

**City of Minneapolis
2011 Budget
Financial Plan**

Water Fund

Background

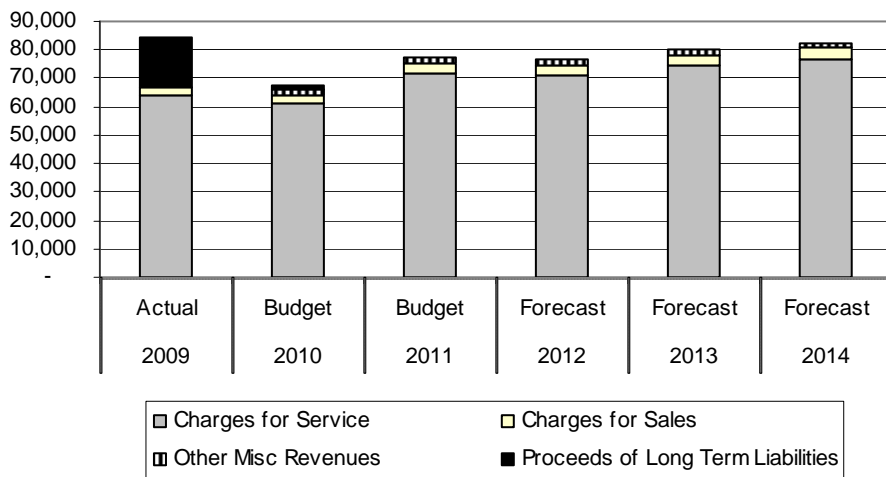
The Water Fund accounts for the operation and maintenance of a water distribution system for the City and several suburban city customers. The City currently sells water to seven cities including Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal and Edina.

Historical Financial Performance

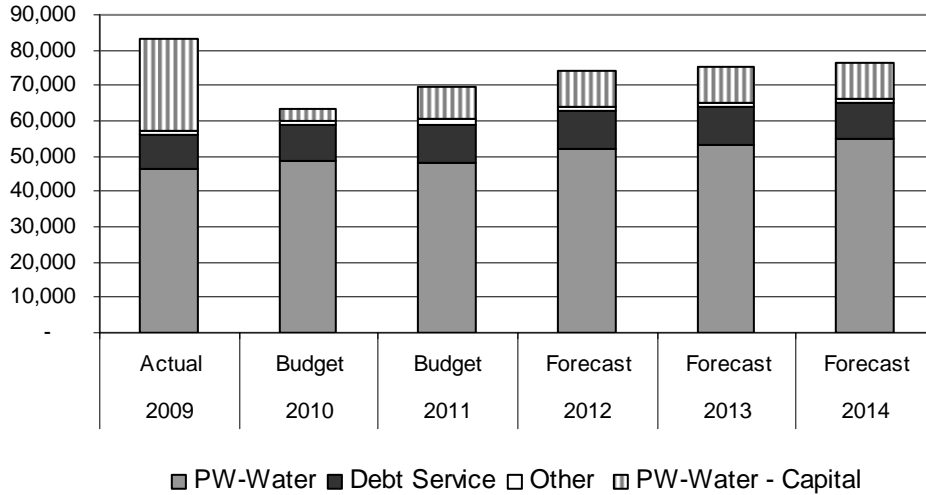
The financial condition of this fund has been stable historically. The net assets of the Water Fund have increased over the past several years due primarily to scheduled rate increases, and major capital improvements. The following table shows the revenue earned from Minneapolis and suburban sales for years 2008-2009 and 2010 projected revenue:

Source of Revenue	2008	2009	2010 Projected
Bloomington	\$3,132,000	\$3,302,000	\$3,080,000
Columbia Heights	984,000	1,032,000	956,000
Edina	325,000	267,000	212,000
Joint Water Commission	5,676,000	6,732,000	6,266,000
Hilltop	104,000	127,000	106,000
Total Suburban	\$10,221,000	\$11,460,000	\$10,620,000
Minneapolis	50,013,000	52,750,000	52,430,535
Total Revenue	\$60,234,000	\$64,210,000	\$63,050,535

**Water Fund Revenues
(in thousands of dollars)**



Water Fund Expenditures
(in thousands of dollars)

