

E Environment Committee
Meeting date: July 28, 2009

ADVISORY INFORMATION

Date:	July 23, 2009
Subject:	Authorization to Hold Public Meeting Regarding a Proposal to Change the Reserve Capacity Methodology Used in Computing the Service Availability Charge (SAC) and also Impacting other Wastewater Charges
District(s), Member(s):	All
Policy/Legal Reference:	Council Policy 3-2-5; Water Resources Management Policy Plan; MN Statute 473.517
Staff Prepared/Presented:	Jason Willett 651-602-1096
Division/Department:	MCES c/o William G. Moore 651-602-1162

Proposed Action

That the Environment Committee authorizes staff to hold a public meeting regarding a proposal to change the reserve capacity methodology used in computing the Service Availability Charge (SAC) and also impacting other wastewater charges.

Background

State law requires the Metropolitan Council (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 SAC system. The SAC fee has allowed the Council to build reasonable reserve capacity for future users into our capital projects. It has moved the cost of this reserve capacity from a direct city (lump sum,) cost to a pay-as-you-build system and, as a result, transferred the development risk from cities for which the reserve capacity is built to the region. Moreover, this method has mitigated that risk by the regional diversity in development success. That is, if development was not occurring in one city it was in others... for 35 years. Now, however, we are seeing very little new development throughout the entire region.

Funds raised from SAC 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 Reserve Fund. Computation of the reserve capacity has only had minor changes in the 35 years of the program.

Two problems have made a substantial revision of the computational approach desirable. First, the recession has caused a large decrease in the receipt of SAC units. In 2008, just over 10,000 units were paid, the lowest ever in the history of the program. 2009 units are projected to be even lower at 6000 – 7500 units. This compares to a historical average of about 20,000 units per year. At \$2000/SAC unit, this amounts to as much as a \$28 million annual drop in receipts. At year end 2008, the Council had a \$55 million SAC reserve, which is about 2-3 years worth of the expected deficit if the economy begins a slow recovery. However, depletion of this reserve has an adverse impact on rates (due to loss of interest), possibly on our bond ratings, and reduces the Council's options should the economy not begin recovering soon or drop back into recession. Dramatic raises in the SAC rate might be able to mitigate this reserve decline, but might also adversely impact development in the region.

The second reason for changing the approach to computing the reserve capacity is that there are issues with using flow to determine reserve capacity in the system. The current approach measures flow to determine the amount of the capacity that is reserve. Wet weather can and does effect the computation because inflow and infiltration occurs. Moreover, in the last decade new users have paid SAC – essentially paying for part of the reserve capacity – which should have decreased the remaining reserve, but because system flow has decreased, the computed reserve capacity has actually increased.

Rationale

The proposed alternative computational approach bases the computation on an assessment of the real capacity in the system, and then reduces the reserve amount for each SAC unit paid, and increases it only when new capacity is built. Staff will have details of this approach, implementation options and implications for discussion at the Committee meeting.

The public meeting is proposed to be held in the Council's offices on August 13 with a 10-day written comment period thereafter. Staff would bring a summary of the comments to the Environment Committee on August 25.

Funding

The material impact of this change is a reduction in reserve capacity which would result in a larger portion of debt being paid by current users.

Known Support / Opposition

This has not yet been discussed with the public.