



MAYOR AND COUNCIL COMMUNICATION

DATE: 10/20/15
REGULAR
ITEM: #15

AGENDA ITEM: WAC/SAC “Proforma” Projection Model

SUBMITTED BY: Clark Schroeder

THROUGH: Clark Schroeder

REVIEWED BY: Clark Schroeder

SUGGESTED ORDER OF BUSINESS:

- Introduction of Item..... Clark Schroeder
- Report/Presentation Clark Schroeder
- Questions from Council to Staff..... Mayor Facilitates
- Public Input, if Appropriate..... Mayor Facilitates
- Call for Motion..... Mayor & City Council
- Discussion Mayor & City Council
- Action on Motion Mayor Facilitates

PUBLIC POLICY STATEMENT: NONE

BACKGROUND AND STAFF REPORT:

At recent council meetings, there have been discussions surrounding the “proforma” projection model which is used to forecast future activity in the enterprise funds (water, sewer and storm water). There were questions related to the spread sheets presented at the meeting. In reviewing the spread sheets, when they were printed, one of the columns did not print (2014 actual activity). This resulted in the numbers printed not adding up to the total listed on the spread sheet. Another question was asked on why certain numbers were not exactly divisible by the set WAC fees per rec of \$4,000. As a result of special prepaid water agreements with Lake Elmo Avenue land owners, some of which were not directly driven by a set number of Rec units, cause that math to not be exact. Changing any of the assumptions (# and timing of build outs; residential or commercial, etc) can impact the projected revenue by millions of dollars; up or down.

The Pro-forma projection models are not new. They are long term projections which are done when there is any significant development activity planned. Models have been found dating back as far as 2004 and were updated in 2007, 2009, 2010 and 2011 by the Finance staff at that time.

In 2012 it was decided to hire Northland Financial Services to do an independent model which they did do and present to the City Council on 10/2/12 (see attachment). All of the statistical information was compiled and provided to Northland services by the City Finance Department.

In 2013, Northland services was again hired to update the model to determine if the fees being charged in the Utility funds were reasonable and consistent with other Cities. Their proposal was presented to the City Council on 2/28/13 (see attachment), suggesting the current utility fee structure which is in place today. (Changed the development fee structure from one \$3,900 fee due at build out to a \$4,000 fee of

which a \$3,000 water access fee is due by the developer at plat with the remaining \$1,000 water connection fee being due at the time of the building permit.)

In 2013, the Finance Committee decided that a new Proforma model should be developed which would look at each line of the proposed water loop (I94 vs Lake Elmo Avenue vs Old Village) to determine whether each line would fund itself. This model was built focusing on those lines and provided information specific to those lines. This model was presented to the City Council as a basis for deciding whether to approve the Lake Elmo Avenue water and sewer lines. At this meeting, the City Council decided that the independent lines were not relevant as it was all part of the larger water “loop”. The new model then became obsolete as it was set up by water line as a decision making tool for expansion and once the expansion was under way it needed to be revamped and streamlined.

In 2015, the Finance Director built a new condensed version of the proforma projection model, utilizing key linked worksheets (CIP, Debt service etc) and adding in new components which were previously not incorporated into the model (special assessment collections, new prepaid water contracts with parties in the I94/Lake Elmo Avenue area etc). This model was first shared with the City Council on 2/5/15. It needs to be noted that the special assessments receivable changed significantly when the development activity increased due to the large 100% infrastructure assessment projects (Section 34 etc). This new model is the version being discussed today.

Accounting Information/Clarification

The enterprise funds are classified as “Business-Type” funds which are intended to be self-sufficient and not impacted by, nor funded by, the General Levy Funds (taxpayers). All activity in each of the enterprise funds (water, sewer and storm water) is audited each year by the City external auditors and is reported separately within the annual Comprehensive Annual Financial Report (reports available on the City website). However, if for some reason the Enterprise funds cannot cover their expenses, the bonds are backed by the City.

The Enterprise activity is comprised of two distinct components; Infrastructure and Operations. Infrastructure fees (Water and Sewer Access fees) are charged to be used for the expense of building and maintaining the infrastructure. Operational fees (Water and Sewer Connection fees) are charged to be used for the operating expenses to provide the services to the users (staffing, water meters, etc).

The challenge is in determining the level of infrastructure fees needed to be retained in reserve to cover the long term maintenance and replacement of the water and sewer infrastructure.

The operating fund balance needs to be sufficient to cover the operating costs while not charging an unreasonable fee to the users. Now that the water system is being expanded and new users are coming on board, there should be some relief coming to the water rates (tiers) which were initially developed in response to the state water conservation initiative. Any decisions being made need to factor in this on-going water conservation initiative and penalties if water usage exceeds the mandated per capita water consumption levels.

RECOMMENDATIONS:

Move to a proforma software package to simplify the projections.


Obtain a cost estimate to have an Engineer develop a system analysis of our infrastructure, looking at long term funding needs.

ATTACHMENTS:

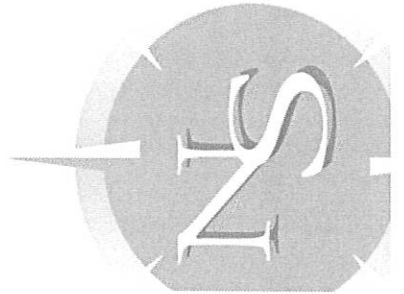
1. Northland Utility Infrastructure Plan presented to the City Council on 10/2/12
2. Northland Financial Management Plan for Enterprise Funds presented to the City Council on 2/28/13
3. 9/4/15 Proforma with all columns shown

City of Lake Elmo Utility Report Conclusions and Recommendations

October 2, 2012

NORTHLAND  SECURITIES

Member FINRA and SIPC



The information presented at this meeting is intended solely for financial planning purposes. Northland Securities is not providing advice on the timing, terms, structure or similar matters related to a specific bond issue.

Introductions

- Tammy Omdal, Northland Securities
- Paul Donna, Northland Securities



Presentation Overview

- Study overview and approach
- Conclusions
- Recommendations
- Capital Improvement Plans
- Debt Service
- Utility Rates
- Projected Growth
- Financial Plans



Study Overview

- Guide for financial management of utility funds
- Key factors
 - Projections on growth
 - Timing of capital projects / debt service
 - Future levels for fees and charges
 - Increase in operational spending



Conclusions

- Demand to expand the capacity of the system
- Higher utility fees for all customers if growth in customers doesn't expand at projected levels
- Combination of projected growth in customers and increase to utility fees is projected to provide sufficient cash to the utility funds



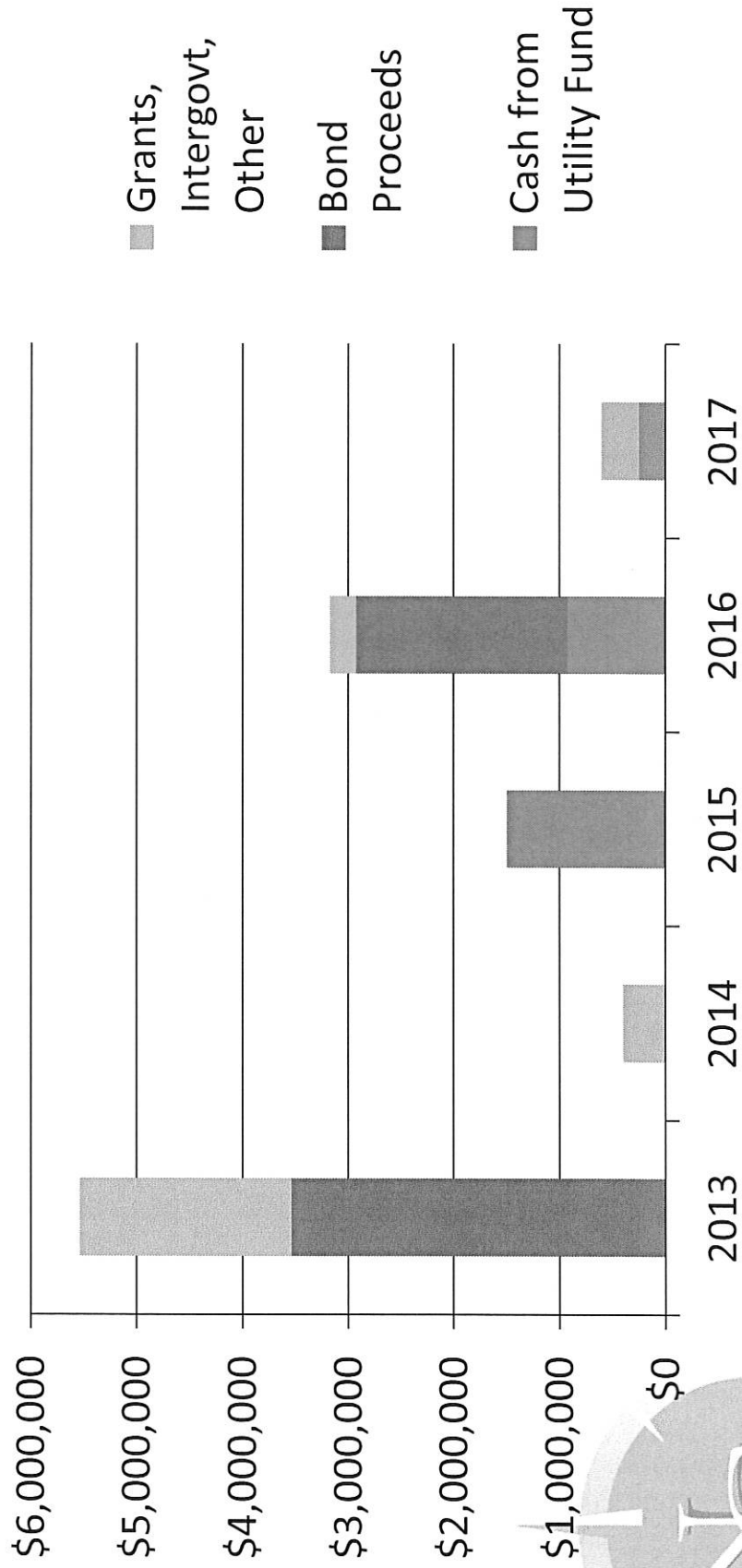
Recommendations

- Adopt new charge for the cost of connecting to sewer and increase the amount for connection to water
 - Charges should be based on cost for infrastructure
- Uniform availability charge, collected when service becomes available
 - Alternative to special assessment
- Structure debt service around anticipated timing of development
- Adopt a formal fund balance policy for the utility funds



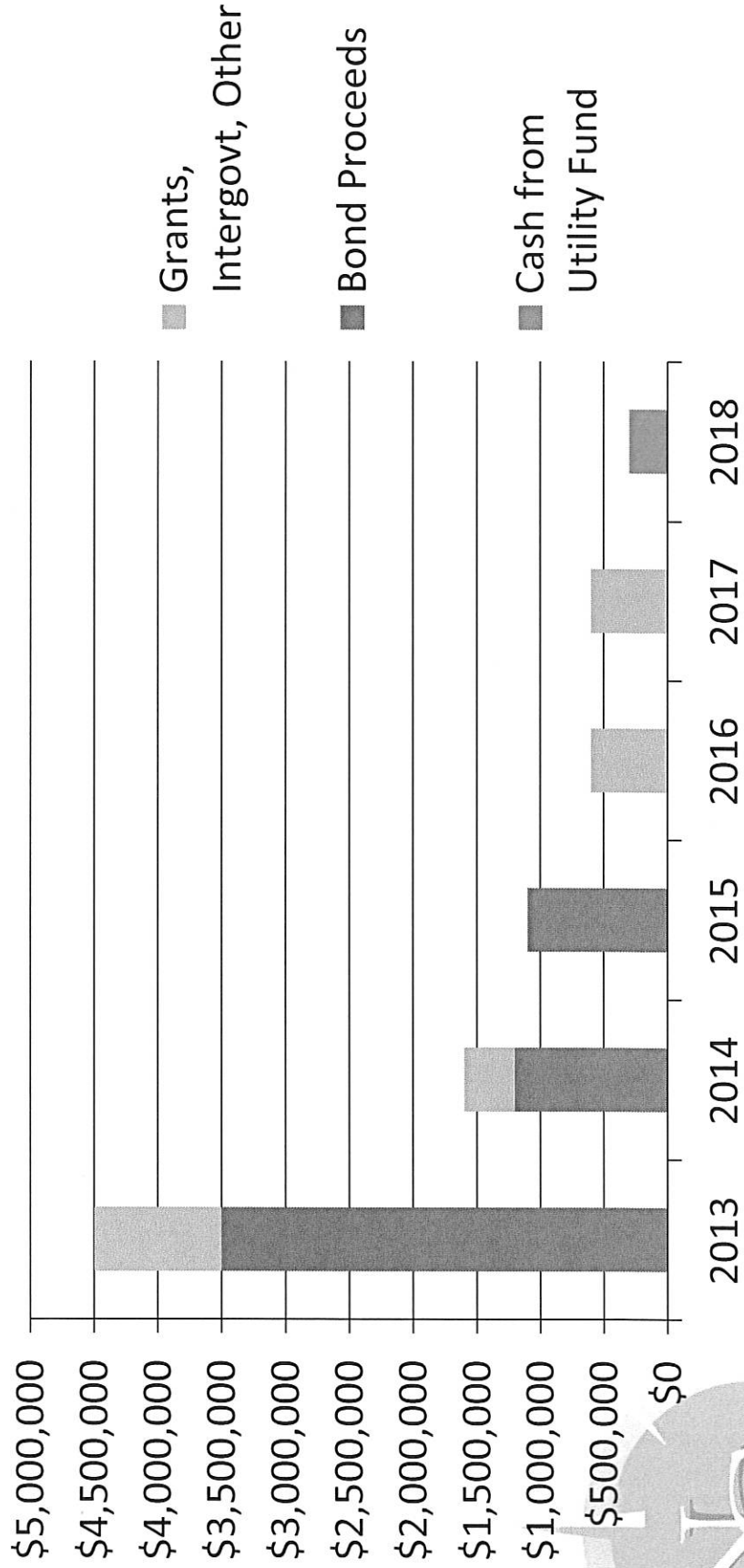
Capital Improvement Plans

Water Projects
Total Planned Spending by Year and Funding Source



Capital Improvement Plans

Sewer Projects
Total Planned Spending by Year and Funding Source



Debt Service

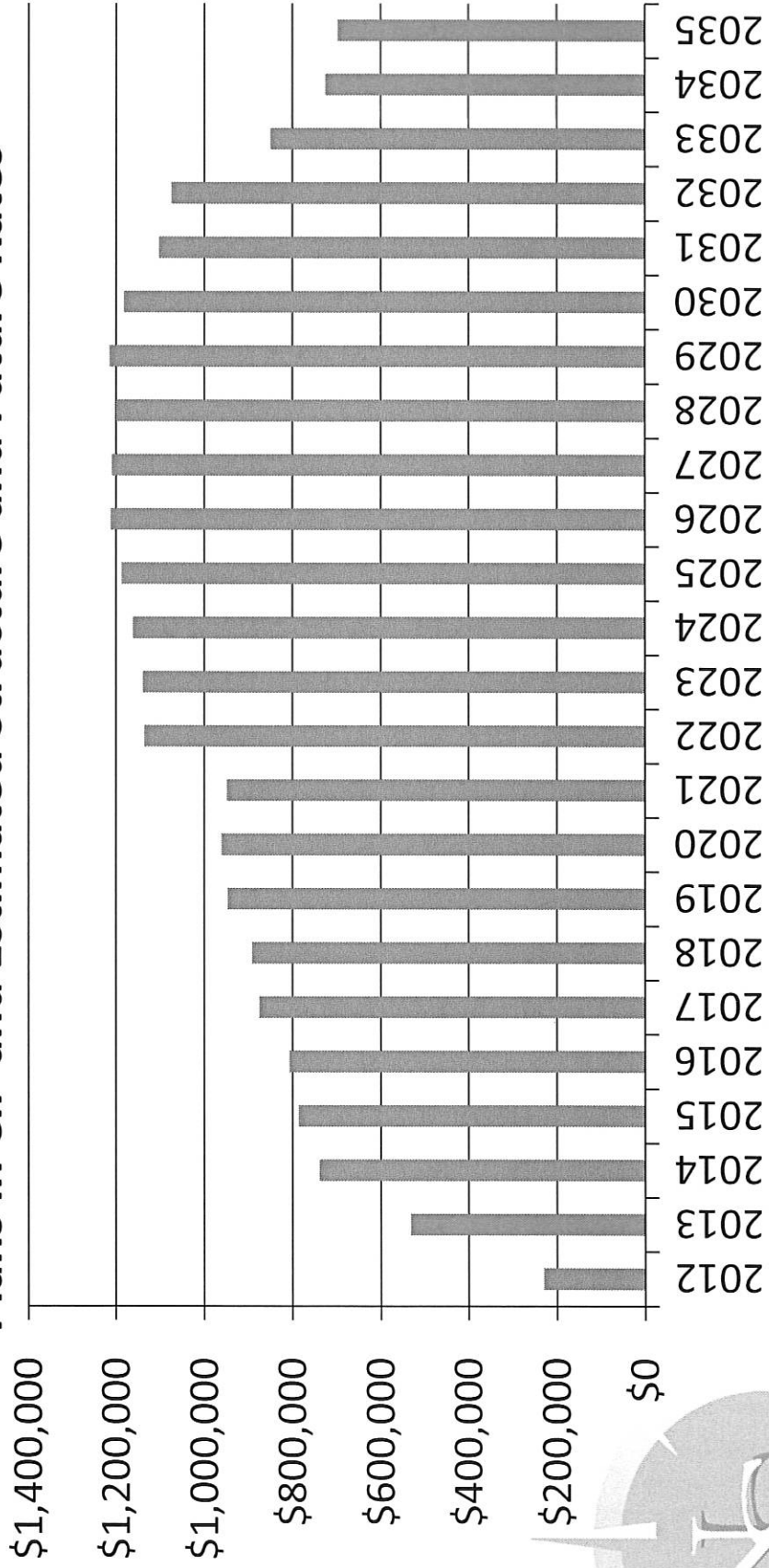
- CIP anticipates the issuance of bonds to finance water and sanitary sewer projects over the next five years
 - \$5.54 million in G.O. water revenue bonds
 - \$5.80 million in G.O. sewer revenue bonds
- Revenue from the utility funds is projected to support annual debt service (no property tax

levy)



Debt Service

Annual Estimated Debt Service Based on Future Bonding Plans in CIP and Estimated Structure and Future Rates



Utility Rates

- Utility fees and charges will need to cover both operating and non-operating (capital and debt service)
- Fees based on service and volume activity are shown to increase by 3% per year
 - Actual fee increases will depend on operating performance and amount of actual revenue collected from SAC/WAC (development)



Utility Rates

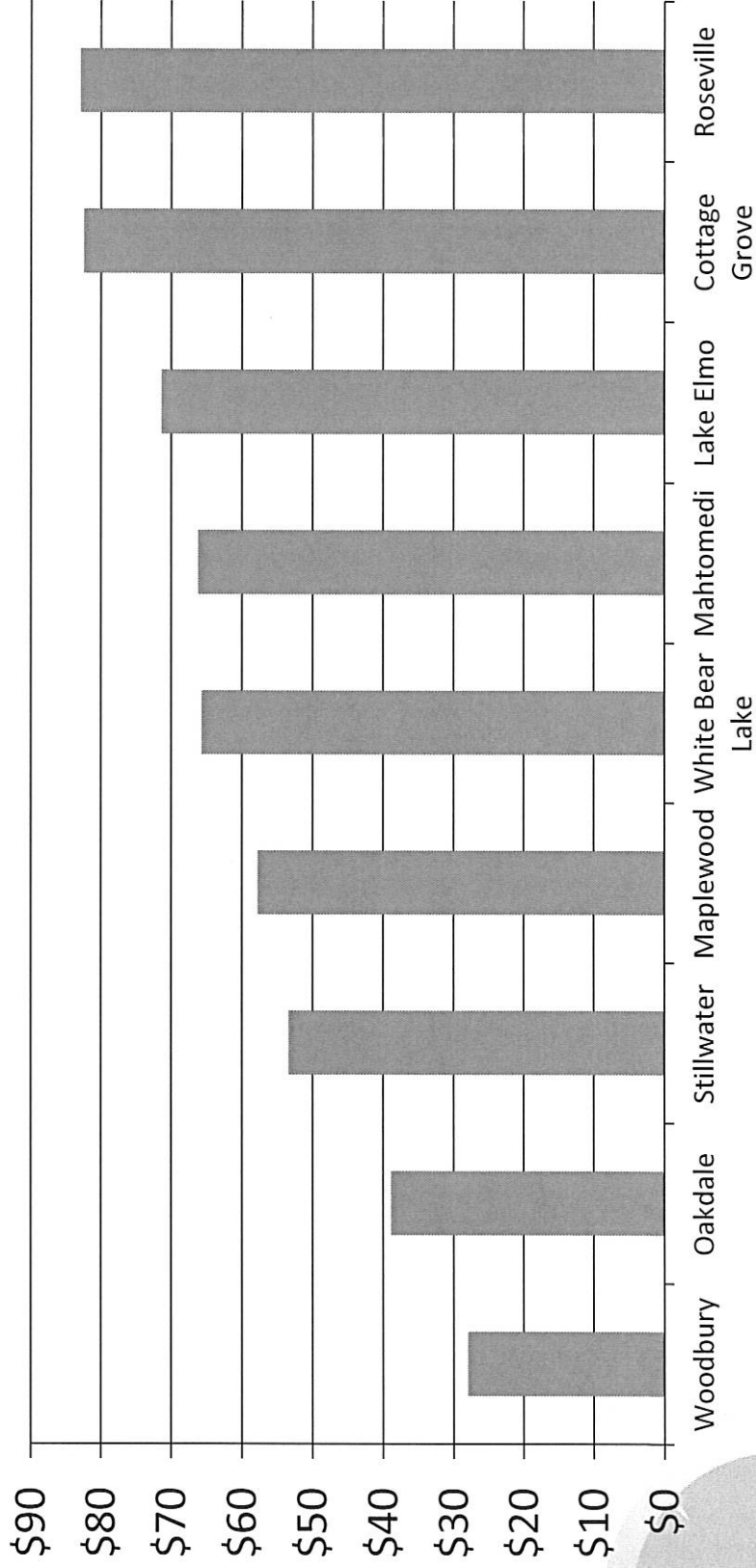
- Future development is shown to provide significant revenue to the utility funds through collection of connection and availability charges
- Growth projections drive the estimates for revenue from availability and connection charges
- Utility rates for existing customers may be impacted (positively or negatively) if projected growth varies from projections



Utility Rates

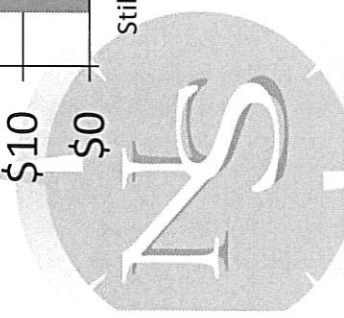
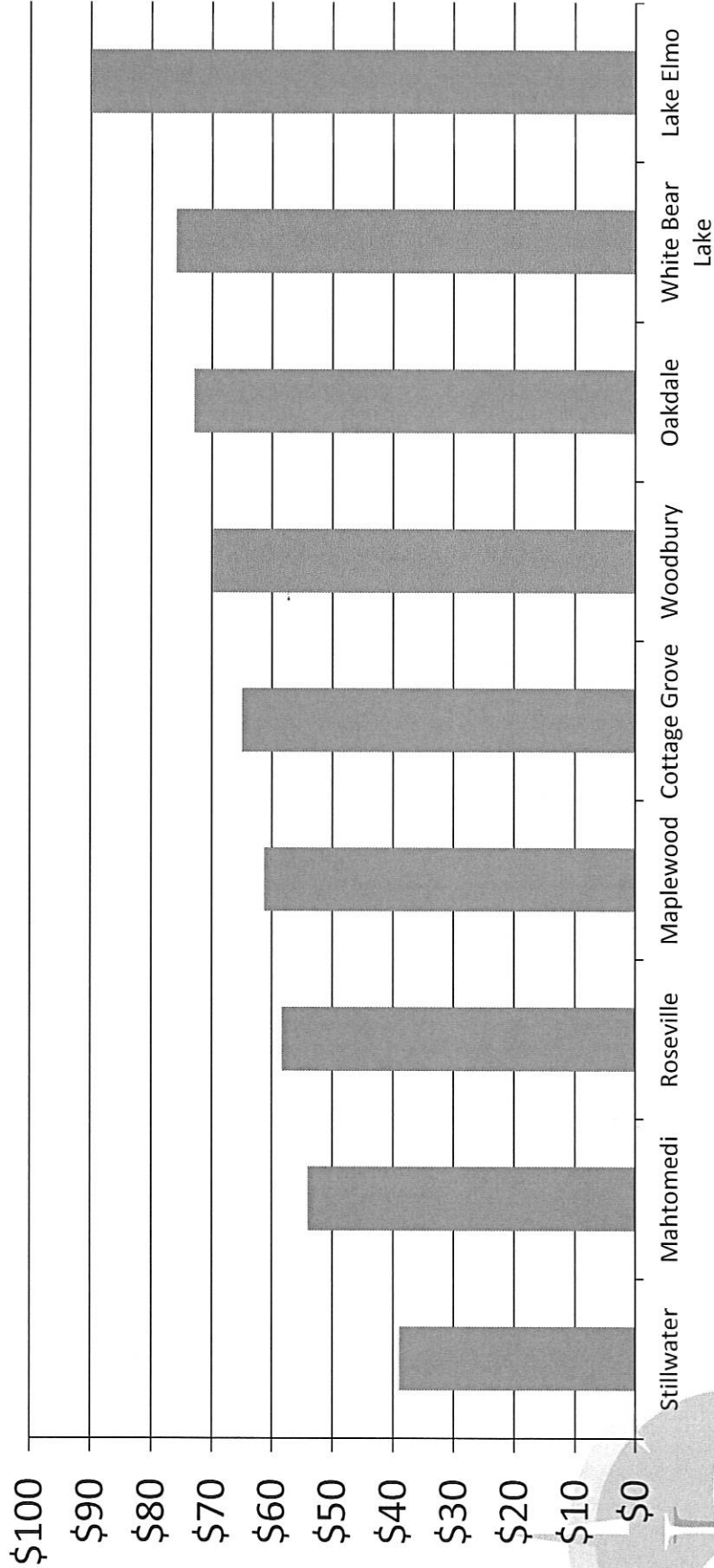
Comparison with Other Communities

Estimated Total Water Bill for Example Single Family Residential Property with Total 20,000 Gal of Water Usage in 3 Month Period



