2013 SAC WORK GROUP FINAL REPORT

January 2014

Metropolitan Council Members

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The mission of the Metropolitan Council is to develop, in cooperation with local communities, a comprehensive regional planning framework, focusing on wastewater, transportation, parks and aviation systems that guide the efficient growth of the metropolitan area. The Council operates wastewater and transit services and administers housing and other grant programs.

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Table of Contents

Appendices

Executive Summary

The metropolitan Sewer Availability Charge (SAC) system, implemented in 1973, is based on a Minnesota statutory (MS 473.517 subd. 3) 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 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. Background on SAC can be found on the *Council's web site* (www.metrocouncil.org/Wastewater-Water/Funding-Finance/Rates-Charges/Sewer-Availability-Charge.aspx).

In 2009/10, 2011 and 2012, Metropolitan Council/ES and Metro Cities have convened various work groups of technical, financial and community development staff to make recommendations to improve SAC and reduce the acrimony around it. Those results are summarized in Appendix D.

The changes resulting from the prior groups simplified some SAC rules, made the program more flexible, included provisions that help small businesses, and aid redevelopment efforts. However, at the political level, SAC is still not well understood or accepted. The executive management of the Council aimed to take a more global view of the SAC program and determine if SAC is still the best way to pay for reserve capacity in the wastewater system. In February 2013, the Metropolitan Council appointed a work group of stakeholders to review and propose changes to SAC-related policies and procedures.

The SAC Work Group was comprised of city officials, and was co-chaired by Metropolitan Council Member Jon Commers and Patricia Nauman, Executive Director of Metro Cities. The other members were:

- Wendy Wulff, Metropolitan Council Member
- Mike Gamache, Mayor, City of Andover
- Myron Bailey, Mayor, City of Cottage Grove
- Sandy Colvin Roy, Minneapolis Council Member
- Terry Schneider, Mayor, City of Minnetonka
- Frank Boyles, City Manager, City of Prior Lake
- Dan Roe, Mayor, City of Roseville

The work group met six times from April 2013 through November 2013. Approved minutes are attached to this report as Appendix A. Presentation and Handouts are attached as Appendix C.

In addition to the customer-driven SAC improvement process (including prior groups), SAC was mentioned several times during the *Thrive MSP 2040* listening sessions; therefore, the Work Group was envisioned by executive management to be informed by, but not be part of, the Thrive process.

The process, directed by the Co-chairs, developed as the meetings were planned, included: first discussing stakeholders' interests and then considerable time was spent to determine principles by which the group would evaluate the ideas to improve the method of paying for reserve capacity in the wastewater system. These became known as the "evaluative principles." The group then asked that the Metropolitan Council provide an independent consultant's help for a comparative analysis of how other peer metro regions financed reserve capacity. A master list of ideas was developed from members' suggestions, the consultant's research, and MCES staff ideas which were refined to eleven ideas and then further defined, screened by the evaluative principles and discussed. As a result, the group developed the following four recommendations:

1) **Growth should pay for growth**

   a) Minnesota Statutes Section 473.517, Subdivision 3, should be amended to clearly state that "the current costs of acquisition, betterment and debt service" – to provide the subject costs of additional capacity in the regional wastewater system should be paid by the Sewer Availability Charge (SAC), and that SAC should pay all such costs. This is based on the simple principle that "growth should pay for growth" whether new development or redevelopment. This means that SAC should pay for 100% of growth-related wastewater capital project costs and 0% for other types of project costs (such as regulatory or rehabilitation required projects).

   b) If the legislative changes are approved then a group of municipal stakeholders should be brought together to review the details of the previous proposed guidelines and identify the technical changes necessary for implementation of the new structure.

   These were identified as pros of this option:
   - This method would be simpler to explain accurately for what SAC pays.
   - This would eliminate some complexity in the methodology used to figure the annual amount of reserve capacity.
   - It improves consistency with Metropolitan Council policy to set rates on a regional cost-of-service basis.

   However, it was also noted that this would lead to the municipal wastewater charges being increased and does not address the fundamental complexity around how the charges are determined.

2) **Expand use of deferrals**

   a) The Metropolitan Council should expand the current SAC deferral option available to cities to provide middle-sized businesses (as well as small businesses for which this is already allowed) a period of years to pay SAC, thus assisting growing businesses and economic development. The current deferral limit is 10 SAC; the proposed threshold is 25 SAC. Note that this option is self-funding; interest will accrue on deferred SAC, so that other ratepayers will not be subsidizing the deferral program.

   b) In addition, MCES should provide technical assistance around this program (and other SAC rules), including training for city staff and provision of web-based materials, such as brochures, model ordinances and agreements.

   These were identified as the pros of this option:
   - Cities may spread out more SAC payments over time.
   - A larger threshold for applicability may encourage more cities to participate in the deferral program, thus improving relations with small businesses as well.

   There were no significant reasons identified as to why not to make this available to cities.

3) **Study charges based on water meters**

a) MCES should conduct a detailed technical review, with stakeholder input, of charging SAC in a simpler way, based on water meter size for commercial and mixed-used projects. The recommendation does not include changing the manner of charging SAC for residential and industrial process flow capacity.

b) The detailed findings should be shared with the Work Group.

These were identified as the pros of this option:

- The method may be simpler to explain.
- Ehlers' findings showed this method is used in other peer metropolitan areas reportedly with less acrimony.

It was noted that this may cause a loss of accuracy in determining demand on a site-by-site basis, and a possibly large SAC rate increase may be necessary since water meters are not upsized frequently.

4) **Some development should not pay higher fees to support other programs.**

SAC, as a utility charge, should continue to be based exclusively on technical evaluations of the costs of the required regional wastewater capacity demand. The Metropolitan Council should provide separate funding for any incentives, waivers or discounts to be applied to SAC fees for other purposes (e.g. housing, re-development, small business help, or other environmental goals) to maintain SAC program equity, simplicity and transparency. This does not imply Work Group support or opposition for any particular mechanism.

These were identified as the pros of this option:

- A technical (cost of service) basis for the SAC program assures that the program and rate structure treat current and future users across the region equitably. If SAC rates are higher than needed to cover the capacity costs, reductions in regional economic development and distortions of regional economic markets may occur (as economics tells us that in a market economy, appropriate pricing signals are needed to optimally allocate resources).
- Subsidizing other Council programs or priorities through SAC undermines program transparency and stability in addition to the principle of equity listed above.

It was noted that some people believe the Metropolitan Council should use all its tools to further its goals, and other funds may not be available.

Of note, the group did not drop the additional ideas of: 1) charging SAC only on interceptor reserve capacity only (i.e. all plant capacity would be paid by current users) and 2) adjustments to the SAC criteria for businesses and multi-family development to reflect the lower exposure to inflow/infiltration risk over time. However, the group decided not to recommend pursuing those options at this time. MCES technical and financial study may continue for possible Council consideration after the recommended changes are resolved or implemented,

The work of this group was guided by seven underlying principles, which it crafted during the initial meetings. The "evaluative principles" suggested that the method to pay for Reserve Capacity in the regional wastewater system should:

1) Be transparent & simple to explain to anyone (i.e. in two minutes, with no surprises; and be financially grounded in cost of service)

2) Be equitable (i.e. fair and impartial) for all types of served communities (e.g. developed and developing) and supportive of their businesses

3) Be equitable between current and future users (e.g. growth pays for growth)

4) Support the principles & goals being developed for Thrive (i.e. collaboration, equity, stewardship, integration and accountability)

5) Support cities' sewer fee capabilities (i.e. would not constrain city ability to raise local fees such as the add-on to SAC)

6) Be administratively reasonable (i.e. does not add administrative costs for communities or MCES; implementable and enforceable without being intrusive on business owners & developers)

7) Consider use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

Note that by "equity" the Work Group meant simply reasonable fairness between groups (communities in #2 and generations in #3).

Consultant

MCES staff discussed the needed work with three financial consulting firms that were already on contract with the Council (this allowed a quick response), and took short proposals from all three. The Co-Chairs, with help from MCES staff, decided that Ehlers, Incorporated's proposal best met the needs of the work group, and they were hired in the summer of 2013.

The scope of Ehlers' work included: 1) a survey of ten peer metro areas as to how reserve capacity costs were paid, and 2) a high-level financial analysis looking at the appropriateness of the revenue raised by SAC with different land-use patterns. Please refer to the *SAC web page* for Ehlers' full report.

Ehlers found the majority of the communities researched determine SAC units, or sewer impact fees, based on water meter size, and all based the charges on cost allocation (cost of service methodology). The idea of using water meter size as the SAC determination basis was added to the work group's list of ideas, and eventually became part of the final recommendations.

Also, of note, the consultant noted MCES's SAC program appears to be the fairest (i.e. most technically accurate) in the way it assigns SAC units to properties, but associated with that, it is also the most complex to administer among the communities analyzed. Furthermore, MCES has the oldest system of development.

In regard to the analysis of whether SAC was paying the cost of providing the capacity, the conclusion was roughly yes, although based on historical costs (when the capacity was built) not the current cost to build the capacity.

Refined List of Ideas

SAC options for consideration came from MCES staff, Ehlers' findings, and members of the work group. The group quickly refined the list of ideas from 21 to 11. MCES staff then provided pros, cons and comments for each of the eleven (attached as Appendix B). Staff also indicated their view as to how well each idea met the SAC Evaluative Principles. These are the eleven ideas the group considered and discussed.

1) Growth Pays for Growth
2) Limit SAC to interceptors
3) Forward Looking SAC
4) SAC charged only to residential projects
5) SAC charges on aggregate metershed demand
6) SAC charges based on water meters
7) SAC charges based on building code categories
8) Status Quo Plus – Inflow & Infiltration (I/I) adjustments to criteria
9) Status Quo Plus – Increase eligibility for SAC deferrals
10) Status Quo Plus – Eliminate SAC for small commercial projects
11) Status Quo Plus – Separate funding for any incentives, waivers and discount

Next Steps

At the time of this publication, the recommendations and report are expected to be taken to the Metropolitan Council's Environment Committee in January to accept the report and discharge the SAC Work Group. The Committee will be briefed on the process and recommendations of this work group.

Specific to the recommendations:

1) The "growth pays for growth" idea requires a Minnesota statutory change. This has been approved by the Council previously and in fall of 2013 was discussed with the Governor's office, and is tentatively included in the Council's legislative agenda for 2014.

2) The increase in the SAC deferral threshold requires action to adopt from the Environment Committee and then the full Council. If the recommendation for the SAC deferral program's expansion is adopted by the Metropolitan Council, communities will be notified of the change and given the opportunity for training and assistance by MCES staff in implementing this option. In addition, the current SAC Procedure Manual will be revised and posted on the *SAC web page*.

3) MCES staff will also ask the Environment Committee to approve continuing to research a water meter-based charging system in January. If the Committee approves proceeding, MCES staff will conduct a detailed technical review of the water meter option in 2014. This includes gathering information from a metro-wide survey of communities and giving all communities the opportunity to weigh in on the proposed methodology change. If the water meter idea appears viable, MCES staff will develop SAC assignment criteria based on water meter ranges. Later in 2014, there would also be a financial analysis of the impact on the SAC rate with this option. Research findings will be put on the Council's web site when finalized. If pursued in the latter half of 2014, there will be notification to all SAC-paying communities followed by a public meeting and public comment period, and potential implementation on January 1, 2015.

4) The recommendation pertaining to not using SAC funds for other purposes of the Metropolitan Council was discussed in November with the Land Use Advisory Committee (LUAC), and in December with the Council Members' internal Thrive working group.

This final report will be available to members and the general public in hard copy by request, and at the Council's *Publications web page*. Work Group members were thanked by staff for their assistance and engagement in this process, and invited to check with staff at any time for future developments.

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Appendix A

Minutes of Work Group Meetings

Meeting Title: **Sewer Availability Charge (SAC) Work Group Meeting #1**

Date: April 29, 2013 **Time: 9:00 – 11:00 AM** **Room: League of MN Cities**

Members in Attendance: Gary Cunningham, Metropolitan Council; Gary Van Eyll, Metropolitan Council; Jon Commers, Metropolitan Council; Wendy Wulff, Metropolitan Council; Mike Gamache, City of Andover; Sandy Colvin Roy, City of Minneapolis; Terry Schneider, City of Minnetonka; Frank Boyles, City of Prior Lake; Dan Roe, City of Roseville; Patricia Nauman, Metro Cities

Members Absent: Myron Bailey, City of Cottage Grove

Met Council Staff in Attendance: Jason Willett; Bryce Pickart; Libby Starling; Kelly Barnebey

Meeting Notes:

Item	Notes
1. Welcome & Introductions	The meetings will be alternately led by co-chairs Jon Commers and Patty Nauman. Patty will chair today's meeting and asked members to introduce themselves and answer the two questions posed in the agenda: 1) Why are you participating and 2) what constitutes success for this work group? **Jason Willett, MCES Finance & Energy Director:** he stated that with the SAC work groups in prior years, MCES addressed technical and financial parts of the SAC program; this group has the opportunity to look at the whole program and whether SAC is the best way to pay for reserve capacity. MCES staff wants to continue to work to make the program better or at least better accepted. **Sandy Colvin Roy:** she stated that her involvement comes largely due to the influx of small businesses in Minneapolis that have approached her regarding their SAC charges. She asked, if we started today with SAC, what would that look like? What if we went back to the drawing board? Specifically, success would be the ability to explain the SAC program in less than 2 minutes – that is, to simplify the way it works. **Frank Boyles:** he echoed Sandy's sentiments about stress on small businesses (particularly restaurants). He commented that Prior Lake is unique because it includes the Shakopee Mdewakanton Sioux Community, and they have their own wastewater treatment plant - it operates at half its capacity, and he asked if the City could hook up directly to their line. He indicated he likes the recently implemented SAC deferral program to cities. He mentioned SAC determinations are the basis for city fees, so that impact would need to be considered. **Dan Roe, Roseville Mayor:** success would be for SAC to work better, be fairer, and be easier to understand. **Gary Cunningham, Met Council Member:** he has heard a lot about SAC from his constituents and would like to eliminate the "SAC surprises" that some small businesses encounter. He echoed Sandy's sentiments

	(about needing to be easier to explain and more fair). **Mike Gamache, Andover Mayor:** his City strives to promote and facilitate more commercial development, rather than being a "bedroom community," and in the process, City staff has learned more about various SAC issues. He would like to see "SAC surprises" eliminated. Success would be simplification of the program. **Terry Schneider, Minnetonka Mayor:** he would like this group to examine how the wastewater system is funded overall and what the rationale was when it started 40 years ago versus today's realities. He noted that there are implications of the program including on affordable housing. Also that the local SAC can be double MCES' fee. SAC should be explainable and less significant on development. Can this region's "phenomenal" water and sewer rate system absorb more of the cost now paid by SAC? He also noted some cities do not want to encourage population density and wondered about paying a premium on the fees to avoid density requirements while still paying fair share. **Wendy Wulff, Met Council Member:** she mentioned she knows a lot about SAC from her tenure as a city council member; her constituents' complaints about outdoor seating charges prior to Met Council implementing the outdoor space discount; and from her participation in the previous 2010-2012 SAC Work Groups. She pushed hard for the 75% discount for outdoor spaces. Each work group has tried to make it fairer and simpler; now it is time to look at the program as a whole. **Jon Commers, Met Council Member:** he finds there is nearly 100% agreement that SAC is too hard to explain and it feels too expensive. Contrast that to the investments (paid for by SAC) that are largely hidden and are expensive to both build out and maintain. He wondered if as a "built area" there are changes MCES can now offer to new businesses to come here. **Gary Van Eyll, Met Council Member:** he saw positive, major changes in the 2012 SAC Work Group and believes it is possible to do the same going forward. He looks forward to members working together to make recommendations for additional improvements. **Patty Nauman, Metro Cities:** Metro Cities represents a diverse membership with varying interests. She has found that SAC usually garners more complaints than accolades. Success would mean the recommendations enhance fairness, equity and simplification. She asked whether there has ever been a major undertaking to re-examine SAC as a whole, to which Jason answered that looking at the program's history and studies we have, it is clear there have been numerous major reviews and some big changes in the SAC system. The most recent large review was in the mid-1990s.
2. Background on MCES & SAC	Jason Willett provided background information on MCES and the SAC program. He explained the revenue sources and expenditures for Environmental Services' 2013 operating budget and emphasized no tax dollars are spent for wastewater functions. A member asked how specific MN Statute 473.517 is regarding wastewater expenses. Jason answered it is somewhat specific as to

	MCES fees to cities, but there are no details in State law regarding limits on wastewater expenses in general, or any type specifically. The member then asked whether MCES staff will cover allocation of expenses later in this presentation. Jason presented a slide on MCES' 2013 operating budget and said this topic can be covered more in-depth in a future meeting, if requested. It was also asked if ideally SAC revenue would only be used for capital, to which Jason answered that by law it *is* used only for capital (a portion thereof), with the exception of a small percentage for admin costs of the SAC program itself. A member asked what "non-labor" expenses cover. Those include utility costs (mostly electricity), chemicals, contracted services such as security, uniforms, consultants, as well some capital outlays not financed (e.g. a truck). A member questioned whether the SAC payments really reflect new capacity and gave Target Field as an example. She said that the City paid $650,000 even though no additional capacity was built at all. Jason emphasized that SAC is based on availability and built in advance of need. It pays for a portion of all capital costs. It is charged for the capacity potentially needed at a site; that is what MCES' and the city sewer systems stand ready to serve (whether or not actually used). Jason summarized the outcomes of the 2010, 2011, and 2012 SAC Work Groups, and ended his presentation with the following key concept summary: 1) SAC is required by statute to fund part of MCES capital costs; 2) Availability of capacity is a separate service from use (volume of sewage treated); 3) SAC at the retail level is a City charge (City rates and credit rules are sometimes different than MCES'); 4) SAC provides some inter-city and intergenerational equity; and 5) Met Council has worked with stakeholder groups to improve acceptance A member asked if the Minor Transfer of credits will work to decrease much of the acrimony from small businesses. Jason answered, possibly, but that it could add acrimony at city level (due to different interests of property and business owners). Another member asked about the new loan program for small businesses. Jason mentioned that so far only the City of Prior Lake is participating in the SAC deferral program for small businesses, although he thinks St. Paul and Minneapolis will eventually since they asked for this option. He clarified that Minor Transfers and the SAC deferral program are two different provisions, and each may help business owners in different ways.
3. Background on growth & *Thrive MSP 2040*	Libby Starling, Manager of Regional Policy & Research at Metropolitan Council, described Thrive MSP 2040 and its purpose and mission. The desired outcomes are prosperity, livability and sustainability for the 7-county region. She provided forecasts for population growth by 2040. In 2010, persons of color made up 24% of the regional population. By 2040

	they will make up 43% of the regional population. In 2010, 11% of the regional population was comprised of persons 65 and older. By 2040 they are projected to comprise 21% of the regional population. These projections contribute to the overall scope of work for Thrive. She asked that this work group consider the Thrive principles in its work. A member commented he is seeing a huge demand for senior housing, and is concerned about the long-range perspective because those facilities will outlast the peak of baby boomers. This has implications on land use and investment. Certain focus areas should extend beyond 2040 – maybe consider cycles in a 60-80 year projection. Libby said right now the population pyramid is more of a column than a pyramid but will be more like a pyramid by 2040. Baby boomers' impact is "a unique phenomenon," so this member's thoughts are on target. To that another member said perhaps architects and developers ought to consider senior facility designs that appeal to both current baby boomers and to future users of any age. A member added that 20-30 years ago single family homes in his City were family occupied, but now there are 1-2 occupants in those homes. They see more residents aging in place. He believes eventually the pendulum will swing back to family-occupied dwellings. It was asked how reliable the data is and whether it is certain these trends will come to pass. Libby answered the biggest unknown is federal immigration policy (1/3rd of projected growth). The projections assume the current flow of international immigrants will continue; if federal immigration policy opens or closes the doors, the international immigration to the region could change. Fertility and mortality rates are generally stable and slow, and therefore reliable for forecasting. A member added that immigration policy could be key because the existing immigrant populations in Minnesota came here largely due to an existing support system (agencies, churches, family members), but if one were to ask them if they would have chosen Minnesota otherwise, generally the answer would be no. Libby concluded her presentation by encouraging members' input in Thrive discussions and showed a slide with upcoming roundtable discussions in the metro.
4. Reserve Capacity	Bryce Pickart, Assistant General Manager of MCES, began his presentation with the distinction between reserve capacity in pipes and in treatment plants. Pipes are sized to meet long-term capacity needs of its service area (development and re-development). Although, MCES has had sometimes to build relief pipes to provide additional capacity for redevelopment in built-out areas – and that is expensive. Treatment plants are designed for capacity expansion in shorter phases, typically 20-30 years, to correspond with rehabilitation/replacement cycles. It was asked to what extent the Met Council is promoting or enhancing sprawl with the current design. Bryce answered historically the Council has held back the geographic growth of infrastructure to prevent sprawl. One member mentioned that prior attempts to control growth have caused some leap-frogging of development further from the urban area (and cheap land prices are really the major driver). The 2013-2018 Capital Improvement Plan (CIP) slide shows a 40% share

