

**City of Minneapolis
FY 2005 Fund
Financial Plan**

Stormwater and Sanitary Sewer Fund

Background

This fund accounts for sewer contractual payments to the Metropolitan Council Environmental Services (MCES) for sewage interceptor and treatment services. This fund also accounts for storm water management activities including the Combined Sewer Overflow (CSO) program, which separates the remaining storm sewer lines that are connected to sanitary sewer lines.

During 1998, the City embarked on a \$72 million, nine-year, flood control program (which has been expanded since the original plan was adopted). This program targets specific areas in the City and creates holding ponds and additional storm drains that are designed to mitigate the effects of flash floods, but has been scaled back in the 2005 capital budget.

This fund also accounts for the cost of street sweeping as a related cost activity.

Historical Financial Performance

The Sewer Rental Fund has experienced a positive retained earning for the last several years. This is due to the combination of rate increases being implemented as planned and unanticipated delays in capital project expenditures. Delays in capital project expenditures have also increased total cash balances. For the year ending in 2003, \$6.4 million of the cash balance was related to unspent bond proceeds with an operating cash balance of \$7.8 million. One financial goal for this fund is to have three months worth of operating expenses in a cash reserve from operations.

2004 Financial Performance

The 2004 revenues from charges for services are projected to be less than budgeted. The estimated revenue has been revised from \$69 to \$65 million to project a more realistic revenue amount. Another factor that could impact the 2004 projected revenue is that there could be less revenue generated from reimbursable capital projects, which is budgeted at \$3 million.

Expenses are also projected to be less than budgeted for the sewer design, field services and sewer maintenance cost centers. The field services or street cleaning cost center is projected to be within its \$5.8 million budget at \$5.7 million. Sewer design is projected to be \$3.6 million, which is considerably less than the \$5.5 budgeted due to one-time decision packages that have been removed out of the 2005 base budget for

inflow, utility fee and design manual studies. The sewer maintenance is projected to be under budget by \$3.5 million dollars partially due to under spending contractual services. Again for 2004, it is anticipated that all budgeted capital projected will not be completed.

2005 Budget

Revenues

The Sewer Rental Fund has a projected rate increase of 21-cents (per 100 cubic feet), or 6.1% for 2005. For 2005 this results in an average monthly cost to consumer of \$21.84. The rate increase will be used to pay for ongoing operating expenses as well as debt service related to the CSO and flood mitigation projects. It is anticipated that the current sewer rates will be separated from storm water utility in 2005.

Expenditures

The Sewer Rental Fund has a projected increase in expenses partially due to increased rates by the Metropolitan Council Environmental Services (MCES). For 2005, the capital expenditures budget is decreased to \$9.9 million, \$5.9 million is financed, \$3 million reimbursed from other departments or external private sources and the balance to be paid from cash in the fund balance. The recommended budget also includes continuation of funding to complete the CSO (combined sewer overflow) Separation Evaluation Project.

Stormwater Rate

A stormwater rate model implementation is currently underway and is scheduled to begin in 2005. Two funds will be used to accomplish the separate reporting and tracking of sanitary and stormwater activities. With the implementation of this program the 2005 approved sewer rate will be split into two rates. Sanitary sewer will continue to be billed based on water consumption usage and the stormwater rate will be billed based on the amount of stormwater runoff a property has.

CSO (Combined Sewer Overflow)

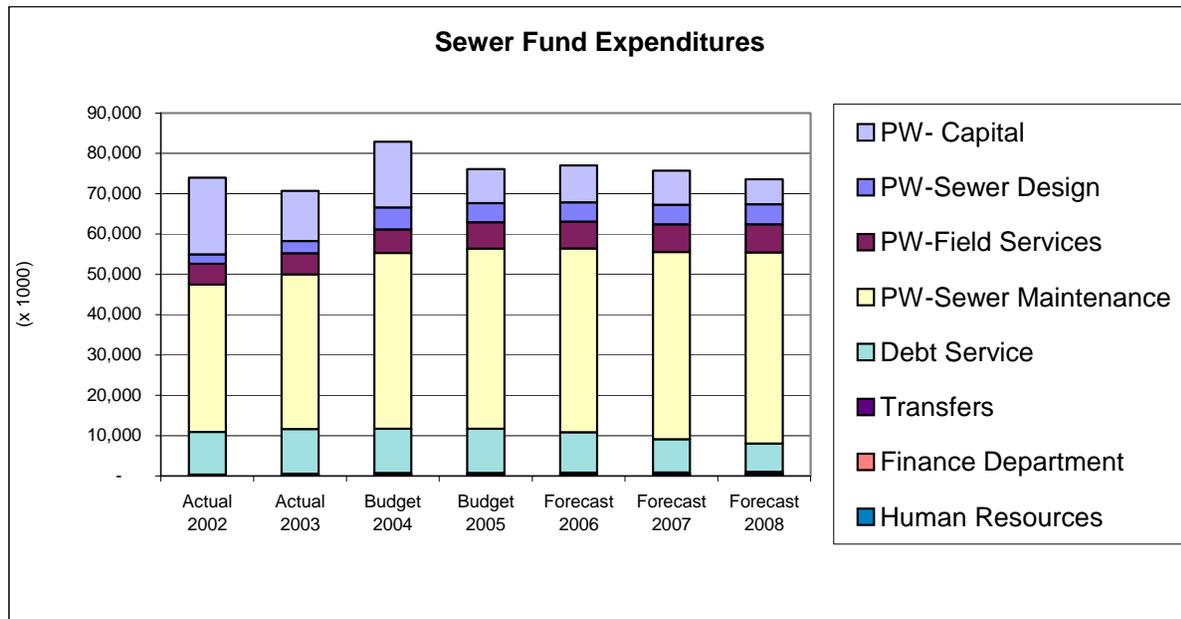
In 2001, a study was done by the City of Minneapolis and Metropolitan Council, which indicated that there maybe as many as 5,000 buildings and properties with rainwater connection to the sanitary system. To resolve this issue, both parties will need to identify these properties and work on an alternative for rainwater connection. Once this task is complete, the department of Public Works will be required to hire additional staff to redesign and reconstruct the storm water drainage system. The project will take 3 to 5 years to complete. The estimated cost for 2005 is approximately \$2 million, which will be funded by bonds.

Transfers

In 2005, payments of \$342,000 were transferred to the bond fund for debt service related to the Minneapolis Employee Retirement Fund (MERF) outstanding liability. Transfers to Internal Service funds have been replaced with a rate model which charges the individual costs centers as an expense rather than a transfer at the fund level. Costs for equipment has increased due to a change from hourly billing to monthly billing. This change is projected to dramatically increase the costs for the street cleaning cost center.

Debt Service

The debt service payments are primarily for bonds previously sold to finance the Combined Sewer Overflow (CSO) and flood mitigation programs. The scheduled principal and interest payments for 2005 will be just over \$11 million.



**City of Minneapolis
FY 2005 Budget
Financial Plan (in thousands of dollars)**

Combined Sanitary Sewer Fund 7100 and Stormwater Fund 7300

	2002 Actual	2003 Actual	2004 Budget	2004 Projected	2005 Budget	% Chg from 2004	2006 Forecast	2007 Forecast	2008 Forecast
Source of Funds:									
Federal Government	980	41	310	310					
State Government	566	556	1,159	2,059	920	-20.6%	920	920	920
Local Government	128	290	290	290	167	-42.4%	167	167	167
Charges for Service	64,122	62,626	68,843	64,738	70,237	2.0%	72,672	75,841	78,876
Charges for Sales	5	6	-	-	1		1	1	1
Special Assessments	275	257	115	115	115		120	124	129
Interest	(3)	-	-	-	-		-	-	-
Other Misc Revenues	(60)	25	52	52	60	15.4%	60	60	60
Proceeds of Long Term Liabilities	7,988	6,875	10,519	10,519	5,870	-44.2%	4,900	4,500	2,500
Total	74,001	70,676	81,288	78,083	77,370	-4.8%	78,840	81,613	82,653
Use of Funds:									
PW-Sewer Design	2,338	3,079	5,463	3,607	4,840	-11.4%	4,937	5,036	5,136
PW-Field Services	5,177	5,258	5,810	5,787	6,556	12.8%	6,687	6,821	6,957
PW-Sewer Maintenance	36,530	38,336	43,597	40,171	43,313	-0.7%	44,179	45,063	45,964
Debt Service	10,612	11,147	11,004	11,512	11,016	0.1%	10,093	8,223	7,075
Transfers									
To General Fund	116	63	-	-					
To Debt Service for MERF Liability			288	288	342	18.8%	400	500	600
To BIS Fund	65	66	66	66			-	-	-
To Self Insurance Fund	10	10	10	10			-	-	-
Finance Department	117	137	129	129	1	-99.2%	1	1	1
Human Resources		225	228	228	-		-	-	-
PW- Capital	19,034	12,436	16,317	15,000	9,865	-39.5%	9,117	8,445	6,170
Total	73,999	70,757	82,912	76,799	75,933	-8.4%	75,414	74,088	71,904
Fund Margin	2	(81)	(1,624)	1,284	1,437	-188.5%	3,426	7,525	10,749
Fund Balance	293,665	294,554	292,930	295,838	297,275	1.5%	300,701	308,226	318,976
Cash Balances									
Operating Cash	9,879	7,835	6,211	9,119	10,556	70.0%	13,982	21,507	32,257
Construction Cash	4,198	6,430							
Total Cash Balance	14,077	14,265	6,211	9,119	10,556	70.0%	13,982	21,507	32,257