



ROCHESTER  
**PUBLIC UTILITIES**  
WE PLEDGE, WE DELIVER®

2021 ANNUAL REPORT

**OCTOBER**

**NOVEMBER**

**DECEMBER**

# TABLE OF CONTENTS

- Independent Auditors’ Report**..... 3
- Required Supplementary Information**
  - Management’s Discussion & Analysis (unaudited) ..... 6
- Financial Statements**
  - Electric Utility Statement of Net Position ..... 23
  - Electric Utility Statement of Revenues, Expenses, and Changes in Net Position..... 24
  - Electric Utility Statement of Cash Flows ..... 25
  - Water Utility Statement of Net Position..... 26
  - Water Utility Statement of Revenues, Expenses, and Changes in Net Position ..... 27
  - Water Utility Statement of Cash Flows ..... 28
  - Notes to Financial Statements..... 29
- Required Supplementary Information - Public Employees Retirement Association of Minnesota**
  - Schedules of Employer Contributions (unaudited)..... 50
  - Schedules of Proportionate Share of Net Pension Liability (unaudited) ..... 51
  - Note to the Required Supplementary Information (unaudited) ..... 52
- Operating and Financial Statistics (unaudited)**..... 55
- RPU Leadership & Contact Information**..... 56

Cover Photo By Josh Banks

## Independent Auditors' Report

To the Public Utilities Board of  
Rochester Public Utilities

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the financial statements of Rochester Public Utilities, enterprise funds of the City of Rochester, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Public Utilities as of December 31, 2021, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rochester Public Utilities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rochester Public Utilities enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Rochester, Minnesota, as of December 31, 2021 and the changes in financial position, or cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rochester Public Utilities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Management is responsible for the other information. The other information comprises the Operating and Financial Statistics but does not include the financial statements and our auditors' report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022 on our consideration of the Rochester Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rochester Public Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rochester Public Utilities' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin  
March 30, 2022

# MANAGEMENT'S DISCUSSION & ANALYSIS

## (unaudited)

*The following discussion and analysis of the financial results of Rochester Public Utilities (RPU or the Utility) provides an overview of the Utility's financial activities for the year ended December 31, 2021 with a comparative analysis to the year ended December 31, 2020. This discussion is designed, and intended to be used, in conjunction with the financial statements and notes, which follow this section.*

*Rochester Public Utilities is a municipal utility governed by a five-member board under the authority of the Home Rule Charter. Rochester Public Utilities is comprised of two separate utilities, the Electric Utility and the Water Utility.*

## OVERVIEW OF THE FINANCIAL STATEMENTS

### Financial Statements

The Statements of Net Position present each Utility's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. The Statement of Net Position provides information about the nature and amount of investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. Net position increases when revenues exceed expenses. The Statements of Revenues, Expenses, and Changes in Net Position report the revenues and expenses during the periods indicated. The Statements of Cash Flows provide information about each Utility's cash receipts and payments from operations, as well as funds provided and used in investing and financing activities.

### Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the amounts provided in the financial statements.

### Required Supplemental Information

The required supplemental information provides historical information about RPU's defined benefit pension plans including changes in the net pension liabilities, annual contributions made to the pension plans, and changes in plan provisions and actuarial assumptions.

See accompanying *Independent Auditors' Report*.

## HIGHLIGHTS

- Rochester's utility growth rate slowed compared to the prior year, with 548 new electric customers and 335 new water customers added in 2021. This compares with growth of 1,252 electric customers and 402 water customers in 2020.
- Electric retail revenues increased \$2.7 million (1.9%) from 2020, along with an increase in kilowatt-hour sales of 13.5 million kWh (1.2%). An increase in energy usage in the residential and commercial sectors due to a warmer summer were the contributing factors to the revenue improvement. The annual system peak demand of 270 megawatts was set in June, and compares with a peak demand of 265 megawatts in 2020. The all-time system peak demand of 292 megawatts occurred in 2011.
- Water retail revenues increased \$0.4 million (3.7%) over 2020, along with an increase in sales volume of 329,000 ccf (hundred cubic feet) or 5.9%. The increase in revenues was due primarily to the increase in sales volume.
- In 2020, the Utility management recommended, and the Utility Board and Rochester City Council elected to keep rates steady in 2021 for the Electric Utility with no general rate increase. A significant part of the Electric Utility's long-term resource plan is an aggressive Demand-Side Management (DSM) plan to reduce the overall peak demand of the Utility, and therefore reduce future generation capacity requirements. A residential, three tiered, time-of-use (TOU) rate was developed based on the 2020 cost of service data and offered during 2021. Sixty-one customers have enrolled as of the end of the year. A cost-of-service study was completed in 2019 for the Water Utility, with recommended rate adjustments proposed for the next five years. The Utility Board and Rochester City Council elected to keep rates unchanged for the Water Utility in 2021 due to the impact to our customers of the pandemic. For 2022, the Utility Board and City Council approved increases of 1.5% and 2.5% for the Electric Utility and Water Utility, respectively.
- Rates for purchased power from Southern Minnesota Municipal Power Association (SMMPA), the Electric Utility's primary wholesale electricity provider, did not change in 2021. Purchased power costs from SMMPA and the Midcontinent Independent System Operator (MISO) market represented 62% of electric operating expenses for 2021.
- In February 2021, the Electric Utility issued \$37.2 million in revenue bonds. The proceeds from this bond issue were used to refund, in advance, the remaining 2013B bond issue. Due to lower interest rates, RPU was able to realize substantial savings of approximately \$6.6 million over the remaining life of the bonds. At the time of the bond issue, RPU also received a ratings upgrade from Fitch Ratings, Inc, improving from AA- to an AA rating. This was the first ratings upgrade received by the Utility since 2007. The upgrade reflects the ongoing sound financial management and recognition of the strong customer growth within our service area. The favorable rating change will enable RPU to receive lower interest rates on future bond issues.

See accompanying *Independent Auditors' Report*.

- In 2021, the Water Utility continued making progress on the conversion of an old unused municipal well (Well #16) into a multi-aquifer monitoring well that will provide information to RPU, the Department of Natural Resources, and other agencies for water sustainability modeling. Currently, RPU pumps primarily from the Jordan aquifer. Well #16 is unique in that it is over 1,000 feet deep and penetrates multiple aquifers below the Jordan aquifer. As Rochester continues to grow, RPU plans to monitor these deeper aquifers for potential future use. Work completed in 2021 included the removal of shale material that collapsed from the Eau Claire formation, packer testing and water quality testing in the aquifers below the Jordan formation, and installation of the monitoring wells to a depth of 660 feet. Work is planned to continue in March 2022 to finish the installation of the monitoring wells and seal between the formations of the new monitoring wells. RPU partnered with Olmsted County in this endeavor and received a grant from the Minnesota Board of Soil and Water Resources for \$165,000 to help offset the cost of this project.
- As the water system continues to age and deteriorate, one of RPU's primary goals is to maintain its level of service in a cost effective way. To accomplish this, RPU has adopted a risk-based approach to assess and manage water main assets and prioritize their replacement. In 2021, a total of 7,875 feet of water main was identified for replacement. This replacement length goal is planned to increase five percent per year and is funded through increases to water rates as required.
- In 2016, the Rochester City Council adopted an Energy Action Plan, built around sustainability goals for the City's energy, transportation, heating and cooling sectors. The Energy Action Plan includes an 80% reduction in greenhouse gas emissions from 2005 levels by the year 2050. In 2019, RPU updated the generation infrastructure plan to assess how to meet the long-term energy and capacity requirements, while achieving environmental goals. Of the scenarios presented, the RPU Board voted unanimously to pursue the two that would provide 100% of the City's energy needs from renewable sources by 2030. Both scenarios call for the purchase of enough wind and solar energy to equal Rochester's annual energy consumption, with one scenario including a natural gas fired turbine generator to provide capacity and the second scenario including a four-hour battery storage backup that would be charged using energy available through the MISO market. In 2021, RPU partnered with Burns and McDonnell for an updated version of the resource plan, the purpose being to refresh any assumption changes in price and/or technology. One addition to the plan was a scenario with a much longer duration battery (up to 24 hours), in support of recent severe cold weather conditions experienced within the last three years. RPU continues to engage with residential and commercial customers to choose the best path for the community. In support of this plan, RPU's aggressive DSM programs have been successful in reducing energy and water usage. The pilot residential TOU rate developed in 2020 is expected to support the DSM program in managing new load growth from electric vehicles (EV). RPU is also currently developing an EV charging program and a smart thermostat program.

See accompanying *Independent Auditors' Report*.



- In March 2020, the Utility Board approved a solar purchase power agreement with SolarStone/EDF Renewables Distributed Solutions, Inc., as well as the purchase of 134.84 acres of land to construct a 10-megawatt solar farm. The agreement to purchase the output of the solar farm is for 20 years and allows RPU the option to purchase the system after eight years. The system, which will be connected to RPU's distribution system, and the land acquisition are building blocks toward RPU's 2030 resource plan and environmental goals. The solar site is currently under construction and is expected to be operational in July 2022.
- Prior to 2020, approximately 75% of RPU's streetlights were High Pressure Sodium (HPS) and roughly 25% were LED. At the request of the City of Rochester, work began in 2020 to convert the remaining HPS street lights to LED lights, which equated to approximately 7,000 streetlights. RPU crews worked on this project throughout 2020 and 2021, focusing heavily on it during some of the slower winter months, and completed the change-out in July 2021.
- In 2020, land was acquired and design work started on a new substation located in southeast Rochester. This substation will be constructed to accommodate a total of four 37.5 mega-volt amperes (MVA) transformers, with two of the four being installed with the initial buildout and the other two added as future needs arise. There will also be an approximately two-mile multiple conduit manhole and duct system installed from this new substation to terminal points in the downtown area. Initial construction on the substation began in late 2021, and construction on the manhole and duct system is planned to begin in 2022.
- In May 2021, the RPU Board communicated interest in moving forward with the next steps of an Advanced Metering Infrastructure (AMI) business case, which included retaining professional services to assess RPU's needs and requirements, assist with writing the Request for Proposal, vendor selection, procurement, and contract support on RPU's electric and water systems. In February 2022, Util-Assist was approved by the Board to provide these services. RPU will be using a phased approach for this project. The first phase will consist of the development and management of the Request for Proposal for the purchase of AMI and Meter Data Management (MDM) systems, meters, and installation services. The second phase would include purchasing and fully implementing the AMI solution and would be contingent upon Board approval after completion of the first phase.
- As part of the 2022 budget process for the Water Utility, the Board approved a change in the Residential Water Service Assured repair program from an "Opt In" to an "Opt Out" program. This change results in fewer customers getting an unexpected large bill for the repair of a broken service line. The service line from the street to the house is owned by the property owner.
- RPU surpassed the aggressive DSM goal for 2021 of 17,837 megawatt hours in energy savings. Actual energy savings of 18,499 megawatt hours were achieved through helping commercial and residential customers install energy efficient equipment and technologies. This represented an estimated 18,499 tons of carbon reduction, and amounted to 1.6% of annual retail energy sales. Water conservation rates, customer education, leak detection and rebates offered on clothes washers, high efficiency toilets, rain barrels and other items resulted in savings of 4.6 million gallons of water. This was a decrease of 2.7 million gallons from 2020, and approximately 92% of the goal of 5.0 million gallons.

See accompanying *Independent Auditors' Report*.

