

E Environment Committee

For the Metropolitan Council meeting of May 25, 2011

Item: 2011-131

ADVISORY INFORMATION

Date Prepared: May 12, 2011

Subject: Authorization for Reserve Designation

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.

Summary of Committee Discussion / Questions:

Council member Đòàn asked how \$10 million as a SAC reserve minimum was determined, and if that is a safe amount. Staff responded that the \$10M minimum resulted from discussions by the previous Environment Committee and Council. This \$10 million assumption was also mentioned at a 2010 public hearing on the 2011 SAC shift. And since its use in SAC forecasts, MCES staff has explained it to Moody's and Standard and Poor's and the Council has received AAA bond ratings so it appears that the rating agencies are comfortable with that assumption. A minimum balance greater than zero is desirable because actual SAC receipts will not turn out as forecast. It seems a safe assumption because (at current rates) it would take a more than a 4000 unit shortfall to use up the \$10 million.

Council member Rummel asked about how the sufficiency of the wastewater operating contingency reserve will be affected by using some of it for the SAC shift and whether more will be added to that reserve. Staff said that the proposed designation is only for the amount of this reserve above the Council's 10% target for this reserve, and that a surplus in 2011 (and thereafter) might add to the wastewater contingency reserve if it occurs, but it is too early to predict. Staff will keep the committee informed as to SAC receipts and the need for this fee shift as the year progresses.

Council member Van Eyll asked about the 10% target for the operating and contingency reserve, and if that target might change in future budgets. Staff responded that it is a Council policy, so that the 10% number could be changed by the Council, presumably if it thought it was not well matched to the risks. Not all Council divisions have the same target. The operations and maintenance part of the budget that the 10% is applied to will change each year, so the dollar amount for the reserve target will change (albeit this is small). Staff believes 10% has been a reasonable safety measure for ES operating expenses. However, reserves over this amount have been intentionally unspent in recent years given the unsettled economy and stress on SAC revenues. This business item simply designates the \$15.3 million to SAC relief so that they can be used for relief from increases in the municipal wastewater charges caused by SAC shortfalls.

As general background, Council member Đòàn asked how this relates to the definition of the urbanized area, how those boundaries are set and, if boundaries are redrawn, how is the budgeting process affected? Staff explained that SAC is charged only in areas served by the Council's wastewater system, and that the process for setting boundaries is included in the Council's development framework and system plans. It was also asked how many households and population are served by the regional wastewater system, and the answers are about 1.6 million households and residential equivalent connections, and about 2.7 million in population.

Motion to approve proposed action was made, seconded, and passed unanimously.

E 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) recovers. 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.