

City Administrator's Budget Message

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City of Chaska 2012 Budget



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2012 Annual Budget

To the Citizens of Chaska, Honorable Mayor, and Chaska City Council:

Submitted for your review is the proposed 2012 Annual Budget for the City of Chaska, along with a review of major issues and opportunities relating to the City's general operations. The budget, as proposed, I believe meets the needs for continuing to provide excellent municipal services, while at the same time meeting the City's objectives that we have established during the budgeting process.

2012 Revenue Issues

As we have seen for the past 3 years, there continues to be a number of significant revenue issues the City of Chaska has needed to address as it relates to the preparation of the budget. Specifically, the three major revenue issues we have had to address include:

- Market Values across the community have dropped 4.14% for taxes payable 2012 (this follows a 6.68% decrease last year)
- The State's elimination of the Market Value Homestead Credit program starting in 2012, and the continued un-allocation of Local Government Aid
- The unpredictability of new construction in the community, which since 2008 has trended downward, thus reducing our building permit revenue
- Reduction in revenue from elimination of funding for School Resource Officer position at District 112 (now reduced to one at the High School)

In 2011, the City identified approximately \$650,000 in revenue shortfall compared to 5-year forecast number that we projected in 2010. To address these issues in 2011, Staff identified approximately \$450,000 of deferrals of planned expenditures, including some scheduled equipment replacement, as well as a reduction of nearly \$200,000 in expenditures, including a reduction in our street maintenance activities. In addition, the 2011 budget continued to include not filling the 3 positions that were eliminated in 2009 from the Community Development Department.

For the 2012 General Fund budget, the City had approximately \$440,000 in revenue shortfall compared to our 5-year forecast number that we projected in 2011. This came both from a \$392,000 deficit anticipated in our 5-year forecast, and an additional \$47,000 reduction in revenue from the School District in funding ½ of a School Resource officer position. Addressing this revenue shortfall in this proposed budget came mainly from the deferral of planned expenditures, but also was mitigated by the fact that we have seen an increase in electric usage in the community at a rate faster than what we had originally anticipated, due to an increase in economic development activities, such as the 212 Medical Center, United Health Group Data Center, Michael's Foods and additions onto existing businesses. This increased usage has helped mitigate issues in the General Fund by increasing the amount of Franchise Fee we have coming into the General Fund.

With these changes from the 5-year forecast, along with a recommendation to keep our tax levy the same from 2011 to 2012, which would be the third year in a row of 0% increase in our tax levy, Staff feels that we are able to adequately address the revenue issues we are currently experiencing, and at the same time meet the budgeting objectives that were supported by the Council in our annual budgeting process.

Budget Objectives

After identifying the revenue issues for 2012 that we anticipate the City will be facing, the first step Staff took in the preparation of the 2012 budget was to establish a set of objectives to guide the preparation of the general fund budget. Below, is list of those objectives that were used in both the 5-year financial forecast process and the goals that were used in the establishment of the 2012 budget:

- 1) *Maintain existing high-quality service levels, making reductions in service levels only when directly associated with decreased need for service*
- 2) *Maintain a policy of keeping a constant tax rate for limiting growth of tax levy, while also planning levy resources that at a minimum remain constant, thus not inhibiting our ability to maintain existing service levels*
- 3) *Fund replacement of the City's existing capital investments*
- 4) *Fund new programs only after existing, necessary programs are funded*
- 5) *Address the implications of levy limits on local governments and the significant reduction in LGA and MVHC, while maintaining current service levels expected*
- 6) *Develop a plan that allows City to discontinue draw from General Fund reserves*
- 7) *Continue to fund levy needs of Street Reconstruction Program*

One of the objectives that received particular discussion during last year's budget process was our objective of keeping a constant tax rate. With a reduction in overall property values of 6.68% in 2011 and an additional 4.14% in 2012, keeping a constant tax rate would reduce our overall levy by approximately \$300,000 in 2011 from what we levied in 2010. With an already lean budget, a low City tax levy (3rd lowest per capita in the Twin Cities Metropolitan Area and lowest in Carver County), and the need to cut key City services should we reduce our overall levy from 2010, it was decided to modify this objective so that a constant tax rate limits growth in our tax levy resource, but that the City not levy less than the previous year to ensure that all of our budgeting objectives are able to be met. As Staff prepared the 2012 budget, we also utilized this same objective, thus making our recommended tax levy be a 0% increase from 2011.

Key Factors in Revenue Forecast

Key factors which impact both the cost of providing services and the City's revenue resources are changes in Chaska's population and households. As the number of households in the community increases, there are increased demands for street maintenance, snow plowing, park usage, recreation, police calls, utility bills, etc. Population and household levels also impact expected revenues from utilities, building permits and property tax levies.

A significant trend that occurred in the early part of this decade was the increased rate of residential development in the City. In the 1990s, Chaska’s residential development remained relatively stable, with an average of 200 new living units per year.

During that time period Chaska’s population increased from 11,339 to 17,450. From 2001 to 2005, in excess of 2400 new living units were approved within new residential subdivisions. In addition, the type of developer shifted from local developers to large national firms. As a result of both increased demand and supply of residential dwellings, a significant increase in new residential dwelling construction activity occurred in the 2003-2005 time period. This large amount of growth resulted in a 35% increase in our population from 2000-2010, with our official population being 23,770. This compared to the 8% average increase in population that was experienced across the rest of the Twin Cities Metropolitan Area, making Chaska and the Southwest Metro Area one of the fastest growing areas in the entire Twin Cities. This growth resulted in an increase demand for service over the last decade.

Over the past 5 years however, residential development in the metro area has decreased significantly as a result of both over-building and a general downturn in the economy. At the same time, the supply of new available lots within the Chaska area has decreased, resulting in a significant downturn in building activity. We have continued to see no new significant residential development come through the planning process this year, while the lots that were previously developed, but not built upon, have sold at rates slower than expected. The one new development we saw put in place in 2011 was Nickle Creek, which put in infrastructure for just over 26 new homes.

Staff believes this trend will continue, with a continued decrease in new housing units in 2012, with 132 units being planned for in this budget year. Just over half of this growth we expect to see with single-family housing units, with just over 50 being associated with the addition of The Landing project on Block 53 which just received project financing. While we do anticipate that in 2012 housing starts will continue to be low, we have seen the increase in Commercial/Industrial activity in the community, with work being down to help drive the redevelopment of the Chaska Building Center site, and the next addition in our new industrial property at the 212/County Road 10 interchange. Below is a chart illustrating past population growth and the growth Staff anticipates over the 5-year period.

Year	# of Households	# of New	Est. Pop.
2000	6,979	445	17,449
2001	7,394	415	17,746
2002	7,909	515	18,982
2003	8,378	469	20,107
2004	8,854	476	21,250
2005	9,122	268	21,893
2006	9,323	201	22,375
2007	9,553	230	22,927
2008	9,743	190	23,383
2009	9,767	24	23,441
2010	9,832	65	23,652
2011	9,907	75	23,777
2012	10,039	132	24,094
2013	10,089	50	24,214
2014	10,235	146	24,564
2015	10,323	88	24,775
2016	10,463	140	25,111

An analysis of General Fund revenues by major fund source:

Total revenues anticipated to finance the 2012 General Fund operating budget are \$9,982,679, which is an increase of 4.60% from the 2011 budget of \$9,544,066.

General Fund Revenues

	2009 Actual	2010 Actual	2011 Budget	2012 Budget	Increase	%Increase
<i>Property Tax</i>	\$3,666,063	\$4,151,290	\$4,139,354	\$4,077,064	(\$62,290)	-1.5%
<i>Electric Franchise Fees</i>	2,256,000	2,501,470	2,529,000	2,841,100	\$312,100	12.3%
<i>Other Franchise Fees</i>	213,386	222,183	215,270	221,728	\$6,458	3.0%
<i>License and Permits</i>	747,196	766,497	757,607	769,868	\$12,261	1.6%
<i>Other Revenues</i>	1,843,446	1,739,271	1,003,735	1,105,228	\$101,493	10.1%
<i>Admin Charges to Funds</i>	540,826	708,000	899,100	967,691	\$68,591	7.6%
Total Revenue	\$9,266,917	\$10,088,711	\$9,544,066	\$9,982,679	\$438,613	4.6%

Property Taxes:

For 2012 the General Fund, Mt Pleasant and Equipment Acquisition Fund budgets requires a total levy of \$4,880,354, which represents an increase of 0% from 2010 and 2011. This total levy will include:

- Continuation of dollars added in 2010 to re-institute the Street Reconstruction Program
- \$6,000 for the Mt. Pleasant Cemetery levy
- \$4,614,354 which is the general tax levy that supports the operations of the General Fund and our General Fund equipment acquisition scheduled purchases for 2012. The portion that goes to our General Fund Budget in 2011 would be \$4,077,064, with the remaining portion going to Equipment Acquisition.

As part of the 2012 budget, Staff is recommending no increase in the tax levy from what we have had in both 2010 and 2011, with the following table summarizing Chaska’s actual tax levies for 2010 and 2011, along with the proposed 2012 levy, by each of these funds.

	2009	2010	2011	2012	Increase	%
General	\$ 3,666,063	\$ 4,151,290	\$ 4,139,354	\$ 4,077,064	\$ (62,290)	-1.5%
Equipment Acq	\$ 618,109	\$ 463,064	\$ 475,000	\$ 537,290	\$ 62,290	13.1%
Mt Pleasant	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	0.0%
Special Levy (Street Program)	n.a.	\$ 260,000	\$ 260,000	\$ 260,000	\$ -	0.0%
Total Operating and Special Levy	\$ 4,290,172	\$ 4,880,354	\$ 4,880,354	\$ 4,880,354	\$ -	0.0%

Impact of Tax Levy on Property Owners

To understand the impact of the tax levy on individual taxpayers, four factors must be analyzed:

- Market Value Changes
- Any changes in the Tax Capacity Formulas Established by the State
- The City's Tax Levy
- Understand the impact of the State's elimination of the Market Value Homestead Credit Program and the implementation of the Market Value Exclusion Program

Overall, Chaska's market values, excluding tax-exempt property, decreased by \$93,613,100 to \$2,168,101,700, an overall decrease of 4.14%. While we experienced decreases in the residential, apartment and other categories, Chaska did see an increase in our commercial/industrial property values, due to an increased amount of economic development projects occurring in the City. This corresponds with the increase in electric usage we are seeing in the City because of this increased commercial/industrial activity. As mentioned previously, this has helped mitigate some of the impact we have seen in overall slower growth than what we saw in the past two years. Below is a summary of the Market Values for 2012 as established by the County Assessors office:

Chaska 2011 Assessment					
	Residential	Commercial/Industrial	Apartment	Other	Total
2011 EMV	\$1,578,958,800	\$385,211,900	\$107,808,300	\$96,122,700	\$2,168,101,700
2010 EMV	\$1,658,363,300	\$382,975,100	\$109,850,900	\$110,525,500	\$2,261,714,800
Total Value Change	(\$79,404,500)	\$2,236,800	(\$2,042,600)	(\$14,402,800)	(\$93,613,100)
New Construction	\$13,784,500	\$18,597,700	\$0	\$0	\$32,382,200
Market Change	(\$93,189,000)	(\$16,360,900)	(\$2,042,600)	(\$14,402,800)	(\$125,995,300)
% New Construction	0.87%	4.83%	0.00%	0.00%	1.49%
% Market Change	-5.90%	-4.25%	-1.89%	-14.98%	-5.81%
2011 Total % Increase	-4.79%	0.58%	-1.86%	-13.03%	-4.14%

Using the 2011 market values and the classification formulas established by the State, the County Auditor has calculated Chaska's 2011 (for taxes payable 2012) gross tax capacity to be \$24,250,360 an decrease of 7.56%. To calculate the net tax capacity used for determining Chaska's tax rate, a reduction must be made for captured tax increment and fiscal disparity contributions. Our current captured TIF value is \$4,992,280 with Chaska's fiscal disparities contribution for 2012 being \$2,983,726, resulting in a net tax capacity of \$16,274,354, a decrease of 8.39%.

While the average decrease in market values in the community would normally correspond closely with what the decrease in the tax capacity would be for that same year, you can see that the average decrease in Market Values is 4.14% and the decrease in tax capacity for 2012 is 8.39%. The major difference that this illustrates is the State's elimination of the Market Value Homestead Credit program for 2012, replacing it with a Market Value Exclusion Program. Under this program, the State excludes a portion of the value of homesteaded properties going up to \$414,000. With the elimination of these market values from the tax capacity calculation, this has a significant impact on the total tax capacity value in the City, decreasing the net tax capacity (after the exclusion of tax increment and fiscal disparities) by 8.39%. The State's elimination of this program has the effect of raising the City's tax rate, even though we have not changed our levy, and also has over a \$395,000 impact on the revenue that we generate annually on our TIF Districts.

The State's move to eliminate this Market Value Homestead Credit Program has little effect on the Median price home in Chaska, as they would still be eligible for a Market Value Exclusion, but does impact the home over \$414,000 because they do not receive the Market Value exclusion benefit, plus they are impacted negatively by the increase in the tax rate due to the elimination of the Market Values on homes under \$414,000.

This is one of the unintended consequences of the State's elimination of the MVHC program, even though the City is making no change to its overall tax levy.

	2011	2012	Increase	% Change
Gross Tax Capacity	\$26,233,284	\$24,250,360	(\$1,982,924)	7.56%
TIF	(\$5,388,088)	(\$4,992,280)	(\$395,808)	7.35%
Fiscal Disparities	(\$3,080,261)	(\$2,983,726)	(\$96,535)	3.13%
Net tax capacity	\$17,764,935	\$16,274,354	(\$1,490,581)	8.39%

Based on these estimates, Chaska's 2012 tax rate is forecast to be 25.45% (including the HRA/EDA levy. While our tax levy would have a 0% increase for 2012, this would be approximately an 8.39% increase in our overall tax rate, given the negative impact of the State's elimination of the Market Value Homestead Credit Program.

While the rate would see an increase, the average residential taxpayer in the City would see the actual City taxes paid on their home, with the Market Value Exclusion Program, stay very similar in 2012 as they were in 2011. Specifically, the Median Valued Home in 2011 that was \$200,216 saw a 5.9% decrease in market value to be valued in 2012 at \$188,403. With the new Market Value Exclusion Program, this house will see City taxes at \$428 annually. This same house with a Market Value Homestead Credit Program in 2011 would have been at \$432, decreasing the City taxes on this home by around \$4 annually.

However, as mentioned previously, the home valued at \$445,000 in 2011 would now be valued at \$420,000 and therefore would not be eligible for the State's new Market Value Exclusion program. Because of this, the City taxes on this home in 2011 would have been \$986, with them being \$1,069 in 2012, or an increase of \$83 annually. Again, this is mainly the result of the unintended consequences of the State's elimination of the Market Value Homestead Credit Program in 2012 and the introduction of the Market Value Exclusion Program. While the City would be levying the same amount in 2012, the elimination of the MVHC program puts a larger share of the local tax burden on higher valued homes, and has the effect of raising our local tax rate without making any change to our levy.

While this unanticipated change was made at the State, Chaska will continue to maintain one of the lowest tax levies per capita of any City in the metropolitan area, ranking third lowest in the entire Metro Area. It also remains the lowest of any City in Carver County as well.

A major concern of property taxpayers is the level of property taxes necessary to fund City services. In considering property taxes in Chaska, three points should be highlighted. First, property taxes account for less than 45% of Chaska's general fund operating revenues. Secondly, Chaska has always ranked extremely low amongst other metropolitan cities when it comes to total City property tax levels. In the latest Minnesota Citizen's League Survey looking at 2011 City tax data, out of 83 local units of government looked at in the metropolitan area, Chaska ranked 81st lowest in City taxes

per capita. Even if we included our Electric Franchise Fee revenue in this statistic, and considered it part of the overall City tax levy, Chaska would still rank 77th lowest in the entire Metro Area in City tax levies per capita. At the same time, Chaska has kept its General Fund expenditure down, with Chaska spending \$552 per capita, compared to the \$597 per capita for other cities our size across the State. In this sense, Chaska has continued to perform very well when comparing our City property tax level compared to all of communities in the metropolitan area. It has allowed the City to keep a competitive edge when it relates to other municipalities in the metropolitan area and Carver County.

