

**City of Minneapolis
2014 Budget
Financial Plan**

Water Fund

Background

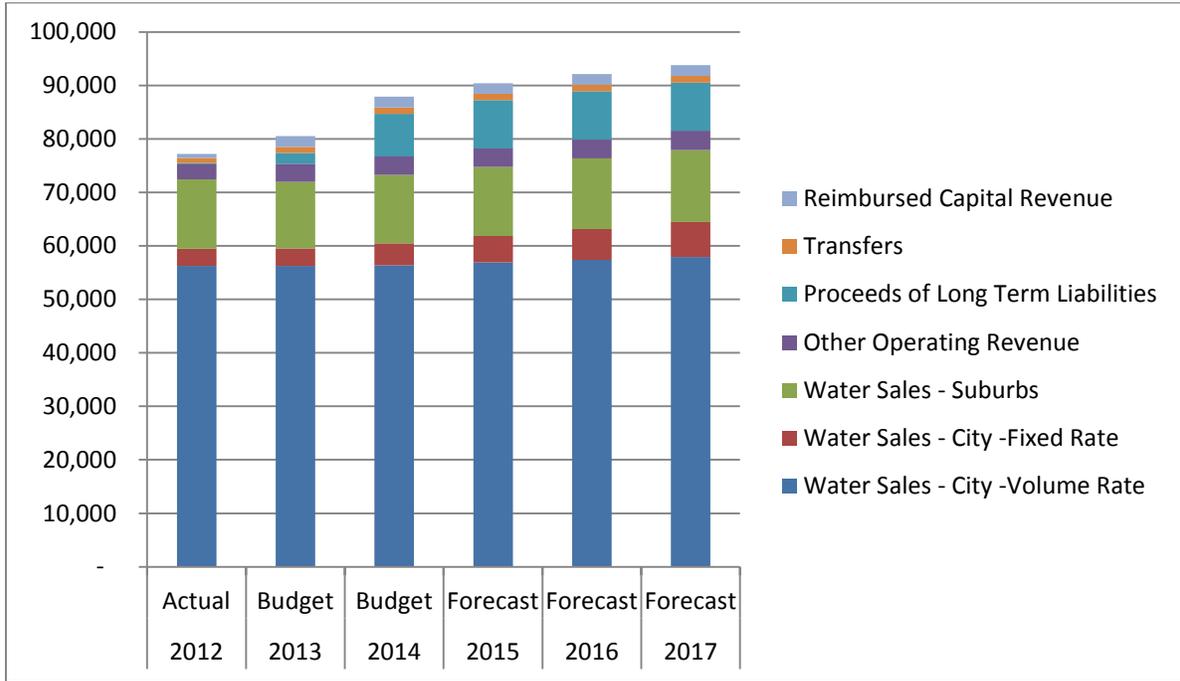
The Water Fund accounts for the operation, maintenance, and capital program of the water treatment and distribution system for the City of Minneapolis and several suburban customers. The City currently sells water to seven suburbs including Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope,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