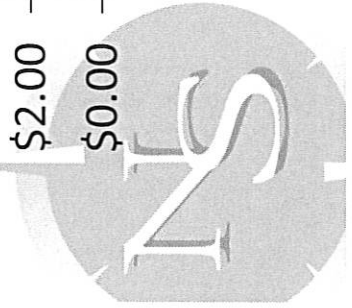
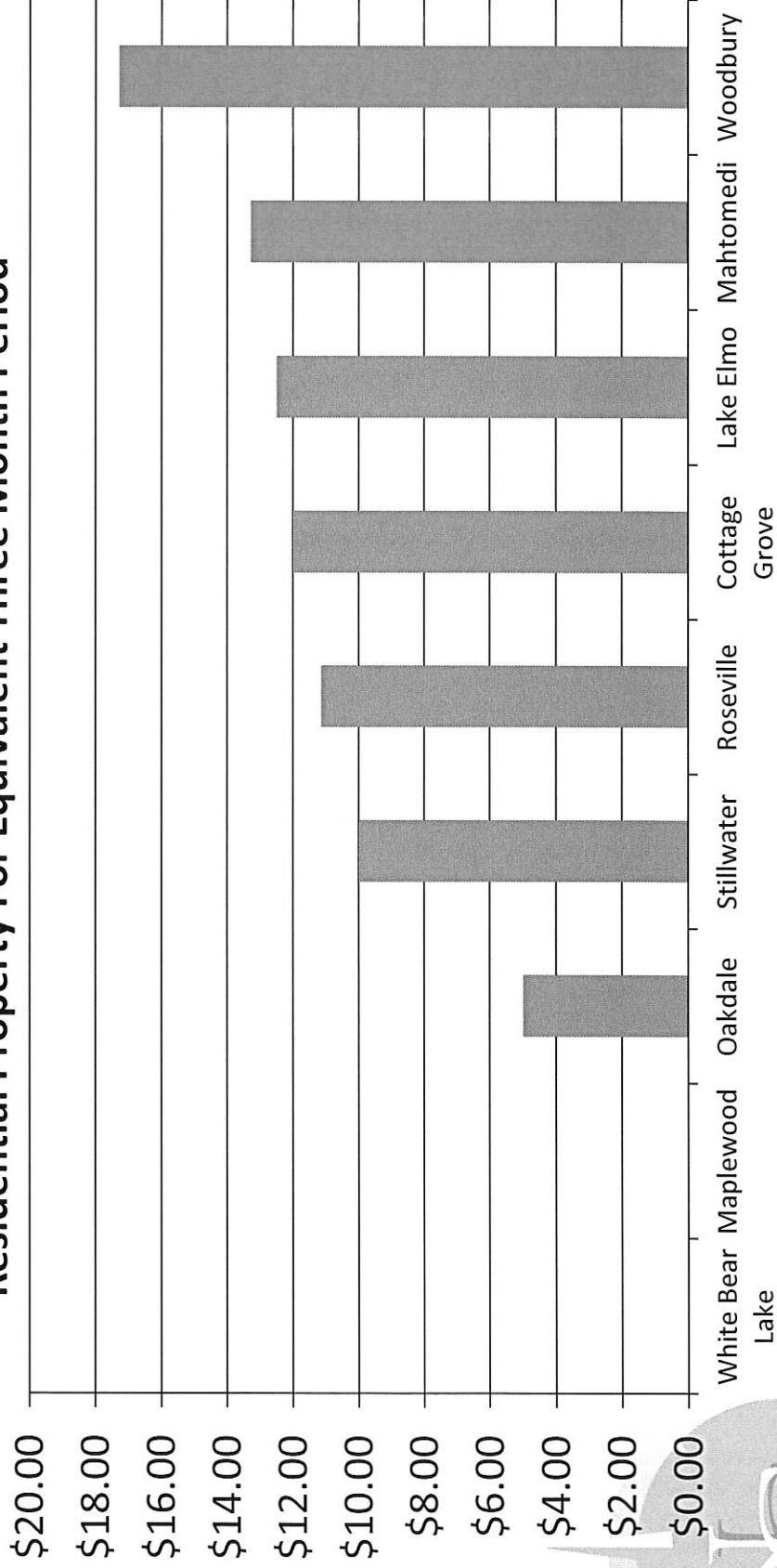
Utility Rates Comparison with Other Communities

Estimated Total Sewer Bill for Example Single Family Residential Property with Total 20,000 Gal of Water Usage in 3 Month Period



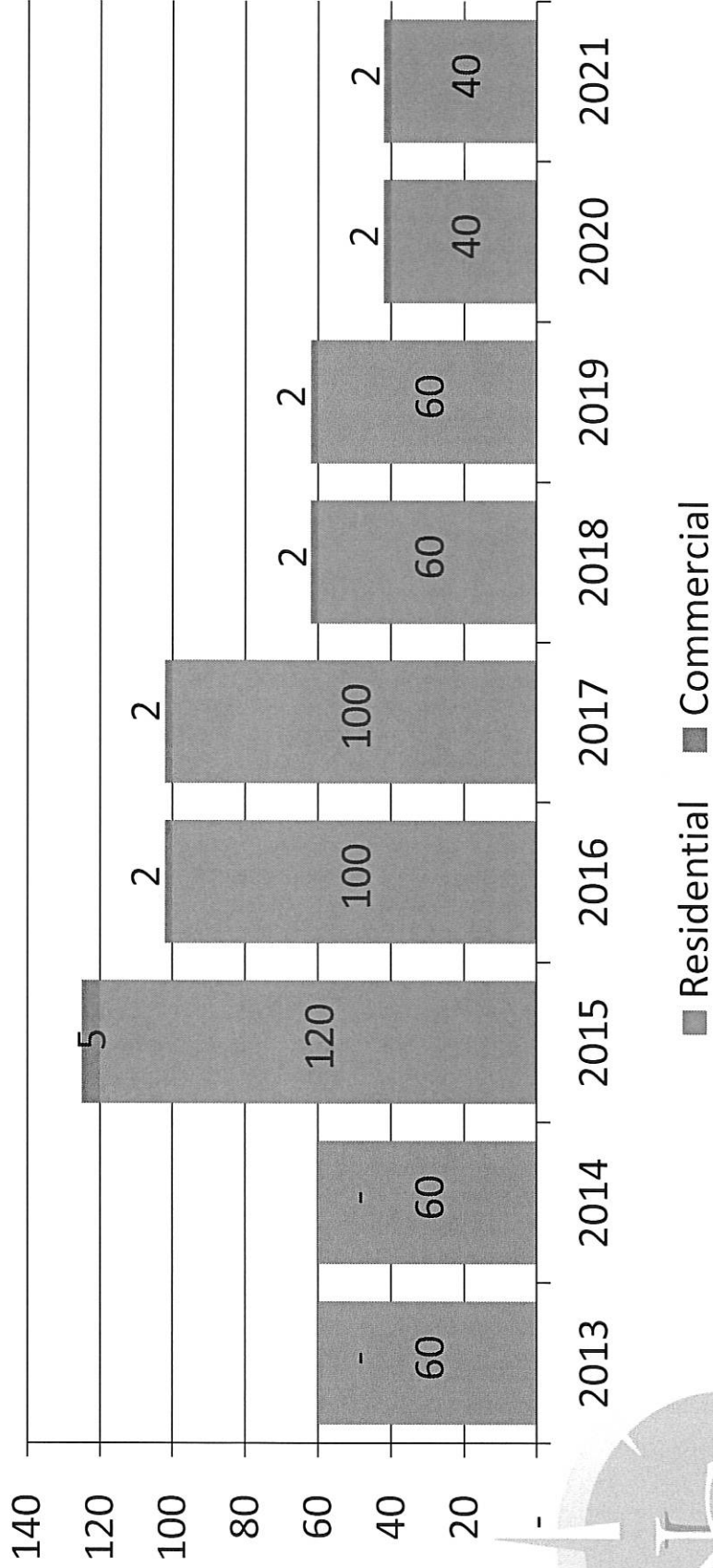
Utility Rates Comparison with Other Communities

Estimated Total Storm Water Bill for Example Single Family Residential Property For Equivalent Three Month Period



Projected Growth

Projected New Residential Equivalent Units Added Per Year (Prepared by the City of Lake Elmo)



Projected Growth

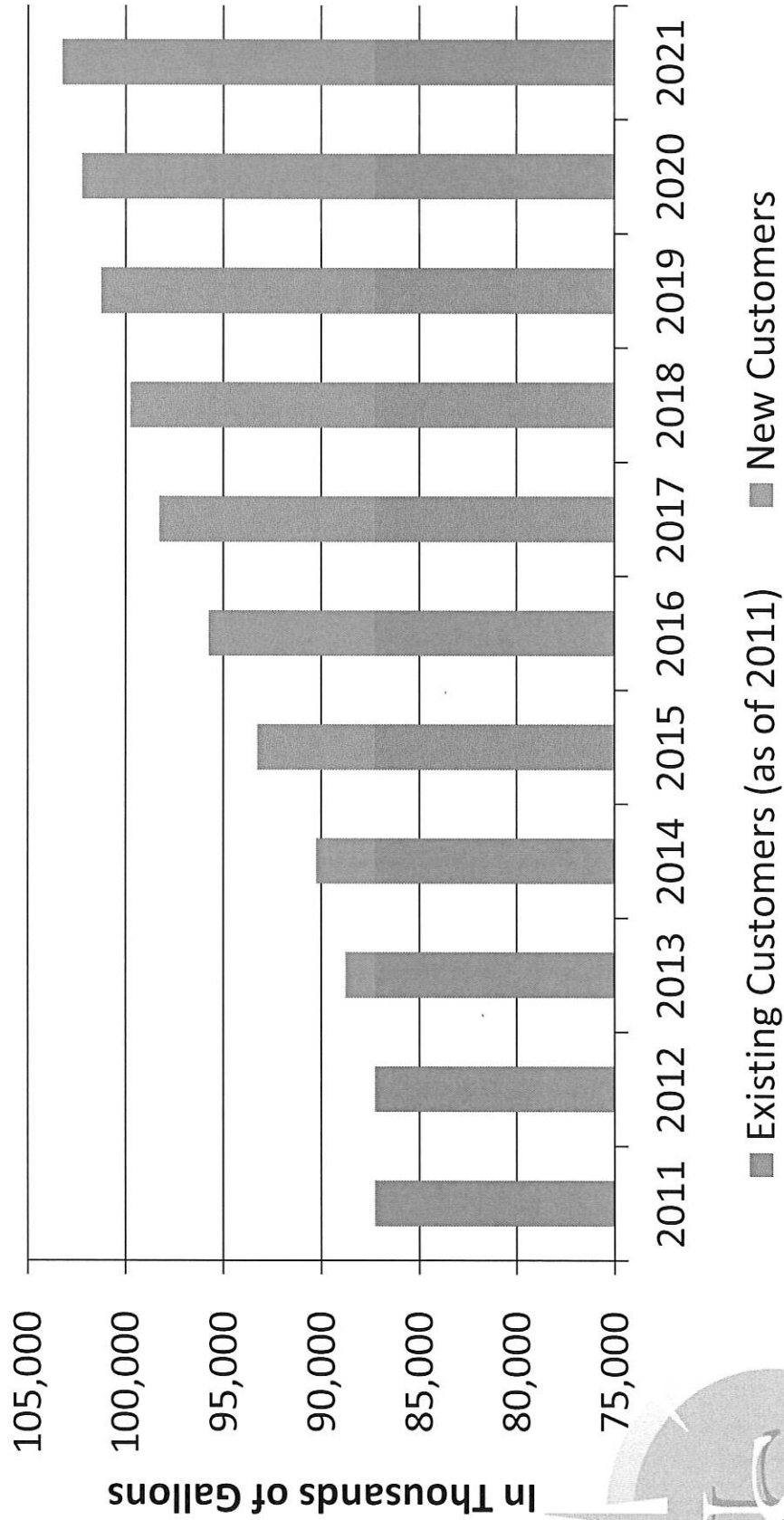
Revenue from Development

- City may impose “just and equitable” charges for the use and availability of the utility systems and for connection to the systems (MN Statute 444.075, Subd. 3)
- Varies across cities in the amount and how cities collect revenue to pay for infrastructure
 - Basis of consumption, connection charges, availability charges, special assessments, other sources



Projected Growth

Estimated Gallons of Water Sold



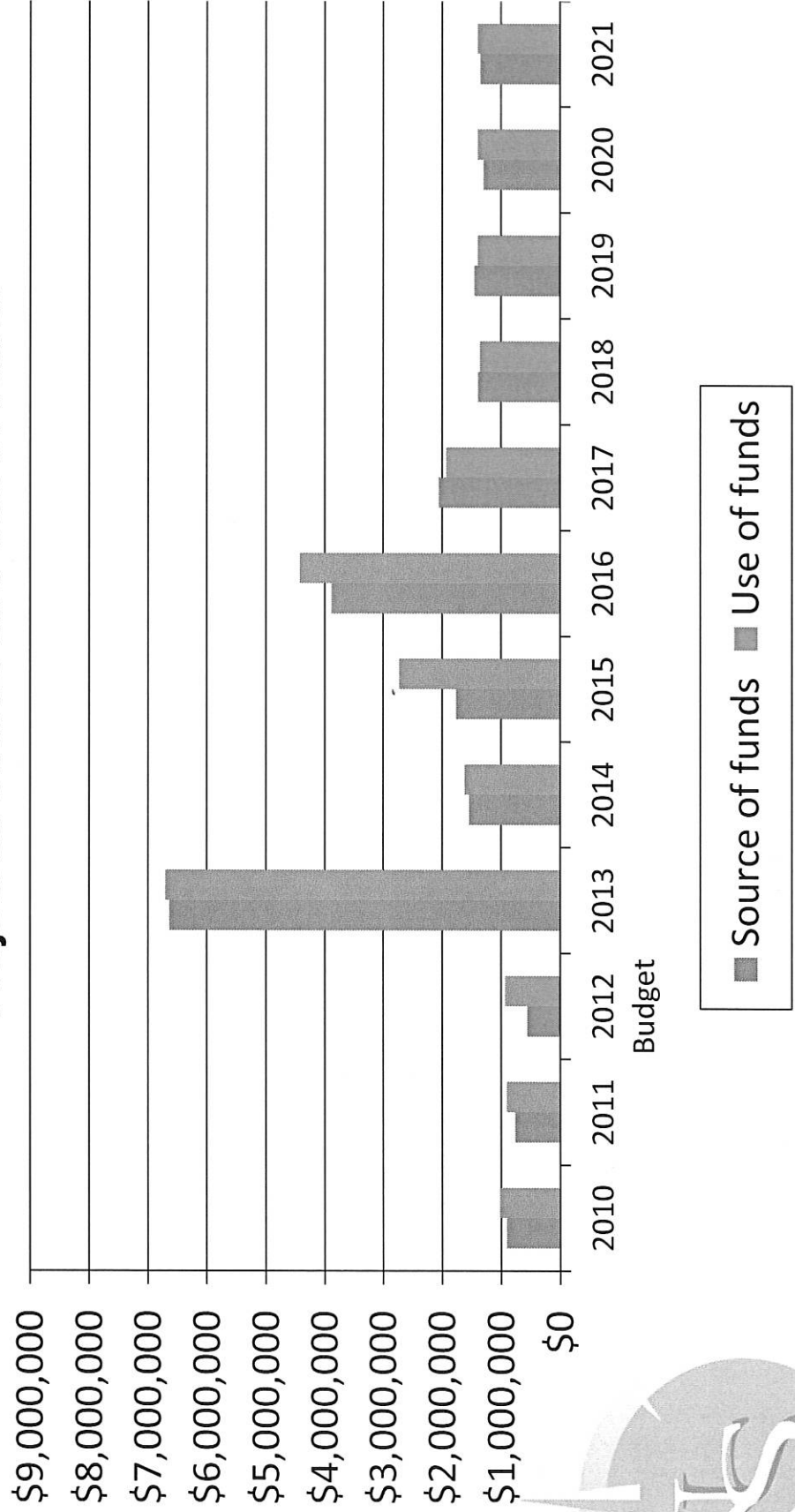
Financial Plans

- Multi-year financial plans prepared for water, sanitary sewer, and storm water funds
- Goal of having minimum cash balance equivalent to 50% of operating expenditure
- Projections show cash balances in excess of minimum based on assumptions for rates and projected growth, operating expenses, capital spending and debt service



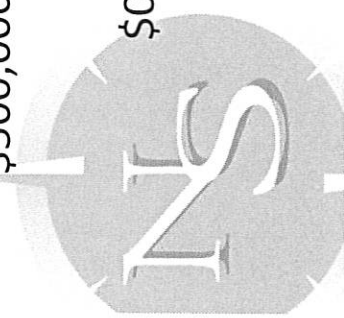
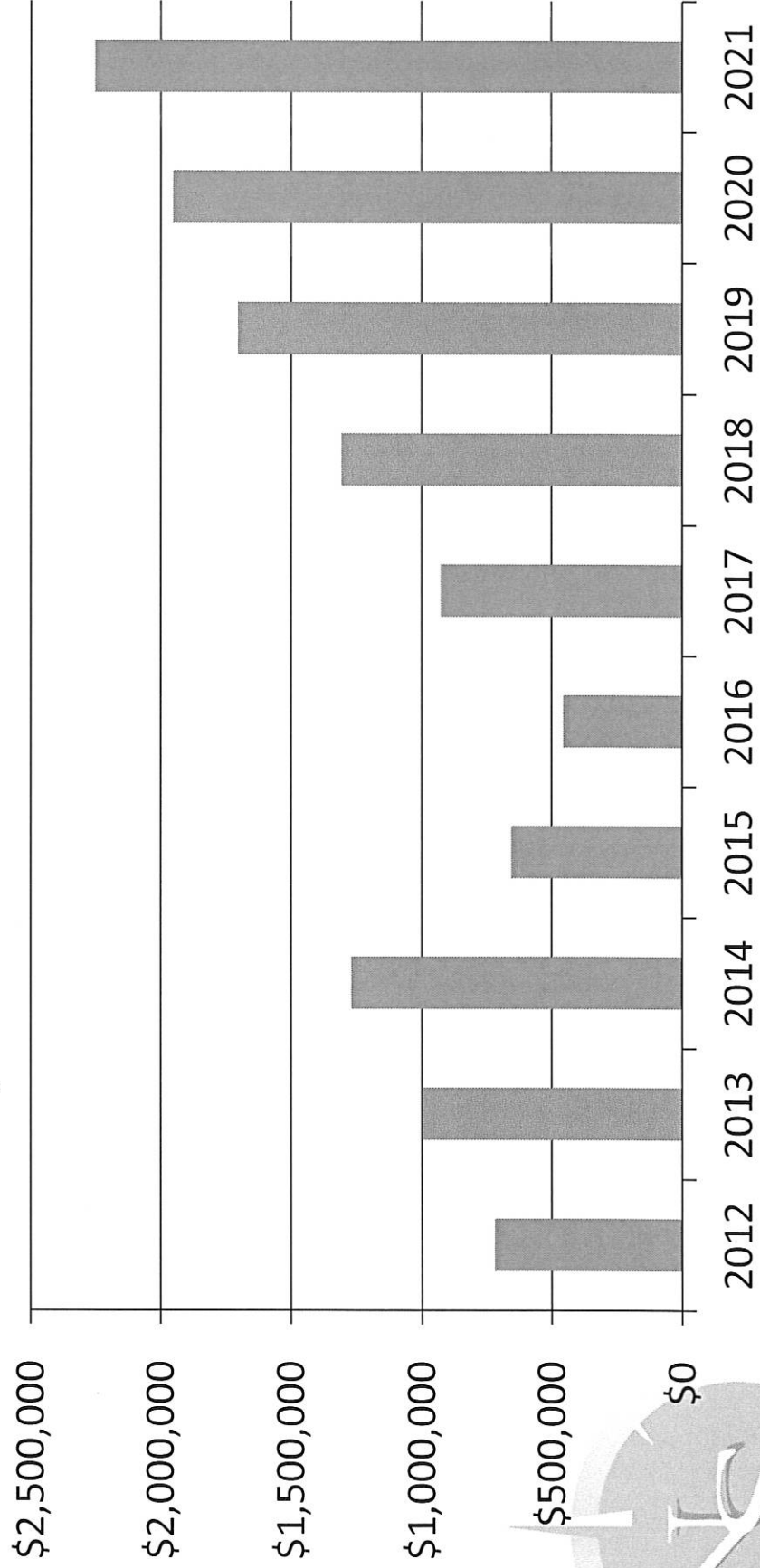
Financial Plans

Water Fund Projected Source and Use of Funds



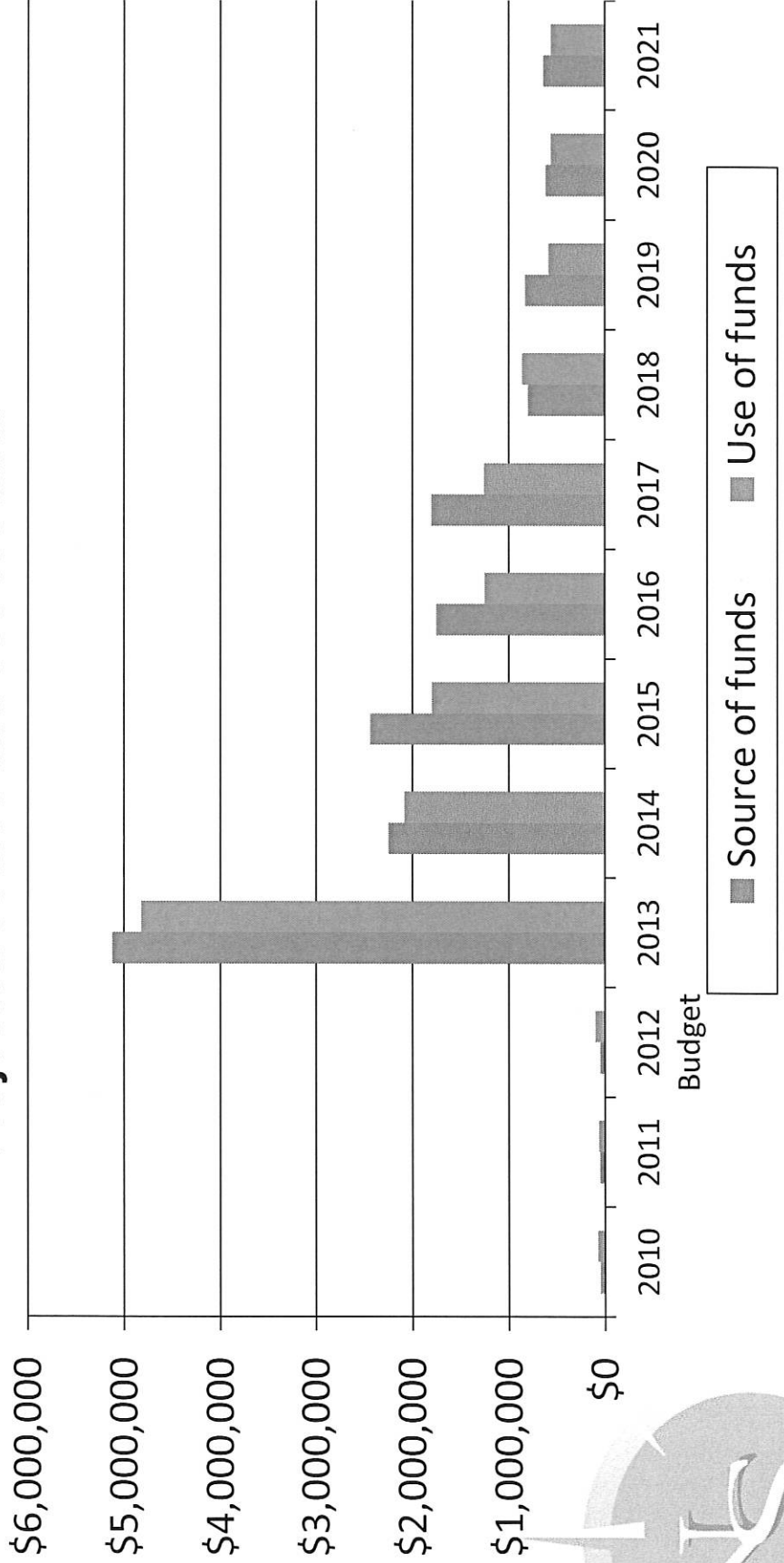
Financial Plans

**Water Fund
Projected Cash Balances at Year End**



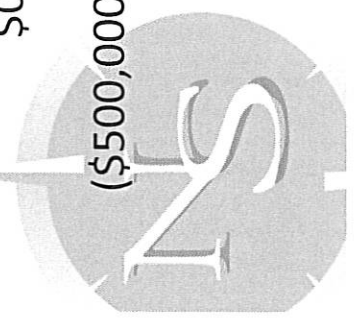
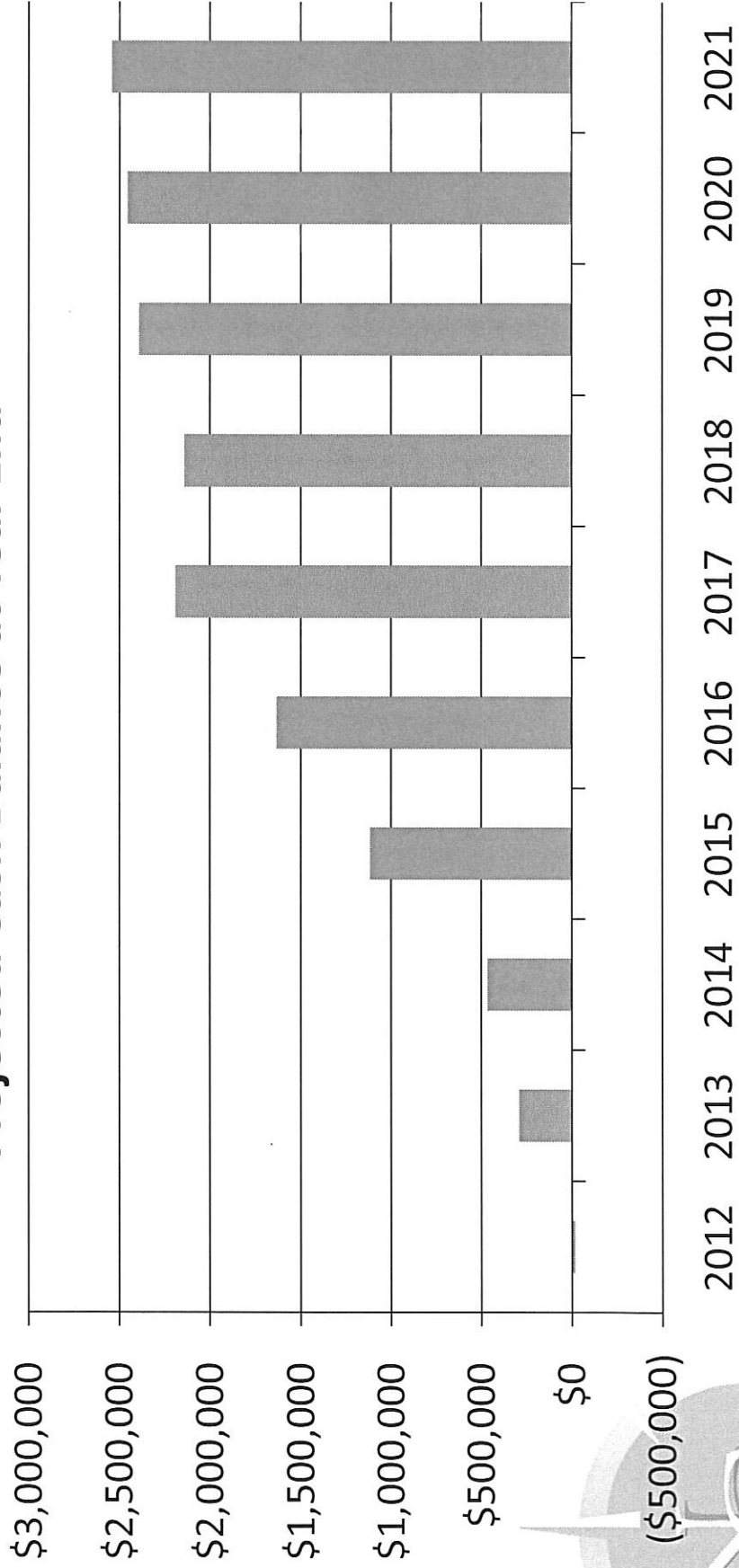
Financial Plans