Ranking	City	Taxes	Population	Tax Levy Per Capita
1	Wayzata	\$3,774,366.00	4,119	\$916.33
2	Oak Park Heights	\$3,964,704.00	4,708	\$842.12
3	Golden Valley	\$16,409,450.00	20,326	\$807.31
4	Minneapolis	\$277,357,000.00	390,131	\$710.93
5	Tonka Bay	\$1,048,566.00	1,532	\$684.44
6	Monticello	\$7,677,309.00	11,366	\$675.46
7	Minnetrista	\$4,133,111.00	6,189	\$667.82
8	Newport	\$2,291,000.00	3,542	\$646.81
9	Carver	\$1,855,575.00	2,946	\$629.86
10	Shorewood	\$4,763,319.00	7,582	\$628.24
11	Lilydale	\$498,000.00	800	\$622.50
12	Victoria	\$4,106,550.00	6,665	\$616.14

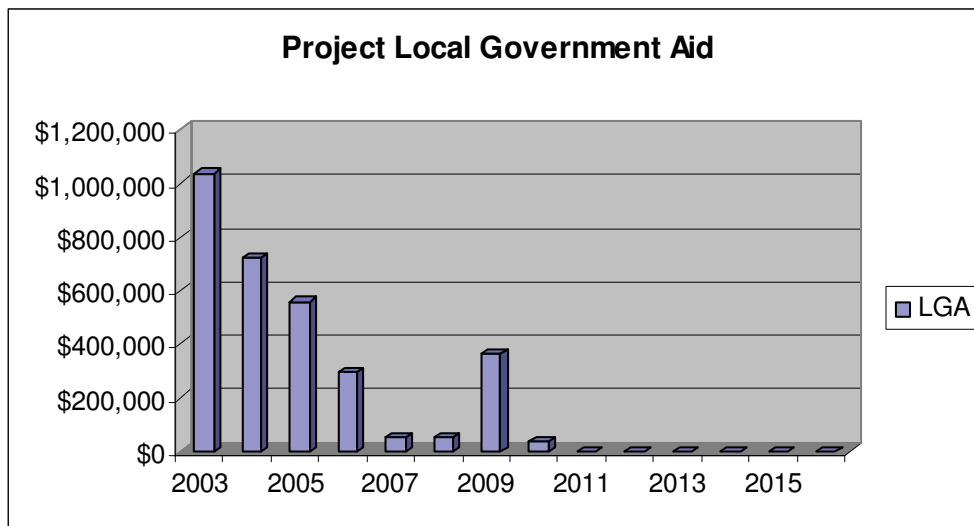
41	Chanhassen	\$10,267,390.00	22,590	\$454.51
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71	Anoka	\$5,899,105.00	17,849	\$330.50
72	New Brighton	\$7,397,958.00	22,511	\$328.64
73	St. Paul	\$94,609,221.00	288,055	\$328.44
74	Champlin	\$7,765,835.00	23,983	\$323.81
75	St. Paul Park	\$1,655,427.00	5,293	\$312.76
76	Arden Hills	\$3,040,964.00	9,796	\$310.43
77	North St. Paul	\$3,385,287.00	11,600	\$291.84
78	Vadnais Heights	\$3,557,385.00	13,081	\$271.95
79	North Oaks	\$1,191,312.00	4,729	\$251.92
80	Lauderdale	\$580,730.00	2,322	\$250.10
81	Chaska	\$4,880,354.00	24,048	\$202.94
82	White Bear Lake	\$4,666,000.00	24,679	\$189.07
83	Falcon Heights	\$1,038,290.00	5,746	\$180.70



Intergovernmental Revenues:

One of the continued challenges in preparing the 2012 Budget has been addressing the significant loss of local government aid following the 2003 Legislative session. In addition to this dramatic change in Local Government Aid lost since 2003, cities have also had to deal with the un-allotment of dollars from the State that were committed in 2008, 2009, 2010 and 2011 in receiving LGA. The City of Chaska is not programmed to receive any LGA dollars in 2012, and with the elimination of the Market Value Homestead Credit program, has eliminated all ties with the State for Aid, with the exception of the Police and Fire Training Aid. The proposed General Fund budget assumes we will receive no Local Government Aid, and that the elimination of the Market Value Homestead Credit Program has taken effect, which does not provide the homesteaded property owner with a subsidy to pay the local property taxes. The following graph depicts the impact of the Legislative changes on Chaska's LGA revenue.



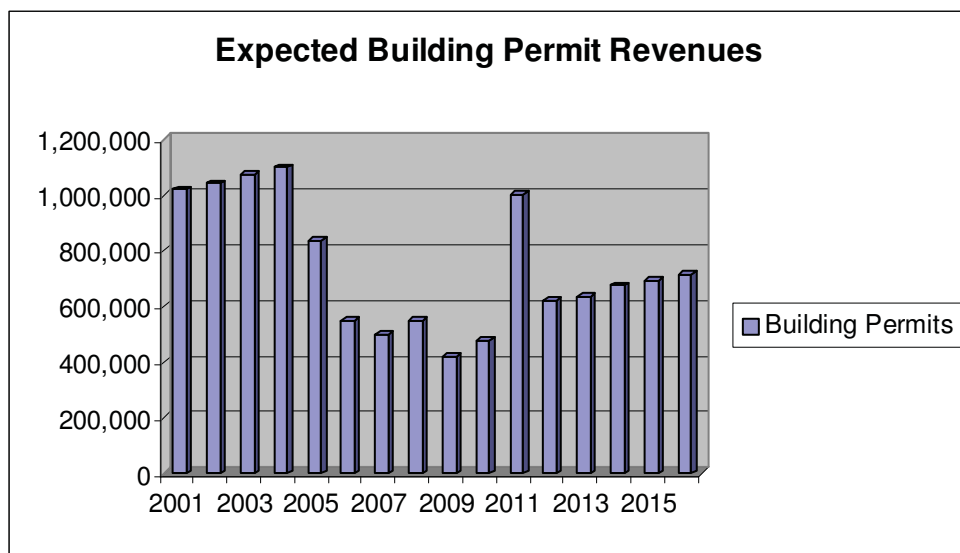
As you can see in the chart above, the City has seen a reduction of nearly \$1 million annually since 2003. While the City was able to mitigate some of this loss early on with growth in the taxable market values in the community, this has been much more difficult to address over the past 4 years, as we have seen little or negative growth in our community's taxable market values. This has especially been significant when considering that our demand for service has not decreased as we have seen changes in the market value conditions.

The other significant inter-governmental revenue is payments received from the Chaska School District for school liaison officers. In 2009, there was a reduction of one SRO officer position, bringing the total down to 3 officers. In 2010, we saw a reduction of an additional SRO, bringing us down to a total of 2 officers. In 2011, we were once again notified by the School District that another SRO position would be cut, bringing that number down to 1 SRO who is based out of Chaska High School. Under our agreement with the District, they pay 50% of the school liaison officer program, which

for 2012 is estimated to be a loss of approximately \$47,000 for the third position that was reduced.

Licenses and Permits

Over the past several years, Chaska and the rest of the metropolitan area, has experienced a dramatic slow down in not only residential development, but development in all sectors of the market. As a result of the downturn, building permit revenues have dropped significantly. Up through 2005, this revenue source was over \$1 million per year, and in 2010 brought in approximately \$500,000. While we did see a large year for building permit revenue in 2011, anticipating that we will have over \$1 million in permit revenue, the consistency and predictability of this revenue stream is fairly volatile. This slowdown in the market is anticipated to continue for the foreseeable future, although Staff does believe that we will see approximately \$600,000 in permits for 2012, based on the growth we can anticipate at this point. Much of this growth will likely come through the addition of new multi-family housing with The Landing redevelopment in downtown Chaska, and the addition of new/expansion of existing businesses in the community. As mentioned previously, we anticipate only modest residential growth of single-family homes in the community, although we do expect to see continued building in the Chevalle, Symphony Hills and Nickel Creek developments. Under our current building projections, the budget would continue to plan for not bringing back any of the 3 positions eliminated in our Building Department in 2009. However, if we did see development continue at levels seen in 2011, we would need to consider bringing back a support position for the department to be able to keep the department processing building permits and inspections in a reasonable period of time.



Electric Fund Transfers

The City has a formal policy of charging electric distribution suppliers, including itself, a per kilowatt-hour franchise fee, which is roughly equivalent to 10% of the total electric

rate of the electric utility. For 2012 the franchise fee is anticipated to generate revenues to the general fund of \$2,841,000. This is approximately \$312,100 more than in 2011, which represents the increase in usage by our existing customers, but also reflects the positive impacts we are seeing through the addition of large industrial project, such as Michael's Foods, the 212 Medical Center and United Health Group's Data Center facility.

The electric fund continues to be a significant revenue source, accounting for 26% of total 2012 general fund revenues. It also makes contributions to the General Fund of \$105,000 for administrative expenses, and the equipment acquisition fund of \$150,000 to help reduce the overall tax burden to our residents. These dollars became possible to utilize for funding the General Fund following the addition of Power Plant #2 Gas Turbine, which became operational in 2001.

Charges for Services:

Charges for services are those revenues, which support City services that are derived from charges to individual users for services, other governmental agencies, or inter-fund charges for administrative services. These would include payroll, finance, administration and Human Resources. For 2012, charges for services are programmed to be \$967,691, as compared to \$899,100 in 2011. This increase in charges for services is occurring to help us keep up with the actual cost of service the General Fund is providing to our other Enterprise Funds and also includes the increase from the Utility Funds to support the new Budget Analyst position, and the IT Technician position to support the new Automated Meter Reading Installation Program. The following is a breakdown of the charges to the various departments.

- Economic Development: \$165,240
- Utilities: \$555,260
- Community Center: \$93,684
- Golf: \$96,798
- Municipal Services (MSB): \$56,100

Interest Earnings:

In 2012 we are anticipating that interest rates will continue to stay at very low levels and that average interest rate earnings will be similar to that in 2011. This change will result in interest rate revenues forecast at \$10,000 for the General Fund in 2012.

General Fund Expenditures:

General fund operating expenditures are forecast to be \$9,982,679, which is an increase of 4.6% over the 2011 Operating Levy. In preparing the 2012 budget the following general assumptions were used for the operating budget:

- *Operating costs would increase at a rate of 1%, which is down from the 2% increases utilized in the past*
- *The City would maintain current levels of service, only reducing in areas where we have seen a reduction in the need for services (i.e. Community Development Reductions)*
- *Addition of deferred Budget Analyst Position at \$62,500 (\$50,000 would come from the Utility Funds given the services that would be provided to these funds)*
- *Replace the planned addition of the Police Clerical position in 2012 with a one-time purchase of E-Citation equipment at \$59,000 (eliminate the need for additional support functions in the foreseeable future)*
- *Defer planned addition of a Public Works Maintenance position until the market dictates, and completely eliminate the addition of an additional CSO in the Police Department*
- *Fund the Street Overlay/Seal Coat program at the recommended \$250,000*
- *Defer some scheduled Public Works, Police and Building Inspection replacement equipment until 2013*
- *Continue to contribute tax levy amount necessary to fund the Street Reconstruction Program*
- *Addition of one IS Technician position to support the Automated Meter Reading Program Installation occurring in 2012-2014 (while this position is housed in the General Fund since our Information Services Department is in the General Fund, this position is completely funded through the Utility Funds as a transfer to the General Fund, as the AMR Installation Program is a Utility Program)*
- *No draw-down from General Fund Reserves*

The following is a summary for 2012 expenditures by department.

Department	2009 Actual	2010 Actual	2011 Budget	2012 Budget	Increase	%Increase
Council	\$138,181	\$105,334	\$95,922	\$96,487	\$565	0.59%
Administration	\$348,831	\$301,764	\$288,077	\$355,320	\$67,243	23.34%
Administrative Services	\$793,934	\$849,816	\$847,895	\$970,314	\$122,419	14.44%
Data Processing	\$231,490	\$245,946	\$269,189	\$352,278	\$83,089	30.87%
Legal	\$108,406	\$114,024	\$121,907	\$123,125	\$1,218	1.00%
Community Development	\$784,405	\$852,550	\$776,897	\$732,593	-\$44,304	-5.70%
Engineering	\$230,349	\$238,600	\$218,034	\$223,244	\$5,210	2.39%
Elections	\$18,331	\$32,621	\$6,943	\$30,777	\$23,834	343.28%
Police	\$2,941,773	\$3,010,213	\$2,924,148	\$3,028,627	\$104,479	3.57%
Fire	\$633,141	\$686,332	\$706,375	\$719,750	\$13,375	1.89%
Government Buildings	\$207,425	\$200,608	\$218,859	\$212,125	-\$6,734	-3.08%
Public Works	\$2,283,958	\$2,373,233	\$2,369,400	\$2,425,219	\$55,819	2.36%
Recreation	\$464,295	\$471,323	\$473,062	\$483,583	\$10,521	2.22%
Communication	\$81,680	\$64,743	\$150,728	\$147,281	-\$3,447	-2.29%
Unallocated	\$ 17,481	\$49	\$76,630	\$81,956	\$5,326	6.95%
Total	\$ 9,283,680	\$ 9,547,156	\$ 9,544,066	\$ 9,982,679	\$438,613	4.60%

As can be seen in the chart above, the overall increase in expenditures for 2012 is budgeted to be 4.6%, or \$438,613 above the budget for 2011. The major changes you can see is the addition of the Budget Analyst Position in Administrative Services and the IS Technician position in Data Processing. Both of these are mainly funded through our Utility Funds, as they support Utility Services. The expenses show up in our General Fund as these are where the positions are actually housed. Other than this, the decrease in Community Development and increase in Administration reflect the moving of existing position from the Community Development Department to Administration, as this is where this position has practically been housed since being created. Finally, this is an election year, so every other year we fund this at its full level, hence the increase in expenditures in this category.

This level of expenditures would allow us to meet our service objectives set for the 2012 budget process, plus represents the two new positions added which are mainly supported by the Utility Funds, but housed out of support departments in the General Fund.

Specific Department 2012 Activities

Administrative Services

For 2012, the budget does include the addition of a Budget Analyst position. This has been a position that was originally planned for at the beginning of the last 5-year budget process, and was delayed due to economic factors over the past several years. This position is to help provide higher-level financial accounting/reporting support in the Finance Department, something that has been needed with the addition of GASB 34 Accounting Standards, and the increase in the number of our Enterprise Funds in the City. It should be noted that \$50,000 of the \$62,500 of this position would get funded through an transfer from our Utility Funds, as a significant amount of the services it would provide would be to these departments. The remainder would be an additional expense to the General Fund.

While there are no changes proposed for staffing, we do anticipate the need to upgrade the Citywide accounts payable and receivable system in the future, and as a result we have continued to set aside \$10,000 in the 2012 Equipment Acquisition budget to ultimately upgrade this system. These have been dollars we have set aside in our general fund for the past several years.

Community Development

As indicated previously, we have experienced a dramatic slowdown in the volume of building activity in the community over the past several years, especially in the residential market. While 2011 was a very good year for building activity in the community, with building permit revenues similar to what we saw during the height of the past decade, it is unclear how sustainable this growth will be into 2012, as much of it came through large commercial/industrial projects. For 2012, we are forecasting the

addition of 132 new residential units, with most of this coming through the 50 units that are planned to be added on the Block 53 Redevelopment Project (Aeon's Landing Project). This is opposed to our past experience of 400-500 living units during the middle parts of this decade. We do continue to anticipate that there will be some commercial/industrial projects in 2012, which will help supplement the loss of building permit revenue we have experienced because of the decrease in residential building activity. We would expect to see some growth in our new industrial park, Phase I of the Chaska Building Center Redevelopment project, as well as some planned additions to existing businesses in our industrial park.

For this reason, we are anticipating building permit revenues of approximately \$600,000, which is relatively consistent with the amount we budgeted in 2011. As mentioned previously, with the decrease in the volume of building permit activities in this department, we did move to eliminate 3 positions in this department at the beginning of 2009, including two building inspectors and the community development technician. We continue to show in the 2012 budget that these positions are not funded. However, if building permit levels were to stay at a level similar to what we saw in 2011, we would need to consider adding back the Community Development Technician position to provide support services to the department in order to keep building permit processing time to a reasonable level.

The other change in the Community Development Department is moving one Department Secretary position from Community Development into Administration's Department budget, as this is where the position has been traditionally housed and supervised since being created several years ago. This is more of a "house-cleaning" change for our budgeting process.

Although over the past several years the City has experienced a significant increase in infrastructure improvements, as well as stormwater maintenance requirements imposed by the State, the current engineering staffing level of full time engineer and assistant engineer are recommended to remain constant. As in the past, any additional workload in this department will be picked up by the City's consulting engineering firm, with costs funded directly by projects.

Police

Some years ago, the City Council established a staffing guideline in the Police Department of one officer per one thousand residents. Although this level is slightly less than the average of 1.2 officers per 1000, for similar sized communities, it was felt to be appropriate for Chaska's needs. Currently, the Department has 24 licensed officers, which is close to our target given our projected population numbers for 2012 estimated to be 24,094 residents. This staffing includes our sworn officers who fill administrative roles. Often cities do not count these officers towards their overall numbers as they do not provide patrol services. We have not planned for the addition of any new staff in this department for 2012, although we are recommending a \$59,000 expenditure to implement the second phase of our E-Citation program. This would replace the planned Police Clerical support position that had been originally planned in

the 5-year process, and replace it with a one-time expense that would eliminate the need for this position in the foreseeable future.

Through the five-year program, we do anticipate that growth in new residents is going to be slower than we had originally expected. Given that, we do not anticipate adding additional police staffing during the 5-year period, unless growth increases significantly.

For over 20 years, the City has maintained a partnership with the Chaska School District by sharing equally in the cost of school liaison officers who work within the school system. In 2009, the school had three full-time liaison officers, with one assigned to the high school and the others assigned to support activities in the junior high and elementary grades. This number was down from the 2008-2009 school year in which the School District funded 4 positions. In 2012 this number is scheduled to be at 1 officer in the SRO role, which will be supported by 50% each from the School District. The remaining SRO position is stationed exclusively at Chaska High School unless emergency situations dictate at other schools.

Fire Department

Currently, the Fire Department has an authorized staffing level of 44 volunteers, although because of retirements on the department, the actual staffing level is currently at 39 volunteers. The staffing level cap of 44 is scheduled to remain unchanged for 2012.