# FINANCIAL ANALYSIS – ELECTRIC UTILITY

## Condensed Financial Information – Electric Utility

December 31, 2021 and 2020

(In millions)

### Statements of Revenues, Expenses, & Changes in Net Position

	2021	2020	Change 2021 vs. 2020
Operating Revenues	\$175.3	\$169.2	\$6.1
Operating Expenses	142.1	135.0	7.1
<i>Operating Income</i>	33.2	34.2	(1.0)
Other Income & Expense	(1.2)	2.1	(3.3)
Interest Charges	(5.5)	(6.3)	0.8
Nonoperating (Expense)	(6.7)	(4.2)	(2.5)
<i>Income Before Transfers and Capital Contributions</i>	26.5	30.0	(3.5)
Transfers Out (In Lieu of Tax Payments)	(8.5)	(8.4)	(0.1)
Capital Contributions	4.9	2.4	2.5
<i>Change in Net Position</i>	22.9	24.0	(1.1)
Net Position - Beginning of Year	205.5	181.5	24.0
<b>Net Position - End of Year</b>	<b>\$228.4</b>	<b>\$205.5</b>	<b>\$22.9</b>

### Statements of Net Position

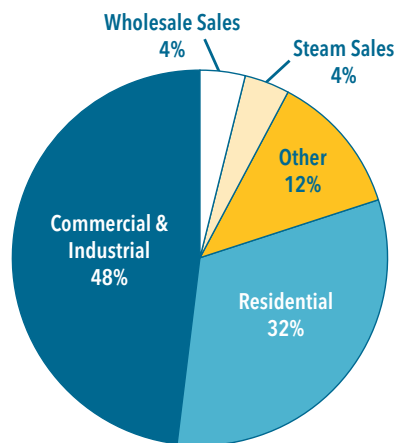
	2021	2020	Change 2021 vs. 2020
Cash and Investments – Unrestricted	\$103.8	\$90.4	\$13.4
Cash and Investments – Restricted	1.1	1.2	(0.1)
Other Current Assets	32.8	30.7	2.1
Capital Assets, Net	276.5	275.0	1.5
Other Noncurrent Assets	23.9	24.8	(0.9)
<i>Total Assets</i>	438.1	422.1	16.0
Deferred Outflows of Resources	9.0	2.3	6.7
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$447.1</b>	<b>\$424.4</b>	<b>\$22.7</b>
Current Liabilities	\$27.8	\$24.1	\$3.7
Long-Term Debt	167.5	175.8	(8.3)
Other Noncurrent Liabilities	13.3	17.5	(4.2)
<i>Total Liabilities</i>	208.6	217.4	(8.8)
Deferred Inflows of Resources	10.1	1.5	8.6
Investment in Capital Assets	115.9	106.7	9.2
Restricted – Debt Service	0.6	0.5	0.1
Unrestricted	111.9	98.3	13.6
<i>Net Position</i>	228.4	205.5	22.9
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$447.1</b>	<b>\$424.4</b>	<b>\$22.7</b>

See accompanying *Independent Auditors' Report*.

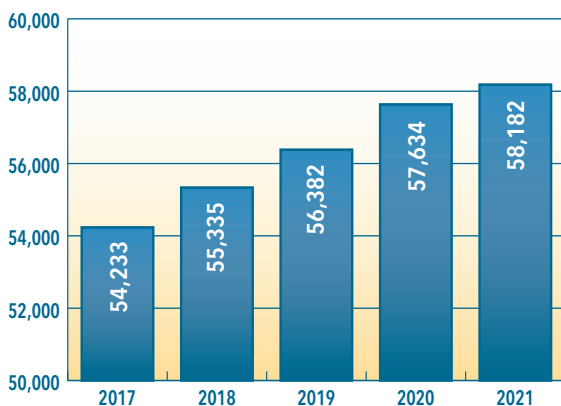
## OPERATING REVENUES

Operating revenues increased \$6.1 million (3.6%) in 2021. Retail revenues increased \$2.7 million (1.9%) due to an increase in energy and demand, driven primarily by warmer weather. Wholesale and steam revenues increased \$6.7 million (99.4%). Generating units at Westside Energy Station and Cascade Creek were dispatched into the wholesale market at a higher rate in 2021 due to weather and favorable market conditions. Steam revenues are directly correlated with fuel costs, which were higher early in the year due to winter storms. Other Operating Revenues decreased \$3.4 million from 2020. This was due primarily to an increase of \$2.4 million in transmission revenues, offset by a decrease of \$7.1 million in transmission revenue recognized in 2020 from a favorable resolution in RPU's Federal Energy Regulatory Commission (FERC) transmission case.

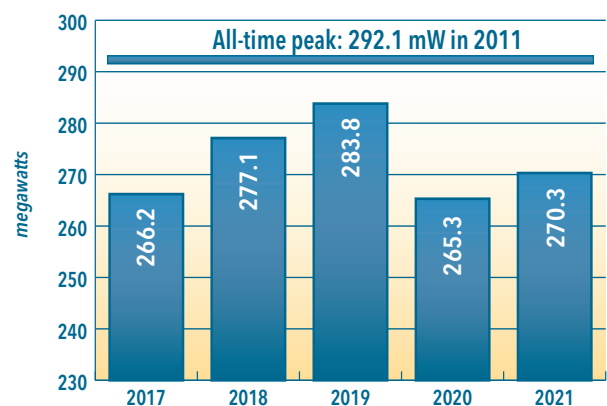
## Electric Operating Revenues



## Number of Electric Customers

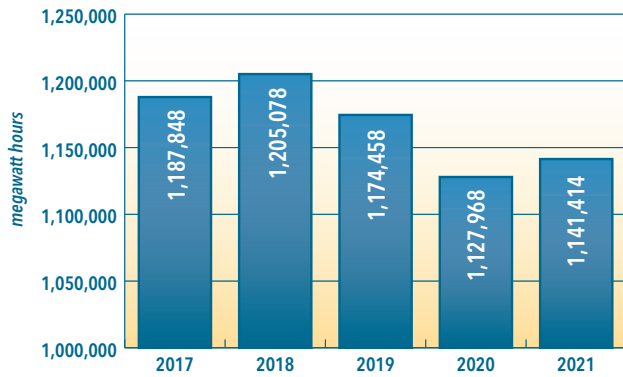


## Electric System Peaks

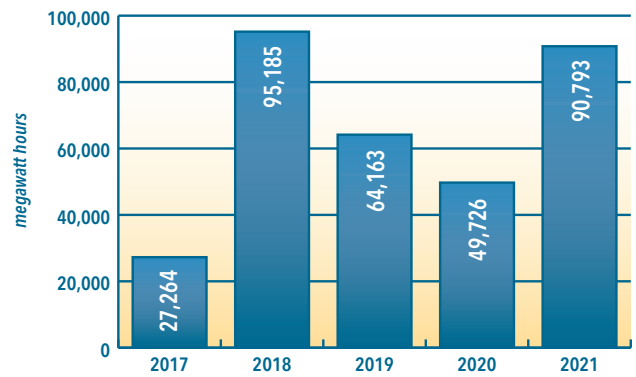


See accompanying *Independent Auditors' Report*.

### Electric Retail Sales



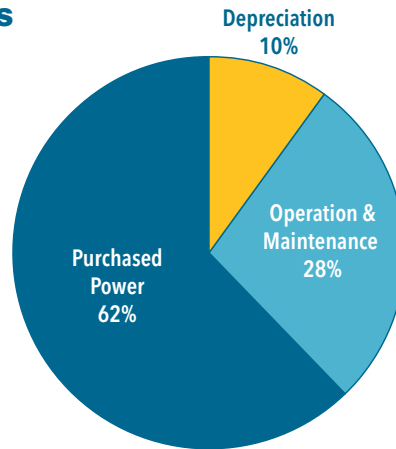
### Electric Wholesale Sales



### OPERATING EXPENSES

Operating expenses increased \$7.1 million (5.3%) in 2021, due in large part to a combined increase in purchased power of \$2.1 million and generation fuel of \$5.2 million. The primary driver of operating expenses for the Electric Utility continues to be power purchased from SMMPA and the MISO market, which comprised 62% of total operating expenses.

### Electric Operating Expenses



### TRANSFERS OUT

The Electric Utility makes transfers to the City of Rochester’s General Fund each month based on retail kilowatt-hours sold (in lieu of tax). Transfers to the City totaled \$8.5 million and \$8.4 million in 2021 and 2020, respectively. The increase in the in lieu of tax amount was due to an increase in kilowatt-hour sales.

### CAPITAL CONTRIBUTIONS

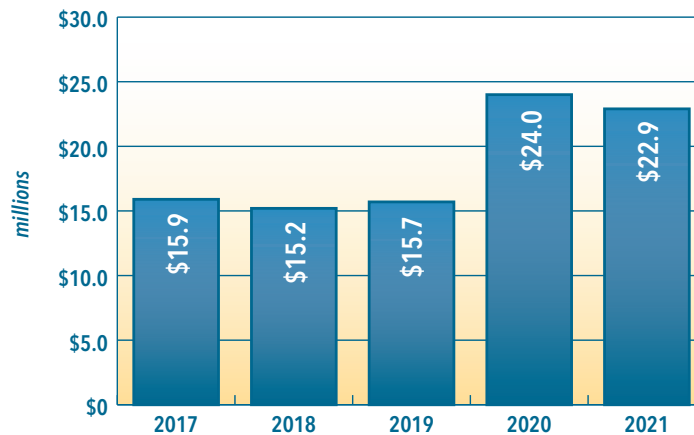
Capital contributions increased by \$2.5 million in 2021 when compared to 2020. Two large projects, started in 2020, continued in 2021 that include reimbursement from other parties.

See accompanying *Independent Auditors’ Report*.

## CHANGE IN NET POSITION

The Change in Net Position for 2021 was \$22.9 million. This represents a slight decrease of \$1.1 million from 2020, which posted a Change in Net Position of \$24.0 million. Several factors contributed to this decrease. Retail revenues increased \$2.7 million from 2020, partially offset by a \$2.1 million increase in purchased power. Wholesale and steam revenues increased by \$6.7 million, while generation fuel realized an increase of \$5.2 million in annual expense over 2020. Other operating revenues decreased by \$3.4 million, along with a decrease in interest revenue of \$2.6 million. These were offset by an increase in capital contributions of \$2.5 million.

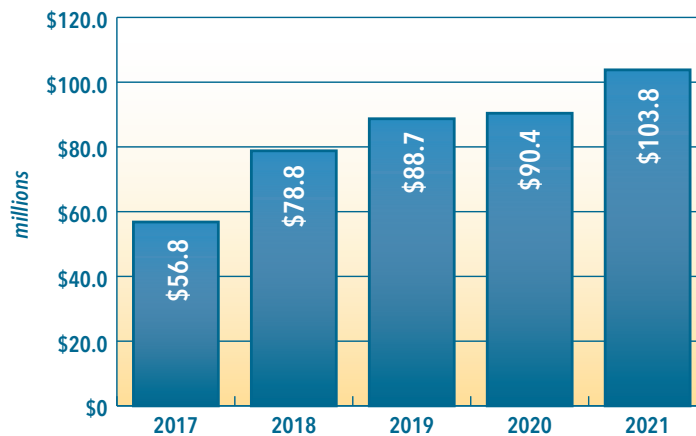
### Electric Change in Net Position



## CASH, INVESTMENTS AND OTHER ASSETS

The ending current unrestricted cash and investments balance for 2021 was \$103.8 million, which represents an increase of \$13.4 million over 2020. The ending current restricted cash and investments balance remained nearly unchanged from 2020 with a balance of \$1.1 million at year end. This amount represents funds restricted for debt service payments. Other current assets for 2021 were \$32.8 million, an increase of \$2.1 million from 2020. This increase was due primarily to an increase in service accounts receivables of \$2.6 million, partially offset by an increase to the provision for uncollectible accounts of \$0.5 million. Other noncurrent assets for 2021 were \$23.9 million, a decrease of \$0.9 million from 2020.

### Electric Unrestricted Cash & Investments



See accompanying *Independent Auditors' Report*.