**Sanitary Sewer Fund
Projected Source and Use of Funds**



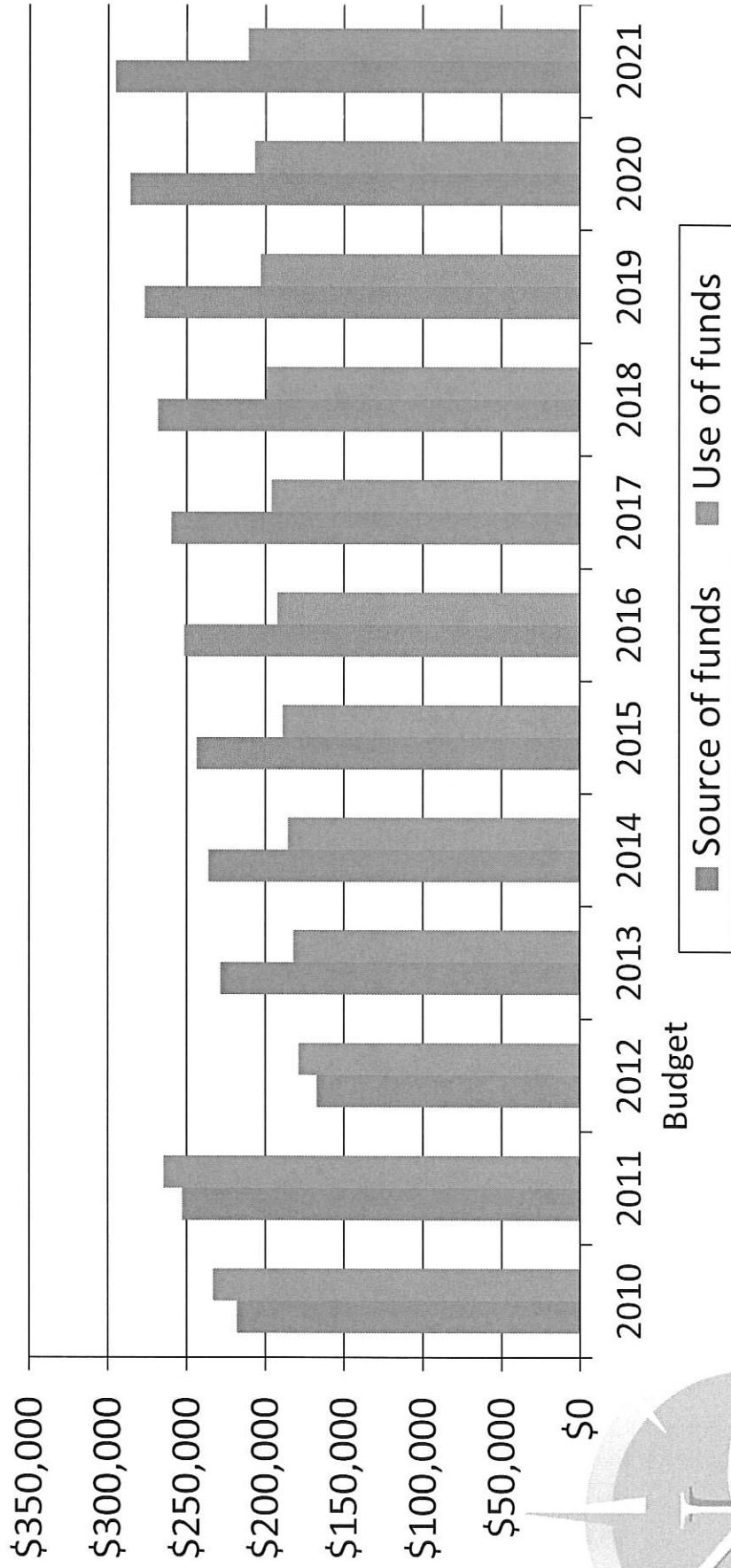
Financial Plans

**Sanitary Sewer Fund
Projected Cash Balance at Year End**



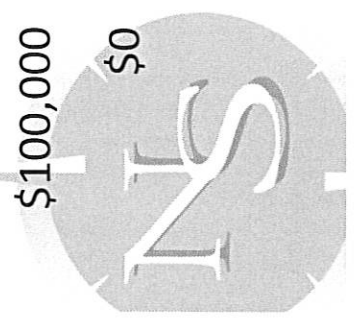
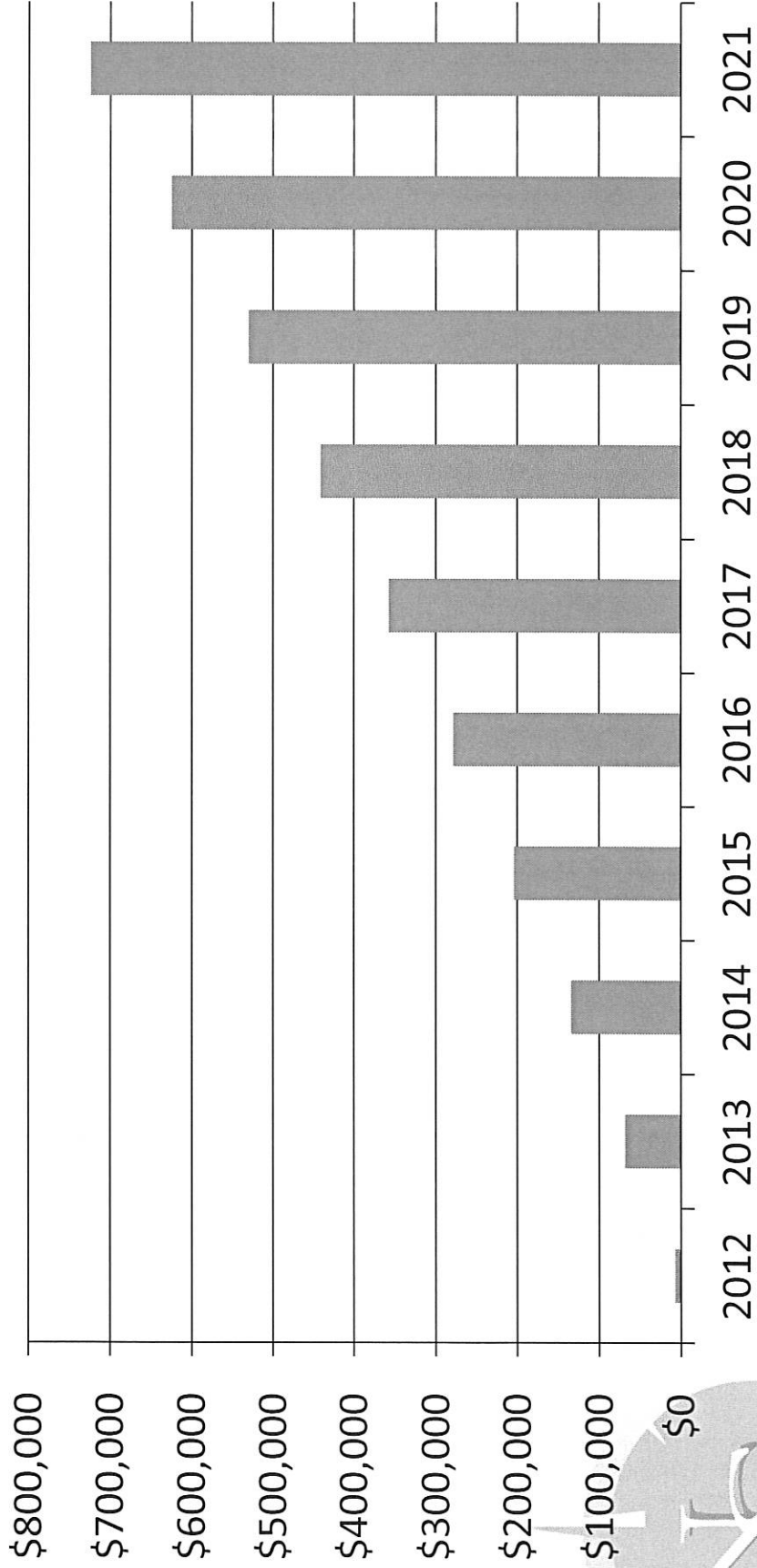
Financial Plans

Storm Sewer Fund Source and Use of Funds



Financial Plans

**Storm Sewer Fund
Projected Cash Balances at Year End**



Questions and Answers

- Study overview and approach
- Conclusions
- Recommendations
- Capital Improvement Plans
- Debt Service
- Utility Rates
- Projected Growth
- Financial Plans





**City of Lake Elmo, MN
Financial Management Plan For
Water, Sanitary Sewer, and Storm Sewer Services**

2013 REPORT

As of February 28, 2013



NORTHLANDSTRATEGIES
Special Projects Group

The information presented in the report is intended solely for financial planning purposes. Northland Securities is not providing advice on the timing, terms, structure or similar matters related to a specific bond issue.

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NORTHLAND SECURITIES

February 28, 2013

Dean Zuleger
City Administrator
Lake Elmo City Hall
3800 Laverne Avenue North
Lake Elmo, MN 55042

RE: Updated Financial Management Plan for City Utility Funds

Dear Dean:

Northland Securities, Inc. is pleased to present you with an update to the 2012 Financial Management Plan for City Utility Funds. Northland was hired for financial planning services for utility system user charges and rates. Services include performing a utility rate analysis for the Water, Sanitary Sewer, and Storm Water Utility Systems of the City of Lake Elmo. The analysis and report includes a review of the past financial performance, projected growth in residential equivalent connections, determines the adequacy of current revenues, and provides recommendation on future rates which reflect projected future expense and capital outlay.

We appreciate the opportunity to work with the City of Lake Elmo.

Sincerely,



Tammy Omdal
Manager of Northland Strategies/Senior Vice President

EXECUTIVE SUMMARY

The report is presented as an update to the October 2, 2012 Financial Management Plan for Water, Sanitary Sewer, and Storm Water presented to the Lake Elmo City Council. The City requested an update to the 2012 Report to consider the financial impact of revised growth projections for the City.

The report and financial management plan is intended to serve as a guide for the financial management of the City's utility services. The report contains information on capital improvement plans to increase capacity of the utility systems, estimated future utility rates needed to support operations and capital improvement plans, and multi-year financial plans for each of the three utility funds that includes projected sources and uses of funds and estimated cash balances by year.

The financial plans included in the report are built around identified key assumptions, including growth projections, cost drivers, and projected utility rates. To the extent the assumptions in the report change in the months and years ahead, which they will, the City will need to continue to adjust its financial plans accordingly.

Study Approach

The report was prepared by Northland Securities. The following steps were taken as part of the study process:

- City provided information on historical spending and revenues, volume of water sold by different tiers and customer, capital improvement plans, and prior years budget information.

- City provided information on projected growth from future residential and commercial development.
- Information provided by the City was organized, analyzed, and used to support the development of financial plans.
- Once the initial financial plans were developed different scenarios were considered and analyzed to determine impact on utility rates.
- City staff offered input and feedback on the assumptions and desired outcomes.

It is also important to note aspects of financial performance not reviewed as part of this study:

- The validity of the assumptions and figures provided by the City on future growth was not reviewed.
- Analysis of the basis for the City's determination of prior sewer and water availability charges was not reviewed.
- The report does not include identification of project costs for construction of lateral utility line build outs. The City anticipates that future lateral build outs will be financed 100 percent through special assessments to benefiting property.
- The financial impact to the City of potential changes to the existing customer tier structure for charging for water and sanitary sewer services was not reviewed as part of this study.

Conclusions from Study

The following conclusions were identified as a result of this study:

1. To meet projected service demands, the City will need to expand its capacity to deliver water and sanitary sewer services. This is driven by the City's projections for future development; the addition of housing and commercial units. The City plans to pay for the improvements through a combination of projected available cash, issuance of debt, grants and other intergovernmental proceeds.
2. Higher utility service fees for existing customers will be needed if new development does not occur at projected rate of growth. The issuance of debt to finance the identified improvements for water and sanitary sewer will require increased revenue to cover annual debt service. The City anticipates an increase in revenue driven by new development. If development occurs at a slower pace than projected, it may require the City to adjust the rates shown in the report. To be conservative, the study and report assume 50 percent of the total estimated annual growth (development) of residential and commercial units is realized for the purpose of estimating future revenue.
3. Projected future year-end cash balances in the utility funds is estimated to be at or greater than 50 percent of operating expenditures. The fees and charges included in the report, combined with the projected historical volume of water sold, plus the projected "new" revenue from new residential equivalent connections (REC) will provide the cash needed to operate and maintain the utilities and to cover debt service.

Recommendations

The following recommendations are offered based on the Conclusions from the Study.

1. The City should adopt a new charge for the cost of connecting to municipal sanitary sewer and increase the amount it presently charges for connection to municipal water. This charge should reflect the City's cost of infrastructure for providing service. This new and increased charge is included in the report and reflected in the revenue shown in the financial plans. The charge will be collected with the building permit.
2. The City should implement a uniform trunk line availability charge for water and sanitary sewer services. The charge will be collected from property owners/developers when property is developed; it will be collected with the development contract for new development. The report does not include the cost of lateral build outs of utility lines. The study anticipates the City will assess 100 percent of lateral lines to benefiting property.
3. The City should plan to structure future debt in a conservative manner to provide the City with time for future development to occur and the flexibility to restructure debt if necessary. This may include delaying certain maturities and earlier call dates. An issuance of debt into the public market will require an credit rating review. The City's general obligation debt is currently rated Aa2 by Moody's Investors Service. The City's current debt profile is viewed by Moody's as "moderate". Even though general obligation revenue bonds are planned to be self supporting from enterprise revenues, the debt will be fully accounted for in the G.O. debt

ratios. Moody's will eliminate that debt from the debt ratios after a few years of demonstrated self supporting revenues. Based on previous Moody's reports, the City has the capacity to absorb the increased debt ratios so long as there is not a deterioration of the City's tax base or weakening of the demographic profile and the City does not experience a material decline in financial reserves in comparison to similar rated cities.

4. The City should adopt a formal fund balance policy. This policy will provide guidance for financial management and will inform future decisions on adjustments to utility fees and charges. The report is based on direction from City staff to plan for achieving a cash balance at 50 percent of anticipated annual operating expenditures.

Organization of Report

The report is organized into five sections:

1. Executive Summary provides information on the organization of the report, study approach, using the report, and conclusions and recommendations.
2. Background discusses the historical context (i.e., growth and development of the community) and financial status of the City's utility funds.
3. Capital Improvement Plan provides information on the City's plans for expanding the capacity of the water and sanitary sewer systems. This includes estimates on project costs and sources of funds to pay for the improvements. The time horizon for the capital plan is years 2013 through 2017. The City anticipates capital spending after year 2018 but the specific projects and estimated costs have not yet been identified. Information on debt

service is included in the report for planned bond issuances.

4. Utility Rates provided in the report include historical, current, and future proposed rates necessary to maintain a positive financial condition for the utility funds. Information is provided in the Appendix of the report on what proposed rate increases will mean to customers. Comparison to other cities is included.
5. Financial Plans are provided for the Water Fund, Sanitary Sewer Fund, and Storm Sewer Fund. The financial plans provide both historical, current, and future projected sources and uses of funds. Financial plans take into account capital improvement plans and rate structure. (The capital improvement plans included in the report are for years 2013-2017; the City anticipates future capital projects after year 2017 but has not yet identified the specific projects or cost estimates.)
6. Appendix provides charts of data from the financial plans and information on projected growth in residential and commercial customers.

Using the Report

This report is intended to be a practical guide for ongoing management of the City's utility funds. Much of the information in the report has enduring value and will serve to continue to guide management decisions over a number of years. However, management of enterprise funds is a dynamic system. Customer base changes, statutes and rules change, cost of labor and materials and supplies will vary from assumptions from year-to-year. The report should continue to be the foundation of an annual review and update.

BACKGROUND

The City of Lake Elmo is located on the eastern edge of the Twin Cities metropolitan area. The City's 2030 Comprehensive Plan forecasts and provides for approximately eight times the growth in households and population during the 2000-2030 planning period than was experienced during the 1980-2000 period.

The City reports an estimated 2010 population of 8,069 and 2,774 households (2010 Census). Population is estimated to increase to 18,403 by 2020 and households to 6,324 (2030 Comprehensive Plan). The land area for the City encompasses approximately 15,250 acres.

The City's 2030 Comprehensive Plan provides guidance on the City's plans for managing future demand for utility infrastructure.

The City's 2011 financial statements were used as the basis for the report, along with the 2012 budget. The 2012 financial statements were not available for input for the report.

Water Utility

Lake Elmo owns, operates and maintains a municipal water supply and distribution system. The City has a goal to serve existing population desiring public water supply while preparing the system to allow people to connect as development occurs or existing areas request service. This policy guides the City's capital improvement planning and the need to maintain a flexible and responsive water system. Capital planning includes projects to correct existing deficiencies and to expand the system.

The City uses an enterprise fund to account for its wa-

ter operations. The unrestricted assets in the Water Fund totaled \$1,072,022 and a cash balance of \$752,658 at December 31, 2011. There were no significant transactions to report for the year ended December 31, 2011. (The 2012 financial statements are not yet available to include in this report.)

Sanitary Sewer Utility

Property owners in the City are served by individual sewer systems or in limited areas by municipal sewer. Capital plans will provide for an increase in the number of properties to be served by municipal sewer and connection to the Regional Sewer System. The Metropolitan Council Environmental Services (MCES) plans to extend regional sewer service to serve a greater area of the City.

The City uses an enterprise fund to account for its sewer operations. The unrestricted assets in the Sewer Fund totaled \$62,994 and a cash balance of \$27,062 at December 31, 2011. There were no significant transactions to report for the year ended December 31, 2011.

Storm Sewer Utility

The City operates a storm sewer utility. The system of conveyances is owned and operated by the City and designed for collecting or conveying storm water, and that is not used for collecting or conveying sewer. The City collects an annual fee from property owners that is used to pay for the cost of constructing and maintaining the system.

CAPITAL IMPROVEMENT PLAN AND DEBT SERVICE

The City has developed a multi-year (2013-2017) capital project plan for its utilities. The Capital Improvement Plan (CIP) provides details on project costs by year and proposed funding sources. Identified funding sources include the planned issuance of debt.

The City anticipates additional capital project spending after year 2017 but the specific projects and cost estimates have not been identified and are therefore not included in the report.

The CIP provides important input for the financial plans included in the report. The financial plans are inclusive of all sources and uses of funds, both operating and non-operating, including capital spending plans.

At this time the City does not anticipate any capital improvements for the storm sewer utility in the next five years. A CIP summary is therefore not included in the report for storm sewer projects.

Capital Projects

The projects included in the CIP include projects to expand the capacity and correct deficiencies of the water and sanitary sewer systems. The City of Lake Elmo is a developing community with significant utility expansion needs.

Projects include expansion of the City's water supply capacity and distribution system. Sanitary sewer services will be expanded through the construction of connections to the Regional Sewer System.

As a developing community, the City's capital improvement plans focus on expansion and does not presently include capital spending for maintenance of existing systems. This will need future consideration by the City as the community develops and infrastructure ages and requires major maintenance and/or replacement.

Source of Funding for Capital Projects

The source of funding for the planned capital projects includes either one of the following sources or a combination thereof: cash balance from Water Fund and Sewer Fund; bond proceeds; levying of special assessments; grants, tax increment revenue collections, and intergovernmental revenue.

To the extent future development expectations exceed or fall short of the City's projections, the City may want to adjust the amount of water project costs to be paid for with bond proceeds versus cash.

Debt Service

The current CIP for water and sanitary sewer utilities anticipates the use of bonds to undertake needed improvements while keeping fees as low as possible.

The projections assume that the City will issue general obligation bonds and use utility revenues to pay all principal and interest. This approach provides the lowest cost of debt. The bonds will not count against the City's debt limit. Debt management is an important factor in the City's ongoing capital improvements planning.

The City has the authority to issue pure revenue bonds for these improvements. With general obligation bonds, the City pledges to levy property taxes to cover any shortfall in utility revenues. Revenue bonds are

backed solely by utility revenues. The alternative use of revenue bonds without a general obligation pledge would have several financial implications for the City:

- Interest rates will be higher. The difference will depend on the terms of the issue and the operation of the Utility.
- The City will be required to set fees that will create revenues that produce net income in excess of debt service. Any scenarios with ongoing annual deficits would not be viable.
- The bond issue would include a debt service reserve fund. A portion of the bond proceeds would be set aside to make payments in the event of revenue shortfalls.

As a result, higher fees will be required with the use of revenue bonds to finance planned improvements.

The finance plans and related fee schedules included in the report anticipate the issuance of general obligation (G.O.) revenue bonds to finance certain capital improvements. The estimates for debt service are based on bonds to be paid generally over 20 years or less. The estimated interest rates used to calculate annual debt service were conservatively estimated based on today's current rate environment (today's rates for a Aa2 rating plus 25 basis points for anticipated 2013 bonding and 50 basis points for later years). The actual interest rates will depend on final structure and market conditions at time of issuance.

Beginning on page 9, a summary of estimated annual debt service is provided for years 2012 to 2021 which is the planning horizon for the financial plans. On pages 10 and 11, detail on the annual estimated debt service for future water and sanitary sewer bond issuances is shown. The chart on page 12 provides a longer term

view of projected annual debt service for years 2012 through 2035, or over the life of the City's existing bonds and the life of future estimated bond issuances included in the report.

The timing of principal payments shown in the report is structured to match estimated future revenue. Based on the debt structure and assumptions for the study and report, by year 2021 the City will have combined cash balance in the water and sewer funds that is nearly equivalent to 90% of the estimated outstanding debt obligations. Actual future growth (development) will greatly impact these estimates. The City will have options at time of bond issuance to consider debt repayment schedules that are more aggressive than what is included in this report, if future revenue and cash balances suggest a more aggressive schedule is feasible. The City will have the option to structure bond call dates that will provide the City with the greatest amount of flexibility to manage its debt. These decisions can be made on an issuance by issuance basis in the future.