Historical Financial Performance

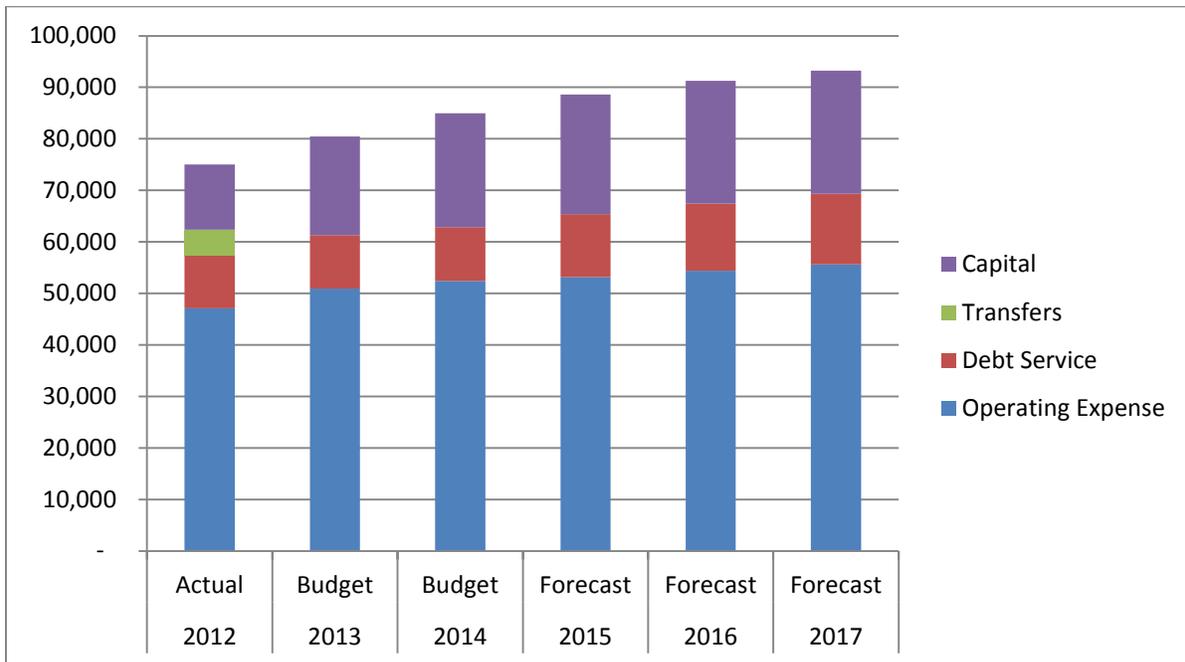
The net position of the Water Fund has increased over the past several years due primarily to scheduled rate increases and major capital improvements. The following table shows the revenue earned from Minneapolis and suburban sales for years 2011 – 2012, the projected 2013 revenue, and the 2014 budgeted revenue:

Source of Revenue	2011	2012	2013 Projected	2014 Budget
Bloomington	\$3,628,081	\$3,649,480	\$3,460,369	\$3,668,680
Columbia Heights	1,266,464	1,273,934	1,207,920	1,262,916
Hilltop	76,363	76,813	72,833	70,963
Joint Water Commission	6,809,363	6,849,525	6,494,593	6,717,857
Edina	245,088	246,533	233,758	233,848
MAC	875,492	880,656	835,022	824,607
Total Suburban	\$12,900,850	\$12,976,941	\$12,304,495	\$12,778,871
Volume Rate	\$53,338,098	\$56,249,333	\$55,833,259	\$56,365,647
Fixed Rate	N/A	3,216,611	3,219,319.00	4,108,365
Total Minneapolis	\$53,338,098	\$59,465,944	\$59,052,578	\$60,474,012
Total Revenue	\$66,238,948	\$72,442,885	\$71,357,073	\$73,252,883

Water Fund Revenues (In thousands of dollars)



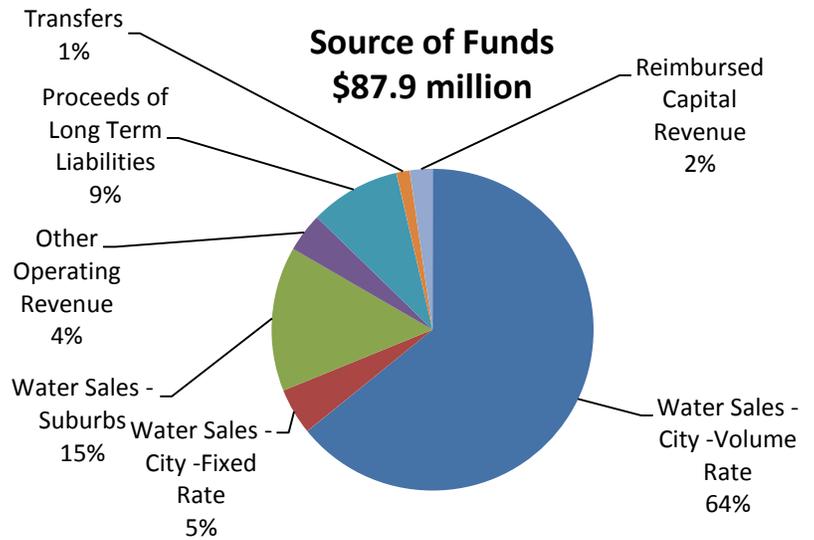
Water Fund Expenses (In thousands of dollars)



