

**City of Minneapolis
2012 Budget
Financial Plan**

Water Fund

Background

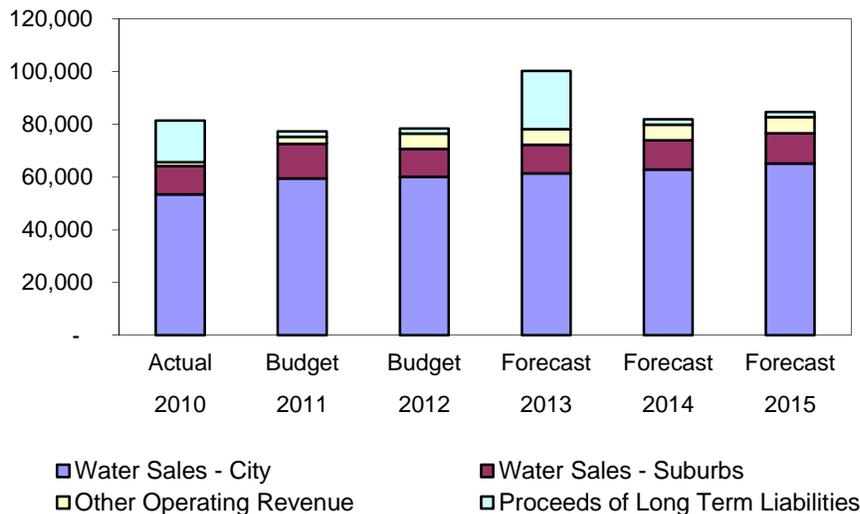
The Water Fund accounts for the operation, maintenance and capital program of the water treatment and distribution system for the City and several suburban city customers. The City currently sells water to seven cities including Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal,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

Historical Financial Performance

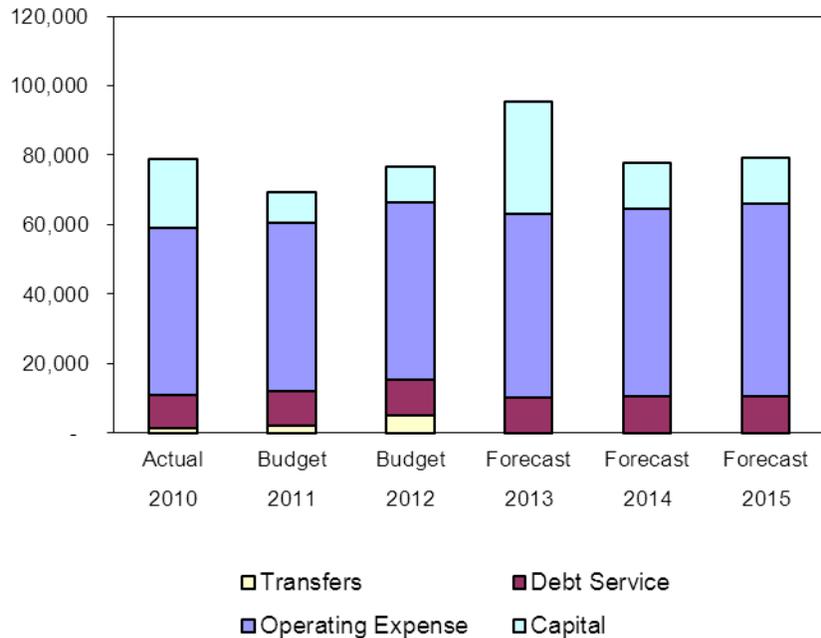
The net assets of the Water Fund have increased over the past several years due primarily to scheduled rate increases and major capital improvements. The following table shows the revenue earned from Minneapolis and suburban sales for years 2009-2010 and 2011 projected revenue:

| Source of Revenue | 2009 | 2010 | 2011 Projected |
|------------------------|---------------------|---------------------|---------------------|
| Bloomington | \$3,302,000 | \$3,543,587 | \$3,777,707 |
| Columbia Heights | 1,032,000 | 1,156,604 | 1,194,177 |
| Hilltop | 127,000 | 106,734 | 69,339 |
| Joint Water Commission | 6,732,000 | 5,694,488 | 6,752,876 |
| Edina | 267,000 | 194,026 | 205,450 |
| MAC | N/A | N/A | 841,060 |
| Total Suburban | \$11,460,000 | \$10,695,439 | \$12,840,608 |
| Minneapolis | \$52,750,000 | \$53,167,300 | \$52,796,878 |
| Total Revenue | \$64,210,000 | \$63,862,739 | \$65,637,486 |