	for plants and a 60% share for interceptors. 68% of the CIP goes toward asset preservation, 10% toward quality, and 22% toward growth. In comparison, the 2016-2040 CIP slide shows a 75% share for asset preservation, 15% for quality, and 10% for growth. Bryce said the total projected investment is similar to the average investment rate historically, adjusted for inflation. Capital investment is shifting from growth to asset preservation because the regional wastewater system is substantially built out. A member asked why with geographic growth going down are capital expenses also not going down. Bryce responded that in real dollars MCES is projecting to stay close to the historical average of spending; the need for the rehabilitation projects is growing due to the aging of the system. Someone mentioned MCES has some pipes that are over 80 years or older. A member commented there are two considerations for “growth” in the CIP slides: 1) population growth and 2) regulatory requirements. The latter are more expensive. Did MCES factor those in the CIP projections? The answer is MCES does not put un-adopted additional regulatory-imposed expenses in the CIP projection. If they occur they are counted as “quality” improvements. There are discussions of potential new regulations that could add $2 billion of capital spending. It was asked if treatment plants are modular, could reserve capacity for plants be tacked on to current users’ fees (the municipal wastewater volume charges) and not be added to SAC? The answer is yes, but it would require a statutory change. A member commented that MCES is disinvesting in some areas and those pipes become the City’s responsibility. He asked if this is because those pipes only serve 1 City. The answer is yes, MCES reconveys pipes when they no longer serve a regional purpose. Another member noted the Thrive projections show almost a 16,000 increase in households each year. This translates to SAC Unit projections, which seem adequate to fund the program. A member asked how many of the units received is households and how many businesses. Jason answered historically it has been about 50-50, so if these projections are true, SAC receipts would likely be more than adequate (at current pace of capital spending).
5. Need for additional background information / next steps	Members asked the total number of meetings for this work group. That is unknown at this time, but if recommendations are to be made and presented to the 2014 Legislature, it is important this work group concludes by year end. Jason mentioned that staff anticipated the work group might want to study how other metro areas pay for reserve capacity. A member indicated he does not feel strongly about looking around the country at comparable systems because it could lend to confusion. To that, another member felt this information would be very helpful in identifying what would work and what would not. Staff suggested MCES could hire an independent consultant to identify methods used and perhaps list pros and cons. Members could be involved in scoping the work, and selecting the consultant, or a sub-group of the willing. Most members seemed to want

	at least some study. Staff and co-chairs will discuss how to proceed on a simple study without causing long delay in the work group's deliberations. A member asked MCES staff to provide a 10-year projection of SAC receipts needed for the budget. Jason mentioned there is a financial review of the program in everyone's packet (which we did not go over) that includes history. Setting rates going forward, staff only looks at 5 years due to sensitivity of SAC receipts to economy. Longer projections would be of dubious value. It was asked if staff would present a list of options for consideration. Jason commented that in the 2010, 2011, and 2012 SAC Work Groups, due to the technical nature of the discussions, MCES staff somewhat steered the meetings, but would like to avoid that and the appearance of that, and so wondered if members would want to develop their own ideas before hearing those of staff. It was asked that staff do this at some point. Jason asked whether evaluation principles need to be established prior to reviewing options. To that, Patty asked whether a sub-group should meet prior to the next meeting. Members said no. Instead, the co-chairs will meet with Jason and his assistant Kelly to draft evaluation principles to present to the group as a whole for review via email. A member suggested there be something like a design team that could break the topics down into categories in order to deal with the complexity. The team members would be the work group members (not staff), thereby removing staff's potential vested interest in the process. Another member agreed with this idea and suggested this group approach the process as though they are building a new system – less emphasis on legacy. One member asked for more detail in growth projections. Libby commented that the Council only has 5-year increments. The member also commented businesses say they only get one charge from electrical utilities, so maybe MCES could eliminate SAC altogether. She asked the group about looking at all MCES capital costs, not just SAC. Patty asked members to send ideas and comments to Jason, Kelly, or the co-chairs prior to the next meeting. There was consensus the meetings should be held monthly, preferably on Mondays. They asked that materials be emailed ahead of time so that they can prepare. The next meeting will be **Monday, June 3 at 9:00 AM at League of Minnesota Cities**. Again, Jason and Kelly will meet with Patty and Jon Commers to prepare materials and content for the June meeting.
Adjournment	11:15 AM

Meeting Title: **Sewer Availability Charge (SAC) Work Group Meeting #2**

Date: June 3, 2013 **Time: 9:00 – 11:00 AM** **Room: League of MN Cities**

Members in Attendance: Jon Commers, Metropolitan Council; Wendy Wulff, Metropolitan Council; Mike Gamache, City of Andover; Terry Schneider, City of Minnetonka; Frank Boyles, City of Prior Lake; Dan Roe, City of Roseville; Patricia Nauman, Metro Cities

Members Absent: Gary Cunningham, Metropolitan Council; Gary Van Eyll, Metropolitan Council (*resigned*); Myron Bailey, City of Cottage Grove; Sandy Colvin Roy, City of Minneapolis

Met Council Staff in Attendance: Jason Willett; Bryce Pickart; Kelly Barnebey

Meeting Notes:

Item	Notes
1. Approval of April 29 Minutes	The meetings will be alternately led by co-chairs Jon Commers and Patty Nauman. Jon chaired today's meeting and asked members if there were any changes to be made to the draft April 29 Minutes. There were no changes requested; they were approved.
2. SAC Evaluative Principles	The Sewer Availability Charge (SAC) Evaluative Principles document was drafted after the first meeting and emailed to members in advance of this meeting in order to modify, add to, and rank, if necessary. The draft stated that changes proposed to the method of funding reserve capacity should be evaluated with these principles in mind, that the method should: 1) Be transparent and simple to explain to anyone 2) Be equitable for all types of served communities (e.g. developed and developing) 3) Be equitable between current and future users (e.g. growth pays for growth) 4) Support small business development 5) Be less likely to produce SAC surprises 6) Provide for a less expensive SAC fee (now or lesser increases in the future) 7) Support the principles being developed for *Thrive MSP 2040* (collaboration, equity, stewardship, integration, and accountability) 8) Not materially harm cities' sewer fee capabilities 9) Be administratively reasonable Jon Commers led the discussion and asked members if the above proposed principles are too many, too few, not worded correctly. A member expressed for #6, instead of "less expensive," the emphasis should be on providing a SAC fee that is "financially grounded or anchored." To that, another member added the combination of MCES fees including SAC should adequately cover construction (capital), rehabilitation, maintenance, et cetera; and there could be switching

	between types of fees – but revenue needs to be adequate to preserve the assets and functionality. A member said SAC should shift to a broader base so that everyone pays his/her fair share, and the source of revenue that pays for capital needs to be consistent and reliable over time. In other words, possibly it should not solely rely on users' fees. Another member said his community prepares for large, long-term projects by asking how they will be funded over time and in such a way that the sole revenue source is not a potential future fee. They look at phasing in fee increases over time (and sometimes in advance of anticipated expenditures). It was asked what the difference is between #2 and #3. Jason answered some central cities do not perceive they are growing and feel should not subsidize growth in other communities. Principle #3 has more to do with generational equity – the original purpose of SAC was asking future users to pay for the service built for them, even built in advance. Moreover, equity among all types of served communities is a political necessity so that SAC is not continually contentious. To that, the member asked whether the current SAC system provides equity among served communities. Jason answered the core communities might say no. On the other hand, other communities may feel users' fees [such as the Municipal Wastewater Charge (MWC)] should not be increased to satisfy their argument. This has been brought up by smaller communities in the past. Historically, SAC has kept the MWC lower. A member felt that #5 was weak and part of the ideas implicit in #1 and #4. Jason said the SAC surprises have impacted mainly those who are small business developers or immigrants who do not understand SAC. SAC surprises also come into play during MCES community reviews where something was missed from years ago, and then the community tries to collect the SAC from the business or property owner. Several members felt the principles are inter-related. Some posed whether #4 small business development should be broader to include affordable housing and re-use of spaces where SAC was paid. This led to discussion of SAC being used for non-sewer funding purposes. Another member thought that this sort of thing detracted from fairness and transparency. The old discounts for public housing and apartments were mentioned. A member suggested the idea of separate grant funding (to mitigate SAC in situations to be incented) instead of making the SAC fee system more complex. It would be transparent and easier to explain, and potentially more equitable because incentives might go beyond small business development and redevelopment. Another member suggested eliminating principles 4, 5, and 6. She wants to avoid incenting unrelated behaviors and to be able to defend SAC fees as she has in the past: the best defense of SAC is that it does not go toward anything else and helps to keep cost of actual service lower over time. It was asked if the SAC Deferral Program is proving to be helpful for small

	businesses. Do more small businesses know more about SAC? A member answered generally no, but the deferral program is a good vehicle to address SAC charges the small businesses may face. Jason added that only one community is currently participating in the SAC deferral program. Members asked what could be preventing other communities from participating. Discussion centered on getting the word out to elected officials (not just the community staff that were made aware), and possibly increasing the size of allowed deferrals. It was suggested MCES staff add language to determination letters – where the project would qualify for the deferral – so that city staff is aware. The drawback to this is that applicants are copied on determination letters, and so communities that do not wish to participate in the SAC deferral program may feel pressured to participate. A member suggested the idea the final proposal should allow for flexibility to address unique situations. There was discussion that the small business concern was the primary issue for the 2011 SAC work group and that was caused by a couple of legislators. It was suggested an infrastructure fund – used to offset SAC – could be focused on situations that are the legislators' current hot button issues (e.g. small business or jobs). It was asked whether the group should wait on finalizing the incentives language in the evaluative principles until the hired consultant comes back with more information. A member answered it may be more valuable to be implicit at this juncture. Another member added the absent members should add their input before anything is finalized. In summary, the key changes should be made to the draft Evaluative Principles: • Leave #1-3 in their current form • Delete #4 but imply supporting small business development by putting "redevelopment" with #2: "be equitable and supportive for all types of served communities and their businesses therein" • Reword #8 to be more positive • Add a new principle: "be politically reasonable and acceptable" To this, a member felt the group should avoid something that is politically palatable. Another member suggested "easily implementable" instead. • Amend #7 to "support the principles *and goals* being developed for Thrive" Jason indicated MCES staff would incorporate the suggestions and send a new draft to members prior to the next meeting. Jon invited dialogue among members via email prior to the next meeting.
3. Discussion on Hiring a Consultant	Jason Willett, MCES Finance & Energy Director, indicated Met Council's procurement division has a long, complex process for contracting. Due to the work group's timeline, Jason approached three firms already on master contracts with the Council and asked them to provide proposals. They were Springsted, Inc., Ehlers & Associates, and PRAG, Inc. PRAG's proposal was quite a bit more expensive probably in part due to

	their need to subcontract and unfamiliarity with SAC. Jason and the co-chairs felt both the other two would do well, but that Ehlers' proposal was better developed. They were offered the work. Jason is meeting with Ehlers staff on June 8. The scope of work includes a survey of ten peer metro areas and financial analysis looking at the appropriateness of the revenue raised by SAC with different land use patterns. The materials should be ready by the next meeting. A member added Ehlers may be best suited to this discussion because they have broader knowledge of development/redevelopment in the metro area. Jason said the work group work will help provide ideas to analyze using the evaluative principles. In addition, MCES staff can supplement the analysis when needed.
4. "Growth Pays for Growth"	Due to the time, Jason Willett covered the "Growth Pays for Growth" portion of the presentation quickly. He summarized the 1998 Task Force's objectives and recommendations – namely to change from reserve capacity to growth costs to be paid by SAC. He also described how the proposed growth-cost system was to work. The change required legislative change, and it failed three times (1999-2001). The 2010 Reserve Capacity/SAC Task Force recommended that MN Statute 473.517 be amended so that growth (SAC) pays for growth (infrastructure). This required legislative change, and it failed in 2012. Jason indicated he could cover mixed purpose projects at the next meeting; no one asked that it be included. The meeting concluded with members deciding to tentatively hold the next meeting on Tuesday, July 9 at 9:00 AM at the League of MN Cities. It was switched to Tuesday to accommodate the member who said Mondays do not work for him. Jason said a draft of the Minutes, an Agenda, and the revised SAC Evaluative Principles would be emailed to members for input. Members who could not attend today would be asked whether July 9 suits their schedules. *[Post-Meeting Note: a couple members indicated Tuesdays are not open, so Kelly will communicate with the group to find an alternate date, then notify everyone via email.]* The consultant's analysis is a topic to be covered at the July meeting as well as further discussion of the evaluative principles.
Adjournment	11:00 AM

Meeting Title: **Sewer Availability Charge (SAC) Work Group Meeting #3**

Date: July 10, 2013 **Time: 9:00 – 11:00 AM** **Room: Metro 94 Business Center**

Members in Attendance: Jon Commers, Metropolitan Council; Wendy Wulff, Metropolitan Council; Sandy Colvin Roy, City of Minneapolis; Dan Roe, City of Roseville; Patricia Nauman, Metro Cities

Members Absent: Gary Cunningham, Metropolitan Council; Mike Gamache, City of Andover; Myron Bailey, City of Cottage Grove; Terry Schneider, City of Minnetonka; Frank Boyles, City of Prior Lake

Met Council Staff in Attendance: Jason Willett; Bryce Pickart; Kelly Barnebey; Dan Marckel

Others in Attendance: Jessica Cook, Ehlers, Inc.

Meeting Notes:

<table>
<tr><th>Item</th><th>Notes</th></tr>
<tr><td>1. Approval of June 3 Minutes</td><td>Patty Nauman with Metro Cities chaired today's meeting and asked members if there were any changes to be made to the draft June 3 Minutes. There were no changes requested; they were approved.</td></tr>
<tr><td>2. SAC Evaluative Principles & Background for Principle 7</td><td>The Sewer Availability Charge (SAC) Evaluative Principles document was edited after the June 3rd meeting and emailed to members in advance of this meeting for further discussion.

The second draft stated that changes proposed to the method of funding reserve capacity should be evaluated with these principles in mind, that the method should:

1) Be transparent and simple to explain to anyone (no surprises; financially grounded in cost of service)
2) Be equitable for all types of served communities (e.g. developed and developing) and supportive of their businesses
3) Be equitable between current and future users (e.g. growth pays for growth)
4) Support the principles and goals being developed for Thrive MSP 2040 (collaboration, equity, stewardship, integration, and accountability)
5) Support cities' sewer fee capabilities (i.e. not constrain city ability to raise local fees such as an add-on to SAC)
6) Be administratively reasonable (i.e. does not add to administrative costs for cities to MCES; is implementable and enforceable without being intrusive on business owners & developers)
To be discussed:
7) Facilitate possible support of other goals (e.g. affordable housing, small business, or redevelopment)

Jason Willett, MCES Finance & Energy Director, led the discussion and asked if this group is in agreement on the first 6 principles, to which</td></tr>
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	members answered yes. He provided background on proposed Principle 7 – specifically support for: Housing, Redevelopment, Small Business, and Economic Redevelopment. <u>Housing</u> Residential properties have been and are eligible for certain discounts. Apartments with 4 or more dwelling units with no plumbing for laundry in each unit and written approval from MCES are eligible for a 20% discount on the SAC charge. Furthermore, multi-dwelling publicly assisted housing with 4 or more units; with no plumbing for garbage disposal or dishwasher; that is owned by a City or is publicly subsidized; and with written approval from MCES are eligible for a 25% discount on the SAC charge. Met Council's Chair Susan Haigh received an email from an advocate for affordable housing who questioned the criteria for residential discounts. Chair Haigh responded the policy may be outmoded and that she would ask the SAC Work Group to address this issue as it reviews all SAC policies. A member asked how often the residential discounts have been used. Jason answered in the last 5 years, 248 apartment units (or roughly 50 units/year) and 126 publicly assisted dwelling units took the discount. In January through April of this year, 63 apartment units and no publicly assisted dwelling units took the discount. To that, the member noted the last 5 years were not good for real estate projects, which could have impacted those figures. It was asked what the technical response would be to this issue. Jason said these discounts have been in place for decades. Staff believes that the requirements for absence of amenities originally were thought to technically justify the discounts (that is, corresponding to less sewer demand). However, it has not been studied in many years and may not be true any longer. Also, staff would not propose to change an explicit discount – which in at least some part was politically motivated or approved – without Met Council approval (typically preceded by a public input process). A member asked how modern garbage disposals or dishwashers could possibly use *less* water. Staff responded that we have not studied this, but some articles that indicate how a modern dishwasher works (recycling the water) as opposed to letting water run when washing by hand may indicate a change. *[Post-meeting note: on this topic, staff wishes to add the studies that have been done conclude water consumption by hand-washing dishes can be greater OR less than machine-washing them, depending on the hand-washer's techniques. Modern dishwashers and garbage disposals use much less water than earlier models, and many dishwashers have disposal units built in today. So if people are extremely conscientious about hand-washing, they can use less than an efficient modern machine – but not by much.]* It was asked if there is a technical basis for a difference in SAC for single family homes vs. apartments. Bryce Pickart, Assistant General Manager in Technical Services, answered that yes, there is a peak capacity issue –

in other words, single family homes because they have more connections and more pipe have more opportunity for inflow and infiltration adding to demand in sewers, and likely do have more. Multifamily and business buildings, since they have fewer connections and pipe feet, have less opportunity. MCES staff is thinking about how to study this and have added it to the “staff ideas” list.

Inclusionary Housing Demonstration Program
This program was in effect from 2000-2003, and SAC was waived based on applications for inclusion housing within market-rate housing; other city commitments were also required. The total SAC Units waived was 1596, and the total dollars waived was close to $2 million.

A member asked if the law that originally allowed this program changed, to which Jason said no, the law allows but does not require the waivers, and only the implementation was discontinued.

Redevelopment
Jason described SAC credits and the credit rules in place prior to 2010; from 2010-2012; and the current credit rules. Prior to 2010 grandparenting (as well as SAC paid) could provide credits on a site and if there were extra “net credits” to the community usable off of the site where derived. 2010-2012 provided credits based on the demand on the site in the last 7-8 years, but no net credits for reduction of demand were available. This year credits from SAC paid at any time provide credit on site and also potentially net credits usable elsewhere (when new demand < old demand on site). Also, grandparenting and a continuous use (considered “non-conforming”) allow full credits on a site but no net credits.

All these credit rules provided and provide a large incentive to redevelop rather than develop on green fields, because the SAC due is reduced by the credits for the prior demand. And at the same time have a technical basis because the charges are based on the incremental demand.

In the interest of time Jason skipped the slides with the credit examples.

Phased Development
The Phased Development program was implemented in 2010. It allows a whole geographic area to be seen as one site, allowing the non-conforming credits to be usable within the area; when there is a contiguous geographic area and a formal redevelopment plan approved by a City Council (also must be consistent with the comprehensive plan).

Small Business (10 SAC or less)
Two programs to assist small businesses were adopted by the Met Council following the 2012 SAC Work Group: 1) minor credit transfers and 2) SAC deferral options for cities. Minor credits allow a city to request a transfer between sites. SAC deferral allows a city to pay over 10 years for up to 80% of SAC for a small business site.

Both programs incur some administrative burden for the community (and MCES). To date, only Prior Lake has opted for the SAC deferral.

