



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



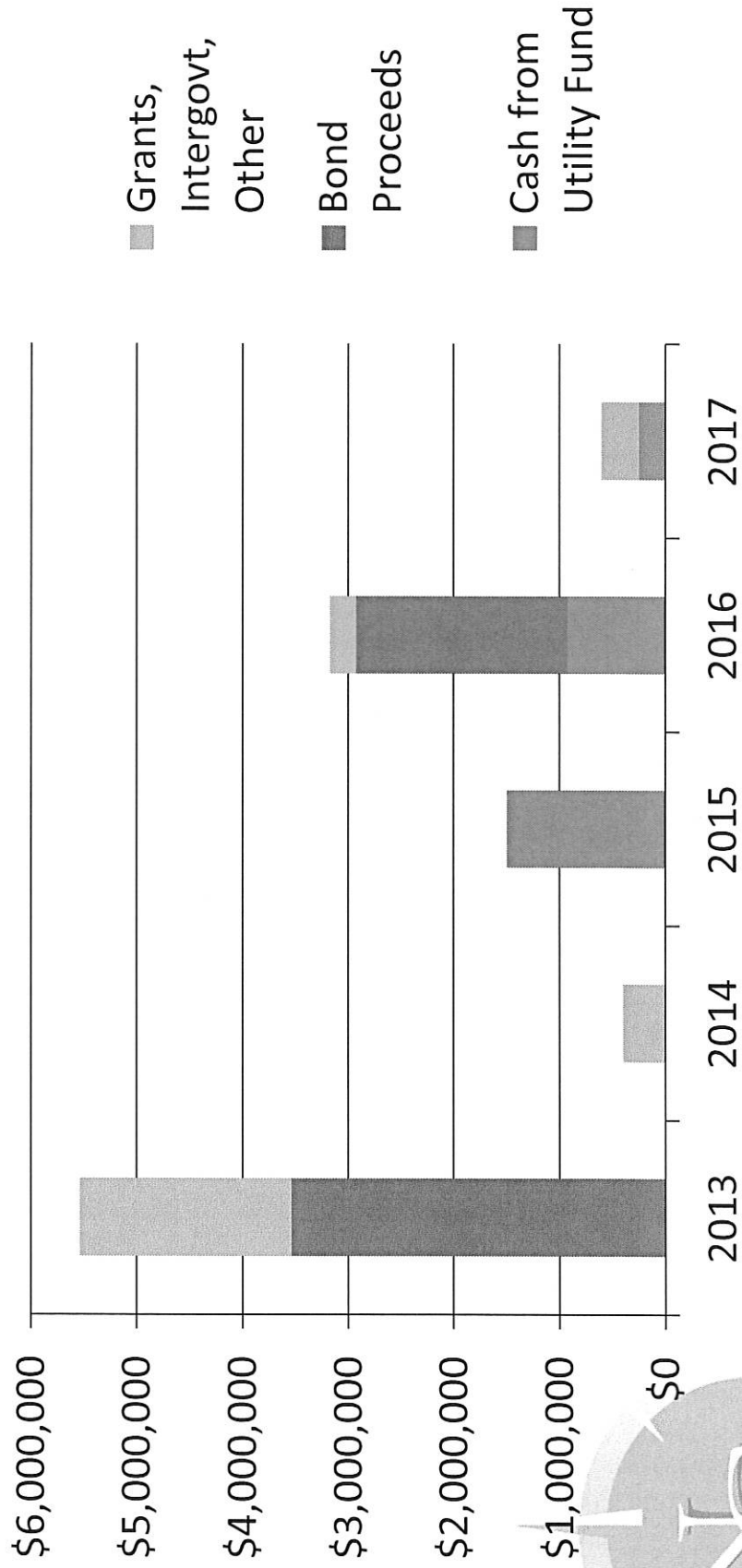
Recommendations

- 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



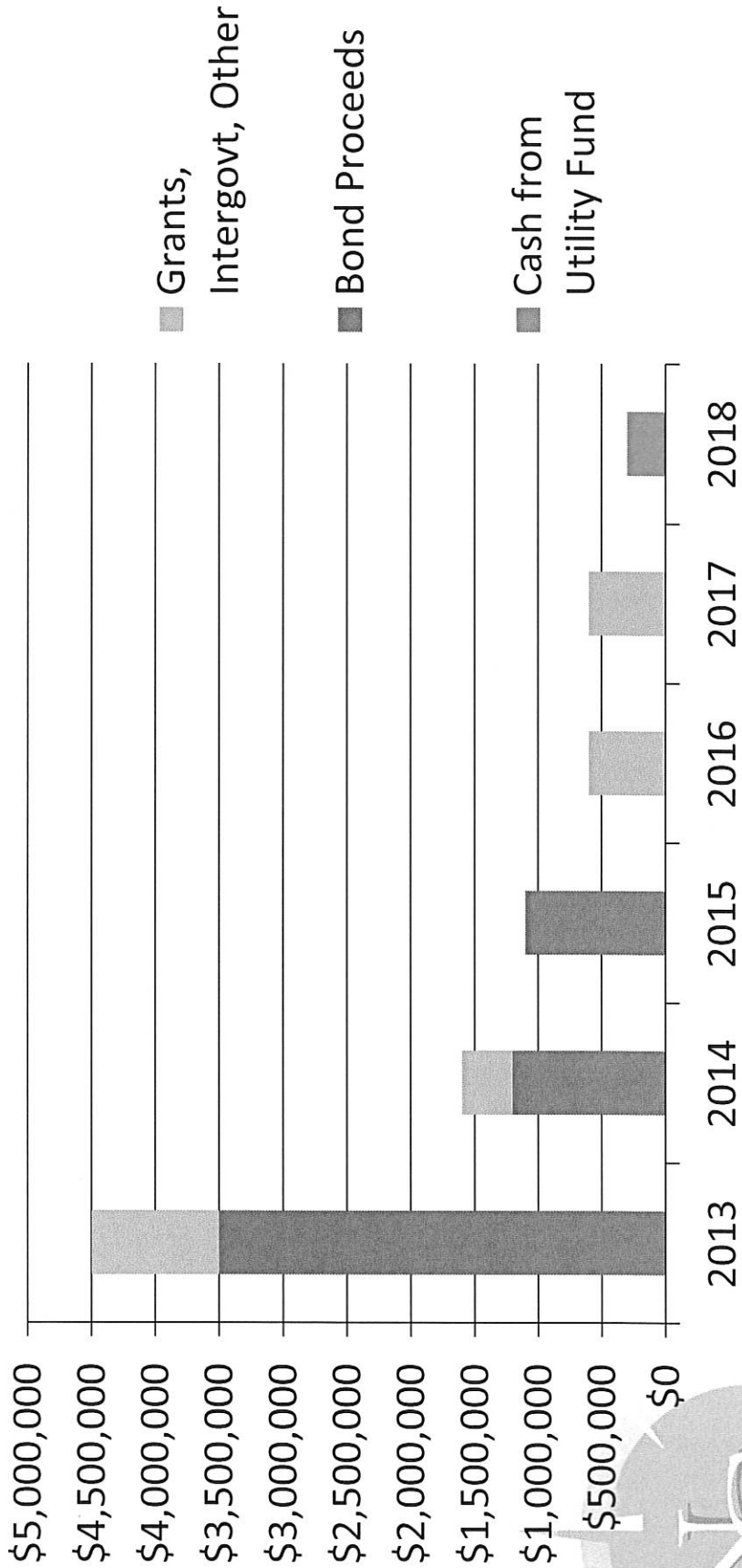
Capital Improvement Plans

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

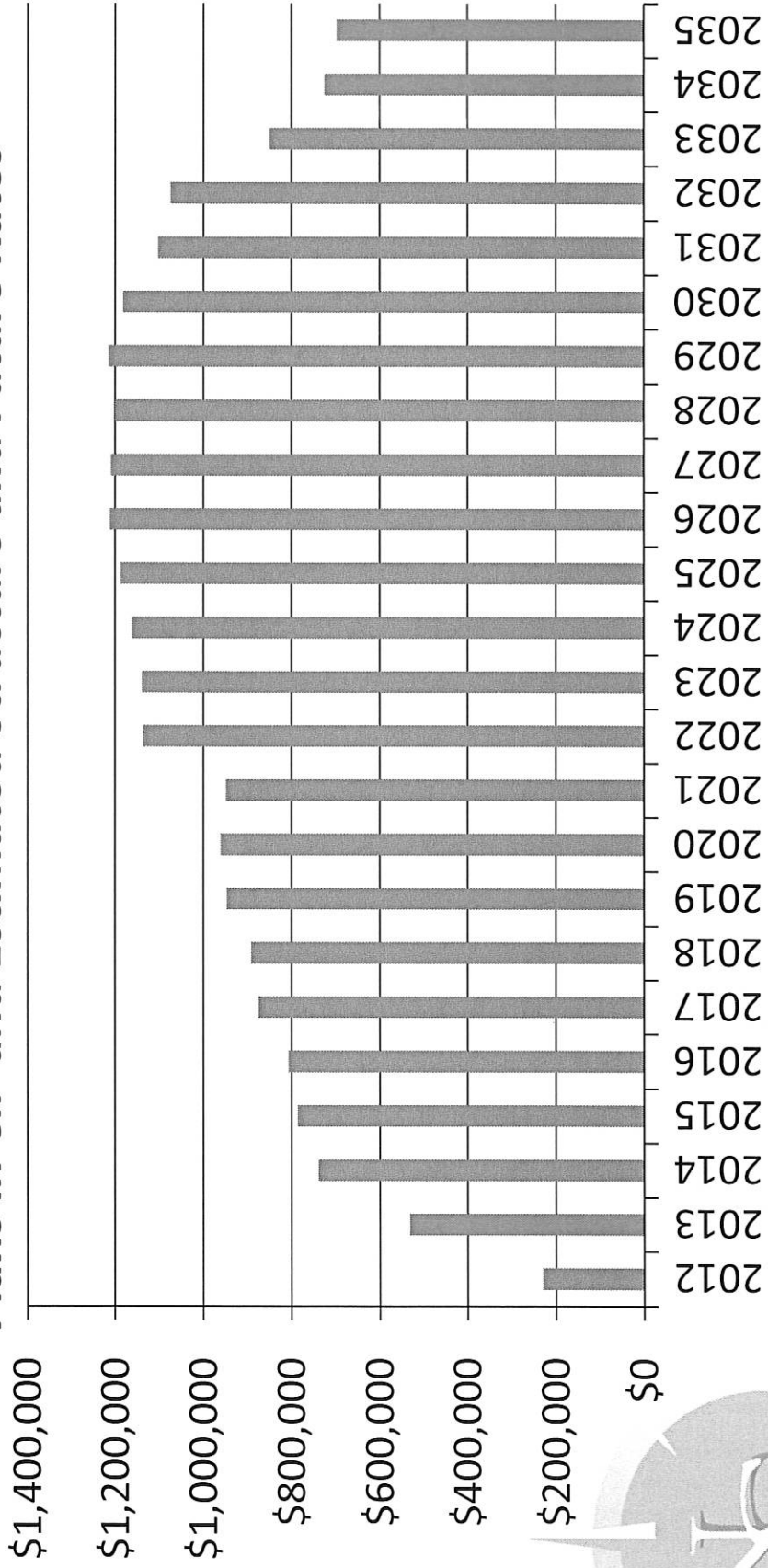
- CIP anticipates the issuance of bonds to finance water and sanitary sewer projects over the next five years
 - \$5.54 million in G.O. water revenue bonds
 - \$5.80 million in G.O. sewer revenue bonds
- Revenue from the utility funds is projected to support annual debt service (no property tax

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

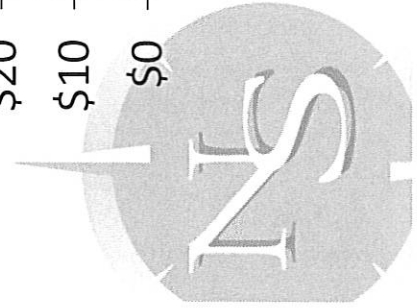
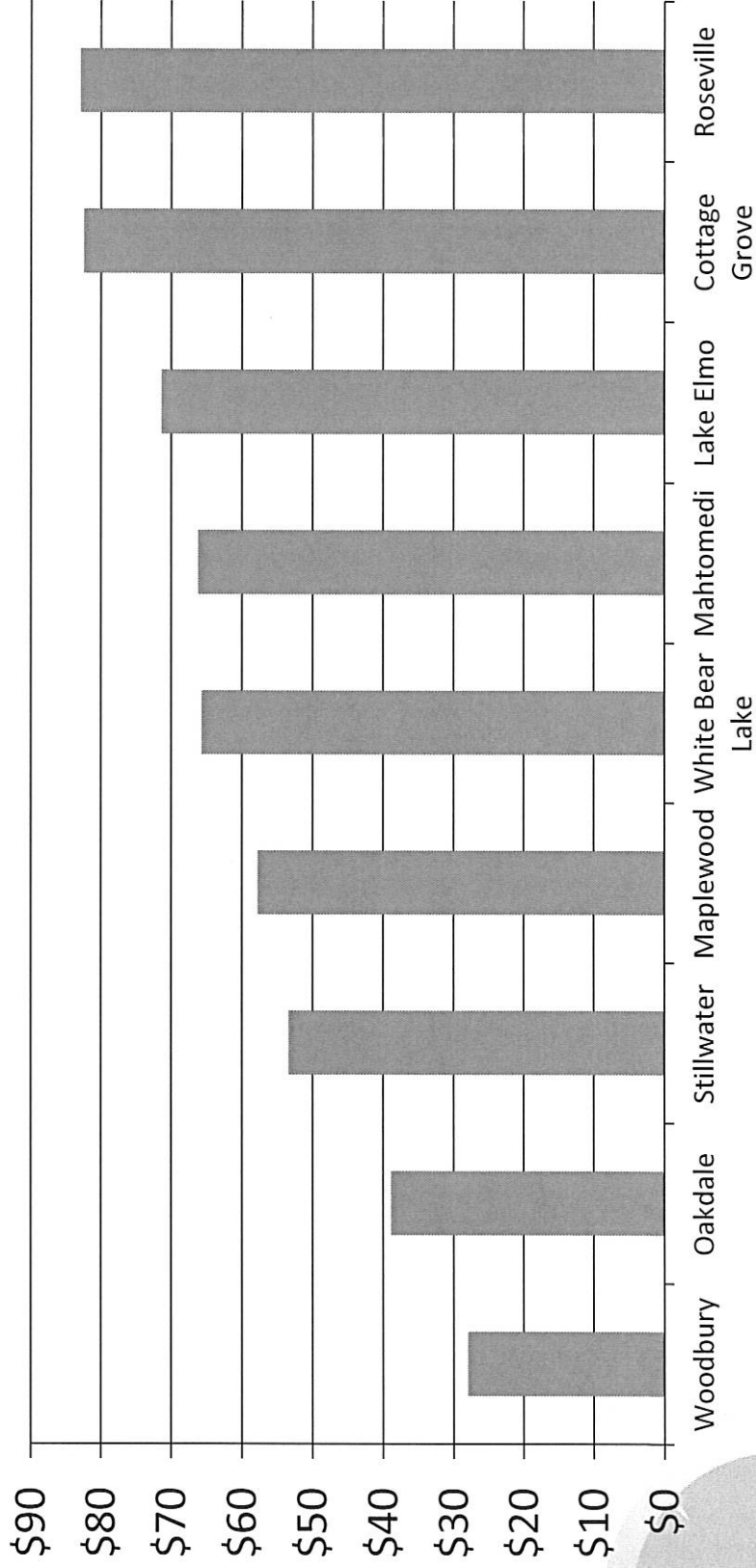
- Future development is shown to provide significant revenue to the utility funds through collection of connection and availability charges
- Growth projections drive the estimates for revenue from availability and connection charges
- Utility rates for existing customers may be impacted (positively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



