

**City of Minneapolis
2014 Budget
Financial Plan**

Sanitary Sewer Fund

Background

The Sanitary Sewer Fund accounts for the enterprise activity of wastewater collection and treatment. Approximately 81% of the operating expenses in the Sanitary Sewer Fund are comprised of contractual payments made to the Metropolitan Council Environmental Services (MCES) for sewage interceptor and treatment services. In addition to charges to the Sanitary Sewer Fund, the Stormwater Fund also provides payments to MCES. The Sanitary Sewer Fund portion is approximately 95% of the total paid by the City to MCES. The fund also accounts for maintenance and design work, capital programs and long-term debt services associated with the sanitary sewer system.

Historical Financial Performance

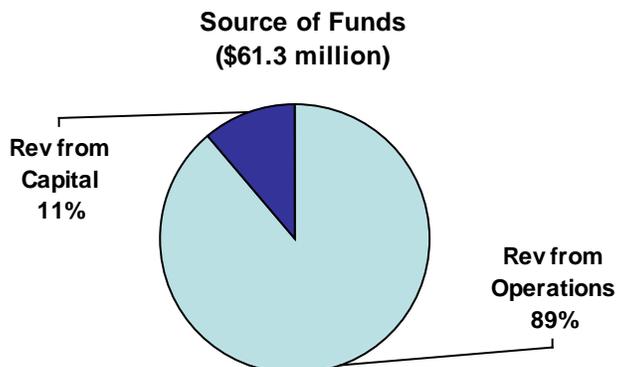
Total 2012 revenues were \$68.6 million compared to \$52.5 million in 2011, reflecting an increase of 16.1 million, or 31%, over 2011. Sewer Access Charges (SAC) revenues account for \$7 million of this increase which is off-set by a corresponding \$7 million increase in SAC expenses as the SAC charges are passed through to property owners and developers as a direct charge. Monthly service revenues and capital programs account for the additional \$9 million increase over 2011. Sanitary service revenue totaled \$50.8 million, compared to the 2011 total of \$44.9 million. This increase of \$5.9 million is due to fixed rate component incorporated in monthly utility billings and, to lesser extent, the increase in usage. Usage charges are based upon the amount of water used by the account holder.

The expenses for 2012 totaled \$64.1 million compared to \$51.1 million over 2011. This is an increase of \$13 million of which \$7 million is SAC related. Maintenance and design expenses increased by \$600,000. An additional \$1.8 million increase in expenses is associated with new (higher) rates from MCES. Other increases include transfers to MERF and the Water department which together account for \$1.5 million. Capital programs and debt services comprise the remaining \$2.1 million increase in 2012 expenses over 2011.

2014 Budget

Revenues

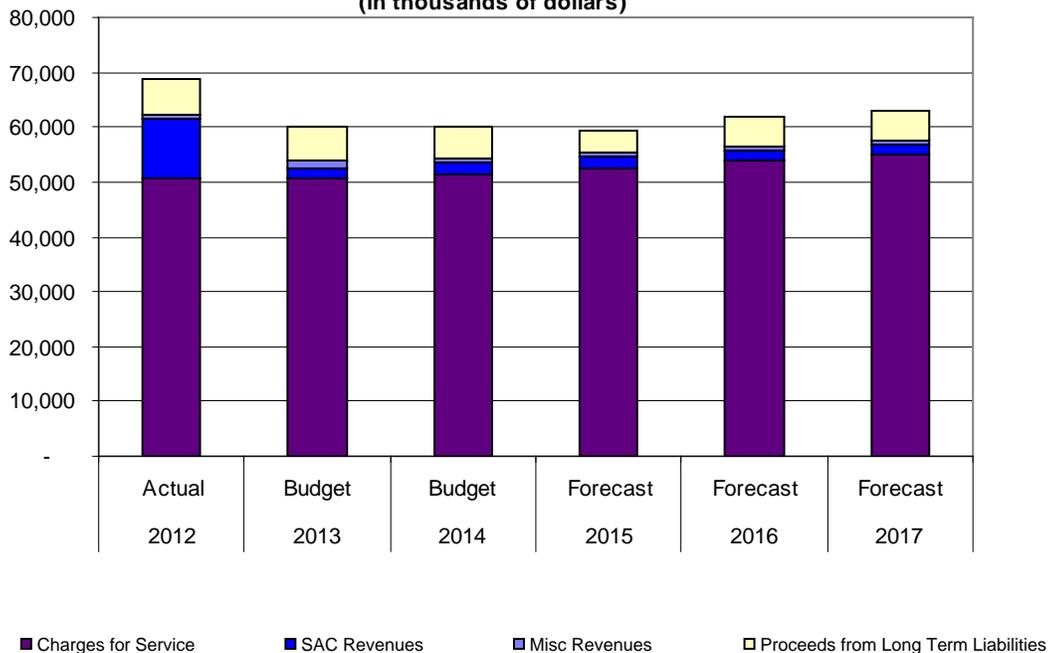
The total revenue budget for the Sanitary Sewer Fund for 2014 amounts to \$61.3 million compared to \$61.0 million compared to the 2013 projected revenues, an increase of \$300,000, or 0.5%. Monthly utility billings, Sewer Access Charge (SAC) permits, design and miscellaneous activities, along with proceeds from capital programs provide the revenue sources for Sanitary Sewer Fund. Revenues from operations account for 89% of the budget with remaining 11% received from bond proceeds and reimbursements from capital