Economic Development
Two procedures, requested by DEED, were added in 2009 to help the

	State retain or attract major businesses. The major credit transfer must meet the following criteria: 1) It is either an MCES Permitted Industry or has 50 jobs (not retail or service); 2) DEED Commissioner deems it of "state-wide economic significance;" 3) The booked SAC credits being transferred are negotiated and approved by the two communities; and 4) MCES must approve as to availability of capacity. Since implementation, 1400 SAC were transferred to Chaska in 2009 for Michael's Foods; 134 SAC to Bloomington in 2011 for Polar Semiconductor; and 69 SAC to Plymouth in 2012 for St. Jude's Medical. The 2nd procedure allows payment of net SAC (after the transfer) for such an industry over time. This has not been used. Jason then opened the floor for discussion of these and Principle 7. A member stated the Vikings requested in their financing bill passed last year that the potential SAC for the new stadium be waived, but Metro Cities objected and that provision was amended out. (The new stadium will receive credit from the old site but is likely to pay incremental SAC for the new site's demand.) The member was concerned Principle 7 could be argued for projects like the stadium. Another member said SAC has been defensible primarily because we are able to say it is equitable and the money is not used for other purposes. She is concerned about the potential of "playing games" using Principle 7 unless there is a separate funding source for those goals. Other members agreed. To that, a member felt that expressing explicit support of Principle 7 might be contrary to the other 6 principles. In other words, if there is support for Principle 7, it has to be aligned with the others to be fair. A member added that an issue with the residential housing discount is buildings that are developed as affordable or publicly assisted do not always remain so, which impacts the long-term equity. MCES cannot track projects over time to discern whether SAC should be collected for those changes. To that, another member agreed and said tracking projects over time and collecting more SAC does not really align with Principle 1 (transparent & easy to explain). It was asked if the Council would consider eliminating the residential discount. Jason said yes, and MCES might perform a technical study to review the proposed change. To that, the member said if in fact discount changes do not need to be technically supported, then there is no need for a study. She understood that the Council has adopted changes in the past without a technical basis. Jason answered that is correct, it would not need to be, but MCES staff would likely want to do some study to inform the decision. It was suggested Principle 7 be amended to reflect a "do no harm" position to ratepayers and to the other principles. Any goals beyond that

	may require looking for another funding source. A member expressed concern over “other funding” – what does it have to do with SAC at that point? Jason answered the Council could use the rate structure (e.g. discounts or waivers of SAC paid for by other sources so other SAC payers do not have to support the subsidy). A member felt it is important not to restrict development or redevelopment or housing in crafting the principles, and that this group should be silent about other funding and instead adopt language akin to not impeding or disincenting affordable housing, small businesses and so on. A member said Principle 7 is really a sub-principle under Principles 1 and 2. To that another member offered that perhaps the wording should be “Facilitate possible support of other goals *as long as it does not violate Principles 1, 2, and 3*.” A member commented when one has to add all sorts of qualifiers, maybe Principle 7 should not be on the list. To that another member agreed there ought to be only the 6 principles. Another member argued Principle 7 ought to be left in because it identifies the issue for other Met Council Members. She felt this is defensive, in other words, future Met Council members should know that we have thought about this issue and what was concluded. Jason told the group that staff will edit the SAC Principles document to try to reflect this discussion, then email the draft to members before the next meeting.
3. Ehlers’ Analysis	Jessica Cook, a consultant at Ehlers, Inc., introduced herself and briefly described her work background. She indicated that Ehlers was directed to look at 10 comparable metropolitan regions across the country and present an analysis of their fees: what is included in their fees; their challenges; their development incentives; and their method(s) for fee collection. The 10 regions reviewed are: 1) Metro King County (Seattle) 2) Denver 3) Hampton Roads Sanitation District (Virginia) 4) Madison, WI 5) Austin, TX 6) Phoenix 7) Sacramento 8) San Antonio 9) San Diego 10) Tampa The analysis does not include communities that collect tax revenues for capital or operating costs of the sewer; those with combined sewer and wastewater; do not have wholesale customers; are significantly older; or are not growing. The fees may be called impact fees, facility charges, connection fees, and capacity charges. For this discussion, in order to avoid confusion,

	Jessica referred to all those fee types as SAC. While the communities' sewer rates were dictated by a myriad of issues, the biggest determinant of the amount of the fee is capital costs. It was asked why the analysis only includes growing communities. This member felt that one of the issues unique to MCES SAC is the fact the core cities are not growing. The answer is if they have not had to add any capacity in years or decades, they haven't needed to have any method to pay for it. In addition, in all those communities SAC is related to capital costs, which is in line with the MCES system. It was asked how growth is measured in this analysis. The answer is it is a general definition: those communities that are vibrant and healthy. MCES staff added that the 7-county metro area is projected to grow by nearly 900,000 people by 2040. A member commented that even though our metro area is not expanding outward, there is still a need to add more capacity in redeveloping cities (e.g. Richfield and Golden Valley). Jessica described Austin and San Antonio's different approaches to their sewer fees. Austin has different development zones with different sewer fees designed to incent development in each zone. The rates are subject to the how zones are classified. In contrast, San Antonio provides strictly a technical basis for its sewer fees and has found the system to be less acrimonious. Jessica indicated staff at the other communities did not see a relationship between incentives and development. A member asked how many staff she spoke to about this. Jessica answered she spoke with all the agencies that use different fees to incent development in certain areas. She added that in her experience, incentives are not enough to defy market trends; land and gas prices and school districts seem to have an important impact on where development occurs. A member asked if there are other regions similar to Met Council's governance structure. The answer is no, not really combining metro area planning and sewer operations. One member thought Portland might be similar. Jessica said that the majority of the researched communities determine SAC units based on water meter size, and the second most common use was fixture counts. A member asked why MCES SAC cannot be like electric bills – based solely on usage. Jason answered that for customers significantly larger than homes, Xcel does bill for both energy use and demand, and that demand has to be paid every month based on the highest 15-minute use. Jessica concluded her presentation by stating MCES's SAC program appears to be the fairest (i.e. most technically accurate) in the way it assigns SAC units to properties, but is also the most complex to administer among regions she analyzed. Furthermore, MCES is the most unique among its peers in the following ways: • MCES has the oldest system of development fees. • MN State law ties SAC revenue to reserve capacity.

	• MCES does not consider the future Capital Improvement Program (CIP) in determining SAC fees, but is based only on the past expenditures. • It has the most refined determination of SAC units for commercial properties.
4. List of Ideas	Due to the time, Jason Willett was not able to cover this topic in the meeting and indicated Kelly would email the List of Ideas to members. It will be discussed in the next meeting.
5. Next Steps	Patty said given the number of absences it may be a good idea to summarize Ehlers' findings at the August meeting. Jason added that meeting would focus on discussing ideas for change and how they apply to the evaluative principles. In terms of future scheduling, Kelly had queried members in advance of this meeting, and it appears Wednesdays are the best day. Members tentatively decided to hold the next meeting on Wednesday, August 7 at 9:00 AM, location to be determined. Kelly asked for the September meeting to be set as well. Members tentatively decided on Wednesday, September 18 at 8:30 AM at the League of Minnesota Cities.
Adjournment	11:05 AM

Meeting Title: **Sewer Availability Charge (SAC) Work Group Meeting #4**

Date: September 18, 2013 Time: 8:30 – 10:30 AM Room: League of MN Cities

Members in Attendance: Jon Commers, Metropolitan Council; Wendy Wulff, Metropolitan Council; Mike Gamache, City of Andover; Sandy Colvin Roy, City of Minneapolis; Terry Schneider, City of Minnetonka; Frank Boyles, City of Prior Lake; Dan Roe, City of Roseville; Patricia Nauman, Metro Cities

Members Absent: Gary Cunningham, Metropolitan Council; Myron Bailey, City of Cottage Grove

Met Council Staff in Attendance: Jason Willett; Bryce Pickart; Kelly Barnebey; Dan Marckel

Others in Attendance: Jessica Cook and Brian Reilly, Ehlers, Inc.

Meeting Notes:

Item	Notes
1. Approval of July 10 Minutes & SAC Evaluative Principles	Metropolitan Council Member Jon Commers chaired today's meeting and asked members if there were any changes to be made to the draft July 10 Minutes. There were none requested; and minutes were approved as written. He also asked whether the group should spend any more time on the SAC Evaluative Principles. No one said yes.
2. Summary of Ehlers' Findings	Jessica Cook, a consultant at Ehlers, Inc., attended the last meeting and presented an analysis of fees for 10 comparable metropolitan regions across the country: what is included in their fees; their challenges; their development incentives; and their method(s) for fee collection. Due to the low turnout of the July 10 meeting, Jessica attended today's meeting to summarize her findings again. The fees may be called impact fees, facility charges, connection fees, and capacity charges. For this discussion, in order to avoid confusion, Jessica referred to all those fee types as SAC. A member asked about feedback regarding the administrative burden among the peer regions she contacted. Jessica indicated that the administrative burden tends to increase as the regional districts refine how closely the SAC units are tied to actual demand from a particular property use. She also mentioned when the fee is tied to specific improvements, more engineering involvement is required up front. For example, Madison's fee is allocated based on square feet of land and is fixed for the life of the development. She heard no complaints specific to the administrative burden, and noted that reductions in SAC fees created to induce development in certain areas do not appear to impact developers' siting decisions. It was asked if any of the peer regions based their fee structures on

	"better practices," e.g. water conservation. Jessica answered not on the residential side. She did not look at Industry in her analysis. Jessica showed a slide for growth-related capital costs using a weighted average cost per SAC Unit. To that, Bryce Pickart, Assistant General Manager for MCES Engineering Services, said the costs in the slide are inflated. A member asked for clarification. Jason said that Jessica's analysis is from the perspective of someone paying SAC now (at today's rate) and comparing that to today's cost to build that capacity (Ehlers used actual historical costs escalated), which is a valid perspective. However, MCES does not actually do that. By statute the SAC revenue requirement is based primarily on the debt service from the past when the capacity was built, so Bryce's comment was valid too – as it is what MCES actually does. Jessica said the point was that the fees are covering close to the related costs. A member asked whether SAC was tied to State statutes in other regions. Jessica said sometimes yes and sometimes no. Regions with legislative freedom see a greater increase in fees, e.g. Sacramento and Seattle. Texas and Arizona state laws have stricter limits. Furthermore, all the peer regions are doing cost allocation studies. Some look back; some look forward. It was asked if Jessica could further describe Madison's fee situation. The analysis says Madison allocates project costs by geographic area to those who directly use the infrastructure – so fees are different in areas benefitted by different projects. Madison's fees are based on acreage – the City calculates the land area served and spreads cost based on square footage of land. The developer pays the fee with the construction permit. She received no feedback as to how this method steers development. A member asked whether the work group materials are posted online. Past practice has been to compile the data for a Final Report at the conclusion of the work group. Previous work groups' final reports are currently posted, and this work group's report will be posted also. The member had no objections to that as long as materials are sent in advance of each meeting.
3. Master List of Ideas	Jason Willett, MCES Finance Director, first listed the Work Group's list of ideas thus far; these are taken from previous meetings' Minutes: • Add reserve capacity for plants to current users' fees (municipal wastewater volume charges) instead of SAC fees • Eliminate SAC entirely and fund debt service through another method • Council to provide separate grant funding instead of making the SAC fee system more complex Then Jason summarized the ideas he extracted from Ehlers' analysis: • Allocate SAC by geographic area • Determine SAC by water meter size • Determine SAC by fixture count • Compute SAC annual transfer amount using future capital costs

	• Provide reduced SAC to incent development Jessica agreed those were the ideas embedded in her presentation. The MCES staff's List of Ideas was given to members in advance of this meeting. It included the rationale for each idea as well as potential problems. The ideas were: 1. Call off SAC entirely 2. Call off SAC for all but residential buildings 3. Determine SAC for commercial projects based on pipe size, with some exceptions for high-demand type uses 4. Determine SAC for all projects based on Fixture Unit counts (except process flow for industry) 5. Determine SAC (for capacity increase) in aggregate by metershed 6. Charge SAC only for green field development 7. Allow cities out of SAC where dry weather maximum flow decreased more than *xx*% below average decrease, based on a 10-year rolling average 8. Status quo (i.e. no material changes) *Supplemental Ideas:* i. Prepare a technical evaluation of the differences in opportunity for inflow & infiltration (I/I) ii. Leave SAC as is, but set up a fund to provide financial assistance, paid by non-wastewater funds iii. Increase SAC deferrals to larger development iv. Align SAC criteria closely with Building Code types, with a few exceptions He also mentioned that the growth-cost method ("growth pays for growth") was left off the list inadvertently, and members asked that it be included. Jason asked members if there were other ideas or variations, to which no one gave suggestions. Regarding staff idea #2, it was asked whether under the current system commercial subsidizes residential. The answer is that as best MCES can, SAC currently is based on regional cost of service (that is, without subsidy between classes, as is done in electric rates by Xcel). To that, the member asked how raising the residential SAC rate would fit that approach. This approach would move away from the existing no-subsidy between-classes approach. Regarding staff idea #6, a member asked how redeveloped properties would be treated. The answer is they would not pay SAC. Bryce pointed out that many of the ideas would require statutory change and potentially a transitional timeline. Jason added he hoped the group could narrow the list down in today's meeting. Met Council staff would need time to prepare the recommendations for legislative review (after Council discussion, and presuming adoption). Bryce also mentioned that regarding #8 he has completed a technical review based on the I/I difference between single family residential and

	commercial, and it appears to indicate about a 25% shift in cost (residential up, commercial down). He is now doing research to see if multifamily would also be reduced about the same amount, as is expected. Also regarding the growth cost idea, Bryce mentioned the growth share is now expected (in MCES's long-term planning) to be down considerably over the next 20 years. A member asked about the difference in MCES's need for capacity between redeveloped areas and green fields. Jason said that for green field development, where MCES needs to build new interceptors, we always have that capacity cost, and for redevelopment sometimes MCES has to build new capacity, and sometimes not (because the capacity has been previously built or freed up). A member said the majority of SAC issues he hears are small in scale; in general larger developments are better prepared for fees. What if we looked at the incidents of SAC charges under \$20,000 – what percentage of total SAC paid is comprised of small business? He asked this because the answer might impact how the list is narrowed. To that, Jason indicated small business was considered 10 SAC or less in a previous work group, but he would ask his staff to gather some actual numbers from recent years. A member believes there is a misconception that people are fine with the current SAC system. There has been a growing angst over all the development fees accumulated over the years, not just SAC. Years ago the approach was cost of service, but it seems to some that cities charge whatever they can without close attention to the nexus between the charges and the services. He also said there ought to be a clarification of "growth" because it is not necessarily green field development but an increased demand for capacity in developed areas. It was asked what problems MCES staff sees with increasing acceptance by the Cities of the SAC deferral program. The answer was the administrative burden this puts on a city. Prior Lake is the only city that has currently applied to be in the program and has implemented a handful of SAC deferrals since the program went into effect. The member from Prior Lake added they like giving the deferral as an option and to be able to say they are pro-development. It was mentioned that increasing the size of the SAC eligible for deferral might help cities think it is worth the burden. A member asked staff to clarify the metershed idea. Would it still be an upfront cost? The idea here is that cities would pay an aggregate demand charge to MCES, not site specific at all. However, that would leave it up to the cities to collect at retail – however works best for them, which might be up front like SAC now. Jason cautioned that this approach might vary substantially from year to year; considering that annual sewer volume causes city MWC bills to change up to 25% in a year, a daily demand determination might vary even more. To that, a member added that cities do not want varying bills. Another member felt the aggregate approach should be kept on the list, and ways reviewed to mitigate the concerns of variability.

	Patty Nauman with Metro Cities asked that the group spend the remaining time narrowing the list before the ideas are floated to others. A member pointed back to the SAC Evaluative Principles, specifically the goal toward equity and fairness **over time** because changes in development over time can cause unanticipated issues, and it is better we look long term. The group started at the top of the Ideas List, and narrowed the list to the following for further consideration: 1. SAC pays for growth only 2. Shift reserve capacity costs for plants from SAC to other wastewater fees 3. SAC to pay for future capital costs instead of backward-looking debt service 4. SAC only to apply to residential connections 5. SAC to be based on metershed demand in aggregate (not site-specific determinations) 6. Determine SAC based on water meter size, with possibly a few exceptions for high-demand type uses 7. Improvements to the current system ("Status Quo Plus") a. Adjust SAC criteria to reflect relatively higher I/I from single family residential connections b. Simplify SAC by aligning criteria with building code types, with possibly a few exceptions c. Increase size of commercial determinations eligible for SAC deferral d. Eliminate SAC for small commercial development A member asked that staff apply the refined ideas to a table with more detail and point out which ones would require statutory change. This will be given to members in advance of the next meeting. In addition it was asked that staff make a first stab at applying the Evaluative Principles to the remaining ideas, and the product be discussed at the October meeting.
4. Next Steps	The group decided to meet on Thursday, October 17 at 9:00 AM at the League of Minnesota Cities. The refined List of Ideas and MCES staff findings will be discussed at the next meeting, with the goal of solidifying recommendations to the Council. Materials will be emailed in advance of the October meeting.
Adjournment	10:25 AM

Meeting Title: **Sewer Availability Charge (SAC) Work Group Meeting #5**

Date: October 17, 2013 **Time: 9:00 – 11:00 AM** **Room: League of MN Cities**

Members in Attendance: Jon Commers, Metropolitan Council; Wendy Wulff, Metropolitan Council; Mike Gamache, City of Andover; Terry Schneider, City of Minnetonka; Frank Boyles, City of Prior Lake; Dan Roe, City of Roseville; Patricia Nauman, Metro Cities

Members Absent: Gary Cunningham, Metropolitan Council (resigned); Myron Bailey, City of Cottage Grove; Sandy Colvin Roy, City of Minneapolis

Met Council Staff in Attendance: Bryce Pickart; Jessie Nye; Kelly Barnebey; Dan Marckel

Others in Attendance: Lisa Cerney, City of Minneapolis

Meeting Notes:

Item	Notes
1. Approval of September 18 Minutes	Patty Nauman with Metro Cities chaired today's meeting and asked members if there were any changes to be made to the draft September 18 Minutes. There were none requested; and minutes were approved as written.
2. Review of Refined List of Ideas	Instead of following a PowerPoint presentation, discussion centered on the handout of the refined list of ideas that was sent to members in advance of this meeting. The goal is to pare down the list so that, if necessary, MCES staff can prepare more detailed analysis for the next meeting. A member made a general comment that every idea has plusses and minuses, and keeping them simple and effective is going to be a challenge. He asked whether some can be blended together. Would that make this discussion simpler? Bryce Pickart, Assistant General Manager of MCES Technical Services, answered that no one option meets all the principles. The options fall into two categories: 1) those that require statutory authority. They comprise the first half of the handout. 2) Those that require minor adjustments to the current program. They comprise the other half of the handout. **Growth Pays for Growth – keep on the list** Patty said that Metro Cities supported this option from the 2009 SAC Task Force and continues to support it. She asked how it would blend with the other options as the group discusses each one. The answer is that the idea growth should pay for growth is a recommendation that people would expect in principle, particularly if they do not understand the current SAC Program. MCES debt service related to growth is expected to decrease (30% now to 10% by 2040), so this option would materially reduce what SAC pays. It would increase the portion paid by current users through municipal and industrial wastewater charges. Bryce added that not changing the current statute means SAC will eventually pay more for growth than was originally intended.

	A member added in addition to SAC paying more, if growth declines, raising the SAC rate negatively impacts development. To that, another member said he has a better understanding how difficult defining "growth" can be. He sees growth in his district as redevelopment. To that, another member added redevelopment requires growth investments in the system. Fundamentally the idea "growth pays for growth" is fair, and the core areas need to understand they are in fact growing with redevelopment. Growth in the demand for sewer capacity *is* growth. A member said this option failed in the previous Legislature for political reasons, but if it was blended with other more palatable and understandable refinements, then a statutory change may be more successful this time. She said ultimately this option makes sense to people and fits the principle of equity & transparency. To that, a member stated it would be helpful to draft materials for legislators that are easy to digest and explain how the proposal impacts each legislator's constituency, including in the broad future. It was asked if this option would increase user fees for municipal wastewater charges. Bryce said the immediate change would be nominal, and if the SAC program remains as is, the Municipal Wastewater Charge (MWC) will still continue to increase. **Limit SAC to Interceptors – do not pursue but keep on hold** Under current law SAC pays for the reserve capacity in both the MCES interceptors and plant systems. This option would leave the interceptor reserve capacity the same (i.e. paid by SAC), but shift the reserve capacity for plants to current users. Currently the plant portion of the transfer is 30%, and will be 25% in 2014, and approximately 20% in 2017. This option would lower SAC but increase the MWC. Bryce said there could be acrimony if the MWC increases. He also stated this option would exclude existing plants online. Future new plants could be treated as an interceptor expansion from a technical standpoint. A member felt the growth method is more fair and easy to accomplish in contrast to this option. To that, it was asked how MCES staff would marry this option and Growth Pays for Growth. Bryce answered that the discussion demonstrates the potential complexity and difficulty in explaining. A member added if we got away from interceptor language, the option would be less difficult to explain in the Legislature. It was asked if in previous meetings the group prioritized the Evaluative Principles. The answer is no. **Forward Looking SAC – drop from the list** This option was added mainly due to Ehlers' analysis. It involves computing the revenue requirement looking forward in the Capital Improvement Plan (CIP) or even longer into the future to anticipate the costs of building additional reserve capacity. This option would result in higher SAC rates and lower municipal and industrial charges in the future. A member stated when Elko New Market and East Bethel became part of MCES's service area they had to pay an extra amount above the urban SAC. Is MCES no longer doing that with other communities coming on board? Bryce clarified that Elko New Market pays more than the urban SAC because it is considered a "rural growth center" by Met Council

	definition. This member feels looking forward is in conflict with how the MWC is computed, and thus will lead to more acrimony. It was asked how this option is consistent with *Thrive's* principles. What does MCES use for CIP? The 25-year CIP includes 80% for asset preservation, which is consistent with *Thrive's* goals. 10% relates to growth and 10% is wastewater reuse to supplement the region's water supply. A member said she has seen so many changes to the CIP in the last 5 years that this option would be based on shifting sand. **SAC Only for Residential – drop from the list** Bryce indicated this option would be simpler but lead to acrimony because the residential fee would be higher (potentially doubled). To that, a member added he thinks this option could make SAC irrelevant in people's minds and suggested MCES instead focus on refining the commercial side of SAC. Another member stated an unintended consequence worth noting is the encouragement of high water intensive businesses and less water conservation. To that, a member added this option seems to favor business investment in the core while putting workers outside the core. A member said this option is not equitable and compromises one of the major Evaluative Principles. **SAC on Metershed Demand – drop from the list** Instead of a site by site determination of demand, MCES would determine SAC in aggregate for an area serviced by each MCES meter. Cities would be charged lump sums for increases in watershed demand. The member who was originally in favor of leaving this option on the refined list spoke to his staff and determined it is *not* something his community would favor. Another member felt this option was detrimental to the Inflow & Infiltration (I/I) program, and that there is too much variability in meter systems – it is not a drastic simplification over the current system. **SAC Based on Water Meters – keep on the list, requires more analysis** This is not clear in the handout, but the option pertains only to commercial. Bryce indicated the remaining options in the handout do not require statutory change, and this option comes from Ehlers' analysis of peer regions. Instead of the type and size of a business being used to determine SAC, the water meter size would be used. New meters and upsizing a meter would cause a new SAC determination for a site – but not for changing business use types. For example, meters up to 3-inch or 4-inch in diameter could have a set SAC rate instead of a derivation based on type and size of the business. To that, a member asked if MCES is proposing to use different calculations for meters above a certain size. The answer is MCES would describe those details upon further analysis. A member expressed concern that this option reduces fine-grain determinations and instead "dumps varied projects into one category." He