Utility Rates

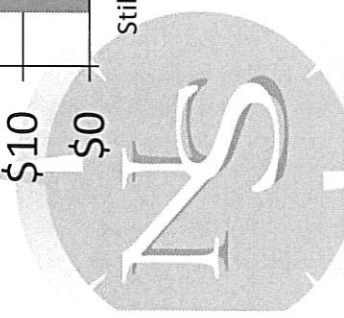
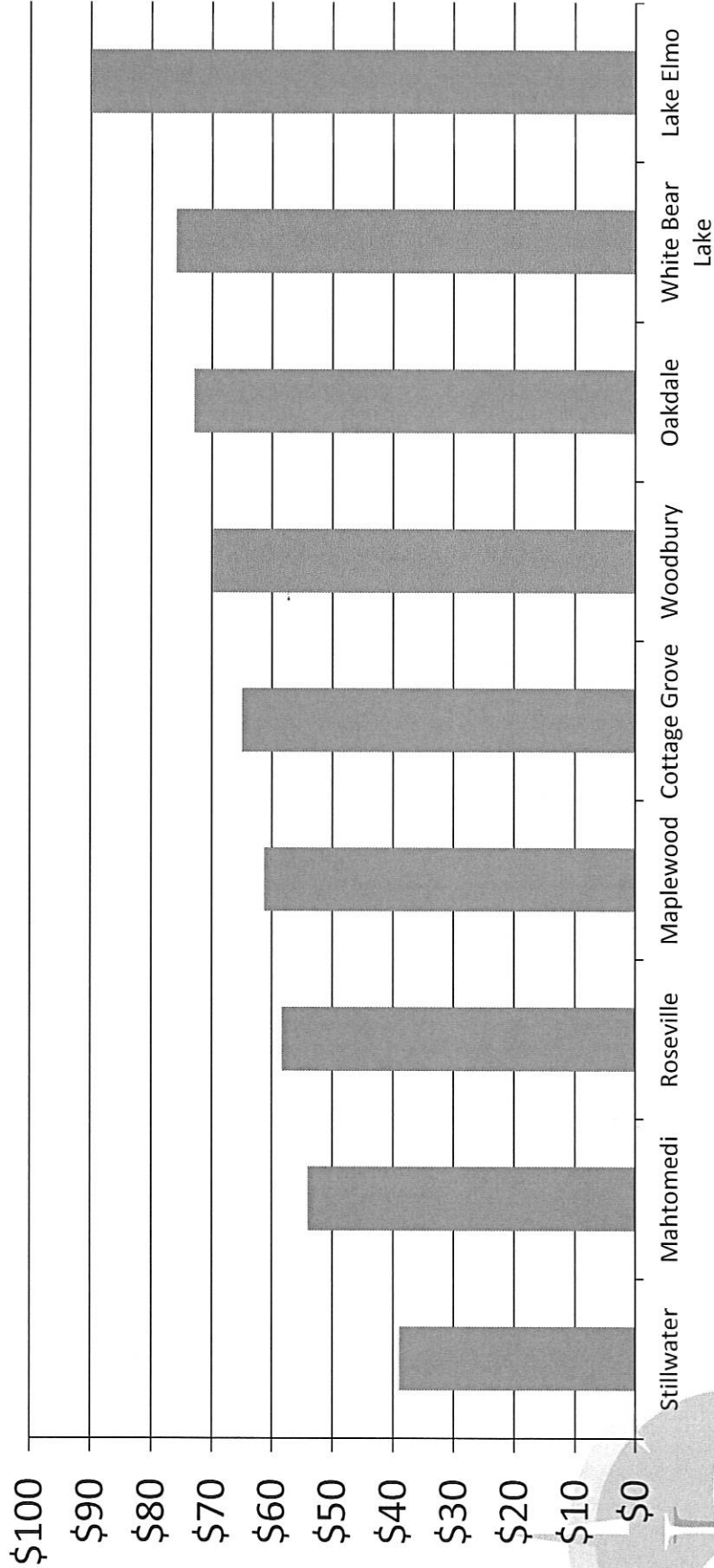
Comparison with Other Communities

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



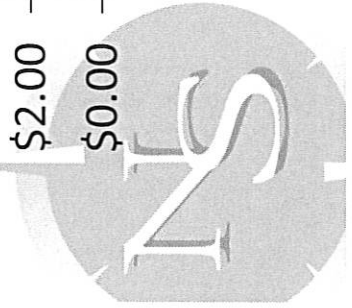
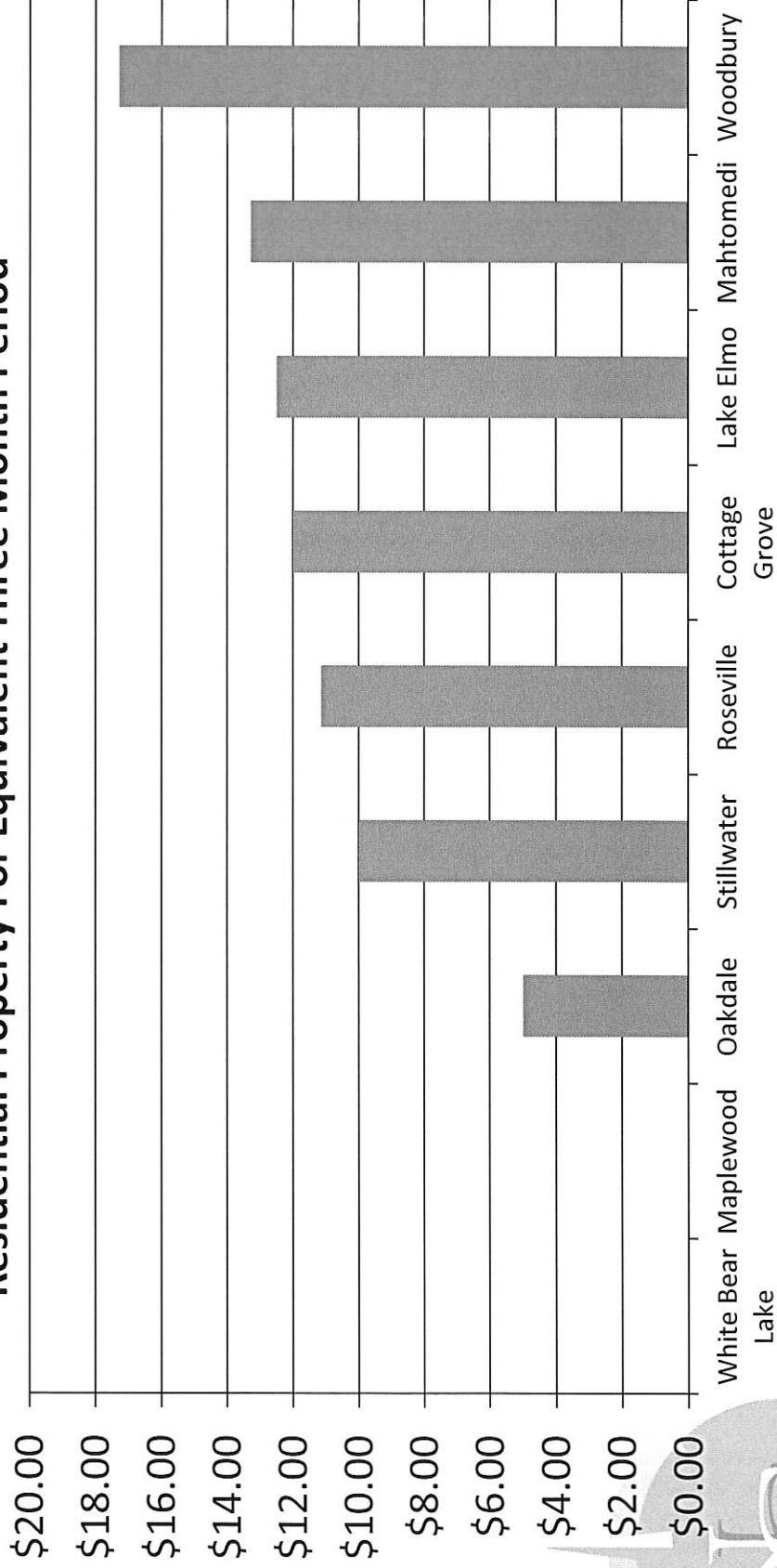
Utility Rates Comparison with Other Communities

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



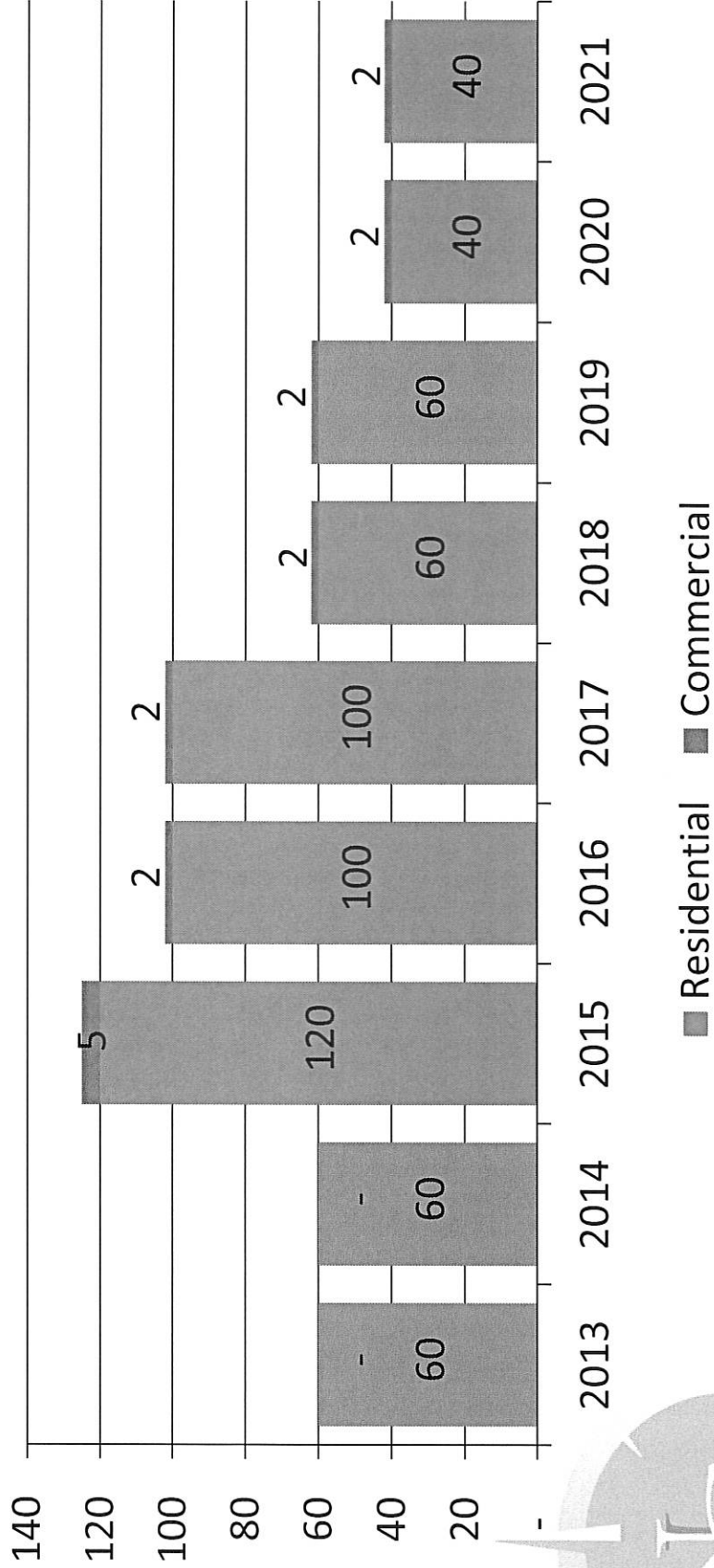
Utility Rates Comparison with Other Communities