Capital Improvement Plan and Debt Service

City of Lake Elmo Water Fund

Summary of Capital Improvement Plan (CIP)

| | City of Lake Elmo Water Fund | | | | | | | Total | | |
|--|---------------------------------|----------------|------------------|------------------|----------------|--|----------|----------|----------|-------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | | 2020 | 2021 |
| | 2013 | 2014 | 2015 | 2016 | 2017 | <i>City has not identified but does anticipate there will be future projects in years 2018-2021.</i> | | | | |
| Water supply well No. 4 and pumphouse /connection | 1,500,000 | | | | | | | | | 1,500,000 |
| Keats Ave 16" trunk watermain extension | 1,050,000 | | | | | | | | | 1,050,000 |
| Phase I: Western 194 Corridor (Inwood to Keats) | | | | | | | | | | - |
| Segment 1: Water booster pump | 610,000 | | | | | | | | | 610,000 |
| Segment 2: Inwood Ave 16" trunk watermain extension | 1,600,000 | | | | | | | | | 1,600,000 |
| Segment 3: 10th St to EP Bus Park 16" trunk watermain ext | 780,000 | | | | | | | | | 780,000 |
| Alt Segment 3: Azur Prop 16" trunk watermain extension | | | | | | | | | | - |
| Alt Segment 5: 12" trunk watermain to non-contiguous East | | 400,000 | | | | | | | | 400,000 |
| Alt Segment 7: Ground storage tank | | | 600,000 | | | | | | | 600,000 |
| Phase II: Eastern 194 Corridor (Lake Elmo Ave. to Manning) | | | | 2,775,000 | | | | | | 2,775,000 |
| Segment 4: Lake Elmo Ave 12" trunk watermain extension | | | | 2,775,000 | | | | | | 2,775,000 |
| Phase IIIb: Village Area (East to Village Parkway) | | | | | | | | | | - |
| Replace/upgrade watermains as streets disturbed | | 900,000 | | | | | | | | 900,000 |
| Village Parkway/39th Street | | 400,000 | | 400,000 | 600,000 | | | | | 1,000,000 |
| Total | 5,540,000 | 400,000 | 1,500,000 | 3,175,000 | 600,000 | - | - | - | - | 11,215,000 |
| <i>Funding Source for Water Capital Projects</i> | | | | | | | | | | |
| Cash from Water Fund | - | | 1,500,000 | 925,000 | 250,000 | | | | | 2,675,000 |
| Bond proceeds | 3,540,000 | | | 2,000,000 | | | | | | 5,540,000 |
| Grants | 1,000,000 | | | | | | | | | 1,000,000 |
| Intergovernmental | 1,000,000 | | | | | | | | | 1,000,000 |
| Tax Increment /Developer Contribution | | 400,000 | | 250,000 | 350,000 | | | | | 1,000,000 |
| Total | 5,540,000 | 400,000 | 1,500,000 | 3,175,000 | 600,000 | - | - | - | - | 11,215,000 |

**Capital Improvement
Plan and Debt Service**

**City of Lake Elmo
Sanitary Sewer Fund**

Summary of Capital Improvement Plan (CIP)

| | 2013 | 2014 | 2015 | 2016 | 2017 | City has not identified but does anticipate there will be future projects in years 2018-2021. | | | | Total |
|--|------------------|------------------|------------------|----------------|----------------|---|----------|----------|----------|------------------|
| | 2018 | 2019 | 2020 | 2021 | | | | | | |
| Segment 4: New lift station at Hudson & Keats, Connecting FM | - | 900,000 | - | - | - | - | - | - | - | 900,000 |
| Segment 6: Hudson Blvd lift station replacement, connecting FM to WONE | - | - | - | - | - | 300,000 | - | - | - | 300,000 |
| Phase II: Easter 194 Corridor (Lake Elmo Ave. to Manning) | - | - | - | - | - | - | - | - | - | - |
| Option A: 27/30" trunk sewer extension from MCES connectoin | - | - | - | - | - | - | - | - | - | - |
| Option B: 18/27" trunk sewer extension from MCES connection | 700,000 | 500,000 | - | - | - | - | - | - | - | 1,200,000 |
| Option B: Future lift statoin west of Lake Elmo Ave. | - | 200,000 | - | - | - | - | - | - | - | 200,000 |
| Phase IIIb: Village Area (East to Village Parkway) | - | - | - | - | - | - | - | - | - | - |
| Village lift station and forcemain | 3,800,000 | - | - | - | - | - | - | - | - | 3,800,000 |
| Segment 1: Lake Elmo Ave & 30th St & 39th St | - | - | 1,100,000 | - | - | - | - | - | - | 1,100,000 |
| Segment 2: Village Parkway to TH5 | - | - | - | 600,000 | 600,000 | - | - | - | - | 1,200,000 |
| Total | 4,500,000 | 1,600,000 | 1,100,000 | 600,000 | 600,000 | 300,000 | - | - | - | 8,700,000 |

Funding Source for Sanitary Sewer Capital Projects

| | | | | | | | | | | |
|---|------------------|------------------|------------------|----------------|----------------|----------------|----------|----------|----------|------------------|
| Cash from Sewer Fund | 300,000 | - | - | - | - | - | - | - | - | 300,000 |
| Bond proceeds | 3,500,000 | 1,200,000 | 1,100,000 | - | - | - | - | - | - | 5,800,000 |
| Grants | 1,000,000 | - | - | - | - | - | - | - | - | 1,000,000 |
| Intergovernmental | - | - | - | 180,000 | 180,000 | - | - | - | - | 360,000 |
| Tax Increment/Developer Contribution (future TIF districts and development) | - | 400,000 | - | 420,000 | 420,000 | - | - | - | - | 1,240,000 |
| Total | 4,500,000 | 1,600,000 | 1,100,000 | 600,000 | 600,000 | 300,000 | - | - | - | 8,700,000 |

Capital Improvement Plan and Debt Service

City of Lake Elmo Water, Sanitary Sewer, Storm Sewer Funds Summary of Future Debt Service and General Obligation (G.O.) Revenue Bonds Outstanding

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Years 2022 to 2035 | Total |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------------------|------------|
| DEBT SERVICE | | | | | | | | | | | |
| WATER UTILITY FUND | | | | | | | | | | | |
| GO Water Rev Bond 2005A | 300,025 | 320,650 | 315,250 | - | - | - | - | - | - | - | 935,925 |
| GO Ref Bond 2009A (Refund 2002B) | 53,680 | 52,480 | 51,280 | 49,880 | 53,680 | 52,128 | 55,575 | 53,850 | 51,925 | - | 474,478 |
| GO Ref Bond 2012A (Refund 2005A) | - | - | - | 281,043 | 272,143 | 293,343 | 284,043 | 279,843 | 270,643 | 3,139,756 | 4,820,814 |
| EST GO Water Rev 2013 Bonds | 95,958 | 125,958 | 125,778 | 125,568 | 125,313 | 124,998 | 164,623 | 163,573 | 167,383 | 4,121,230 | 5,340,378 |
| EST GO Water Rev 2016 Bonds | 449,663 | 499,088 | 492,308 | 497,741 | 792,386 | 807,818 | 737,091 | 726,616 | 715,401 | 8,192,086 | 13,910,194 |
| Total | | | | | | | | | | | |
| SANITARY SEWER UTILITY FUND | | | | | | | | | | | |
| EST GO Sewer Rev 2013 Bonds | 86,285 | 186,285 | 185,685 | 184,985 | 184,135 | 183,085 | 181,835 | 180,335 | 228,635 | 3,434,280 | 5,035,545 |
| EST GO Sewer Rev 2014 Bonds | - | 25,625 | 75,625 | 75,150 | 74,600 | 73,950 | 123,200 | 121,450 | 119,500 | 759,775 | 1,448,875 |
| EST GO Sewer Rev 2015 Bonds | - | - | 74,950 | 74,475 | 73,925 | 73,275 | 72,525 | 121,650 | 119,700 | 765,975 | 1,376,475 |
| Total | 86,285 | 211,910 | 336,260 | 334,610 | 332,660 | 330,310 | 377,560 | 423,435 | 467,835 | 4,960,030 | 7,860,895 |
| STORM SEWER UTILITY FUND | | | | | | | | | | | |
| No existing or anticipated outstanding debt | | | | | | | | | | | |
| TOTAL ANNUAL COMBINED DEBT SERVICE | | | | | | | | | | | |
| Combined Total | 535,948 | 710,998 | 828,568 | 832,351 | 1,125,046 | 1,138,128 | 1,114,651 | 1,150,051 | 1,183,236 | 13,152,116 | 21,771,089 |
| DEBT OUTSTANDING | | | | | | | | | | | |
| WATER OUTSTANDING DEBT | | | | | | | | | | | |
| As of 12/31/2012 | | | | | | | | | | | 0 |
| Estimated Future Debt | 4,695,000 | 4,505,000 | 4,315,000 | 4,080,000 | 3,845,000 | 3,585,000 | 3,325,000 | 3,065,000 | 2,810,000 | - | 0 |
| Total | 3,630,000 | 3,600,000 | 3,570,000 | 5,600,000 | 5,270,000 | 4,940,000 | 4,670,000 | 4,400,000 | 4,125,000 | - | 0 |
| | 8,325,000 | 8,105,000 | 7,885,000 | 9,680,000 | 9,115,000 | 8,525,000 | 7,995,000 | 7,465,000 | 6,935,000 | - | 0 |
| SANITARY SEWER OUTSTANDING DEBT | | | | | | | | | | | |
| As of 12/31/2012 | | | | | | | | | | | 0 |
| Estimated Future Debt | 3,605,000 | 4,755,000 | 5,705,000 | 5,505,000 | 5,305,000 | 5,105,000 | 4,855,000 | 4,555,000 | 4,205,000 | - | 0 |
| Total | 3,605,000 | 4,755,000 | 5,705,000 | 5,505,000 | 5,305,000 | 5,105,000 | 4,855,000 | 4,555,000 | 4,205,000 | - | 0 |
| STORM SEWER UTILITY FUND | | | | | | | | | | | |
| No existing or anticipated outstanding debt | | | | | | | | | | | |
| TOTAL DEBT OUTSTANDING | | | | | | | | | | | |
| Combined Total | 11,930,000 | 12,860,000 | 13,590,000 | 15,185,000 | 14,420,000 | 13,630,000 | 12,850,000 | 12,020,000 | 11,140,000 | - | 0 |

Notes:
EST (estimated) amounts are shown for bonds with dates after 2012. Estimates are based on the capital improvement plan included in the report. Annual debt service figures are preliminary. Actual structure may vary depending on financial management decisions made by the City. Interest rates and terms will vary. Detail on estimated interest rates and terms are provided on pages 10 and 11.

Capital Improvement Plan and Debt Service

City of Lake Elmo Estimated Future G.O. Water Revenue Bonds

Analysis of Possible Future Estimated Debt Service Based on Capital Improvement Plan (CIP) (Terms shown including maturities and rates are for preliminary planning purposes only)

2013 G.O. Water Revenue Bonds

| Year | Principal | Est | | Total Debt Service | Outstanding Balance |
|--------------|--------------------|----------------|--------------------|--------------------|---------------------|
| | | Interest Rates | Interest | | |
| Beg | | | | | \$3,630,000 |
| 2013 | \$0 | 0.55% | \$95,958 | \$95,958 | \$3,630,000 |
| 2014 | \$30,000 | 0.60% | \$95,958 | \$125,958 | \$3,600,000 |
| 2015 | \$30,000 | 0.70% | \$95,778 | \$125,778 | \$3,570,000 |
| 2016 | \$30,000 | 0.85% | \$95,568 | \$125,568 | \$3,540,000 |
| 2017 | \$30,000 | 1.05% | \$95,313 | \$125,313 | \$3,510,000 |
| 2018 | \$30,000 | 1.25% | \$94,998 | \$124,998 | \$3,480,000 |
| 2019 | \$70,000 | 1.50% | \$94,623 | \$164,623 | \$3,410,000 |
| 2020 | \$70,000 | 1.70% | \$93,573 | \$163,573 | \$3,340,000 |
| 2021 | \$75,000 | 1.85% | \$92,383 | \$167,383 | \$3,265,000 |
| 2022 | \$150,000 | 2.00% | \$90,995 | \$240,995 | \$3,115,000 |
| 2023 | \$150,000 | 2.10% | \$87,995 | \$237,995 | \$2,965,000 |
| 2024 | \$150,000 | 2.20% | \$84,845 | \$234,845 | \$2,815,000 |
| 2025 | \$150,000 | 2.30% | \$81,545 | \$231,545 | \$2,665,000 |
| 2026 | \$150,000 | 2.40% | \$78,095 | \$228,095 | \$2,515,000 |
| 2027 | \$150,000 | 2.50% | \$74,495 | \$224,495 | \$2,365,000 |
| 2028 | \$200,000 | 2.60% | \$70,745 | \$270,745 | \$2,165,000 |
| 2029 | \$200,000 | 2.70% | \$65,545 | \$265,545 | \$1,965,000 |
| 2030 | \$200,000 | 2.80% | \$60,145 | \$260,145 | \$1,765,000 |
| 2031 | \$375,000 | 2.90% | \$54,545 | \$429,545 | \$1,390,000 |
| 2032 | \$375,000 | 3.00% | \$43,670 | \$418,670 | \$1,015,000 |
| 2033 | \$375,000 | 3.10% | \$32,420 | \$407,420 | \$640,000 |
| 2034 | \$325,000 | 3.20% | \$20,795 | \$345,795 | \$315,000 |
| 2035 | \$315,000 | 3.30% | \$10,395 | \$325,395 | \$0 |
| Total | \$3,630,000 | | \$1,710,378 | \$5,340,378 | |

Application of Funds:

| | |
|----------------------|--------------------|
| Construction | \$3,540,000 |
| Other Costs/Rounding | \$90,000 |
| Total | \$3,630,000 |

2016 G.O. Water Revenue Bonds

| Year | Principal | Est | | Total Debt Service | Outstanding Balance |
|--------------|--------------------|----------------|------------------|--------------------|---------------------|
| | | Interest Rates | Interest | | |
| Beg | | | | | \$2,060,000 |
| 2013 | \$0 | 0.80% | \$0 | \$0 | \$2,060,000 |
| 2014 | \$0 | 0.85% | \$0 | \$0 | \$2,060,000 |
| 2015 | \$0 | 0.95% | \$0 | \$0 | \$2,060,000 |
| 2016 | \$0 | 1.10% | \$41,250 | \$41,250 | \$2,060,000 |
| 2017 | \$300,000 | 1.30% | \$41,250 | \$341,250 | \$1,760,000 |
| 2018 | \$300,000 | 1.50% | \$37,350 | \$337,350 | \$1,460,000 |
| 2019 | \$200,000 | 1.75% | \$32,850 | \$232,850 | \$1,260,000 |
| 2020 | \$200,000 | 1.95% | \$29,350 | \$229,350 | \$1,060,000 |
| 2021 | \$200,000 | 2.10% | \$25,450 | \$225,450 | \$860,000 |
| 2022 | \$200,000 | 2.25% | \$21,250 | \$221,250 | \$660,000 |
| 2023 | \$200,000 | 2.35% | \$16,750 | \$216,750 | \$460,000 |
| 2024 | \$100,000 | 2.45% | \$12,050 | \$112,050 | \$360,000 |
| 2025 | \$100,000 | 2.55% | \$9,600 | \$109,600 | \$260,000 |
| 2026 | \$100,000 | 2.65% | \$7,050 | \$107,050 | \$160,000 |
| 2027 | \$160,000 | 2.75% | \$4,400 | \$164,400 | \$0 |
| 2028 | \$0 | 2.85% | \$0 | \$0 | \$0 |
| 2029 | \$0 | 2.95% | \$0 | \$0 | \$0 |
| 2030 | \$0 | 3.05% | \$0 | \$0 | \$0 |
| 2031 | \$0 | 3.15% | \$0 | \$0 | \$0 |
| 2032 | \$0 | 3.25% | \$0 | \$0 | \$0 |
| 2033 | \$0 | 3.35% | \$0 | \$0 | \$0 |
| 2034 | \$0 | 3.45% | \$0 | \$0 | \$0 |
| 2035 | \$0 | 3.55% | \$0 | \$0 | \$0 |
| Total | \$2,060,000 | | \$278,600 | \$2,338,600 | |

Application of Funds:

| | |
|----------------------|--------------------|
| Construction | \$2,000,000 |
| Other Costs/Rounding | \$60,000 |
| Total | \$2,060,000 |

Capital Improvement Plan and Debt Service

City of Lake Elmo

Estimated Future G.O. Sewer Revenue Bonds

Analysis of Possible Future Estimated Debt Service Based on Capital Improvement Plan (CIP)

(Terms shown including maturities and rates are for preliminary planning purposes only)

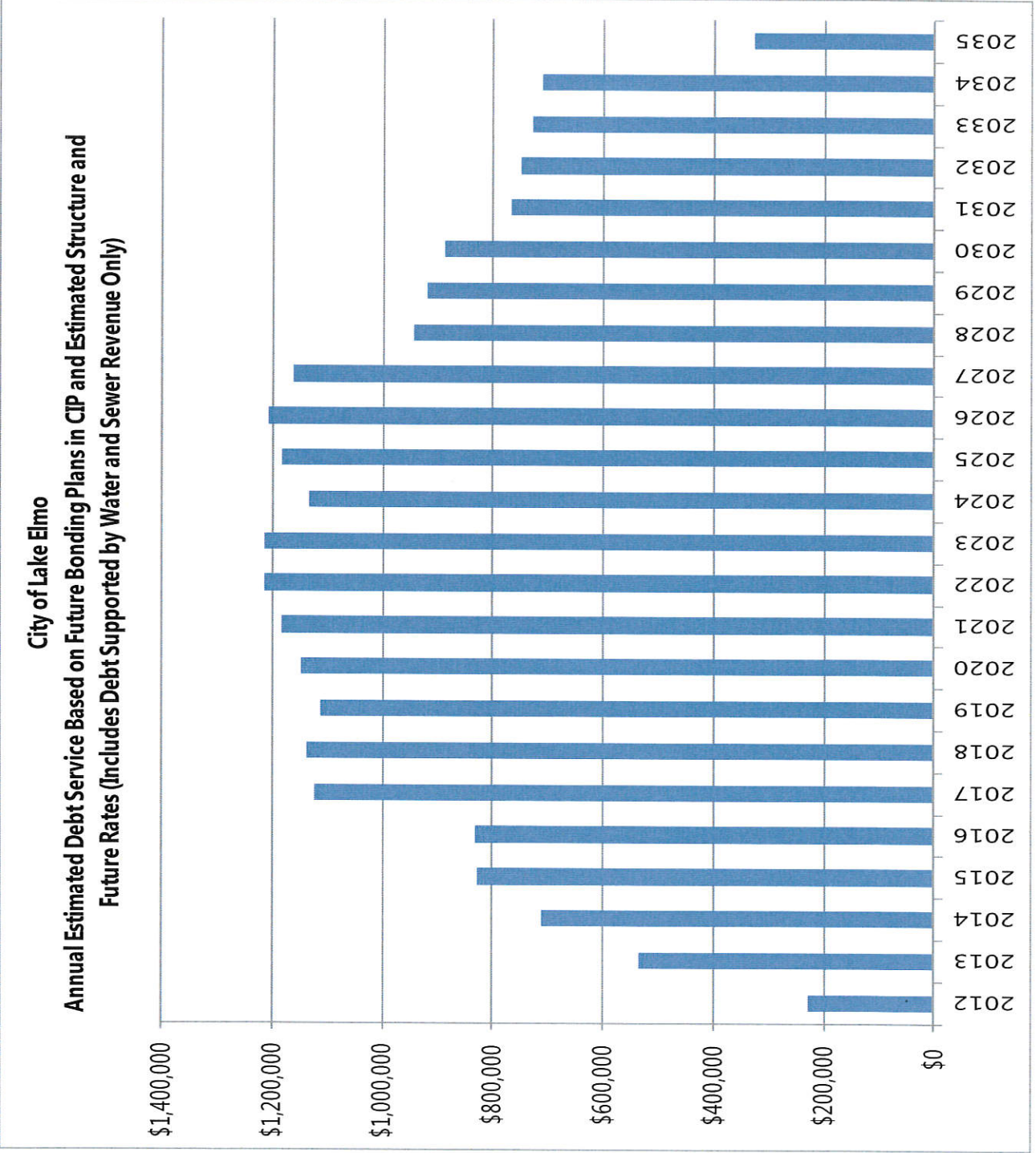
| Projected Future 2013 G.O. Sewer Revenue Bonds | | | | | | | | | | Projected Future 2014 G.O. Sewer Revenue Bonds | | | | | | | | | | Projected Future 2015 G.O. Sewer Revenue Bonds | | | | | | | | | |
|--|--------------------|----------------|--------------------|---------------------|--------------|--------------------|----------------|--------------------|---------------------|--|--------------------|----------------|--------------------|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--|-------------|-----|-----|--|--|--|--|--|--|
| Year | Principal | Interest Rates | Total Debt Service | Outstanding Balance | Year | Principal | Interest Rates | Total Debt Service | Outstanding Balance | Year | Principal | Interest Rates | Total Debt Service | Outstanding Balance | Est Interest Rates | Total Debt Service | Outstanding Balance | Est Interest Rates | Total Debt Service | Outstanding Balance | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | Beg | Beg | Beg | | | | | | |
| Beg | | | | \$3,605,000 | Beg | | | | \$1,250,000 | Beg | | | | \$1,150,000 | | | | | | | \$1,150,000 | | | | | | | | |
| 2013 | \$0 | 0.55% | \$86,285 | \$3,605,000 | 2013 | \$0 | 0.80% | \$0 | \$0 | 2013 | \$0 | 0.80% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2014 | \$100,000 | 0.60% | \$86,285 | \$3,505,000 | 2014 | \$0 | 0.85% | \$25,625 | \$1,250,000 | 2014 | \$0 | 0.85% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2015 | \$100,000 | 0.70% | \$85,685 | \$3,405,000 | 2015 | \$50,000 | 0.95% | \$75,625 | \$1,200,000 | 2015 | \$50,000 | 0.95% | \$24,950 | \$74,950 | | | | | | | \$74,950 | | | | | | | | |
| 2016 | \$100,000 | 0.85% | \$84,985 | \$3,305,000 | 2016 | \$50,000 | 1.10% | \$75,150 | \$1,150,000 | 2016 | \$50,000 | 1.10% | \$24,475 | \$74,475 | | | | | | | \$74,475 | | | | | | | | |
| 2017 | \$100,000 | 1.05% | \$84,135 | \$3,205,000 | 2017 | \$50,000 | 1.30% | \$74,600 | \$1,100,000 | 2017 | \$50,000 | 1.30% | \$23,925 | \$73,925 | | | | | | | \$73,925 | | | | | | | | |
| 2018 | \$100,000 | 1.25% | \$83,085 | \$3,105,000 | 2018 | \$50,000 | 1.50% | \$73,950 | \$1,050,000 | 2018 | \$50,000 | 1.50% | \$23,275 | \$73,275 | | | | | | | \$73,275 | | | | | | | | |
| 2019 | \$100,000 | 1.50% | \$81,835 | \$3,005,000 | 2019 | \$100,000 | 1.75% | \$73,200 | \$950,000 | 2019 | \$50,000 | 1.75% | \$22,525 | \$72,525 | | | | | | | \$72,525 | | | | | | | | |
| 2020 | \$100,000 | 1.70% | \$80,335 | \$2,905,000 | 2020 | \$100,000 | 1.95% | \$71,450 | \$850,000 | 2020 | \$100,000 | 1.95% | \$21,650 | \$71,650 | | | | | | | \$71,650 | | | | | | | | |
| 2021 | \$150,000 | 1.85% | \$78,635 | \$2,755,000 | 2021 | \$100,000 | 2.10% | \$71,500 | \$750,000 | 2021 | \$100,000 | 2.10% | \$19,700 | \$71,700 | | | | | | | \$71,700 | | | | | | | | |
| 2022 | \$100,000 | 2.00% | \$75,860 | \$2,655,000 | 2022 | \$100,000 | 2.25% | \$71,400 | \$650,000 | 2022 | \$100,000 | 2.25% | \$17,600 | \$71,600 | | | | | | | \$71,600 | | | | | | | | |
| 2023 | \$100,000 | 2.10% | \$73,860 | \$2,555,000 | 2023 | \$100,000 | 2.35% | \$71,150 | \$550,000 | 2023 | \$100,000 | 2.35% | \$15,350 | \$71,350 | | | | | | | \$71,350 | | | | | | | | |
| 2024 | \$100,000 | 2.20% | \$71,760 | \$2,455,000 | 2024 | \$150,000 | 2.45% | \$71,800 | \$400,000 | 2024 | \$100,000 | 2.45% | \$13,000 | \$71,300 | | | | | | | \$71,300 | | | | | | | | |
| 2025 | \$100,000 | 2.30% | \$69,560 | \$2,355,000 | 2025 | \$150,000 | 2.55% | \$9,125 | \$250,000 | 2025 | \$150,000 | 2.55% | \$10,550 | \$160,550 | | | | | | | \$160,550 | | | | | | | | |
| 2026 | \$100,000 | 2.40% | \$67,260 | \$2,255,000 | 2026 | \$200,000 | 2.65% | \$5,300 | \$50,000 | 2026 | \$150,000 | 2.65% | \$6,725 | \$156,725 | | | | | | | \$156,725 | | | | | | | | |
| 2027 | \$250,000 | 2.50% | \$64,860 | \$2,005,000 | 2027 | | 2.75% | \$0 | \$0 | 2027 | \$100,000 | 2.75% | \$2,750 | \$102,750 | | | | | | | \$102,750 | | | | | | | | |
| 2028 | \$250,000 | 2.60% | \$58,610 | \$1,755,000 | 2028 | | 2.85% | \$0 | \$0 | 2028 | | 2.85% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2029 | \$250,000 | 2.70% | \$52,110 | \$1,505,000 | 2029 | | 2.95% | \$0 | \$0 | 2029 | | 2.95% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2030 | \$250,000 | 2.80% | \$45,360 | \$1,255,000 | 2030 | | 3.05% | \$0 | \$0 | 2030 | | 3.05% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2031 | \$300,000 | 2.90% | \$38,360 | \$955,000 | 2031 | | 3.15% | \$0 | \$0 | 2031 | | 3.15% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2032 | \$300,000 | 3.00% | \$29,660 | \$655,000 | 2032 | | 3.25% | \$0 | \$0 | 2032 | | 3.25% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2033 | \$300,000 | 3.10% | \$20,660 | \$355,000 | 2033 | | 3.35% | \$0 | \$0 | 2033 | | 3.35% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| 2034 | \$355,000 | 3.20% | \$11,360 | \$0 | 2034 | | 3.45% | \$0 | \$0 | 2034 | | 3.45% | \$0 | \$0 | | | | | | | \$0 | | | | | | | | |
| Total | \$3,605,000 | | \$1,430,545 | \$5,035,545 | Total | \$1,200,000 | | \$248,875 | \$1,448,875 | Total | \$1,150,000 | | \$226,475 | \$1,376,475 | | | | | | | | | | | | | | | |

| Application of Funds: | |
|-----------------------|--------------------|
| Construction | \$3,500,000 |
| Other Costs/Rounding | \$105,000 |
| Total | \$3,605,000 |

| Application of Funds: | |
|-----------------------|--------------------|
| Construction | \$1,200,000 |
| Other Costs/Rounding | \$50,000 |
| Total | \$1,250,000 |

| Application of Funds: | |
|-----------------------|--------------------|
| Construction | \$1,100,000 |
| Other Costs/Rounding | \$50,000 |
| Total | \$1,150,000 |

Capital Improvement Plan and Debt Service



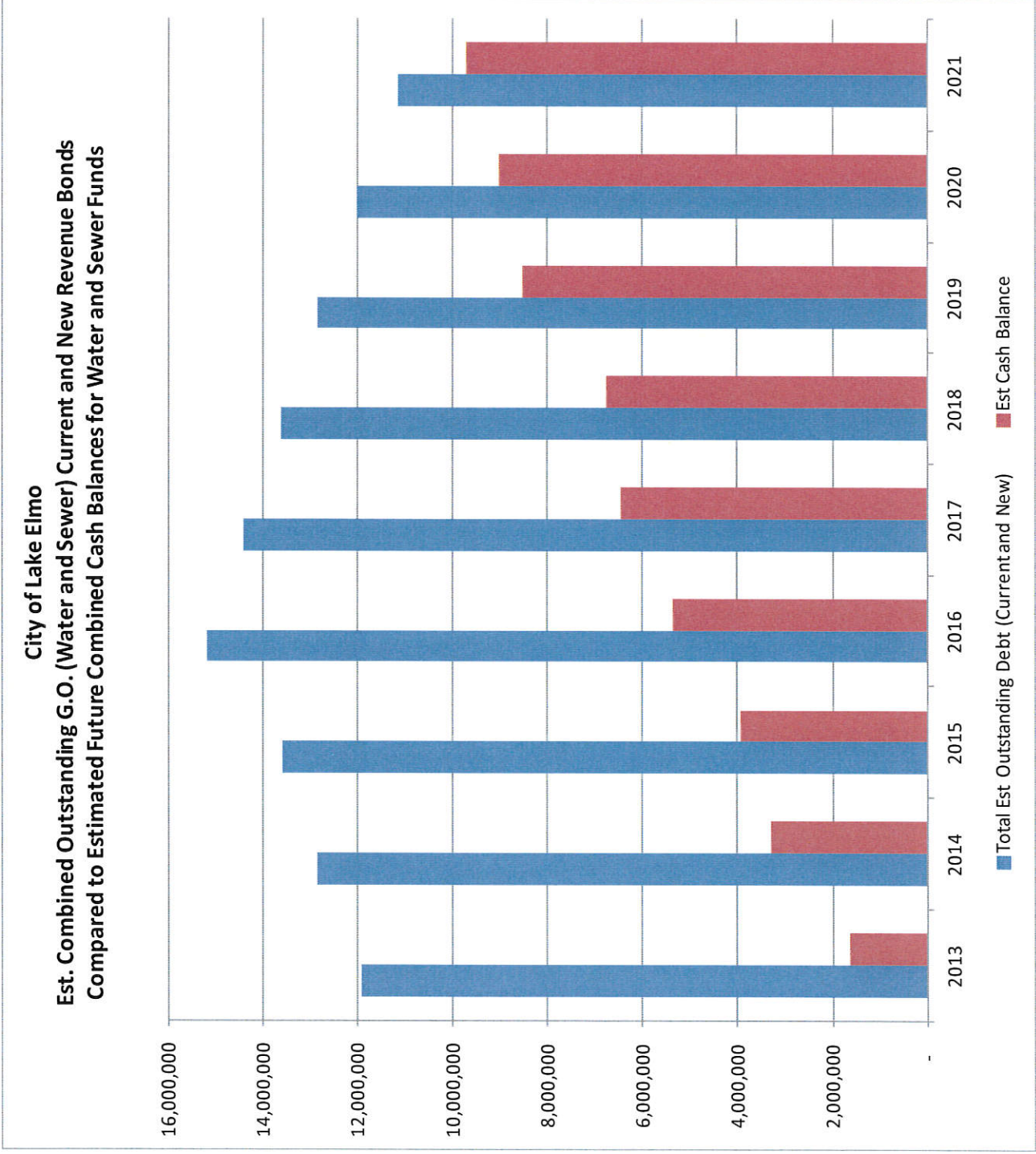
The annual estimated debt service amounts shown in this chart include general obligation water revenue bonds and general obligation sewer revenue bonds. The annual amounts include both existing debt service (on outstanding bonds) and future estimated debt service on bonds anticipated to be issued in future years and paid from utility revenues. Future bond issuance estimates are based on the City's capital improvement plan.

