



Rochester Public Utilities

2024 - 2025 Budget Review

August 8, 2023

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**
- 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**
- Help Businesses Prosper – **Economic Vibrancy and Growth**
- 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 City Services** (People & Systems)

Water Utility Budget 2024 - 2028





Rochester Public Utilities - Water Utility – 2024-2025 Operating Budget

ASSUMPTIONS			
		2024	2025
1	• Interest Earnings Rate:	3.00%	3.00%
2	• Average Salary Expense Change: (consists of COLA, merit and promotion increases)	2.60%	5.00%
3	• Change in Full-time Equivalents:	None	None
4	• Minimum Cash Reserve Requirement:	\$8,970,600	\$8,767,100
	• Payment in Lieu of Tax (PILOT):	\$486,800	\$512,349
	• Projected Consumer Price Index (CPI)	6.0%	4.0%
5			
6	• Proposed General Rate Increase:	5.50%	5.50%
	• Proposed AMI Customer Charge:	\$1.32	\$1.32
8	• Water CCF Sales Forecast:	3.2% Increase from 2023 F2	1.3% Increase from 2024
9			
10	• Total Water Utility Service Points:	0.8% Increase over Y/E 2023	0.8% Increase over Y/E 2024
11	• Average Consumption:	Based on 30 Year Average heating/cooling degree days & rainfall per year	
12	• Average Summer Rainfall:	27.8 Inches	27.8 Inches

Business Drivers

- Water main replacement Plan / Aging Infrastructure
- Marion Rd Duct project
- Advanced Metering Infrastructure (AMI)
- Water conservation programs, education
- Weather – Rain Fall, Cooling Degree Days
- City related City projects impact – Timing, Funding, Contribution in Aid

Business Risks

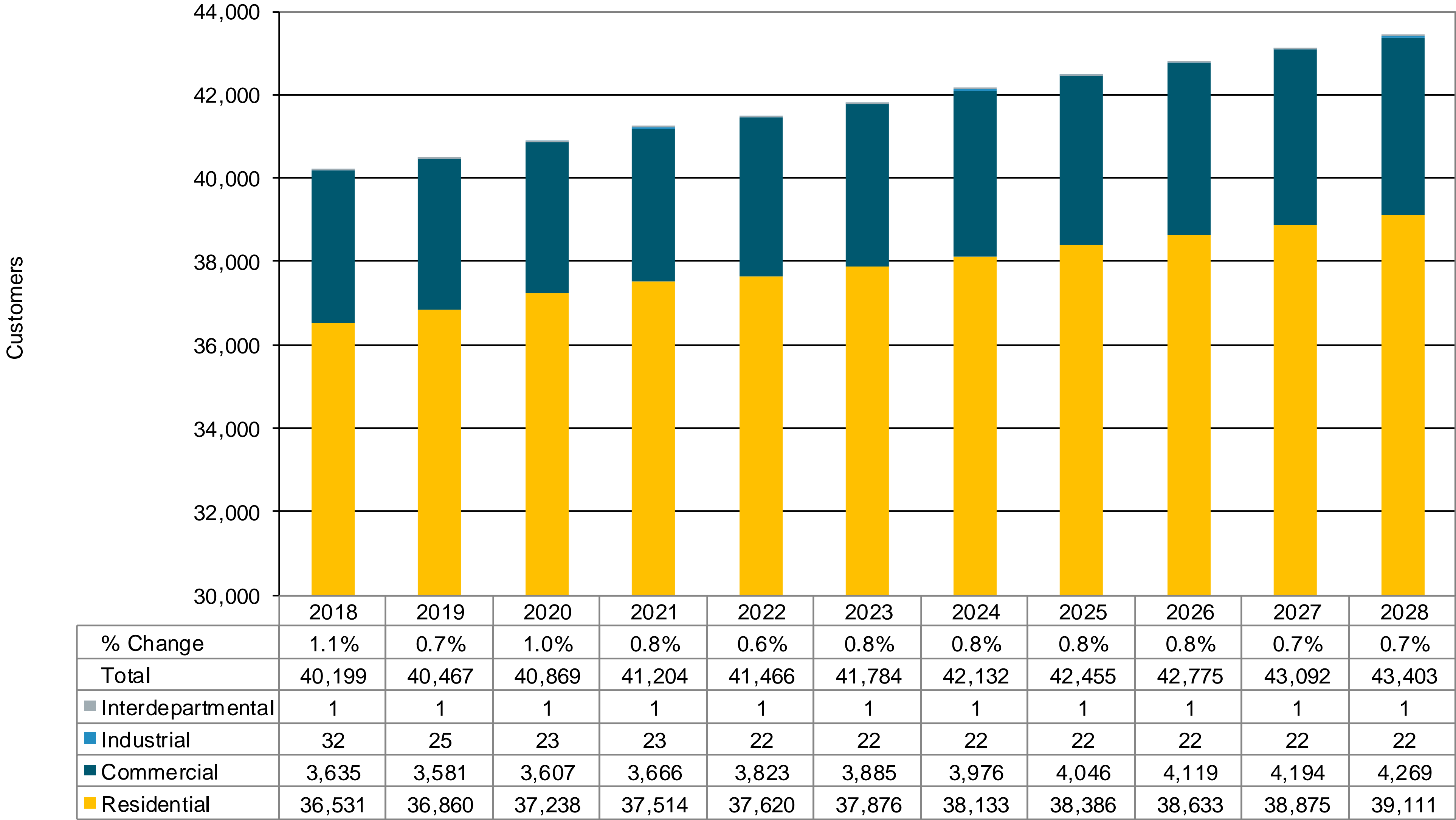
- Ground water supply dependent – Continued monitoring
- Incremental regulation – water testing, backflow monitoring, DNR Permitting
- Cell Tower rental revenue
- Technology – Advanced Meter Infrastructure, Technology Change, Cyber Security





