

## FOR BOARD ACTION

Agenda Item # 5

Meeting Date: 12/16/04

**SUBJECT:** Approval of 2005 Electric and Water Budgets

**PREPARED BY:** Curt Kraft, Director of Corporate Services

### ITEM DESCRIPTION:

In November staff reviewed the 2005 electric and water budgets with the finance committee and the Board as a whole. At that time, there were no changes made to the expense portion of the operating and capital budgets. The Board recommended an adjustment of 3% to the revenue portion of the electric budget based on the current position of our cash reserves.

Noteworthy items in the electric budget include a revenue forecast for 2005 which estimates a 3.8% growth in our customer base and a 5.4% growth in commodity sales over 2004. Revenue from the sale of steam is expected late in 2005 along with the reduction in capacity revenue from the MMPA contract. Additional staffing is requested to support the customer impact on our operating and capital requirements due to continued growth. In addition, a recommendation of external financing is requested along with the suggested revenue adjustment to support the budget requirements and maintain appropriate cash reserve levels.

Items of note in the water utility are an increase of 4.3% in the customer base and a 12.3% increase in commodity sales. Revenue from rents makes up almost 75% of the water utility's other operating revenue. The requirements of having to relocate facilities due to the work being done on Hwy 52 and 63 will have a major impact on the proposed capital budget, along with the continued growth of the City, to support the requested revenue adjustment.

Summary financial sheets are attached reflecting the recommended revenue adjustments.

### UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve the 2005 electric and water budgets.

  
\_\_\_\_\_  
General Manager

  
\_\_\_\_\_  
Date

**ROCHESTER PUBLIC UTILITIES**



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## ***Rochester Public Utilities***

### ***2005 Budgets Supplement***

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2005 OPERATING BUDGET**

**ELECTRIC UTILITY - BASE CASE**

**FORECAST BY YEAR, 2004 THROUGH 2009**

(\$000's)

Revision Date: 12/02/2004

	2004*	2005	2006	2007	2008	2009
9 Sales of Electricity - Retail	84,103	92,159	96,375	101,494	106,516	111,783
10 Electric Resale Sales	17,255	17,988	11,396	12,207	12,351	13,144
11 Steam Sales	0	812	3,341	4,169	5,126	5,356
12 Other Revenues	2,465	2,515	2,594	2,805	2,891	2,980
13 Total Operating Revenues	103,823	113,475	113,706	120,676	126,884	133,263
14 Purchased Power	54,267	56,741	57,799	59,427	60,841	62,551
15 Fuel Costs	11,800	13,395	10,450	12,626	13,682	15,537
16 Depreciation Expense	6,077	5,963	6,166	6,239	6,658	7,724
17 Major Operating Expenses	72,145	76,099	74,415	78,292	81,181	85,812
18 Other Operating Expenditures	19,849	21,392	23,015	22,465	24,613	24,693
19 Net InterUtility Charges	(1,106)	(1,145)	(1,179)	(1,214)	(1,250)	(1,288)
20 Net Other Operating Expenses	18,743	20,247	21,836	21,251	23,363	23,405
21 Total Operating Expenses	90,887	96,346	96,251	99,543	104,543	109,216
22 Operating Income	12,935	17,129	17,455	21,133	22,341	24,047
23 Interest Expense, Incl AFUDC	(2,143)	(2,319)	(2,260)	(2,193)	(2,703)	(4,375)
24 Interest and Other Income	887	834	660	601	892	1,432
25 Income Before Transfers/Capital Contributions	11,679	15,643	15,854	19,541	20,530	21,103
26 Transfers (In Lieu of Tax Payments)	(6,990)	(7,589)	(7,982)	(8,484)	(8,977)	(9,499)
27 Capital Contributions	352	0	0	0	0	0
28 Change in Net Assets	5,042	8,054	7,873	11,057	11,552	11,604
29 01/01 Cash Balance	14,894	14,217	13,644	12,052	10,878	16,362
30 Cash from Operations	11,264	13,962	13,889	17,295	18,060	19,228
31 Capital Expenditures	(10,800)	(15,817)	(14,863)	(16,438)	(21,242)	(48,141)
32 Bond Principal Payments	(1,424)	(1,746)	(1,814)	(1,878)	(2,289)	(2,907)
33 Net Total Bond Sale Proceeds	0	5,000	0	0	11,000	35,000
34 Net Change in Other Assets/Liabilities	283	(1,973)	1,197	(153)	(46)	203
35 Net Changes in Cash	(677)	(574)	(1,591)	(1,174)	5,483	3,384
36 12/31 Cash Balance	14,217	13,644	12,052	10,878	16,362	19,745
37 Debt Service Coverage Ratio	5.58	5.88	5.96	6.87	5.99	4.56
38 Rate Change	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%