## LIABILITIES

Current liabilities for 2021 finished the year at \$27.8 million, an increase of \$3.7 million over 2020. Items representing significant changes from the prior year include accounts payable, with an increase of \$1.3 million over 2020, and amounts due to the City, increasing \$1.1 million over 2020.

Noncurrent liabilities posted a decrease of \$4.2 million in 2021. This change was driven primarily by a decrease in the Utility's proportionate share of the liability from the Public Employees Retirement Association of Minnesota (PERA).

## NET POSITION

Net position invested in capital assets reflects additions to capital assets funded through rate-based revenues and fees from customers, net of debt proceeds expended on capital projects. In 2021, net position invested in capital assets increased \$9.2 million compared to 2020.

Restricted net position remained steady. This represents funds restricted for payment of debt service.

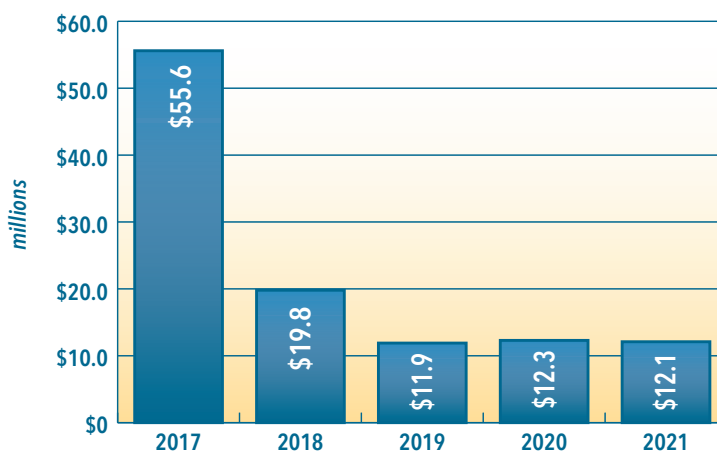
Unrestricted net position is not subject to any constraints by debt covenants or other legal requirements. In 2021, unrestricted net position increased \$13.6 million due to the results of operations.

See accompanying *Independent Auditors' Report*.

## CAPITAL ASSETS

As of December 31, 2021, the Electric Utility had \$276.5 million invested in a broad range of utility capital assets, including a 46 megawatt reciprocating engine generation plant, two gas turbines, a hydroelectric power generation plant, two diesel generators, boiler plant and related equipment to provide steam to a large customer, electric transmission and distribution facilities, and various buildings and equipment. Capital assets increased \$14.1 million in 2021, reflecting investments in general facilities and the distribution and transmission systems. The increase in capital assets was offset by a \$12.6 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (Electric and Water) may be found in Note 5 to the financial statements. Capital expenditures decreased by \$0.2 million in 2021.

## Electric Capital Expenditures



## LONG-TERM DEBT

As of December 31, 2021, the Utility had \$161.8 million in revenue bonds outstanding. New debt in the amount of \$37.2 million was issued in February 2021. Proceeds from this issue were used to refund, in advance, the outstanding balance of the 2013B bond issue due to lower interest rates. Advance refunding was required because only the bonds maturing after December 1, 2022 are callable. In addition to the new debt issued, \$6.5 million was retired in 2021 and \$34.0 million was defeased in the advance refunding.

The Utility was upgraded to an AA bond rating from Fitch Ratings, Inc. in 2021, and maintained an Aa3 rating from Moody's. Additional details regarding the Utility's long-term debt are located in Note 6 to the financial statements.

See accompanying *Independent Auditors' Report*.

# FINANCIAL ANALYSIS – WATER UTILITY

## Condensed Financial Information – Water Utility

December 31, 2021 and 2020

(In millions)

### Statements of Revenues, Expenses, & Changes in Net Position

	2021	2020	Change 2021 vs. 2020
Operating Revenues	\$12.6	\$12.1	\$0.5
Operating Expenses	11.0	10.5	0.5
<i>Operating Income</i>	1.6	1.6	-
Other Income & Expense	-	0.2	(0.2)
Nonoperating Income	-	0.2	(0.2)
<i>Income Before Transfers and Capital Contributions</i>	1.6	1.8	(0.2)
Transfers Out (In Lieu Of Tax Payments)	(0.4)	(0.4)	-
Capital Contributions	3.7	1.3	2.4
<i>Change in Net Position</i>	4.9	2.7	2.2
Net Position - Beginning of Year	109.7	107.0	2.7
<b>Net Position - End of Year</b>	<b>\$114.6</b>	<b>\$109.7</b>	<b>\$4.9</b>

### Statements of Net Position

	2021	2020	Change 2021 vs. 2020
Cash and Investments	\$12.9	\$12.0	\$0.9
Other Current Assets	1.3	1.3	-
Capital Assets, Net	104.9	100.2	4.7
<i>Total Assets</i>	119.1	113.5	5.6
Deferred Outflows of Resources	0.9	0.2	0.7
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$120.0</b>	<b>\$113.7</b>	<b>\$6.3</b>
Current Liabilities	\$2.7	\$1.8	\$0.9
Noncurrent Liabilities	1.5	2.0	(0.5)
<i>Total Liabilities</i>	4.2	3.8	0.4
Deferred Inflows of Resources	1.2	0.2	1.0
Investment in Capital Assets	104.9	100.2	4.7
Unrestricted	9.7	9.5	0.2
<i>Net Position</i>	114.6	109.7	4.9
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$120.0</b>	<b>\$113.7</b>	<b>\$6.3</b>

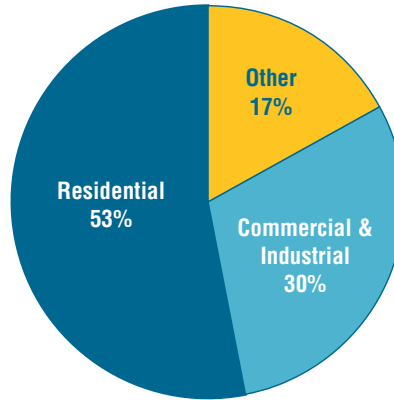
See accompanying *Independent Auditors' Report*.



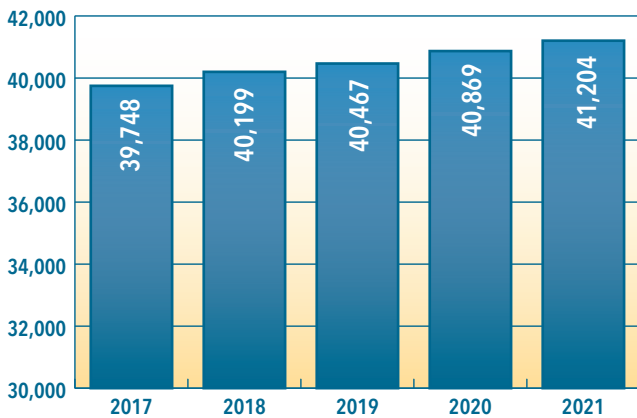
## OPERATING REVENUES

Operating revenues increased by \$0.5 million (4.1%) in 2021. Retail revenues were up \$0.4 million (3.7%), due primarily to an increase in sales volume.

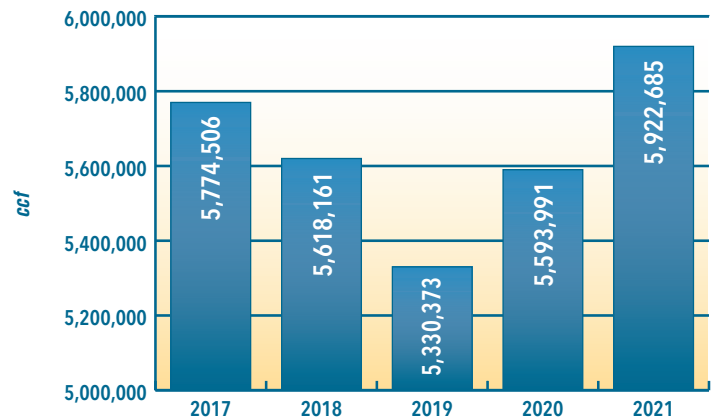
### Water Operating Revenues



### Number of Water Customers



### Water Retail Sales

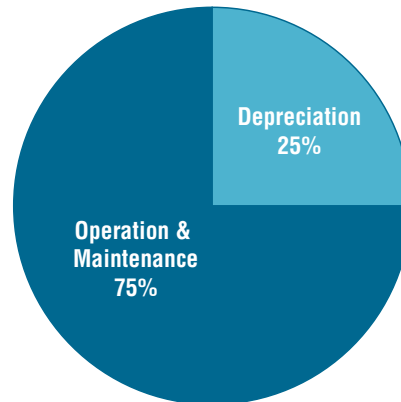


See accompanying *Independent Auditors' Report*.

## OPERATING EXPENSES

Operating expenses increased by \$0.5 million (4.8%) in 2021 when compared to 2020.

### Water Operating Expenses



## IN LIEU OF TAX PAYMENTS

The Water Utility makes transfers to the City of Rochester's General Fund each month based on the retail water volume (ccf - hundred cubic feet) sold. In 2021, \$407,000 was transferred to the City. This was an increase of \$22,000 over 2020 due to an increase in ccf sales volume.

## CAPITAL CONTRIBUTIONS

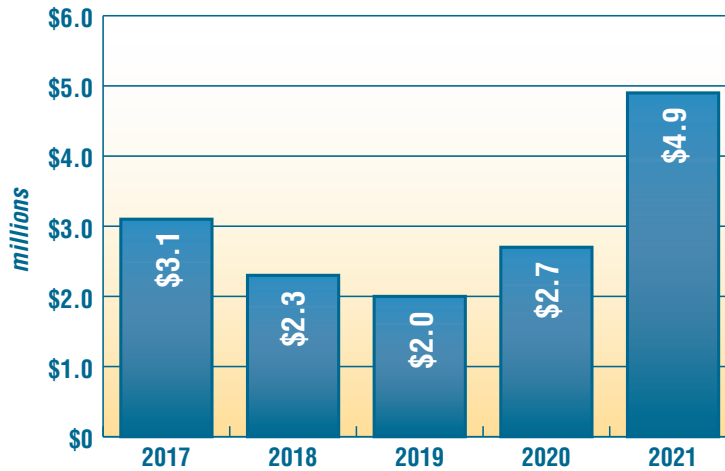
Capital Contributions increased \$2.4 million in 2021. These are assets, primarily water mains and fire hydrants, which are contributed to the Water Utility from developers and are valued using a costing database that estimates their approximate construction costs. These also include amounts received from the City as part of a cost sharing agreement for certain water main replacement projects. Beginning in 2013, the Utility took over the responsibility of paying for new water towers and reservoirs out of its own funds. The City collects a Water Availability Charge (WAC) specifically for this purpose and these funds will be used to reimburse the Water Utility for all or part of the cost of constructing new towers and reservoirs. No WAC funds were received in 2021.

See accompanying *Independent Auditors' Report*.

## CHANGE IN NET POSITION

The Change in Net Position for 2021 was \$4.9 million, an increase of \$2.2 million over the prior year. The primary driver of this positive change in net position was the increase in capital contributions of \$2.4 million.