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

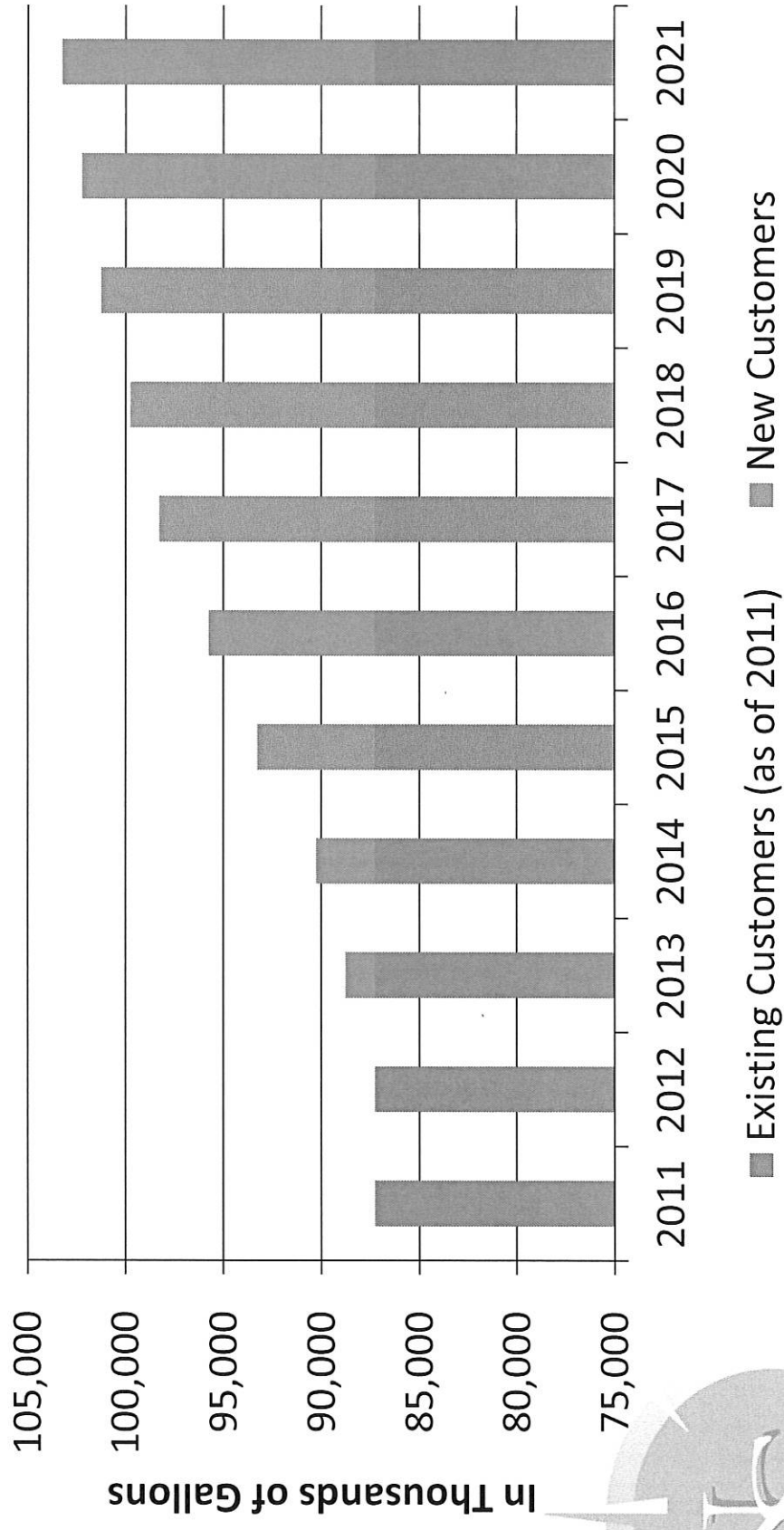
Revenue from Development

- 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



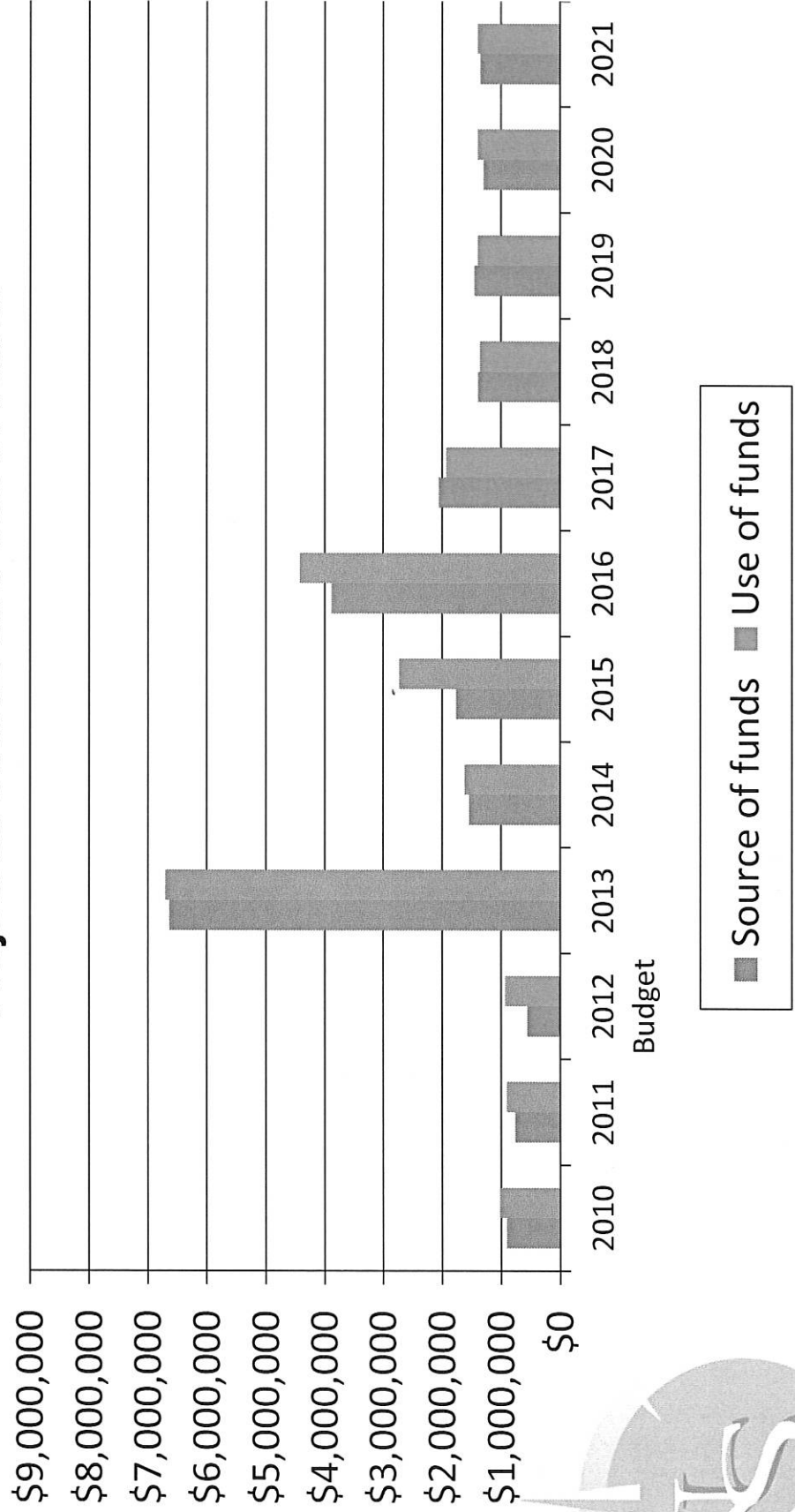
Financial Plans

- 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



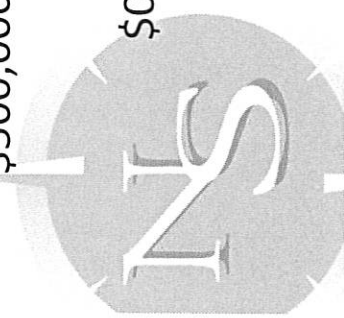
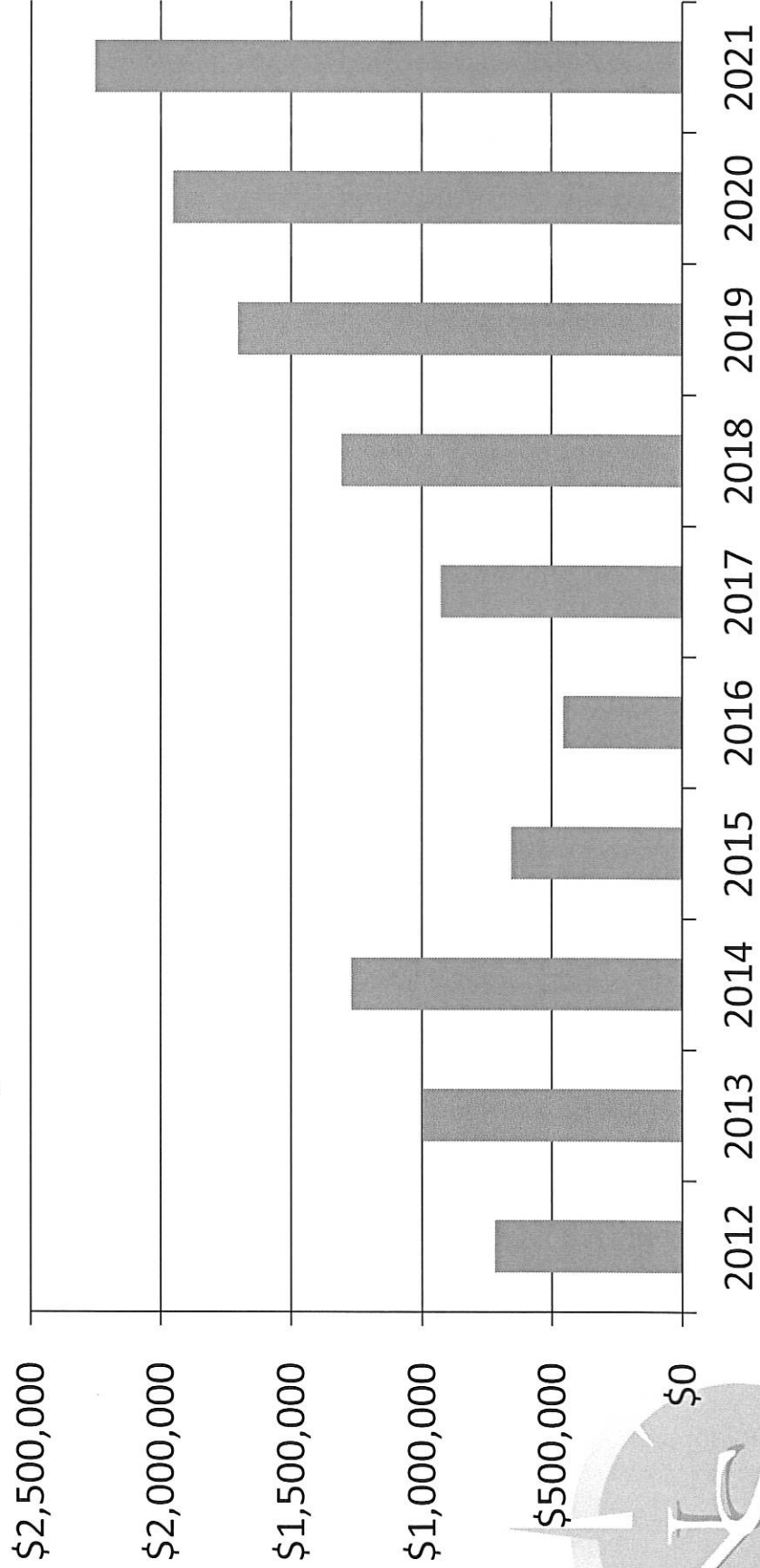
Financial Plans

