



# Rochester Public Utilities

## 2025 Budget Update

August 6, 2024



# Strategic Alignment

- Reliability: Obligation to Serve
- Rates: Affordability, Sustainable
- Responsibility: Sustainability, Safety & Compliance
- Reputation: Community Involvement
- Relationships: Customer Intimacy





# Rochester Public Utilities - Financial Strategy

## Cost Based Rates

- Financial Stability – Alignment of fixed and variable cost with fixed and variable rates – **Economic Vibrancy and Growth Management**
- No subsidization between Rate Classes (Cost Causation)
- Reduce subsidization within Rate Classes (Cost Causation)
- Rates that promote conservation and reduce costs (Demand Reduction)

## Regionally Competitive

- Enrich People's Lives – **Economic Vibrancy and Growth Management**
- Help Businesses Prosper – **Economic Vibrancy and Growth Management**
- Promote Community Welfare – **Affordable Living**

## Provide Resources

- Rates – AA Bond Rating, Targeted Income, Debt Coverage, Equity %
- Reputation – Community Service, Engagement, Contribution to the City
- Responsibility – Conservation, Education, Safe Operations, Compliance
- Reliability – Unusual Events (Ice Storm/Pandemic), Replacement of Infrastructure, Growth and Maintenance
- Relationships – **Quality Services** (People & Systems)

# Water Utility Budget 2025 - 2029







# Rochester Public Utilities - Water Utility – 2025 Operating Budget

ASSUMPTIONS		
	2025 Original	2025 Updated
• Interest Earnings Rate:	3.00%	3.00%
• Average Salary Expense Change: (consists of COLA, merit and promotion increases)	5.00%	4.80%
• Change in Full-time Equivalent:	0	0
• Minimum Cash Reserve Requirement:	\$8,767,100	\$8,629,700
• In Lieu of Tax:	\$512,349	\$514,088
• General Rate Increase:	5.50%	5.50%
• AMI Customer Charge:	\$1.32	\$1.32
• Water CCF Sales Forecast:	1.3% Increase from 2024	2.3% Increase from 2024
• Total Water Utility Customers:	0.8% Increase over Y/E 2024	0.9% Increase over Y/E 2024
• Forecast Based on Normal Weather :	538 Cooling Degree Days, 27.85 Inches Summer Rainfall	

## Business Drivers

- Advanced Metering Infrastructure (AMI)
- Water main replacement Plan
  - Aging Infrastructure
- Mayo - Bold Forward Unbound
- Water conservation programs, education
- Weather – Rain Fall, Cooling Degree Days
- City related City projects impact
  - Timing, Funding, Contribution in Aid
- Bailey High Level Tower
  - Water Availability Funded – moved from 2024 to 2025

## Business Risks

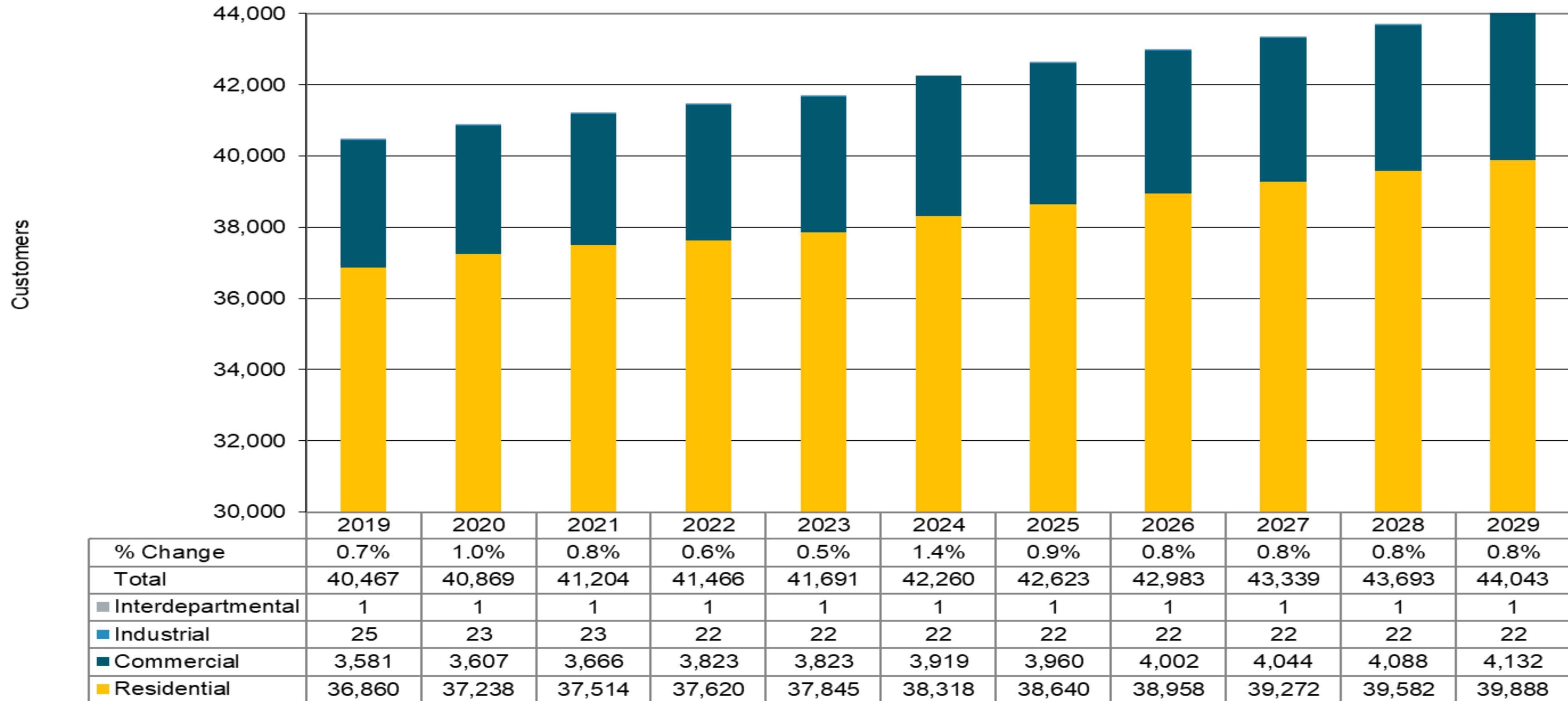
- Ground water supply dependent –  
Continued monitoring
- Incremental regulation – water testing,  
backflow monitoring, DNR Permitting
- Cell Tower rental revenue
- Technology – Advanced Meter  
Infrastructure, Technology Change,  
Cyber Security
- Geothermal use of water aquifer.





