

E Environment Committee
Meeting date: May 26, 2009

M Management Committee
Meeting date: June 10, 2009
For the Metropolitan Council Meeting of July 8, 2009

ADVISORY INFORMATION

Date:	May 19, 2009
Subject:	Authorization for Service Availability Charge (SAC) Reserve Fund Use
District(s), Member(s):	All
Policy/Legal Reference:	Policy 3-2-5 and MN Statute 473.517 subd.3
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 the Service Availability Charge reserve fund minimum balance exception for an economic downturn stated in Council policy 3-2-5.

Background

State law requires the Council to charge local government units the costs of “reserve capacity” (unused system capacity) that 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 sewer Service Availability Charge (SAC) system. This system relieves the local government units from paying directly for the reserve capacity and the economic risk that the capacity gets used. Instead, developers pay for these costs (to local governments as development occurs). This system does, however, convey the economic risk to the Council when a region-wide economic decline occurs as it has now.

Funds raised from these charges are restricted in use (to pay for the capital costs of the reserve capacity) and hence are segregated from other Council funds in a SAC fund. This is not an operating fund of the Council, and because of the region-wide development risk, has unique reserve requirements.

The Council’s Administrative policy 3-2-5 states:

“Except in a multi-year economic downturn, the Council will set rates to maintain a SAC reserve fund with a minimum balance requirement at the end of each year. That minimum balance will be the average of the required SAC transfer projected for each of the five following years. Use of the minimum reserve shall be allowed only in an economic downturn or natural disaster and as approved by the Council.” (underlining added for emphasis)

SAC units paid to the Council have been declining for the past several years with a sharp decrease in the past year as a region-wide commercial and industrial decline joined the housing decline. SAC units collected in 2008 were 10,470 which were the lowest since SAC program inception. SAC unit collections in 2009 are continuing this trend and are forecasted to be around 8,000 units for the year.

Rationale

In late 2009 or early 2010, the SAC Reserve Fund is projected to drop below the minimum balance specified in Council policy. The SAC fund use is restricted by statute. The intended method for the Council to mitigate the decline of the fund is to increase the SAC rates. Due to the magnitude of the recession, such a rate increase would need to be quite large and could exacerbate the development decline in the region. The Council's intention in its policy designation for this fund was that it be reserved for this sort of economic downturn and so approval of its use is now proposed.

Funding

Data and projections on SAC units collected, SAC rates, and the fund balances are shown on Attachment A.

Known Support / Opposition

None

Attachment A

SAC financial data and projections

Year-end Balances	SAC Units	SAC Rate	Yr-end SAC Fund Balance	Minimum Balance	Excess Over Minimum Bal.
2004	20,542	\$1,350	\$84.1m	\$35.7m	\$48.4m
2005	19,334	\$1,450	\$82.0m	\$36.4m	\$45.6m
2006	17,052	\$1,550	\$75.7m	\$36.8m	\$38.9m
2007	15,193	\$1,675	\$72.6m	\$38.1m	\$34.5m
2008	10,470	\$1,825	\$55.8m	\$39.5m	\$16.3m

2009 projected	8,000	\$2,000	\$36.0m	\$37.4m	(\$1.4)m
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2010 projected	12,000	\$2,100	\$27.3m	\$35.5m	(\$ 8.2)m
2011 projected	14,000	\$2,200	\$21.7m	\$37.7m	(\$16.0)m
2012 projected	16,000	\$2,300	\$20.5m	\$40.2m	(\$19.7)m
2013 projected	18,000	\$2,450	\$20.0m	\$45.0m	(\$25.0)m
2014 projected	20,000	\$2,600	\$19.0m	\$52.0m	(\$33.0)m
2015 projected	20,000	\$2,750	\$18.5m	\$57.5m	(\$39.0)m
2016 projected	20,000	\$2,900	\$14.4m	\$62.7m	(\$48.3)m
2017 projected	20,000	\$3,050	\$ 8.4m	\$67.2m	(\$58.8)m
2018 projected	20,000	\$3,200	\$ 3.2m	\$69.2m	(\$66.0)m
2019 projected	20,000	\$3,400	0	\$70.6m	(\$70.6)m