This chart includes general obligation debt supported by utility revenue only and does not include existing or future estimated general obligation debt that is paid from property tax levy.

Capital Improvement Plan and Debt Service

Over the next four years (from 2013 to 2016) the outstanding general obligation debt supported by water and sewer revenues is projected to increase each year. The City anticipates the issuance of debt to support planned infrastructure expansion projects. During this same period, based on assumptions and information included in the study, the estimated annual cash balance for the water and sewer funds combined is estimated to increase each year. This is driven by the estimate that annual revenue from new development will exceed the growth in annual expense (including debt service expense).

Current financial plan estimates project that by year 2021 the City will have combined cash balance in the water and sewer funds that is nearly equivalent to 90% of the estimated outstanding debt obligations. Actual future growth (development) will greatly impact these estimates.



UTILITY RATES

Key Factors

To project future utility rates necessary to maintain the financial stability of the City’s utility operations requires development and analysis of the following key factors:

- Estimates for future annual operating expenditures, including personnel, materials and supplies, cost of electricity, and other operating expenses.
- Metropolitan Council Environmental Service (MCES) sewer fee charged to the City by the Metropolitan Council for regional collection and treatment of waste water. This is an operating expense that the City does not have direct control over.
- Annual capital expenditure to maintain and improve the existing systems.
- Annual debt service on bonds issued to finance capital improvements.
- Growth in customers using and paying for the systems. Future growth will provide additional revenue but will also create additional demand for services.
- Available other revenue sources other than fees and charges to users of the water and sanitary sewer services.

Annual Operating Expenditures

Costs incurred in operating the water and sewer systems, which are used up in the period in which acquired, are recorded as operating expenditures. Annual growth in operating expenditures, not including the MCES charge, has been modest. It is anticipated that growth in future years will be about 2 percent per year. Approximately a third of the operating expense (not including depreciation) is for personnel costs (labor) and the balance for materials, supplies, and other operating expense.

Depreciation is shown under operating expenditures and is the process of allocating the costs of an asset over its useful life in a systematic and rational manner. Depreciation is shown to remain constant over the financial planning horizon for the study. Estimate for future depreciation was not part of the study. It will be important for future updates to the financial plans to consider funding of depreciation and replacement of infrastructure.

Metropolitan Council Environmental Services (MCES)

The MCES charge to cities for regional collection and treatment has been volatile in recent years. MCES has experienced revenue loss from the significant drop in regional development which has caused a corresponding decline in revenue collected by the Council for Sewer Availability Charges (a one time fee for new connections). For projection purposes, the study assumes that future charges paid to MCES for collection and treatment will increase by 2 percent annually. This is shown as an annual operating expense to the City’s Sewer Fund which is paid from revenue collected from the City’s utility customers.

Storm Water Funds. The CIP anticipates the City will issue debt in the next five years that will be supported by revenue collected in the Water Fund and Sanitary Sewer Fund.

All current and future debt is accounted for in the financial plans that are included in this report. The estimated debt service is based on generally 20 years or less for bonds payable at estimated interest rates. Future estimated utility fees and charges reflect the cost of the estimated increase for debt service.

Growth in Customers

Growth in customers from future land development is a major factor in determining the projections for future utility rates. New development will bring an increase in revenue to the City's utility funds through the collection of availability and connection charges and fees collected for service. Availability charges and connection charges are one time charges collected at the time of development and building permit. Estimating the increase in future customers from growth in residential and commercial development is the most volatile factor in developing financial projections for the utility funds. The last page of the report, page 35, in the Appendix Section, includes information on the assumed growth in residential equivalent connections ("REC") from future development. The projected annual growth in REC's was established by City staff and provided to Northland for the study and report.

Growth in customers will allow the City to spread existing fixed costs, including overhead, over more units and volume. Growth in customers will allow the City to minimize future increases in utility fees that otherwise will be necessary.

Annual Capital Expenditures

The City anticipates paying for future capital improvement project costs with a combination of revenue sources. The City anticipates future development will provide revenue to pay for utility expansion through the collection of trunk line availability fees and connection fees. The City may reduce the amount of planned bonding to pay for capital improvements to the extent cash from collection of these charges is available in the utility funds to do so.

Paying for annual planned capital improvement projects with cash may be a sound strategy depending on the details of the project. It avoids incurring costs of issuance and annual interest expense. However, this strategy requires advance planning and implementation of utility fees and charges that provide adequate cash flow.

For large (non-routine) capital expenditures or unanticipated capital expenditures, the use of bonding to fund capital minimizes annual rate increases that otherwise would be necessary. It also allows the City to charge future customers the cost of infrastructure with a longer useful life, versus putting the entire burden on today's customers. The City's CIP does anticipate bonding for certain project costs. The resulting annual debt service on the bonds is included in the financial plans.

Debt Service

Debt service in the Water and Sanitary Sewer Funds is paid from revenue collected from utility fees and availability and connection charges. Presently the City has debt outstanding in the Water Fund but does not report debt outstanding in the Sanitary Sewer or

Available Other Revenues

There is limited other revenues that provide a source of funding for utility services. The majority of the cost to operate and maintain the system is paid from fees and charges collected from those using the system. Other revenue includes interest income on cash balances, special assessments, grants, and rents.

Historical Utility Rates

Information on historical rates is provided on page 18. This includes a summary of prior years approved utility rates for years 2007 - 2012. Rates shown are billed quarterly, with the exception of the storm water fee which is billed to customers receiving this charge on an annual basis. The City charges a basic service fee for water only.

Future Utility Rates

Information on future projected utility rates for years 2013 to 2021 is provided on page 19. The projected future rates reflect the rates necessary to maintain adequate cash balances in the utility funds. These rates (applied against the estimated volumes on page 19) were used to calculate the annual estimated operating revenue that is shown in the financial plans for each fund.

The tier structure the City uses for charging customers for water, based on volume of water sold, was not reviewed as part of this study and report.

Connection and Trunk Line Availability Charges

Water and Sewer connection charges are estimated to be collected at time of building permit. The charges are to cover the cost of constructing and maintaining the utility systems.

The City presently does not have a connection charge for sanitary sewer. A charge is included for future years beginning with a rate of \$1,000 in year 2013 and inflated annually at 3-percent; this rate is necessary to maintain sufficient revenue to pay for debt service on capital projects. This is reflected in the revenue shown in the financial plans for the Sanitary Sewer Fund.

In addition, the report and financial plans are based on the City increasing the amount it charges for connection to municipal water to a level needed to fund infrastructure expansion. The amount is shown at \$1,000 for year 2013, which is an increase from the \$140 presently charged. This amount is shown to increase annually by 3-percent.

Water and Sewer Trunk Line Availability Charges are estimated to be collected at time of development of property (with the development contract). The charge is necessary to pay for the cost of constructing and maintaining the trunk lines and related infrastructure of the systems.

Beginning with year 2013, the following is estimated for development related charges for one residential equivalent connection (REC) unit:

| | |
|--|----------------|
| City Sanitary Sewer Connection | \$1,000 |
| City Water Connection | \$1,000 |
| City Sanitary Sewer Trunk Line Availability | \$3,000 |
| City Water Trunk Line Availability | \$3,000 |
| <u>Met Council Sewer Availability Charge</u> | <u>\$2,435</u> |
| Total | \$10,435 |

Projected Volume of Water Sold and Sanitary Sewer Billed

Annual estimated volume of water sold by tier and estimated sanitary sewer billed by year is included on

page 20. The chart on page 21 provides a break-down of the increase in volume of water sold comparing the estimated amount sold by year to existing customers, which is based on 2011 volumes, to the estimated amount that is attributed to growth in the customer base from future projected development. Information on the projected increase in residential equivalent connections (REC) by year is provided on page 35, the last page of the report.

Utility Rates

City of Lake Elmo Fee Schedule for Prior Years

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Budget |
|--|---------|---------|---------|---------|---------|-------------|
| <u>WATER AND SEWER SERVICE</u> | | | | | | |
| Residential | | | | | | |
| Water Basic Service fee (per meter or per unit/qtr) | \$23.50 | \$23.75 | \$25.00 | \$25.00 | \$25.00 | \$25.00 |
| Sewer Basic Service fee (per meter or per unit/qtr) | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Water (per meter or per unit per 1,000 gallons): | | | | | | |
| Tier 1: Water usage per first 15,000 gallons | \$1.80 | \$2.05 | \$2.15 | \$2.10 | \$2.14 | \$2.14 |
| Tier 2: Water usage +15,000 gallons to 30,000 gallons | \$1.80 | \$2.05 | \$2.15 | \$2.80 | \$2.86 | \$2.86 |
| Tier 3: Water usage +30,000 gallons to 50,000 gallons | \$1.80 | \$2.05 | \$2.15 | \$3.70 | \$3.77 | \$3.77 |
| Tier 4: Water usage +50,000 gallons to 80,000 gallons | \$1.80 | \$2.05 | \$2.15 | \$4.90 | \$5.00 | \$5.00 |
| Tier 5: Water usage +80,000 gallons | \$1.80 | \$2.05 | \$2.15 | \$6.50 | \$6.63 | \$6.63 |
| Sewer (per 1,000 gallons) | \$2.75 | \$3.71 | \$4.08 | \$4.35 | \$4.50 | \$4.50 |
| <u>Commercial and Industrial</u> | | | | | | |
| Water Basic Service fee (per meter or per unit/qtr) | \$23.50 | \$23.75 | \$25.00 | \$25.00 | \$25.00 | \$25.00 |
| Sewer Basic Service fee (per meter or per unit/qtr) | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Water (per meter or per unit per 1,000 gallons): | | | | | | |
| Tier 1: Water usage per first 10,000 gallons | \$2.75 | \$3.00 | \$3.10 | \$3.05 | \$3.11 | \$3.11 |
| Tier 2: Water usage +10,000 gallons to 25,000 gallons | \$2.75 | \$3.00 | \$3.10 | \$3.20 | \$3.26 | \$3.26 |
| Tier 3: Water usage +25,000 gallons | \$2.75 | \$3.00 | \$3.10 | \$3.70 | \$3.77 | \$3.77 |
| Tier 4: Water usage +29,000 gallons to next Tier | \$2.75 | \$3.00 | \$3.10 | \$4.90 | \$5.00 | \$5.00 |
| Tier 5: Water usage +36,000 gallons to next Tier | \$2.75 | \$3.00 | \$3.10 | \$6.50 | \$6.63 | \$6.63 |
| Sewer (per 1,000 gallons) | \$2.75 | \$3.71 | \$4.08 | \$4.35 | \$4.50 | \$4.50 |
| <u>SURFACE WATER</u> | | | | | | |
| Residential (flat fee charged annually) | \$30.00 | \$30.00 | \$35.00 | \$40.00 | \$50.00 | \$50.00 |
| Non-Residential (flat fee charged annually based on equivalent res. unit) | \$30.00 | \$30.00 | \$35.00 | \$40.00 | \$50.00 | \$50.00 |
| <u>SEWER CONNECTION CHARGES (collected with permit)</u> | | | | | | |
| Single family, duplex, townhouse, mobile home (per unit) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Comm/industrial, churches, schools, hospitals, nursing homes (per unit) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| <u>WATER CONNECTION CHARGES (collected with permit)</u> | | | | | | |
| Meter | \$275 | \$275 | \$285 | \$300 | \$300 | \$300 |
| Single family, duplex, townhouse, mobile home (per unit) | \$140 | \$175 | \$130 | \$140 | \$140 | \$140 |
| Comm/industrial, churches, schools, hospitals, nursing homes (per unit) | \$140 | \$175 | \$130 | \$140 | \$140 | \$140 |
| <u>TRUNK LINE AVAILABILITY CHARGES (collected at time of development)</u> | | | | | | |
| Sewer availability charge per unit | \$3,500 | \$3,500 | \$3,500 | \$3,300 | \$3,500 | \$3,500 |
| MCES connection charge (per unit) | \$2,150 | \$2,150 | \$2,150 | \$2,150 | \$2,230 | \$2,230 |
| Water availability charge for new development per unit | \$3,675 | \$3,675 | \$3,675 | \$3,900 | \$3,900 | \$3,900 |
| Water availability charge for existing structures within Old Village | \$800 | \$800 | \$800 | \$800 | \$800 | \$800 |

Utility Rates

City of Lake Elmo Fee Schedule Estimated for Future Years

| | Annual % Incr Beg Yr 2013 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| WATER AND SEWER SERVICE | | | | | | | | | | |
| Residential | | | | | | | | | | |
| Water Basic Service fee (per meter or per unit/qtr) | 3.0% | \$25.75 | \$26.52 | \$27.32 | \$28.14 | \$28.98 | \$29.85 | \$30.75 | \$31.67 | \$32.62 |
| Sewer Basic Service fee (per meter or per unit/qtr) | 3.0% | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Water (per meter or per unit per 1,000 gallons): | | | | | | | | | | |
| Tier 1: Water usage per first 15,000 gallons | 3.0% | \$2.20 | \$2.27 | \$2.34 | \$2.41 | \$2.48 | \$2.56 | \$2.63 | \$2.71 | \$2.79 |
| Tier 2: Water usage +15,000 gallons to 30,000 gallons | 3.0% | \$2.95 | \$3.03 | \$3.13 | \$3.22 | \$3.32 | \$3.41 | \$3.52 | \$3.62 | \$3.73 |
| Tier 3: Water usage +30,000 gallons to 50,000 gallons | 3.0% | \$3.88 | \$4.00 | \$4.12 | \$4.24 | \$4.37 | \$4.50 | \$4.64 | \$4.78 | \$4.92 |
| Tier 4: Water usage +50,000 gallons to 80,000 gallons | 3.0% | \$5.15 | \$5.30 | \$5.46 | \$5.63 | \$5.80 | \$5.97 | \$6.15 | \$6.33 | \$6.52 |
| Tier 5: Water usage +80,000 gallons | 3.0% | \$6.83 | \$7.03 | \$7.24 | \$7.46 | \$7.69 | \$7.92 | \$8.15 | \$8.40 | \$8.65 |
| Sewer (per 1,000 gallons) | 3.0% | \$4.64 | \$4.77 | \$4.92 | \$5.06 | \$5.22 | \$5.37 | \$5.53 | \$5.70 | \$5.87 |
| Commercial and Industrial | | | | | | | | | | |
| Water Basic Service fee (per meter or per unit/qtr) | 3.0% | \$25.75 | \$26.52 | \$27.32 | \$28.14 | \$28.98 | \$29.85 | \$30.75 | \$31.67 | \$32.62 |
| Sewer Basic Service fee (per meter or per unit/qtr) | 3.0% | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Water (per meter or per unit per 1,000 gallons): | | | | | | | | | | |
| Tier 1: Water usage per first 10,000 gallons | 3.0% | \$3.20 | \$3.30 | \$3.40 | \$3.50 | \$3.61 | \$3.71 | \$3.82 | \$3.94 | \$4.06 |
| Tier 2: Water usage +10,000 gallons to 25,000 gallons | 3.0% | \$3.36 | \$3.46 | \$3.56 | \$3.67 | \$3.78 | \$3.89 | \$4.01 | \$4.13 | \$4.25 |
| Tier 3: Water usage +25,000 gallons | 3.0% | \$3.88 | \$4.00 | \$4.12 | \$4.24 | \$4.37 | \$4.50 | \$4.64 | \$4.78 | \$4.92 |
| Tier 4: Water usage +29,000 gallons to next Tier | 3.0% | \$5.15 | \$5.30 | \$5.46 | \$5.63 | \$5.80 | \$5.97 | \$6.15 | \$6.33 | \$6.52 |
| Tier 5: Water usage +36,000 gallons to next Tier | 3.0% | \$6.83 | \$7.03 | \$7.24 | \$7.46 | \$7.69 | \$7.92 | \$8.15 | \$8.40 | \$8.65 |
| Sewer (per 1,000 gallons) | 3.0% | \$4.64 | \$4.77 | \$4.92 | \$5.06 | \$5.22 | \$5.37 | \$5.53 | \$5.70 | \$5.87 |
| SURFACE WATER | | | | | | | | | | |
| Residential (flat fee charged annually) | 3.0% | \$51.50 | \$53.05 | \$54.64 | \$56.28 | \$57.96 | \$59.70 | \$61.49 | \$63.34 | \$65.24 |
| Non-Residential (flat fee charged annually based on equivalent res. unit) | 3.0% | \$51.50 | \$53.05 | \$54.64 | \$56.28 | \$57.96 | \$59.70 | \$61.49 | \$63.34 | \$65.24 |
| SEWER CONNECTION CHARGES (collected with permit) | | | | | | | | | | |
| Single family, duplex, townhouse, mobile home (per unit) | 3.0% | \$1,000 | \$1,030 | \$1,061 | \$1,093 | \$1,126 | \$1,159 | \$1,194 | \$1,230 | \$1,267 |
| Comm/Industrial, churches, schools, hospitals, nursing homes (per unit) | 3.0% | \$1,000 | \$1,030 | \$1,061 | \$1,093 | \$1,126 | \$1,159 | \$1,194 | \$1,230 | \$1,267 |
| WATER CONNECTION CHARGES (collected with permit) | | | | | | | | | | |
| Meter | 3.0% | \$309 | \$318 | \$328 | \$338 | \$348 | \$358 | \$369 | \$380 | \$391 |
| Single family, duplex, townhouse, mobile home (per unit) | 3.0% | \$1,000 | \$1,030 | \$1,061 | \$1,093 | \$1,126 | \$1,159 | \$1,194 | \$1,230 | \$1,267 |
| Comm/Industrial, churches, schools, hospitals, nursing homes (per unit) | 3.0% | \$1,000 | \$1,030 | \$1,061 | \$1,093 | \$1,126 | \$1,159 | \$1,194 | \$1,230 | \$1,267 |
| TRUNK LINE AVAILABILITY CHARGES (collected at time of development) | | | | | | | | | | |
| Sewer availability charge per unit | 3.0% | \$3,000 | \$3,090 | \$3,183 | \$3,278 | \$3,377 | \$3,478 | \$3,582 | \$3,690 | \$3,800 |
| MCES connection charge (per unit) | 2.0% | \$2,435 | \$2,484 | \$2,533 | \$2,584 | \$2,636 | \$2,688 | \$2,742 | \$2,797 | \$2,853 |
| Water availability charge for new development per unit | 3.0% | \$3,000 | \$3,090 | \$3,183 | \$3,278 | \$3,377 | \$3,478 | \$3,582 | \$3,690 | \$3,800 |
| Water availability charge for existing structures within Old Village | 3.0% | \$824 | \$849 | \$874 | \$900 | \$927 | \$955 | \$984 | \$1,013 | \$1,044 |

Utility Rates

City of Lake Elmo

Customer Equivalent Units, Volume of Water and Sanitary Sewer Service Billed

| | Future Estimates for Financial Plans | | | | | | | | | | |
|--|--------------------------------------|-------------|------|------|------|------|------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| | 2011 | 2012 Budget | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |

Volume figures below are annual amounts and shown in 1,000 of Gallons

Residential

| | | | | | | | | | | | |
|---|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| Water Basic Service fee (per meter or per unit/qr) | 874 | 874 | 881 | 910 | 948 | 1,012 | 1,058 | 1,109 | 1,260 | 1,311 | 1,369 |
| Sewer Basic Service fee (per meter or per unit/qr) | 874 | 874 | 881 | 910 | 948 | 1,012 | 1,058 | 1,109 | 1,260 | 1,311 | 1,369 |
| Water (per meter or per unit): | | | | | | | | | | | |
| Tier 1: Water usage per first 15,000 gallons | 52,440 | 52,440 | 52,860 | 54,580 | 56,905 | 60,715 | 63,490 | 66,565 | 75,610 | 78,655 | 82,150 |
| Tier 2: Water usage +15,000 gallons to 30,000 gallons | 7,500 | 7,500 | 7,560 | 7,806 | 8,139 | 8,683 | 9,080 | 9,520 | 10,814 | 11,249 | 11,749 |
| Tier 3: Water usage +30,000 gallons to 50,000 gallons | 5,000 | 5,000 | 5,040 | 5,204 | 5,426 | 5,789 | 6,054 | 6,347 | 7,209 | 7,500 | 7,833 |
| Tier 4: Water usage +50,000 gallons to 80,000 gallons | 6,841 | 6,841 | 6,896 | 7,120 | 7,423 | 7,921 | 8,283 | 8,684 | 9,864 | 10,261 | 10,717 |
| Tier 5: Water usage +80,000 gallons | 15,500 | 15,500 | 15,624 | 16,133 | 16,820 | 17,946 | 18,766 | 19,675 | 22,348 | 23,249 | 24,282 |
| Total Water Volume Sold | 87,281 | 87,281 | 87,980 | 90,843 | 94,713 | 101,054 | 105,673 | 110,791 | 125,845 | 130,913 | 136,730 |
| Sewer (per 1,000 gallons) | 2,337 | 2,337 | 2,356 | 2,432 | 2,536 | 2,706 | 2,829 | 2,966 | 3,369 | 3,505 | 3,661 |

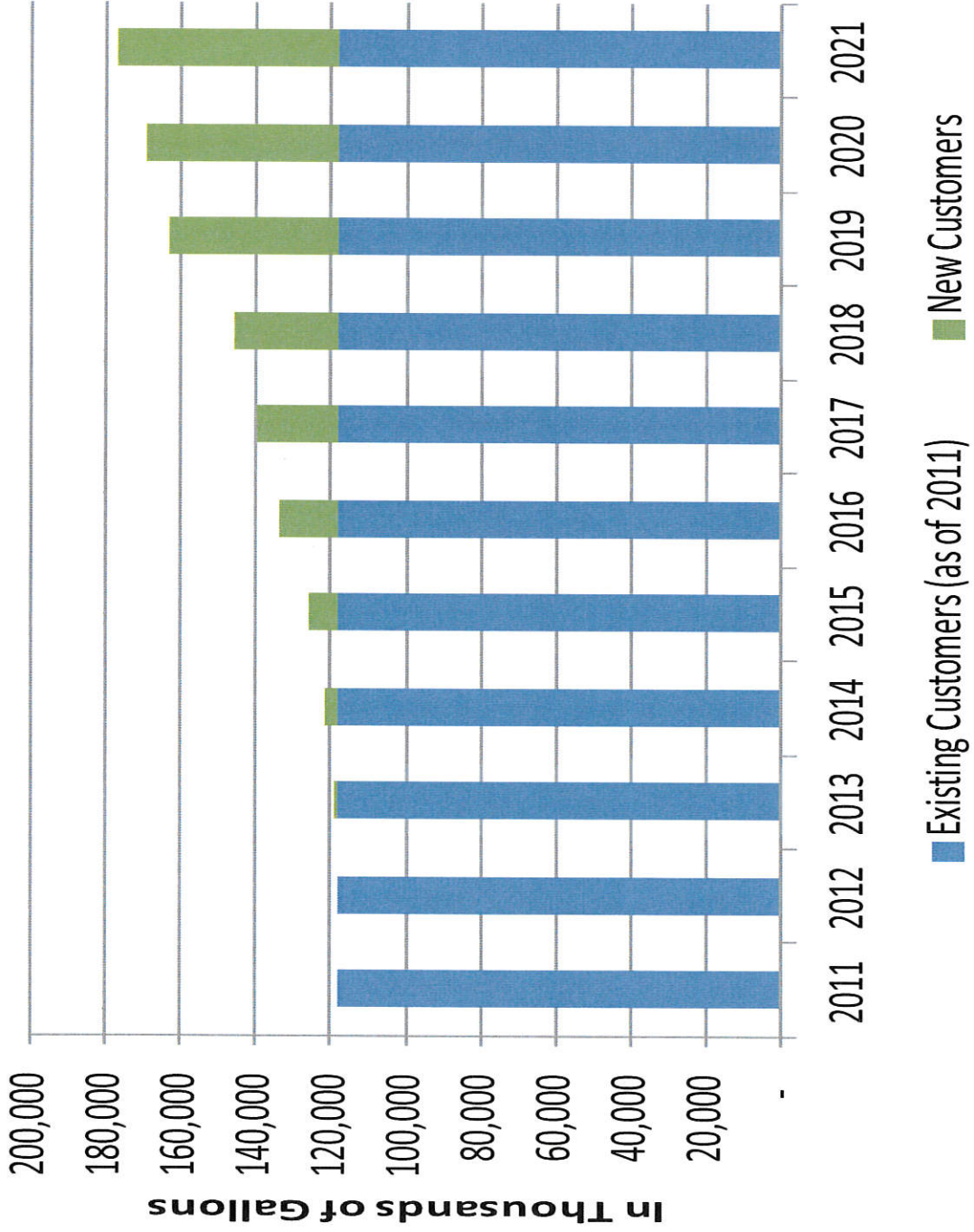
Commercial and Industrial

| | | | | | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Water Basic Service fee (per meter or per unit/qr) | 109 | 109 | 109 | 109 | 112 | 114 | 120 | 124 | 132 | 135 | 143 |
| Sewer Basic Service fee (per meter or per unit/qr) | 109 | 109 | 109 | 109 | 112 | 114 | 120 | 124 | 132 | 135 | 143 |
| Water (per meter or per unit): | | | | | | | | | | | |
| Tier 1: Water usage per first 10,000 gallons | 6,540 | 6,540 | 6,540 | 6,540 | 6,690 | 6,840 | 7,215 | 7,440 | 7,890 | 8,115 | 8,565 |
| Tier 2: Water usage +10,000 gallons to 25,000 gallons | 1,000 | 1,000 | 1,000 | 1,000 | 1,023 | 1,046 | 1,103 | 1,138 | 1,206 | 1,241 | 1,310 |
| Tier 3: Water usage +25,000 gallons | 1,000 | 1,000 | 1,000 | 1,000 | 1,023 | 1,046 | 1,103 | 1,138 | 1,206 | 1,241 | 1,310 |
| Tier 4: Water usage +29,000 gallons to next Tier | 3,000 | 3,000 | 3,000 | 3,000 | 3,069 | 3,138 | 3,310 | 3,413 | 3,619 | 3,722 | 3,929 |
| Tier 5: Water usage +36,000 gallons to next Tier | 19,416 | 19,416 | 19,416 | 19,416 | 19,861 | 20,307 | 21,420 | 22,088 | 23,424 | 24,092 | 25,428 |
| Total Water Volume Sold | 30,956 | 30,956 | 30,956 | 30,956 | 31,666 | 32,376 | 34,151 | 35,216 | 37,346 | 38,411 | 40,541 |
| Sewer (per 1,000 gallons) | 10,000 | 10,000 | 10,000 | 10,000 | 10,229 | 10,459 | 11,032 | 11,376 | 12,064 | 12,408 | 13,096 |

TOTAL ESTIMATED WATER BILLED (IN 1,000 OF GALLONS)

| | | | | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 118,237 | 118,237 | 118,936 | 121,799 | 126,379 | 133,430 | 139,824 | 146,007 | 163,191 | 169,324 | 177,271 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|

Estimated Total Gallons of Water Sold



The chart includes water sold to both commercial and residential property. The increase in volume of water sold to new customers is based on the projected new connections (from new development) that is estimated to occur in the future years. The analysis assumes the volume sold to existing customers (2011 is the base year) remains constant.

