

**City of Minneapolis
2013 Budget
Financial Plan**

Water Fund

Background

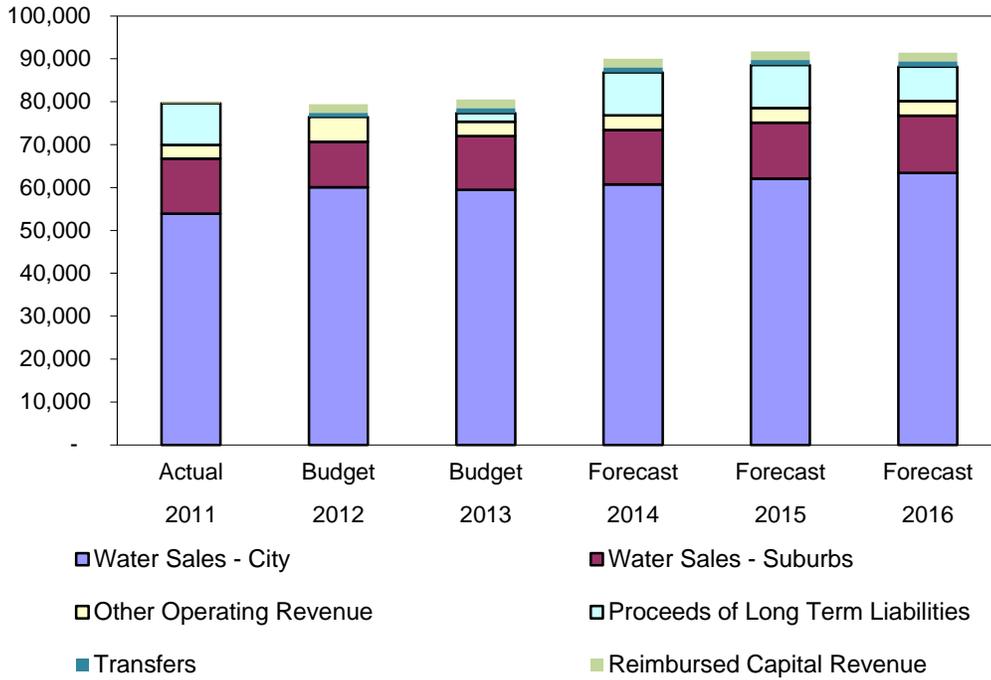
The Water Fund accounts for the operation, maintenance, and capital program of the water treatment and distribution system for the City of Minneapolis and several suburban city customers. The City currently sells water to seven suburbs including Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal, Edina, and the Metropolitan Airport Commission.

Historical Financial Performance

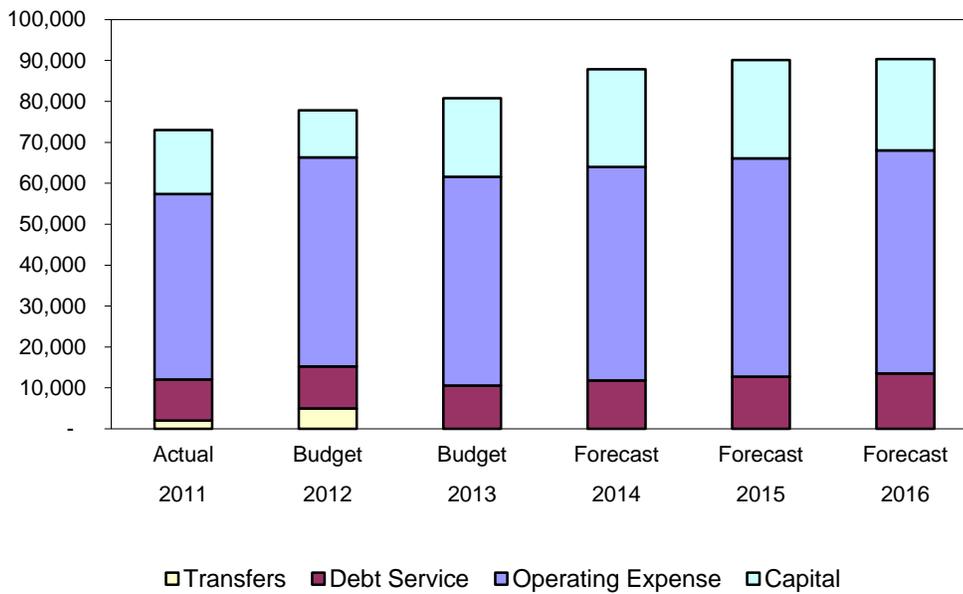
The net assets of the Water Fund have increased over the past several years due primarily to scheduled rate increases and major capital improvements. The following table shows the revenue earned from Minneapolis and suburban sales for years 2010 – 2011, the projected 2012 revenue, and the 2013 budgeted revenue:

Source of Revenue	2010	2011	2012 Projected	2013 Budget
Bloomington	\$3,543,587	\$3,015,665	\$2,967,685	\$3,129,543
Columbia Heights	1,156,604	1,185,559	1,351,203	1,235,632
Hilltop	106,734	99,005	75,125	72,334
Joint Water Commission	5,694,488	7,572,427	7,242,033	6,964,828
Edina	194,026	204,920	244,222	212,125
MAC	N/A	823,274	869,942	865,842
Total Suburban	\$10,695,439	\$12,900,850	\$12,750,212	\$12,480,304
Minneapolis	\$53,167,300	\$53,869,105	\$60,581,308	\$59,500,950
Total Revenue	\$63,862,739	\$66,769,955	\$73,331,520	\$71,981,254

Water Fund Revenues (In thousands of dollars)



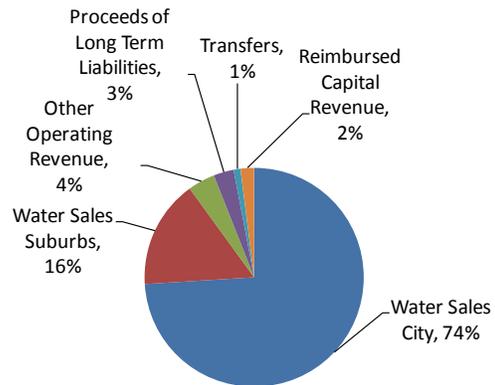
Water Fund Expenses (In thousands of dollars)



2013 Budget

Revenues

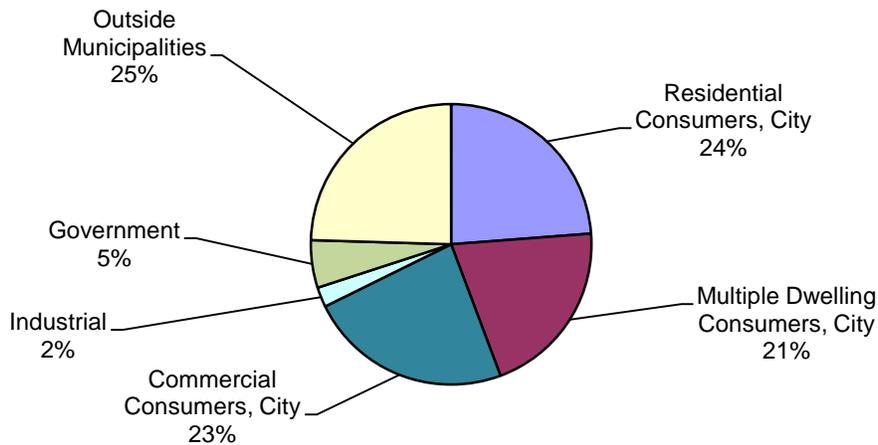
The 2013 revenue budget of \$80.5 million is 4% lower than the 2012 projected revenue of \$83.9 million. There are projected rate increases for years 2013 – 2016 to pay debt service for the capital expenses, as well as to cover anticipated growth in operating expenses and to repair infrastructure. Rate increases may not result in increased revenue, however, due to variable water consumption. A long-term trend has shown that Minneapolis water consumption has decreased over the past several years.



Water Utility Rates

The budget includes a fixed rate charge based on meter size as well as a variable rate charge of \$3.29/unit. The fixed rate charge helps to cover the high fixed costs of operating the utility which increases the utility's financial stability as it continues to operate in an environment of declining consumption due to conservation efforts.

Charges for Services by Customer Consumption (Based on 2011 Consumption)



¹ Rate is based on cost per 100 cubic feet and assumes 8 units of water are consumed per month for a 5/8" meter. The fixed rate increases as the meter size increases.