39 \* 2004 forecast contains 7 months of actuals and 5 months of forecast

**ROCHESTER PUBLIC UTILITIES**  
**Statement of Revenues, Expenses & Changes in Net Assets**  
**ELECTRIC UTILITY**  
**2005 ANNUAL OPERATING BUDGET**

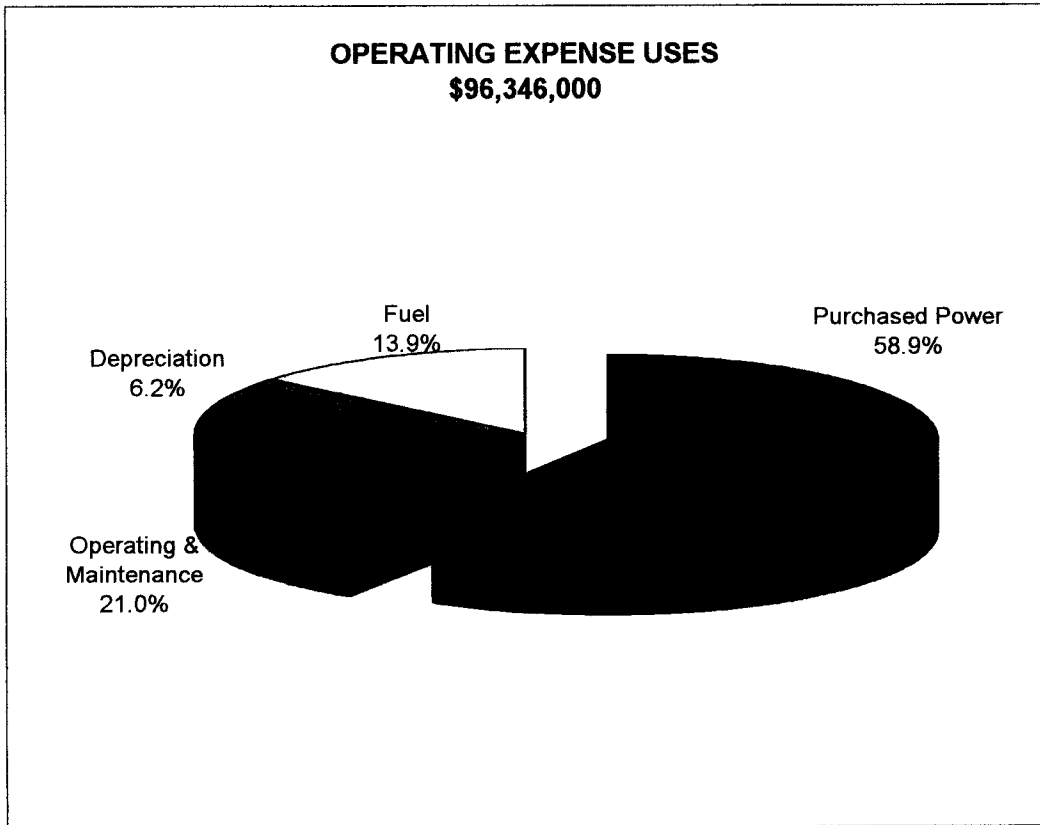
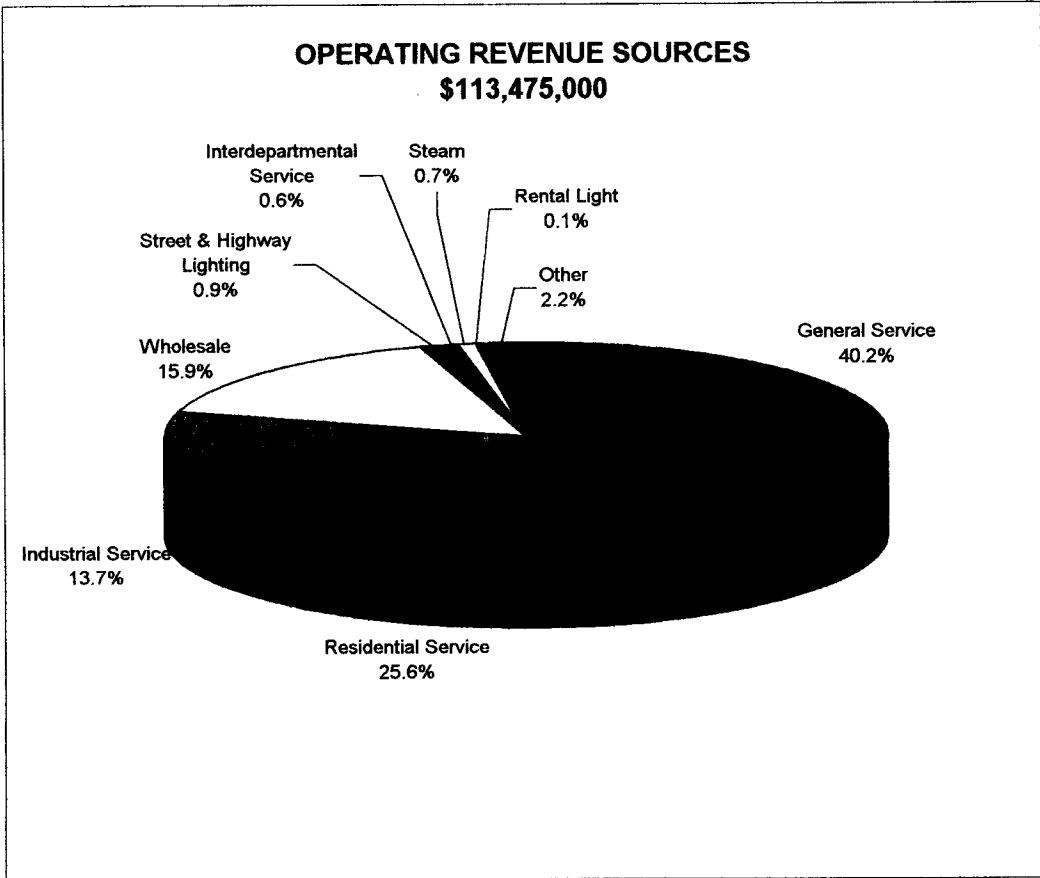
(\$000's)