Water Utility Number of Customers

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

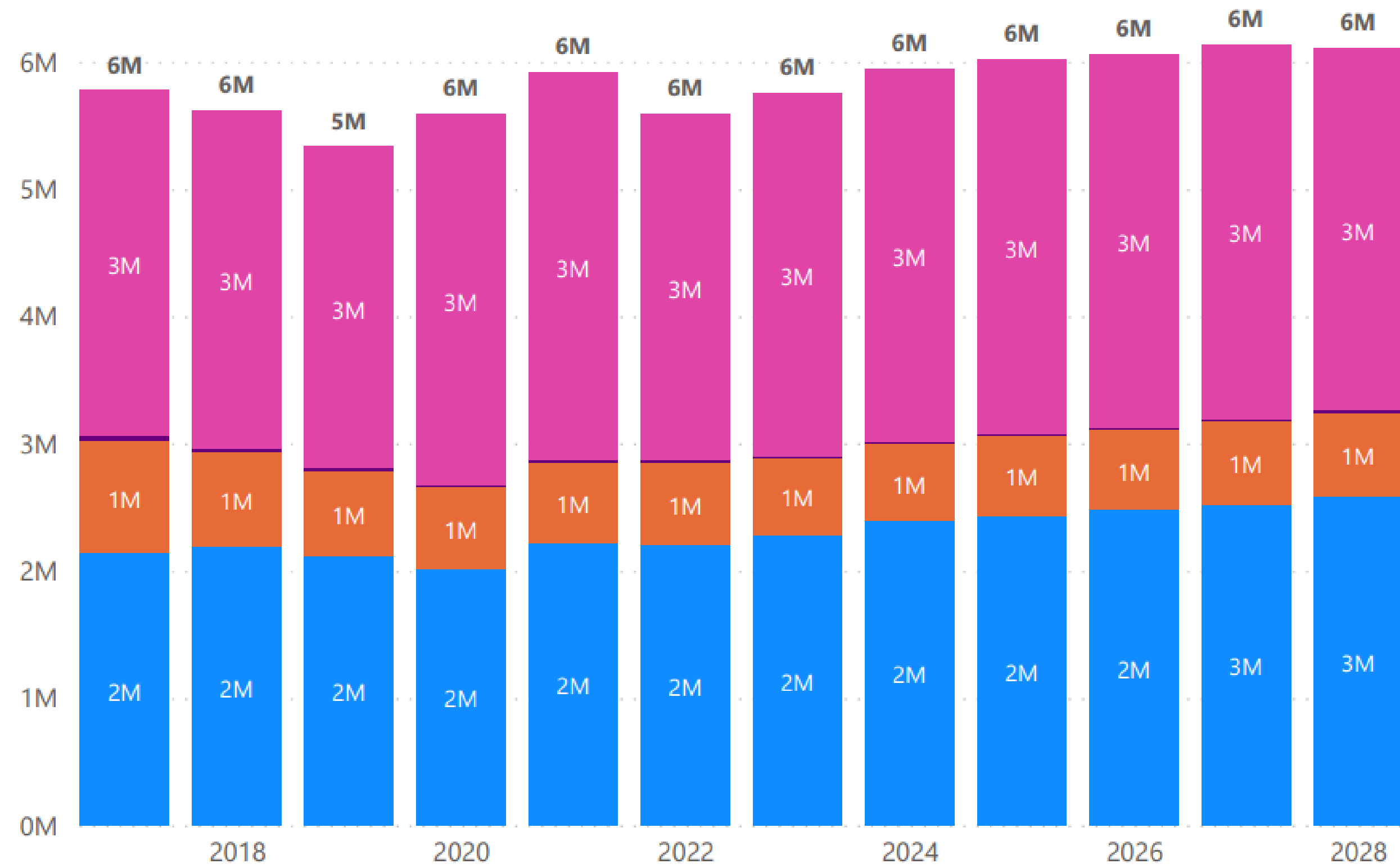




2024 Budget Forecast - Water

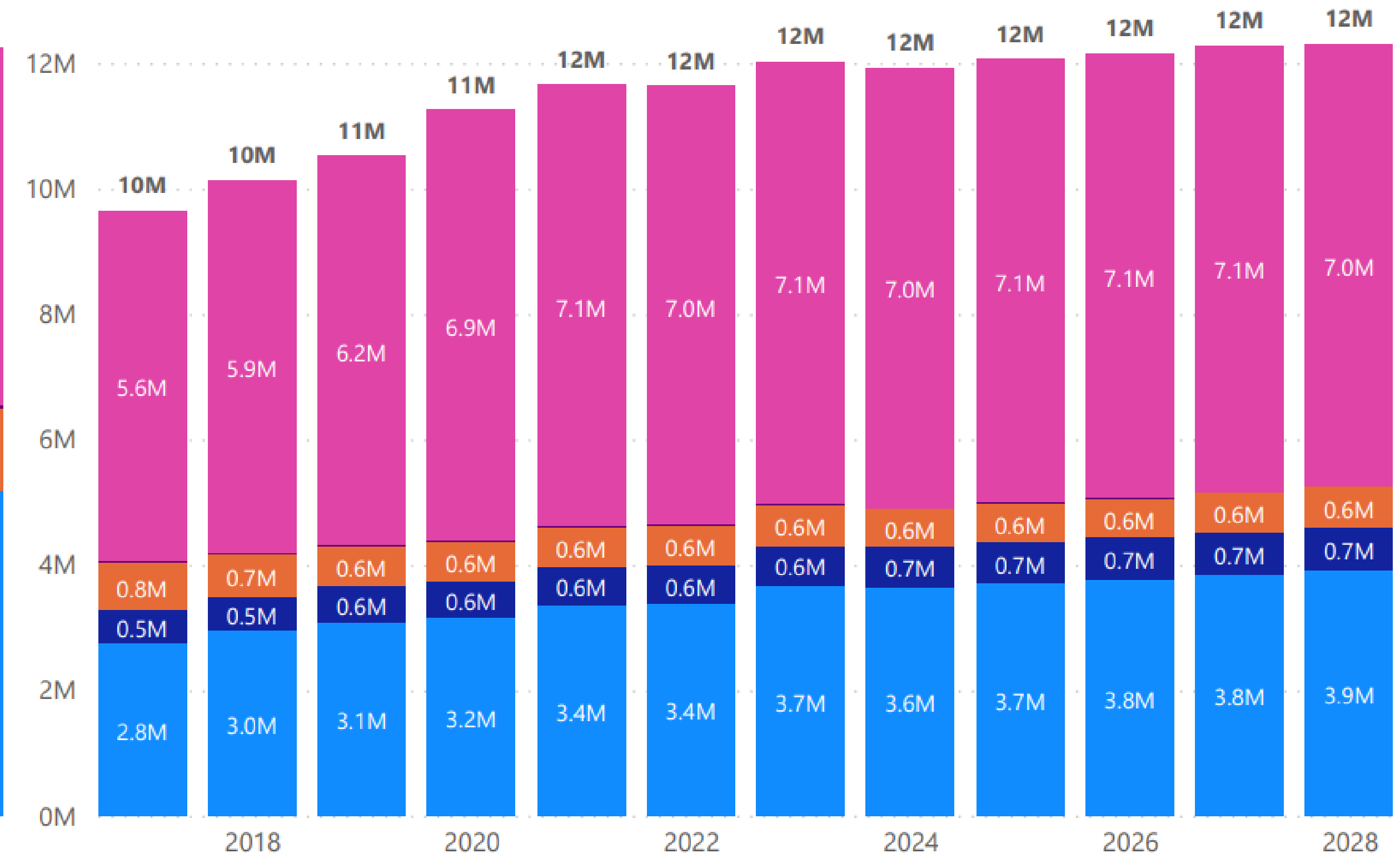
Total CCF

Class Commercial Industrial Inter - Dept Residential



Revenue (\$)

Class Commercial Hydrant Industrial Inter - Dept Residential



Budget Drivers – 2024-2025

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

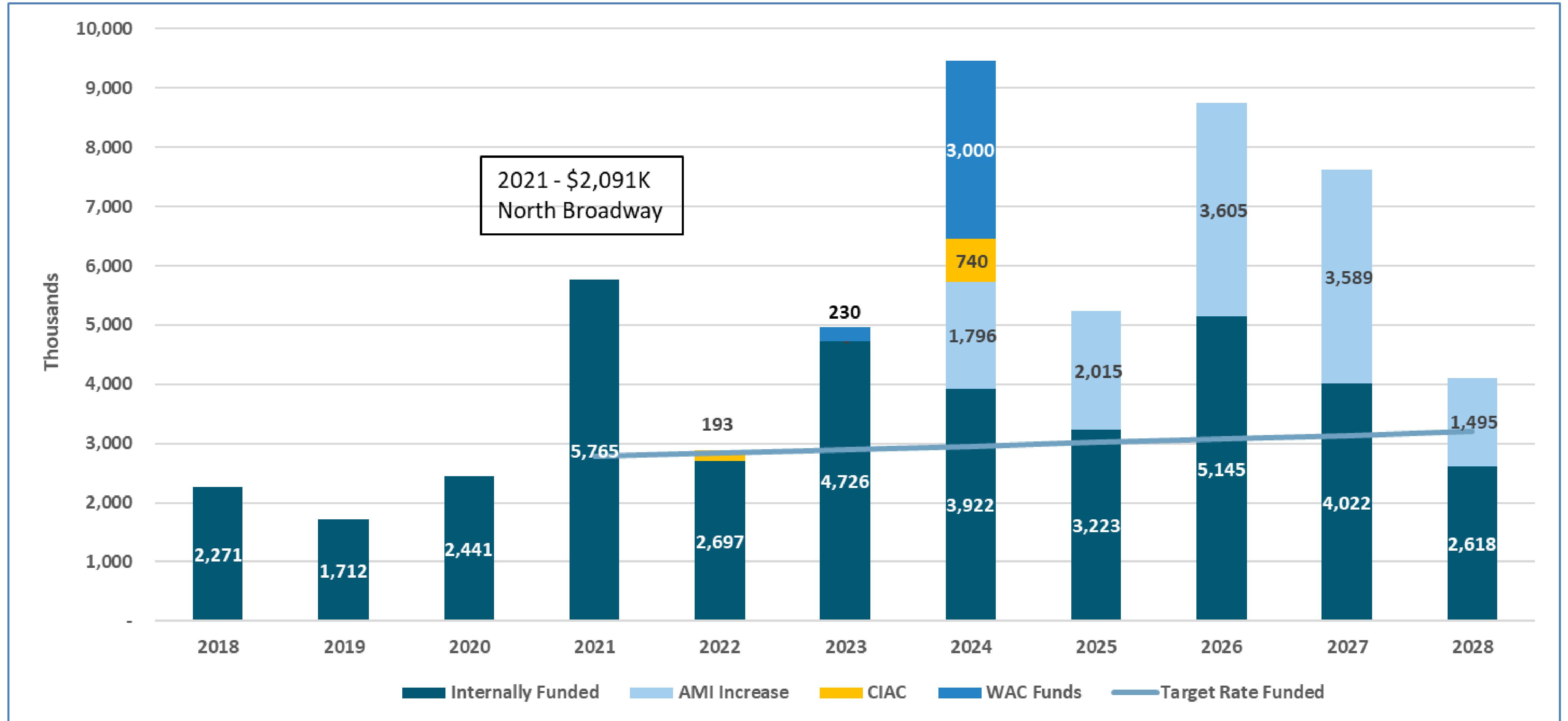
• Capital Expenditures	2024	2025
• Water Metering - AMI	\$ 2,093K	\$ 2,349K (2024-2028: \$14,570K)
• 1.0MG Baihly High Level Tower	\$ 3,000K	\$ - (WAC Funded)
• Distribution System (Excluding AMI)	\$ 234K	\$ 304K
• City Road Project - DMC Area	\$ 1,090K	\$ 740K
• City Road Projects	\$ 2,245K	\$ 445K (2024: CIAC \$740K)
• Developer Projects	\$ 150K	\$ 150K
• RPU Projects	\$ -	\$ 400K
• Capital Contingency	\$ 180K	\$ 180K
• Major Maintenance		
• Water Metering – AMI	\$ 261K	\$ 261K
• Water Storage Facility Painting	\$ 175K	\$ 375K
• Service Assured	\$ 261K	\$ 261K
• Operating Contingency	\$ 90K	\$ 90K