Water Fund Projected Source and Use of Funds



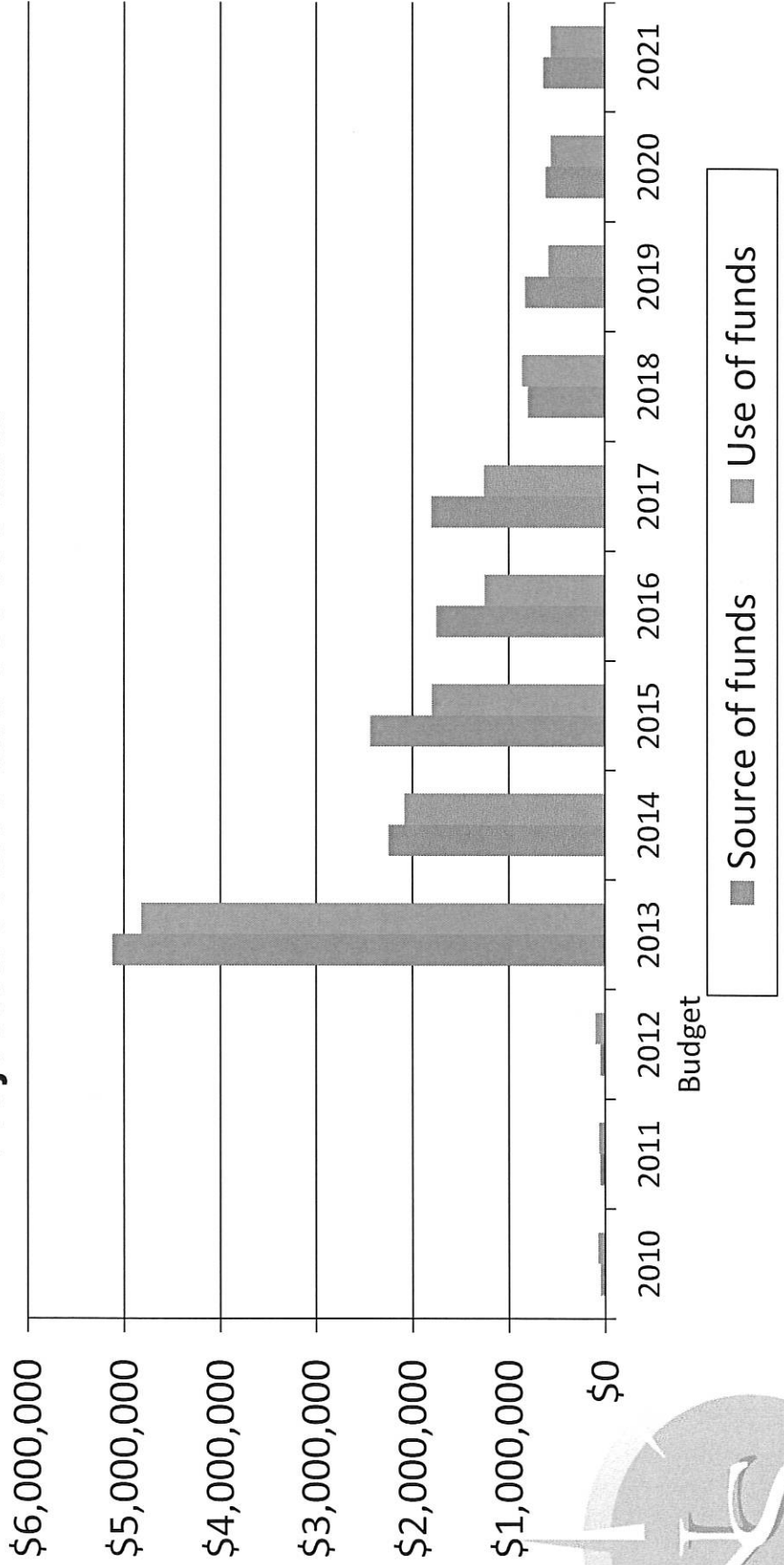
Financial Plans

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



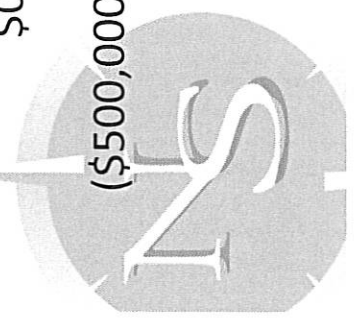
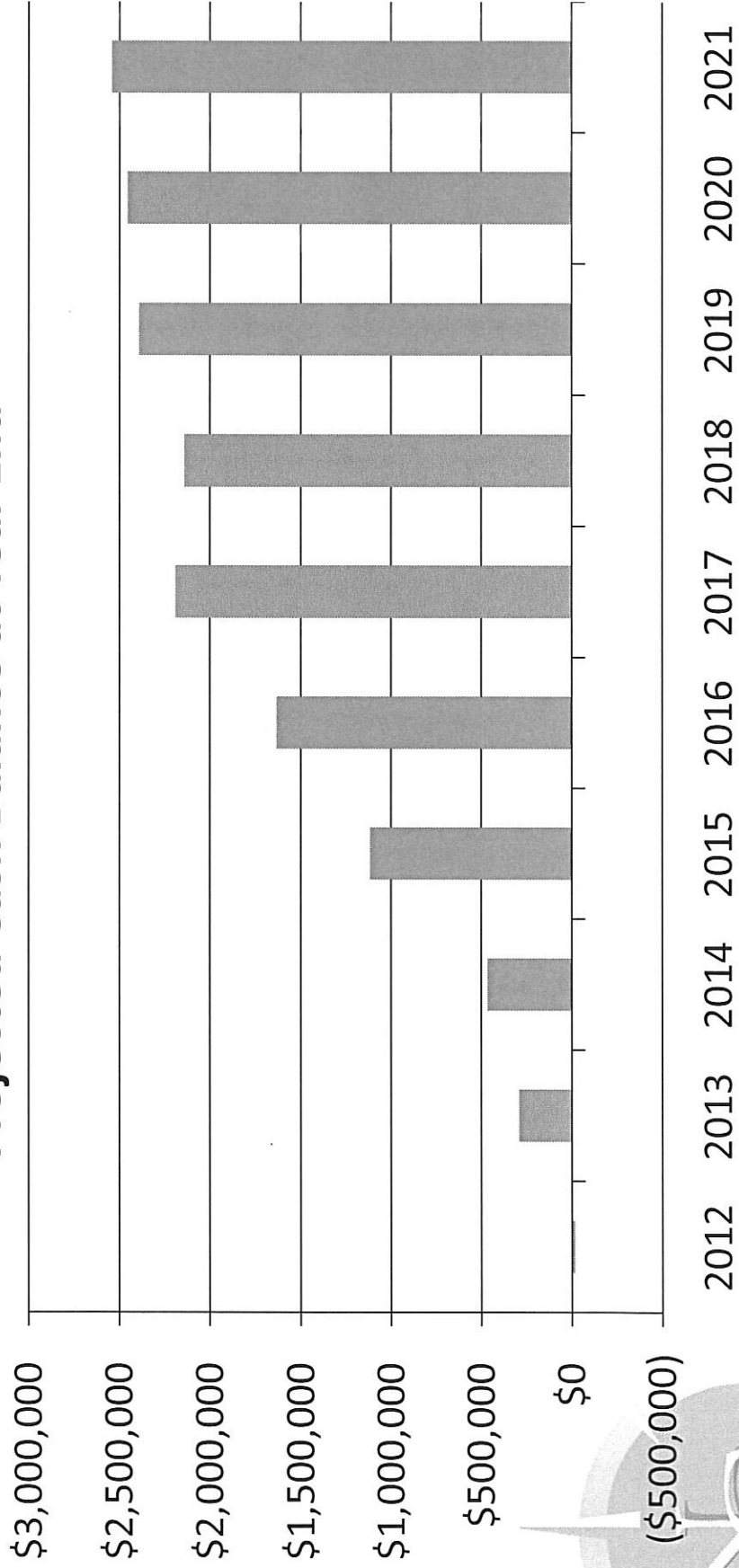
Financial Plans

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



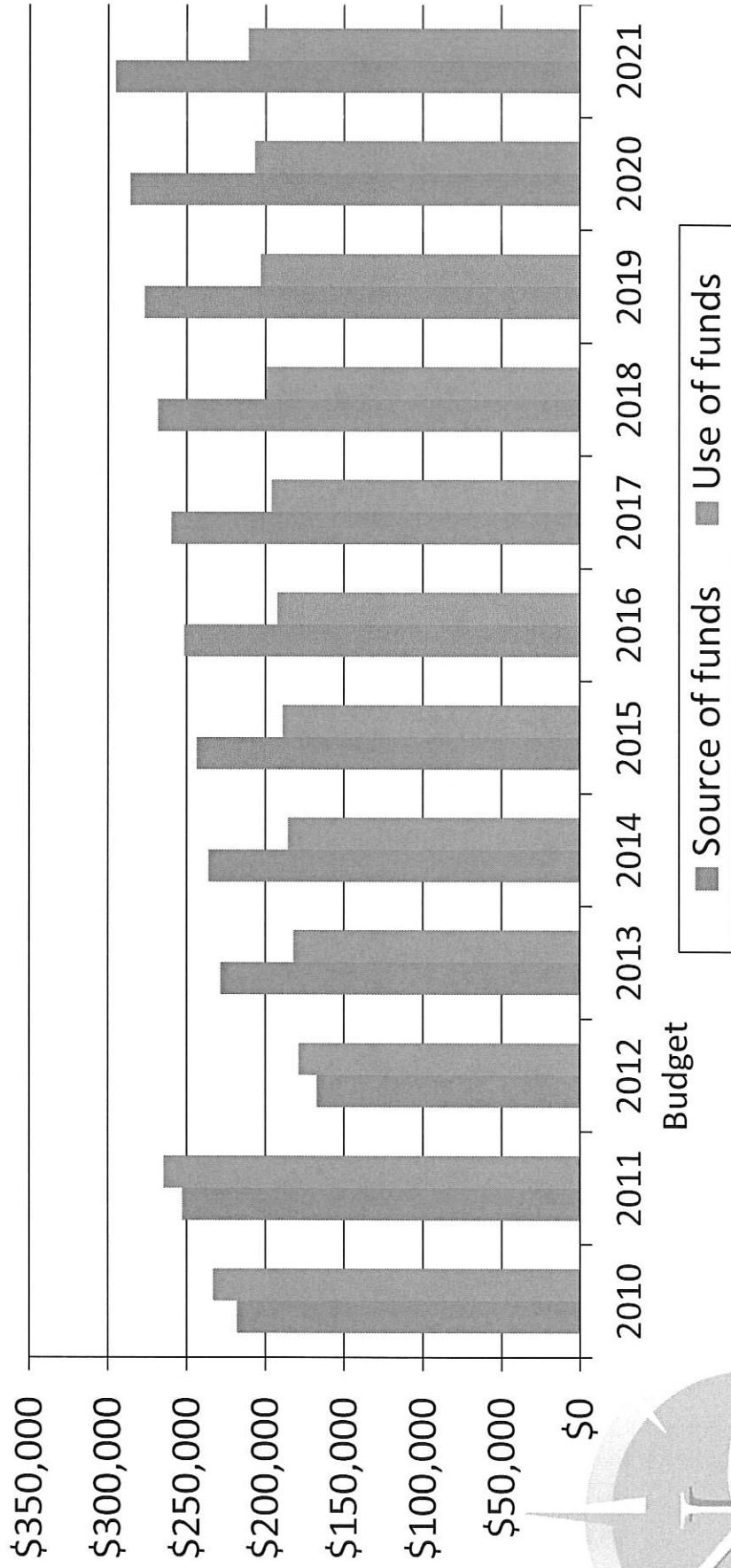
Financial Plans

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



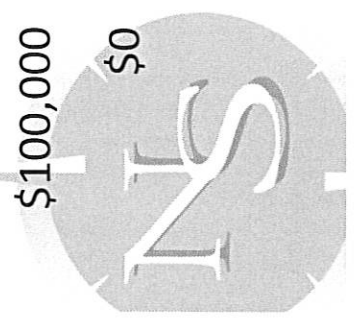
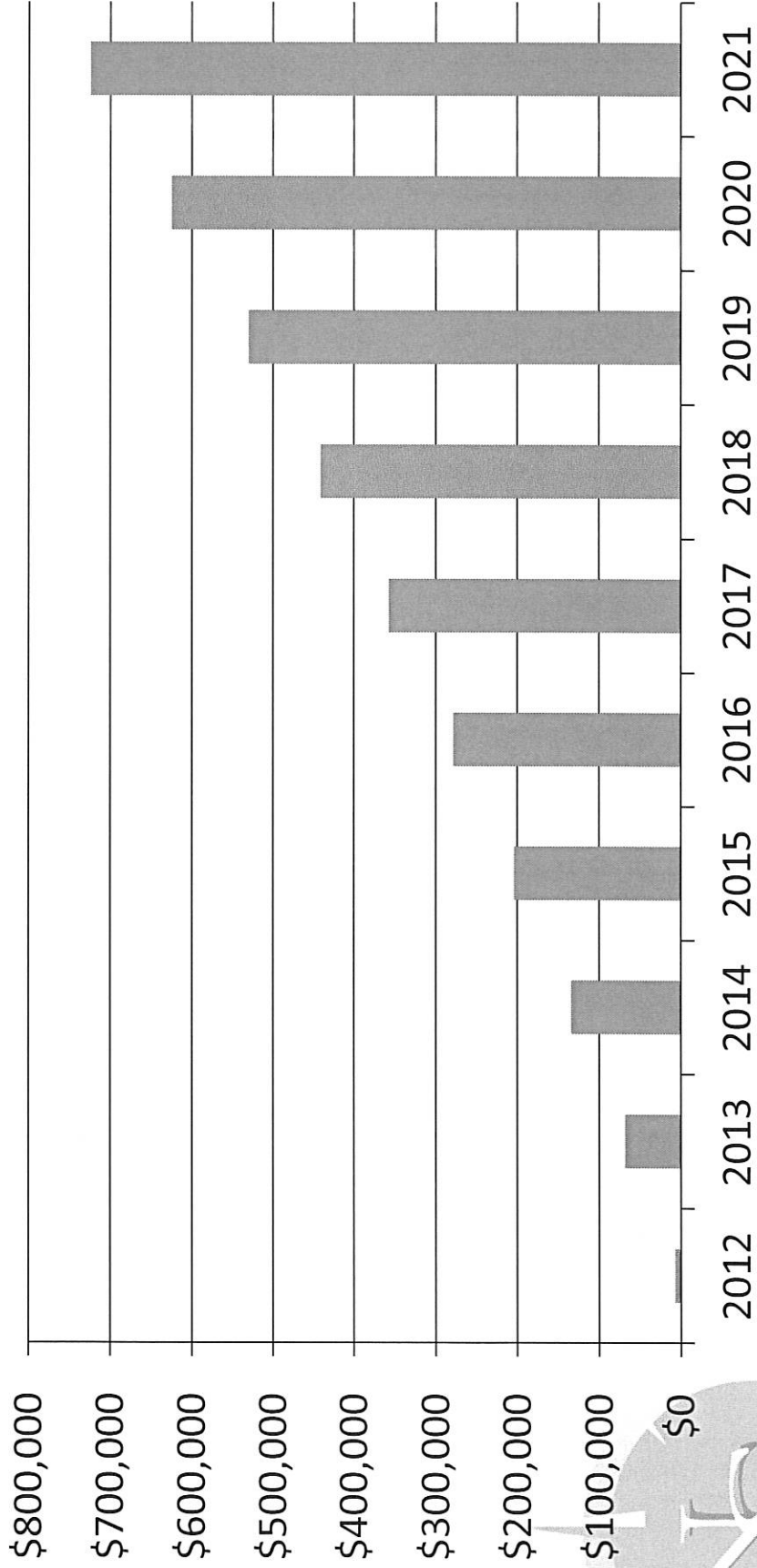
Financial Plans

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.

Letter of Transmittal	
Executive Summary	1
Study Approach.....	1
Conclusions from Study.....	1
Recommendations.....	2
Organization of the Report.....	2
Using the Report.....	3
Background	4
Water.....	4
Sanitary Sewer.....	4
Storm Sewer.....	4
Capital Improvement Plan	5
Capital Improvement Projects.....	5
Source of Funding.....	5
Debt Service.....	5
Capital Improvement Plan Water.....	7
Capital Improvement Plan Sanitary Sewer.....	8
Debt Service Summary Years 2012 to 2021.....	9
Water Fund - Future Debt Service.....	10
Sanitary Sewer Fund - Future Debt Service.....	11
Combined Water and Sanitary Sewer Debt Service Years 2012 to 2035.....	12
Outstanding Debt Obligations Estimated for Future Years.....	13
Utility Rates	14
Key Factors.....	14
Annual Operating Expenditures.....	14
Metropolitan Council Environmental Services.....	14
Annual Capital Expenditures.....	14
Debt Service.....	15
Growth in Customers.....	15
Available Other Revenue Sources.....	15
Future Utility Rates.....	16
Projected Volumes of Water Sold and Sanitary Sewer Billed.....	16
Table of Prior Years Utility Rates (2007-2011).....	18
Table of Projected Future Utility Rates.....	19
Table of Projected Volumes of Water Sold and Sanitary Sewer Billed.....	20
Chart of Projected Volumes of Water Sold.....	21
Financial Plans	22
Key Assumptions.....	22
Water Fund.....	23

Sanitary Sewer Fund	24
Storm Sewer Fund	25

Appendix **26**

Water Fund Projected Cash Balances.....	26
Sanitary Sewer Fund Projected Cash Balances.....	27
Storm Sewer Fund Projected Cash Balances.....	28
Water Fund Sources and Uses	29
Sanitary Sewer Fund Sources and Uses	30
Storm Sewer Fund Sources and Uses	31
Example Residential Water and Sanitary Sewer Bill	32
Example Commercial Water and Sanitary Sewer Bill	33
Comparison of Estimated Utility Bill to Other Cities	34
Projected Growth in Units from Land Development	35

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
										Total
<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				900,000						900,000
Phase IIIb: Village Area (East to Village Parkway)										-
Replace/upgrade watermains as streets disturbed				400,000						400,000
Village Parkway/39th Street					600,000					600,000
Total	5,540,000	400,000	1,500,000	3,175,000	600,000	-	-	-	-	11,215,000
<u>Funding Source for Water Capital Projects</u>										
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	-	-	1,100,000	-	-	-	-	-	-	1,100,000
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)