	felt that businesses may keep their projects smaller in scale if they think the meter size will save money. Another member wanted to know how this option would play out in the real world, and whether applicants could find ways to get out of higher fees. A member added that projects with less wastewater output due to reclaiming water still might have a large meter size, and they could argue this option is unfair. He asked that MCES consider this in its analysis. **SAC Based on Building Code – drop from the list** The idea would be to use the 10 building code categories to determine SAC instead of the current criteria, and only require a redetermination when there is a change in building code category. There would be exceptions for high water intensive businesses. This option would allow cities to complete determinations in-house in an easier and faster way. Bryce pointed out that many of the 100+ current SAC criteria came about because customers perceived their business did not fit in any one category, and so going back to a small list of categories could bring back that acrimony and more complaints. A member added that this option appears to divide the current 100+ criteria by the 10 building code categories – how is that any simpler and less confusing? He felt certain business types, such as restaurants, do not fit easily into one occupancy category. **Status Quo Plus – I/I Adjustment to Criteria – do not pursue but keep on hold** This option proposes to adjust the current SAC criteria for commercial and multi-family uses to reflect capacity demand from average I/I expected over time. The result of implementation of this idea would be a decrease in commercial and multi-family SAC, and consequently an increase in the SAC rate, resulting in higher charges to single family homes. Bryce said this option does not simplify SAC but is simply one more factor to MCES's computation for rates. A member said that I/I is complex and this option may appear to be a simplification – but is not. She is not comfortable with this option. Bryce explained that, within the allowable I/I, the opportunity for more I/I from private property is higher for single family homes than businesses and multi-family housing. This I/I distinction is difficult to explain, and members were concerned about unintended consequences for the I/I program. A member added the *Thrive* forecasts show a trend toward more mixed-used areas. Would this option be an incentive or disincentive? Bryce replied that it would depend on the MCES technical study currently being conducted. Another member said cities would view what they already paid for as capacity that includes allowable I/I, which sets their bar for exceedance higher and could be argued as unfair. She asked how this links to expectations of the I/I program if charging SAC on I/I. Bryce answered

	that it is the distinction of allowable vs. excessive I/I. The I/I program is for cities to reduce their excessive I/I. The member replied this option would mix two programs together. Bryce said SAC is *potential* demand, not normal demand. This would be invisible to customers. She replied it should not be invisible; people ought to know what they are paying for (another member agreed). Bryce said there is an implication that residential should pay for the bigger share. A member stated if a community is currently small and residential, but has potential for increase, it will pay more for the future capacity with this allowable I/I adjustment to SAC. This community may then feel it should have more capacity in the pipe. A member suggested this group skip this option and instead look at what is a fair ratio for SAC for single family vs. multi-family vs. commercial projects. He felt this option is too complex to explain. **Status Quo Plus – Increase Eligibility for SAC Deferrals – keep on the list** The option proposes to change the limit of SAC deferral from 10 SAC for small businesses to 25 SAC in order to make it available to some middle-size businesses. It was mentioned that the 2012 SAC Work Group wanted to limit deferrals to small business (10 SAC or less) due to the potential liability issues, but this group felt there is no liability because if a business goes bankrupt, a City has the option to not pay the remaining the SAC balance. Future potential SAC credit would be based on what was actually paid. To that, a member added the previous work group members were also concerned about cities' cash flow if the limit was more than 10. She said 10 was an arbitrary number. A member felt that if this program is promoted, it could be a big development boost. **Status Quo Plus – Eliminate SAC for Small Commercial – drop from the list** The idea would be to eliminate SAC entirely for small businesses (gross determination of 10 SAC or less) to encourage their development. This would cause a rate increase, and other businesses could perceive the option as inequitable. A member said the table provided to members prior to the meeting shows that small businesses comprise a larger percentage of the SAC revenue base than he realized, and he proposed to drop this option because of the magnitude of impact if MCES implemented it. To that, another member felt there would be many potential complaints over the threshold from 10 SAC to 11. **Status Quo Plus – Separate Funding for Any Incentives – drop from the list because this is part of the Evaluative Principles** The idea would be that SAC should be a utility fee, based on capacity demand. MCES staff believes this is more of a principle and could be communicated as such, and for clarity eliminated as an option.

3. Next Steps	The group decided to tentatively meet on Tuesday, November 12 at 9:00 AM at the League of Minnesota Cities. Kelly will email members if this date does not work for the members absent. November 14 was mentioned as a contingency. MCES staff will spend time analyzing the option to base SAC on water meter size and present the information to the group. Discussion will include the next steps for recommendation to Met Council's Environment Committee and the Council as a whole, as well as a legislative timeline. Materials will be emailed in advance of the November meeting.
Adjournment	10:45 AM

Meeting Title: **Sewer Availability Charge (SAC) Work Group Meeting #6**

Date: November 12, 2013 Time: 9:00 – 11:00 AM Room: League of MN Cities

Members in Attendance: Jon Commers, Metropolitan Council; Wendy Wulff, Metropolitan Council; Terry Schneider, City of Minnetonka; Dan Roe, City of Roseville; Patricia Nauman, Metro Cities

Members Absent: Mike Gamache, City of Andover; Myron Bailey, City of Cottage Grove; Sandy Colvin Roy, City of Minneapolis; Frank Boyles, City of Prior Lake

Met Council Staff in Attendance: Jason Willett; Bryce Pickart; Kyle Colvin; Kelly Barnebey; Dan Marckel

Others in Attendance: Lisa Cerney, City of Minneapolis

Meeting Notes:

Item	Notes
1. Approval of October 17 Minutes	Metropolitan Council Member Jon Commers chaired today's meeting and asked members if there were any changes to be made to the draft October 17 Minutes. There were none requested; and minutes were approved as written. Jon indicated today would likely be the last meeting and gave members the option to schedule another meeting. No one requested this. Jon also thanked members for their engagement and long-term commitment to the group's work.
2. MCES observations & preliminary analysis on water meter option	In the previous meeting, the idea to base SAC on water meters was selected to be among the recommendations, albeit it was clear that further study was needed. Members were told that MCES staff would begin analyzing whether changing to SAC criteria based on consumptive water supply meter sizes is a plausible option, and bring information to the November meeting. Kyle Colvin, Assistant Manager in MCES Technical Services, presented the status of the research to date. He had reviewed the consultant Ehlers' findings and noted that agencies in the small sample (those that base their charges on water meter size) were those that manage both wastewater services and water supply. This makes sense because those agencies have control over the selection and installation, and are familiar with the water meters. Kyle then discussed a handout that was distributed to members prior to the meeting. The proposed future work plan is to interview selected metro communities to gather information on their water meter selection process (size, supply source, re-size frequency, permitting requirements and process, record keeping, etc.). Kyle chose to query Minneapolis, Roseville, Shakopee, St. Paul, Maplewood, and Woodbury. These selected communities represent different levels of involvement as it pertains to water service and water meter size selection. Kyle is starting

	to obtain 2-year records of consumptive use water meter size assignments for commercial and multi-family residential properties (size and address). The handout includes the community questionnaire that he was using and is a draft of a proposed comprehensive survey. MCES staff will then cross reference SAC assignments for properties (i.e. using a water meter basis vs. the current determination basis) and determine if a correlation exists. Kyle's initial findings (note not all queried communities had responded) are that a water meter basis appears to have the following: **Pros** 1) Uniform Plumbing Code suggests meter size be based on fixture unit count; therefore, a water meter SAC would have this objective basis. 2) The community billing department documents and retains meter size in the billing records, so this information is reviewable. 3) Ease of SAC assignment in that basis is strictly on water meter size versus the existing method which considers potential occupancy count and building use. **Cons** 1) The basis for meter sizing is not always technically based. The actual size can be selected based on available inventory, or conservative up-sizing. 2) The size determination can be made by various municipal departments (public works, engineering, building, etc.) and the mechanical engineer on the project. Therefore, basing SAC on water meter size may complicate or necessitate changes in local processes and procedures. 3) In addition to variability in size determination by communities, there is also variability in individual manufacturers' models. Each may have different optimal operating ranges. There are three primary meter types: disk (low gpm); turbo (high gpm); or combination disk and turbo. This means the basis for SAC charges and credits may be variable for uses having the same potential use. 4) High-water volume users, such as industry and vehicle wash facilities, may require a separate SAC criteria or determination process, because their high demand is not reflected in the meter size (i.e. process batch discharges) Also worth noting in this discussion: once installed at an address, meter size remains the same even with most re-purposing of use, so redeterminations for SAC would be greatly reduced. Irrigation use does not typically impact consumptive meter sizing, so that would not obfuscate the use of such meter sizes. Fire protection water is not metered. Kyle concluded his presentation by detailing the tasks and timeline for completing MCES's analysis. MCES will gather information from a metro-wide survey of communities and ask for feedback on the proposed methodology change. If the consumptive water meter idea appears viable, MCES staff will develop SAC assignment criteria based on the water meter ranges. There would also need to be a financial analysis of the impact on the SAC rate with this option as well as a public meeting

	process. Kyle said the earliest potential implementation for change is *January 1, 2015*. It was asked what the threshold for re-sizing would be for a 3000 square foot office space changing to a café. Kyle answered the range is vague. If the repurpose of the space requires more fixtures and falls beyond the gpm rating, then meter upsizing may be required. Due to the potential infrequency of upsizing, which would prompt a SAC determination in this proposal, fewer SAC units for redevelopment would likely be collected, which means the SAC rate would be adversely impacted. That will be part of MCES's financial analysis. A member commented the flip side to infrequent meter upsizing is there would be fewer changes in use, thus less need for SAC determinations and that has some savings. Bryce Pickart, Assistant General Manager in MCES Technical Services, emphasized this proposal would not change the existing Industrial Waste process flow SAC determinations. It was asked whether MCES staff will consider green initiatives and businesses that reclaim water. The answer is yes, staff will include that in its analysis, as that is now in the current criteria (e.g. car washes). A member asked how many peer agencies use the water meter option. Kyle did not know the percentage since Ehlers' efforts focused on those agencies they selected – not all that MCES considers peers; therefore, it was not possible to estimate a percentage of all peer agencies that use this method. She asked whether this option is more technically sound and simple than the current SAC program. The answer is it would be simple for MCES staff, for communities, and for customers. However, it is not likely more accurate in its basis of charging for the capacity demand. And there is potential for acrimony because either: i) due to the sometimes conservative nature of oversizing a water meter, thereby resulting in an inflated SAC assignment, or ii) due to the need for local communities to change internal processes for determining, reporting and retaining records for water meter sizing. Jason Willett said that he was concerned some cities may have been a lot more conservative in meter sizing (meaning they required larger meters), and so they would be less likely to upsize and experience an incremental SAC than a community that was not so conservative. A member said it is important to refer back to the SAC Evaluative Principles in this ongoing discussion.
3. Next Steps	A Recommendations draft was emailed to members in advance of the meeting. Jon asked members for comment or edits. A member said it is no small feat the group was able to pare down the list; he thinks a short summary is "great." He asked why the interceptor idea is not on the list. In the October meeting, this idea was not dropped from the list, but the group decided not to pursue it at this time. Another member felt the recommendation "growth pays for growth" is simpler and leaves less room for interpretation, and that trying to make both changes at once would lead to too much uncertainty.

	Jason explained this was just the recommended changes; the other details will be discussed in the full report and may continue to be explored by staff (and possibly recommended in a few years once MCES sees how the other changes work). He mentioned he wanted to make sure the group had a full discussion of these words and agree (or not), and he will likely want to mention names in pursuing in the Council and legislature, as having Mayors and high-level participants will help. A member asked that MCES provide more detail on how “growth” is defined. Bryce said there is a technical memo from the 2010 SAC Task Force with more detail, and it will need to be updated, but that it does delineates growth vs. rehabilitation/asset preservation and quality improvement for projects with multiple objectives. The 2010 SAC Task Force Final Report is posted on the Council’s website, and Kelly will email the link to members. It was asked what the last bullet point in the SAC Initiatives draft document means: “Although sewer volume charges will increase somewhat due to the shift, sewer rates in the Twin Cities region ranked among the lowest nationally. This will not change with this legislation.” Jason said it means the Municipal Wastewater Charge (MWC) will increase, and he felt MCES should be transparent about that. Over time, the fraction of debt service for growth will decrease, so SAC would be expected to pay a lesser fraction of debt service. The resultant increase in the MWC would be 5-10% over a 20 year period. This member asked that this be explicit in the SAC Initiatives document. Regarding the recommendation the Council should provide separate funding for any incentives, waivers and discounts, a member described his conversation with the owner of a small construction firm. The owner does not view incentives as a subsidy, but instead feels he is subsidizing SAC for infrastructure that is already in place. This member asked the group to consider how stakeholders perceive language such as “incentive” and “user fees.” It was asked that incentives be broadened. Another member commented that the recommendations need to be consistent with *Thrive MSP 2040* goals. Those goals are integration, collaboration, and accountability. This group feels the SAC Evaluative Principles and process for adopting these changes align with those goals. The work of this group has been transparent and will be part of public record. To that, Jason said he will present the work group’s recommendations to the *Thrive* Work Group for input. There will also be a presentation at the November 21st Land Use Advisory Committee (LUAC) for input. Dan Marckel, Planning Analyst at Metropolitan Council, shared that *Thrive MSP 2040* will assert 5 regional outcomes to guide Council actions: Stewardship, Prosperity, Equity, Livability, Sustainability; and 3 Principles for working: Integration, Collaboration and Accountability. After Thrive is adopted, efforts such as this SAC Work Group will be asked to clarify how their work advances the region toward all of the Outcomes and how it follows the Principles. Since this group (SAC) and Thrive timelines overlap, we have asked the Thrive Work Group (CM Commers is a member) to discuss the SAC recommendations as a test case for using the Thrive structure.

	A member asked that the language for the Recommendations be solidified before they are presented to LUAC. In other words, members wish to sign off on the final product since it will have their names on it. Jason said staff will make the edits as soon as possible and email a revised draft to members for comment. In addition, anything that is a *draft* will be explicitly communicated as such.
	
	Here are the proposed next steps, once the Recommendations are finalized:
	
	• November - December: Discussion with:
	    o LUAC, Thrive Work Group, Environment Committee
	• December: Final Report drafting
	• January 2014: Council Meeting, for adoption of changes
	• 2014: MCES staff conducts technical review of using water meter sizes for capacity charges
	    o Will include stakeholder process
	• 2014: Public meeting, if recommending use of water meters for SAC charges
	
	A member stressed that *all* communities need to be involved in the stakeholder process, once the technical review is completed.
	
	MCES staff will keep members informed of the timeline and pertinent changes. Members will see a draft of the Final Report before it is finalized and posted. The work group can reconvene in a few months if necessary.

Adjournment	10:50 AM

Appendix B

Refined List – MCES Staff Idea Descriptions & Initial Analyses

Growth Pays for Growth

Type of Idea: Revenue Requirement

Description:

The amount of reserve capacity paid by SAC should be based exclusively on the growth portion of projects. Currently, SAC pays a portion of all MCES capital project costs (either as debt service or pay-as-you-go), including growth, regulatory or other quality improvements and most notably rehabilitation projects. This proposal would change the SAC requirement such that SAC would be based on 100% of the costs of growth project projects, and 0% for other types of MCES capital project costs.

Statutory Change Required: Yes

Pros:

1. Would be simpler to explain accurately for what SAC pays.
2. Eliminates some complexity in the methodology used to figure the annual amount of reserve capacity.
3. Improves consistency with Council policy to set rates on a regional cost-of-service basis (the charges are based on needing new capacity availability, so this would align better with the cost of providing new capacity).

Cons:

1. Lower SAC revenue, as growth declines, means other wastewater charges will be higher.
2. There is some complexity around what growth is, and this could cause some acrimony as to the description of some projects or portion of projects as growth or not.
3. Focused on the amount of the SAC revenue, so does not address the work involved and occasional acrimony over SAC determinations.
4. Administrative effort: because capital projects take more than 1 year to complete, they can be funded by more than 1 source of financing. Each of 20 annual debt service payments needs to be tracked separately for each project.

Comments:

Recommended by a Task Force in late 90's, but legislation to implement failed. Again recommended by the 2009/10 Task Force, and legislation failed in 2012.

While in the long run, SAC has paid roughly the cost of growth, it has not been figured that way, and is not expected to continue to do so. Current expectations are for much more limited growth projects in the future (30% now to 10% by 2040), so if that comes to pass, this approach would materially reduce what SAC pays, and it would increase the portion paid by current users through municipal and industrial wastewater charges.

Analysis Suggested:

There is a detailed memo on how to determine the growth portion, but it would need to be updated.

Growth Pays for Growth

Does this fit? **Staff view…**	SAC Evaluative Principles
+/- (simpler re: how much SAC pays related to wastewater costs, but not a simpler charge to explain to businesses…)	Transparent & simple to explain to anyone
+ (cost of service basis)	Equitable for all types of served communities
+ (future users would more accurately pay for the costs of making the service available to them)	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
+ (no change in mechanisms; however, maybe lower fee would help some)	Support cities' sewer fee capabilities
+ (this only impacts the SAC rate)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

Limit SAC to interceptors

Type of Idea: Revenue Requirement

Description:

Under current law, SAC (future users) pay for the reserve capacity in both the MCES interceptors and plant systems. This option would leave the interceptor reserve capacity the same (i.e. paid by SAC), but shift the reserve capacity for plants to the current users (through municipal and industrial wastewater charges). Currently the plant portion of the transfer is 30% in 2013, 25% in 2014, and will be about 20% in 2017 of the total.

The rationale is that the expected life of the capacity for plants is less, because we can more effectively build to the average aggregate demand, and since plants are mostly above ground we can feasibly make physical changes in time to reflect changes in demand or technologies. Contrasted to the interceptor system that is buried and the reserve capacity for some is built to satisfy demand for decades (e.g. a gravity sewer's expected useful life can be 80 years).

Statutory Change Required: Yes

Pros:

1. Reduced SAC rate may reduce acrimony.
2. Rationale makes cost-of-service sense, especially with lower growth in the future.

Cons:

1. Focused on the amount of the SAC revenue, does not address the work involved and occasional acrimony over SAC determinations.
2. Lower SAC revenue means other wastewater charges will be higher.

Comments:

Analysis:

Here is a breakout of how much of the current SAC transfer is based on the reserve capacity in the plants (vs. interceptors):

<u>Interceptor portion</u>

2013 70%

2014 75%, projected

2016 78%, projected

2018 80%, projected

If in 2014 SAC only paid the interceptor piece, the MWC would need to increase $8,765,000 which is a 4.5% increase to the 2014 budget, just for this addition. Permit fees would increase incrementally that same 4.5%, and load charges would increase a very small amount (between 0.1% and 0.2%) because the volume component increases 4.5%.

Limit SAC to interceptors

Does this fit? Staff view.. **SAC Evaluative Principles**

Does this fit? Staff view..	SAC Evaluative Principles
- not a simpler charge to explain to businesses…	Transparent & simple to explain to anyone
+ cost of service basis	Equitable for all types of served communities
+/- cost of service preserved, but maybe a little less accurate since some plant reserve capacity would be paid by current users	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
+ (no change in mechanism; maybe lower regional fee would help)	Supports cities' sewer fee capabilities
+ (this only impacts the SAC rate)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

Forward Looking SAC

Type of Idea: Revenue Requirement

Description:

Currently SAC, by statute, pays for reserve capacity using actual capital project costs incurred in the past (debt service or pay-as-you-go). This idea involves computing the revenue requirement looking forward in the Capital Improvement Plan (CIP) or even longer into the future to anticipate the costs of building additional capacity.

Future costs are likely higher, so everything else equal, this would lead to higher SAC rates, and lower municipal and industrial charges.

Statutory Change Required: Yes

Pros:

1. When a new customer is permitted (and thus demands availability of sewer) they are paying a SAC based on the historical cost of the capacity, not at current (inflated costs). The current users will have paid the carrying cost for the reserve capacity until the future demand occurs, and any rehabilitation costs to keep the reserve capacity viable, so having the future (SAC) payers pay more may be seen by some as closer to a comprehensive cost of service (debatable; see #1 and #2 cons, below).
2. Many areas around the country reportedly do this.

Cons:

1. Current system has new users pay for improvements to the system that will be used during the useful life of improvements. This idea might have new users paying for future improvements.
2. Moreover, long-term capital improvement plans and their costs can change from year to year, so setting fees on a plan instead of actual costs likely adds variance between actual costs of service and uncertainty about potential larger volatility in the future.
3. May invite controversy and second-guessing about the details of the CIP.
4. May require MCES to do much more planning work on longer term CIP (6 year CIP is specific, but after that assumptions are made to reduce work required in planning that can best be done closer to the timeline
5. This idea is focused on the amount of the SAC revenue and does not address the work involved and occasional acrimony over SAC determinations. Might make acrimony worse if the fee is materially increased.