Water Utility Capital External Spending

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



Water Utility

Capital & Major Maintenance Reductions

• Capital Changes:	2024	2025
Allocation reductions - RPU Projects	(\$ 613,000)	(\$ 400,000)
City Projects - DMC Area	(\$ 440,000)	\$ 190,000
Center St to 11 th Ave NE	\$ -	(\$ 690,000)
• Maintained Capital Contingency	\$ 180,000	\$ 180,000
– Cost Center		
– Your Departments		
– Other Departments		
– Contingency		
– Board Reserve Request		





Water Utility - Capital Budget Adjustments

Description		2023	2024	2025	2026	2027	2028
Internally Funded Capital Requests		4,726,251	4,975,104	4,123,271	5,455,358	3,771,624	3,617,880
	DMC - 6th Street SE Bridge			(250,000)	250,000		
	DMC - Rapid Transit 2nd St SW		(440,000)	440,000	-		
	Center St to 11th Ave NE			(690,000)	690,000		
	South Broadway 4th St to 9th St				(750,000)	750,000	
	Allocation - T&D City Projects						(500,000)
	Allocation - T&D RPU Projects		(613,000)	(400,000)	(500,000)	(500,000)	(500,000)
Total Adjustments		-	(1,053,000)	(900,000)	(310,000)	250,000	(1,000,000)
Internally Funded Capital Expenditures		4,726,251	3,922,104	3,223,271	5,145,358	4,021,624	2,617,880
	Target Capital Expenditures	2,896,046	2,953,967	3,013,046	3,073,307	3,134,773	3,197,468
	Over (Under)	1,830,205	968,137	210,225	2,072,051	886,851	(579,588)



Water Utility 2024-2025 Operating Budget

FORECAST BY YEAR, 2023 THROUGH 2028
(\$000'S)

Forecasted Rate Change
Plus: AMI Customer Charge

5.0%	5.5%	5.5%	9.0%	7.0%	7.0%
\$ -	\$ 1.32	\$ 1.32	\$ -	\$ -	\$ -

	2023*	2024	2025	2026	2027	2028
1 Total Revenues	13,496,565	14,656,425	16,220,469	17,697,394	19,155,654	20,567,426
2 Total Cost of Revenue	2,129,749	2,182,137	2,176,157	2,193,632	2,213,650	2,230,364
3 Total Gross Margin	11,366,816	12,474,288	14,044,312	15,503,762	16,942,004	18,337,062
4 Less: Total Operating Expenses	10,168,916	10,664,631	11,299,218	11,765,917	12,922,880	13,447,970
5 Net Operating Income (Loss)	1,197,900	1,809,657	2,745,094	3,737,846	4,019,124	4,889,092

* 2023 forecast contains 4 months actuals and
8 months forecast



Water Utility 2024-2025 Operating Budget

FORECAST BY YEAR, 2023 THROUGH 2028
(\$000'S)

Forecasted Rate Change	5.0%	5.5%	5.5%	9.0%	7.0%	7.0%
Plus: AMI Customer Charge	\$ -	\$ 1.32	\$ 1.32	\$ -	\$ -	\$ -
	2023*	2024	2025	2026	2027	2028
6 Total Financing & Non-Operating Items	702,153	798,656	770,264	729,316	678,918	723,000
7 Income Before Transfers or Cap Contributions	1,900,053	2,608,313	3,515,358	4,467,161	4,698,042	5,612,092
8 Transfers (In Lieu of Taxes)	(453,952)	(486,869)	(512,349)	(530,937)	(553,249)	(568,813)
9 Capital Contributions	1,100,000	1,840,000	1,100,000	1,100,000	1,100,000	1,100,000
10 Cash Transfers from City/Intercompany	230,000	3,000,000	-	-	-	-
11 Change in Net Assets	2,776,101	6,961,444	4,103,008	5,036,224	5,244,793	6,143,279
12 Change in Net Assets (Excl Contrib & Tfrs)	1,446,101	2,121,444	3,003,008	3,936,224	4,144,793	5,043,279
13 Target Change in Net Assets	5,430,993	5,731,696	5,902,594	6,183,275	6,428,098	6,561,928
14 Excess (Deficit) from Target	(3,984,892)	(3,610,252)	(2,899,586)	(2,247,051)	(2,283,305)	(1,518,649)

* 2023 forecast contains 4 months actuals and
8 months forecast



Water Utility 2024-2025 Operating Budget

FORECAST BY YEAR, 2023 THROUGH 2028
(\$000'S)

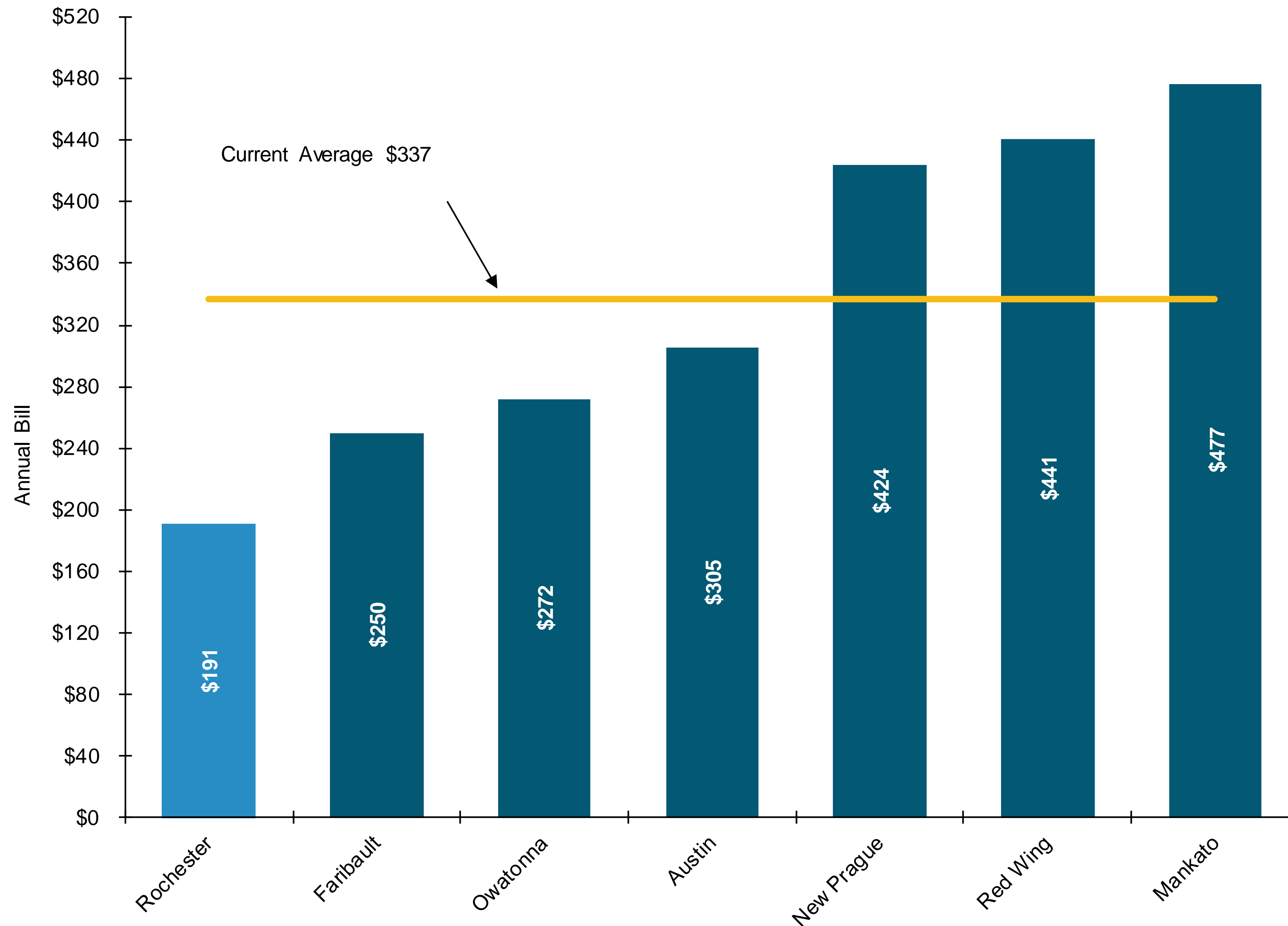
Forecasted Rate Change		5.0%	5.5%	5.5%	9.0%	7.0%	7.0%
Plus: AMI Customer Charge		\$ -	\$ 1.32	\$ 1.32	\$ -	\$ -	\$ -
		2023*	2024	2025	2026	2027	2028
15	01/01 Cash Balance	14,147,248	13,193,597	12,157,599	12,659,192	10,875,969	10,844,934
16	Cash From Operations	5,796,063	10,194,444	7,524,008	8,758,224	9,329,793	10,476,279
17	Capital Additions	(5,275,342)	(9,700,074)	(5,512,850)	(9,054,219)	(7,897,539)	(4,317,092)
18	Debt Principal Payments	(0)	-	-	-	-	-
19	Debt Proceeds	(0)	-	-	-	-	-
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	(374,372)	(430,368)	(409,566)	(387,228)	(363,288)	(337,674)
26	Net Changes in Cash	(953,651)	(1,035,998)	501,593	(1,783,223)	(31,035)	4,721,513
27	12/31 Cash Balance	13,193,597	12,157,599	12,659,192	10,875,969	10,844,934	15,566,447
28	Minimum Cash Reserve	7,367,400	8,970,600	8,767,100	7,878,400	7,300,200	7,335,200
29	Excess (Deficit) from Minimum Cash Reserve	5,826,197	3,186,999	3,892,092	2,997,569	3,544,734	8,231,247

