

E Environment Committee

Meeting date: July 24, 2007

For the Metropolitan Council Meeting of August 8, 2007

Date:	July 17, 2007
Subject:	Transfer of Environmental Services (ES) Operating Reserves
District(s), Member(s):	All
Policy/Legal Reference:	Council policies 3-1-3 and 3-8
Staff Prepared/Presented:	Jason Willett, 651/602-1196
Division/Department:	MCES c/o William G. Moore, 651/602-1162

Proposed Action/Motion

That the Metropolitan Council approve a transfer of \$2.3 million from the wastewater Reserve/Contingency Fund, \$1.15 million to the Retiree Health Fund for ES retirees and \$1.15 million to the Capital Fund for ES' Capital Project expenses.

Issue

Fund transfers require Council approval.

Overview and Funding

Financial results for 2006 have been established with the completion of the annual audit, allowing action on the allocation of excess reserves to other wastewater uses. The final balance in the ES reserve/contingency fund was \$16,495,122.

Council policy 3-8 establishes a maintenance target for ES operating reserves of 10% of annual budgeted expenses, exclusive of debt service and pay-as-you-go for capital project expenses. This target for 2007 is apx. \$11.19 million. Thus, the reserves at the beginning of 2007 exceeded the target by \$5.3 million.

Three million of this excess has been used or designated, as follows:

- \$1.0 million of the excess was used by the carry-forward amendment to the 2007 budget,
- \$1.0 million is planned for the 2008 operating budget to provide some rate mitigation, and
- \$1.0 million has been transferred to fund a new ES liability self insurance fund.

The Council could allocate the remaining \$2.3 million of excess reserves to achieve other wastewater purposes or do nothing and leave the higher reserve/contingency fund as is. The interest on this fund goes into the annual budget for ES.

The two options listed below were discussed at the Environment Committee meeting on February 27 of this year, when action to implement any decision was delayed awaiting the final audit of the 2006 results.

Retiree Health Insurance Reserve

This reserve accumulates resources to pay the division's actuarially accrued liability for future retiree health insurance costs for eligible current employees. The ES liability was actuarially reevaluated in 2006, and indicated the division's liability at the end of 2006 to be \$68.2 million. At the close of 2006, \$23.9 million was funded. Council policy 3-1-3 calls for a review of applying part or all of surpluses to this reserve.

Pay-as-you-go for Capital Projects

At the end of fiscal years 1994-1997, MCES experienced significant favorable surpluses and put more than \$17 million toward capital projects, thus reducing current debt service. In addition, SAC and capital reserves were also used to reduce borrowing for capital project expenses. The current plan calls for pay-as-you-go from Annual Budget revenues of \$1 million in 2007 and \$3 million in 2008, with \$2 million/year increases recommended thereafter. Nevertheless, Council wastewater debt is expected to reach \$1 billion by 2008 and annual debt service of \$100 million by 2010.