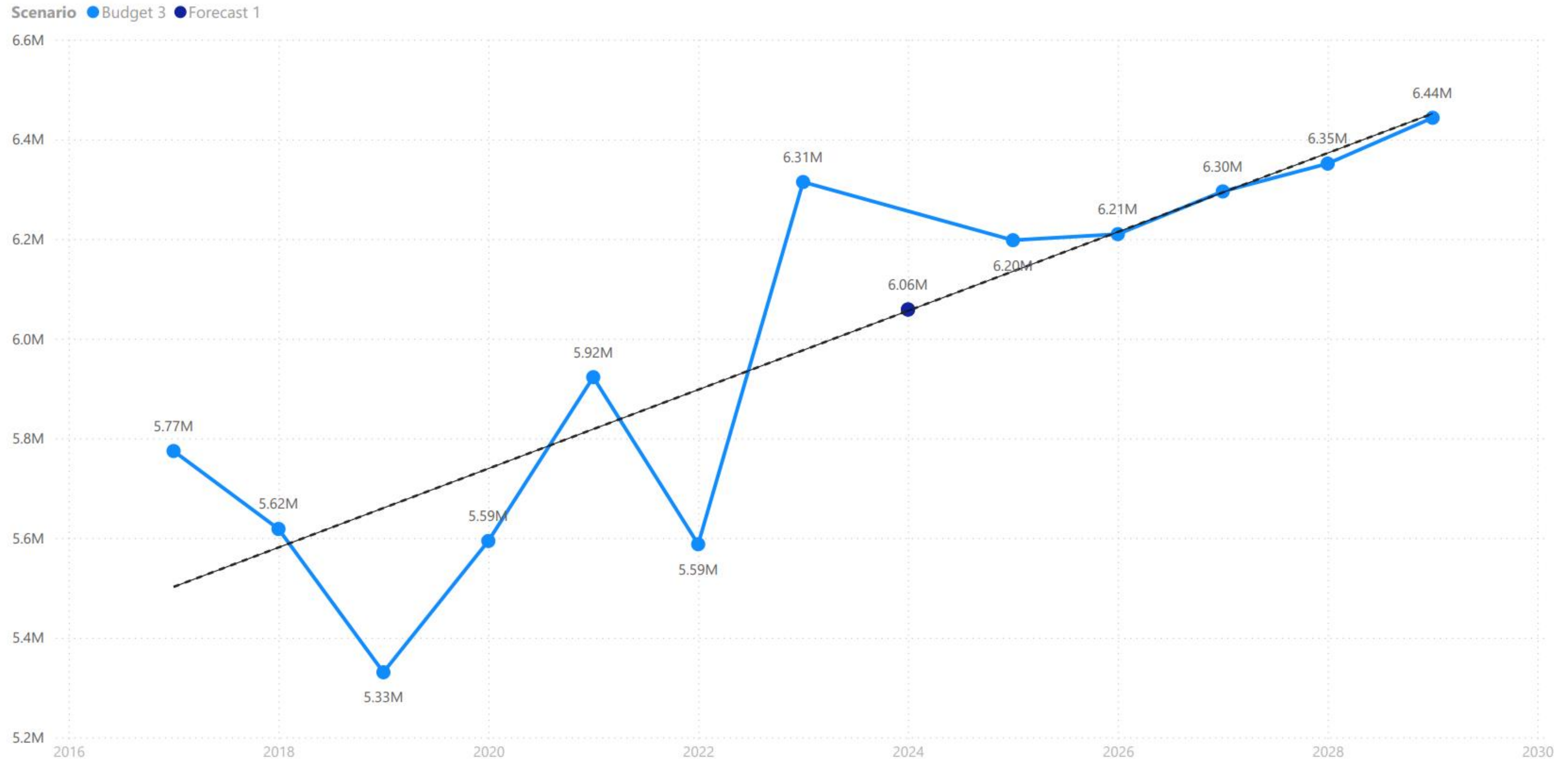
# Water Utility Number of Customers

2019-2023 Actual, 2024 Forecast, 2025-2029 Budget





# 2025 CCF SALES FORECAST





# Water Utility Capital & Major Maintenance

	2025 Original	2025 Updated	Over(Under)
• Capital Changes:			
Total Rate Funded Capital Projects	\$ 5,238K	\$ 5,539K	\$ 301K
• Major Maintenance:			
Total Major Maintenance Projects	\$ 1,075K	\$ 906K	(\$ 169K)
• Capital Contingency	\$ 180,000	\$ 180,000	\$ -
• Operating Contingency	\$ 90,000	\$ 90,000	\$ -

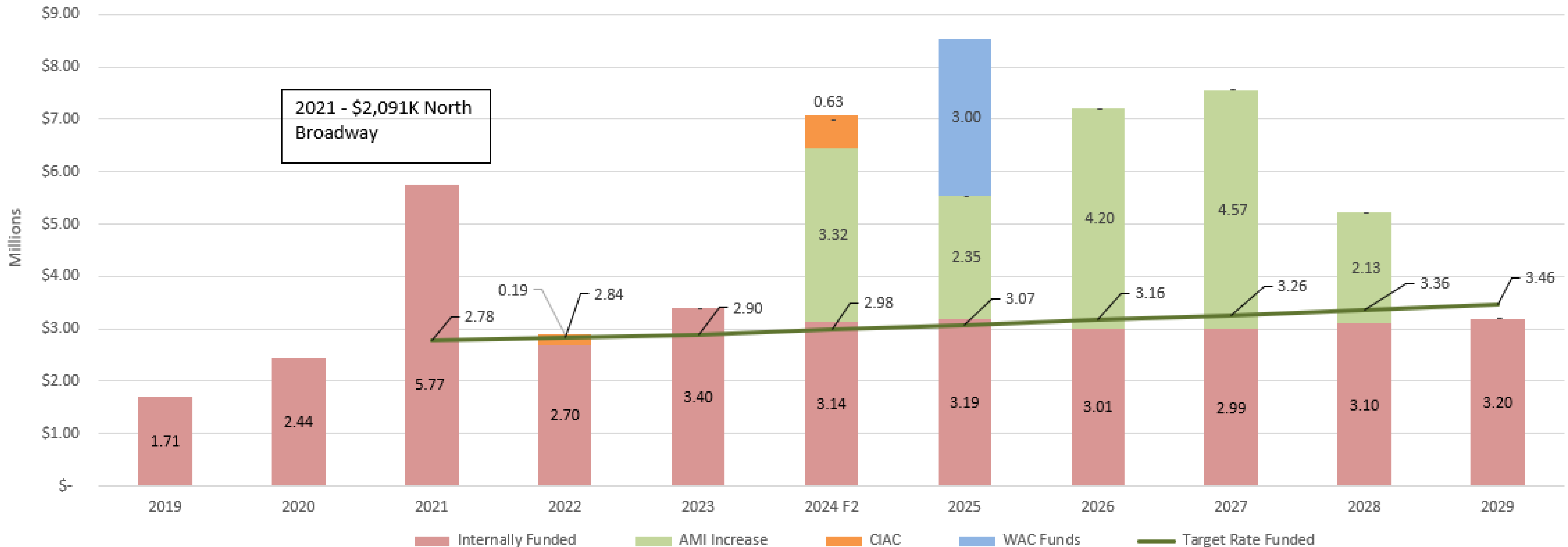
- Cost Center
- Your Departments
- Other Departments
- Contingency
- Board Reserve Request





# Water Utility Capital External Spending

## Water Utility Capital 2019-2023 Actual; 2024-2029 Projected



# Budget Drivers – 2025

- Continued investment in system to maintain reliability, improve service, safety, and serve City expansion