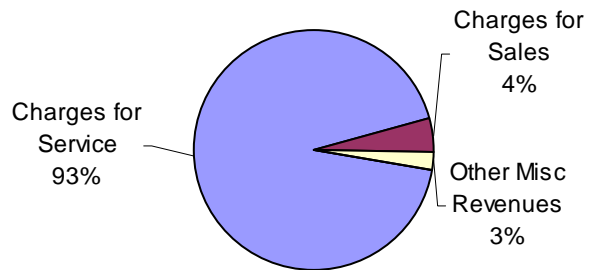


2011 Budget

Revenues

The 2011 revenue budget of \$77.3 million is 14.8% higher than the 2010 revenue budget of \$67.3 million. There are projected rate increases for years 2011-2014 to pay debt service for the capital expenditures, as well as to cover anticipated growth in operating expenditures and to repair infrastructure. Rate increases may not result in increased revenue due to variable water consumption. A long-term trend has shown that Minneapolis water consumption has decreased slightly over the past several years. In 2010 meters are being tested and actual billed consumption is expected to increase. Charges for Service are the amounts charged for water consumption. Charges for Sales relate to other work performed by the staff for requested repairs and design services.

Source of Funds
\$77.3 Million

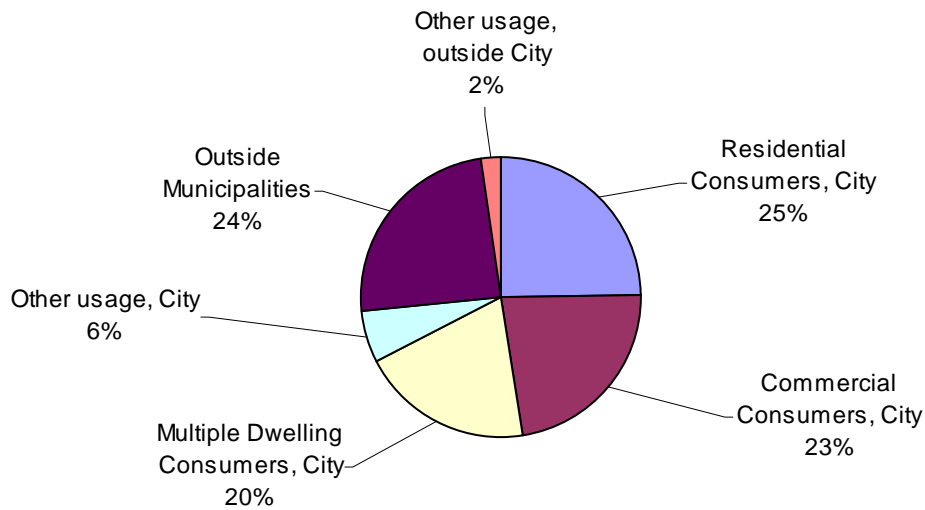


The large revenue increase from \$67.3 million in the 2010 revised budget to \$84.5 million the 2010 projected budget is due to capital projects appropriated in 2009 and completed in 2010. The increase is offset by capital expenditures.

Water Utility Rates

The budget includes a rate increase for water from \$3.05/unit in 2010 to \$3.20/unit in 2011. The rate increase will provide funding for water distribution improvements, and the continued ability to cover the fixed costs of operating the utility in an environment of declining consumption due to conservation efforts.

**Charges for Service by Customer Consumption
(Based on 2009 Consumption)**



Year	Rate (cost per 100 cubic feet)	Cost Per Month for Average Consumer ¹	% Increase	Total Planned Revenue from Utility Fee
2011	\$3.20	25.60	4.9%	\$71.8 Million
2012	\$3.36	26.88	5.0%	\$75.4 Million
2013	\$3.54	28.32	5.4%	\$78.6 Million
2014	\$3.72	29.76	5.1%	\$81.5 Million
2015	\$3.89	31.12	4.6%	\$84.5 Million

¹ Rate is based on cost per 100 cubic feet and assumes 8 units of water are consumed per month.
Note: Total revenue from charges for services in the financial plan exceeds the amount generated by the utility fee because revenue is also deposited in the Water Fund from sources other than utility fees such as water service line repairs and permit fees.