* 2023 forecast contains 4 months actuals and
8 months forecast



Residential Class Water Rate Comparison

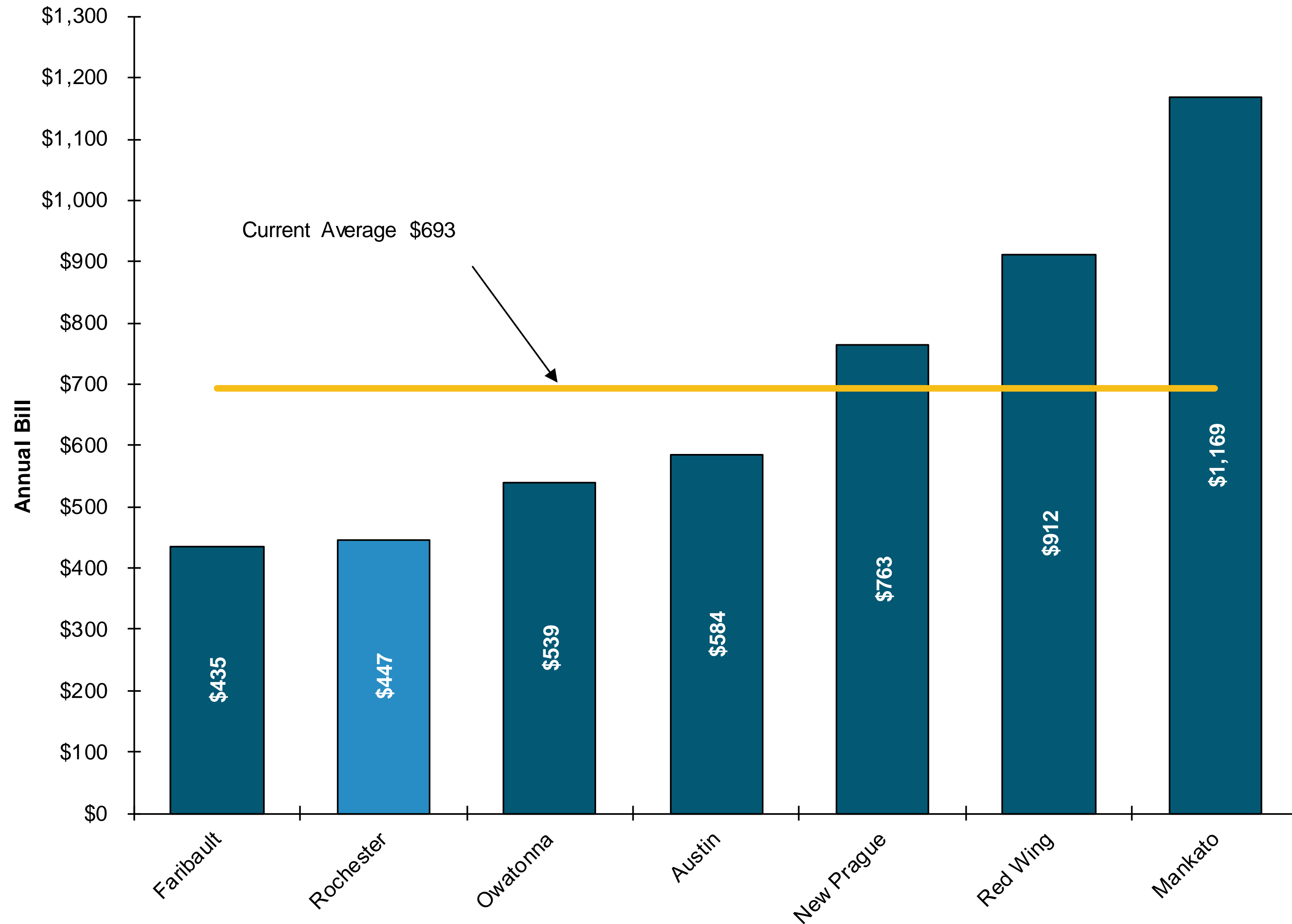
(Jan '22 through Dec '22)





Commercial Class Water Rate Comparison

(Jan '22 through Dec '22)



Water Utility Recommendation

- 2024 Recommendation
 - 5.5 percent general rate increase plus \$1.32 customer charge increase for AMI

Cost impact to the average residential customer is \$1.65/mo
- 2025 Recommendation
 - 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 2024 - 2028





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

ASSUMPTIONS		
	2024	2025
• Interest Earnings Rate:	3.00%	3.00%
• Average Salary Expense Change: (Consists of COLA, merit and promotion increases)	2.80%	5.5%
• Anticipated bonding:	None	None
• Change in Full-time Equivalents:	2 incremental	2 incremental
	2 replacements of contract work	None
	4 incremental due to AMI	None
• SMMPA Wholesale Power Cost:	0.0% increase	0.0% increase
• SMMPA CROD Level:	216 MW	216 MW
• Minimum Cash Reserve Requirement:	\$62,628,938	\$64,057,738
• Payment in Lieu of Tax:	\$10,758,822	\$11,338,353
• Projected Consumer Price Index (CPI):	6.0%	4.0%
• Proposed General Rate Increase:	3.20%	4.00%
• Proposed AMI Customer Charge:	\$1.94	
• Electric KWH Sales Forecast:	4.0% Increase from 2023 F2 Projected Sales	1.3% Increase from 2024
• Total Electric Utility Service Points:	2.2% Increase over Y/E 2023 F2	1.8% Increase over Y/E 2024
• Average Consumption:	Based on 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