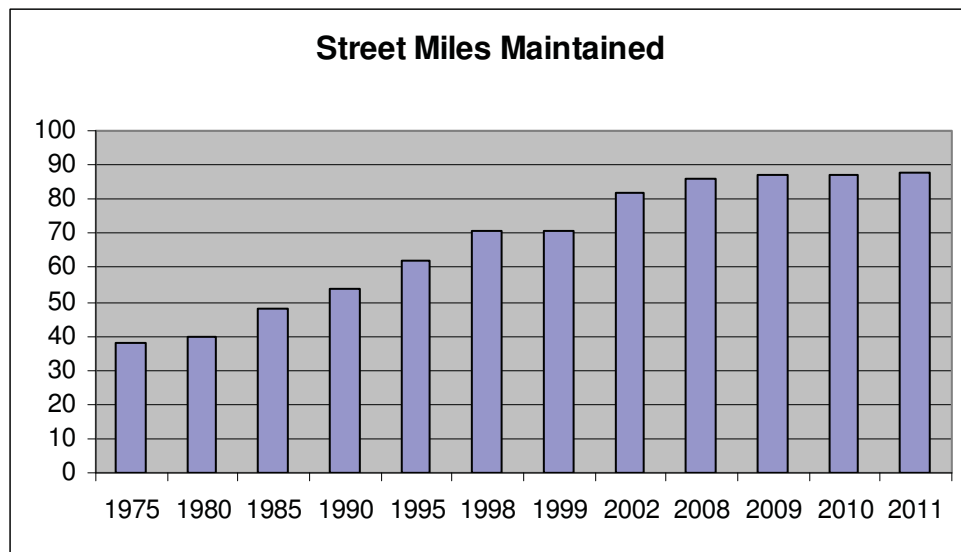
One trend that has continued to be positive is the total number of calls that our volunteer fire department personnel have had to respond to with the full implementation of the Ridgeview Ambulance Agreement. Starting first with Allina Medical Transportation, and then moving to Ridgeview Ambulance, we have seen the number of calls that our fire personnel have had to respond to go from over 1,000 calls per year, down to a number around 500. At the same time, the ambulance service has been enhanced by having an Advanced Life Support rig based right out of our community. With the addition of the 212 Medical Center, we now have two ALS Ambulance units in the community at most times. No change in this arrangement will occur in 2012. It should be noted that in the 5-year plan, we do have the planned addition of a full-time Fire Chief, as the administrative duties of the Fire Department have become too much to expect out of a volunteer position. The addition of this position in 2013 would be recommended to help maintain the rest of our department as a volunteer base, and to help in the recruitment of future members.

In 1997 the City completed construction of the new fire station, which was financed through the sale of EDA revenue debt. The City now has an annual debt service payment for the new facility in the amount of \$300,000 per year. The approved financing plan anticipates that the annual debt service would continue to be funded from a transfer from the Electric Fund and consequently, the \$300,000 Electric Fund transfer is maintained for 2012. This debt transfer from the Electric Fund is programmed to continue through 2015.

Public Works

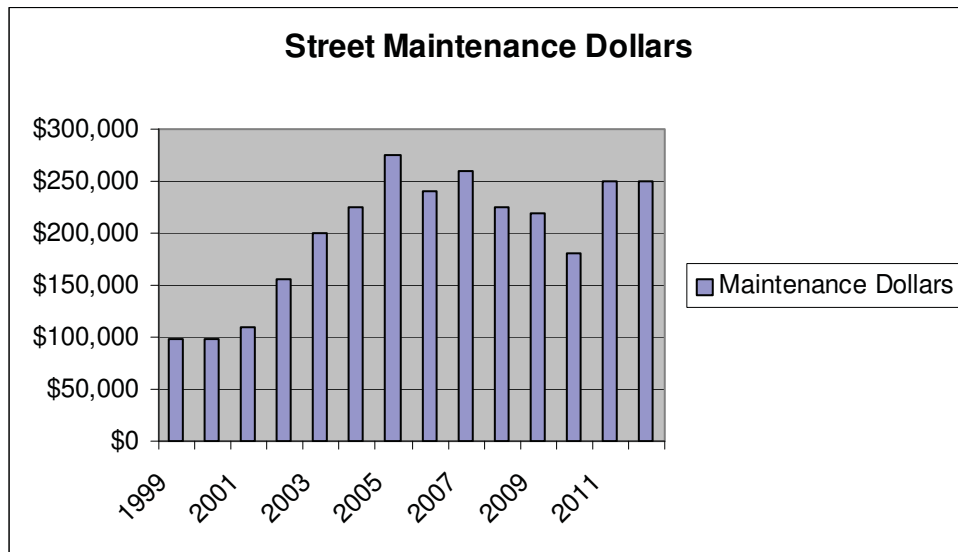
Chaska's Public Works activities are anticipated to increase as the community grows. Two factors that continue to place pressure on the Public Works service levels are growth in the City's street mileage and expansion of maintenance activities for parks and other City open spaces and trails. One additional factor that has become much more of a factor over the past several years is storm water maintenance. With new Federal and State requirements on storm water, the City moved in 2009 to create a separate Storm Water Utility Fund, staffed by Public Works personnel, to complete maintenance on our extensive system in the community.

Over the past five years we have been able to maintain a high level of street maintenance and snow plowing activities by better utilization of staff (using utility and golf personnel for snow removal) and upgrades in the versatility and efficiency of our equipment. To meet the growing need, we did add a fulltime position in 2002, and added a second new maintenance worker in 2004. We have not seen the large growth in either the miles of streets maintained or parks over the past 5 years, and do not anticipate that in the near future. For that reason, no staff changes are recommended for 2012. This position will not likely be considered until the addition of significant development in the Heights of Chaska or the Chaska Biotech Center Corporate/Industrial Park.



In 2001, Staff reviewed with the City Council, a pavement management program. The purpose of this program is to preserve and reconstruct Chaska's residential streets over the upcoming 15-year period. The program consists of three general elements: seal coating, overlaying, and total reconstruction. Our target for the amount of dollars that we have put towards the maintenance activities (seal coating and overlays) has been \$300,000, but as you can see from the chart below, we have never been able to meet that objective. For 2009, we spent approximately \$220,000 on overlay/seal coat activities, and in 2010 we spent \$180,000 that went towards the overlay of

Hundertmark Road, the Sandy Acres neighborhood, and Valley View Road. As mentioned previously, we are programming \$250,000 for 2012 to reintroduce some of the seal coating portion of our program, which we have not been able to complete because of resources for the last several years. The program for next year would include the seal coating of Hundertmark Road east of Highway 41 to the Clover Ridge neighborhood entrance, with the overlay of the Park Ridge neighborhood north of the Chaska Community Center scheduled.



The second element of our street maintenance program is the reconstruction of deteriorated streets. The program calls for the reconstruction of roads over a 10-year period, with payback being over a 25-year period. In the 2010 budget, the Council committed the necessary levy resources with a \$260,000 special levy, to restart our Street Reconstruction Program. In 2011, the Street Reconstruction included the reconstruction of Spruce, Locust and West 3rd Streets in downtown Chaska. Based on our plan, we assess for 25% of the total project costs on the reconstruction project. 2012 would bring the reconstruction of the next downtown street, with the plan to reconstruct all of the residential sections of 2nd Street, both east and west of Highway 41, along with the north/south streets south of 2nd Street and north of 1st Street. The downtown portion of our street program includes the replacement of all utilities and the addition of storm water infrastructure, which currently does not exist in our streets in the downtown area.

Recreation

Although functionally, the Recreation Department and Community Center are in essence combined, Recreation Administration and Programming are separate General Fund activities. The General Fund currently funds three fulltime positions; Parks and Recreation Director, Assistant Director, and Departmental Secretary. While not budgeted as part of the General Fund's recreation department, the Cable Coordinator position is supervised by the Park and Recreation Director, and is functionally a part of the Park and Recreation staff. In 2008, a change that we did see was that our Cable Coordinator was hired on as our Ice Arena Manager in the Community Center. As part of this change, he did keep his Cable Coordinator position, with half of his time funded

from the CCC and the other half in Cable funded through the General Fund. This has, in effect, brought the Cable Coordinator position to half funding through the General Fund. This is proposed to be staffed this way in 2012, as well. In addition, as mentioned previously, we have combined all of our current resources across the City for communications/marketing, and brought it under one person to be funded out of the General Fund. This position is housed within the Community Center building, and works together in conjunction with the Cable Coordinator to coordinate our communications efforts City-wide. There are no other changes proposed in the Recreation Department within the General Fund.

Community Center Budget

For the Chaska Community Center, 2012 will be its 22nd year of operation. As the Center has evolved, we are confident that it is addressing its mission *of being Chaska's community gathering place, while providing an opportunity to run into people you know*. The objectives of the Center are:

- 1. To promote community gathering and interaction.*
- 2. To provide family and individual recreation with an emphasis on fun.*
- 3. To enhance Chaska's pride and identity.*
- 4. To be financially self-supporting with no property tax support.*
- 5. To build a cash-balance in the CCC Fund to be able to accommodate all of the maintenance and improvement needs on this aging facility*

The Community Center has traditionally done a very good job of accomplishing the first four objectives listed above. Not only has it served as a central gathering place in the community, providing opportunities for family and individual recreation in Chaska, but has also been able to manage it's day-to-day operations in a financially self-supporting way. In this respect, it is one of the few community centers in the State of this size that is able to offer the services it does, and not utilize tax levy to support these services. It has also had the affect of keeping the General Fund Park and Recreation services that we provide through the rest of the City at very low expenditure levels compared to cities comparable in size, as the Community Center helps fund our general recreation services through sharing of staff. This is a large reason we are able to have such a low overall tax levy in the City of Chaska.

Community Center Capital Improvement Program

One objective that the Community Center has not been able to accomplish at levels that are needed is the building up of cash-reserves in the fund to address capital replacement in the building. With the facility now being over 20 years old, and many of the systems in the building, including the mechanical systems for the pool and the ice rinks being original equipment that is at or has past its useful life, the City needs to be taking into consideration the capital replacement costs of equipment that we have in the building, if we want this to continue being a quality facility. Since 1991, when the original section of the Community Center was built, the City has invested \$22.5 million in construction of all the sections of the building. If we were to translate that into today's replacement value, it would be over \$43,000,000 in investment into this facility. With this type of investment, and the age of the facility, addressing the capital reinvestment into the Community Center is a necessity.

To address the aging of the facility, and meet our 5th objective listed above, the 2012 budget does for the first time include a 10-year Capital Improvement Program. The purpose of this program is develop a comprehensive list of the major capital replacement items we will have over the next 10 years, identify the cost for completing

this work, identify funding sources to support these improvements, and to identify ways to finance the improvements that need to be made. As part of this CIP program, \$4.3 million in capital replacements have been identified over the next 10 years. The major expenses in this program include major mechanical work in the Pool area, and replacement of our entire ice system, which will be mandated as part of new environmental laws dictating the type of cooling materials we can use in ice production. Other items in the plan include items such as carpet replacement, curtain replacement in the theater, major work to the entries in the building, and regular replacement of our fitness equipment. While many of the scheduled replacements will be largely unnoticed by the general public, they are essential to keeping a high-quality and functioning facility. As part of the program, the first two major expenses would be the replacement of the Pool HVAC system, which is scheduled to occur during our normal shutdown of the pool in May of 2012, and the replacement of our ice sheets and ice production equipment in the summer of 2013. Between these two major projects, this is \$3.6 million of the total \$4.3 million that is spent as part of the overall CIP program.

To financially address the needs of this CIP program, the Community Center would need to accommodate approximately \$275,000 of additional expenses each year to pay for the debt service that would finance each of these improvements. To meet this financial need, while at the same time meeting our objective of not relying on tax levy to support the operations of the Community Center facility, the CIP program would generate additional funds from the following sources:

- Increased contribution from the Electric Fund: \$75,000 annually
- Increase in Membership/Admissions (7% additional spread over 2-years): \$87,500
- Increase in Ice Rates (7% additional spread over 3 years): \$40,052 annually
- Additional from CCC Fund: \$73,000 annually

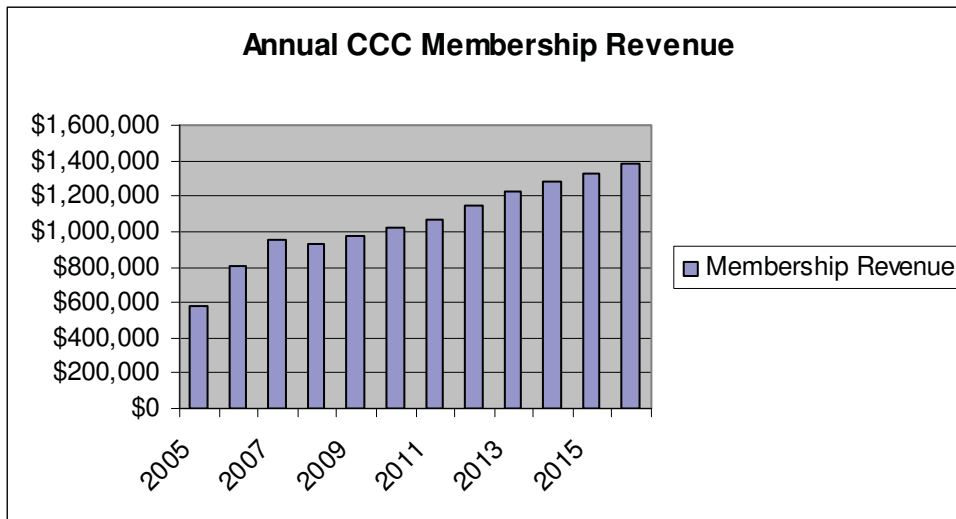
As we go through these changes, one of the things we will be keeping a close eye on is our membership/admission and ice rates and how they compare to our market of other public recreational facilities in the Metro Area. While we will need to stay aggressive on keeping these rates up with the market to address the different components of this program, we will also need to make sure that we do not price ourselves out of the market and have a negative impact on our usage at the Community Center. Any changes will be made in conjunction with comparing ourselves to our overall market.

Community Center Revenues

For 2012, we are projecting that the Community Center will generate total operating revenues of \$3,310,770, or an increase of approximately 6% over the budget from 2011, due mainly to the addition of revenues coming in for funding of the new CIP program.

While we have seen a decrease in the number of daily admissions that we see come into the CCC over the past several years, the number of people purchasing memberships has increased significantly over the past several years. In 2010, for the first time, the CCC achieved over \$1 million in annual membership sales, which is an increase of over \$400,000 annually since 2005. This has come both from aggressive

membership campaigns, and the addition of health membership programs that help offset some of the costs to patrons to have a membership at the Community Center. The chart below assumes the growth in our membership revenue that we will generate with the changes made because of the CIP program.



One of the key revenue sources for the Center is funds generated through the sale of resident and non-resident memberships. For the past several years, membership numbers have increased significantly, and are anticipated to increase again by an additional 4% from a new membership perspective, and an additional 3.5% in 2012 due to the increase in membership rates to support the CIP program. Based on that, we are budgeting to generate \$1,142,158 in membership fees for 2012. As mentioned previously, this is an increase of over \$400,000 annually since our 2005 budget year. This significant increase has occurred we believe as a result of:

- Addition of Fitness Center
- Agreement for incentives with health insurance providers
- Increase in number of area households
- Enhanced quality marketing efforts by CCC Staff
- Addition of The Lodge with the Treks and Trails Preschool
- Continued quality programming of activities in the CCC
- A commitment to reinvest back into the facility to continue to provide a quality place to gather

Each year we conduct a survey of area community centers to help determine the appropriateness of what the Chaska Community Center charges for memberships and daily admissions. The membership and daily admissions are also adjusted in relation to the long range CCC budget, which shows an annual overall revenue increase of 7.5%. This is accounted for both through the historic 4% increase we have seen annually on new membership growth, as well as the additional 3.5% increase that is being built in to support the CIP Program starting in 2012.

Historically we have attempted to charge less than the average for both membership and daily admissions for both Chaska residents and non-residents. Those facilities that

we survey are public facilities, including Shoreview, Maplewood, Maple Grove, Inver Grove Heights, Eden Prairie, and Waconia, although much of our competition comes from Lifetime Fitness and Dakota, both of which are private health clubs and charge significantly more than our annual individual or family membership. Below are charts showing where we would be for our resident and non-resident membership rates, in different categories, after the changes are made for 2012:

Resident Membership Comparison			
	Youth	Adult	Family
Average Membership Rate	\$288.75	\$374.85	\$662.55
Recommended Chaska Rate (CIP)	\$231.00	\$314.00	\$494.00
% of Average	80%	82%	75%

Non Resident Membership Comparison			
	Youth	Adult	Family
Average Membership Rate	\$346.50	\$443.10	\$756.00
Recommended Chaska Rate (CIP)	\$300.00	\$447.00	\$669.00
% of Average	87%	101%	88%

As can be seen in both charts, even with the changes in membership being adopted to support the CIP program, we are still very competitive on both resident and non-resident fees for memberships to our public-sector comparisons. Again, we are significantly lower than the private health clubs such as Lifetime Fitness and Dakota.

The second major revenue source for the Center is daily admissions, which is budgeted for \$165,712 annually. Admission revenues have decreased in recent years while membership has revenue has increased. This may be a sign that the Center is maturing with customers recognizing its ongoing value. On the negative, the "newness" of the Center may have decreased as indicated by the drop in one-time admissions. For 2012, our budget of admission revenues is \$165,712, compared to the \$160,111 that we budgeted in 2011. Much of this is due to the new revenue coming in to support the new CIP program. Below are the results of the survey showing how we compare to the same public-sector community centers listed above for both resident and non-resident daily admission rates:

Resident Daily Admission Comparison			
	Youth	Adult	Family
Average Daily Admission	\$6.36	\$7.02	\$19.46
Recommended Chaska Rate (CIP)	\$5.50	\$6.75	\$20.00
% of Average	86%	96%	98%

Non Resident Daily Admission Comparison			
	Youth	Adult	
Average Daily Admission	\$7.69	\$8.37	
Recommended Chaska Rate (CIP)	\$7.75	\$8.50	
% of Average	99%	99%	

As you can see in both charts, we are very comparable on daily admission rates to our other public-sector market comparisons.