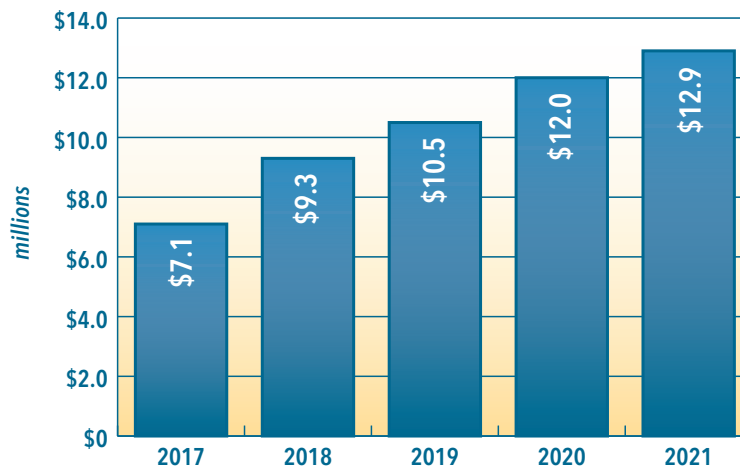
### Water Change in Net Position



## CASH, INVESTMENTS AND OTHER ASSETS

The ending unrestricted cash and investments balance for 2021 was \$12.9 million, an increase of \$0.9 million over 2020.

### Water Unrestricted Cash & Investments



See accompanying *Independent Auditors' Report*.

## LIABILITIES

Current liabilities increased \$0.9 million in 2021. This was primarily due to an increase in the amount owed to the City at the end of 2021 for water main replacements in conjunction with City street projects.

Noncurrent liabilities posted a decrease of \$0.5 million in 2021. This change was driven primarily by a decrease in the Utility's proportionate share of the liability from the PERA.

## NET POSITION

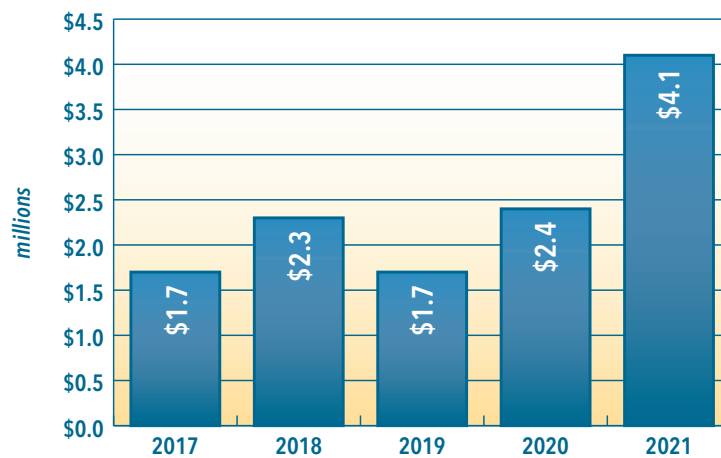
Net position invested in capital assets increased \$4.7 million. This increase reflects additions to capital assets funded through rate-based revenues and fees from customers as well as contributed assets.

Unrestricted net position is not subject to any constraints established by debt covenants or other legal requirements. In 2021, unrestricted net position increased \$0.2 million due to the results of operations.

## CAPITAL ASSETS

As of December 31, 2021, the Utility had \$104.9 million invested in a broad range of utility capital assets, including 20 water storage facilities, 31 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased \$7.4 million in 2021, reflecting capital contributions as well as construction associated with the growth of the City and general facilities of the Water Utility. This increase in capital assets was offset by a \$2.7 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (Electric and Water) may be found in Note 5 to the financial statements. Capital expenditures increased \$1.7 million in 2021. Some of the major expenditure components in 2021 were Destination Medical Center (DMC) projects, work on a new well, and water main replacements in conjunction with City street projects.

## Water Capital Expenditures



See accompanying *Independent Auditors' Report*.

# MISCELLANEOUS INFORMATION

## ECONOMIC FACTORS

The City Council has approved Electric and Water rate increases as needed to support the Utility on a cost-of-service basis. In October 2020, the Utility Board voted to hold rates steady for 2021 for both the Electric Utility and the Water Utility. The rate maintenance supports the financial health of both Utilities, funds capital replacements and the continued growth of the City, while contributing to reserves for future replacement of aging infrastructure. The table below compares historical Electric and Water rate increases with the annual inflation rate, as well as an average for the last five years.

### ROCHESTER PUBLIC UTILITIES ELECTRIC AND WATER RATE CHANGE VERSUS INFLATION

<u>Year</u>	<u>Inflation %</u>	<u>Electric Rates %</u>	<u>Water Rates %</u>
2022	2.0% *	1.5%	2.5%
2021	4.7%	0.0%	0.0%
2020	1.2%	0.0%	3.5%
2019	1.8%	1.9%	6.0%
2018	2.4%	1.5%	6.0%
<b>Annualized Average</b>	2.4%	1.0%	3.6%

\*Estimated Yearly Values

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as system expansion, replacement of aging infrastructure, future supply costs, regulatory changes, and others. Growth of the city directly affects several of these factors.

The housing market had a strong year in 2021, with 257 building permits totaling \$89.2 million issued for single-family homes and townhomes. This compares to 273 permits totaling \$82.1 million in 2020. Commercial building permits for 2021 saw 48 permits issued totaling \$133.9 million, compared to 31 permits totaling \$71.7 million in 2020. The 2021 commercial totals include a permit for a school, which accounts for roughly half of the commercial total, and a majority of the increase over the prior year. According to the US Department of Labor Bureau of Labor Statistics, the December 2021 unemployment rate of 2.3% for the area remains below the state and national rates of 3.0% and 3.9%, respectively. The employment data shows that, on average, employment improved approximately 0.7% from the previous year for the area.

The DMC initiative continues to develop and is projected to have a major impact on the future economic growth of the city. Legislation passed in 2013 required two bodies to be created: the DMC Corporation, an oversight body, and the DMC Economic Development Agency (EDA), a private nonprofit agency that contracts with the DMC Corporation Board to act as its staff, working with the City of Rochester and other stakeholders to develop and execute the DMC plans and strategy. These two groups were organized in 2013 and 2014 and now meet regularly. In March 2014, the EDA began work on the DMC Development Plan, which was adopted by the

See accompanying *Independent Auditors' Report*.

City of Rochester in March 2015 and by the DMC Corporation in April 2015. The EDA, working with stakeholder organizations and the City of Rochester, is now charged with implementing the DMC Development Plan over the next twenty years. Specifically for Rochester, this will mean the creation of thousands of new jobs and an estimated \$270 million in additional tax revenue over the next twenty years, along with the creation and retention of new businesses with a focus on biotech companies. In 2017, an important milestone was reached when private investments reached the \$200 million mark, triggering the release of over \$500 million in State funding for infrastructure investment. In 2021, private investments totaled more than \$155 million, bringing the total private investment in DMC to more than \$1.3 billion and releasing an additional \$29.2 million in State funding in 2022. Current priorities include Discovery Square, an integrated district for the future of biomedical, research, education, and technology innovation; Heart of the City, which would extend and enhance Peace Plaza; and transportation. Several projects connected with these priorities are either in process or have recently been approved by the DMC Corporation Board. These projects include:

- Two Discovery Square – a 124,000 square foot, Leadership in Energy and Environmental Design (LEED) certified medical office and lab building with connectivity to One Discovery Square, a biomedical sciences building completed in 2019.
- Bryk on Broadway Apartments – a workforce housing project located at the corner of North Broadway Avenue and Civic Center Drive NW that will be a six-story, mixed use building with 180 living units as well as commercial space.
- Rochester Rapid Transit System – Known as “Link”, a 2.6 mile bus rapid transit route, which will span the length of 2nd Street, connecting downtown Rochester, the Mayo Civic Center, Cascade Lake, Mayo Clinic campuses, and the Rochester-Olmsted Government Center with seven stations.
- Discovery Walk – a four-block linear parkway along 2nd Avenue in downtown Rochester connecting Soldiers Field to Annenberg Plaza near Mayo Clinic

The coronavirus pandemic the last two years has had a negative economic impact on both the community as a whole and the Utility. In 2021, RPU returned to prepandemic revenue levels. Based on the ongoing growth and stability of the service area, the impact to ratepayers, and the cost-of-service studies completed in 2020 for the Electric Utility and 2019 for the Water Utility, management recommended, and the RPU Board and Rochester City Council approved 1.5% and 2.5% general rate increases for the Electric and Water Utilities, respectively in 2022.

Rochester Public Utilities continues to provide a customer focused reliable service to a vibrant and growing Rochester area through efficient, reliable and responsible operations that work to serve our customers and community.

## REQUESTS FOR INFORMATION

The financial statements, notes, and management discussion and analysis are designed to provide a general overview of RPU’s finances. Questions concerning any of the information provided in this report should be directed to RPU at 4000 East River Rd NE, Rochester, MN 55906. The phone number is (507) 280-1500. Additional information regarding RPU may also be found on its website at [www.rpu.org](http://www.rpu.org).

See accompanying *Independent Auditors’ Report*.

# Electric Utility Statement of Net Position

As of December 31, 2021

	2021
<b>ASSETS:</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$30,752,172
Investments	73,020,702
Accounts Receivable (Net) and Accrued Utility Revenues	24,070,377
Inventories	6,750,094
Other Current Assets	1,922,332
Restricted Assets:	
Cash and Cash Equivalents	1,141,160
Total Current Assets	137,656,837
<b>Noncurrent Assets:</b>	
Restricted Assets:	
Investments	12,072,991
Capital Assets:	
Construction Work in Progress	16,595,171
Land and Land Rights	11,264,662
Depreciable Assets, Net	248,663,143
Net Capital Assets	276,522,976
Other Assets	11,824,193
Total Noncurrent Assets	300,420,160
Total Assets	438,076,997
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred Bond Refunding	1,853,319
Pension Deferred Outflows of Resources	7,201,942
Total Deferred Outflows of Resources	9,055,261
Total Assets and Deferred Outflows of Resources	\$447,132,258
<b>LIABILITIES:</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$11,186,781
Due to the Municipality	3,915,083
Accrued Compensated Absences	2,160,607
Accrued Compensation	813,550
Customer Deposits	2,056,147
Current Liabilities Payable from Restricted Assets	
Interest Payable	550,743
Current Maturities of Long-Term Debt	7,085,000
Total Current Liabilities	27,767,911
<b>Noncurrent Liabilities:</b>	
Accrued Compensated Absences	1,559,383
Pre-1968 Pensions Liability	6,000
Net Pension Liability	10,106,060
Unearned Revenues	1,713,357
Long-Term Debt	167,512,232
Total Noncurrent Liabilities	180,897,032
Total Liabilities	208,664,943
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred Revenue	431,155
Pension Deferred Inflows of Resources	9,271,941
Solar Choice Deferred Inflows of Resources	370,067
Total Deferred Inflows of Resources	10,073,163
<b>NET POSITION:</b>	
Net Investment in Capital Assets	115,852,054
Restricted	
Debt Service	590,417
Unrestricted	111,951,681
Total Net Position	228,394,152
Total Liabilities, Deferred Inflows of Resources and Net Position	\$447,132,258

See accompanying *Notes to Financial Statements*.

# Electric Utility

## Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2021

	2021
<b>Operating Revenues:</b>	
Retail	\$146,719,033
Wholesale	6,621,335
Other	21,913,501
Total Operating Revenues	<u>175,253,869</u>
<b>Operating Expenses:</b>	
Purchased Power	87,765,526
Operations and Maintenance	39,582,938
Depreciation	14,298,858
Amortization of Regulatory Assets	445,457
Total Operating Expenses	<u>142,092,779</u>
<b>Operating Income</b>	<u>33,161,090</u>
<b>Nonoperating Income (Expenses):</b>	
Investment Income (Loss)	(388,228)
Interest Expense	(5,549,633)
Amortization of Regulatory Assets	(105,961)
Miscellaneous, Net	(658,950)
Total Nonoperating (Expenses)	<u>(6,702,772)</u>
<b>Income Before Transfers and Capital Contributions</b>	<u>26,458,318</u>
Transfers Out	(8,469,289)
Capital Contributions	4,932,703
<b>Change in Net Position</b>	<u>22,921,732</u>
Net Position, Beginning of Year	<u>205,472,420</u>
Net Position, End of Year	<u><u>\$228,394,152</u></u>

See accompanying *Notes to Financial Statements*.