FINANCIAL PLANS

Based on historical financial performance, current utility rates and structure, and anticipated future capital projects, the following financial plans (pro forma) have been prepared for the utility funds.

Key Assumptions

The financial plans for each of the utility funds was developed based on several key assumptions which are as follows:

- Operating expenditures, including personnel costs and materials supplies and all other operating expense will increase by 2 percent per year.
- No change in existing tier structure for fees and charges.
- Depreciation is held constant in the financial plans. Future depreciation expense will increase with the addition of infrastructure assets but for the purposes of this report the amount was held constant. Future updates to the financial plans will need to consider funding of depreciation and replacement of infrastructure.
- Current capital improvement plan will be implemented at estimated project costs and sources of funding. This includes an increase in future debt service for payment on bonds to be issued.
- Utility fees for use of the system (i.e., volume of water) are shown to increase at the rate of 3 percent per year for years 2013 to 2021. The percent increase is across all elements of the City's current rate structure, including the base and tier rates.

Actual year to year activity (i.e., volume of water sold, operating expenditures, etc) and actual expenditure on capital projects will determine what actual rates will need to be set at in order to maintain adequate cash in the utility funds.

- Connection and availability charges are shown to increase at the rate of 3 percent per year. Revenue from these charges will be needed to pay for the expansion of the system and the planned capital projects and related debt service.
- Water connection charge is increased from \$140 in 2012 to \$3,000 beginning in year 2013. The water connection charge is than adjusted annually at the rate of 3 percent.
- Sewer connection charge is implemented beginning in year 2013. The City presently does not charge for sewer connection. Initially shown to be set at \$3,000 than adjusted annually at the rate of 3 percent.
- Metropolitan Council Environmental Services (MCES) connection charge is shown to increase by an estimated 2 percent per year. The actual annual amounts will be set by MCES.
- The proposed future utility fees and charges are shown to increase at a level that is adequate to maintain a positive cash balance in the funds and to meet a goal of maintaining cash balance at 50 percent of operating expenditures.

Financial Plans

CITY OF LAKE ELIMO WATER FUND FINANCIAL PLAN

| | Notes | 2010 | 2011 | 2012 Budget | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|--|--------------|-----------|-----------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----|
| | | | | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | |
| | | | | | | | | | | | | | | |
| SOURCE OF FUNDS: | | | | | | | | | | | | | | |
| Operating: | | | | | | | | | | | | | | |
| Customer Billing Revenue | ADJ TOTAL | 502,464 | 511,474 | 440,000 | 578,765 | 609,242 | 650,341 | 705,369 | 761,748 | 818,466 | 938,372 | 1,002,178 | 1,081,357 | |
| Bulk water sales | FLAT | - | 6,667 | - | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | |
| Special assessments | SEE AUDIT | 3,774 | (327) | 2,500 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | |
| Water meter sales | SEE SCHED | 11,121 | 9,165 | 5,000 | 8,652 | 31,615 | 43,272 | 73,946 | 52,167 | 53,732 | 55,344 | 57,005 | 58,715 | |
| Trunk Line Fees | SEE SCHED | 78,000 | 74,100 | 48,000 | 600,000 | 927,000 | 1,129,859 | 1,096,552 | 759,718 | 347,782 | 358,216 | 184,481 | 190,016 | |
| Connection Fees | SEE SCHED | | | | 28,000 | 118,107 | 175,049 | 288,480 | 236,357 | 255,040 | 785,835 | 268,113 | 333,161 | |
| Investment earnings | 1% | 10,580 | 9,903 | 4,000 | 7,199 | 11,596 | 20,174 | 16,956 | 20,982 | 25,230 | 28,436 | 38,626 | 42,981 | |
| Rents | 1% | 45,226 | 48,555 | 36,000 | 27,600 | 27,600 | 27,600 | 27,600 | 27,600 | 27,600 | 27,600 | 27,600 | 27,600 | |
| Total Operating Sources | | 651,165 | 659,537 | 535,500 | 1,260,216 | 1,735,160 | 2,056,294 | 2,218,902 | 1,868,573 | 1,537,851 | 2,173,803 | 1,588,003 | 1,743,829 | |
| Non-Operating: | | | | | | | | | | | | | | |
| Bond Proceeds | SEE CIP | 23,928 | 56,226 | - | 3,540,000 | - | - | 2,000,000 | - | - | - | - | - | |
| Grants | SEE CIP | - | - | - | 1,000,000 | - | - | - | - | - | - | - | - | |
| Intergovernmental | SEE CIP | - | - | - | 1,000,000 | - | - | - | - | - | - | - | - | |
| Trsf In from Other/TIF/Developer | SEE CIP | - | - | - | - | 400,000 | - | 250,000 | 350,000 | - | - | - | - | |
| Assessment/Litigation judgment | ESTIMATE | - | - | - | - | - | - | - | - | - | - | - | - | |
| Trsf In from Other/Due From Oth Funds | SEE AUDIT | 50,000 | 50,000 | 25,000 | - | - | - | - | - | - | - | - | - | |
| Contribution of capital assets | SEE AUDIT | 187,401 | - | - | - | - | - | - | - | - | - | - | - | |
| Total Non-Op Sources | | 261,329 | 106,226 | 25,000 | 5,540,000 | 400,000 | - | 2,250,000 | 350,000 | - | - | - | - | |
| Total Source of Funds | | 912,494 | 765,763 | 560,500 | 6,800,216 | 2,135,160 | 2,056,294 | 4,468,902 | 2,218,573 | 1,537,851 | 2,173,803 | 1,588,003 | 1,743,829 | |
| USE OF FUNDS: | | | | | | | | | | | | | | |
| Operating: | | | | | | | | | | | | | | |
| Personnel | 2% | 102,711 | 103,651 | 103,845 | 105,922 | 108,040 | 110,201 | 112,405 | 114,653 | 116,946 | 119,285 | 121,671 | 124,104 | |
| NonPersonnel | 2% | 272,216 | 220,119 | 259,725 | 264,920 | 270,218 | 275,622 | 281,135 | 286,757 | 292,493 | 298,342 | 304,309 | 310,395 | |
| Depreciation* | 2% | 324,818 | 324,192 | 340,000 | 340,000 | 340,000 | 340,000 | 340,000 | 340,000 | 340,000 | 340,000 | 340,000 | 340,000 | |
| Increase in O&M from future improv | 2% | | | | | | | | | | | | | |
| Total Operating Uses | | 699,745 | 647,962 | 703,570 | 710,841 | 718,258 | 725,823 | 733,540 | 741,411 | 749,439 | 757,628 | 765,980 | 774,500 | |
| Non-Operating: | | | | | | | | | | | | | | |
| Capital improvements/acquisition | SEE CIP | 33,320 | 12,831 | - | 5,540,000 | 400,000 | 1,500,000 | 3,175,000 | 600,000 | - | - | - | - | |
| Surface Water Loan Payment | SEE CIP | 56,226 | - | - | - | - | - | - | - | - | - | - | - | |
| GO Water Rev Bond 2002B | SEE CIP | - | - | - | - | - | - | - | - | - | - | - | - | |
| GO Water Rev Bond 2005A | SEE CIP | 175,025 | 175,025 | 175,025 | 300,025 | 320,650 | 315,250 | 49,880 | 53,680 | 52,128 | 55,575 | 53,850 | 51,925 | |
| GO Ref Bond 2009A (Refund 2002B) | SEE CIP | 51,131 | 55,069 | 54,680 | 53,680 | 52,480 | 51,280 | 281,043 | 272,143 | 293,343 | 284,043 | 279,843 | 270,643 | |
| GO Ref Bond 2012A (Refund 2005A) | SEE CIP | - | - | - | - | - | - | - | - | - | - | - | - | |
| Future Debt Service on Bonds | SEE DEBT | - | - | - | 95,958 | 125,958 | 125,778 | 166,818 | 466,563 | 462,348 | 397,473 | 392,923 | 392,833 | |
| Bond Discount Amortization* | SEE CIP | 7,418 | 7,418 | 7,418 | 6,277 | 6,277 | 6,277 | 6,277 | 6,277 | 6,277 | 6,277 | 6,277 | 6,277 | |
| Other (Adjustments) | REC TO AUDIT | 2,402 | 11,818 | - | - | - | - | - | - | - | - | - | - | |
| Trsf out to Other/Due to Oth Funds | SEE AUDIT | - | - | - | - | - | - | - | - | - | - | - | - | |
| Total Non-Operating | | 325,522 | 262,161 | 237,123 | 5,995,940 | 905,365 | 1,998,585 | 3,679,018 | 1,398,663 | 814,095 | 743,368 | 732,893 | 721,678 | |
| Total Use of Funds | | 1,025,267 | 910,123 | 940,693 | 6,706,781 | 1,623,623 | 2,724,408 | 4,412,557 | 2,140,073 | 1,563,534 | 1,500,995 | 1,498,873 | 1,496,177 | |
| NET DIFFERENCE SOURCES AND USES | | (112,773) | (144,360) | (380,193) | 93,435 | 511,537 | (668,114) | 56,344 | 78,500 | (25,683) | 672,808 | 89,130 | 247,651 | |
| CASH BALANCE | | | | | | | | | | | | | | |
| Available Cash Balance Purposes: | | | | | | | | | | | | | | |
| Maintain 50% of operating expense as reserve | | 323,981 | 351,785 | 355,421 | 359,129 | 362,912 | 366,770 | 370,705 | 374,719 | 378,814 | 382,990 | 387,250 | 398,867 | |
| Net available for capital | | 241,427 | 400,873 | 364,462 | 800,466 | 1,654,497 | 1,328,802 | 1,727,488 | 2,148,250 | 2,464,750 | 3,479,658 | 3,910,805 | 4,493,116 | |
| Ending Cash Balance | | 565,408 | 752,658 | 719,883 | 1,159,595 | 2,017,409 | 1,695,572 | 2,098,193 | 2,522,970 | 2,843,563 | 3,862,648 | 4,298,055 | 4,891,984 | |

City hasn't identified but does anticipate there will be future capital spending in years 2018 to 2021 not accounted for here.

Financial Plans

CITY OF LAKE ELMO SANITARY SEWER FINANCIAL PLAN

| | Notes | 2010 | 2011 | 2012 Budget | Projected | | | | | | 2021 | | |
|--|-------------|----------|----------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | | | 1 | 2 | 3 | 4 | 5 | 6 | | 7 | 8 |
| SOURCE OF FUNDS: | | | | | | | | | | | | | |
| Operating: | | | | | | | | | | | | | |
| Customer Billing Revenue | | 48,508 | 53,012 | 50,000 | 57,268 | 59,352 | 62,770 | 66,674 | 72,311 | 77,065 | 85,416 | 90,713 | 98,389 |
| Interest income | 1% | 631 | 417 | 100 | (166) | 4,865 | 12,863 | 22,311 | 32,689 | 39,338 | 39,171 | 46,704 | 47,270 |
| Special assessments | SEE AUDIT | - | - | - | - | - | - | - | - | - | - | - | - |
| Trunk Line fees | SEE SCHED | 2,400 | 1,785 | - | 600,000 | 927,000 | 1,129,859 | 1,096,552 | 759,718 | 347,782 | 358,216 | 184,481 | 190,016 |
| Connection fees | SEE SCHED | - | - | - | 28,000 | 118,107 | 175,049 | 288,480 | 236,357 | 255,040 | 755,835 | 268,113 | 333,161 |
| MCEs fee collected | | - | - | - | 446,000 | 730,500 | 881,714 | 847,414 | 581,409 | 263,572 | 268,844 | 137,110 | 139,852 |
| Total Operating Sources | | 51,539 | 55,214 | 50,100 | 1,131,101 | 1,839,823 | 2,262,253 | 2,321,430 | 1,682,485 | 982,797 | 1,507,481 | 727,121 | 808,688 |
| Non-Operating: | | | | | | | | | | | | | |
| Bond Proceeds | SEE CIP | - | - | - | 3,500,000 | 1,200,000 | 1,100,000 | - | - | - | - | - | - |
| Grants | SEE CIP | - | - | - | 1,000,000 | - | - | - | - | - | - | - | - |
| Intergovernmental | SEE CIP | - | - | - | - | - | - | 180,000 | 180,000 | - | - | - | - |
| Trsf In from Other/TIF/Developer | SEE CIP | - | - | - | - | 400,000 | - | 420,000 | 420,000 | - | - | - | - |
| Total Non-Op Sources | | - | - | - | 4,500,000 | 1,600,000 | 1,100,000 | 600,000 | 600,000 | - | - | - | - |
| Total Source of Funds | | 51,539 | 55,214 | 50,100 | 5,631,101 | 3,439,823 | 3,362,253 | 2,921,430 | 2,282,485 | 982,797 | 1,507,481 | 727,121 | 808,688 |
| USE OF FUNDS: | | | | | | | | | | | | | |
| Operating: | | | | | | | | | | | | | |
| Personnel | 2% | 22,996 | 22,837 | 23,403 | 23,871 | 24,348 | 24,835 | 25,332 | 25,839 | 26,356 | 26,883 | 27,420 | 27,969 |
| NonPersonnel | 2% | 29,777 | 41,521 | 70,400 | 71,808 | 73,244 | 74,709 | 76,203 | 77,727 | 79,282 | 80,867 | 82,485 | 84,135 |
| MCEs Payment (offset by fee collected) | | - | - | - | 446,000 | 730,500 | 881,714 | 847,414 | 581,409 | 263,572 | 268,844 | 137,110 | 139,852 |
| Depreciation | 2% | 8,740 | 9,000 | 9,200 | 9,200 | 9,200 | 9,200 | 9,200 | 9,200 | 9,200 | 9,200 | 9,200 | 9,200 |
| Increase in O&M from future Improv | 2% | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Operating Uses | | 61,513 | 73,358 | 103,003 | 550,879 | 837,293 | 990,458 | 958,149 | 694,175 | 378,410 | 385,794 | 256,215 | 261,156 |
| Non-Operating: | | | | | | | | | | | | | |
| Capital | SEE CIP | - | - | - | 4,500,000 | 1,600,000 | 1,100,000 | 600,000 | 600,000 | 300,000 | - | - | - |
| Existing Debt Service | SEE DEBT | - | - | - | - | - | - | - | - | - | - | - | - |
| Future Debt Service on Bonds to be Issued | SEE DEBT | - | - | - | 86,285 | 211,910 | 336,260 | 334,610 | 332,660 | 330,310 | - | - | - |
| Other (Adjustments) | RECTO AUDIT | 17,015 | (6,980) | - | - | - | - | - | - | - | - | - | - |
| Trsf out to Other/Due to Oth Funds | NONE | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Non-Operating | | 17,015 | (6,980) | - | 4,586,285 | 1,811,910 | 1,436,260 | 934,610 | 932,660 | 630,310 | 377,560 | 423,435 | 467,835 |
| Total Use of Funds | | 78,528 | 66,378 | 103,003 | 5,137,164 | 2,649,203 | 2,426,718 | 1,892,759 | 1,626,835 | 1,008,720 | 763,354 | 679,650 | 728,991 |
| NET DIFFERENCE SOURCES AND USES | | | | | | | | | | | | | |
| | | (26,989) | (11,164) | (52,903) | 493,937 | 790,621 | 935,535 | 1,028,671 | 655,649 | (25,922) | 744,127 | 47,470 | 79,697 |
| CASH BALANCE | | | | | | | | | | | | | |
| Available Cash Balance Purposes: | | | | | | | | | | | | | |
| Estimate of 50% of operating expense for reserve | | 36,079 | 51,502 | 275,440 | 418,646 | 495,229 | 479,074 | 347,088 | 189,205 | 192,897 | 128,108 | 130,578 | 134,495 |
| Net available for capital | | (7,453) | (24,440) | (292,081) | 67,850 | 791,088 | 1,751,978 | 2,921,836 | 3,744,568 | 3,744,153 | 4,542,270 | 4,596,470 | 4,681,449 |
| Ending Cash Balance | | 29,226 | 27,062 | (16,641) | 486,496 | 1,286,317 | 2,231,052 | 3,268,923 | 3,933,773 | 3,917,050 | 4,670,377 | 4,727,047 | 4,815,944 |

City hasn't identified but does anticipate there will be future capital spending in years 2019 to 2021 not accounted for here.

Financial Plans

CITY OF LAKE ELMO STORM SEWER FINANCIAL PLAN

| | Notes | Projected | | | | | | | | | | | |
|----------------------------------|-----------|-----------|---------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | 2010 | 2011 | 2012 Budget | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| SOURCE OF FUNDS: | | | | | | | | | | | | | |
| Operating: | | | | | | | | | | | | | |
| Customer Billing Revenue | | 185,245 | 235,252 | 150,000 | 228,378 | 235,229 | 242,286 | 249,554 | 257,041 | 264,732 | 272,695 | 280,876 | 289,302 |
| Interest income | 1% | (83) | 468 | - | 71 | 685 | 1,341 | 2,040 | 2,783 | 3,574 | 4,413 | 5,304 | 6,247 |
| Other Miscellaneous | SEE AUDIT | 32,721 | 17,000 | 17,500 | - | - | - | - | - | - | - | - | - |
| Total Operating Sources | | 217,883 | 252,720 | 167,500 | 228,449 | 235,914 | 243,627 | 251,594 | 259,825 | 268,326 | 277,108 | 286,179 | 295,549 |
| Non-Operating: | | | | | | | | | | | | | |
| Bond Proceeds | SEE CIP | - | - | - | - | - | - | - | - | - | - | - | - |
| Grants | SEE CIP | - | - | - | - | - | - | - | - | - | - | - | - |
| Trsf In from Other/TIF/Developer | SEE CIP | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Non-Op Sources | | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Source of Funds | | 217,883 | 252,720 | 167,500 | 228,449 | 235,914 | 243,627 | 251,594 | 259,825 | 268,326 | 277,108 | 286,179 | 295,549 |

USE OF FUNDS:

Operating:

| | | | | | | | | | | | | | |
|----------------------|----|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Personnel | 2% | 39,855 | 41,134 | 40,532 | 41,343 | 42,169 | 43,013 | 43,873 | 44,751 | 45,646 | 46,559 | 47,490 | 48,439 |
| NonPersonnel | 2% | 96,341 | 95,062 | 123,200 | 125,664 | 128,177 | 130,741 | 133,356 | 136,023 | 138,743 | 141,518 | 144,348 | 147,235 |
| Depreciation | 2% | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 |
| Total Operating Uses | | 151,384 | 151,384 | 178,920 | 182,195 | 185,535 | 188,942 | 192,417 | 195,961 | 199,577 | 203,265 | 207,026 | 210,863 |

Non-Operating:

| | | | | | | | | | | | | | |
|---|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Capital | SEE CIP | - | - | - | - | - | - | - | - | - | - | - | - |
| Existing Debt Service | NONE | - | - | - | - | - | - | - | - | - | - | - | - |
| Future Debt Service on Bonds to be Issued | SEE DEBT | - | - | - | - | - | - | - | - | - | - | - | - |
| Other (Adjustments) | REC TO AUDIT | 81,687 | 113,197 | - | - | - | - | - | - | - | - | - | - |
| Trsf out to Other/Due to Oth Funds | NONE | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Non-Operating | | 81,687 | 113,197 | - | - | - | - | - | - | - | - | - | - |
| Total Use of Funds | | 233,071 | 264,581 | 178,920 | 182,195 | 185,535 | 188,942 | 192,417 | 195,961 | 199,577 | 203,265 | 207,026 | 210,863 |

City hasn't identified but does anticipate there will be future capital spending in years 2018 to 2021 not accounted for here.

NET DIFFERENCE SOURCES AND USES

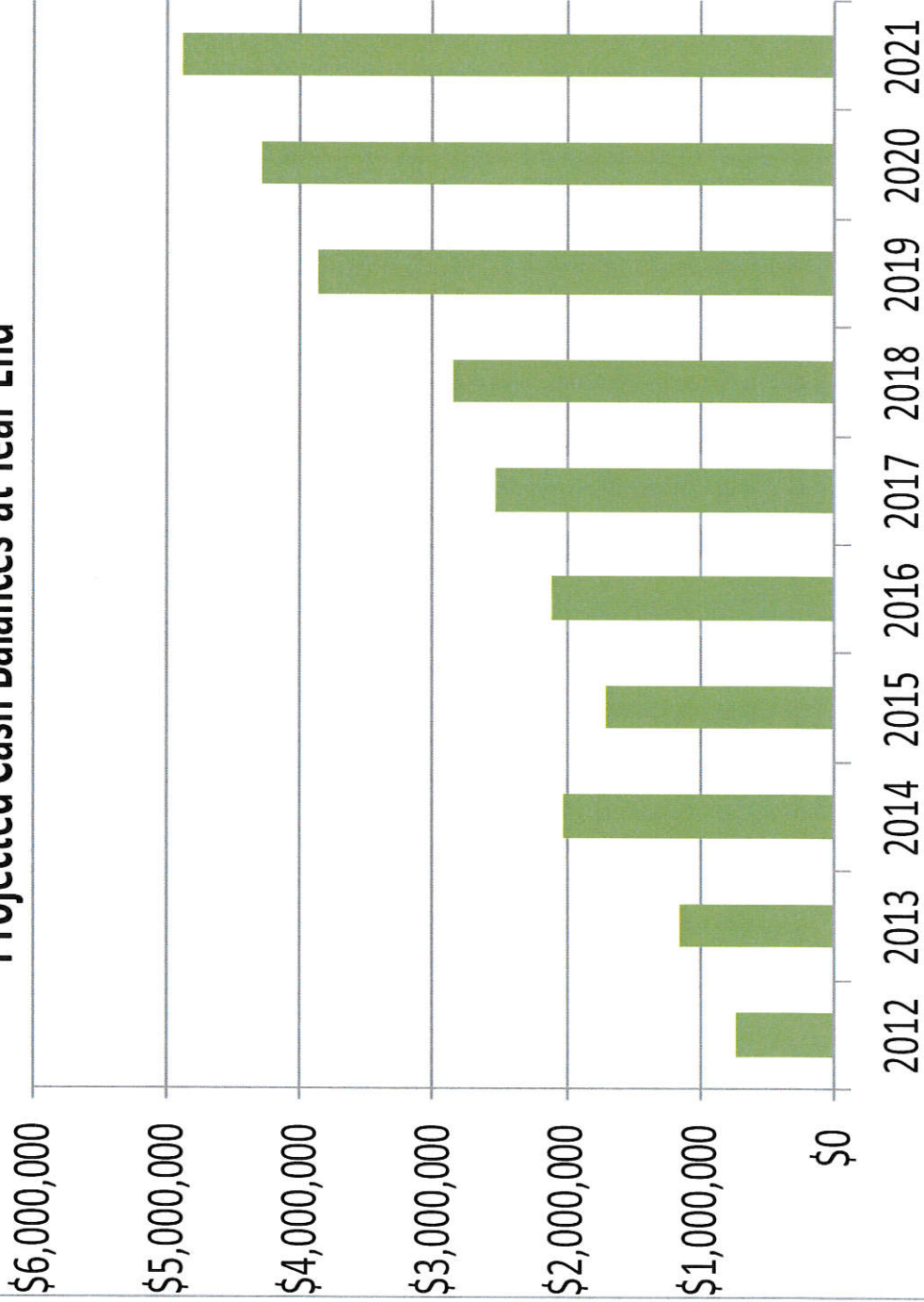
| | | | | | | | | | | | | | |
|--|--|----------|----------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | (15,188) | (11,861) | (11,420) | 46,254 | 50,380 | 54,685 | 59,177 | 63,863 | 68,749 | 73,844 | 79,153 | 84,686 |
|--|--|----------|----------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

CASH BALANCE

| | | | | | | | | | | | | | |
|--|--|----------|----------|----------|----------|---------|---------|---------|---------|---------|---------|---------|---------|
| Available Cash Balance Purposes: | | | | | | | | | | | | | |
| Estimate of 50% of operating expense for reserve | | 75,692 | 89,460 | 91,097 | 92,767 | 94,471 | 96,208 | 97,981 | 99,788 | 101,632 | 103,513 | 105,431 | 108,594 |
| Net available for capital | | (75,692) | (86,133) | (84,002) | (24,230) | 39,634 | 107,770 | 180,363 | 257,606 | 339,700 | 426,851 | 519,274 | 615,985 |
| Ending Cash Balance | | - | 3,327 | 7,095 | 68,537 | 134,105 | 203,978 | 278,343 | 357,395 | 441,332 | 530,364 | 624,705 | 724,579 |