Comments:

Might be best to pursue this with offsetting changes – for example the growth-pays-for-growth or limiting SAC to interceptor ideas that would reduce the SAC revenue requirement.

Analysis Suggested:

This would require work on specifics of long-term CIP, then require more work on complex multi-year financial analysis to see how much difference this would make and the impact on other fees.

Consideration for a transition plan also needed.

Forward Looking SAC

Does this fit? **Staff view..**	**SAC Evaluative Principles**
- not a simpler charge to explain to businesses…	Transparent & simple to explain to anyone
+ cost of service basis	Equitable for all types of served communities
+ cost of service basis, arguably improved eventually; but transition could be inequitable potentially to a generation of users.	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
+/- (no change in mechanism; however, slightly higher regional SAC might make local addition more problematic)	Supports cities' sewer fee capabilities
+ (this only impacts the SAC rate)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

SAC only for residential

Type of Idea: Determination Methodology

Description:

Eliminate SAC for all types of non-residential development, on the principle that the same people (mostly) are paying the fees, and it would be much simpler and administratively less costly to have only the residential fee. In 2012, residential SAC paid was 63% of the total collected by MCES. This includes apartments.

Statutory Change Required: Yes

Pros:

1. Much simpler.
2. Residential (at the recent rate levels) has not been acrimonious, so unless the rate increase changes that, this would eliminate most SAC acrimony.

Cons:

1. People that do not live in an MCES sewered area would essentially not be paying for demand, even though they may shop and work here - including those on septic systems or living outside the MCES service area (e.g. Hudson, WI and Rogers, MN).
2. Unless the revenue requirement is also changed the residential fee would have to be much higher (maybe doubled).

Comments:

Could be paired with another option to limit SAC's revenue requirement, which might result in SAC rate being only slightly impacted.

Analysis Suggested:

Forecasting the amount of residential development and the impacts of this on SAC rate for residential.

SAC only for residential

Does this fit? **Staff view..**	**SAC Evaluative Principles**
+ (would not have to explain at all to businesses)	Transparent & simple to explain to anyone
- (a “bedroom” community where most residents commute would likely see this as inequitable; although other benefits provided by urban core may offset this Also, may be too generous to unserved communities).	Equitable for all types of served communities
+/- (cost of service basis preserved; but freeloaders that don’t pay is not equitable)	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
- (would potentially be problematic for cities without much new residential development)	Supports cities’ sewer fee capabilities
+ (very much so)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

SAC on metershed demand

Type of Idea: Determination Methodology

Description:

Instead of site by site determination of demand, MCES would determine SAC in aggregate for an area serviced by each MCES meter. Demand can be determined by actual measured maximum flow, instead of estimated by business use types. Cities would be charged lump sums for increases in metershed demand.

Statutory Change Required: Yes

Pros:

1. Allows each city the benefit of diversity of demand within their metersheds.
2. Consistent with the oldest rationale that a city will pay for reserve capacity in aggregate that it requires.
3. Would be an additional incentive to reduce I/I.

Cons:

1. Cities with multiple metersheds may feel this method is unfair.
2. Some community flow cannot be metered due to size (flow amount), or large enough for there to be sufficient flow differential to accurately assign flow (system flow pass-through).
3. Probably large charges based on accuracy of measurement over small time period.
4. Could lead to high variability in Local SAC.
5. Puts the entire burden to raise Local SAC funds on the city (i.e. city may still need to do site by site demand determinations in order to raise needed funds).
6. Paying by lump sum was the approach to paying for reserve capacity before SAC, and was politically difficult, especially for small cities.
7. Would be confusingly similar to our excess I/I surcharges and the I/I demand charges that a recent task force rejected.
8. Fluctuations in flow over time (short term & long term) would result in varying rates.

Comments:

Staff thinks this might be technically unachievable. Variability might be mitigated by Met Council loans allowing cities to pay over several years.

Analysis Suggested:

Technical analysis of how much normal variability in daily metershed demand, as well as financial analysis of rate impacts.

SAC on metershed demand

Does this fit? **Staff view..**	**SAC Evaluative Principles**
- (not easy to explain, but since lump sum charge to city that may be irrelevant)	Transparent & simple to explain to anyone
- (some communities have multiple metersheds and so would get less benefit then if they all were aggregated)	Equitable for all types of served communities
na (not determined at a user level)	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
- (eliminates determination service that MCES now provides and some cities use to raise add-on funding)	Supports cities' sewer fee capabilities
- (much concern about precision of meters & high variability)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

SAC based on water meters

Type of Idea: Determination Methodology

Description:

Instead of type and size of business being used to determine SAC, water meter size would be used. New meters and upsizing a meter would cause a new SAC for a site - but not for changing business use types.

Statutory Change Required: No

Pros:

1. Simpler to explain!
2. Used in other metro areas reportedly with less acrimony.

Cons:

1. Loss of accuracy in determining demand on a site by site basis.
2. Possibly large rate increase necessitated since water meters not upsized frequently.
3. For sites that now have non-conforming or waived SAC it would be administratively and politically hard to charge them for demand at all.
4. Probable complaints based on a site not using anywhere near the capacity of the meters to be installed (based on code and flexibility for future more intense water use).
5. Administrative effort to understand and consider varying meter types and distinguish non-consumptive use meters effect on SAC based demand considerations (Fire protection & landscape meter).

Comments:

Currently rising SAC collections and projections (albeit dependent on the economy) suggest that we might be able to absorb a fair amount of unit reductions (#2 con) without a large rate increase.

Analysis Suggested:

Review of a year or two of SAC determinations estimating how many would have paid SAC, as well as a financial analysis of increase of SAC rate for fewer units charged.

SAC based on water meters

Does this fit? Staff view..	**SAC Evaluative Principles**
+	Transparent & simple to explain to anyone
+	Equitable for all types of served communities
+/- (on average yes, but much inaccuracy in specific demand charges)	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
- (much less opportunity to add local add-on)	Supports cities' sewer fee capabilities
+ (much easier administratively)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

SAC based on building codes

Type of Idea: Determination Methodology

Description:

Most cities utilize their building department staff in handling SAC. Based on conversations with various SAC officials at cities, the difficulty with SAC often derives from the many different criterion MCES uses and what might constitute a specific use or a change of use. For building code purposes an "M" occupancy category business moving into an existing "M" occupancy category space wouldn't be a change of building code use, but for SAC purposes if the new business is a salon (considered an "M" occupancy category) and moves into a vacant retail (also an "M" occupancy category) that *is* a change of SAC use. This idea is to use these high-level building code categories, and only require a redetermination when there is a change in building code category.

There are 10 building occupancy categories: Group A – assembly, Group B – business, Group D – daycare, Group E – education, Group F – factory/industrial, Group H – hazardous, Group I – institutional, Group M – mercantile, Group R – residential, and Group S – storage. The building code lists specific uses in each of these category groups that would align with most of our current SAC criteria.

Since there are high water intensive businesses, it might make sense that overlaid on this, there would be exceptions for some business types that are a high water intensive business (e.g. restaurant seating area, laundromats, car washes, salons, pet grooming/salons, etc.). If there were only a handful of exceptions, building officials could more easily remember to look for such projects.

Statutory Change Required: No

Pros:

1. Building Officials will probably like this method, as SAC determinations would be easier to complete and often unnecessary.
2. Easier to explain to business owners and developers who understand building occupancy code.

Cons:

1. Loss of some demand accuracy in charging.
2. Probable complaints by lower-demand type uses paying average.

Comments:

Will need to hire an outside consultant to come up with criterion for the different code categories.

Analysis Suggested:

Review of sample of past determinations to illustrate differences in changes, as well as an estimate of revenue and fee impacts.

SAC based on building codes

Does this fit? **Staff view..**	**SAC Evaluative Principles**
+/- (somewhat better for city officials but maybe not for the public)	Transparent & simple to explain to anyone
+	Equitable for all types of served communities
+/- (on average yes, but some inaccuracy in specific demand charges)	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
+ (cities should still be able to add on to regional SAC)	Supports cities' sewer fee capabilities
+	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

Status Quo Plus – I/I adjustment to criteria

Type of Idea:

Allocation of Revenue between classes

Description:

Adjust SAC criteria for commercial & multi-family uses to reflect capacity demand from average I/I expected over time. Residential single family (1 SAC/house) has much higher vulnerability to I/I based on the surface area of pipes/SAC Units. In older areas this is estimated to be as much as a 25% increase in demand for the I/I. The result of implementation of this idea would be a decrease in commercial & multi-family SAC (only 1 pipe for several SAC Units), and consequently an increase in SAC rate, resulting in higher charges to single family homes.

Statutory Change Required:

No

Pros:

1. Improvement in equity for commercial and multi-family uses, because in the long term they do not require as much capacity for I/I, and MCES will have to build capacity based on the expectation of I/I over the long term regardless of its initial condition
2. Lower charges may reduce acrimony that comes primarily from small commercial development.

Cons:

1. Retains all the complexity and administrative costs of the current program.
2. Implies SAC increase for single family residential.
3. May be seen as unfair to new development as new pipes would be tight and not contributing to I/I as much as our studies indicate for current uses The I/I capacity demand occurs over decades, not up front (as SAC is paid).

Comments:

Might best be done in combination with one of the methods that reduces the revenue requirement on SAC, to mitigate the increase for residential.

The issue of long-term I/I vulnerability argues for this being paid by volume fees not SAC.

Analysis Suggested:

A technical study is underway.

Status Quo Plus – I/I adjustment to criteria

Does this fit? Staff view..	**SAC Evaluative Principles**
- (by itself, no improvement from current situation)	Transparent & simple to explain to anyone
- (may not be fair to charge for this capacity up front for communities with mostly new residential development)	Equitable for all types of served communities
- (future users do not require as much I/I capacity when first entering system (albeit sump pump connections may happen quickly) Current users were not charged for this…)	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
+ (yes, same as current system)	Supports cities' sewer fee capabilities
+ (same as current system)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

Status Quo Plus – Increase eligibility for SAC deferrals

Type of Idea: Customer Service Enhancement

Description:

Change limit of SAC deferral program from 10 SAC for small businesses to 25 SAC in order to make this available to some middle-size businesses.

Statutory Change Required: No

Pros:

1. Cities can spread out more SAC payments over time.
2. Larger threshold for applicability may encourage more cities to participate in the deferral program, thus improving relations with small businesses too.

Cons:

1. The 2012 SAC Work Group wanted deferrals limited to small businesses.
2. SAC deferral program is more work for cities when utilized (a city option).

Comments:

This enhancement could be done in addition to the other changes.

Analysis Suggested:

None (MCES has data on the number of SAC for businesses 10-25 SAC gross)

Status Quo Plus – Increase eligibility for SAC deferrals

Does this fit? Staff view..	**SAC Evaluative Principles**
+/- (no change from current situation)	Transparent & simple to explain to anyone
+ (it is an option for all cities)	Equitable for all types of served communities
+ (SAC payers pay full amount & interest over time)	Equitable between current & future users
+ (principles) na (goals)	Supports the principles & goals being developed for *Thrive 2040*
+ (no change, arguably better since city add-on could also be spread over time)	Supports cities' sewer fee capabilities
- (more work for cities)	Administratively reasonable, implementable and enforceable
na	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

Status Quo Plus – Eliminate SAC for small commercial

Type of Idea: Allocation between Classes

Description:

Eliminate SAC entirely for small businesses (= gross SAC determination of 10) to encourage their development.

Statutory Change Required: Yes

Pros:

1. Would help small businesses (10 SAC ~ $25,000) that would otherwise have difficulty getting started.
2. Economic development for the region helps us all.

Cons:

1. Causes a rate increase.
2. Inequitable to other types of businesses that would have to pay more.
3. Would cause complaints by those just over the threshold (e.g. 11 SAC).

Comments:

MCES would need to address what happens when an exempt small business grows over the threshold, that is, do they pay for the first 10 SAC that were originally waived? This could happen if a restaurant simply adds on a patio.

Problems might be mitigated if another funding source pays for the initial waiver (up to 10 SAC).

Analysis Suggested:

MCES could provide historical number of determinations at different thresholds, as well as rate impacts estimated for each.

Status Quo Plus – Eliminate SAC for small commercial

Does this fit? Staff view.. **SAC Evaluative Principles**

Does this fit? Staff view..	SAC Evaluative Principles
+ (better for small business, neutral for others)	Transparent & simple to explain to anyone
+	Equitable for all types of served communities
+/- (it depends – not true if current users, through MWC, absorb the waived costs)	Equitable between current & future users
+ (principles) + (goals)	Supports the principles & goals being developed for *Thrive 2040*
- (no change over 10, but cities may have harder time still charging those under 10)	Supports cities' sewer fee capabilities
+	Administratively reasonable, implementable and enforceable
- this is essentially a subsidy to encourage economic development	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

Status Quo Plus – Separate funding for any incentives

Type of Idea: Principle & Revenue Requirement

Description:

SAC should be entirely a utility fee, based on capacity demand. Incentives desired by the state, cities or the Met Council should be funded from different sources (e.g. housing, economic development, re-development, small business help, other environmental goals).

Statutory Change Required: No (unless alternate source funding requires it)

Pros:

1. A technical basis for all charges is a political safe harbor, and easiest to defend to ratepayers.
2. Consequently, less change in program over time.

Cons:

1. If incentives are established and paid by other funds, then opportunity cost of other funds (that is they would not be available for original/other purposes).
2. Implies elimination of current apartment & public housing discounts unless supported by technical analysis.
3. Some people believe Met Council should use all its tools to further all its goals.

Comments:

Staff believes this is more of a principle, than option and could be communicated as such, and for clarity eliminated as an option.

Analysis Suggested:

Evaluation of whether two current small subsidies continue to have a technical basis (i.e. less demand). They did originally have a technical basis but technology has changed water demand, and these have not been reviewed in maybe 30 years.

Status Quo Plus – Separate funding for any incentives

Does this fit? **Staff view..**	**SAC Evaluative Principles**
+ (subsidizing things is harder to explain and defend)	Transparent & simple to explain to anyone
+ (cost of service only)	Equitable for all types of served communities
+ (cost of service only)	Equitable between current & future users
+ (principles) - (goals)	Supports the principles & goals being developed for *Thrive 2040*
+ (no material change from current system implied)	Supports cities' sewer fee capabilities
(no change from current)	Administratively reasonable, implementable and enforceable
+ (not including incentives in fees is ultimate consideration)	Considers use of SAC for any specific goals or incentives with respect to impacts on the SAC program and specifically its equity, transparency and simplicity

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Appendix C

Work Group Presentations & Handouts

The following presentations are in slide handout format and may not be accessible by a screen reader. To view the accessible work group presentation slides, visit the SAC web page (www.metrocouncil.org/Wastewater-Water/Funding-Finance/Rates-Charges/Sewer-Availability-Charge.aspx).

Welcome to the Sewer Availability Charge (SAC) Work Group Meeting #1

Met Council Member Jon Commers, Co-Chair
Patricia Nauman, Metro Cities, Co-Chair

League of Minnesota Cities, St. Paul
April 29, 2013

METROPOLITAN COUNCIL

Today's Agenda

1.	Welcome & Introductions	Chairs	9:00
2.	Background on MCES & SAC	Jason Willett	9:10
3.	Background on growth & Thrive	Libby Starling	9:40
4.	Reserve Capacity	Bryce Pickart	10:10
5.	Discussion of other desired background information	All	10:40
6.	Next Steps	Chairs	10:50

METROPOLITAN COUNCIL

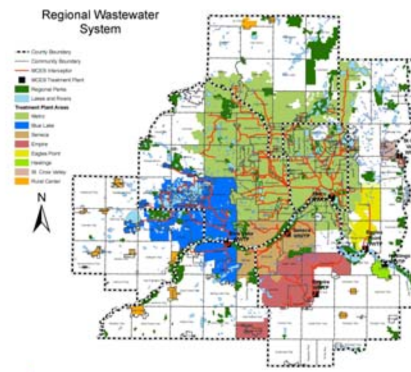
Background on MCES & SAC

Jason Willett, Director
MCES Finance & Energy Management

METROPOLITAN COUNCIL

- Seven Treatment Plants
- 600 miles of Regional Interceptors
- Estimated $5 Billion Replacement Value
- Capacity to treat 372 million gallons per day of Wastewater Flow
- 107 Communities Connected

MCES Wastewater System



MCES Metropolitan Plant

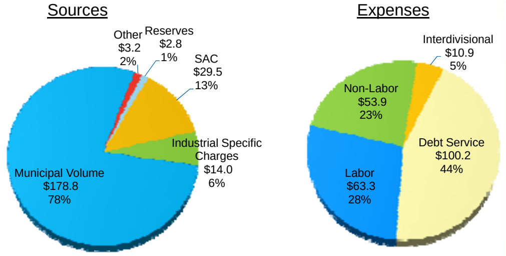
MCES Performance Awards

- National Association of Clean Water Agencies (NACWA) – compliance with clean water discharge permits
  - All plants, most years
- MCES/Xcel Energy Awards
- NACWA Operations Award for Environmental Achievement (Inflow/Infiltration program)
- Metropolitan Plant Solids Management Building design
  - 3 awards

see handout in packet

METROPOLITAN COUNCIL

Environmental Services
2013 Operating Budget - $228.3M



No tax dollars for wastewater

SAC Background

- SAC is payment for capacity availability (i.e., capacity intended for future users)

History

- Reserve Capacity originally assessed to developing cities as lump sum
- SAC program instituted January 1, 1973

SAC Source of Funds

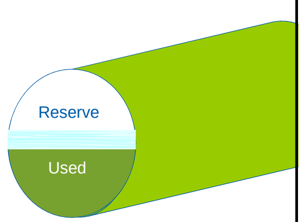
- Charged to municipalities ("wholesale charge")
  - SAC revenue reduces volume charges to cities
- For new connections and/or increased demand (capacity) to the metropolitan wastewater system
- 1 SAC Unit charged per 274 gallons of maximum daily wastewater capacity availability

2013 SAC Rate

Urban* Base Fee: **Dwelling Units:**	**$2,435** **1 unit each**
- Apartments (without individual laundry facilities)	20% discount
- Multi-Dwelling Public Housing (without garbage disposals nor dishwashers)	25% discount
Commercial & Institutional: Base fee times number of residential equivalent capacity (RECs) units. The number of RECs is based on estimated maximum potential flow by type of use.	
- Qualified Outdoor Spaces	75% discount
Industrial Process Flow: Base fee times number of RECs where the number of RECs is based on maximum normal flow volume measured.	
*** "Rural Growth Centers" (RGCs): Elko New Market and East Bethel have higher SAC base rates set by contract.**	

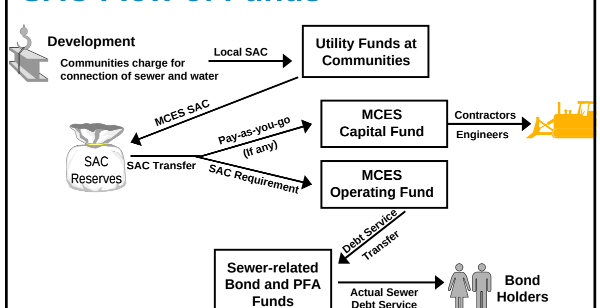
SAC Use of Funds

- Pays a portion of the capital or debt service (payments) on all MCES debt
- Pays for administrative costs of SAC program

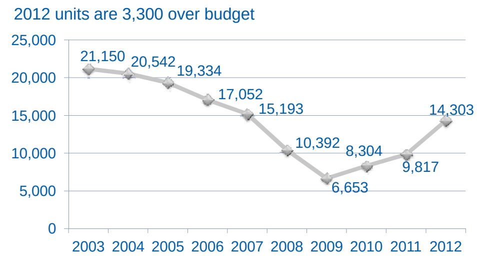


Per MN Statute 473.517 subd (3)

SAC Flow of Funds



SAC Units Paid



SAC 'Shift'

2010 Amendment to Statute:

Allows Council flexibility to temporarily reduce SAC transfer and shift amount to Municipal Wastewater Charges

Requires shift back when fund balance recovers to twice annual transfer

SAC 'Shift' Numbers

$8.8M has been shifted

- $4.5M 2011 shift was funded from increase in MWCs
- $4.3M 2012 shift was funded from operating reserves

2011 – Council authorized to designate $15.3M of operating reserves to future SAC shifts

- $4.3M use in 2012

2013 – no shift

2014 – proposed budge includes $2.2M shift back

2013 SAC Financial Analysis Highlights

SAC units paid scenarios:

Year	Poor Economy	Base Scenario	Good Economy
2013	12,000	14,000	16,000
2014	13,000	15,000	17,000
2015	14,000	16,000	18,000
2016	15,000	17,000	18,000
2017	16,000	18,000	18,000

SAC reserve balances for scenarios

($ in millions)

Year	Poor Economy	Base Case	Good Economy	Council's min. bal.
2012	34.5	34.5	34.5	33.6
2013	35.2	40.0	44.8	35.9
2014	35.0	45.0	54.9	39.0
2015	35.6	51.0	66.4	41.8
2016	38.6	59.8	78.4	44.8
2017	41.3	68.6	88.0	47.4

Note: All scenarios assume shift back of $2.2M/yr. 2014-2018 and rate increases of 2.7% in 2014, and 2.0% thereafter.