# Electric Utility Statement of Cash Flows

For the Year Ended December 31, 2021

	2021
<b>Cash Flows From Operating Activities:</b>	
Cash Received from Customers	\$168,109,126
Cash Paid to Suppliers	(107,243,744)
Cash Paid to Employees	(19,900,898)
Internal Activity - Payments From Other Funds	6,245,425
Service Territory Acquisition	(117,549)
Net Cash Provided By Operating Activities	<u>47,092,360</u>
<b>Cash Flows From Noncapital Financing Activities:</b>	
Operating Transfers to Other Funds	<u>(8,459,047)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Additions to Utility Plant and Other Assets	(15,920,644)
Capital Contributions Received	4,686,703
Principal Payments on Bonds	(6,515,000)
Interest Payments on Bonds	(6,763,436)
Bond Issue Costs	(602,336)
Payments Made to Escrow for Bond Refunding	(686,544)
Net Cash Used In Capital and Related Financing Activities	<u>(25,801,257)</u>
<b>Cash Flows From Investing Activities:</b>	
Interest Received	(388,228)
Investment Redemptions	1,799,352
Net Cash Provided By Investing Activities	<u>1,411,124</u>
Net Increase in Cash and Cash Equivalents	<u>14,243,180</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>17,650,152</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>31,893,332</u>
<b>Classified As:</b>	
Current Nonrestricted Assets	30,752,172
Restricted Assets	1,141,160
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$31,893,332</u>

	2021
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$33,161,090
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	14,744,315
Bad Debts	1,476,707
Service Territory Payments	(117,549)
(Increase) Decrease In:	
Accounts Receivable and Accrued Utility Revenues	(2,926,476)
Inventories	(569,151)
Other Current Assets	3,025
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	2,559,025
Customer Deposits	225,849
Deferred Revenues	(34,816)
Unearned Revenues	(64,394)
Pension Deferred Outflow/Inflow	(1,319,007)
Solar Choice Deferred Inflow	(46,258)
Net Cash Provided by Operating Activities	<u>\$47,092,360</u>
<b>Noncash Financing and Investing Activities:</b>	
Additions to Utility Plant and Other Assets Contributed By Others	\$246,000
Amortization of Bond Premiums, Discounts, and Refunding	(\$1,395,330)
Amortization of Bond Issue Costs	\$105,961
Unrealized Gain (Loss) on Investments	(\$1,630,400)
Bond Proceeds Used In Refunding	\$37,776,384

See accompanying Notes to Financial Statements.

# Water Utility Statement of Net Position

As of December 31, 2021

	2021
<b>ASSETS:</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$3,823,685
Investments	9,079,298
Accounts Receivable (Net) and Accrued Utility Revenues	943,508
Inventories	219,989
Other Current Assets	111,051
Total Current Assets	14,177,531
<b>Noncurrent Assets:</b>	
Capital Assets:	
Construction Work in Progress	8,275,847
Land and Land Rights	677,486
Depreciable Assets, Net	95,963,064
Net Capital Assets	104,916,397
Total Noncurrent Assets	104,916,397
Total Assets	119,093,928
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Pension Deferred Outflows of Resources	947,896
Total Assets and Deferred Outflows of Resources	\$120,041,824
<b>LIABILITIES:</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$530,230
Due to the Municipality	1,619,385
Accrued Compensated Absences	313,678
Accrued Compensation	103,375
Customer Deposits	99,827
Total Current Liabilities	2,666,495
<b>Noncurrent Liabilities:</b>	
Accrued Compensated Absences	190,032
Net Pension Liability	1,335,994
Total Noncurrent Liabilities	1,526,026
Total Liabilities	4,192,521
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Pension Deferred Inflows of Resources	1,226,075
Total Deferred Inflows of Resources	1,226,075
<b>NET POSITION:</b>	
Net Investment in Capital Assets	104,916,397
Unrestricted	9,706,831
Total Net Position	114,623,228
Total Liabilities, Deferred Inflows of Resources and Net Position	\$120,041,824

See accompanying *Notes to Financial Statements*.

# Water Utility

## Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2021

	2021
<b>Operating Revenues:</b>	
Retail	\$11,063,896
Other	1,542,994
Total Operating Revenues	<u>12,606,890</u>
<b>Operating Expenses:</b>	
Operations and Maintenance	8,231,176
Depreciation	2,784,872
Total Operating Expenses	<u>11,016,048</u>
<b>Operating Income</b>	<u>1,590,842</u>
<b>Nonoperating Income (Expenses):</b>	
Investment Income	196,069
Interest Expense	(253)
Miscellaneous, Net	(126,436)
Total Nonoperating Income	<u>69,380</u>
<b>Income Before Transfers and Capital Contributions</b>	<u>1,660,222</u>
Transfers Out	(407,125)
Capital Contributions	3,699,623
<b>Change in Net Position</b>	<u>4,952,720</u>
Net Position, Beginning of Year	<u>109,670,508</u>
Net Position, End of Year	<u><u>\$114,623,228</u></u>

See accompanying *Notes to Financial Statements*.

# Water Utility Statement of Cash Flows

For the Year Ended December 31, 2021

	2021
<b>Cash Flows From Operating Activities:</b>	
Cash Received from Customers	\$12,203,535
Cash Paid to Suppliers	(5,546,964)
Cash Paid to Employees	(2,701,451)
Internal Activity - Payments From Other Funds	221,179
Net Cash Provided By Operating Activities	<u>4,176,299</u>
<b>Cash Flows From Noncapital Financing Activities:</b>	
Operating Transfers to Other Funds	<u>(406,823)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Additions to Utility Plant and Other Assets	(3,577,340)
Capital Contributions Received	539,599
Net Cash Used In Capital and Related Financing Activities	<u>(3,037,741)</u>
<b>Cash Flows From Investing Activities:</b>	
Interest Received	195,816
Investment Redemptions	713,892
Net Cash Provided By Investing Activities	<u>909,708</u>
Net Increase in Cash and Cash Equivalents	<u>1,641,443</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,182,242</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$3,823,685</u></u>

	2021
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$1,590,842
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	2,784,872
Bad Debts	98,676
(Increase) Decrease In:	
Accounts Receivable and Accrued Utility Revenues	(89,961)
Inventories	(19,995)
Prepaid and Other Current Assets	29,614
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	(15,841)
Customer Deposits	(29,056)
Deferred Revenue	(92,215)
Pension Deferred Outflow/Inflow	(80,637)
Net Cash Provided by Operating Activities	<u><u>\$4,176,299</u></u>

<b>Noncash Financing and Investing Activities:</b>	
Additions to Utility Plant and Other Assets Contributed By:	
City's Governmental Funds	\$202,345
Developers	\$2,957,679

See accompanying *Notes to Financial Statements*.

# NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2021

## NOTE 1: Summary of Significant Accounting Policies

The financial statements of Rochester Public Utilities (RPU or Utilities) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Utilities are described below.

### REPORTING ENTITY

The Utilities are comprised of two proprietary funds, the Electric and the Water Enterprise Funds of the City of Rochester, Minnesota (municipality). The Electric Utility is engaged in the generation, transmission, and distribution of electric power and energy, and related activities. The Water Utility is engaged in the supply, purification, and distribution of water, and related activities. The Utilities provide electric and water service to properties concentrated geographically in or near the City of Rochester.

The Utilities are a municipal utility governed by a five-member board under the authority of the Home Rule Charter. The equity of the Utilities is vested in the City of Rochester, Minnesota.

### MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Utilities are presented as enterprise funds of the municipality. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from the estimates.

## **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

### **Deposits and Investments**

For purposes of reporting cash flows the Utilities consider all highly liquid debt instruments purchased with an original maturity of 90 days or less to be cash equivalents.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. The bases of fair values are described in the notes to the City of Rochester's financial statements included in the City's 2021 Annual Comprehensive Financial Report. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Fair values may have changed significantly after year end.

Investments of Utilities' funds are restricted by state statutes. Investments are limited to:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker/dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- (h) Guaranteed investment contract (gic's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance company and with a credit quality in one of the top two highest categories. Agreements or contracts for guaranteed investment contracts with a term of 18 months or less may be entered into provided that the issuer's or guarantor's long-term unsecured debt is rated in one of the three highest rating categories (minimum A- or the equivalent) and the credit quality of the issuer's short-term unsecured debt is rated in the highest category (minimum A-1 or the equivalent).

As funds of the City of Rochester, MN, the Utilities are governed by the investment policy that has been adopted by the Rochester City Council. That policy follows the state statute for allowable investments.

### **Receivables/Payables and Accrued Utility Revenues**

Outstanding balances between the Utilities and the primary government are reported as due from/to the municipality.

The Utilities provides an allowance for losses on receivables, as needed, for accounts considered uncollectible. Accounts receivable has been reduced by an Allowance for Doubtful Accounts of \$1,010,000 for the Electric Utility and \$80,000 for the Water Utility for December 31, 2021.

Revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed. Accrued revenue amounts are \$3,842,183 for the Electric Utility and \$149,890 for the Water Utility for the year ended December 31, 2021.

Included in the Accounts Receivable balance is an accrual of a \$5,097,780 distribution of excess cash reserves from Southern Minnesota Municipal Power Authority (SMMPA), half of which was received in February 2022 with the remainder to be received in July 2022.

### **Inventories**

Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued using the lower of moving average cost or market and charged to construction or expense when used. Fossil fuel inventory is valued at cost, using the last-in, first-out method.

### **Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. RPU's general policy is that when both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, then unrestricted resources.

### **Other Current Assets**

Prepaid expenses are recorded for insurance premiums and maintenance contracts related to computer equipment. Costs under these agreements are expensed over the time periods covered by the agreements.

### **Capital Assets**

Capital assets are defined by the Utilities as assets with an initial, individual cost of \$5,000 or more, or group assets with a value of \$25,000 or more, and an estimated useful life in excess of one year.

Capital assets are recorded at cost or the estimated acquisition value at the time of contribution to RPU. Major outlays for capital assets are capitalized as projects are

constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

<b>Electric Plant</b>	<b>Years</b>
Generation	10-60
Transmission	20-45
Distribution	10-50
General	5-50

<b>Water Plant</b>	<b>Years</b>
Source of Supply	15-70
Pumping	10-50
Water Treatment	30-80
Transmission and Distribution	50-80
General	5-80

### **Other Assets – Noncurrent**

Other Assets – Noncurrent includes Regulatory Assets consisting of Bond Issue Costs and Service Territory Acquisition Costs. Refer to Note 10 for additional information on the Utility’s application of accounting for the effect of rate regulation.

A summary of changes in electric other assets for 2021 follows:

	<u>Balance 01/01/21</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/21</u>
Bond issue costs	\$2,319,943	\$602,336	\$198,569	\$2,723,710
Less: Amortization of bond issue costs	1,455,741	105,961	-	1,561,702
Nonoperating Other Assets	864,202			1,162,008
Regulatory asset-Service territory payments	17,557,031	117,548	-	17,674,579
Less: Amortization of Regulatory asset	6,566,937	445,457	-	7,012,394
Operating Other Assets	10,990,094			10,662,185
Net Other Assets	<u>\$11,854,296</u>			<u>\$11,824,193</u>

### **Deferred Outflows of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

The Electric Utility has issued revenue bonds to finance the advance and current refunding of the outstanding revenue bonds. The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt. This difference is being amortized and charged to operations over the bond term using the effective interest method. The unamortized balance as of December 31, 2021 is \$1,853,319.

See Note 8 for additional information regarding pension deferred outflows (inflows) of resources.



### **Accrued Compensation and Compensated Absences**

Vacation pay, which is payable upon termination, is accrued as it is earned by employees.