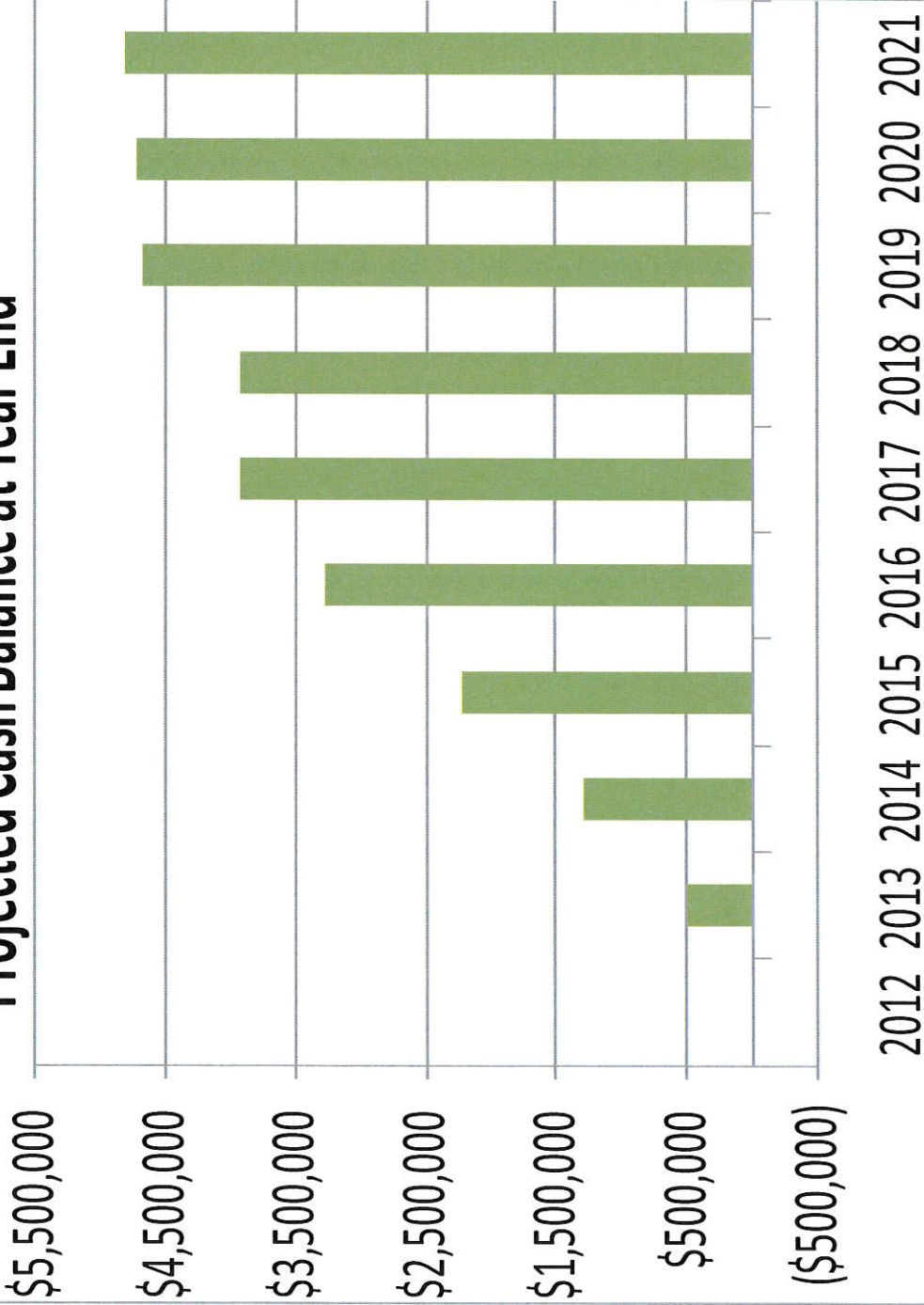
**City of Lake Elmo
Water Fund**

Projected Cash Balances at Year End



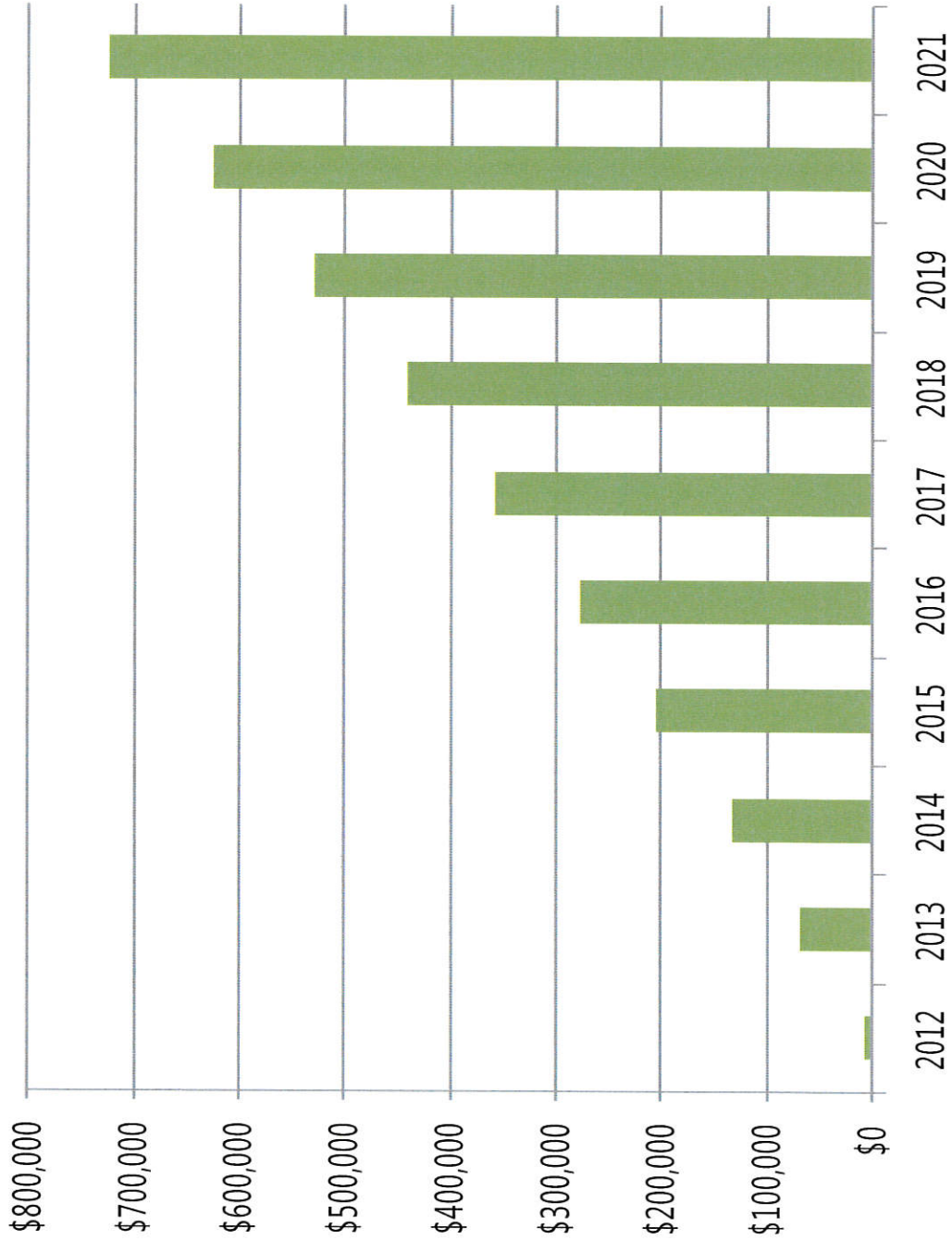
The Capital Improvement Plan anticipates the use of cash in years 2015, 2016, and 2017 for capital projects in lieu of bonding. Year 2015 includes the largest use of cash for capital, estimated at \$1.5 million in this year. The City may determine to increase or decrease the planned issuance of bonds depending on the actual amount of cash available in the in future years to pay for project costs or future debt service. The decision will depend on the amount of cash available which is a factor of the rate of growth from new development and the timing of collection of connection and availability charges and capital spending.

Sanitary Sewer Fund Projected Cash Balance at Year End

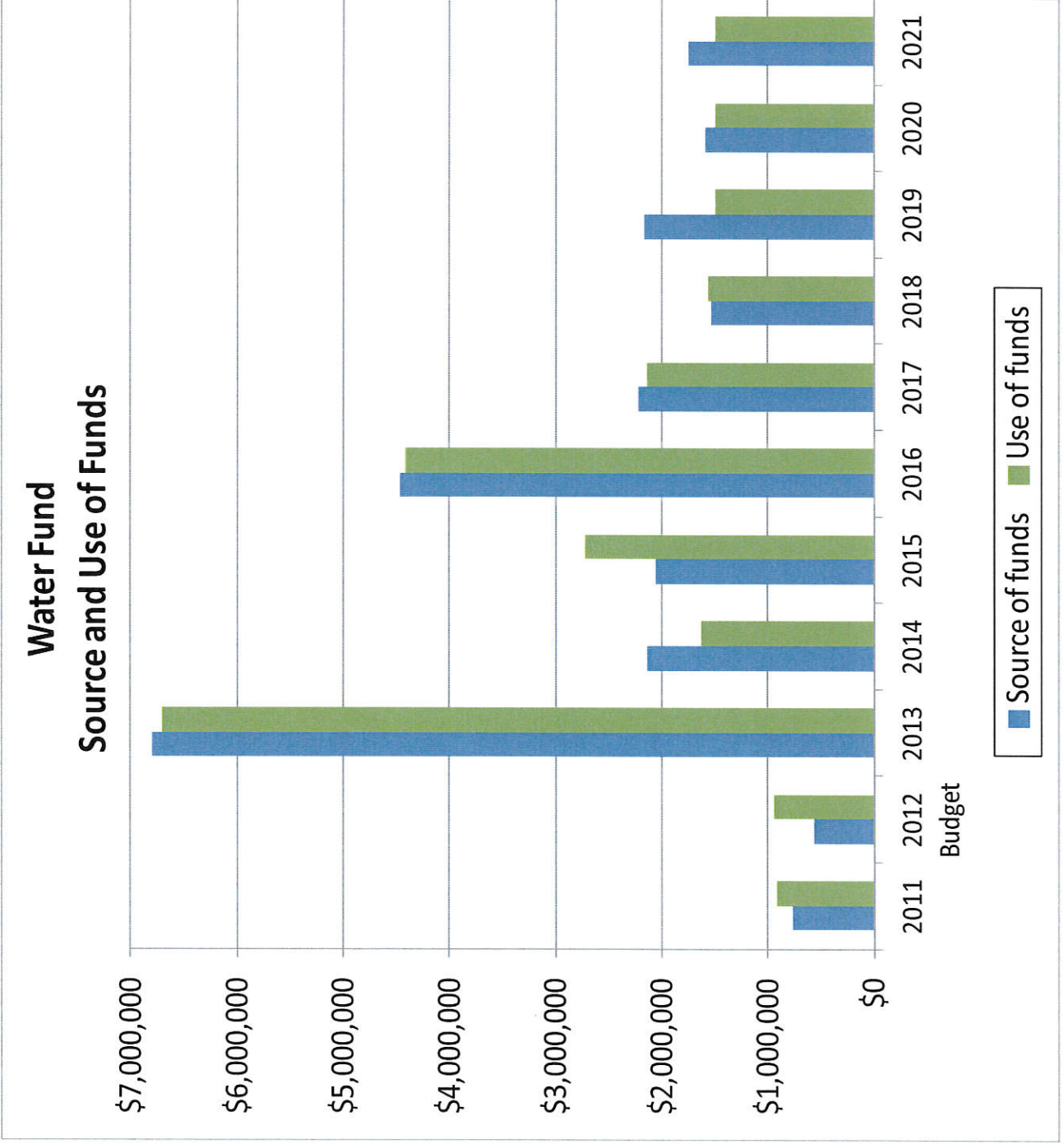


The City's CIP anticipates bonding to pay for capital improvement projects, with the exception of \$300,000 in year 2018. The City may determine to increase or decrease the planned issuance of bonds depending on the actual amount of cash available in the in future years to pay for project costs or future debt service. The decision will depend on the amount of cash available which is a factor of the rate of growth from new development and the timing of collection of connection and availability charges and capital spending.

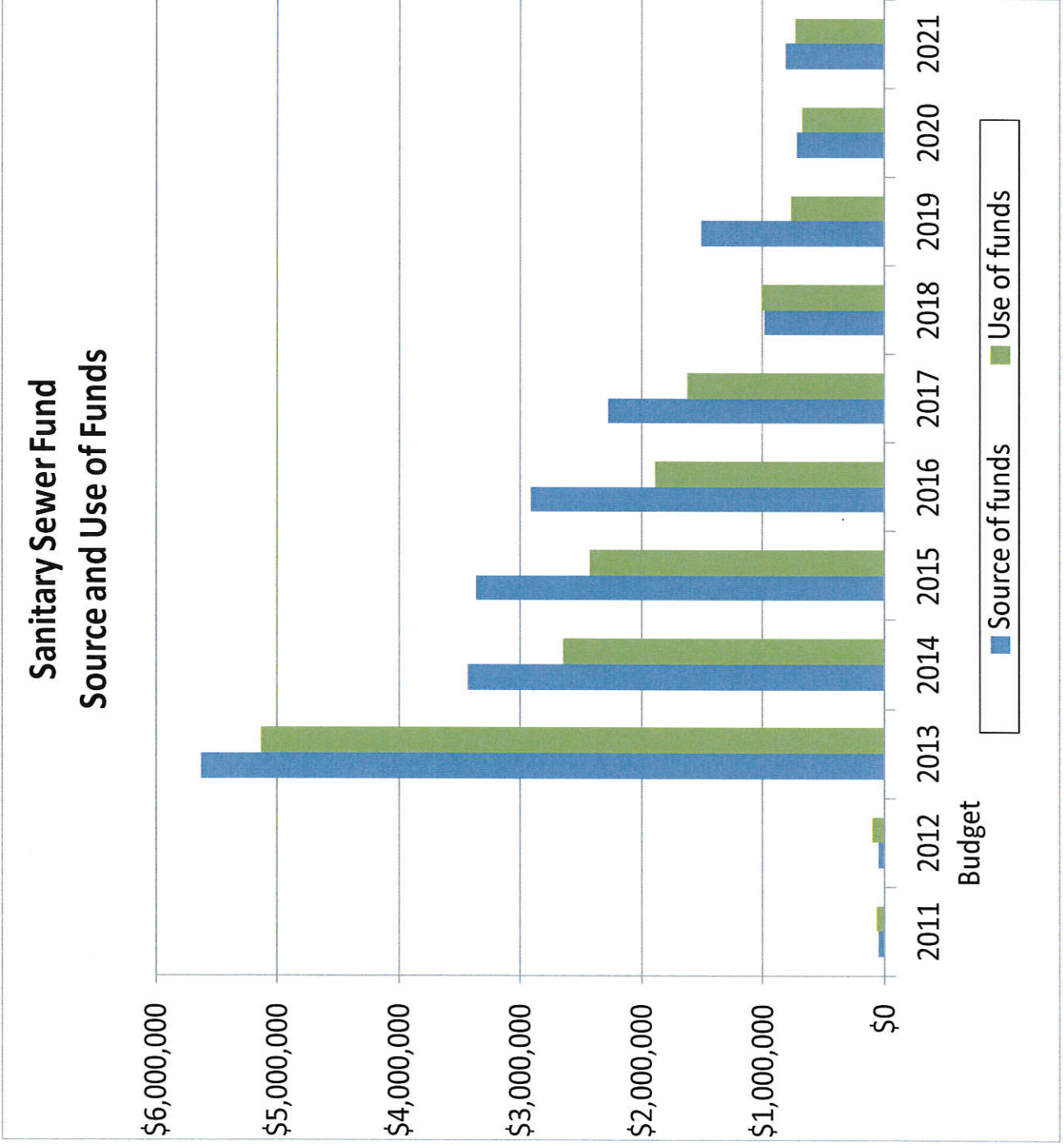
**City of Lake Elmo
Storm Sewer Fund
Projected Cash Balances at Year End**



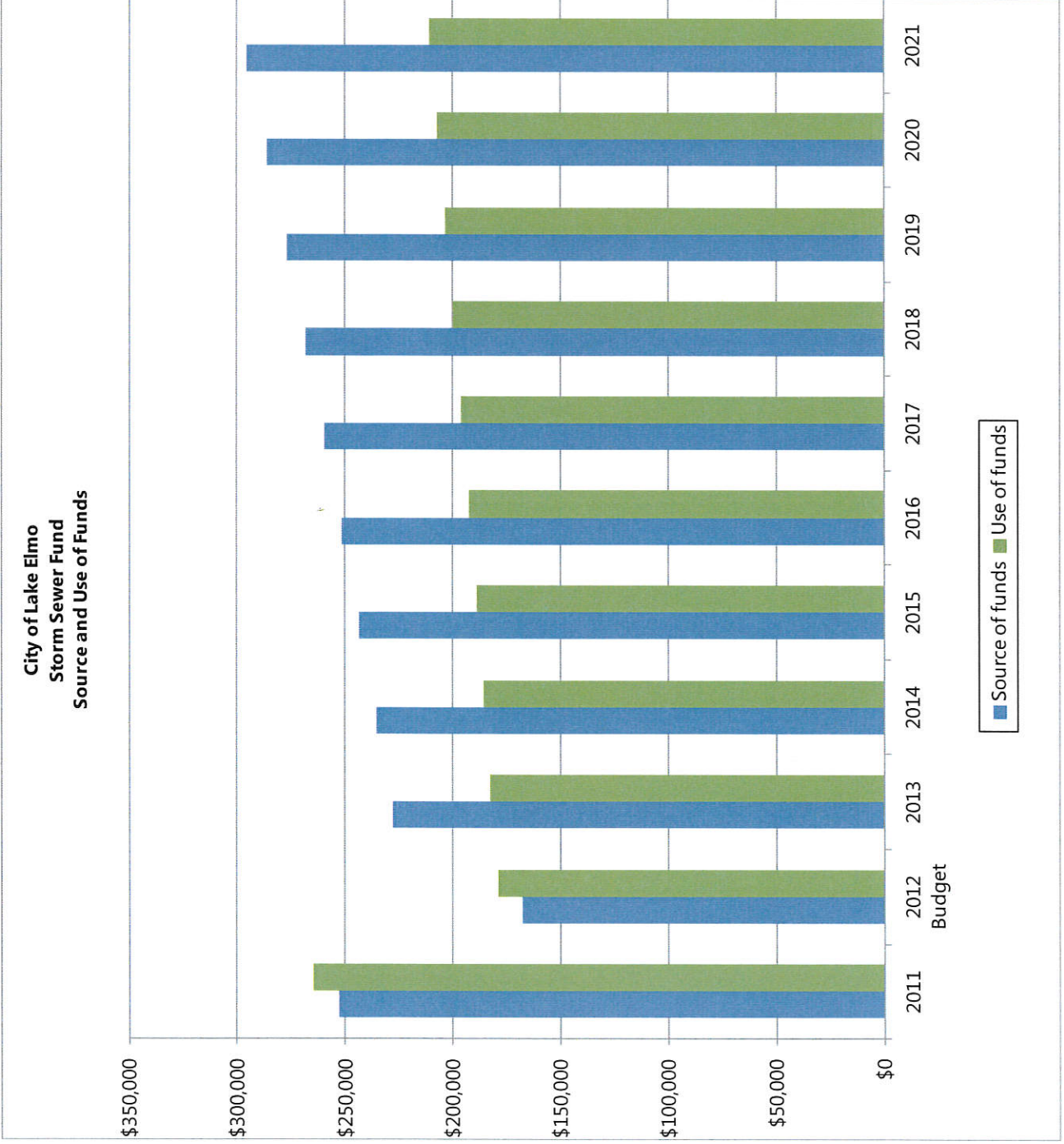
The steady increase in cash balance in the Storm Sewer Fund is due to the assumption that the annual charge for service will increase by 3 percent annually and growth in expenditures will increase by 2 percent annually. The Storm Sewer Fund has no outstanding debt or planned use of cash for capital improvements at this time. Possible addition of capital spending in the future will impact the projected cash balances. If there is no future introduction of plans for capital improvements, the City may determine that future rate increases may not be necessary at the level included in the report.



The annual projected source and use of funds varies due to the timing of capital improvement projects and planned use of cash. The other major factor is payment of debt service. For example, in year 2015 and 2016, the City plans to use \$1,500,000 and \$925,000 of cash for capital improvements, respectively by year.

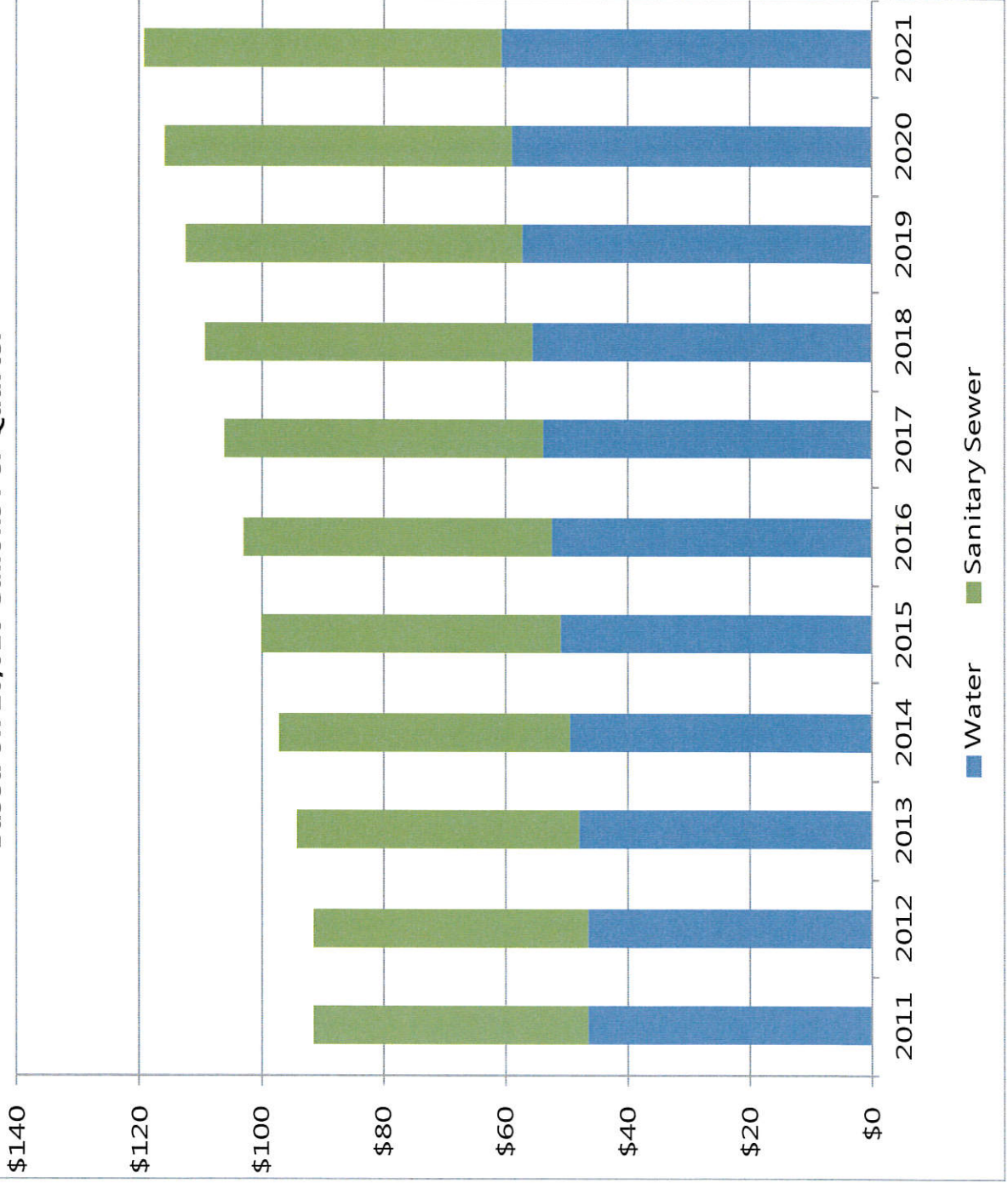


Projected source of funds exceeds use of funds, with the exception of year 2018. In year 2018, the City anticipates the use of \$300,000 of cash from the fund for capital improvements.