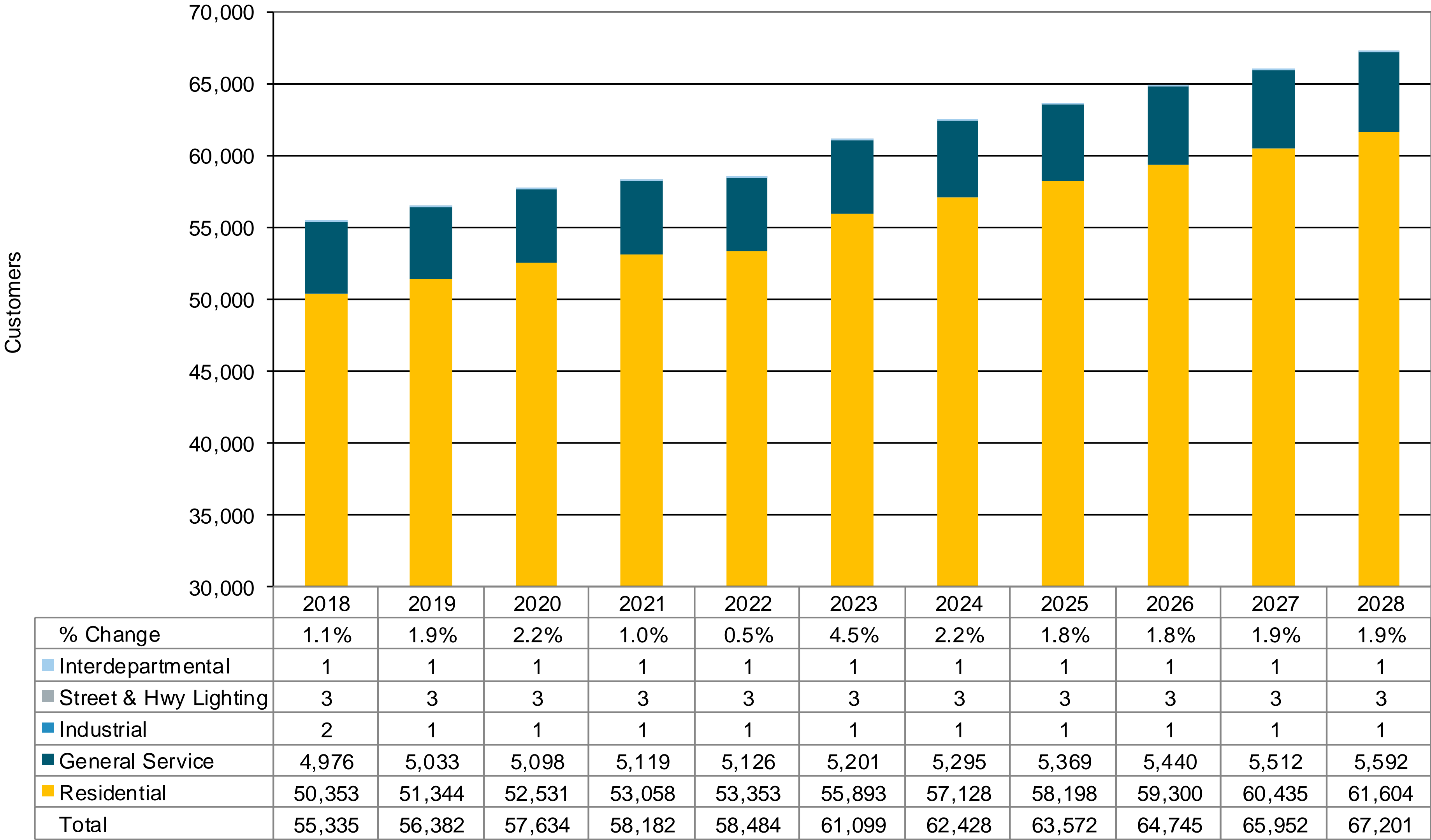
- Compliance: Cyber Security / FERC requirements / Conservation (MN Eco Act)
- Regulatory Impact: Air & Water quality, Transmission
- Impact of local business decisions, economy, Work-from-home & DMC
- Concentration of Customers/Revenue – 2/3 Revenue is Commercial
- Technology – Advanced Metering (AMI),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





Electric Utility Number of Customers

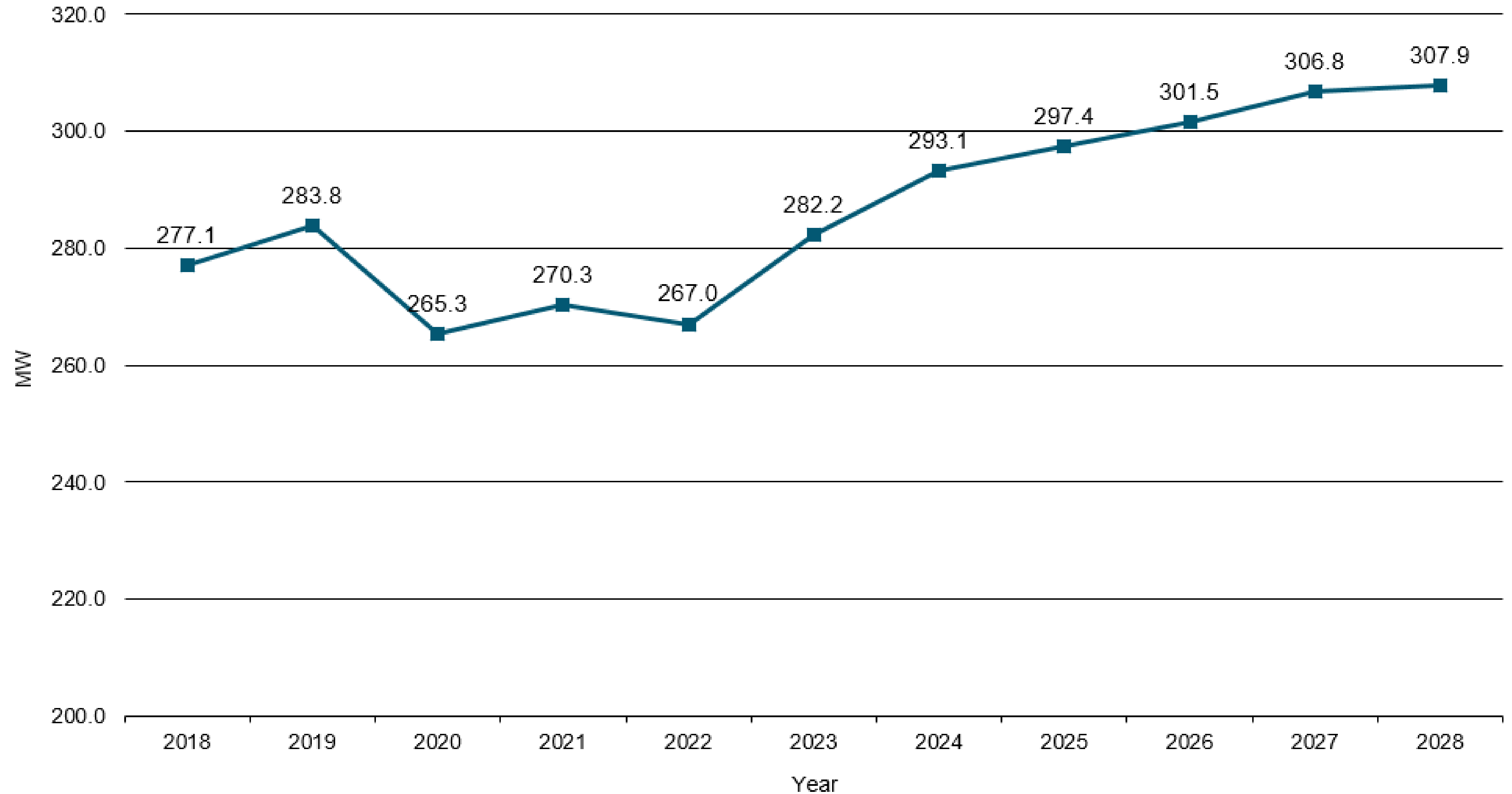
2018-2022 Actual, 2023 Forecast, 2024-2028 Budget