Below is a chart showing the major sources of revenue within the Community Center Fund:

	<i>Actual</i>	<i>Actual</i>	<i>Budget</i>	<i>Budget</i>		<i>%</i>
REVENUES	2009	2010	2011	2012	Change	Change
<i>Admissions</i>	\$157,850	\$147,396	\$160,111	\$165,712	\$5,601	3%
<i>Membership</i>	\$1,018,063	\$981,255	\$1,062,505	\$1,142,158	\$79,653	7%
<i>Gymnasium</i>	\$80,452	\$80,039	\$74,402	\$75,364	\$962	1%
<i>Racquetball</i>	\$15,748	\$14,970	\$12,787	\$13,410	\$623	5%
<i>Swimming lessons</i>	\$76,241	\$93,407	\$75,000	\$85,000	\$10,000	12%
<i>Fitness area</i>	\$101,762	\$111,171	\$106,949	\$151,750	\$44,801	30%
<i>Arena</i>	\$587,814	\$577,613	\$624,573	\$641,570	\$16,997	3%
<i>Community Room</i>	\$16,851	\$20,135	\$20,000	\$20,400	\$400	2%
<i>Snior Center</i>	\$44,783	\$49,591	\$24,700	\$25,460	\$760	3%
<i>Craft rooms</i>	\$39,487	\$36,724	\$37,103	\$37,645	\$542	1%
<i>Tot time</i>	\$9,972	\$13,451	\$11,400	\$11,628	\$228	2%
<i>St. Francis rental</i>	\$179,338	\$196,701	\$183,178	\$188,673	\$5,495	3%
<i>IDS #112</i>	\$37,474	\$37,000	\$37,999	\$39,139	\$1,140	3%
<i>Theater</i>	\$69,893	\$71,756	\$72,085	\$72,420	\$335	0%
<i>Center Cafe</i>	\$2,349	\$1,458	\$2,000	\$2,000	\$0	0%
<i>Birthday Party Room</i>	\$29,517	\$31,096	\$36,500	\$37,600	\$1,100	3%
<i>Day care/ indoor playground</i>	\$31,742	\$29,936	\$30,920	\$31,920	\$1,000	3%
<i>Trek and Trails pre school</i>	\$81,325	\$83,304	\$80,500	\$84,000	\$3,500	4%
<i>Adventure Prog/Club Extreme</i>	\$82,658	\$79,027	\$73,000	\$74,000	\$1,000	1%
<i>Vending</i>	\$41,861	\$30,353	\$40,000	\$40,800	\$800	2%
<i>Misc.</i>	\$382,206	\$302,115	\$253,607	\$195,121	(\$58,486)	-30%
Total Operating Revenues	\$3,087,386	\$2,988,498	\$3,019,319	\$3,135,770	\$116,451	4%
Non-operating						
<i>Equipment Acquisition/Interest</i>	\$8,437	\$1,757	\$3,900	\$0	(\$3,900)	
<i>The Lodge Debt Trans</i>	\$188,000	\$161,000	\$113,000	\$112,000	(\$1,000)	-1%
<i>Electric fund transfer</i>	\$100,000	\$100,000	\$100,000	\$175,000	\$75,000	43%
Total Non operating	\$108,437	\$101,757	\$103,900	\$175,000	\$71,100	41%
TOTAL REVENUES	\$3,195,823	\$3,090,255	\$3,123,219	\$3,310,770	\$187,551	6%

Gym fees relate to activities directly attributable to a class paying for usage of the Community Center's gymnasium, with the revenues in this category forecast to be \$75,364 for 2012. The primary revenue generating activities in the gym are the City's gymnastics program, which is \$18,564, and the Gym Rentals Program, which is \$55,576. As with most of the City's participant activities, these revenues are off set by associated expenditures.

Swimming pool fees, which relate to lessons offered at the Center, are projected to be \$85,000 for 2012. This level of revenue reflects the continued high level of swimming lessons at the Center. We have seen a significant increase in our swimming pool revenue due mainly to the increased popularity of our swimming lessons program.

Relative to the two sheets of ice within the arena element of the facility, we are forecasting total revenues for 2012 of \$641,570. This reflects not only the normal increase that we would have for rental rates on a given year, but also incorporates an additional increase of just over 2.25% to help support the CIP program. The total to go towards the CIP program will be an additional increase of 7% in rental rates spread out over a 3-year period to support the program, with this first year seeing the additional 2.25%. As mentioned earlier, a major component of our CIP program will be improvements made to our two ice arenas. While much of this change will be mechanical, there is also work to improve the heated spectator areas of the arena. This work is scheduled for 2013, and is coming on the heels of the reintroduction of Chaska Boys and Girls Hockey program to the Chaska Community Center. This not only helps from a revenue perspective, but really helps the City accomplish one of its primary objectives of *enhancing Chaska's pride and identity* through bringing these varsity hockey programs back onto ice in the community.

Under our agreement with the Chaska School District, the District will again be paying \$39,139 for use of space in the Center. One source of revenue that ended after 2008 was the payment we received from the School District to pay for a portion of the addition of the 2nd Ice Arena. The final year of debt service was paid on the 2nd sheet of ice in 2010, with the bonds now being fully paid on this addition to the building, which includes the St. Francis rehabilitation center in the building. The daytime school use agreement was extended last year, and now extended through 2014, with there being an automatic inflationary increaser in this fee on an annual basis. It should be noted that this fee does not include the ice time that is used by the School District for extra-curricular activities.

In 1999, St. Francis began operation of their physical therapy and fitness center under lease for space at the Center. The total annual lease payments for the main facility and the lower level space used for pediatric physical therapy is approximately \$185,000 in 2012.

The Wellness Addition was completed in 2005, and as a result the fitness programs that the City offers were expanded significantly. For 2012 these activities are anticipated to generate \$151,750 in revenues. It should be noted that as part of our Fitness Program, Ridgeview Medical Center does fund 0.5 FTE for a position to support fitness programs. This position focuses on intergenerational fitness activities as opposed to just

programming for our Active Older Adults that was first supported when the position was created several years ago.

Finally, with the completion of the senior center addition, two new program areas were added to the Community Center. The Lodge is budgeted to generate \$25,460 in revenue in 2012. The other major component of the new addition to the Community Center was the addition of the Treks and Trails Preschool area in the lower level of this addition. The Treks and Trails program is budgeted to generate \$84,000 in revenue in 2012, and is a very popular part of our Community Center facility.

In deciding to proceed with construction of the Center, the Council committed to transferring \$100,000 annually to generate a cumulative capital for future improvements at the Center with the understanding that no property taxes would be used to support the facility. Since the Center's opening, a total of \$2.1 million has been transferred from the Electric Fund to create the ongoing cash replacement fund. This transfer is scheduled to occur again in 2012. As mentioned previously, this is being done in conjunction with increasing the Electric Fund contribution to the Community Center Fund by \$75,000 annually to support our new CIP program.

Expenditures

No significant changes are anticipated in the Community Center operating costs. Staffing levels will remain generally unchanged, with total personnel costs budgeted to \$1,564,337, increasing by 1.58%. One change that we saw in the Staffing level, and which we implemented last year, was the sharing of the Communications position with our General Fund Communications. This has allowed us to take one existing person in the Community Center department and focus their attention on coordinate City-wide communications. Our hope with this position was to create better and more uniform communications coming out from the City as a whole. We feel that this objective is one that we are achieving with this, and have continued to budget this for the 2012 budget year.

Again, the major addition to expenses we will see for 2012 is the addition of the CIP expenses, specifically the expenses for debt service for the financing that will support this program. While we budget in the 5-years that by 2013, this expense would be \$275,000 per year, this first year in 2012 you will see that we have budgeted half of this at \$137,500. This will allow us to stage a two-year implementation of the expenses of this program to allow some of the new revenue to be able to build up in the fund the first year. We would anticipate that we would go out for the financing of the debt service for the Pool improvements and Ice Arena improvements in 2012, which would allow us to budget for the exact amount of debt service we will have annually as we go into 2013.

The following is a summary of all expenses in the Community Center Fund:

EXPENSES	Actual	Actual	Budget	Budget	Increase	Increase %
	2009	2010	2011	2012		
<i>Personnel services</i>	\$ 1,544,005	\$ 1,548,052	\$ 1,539,972	\$ 1,564,337	\$ 24,365	1.58%
<i>Other services</i>	\$ 2,131,615	\$ 2,150,549	\$ 1,269,042	\$ 1,300,889	\$ 31,847	2.51%
<i>CIP Debt Service</i>	\$ -	\$ -	\$ -	\$ 137,500	\$ 137,500	
<i>Lodge Debt</i>	\$ 168,000	\$ 124,175	\$ 113,000	\$ 124,175	\$ 11,175	9.89%
<i>St. Francis debt</i>	\$ 56,820	\$ 56,820	\$ -	\$ -	\$ -	
<i>Capital replacements</i>	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ -	0.00%
Total expenses	\$ 3,950,440	\$ 3,929,596	\$ 2,972,014	\$ 3,176,901	\$ 204,887	6.89%

In addition to the dollars for the CIP program, as we saw last year, a total of \$50,000 is budgeted for general capital improvements in the Community Center. These are more of the regular improvements we need to make to the Community Center on an annual basis to keep the facility looking and function good. Over the past several years, we have put about \$50,000 of these type of improvements into the Community Center on an annual basis.

Based on our forecasted revenues and expenditures for 2012, we are estimating that the facility will have \$133,869 to add to the Fund Balance.

Town Course Budget

The mission of the Chaska Town Course is to develop and operate a quality municipal golf course serving as a community recreational resource, and as a community gathering place that generates an annual profit that may be used to support other "community building" opportunities.

In developing the course's annual budget our objective is to provide adequate resources to meet this mission by maintaining a high quality golfing experience from both a maintenance and customer service perspective. An objective during our budgeting process has also been to position the Town Course in such a way that when its debt service for initial capital construction costs has expired, that we both have generated enough profit to have reserves to keep up with our necessary capital replacement program at the Town Course to keep it running as a high end course. As we look into the future, this will be the largest single challenge of the course as it has been self-sufficient from an operational standpoint, but has had much more difficulty being able to generate a sufficient amount of reserves to cover all future depreciation costs.

With the refinancing of our TIF District #4 in 2008, we have put the Town Course in a better position to accumulate cash reserves, as it does not have to directly support the remaining years of debt service for the course. In 1997, resources from TIF District #4 were the main financial resource that allowed us to construct the course and have contributed towards our debt service on the course ever since. It is planned that the refinancing of this District in 2008, and once again this past year, will provide us with sufficient resources to pay off the initial capital construction cost debt at the Town Course from the TIF funds, thus allowing the Town Course to take its annual profits and begin to accumulate reserves in this Enterprise Fund. While these resources have taken the need away from the Town Course to contribute towards its annual debt service, the Town Course has continued to meet the annual operational needs of the course but has struggled to generate significant reserves to go towards if future capital replacement needs. As we are currently doing with the Community Center Fund with its Capital Improvement Program, this is an issue that we will continue to be looking at to determine the best way to move forward with generating the reserves necessary to support these future capital replacement needs without having to contribute any property tax subsidy.

For 2012, we are forecasting total revenues of \$1,706,156. This compares to the budgeted revenues we had for 2011, which were \$1,682,101 but is down from the revenues we had budgeted in years prior to this. As we have discussed the past 2 years, we are now budgeting for 27,100 rounds annually, as opposed to the 31,000 rounds that were budgeted in the past. Though the Town Course did see less play in the 2011 summer, coming in at just over 24,100 rounds, we do think that this was mainly due to very bad Spring weather for golf. For this reason, we are continuing to

budget at 27,100 rounds, a number which has remained relatively steady since 2007. While the Town Course initially saw rounds closer to 31,000 when it first opened in 1997, there is much more competition in the market that was added since this point which had an impact on the number of rounds we have actually seen. We have also seen since 2008 all courses in the market struggle to bring in as many rounds as before, mainly due to economic conditions. The total revenues are derived from the following sources:

<i>Revenues</i>	Actual 2009	Actual 2010	Budget 2011	Budget 2012	Change	% Change
Green fees	\$ 1,089,661	\$ 1,065,991	\$ 1,115,000	\$ 1,115,000	\$ -	0.00%
Driving range	\$ 80,011	\$ 78,242	\$ 80,000	\$ 82,400	\$ 2,400	3.00%
Member fees	\$ 40,686	\$ 45,914	\$ 46,000	\$ 47,380	\$ 1,380	3.00%
Sale of supplies	\$ 141,676	\$ 135,570	\$ 148,244	\$ 152,691	\$ 4,447	3.00%
Concessions	\$ 28,881	\$ 52,328	\$ 50,161	\$ 58,709	\$ 8,548	17.04%
Cart rental	\$ 225,257	\$ 223,433	\$ 242,050	\$ 249,312	\$ 7,262	3.00%
Misc	\$ 43,855	\$ 92,721	\$ 646	\$ 664	\$ 18	2.79%
Total revenues	\$ 1,650,027	\$ 1,694,199	\$ 1,682,101	\$ 1,706,156	\$ 24,055	1.43%

Revenues

The major revenue source of the Golf Course is green fees paid by patrons, with revenue source accounting for more than 65% of total revenues at the facility.

As mentioned previously, for 2012 we are anticipating that 27,100 rounds will be played at the facility. In preparing the revenue estimate we are assuming that the resident/non-resident split will be 55%/45%, which reflects a significant increase in resident play from past budget forecasts, but a relatively steady split from the past three years. When the course first opened, we saw about 70% of play from non-residents. While this change has been great from a mission perspective, in that it has been viewed as a premier community gathering location for Chaska residents, it has created revenue challenges that we continue to have to monitor closely, as resident rounds are just over \$20 less per round than a typical non-resident round.

The forecast also assumes that carts will continue to be permitted off the cart paths, which will continue to bring in more revenue with golf carts, as we now see approximately 40% of patrons use a cart. For the 2012 season, we will have a brand new fleet of carts, adding some additional amenities for patrons, which we hope helps keep this cart usage up. In 2012, we are budgeting greens fees to generate \$1,115,000 in revenue, with cart usage to generate \$249,312.

The second key revenue assumption is the green fees schedule. Our strategy has been to have green fees for non-residents consistent with the market for other high-end public courses, while at the same time offering a course of higher quality and challenge compared to any other area course. In 2011 the average metro high-end golf course green fee including cart on weekends was \$93.14, ranging from \$67 for Edinburg USA to \$124 for Rush Creek. Chaska's 2011 weekend non-resident rate in 2011 of \$81.00,

including cart, was well within this range. As you will see in the chart below, in 2012 it is recommended that the non-resident fees be increased by \$2.00 per round, with no increase proposed for cart rental.

Course	Greens Fees	
	Weekday	Weekend
	18 holes	18 holes
Edinburgh USA	\$67	\$67
Stoneridge	\$95	\$95
Rush Creek	\$98	\$124
The Legends	\$89	\$89
Troy Burne	\$85	\$96
Meadows at Mystic Lake	\$85	\$85
The Wilds	\$96	\$96
Average	\$87.86	\$93.14
Chaska-Current	\$75	\$81
Chaska 2012 Proposed	\$77	\$83
Chaska Resident 2012	\$55	\$60

As part of Chaska’s mission, our goal is to have the facility both accessible and affordable to Chaska residents. Over the past three years one of the positive trends relative to this element of the mission, was the percent play from resident golfers increasing from 28% in 2003 to 45% in 2011. Although the higher resident participation is positive, a negative impact in this trend is the reduction in total revenues, given the significant differential between resident and non-resident rates.

For 2012 we are recommending that resident rates increase by \$1.00 per round for all rounds. Again, this would include no proposed increase for cart rental. This would result in our rates in 2012 being very competitive to all of the area courses. Based on these assumptions, 2012 green fee revenue is projected to be \$1,115,000. We are budgeting this number to be the same as in 2011, to be conservative following the difficult revenue year we had in 2011.

Course	Greens Fees	
	Weekday	Weekend
	18 Hole	18 Hole
Dalgreen	\$51	\$57
Bluff Creek	\$51.50	\$57.50
Ridges at Sand Creek	\$53	\$59
Deer Run	\$57	\$69
Stonebrook	\$68	\$74
Average	\$56.10	\$63.30
Town Course Current	\$54	\$59
Town Course 2012	\$55	\$60

For the first several years the Town Course was open, we averaged cart rental revenues in the range of \$150,000 to \$175,000, with 22% to 24% of golfers renting carts. In 2006 we modified our cart policy to permit carts off the cart path. Also at that time, we purchased new set of carts equipped with a GPS system. The system was implemented in 2006 and increased cart revenues to \$212,000. For 2012 we are anticipating that 40% of patrons will utilize a cart, as we have seen over the past several years, bringing in a total revenue of \$249,311. Two notes on our rental carts. First, we are proposing no increase in rate for our cart rental for 2012. We did make a change in 2011 to bring us closer to the market for golf courses in the Twin Cities. Second, 2012 is the year that we replace our entire fleet of rental carts, which were 6 years old. Not only will the new carts be a good experience for the patrons, but there will also be some additional amenities to the cart, including a larger GPS screen hanging from the front of the roof on the carts, a beverage cooler in the back of the carts, and on-line ordering options for food orders to be placed with Charlie's Grill as patrons make the turn on Hole #9. With the new screens on the carts being larger and more visibly located on the carts, we also feel that this will open up the opportunity to do more advertising on the carts, as the limited visibility of the screens on the old carts was a detriment in selling more add space on our old GPS system.

Through our fourteen years of operation, the driving range has been a popular element of the facility. One particular attraction to our driving range is the size of the practice facility, being one of the larger driving ranges on golf courses in the area. For projection purposes, we have assumed that 20% of golfers will use the range before playing and an additional 40 persons per day would come to the facility merely to use the practice complex. Range revenues were budgeted for \$80,000 in 2011. For 2012 the range is estimated to generate \$82,400, as we expect little change in its use.

Pro Shop sales were \$139,303 in 2008, \$141,676 in 2009, and \$143,926 in 2010. In 2011 we had this budgeted \$148,244. This budget assumes merchandise sales of \$152,691 in 2012.

A key service element of the facility is the provision of a quality food and beverage operation, while at the same time assuring that this element does not become a financial drain on the operation. In 2008, we changed vendors. Staff has heard very positive comments on this change as it offers more menu variety for patrons, as well as more options for catering to the site on and off-season. In 2010, the vendor added one more beverage cart on the course to meet patron demands, as this one the one area we could see the need for improved service. They also added machines to accept credit cards on the beverage carts and an evening meal selection in the restaurant. All of these changes were received very well. As mentioned previously, the new GPS system on our replacement carts will also offer opportunities for those making the turn on hole #9 to place an order on-line and have it ready for pickup before the 10th tee box. Under the terms of the lease with our vendor, the City receives a payment of 10% of gross revenues, which for 2012 is budgeted at \$43,709. It should be noted that this

year we did extend the lease out on Charlie's to 2015. This will allow for stability with this service that we provide.