2014 Budget

Revenues

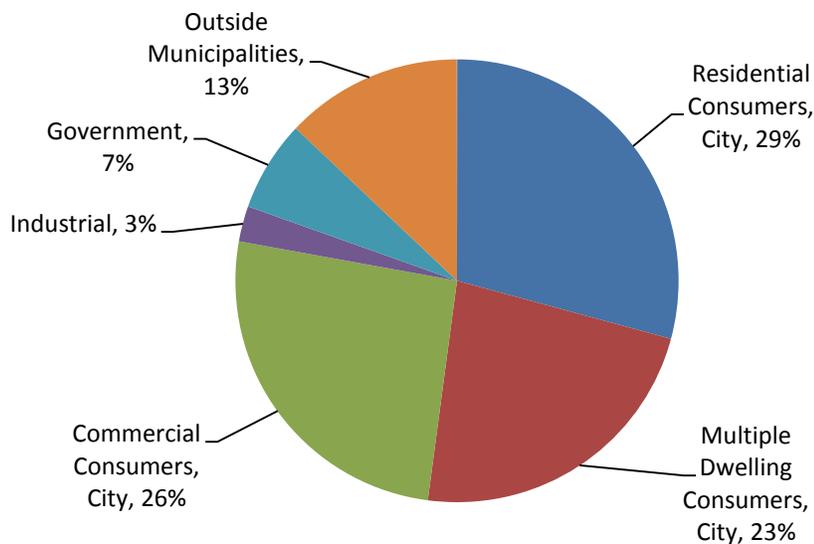
The 2014 revenue budget of \$87.9 million is 9% higher than the 2013 projected revenue of \$80.3 million. The majority of this increase, \$6 million or 7%, is related to bond proceeds that are planned to finance the maintenance facility for the distribution division and for rehabilitation of the Fridley filter plant. Rate increases are projected for years 2014 through 2017 to pay debt service for the capital expenditures, as well as to cover anticipated growth in operating expenses and infrastructure repairs.



Water Utility Rates

The budget reflects revenues that include a fixed rate charge based on meter size as well as a variable rate charge of \$3.32/unit. The fixed rate charge is intended 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 2012 Consumption)



Projected Revenue Earned from City Water Sales

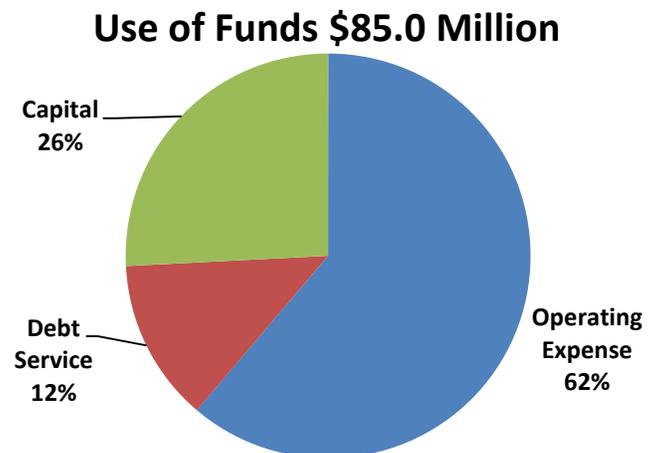
Year	Fixed Rate (5/8" Meter)	Rate (cost per 100 cubic feet)	Total Cost Per Month for Average Consumer ¹	Total % Increase	Total Monthly Cost Increase per Household	Total Planned Revenue from Utility Fee ²
2013	\$2.00	\$3.29	\$25.03	2.58%	\$0.63	\$59.5 Million
2014	\$2.50	\$3.32	\$25.74	2.84%	\$0.71	\$60.5 Million
2015	\$3.00	\$3.37	\$26.59	3.30%	\$0.85	\$61.8 Million
2016	\$3.50	\$3.42	\$27.44	3.20%	\$0.85	\$63.2 Million
2017	\$4.00	\$3.47	\$28.29	3.10%	\$0.85	\$64.5 Million
2018	\$4.50	\$3.52	\$29.14	3.00%	\$0.85	\$65.8 Million

