

E Environment Committee

Meeting date: October 12, 2010

For the Metropolitan Council meeting of October 27, 2010

ADVISORY INFORMATION

Date:	October 5, 2010
Subject:	Acceptance of Reserve Capacity/Sewer Availability Charge (SAC) Task Force Report
District(s), Member(s):	All
Policy/Legal Reference:	Water Resources Management Policy Plan; Council Administrative Policy 3-2-5/ Minn. Statutes 473.517 (3)
Staff Prepared/Presented:	Jason Willett 651-602-1196; Bryce Pickart 651-602-1091
Division/Department:	MCES c/o William G. Moore 651-602-1162

Proposed Action

That the Metropolitan Council: i) accepts the 2010 Reserve Capacity/Sewer Availability Charge (SAC) Task Force Report and ii) authorizes staff to develop the recommendations into specific proposals, subject to later Council adoption.

Background

In November 2009, the Council appointed a task force of 16 customer community representatives, chaired by Council member Peggy Leppik, to evaluate and recommend changes to: 1) current and proposed methods of "reserve capacity" estimation (that is the MCES costs that SAC would ideally pay) and 2) Council fees for reserve capacity funding (that is, SAC criteria and discounts). The Task Force has completed its work after meeting seven times from December 2009 through September 2010.

A two page summary of the report is attached as Exhibit A. The full report is available on line at: http://www.metrocouncil.org/environment/RatesBilling/documents/2010TFReportwithappendices_Sep.pdf.

A public meeting is set for 11:00 (after the Environment Committee) to gather further input on these recommendations. Following that meeting and a written comment period, staff will bring back a recommendation(s) for adoption of some or all of the recommendations. Concurrently, initial work to propose legislative initiatives needs to begin.

Rationale

This action simply discharges the task force and begins the process of advancing the recommendations.

Funding

Changing from the current "Committed Capacity" reserve capacity methodology to a Growth Cost method is expected to typically increase the annual SAC transfer (and conversely reduce Municipal Wastewater Charges). As growth projects and their debt service are reduced this may not always be true.

If the SAC fund is unable to pay this ideal transfer amount, the SAC shift authority, now in statute, allows shifting some of this financial responsibility back to the Municipal Wastewater Charges, temporarily and subject to some requirements.

The recommended changes in SAC criteria are not expected to materially affect the overall receipts from SAC.

Executive Summary

The metropolitan Sewer Availability Charge (SAC) system, implemented in 1973, is based on a Minnesota statutory requirement that the Metropolitan Council Environmental Services (MCES) charge communities for the reserve capacity being built to serve them. The collected SAC fees, by law, are used to fund a part of the acquisition, betterment and debt service costs in the metropolitan wastewater system. The SAC program provides regional equity by imposing these costs for the regional system on cities proportionate to their new capacity demand. The regional pooling of development risk and the SAC pay-as-you-build system has largely relieved the cities of the economic risk of building major new sewer infrastructure.

The number of SAC units (1 unit = 1 home or its equivalent for commercial uses) collected annually has decreased from 20,000 units during 2000-2005 to 6,675 units in 2009. Consequently, the SAC reserve fund has declined from \$72 million in 2007 to \$32 million at the end of 2009. Additional use of the reserve is occurring in 2010 and is expected in 2011. Due to declining revenues and reserves, the Metropolitan Council appointed a Task Force of stakeholders and customers to review and propose changes to SAC-related policies and procedures.

The RC/SAC Task Force was charged with two specific tasks:

- Evaluate current and proposed methods of Reserve Capacity estimation and recommend a method to be used in the future
- Evaluate fees for Reserve Capacity funding (SAC) and recommend changes and implementation methods

The work of the Task Force was to be guided by four underlying principles:

- Wastewater fees must continue to fully fund the Council's wastewater services
- The fee system should maintain the regional cost-of-service approach
- The fee system should ensure adequate financial reserves for
 - Protection of Council's bond rating
 - Economic condition changes
- Recommendations should work within existing statutory authority (preferred)

A summary of the issues discussed at the Task Force meetings included:

- Background information about the metropolitan wastewater systems and SAC
- Alternative methods for determining reserve capacity and their impacts on revenues
- 2010 legislation regarding SAC when SAC resources are inadequate
- Prospective 2011 legislative bill enabling a new methodology for SAC
- Selected SAC Criteria for commercial charges (identified by MCES and members)
- SAC Determination Administration
- SAC policy consistency with other Met Council Policies

Reserve capacity has been defined as the capacity built into capital projects to provide wastewater treatment capacity and interceptor capacity for future growth. SAC is the payment for that reserve capacity by cities (typically, cities pass this through to developers or property owners). The authorization for the Metropolitan Council fees for its regional wastewater services is addressed in Minnesota Statutes, section 473.517. Subdivision (3) addresses SAC. However, the statute does not define or describe reserve capacity or how it is to be determined.

The Task Force concluded that the principle “growth should pay for growth” should be the basis for SAC. Specifically, to implement that basis the Metropolitan Council is recommended to pursue a statutory change in 2011 whereby SAC would pay for the growth portion of MCES capital projects.

Regardless of the amount that *ideally* SAC fees should contribute to the wastewater budget, the Task Force acknowledged that in certain economic times that may not be possible, and thus the 2010 SAC legislation was supported as needed.

Also, the Task Force was asked to review and provide recommendations on the determination of SAC fees for certain types of commercial building uses. The Task Force recommended a temporary use category and revisions to the daycare and restaurant use categories.

Recommendation Summary

The following recommendations for changes were made by the RC/SAC Task Force:

1. Minnesota Statutes Section 473.517, Subdivision 3, should be amended to clearly state that the capital costs to provide additional capacity in the regional wastewater system should be paid by Sewer Availability Charges (SAC) based on the principle that growth should pay for growth.
2. The 2010 statutory amendment that allows a temporary shift of such costs from SAC to municipal wastewater charges should remain in effect as written.
3. SAC criteria should have a technical basis to the extent reasonably feasible.
4. A new charge for the temporary rental of capacity should be developed in lieu of charging SAC for permanent capacity under certain circumstances.
5. Unless there is new technical information justifying separate restaurant categories, SAC for restaurants should be based on a single criterion set at 10 seats per SAC regardless of the restaurant business model.
6. SAC should be based on square footage for all daycare determinations, but the square footage/SAC should be increased because state licensing permits fewer occupants than the square footage implies on average.

Other topics were discussed and the task force recommended no change or further study; these items are detailed in the body of the report and minutes.