SAC: Poor Economy Scenario - Alternate

Alternative if shift back discontinued and rate increases kept at 2.0%:

Year	SAC Units	Rate Increase	SAC Shift (Back)	Reserve Balance	min. bal.
2012	14,300	6.1%	$4.3M	$34.5M	33.6
2013	12,000	3.0%	$0	$35.2M	35.9
2014	13,000	2.7%	$(2.2)M	$35.0M	39.0
2015	14,000	2.0%	$0	$37.6M	41.8
2016	15,000	2.0%	$0	$43.0M	44.8
2017	16,000	2.0%	$0	$47.9M	47.4

Note: To keep reserve balance above established minimum, 15% rate increase is needed in 2014.

Analysis Summary

- SAC Units paid are bouncing back
- SAC reserve balance on 12/31/12 = $34.5M (exceeds reserve policy expectation)
- SAC fund sufficient to begin SAC "shift-back"
- 2014 SAC rate depends mainly on:
  - Assumptions about economy
  - Desired SAC reserve balance

2009-2010 Reserve Capacity/SAC Task Force

1) Statute should be amended so that growth (SAC) pays for growth (infrastructure)
2) 2010 amendment allowing 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
4) SAC criteria change:
   1) Restaurants based on a single criterion of 10 seats/SAC Unit
   2) Daycares based on single criterion of 620 sq. ft./SAC Unit
   3) New charge for temporary rental of capacity in lieu of charging SAC for permanent capacity under certain circumstances.

2011 SAC Work Group

- Develop a private-sector outreach program emphasizing agencies who work with small business owners.
- Better educate cities about SAC and provide materials they can use to educate the public.
- No recommendations for implementation of MCES loan program to cities.
- There was no recommendation regarding the net credit rules, but Metro Cities requested Met Council continue to look at options.
- Re-examine criteria for conference rooms within office buildings, and LEED projects.

2012 SAC Work Group

- Re-establish net credits
  - Net credits from actual SAC paid may be taken city wide or left on site at the cities' choosing.
  - Net credits from grandparent use (from 1968-1978) cannot be taken city wide but will remain on site for up to 5 years.
  - If a city shows evidence of long continuous demand (property built after 1973 that did not pay SAC, and has been in existence 10 years prior to current determination) those credits will be available to offset SAC charges but there are no net credits.
- SAC Minor Transfer to allow cities to move up to 10 credits from the former site of a business to its new site
- MCES SAC deferral program for cities

2012 SAC Work Group (cont.)

- Community reviews limited to SAC activity no more than 3 years
- SAC outreach
  - Provide regular training opportunities to city staff
  - Provide outreach brochure in alternate languages (Hmong, Somali, and Spanish)

SAC Key Concept Summary

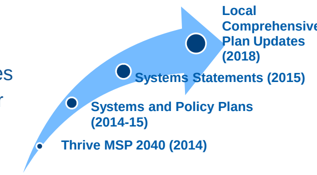
- SAC is required by statute to fund part of MCES capital costs.
- Availability of capacity is a separate service from use (volume of sewage treated).
- SAC at retail level is a City charge (retail rate & credit rules are sometimes different than MCES').
- SAC provides some inter-city equity (roughly growth pays for growth).
- Met Council has worked with stakeholder groups to improve acceptance.

Background on growth & Thrive MSP 2040

Libby Starling, Manager
Regional Policy & Research

What is *Thrive MSP 2040*?

- The long-range plan that creates **a vision** for the seven-county region for the next 30 years
- The update to the 2030 Regional Development Framework that provides the **policy direction** for the next round of the Council's systems and policy plans

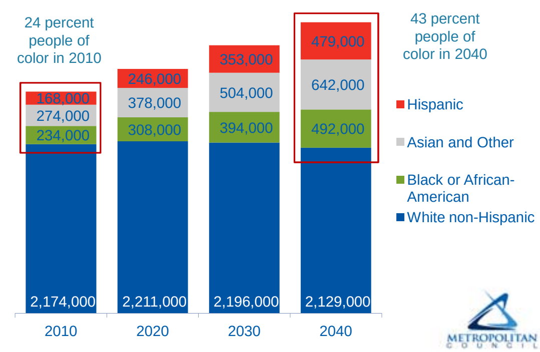


- A plan to help our region **maximize opportunities for prosperity, livability and sustainability** in the coming decades.

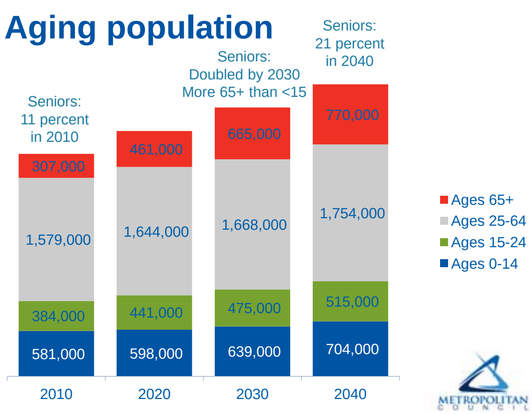
Forecasts of future growth

	2010	2020	2030	2040
Population	2,850,000	3,144,000	3,447,000	3,743,000
Households	1,118,000	1,293,000	1,464,000	1,576,000
Employment	1,548,000	1,743,000	1,943,000	2,118,000

Increasing racial diversity



Aging population



Opportunities for collaboration

Thrive MSP 2040 is the opportunity to define and achieve goals **too big for any one community** to take on, but **possible to accomplish as a region**.

#thrivemsp

Phase I Thrive Outreach

50+	1,200+
Conversations/Events	Participants

- **Connecting** jobs, housing, transit, community amenities
- Prioritizing **regional investment**, particularly transit infrastructure
- Council as **convener** for regional discussions
- **Water** supply, water quality
- **Policies flexible** to community needs

Thrive MSP 2040 Mission

Working together towards a prosperous, livable and sustainable region where all will thrive.

Thrive MSP 2040 Outcomes

- Prosperity
- Livability
- Sustainability

Thrive MSP 2040 Proposed Principles

- Collaboration
- Equity
- Stewardship
- Integration
- Accountability

Thrive MSP 2040 Proposed Goals

- Preservation protects natural areas and resources for use and enjoyment today and into the future.
- A vibrant and globally competitive economy creates opportunities for residents and employers.
- Land use, development patterns and infrastructure align to make the best use of public and private investment.
- Housing options give people in all life stages and of all economic means viable choices for safe, stable and affordable homes.
- A multi-modal transportation system safely and reliably connects people and freight with destinations in the region and beyond.
- A resilient region minimizes its contributions to climate change and is prepared for the challenges and opportunities of a changing climate.

Four Issue Areas

- Regionally Significant Economic Places
- Water Supply and a Thriving Region
- Land Use and Transit
- Affordable Housing Priority, Location, and Need

Attend a Roundtable Discussion!

- April 30: **Eagan** Community Center, 6:00 p.m.
- May 4: **St. Paul** Washington Technology Magnet School, 9:30 a.m.
- May 9: **Shoreview** Community Center, 5:30 p.m.
- May 16: **Minneapolis** Glover-Sudduth Center, 5:30 p.m.

More details at thrivemsp.org

We want to hear from you!

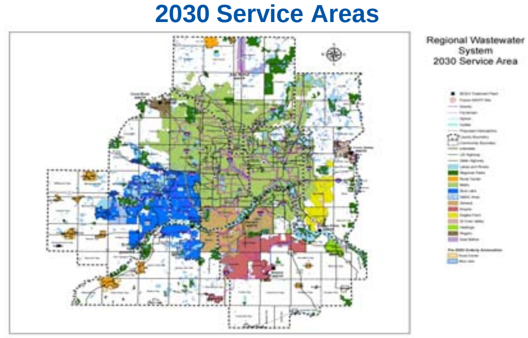
- Visit the website Thrivemsp.org
- Use the twitter hashtag #thrivemsp
- Send us your suggestions to thriveMSP@metc.state.mn.us

Reserve Capacity

Bryce Pickart, P.E., Assistant General Manager
MCES Technical Services

Regional Wastewater System

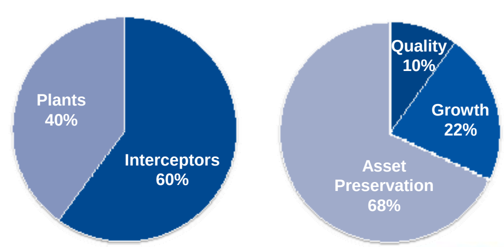
Regional Wastewater System
2030 Service Areas



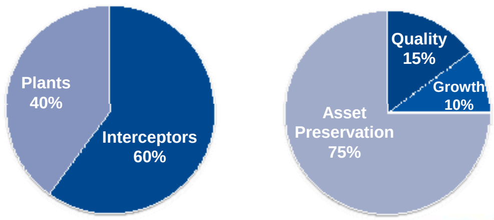
Reserve Capacity

- Pipes
  - Sized to meet long-term capacity needs of its service area (development and re-development).
  - Relief pipes; larger replacement pipes are disruptive to build after community has developed.
- Plants
  - Designed for phased capacity expansion, typically every 20-30 years, to correspond with rehabilitation/replacement cycle.

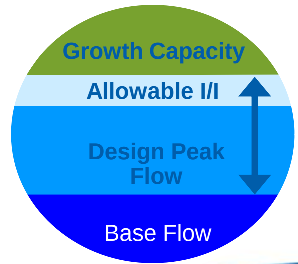
2013 - 2018 Capital Improvement Program



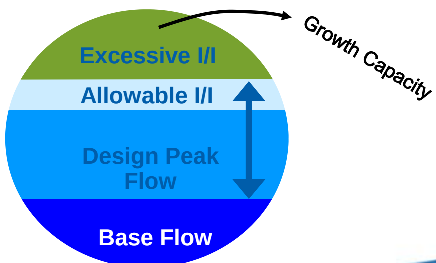
2016 - 2040 Capital Improvement Program



Reserve (Growth) Capacity



Effects of I/I on Growth Capacity



Current Reserve Capacity

▪ Interceptors	47%
▪ Treatment Plants	17%
▪ Weighted Average	29%

Next Steps

- Schedule of meetings
- Key topics roadmap

Questions?

Visit the SAC webpage at www.metrocouncil.org search words "SAC Program"

Welcome to the Sewer Availability Charge (SAC) Work Group Meeting #2

Met Council Member Jon Commers, Co-Chair
Patricia Nauman, Metro Cities, Co-Chair

League of Minnesota Cities, St. Paul
June 3, 2013

Today's Agenda

1.	Approval of April 29 Minutes	Co-Chair Nauman
2.	SAC Evaluative Principles	Co-Chair Commers
3.	Discussion of Hiring Consultant	Jason Willett
4.	"Growth Pays for Growth" (if time permits)	Jason Willett

SAC Evaluative Principles

Jon Commers
Co-Chair & Metropolitan Council Member

Evaluative Principles

- Principles are consensus statements about desirable attributes of a solution.
- They will be used to evaluate a list of possible program changes.
- The draft principles on the following slide were culled from the first meeting's comments, Council staff, and the co-chairs' suggestions.

Tentative Evaluative Principles

MCES method of funding for reserve capacity should:

1) Be transparent & simple to explain to anyone (e.g. in 2 minutes or less)
2) Be equitable for all types of served communities (e.g. developed & developing)
3) Be equitable between current & future users (e.g. growth pays for growth)
4) Support small business development
5) Be less likely to produce SAC surprises
6) Provide for a less expensive SAC fee (now or lesser increases in the future)

Tentative Evaluative Principles (cont.)

7) Support the principles being developed for *Thrive MSP 2040*
   - Collaboration
   - Equity
   - Stewardship
   - Integration
   - Accountability
8) Not materially harm cities' sewer fee capabilities, i.e. not constrain cities' ability to raise local fees such as an add-on to SAC
9) Be administratively reasonable

Principles Discussion

- Modification of identified principles?
- Addition of other principles?

- Ranking

Discussion on Hiring Consultant

Jason Willett
MCES Finance & Energy Director

Firms Invited to Respond

- Springsted, Inc. (St. Paul)
- Ehlers & Associates (Roseville)
- PRAG, Inc. [Public Resources Advisory Group (New York City)]

Ehlers & Associates was selected
- *Mark Ruff, Jessica Cook and Jeanne Vogt*

Scope of Work

1) Survey of 10 peer metro areas
2) Financial analysis and land use assumptions

"Growth Pays for Growth"

Jason Willett

1998 SAC Task Force

- Comprised of Metropolitan Council Members, Council staff, municipal staff, and a consultant team
- Task Force Objectives:
  - To develop at least 2 SAC program alternatives for consideration that meet project goals, are legally defensible, and practical to administer.
  - To gather input from key external stakeholders
  - To prepare an action plan to implement a new SAC program, including legislative strategies
  - To seek ways to coordinate SAC with other fees & charges
- Recommendations (among others):
  - Change from "reserve capacity" to growth costs to be paid by SAC

How a Growth-Cost System Was to Work

Expense to be covered	Based on historic debt service and current expenditures on growth projects
Calculation of Fee	Expense requirement divided by the projected number of units
Use of Revenue	100% of debt service for growth-related projects or parts of projects, and 0% of regulatory, rehab, or other MCES capital project costs

This required legislative change. Failed 3 times (1999-2001).

2009-2010 Reserve Capacity/SAC Task Force

- Statute should be amended so that growth (SAC) pays for growth (infrastructure)
- 2010 amendment allowing temporary shift of such costs from SAC to municipal wastewater charges should remain in effect as written.
- SAC criteria should have a technical basis
- SAC criteria change:
  - Restaurants based on a single criterion of 10 seats/SAC Unit
  - Daycares based on single criterion of 620 sq. ft./SAC Unit
  - New charge for temporary rental of capacity in lieu of charging SAC for permanent capacity under certain circumstances.

This required legislative change. Failed in 2012.

General Definition of Growth Cost

- Growth costs are the portion of acquisition, betterment, and debt service on capital projects that increase either the regional wastewater conveyance or treatment system capacity

100% Growth Related Projects

- Interceptor geographic extension
- Interceptor capacity relief
- Treatment plant capacity expansion
- New treatment plant

Non-Growth Projects

- Meets new or stricter regulations
- Rehabilitates existing facilities
- Increases reliability, efficiency, or effectiveness
- Liquid waste receiving facilities (costs are fully covered via load charges)

Multi-Purpose Projects

Definition:

- Growth project that also includes rehabilitation/replacement and/or quality improvement

Principles:

- Quality improvement cost portion of project shall be estimated and subtracted from total project costs
- Project costs for growth and rehab/replacement shall be allocated proportionate to flow
- Quality improvement driven exclusively by growth shall be considered a growth cost

2013 Work Group Ideas for Change (thus far)

- Add reserve capacity for treatment plants to current users' fees (municipal wastewater volume charges) instead of SAC fees
- Eliminate SAC entirely and fund debt service through another method

Next Steps

- **Schedule next meeting**
- **Topics to be covered?**

Welcome to the Sewer Availability Charge (SAC) Work Group Meeting #3

Patricia Nauman, Metro Cities, Co-Chair
Met Council Member Jon Commers, Co-Chair

Metro 94 Business Center, St. Paul
July 10, 2013

METROPOLITAN COUNCIL

Today's Agenda

1. Approval of June 3 Minutes	Co-Chair Nauman
2. Review of SAC Evaluative Principles	Co-Chair Nauman
3. Background, Principle #7	Jason Willett
4. Ehlers' Analysis	Jessica Cook
5. Master List of Ideas	Jason Willett
6. Next Steps	Co-Chair Nauman

METROPOLITAN COUNCIL

Review of SAC Evaluative Principles

Patricia Nauman, Metro Cities
Co-Chair

METROPOLITAN COUNCIL

SAC Evaluative Principles

MCES method of funding for reserve capacity should:

1) Be transparent & simple to explain to anyone (e.g. in 2 minutes or less; no surprises; financially grounded in cost of service)
2) Be equitable for all types of served communities (e.g. developed & developing) and supportive of their businesses
3) Be equitable between current & future users (e.g. growth pays for growth)
4) Support the principles & goals being developed for *Thrive MSP 2040* (collaboration, equity, stewardship, integration, and accountability)

METROPOLITAN COUNCIL

SAC Evaluative Principles (cont.)

5) Support cities' sewer fee capabilities (i.e. not constrain city ability to raise local fees such as an add-on to SAC)
6) Be administratively reasonable (i.e. does not add to administrative costs for cities or MCES, is implementable and enforceable without being intrusive on business owners & developers)

To be discussed:

7) **Facilitate possible support of other goals (e.g. affordable housing, small business, or redevelopment)**

METROPOLITAN COUNCIL

Background, Principle #7

- Housing: Discounts & Inclusionary Housing Demonstration Program
- Redevelopment: SAC credits & Phased Development Areas
- Small Business
- Economic Development

METROPOLITAN COUNCIL

Housing: Residential Property Discount

- Residential Properties are eligible for certain discounts, based on:

Property Type	Requirements	Discount
Apartments with a minimum of 4 units	1) No plumbing for laundry facilities in any unit; and 2) Prior written approval from MCES	20% reduction in base fee. **Base Fee**……………..$2,435 **20% Discount**………….-$487 **Discounted SAC**…….$1,948

Property Type	Requirements	Discount
Multi-dwelling publicly assisted housing units with a minimum 4 units. ____________ BOTH	1) No plumbing for garbage disposals or dishwashers; 2) Housing owned by a City or publicly subsidized low-income units; and 3) Prior written approval from MCES	25% reduction in base fee **Base Fee**...................$2,435 **25% Discount**…………-$609 **Subtotal**……………...$1,826 ____________________ **20% Apt Discount** ……-$365 **Discounted SAC**........$1,461

Housing: Met Council's Chair Susan Haigh:

- In response to an email regarding the residential discounts

  "I agree this policy appears to be an outmoded policy. I have asked our staff and the SAC Advisory Work Group to address this issue as they are reviewing all of the SAC policies and will make a recommendation to the Council for new policies."

Housing: Inclusionary Housing Demonstration Program

- Program Years: 2000-2003
- Total SAC Units waived: 1596
- Total dollars waived: $1,992,225

Per MN Statute 473.255 subd (3)

Redevelopment: SAC Credits – General

- Capacity that has been freed up within a community.
- When a new use occurs on a site, the previous wastewater demand is credited to the new demand.
  - Any increased net capacity demand is charged SAC.
  - Any decreased net capacity *could* be a net credit.
- Provides some equity among cities.

Redevelopment: SAC Credits – Prior to 2010

- Prior to 1/1/2010, credit for prior demand was based on SAC paid or 1973 grandparenting.
- Cities earned net credits.
- Net credits had to be used by the City to offset its next new SAC charges on site or from other sites.

Redevelopment: SAC Credits – 2010-2012

- In 2006, Council approved changes that were effective 1/1/10 – 12/31/12:
  - Potential credits for site were based on prior demand, in SAC units, over previous 7-8 years (Look-Back Period).
  - SAC credits to cities were limited to amount needed on site for new use.

Redevelopment: SAC Credits – 2013

- *Where SAC was paid*
  - Where determination requires less SAC than prior demand, Net Credits occur
  - Net Credits may be taken city-wide or left site-specific
- *Where SAC was not paid*, credit may still occur if records show either grandparented or continuous demand from site (potential non-conforming credits)
  - Grandparent based on demand in 1973, if not determined since
  - Continuous Demand must be shown for 10 or more years
  - Net credits not available off site*

with 1 exception

Redevelopment: 2013 Examples: Where SAC Was Paid

1) Property built in 1980 paid 10 SAC

- In 2013, 15-SAC demand replaces existing
  - 15 - 10 ➔ 5 SAC due

----

2) Property built in 1980 paid 20 SAC

- In 2013, 15-SAC demand replaces existing
  - 15 - 20 ➔ No charge; 5 Net Credits
    - community-wide or site-specific

Redevelopment: 2013 Example: Non-Conforming – Grandparented Demand

- Property built in 1960; shown that it was 15-SAC demand around 1973
- In 2013, 10-SAC demand replaces existing
  - 10 - 15 ➔ 0 SAC due
  - Exception: 5 Net Credits available on-site for 5 years

- If in above, in 2019 a 2-SAC demand was added
  - 12 - 10 = 2 SAC due

Redevelopment: Phased Development

- Contiguous geographic area
- Plan approved by City Council
  - Consistent with comprehensive plan

➔ Credits from all properties available anywhere in area

Small Business (10 SAC or less)

- Minor credit transfer
- Deferral option for cities

Economic Development

- Major Credit Transfer
  - MCES Permitted Industry or 50 jobs (not retail or service)
  - DEED, “state-wide economic significance”
  - City approved
  - MCES approved (availability of capacity)
- Council Policy – payments over 10 years

Major Credit Transfer List

- Michael's Foods – 1400 SAC to Chaska in 2009
- Polar Semiconductor – 134 SAC to Bloomington in 2011
- St. Jude's Medical – 69 SAC to Plymouth in 2012

Ehlers' Analysis

Jessica Cook
Ehlers, Inc.

