small Business Development Center
- Small business loan officers at metro banks
- NAIOP general member meeting
- Minneapolis Downtown Council

*\*Staff came to Greater MSP presentation*



# Net Credits: General

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- **SAC credits are for capacity freed up within city**
- **When new use occurs onsite, previous wastewater demand is credited**
  - Any increased demand is charged SAC
  - Any decreased demand could be net credit
    - **Example: A 10-SAC restaurant is changed into a 2-SAC retail; net credit could be 8 units (to city)**



# Net Credit Options

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- **Current Net Credit Policy**
- **Previous Net Credit Policy**
- **Net Credits if SAC paid in last 10 years**
- **Longer Look-Back period (LBP)**
- **Depreciating value of credits**





# Reasons for 2010 Change

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- **Council did not want to reward de-intensifying of water use where infrastructure was already in place**
- **Fewer net credits means more paid SAC which (slightly) reduces pressure on SAC rate**
- **SAC can be seen as:**
  - **Buying into multi-billion dollar wastewater infrastructure**
  - **Regular wastewater fees as paying to maintain system**
  - **If site is not paying (or paying less) they are not paying to maintain capacity**



# Financial Impact of Identified Net Credit Options\*

| Net Credit Option         | Demand in \$ Value | Demand in SAC Units | Implied SAC Rate (vs. 2011 Rate \$2,230) |
|---------------------------|--------------------|---------------------|--|
| 1) Current Credit Policy  | 0                  | 0                   | 0  |
| 2) Previous Credit Policy | \$1,329,080        | 596                 | \$2,430                                  |
| 3) If Paid in Last 10 Yrs | \$323,350          | 145                 | \$2,275                                  |
| 4) Longer LBP             | unknown            | ---                 | ---                                      |
| 5) Depreciating Value     | \$330,405          | 257                 | \$2,280                                  |

*\*If applied in 2010.*



# SAC Work Group Recommendations

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- **Develop private sector outreach program emphasizing small business development**
- **Continue to better educate cities about SAC and provide material(s)**
- **No implementation of a Met Council loan program**
- **No recommendation regarding current net credit rules**
  - **Metro Cities asked MCES to continue looking at issue**
- **Other interests:**
  - **Examine existing SAC criteria for conference rooms, as well as LEED certified buildings**



# Questions

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[www.metrocouncil.org/environment/RatesBilling/SAC\\_Program.htm](http://www.metrocouncil.org/environment/RatesBilling/SAC_Program.htm)