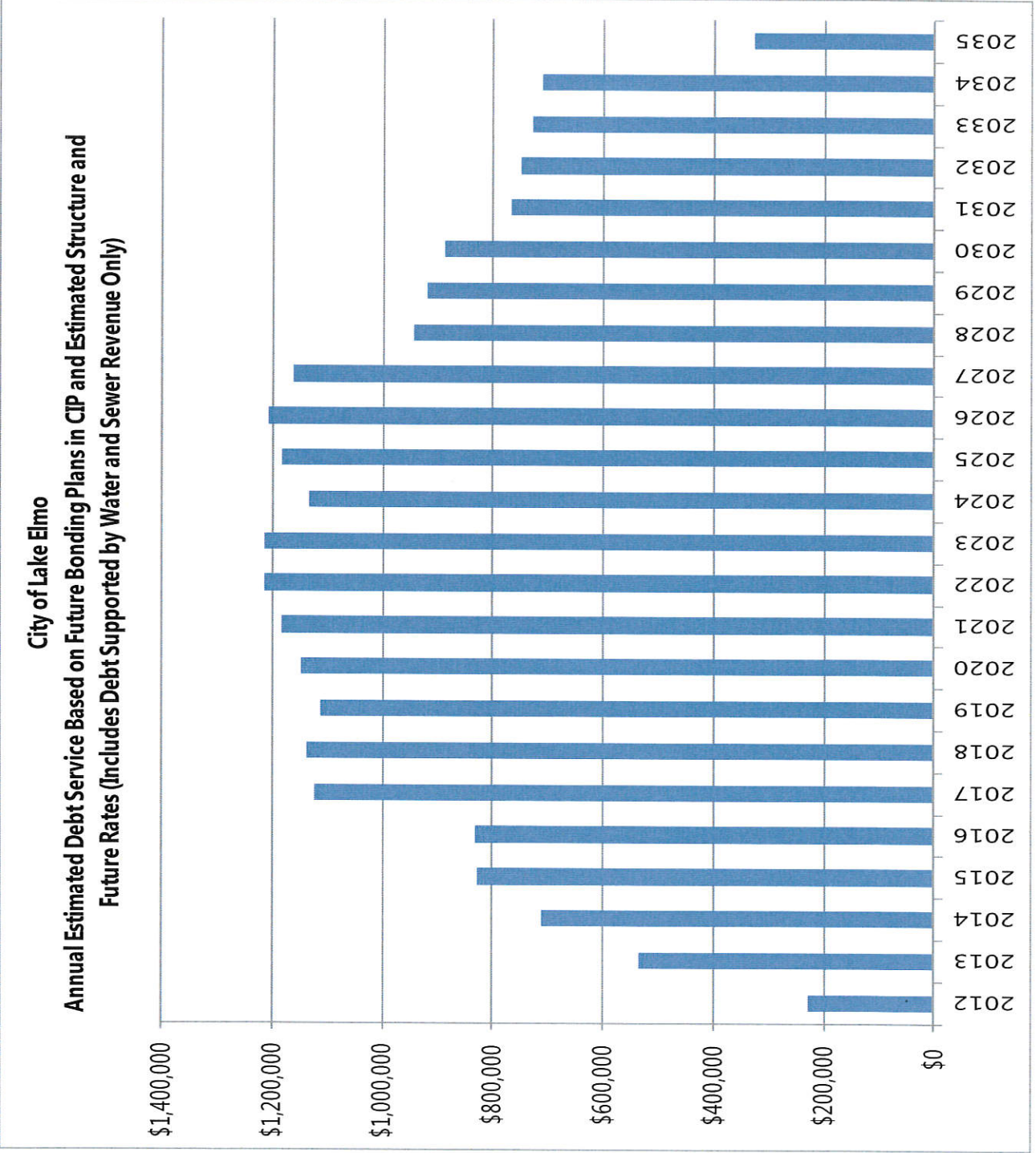
Projected Future 2013 G.O. Sewer Revenue Bonds										Projected Future 2014 G.O. Sewer Revenue Bonds										Projected Future 2015 G.O. Sewer Revenue Bonds									
Year	Principal	Interest Rates	Total Debt Service	Outstanding Balance	Year	Principal	Interest Rates	Total Debt Service	Outstanding Balance	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	0.80%	\$0	\$0	\$0	\$0	\$0	\$1,150,000								
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	0.85%	\$0	\$0	\$0	\$0	\$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%	\$74,950	\$1,100,000	0.95%	\$74,950	\$1,100,000	\$24,950	\$74,950	\$74,950	\$74,950	\$1,100,000							
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%	\$74,475	\$1,050,000	1.10%	\$74,475	\$1,050,000	\$24,475	\$74,475	\$74,475	\$74,475	\$1,050,000							
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%	\$73,925	\$1,000,000	1.30%	\$73,925	\$1,000,000	\$23,925	\$73,925	\$73,925	\$73,925	\$1,000,000							
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%	\$73,275	\$950,000	1.50%	\$73,275	\$950,000	\$23,275	\$73,275	\$73,275	\$73,275	\$950,000							
2019	\$100,000	1.50%	\$81,835	\$3,005,000	2019	\$100,000	1.75%	\$73,200	\$950,000	2019	\$50,000	1.75%	\$72,525	\$900,000	1.75%	\$72,525	\$900,000	\$22,525	\$72,525	\$72,525	\$72,525	\$900,000							
2020	\$100,000	1.70%	\$80,335	\$2,905,000	2020	\$100,000	1.95%	\$71,450	\$850,000	2020	\$100,000	1.95%	\$71,650	\$800,000	1.95%	\$71,650	\$800,000	\$21,650	\$71,650	\$71,650	\$71,650	\$800,000							
2021	\$150,000	1.85%	\$78,635	\$2,755,000	2021	\$100,000	2.10%	\$71,500	\$750,000	2021	\$100,000	2.10%	\$71,700	\$700,000	2.10%	\$71,700	\$700,000	\$19,700	\$71,700	\$71,700	\$71,700	\$700,000							
2022	\$100,000	2.00%	\$75,860	\$2,655,000	2022	\$100,000	2.25%	\$71,400	\$650,000	2022	\$100,000	2.25%	\$71,600	\$600,000	2.25%	\$71,600	\$600,000	\$17,600	\$71,600	\$71,600	\$71,600	\$600,000							
2023	\$100,000	2.10%	\$73,860	\$2,555,000	2023	\$100,000	2.35%	\$71,150	\$550,000	2023	\$100,000	2.35%	\$71,350	\$500,000	2.35%	\$71,350	\$500,000	\$15,350	\$71,350	\$71,350	\$71,350	\$500,000							
2024	\$100,000	2.20%	\$71,760	\$2,455,000	2024	\$150,000	2.45%	\$71,800	\$400,000	2024	\$100,000	2.45%	\$71,800	\$400,000	2.45%	\$71,800	\$400,000	\$13,800	\$71,800	\$71,800	\$71,800	\$400,000							
2025	\$100,000	2.30%	\$69,560	\$2,355,000	2025	\$150,000	2.55%	\$69,125	\$250,000	2025	\$150,000	2.55%	\$69,125	\$250,000	2.55%	\$69,125	\$250,000	\$10,550	\$69,125	\$69,125	\$69,125	\$250,000							
2026	\$100,000	2.40%	\$67,260	\$2,255,000	2026	\$200,000	2.65%	\$67,260	\$50,000	2026	\$150,000	2.65%	\$67,260	\$50,000	2.65%	\$67,260	\$50,000	\$6,725	\$67,260	\$67,260	\$67,260	\$100,000							
2027	\$250,000	2.50%	\$64,860	\$2,005,000	2027	\$200,000	2.75%	\$64,860	\$0	2027	\$100,000	2.75%	\$64,860	\$0	2.75%	\$64,860	\$0	\$2,750	\$64,860	\$64,860	\$64,860	\$0							
2028	\$250,000	2.60%	\$58,610	\$1,755,000	2028	\$150,000	2.85%	\$58,610	\$0	2028	\$100,000	2.85%	\$58,610	\$0	2.85%	\$58,610	\$0	\$0	\$58,610	\$58,610	\$58,610	\$0							
2029	\$250,000	2.70%	\$52,110	\$1,505,000	2029	\$150,000	2.95%	\$52,110	\$0	2029	\$100,000	2.95%	\$52,110	\$0	2.95%	\$52,110	\$0	\$0	\$52,110	\$52,110	\$52,110	\$0							
2030	\$250,000	2.80%	\$45,360	\$1,255,000	2030	\$100,000	3.05%	\$45,360	\$0	2030	\$100,000	3.05%	\$45,360	\$0	3.05%	\$45,360	\$0	\$0	\$45,360	\$45,360	\$45,360	\$0							
2031	\$300,000	2.90%	\$38,360	\$955,000	2031	\$100,000	3.15%	\$38,360	\$0	2031	\$100,000	3.15%	\$38,360	\$0	3.15%	\$38,360	\$0	\$0	\$38,360	\$38,360	\$38,360	\$0							
2032	\$300,000	3.00%	\$29,660	\$655,000	2032	\$100,000	3.25%	\$29,660	\$0	2032	\$100,000	3.25%	\$29,660	\$0	3.25%	\$29,660	\$0	\$0	\$29,660	\$29,660	\$29,660	\$0							
2033	\$300,000	3.10%	\$20,660	\$355,000	2033	\$100,000	3.35%	\$20,660	\$0	2033	\$100,000	3.35%	\$20,660	\$0	3.35%	\$20,660	\$0	\$0	\$20,660	\$20,660	\$20,660	\$0							
2034	\$355,000	3.20%	\$11,360	\$0	2034	\$100,000	3.45%	\$11,360	\$0	2034	\$100,000	3.45%	\$11,360	\$0	3.45%	\$11,360	\$0	\$0	\$11,360	\$11,360	\$11,360	\$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				\$226,475	\$1,376,475	\$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



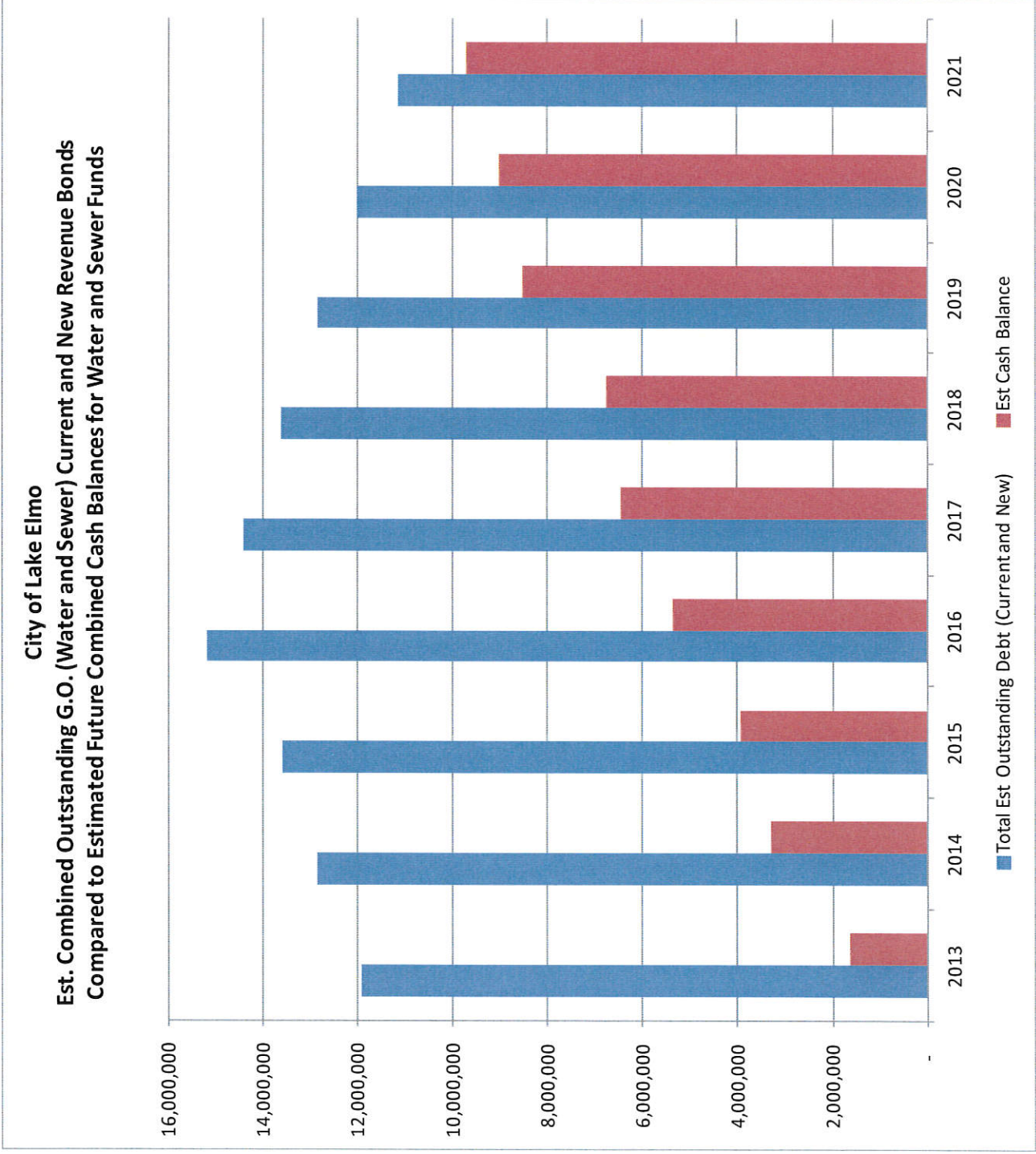
The annual estimated debt service amounts shown in this chart include general obligation water revenue bonds and general obligation sewer revenue bonds. The annual amounts include both existing debt service (on outstanding bonds) and future estimated debt service on bonds anticipated to be issued in 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

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.

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.