The Utilities' sick leave liability is estimated based on the Utilities' past experience of making termination payments for sick leave. Employees are compensated upon termination for forty percent of their unused sick leave, after meeting certain qualifications.

### **Customer Deposits**

Customer deposits are recorded for security deposits paid by customers to receive utility services. Deposits are returned to customers with good credit history in accordance with criteria established in the Utilities' policies. Customers are paid interest on deposits at the rate established annually by the Minnesota Department of Commerce.

### **Unearned Revenues**

Under the terms of a 2015 agreement, the Electric Utility constructed a substation to meet the specifications of a large customer. The customer paid a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and for substation capacity in excess of current needs. Per the agreement, the customer can earn a refund of a portion of the CIAC related to excess capacity based on their measured load over the term from 2019 through 2027. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. During 2021, \$246,000 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2021, \$1,476,000 of the potential refund remained recorded as an Unearned Revenue. The amount of Unearned Revenue will be reduced each year through the remainder of the ten-year term, having either been refunded to the customer if load requirement has been met, or recorded as a Contribution in Aid of Construction if not met. The substation went in service in May, 2017.

As of December 31, 2021, customers have paid the Electric Utility \$237,357 as advances for construction of utility infrastructure, which is reflected as Unearned Revenue. When the construction has been completed, such amounts will be recorded as Capital Contributions.

### **Long-Term Debt**

Long-term debt and other obligations are reported as the Utilities' liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Gains or losses on prior bond refunding are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association of Minnesota (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Inflows of Resources**

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

The Electric Utility leases a portion of its transmission system, known as the North Loop, to SMMPA under a non-cancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and annual lease revenues of \$36,420 are being recognized ratably over the lease term. The amount deferred as of December 31, 2021 was \$301,175.

Beginning in January, 2018, the Electric Utility, working through its primary power supplier SMMPA, began a new program offering called SolarChoice whereby customers can subscribe to one or more solar panels from a utility-scale solar installation contracted to SMMPA. Each month customers receive a bill credit for the amount of energy generated by their subscribed panels. The subscription cost of \$650 per solar panel was initially recorded as a deferred inflow and is being recognized into revenue ratably over the twelve-year term of the subscription, 2019 through 2029. As of December 31, 2021 \$370,067 remained as deferred.

At the end of 2021, the Electric Utility had advanced payments of \$129,980, which included the unamortized portion of capacity sales, as well as advanced payments for leased space on poles.

See Note 8 for additional information regarding pension deferred outflows (inflows) of resources.

### **REVENUES AND EXPENSES**

The Utilities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Charges for Services**

Billings are rendered and recorded monthly based on metered usage.

Current electric and water rates were approved by the Utility Board and the City Council and placed into effect on January 1, 2020.

#### **Transfers**

Transfers include the payment in lieu of taxes to the municipality and outgoing contributions in aid of construction when the payment is between the two utilities that comprise RPU.

### **Capital Contributions**

Cash and capital assets are contributed to the Utilities from customers, the municipality or external parties. The value of property contributed to the Utilities is reported as revenues on the statement of revenues, expenses and changes in net position.

### **Significant Customers**

The top ten users of the Electric Utility represent sales of 325,686 megawatt hours (mWh) of use, which is 28.5% of the total retail mWh sales in 2021. These users also represent \$45,529,924 or 26.0% of the total 2021 operating revenues. The top two users of RPU account for approximately 194,312 mWh of use, which is 17.0% of the total retail mWh sales in 2021 and represents \$27,583,400 or 15.7% of the total 2021 operating revenues. Section 13.685 of the Minnesota Statutes does not allow the disclosure of the identity of privately owned companies or individuals and their electric consumption, so the top ten users cannot be disclosed. RPU is not aware of any significant changes by these users that would affect the overall consumption or revenue production by its biggest customers.

The top ten users of the Water Utility represent sales of 1,048,982 hundred cubic feet (ccf) of use, which is 17.7% of the total ccf sales in 2021. These users also represent \$1,232,590 or 9.8% of the total 2021 operating revenues. The top two users of RPU account for approximately 685,340 ccf of use, which is 11.6% of the total ccf sales in 2021 and represents \$805,996 or 6.4% of the total 2021 operating revenues.

### **EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS**

GASB has approved GASB Statements No. 87, *Leases*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, Statement No. 93, *Replacement of Interbank Offered Rates*, Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangement*, Statement No. 96, *Subscription-Based Information Technology Arrangements* and Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. When they become effective, application of these standards may restate portions of these financial statements.

## **NOTE 2: Deposits and Investments**

All deposits are insured or collateralized by securities held by the City of Rochester or its agents in the City's name.

The Utilities' equity in the City of Rochester cash and investment pool is based on actual cash receipts and disbursements and a monthly allocation of investment earnings on a pro-rata basis. Investments held in the investment pool, associated risks and fair value measurements are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2021 Annual Comprehensive Financial Report.

### NOTE 3: Due to the Municipality

The following is a schedule of balances as of December 31, 2021:

<u>Due To</u>	<u>Due From</u>	<u>Principal Purpose</u>	<u>2021 Amount</u>
Municipality	Electric	General operating	\$129,119
Municipality	Electric	Street light project	260,311
Municipality	Electric	Payments in lieu of tax	693,832
Municipality	Electric	Sewer and Stormwater revenue	3,466,027
<b>Total Electric Due To Municipality</b>			<u>4,549,289</u>
Electric	Municipality	Sewer and Stormwater billing fees	152,237
Electric	Municipality	Utility bills	159,198
Electric	Municipality	Utility bill collections	536
Electric	Municipality	General operating	9,866
Electric	Municipality	Interest on investments	312,369
<b>Total Electric Due From Municipality</b>			<u>634,206</u>
<b>Electric Net Due to Municipality</b>			<u>\$3,915,083</u>
Municipality	Water	General operating	\$12,875
Municipality	Water	Water construction projects	1,591,352
Municipality	Water	Payments in lieu of tax	26,883
<b>Total Water Due To Municipality</b>			<u>1,631,110</u>
Water	Municipality	Utility bills	11,382
Water	Municipality	General operating	343
<b>Total Water Due From Municipality</b>			<u>11,725</u>
<b>Water Net Due to Municipality</b>			<u>\$1,619,385</u>

The following is a schedule of transfer balances for the year ending December 31, 2021:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Principal Purpose</u>	<u>2021 Amount</u>
Electric	Municipality	Tax Equivalents	<u>\$8,469,289</u>
Water	Municipality	Tax Equivalents	<u>\$407,125</u>

### NOTE 4: Restricted Assets

Certain proceeds of the Utilities' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets of the Electric Utility:

	<u>2021</u>
<b>Current Assets</b>	
<b>Debt Service Account</b>	<u>\$1,141,160</u>
Used to segregate resources accumulated for debt service payments over the next twelve months.	
<b>Noncurrent Assets</b>	
<b>Reserve Account</b>	<u>\$12,072,991</u>
Proceeds deposited to be used to pay principal and interest payments on long-term debt.	

## NOTE 5: Changes in Capital Assets

### ELECTRIC

A summary of changes in electric capital assets for 2021 follows:

	<u>Balance 01/01/21</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/21</u>
Capital assets, not being depreciated:				
Construction in progress	\$13,473,183	\$9,067,791	\$5,945,803	\$16,595,171
Land and land rights	9,543,522	1,721,140	-	11,264,662
Total capital assets, not being depreciated	<u>23,016,705</u>	<u>10,788,931</u>	<u>5,945,803</u>	<u>27,859,833</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	67,264,344	2,719,135	-	69,983,479
Installations, equipment and fixtures	431,624,789	8,832,451	2,246,353	438,210,887
Total capital assets, being depreciated	<u>498,889,133</u>	<u>11,551,586</u>	<u>2,246,353</u>	<u>508,194,366</u>
Less: Accumulated depreciation	<u>246,883,505</u>	<u>14,298,858</u>	<u>1,651,140</u>	<u>259,531,223</u>
Depreciable Assets, Net	<u>252,005,628</u>			<u>248,663,143</u>
Net Capital Assets	<u>\$275,022,333</u>			<u>\$276,522,976</u>

In 2021, noncash capital assets totaling \$246,000 were contributed to the Electric Utility by others. Cash contributions in aid of construction were \$4,686,703.

### WATER

A summary of changes in water capital assets for 2021 follows:

	<u>Balance 01/01/21</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/21</u>
Capital assets, not being depreciated:				
Construction in progress	\$4,287,566	\$7,254,059	\$3,265,778	\$8,275,847
Land and land rights	677,486	-	-	677,486
Total capital assets, not being depreciated	<u>4,965,052</u>	<u>7,254,059</u>	<u>3,265,778</u>	<u>8,953,333</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	19,189,171	-	-	19,189,171
Installations, equipment and fixtures	132,792,277	3,639,700	232,410	136,199,567
Total capital assets, being depreciated	<u>151,981,448</u>	<u>3,639,700</u>	<u>232,410</u>	<u>155,388,738</u>
Less: Accumulated depreciation	<u>56,746,775</u>	<u>2,784,872</u>	<u>105,973</u>	<u>59,425,674</u>
Depreciable Assets, Net	<u>95,234,673</u>			<u>95,963,064</u>
Net Capital Assets	<u>\$100,199,725</u>			<u>\$104,916,397</u>

In 2021, noncash capital assets totaling \$202,345 were contributed to the Water Utility by other funds of the City of Rochester, and others contributed \$2,957,679 to the Utility. Cash contributions in aid of construction were \$539,599.

## NOTE 6: Long-Term Obligations

### ELECTRIC

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/21
02/10/21	Revenue Bond Series 2021A-Advance refund the 2013B issue	12/1/43	1.375-2.30%	\$37,170,000	\$36,125,000
02/15/17	Revenue Bond Series 2017A-Westside Energy Station, Customer Service Center expansion, transmission and substation work, distribution system expansion, and refund remaining 2007C issue	12/1/47	2.00-5.00%	108,255,000	96,625,000
11/17/15	Revenue Bond Series 2015E-Advance refund a portion of the 2007C issue	12/1/30	3.00-5.00%	39,970,000	29,075,000
05/29/13	Revenue Bond Series 2013B-CapX2020 Southwest Metro to Rochester to La Crosse transmission line project	12/1/43	3.00-5.00%	38,370,000	-

Revenue bond debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$7,085,000	\$6,608,918	\$13,693,918
2023	7,395,000	6,294,868	13,689,868
2024	7,730,000	5,966,068	13,696,068
2025	8,005,000	5,681,868	13,686,868
2026	8,305,000	5,386,367	13,691,367
2027-2031	40,725,000	21,727,637	62,452,637
2032-2036	22,630,000	15,783,637	38,413,637
2037-2041	27,380,000	11,024,145	38,404,145
2042-2046	27,200,000	5,079,965	32,279,965
2047	5,370,000	268,500	5,638,500
	<u>\$161,825,000</u>	<u>\$83,821,973</u>	<u>\$245,646,973</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are paid off. Principal and interest paid for 2021 was \$13,278,436, which consisted of scheduled principal and interest payments. Total gross revenues as defined for the same period were \$174,865,640. Annual principal and interest payments are expected to require 5.4% of gross revenues on average.

NOTE 6: Long-Term Obligations (continued)...

On February 10, 2021, taxable bonds in the amount of \$37.17 million were issued with an average interest rate of 1.94% to advance refund \$33.995 million of outstanding bonds with an average interest rate of 4.74%. The cash flow requirements on the old bonds prior to the advance refunding were \$55,960,475 from 2021 through 2043. The cash flow requirements on the new bonds are \$46,632,758. The advance refunding resulted in an economic gain of \$6,641,823. The bonds are callable on December 1, 2023. At December 31, 2021, \$33,995,000 of bonds outstanding are considered defeased.