Operating Expenses

For the Chaska Town Course to be considered a high-end public facility, the turf maintenance needs to be a very high priority. This issue has been confirmed in feedback we've received from golfers over the years. To accomplish this objective we have attempted to establish a maintenance budget that will permit adequate resources for above average maintenance. The key, though, to achieving this objective is attracting and retaining high quality dedicated personnel. It is imperative that our full-time personnel not only have the technical capabilities to maintain a high-level complex, but also and possibly more important, have a true ownership in the course and a commitment to the facility's quality.

The maintenance staffing anticipates no change in staffing levels, with four full-time Greenskeepers, plus a Superintendent who is responsible for the maintenance of the Chaska Town Course facility as well as the Par 30. As in the past these full-time positions will be supplemented by eight, six month and six four-month seasonal employees.

The following is a summary our estimated costs for each of these categories:

	Actual 2009	Actual 2010	Budget 2011	Budget 2012	Change	% Change
Personnel Services	\$810,447	\$840,496	\$815,071	\$828,599	\$13,528	1.66%
Operating Supplies	\$268,324	\$260,668	\$231,266	\$241,121	\$9,855	4.26%
Other Services/Charges	\$952,251	\$975,759	\$444,567	\$477,835	\$33,268	7.48%
Capital Replacements	\$0	\$0	\$102,000	\$111,000	\$9,000	8.82%
Transfers Out/Debt Service	\$7,257	\$0	\$54,390	\$43,500	-\$10,890	-20.02%
Total Expenses	\$2,038,279	\$2,076,923	\$1,647,294	\$1,702,055	\$54,761	3.32%

The second cost component of the golf course operation is the Clubhouse and its related activities. Our objective is to differentiate the Town Course and Clubhouse operation from other courses through a noticeable difference in its commitment to customer service. Achieving this objective will be significantly affected by the quality, skill and personality of personnel hired to staff the complex. The overall responsibility of the Clubhouse operation is the responsibility of the Club Pro. For 2012, the total Clubhouse expenses are estimated to be \$727,559. These costs compare to the expenses for both the staffing levels and expenses experienced in 2011 of \$689,288.

Based on our equipment replacement schedule for the Town Course, we are planning to replace \$111,000 in equipment in 2012, and the replacement of our entire golf cart fleet for \$195,000,. The golf cart purchase will be financed through an internal loan from the Electric Fund, which will be paid back over the life of the carts at \$43,500 annually. The 2012 budget also include \$15,000 for drainage improvements on the

course and \$12,000 to go toward cart path improvements. In 2011 we did overlay the cart part on the 18th fairway, which did significantly improve this driving surface. Each year we will target the highest priority cart paths to complete this overlay work.

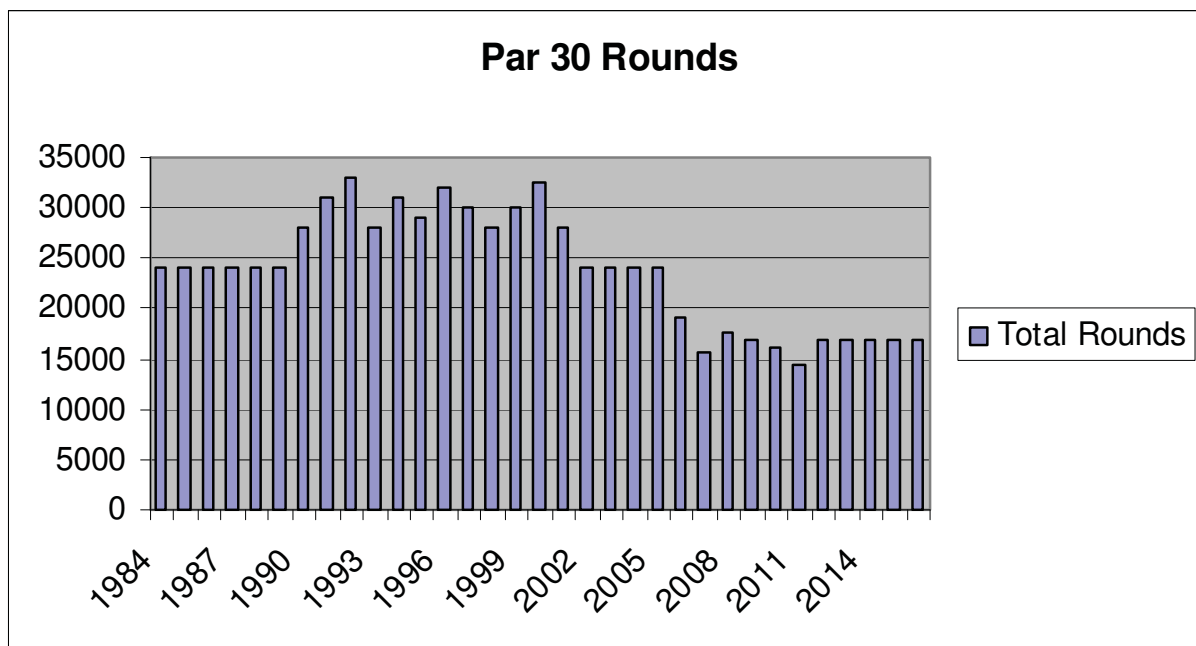
Total budgeted expenses for the golf course operation in 2012 are \$1,702,055, which would result in the facility making a net profit in 2012 of \$4,101.

Par 30 Budget

In establishing the 2012 Par 30 Budget, the following objectives were used:

- ◆ *Provide the necessary resources for the Par 30 to ensure continuation of quality course maintenance and upkeep.*
- ◆ *Maintain rates competitive with other comparable executive courses in the Twin Cities.*
- ◆ *Minimize drastic changes in rates while at the same time maintaining adequate cash reserves for emergencies.*
- ◆ *Allow the Par 30 to be a Self-Supporting Recreational Program*

In determining golf course revenues, two factors directly impact green fees: the number of rounds and rate per round. The following graph depicts the number of annual rounds played at the Par 30 over the past several years.



Over the decade we have seen a decrease in the number of total rounds at the Par 30. While rounds of play averaged around 25,000 rounds per year in the beginning part of this decade, over the last 4 years, we have seen that drop to approximately 17,000 rounds per year. We believe this has been due both to the increase of competition with the addition of other executive courses such as Halla Greens in the area, and with some shift to the Town Course we have seen with allowing carts on the Fairways, thus making it easier for seniors to play the longer course. In 2011, we did see about a 15% drop in the number of rounds to just over 14,000 rounds. However, just like with the Chaska Town Course, we do think that this was mainly due to very poor weather for golf in the Spring, and we do expect the long-term trend to stay around the 17,000

rounds per year. Because of this, for 2012 we have continued to assume 17,000 round for budgeting purposes.

The second factor in determining green fee revenues is the actual rate charged per round.

In 2011, we changed our rate structure based on trying to be much more conscientious of the pricing structures at area Executive Courses, structuring our pricing to be more competitive than our main competitors such as Halla Greens. We structured our pricing to be very attractive for our main users, who are our Seniors and Juniors, while at the same time providing a true price differentiation from our main competitors for our Adult golfers who may be most likely to go to another competitors course out of town. For 2012, it is recommended to keep the rates exactly the same as 2011, so as to stay competitive with the other area Executive Courses, and give our new structure of rates an opportunity to be tested in a more normal weather year. Below is the rates as they were in 2011 and as they will stay in 2012, compared to the different categories of golfers at competing Executive Courses.

Course-9 Holes	Senior WD	Senior WE	Adult WD	Adult WE	Junior WD	Junior WE
Halla Greens	\$12	\$13	\$14	\$16	\$12	\$13
Braemar Executive	\$14	\$14	\$14	\$14	\$10	\$10
Waters Edge	\$10	\$10	\$14	\$15	\$10	\$10
Orono	\$9	\$9	\$12	\$14	\$9	\$9
Glen Lake	\$11	\$12	\$16	\$17	\$11	\$12
Average	\$11	\$12	\$14	\$15	\$10	\$11
Current Par 30	\$11	\$13	\$13	\$15	\$10	\$11
Proposed 2012 Rates	\$11	\$11	\$13	\$13	\$11	\$11
2012 Rates Compared to Halla	-\$1	-\$2	-\$1	-\$3	-\$1	-\$2

Based on this rate structure, we are forecasting green fee revenues for 2012 of \$160,000, compared to the 2011 budget of \$170,000. We are taking a much more conservative estimate on greens fees for 2012 due to the difficult revenue year we had in 2011. While it is felt that this was due mainly to poor weather in the Spring of 2011, we did not want to get too aggressive on our revenue projections. In addition, the facility is anticipated to generate other fees amounting to \$16,700 from such things as concession sales and cart revenue.

Staffing levels are anticipated to remain unchanged for the coming year, continuing with keeping the number of part-time staff kept at lower levels to keep costs as low as possible. The staffing for both maintenance and clubhouse activities is provided through the hiring of part-time summer employees.

The budget anticipates that operating expenses in 2012 will be \$173,974. It should be noted that no system improvements are budgeted for 2012, although we are planning for some necessary irrigation improvements in 2013. During 2012, we will also be exploring the development of our own parking lot facility to help eliminate the \$12,000 we pay annually to lease the parking lot we are currently utilizing. Over time, this has cost us more than developing our own parking lot.

Based on our forecast of revenues and expenses, we are anticipating that the Par 30 operations will have a surplus of revenues to expenditures of \$2,726. Below is a summary of the 2012 revenues/ expenditures:

	Actual	Actual	Budget	Budget		
	2009	2010	2011	2012	Change	%Change
Green Fees	\$158,798	\$149,236	\$170,000	\$160,000	-\$10,000	-5.88%
Other Fees	\$18,511	\$17,082	\$16,700	\$16,700	\$0	0.00%
Total Revenue	\$177,309	\$166,318	\$186,700	\$176,700	-\$10,000	-5.36%
Personnel	\$107,650	\$118,244	\$112,793	\$112,270	-\$523	-0.46%
Supplies	\$15,345	\$14,903	\$18,627	\$18,811	\$184	0.99%
Services	\$18,143	\$18,723	\$18,929	\$19,116	\$187	0.99%
Other	\$43,198	\$35,226	\$36,402	\$23,777	-\$12,625	-34.68%
Transfers Out	\$0	\$0	\$0	\$0	\$0	0.00%
Total Expenses	\$184,336	\$187,096	\$186,751	\$173,974	-\$12,777	-6.84%
Net Income (loss)	-\$7,027	-\$20,778	-\$51	\$2,726	\$2,777	

Utility Fund Overview

The Utility Fund Budgets are broken down into separate categories for the City's four utilities: water, sewer, electric and storm sewer. The total proposed budgets for these four utilities have been developed based on the following objectives:

- *Providing the necessary resources for each utility to assure continuation of quality services to our customers.*
- *Maintaining water/sewer/storm sewer rates less than comparable cities.*
- *Maintaining residential electric rates less than comparable rates charged by Xcel.*
- *Maintaining competitive industrial and commercial electric rates compared with Xcel, while also making sure we maintain a system that provides reliability to our customers.*
- *Minimizing drastic changes in utility rates while at the same time maintaining adequate cash reserves for each enterprise.*

As will be discussed in more detail in the breakdown of the Water Fund budget, the City of Chaska did move forward with making some significant changes to the Water Utility rates starting in 2010, as it was found through a comprehensive Water Rate Analysis that was completed in 2009 that the City's water rates were set significantly lower than what was needed both to fund the future maintenance activities of our existing system, and to fund a portion of the debt service on the new Water Treatment Plant. The study found that over the 10-year planning period, that our Water Fund would be \$7 million in debt if changes were not made to our rate structure in the short term. While this study did indicate that Water Rates did need to be increased to keep up with the costs of running our Water utility, because our rates were so low to begin with, the changes to our water rates were able to be made while still keeping our rates lower than any other City in the area. The first half of the rate changes came in 2010, with the 2nd half of the rate adjustment coming this past January. Moving into 2012, we now have the water rates now starting from the right base, and can now focus on how we keep the system sustainable as we move into the future.

From a sewer and electric perspective, our rates have remained very competitive over 2011, compared with other municipalities. From an electric fund perspective, our total rates in 2011, including the Energy Adjustment Clause, were over 14% lower than Xcel for residential customers. This is an even better performance of rates than 2010, where we were just over 12% lower. Xcel is our main competitor. We do not see this relationship changing very much in 2012, as Xcel has a rate increase request into the State Public Utilities Commission now being considered.

Even with the 2nd half of the Water Rate increases that went into effect in January of 2011, Staff feels based on comparisons to other cities that our total utility bill will remain very competitive to those in other cities. As was planned for in the Rate Analysis, our water rates would go up by 1% this year, which will continue to meet our needs in the Water Utility and keep us very competitive compared with other area cities. From a sewer perspective, based on our bill for treatment from Metro Waste, we

will not see any rate increase in 2012. In Electric, in order to meet the needs of our system, and increases in wholesale power costs, we would need to increase rates 2%.

Finally, with the Storm Sewer Utility now being fully implemented, we can now better see what our base rates for residential should be set at to meet the needs of this utility while also being competitive with other surrounding cities. To meet our needs, we can now see that the Storm Sewer Utility would need to increase the rate on a typical residential unit from \$3 per month to \$4.50 per month. However, even with that change, we would still be at the low end of the spectrum for other comparable municipalities, where the average rate is \$5.26 per month. Based on the changes that are being recommended, which will be discussed in more detail in following sections, below is a breakdown of what a typical resident can expect for rate increases in 2012:

	2009	2010	2011	2012	Increase	Increase %
Water	\$8.19	\$12.23	\$16.27	\$16.43	\$0.16	0.98%
Sewer	\$20.30	\$21.91	\$22.26	\$22.26	\$0.00	0.00%
Electric	\$78.79	\$80.75	\$82.36	\$84.23	\$1.87	2.27%
Storm Sewer	\$3.00	\$3.00	\$3.00	\$4.50	\$1.50	50.00%
Total	\$110.28	\$117.89	\$123.89	\$127.42	\$3.53	2.85%

Water Fund Budget

As was mentioned above, in 2009, the City of Chaska completed a comprehensive water rate analysis to look at the financial health of this fund. This water rate analysis was needed due to significant issues that were identified in our 5-year financial forecast and our CIP that indicated that the Water Fund would not be able to remain financially self-supporting if changes were not made. The objectives of this Water Rate Analysis included:

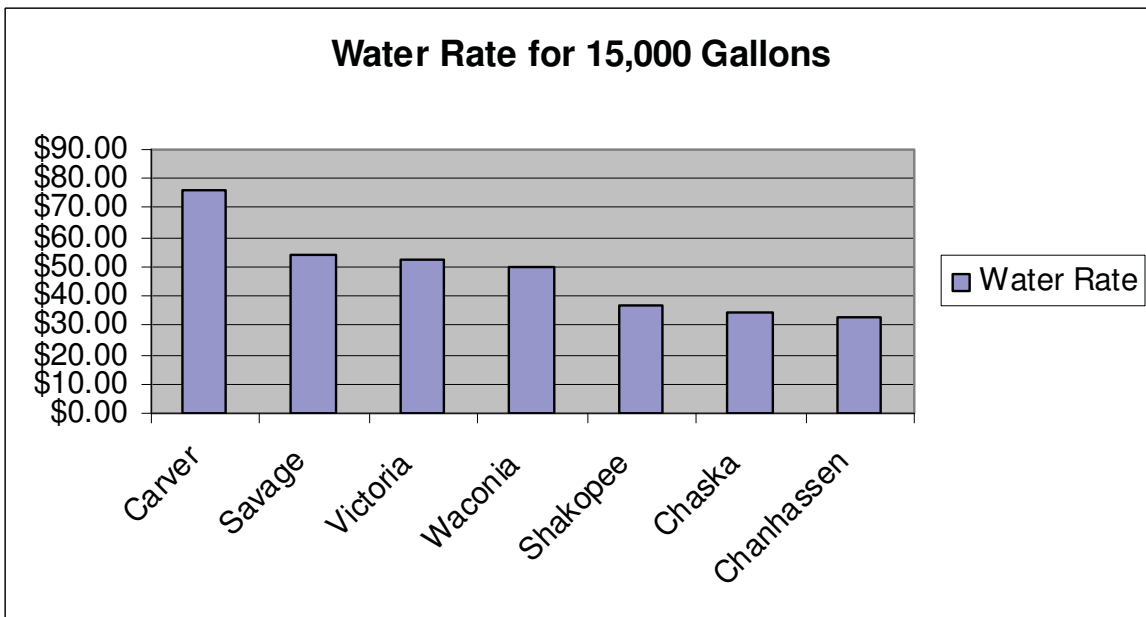
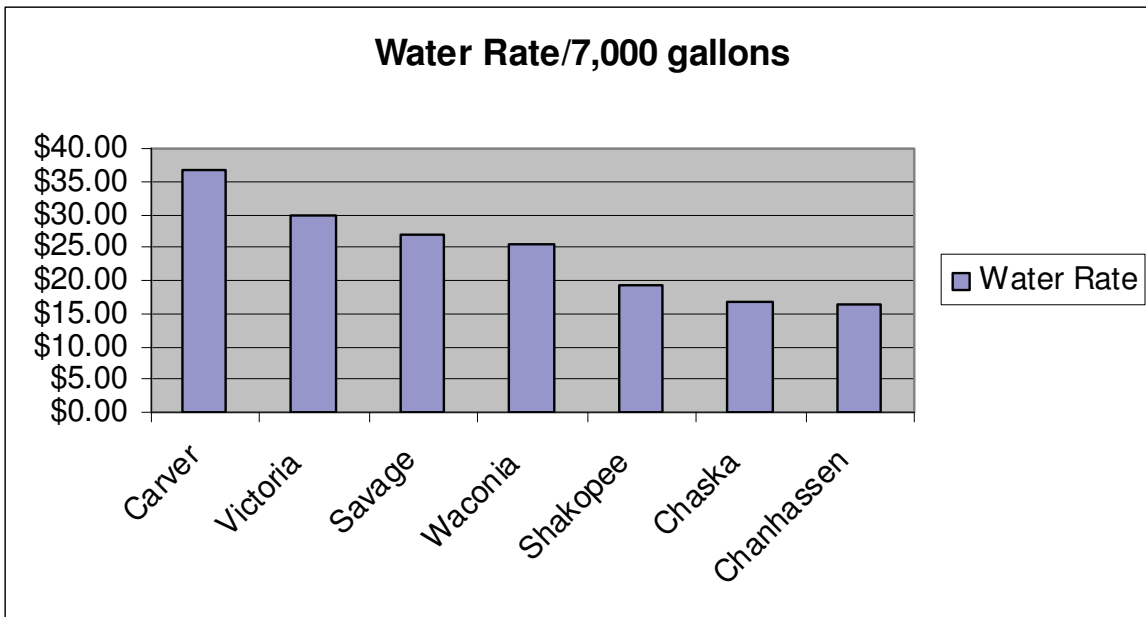
- Develop an inclining block rate that meets all of the DNR water conservation requirements that are required to be implemented by January 1, 2010
- Develop a base rate that meets all of our current operational and debt obligations, especially considering the significant decrease in development
- Develop a rate structure that is competitive with surrounding communities
- Develop an ongoing rate strategy that helps the City maintain a sustainable water system into the future to make sure our existing assets are not being consumed at a higher rate than we are financially replenishing our system

The results of this Water Rate Analysis quantified the issue our Water Fund would face if we continued with our strategy of implementing a 5% rate increase annually for the next 10-years. What the study found was that if we continued with this strategy, that over a 10-year period, the Water Fund would be in deficit \$7 million, not allowing us to have any dollars built up to help support our existing system. This was mainly due to both the fact that our water rates were extremely low compared to other municipalities, and because the development slowdown would not allow the City to generate enough resources in Water Access Charges to pay for the debt service of our new Water Treatment Plant.