Master List of Ideas

- Ideas from work group thus far
- Staff ideas

Jason Willett
Director, MCES Finance & Energy

2013 Work Group Ideas for Change (thus far)

- Add reserve capacity for treatment plants to current users' fees (municipal wastewater volume charges) instead of SAC fees
- Eliminate SAC entirely and fund debt service through another method
- Council provides separate grant funding (to mitigate SAC in situations to be incented) instead of making the SAC fee system more complex

Next Steps

- Schedule next meeting(s)
- Topics to be covered?

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SAC Fee Comparative Analysis

Jessica Cook and Mark Ruff - Ehlers

7/10/13

1

Comparable Regions Surveyed

- 10 regional wastewater treatment providers
- Growing Communities
- Four Wholesale Only
  - Metro King County (Seattle)
  - Metro Wastewater Reclamation District (Denver)
  - Hampton Roads Sanitation District (Virginia)
  - Madison Metropolitan Sewerage District (WI)
- Six Wholesale and Retail
  - Austin, TX
  - Phoenix, AZ
  - Sacramento, CA
  - San Antonio, TX
  - San Diego, CA
  - Tampa, FL

2

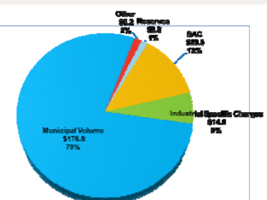
Comparable Regions Surveyed

- Did not include regions that:
  - Have combined storm and wastewater sewers (i.e., Ohio)
  - Collect tax revenues (i.e., Atlanta and Milwaukee)
  - Do not have wholesale customers
  - Are significantly older (i.e., Boston)
  - Are not growing (i.e., Detroit)

3

Compared Sewer Availability Charges

- Fees called:
  - Impact Fees
  - Facility Charges
  - Connection Fees
  - Capacity Charges or Fees

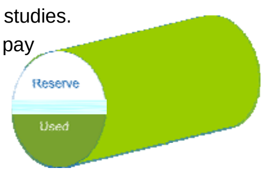


- Compared Fees that are:
  - Collected with new construction or change in use
  - Allocated to treatment and interceptors
  - Dedicated to paying for new and existing capacity

4

Fee Comparison

- All regions do cost allocation studies.
- MCES uses SAC revenue to pay for cost of unused or reserve capacity.



- Arizona state law precludes collecting impact fees in areas with existing capacity (in-fill development).

5

What Costs Get Included in the Impact Fees?

- Most incorporate future capital costs.
- Phoenix and Madison tie fees directly to specific improvements.
- Denver includes depreciation.
- Texas state law limits impact fees so they do not cover the full costs of new development.
- Allocation method does not appear to be linked to size of fees.

6

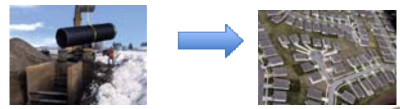
What Costs Get Included in the Impact Fees?

- Fees primarily driven by capital needs and costs.
- Sacramento's estimates almost 100% fee increase over next 8 years due to new Discharge Permit requirements
- Seattle's fee has increased 750% since 1990 as CIP grows.

7

What Costs Get Included in the Impact Fees?

- Several regions charge separate impact fee for treatment and interceptors.
- Phoenix and Madison allocate project costs by geographic area to those who directly use the infrastructure.
  - Can result in widely disparate fees across region.
  - Usually used when treatment plant is centrally located, and length of interceptor is key cost driver.



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Key Findings – Determining SAC Units

- All providers (except Madison) use a residential equivalency system.
- Majority determine SAC units based on water meter size.
  - Ease of administration
  - Limited push-back from developers and cities
  - Cities track water meter changes
- Second most common to use fixture counts.
  - Administratively burdensome
  - Uncertainty of final costs for developers
  - SAC fees most accurately reflects final use
- One other entity uses floor area ratios and fixtures.

9

Reduced SAC for Multi-family Housing?

- Several regions assign < 1 SAC unit to multifamily housing.
- MCES is only provider to link SAC reduction to fixtures (i.e., no garbage disposal/dishwasher/laundry in unit)

10

Development Incentives

- Some communities provide reduced fees to incent certain development:
  - In-fill sites
  - Targeted areas
  - Less environmentally sensitive areas
- Used where governing board is made up of elected officials
- Staff feedback is that incentives have little impact on developers' siting decisions. Driving factors:
  - School districts
  - Land availability and price
  - Market demand

11

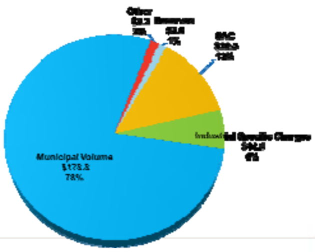
Population Density and Fees

- Service areas with highest density:
  - San Diego
  - Sacramento
  - Seattle
  - Phoenix
  - MCES
- San Diego, Sacramento, and Seattle have higher per unit fees than MCES.
- State laws limit Phoenix from charging impact fees in redeveloping areas.
- Denser development does not necessarily result in less capital costs or lower SAC fees.

12

% of Total Revenue

- Most collect 5% or less of total revenues with SAC fees.
- MCES, MWRD (Denver) and King County (Seattle) collect 11-13% of total revenue.



MCES 2013 Budgeted Revenues

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Fee Collection

- MCES cities collect SAC fee with building permit
- Fee tied to permit date
- Survey confirmed this is efficient collection method
- Developer "push-back" depends on relative size of regional fee to city's fee.

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Is SAC paying the cost of growth?

- MCES method for determining SAC fee based on state law
- Funds reserve capacity already built into system
- Does not answer the question:
  Is SAC paying for the cost of growth?

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Assumptions in Cost of Growth Analysis

- Looked at "Growth" CIP Projects 2000-2013
- Interceptors and Treatment
- Does not include costs for rehab or regulatory driven improvements
- Excludes ½ cost of Empire Township effluent pipe
  ($32.5 M)
- Takes historic costs and puts into today's dollars

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Estimated Cost of Growth

Weighted Average Cost per SAC Unit

Developing Areas (Treatment & Interceptor)	**$3,098**
Redeveloping Areas (Treatment Only)	**$1,848**
Redeveloping Areas (Treatment & Interceptor)	**$3,027**

Current SAC Fee is $2,435 per unit

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Sample Redevelopment

- 50 unit condo project on site of old industrial building
  - Net new 48 SAC units

Interceptor Cost for 48 units	$ 56,870
Treatment Cost for 48 units	$ 88,441
Total Cost	**$145,311**
SAC Revenue (48 Units)	**$116,880**
Difference	**($28,431)**

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Sample In-Fill Development

- 50 single family homes replace 10 houses on in-fill site
  - Net new 40 SAC units

Interceptor Cost for 40 units	$ 47,391
Treatment Cost for 40 units	$ 73,701
Total Cost	**$121,092**
SAC Revenue (40 Units)	**$ 97,400**
Difference	**($ 23,692)**

19

Sample Greenfield Development

- 50 new single family homes in outer ring suburb

Interceptor Cost for 50 units	$ 62,778
Treatment Cost for 50 units	$ 92,126
Total Cost	**$154,903**
SAC Revenue (50 Units)	**$121,750**
Difference	**($33,153)**

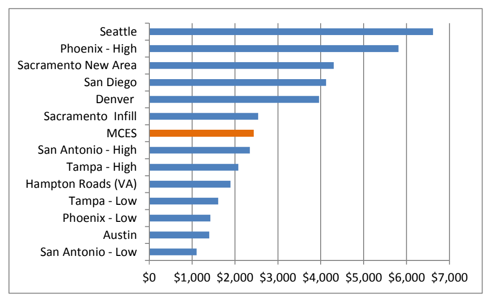
20

Conclusion

- MCES is unique among its peers
  - Most units of local government
  - Oldest system of development fees
  - Law ties SAC revenue to reserve capacity
  - Does not include future CIP in determination of SAC revenue
  - Most refined determination of SAC units for commercial property
- Current MCES fee is less than estimated cost of growth capital improvements.

21

Fee Comparison



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23

Welcome to the Sewer Availability Charge (SAC) Work Group Meeting #4

Patricia Nauman, Metro Cities, Co-Chair
Met Council Member Jon Commers, Co-Chair

League of Minnesota Cities, St. Paul
September 18, 2013

Today's Agenda

1. Approval of July 10 Minutes & SAC Evaluative Principles	Co-Chair Commers
2. Summary of Ehlers' Findings	Jessica Cook
3. Master List of Ideas	Jason Willett
4. Next Steps	Co-Chair Commers

Summary of Ehlers' Findings

Jessica Cook
Ehlers, Inc.

Master List of Ideas

Note: Idea List ≠ Recommendations

- Ideas from work group thus far
- Ideas from Ehlers' analysis
- MCES staff ideas
- Other?

Jason Willett
Director, MCES Finance & Energy

2013 Work Group Ideas for Change (thus far)

- Add reserve capacity for plants to current users' fees (municipal wastewater volume charges) instead of SAC fees
- Eliminate SAC entirely and fund debt service through another method
- Council to provide separate grant funding (to mitigate SAC in situations to be incented) instead of making the SAC fee system more complex

Ideas from Ehlers' Analysis

- Allocate SAC by geographic area
- Determine SAC by water meter size
- Determine SAC by fixture count
- Compute SAC annual transfer amount using future capital costs
- Provide reduced SAC to incent development

MCES Staff Ideas

1) Call off SAC entirely
2) Call off SAC for all but residential buildings
3) Determine SAC for commercial projects based on pipe size, with some exceptions for high demand-type uses (e.g. restaurants, laundromats, car washes)
4) Determine SAC for all projects based on Fixture Unit counts (except process flow from industry)
5) Determine SAC (for capacity increase) in aggregate by metershed
6) Charge SAC only for green field development

MCES Staff Ideas (continued)

7) Allow cities out of SAC where dry weather maximum flow decreased more than *xx*% below average decrease, based on 10-year rolling average
8) Status Quo (i.e. no material changes)

Supplemental Ideas:

i. Prepare a technical evaluation of the differences in opportunity for inflow & infiltration (I/I)
ii. Leave SAC as is, but set up a fund to provide financial assistance, paid by non-wastewater funds (e.g. Livable Communities)
iii. Increase SAC deferrals to larger development
iv. Align SAC criteria closely with Building Code types, with a few exceptions

Supplemental Idea iii

- Increase permitted SAC deferral (25 instead of 10)
- Pros:
  - Spread out the payment over time
- Cons:
  - 2012 SAC Work Group wanted this limited to small businesses

Supplemental Idea iv

- Greatly simplify criteria, by aligning with 10 building code categories
  - Possible exceptions for high-demand type uses, e.g. car washes, restaurants, laundromats
- Pros:
  - Simpler for building officials
- Cons:
  - Loss of some demand accuracy
  - Result → probable complaints by lower-demand type uses paying average

Other Ideas for Changes?

- Variations?

Next Steps

- Discussion of how to apply evaluative principles to change ideas
- Exercise to narrow number of ideas
- Schedule next meeting(s)

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SAC Fee Comparative Analysis

Jessica Cook and Mark Ruff – Ehlers

September 18, 2013

1

Comparable Regions Surveyed

- 10 regional wastewater treatment providers
- Economically healthy communities
- Four Wholesale only
  - Metro King County (Seattle)
  - Metro Wastewater Reclamation District (Denver)
  - Hampton Roads Sanitation District (Virginia)
  - Madison Metropolitan Sewerage District (WI)
- Six Wholesale and Retail
  - Austin, TX
  - Phoenix, AZ
  - Sacramento, CA
  - San Antonio, TX
  - San Diego, CA
  - Tampa, FL

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Compared Sewer Availability Charges

- Fees called:
  - Impact Fees
  - Facility Charges
  - Connection Fees
  - Capacity Charges or Fees
- Compared Fees that are:
  - Collected with new construction or change in use
  - Allocated to treatment and interceptors
  - Dedicated to paying for new and existing capacity

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Establishing Fees

- Some regions charge separate impact fee for treatment and interceptors.
- Phoenix, Tampa and Madison allocate project costs by geographic area to those who directly use the infrastructure.
  - Can result in widely disparate fees across region.
  - Usually used when treatment plant is centrally located, and length of interceptor is key cost driver.

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Pressures on Impact Fees

- Fees primarily driven by capital needs and costs.
- Sacramento estimates almost 100% fee increase over next 8 years due to new permit requirements
- Seattle's fee has increased 750% since 1990 as CIP grows.
- Texas state law limits impact fees so they do not cover the full costs of new development.
- Arizona state law prohibits collecting impact fees in areas with existing capacity

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Determining SAC Units

- Majority determine SAC units based on water meter size.
  - Ease of administration
  - Limited push-back from developers and cities
  - Cities track water meter changes
- Second most common to use fixture counts.
  - Administratively burdensome
  - Uncertainty of final costs for developers
  - SAC fees most accurately reflects final use
- Sacramento uses floor area ratios and fixtures.

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Credits

- When fee is based on <u>water meter size</u>:
  - Fee based on maximum potential use.
  - Changes in tenant/owner don't reduce meter size.
  - Several regions do not provide credit/refund for reduction in meter size.
  - Credit for existing meter given if meter size increases.
- When fee is based on <u>fixtures or floor area</u>:
  - When intensity of use decreases, most regions provide credit.
  - When intensity of use increases, all give credit for existing use.
- All regions have credits run with the land, not the user.

Reduced SAC for Multi-family Housing?

- Several regions assign < 1 SAC unit to multifamily housing.
- MCES is only provider to link SAC reduction to less fixtures (i.e., no garbage disposal/dishwasher/laundry in unit)

Fee Collection

- MCES cities collect SAC fee with building permit
- Fee tied to permit date
- Survey confirmed this is efficient collection method
- Developer "push-back" depends on relative size of regional fee to city's fee.

Development Incentives

- Some communities provide reduced fees to incent certain development:
  - In-fill sites
  - Targeted areas
  - Less environmentally sensitive areas
- Used where governing board is made up of elected officials
- Staff feedback is that incentives have little impact on developers' siting decisions. Driving factors:
  - School districts
  - Land availability and price
  - Market demand

Cost of Growth Analysis

Assumptions

- Looked at "Growth" CIP Projects 2000-2013
- Interceptors and Treatment
- Does not include costs for rehab or regulatory driven improvements
- Excludes ½ cost of Empire Township effluent pipe ($32.5 M)
- Takes historic costs and puts into today's dollars

Growth Related Capital Costs

Weighted Average Cost per SAC Unit

Developing Areas (Treatment & Interceptor)	**$3,098**
Redeveloping Areas (Treatment Only)	**$1,848**
Redeveloping Areas (Treatment & Interceptor)	**$3,027**

Current SAC Fee is $2,435 per unit

Conclusion

- MCES is unique among its peers
  - Most units of local government
  - Oldest system of SAC fees
  - Law ties SAC revenue to reserve capacity
  - Most refined determination of SAC units for commercial property
- Current MCES fee is less than estimated cost of growth capital improvements.

13

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SAC
"Big Idea" Change Possibilities Identified

	Foundational Ideas	**Rationale**	**Problems**
			Note: all these ideas likely have some transition challenges.
1	Call off SAC entirely	Material reduction in admin costs and acrimony for all parties.	15-20% MWC increase Equity issue between redevelopment (gets credits) & green field development (no credits). Would this encourage sprawl?
2	Call off SAC for all but residential buildings.	Mostly same people using same capacity so instead of charging SAC for home and businesses, just charge for all at residences. Commercial SAC is acrimonious.	Free ride for sewer use by those that don't live in sewered area, when outside their homes. "Same people" rationale is true for volume of use, but not or less so for demand. MWC & SAC fee increases.
3	Determine SAC for commercial based on pipe size, with some exceptions for high demand-type uses (restaurants, Laundromats, car washes).	Avoids incremental SAC and admin effort around redeterminations unless sewer pipe being changed (except exceptions).	Pipe size not correlated well to demand because of pipe size minimums in building code for commercial.
4	Determine SAC for all classes based on Fixture Unit counts (except process flow from industry).	Avoids the need to have separate methods for different classes. May add equity into housing sector (bigger houses, more FU to pay more SAC).	Cities once objected to differential SAC for houses. Adds admin burden, especially for residential.

5	Determine SAC (for capacity increase) in aggregate by metershed.	Allows each city the benefit of diversity within the metersheds (i.e. site by site increases offset by site decreases). Consistent with the oldest rationale that a city will pay for reserve capacity in aggregate.	Cities with multiple metersheds may feel this is unfair. Possibly large charges based on accuracy of measurement over small time period. Could lead to high variability in city SAC. Puts entire burden to raise local SAC funds on City.
6	Charge SAC only for green field development (where there is an actual new connection).	Eliminates the perception by developed communities that they pay for sprawl. Eliminates the credit system costs and disputes.	Probably seen as unfair by growing communities (how is growth in demand in green fields materially different that increased demand due to redevelopment?) Unless SAC pays for less, the rate would have to increase substantially.
7	Allow cities out of SAC where dry weather flow decreased more than xx% below average decrease, based on 10 year rolling average.	Treats each community in aggregate as we do for MWC (gives them the benefit of their own diversity).	How would cities collect the fees, they may still have to do local SAC? Could lead to disputes over dry flow analytics. Would be problem if/when flow increases again.
B.	**Supplemental Ideas**		
i)	Prepare a technical evaluation of the differences in opportunity for (non-excessive) inflow and infiltration which will probably lead to a lowering of the units assigned to commercial and multifamily (because they have a larger demand in single pipe)	Improvement in equity for commercial and multifamily.	Retains all the complexities and admin costs. Forces SAC increase for single-family residential and industrial classes.
ii)	Leave SAC as is, but set up a fund to provide financial assistance for economic	Regular SAC ratepayers would not have to subsidize these causes.	Opportunity cost of other funds then not available for other purposes.

	development or small business, paid by non-wastewater funds (e.g. Livable Communities)		
iii)	Increase permitted SAC deferral (25 instead of 10)	Cities can spread out the payments over time.	2012 SAC Work Group wanted deferrals limited to small businesses.
iv)	Greatly simplify SAC criteria, by aligning with 10 building code categories	Simpler for building officials to determine SAC themselves. *Note: some exceptions for high-demand type uses*	Loss of some demand accuracy. Result: probable complaints by lower-demand type uses paying average

SAC Options still being considered
Note: all these ideas likely have some transition challenges.

	Foundational Ideas	Description	Idea Type	Statutory Change?
1	SAC pays for growth only		Revenue requirement	yes
2	Shift reserve capacity costs for future plants from SAC to other wastewater fees		Revenue allocation to classes	yes
3	SAC to pay for future capital costs, instead of backward-looking debt service		Revenue Requirement	no
4	SAC only to apply to residential connections	Mostly same people using same capacity so instead of charging SAC for home and businesses, just charge for all at residences.	Determination methodology	yes
5	SAC to be based on metershed demand in aggregate (not site-specific determinations)	Allows each city the benefit of diversity within the metersheds. Consistent with the oldest rationale that a city will pay for reserve capacity in aggregate.		yes
6	Simplify commercial SAC criteria by using water meter size --consider high-demand use exceptions?			no
7	Simplify SAC by aligning criteria with building code types --consider high-demand use exceptions?	There are 10 building code categories. This may be simpler for building officials.	Determination Methodology	no
8	Improvements to current systems ("Status Quo Plus"):			
	a. Adjust SAC criteria to reflect relatively higher I/I from single family residential connections		Determination Methodology	no
	b. Increase size of commercial determination	Cities can spread out payments over time.	Customer Service	no

	eligible for SAC deferrals		Enhancement	
	c. Eliminate SAC for small commercial development		Revenue requirement	yes
	d. Provide separate funding for any incentives	This implies elimination of current apartment & public housing discounts unless supported by technical info indicating such developments have less demand per unit.	Revenue allocation to classes	no

Metropolitan Council

AGENCY INITIATIVE

Sewer Availability Charge (SAC)

Request: Simplify & improve the cost-of-service design for paying for new wastewater capacity. This is a revenue neutral improvement to wastewater fees.

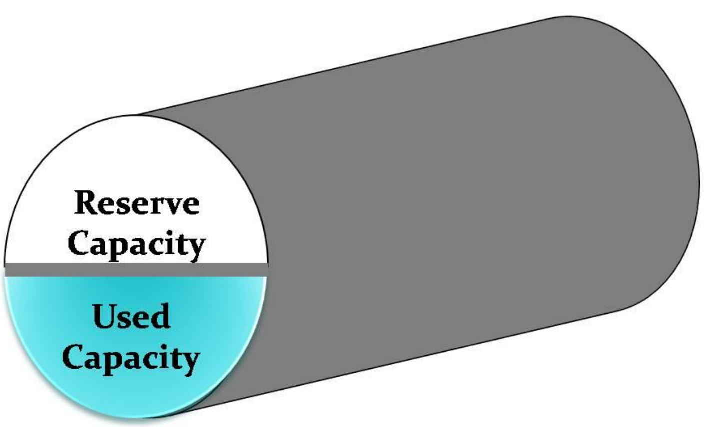
Staff Contacts:

Jason Willett
(651) 602-1196

Judd Schetnan
(651) 602-1142

BACKGROUND:

- Wastewater systems are designed and built for both current and future users to support economical development in the region.
- Minn. Stat. § 473.517 requires the Council to allocate capital project costs to cities through two fees:
    - "Current users" are billed based on annual wastewater volume (known as the Municipal Wastewater Charges). (Subd.1)
    - Reserve capacity costs (for "future users") are billed to cities through a metropolitan Sewer Availability Charge (SAC) when development demands additional sewer capacity. Funds raised by these charges are placed in the Council's wastewater reserve capacity fund. (Subd. 3)
- By statute, SAC **<u>must pay</u>** a portion of costs **<u>for all types of wastewater capital projects</u>**: growth-related, rehabilitation, regulatory, or other.
- Reserve Capacity funds (from SAC receipts) are transferred to the wastewater operating fund - typically about 30 percent of the amount of capital project spending, (or debt service therefore).