All of the Utility's outstanding revenue bonds contain a provision that upon the occurrence and continuation of an event of default, the bond owners' trustee, or if there is none, the owners of 25% in aggregate amount of the parity bonds then outstanding, may, by written notice to the City, declare the entire unpaid principal of the parity bonds due and payable.

### LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC

Long-term obligation activity for the year ended December 31, 2021 is as follows:

	<u>01/01/21 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/21 Balance</u>	<u>Due Within One Year</u>
Long-term debt	\$165,165,000	\$37,170,000	\$40,510,000	\$161,825,000	\$7,085,000
Bond discount/premium	16,914,837	812,766	4,955,371	12,772,232	-
Accrued Compensated Absences	3,422,829	383,486	86,325	3,719,990	2,160,607
Pre-1968 Pension Liability	6,000	-	-	6,000	-
Net Pension Liability	14,285,386	-	4,179,326	10,106,060	-
Unearned Revenue	1,777,751	181,606	246,000	1,713,357	-
Totals	<u>\$201,571,803</u>	<u>\$38,547,858</u>	<u>\$49,977,022</u>	<u>\$190,142,639</u>	<u>\$9,245,607</u>

### LONG-TERM OBLIGATIONS SUMMARY – WATER

Long-term obligation activity for the year ended December 31, 2021 is as follows:

	<u>01/01/21 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/21 Balance</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$537,855	\$50,253	\$84,398	\$503,710	\$313,678
Net Pension Liability	1,807,972	-	471,978	1,335,994	-
Totals	<u>\$2,345,827</u>	<u>\$50,253</u>	<u>\$556,376</u>	<u>\$1,839,704</u>	<u>\$313,678</u>

### INTEREST EXPENSE – ELECTRIC

	<u>2021</u>
Bond interest expense	\$6,933,542
Bond premium, discount & refunding amortization	(1,395,330)
Interest expense	11,421
Totals	<u>\$5,549,633</u>

## NOTE 7: Net Position

GASB Statement No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

### NET INVESTMENT IN CAPITAL ASSETS

This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources are included in the same net position component (restricted or unrestricted) as the unspent amount.

### RESTRICTED

This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

### UNRESTRICTED

This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

## NOTE 8: Pension Plans

### A. Plan Description

The Utilities, as departments of the City of Rochester, participate in the General Employees Retirement Plan cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time and certain part-time employees of the Utilities are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.



## **B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

## **C. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2021 and the Utilities were required to contribute 7.5% for Coordinated Plan members. The Utilities' contributions to the General Employees Fund for the year ended December 31, 2021, were \$1,300,148 and \$171,947 for the Electric Utility and Water Utility respectively. The Utilities' contributions were equal to the required contributions as set by state statute.

## D. Pension Costs

At December 31, 2021, the Electric Utility reported a liability of \$10,106,060, and the Water Utility reported a liability of \$1,335,994 as each utility's allocated share of the City of Rochester's proportionate share of \$33,471,771 of the General Employees Fund's net pension liability. The City of Rochester's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Rochester totaled \$1,022,240.

The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Rochester's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.7838% at the end of the measurement period and 0.7818% for the beginning of the period.

City of Rochester's proportionate share of the net pension liability	\$33,471,771
State of Minnesota's proportionate share of the net pension liability associated with the City of Rochester	1,022,240
Total	<u>\$34,494,011</u>

For the year ended December 31, 2021, the Electric Utility and Water Utility recognized pension expense (income) of (\$6,435) and \$91,883 respectively as allocated shares of the City of Rochester's General Employees Plan's pension expense. In addition, the City recognized an additional \$82,478 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2021, the Electric Utility reported its allocated share of the City of Rochester's General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$59,717	\$309,518
Changes in actuarial assumptions	6,170,551	221,878
Net collective difference between projected and actual investment earnings	-	8,740,545
Changes in proportion	318,661	-
Contributions paid to PERA subsequent to the measurement date	653,013	-
Total	<u>\$7,201,942</u>	<u>\$9,271,941</u>

The \$653,013 reported as deferred outflows of resources related to pensions resulting from Electric Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>Pension Expense Amount</b>
2022	(\$272,001)
2023	3,518
2024	(67,325)
2025	(2,387,204)

At December 31, 2021, the Water Utility reported its allocated share of the City of Rochester’s General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual economic experience	\$7,408	\$40,715
Changes in actuarial assumptions	815,730	27,910
Net collective difference between projected and actual investment earnings	-	1,157,450
Changes in proportion	40,479	-
Contributions paid to PERA subsequent to the measurement date	84,279	-
Total	\$947,896	\$1,226,075

The \$84,279 reported as deferred outflows of resources related to pensions resulting from Water Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>Pension Expense Amount</b>
2022	(\$34,097)
2023	(1,933)
2024	(10,846)
2025	(315,582)

### E. Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100.0%	

### F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The table is adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.5% to 6.5%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

### G. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### H. Pension Liability Sensitivity

The following presents the Electric Utility's and Water Utility's allocated shares of the City of Rochester's net pension liability for the General Employees Fund plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what each utility's allocated share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
Electric Utility's allocated share of the General Employees Fund net pension liability:	\$20,611,204	\$10,106,060	\$1,485,949
Water Utility's allocated share of the General Employees Fund net pension liability:	\$2,724,745	\$1,335,994	\$196,438

### I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

### J. Other Pension Plans

The Utilities had maintained an unqualified supplemental pension plan. The plan was unfunded and was discontinued in 1968. Funds have been deposited with a plan administrator to fund the estimated benefits due under the plan. The pension reserve deposit as of December 31, 2021 was \$28,748.

### **K. Defined Contribution Plan (457 Plan)**

The City of Rochester offers a 457 plan (Plan) to all eligible employees who elect to make contributions to the Plan. The City intends to maintain the Plan as an eligible deferred compensation plan within the meaning of section 457(b) of the Internal Revenue Code. Participation in the Plan is voluntary and not a requirement of employees. The Plan is participant-directed and available to all City of Rochester employees which permits them to defer a portion of their salary until future years. The City of Rochester does not provide contributions to the Plan. The City contracts with two deferred compensation plan vendors to offer retirement plan benefits. These vendors are Empower Retirement and Mission Square Retirement.

## **NOTE 9: Risk Management**

The Utilities are exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions. These risks are covered through the purchase of commercial insurance, with deductibles up to \$1,000,000 depending on the covered asset. Settled claims have not exceeded the commercial liability in any of the past two years. There were no significant reductions in coverage compared to the prior year.

The City of Rochester has established a self-insurance program for group health coverage and workers' compensation. RPU participates in this self-insurance program. The group health program is limited to losses of \$325,000 per claim with a variable annual aggregate, and the workers' compensation coverage is limited to \$500,000 per occurrence, both through the use of stop-loss policies. The City recognizes a liability on individual claims when a loss is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on claims that have been incurred but not yet reported. Additional details regarding the self-insurance program are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2021 Annual Comprehensive Financial Report.

## **NOTE 10: Accounting for the Effects of Rate Regulation**

The Utilities are subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 10, 1989 FASB and AICPA Pronouncements*. This statement recognizes the economic ability of regulators, through the rate-making process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Utilities record these future economic benefits and obligations as regulatory assets and deferred inflows of resources, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Deferred inflows of resources represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the rate-making process.

In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No.

62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities' costs of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the entities' costs can be charged to and collected from customers.

Based upon the Utilities' management evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Utilities believe that GASB Statement No. 62 continues to apply.

## **NOTE 11: Commitments and Contingencies**

### **RESOURCE MANAGEMENT AGREEMENT**

The Electric Utility has a Resource Management Agreement with The Energy Authority, Inc. as its market participant in the Midcontinent Independent System Operator (MISO) energy and operating reserves market for the Cascade Creek combustion turbines and Westside Energy Station reciprocating engines.

### **SERVICE TERRITORY SETTLEMENTS**

Under settlement agreements with People's Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 14.91 mills (tenths of a cent) per kWh to 26.62 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over forty years.

### **SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY**

The Electric Utility is a voting member of SMMPA. The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,168,294,437 kilowatt hours totaling \$86,446,080 from SMMPA during the year ended December 31, 2021.

In October of 2021, RPU recorded as operating revenue a \$5,097,780 distribution of general

operating reserves from SMMPA. A partial payment was received in February 2022, and the remainder is expected to be received in July 2022.

The Utility leases a portion of its electrical transmission system, known as the North Loop, to SMMPA under a non-cancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and annual lease revenues of \$36,420 are being recognized ratably over the lease term.

**CENTRAL MINNESOTA MUNICIPAL POWER AGENCY**

The Electric Utility has an agreement with Central Minnesota Municipal Power Agency (CMMPA) for the purchase of capacity. The remaining contract quantities and prices are as follows:

Planning Year	Megawatts (per month)	Contract Price (\$ per MW)	Purchase Price
June 1, 2021-May 31, 2022	11	\$4,000	\$528,000

**OPEN CONSTRUCTION CONTRACTS AND OTHER SIGNIFICANT COMMITMENTS**

The Utilities have several active projects and agreements as of December 31, 2021. At year end, the Utilities’ significant commitments are as follows:

<u>Electric Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Substation Projects	\$1,613,796	\$3,130,337
Maintenance & Warranty Agreements	644,417	1,283,128
Stock Materials & Tools	26,459	997,151

<u>Water Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Building Replacement - Well #26	\$100,049	\$381,527
Well 16 Conversion	131,385	156,221
Stock Materials & Chemicals	-	56,488

**CLAIMS AND JUDGMENTS**

From time to time, the Utilities are party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Utilities’ attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Utilities’ financial position or results of operations.



## NOTE 12: Subsequent Events

In October 2021, the Utility Board approved and in December 2021, the City Council approved a 1.5% general rate increase for the Electric Utility. The change is effective January 1, 2022.

In October 2021, the Utility Board approved and in December 2021, the City Council approved a 2.5% general rate increase for the Water Utility, along with the addition of a water service line repair program, Service Assured, for all residential customers. The change is effective January 1, 2022.

On January 25, 2022, the RPU Board of Directors approved a two-year extension between the Electric Utility and A&A Electric and Underground Construction, Inc., effective May 1, 2022 through April 30, 2024, for directional boring and related services. Proposed pricing is \$697,045 for 2022 and \$732,380 for 2023.

On February 4, 2022, the RPU Board of Directors approved an additional \$1,020,000 for the Westinghouse Gas Turbine Overhaul Project for the Electric Utility.

On February 22, 2022, the RPU Board of Directors approved a contract between the Electric Utility and Alvin E. Benike, Inc. DBA Benike Construction of \$3,383,600, plus contingency of \$338,360, for the Marion Road Substation site construction and control building.

On February 22, 2022, the RPU Board of Directors approved a bid for the Electric Utility from Galvanizers, Inc. of \$353,020 for structural steel supports for the Marion Road Substation.

On February 22, 2022, the RPU Board of Directors approved an agreement between the Electric Utility and with Crown Technical Systems in an amount not to exceed \$1,244,895, plus applicable tax for the Marion Road Substation metalclad switchgear project.

On February 22, 2022, the RPU Board of Directors approved services with Util-Assist Inc. for Automated Metering Infrastructure Consulting with the Electric Utility in an amount of \$364,914, plus a contingency of \$10,000, and delegate approval of the final statement of work to the General Manager and City Attorney. This authorizes the RPU Project Manager to perform the acts necessary to execute the project.

On March 22, 2022, the RPU Board of Directors approved a bid for the Electric Utility from Altec Inc. in the amount of \$206,602 plus applicable tax for digger derrick, utility body and installation.

On March 22, 2022, the RPU Board of Directors approved an agreement between the Electric Utility and Meyer Utility Structures, LLC in the amount of \$250,599 plus applicable tax for steel transmission poles for the Marion Road Substation project.