Based on the results of this study, in August of 2009, the City Council did move forward to implement an increase in Water Rate, which we just completed this past January with the implementation of the second half of this two-year rate change. At the same time, the Council did implement the required DNR inclining block rate to promote water conservation, implemented a service charge of \$2.27 per month, and did refinance a portion of the Water Treatment Plant Debt to match up debt service payments more closely with when we feel development will restart.

With these major changes now complete, the City will continue to need to monitor our rates compared to the needs of our Water Utility, to ensure that we continue to meet our objectives for this fund into the future, keep a competitive rate structure, and make our overall water system sustainable as we move into the future. As was anticipated in the Water Rate Analysis that we completed, we would need to have a 1% increase to our water rates for 2012 to meet our objectives for the fund, which would be implemented on January 1. With this change, you can see that Chaska's Water rates would still be very competitive compared to surrounding cities, still being on the low end of overall water rates. The chart below shows how Chaska would compare both in the Winter, where the average usage is 7,000 gallons per month for residential uses,

and the average summer use is 15,000 gallons per month with the addition of lawn sprinkling:



2012 Budget

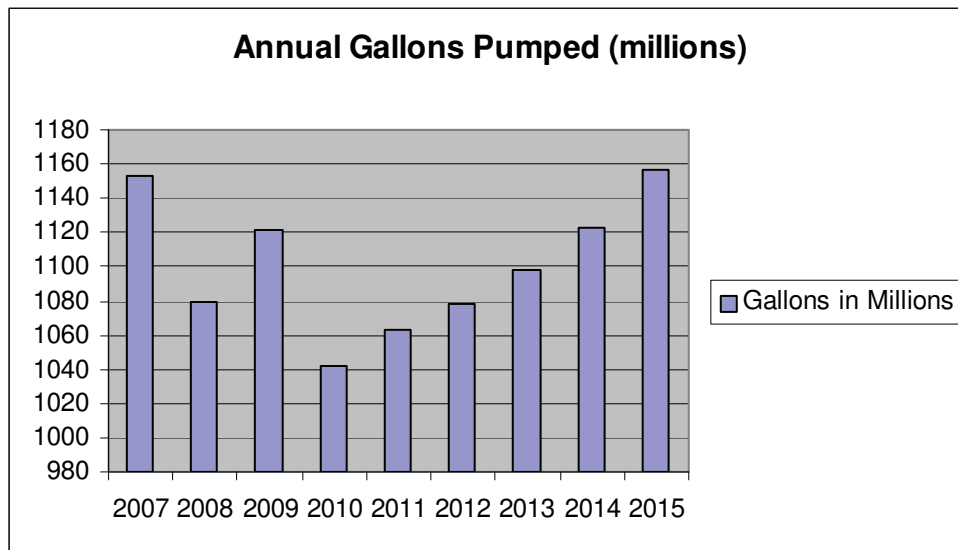
Based on the changes described above, Water Fund Revenues for 2012 are estimated to be \$3,035,933 compared to the 2011 Budget of \$3,059,045. We are revising the numbers down slightly from last year's budgeted number, as we have seen some impact of reduced water usage due to less residential development, and potentially some impact from water conservation rates going into effect. Based on this, the revenue projections are meant to be somewhat conservative.

The major categories of revenues and expenses in the Water Fund as compared to past years are presented below.

	Actual 2009	Actual 2010	Budget 2011	Budget 2012	Change	% Change
Revenues						
Metered	\$1,386,025	\$1,589,368	\$2,101,374	\$2,098,000	-\$3,374	-0.16%
Other	\$139,439	\$318,260	\$333,876	\$316,625	-\$17,251	-5.17%
Transfers In	\$482,461	\$252,470	\$623,795	\$621,308	-\$2,487	-0.40%
Total	\$2,007,925	\$2,160,098	\$3,059,045	\$3,035,933	-\$23,112	-0.76%
Expenses						
Pumping	\$171,761	\$166,348	\$1,205,854	\$259,409	-\$946,445	-78.49%
Treatment	\$213,439	\$195,311	\$221,718	\$223,930	\$2,212	1.00%
Distribution	\$472,156	\$456,113	\$537,391	\$822,280	\$284,889	53.01%
Administration	\$278,572	\$308,398	\$323,398	\$357,352	\$33,954	10.50%
Depreciation	\$635,906	\$672,912	\$0	\$0	\$0	
Debt Service	\$525,663	\$535,859	\$1,263,445	\$1,258,958	-\$4,487	-0.36%
Capital	\$3,688	\$2,101	\$0	\$0	\$0	
Tranfers Out	\$4,043	\$44,100	\$54,400	\$54,600	\$200	0.37%
Total	\$2,305,228	\$2,381,142	\$3,606,206	\$2,976,529	-\$629,677	-17.46%
Net Gain (loss)	-\$297,303	-\$221,044	-\$547,161	\$59,404	\$606,565	

Meter revenues are projected to 2,098,000, decreasing by 0.16% from 2011. We do not expect to see much growth in water usage over the next year compared to the 2011 budget, as 2011 was down from what we budgeted due mainly to wet weather in the early part of the summer. There will be some additional usage to the system with the new Data Center facility opening, but not a significant amount of growth other than that.

For 2012, Water Sale revenues are based on the sale of 1,078,000,000 gallons of water. Below is a chart illustrating the number of gallons that we have pumped over the past several years, and what we anticipate for 2012:



Total water expenses for 2012 are programmed to be \$2,976,529. This compares with \$3,606,206 budgeted in 2011. The major difference in expenses in 2011 came from both the need for repainting the Industrial Water Tower in 2011, which was necessary to accommodate the future integrity of the tower, and address the safety aspects of our water supply coming out of the tower. The cost of this was budgeted at \$1 million, but come in approximately \$250,000 less than budget due to our ability to allow the tower to be painted during the hot summer months, a time when most municipalities are not able to take a tower out of service. In addition, in 2011 the full cost of the Water Treatment Plant Debt service was accounted for through the Water Operating fund at a cost of \$1,263,445. 50% of this comes through our rate revenue with the other 50% coming through a transfer from our Water Trunk Funds, which are supported through development.

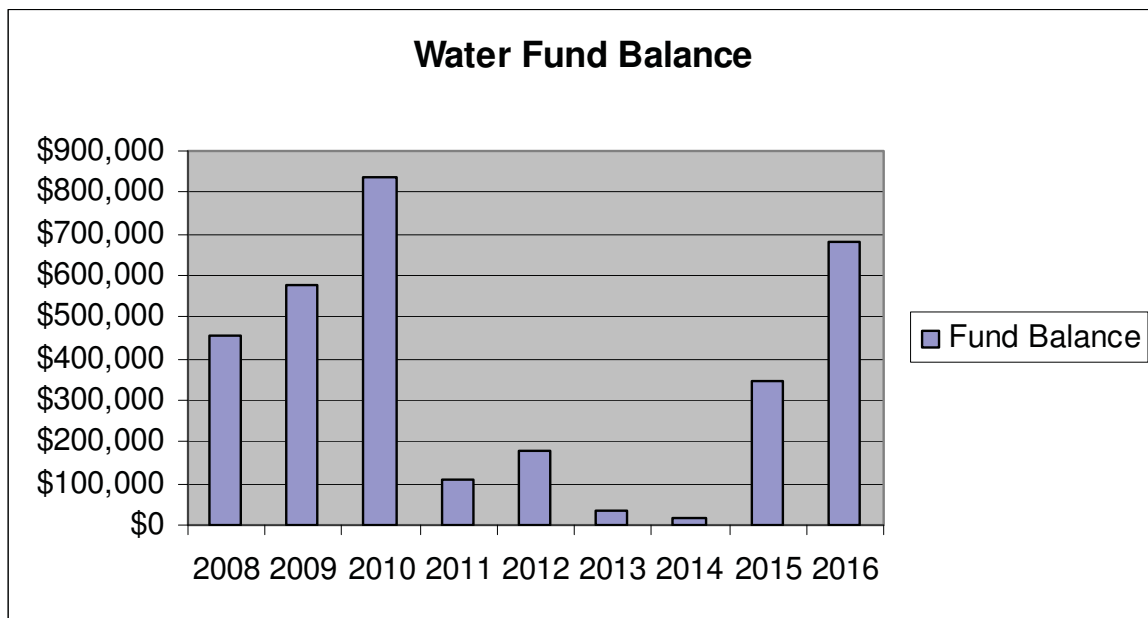
In 2012, the major change to the expense side of the budget will be the start of our Automated Meter Reading Installation program, which will start in 2012 and continue through 2014. This change is necessitated not only because of the aging of many of our meters throughout the community, but also because this helps implement a system that in the long-run will help the water department function more efficiently. The 2012 budget include \$250,000 in 2012 to support the capital equipment purchase of these new meters, as well as includes 25% of the salary of an IS Technician position that will be needed to help implement this new program. This one position will be shared with the Electric and Sewer Departments, who will also be participating in this Automated Meter Reading Installation program through 2014. The Water Fund will continue to have \$250,000 annually contributed to this plan in both 2013 and 2014.

Finally, there is approximately \$125,000 that will come from the Water Fund to support the renovation of the Old Water Treatment Plant for Bountiful Basket Food Shelf use. The portion fund through the Water Fund are portions of the building that would have had to been done by the Water Fund if nobody would have been able to utilize the building, which would include things such as the replacement of the roof on the building. The City does need to retain ownership of this building, as one of the City's high-service wells continues to be located in this building.

Personnel Services:

Currently the Water and Sewer staffing consists of the Superintendent, Foreman and six maintenance employees. The staffing level is recommend to remain unchanged for 2012.

Based on this budget we are budgeting a gain to the Water Fund in 2012 of \$59,404. We will not see a significant increase to fund balance in the Water Fund due mainly to the implementation of the Automated Meter Reading Program. We anticipate some draw-down in 2013 and 2014 due to the AMR Program. We will start building up reserves in the fund in 2015 when funding and implementation of the AMR Program is complete. Building up this Fund Balance was one of the primary objectives of our rate change so that we can afford future maintenance and upgrades necessary to keep a sustainable water system.



Sewer Fund

Sewer Fund revenues for 2012 are anticipated to be \$2,840,988, a 1.9% increase over the budget in 2011. This increase in revenue is due mainly to the increase in the number of large sewer customers we have added in our system in 2011, and will begin operations in 2012, including the United Health Group Data Center. The following table is a summary of anticipated revenues and expenses for 2010 relative to past years.

	Actual 2009	Actual 2010	Budget 2011	Budget 2012	Change	% Change
Revenues						
Metered Sales	\$2,097,316	\$2,610,324	\$2,735,800	\$2,785,400	\$49,600	2%
Other Revenues	\$74,240	\$51,589	\$51,393	\$55,588	\$4,195	8%
Total	\$2,171,556	\$2,661,913	\$2,787,193	\$2,840,988	\$53,795	2%
Expenses						
Pumping	\$7,329	\$6,217	\$19,914	\$20,109	\$195	1%
Treatment	\$1,467,994	\$1,563,594	\$1,754,911	\$1,849,732	\$94,821	5%
Collection	\$412,234	\$388,089	\$482,512	\$712,207	\$229,695	48%
Administration	\$177,484	\$207,025	\$248,180	\$386,511	\$138,331	56%
Capital	\$4,043	\$4,200	\$114,200	\$114,600	\$400	0%
Other	\$194,728	\$273,573	\$104,087	\$0	-\$104,087	-100%
Total	\$2,263,812	\$2,442,698	\$2,723,804	\$3,083,159	\$359,355	13%
Gain	-\$92,256	\$219,215	\$63,389	-\$241,171	-\$304,560	

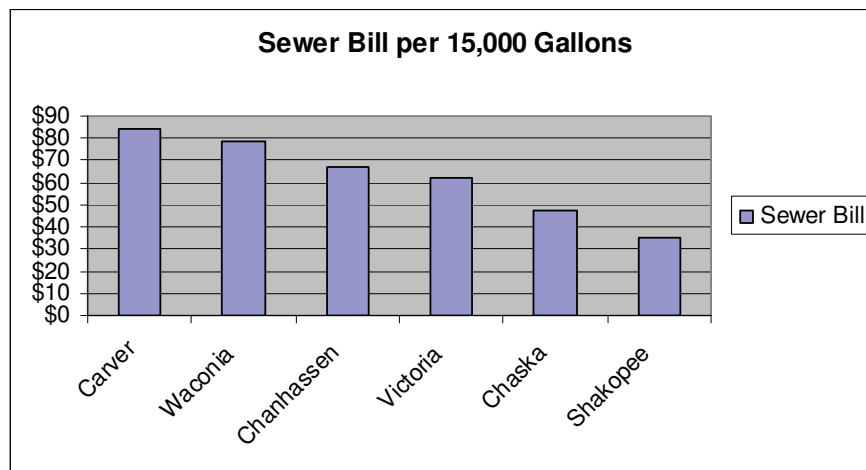
Sales revenue is based on seeing a 0% increase in retail rates for 2012. Unlike other utility services we provide, we do know at the beginning of the year exactly what we will be charged by Metro Waste next year for treatment of our sewer, as it is a fixed cost based on past usage of the system. While there will be a 5.4% increase in Metro Waste fees for 2012 directly to the City, the increase in usage we project for 2012 will allow us to meet the objectives we have set in the Sewer Fund while seeing a 0% increase in rates.

Metro Waste treats all of the sewage for not only Chaska, but each of the Cities in the Twin Cities Metropolitan Service Area. It should be noted that in 2010, we saw Metro Waste rates increasing by 12.91% to Chaska to accommodate for increases they needed to accommodate for reduced growth in the Metro Area, and the need for Metro Waste to cover existing debt service costs for infrastructure built within the last decade. In 2010, that increased our retail rates by 7.93%. 2011 rate increases from Metro Waste was much less, requiring a 1.61% increase in rates to accommodate the increase in costs we saw from Metro Waste.

Expenses:

Sewer expenses are anticipated to be \$3,083,159 for 2012, an increase of 13%. The main driver of the increase in expenses in 2012 will be the Automated Meter Reader Installation Program that is being done in conjunction with the Water and Electric Departments. The Sewer Fund will have a \$250,000 cost annually in 2012-2014 for this program, as well as 25% of the cost of a IS Technician Position to help support this program. Sewer Fund Reserves are being used to pay for this installation program.

Currently, Chaska's sanitary sewer rates are very comparable to other cities in the metropolitan area, and in the southwest metro area in particular. Metro City sewer rates are very similar from City to City since a significant portion of the monthly bill is based on the Metro Council sewer charges, which are the same per 1,000 gallons for all communities. Below is a comparison of Chaska sewer rates to other surrounding cities:



Personnel Services:

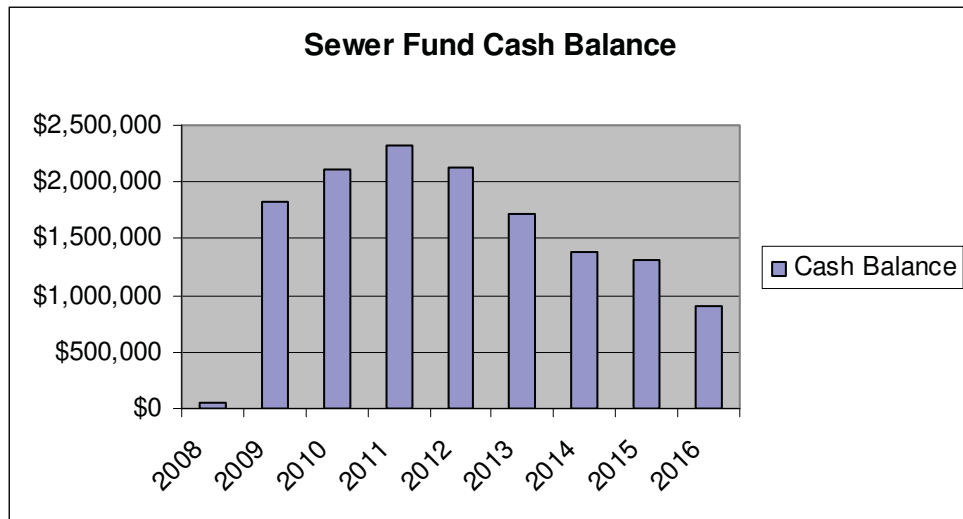
Currently, the Water and Sewer staff consists of the Superintendent, Foreman, and six maintenance employees. For 2012 it is recommended that the staffing levels remain unchanged. It should be noted that 50% of these personnel costs get charged to the water department, with the other 50% going to the sewer fund, as these two departments utilize the same employees.