PROPOSED change:

- This change is part of the recommendations of several stakeholder task forces, including a 2013 Work Group, co-led by the Council and Metro Cities, that included the Mayors of Andover, Cottage Grove, Minnetonka, and Roseville; the City Manager for Prior Lake; a Minneapolis Council Member; and Metropolitan Council Members.
- Recommendations the Work Group are proposing include:
    - Providing an expanded deferral of SAC to cities to provide more middle-sized businesses a multi-year time frame to pay SAC (plus interest), thus assisting growing businesses & economic development
    - SAC continues to be a utility-like cost of service fee
    - Technical and stakeholder review of possibly charging SAC in a simpler way, based on water meter size
- However, this bill's purpose is that "**<u>growth should pay for growth</u>**" that is, SAC should pay for all growth-related wastewater capital project costs and nothing else. SAC is now charged for growth of demand and so it makes sense that accommodating that new demand is the only thing it pays for.
- Lower metropolitan wastewater system growth costs expected in the future will mean this proposed change will also reduce the pressure to increase SAC rates. Over time SAC (due to limited growth needs) is expected to pay only about 10% of wastewater project costs, and this could help economic development in the region.
- Although, as a result of the decrease in the percentage of project costs attributed to growth, and this proposed change, sewer volume charges will increase over time (5-10% over 20 years), sewer volume rates in the Twin Cities region are currently about 40% lower than the national average.

WATER METER ALTERNATIVE SAC CRITERIA METHOD
Presentation to 2013 SAC Task Force
November 12, 2013

Kyle Colvin, PE
Assistant Manager, Engineering Services
Metropolitan Council

Background: Determine if alternative SAC criteria based on consumptive water supply meter size is a plausible alternative method for use in the twin city metropolitan area.

Workplan:

1. Interview selected twin city metropolitan communities to gather information on water supply meter selection process (size determination, supply source, re-size frequency, permitting requirements and process, record keeping (auditable?), etc.
   (Minneapolis, Roseville, Shakopee, St. Paul, Maplewood and Woodbury)
2. Obtain 2-year record of consumptive use water meter size assignments for commercial and multi-family residential properties (size & address)
3. Obtain water use data for meter data set
4. Cross reference SAC assignments for same water meter assignment properties and determine if correlation exists.

Interview/Questionnaire

1. Determine if consistency exists in how water meter size is determined.
2. Identify potential community process or procedure issues with change of SAC assignment to water meter size.

Initial Findings

<u>Pro's</u>

1. Uniform Plumbing Code suggests meter size be based on fixture unit count. Sizing based on **rate** (gpm) meter selected on optimal operating range.
2. Single family residential usually std. 5/8" or 3/4" disk type meter.
3. Once installed at address, meter size remains same even with most re-purposing of use.
4. Community billing Dept. documents and retains meter size in billing records. Reviewable.
5. Irrigation use does not typically impact consumptive meter sizing. Off-hour use, not included in rate consideration.
6. Fire protection supplies not metered and separate supply. Capacity issue.
7. Ease of SAC assignment.

<u>Con's</u>

1. Basis for size not always technically based. Actual size can be selected based on available inventory, or conservative "up-sizing"
2. Size determination made by various community departments (PW, Bldg., Engineering, etc.) and mechanical engineer for project. May complicate or necessitate changes in local process/procedures.

3. Three primary meter types, disk (low gpm), turbo (high gpm) or combination (disk + turbo). Overlapping gpm rating between size range in disk vs. turbo. Also individual manufacturers may have different optimal operating ranges.
4. High water volume users (Industry, Vehicle Wash Facilities, process/batch, etc.) may require separate criteria or determination process.

Follow-up Tasks

1. Metro wide survey for customer users to gather information related to local processes/procedures to determine impact of changing SAC assignment method to water meter size and feedback on proposed methodology change.
2. If consumptive water meter SAC basis appears viable option, develop SAC assignment criteria for water meter ranges.
3. Financial Analysis – Rate determination and impact
4. Public Meeting – Present proposed changes
5. Earliest potential implementation for change January 1, 2015.

Community Questionnaire (Water Meter Assignment)

Community: ___________________________________

Date: ___________________________________

Interviewee: ___________________________________

Position: ___________________________________

Questions

Standard for **single family** water meter size? ________________

If no standard, criteria for size determination?

Method for determining consumptive water meter size.
(Regulations, Ordinances, UPC, Mechanical Calculation, other)

Multi-family

Commercial

Process for meter assignments for new commercial and multi-family residential buildings.
(Department, permitting, plan approval, documentation)

Assignments by other service provider:

Issuance

Reissuance (up/down sizing)

Consideration for non-consumptive water use (Irrigation/fire suppression)

(Sizing Criteria Ea., Fire suppression “how in relation to other meters”, “equivalent” primary meter size in deduct type arrangement “how determined-simple size difference?”).

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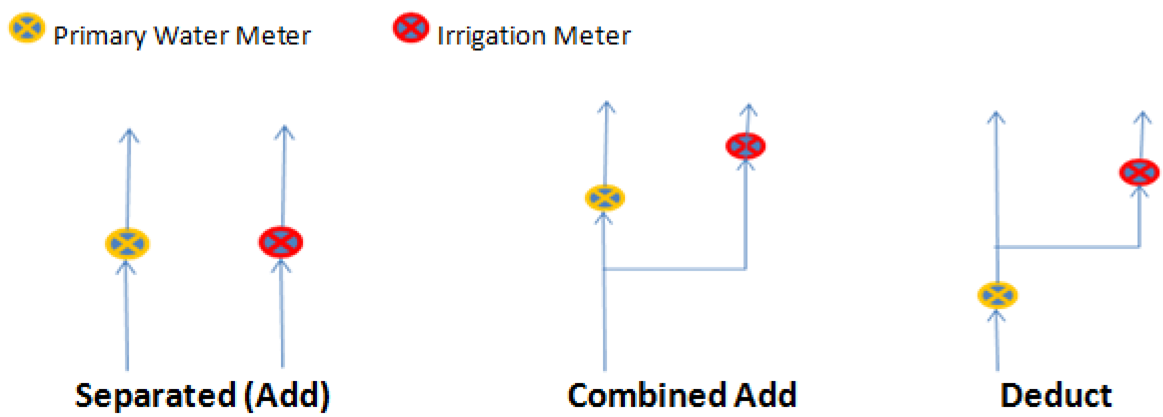

Private water supply (well) metering requirements?

(Allowed/required? if so governing regulations: Local, DoH, DNR, other)

Comparison of Wastewater Districts and SAC Fees

Wastewater District	Regional	Population Served	Size of Area Served	# Treatment Plants	Treatment Capacity or Average Use	Wholesale Customers (Sewer Agencies and Cities)	Population or Development Density	SAC/Impact Fees	Authority to Charge	Description	When Paid	% Total Revenues Collected from SAC Fees	Contact
MCES	yes	2,500,000	878	7	250 mgd	112	2,865 people per sq. mile of service area	$2,435 per residence or equivalent unit	M.S. 473.517, sub. 3		Collected by cities with building permit	11 - 13%	
Metro Wastewater Reclamation District (Denver)	yes	1,700,000	715 square miles		140 mgd	Denver and 59 other units of local government	2,378 people per sq. mile of service area	$3,960 pre REU	State law	State law requires uniform rates and charges. Calculated using "buy-in" methodology that includes value of all existing facilities and replacement costs. REU's calculated based on size of water meter.	With building permit.	13%	Barbara Biggs 303-286-3464 bbiggs@mwrd.dst.co.us
Sacramento Regional County Sanitation District (SRCSD)	yes	1,450,000	375 sq. miles	1	150 mgd	3	3,866 people per square mile	Infill Area $2,543 New Area $4,304	Ordinance; Board comprised of Sacramento County Commissioners and commissioners from wholesale counties/communities.	Fees set to give incentive to develop in infill areas. Multifamily unit = .75 SAC units. Commercial SAC units determined by use and floor area. Fees set to incent in-fill development.	Upon Wastewater Discharge Permit application. At least 60 days prior to discharge.	< 5%	Joe Maestretti 916-876-6116
Metropolitan King County Council (Seattle Area)	yes	1,500,000		5 plants and 4 CSO Treatment facilities	175 mgd	35+	3,571 people per square mile of service area	Sewer Treatment Capacity Charge of $9,630 collected through monthly payment of $53.50 for 15 years for property hooked up after 1990. May be prepaid at a discounted rate in the amount of $6,618.26.	The Revised Code of Washington, Chapter 35.58.570, and King County Code No. 28.84.050. Governing body is King County Council (county board)	Quarterly invoices sent to collect fee. Based on projections of future growth and capital costs. As # of multi-family units in a project increases, #SAC units per apartment declines. Commercial fee based on # of fixtures and whether they are located in public or private area.	The capacity charge rate is based on the date of the property's final side sewer inspection	13%	Eunice Verstegen@kingcounty.gov
Austin Water Utility (City of Austin, Texas)	Limited	876,000		9		10	2,468 persons per sq. mile in service area.	City charges 75% of Max impact fee, or $1,400, per service unit. Lower impact fees in certain areas to incent development. Fees adjusted every five years, last set in 2007. 2012 proposal to go to uniform fee in all areas under review. Board may realign incented area to new Master Plan.	Chapter 395 of Texas Local Government Code and city ordinance	Impact fees do not cover cost of growth. Austin has concluded that accommodating growth in urban core is more expensive than greenfield development, but has set fees lower in infill development areas to discourage development in environmentally sensitive areas. Some wholesale customers got legislation to exclude themselves from the Austin impact fees.	Property is charged rate in effect at time of plat; collected at the time of tap sale	Approximately 1%	Brian Long 512-972-0177 brianlong@austintexas.gov
San Antonio Water System (Bexar County)	yes	1,600,000	673 sq. miles	3	220 mgd	3 military bases and 7 cities	2,377 people per sq. mile of service area	$1,104 to $2,347 per EDU, depending on service area. Impact fees have collection and treatment components. Charge based on water meter size.	Chapter 395 of Texas Local Government Code and city ordinance	Impact fee calculated based on cost of growth, then credit given for portion of capital costs that will be paid through rates. City incents downtown development with lower fees. Supported by engineering costs because treatment plant is centrally located, and development farther away from plant has higher interceptor costs. Based on meter size except multi-family charged 1/2 SAC unit.		7%	Dwayne Rathburn 210-233-3456 dwayne.rathburn@saws.org
Tampa, Florida	yes	500,000	211	1	55 mgd	Retail service in Tampa and surrounding area; wholesale to 5 local sewer districts.	2,370 people per sq. mile of service area	Capacity fee is based on meter size and District. Pays for treatment and large pipelines. $1,608 to $2,079 for 5/8" meter. $6,464 to $8,358 for a 1" meter.	Governed by City Council	Fee varies with geographic region because each region has separate CIP. Fees tied to actual bond issues	When customer connects to sanitary sewer system.		Erik Garwell 813-274-7844 erik.garwell@tampagov.net

Comparison of Wastewater Districts and SAC Fees

Wastewater District	Regional	Population Served	Size of Area Served	# Treatment Plants	Treatment Capacity or Average Use	Wholesale Customers (Sewer Agencies and Cities)	Population or Development Density	SAC/Impact Fees	Authority to Charge	Description	When Paid	% Total Revenues Collected from SAC Fees	Contact
San Diego	yes	1,320,000 in City	324 in City		255 mgd capacity	Serves 16 cities and districts	4,078 people per sq. mile in City	Capacity fees are based on one EDU (280 gpd). Sewer capacity charge is $4,124. Only applies within San Diego City limits.	California Prop. 218 and Code 66016, which provides that fees cannot exceed costs of providing service.	Fee determined by cost of service study, and designated for specific improvements. Higher density multifamily given a "density break" in calculating SAC units. Commercial fee based on fixture units in construction plans. Fees run with the land, not the applicant. Fee determined by cost of service study, and designated for specific improvements.	Collected when permit is issued.	3%	Dan Culp 858-654-4427 dculp@sandiego.gov
Phoenix	No	2,500,000		2	250 mgd, including plant shared by other sewer districts	Primarily retail provider to City of Phoenix. One of the treatment plants co-owned by and serves Phoenix, Mesa, Glendale,	Approx. 2,900 persons per square mile in City	Gross impact fee is $1,427 to $5,810 based on area; only charged in northern and southern growth areas (not in-fill).	Arizona Revised Statutes, Title 9, Chapter 4, Article 6.2 and city ordinance	Under state law cannot charge for buy-in to existing system or pay for rehab. Commercial fee based on fixture units. No credits given for reduction in intensity of use. For commercial and multifamily, 1 SAC unit = 23 drainage fixtures.	Collected when permit is issued.	3-4% (5-10% prior to recession)	Douglas Frost douglas.frost@phoenix.gov
Madison Metropolitan Sewerage District	yes	103,704 customers		1	42 mgd average use	Wholesale only to 40 cities, villages, and districts		Treatment Plant Connection Charge (TPCC) is $15.54/sq. ft . Different Interceptor Connection Charge (ICC) for each of 29 interceptors.			Calculated when sewer approved, paid with construction permit. Billed to City, which passes through to developer.	<3%	
Hampton Roads Sanitation District	yes	1,700,000	Future service area is 3,118 sq. miles; currently serves 672 sq. miles	13	250 mgd	9 cities, 8 counties, and several military facilities	2,530 people per sq. mile of service area	Volume Facility Charge based on water meter size. 5/8" meter is $1,895. C/I may also be charged a strength based charge.	Subdivision of the Commonwealth of Virginia. Commission appointed by Governor.	Facility charges buy into existing system. Based on water meter size. HRSD does retail billing for all participating communities (12 different billing systems).	Paid with permit.	3%	Lee Acors 757-460-7215 lacors@hrsd.com

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Appendix D

Background – Summary of other recent SAC work group findings

Background and Summary of Previous SAC Work Groups

2010 Reserve Capacity/SAC Task Force

This task force was charged with 1) evaluating current and proposed methods of reserve capacity estimation and recommending a method to be used in the future, and 2) evaluating fees for reserve capacity funding (SAC).

The task force was comprised of city officials and representatives from other SAC stakeholder groups:

- **Metropolitan Council Member Peggy Leppik, Chair**
- Roger Scherer, Metropolitan Council Member
- Joe Huss, Blaine
- Karl Keel, Bloomington
- Noel Graczyk, Chaska
- Bryan Bear, Hugo
- Harlan Van Wyhe, Maple Grove
- Lisa Cerney, Minneapolis
- Andy Brotzler, Rosemount
- Mike Kassan, St. Paul
- Bruce Loney, Shakopee
- Christine Renne, Ecolab
- Patricia Nauman, Metro Cities
- Rick Breezee, MAC
- Dave Siegel, Restaurant Association
- George Anderson, Vision-Ease Lens
- Jason McCarty, Westwood Professional Services

The group met seven times from December 2009 through September 2010.

The work of the task force was guided by four underlying principles:

1) Wastewater fees must continue to fully fund the Metropolitan Council's (Council's) wastewater services.
2) The fee system should maintain the regional cost-of-service approach.
3) The fee system should ensure adequate financial reserves for protection of the Council's bond rating and economic condition changes.
4) Recommendations should work within existing statutory authority.

The following recommendations were made by the task force:

1) Minnesota Statute Section 473.517, Subdivision 3, should be amended so that the capital costs to provide additional capacity in the regional wastewater system would be paid by SAC based on the principle "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 at 10 seats per SAC regardless of the restaurant model.
6) SAC should be based on square footage for all daycare determinations, but the square footage per 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. More detailed information can be found in the final report on the Council's *Publications web page* (www.metrocouncil.org/Publications-Resources/Publications-Resources.aspx).

The Metropolitan Council adopted all the task force's recommendations on December 8, 2010 (Business Item 2010-389).

2011 SAC Work Group

This work group's primary focus was the "SAC surprise" that many small businesses encountered. In recent years, some small businesses indicated the SAC was unexpected and created a hardship for them when trying to start their new business. Some city personnel also indicated that MCES community review findings were an adverse, and often acrimonious, surprise as they were passed on to small businesses. Metro Cities took an informal survey of approximately sixty cities. Twenty responded; some addressed the issue of small business expansions, and others addressed the issue of the level of SAC fees in general.

At the request of Metro Cities, a second issue examined was the loss of SAC "net credits" which were eliminated at the beginning of 2010. Also, minor issues about the SAC criteria were raised during the meetings.

The work group was comprised of city officials and representatives of other SAC stakeholder groups;

- **Metropolitan Council Member Wendy Wulff, Chair**
- Joe Huss, Blaine
- Harlan Van Wyhe, Maple Grove
- Lisa Cerney, Minneapolis
- Mary Ubl, Minneapolis
- Patricia Nauman, Metro Cities
- Aaron Day, Blue Construction
- John Ryden, CB Richard Ellis
- Christine Renne, Ecolab
- Gary Lally, Hoyt Properties
- Lorrie Louder, St. Paul Port Authority

- Thomas Trutna, Small Business Association
- George Anderson, Vision-Ease Lens
- Jason McCarty, Westwood Professional Services

Various meetings were also attended by special guests:

- John Kimball, Sunrise Community Banks
- Mike Ryan, University of St. Thomas Small Business Development Center
- Steve Wertz, SPEDCO

The work group met three times from July through August 2011.

The following recommendations were made by this SAC Work Group:

1) Develop a private sector outreach program emphasizing agencies who work with small business owners.
2) Continue to better educate cities about SAC and provide materials they can use to educate the public.
3) MCES staff should examine the existing SAC criteria for conference rooms within office spaces, as well as LEED-certified buildings.

There was no support for the implementation of a Council loan (a.k.a. deferral) program for cities. There was no recommendation regarding the current net credit rules; however, Metro Cities requested the Council continue to look at options.

The Council's Environment Committee accepted the task force's recommendations on September 13, 2011, and MCES pursued them all. More detailed information can be found in the final report on the Council's *Publications web page* (www.metrocouncil.org/Publications-Resources/Publications-Resources.aspx).

2012 SAC Work Group

In early 2012 Metro Cities requested MCES, as well as various stakeholders, revisit SAC rules regarding "net credits" for SAC. Metro Cities and MCES staff solicited volunteers from diverse communities to review the rules and determine if a consensus could be achieved for improvements to the rules. In addition, the St. Paul City Council and Mayor independently asked the Metropolitan Council to reconsider loans for small businesses that pay SAC. The City of Minneapolis asked for a review of those issues and all other MCES services and outreach related to SAC. The work group addressed all these subjects.

The work group was comprised of city officials and met five times from July through October 2012. The members were:

- **Gary Van Eyll, Metropolitan Council Member & Co-chair**
- **Patricia Nauman, Metro Cities & Co-chair**
- Wendy Wulff, Metropolitan Council Member
- James Dickinson, Andover
- Robert Cockriel, Bloomington

- Amy Baldwin, Brooklyn Park
- Jon Watson, Brooklyn Park
- Brent Mareck, Carver (resigned)
- Gene Abbott, Lakeville
- Lisa Cerney, Minneapolis
- Pierre Willette, Minneapolis
- Patrick Trudgeon, Roseville
- Brian Hoffman, St. Louis Park
- Ellen Muller, St. Paul
- Jim Bloom, St. Paul
- Lorrie Louder, St. Paul Port Authority
- Jay Scherer, Savage
- Bruce Loney, Shakopee

The following recommendations were made by this work group:

1) SAC paid at any time (1973-present) should be sufficient evidence to generate potential SAC credits. In such cases, net credits could occur that can either be left on site or used community-wide. The Look-Back Period and vacancy rules should no longer apply.
2) Non-conforming use credits (where SAC was not paid) should be available but limited.
3) Allow a minor SAC credit transfer (10 SAC or less) for use on a new site within a community.
4) MCES should develop a SAC loan (aka deferral) program, specifically to assist small businesses where the determination is 10 SAC or less. Participation in the program would be voluntary for communities.
5) SAC Community Reviews should be limited to review of SAC activity no more than three years prior to the date of the review initiation.
6) MCES should provide regular training opportunities for community staff, and in the near term, due to the new credit rules.
7) MCES was requested to provide its SAC outreach brochure in alternative languages.

All these recommendations were adopted by the Metropolitan Council on November 28, 2012 (Business Item 2012-350). MCES committed to more comprehensive outreach including getting help from the Council's Communications department. It developed an outreach brochure in English, Somali, Hmong, and Spanish, and posted them on the SAC web page.

More detailed information can be found in the final report on the Council's *Publications web page* (www.metrocouncil.org/Publications-Resources/Publications-Resources.aspx).

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