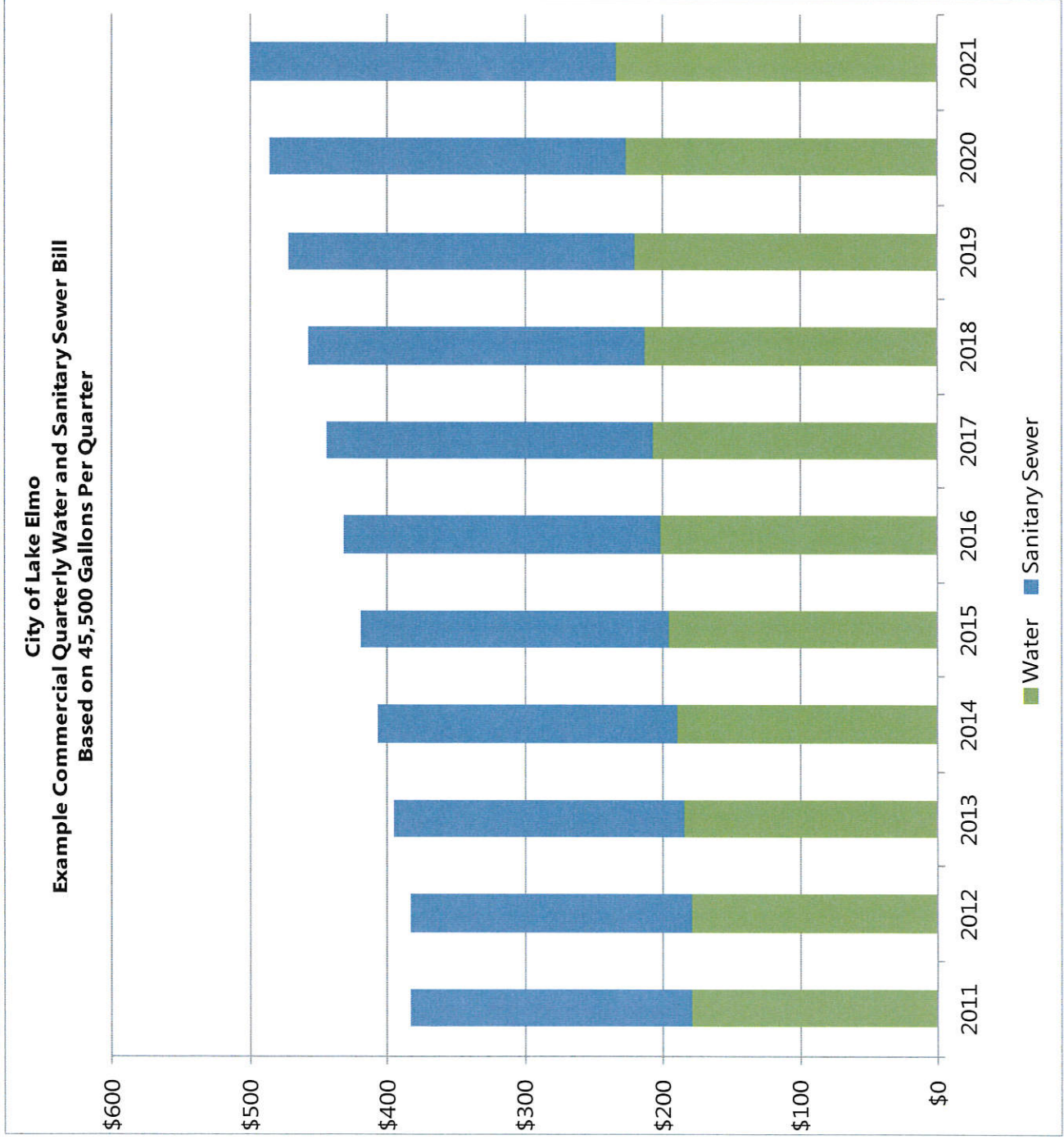


The source of funds is projected to exceed the use of funds each year due to the projected 3 percent increase in the fee charged and 2 percent increase in annual operating expenditures. The Storm Sewer Fund has no outstanding debt or planned use of cash for capital improvements at this time. Possible addition of capital spending in the future will impact the projected cash balances and the draw-down of fund balance. The City may determine to reduce the planned increase in the fee depending on actual expenditures.

**City of Lake Elmo
Example Residential Quarterly Water and Sanitary Sewer Bill
Based on 10,010 Gallons Per Quarter**

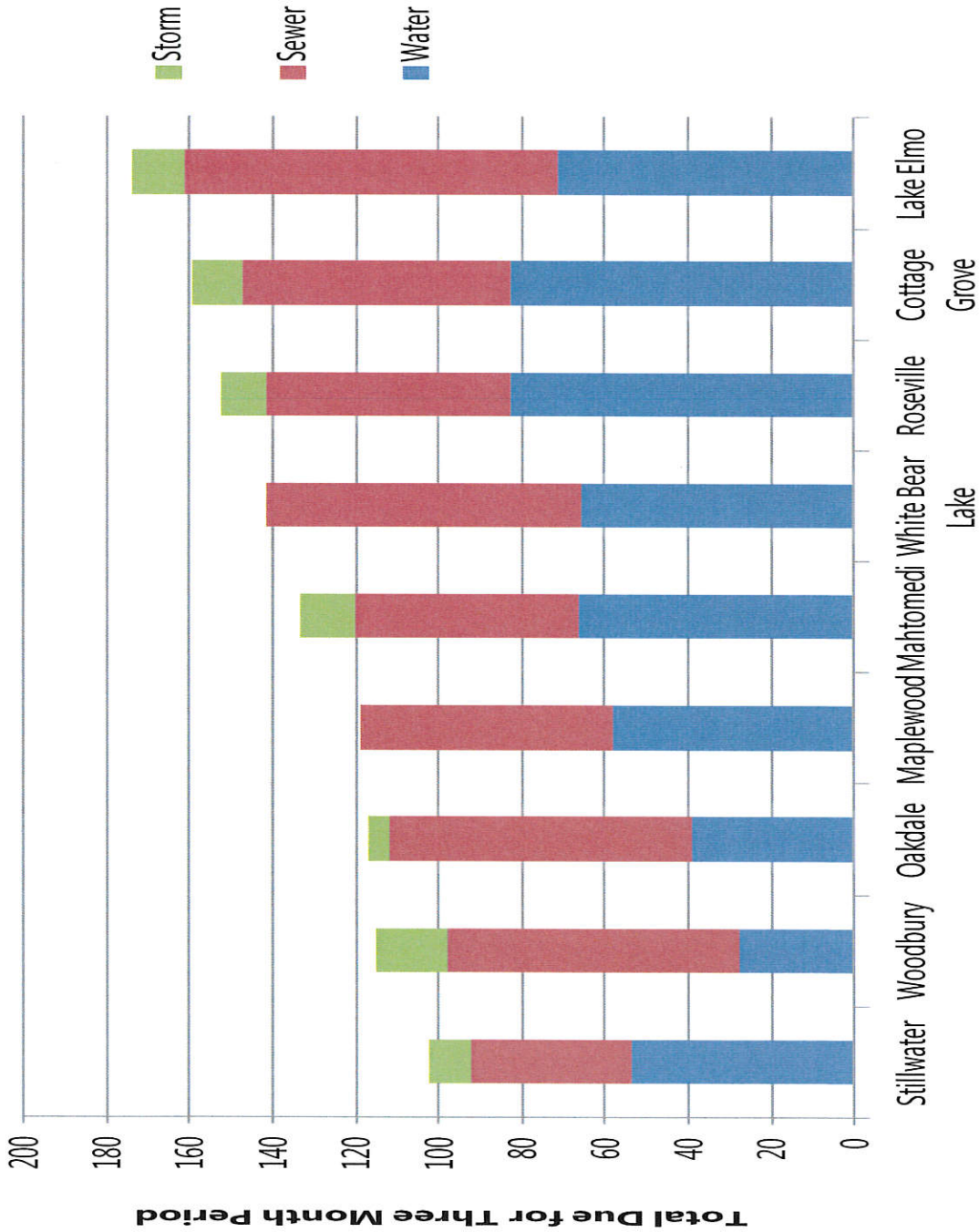


The quarterly charge amounts shown in this chart are based on the fee schedule shown on page 19. The estimated volume of 10,010 is for household water usage. Property with a sprinkler system will have a higher average volume.



The quarterly charge amounts shown in this chart are based on the fee schedule shown on page 19.

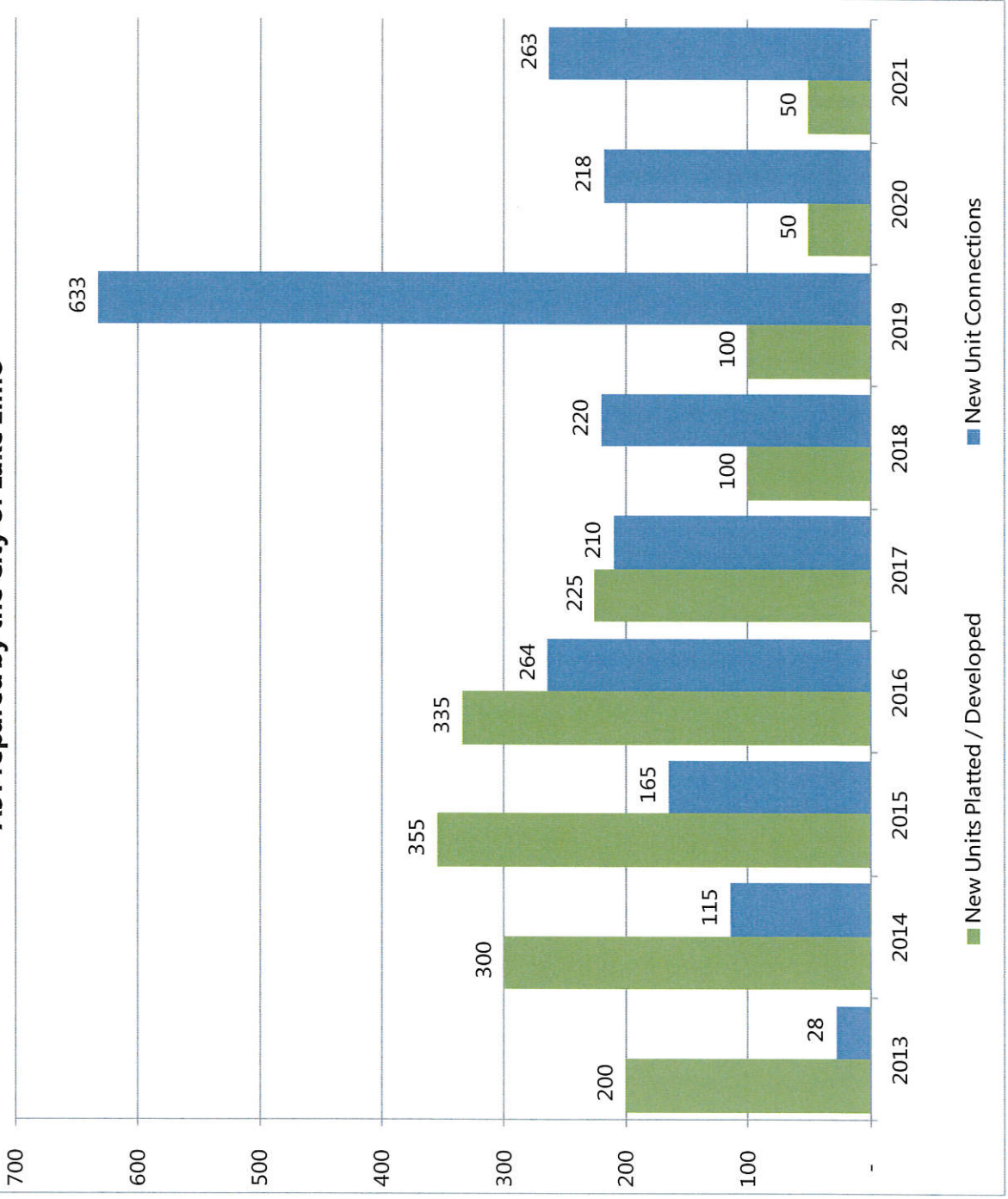
Comparison of Estimated Utility Bills
Example Single Family Res Property Total Charge for Equivalent Three Month Period with 20,000 Gallons of Usage
 (Fee Data Available From Year 2012)



As the City of Lake Elmo's number of customers and volume of water sold increases, the City will have more customer units (and volume) to spread its fixed costs over and as a result the City of Lake Elmo's utility rates should begin to align more closely with other more developed cities utility rates over time.

Appendix

**City of Lake Elmo
Projected New Residential Equivalent Connections
As Prepared by the City of Lake Elmo**



City staff identified total possible new residential equivalent units to be platted / developed by year. To be conservative, for financial planning purposes, the study assumes that approximately 50% of the total possible units will be platted / developed. The figures shown in the chart are the units assumed for financial planning purposes.

The "spike" in unit connections in year 2019 can be attributed to anticipated connections for units in Cimmaron Park.

Water and sewer availability charges will be collected at time of plat or development.

Water and sewer connection charges will be collected at time of building permit / connection to the systems.

NORTHLAND  SECURITIES

Northland Securities, Inc.
45 South 7th Street , Suite 2000
Minneapolis, MN 55402
Toll Free 1-800-851-2920 Main 612-851-5900
www.northlandsecurities.com
Member FINRA and SIPC

City of Lake Elmo Growth Projections
 Roll up of Residential and Commercial
 Revenue vs Debt Service Payments
 Water Fund
 2015-2020
 (7-10 year absorption rate)

9/4/2015

The information presented is intended solely for financial planning purposes

| REVENUE IMPACT | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | Total |
|---|------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|------------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Buildouts | | | | | | | | | | | | | | | | | |
| Residential | 41 | 100 | 130 | 210 | 210 | 210 | 210 | 120 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1231 |
| Commercial | 35 | 94 | 70 | 135 | 90 | 70 | 86 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 600 |
| 1831 | | | | | | | | | | | | | | | | | |
| EXISTING -WATER FUND (8/25/15) | | | | | | | | | | | | | | | | | |
| Existing Water Fund Revenue (Non-usage) | x | 1,295,000 | 1,273,000 | 1,911,000 | 1,374,000 | 1,348,000 | 1,142,000 | 698,000 | 2,208,000 | 618,000 | 613,000 # | 598,000 | 598,000 | 598,000 | 598,000 | 598,000 | 15,470,000 |
| Existing Water Fund Usage Revenue | x | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 763,050 | 11,445,750 |
| Total Annual Existing Revenue | | 2,058,050 | 2,036,050 | 2,674,050 | 2,137,050 | 2,111,050 | 1,905,050 | 1,461,050 | 2,971,050 | 1,381,050 | 1,376,050 | 1,361,050 | 1,361,050 | 1,361,050 | 1,361,050 | 1,361,050 | 26,915,750 |
| Existing Assessment Revenue | x | 188,884 | 110,617 | 52,744 | 52,744 | 52,744 | 52,744 | 52,744 | 52,744 | 51,245 | 45,133 | 45,133 | 45,133 | 45,133 | 45,133 | 45,133 | 938,009 |
| Total Existing Available Funding | | 2,246,934 | 2,146,667 | 2,726,794 | 2,189,794 | 2,163,794 | 1,957,794 | 1,513,794 | 3,023,794 | 1,432,295 | 1,421,183 | 1,406,183 | 1,406,183 | 1,406,183 | 1,406,183 | 1,406,183 | 27,853,759 |
| Existing Operating Expenses | x | (377,879) | (389,219) | (400,892) | (412,919) | (425,306) | (438,066) | (451,208) | (451,208) | (451,208) | (451,208) | (451,208) | (451,208) | (451,208) | (451,208) | (451,208) | (6,505,153) |
| Existing Debt service (P+I) - Water Fund | | (459,124) | (574,285) | (632,093) | (663,193) | (653,543) | (643,943) | (629,343) | (704,633) | (702,877) | (684,688) | (695,938) | (691,500) | (701,232) | (704,594) | (695,147) | (9,836,133) |
| Existing Net Cash Flow - Water Fund | | 1,409,931 | 1,183,163 | 1,693,809 | 1,113,682 | 1,084,945 | 875,785 | 433,243 | 1,867,953 | 278,210 | 285,287 | 259,037 | 263,475 | 253,743 | 250,381 | 259,828 | 11,512,473 |
| PROJECTED IMPACT WITH FULL DOWNTOWN PROJECT | | | | | | | | | | | | | | | | | |
| New Water Fund Revenue (Non-usage) | x | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New Water Fund Usage Revenue | x | 77,100 | 278,100 | 461,100 | 789,600 | 1,050,600 | 1,281,600 | 1,536,600 | 1,698,600 | 1,770,600 | 1,782,600 | 1,851,600 | 1,911,600 | 1,971,600 | 2,031,600 | 2,091,600 | 20,584,500 |
| Total Annual Water Fund Revenue | x | 77,100 | 278,100 | 461,100 | 789,600 | 1,050,600 | 1,281,600 | 1,536,600 | 1,698,600 | 1,770,600 | 1,782,600 | 1,851,600 | 1,911,600 | 1,971,600 | 2,031,600 | 2,091,600 | 20,584,500 |
| New annual assessment revenue | | 7,765 | 7,765 | 7,765 | 7,765 | 7,765 | 7,765 | 7,765 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 54,352 |
| Total New Available Funding | | 84,865 | 285,865 | 468,865 | 797,365 | 1,058,365 | 1,289,365 | 1,544,365 | 1,698,600 | 1,770,600 | 1,782,600 | 1,851,600 | 1,911,600 | 1,971,600 | 2,031,600 | 2,091,600 | 20,638,852 |
| New Operating Expenses | x | (66,651) | (133,307) | (133,307) | (133,307) | (391,475) | (391,475) | (391,475) | (391,475) | (391,475) | (391,475) | (391,475) | (391,475) | (391,475) | (391,475) | (391,475) | (4,772,797) |
| Oversizing watermains | x | (161,861) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (161,861) |
| New Debt Service (P+I) - Water Fund | x | 0 | 0 | (279,614) | (360,856) | (403,740) | (406,974) | (722,545) | (704,436) | (686,327) | (668,218) | (650,109) | (631,999) | (613,890) | (595,781) | (577,672) | (7,302,161) |
| New Cash Flow - Water Fund | | (143,647) | 152,558 | 55,944 | 303,202 | 263,150 | 490,916 | 430,345 | 602,689 | 692,798 | 722,907 | 810,016 | 888,126 | 966,235 | 1,044,344 | 1,122,453 | 8,402,034 |
| Combined | | | | | | | | | | | | | | | | | |
| Combined Water Fund Revenue (Non-usage) | | 1,295,000 | 1,273,000 | 1,911,000 | 1,374,000 | 1,348,000 | 1,142,000 | 698,000 | 2,208,000 | 618,000 | 613,000 | 598,000 | 598,000 | 598,000 | 598,000 | 598,000 | 15,470,000 |
| Combined Water Fund Usage Revenue | | 840,150 | 1,041,150 | 1,224,150 | 1,552,650 | 1,813,650 | 2,044,650 | 2,299,650 | 2,461,650 | 2,533,650 | 2,545,650 | 2,614,650 | 2,674,650 | 2,734,650 | 2,794,650 | 2,854,650 | 32,030,250 |
| Combined Annual Certified Debt Service - Levied | | 2,135,150 | 2,314,150 | 3,135,150 | 2,926,650 | 3,161,650 | 3,186,650 | 2,997,650 | 4,669,650 | 3,151,650 | 3,158,650 | 3,212,650 | 3,272,650 | 3,332,650 | 3,392,650 | 3,452,650 | 47,500,250 |
| Combined annual assessment revenue | | 196,649 | 118,381 | 60,509 | 60,509 | 60,509 | 60,509 | 60,509 | 52,744 | 51,245 | 45,133 | 45,133 | 45,133 | 45,133 | 45,133 | 45,133 | 992,362 |
| Combined Available Funding | | 2,331,799 | 2,432,531 | 3,195,659 | 2,987,159 | 3,222,159 | 3,247,159 | 3,058,159 | 4,722,394 | 3,202,895 | 3,203,783 | 3,257,783 | 3,317,783 | 3,377,783 | 3,437,783 | 3,497,783 | 48,492,612 |
| Combined Operating Expenses | | (444,530) | (522,526) | (534,199) | (546,226) | (816,781) | (829,541) | (842,683) | (842,683) | (842,683) | (842,683) | (842,683) | (842,683) | (842,683) | (842,683) | (842,683) | (11,277,950) |
| Oversizing Watermains | | (161,861) | | | | | | | | | | | | | | | (161,861) |
| Combined Debt Service (P+I) - Water Fund | | (459,124) | (574,285) | (911,707) | (1,024,049) | (1,057,283) | (1,050,917) | (1,351,888) | (1,409,069) | (1,389,204) | (1,352,906) | (1,346,047) | (1,323,499) | (1,315,122) | (1,300,375) | (1,272,819) | (17,138,294) |
| Combined Cash Flow - Water Fund | | 1,266,284 | 1,335,720 | 1,749,753 | 1,416,884 | 1,348,095 | 1,366,701 | 863,588 | 2,470,642 | 971,008 | 1,008,194 | 1,069,053 | 1,151,601 | 1,219,978 | 1,294,725 | 1,382,281 | 19,914,507 |

City of Lake Elmo Growth Projections
 Roll up of Residential and Commercial
 Revenue vs Debt Service Payments
 Sewer Fund
 2015-2020
 (7-10 year absorption rate)

9/4/2015

The information presented is intended solely for financial planning purposes

| REVENUE IMPACT | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | Total | | |
|---|------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-----------|-----|
| Buildouts | | | | | | | | | | | | | | | | | | | |
| Residential | 41 | 100 | 130 | 210 | 210 | 210 | 210 | 120 | 120 | 120 | 115 | 100 | 100 | 100 | 100 | 100 | 2086 | | |
| Commercial | 35 | 94 | 70 | 135 | 90 | 70 | 86 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 600 | | |
| EXISTING -SEWER FUND (8/25/15) | | | | | | | | | | | | | | | | | | | |
| Existing Sewer Fund Revenue (Non-usage) | x | 1,433,000 | 1,339,000 | 1,665,000 | 1,314,000 | 1,219,000 | 1,043,000 | 578,000 | 618,000 | 618,000 | 553,000 | 538,000 | 538,000 | 538,000 | 538,000 | 538,000 | 13,070,000 | SACS | |
| Existing Sewer Fund Usage Revenue | x | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 1,500,000 | | |
| Total Annual Existing Revenue | | 1,533,000 | 1,439,000 | 1,765,000 | 1,414,000 | 1,319,000 | 1,143,000 | 678,000 | 718,000 | 718,000 | 653,000 | 638,000 | 638,000 | 638,000 | 638,000 | 638,000 | 14,570,000 | | |
| Existing Assessment Revenue | x | 520,313 | 428,688 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 89,844 | 2,116,968 | P+I |
| Total Existing Available Funding | | 2,053,313 | 1,867,688 | 1,854,844 | 1,503,844 | 1,408,844 | 1,232,844 | 767,844 | 807,844 | 807,844 | 742,844 | 727,844 | 727,844 | 727,844 | 727,844 | 727,844 | 16,686,968 | | |
| Existing Operating Expenses | x | (122,488) | (122,488) | (126,163) | (129,948) | (133,846) | (137,861) | (141,997) | (146,257) | (150,645) | (155,164) | (159,819) | (164,614) | (169,552) | (174,639) | (179,878) | (2,215,358) | | |
| Existing Debt service (P+I) - Sewer Fund | x | (326,390) | (372,347) | (372,703) | (373,010) | (368,217) | (371,199) | (366,277) | (366,277) | (366,277) | (366,277) | (366,277) | (366,277) | (366,277) | (366,277) | (366,277) | (5,480,359) | | |
| Existing Net Cash Flow - Sewer Fund | | 1,604,435 | 1,372,853 | 1,355,978 | 1,000,886 | 906,781 | 723,783 | 259,569 | 295,309 | 290,922 | 221,402 | 201,747 | 196,953 | 192,015 | 186,928 | 181,689 | 8,991,251 | | |
| PROJECTED IMPACT WITH FULL DOWNTOWN PROJECT | | | | | | | | | | | | | | | | | | | |
| New Sewer Fund Revenue (Non-usage) | x | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| New Sewer Fund Usage Revenue | x | 64,800 | 235,800 | 379,800 | 645,300 | 843,300 | 1,011,300 | 1,203,300 | 1,269,300 | 1,305,300 | 1,341,300 | 1,375,800 | 1,405,800 | 1,435,800 | 1,465,800 | 1,495,800 | 15,478,500 | | |
| Total Annual Sewer Fund Revenue | x | 64,800 | 235,800 | 379,800 | 645,300 | 843,300 | 1,011,300 | 1,203,300 | 1,269,300 | 1,305,300 | 1,341,300 | 1,375,800 | 1,405,800 | 1,435,800 | 1,465,800 | 1,495,800 | 15,478,500 | | |
| New annual assessment revenue | | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 210,990 | 3,164,850 | P+I | |
| Total New Available Funding | | 275,790 | 446,790 | 590,790 | 856,290 | 1,054,290 | 1,222,290 | 1,414,290 | 1,480,290 | 1,516,290 | 1,552,290 | 1,586,790 | 1,616,790 | 1,646,790 | 1,676,790 | 1,706,790 | 18,643,350 | | |
| New Operating Expenses | x | (61,244) | (63,081) | (64,974) | (66,923) | (68,931) | (70,999) | (73,129) | (75,322) | (77,582) | (79,910) | (82,307) | (84,776) | (87,319) | (89,939) | (92,637) | (1,139,072) | | |
| New Debt Service (P+I) - Sewer Fund | x | 0 | (15,833) | (15,505) | (68,511) | (66,850) | (65,189) | (63,528) | (63,528) | (63,528) | (63,528) | (63,528) | (63,528) | (63,528) | (63,528) | (63,528) | (803,640) | | |
| New Cash Flow - Sewer Fund | | 214,546 | 367,876 | 510,311 | 720,856 | 918,509 | 1,086,102 | 1,277,633 | 1,341,440 | 1,375,180 | 1,408,852 | 1,440,955 | 1,468,486 | 1,495,943 | 1,523,323 | 1,550,625 | 16,700,638 | | |
| Combined | | | | | | | | | | | | | | | | | | | |
| Combined Sewer Fund Revenue (Non-usage) | | 1,433,000 | 1,339,000 | 1,665,000 | 1,314,000 | 1,219,000 | 1,043,000 | 578,000 | 618,000 | 618,000 | 553,000 | 538,000 | 538,000 | 538,000 | 538,000 | 538,000 | 13,070,000 | | |
| Combined Sewer Fund Usage Revenue | | 164,800 | 335,800 | 479,800 | 745,300 | 943,300 | 1,111,300 | 1,303,300 | 1,369,300 | 1,405,300 | 1,441,300 | 1,475,800 | 1,505,800 | 1,535,800 | 1,565,800 | 1,595,800 | 16,978,500 | | |
| Combined Annual Debt Service - Sewer | | 1,597,800 | 1,674,800 | 2,144,800 | 2,059,300 | 2,162,300 | 2,154,300 | 1,881,300 | 1,987,300 | 2,023,300 | 1,994,300 | 2,013,800 | 2,043,800 | 2,073,800 | 2,103,800 | 2,133,800 | 30,048,500 | | |
| Combined annual assessment revenue | | 731,303 | 639,678 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 300,834 | 5,281,818 | | |
| Combined Available Funding | | 2,329,103 | 2,314,478 | 2,445,634 | 2,360,134 | 2,463,134 | 2,455,134 | 2,182,134 | 2,288,134 | 2,324,134 | 2,295,134 | 2,314,634 | 2,344,634 | 2,374,634 | 2,404,634 | 2,434,634 | 35,330,318 | | |
| Combined Operating Expenses | | (183,732) | (185,569) | (191,136) | (196,870) | (202,777) | (208,860) | (215,126) | (221,579) | (228,227) | (235,074) | (242,126) | (249,390) | (256,871) | (264,577) | (272,515) | (3,354,430) | | |
| Combined Debt Service (P+I) - Sewer Fund | | (326,390) | (388,180) | (388,208) | (441,521) | (435,067) | (436,388) | (429,805) | (429,805) | (429,805) | (429,805) | (429,805) | (429,805) | (429,805) | (429,805) | (429,805) | (6,283,999) | | |
| Combined Cash Flow - Sewer Fund | | 1,818,981 | 1,740,729 | 1,866,289 | 1,721,742 | 1,825,290 | 1,809,886 | 1,537,203 | 1,636,749 | 1,666,102 | 1,630,255 | 1,642,703 | 1,665,439 | 1,687,957 | 1,710,251 | 1,732,314 | 25,691,889 | | |