	<u>2004 Forecast*</u>	<u>2005 Budget**</u>	<u>Change</u>	<u>% Change</u>
<b>OPERATING REVENUE</b>				
Retail Revenue				
Electric - Residential Service	26,383	29,048	2,665	9.2
Electric - General Service	41,841	45,656	3,815	8.4
Electric - Industrial Service	14,102	15,566	1,464	9.4
Electric - Public Street & Highway Lighting	951	1,016	65	6.4
Electric - Rental LightRevenue	144	153	9	5.9
Interdepartmental Service	682	721	39	5.4
Total Retail Revenue	84,103	92,159	8,057	8.7
Wholesale Revenue				
Energy & Fuel Reimbursement	12,491	13,598	1,107	8.1
Capacity & Demand	4,693	4,390	(302)	(6.9)
Wholesale Sales Misc	71	0	(71)	0.0
Total Wholesale Revenue	17,255	17,988	733	4.1
Steam Sales	0	812	812	100.0
Other Operating Revenue	2,465	2,515	50	2.0
<b>TOTAL OPERATING REVENUE</b>	<b>103,823</b>	<b>113,475</b>	<b>9,652</b>	<b>8.5</b>
<b>OPERATING EXPENSE</b>				
Purchased Power	54,267	56,741	2,473	4.4
Generation Fuel	11,800	13,395	1,595	11.9
Depreciation & Amortization	6,077	5,963	(114)	(1.9)
Salaries & Benefits	14,310	15,150	841	5.5
Materials, Supplies, & Services	16,338	22,058	5,720	25.9
Inter-Utility Allocations	(1,106)	(1,145)	(39)	3.4
Capitalized Expenses	(10,800)	(15,817)	(5,017)	31.7
<b>TOTAL OPERATING EXPENSE</b>	<b>90,887</b>	<b>96,346</b>	<b>5,459</b>	<b>5.7</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>12,935</b>	<b>17,129</b>	<b>4,193</b>	<b>24.5</b>
<b>NON-OPERATING INCOME</b>				
Bond Interest Expense	(2,275)	(2,328)	(53)	2.3
Bond Issuance & Discount Expense	(21)	(30)	(9)	30.0
Interest Expense	(16)	(15)	1	(6.1)
Interest Income	434	478	45	9.4
Allow for Funds Used During Const	169	159	(10)	(6.1)
Miscellaneous - Net	454	250	(204)	(81.5)
<b>TOTAL NON-OPERATING INCOME</b>	<b>(1,256)</b>	<b>(1,485)</b>	<b>(229)</b>	<b>15.4</b>
<b>INCOME (LOSS) BEFORE TRANSFERS /</b>				
<b>CAPITAL CONTRIBUTIONS</b>	<b>11,679</b>	<b>15,643</b>	<b>3,964</b>	<b>25.3</b>
<b>NET ASSETS</b>				
Transfer In (Out) [In Lieu of Tax Pmt]	(6,990)	(7,589)	(600)	7.9
Capital Contributions	352	0	(352)	0.0
<b>CHANGE IN NET ASSETS</b>	<b>5,042</b>	<b>8,054</b>	<b>3,012</b>	<b>37.4</b>
Net Assets, Beginning	102,313	107,355	5,042	5
<b>NET ASSETS, ENDING</b>	<b>107,355</b>	<b>115,408</b>	<b>8,054</b>	<b>7.0</b>