As mentioned above, one addition in personnel that we would see in 2012, that would be funded 25% from the Sewer Fund, would be the addition of an IS Technician position, which would be added to support the Automated Meter Reader Installation Program, which would occur in 2012-2014. With the switch over of this system, and the tie to our Chaska.net system, this position would be necessary to handle the additional load of work brought on by this program, and maintaining our SCADA operational system for our utilities.

Equipment:

As mentioned previously, in 2012, the major initiative that we will need to start funding is our Automated Meter Reader Installation Program. From 2012-2014, all of the

meters in our community will be either switched out or retrofitted to work with an Automated Meter Reading Program. As in the Water Fund, this would require \$250,000 from the Sewer Fund to support this program in 2012, with this same level of funding in both 2013 and 2014. The funding of this program would require us to go into our reserves to fund. This is one of the reasons that we try to carry the proper amount of cash balance forward in our Utility Funds to be able to handle these capital reinvestment projects needed to keep our system functional into the future. In 2012, we would also continue to have \$110,000 contribution to our Street Reconstruction Program to address necessary sewer replacement in our system, which will include the reconstruction of 2nd Street this upcoming summer. Based on our total expenditures and revenues, and a draw-down on our reserves to cover the expenses for the Automated Meter Reader Installation Program, we are budgeting that there is an decrease of \$242,171 in the Sewer Fund for 2012.



Electric Fund Budget

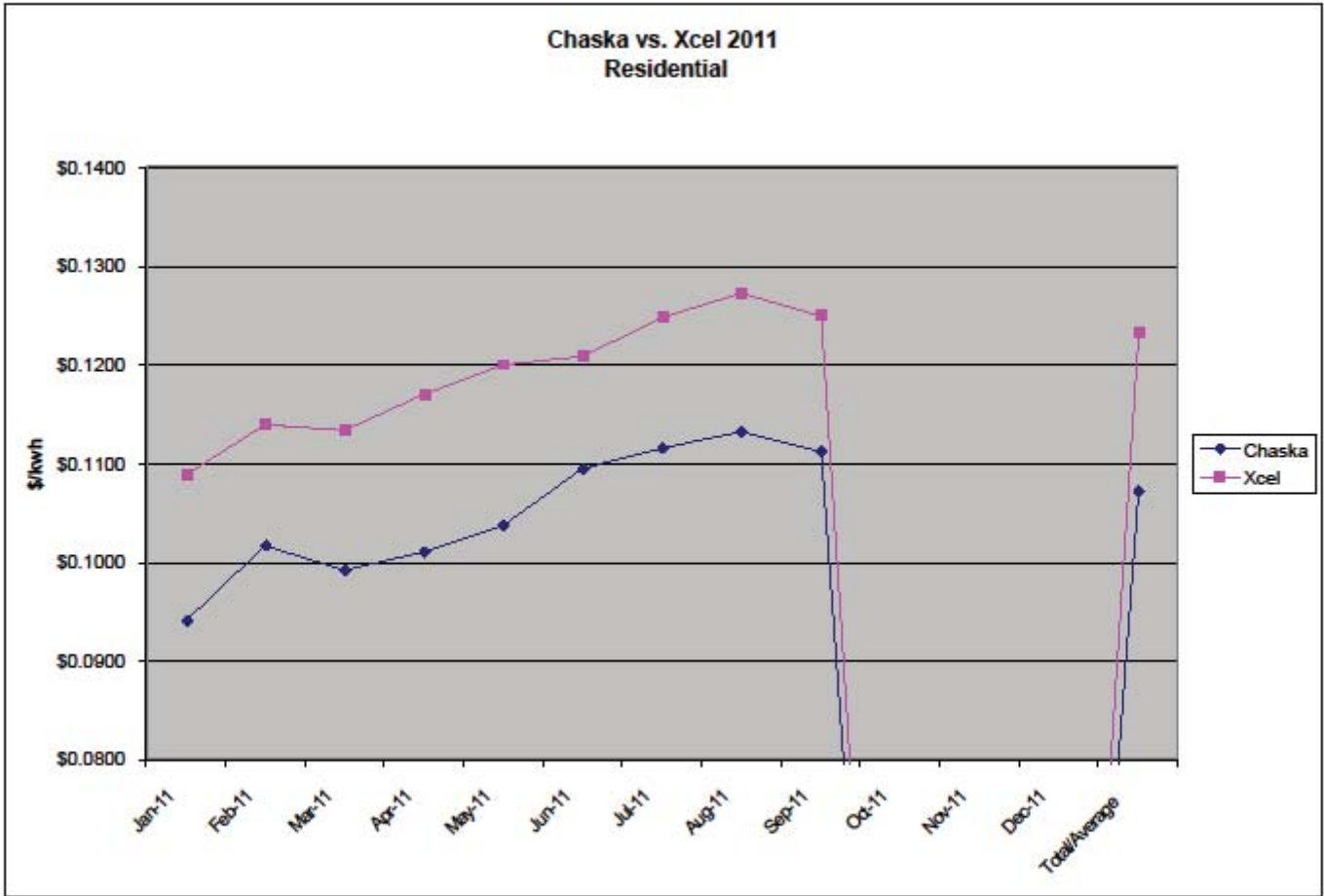
For 2012, Electric Fund revenues are anticipated to be \$28,673,500. This compares to the \$26,636,600 we had budgeted for revenue in 2011, an increase of 7.6%. As part of the 2012 budget process, one of the items that Staff looked at closely was the affect that the new large users in our system will have on our overall electric sales, not only for 2012, but for the years included in our 5-year forecast. We will continue to see significant new growth in our commercial/industrial sales in 2012 with a full year of the Two Twelve Medical Center, and the addition of the new United Health Group Data Center. Below is a chart looking at our anticipated revenue for 2012.

	Actual 2009	Actual 2010	Budget 2011	Budget 2012	Change	% Change
Electric Sales	\$23,193,541	\$25,740,975	\$26,364,500	\$28,342,800	\$1,978,300	7.50%
Other Revenue	\$397,794	\$323,949	\$272,100	\$330,700	\$58,600	21.54%
Total Revenue	\$23,591,335	\$26,064,924	\$26,636,600	\$28,673,500	\$2,036,900	7.65%

To develop our 2012 revenue budget, we did utilize the following assumptions:

- Total rate revenue increases by 2% in 2012 (a portion of this rate increase would go to our monthly service charge, given how much lower this service charge is than Xcel in all user categories)
- Existing customer usage will increase by over 5% in all of our rate categories, compared to the estimated 2.63% growth that we budgeted for in the 2011 budget year
- A total of 132 new residential units will come on line by year end, 50 of which will come from the Block 53 Redevelopment project ("The Landing")
- Will see the great portion of the increase in our electric usage come from our commercial/industrial customers, including United Health Group Data Center, which will come on line in January of 2012.
- Normal weather

The City's objective is to maintain electric rates that are competitive to our main competitor, who is Xcel Energy. As we have seen over the past 12 months, Chaska's residential rates have faired well compared to the market. Looking at 2011, we did see total bills for residential users that averaged 14% lower than Xcel, which is more than the 12.1% lower than what we saw in 2010. Much of this can be attributed to a more stable Natural Gas market over the past two years, than what we saw in 2008, when our total bills were averaging very close to Xcel's overall bill. Our Power Agency, MMPA, currently has most of their assets that are Natural Gas burning, which has resulted in lower costs, and has been able to attain grant financing to support our required renewable energy projects such as Oak Glen Wind Farm, which has the energy from these sources priced very competitive. Below is a graph showing our total residential bill compared to Xcel in 2011:



In 2012, we continue to expect that our overall bills will continue to be less than Xcel. This is based on the fact that Xcel not only received a rate increase two years ago, but is currently being considered for another rate increase through the Public Utilities Commission at the State. Assuming this rate change by Xcel, our expected wholesale cost of electricity and Energy Adjustment Charges from MMPA in 2012 (wholesale rates, not including the Energy Adjustment Clause, is expected to stay relatively stable in 2012), and our 2% proposed increase in overall rates, we could expect our residential rates to continue to be at similar levels below Xcel going into 2012.

Electric Fund expenses for 2012 are projected to be \$28,365,059. The primary cost factor in our electric utility is the purchase of wholesale power from the Minnesota Municipal Power Agency. For 2011 we are anticipating that the Agency's wholesale rate will go up approximately 3.8%, most of that occurring in the Energy Adjustment Clause. Based on projected wholesale power rates, we are anticipating that our total wholesale

power costs for 2012 will be \$20,445,000, compared to the budget of \$19,322,000 in 2011.

As the electric industry becomes more competitive, it is imperative that the City works closely with the power agency to assure that we are purchasing wholesale power at competitive rates. As we are seeing with the need for Xcel to raise their base rates again, and with their aging infrastructure that will need to be replaced in the future, it does appear that the agency will be well positioned to meet the needs of the City in the foreseeable future, while at the same time maintaining competitive rates. At the same time, the Agency is positioning itself well to address the State's Renewable Energy Requirements initiatives, that will require us to have 12% of our energy generated from renewable sources in 2012, and 25% by 2025. The Agency opened its Oak Glen Wind Farm in November of 2011, in South Central Minnesota, helping us to meet these initial requirements. This is a 42 MW generation facility, and will help us meet the 2012 requirements of the State mandates in renewable energy.

Personnel:

Currently we have ten line workers, along with the Electric Director, Assistant Electric Director, and Foreman, serving this division. It is recommended that we not change the number of full-time crew in the Electric Department for 2012. However, instead of the part-time crew we had in the line worker staff, we will be moving to make the Assistant Electric Director's duties part-time in 2012, with the line worker taking on full-time duties in the department. This will be a slight savings to the City, and will better meet our changing staffing needs in the department.

A transfer of \$100,000 is programmed from the Electric Fund to the Community Center as we have done in the past. This transfer is consistent with the funding program for the Community Center and is reflected in the Electric Fund. In addition to this, there will be an additional \$75,000 transfer to the CCC, which will help fund a portion of the new Community Center CIP program. Finally, through 2015, the Electric Fund will contribute to the debt service for The Lodge at the Community Center. In 2012, this transfer is scheduled to be \$108,000.

In addition to this, in 1997 the City adopted a financing plan for the new Fire Station, including an annual transfer of \$300,000 from the Electric Fund to the Fire Station debt service. These transfers are anticipated to continue until 2015.

Besides these expenses, one new area of expense that will be seen in 2012-2014 is the Automated Meter Reader Installation Program, which is also occurring in the Water and Sewer Department. This program will require an additional \$250,000 annually in each of 2012-2014 to support the capital costs of the meters. In addition, the Electric Fund will pay for 50% of the one IS Technician position that will need to be added to support this program, as well as SCADA work in the department. This will be housed out of our IS Department in the General Fund, with the other 50% being split between the Water and Sewer Departments.

Debt Service:

In 2001 the City developed the new Minnesota River substation jointly with the gas turbine project. The Electric Fund share of the substation was \$2,281,000, which converts to annual debt payment of \$104,219. This will continue in 2011.

In addition to this debt, the Electric Fund will also have new debt service of approximately \$250,000 annually to support the construction of the West Creek Substation, which will be completed in the summer of 2012. The City sold the debt to support this project in November of 2011, with the first debt service in 2012 being approximately \$110,000.

Equipment Purchases:

Besides the normal upgrade work on our Electric System, the Electric Department does have the scheduled purchase of a replacement bobcat in the 2012 budget. This is one that is shared in the non-construction season with other City Departments.

Based on this, the following would be the expenditures for 2012:

	Actual 2009	Actual 2010	Budget 2011	Budget 2012	Change	% Change
Purchased Power	\$16,660,295	\$18,756,309	\$19,322,000	\$20,445,000	\$1,123,000	5.81%
Franchise Fee	\$2,256,000	\$2,501,470	\$2,529,000	\$2,841,000	\$312,000	12.34%
Operating Costs	\$3,028,905	\$3,364,911	\$2,844,862	\$3,083,721	\$238,859	8.40%
Capital	\$0	\$0	\$1,013,000	\$1,185,000	\$172,000	16.98%
Debt	\$75,536	\$73,804	\$104,219	\$214,338	\$110,119	105.66%
Transfer	\$346,087	\$537,400	\$521,300	\$596,000	\$74,700	14.33%
Total	\$22,366,823	\$25,233,894	\$26,334,381	\$28,365,059	\$2,030,678	7.71%
Annual Balance	\$1,224,511	\$831,030	\$302,219	\$308,441	\$6,222	

Based on the budget as proposed, the Electric Fund would have revenues in excess of expenditures in 2012 of \$308,441.

Storm Water Fund Budget

In 2008, the City of Chaska created, by ordinance, a Storm Water Utility Fund to address the growing requirements of managing surface water runoff throughout the community. With the implementation of new MS4 Storm Water Management requirements at both the State and Federal level, the City of Chaska, along with other communities across the country, needed to look at their surface water management practices differently, and generate the resources necessary to complete all requirements of the new laws. Up until the point of creating a separate Storm Water Utility Fund, any activities that the City of Chaska completed with Storm Water Management were completed by the Public Works department utilizing General Fund resources. With the new statutory requirements, it was apparent that these resources would not be sufficient to complete all necessary activities.

As the City of Chaska established our Storm Water Utility Fund, the City identified a number of objectives to complete in this newest Enterprise Fund, including:

- Provide the necessary resources for the Storm Sewer Fund to assure continuation of quality services to customers
- Maintain rates comparable to other cities, while at the same time generating adequate cash reserves for replacement of existing capital, necessary maintenance on our system, and for emergencies
- Meet all of the new MS4 requirements for Storm Water Management, addressing changes in the requirements as they occur
- Assume that major capital additions to the collection system are not financed from rate revenue (these are financed through Trunk Funds paid through development)
- Move all Storm Water Management activities out of our General Fund, treating the management of our Storm Water System the same financially as our other Utility Enterprise Funds (i.e. Water/Sewer and Electric)

In 2008 when the Storm Water Utility Fund was created, the City identified all of the work that needed to be completed as part of the Storm Water management activities, to develop an estimate on what all of the work would cost on an annual basis, and what future costs would likely be for replacement of infrastructure in our system as it became deteriorated. From this estimate of present and future costs in our Storm Water system, the City developed a rate structure in 2008, charging residential property owners \$3 per month based on each residential parcel that they owned, and attributed a per acre fee to those Commercial/Industrial and undeveloped properties in the City, based on what each of these parcels was contributing for surface water to our overall system. Some of the major operations that these fees helped to fund included:

- Completing certification and maintenance of Chaska's Flood Control System
- Completing maintenance of our Storm Water treatment ponds across the City
- Completing Street Cleaning to keep surface water runoff as clean as possible

- Maintaining our ravine systems throughout the City
- Completing our MS4 reporting and maintenance requirements
- Monitoring development activities to ensure Storm Water runoff and treatment requirement both during construction and after development completed

With the Minnesota River Flood Control system, and the many ravine systems around the community, Chaska’s Storm Water Management activities are often more complex than non-river communities.

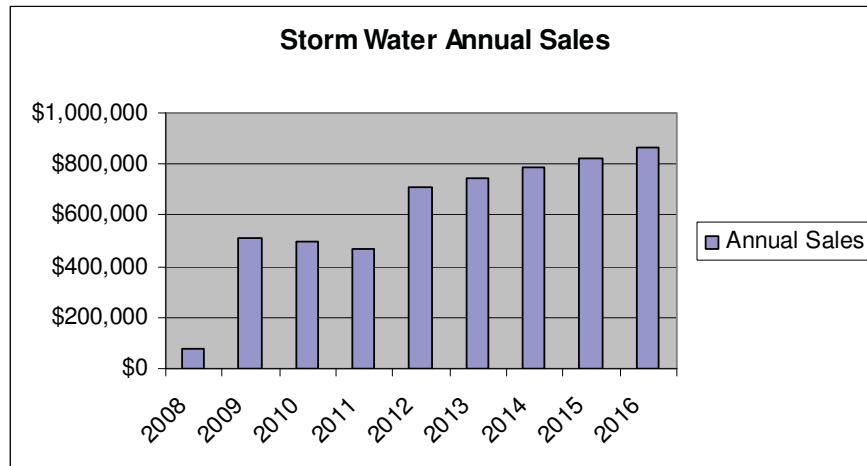
2012 Revenues

When the initial fee was established in 2008, this fee was based on estimates that were developed to help complete each of the activities listed above. It was the intent that once we had the Storm Water Utility Fund fully up and running that we would come back and review our fee structure to determine if it had been set at the proper level. After three full years of activities, it is clear that not only was our rate set too low to accommodate all of the activities that needed to be completed in this Fund and with future maintenance expenses, but that we were also very low compared to many of the surrounding cities who also have a Storm Water Utility Fund. Below is a survey of the other area cities monthly Storm Water fees for 2011 compared to Chaska’s current residential rate:

Storm Water Utility Survey	
Shakopee	\$6.87
Eden Prairie	\$5.00
Carver	\$8.52
Plymouth	\$5.00
Minnetonka	\$5.76
Chanhassen	\$2.92
Buffalo	\$5.00
Chaska	\$3.00
Average	\$5.26

As can be seen in the survey above, Chaska’s rate is very low, compared to the average of \$5.26 per month in the area cities. Based on what our actual costs are for Storm Water Management activities, and based on where we are in the market for our Utility Fees, in 2012, it is recommended that our residential fee go up by \$1.50 per month, bringing it to \$4.50 per month, still below the area average. Based on the knowledge we have of our Utility now, we do feel that this would have been the appropriate fee to initially set our base fee at to meet all of the requirements of the system. Based on this change to our rate structure, the following chart depicts what we can expect to see in

revenue for not only 2012, but through the next 5-year period if we saw a \$0.25 per month increase over each of the next two years:



2012 Expenditures

Within the Storm Water system, there are really two distinct types of activities that occur. There is the day-to-day maintenance of our Storm Water system, and there is the inspection and reporting work that is required as part of the MS4 changes. From a maintenance perspective, the City of Chaska does utilize our Public Works crew to support the maintenance activities of the fund. The time that they put into Storm Water maintenance functions is charged directly back to the Storm Water Fund. The other maintenance activity comes through the maintenance of our Storm Water system as part of our Street Reconstruction Program. To support these activities, the Storm Water Fund contributes \$200,000 annually to the Street Reconstruction program.

