

# SAC Deferral Program

## Description and Application

To promote business development, Metropolitan Council Environmental Services (MCES) provides communities the option to participate in the SAC Deferral Program to defer some SAC payment obligations. This option allows deferral of up to 80% of SAC due for the wastewater demand created by businesses (communities are required to pass on the benefits of deferred SAC payments to the participating businesses). Businesses allowed to participate are those within an eligible city and where a new SAC determination of 25 or fewer SAC units occurs (total charge before credits). To obtain these deferments, communities must first complete and submit to MCES a signed master SAC Deferral Agreement (Agreement). This Agreement will be sent to interested communities for signature after the information in the following table is completed and returned to MCES.

<b>1. Community:</b>
<b>2. Community Address:</b>
<b>3. Contact (Finance Director or CFO):</b>
<b>4. Community-Wide Maximum Percent of SAC that can be Deferred (80% maximum):</b>
<b>5. Community-Wide SAC Deferment Period (years):</b>
<b>6. Payment Month(s):</b>

For 4, 5 and 6 above, each participating community has additional implementation options that will apply to all its deferrals:

4. For qualifying SAC liabilities (businesses with total determinations of 25 units or fewer), MCES allows the community to defer up to 80% of SAC due; however, a community can set a maximum that is lower than this (fill in this percentage on line 4 above). Once this community maximum is set, the percentage deferred for each individual site deferral can be lower than this maximum but cannot be higher (e.g., a community chooses a 75% maximum, but a business chooses to pay 50% up front). For each individual deferment, this site-specific percentage must be noted on the MCES SAC-E Form, available at: <http://www.metrocouncil.org/SACforms>
5. Deferment period (term): Choose any whole number up to a maximum of 10 years. This term will apply to all individual deferments from the community. However, note that the Agreement allows any individual deferment to prepay the remaining principal (and interest up to the payoff date) at any time.
6. Timing of payments: Annual or semi-annual payments are allowed, on any month-end during the year (e.g., a schedule may be preferred that corresponds with local SAC collections, assessments, or other payments from businesses). Mid-year (end of June) and end of December payments are most common, and what MCES prefers.

Communities are strongly encouraged to:

- Consider which staff will be responsible for authorizing SAC deferrals and what the process will be to implement site specific deferral arrangements as are allowed under the Agreement with MCES;
- Consider the need for policies or ordinances around your agreements or arrangements with business and property owners (in some cases those parties may have different interests);
- Consider in advance how to react if a business fails to pay, which will not relieve the community of its deferral payment obligation to MCES, unless the business closes as described below; and
- Review the Agreement with involved community staff and legal advisors before signing. Please note that this program is offered only as described in the Agreement; MCES does not anticipate changing it.

Once the Agreement is executed, SAC reporting staff in your community must also attach the MCES SAC-E form with monthly SAC reporting for each qualified business for which the community is allowing the deferred SAC payment. Each deferral liability will be effective the first day of the subsequent month (e.g., for an April building permit that is due and typically reported in May, interest will begin accruing June 1).

Principal on the deferred amount will be amortized monthly at a fixed interest rate based on MCES' average cost of debt (per statute). MCES' average cost of debt, computed on December 31 each year, will be used as the interest rate for all new deferrals entered into the following calendar year. For example, the average rate was 2.27% on 12/31/18, so all deferrals originating in 2019 use this rate, and the rate will be fixed for the duration of each individual deferral started in 2019. Near the end of January each year, MCES will provide the new interest rate (for deferrals started in the new calendar year) to participating communities.

If a participating business completely closes, the community has an option to discontinue making deferral payments to MCES. If this option is chosen, it requires a notification to MCES and a certification of the business closing. In this situation, the site will not be credited with the unpaid wastewater capacity (for future SAC determinations), but will get credit for each SAC unit paid. No payments will be refunded and no net credits will be transferrable off the site (unless and until a redevelopment requires less wastewater capacity, as on any site). Alternatively, for each such business closure, the community has the option of simply finishing the payments to MCES, which will result in full SAC credit for the next use of the site.

Late payments on deferrals will incur an additional administrative charge of 2% per month plus the maximum interest allowed by law.

### SAC Deferral Example #1:

1. Community signs SAC Deferral Agreement in October 2018, establishing basic deferral terms including maximum amount deferred (e.g., 80%), standard community deferral length (e.g., 5 years), and the payment timing requested (e.g., billing only on anniversary of Agreement).
2. An 8-SAC unit business is permitted February 2019. On the SAC Activity Report for February, the community chooses a deferral and:
  - a) Pays 20% of the SAC for the site =  $8 \times 20\% = 1.60 \times \$2485/\text{unit}$  [2019 SAC rate] = \$3976

- b) Attaches SAC-E form that details the information for this individual deferral:
  - i. Property Address = 123 45<sup>th</sup> Street, City of XYZ
  - ii. Business Name = Acme Genetics, Ltd.
  - iii. Permit Issued Date = 2/15/19
  - iv. Start of Loan Date = 4/1/19 (1<sup>st</sup> day of month after SAC report is due)
  - v. Deferred amount = 8 SAC units X 80% = 6.40 X \$2485/unit = \$15,904
- 3. MCES sends an invoice detailing the amount due on the SAC deferral(s) in October 2019. In this single deferral example:
  - a) \$15,904 is spread over 5 years with monthly amortization at 2.27% interest (the 2019 interest rate) = \$280.64/month.
  - b) Payment on this loan = \$280.64 X 7 months [April through October] = \$1,964.48
  - c) Invoice is sent out annually (aggregating all community deferrals).
  - d) Payment is due in 30 days.

In this example, unless the deferral is prepaid, the community will pay for 12 months in 2020, 2021, 2022 and 2023, and only 5 months on the last year's invoice (2024). At that point the full 8 SAC is paid and creditable to future use.

### SAC Deferral Example #2:

Same circumstances as above but the business closes in 2021 after community made 2 payments (for 7 months in 2019 and 12 months in 2020).

In June 2021, community notifies MCES that the business closed. Community has two options:

1. Continue remitting the remainder of the SAC deferral payments as scheduled. The full 8 SAC units will be credited to future use on the site as all units are paid for. Of course, if the new use is different, a new SAC determination must be made, and the community will owe SAC for any incremental capacity demand.
2. Discontinue accruing liability. The community still needs to pay for the 5 months that wastewater demand was needed in 2021, but it has no obligation for the rest of the scheduled payments. Only what was paid is creditable for future use (24 months of 60 is paid = 40% X 6.4 SAC units = 2.56 credits available for the site, in addition to 1.60 units from the original down payment).

If you wish to participate in the deferral program and are ready for the master SAC Deferral Agreement, fill out the boxes at the top of this application and return it to Dan Schueller, MCES, 390 North Robert Street, St. Paul, MN 55101 or [dan.schueller@metc.state.mn.us](mailto:dan.schueller@metc.state.mn.us). For questions about the SAC program in general, please contact Jessie Nye at [jessica.nye@metc.state.mn.us](mailto:jessica.nye@metc.state.mn.us). For SAC determinations, please contact the SAC program at [SACprogram@metc.state.mn.us](mailto:SACprogram@metc.state.mn.us).