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

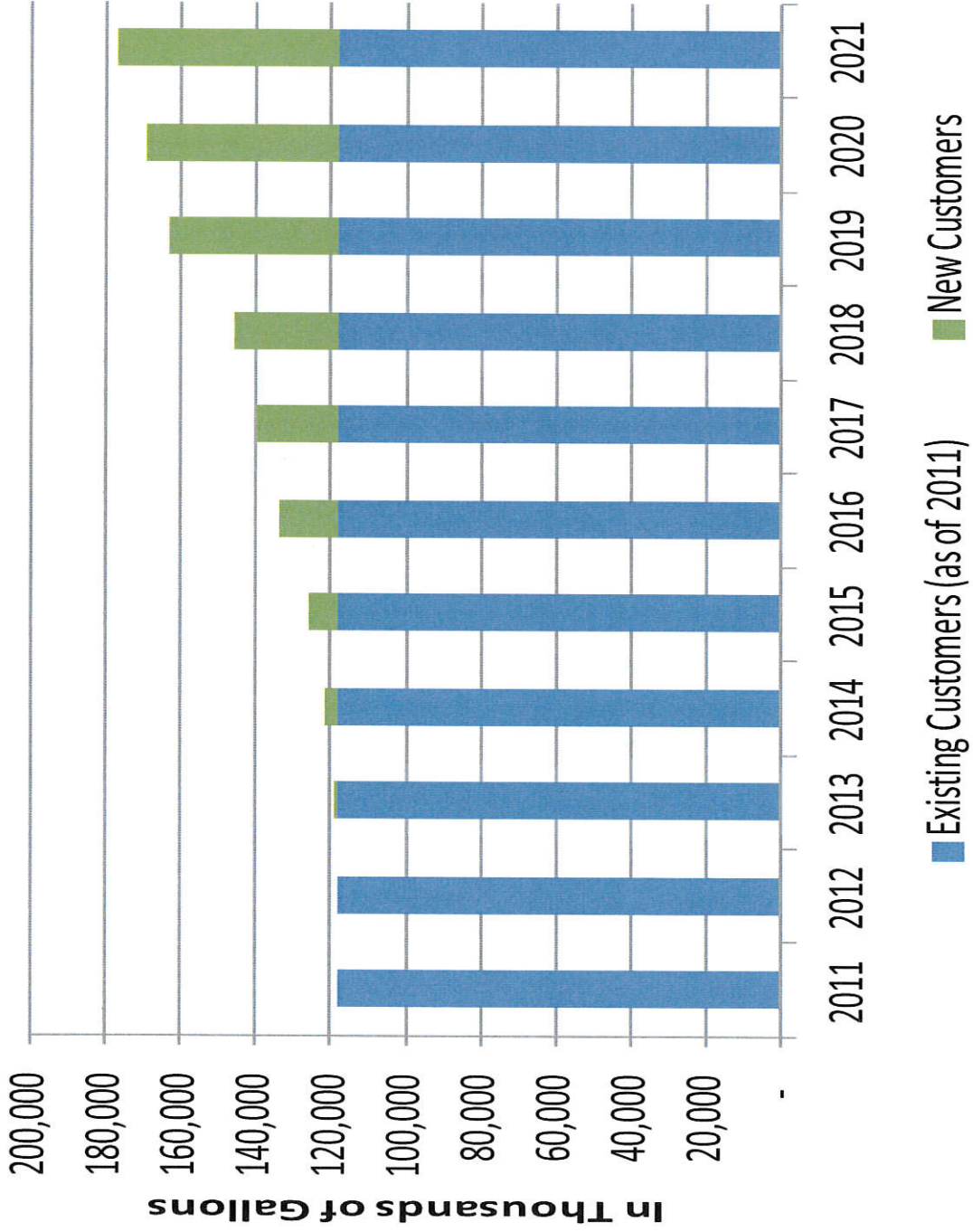
Utility Rates

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	Projected									
					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	-	-	-	-	-	-	166,818	466,563	462,348	397,473	392,923	392,833	
Future Debt Service on Bonds	SEE DEBT	7,418	7,418	7,418	95,958	125,958	125,778	6,277	6,277	6,277	6,277	6,277	6,277	
Bond Discount Amortization*	SEE CIP	2,402	11,818	-	6,277	6,277	6,277	-	-	-	-	-	-	
Other (Adjustments)	REC TO AUDIT	-	-	-	-	-	-	-	-	-	-	-	-	
Trsf out to Other/Due to Oth Funds	SEE AUDIT	-	-	-	-	-	-	-	-	-	-	-	-	
Total Non-Operating		325,522	262,161	237,123	5,995,940	905,365	1,988,585	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									
					1	2	3	4	5	6	7	8	9	10
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		36,679	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	3,744,568	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	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

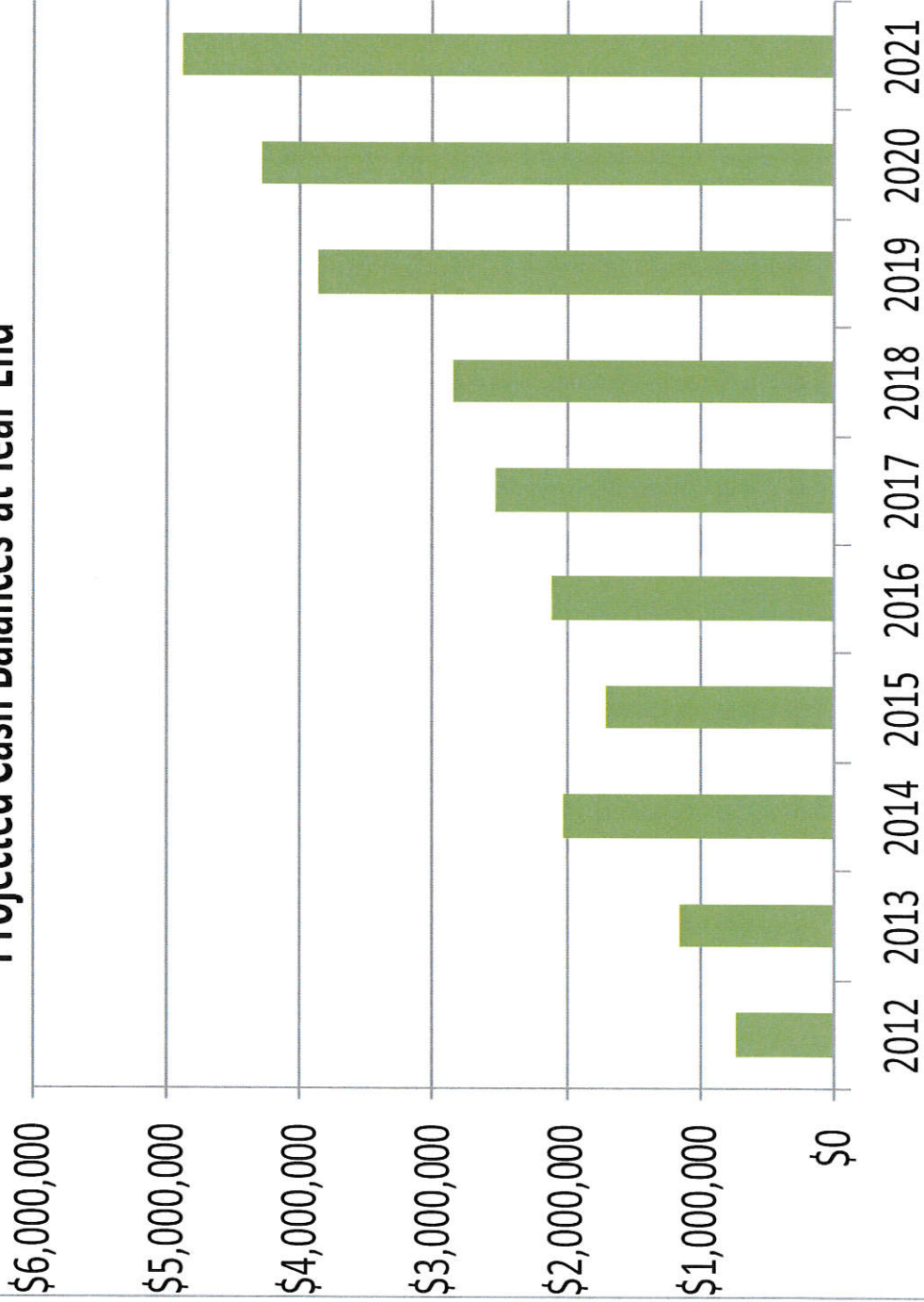
City hasn't identified but does anticipate there will be future capital spending in years 2018 to 2021 not accounted for here.

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

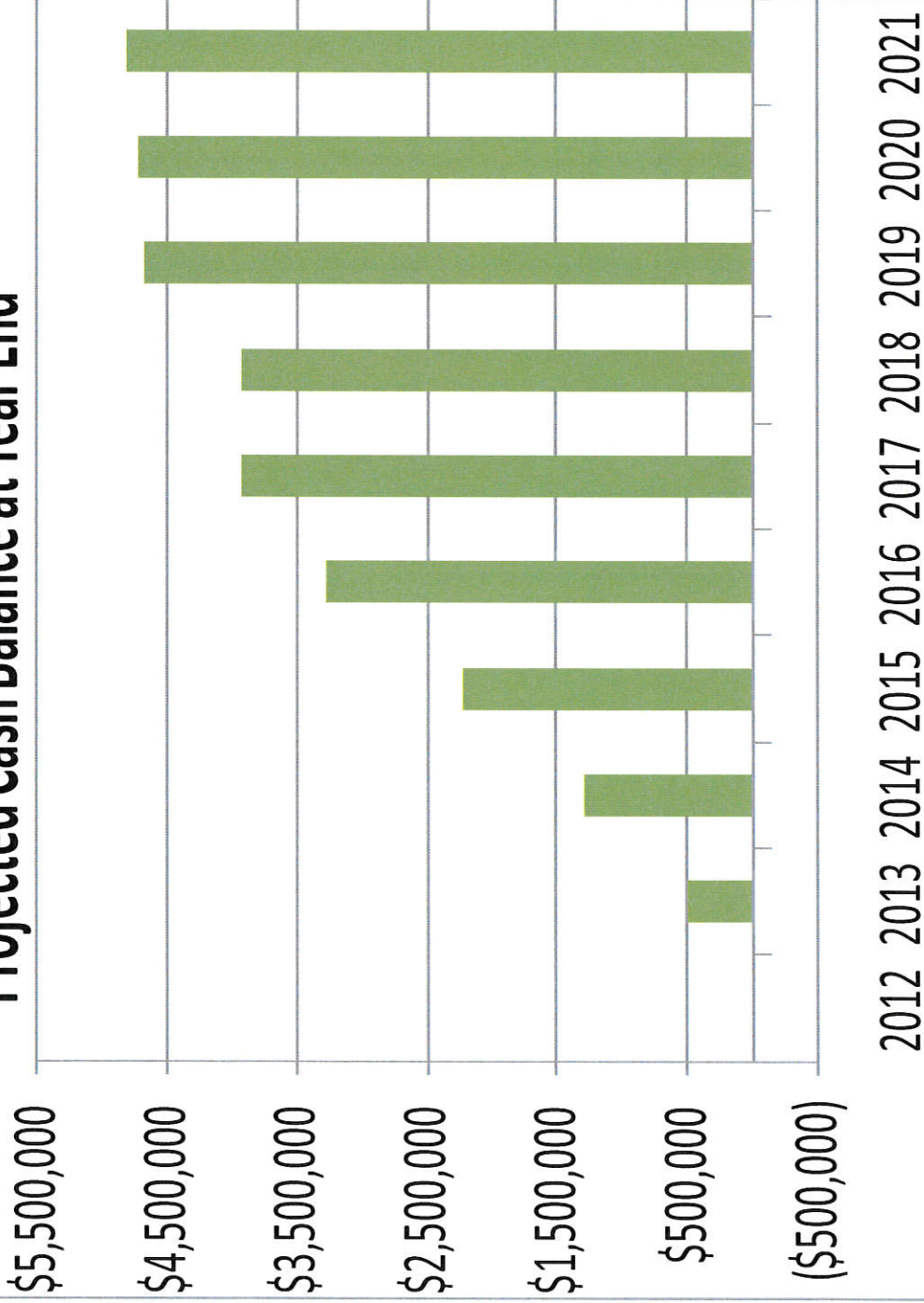
**City of Lake Elmo
Water Fund**

Projected Cash Balances at Year End



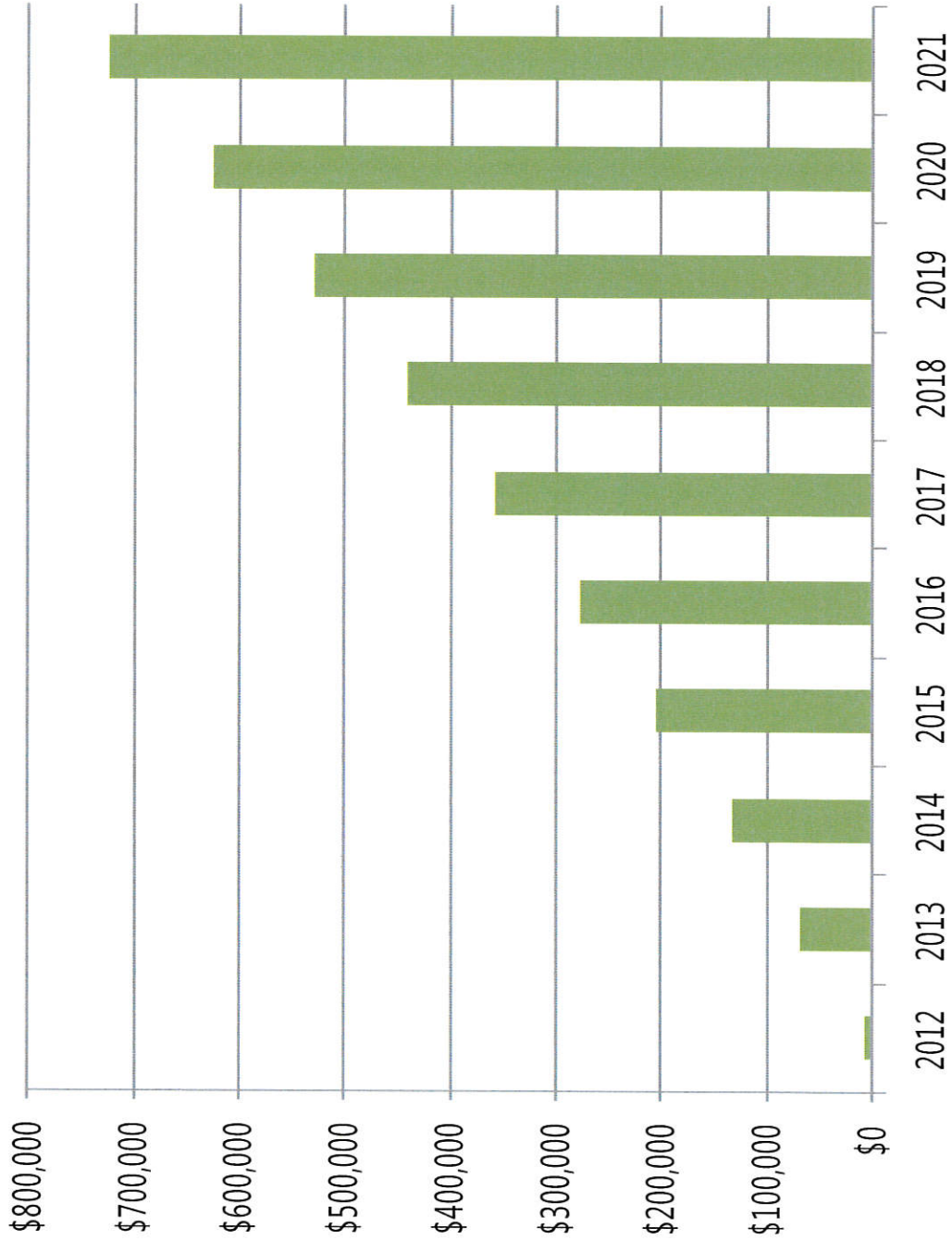
The Capital Improvement Plan anticipates the use of cash in years 2015, 2016, and 2017 for capital projects in lieu of bonding. Year 2015 includes the largest use of cash for capital, estimated at \$1.5 million in this year. The City may determine to increase or decrease the planned issuance of bonds 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