programs. Sanitary sewer rates are comprised of variable and fixed rates. For 2014, the variable sewer rate is proposed at \$3.14 per one hundred cubic feet (one *unit*, or 748 gallons) same as the rate set for 2013, while fixed rates are \$3.40. Revenue estimates were increased to fund sanitary collection and treatment programs, retirements (MERF program), capital programs, debt payments and shared meter costs.

Year	Rate (cost per 100 per cubic feet)	% Increase	Average Monthly Bill	Total Planned Revenue from Utility Fee
2014	\$3.14	0.00%	\$18.84	\$51.4 million
2015	\$3.21	2.20%	\$19.26	\$52.6 million
2016	\$3.28	2.20%	\$19.68	\$53.8 million
2017	\$3.35	2.10%	\$20.10	\$54.9 million
2018	\$3.42	2.10%	\$20.52	\$56.1 million

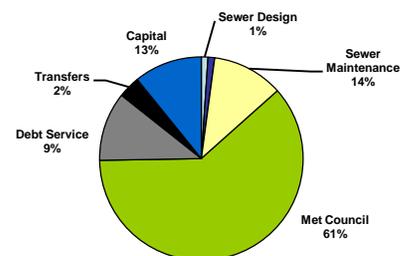
Sanitary Sewer Fund Revenues (in thousands of dollars)



Expenses

The total expense budget for 2014 amounts to \$62.7 million compared to \$59.9 million projected for 2013. This is an increase of \$2.8 million, or 5%, over 2013 projections. Maintenance and design activities, treatment facility charges from MCES, capital programs, and long-term debt are included in these expenses. An increase of only \$65,000 in Met Council department is due to decrease in MCES charges over 2013 by \$400,000. Met

Use of Funds (\$62.8 million)