Annual MW Peak

2018-2022 Actual, 2023-2028 Budget



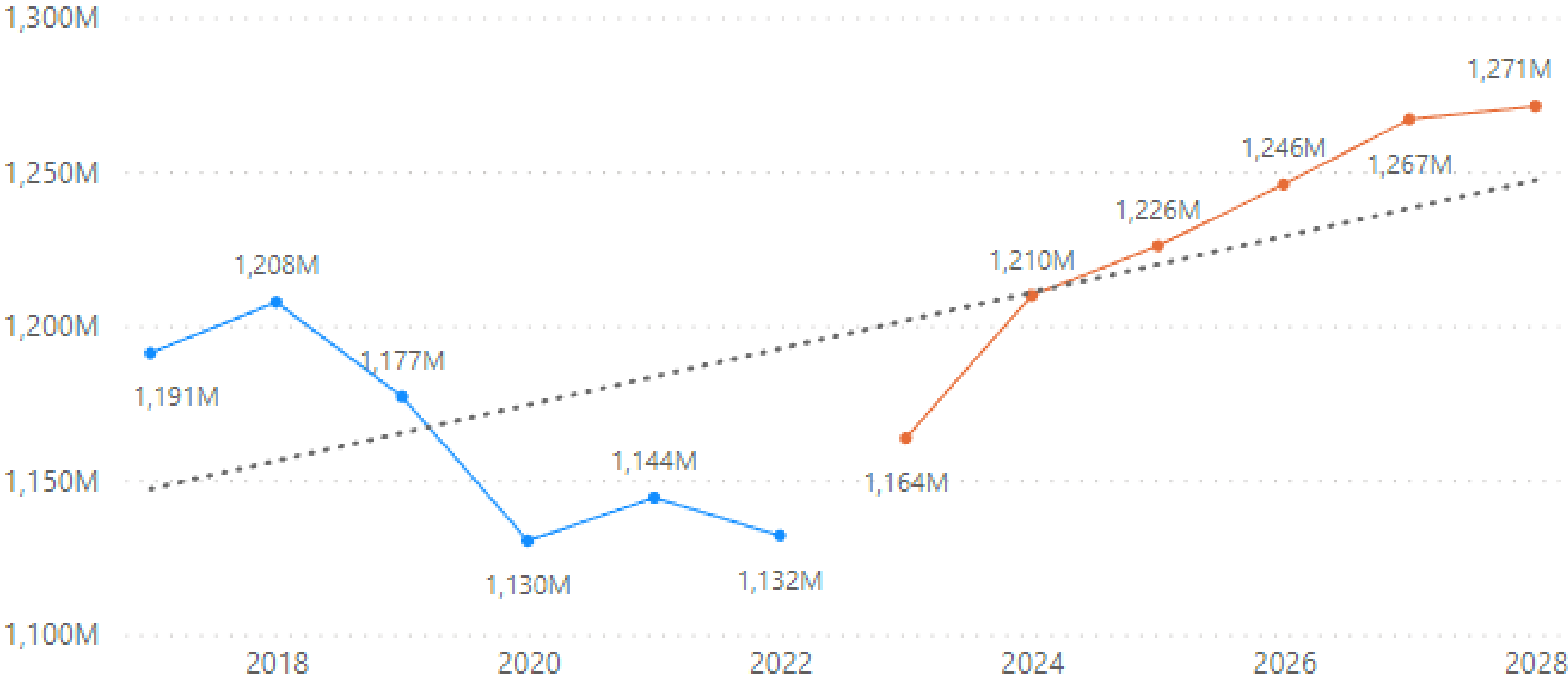


2024 KWH SALES FORECAST

Total KWH



Type ● Actual ● Forecast



Budget Drivers – 2024-2025

- Continued investment to:
 - Maintain reliability, improve service and safety,
 - Serve City expansion and Customer growth.
- Staffing: 2 Incremental Positions, Tech Services Technician, NERC Program Coordinator
2 Conversions of Contracted Work
- Staffing: AMI Project 4 Incremental Positions; 2 Limited Term during implementation (5yrs)

Major Maintenance:	2024	2025
• Silver Lake Dam Relocation	\$ 50K	\$ 1,240K (2024-2026 \$ 2,050K)
• Tree Trimming	\$ 1,700K	\$ 1,700K
• AMI Operating Expense	\$ 368K	\$ 368K
• Power Resources	\$ 650K	\$ 430K
• Operating Contingency Reserve	\$ 360K	\$ 360K



Budget Drivers – 2024-2025

• Capital Expenditures	2024	2025
• AMI Project	\$ 3,918K	\$ 4,815K (2024-2028 \$13,617K)
• Distribution System	\$ 2,464K	\$ 2,611K
• System Growth (Less: CIAC)	\$ 3,810K	\$ 3,390K
• New Services	\$ 1,227K	\$ 1,256K
• IT Core Switch Replacement	\$ 1,400K	\$ -
• Power Resources/Facilities	\$ 963K	\$ 656K
• Fleet	\$ 865K	\$ 1,006K
• Project Contingency Reserve	\$ 800K	\$ 800K
• Total CIAC	(\$ 4,832K)	(\$2,852K)

Major Projects

• 2030 Power Resource Plan(Bonded)	\$ 212,145K (2026-2028)
• Grid North Partners(Bonded)	\$ 23,567K (2026-2028)
• Down Town Duct System	\$ 6,550K (2026-2028)

(CIAC – Contribution in Aid of Construction)



Electric Utility Capital & Major Maintenance

	<u>2024</u>	<u>2025</u>
• Reduced Capital	\$ 911,342	\$ 1,148,536
• Reduced Major Maintenance	\$ 370,000	\$ 110,000
• Reduced Cost Centers	\$ 632,353	\$ 181,320
• Maintained Capital Contingency	\$ 800,000	\$ 800,000
– Cost Center		
– Your Departments		
– Other Departments		
– Contingency		
– Board Reserve Request		





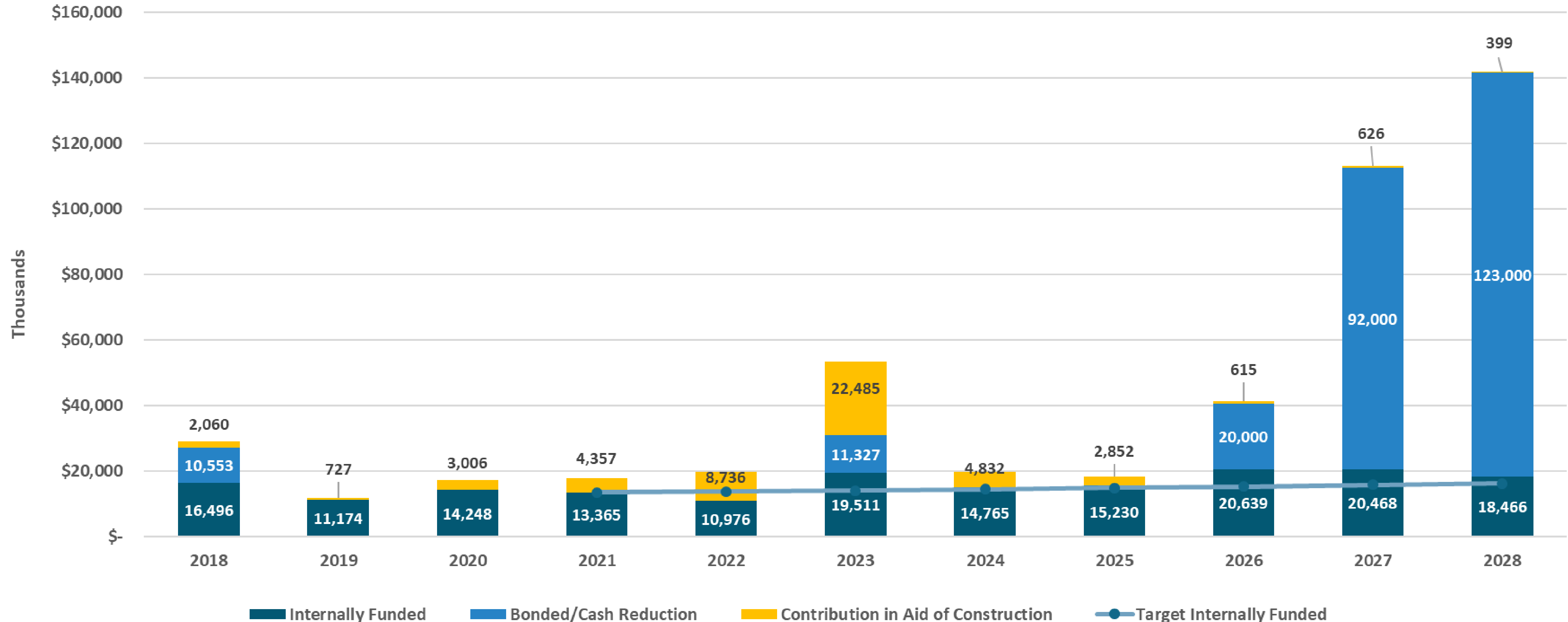
Electric Utility - Capital Budget Adjustments

Description		2023	2024	2025	2026	2027	2028
Internally Funded Capital Requests		19,510,942	15,675,950	16,378,213	23,896,260	19,528,992	19,519,089
	Work Management			(500,000)			
	Allocation - Electric Metering		(150,000)				
	Feeder 1315				(600,000)	600,000	
	Downtown Duct system				(750,000)		
	Substation Capacitor Bank - BV				(365,000)	185,000	
	Fiber-Marion to Cty PW/St Bridget Twr to WC			(230,000)		160,000	
	Feeder Ext 60th Ave Sof 50th St NW		(145,000)	145,000			
	Core Services Allocations		(336,342)	(378,536)	(692,441)	(756,329)	(1,002,904)
	GIS Utility Network Implementation		(270,000)				
	Responder Grid Ops Implementation				(800,000)	800,000	
	Change Management Tool		(25,000)				
	Allocations - Information Technology		(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
	Morton Building Concrete			(135,000)			
	Fleet Van		65,000				
Total Adjustments		-	(911,342)	(1,148,536)	(3,257,441)	938,671	(1,052,904)
Internally Funded Capital Expenditures		19,510,942	14,764,608	15,229,677	20,638,819	20,467,663	18,466,185
	Target Capital Expenditures	14,047,871	14,469,307	14,903,386	15,350,488	15,811,003	16,285,333
	Over (Under)	5,463,071	295,301	326,291	5,288,331	4,656,660	2,180,852