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



**Water Fund Expenses
(In thousands of dollars)**

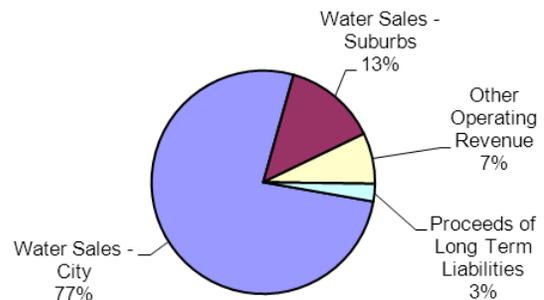


2012 Budget

Revenues

The 2012 revenue budget of \$78.4 million is 12.5% higher than the 2011 projected revenue of \$69.7 million. There are projected rate increases for years 2012-2015 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 due to variable water consumption. A long-term trend has shown that Minneapolis water consumption has decreased over the past several years.

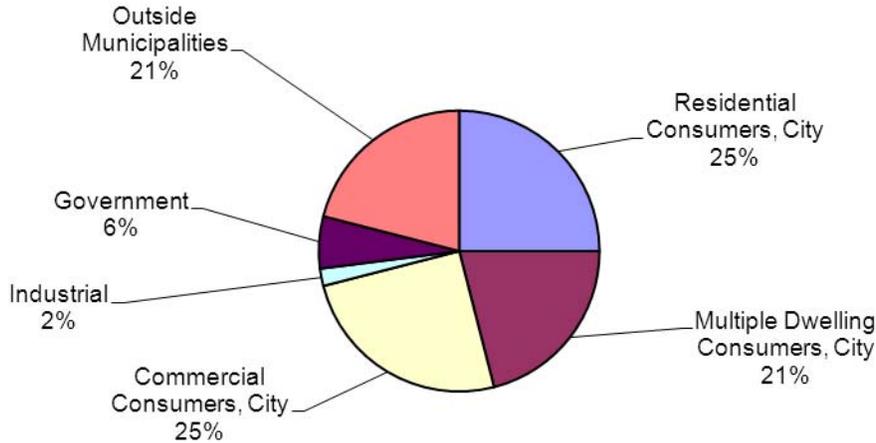
**Source of Funds
\$78.4 Million**



Water Utility Rates

The budget includes a fixed rate charge based on meter size as well as a variable rate charge of \$3.20/unit. The fixed rate charge will help to cover the high fixed costs of operating the utility. This will increase the utility's financial stability as it continues to operate in an environment of declining consumption due to conservation efforts.

**Charges for Service by Customer Consumption
(Based on 2010 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 Cost Increase | Total Planned Revenue from Utility Fee |
|------|-------------------------|--------------------------------|--|---------------------|---------------------|--|
| 2012 | \$2.00 | \$3.20 | \$27.60 | 0.00% | \$2.00 | \$60.0 Million |
| 2013 | \$2.00 | \$3.31 | \$28.48 | 3.40% | \$0.88 | \$61.4 Million |
| 2014 | \$2.00 | \$3.43 | \$29.44 | 3.60% | \$0.96 | \$62.9 Million |
| 2015 | \$2.00 | \$3.53 | \$30.24 | 2.90% | \$0.88 | \$63.9 Million |
| 2016 | \$2.00 | \$3.64 | \$31.12 | 3.10% | \$0.88 | \$65.0 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 |
|------|-----------------------|------------|---|
| 2012 | \$2.10 | 0% | \$10.6 Million |
| 2013 | \$2.17 | 3.5% | \$10.8 Million |
| 2014 | \$2.25 | 3.5% | \$11.1 Million |
| 2015 | \$2.32 | 3.0% | \$11.3 Million |
| 2016 | \$2.39 | 3.0% | \$11.5 Million |

Expenses

The 2012 expense budget is \$77.8 million, a 16% increase over the 2011 projected expense of \$67 million. 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