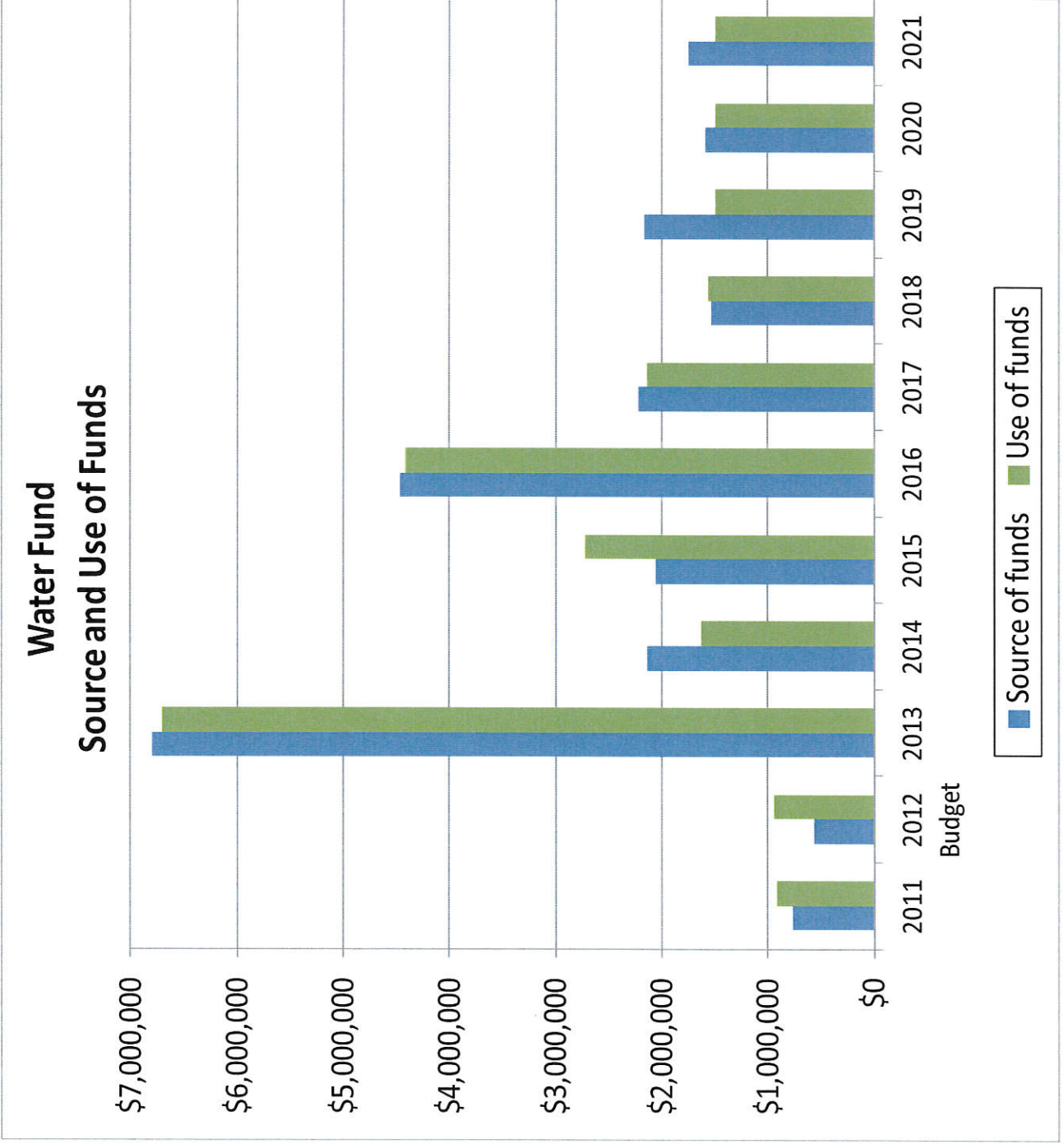


The City's CIP anticipates bonding to pay for capital improvement projects, with the exception of \$300,000 in year 2018. The City may determine to increase or decrease the planned issuance of bonds depending on the actual amount of cash available in the in future years to pay for project costs or future 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.

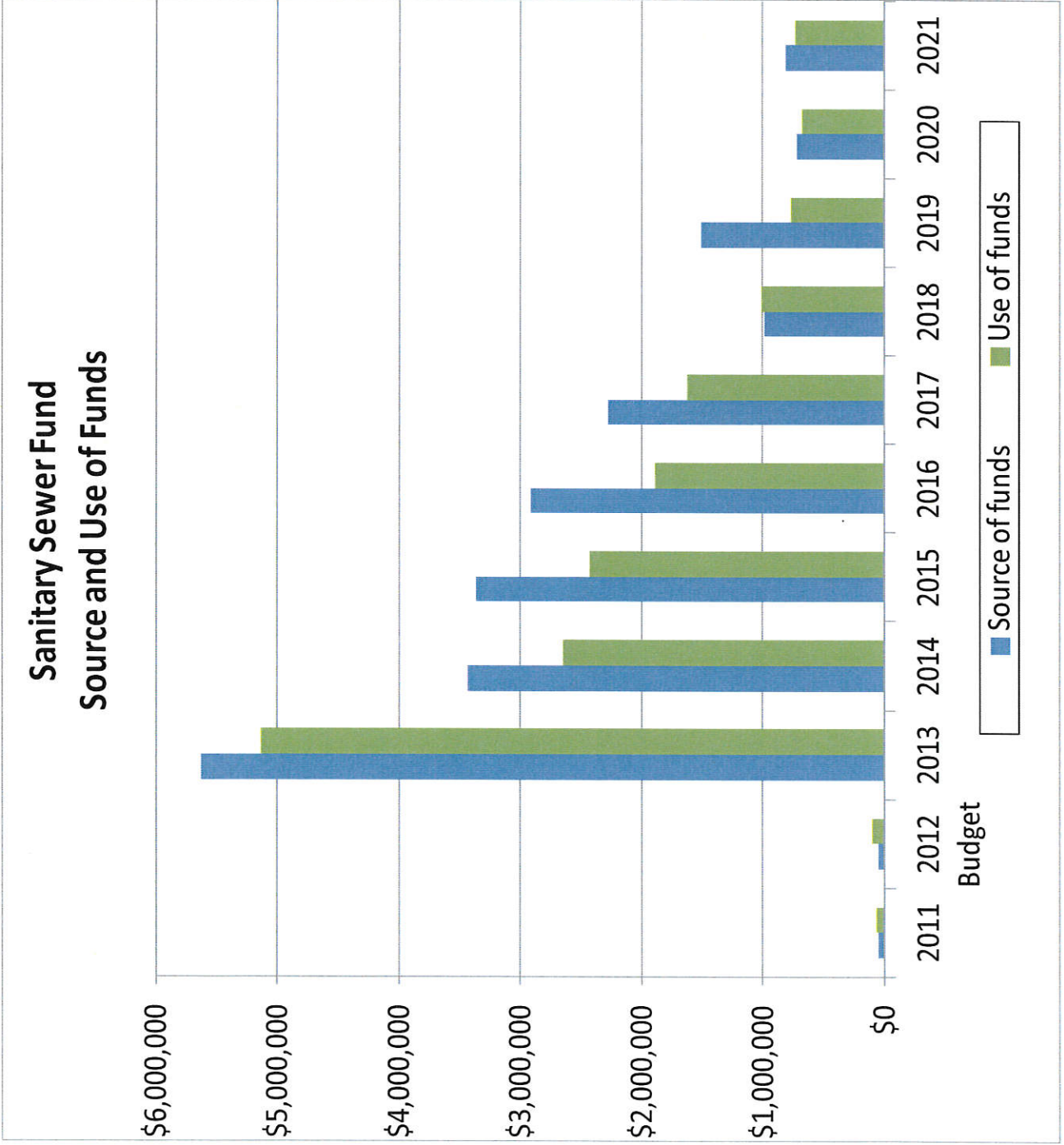
City of Lake Elmo
Storm Sewer Fund
Projected Cash Balances at Year End



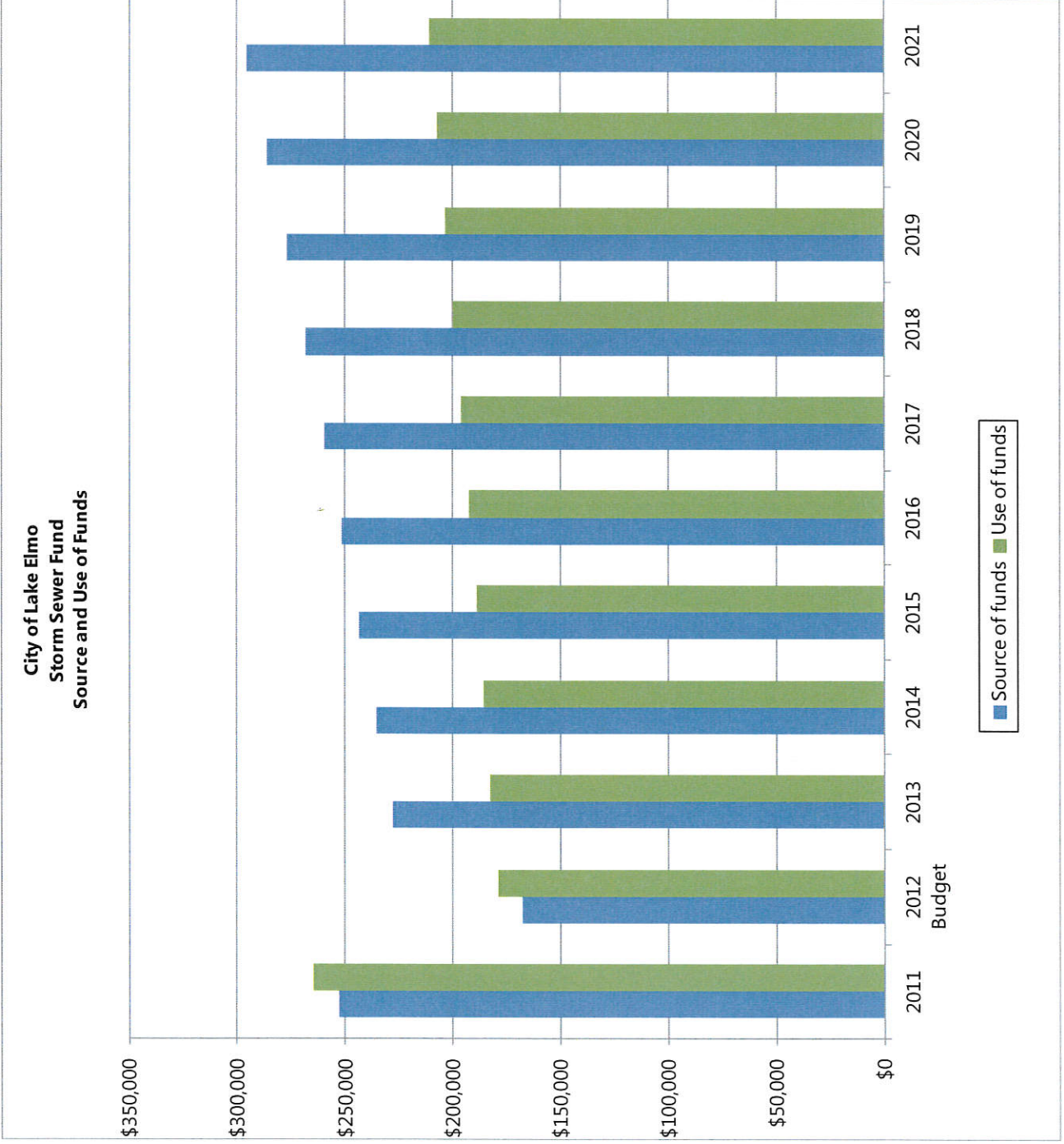
The steady increase in cash balance in the Storm Sewer Fund is due to the assumption that the annual charge for service will increase by 3 percent annually and growth in expenditures will increase by 2 percent annually. The Storm Sewer Fund has no outstanding debt or planned use of cash for capital improvements 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.