Year	Fixed Rate (5/8" Meter)	Rate (cost per 100 cubic feet)	Cost Per Month for Average Consumer ¹	Variable % Increase	Total Monthly Cost Increase per Household	Total Planned Revenue from Utility Fee
2013	\$2.00	\$3.29	\$26.32	2.81%	\$0.72	\$59.5 Million
2014	\$2.00	\$3.38	\$27.04	2.74%	\$0.72	\$60.7 Million
2015	\$2.00	\$3.48	\$27.84	2.96%	\$0.80	\$62.0 Million
2016	\$2.00	\$3.58	\$28.64	2.87%	\$0.80	\$63.3 Million
2017	\$4.00	\$3.58	\$28.64	0.00%	\$4.00	\$66.3 Million

The following table shows the projected revenue earned from suburban utility sales:

Year	Combined Average Rate	% Increase	Total Revenue Earned from Utility Fee - Suburbs
2013	\$2.10	2.81%	\$12.5 Million
2014	\$2.15	2.74%	\$12.7 Million
2015	\$2.22	2.96%	\$13 Million
2016	\$2.28	2.87%	\$13.3 Million
2017	\$2.28	0.00%	\$13.2 Million

Expenses

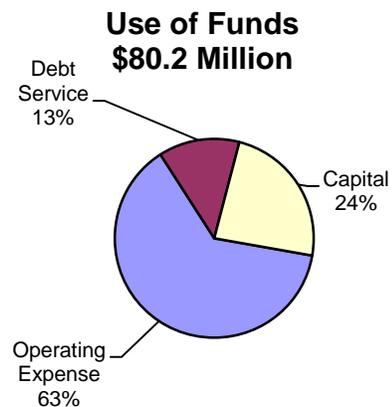
The 2013 expense budget is \$80.4 million, a 1.4% increase over the 2012 projected expense of \$79.3 million. The budget provides funding for water treatment and distribution and the capital improvement program. Current capital projects include improvements to the water distribution network, treatment infrastructure improvements, rehabilitation of the Fridley filter facility and replacement of the distribution maintenance facility. The 2013 capital budget of \$19.2 million represents a 66.4% increase from the 2012 capital budget.

Pension Obligations

The Water Fund incurs expenses related to its share of the Minneapolis Employee Retirement Fund (MERF) pension obligations. There will be \$2.3 million transferred to the bond redemption fund to cover the liability obligations related to Water Fund employees that have retired under the MERF pension plan.

Debt Service

The debt service total of \$10.2 million is primarily for bonds and notes sold to finance the Water Fund's Construction program.



Mayor's Recommended Budget

The Mayor recommends no changes to the proposed budget. Also, the Mayor recommended a water utility rate of \$3.29 per unit in 2013.

Council Adopted Budget

Council approved the Mayor's recommendations.

City of Minneapolis										
2013 Budget										
Financial Plan (In thousands of dollars)										
Water Fund - 7400										
	2010	2011	2012	2012	2013	% Chg	2014	2015	2016	
	Actual	Actual	Budget	Projected	Budget	from 2012	Forecast	Forecast	Forecast	
						Budget	Budget			
Source of Funds:										
Water Sales - City	53,459	53,869	60,574	60,581	59,501	-1.8%	60,702	62,053	63,384	
Water Sales - Suburbs	10,695	12,901	10,081	12,750	12,480	23.8%	12,747	13,047	13,342	
Other Operating Revenue	1,508	3,171	4,794	7,332	3,358	-30.0%	3,390	3,423	3,459	
Proceeds of Long Term Liabilities	15,692	9,732		215	2,000		10,000	10,000	8,000	
Transfers										
From Sewer Fund for Meter Shop			994	994	1,149	15.6%	1,184	1,219	1,254	
From General Fund					22					
Reimbursed Capital Revenue	365	247	2,000	2,000	2,000		2,000	2,000	2,000	
Total	81,719	79,920	78,443	83,872	80,510	-4.0%	90,023	91,742	91,439	
Use of Funds:										
Operating Expense	47,916	45,267	51,106	50,910	50,901	-0.4%	52,145	53,303	54,500	
Debt Service	9,518	10,038	10,226	10,273	10,152	-0.7%	10,454	10,691	10,906	
Future Debt Service	-	-	-	-	231	100.0%	1,389	2,092	2,655	
Transfers										
To Debt Service for MERF Liability	1,258	2,042	4,992	4,992	-	-100.0%	-	-	-	
To Debt Service - Other	249	-	-	-	-		-	-	-	
Capital	19,762	15,674	11,510	13,174	19,150	66.4%	23,900	24,000	22,300	
Total	78,703	73,021	77,834	79,349	80,434	3.3%	87,888	90,086	90,361	
Water Works Fund Margin	3,016	6,899	609	4,523	76		2,135	1,656	1,078	
Water Net Assets	176,894	186,111	186,720	190,634	190,710	2.1%	192,845	194,501	195,579	
Cash Balance	13,227	14,877	15,488	19,401	15,226	-1.7%	17,361	19,017	20,095	