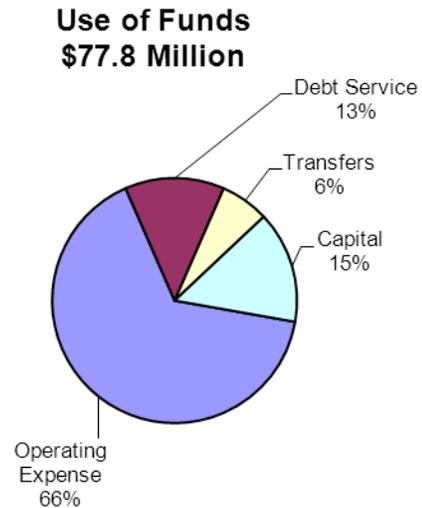
costs. The 2012 capital budget is \$11.5 million and represents a 27.9% increase from the 2011 capital budget.

Transfers

The Water Fund incurs a transfer expense related to its share of the Minneapolis Employee Retirement Fund (MERF) pension obligations. There will be \$5 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-Works Capital Construction program.



Mayor's Recommended Budget

The Mayor recommended no changes.

Council Adopted Budget

On December 16th, Council adopted the utility rates for water, sewer, stormwater and solid waste and recycling services effective January 1, 2012. The resolution included changes to sewer and water rates. The variable rate component will remain flat from 2011 at \$3.20.

In addition to rates based on water usage, a fixed charge based on meter size will be included in each billing period. The monthly fixed charge ranges from \$2.00 for a 5/8 inch meter to \$660 for a 12 inch meter.

City of Minneapolis
2012 Budget
Financial Plan (In thousands of dollars)
Water Fund - 7400

| | 2009 Actual | 2010 Actual | 2011 Budget | 2011 Projected | 2012 Budget | % Chg 2011 Projected | 2013 Forecast | 2014 Forecast | 2015 Forecast |
|------------------------------------|----------------|----------------|----------------|-------------------|----------------|----------------------------|------------------|------------------|------------------|
| Source of Funds: | | | | | | | | | |
| Water Sales - City | 52,750 | 53,459 | 59,455 | 52,797 | 60,574 | 14.7% | 61,456 | 62,859 | 65,099 |
| Water Sales - Suburbs | 11,460 | 10,695 | 13,141 | 12,841 | 10,081 | -21.5% | 10,822 | 11,069 | 11,463 |
| Other Operating Revenue | 2,358 | 1,508 | 2,717 | 2,106 | 4,794 | 127.6% | 5,875 | 5,963 | 6,143 |
| Proceeds of Long Term Liabilities | 17,831 | 15,692 | | | | | 22,000 | 2,000 | 2,000 |
| Transfers | | | | | | | | | |
| From Sewer Fund for Meter Shop | | | | | 994 | | | | |
| Reimbursed Capital Revenue | | 365 | 2,000 | 2,000 | 2,000 | | | | |
| Total | 84,399 | 81,719 | 77,313 | 69,744 | 78,443 | 12.5% | 100,153 | 81,891 | 84,705 |
| Use of Funds: | | | | | | | | | |
| Operating Expense | 46,252 | 47,916 | 48,377 | 45,918 | 51,106 | 11.3% | 52,777 | 54,095 | 55,471 |
| Debt Service | 9,924 | 9,518 | 10,063 | 10,063 | 10,226 | 1.6% | 10,318 | 10,405 | 10,640 |
| Future Debt Service | | - | - | - | - | | 1,538 | 1,538 | 1,538 |
| Transfers | | | | | | | | | |
| To Debt Service for MERF Liability | 1,071 | 1,258 | 2,042 | 2,042 | 4,992 | 144.5% | - | - | - |
| To Debt Service - Other | | 249 | - | - | - | | - | - | - |
| Capital | 25,909 | 19,762 | 9,000 | 9,000 | 11,510 | 27.9% | 32,325 | 13,300 | 13,300 |
| Total | 83,156 | 78,703 | 69,482 | 67,023 | 77,834 | 16.1% | 96,958 | 79,338 | 80,949 |
| Water Works Fund Margin | 1,484 | 3,016 | 7,831 | 2,721 | 609 | | 3,195 | 2,553 | 3,756 |
| Water Net Assets | 159,640 | 176,894 | 179,910 | 179,615 | 180,224 | | 183,419 | 185,972 | 189,728 |
| Cash Balance | (2,007) | 11,657 | 19,487 | 16,093 | 16,548 | | 19,606 | 22,022 | 24,228 |