Projected Revenue Earned from Suburban Water Sales

Year	% Increase	Total Revenue Earned from Utility Fee - Suburbs
2013	2.81%	\$12.3 Million
2014	2.84%	\$12.8 Million
2015	3.30%	\$12.9 Million
2016	3.20%	\$13.2 Million
2017	3.10%	\$13.4 Million
2018	3.00%	\$13.7 Million

Expenses

The 2014 expense budget is \$85.0 million, a 5.6% increase over the 2013 projected expense of \$80.5 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 2014 capital budget of \$22.1 million represents a 15.4% increase compared to the 2013 capital budget.



¹ Rate is based on cost per 100 cubic feet and assumes 7 units of water are consumed per month for a 5/8" meter. The fixed rate increases as the meter size increases.

² Increase in total planned revenue is not equal to total % increase due to declining projected volumes.

Debt Service

The debt service total of \$10.5 million is primarily for bonds and notes sold to finance the Water Fund's Capital Construction program.

Mayor's Recommended Budget

The Mayor recommends no changes to the department's base operations.

Council Adopted Budget

The Council adopted the Mayor's recommendation as presented.

City of Minneapolis

2014 Budget

Financial Plan (In thousands of dollars)

Water Fund - 7400

	2011 Actual	2012 Actual	2013 Budget	2013 Projected	2014 Budget	% Chg from 2013 Budget	2015 Forecast	2016 Forecast	2017 Forecast
Source of Funds:									
Water Sales - City									
Volume Rate	53,338	56,249	56,243	55,833	56,366	0.2%	56,893	57,410	57,916
Fixed Rate		3,217	3,258	3,219	4,108	26.1%	4,930	5,752	6,573
Water Sales - Suburbs	12,901	12,977	12,480	12,304	12,779	2.4%	12,902	13,175	13,444
Other Operating Revenue	3,452	2,779	3,358	3,731	3,446	2.6%	3,498	3,550	3,603
Proceeds of Long Term Liabilities	9,732	215	2,000	2,000	8,000	300.0%	9,000	9,000	9,000
Transfers									
From Sewer Fund for Meter Shop		994	1,149	1,149	1,157	0.7%	1,174	1,192	1,210
From General Fund			22	22	27	22.7%	27	27	27
Reimbursed Capital Revenue	247	759	2,000	2,000	2,000		2,000	2,000	2,000
Total	79,670	77,190	80,510	80,258	87,883	9.5%	90,424	92,106	93,773
Use of Funds:									
Operating Expense	45,017	47,085	50,901	50,977	52,424	3.0%	53,177	54,371	55,598
Debt Service	10,038	10,273	10,383	10,383	10,454	0.7%	10,691	10,906	10,928
Future Debt Service							1,532	2,165	2,798
Transfers									
To Debt Service for MERF Liability	2,042	4,992							
Capital	15,546	12,683	19,150	19,150	22,100	15.4%	23,200	23,800	23,900
Total	72,643	75,033	80,434	80,510	84,978	5.6%	88,600	91,242	93,224
Water Works Fund Margin	7,027	2,157	76	-252	2,905		1,824	864	549
Water Net Position	185,959	197,186	197,262	196,934	199,839	1.3%	201,663	202,527	203,076
Cash Balance	15,158	19,067	19,142	18,815	22,047	15.2%	23,201	24,064	24,614