In preparing these financial statements, Rochester Public Utilities has evaluated events and transactions for potential recognition or disclosure through March 30, 2022, the date the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2021

The Schedule of Employer Contributions shows the employer's required annual contributions from the annual actuarial valuation, compared with the actual contributions remitted over the past ten years.

## Schedule of Rochester Public Utilities – Electric Utility Contributions Public Employees General Employees Retirement Fund Required Supplementary Information (Last Ten Years\*)

Fiscal Year Ending (for the Financial Reporting Period)	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2015	\$1,053,611	\$1,053,611	\$ -	\$14,048,147	7.5%
December 31, 2016	\$1,047,623	\$1,047,623	\$ -	\$13,968,307	7.5%
December 31, 2017	\$1,123,064	\$1,123,064	\$ -	\$14,974,187	7.5%
December 31, 2018	\$1,189,801	\$1,189,801	\$ -	\$15,864,013	7.5%
December 31, 2019	\$1,258,692	\$1,258,692	\$ -	\$16,782,560	7.5%
December 31, 2020	\$1,276,070	\$1,276,070	\$ -	\$17,014,267	7.5%
December 31, 2021	\$1,300,148	\$1,300,148	\$ -	\$17,335,302	7.5%

\*This schedule is presented prospectively beginning with the fiscal year ended December 31, 2015.

## Schedule of Rochester Public Utilities – Water Utility Contributions Public Employees General Employees Retirement Fund Required Supplementary Information (Last Ten Years\*)

Fiscal Year Ending (for the Financial Reporting Period)	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2015	\$125,932	\$125,932	\$ -	\$1,679,093	7.5%
December 31, 2016	\$125,295	\$125,295	\$ -	\$1,670,600	7.5%
December 31, 2017	\$131,642	\$131,642	\$ -	\$1,755,227	7.5%
December 31, 2018	\$138,727	\$138,727	\$ -	\$1,849,693	7.5%
December 31, 2019	\$157,836	\$157,836	\$ -	\$2,104,480	7.5%
December 31, 2020	\$161,082	\$161,082	\$ -	\$2,147,760	7.5%
December 31, 2021	\$171,947	\$171,947	\$ -	\$2,292,624	7.5%

\*This schedule is presented prospectively beginning with the fiscal year ended December 31, 2015.

See accompanying *Independent Auditors' Report* and accompanying *Note to the Required Supplementary Information*.

**Schedule of Rochester Public Utilities – Electric Utility Proportionate Share of Net Pension Liability  
Public Employees General Employees Retirement Fund  
Required Supplementary Information (Last Ten Years\*)**

<b>Fiscal Year Ending (for the Measurement Period)</b>	<b>City of Rochester's Proportion (Percentage) of Net Pension Liability (Asset)</b>	<b>RPU Electric Utility's Allocated Share (Amount) of the Net Pension Liability (Asset) (a)</b>	<b>RPU Electric Utility's Covered Payroll (b)</b>	<b>RPU Electric Utility's Allocated Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
June 30, 2015	0.7410%	\$11,722,132	\$13,004,761	90.14%	78.19%
June 30, 2016	0.7271%	\$17,900,174	\$13,124,826	136.38%	68.91%
June 30, 2017	0.7701%	\$15,060,666	\$13,811,891	109.04%	75.90%
June 30, 2018	0.7471%	\$12,826,294	\$14,829,552	86.49%	79.53%
June 30, 2019	0.7473%	\$12,584,021	\$15,488,263	81.25%	80.23%
June 30, 2020	0.7818%	\$14,285,386	\$16,299,411	87.64%	79.06%
June 30, 2021	0.7838%	\$10,106,060	\$17,408,524	58.05%	87.00%

\*This schedule is presented prospectively beginning with the fiscal year ended June 30, 2015.

**Schedule of Rochester Public Utilities – Water Utility Proportionate Share of Net Pension Liability  
Public Employees General Employees Retirement Fund  
Required Supplementary Information (Last Ten Years\*)**

<b>Fiscal Year Ending (for the Measurement Period)</b>	<b>City of Rochester's Proportion (Percentage) of Net Pension Liability (Asset)</b>	<b>RPU Water Utility's Allocated Share (Amount) of the Net Pension Liability (Asset) (a)</b>	<b>RPU Water Utility's Covered Payroll (b)</b>	<b>RPU Water Utility's Allocated Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
June 30, 2015	0.7410%	\$1,400,562	\$1,512,163	92.62%	78.19%
June 30, 2016	0.7271%	\$2,105,210	\$1,582,656	133.02%	68.91%
June 30, 2017	0.7701%	\$1,756,779	\$1,646,190	106.72%	75.90%
June 30, 2018	0.7471%	\$1,494,729	\$1,696,245	88.12%	79.53%
June 30, 2019	0.7473%	\$1,561,107	\$1,926,372	81.04%	80.23%
June 30, 2020	0.7818%	\$1,807,972	\$2,044,475	88.43%	79.06%
June 30, 2021	0.7838%	\$1,335,994	\$2,267,310	58.92%	87.00%

\*This schedule is presented prospectively beginning with the fiscal year ended June 30, 2015.

See accompanying *Independent Auditors' Report* and accompanying *Note to the Required Supplementary Information*.

# NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2021

## NOTE 1: General Employees Fund administered by the Public Employees Retirement Association of Minnesota (PERA)

The amounts determined for each fiscal year were determined as of the calendar year end that occurred within the fiscal year. The City of Rochester is required to present the last ten fiscal years of data; however, accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

### 2021 CHANGES:

#### Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.5% to 6.5%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

#### Changes in Plan Provisions:

- There were no changes since the prior valuation.

### 2020 CHANGES:

#### Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.

See accompanying *Independent Auditors' Report*.

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

**Changes in Plan Provisions:**

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**2019 CHANGES:**

**Changes in Actuarial Assumptions:**

- The mortality projection scale was changed from MP-2017 to MP-2018.

**Changes in Plan Provisions:**

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

**2018 CHANGES:**

**Changes in Actuarial Assumptions:**

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

**Changes in Plan Provisions:**

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90.0% funding ratio to 50.0% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

See accompanying *Independent Auditors' Report*.

## **2017 CHANGES:**

### **Changes in Actuarial Assumptions:**

- The combined service annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

### **Changes in Plan Provisions:**

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

## **2016 CHANGES:**

### **Changes in Actuarial Assumptions:**

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

### **Changes in Plan Provisions:**

- There have been no changes since the prior valuation.

## **2015 CHANGES:**

### **Changes in Actuarial Assumptions:**

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

### **Changes in Plan Provisions:**

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

See accompanying *Independent Auditors' Report*.

# OPERATING AND FINANCIAL STATISTICS

## (unaudited)

### ELECTRIC

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2011</u> <i>(ten years ago)</i>
<b>RETAIL CUSTOMERS:</b>						
Residential	53,058	52,531	51,344	50,353	49,323	44,700
Industrial / Commercial	5,120	5,099	5,034	4,978	4,906	4,703
Other	4	4	4	4	4	4
Total Retail Customers	58,182	57,634	56,382	55,335	54,233	49,407
<b>RETAIL SALES: (mWh)</b>						
Residential	381,177	373,658	353,018	362,234	339,825	346,088
Industrial / Commercial	747,692	740,236	807,006	828,314	833,337	879,592
Other	12,545	14,074	14,434	14,530	14,686	15,525
Total Retail Sales (mWh)	1,141,414	1,127,968	1,174,458	1,205,078	1,187,848	1,241,205
<b>RETAIL REVENUE:</b>						
Residential	\$56,798,847	\$55,698,487	\$53,611,935	\$53,451,092	\$49,179,998	\$42,565,163
Industrial / Commercial	84,814,704	83,472,364	91,871,263	93,347,616	91,660,540	82,380,015
Other	5,105,482	4,804,095	2,456,914	5,115,153	5,938,292	5,752,822
Total Retail Revenue	\$146,719,033	\$143,974,946	\$147,940,112	\$151,913,861	\$146,778,830	\$130,698,000
Steam Sales (MLBs)	457,284	498,039	362,699	330,033	439,864	459,491
Steam Revenues	\$6,840,976	\$4,811,514	\$3,809,740	\$4,322,168	\$4,418,805	\$5,512,332
Annual Peak (Megawatts)	270.3	265.3	283.8	277.1	266.2	292.1
Total mWh Generated	99,624	65,866	74,651	112,657	38,968	25,375
Total mWh Purchased	1,172,624	1,152,434	1,204,808	1,228,695	1,216,551	1,263,798
Year End Restricted/ Unrestricted Cash & Investment Balance	\$116,987,025	\$104,543,197	\$102,858,897	\$92,950,417	\$94,046,678	\$45,025,194

### WATER

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2011</u> <i>(ten years ago)</i>
<b>RETAIL CUSTOMERS:</b>						
Residential	37,514	37,238	36,860	36,531	36,134	33,827
Industrial / Commercial	3,690	3,631	3,607	3,668	3,614	3,442
Total Retail Customers	41,204	40,869	40,467	40,199	39,748	37,269
<b>RETAIL SALES: (ccf)</b>						
Residential	3,050,632	2,921,681	2,521,799	2,657,659	2,713,284	2,931,422
Industrial / Commercial	2,872,053	2,672,310	2,808,574	2,960,502	3,061,222	2,893,886
Total Retail Sales (ccf)	5,922,685	5,593,991	5,330,373	5,618,161	5,774,506	5,825,308
<b>RETAIL REVENUE:</b>						
Residential	\$6,615,552	\$6,433,325	\$5,786,153	\$5,549,146	\$5,189,102	\$4,290,474
Industrial / Commercial	3,852,026	3,641,258	3,612,834	3,523,158	3,409,516	2,741,480
Public Fire Protection	596,318	590,779	560,258	528,273	522,724	549,014
Total Retail Revenue	\$11,063,896	\$10,665,362	\$9,959,245	\$9,600,577	\$9,121,342	\$7,580,968
Total Pumped (billion gallons)	4.6	4.4	4.3	4.4	4.5	4.5
Year End Restricted/ Unrestricted Cash & Investment Balance	\$12,902,983	\$11,975,432	\$10,529,197	\$9,334,809	\$7,122,783	\$6,536,257

## LEADERSHIP



**Mark Kotschevar**  
General Manager



**Scott Nickels**  
Director of  
Core Services



**Peter Hogan**  
Director of  
Corporate Services



**Steve Nyhus**  
Director of  
Compliance and  
Public Affairs



**Jeremy Sutton**  
Director of  
Power Resources



**Krista Boston**  
Director of  
Customer Relations

## UTILITY BOARD



**Melissa Graner  
Johnson, J.D.**  
Board President  
Trust Officer  
– U.S. Bank



**Brett Gorden,  
P.E., M.B.A**  
Board Vice President  
Section Head,  
Facilities Management  
– Mayo Clinic



**Patrick Keane**  
Board Member &  
City Council Liaison  
City Council Member  
– City of Rochester



**Tim Haskin**  
Board Member  
Director,  
Sales Consulting  
– Sabre Technologies/  
PRISM Group



**Brian Morgan, P.E.**  
Board Member  
Senior Engineer  
– Short Elliott  
Hendrickson, Inc.

## ADVISORS AND CONSULTANTS

Baker Tilly US, LLP • Independent Auditors  
Kennedy & Graven • Bond Counsel  
Baker Tilly Municipal Advisors, LLP • Financial Advisors

## UTILITY HEADQUARTERS

Rochester Public Utilities • 4000 East River Road NE • Rochester, MN 55906-2813  
800-778-3421 • 507-280-1500 • [www.rpu.org](http://www.rpu.org)





4000 East River Road NE  
Rochester, MN 55906-2813  
800-778-3421 • 507-280-1500  
[www.rpu.org](http://www.rpu.org)