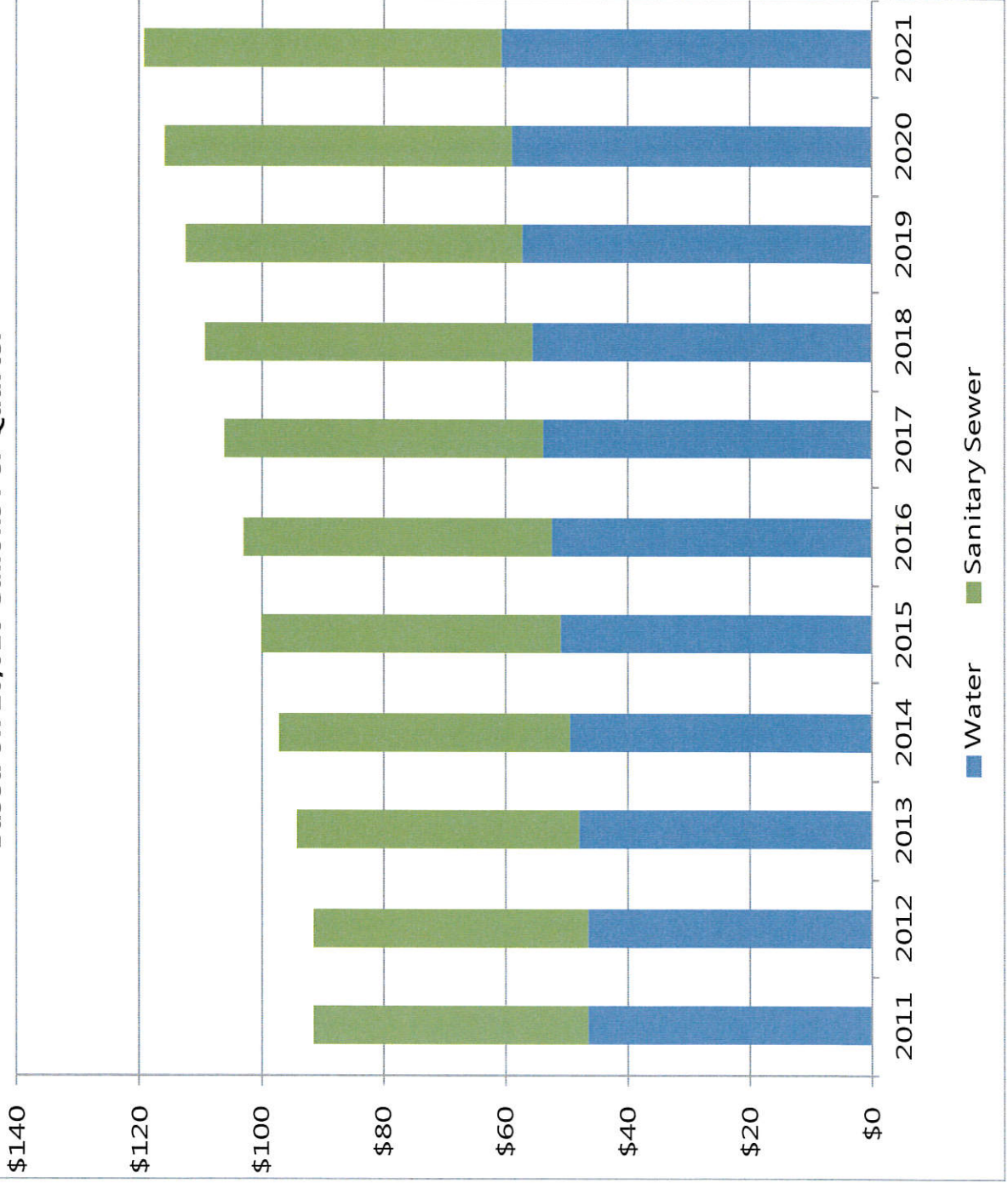


Projected source of funds exceeds use of funds, with the exception of year 2018. In year 2018, the City anticipates the use of \$300,000 of cash from the fund for capital improvements.

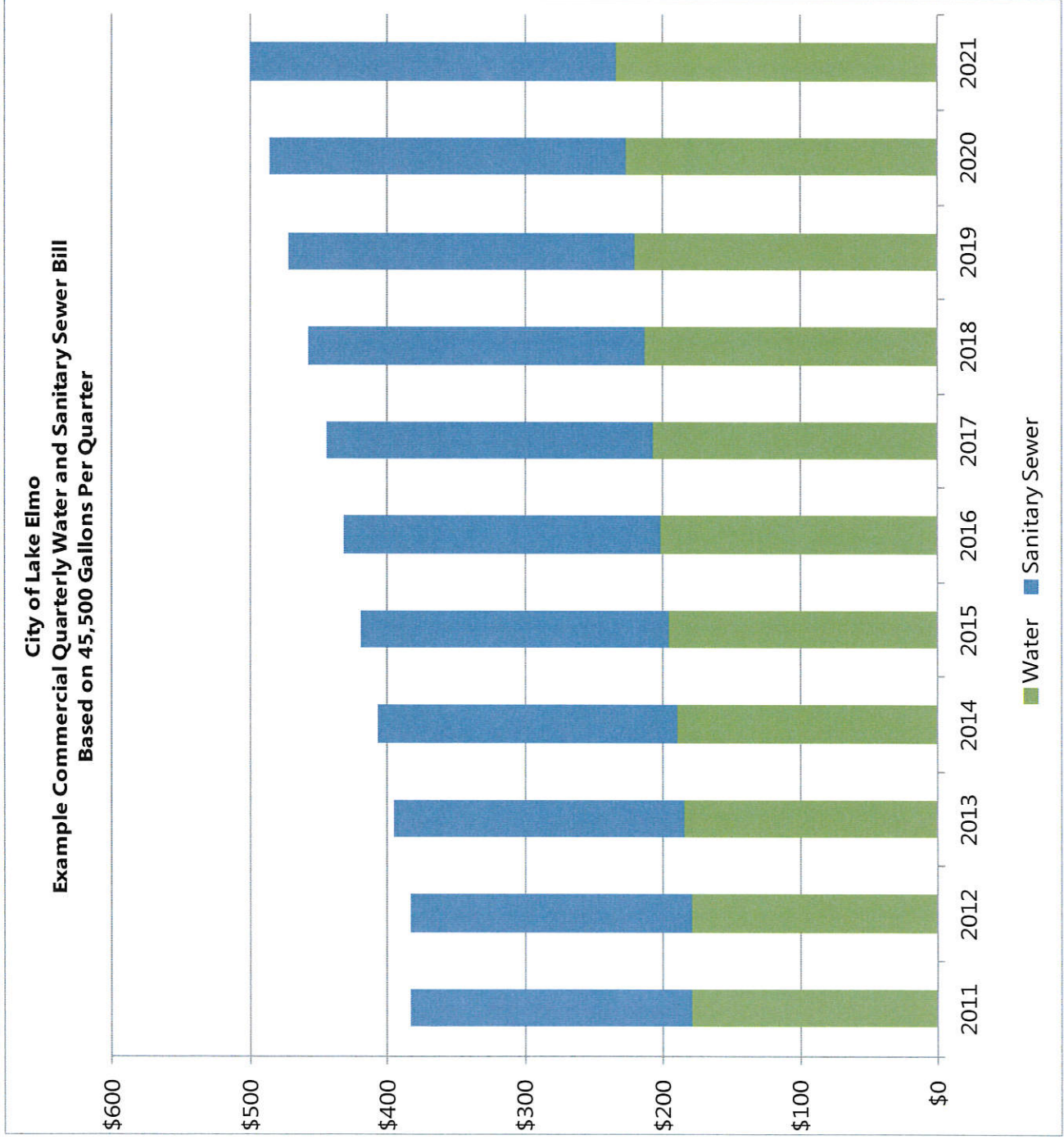


The source of funds is projected to exceed the use of funds each year due to the projected 3 percent increase in the fee charged and 2 percent increase in annual operating expenditures. The Storm Sewer Fund has no outstanding debt or planned use of cash for capital improvements at this time. Possible 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**

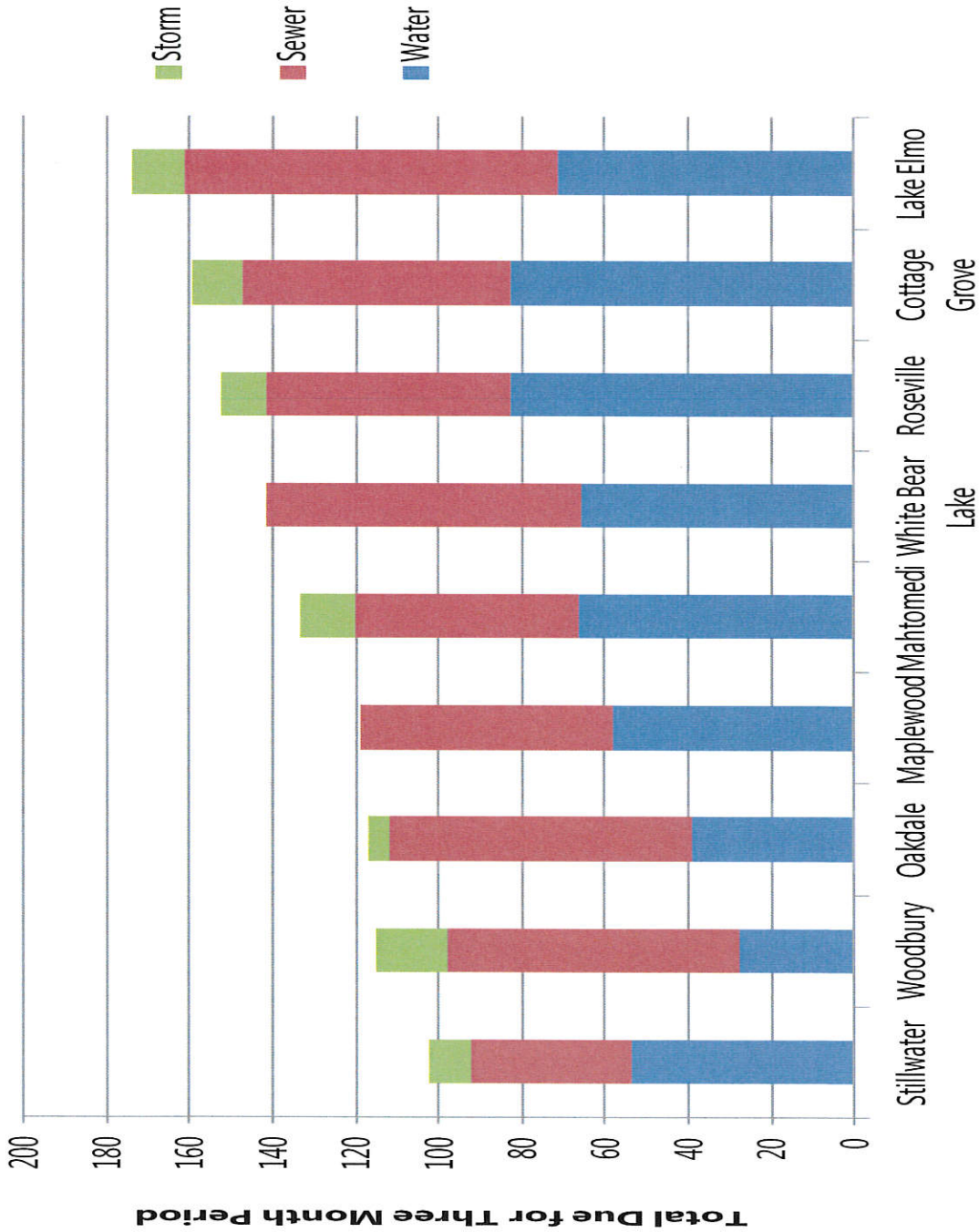


The quarterly charge amounts shown in this chart are based on the fee schedule shown on page 19. The estimated volume of 10,010 is for household water usage. Property with a sprinkler system will have a higher average volume.



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

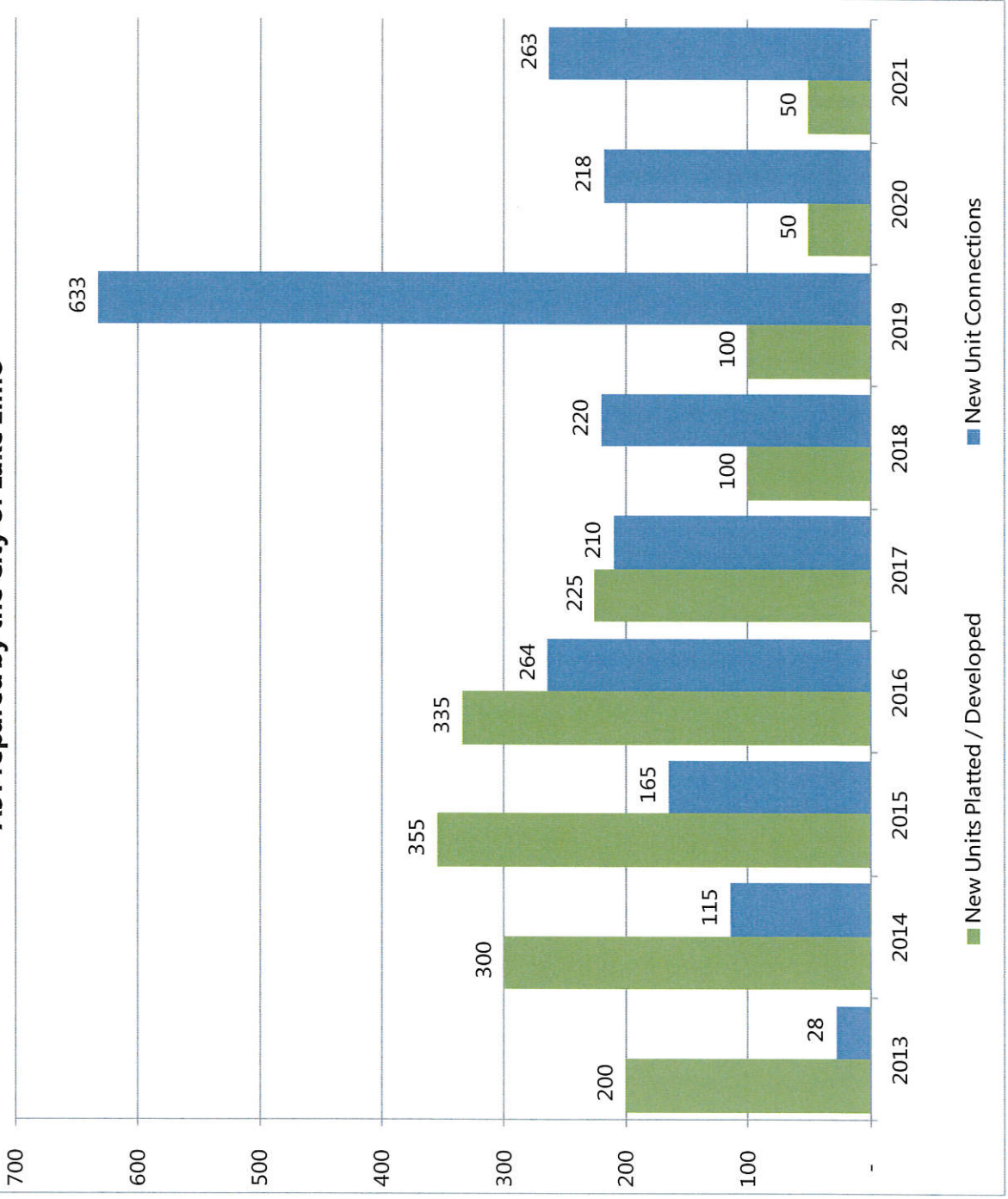
Comparison of Estimated Utility Bills
Example Single Family Res Property Total Charge for Equivalent Three Month Period with 20,000 Gallons of Usage
 (Fee Data Available From Year 2012)



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

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Minneapolis, MN 55402
Toll Free 1-800-851-2920 Main 612-851-5900
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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	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	