Capital Expenditures	2025 Original	2025 Updated
<ul style="list-style-type: none"> <li>Water Metering - AMI</li> </ul>	\$ 2,349K	\$ 2,349K
<ul style="list-style-type: none"> <li>2024-2029 Total:</li> </ul>	\$ 14,570K	\$ 16,562K (\$1.1M from 2023 Meter Budget)
<ul style="list-style-type: none"> <li>1.0MG Baihly High Level Tower</li> </ul>	\$ -	\$ 3,000K (WAC Funded)
<ul style="list-style-type: none"> <li>Distribution System (Excluding AMI)</li> </ul>	\$ 304K	\$ 369K (Pump Replacement \$65K)
<ul style="list-style-type: none"> <li>City Road Project - DMC Area</li> </ul>	\$ 740K	\$ 220K (Delayed to 2026)
<ul style="list-style-type: none"> <li>City Road Projects</li> </ul>	\$ 445K	\$ 603K
<ul style="list-style-type: none"> <li>Capital Contingency</li> </ul>	\$ 180K	\$ 180K
<ul style="list-style-type: none"> <li>Bold Forward Unbound Contingency</li> </ul>	\$ -	\$ 500K
<ul style="list-style-type: none"> <li>Major Maintenance</li> </ul>		
<ul style="list-style-type: none"> <li>Water Metering – AMI</li> </ul>	\$ 261K	\$ - (Included in Capital-Subscription)
<ul style="list-style-type: none"> <li>Water Master Plan Study</li> </ul>	\$ -	\$ 100K
<ul style="list-style-type: none"> <li>Service Assured</li> </ul>	\$ 261K	\$ 261K
<ul style="list-style-type: none"> <li>Operating Contingency</li> </ul>	\$ 90K	\$ 90K





## Water Utility 2025 Operating Budget

FORECAST BY YEAR, 2024 THROUGH 2029  
(\$000'S)

	5.5%		5.5%		9.0%		7.0%		7.0%		7.0%
Forecasted Rate Change											
Plus: AMI Customer Charge	\$ 1.32	\$	1.32	\$	-	\$	-	\$	-	\$	-
	2024*		2025		2026		2027		2028		2029
1 Total Revenues	14,367,837		15,375,013		16,566,049		17,805,901		19,072,742		20,408,993
2 Total Cost of Revenue	2,355,881		2,464,986		2,533,140		2,624,733		2,711,487		2,812,831
3 Total Gross Margin	12,011,956		12,910,026		14,032,909		15,181,168		16,361,254		17,596,162
4 Less: Total Operating Expenses	10,345,593		11,348,820		11,621,305		12,401,395		13,416,075		14,170,654
5 Net Operating Income (Loss)	1,666,363		1,561,207		2,411,603		2,779,774		2,945,179		3,425,508

\* 2024 forecast contains 4 months actuals and 8 months forecast



## Water Utility 2025 Operating Budget

FORECAST BY YEAR, 2024 THROUGH 2029  
(\$000'S)

	5.5%	5.5%	9.0%	7.0%	7.0%	7.0%
Forecasted Rate Change	\$ 1.32	\$ 1.32	\$ -	\$ -	\$ -	\$ -
Plus: AMI Customer Charge	\$ 1.32	\$ 1.32	\$ -	\$ -	\$ -	\$ -
	2024*	2025	2026	2027	2028	2029
6 Total Financing & Non-Operating Items	797,568	715,558	645,399	570,050	544,255	605,684
7 Income Before Transfers or Cap Contributions	2,463,931	2,276,765	3,057,002	3,349,823	3,489,434	4,031,192
8 Transfers (In Lieu of Taxes)	(492,054)	(514,088)	(515,094)	(522,208)	(526,835)	(534,461)
9 Capital Contributions	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
10 Cash Transfers from City/Intercompany	637,034	3,000,000	-	-	-	-
11 Change in Net Assets	3,708,911	5,862,677	3,641,908	3,927,616	4,062,599	4,596,731
12 Change in Net Assets (Excl Contrib & Tfrs)	1,971,877	1,762,677	2,541,908	2,827,616	2,962,599	3,496,731
13 Target Change in Net Assets	5,777,043	6,052,325	6,293,803	6,546,215	6,717,837	6,820,541
14 Excess (Deficit) from Target	(3,805,166)	(4,289,648)	(3,751,895)	(3,718,599)	(3,755,238)	(3,323,810)

\* 2024 forecast contains 4 months actuals and  
8 months forecast





## Water Utility 2025 Operating Budget

FORECAST BY YEAR, 2024 THROUGH 2029  
(\$000'S)

	5.5%	5.5%	9.0%	7.0%	7.0%	7.0%
Forecasted Rate Change						
Plus: AMI Customer Charge	\$ 1.32	\$ 1.32	\$ -	\$ -	\$ -	\$ -
	2024*	2025	2026	2027	2028	2029
15 01/01 Cash Balance	14,773,753	11,114,677	10,158,426	8,185,967	6,660,647	8,153,132
16 Cash From Operations	6,716,309	9,433,378	7,304,360	8,080,312	8,466,340	9,204,911
17 Capital Additions	(10,210,142)	(8,880,063)	(7,789,590)	(8,142,344)	(5,536,180)	(3,313,035)
18 Debt Principal Payments	-	-	-	-	-	-
19 Debt Proceeds	-	-	-	-	-	-
20 Non-Cash Contributions	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)
21 Net Change in Other Assets/Liabilities	934,757	(409,566)	(387,228)	(363,288)	(337,674)	(310,494)
22 Net Changes in Cash	(3,659,076)	(956,251)	(1,972,459)	(1,525,320)	1,492,485	4,481,382
23 12/31 Cash Balance	11,114,677	10,158,426	8,185,967	6,660,647	8,153,132	12,634,514
24 Minimum Cash Reserve	8,970,600	8,629,700	8,003,800	7,342,300	7,195,100	7,421,400
25 Excess (Deficit) from Minimum Cash Reserve	2,144,077	1,528,726	182,167	(681,653)	958,032	5,213,114

\* 2024 forecast contains 4 months actuals and  
8 months forecast



# Residential Class Water Rate Comparison

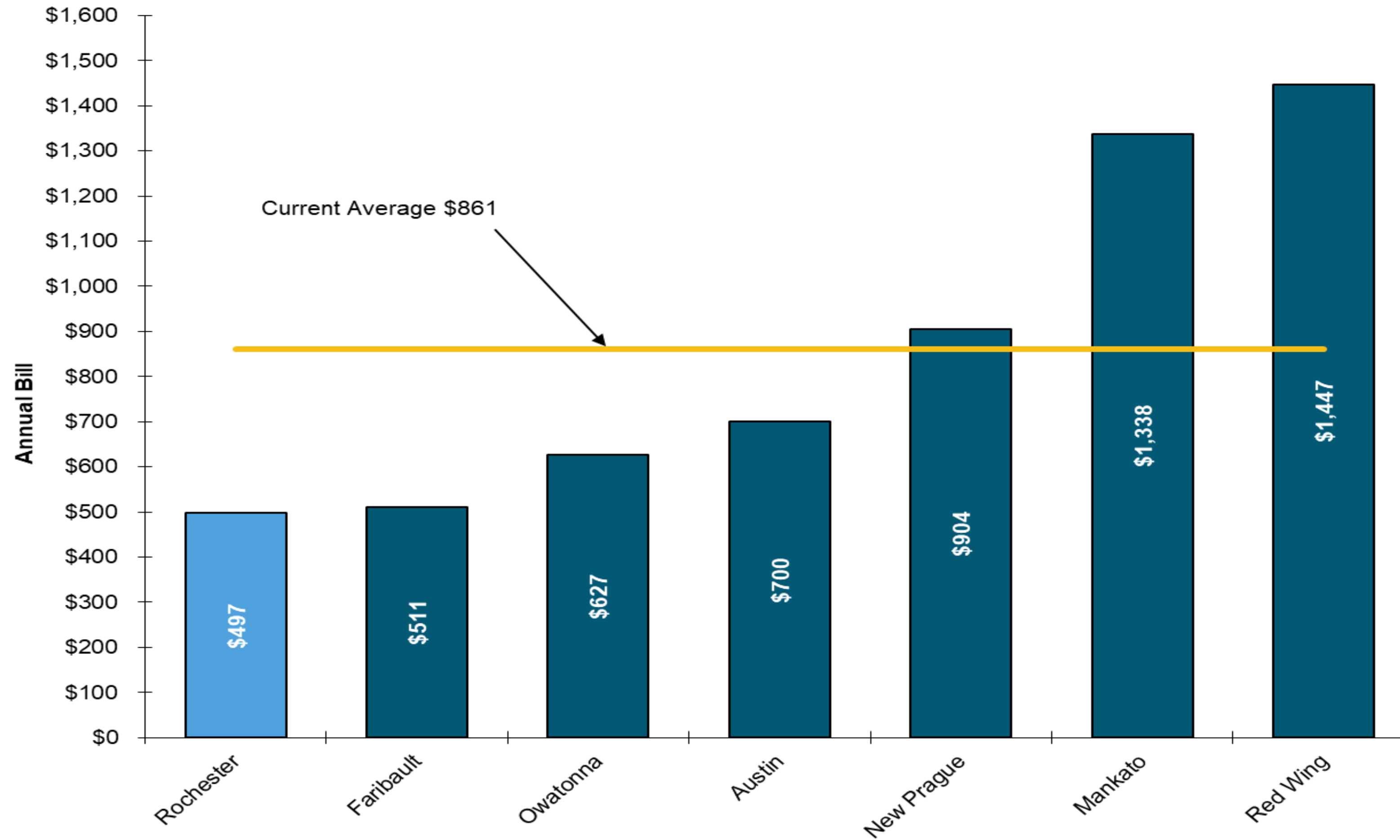
(Jan '23 through Dec '23)





# Commercial Class Water Rate Comparison

(Jan '23 through Dec '23)



# Recommendations

- 2025 Recommend No Change to Approved Rate
  - 5.5 percent general rate increase plus \$1.32 customer charge increase for AMI

Cost impact to the average residential customer is  
\$1.67/mo





**Questions on Water Utility?**



# Electric Utility Budget 2025 - 2029





# Rochester Public Utilities - Electric Utility – 2024-2025 Operating Budget

ASSUMPTIONS		
	2025 Original	2025 Updated
• Interest Earnings Rate:	3.00%	3.0%
• Average Salary Expense Change: (Consists of COLA, merit and promotion increases)	5.50%	4.9%
• Anticipated bonding:	none	none
• Change in Full-time Equivalents:	2 incremental	2 incremental
		2 Replacements of Contract Work
• SMMPA Wholesale Power Cost:	0.0% increase	0.0% increase
• SMMPA CROD Level:	216 MW	216 MW
• Minimum Cash Reserve Requirement:	\$64,057,738	\$66,647,244
• In Lieu of Tax:	\$11,338,353	\$11,336,702
<b>General Rate Increase:</b>		
• General Rate Increase:	4.0%	4.0%
<b>Electric KWH Sales Forecast:</b>		
• Electric KWH Sales Forecast:	1.3% Increase from 2024	1.9% Increase from 2024
<b>Total Electric Utility Customers:</b>		
• Total Electric Utility Customers:	1.8% Increase over Y/E 2024	1.2% Increase over Y/E 2024
• Based on normal weather	30Yr Average heating/cooling degree days per year	

## Business Drivers

- Low energy sales growth –  
Increase customers, decrease average use, Conservation, Distributed Generation
- AMI Investment
- Load (Demand) growth shifts within the City
- Demand Side Management – 80MW by 2039
- Weather – Heating and Cooling days
- Potential New loads – Electric Vehicles & Electrification

## Business Risks

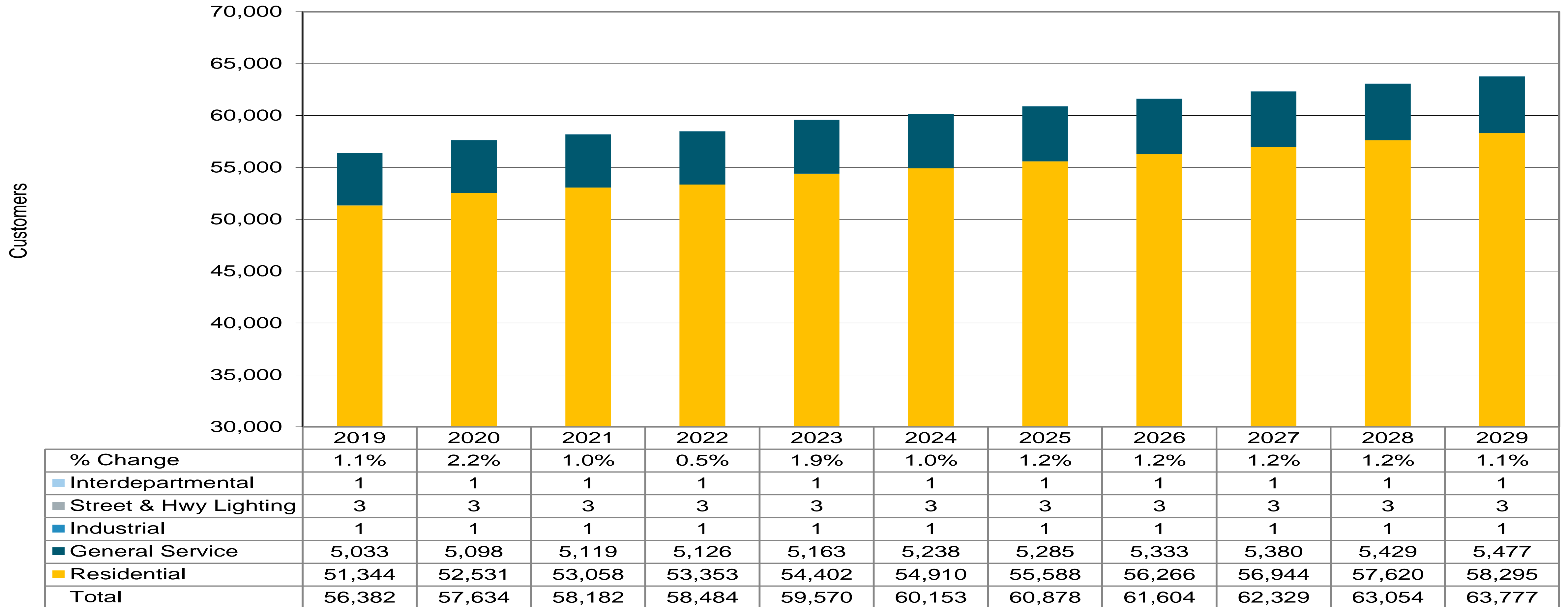
- Compliance: Cyber Security / FERC requirements / Conservation (MN Eco Act)
- Regulatory Impact: Air & Water quality, Transmission
- Impact of local business decisions, economy, Work-from-home & DMC
- Concentration of Customers/Revenue – 2/3 Revenue is Commercial
- Technology – Advanced Metering (AMI), ERP System, Cyber Security.





# Electric Utility Number of Customers

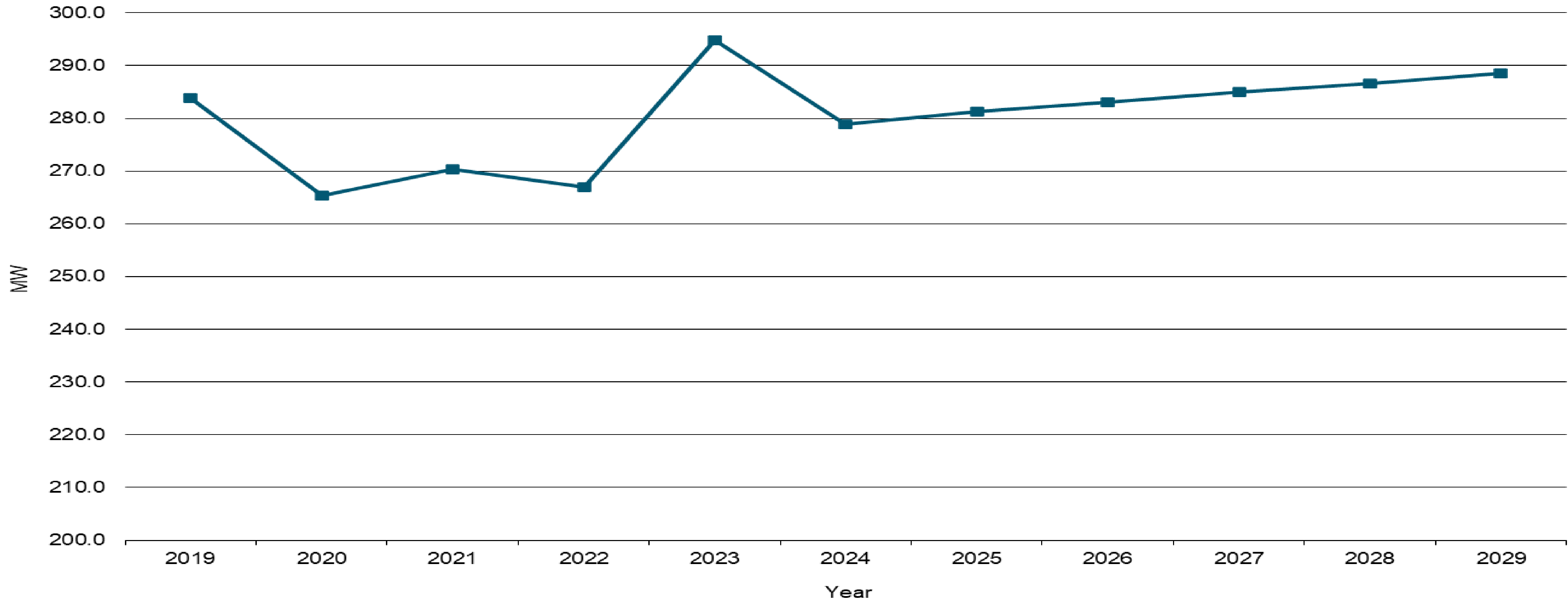
2018-2022 Actual, 2023 Forecast, 2024-2028 Budget





# Annual MW Peak

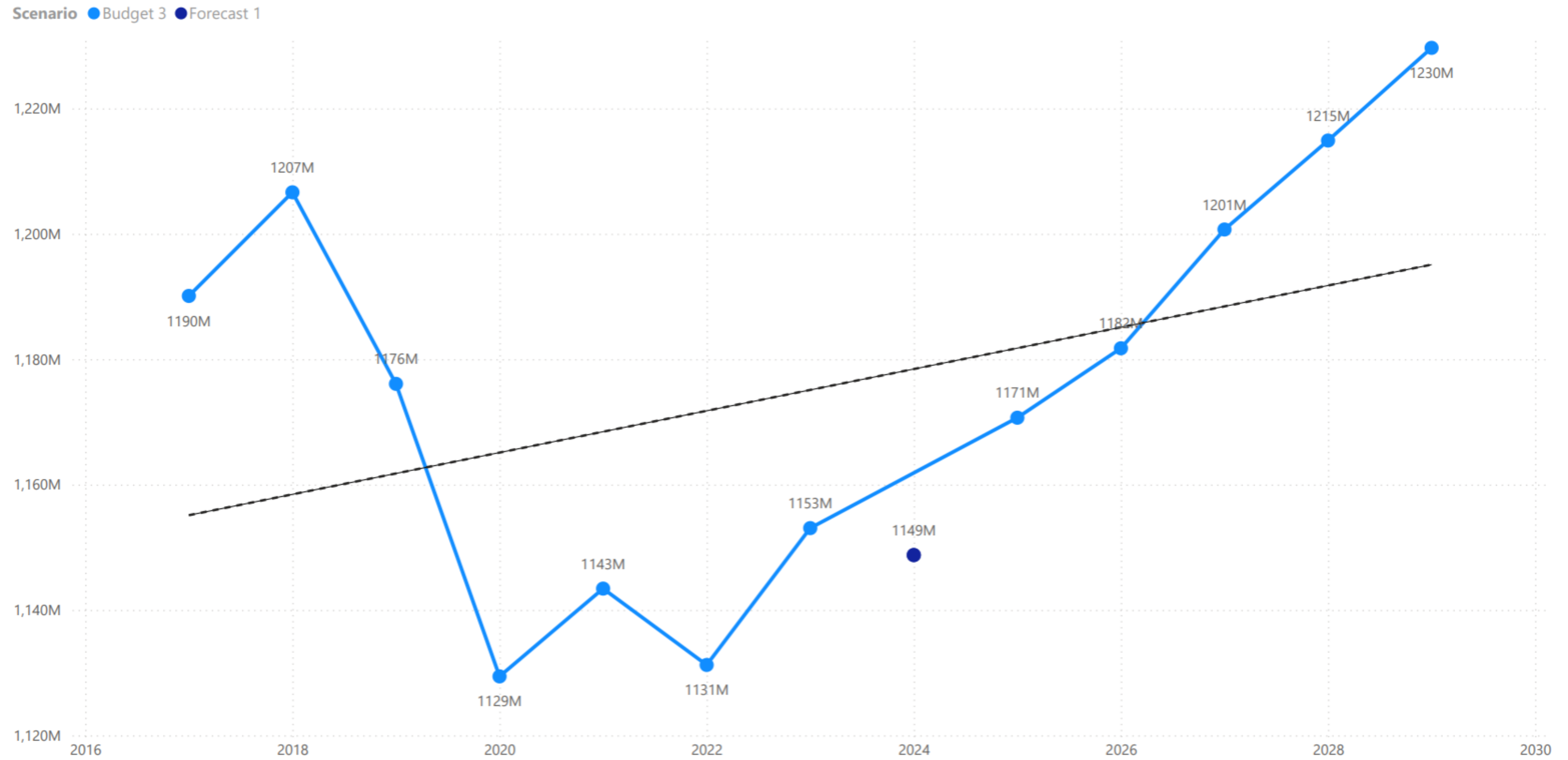
2019-2023 Actual, 2024-2029 Budget







# 2025 KWH SALES FORECAST



# Electric Utility Capital & Major Maintenance Changes

	<u>2025 Original</u>	<u>2025 Updated</u>	Over(Under)
• Total Rate Funded Capital Projects	\$ 15,662K	\$ 15,429K	(\$ 233K)
• Total Bonded Projects (2030 Plan)	\$ -	\$ 12,432K	\$ 12,432K
• Total Privately Funded Projects (CIAC)	\$ 2,852K	\$ 3,395K	543K
• Subscription Assets	\$ -	\$ 276K	\$ 276K
• Total Major Maintenance Projects	\$ 6,793K	\$ 6,474K	(\$ 319K)
• Operating Contingency	\$ 360K	\$ 360K	\$ -
• Capital Contingency	\$ 800K	\$ 800K	\$ -
– Cost Center			
– Your Departments			
– Other Departments			
– Contingency			
– Board Reserve Request			

*(CIAC – Contribution in Aid of Construction)*



# Budget Drivers – 2025

- Continued investment to:

Maintain reliability, improve service and safety, Serve City expansion and Customer growth.

- Staffing: 2 Incremental Positions, Buyer, HR Specialist, 2 Conversions of Contracted Work

- Major Maintenance Projects**

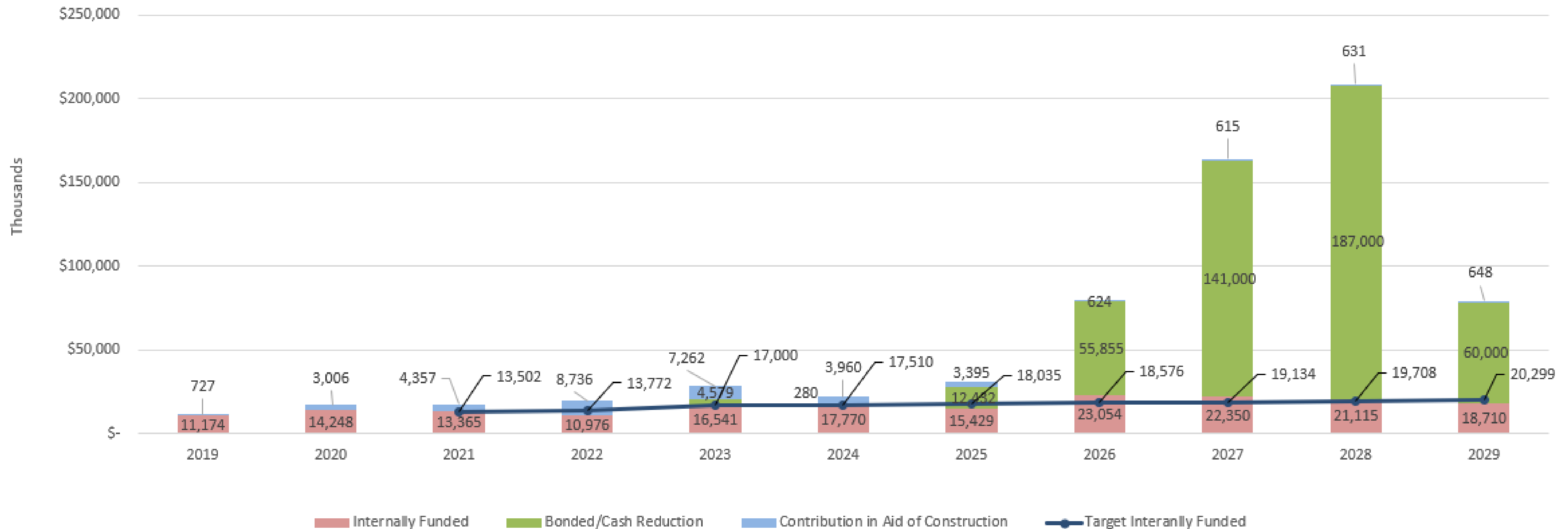
	<b>2025 Original</b>	<b>2025 Updated</b>
• Silver Lake Dam Relocation	\$ 1,240K	\$ 1,240K (Multi Year \$ 2,050K)
• AMI Operating Expense	\$ 368K	\$ - (Subscription Asset)
• Master Site Plan-Facilities	\$ 95K	\$ 150K
• Decommissioning SLP	\$ 400K	\$ 275K
• SAP/ERP/FERC Accounting	\$ -	\$ 150K (Pull forward 2026 Capital)
• Vena Support	\$ -	\$ 60K
• Data Analytics	\$ -	\$ 75K
• ImageNow Upgrade	\$ 45K	\$ - (Moved out to 2026)
• Customer Portal	\$ 100K	\$ - (Moved to Capital - Subscription)
• Service Assured Electric	\$ 20K	\$ 174K (Program expansion)
• Downtown Reconfiguration Study	\$ 40K	\$ 120K
• Operating Contingency Reserve	\$ 360K	\$ 360K





# Electric Utility Capital External Spending

Electric Utility Capital  
External Expenditures  
2019-2023 Actual; 2024-2029 Projected



# Budget Drivers – 2025

• Capital Expenditures	2025 Original	2025 Updated
• AMI Project	\$ 4,815K	\$ 4,815K
• 2024-2029	\$ 13,617K	\$ 18,375K (\$2.9M Contingency \$1.8M Subscr)
• Core Services	\$ 15,017K	\$ 15,175K
• Customer Portal Replacement	\$ -	\$ 100K
• AED Replacement	\$ -	\$ 50K
• Budget Software Subscription Asset	\$ -	\$ 344K (276K Non-Cash Subscription Asset)
• Community Room/Teams Room	\$ -	\$ 150K
• Allocations Technology	\$ 927K	\$ 806K
• Power Resources/Facilities	\$ 1,662K	\$ 1,027K
• Contingency – Bold Forward Unbound	\$ -	\$ 1,000K
 Major Projects – Bonded	 (2025-2028)	 (2025-2029)
• 2030 Power Resource Plan	\$ 212,145K	\$ 420,000K (Scenario 2 Ownership Vs PPA)
• Grid North Partners	\$ 23,567K	\$ 32,287K

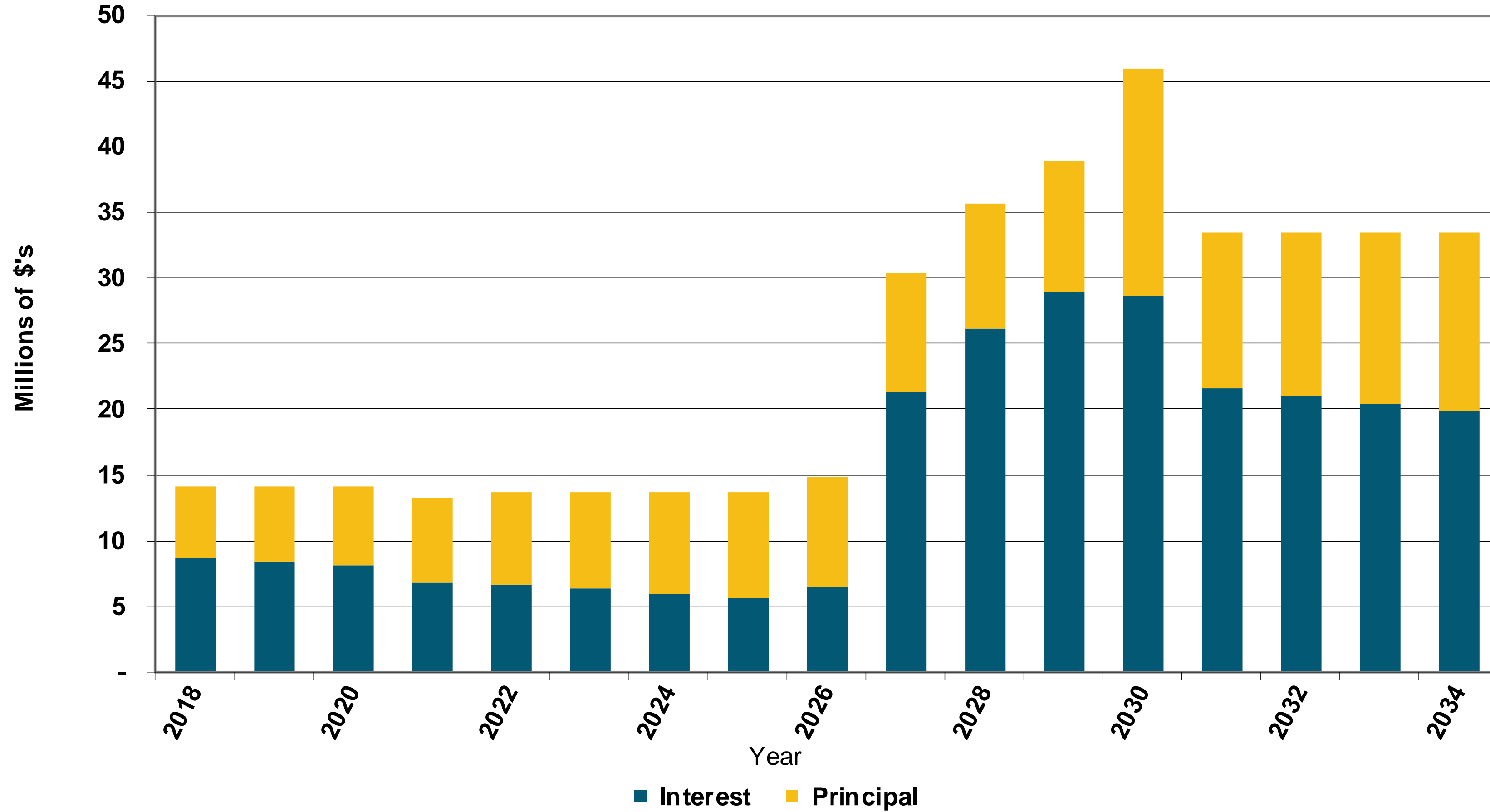






# Debt Service

2018-2023 Actual, 2024-2034 Budget/Forecast



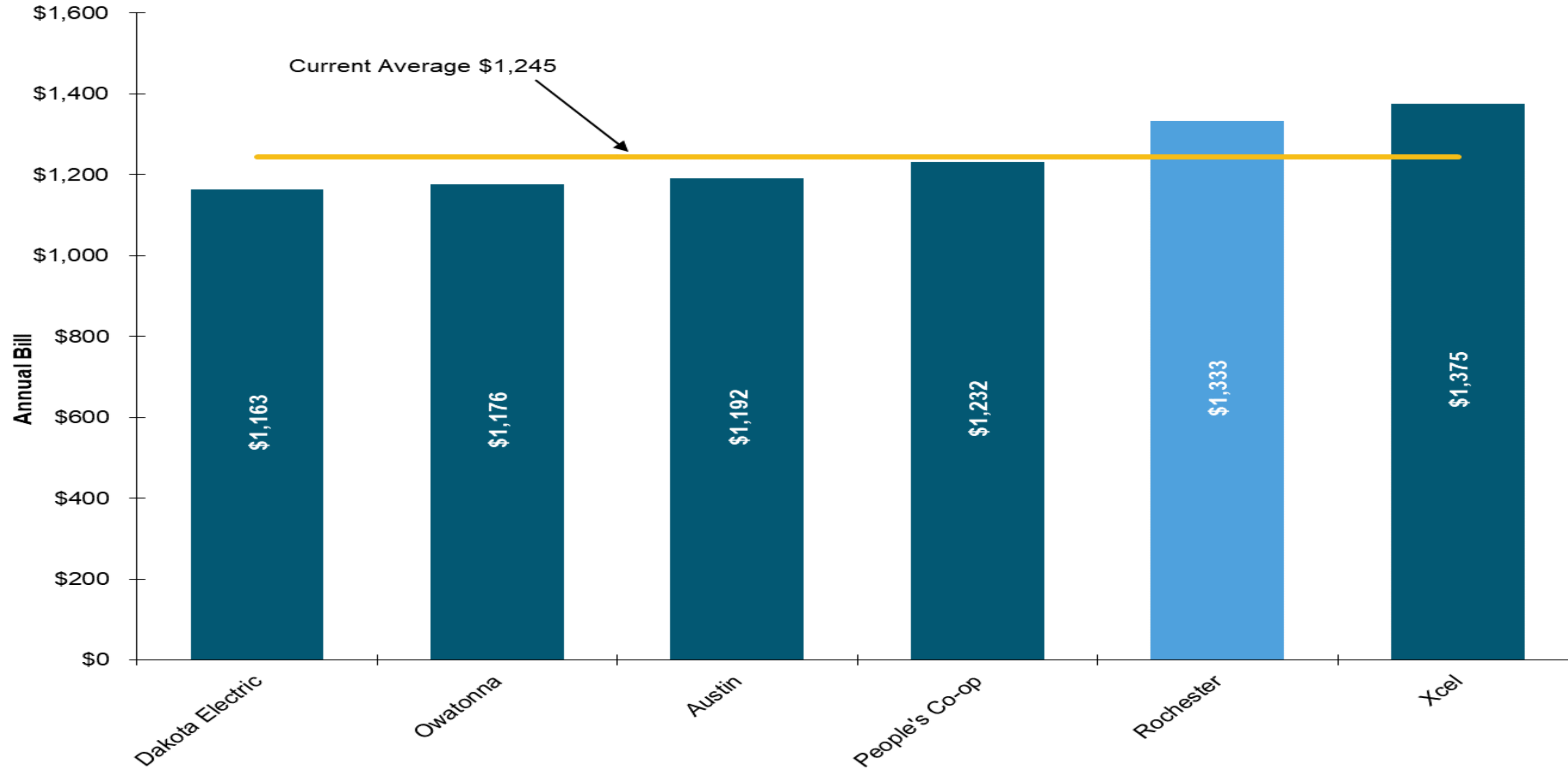
(in millions)

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Debt Issues	\$ -	\$ -	\$ -	\$ 16.7	\$ 301.2	\$ 73.8	\$ 66.1



# Residential Class Electric Rate Comparison

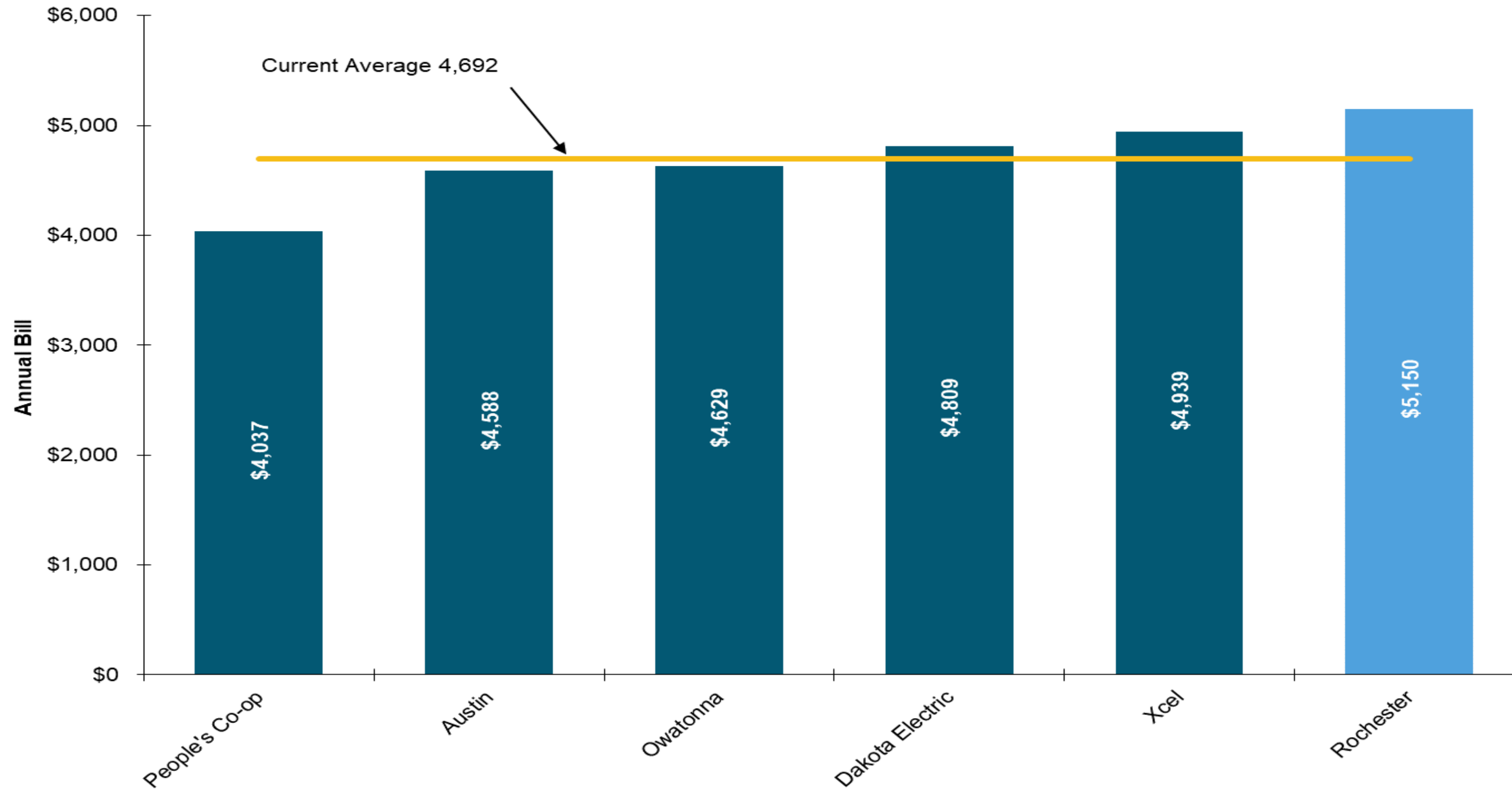
(Jan '23 through Dec '23)





# Commercial (SGS) Class Electric Rate Comparison

(Jan '23 through Dec '23)





## Electric Utility 2025 Operating Budget

FORECAST BY YEAR, 2024 THROUGH 2029  
(\$000'S)

Forecasted Rate Change	3.2%	4.0%	2.0%	2.0%	2.0%	2.0%
Plus: AMI Customer Charge	\$ 1.94	\$ -	\$ -	\$ -	\$ -	\$ -

	2024*	2025	2026	2027	2028	2029
1 Total Revenues	192,719	200,711	203,475	212,549	218,147	223,271
2 Total Cost of Revenue	103,395	106,041	95,853	92,564	93,362	94,191
3 Total Gross Margin	89,324	94,670	107,622	119,985	124,785	129,081
4 Total Operating Expenses	47,961	59,627	62,446	62,677	65,826	78,462
5 Net Operating Income	41,362	35,043	45,175	57,309	58,959	50,618

\* 2024 forecast contains 4 months actuals and  
8 months forecast



## Electric Utility 2025 Operating Budget

FORECAST BY YEAR, 2024 THROUGH 2029  
(\$000'S)

	3.2%	4.0%	2.0%	2.0%	2.0%	2.0%
Forecasted Rate Change						
Plus: AMI Customer Charge	\$ 1.94	\$ -	\$ -	\$ -	\$ -	\$ -
	2024*	2025	2026	2027	2028	2029
9 Total Financing & Non-Operating Items	(1,118)	(1,629)	(3,262)	(13,067)	(19,950)	(24,608)
10 Income Before Transfers/Capital Contributions	40,244	33,415	41,914	44,241	39,009	26,010
11 Transfers (In Lieu of Tax Payments)	(10,963)	(11,337)	(11,401)	(11,540)	(11,632)	(11,729)
12 Capital Contributions	21,032	3,395	624	615	631	648
13 Change in Net Assets	50,314	25,473	31,138	33,316	28,008	14,929
14 Change in Net Assets (Excl Capital Contrib)	29,282	22,078	30,513	32,701	27,377	14,281
15 Target Change in Net Assets	19,643	21,577	24,650	16,909	32,829	23,269
16 Excess (Deficit) from Target	9,639	501	5,864	15,792	(5,452)	(8,988)

\* 2024 forecast contains 4 months actuals and 8 months forecast





## Electric Utility 2025 Operating Budget

FORECAST BY YEAR, 2024 THROUGH 2029  
(\$000'S)

	2024*	2025	2026	2027	2028	2029
Forecasted Rate Change	3.2%	4.0%	2.0%	2.0%	2.0%	2.0%
Plus: AMI Customer Charge	\$ 1.94	\$ -	\$ -	\$ -	\$ -	\$ -
17 01/01 Cash Balance	117,149	110,413	105,284	73,393	81,386	86,538
18 Cash from Operations	65,890	43,877	48,418	51,072	46,743	39,232
19 Capital Additions/Services Territory Comp	(66,463)	(40,620)	(91,676)	(175,467)	(219,355)	(86,610)
20 Bond Principal Payments	(7,730)	(8,005)	(8,305)	(9,170)	(9,552)	(9,951)
21 Bond Sale Proceeds	-	-	16,700	301,200	73,800	66,100
22 Net Change in Other Assets/Liabilities	1,566	(381)	2,972	(159,643)	113,517	12,138
23 Net Changes in Cash	(6,736)	(5,129)	(31,891)	7,992	5,153	20,908
24 12/31 Cash Balance	110,413	105,284	73,393	81,386	86,538	107,447
25 Minimum Cash Reserve	62,629	66,647	64,781	56,763	58,150	59,373
26 Excess (Deficit) from Minimum Cash Reserve	47,784	38,637	8,612	24,623	28,389	48,074
27 Cash Balance as % of Reserve Policy	176.3%	158.0%	113.3%	143.4%	148.8%	181.0%
28 Debt Service Coverage Ratio	4.43	4.12	4.37	2.72	2.35	2.04

\* 2024 forecast contains 4 months actuals and 8 months forecast

# Recommendations

- Electric Utility 2025 Recommendation
  - No change to currently approved general rate increase
  - 4.0 percent general rate increase
  - Cost impact to the average customer is \$4.30/mo
- Water Utility 2025 Recommendation
  - No change to the currently approved general rate increase
  - 5.5 percent general rate increase plus \$1.32 customer charge increase for AMI
  - Cost impact to the average customer is \$1.67/mo





**Questions on Electric Utility?**

# Next Steps

- August 26, 2024 City Council: Recommended Budget Review Study Session
- August 27, 2024 RPU Board Meeting: Public Comment
- September 24, 2024 RPU Board Meeting: Public Comment  
Public Notice of Proposed 2025 Rate Changes
- October 29, 2024 RPU Board Meeting: Public Comment  
Request Approval of Budgets and Rate Proposal
- December 2, 2024 City Council:  
Request Approval of Budgets and Rate Recommendation