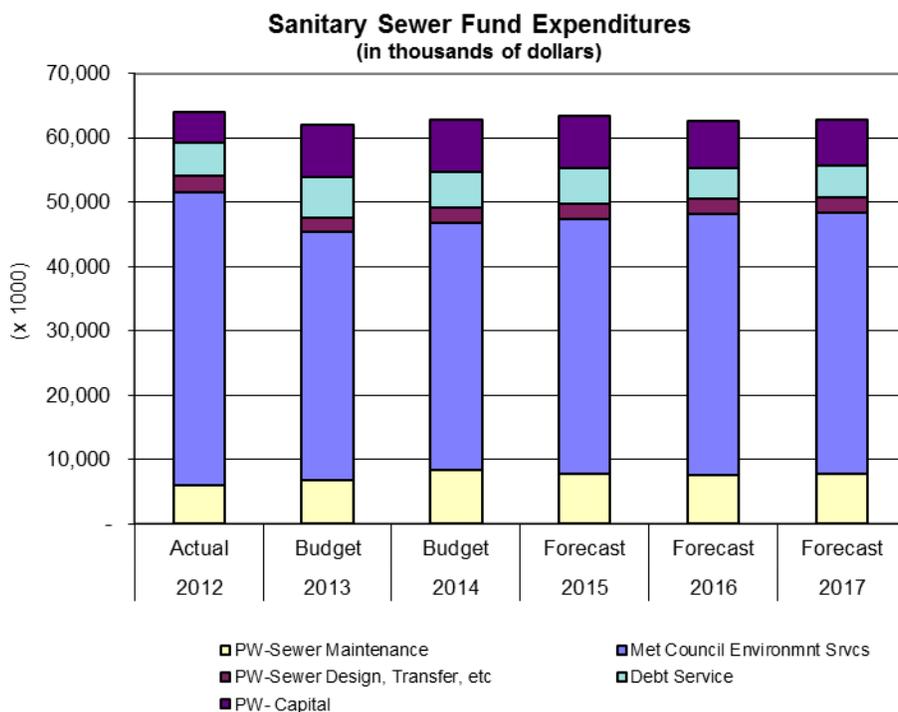


Council sets rate for treatment services, referred to as MCES charges, which is allocated regionally to all users of the system based upon their proportionate use. Design and maintenance budgets increased by \$1.8 million due to the realignment of personnel, planned implementation of televised sanitary system, and maintenance work and modifications relating to equipment gap and combo machines. An increase in debt services account for the remaining \$900,000 increase.

Capital expenses for 2014 total \$8 million, the same as 2013 for the continued sanitary tunnel, sewer rehab, and reimbursable work completed. The largest expense in the Sanitary Sewer Fund is the service charge paid to Met Council Environmental Services (MCES). The estimated payment to MCES for 2014 is \$34.5 million, a decrease of 1.2% over 2013. The Sanitary Sewer Fund bears 95%, or \$32.8 million, of this cost with the remaining \$1.7 million paid from the Storm Water Fund. Minneapolis is the largest customer in MCES system. (Please note, this payment is only a portion of the Met Council Environmental Services line as shown on the plan as the SAC payments are included in the plan total).

Debt Service & Transfers

Capital programs for 2014 include the inflow/infiltration and tunnel sewer rehab programs. An additional component of capital program includes repair work on existing infrastructures. For 2014, \$5.6 million is set aside as debt service payments for bonds sold in current and previous years to fund these projects. A transfer from this fund is made to the Water fund to cover shared meter expenses. For 2014, the transfer is estimated at \$1.2 million.



Mayor’s Recommended Budget

The division increased FTE’s by 5.50 as result of reorganizing employees between sanitary sewer, storm water, and capital departments to reflect actual staffing patterns based on current jobs and responsibilities. The increase is funded with existing resources.

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Sanitary Sewer Fund - 07100

	2011 Actual	2012 Actual	2013 Budget	2013 Projected	% Chg		2015 Forecast	2016 Forecast	2017 Forecast
					2014 Budget	2013 Projected			
Source of Funds:									
Charges for Service	44,900	50,779	50,585	50,585	51,384	1.6%	52,578	53,757	54,920
SAC Revenues	3,592	10,813	2,060	2,060	2,060		2,060	2,060	2,060
Other Misc Revenues	990	754	1,319	1,319	820	-37.8%	720	655	655
Charges for Service - Capital	-	-	1,000	1,000	1,000		1,000	1,000	1,000
Proceeds from Long Term Liabilities	3,020	6,252	6,000	6,000	6,000		4,000	5,250	5,250
Total	52,501	68,597	60,964	60,964	61,264	0.5%	60,358	62,722	63,885
Use of Funds:									
PW-Sewer Design	366	453	738	655	860	31.3%	879	899	920
PW-Sewer Maintenance	5,510	6,004	6,830	6,801	8,426	23.9%	7,858	7,645	7,806
MERF Debt Service -New Plan	-	-	292	292	292		292	292	292
Met Council Environment Svcs	36,731	45,463	38,656	38,360	38,425	0.2%	39,473	40,552	40,619
Debt Service	4,618	5,157	6,303	4,594	5,564	21.1%	4,125	2,506	1,549
Future Debt Service							1,579	2,306	3,259
Transfers	-								
To MERF Debt Service	577	1,112	-	-	-		-	-	-
To Water Fund		994	1,149	1,157	1,157	0.0%	1,157	1,157	1,157
PW- Capital	3,309	4,915	8,000	8,000	8,000		8,000	7,250	7,250
Total	51,111	64,098	61,970	59,859	62,724	4.8%	63,363	62,606	62,850
Change in Net Position	1,390	4,499	(1,006)	1,105	(1,460)		(3,005)	115	1,035
Net Position Balance	100,839	107,462	106,456	108,567	107,107		104,101	104,217	105,252
Cash Balances									
Operating Cash	15,430	19,181	18,177	20,286	18,826		15,820	15,936	16,971
Construction Cash	5,338	837							