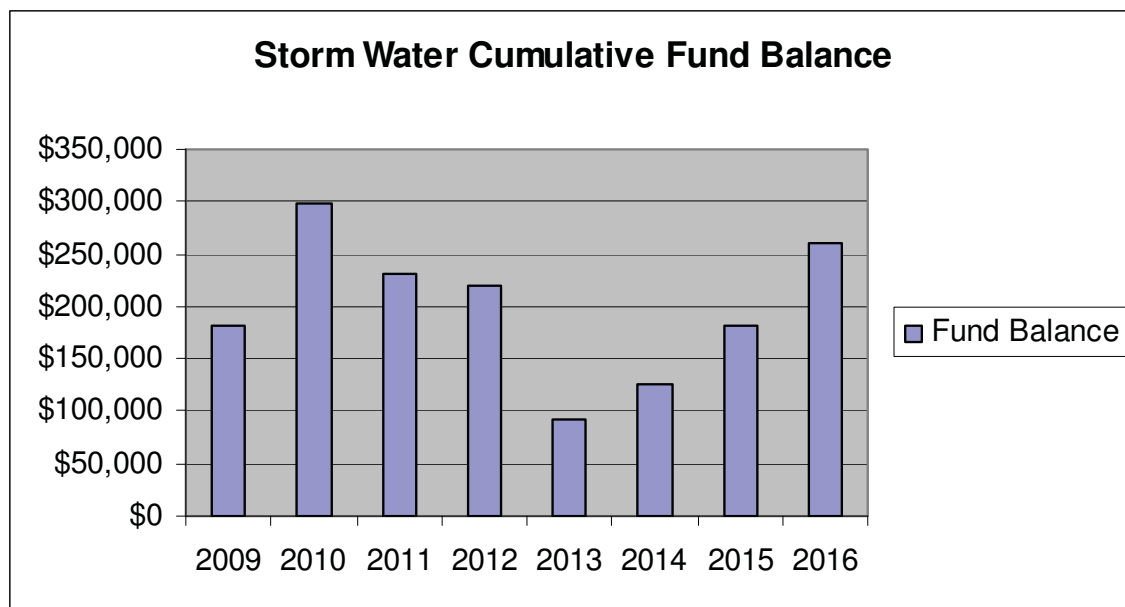
The other activities of inspections and reporting are mainly completed through our Engineering Department and through contract Engineering services. For 2012, \$140,000 of the Storm Water Fund budget is dedicated to these activities. These activities help us to meet our MS4 requirements, as well as identify the priorities for what maintenance work we will have to complete over the next several years.

Based on the changes to our rate structure and our budget to fund necessary activities in the Storm Water Management activities, below is a breakdown of the revenues and expenditures for 2012:

	2009	2010	2011	2012		
Revenues	Actual	Actual	Budget	Budget	Change	% Change
Residential Sales	\$281,036	\$270,544	\$276,000	\$413,000	\$137,000	33.17%
Non-Residential Sales	\$233,551	\$229,468	\$229,000	\$294,000	\$65,000	22.11%
Other	\$3,353	\$5,450	\$2,000	\$2,000	\$0	0.00%
Total	\$517,940	\$505,462	\$507,000	\$709,000	\$202,000	28.49%
Expenditures						
Transfer to Street Program	\$120,000	\$200,000	\$200,000	\$200,000	\$0	0.00%
Personnel	\$0	\$0	\$146,300	\$148,700	\$2,400	1.61%
Supplies	\$0	\$30,100	\$30,000	\$35,250	\$5,250	14.89%
Professional Services	\$9,976	\$11,596	\$0	\$140,000	\$140,000	100.00%
Capital Outlay	\$0	\$0	\$80,000	\$80,800	\$800	0.99%
Administration	\$66	\$38,432	\$59,600	\$58,375	-\$1,225	-2.10%
Utility Billing	\$14,668	\$43,586	\$17,000	\$17,170	\$170	0.99%
Depreciation	\$0	\$0	\$0	\$30,000	\$30,000	100.00%
Other	\$81,996	\$66,666	\$7,100	\$7,575	\$475	6.27%
Total	\$226,706	\$390,380	\$540,000	\$717,870	\$177,870	24.78%
Fund Total	\$291,234	\$115,082	-\$33,000	-\$8,870	\$24,130	

As can be seen in the chart above, this fund has been a work in progress as different requirements have been implemented, and services have been changed from being charged to the General Fund to being charged to the Storm Water Utility. This budget does start to represent where the expenses and revenues in this Fund should be.

Based on the budget, and what is projected during the 5-year period, below is a chart of what we would expect to see for Fund Balance in this Fund as we move through the next 5-years:



Chaska.net Fund

The mission of Chaska.net is:

“Through the use of existing fiber optic and wireless technology, develop a high quality, low cost, high-speed Internet service for Chaska’s public business and residential entities, thereby enhancing Chaska’s vision of being a connected community.”

Chaska.net began operation in 2000 as part of a partnership between the City and the Chaska School District. At that time KMC was completing their fiber optic system serving the Chaska business community. The City and the School District entered into a partnership to construct fiber optic lines to serve each of our existing public facilities. In 2001 the City began providing high-speed Internet service to businesses through the use of local fiber loops provided by KMC, with the business service expanding in 2002, based on the development of a line-of-site wireless network for the community.

Under the initial wireless system antennas were installed at City Hall, the Community Center, and water towers to provide line of sight connections to businesses at a cost ranging from \$100 to \$500 per month. In 2003 the service was expanded when additional antennas were added in the cities of Victoria, Waconia, Norwood Young America, and Shakopee.

In the spring of 2004 Chaska initiated a major effort to fulfill its original vision of having low cost, high-speed residential Internet through the deployment of a City-wide wifi network. The hardware solution deployed consisted of installation of 378 Tropos radios located on streetlights at an original cost of \$621,000. Since the system is wifi based it utilizes off the shelf customer bridges and is capable of providing bi-directional data transfer of speeds up to 1.5 megabytes per second. In 2006 the City elected to upgrade to the next generation of Tropos radios at a cost of \$456,200. Since the inception of the service, we have continued to work on improvements to the system to help improve the reliability and consistency of the service that is provided. Through 2010 the City will have invested \$3.3 million in developing the fiber and wireless network.

REVENUES

Revenues to the fund are generated from three major categories; wireless wifi customers, line of sight customers, and direct fiber connections. Currently, the wifi network has 1,683 customers paying a monthly fee of \$19.99 for the service. In establishing the original financial plan for the wifi business, the goal was to begin with a monthly rate of \$15.99, with that rate increasing by \$1.00 per year until it peaked at a rate of \$20.99. For 2007 the rates were left unchanged in order to continue to attract customers. For 2008 the monthly fee increased to \$17.99. In 2009 this rate did go up to \$18.99, and in 2010 the rate did go up to \$19.99 per month, a point at which it stayed in 2011. In 2012, we are proposing to keep the rate at \$19.99 per month, as we are cognizant of where our pricing has been compared to our main competing service-type provider, which is DSL. DSL prices have come down in price over the

past several years, now priced at approximately \$25-\$30 per month. While both the wi-fi network and DSL have capability of similar speeds, DSL is a land-line, and because of this has the ability to have better reliability. Because of this, it was felt that it was important to keep a price differential between our service and DSL pricing, so that there is still a true choice for the customer about what service to choose. We would anticipate keeping it \$19.99 into the future, but will continue to monitor this pricing as we move into the future.

Based on 1,638 residential customers, this service presently has a penetration rate of 16.5%, for Chaska's 9,900 households that could potentially be connected to the system. In the 2008 5-year financial forecast, we did plan on adding an additional 250 customers a year to our existing customer base, until we penetrated approximately 40% of the market. As we have witnessed over the past four years, we have remained very steady with the market of residents we have been able to attract to the service. With a stabilization of our service, we do think that a more realistic number for new starts in 2011 is closer to 40 customers. For budget purposes, we have carried this lower number of new starts through our 5-year financial forecast to generate conservative forecasting estimates.

In 2012, the annual revenue budgeted for Chaska.net Wi-Fi service is just over \$470,000. Staff continues to market the Wi-Fi service through our website and occasional utility staffers. As mentioned previously, we do think that while we will see some growth in this portion of our business, that the growth will not be as aggressive as projected in past financial forecasts due to several factors, including the fact that there is much more competition in the market with services such as DSL than there was in the past, and the fact that we are not seeing as much residential growth occurring in the community.

As for the Point-to-Multi-Point System, the five-year plan anticipates that this revenue source will not be a major component of Internet service as we move into the future. Staff has even been evaluating whether we should continue to provide this services to customers outside of the community, as this is a drain on our staff resources, the equipment is aging, and has not helped us achieve our mission of connecting people and businesses within our community. We have been able to make some very inexpensive retrofits to this system to keep it functioning properly, and would anticipate that as long as this is a profitable portion of our business, that we would keep this service. As the equipment becomes technically obsolete for retail service, we will have to evaluate both whether we continue to provide this service to our existing Chaska companies, and whether we continue to provide this service outside of Chaska. The only two cities we continue to provide line-of-sight service to in the area are Victoria and Waconia.

The Chaska School District is the major component of the fiber connected customers, at \$3,000 per month. The School District has continued to increase the amount of bandwidth that they use on an annual basis. Over the next five years, we do anticipate that some customers in the new industrial park will elect to gain Internet activity through the Chaska.net fiber network, as we do plan on extending a our fiber loop out into this new industrial park. The conduit for this service was installed as part of the initial phase of the West Creek Corporate Center, but the fiber has yet to be installed. We would not anticipate any new service from this until at least 2014. This will not only make our existing fiber system more robust by allowing us to loop our fiber line around the City, but will provide opportunities for new large customers of our fiber service. We are planning that this cost would be an infrastructure cost born by resources generated from this development. Consistent with that goal, we are anticipating new revenues from the fiber service in our Chaska Biotech Center development area based on the following schedule:

YEAR	ANNUAL TOTAL	
2008	0	
2009	0	0
2010	0	0
2011	0	0
2012	0	0
2013	0	0
2014	60,000	60,000
2015	60,000	120,000
2016	10,000	130,000

As noted above, the capital costs of getting our fiber system out to the Biotech Center developed, and looped with the rest of our fiber network in the community, is being planned as a development cost, not to be born by the Chaska.net Fund. While the schedule does show 2014, this could be expedited based on the actual development schedule of this new industrial park.

The following table is a summary of the forecasted revenues for Chaska.net for 2012.

<i>Revenues</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>		
	<i>Actual</i>	<i>Actual</i>	<i>Budget</i>	<i>Budget</i>	<i>Change</i>	<i>%Change</i>
ISP Sales	\$632,477	\$632,600	\$626,768	\$557,000	-\$69,768	-12.53%
School District Pass Through Funds	\$77,232	\$109,054	\$0	\$100,000	\$100,000	100.00%
Other	\$8,687	\$6,049	\$0	\$0	\$0	
Total Revenue	\$718,396	\$747,703	\$626,768	\$657,000	\$30,232	4.60%

EXPENSES

The following table is a summary of forecasted expenses for 2012.

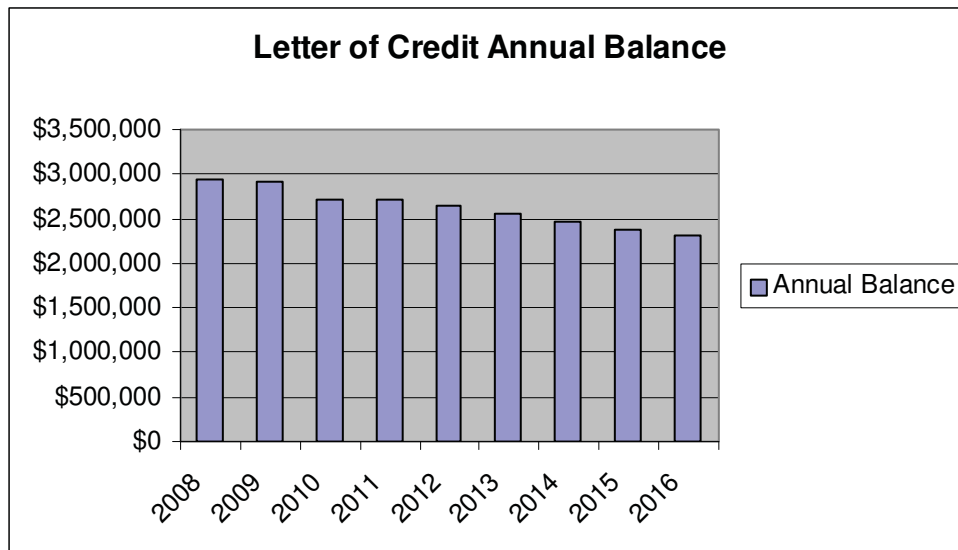
<i>Expenditures</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>		
	<i>Actual</i>	<i>Actual</i>	<i>Budget</i>	<i>Budget</i>	<i>Change</i>	<i>%Change</i>
Bandwidth	\$89,970	\$80,400	\$101,000	\$85,000	-\$16,000	-18.82%
Distribution	\$208,754	\$29,807	\$90,505	\$66,391	-\$24,114	-36.32%
Personnel	\$118,858	\$121,942	\$125,225	\$135,096	\$9,871	7.31%
Operating	\$249,542	\$267,719	\$184,470	\$263,000	\$78,530	29.86%
Depreciation	\$265,133	\$249,980	\$0	\$0	\$0	
Capital	\$28,166	\$22,295	\$3,100	\$50,000	\$46,900	93.80%
Total	\$960,423	\$772,143	\$504,300	\$599,487	\$95,187	15.88%

Currently, Chaska.net has two full time positions allocated to it. We plan to continue to have this level of staffing in 2012. One continued major change that is shown in the expense budget above is the elimination of our Network Operations Center contract with Siemens for \$120,000. While Siemens was able to adequately provide this service, we have found that given the size of our utility, we are better able to provide those services in-house. In 2012, this will continue to be the case. To do that has added some costs of having to have after-hours calls by our staff, but has provided similar levels of service with a significant net decrease in costs. It should be noted that as part of this change, we did not change the contracted hours of help-desk service from Siemens, as this has provided the necessary hours of staffing at a help desk we would not be able to do given our current staffing levels. Additionally, we will continue to contract with Google for providing of our customer's Email service, which did allow us to avoid a more costly upgrade of our internal system to continue to provide this service. Overall, both of these changes are a cost savings to the Chaska.net system, and have a positive impact on allowing us to write-down the internal letter of credit provided to Chaska.net from our Electric Fund to start up this service.

The only new area of spending that is reflected in the budget for 2012 is the purchase of just over 300 replacement "bridges" for Chaska.net residential wi-fi customers that are still utilizing the original bridge provided to them. These bridges have become outdated, and do not provide the necessary software that is required of new wi-fi bridging devices. All but our original customers have received new bridge units over the past several years. This replacement would help eliminate the rest of the original bridging devices we have in our system. This additional cost is approximately \$30,000 in the 2012 budget over our normal capital expenditures.

Chaska.net Letter of Credit

Our original objective for the Chaska.net service was to fully pay off all outstanding debt by 2013. Based on our current assumption that target will not be met. However, we will continue to allow Chaska.net to be an operationally self-supporting entity, and be able to have positive movement in writing down the outstanding debt in the line-of-credit we established to start this service. Below is a chart showing the outstanding debt on the Line-of-Credit that was established for this service. As you can see in the chart, we do anticipate that this balance will continue to go down, but we will still have an outstanding balance through the 5-year period.



It should be noted that while there is a balance of around \$2,300,000 in the line-of-credit after the 5-year period, approximately \$900,000 of this investment is in our installed fiber infrastructure, which has a much longer life expectancy than our wireless mesh product. For this reason, it is reasonable to assume a longer pay-back period for this infrastructure since it will not need to be replaced nearly as soon as our wireless mesh infrastructure.

Although the Chaska.net service has not yet fully met our initial financial objectives, and may have difficulty paying back this original line of credit on its own it should be noted that this service has provided many opportunities throughout our internal organization to save money on services we provide and how we provide them. Chaska.net has provided Internet service to the rest of the City's Enterprise Fund and the General Fund at no cost to these funds for over 10 years. This has created a significant savings across the entire City. It has also allowed us to deploy wireless systems for our Utility Meter Reading, SCADA services and Police services, saving us many dollars in the process. It will continue to provide us with opportunities for more cost effective ways to provide our services in other departments as we move into an Automated Meter Reader replacement program in Water, Sewer and Electric in 2012.

So while we eventually will have to make a decision of whether we will update our Chaska.net system with new technology from a retail perspective, we do see that the wireless technology we have now will continue to be a good investment from an internal perspective and the cost savings we are able to experience in other departments.