49 \* 2004 forecast contains 7 months of actuals and 5 months of forecast

50 \*\* Assumes 3% rate increase effective January 1, 2005

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2005 OPERATING BUDGET**



**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY - NORMAL YEAR  
2005 OPERATING BUDGET**

**FORECAST BY YEAR, 2004 THROUGH 2009  
(\$000's)**

Revision Date: 12/02/2004

	2004*	2005	2006	2007	2008	2009
8 Sales of Water - Retail	5,983	6,851	7,102	7,356	7,623	7,900
9 Other Revenue	449	585	616	648	679	710
10 Total Revenues	6,432	7,436	7,718	8,004	8,302	8,610
11 Electricity	667	721	770	813	859	908
12 Chemicals	112	131	140	149	159	170
13 Billing Fee	464	473	490	508	526	545
14 Depreciation Expense	1,769	1,804	1,828	1,887	1,953	2,014
15 Major Operating Expenses	3,011	3,129	3,228	3,356	3,498	3,637
16 Other Operating Expenditures	1,604	1,924	1,967	1,926	2,159	2,082
17 Interutility Charges	1,106	1,145	1,179	1,214	1,250	1,288
18 Net Other Operating Expenses	2,710	3,069	3,146	3,140	3,409	3,370
19 Total Operating Expenses	5,722	6,198	6,374	6,497	6,906	7,007
20 Operating Income	710	1,238	1,345	1,507	1,396	1,603
21 Interest and Other Income	28	34	(7)	(2)	10	26
22 Income Before Transfers/Capital Contributions	738	1,272	1,338	1,505	1,406	1,630
23 Transfers (In Lieu of Tax Payments)	(314)	(356)	(369)	(382)	(395)	(410)
24 Capital Contributions	3,211	4,000	4,000	4,000	4,000	4,000
25 Change in Net Assets	3,634	4,916	4,969	5,124	5,010	5,220
26 01/01 Cash Balance	1,990	1,314	784	1,325	1,453	1,555
27 Cash from Operations	5,403	6,720	6,797	7,010	6,964	7,233
28 Capital Expenditures	(2,996)	(3,109)	(2,951)	(2,662)	(2,646)	(2,647)
29 Non-Cash Capital Contributions	(3,211)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
30 Debt Principal Payments	0	0	(181)	(190)	(200)	(210)
31 Net Total Debt Issue Proceeds	0	0	1,000	0	0	0
32 Net Change in Assets & Liabilities	128	(142)	(124)	(30)	(17)	(17)
33 Net Change in Cash	(676)	(530)	541	128	101	359
34 12/31 Cash Balance	1,314	784	1,325	1,453	1,555	1,914
35 Rate Change	4.00%	5.00%	0.00%	0.00%	0.00%	0.00%

36 \* 2004 forecast contains 7 months actuals and 5 months forecast

**ROCHESTER PUBLIC UTILITIES**  
**Statement of Revenues, Expenses & Changes in Net Assets**  
**WATER UTILITY**  
**2005 ANNUAL OPERATING BUDGET**

(\$000's)