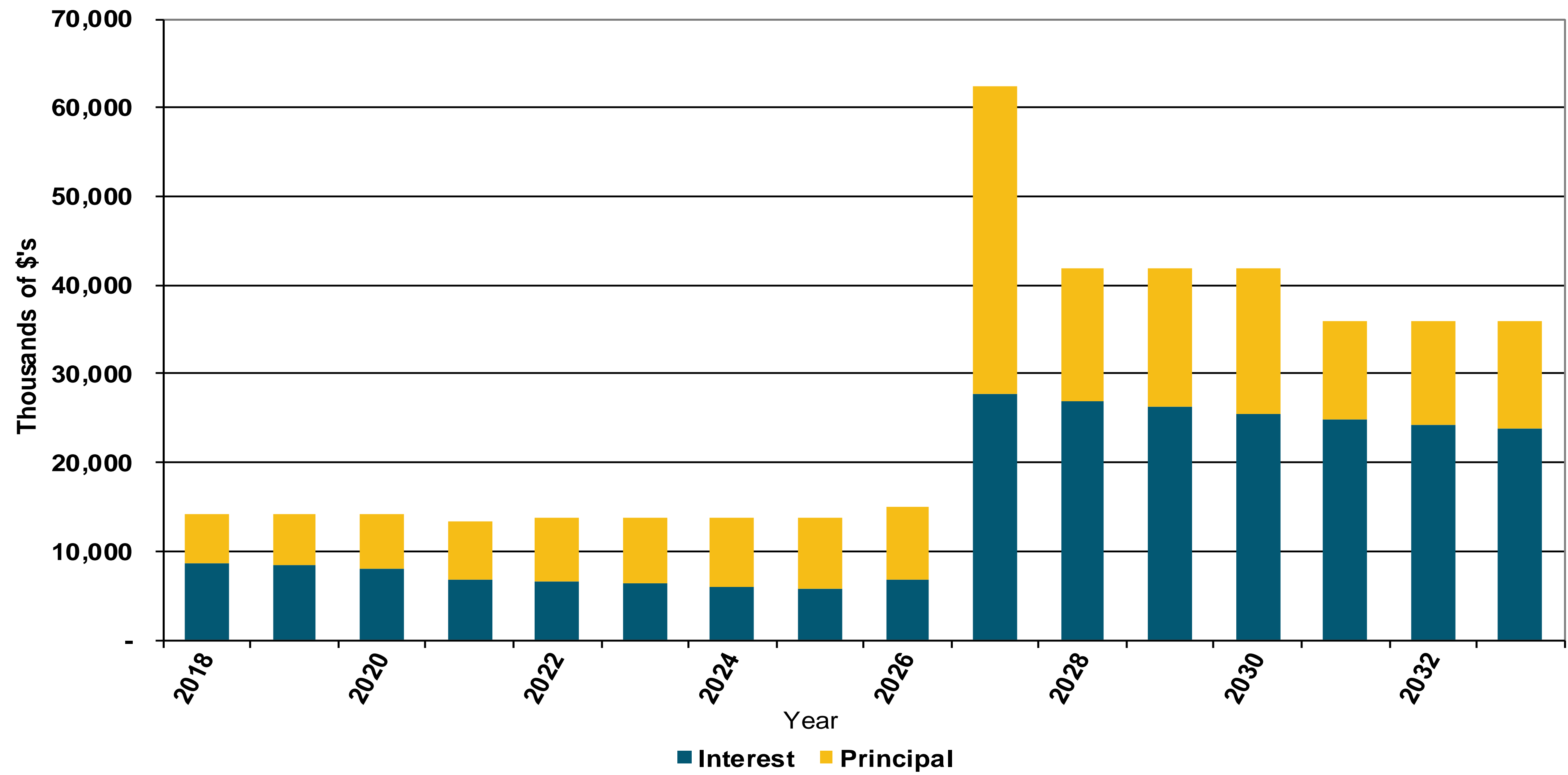
Electric Utility Capital External Spending

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





Debt Service

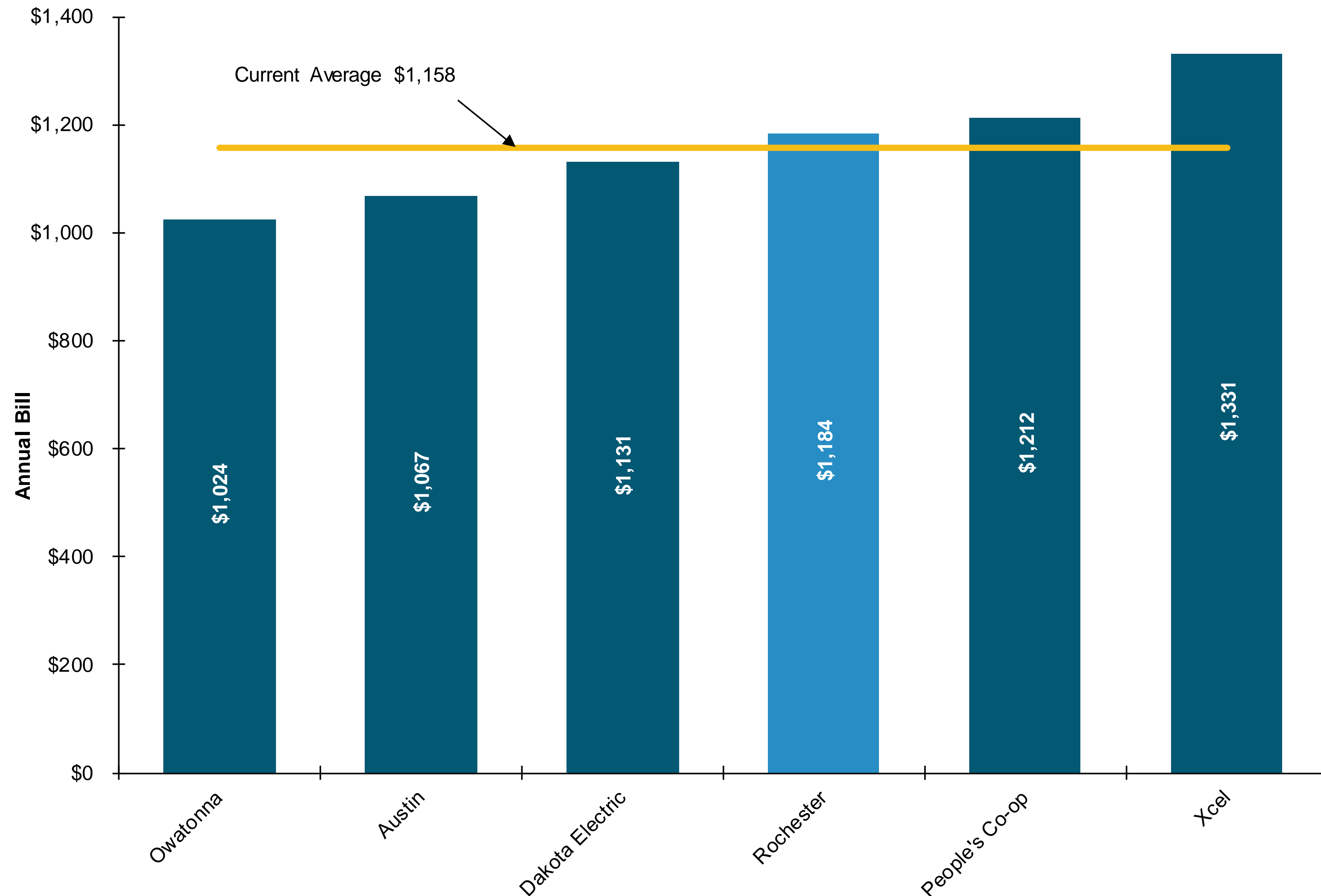


	(in millions)					
	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
Debt Issues	\$ -	\$ -	\$ -	\$ 20.4	\$ 410.4	\$ -