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

Year	Combined Average Rate	% Increase	Total Revenue Earned from Utility Fee - Suburbs
2011	2.1	4.9%	\$13.1 Million
2012	2.2	5.0%	\$13.8 Million
2013	2.3	5.4%	\$14.4 Million
2014	2.4	5.1%	\$14.9 Million
2015	2.6	4.6%	\$15.5 Million

Expenditures

The 2011 expenditure budget is \$69.7 million, an 8.5% increase over the 2010 budget of \$64.2 million. The Water Fund's operating budget includes a minor percentage increase to keep customers' rate increases minimal.

The budget provides funding for the capital improvement program. Current capital projects include improvements to the water distribution network, treatment infrastructure improvements and a \$25 million multiyear project to replace the current dewatering plant which uses centrifuges with new filter presses which will improve efficiency and reduce operating costs. The 2011 recommended capital budget is \$9 million and represents a 157.1% increase from the 2010 capital budget.

Transfers

The Water Fund incurs a transfer expense related to its share of the Minneapolis Employee Retirement Fund (MERF) pension obligations. The \$2 million will be 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

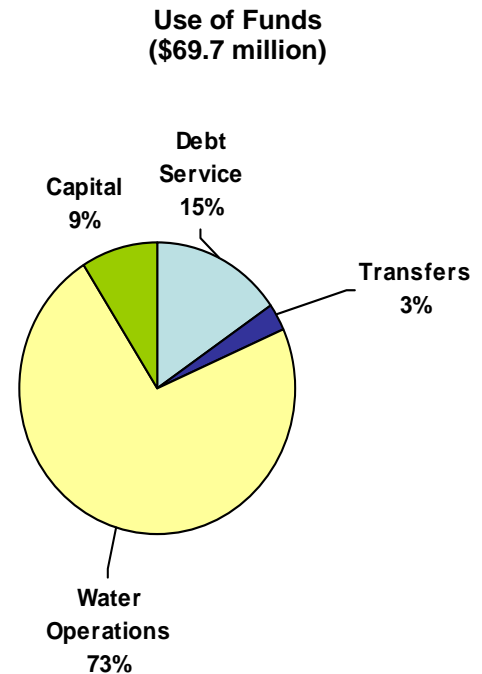
The debt service amounts are primarily for bonds and notes sold to finance the Water-Works Capital Construction program.

Mayor's Recommended Budget

The Mayor recommended an increase to the per unit water rate of \$0.15. The Mayor included a wireless commitment charge of \$61,184 which is offset by healthcare savings.

Council Adopted Budget

The Council adopted the Mayor's recommendations.



City of Minneapolis
2011 Budget
Financial Plan (in thousands of dollars)
Water Fund - 7400

	2009 Actual	2010 Budget	2010 Projected	2011 Budget	% Chg from 2010 Budget	2012 Forecast	2013 Forecast	2014 Forecast
Source of Funds:								
Charges for Service	64,212	61,168	63,051	71,837	17%	71,315	74,304	76,929
Charges for Sales	2,356	2,660	1,964	3,476	31%	3,528	3,581	3,635
Other Misc Revenues	240	2,000	460	2,000	0%	2,000	2,000	2,000
Proceeds of Long Term Liabilities	17,831	1,500	19,000					
Total	84,639	67,328	84,475	77,313	14.8%	76,843	79,885	82,564
Use of Funds:								
PW-Water	46,252	48,446	48,177	48,378	-0.1%	52,194	53,384	54,631
Debt Service	9,924	9,574	9,574	10,266	7.2%	10,364	10,456	10,542
Future Debt Service		1,427	3,136	-		-	-	-
Transfers								
To Debt Service for MERF Liability	1,071	1,258	1,258	2,042	62.3%	1,360	1,182	1,182
PW-Water - Capital	25,909	3,500	18,000	9,000	157.1%	10,110	10,110	10,000
Total	83,155	64,205	80,145	69,686	8.5%	74,028	75,132	76,355
Water Works Fund Margin	1,484	3,123	4,330	7,627	144.2%	2,815	4,753	6,209
Water Fund Balance	159,640	162,763	163,970	171,597	5.4%	174,412	179,165	185,374
Cash Balance	(2,007)	1,116	5,446	13,073	1071.7%	15,888	20,641	26,850