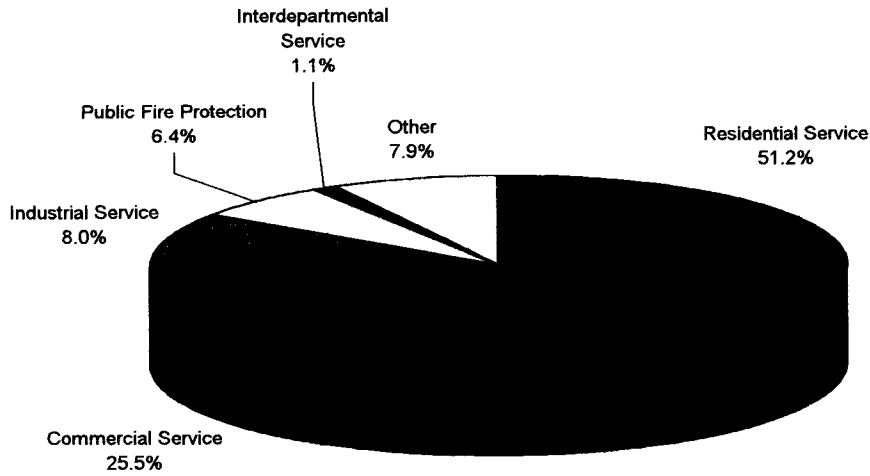
	<u>2004 Forecast*</u>	<u>2005 Budget**</u>	<u>Change</u>	<u>% Change</u>
OPERATING REVENUE				
Retail Revenue				
Water - Residential Service	3,315	3,809	494	13.0
Water - Commercial Service	1,674	1,896	222	11.7
Water - Industrial Service	488	592	105	17.7
Water - Public Fire Protection	430	475	45	9.4
Interdepartmental Service	75	79	4	4.7
Total Retail Revenue	5,983	6,851	868	12.7
Other Operating Revenue	449	585	136	23.3
<b>TOTAL OPERATING REVENUE</b>	<b>6,432</b>	<b>7,436</b>	<b>1,004</b>	<b>13.5</b>
OPERATING EXPENSE				
Depreciation & Amortization	1,769	1,804	35	1.9
Salaries & Benefits	1,482	1,630	148	9.1
Materials, Supplies, & Services	4,360	4,727	367	7.8
Inter-Utility Allocations	1,106	1,145	39	3.4
Capitalized & Other Deferred Expenses	(2,996)	(3,109)	(113)	3.6
<b>TOTAL OPERATING EXPENSE</b>	<b>5,722</b>	<b>6,198</b>	<b>476</b>	<b>7.7</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>710</b>	<b>1,238</b>	<b>528</b>	<b>42.7</b>
NON-OPERATING INCOME				
Interest Income	28	34	6	18.5
Miscellaneous - Net	0	0	0	0.0
<b>TOTAL NON-OPERATING INCOME</b>	<b>28</b>	<b>34</b>	<b>6</b>	<b>18.5</b>
<b>INCOME (LOSS) BEFORE TRANSFERS /</b>				
<b>CAPITAL CONTRIBUTIONS</b>	<b>737</b>	<b>1,272</b>	<b>534</b>	<b>42.0</b>
NET ASSETS				
Transfer In (Out) [In Lieu of Tax Pmt]	(314)	(356)	(41)	11.6
Capital Contributions	3,211	4,000	789	19.7
<b>CHANGE IN NET ASSETS</b>	<b>3,634</b>	<b>4,916</b>	<b>1,282</b>	<b>26.1</b>
Net Assets, Beginning	64,771	68,405	3,634	5.3
<b>NET ASSETS, ENDING</b>	<b>68,405</b>	<b>73,321</b>	<b>4,916</b>	<b>6.7</b>

\* 2004 forecast contains 7 months actuals and 5 months forecast

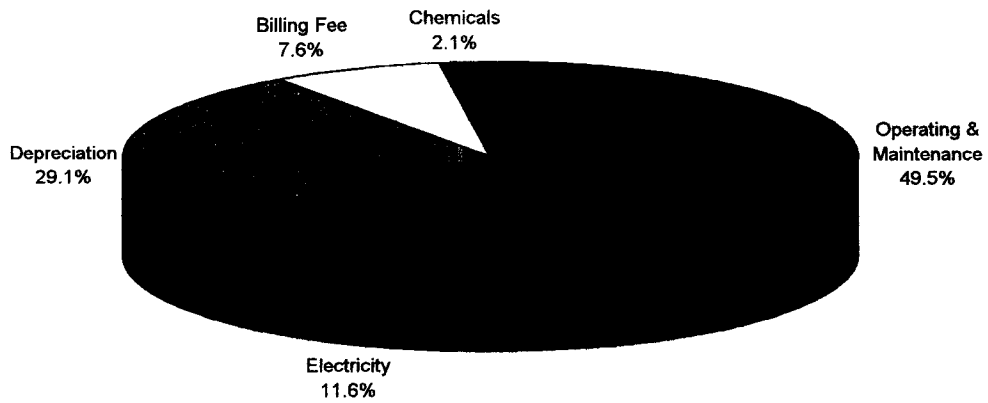
\*\* Assumes 5% rate increase effective January 1, 2005

**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
2005 OPERATING BUDGET**

**OPERATING REVENUE SOURCES  
\$7,436,000**



**OPERATING EXPENSE USES  
\$6,198,000**







## RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve the 2005 electric and water capital and operating budgets.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 16<sup>th</sup> day of December, 2004.

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President

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Secretary