Residential Class Electric Rate Comparison

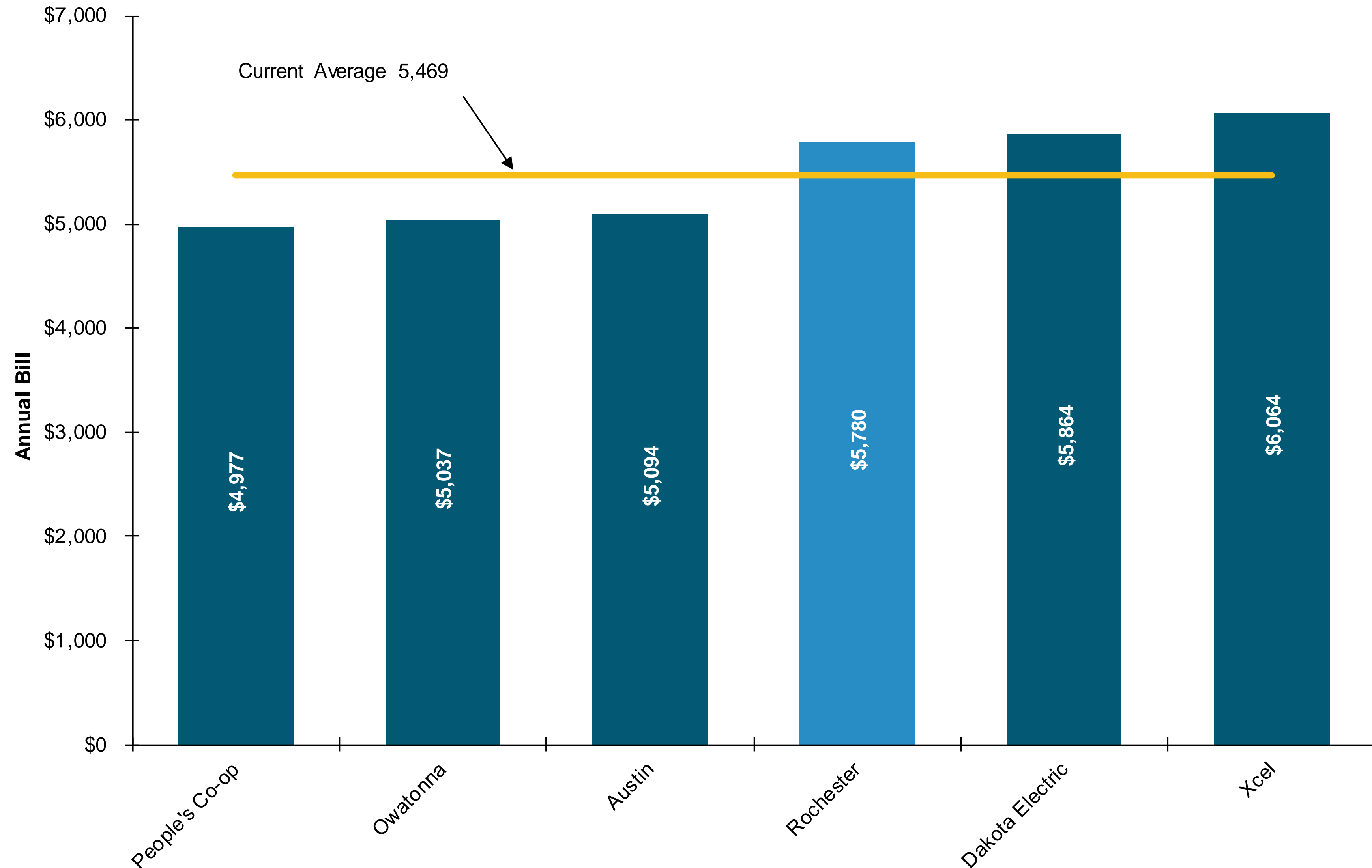
(Jan '22 through Dec '22)





Commercial (SGS) Class Electric Rate Comparison

(Jan '22 through Dec '22)





Electric Utility 2024-2025 Operating Budget

FORECAST BY YEAR, 2023 THROUGH 2028
(\$000'S)

Forecasted Rate Change	2.5%	3.2%	4.0%	4.0%	4.0%	4.0%
Plus: AMI Customer Charge	\$ -	\$ 1.94	\$ -	\$ -	\$ -	\$ -
	2023*	2024	2025	2026	2027	2028
1 Total Revenues	183,972	190,614	199,093	209,357	222,935	232,107
2 Total Cost of Revenue	104,059	106,861	108,752	99,509	88,734	88,973
3 Total Gross Margin	79,914	83,753	90,341	109,848	134,202	143,134
4 Total Operating Expenses	53,317	53,218	60,832	62,460	63,733	68,130
5 Net Operating Income	26,597	30,535	29,510	47,388	70,469	75,004

* 2023 forecast contains 4 months actuals and 8 months forecast



Electric Utility 2024-2025 Operating Budget

FORECAST BY YEAR, 2023 THROUGH 2028
(\$000'S)

Forecasted Rate Change	2.5%	3.2%	4.0%	4.0%	4.0%	4.0%
Plus: AMI Customer Charge	\$ -	\$ 1.94	\$ -	\$ -	\$ -	\$ -
	2023*	2024	2025	2026	2027	2028
6 Total Financing & Non-Operating Items	(2,959)	(2,151)	(1,866)	(3,113)	(15,427)	(15,709)
7 Income Before Transfers/Capital Contributions	23,638	28,384	27,644	44,275	55,042	59,296
8 Transfers (In Lieu of Tax Payments)	(9,745)	(10,759)	(11,338)	(11,869)	(12,431)	(12,848)
9 Capital Contributions	22,485	4,832	2,852	615	626	399
10 Change in Net Assets	36,378	22,457	19,157	33,021	43,237	46,846
11 Change in Net Assets (Excl Capital Contrib)	13,893	17,625	16,305	32,406	42,611	46,448
12 Target Change in Net Assets	17,541	19,947	21,232	22,325	21,928	19,982
13 Excess (Deficit) from Target	(3,648)	(2,322)	(4,926)	10,081	20,683	26,466

* 2023 forecast contains 4 months actuals and 8 months forecast



Electric Utility 2024-2025 Operating Budget

FORECAST BY YEAR, 2023 THROUGH 2028
(\$000'S)

Forecasted Rate Change	2.5%	3.2%	4.0%	4.0%	4.0%	4.0%
Plus: AMI Customer Charge	\$ -	\$ 1.94	\$ -	\$ -	\$ -	\$ -
	2023*	2024	2025	2026	2027	2028
14 01/01 Cash Balance	103,856	90,699	93,028	96,718	111,548	131,134
15 Cash from Operations	52,078	39,164	37,152	51,367	61,961	65,960
16 Capital Additions/Services Territory Comp	(57,966)	(28,299)	(24,726)	(47,560)	(119,483)	(146,614)
17 Bond Principal Payments	(7,395)	(7,730)	(8,005)	(8,305)	(34,691)	(14,957)
18 Bond Sale Proceeds	-	-	-	20,000	410,400	-
19 Net Change in Other Assets/Liabilities	125	(806)	(731)	(672)	(298,602)	122,506
20 Net Changes in Cash	(13,157)	2,329	3,690	14,830	19,586	26,894
21 12/31 Cash Balance	90,699	93,028	96,718	111,548	131,134	158,029
22 Minimum Cash Reserve	53,826	62,629	64,058	62,726	54,308	55,897
23 Excess (Deficit) from Minimum Cash Reserve	36,873	30,399	32,660	48,822	76,827	102,131
24 Cash Balance as % of Reserve Policy	168.5%	148.5%	151.0%	177.8%	241.5%	282.7%
25 Debt Service Coverage Ratio	3.26	3.67	3.70	4.60	2.42	2.51

* 2023 forecast contains 4 months actuals and 8 months forecast

Recommendations

- Electric Utility 2024-2025 Recommendation
 - 2024: 3.2 percent general rate increase plus \$1.94 customer charge increase for AMI
Cost impact to the average customer is \$2.17/mo **(Corrected 8/11/23 \$4.12/mo)**
 - 2025: 4.0 percent general rate increase
Cost impact to the average customer is \$2.91/mo **(Corrected 8/11/23 \$4.30/mo)**
- Water Utility 2024-2025 Recommendation
 - 2024: 5.5 percent general rate increase plus \$1.32 customer charge increase for AMI
Cost impact to the average customer is \$1.65/mo
 - 2025: 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 28, 2023 City Council: Recommended Budget Review Study Session
- August 29, 2023 RPU Board Meeting: Public Comment
- September 26, 2023 RPU Board Meeting: Public Comment
 - Electric Utility Cost of Service
 - Electric and Water Rate Design (+/- 2%)
 - Public Notice of Proposed Rates
- October 24, 2023 RPU Board Meeting: Public Comment
 - Request Approval of Budgets and Rate Proposal
- December 2023 City Council:

