

## FOR BOARD ACTION

Agenda Item # 3

Meeting Date:

11/10/09

**SUBJECT:**

Approval of the 2010 Electric and Water Budgets

**PREPARED BY:**

Sue Parker, Director of Corporate Services

**ITEM DESCRIPTION:**

In October, staff reviewed the preliminary 2010 electric and water budgets with the finance committee and the Board as a whole. The board was presented with recommendations for no rate increases in the electric or water utilities and approval of operating budgets in the amount of \$142,562,000 and \$7,911,000, respectively.

The largest expenditure in the electric budget is the wholesale power purchased from the Southern Minnesota Municipal Power Agency (SMMPA) at approximately \$91 million. The budget reflects a 4.0% increase in the wholesale power costs for 2010. Due to the proactive \$9.9 million budget reductions and financing actions taken during 2009, no electric rate increase is being proposed for 2010.

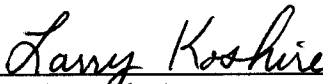
The significant current year business drivers are:

- Commitment to community to have no rate increase during tough economic times;
- Continuation of the cost reductions made during 2009 into 2010;
- Continue our strategic initiatives of safety, reliability and fiscal strength;
- Purchased power costs from our wholesale provider, SMMPA, continues to be a significant operating expense at approximately \$91 million or about 68% of our operating costs;
- Lack of demand in MISO market has made it cost prohibitive to sell energy from the Silver Lake Plant this past year and RPU is projecting no wholesales from this facility in 2010;
- Increasing our energy conservation goals to achieve a 1.5% reduction in KWh sales;
- Continuing our participation in CAPX 2020 initiative to expand the electric transmission grid to ensure reliable and affordable service; and
- Implementing a water conservation program that includes rate structures that incent conservation and educational programs while being revenue neutral to the utility.

Summary financial sheets are attached reflecting the recommended operating and capital budgets.

**UTILITY BOARD ACTION REQUESTED:**

The Board is requested to approve and recommend that the City Council approve the 2010 RPU electric and water budgets.

  
General Manager

  
Date

**ROCHESTER PUBLIC UTILITIES**

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2010 OPERATING BUDGET**

**BASIC ASSUMPTIONS**

- Cost center budgets maintained at reduced 2009 level
- Interest Earnings Rate: 3.0%
- Average Salary Expense Change: -2.3%
- Change in Full-time Equivalents: 0
- Staff Cost Savings 12 furlough days for all full time employees  
Reduction in temporary/seasonal & contract employees
- SMMPA Wholesale Power Cost: 4.0% increase
- SMMPA CROD Level: 216 MW
- Cash Reserve Requirements: Policy amount \$35,000,000

**RETAIL REVENUES / SALES**

- Revenue Adjustment: 0% Proposed
- Electric KWH Sales Forecast: 1.9 % Increase over 2009 F2 Year End Projected Sales
- Total Electric Utility Customers: 2.6% Increase over Year End 2009 F2 Projected Customers  
Includes addition of 1,100 customers from People's Coop  
accounting for 2.2% of the increase
- Forecast Assumes Normal Weather : 471 Cooling Degree Days

**WHOLESALE REVENUES / SALES & EXPENSES**

- Wholesale Revenue Forecasts
  - o Silver Lake Plant \$2,540,394
  - o Cascade Creek Gas Turbines \$348,511
  - o Steam Generation \$5,381,852
  - Total \$8,270,757 (9.4% decrease from Y/E 2009 F2 Projected Sales)
- Estimated Cost of Fuel 2010 \$4.518 / mmBtu
- Budgeted Cost of Fuel 2009 F2 \$4.949 / mmBtu

**OTHER ITEMS**

- In Lieu of Tax forecast increasing \$158,000, driven by 1.9% increase in kilowatt-hour sales.

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
Management Reporting P&L**

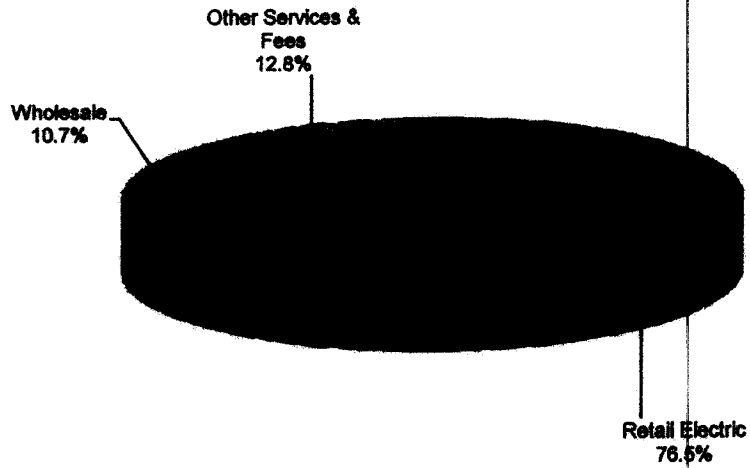
	Historical Data		2009 F2						
	2007	2008		2010	2011	2012	2013	2014	
5 In 000's									
6 RPU Rate Increase	8.0%	4.0%	5.0%	0.0%	5.0%	4.0%	2.0%	2.5%	
7 <b>Revenue</b>									
8 Retail Electric	\$116,320	\$119,169	\$122,790	\$128,099	\$136,018	\$142,763	\$147,006	\$152,550	
9 Wholesale Electric	\$29,958	\$19,130	\$3,871	\$2,889	\$8,800	\$13,449	\$13,714	\$13,961	
10 Wholesale Steam	\$4,450	\$3,772	\$5,255	\$5,382	\$6,416	\$7,027	\$7,181	\$7,338	
11 Other Services & Fees	\$6,045	\$5,391	\$6,007	\$6,191	\$6,210	\$6,275	\$6,344	\$6,417	
12 <b>Total Revenue</b>	<b>\$156,772</b>	<b>\$147,462</b>	<b>\$137,924</b>	<b>\$142,562</b>	<b>\$157,445</b>	<b>\$168,515</b>	<b>\$174,245</b>	<b>\$180,267</b>	
13 <b>Cost of Revenue</b>									
14 Power Supply	\$80,187	\$80,116	\$83,029	\$91,206	\$94,169	\$96,879	\$99,687	\$101,007	
15 Generation Fuel	\$24,523	\$16,734	\$3,031	\$3,135	\$8,996	\$12,929	\$13,207	\$13,458	
16 <b>Total Cost of Revenue</b>	<b>\$104,710</b>	<b>\$96,850</b>	<b>\$86,060</b>	<b>\$94,341</b>	<b>\$103,165</b>	<b>\$109,808</b>	<b>\$112,894</b>	<b>\$114,465</b>	
17 <b>Gross Margin</b>									
18 Retail Electric	\$36,133	\$39,053	\$39,762	\$36,893	\$41,849	\$45,884	\$47,319	\$51,543	
19 Wholesale	\$9,884	\$6,167	\$6,095	\$5,136	\$6,221	\$7,547	\$7,688	\$7,842	
20 Other Services & Fees	\$6,045	\$5,391	\$6,007	\$6,191	\$6,210	\$6,275	\$6,344	\$6,417	
21 <b>TOTAL GROSS MARGIN</b>	<b>\$52,063</b>	<b>\$50,612</b>	<b>\$51,864</b>	<b>\$48,220</b>	<b>\$54,280</b>	<b>\$59,707</b>	<b>\$61,851</b>	<b>\$65,802</b>	
22 <b>Controllable Costs</b>									
23 Salaries & Benefits	\$16,809	\$18,074	\$18,710	\$18,687	\$19,907	\$20,834	\$21,806	\$22,839	
24 Other Operating Expenses	\$14,106	\$11,757	\$10,035	\$11,094	\$11,065	\$11,363	\$11,838	\$12,302	
25 Major Maintenance	\$790	\$1,390	\$1,611	\$2,551	\$3,550	\$2,974	\$2,750	\$2,842	
26 Non-Bonded Capital Projects	\$5,310	\$6,080	\$4,423	\$4,196	\$5,079	\$5,468	\$5,366	\$9,505	
27 <b>TOTAL CONTROLLABLE COSTS</b>	<b>\$37,015</b>	<b>\$37,291</b>	<b>\$34,780</b>	<b>\$36,528</b>	<b>\$39,590</b>	<b>\$40,639</b>	<b>\$41,761</b>	<b>\$47,487</b>	
28 Depreciation & Amortization	\$6,486	\$7,808	\$9,918	\$10,096	\$10,532	\$10,814	\$11,112	\$11,409	
29 Less Non Bonded Projects (capitalized)	(\$5,310)	(\$6,030)	(\$4,423)	(\$4,196)	(\$5,079)	(\$5,468)	(\$5,366)	(\$9,505)	
30 Less Total Internal Costs (capitalized)	(\$5,903)	(\$5,585)	(\$3,131)	(\$2,012)	(\$1,535)	(\$1,879)	(\$2,074)	(\$1,977)	
31 Interutility Allocation	(\$1,041)	(\$1,223)	(\$1,536)	(\$1,668)	(\$1,710)	(\$1,753)	(\$1,797)	(\$1,842)	
32 <b>Total Operating Expenses</b>	<b>\$31,247</b>	<b>\$32,220</b>	<b>\$35,807</b>	<b>\$38,748</b>	<b>\$41,798</b>	<b>\$42,353</b>	<b>\$43,635</b>	<b>\$45,572</b>	
33 <b>Net Operating Income (Loss)</b>	<b>\$20,816</b>	<b>\$18,391</b>	<b>\$16,256</b>	<b>\$9,472</b>	<b>\$12,482</b>	<b>\$17,354</b>	<b>\$17,716</b>	<b>\$20,230</b>	
34 <b>Financing &amp; Other Non-Operating Items:</b>									
35 Bond & Interest Related Expenses	(\$3,544)	(\$4,771)	(\$4,039)	(\$4,429)	(\$5,440)	(\$5,257)	(\$5,064)	(\$4,859)	
36 Interest Income	\$3,241	\$2,626	\$1,334	\$1,173	\$1,677	\$1,606	\$1,325	\$1,335	
37 Misc Non-Operating Income (Expense)	\$287	(\$262)	(\$245)	(\$146)	(\$152)	(\$155)	(\$159)	(\$162)	
38 <b>Total Financing &amp; Non-Operating Items</b>	<b>(\$16)</b>	<b>(\$2,407)</b>	<b>(\$2,950)</b>	<b>(\$3,401)</b>	<b>(\$3,915)</b>	<b>(\$3,807)</b>	<b>(\$3,898)</b>	<b>(\$3,686)</b>	
39 <b>Income Before Transfers or Capital Contributions</b>	<b>\$20,799</b>	<b>\$15,984</b>	<b>\$13,307</b>	<b>\$6,071</b>	<b>\$8,568</b>	<b>\$13,547</b>	<b>\$13,818</b>	<b>\$16,544</b>	
40 Transfers (In Lieu of Taxes)	(\$8,526)	(\$8,391)	(\$8,383)	(\$8,541)	(\$8,809)	(\$9,105)	(\$9,414)	(\$9,771)	
41 Capital Contributions	\$135	\$3	\$0	\$0	\$0	\$0	\$0	\$0	
42 <b>NET INCOME</b>	<b>\$12,408</b>	<b>\$7,596</b>	<b>\$4,924</b>	<b>(\$2,470)</b>	<b>(\$242)</b>	<b>\$4,442</b>	<b>\$4,404</b>	<b>\$6,773</b>	
43 <b>1/01 Cash Balance</b>	<b>\$ 22,991</b>	<b>\$ 27,825</b>	<b>\$ 27,825</b>	<b>\$ 33,318</b>	<b>\$ 33,318</b>	<b>\$ 32,794</b>	<b>\$ 36,315</b>	<b>\$ 39,592</b>	
44 Change in Net Assets		7,595	4,924	(2,470)	(242)	4,442	4,404	6,773	
45 Depreciation & Amortization		7,808	9,918	10,096	10,532	10,814	11,112	11,409	
46 Capital Additions/Service Territory Comp		(36,490)	(13,680)	(11,077)	(10,939)	(16,048)	(21,166)	(11,483)	
47 Bond Principal Payments		(2,373)	(2,707)	(3,858)	(4,332)	(4,557)	(4,798)	(5,046)	
48 Bond Proceeds		-	6,000	-	28,700	-	-	-	
49 Net Change in Other Assets/Liabilities		27,494	1,837	7,342	(24,274)	8,871	13,726	1,351	
50 <b>Net Changes in Cash</b>	<b>4,033</b>	<b>6,291</b>	<b>6,291</b>	<b>32</b>	<b>(554)</b>	<b>3,521</b>	<b>3,277</b>	<b>3,005</b>	
51 <b>12/31 Cash Balance</b>	<b>\$ 27,025</b>	<b>\$ 33,316</b>	<b>\$ 33,316</b>	<b>\$ 33,348</b>	<b>\$ 32,794</b>	<b>\$ 36,315</b>	<b>\$ 39,592</b>	<b>\$ 42,597</b>	
52 Reserve Policy	\$ 32,880	\$ 32,880	\$ 32,880	\$ 35,000	\$ 37,100	\$ 39,200	\$ 41,300	\$ 43,000	
53 Excess (Deficit) from Policy	\$ (5,775)	\$ 736	\$ 736	\$ (1,652)	\$ (4,306)	\$ (2,885)	\$ (1,708)	\$ (403)	
54 <b>Cash Balance as % of Reserve Policy</b>			<b>102.2%</b>	<b>95.5%</b>	<b>88.4%</b>	<b>98.1%</b>	<b>98.0%</b>	<b>99.1%</b>	
55 <b>Debt Service Coverage Ratio</b>		<b>4.0</b>	<b>4.0</b>	<b>2.5</b>	<b>2.5</b>	<b>3.0</b>	<b>3.0</b>	<b>3.3</b>	

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
Management Reporting P&L**

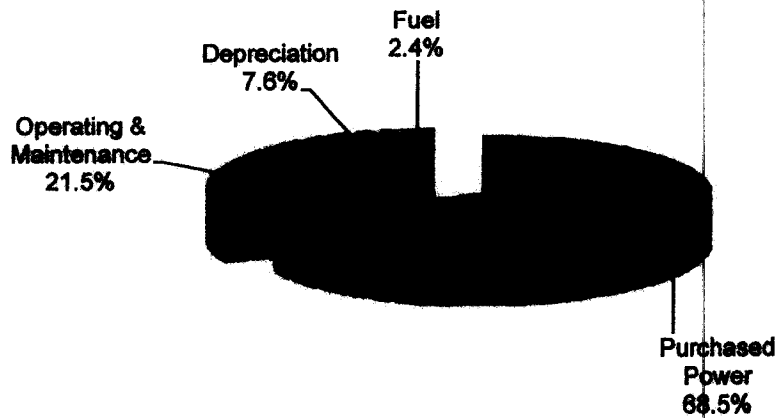
	Historical Data		2009		Variance		%	
	2007	2008	Orig Bdgt	2009 F2	2010	2009 Orig		Variance
5	in 000's							
6	<b>Revenue</b>							
7	Retail Electric	\$116,320	\$119,169	\$131,050	\$122,790	\$128,099	(\$2,950)	-2.3%
8	Wholesale Electric	\$29,958	\$19,130	\$29,371	\$3,871	\$2,889	(\$26,482)	-90.2%
9	Wholesale Steam	\$4,450	\$3,772	\$6,996	\$5,255	\$5,382	(\$1,614)	-23.1%
10	Other Services & Fees	\$6,045	\$5,391	\$5,793	\$6,007	\$6,191	\$398	6.9%
11	<b>Total Revenue</b>	<b>\$156,772</b>	<b>\$147,462</b>	<b>\$173,209</b>	<b>\$137,924</b>	<b>\$142,562</b>	<b>(\$30,647)</b>	<b>-17.7%</b>
12	<b>Cost of Revenue</b>							
13	Power Supply	\$80,187	\$80,116	\$91,238	\$83,029	\$91,206	(\$31)	0.0%
14	Generation Fuel	\$24,523	\$16,734	\$27,337	\$3,031	\$3,135	(\$24,202)	-88.5%
15	<b>Total Cost of Revenue</b>	<b>\$104,709</b>	<b>\$96,850</b>	<b>\$118,575</b>	<b>\$86,060</b>	<b>\$94,341</b>	<b>(\$24,293)</b>	<b>-20.4%</b>
16	<b>Gross Margin</b>							
17	Retail Electric	\$36,133	\$39,053	\$39,812	\$39,762	\$36,893	(\$2,919)	-7.3%
18	Wholesale	\$9,884	\$6,167	\$9,029	\$6,095	\$5,136	(\$3,893)	-43.1%
19	Other Services & Fees	\$6,045	\$5,391	\$5,793	\$6,007	\$6,191	\$398	6.9%
20	<b>TOTAL GROSS MARGIN</b>	<b>\$52,063</b>	<b>\$50,612</b>	<b>\$54,634</b>	<b>\$51,804</b>	<b>\$48,220</b>	<b>(\$6,414)</b>	<b>-11.7%</b>
21	<b>Controllable Costs</b>							
22	Salaries & Benefits	\$16,809	\$18,074	\$19,458	\$18,710	\$18,687	(\$771)	-4.0%
23	Other Operating Expenses	\$14,106	\$11,757	\$10,721	\$10,035	\$11,094	\$373	3.5%
24	Major Maintenance	\$790	\$1,390	\$2,252	\$1,611	\$2,551	\$299	13.3%
25	Non-Bonded Capital Projects	\$5,310	\$6,030	\$8,422	\$4,423	\$4,196	(\$4,226)	-50.2%
26	<b>TOTAL CONTROLLABLE COSTS</b>	<b>\$37,015</b>	<b>\$37,250</b>	<b>\$40,853</b>	<b>\$34,780</b>	<b>\$36,528</b>	<b>(\$4,323)</b>	<b>-10.8%</b>
27	Depreciation & Amortization	\$6,486	\$7,808	\$7,071	\$9,918	\$10,096	\$3,025	42.8%
28	Less Non Bonded Projects (capitalized)	(\$5,310)	(\$6,030)	(\$8,422)	(\$4,423)	(\$4,196)	\$4,226	-50.2%
29	Less Total Internal Costs (capitalized)	(\$5,903)	(\$5,585)	(\$2,965)	(\$3,131)	(\$2,012)	\$954	-32.2%
30	Interutility Allocation	(\$1,041)	(\$1,223)	(\$1,536)	(\$1,536)	(\$1,668)	(\$132)	8.6%
31	<b>Total Operating Expenses</b>	<b>\$31,247</b>	<b>\$32,220</b>	<b>\$35,001</b>	<b>\$36,607</b>	<b>\$38,749</b>	<b>\$3,747</b>	<b>10.7%</b>
32	<b>Net Operating Income (Loss)</b>	<b>\$20,816</b>	<b>\$18,391</b>	<b>\$18,633</b>	<b>\$16,256</b>	<b>\$9,472</b>	<b>(\$18,161)</b>	<b>-51.8%</b>
33	<b>Financing &amp; Other Non-Operating Items:</b>							
34	Bond & Interest Related Expenses	(\$3,544)	(\$4,771)	(\$4,377)	(\$4,039)	(\$4,429)	(\$52)	1.2%
35	Interest Income	\$3,241	\$2,626	\$1,334	\$1,334	\$1,173	(\$161)	-12.1%
36	Misc Non-Operating Income (Expense)	\$287	(\$262)	(\$196)	(\$245)	(\$146)	\$10	-6.7%
37	<b>Total Financing &amp; Non-Operating Items</b>	<b>(\$16)</b>	<b>(\$2,408)</b>	<b>(\$3,199)</b>	<b>(\$2,950)</b>	<b>(\$3,401)</b>	<b>(\$282)</b>	<b>6.9%</b>
38	<b>Income Before Transfers or Capital Contributions</b>	<b>\$20,799</b>	<b>\$15,984</b>	<b>\$16,434</b>	<b>\$13,307</b>	<b>\$6,071</b>	<b>(\$18,363)</b>	<b>-68.1%</b>
39	Transfers (In Lieu of Taxes)	(\$8,526)	(\$8,391)	(\$8,895)	(\$8,389)	(\$8,541)	\$354	-4.0%
40	Capital Contributions	\$135	\$3	\$0	\$0	\$0	\$0	0.0%
41	<b>NET INCOME</b>	<b>\$12,409</b>	<b>\$7,596</b>	<b>\$7,539</b>	<b>\$4,924</b>	<b>(\$2,470)</b>	<b>(\$10,009)</b>	<b>-182.8%</b>
42	<b>1/01 Cash Balance</b>	<b>\$ 22,981</b>		<b>\$ 28,246</b>	<b>\$ 27,025</b>	<b>\$ 33,316</b>	<b>\$ 5,070</b>	<b>17.9%</b>
43	Change in Net Assets		7,595	7,538	4,924	(2,470)	(10,009)	-132.8%
44	Depreciation & Amortization		7,808	7,071	9,918	10,096	3,025	42.8%
45	Capital Additions/Service Territory Comp		(36,490)	(20,253)	(13,680)	(11,077)	9,176	-45.3%
46	Bond Principal Payments		(2,373)	(2,502)	(2,707)	(3,858)	(1,356)	54.2%
47	Bond Proceeds		-	-	6,000	-	-	0.0%
48	Net Change in Other Assets/Liabilities		27,494	9,400	1,837	7,342	(2,059)	-21.9%
49	<b>Net Changes in Cash</b>		<b>4,033</b>	<b>1,254</b>	<b>6,291</b>	<b>32</b>	<b>(1,222)</b>	<b>-97.5%</b>
50	<b>12/31 Cash Balance</b>	<b>\$ 27,025</b>		<b>\$ 29,500</b>	<b>\$ 33,316</b>	<b>\$ 33,348</b>	<b>\$ 3,048</b>	<b>13.0%</b>
51	Reserve Policy	\$ 32,880		\$ 32,880	\$ 32,880	\$ 35,880	\$ 2,400	7.4%
52	Excess (Deficit) from Policy	\$ (5,775)		\$ (3,100)	\$ 716	\$ (1,683)	\$ 1,448	-46.7%
53	<b>Cash Balance as % of Reserve Policy</b>				<b>102.2%</b>	<b>95.3%</b>		
54						\$ 33,250	95% of reserve	
55						\$ 98	excess	

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2010 OPERATING BUDGET**

**GROSS MARGIN  
\$48,220,301**



**EXPENSE USES  
\$133,089,764**



**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
2010 OPERATING BUDGET**

**BASIC ASSUMPTIONS**

- Cost center budgets maintained at reduced 2009 level
- Interest Earnings Rate: 3.0%
- Average Salary Expense Change: -1.8%
- Change in Full-time Equivalents: 0
- Staff Cost Savings 12 furlough days for all full time employees  
Reduction in temporary/seasonal & contract employees
- Cash Reserve Requirements: Policy Amount \$2,576,000  
(1yr Operating and Maintenance costs is being proposed  
in current rate study, approx. \$5.8M)

**RETAIL REVENUES / SALES**

- Revenue Adjustment: 0.0%
- Water CCF Sales Forecast: 2.1% Decrease from 2009 Projected Sales
- Total Water Utility Customers: 0.6% Increase over Y/E 2009 Projected Customers
- Forecast Assumes Normal Weather : 471 Cooling Degree Days,  
18.73 Inches Summer Rainfall

**OTHER ITEMS**

- Borrowed \$1.5 M in August 2006, resulting in debt service payments of approximately \$430,000 per year through 2010.
- In Lieu of Tax forecast decreasing \$7,176, driven by a projected decrease in ccf sales.
- RPU water projects are greatly dependent on the plans of the City Public Works Department and developers.
- Developer-installed subdivision water infrastructure assets and City-installed water towers are contributed to RPU at no cost. RPU records depreciation expense on these assets and is responsible for ongoing maintenance and replacement costs.

**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
Management Reporting P&L**

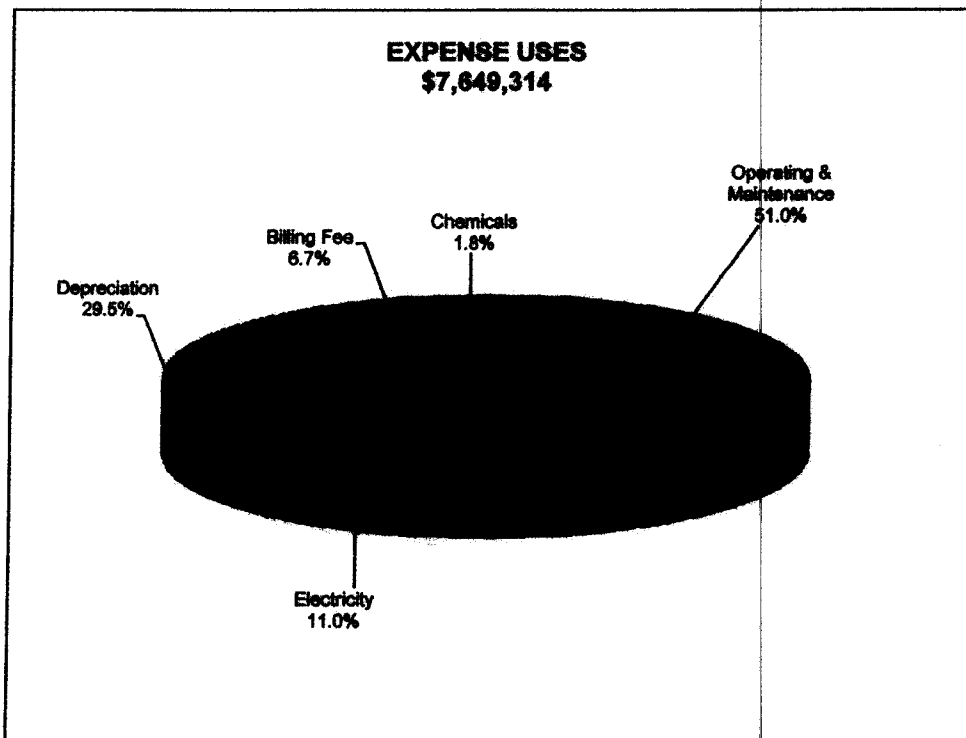
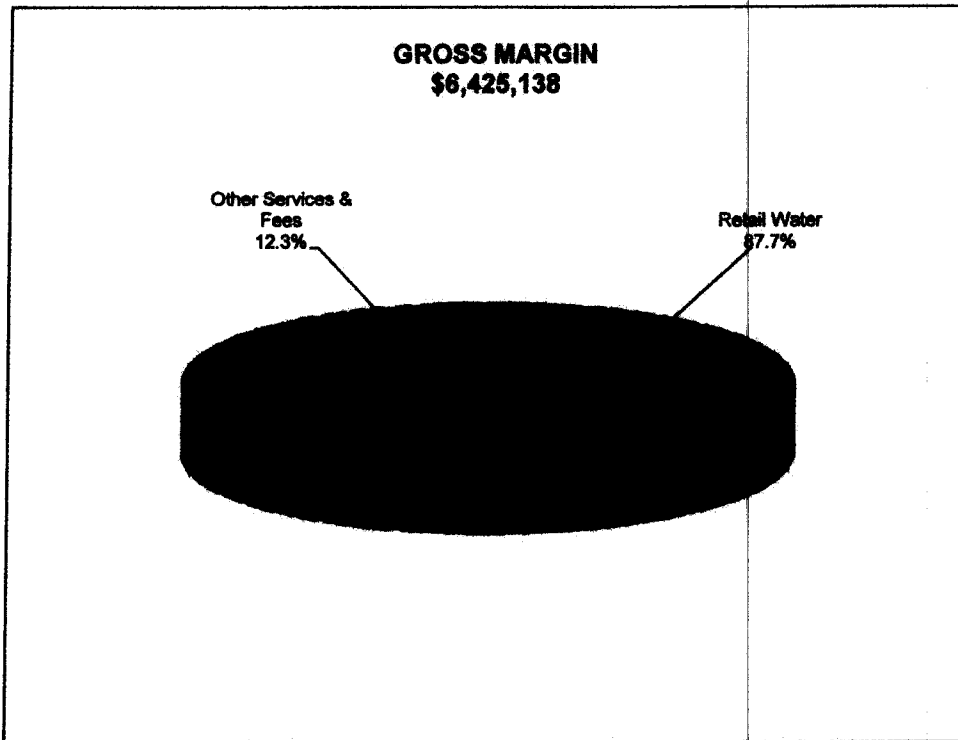
	Historical Data		2009 F2	2010	2011	2012	2013	2014
	2007	2008						
5 In 000's								
6 RPU Rate Increase	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
7 <b>Revenue</b>								
8 Retail Water	\$7,652	\$7,508	\$7,309	\$7,122	\$7,081	\$7,057	\$7,048	\$7,049
9 Other Services & Fees	\$622	\$666	\$761	\$790	\$810	\$831	\$852	\$874
10 <b>Total Revenue</b>	<b>\$8,274</b>	<b>\$8,174</b>	<b>\$8,071</b>	<b>\$7,911</b>	<b>\$7,891</b>	<b>\$7,888</b>	<b>\$7,900</b>	<b>\$7,924</b>
11 <b>Cost of Revenue</b>								
12 Water Supply	\$1,561	\$1,601	\$1,576	\$1,486	\$1,517	\$1,543	\$1,555	\$1,573
13 <b>Total Cost of Revenue</b>	<b>\$1,561</b>	<b>\$1,601</b>	<b>\$1,576</b>	<b>\$1,486</b>	<b>\$1,517</b>	<b>\$1,543</b>	<b>\$1,555</b>	<b>\$1,573</b>
14 <b>Gross Margin</b>								
15 Retail Water	\$6,091	\$5,907	\$5,734	\$5,636	\$5,565	\$5,515	\$5,493	\$5,476
16 Other Services & Fees	\$622	\$666	\$761	\$790	\$810	\$831	\$852	\$874
17 <b>TOTAL GROSS MARGIN</b>	<b>\$6,713</b>	<b>\$6,573</b>	<b>\$6,495</b>	<b>\$6,425</b>	<b>\$6,375</b>	<b>\$6,346</b>	<b>\$6,345</b>	<b>\$6,350</b>
18 <b>Controllable Costs</b>								
19 Salaries & Benefits	\$1,881	\$1,712	\$1,836	\$1,786	\$1,898	\$1,950	\$2,000	\$2,055
20 Other Operating Expenses	\$705	\$391	\$425	\$465	\$478	\$488	\$502	\$512
21 Major Maintenance	\$167	\$273	\$208	\$364	\$414	\$214	\$199	\$252
22 Non-Bonded Capital Projects	\$1,434	\$1,231	\$1,429	\$2,448	\$1,733	\$1,641	\$3,362	\$2,242
23 <b>TOTAL CONTROLLABLE COSTS</b>	<b>\$4,187</b>	<b>\$3,607</b>	<b>\$3,898</b>	<b>\$5,062</b>	<b>\$4,523</b>	<b>\$4,293</b>	<b>\$6,064</b>	<b>\$5,061</b>
24 Depreciation & Amortization	\$2,094	\$2,112	\$2,195	\$2,258	\$2,333	\$2,287	\$2,313	\$2,340
25 Less Non Bonded Projects (capitalized)	(\$1,945)	(\$1,231)	(\$1,429)	(\$2,448)	(\$1,733)	(\$1,641)	(\$3,362)	(\$2,242)
26 Less Total Internal Costs (capitalized)	\$0	(\$326)	(\$527)	(\$378)	(\$166)	(\$126)	(\$144)	(\$145)
27 Interutility Allocation	\$1,041	\$1,223	\$1,536	\$1,668	\$1,710	\$1,753	\$1,797	\$1,842
28 <b>Total Operating Expenses</b>	<b>\$5,377</b>	<b>\$5,385</b>	<b>\$5,673</b>	<b>\$6,163</b>	<b>\$6,608</b>	<b>\$6,565</b>	<b>\$6,668</b>	<b>\$6,856</b>
29 <b>Net Operating Income (Loss)</b>	<b>\$1,336</b>	<b>\$1,189</b>	<b>\$822</b>	<b>\$262</b>	<b>(\$293)</b>	<b>(\$220)</b>	<b>(\$323)</b>	<b>(\$505)</b>
30 <b>Financing &amp; Other Non-Operating Items:</b>								
31 Bond & Interest Related Expenses	(\$77)	(\$60)	(\$44)	(\$41)	(\$42)	(\$43)	(\$44)	(\$45)
32 Interest Income	\$130	\$196	\$195	\$158	\$143	\$143	\$118	\$80
33 Misc Non-Operating Income (Expense)	(\$35)	\$1	\$0	\$0	\$0	\$0	\$0	\$0
34 <b>Total Financing &amp; Non-Operating Items</b>	<b>\$19</b>	<b>\$136</b>	<b>\$151</b>	<b>\$117</b>	<b>\$101</b>	<b>\$100</b>	<b>\$74</b>	<b>\$35</b>
35 <b>Income Before Transfers or Capital Contributions</b>	<b>\$1,355</b>	<b>\$1,325</b>	<b>\$973</b>	<b>\$379</b>	<b>(\$192)</b>	<b>(\$120)</b>	<b>(\$249)</b>	<b>(\$470)</b>
36 Transfers (In Lieu of Taxes)	(\$386)	(\$374)	(\$349)	(\$329)	(\$322)	(\$317)	(\$311)	(\$306)
37 Capital Contributions	\$1,285	\$1,091	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100
38 <b>NET INCOME</b>	<b>\$2,254</b>	<b>\$2,042</b>	<b>\$1,724</b>	<b>\$1,150</b>	<b>\$585</b>	<b>\$664</b>	<b>\$340</b>	<b>\$323</b>
39 1/01 Cash Balance	\$ 3,844	\$ 5,332	\$ 5,805	\$ 4,878	\$ 4,798	\$ 4,881	\$ 3,128	\$ 3,128
40 Change in Net Assets		2,042	1,724	1,150	585	664	540	323
41 Depreciation & Amortization		2,112	2,195	2,258	2,333	2,287	2,313	2,340
42 Capital Additions/Service Territory Comp		(1,557)	(1,956)	(2,825)	(1,899)	(1,767)	(3,506)	(2,387)
43 Non-Cash Contributions		(1,091)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)
44 Debt Principal Payments		(370)	(390)	(410)	-	-	-	-
45 Debt Proceeds		-	-	-	-	-	-	-
46 Net Change in Other Assets/Liabilities		353	-	-	-	-	-	-
47 <b>Net Changes in Cash</b>	<b>1,488</b>	<b>473</b>	<b>(927)</b>	<b>(80)</b>	<b>83</b>	<b>(1,753)</b>	<b>(824)</b>	<b>(824)</b>
48 12/31 Cash Balance	\$ 5,332	\$ 5,805	\$ 4,878	\$ 4,798	\$ 4,881	\$ 3,128	\$ 2,304	\$ 2,304
49 Reserve Target	\$ 2,537	\$ 2,538	\$ 2,576	\$ 2,643	\$ 2,633	\$ 2,652	\$ 2,785	\$ 2,785
50 Excess (Deficit) from Target	\$ 2,795	\$ 3,267	\$ 2,302	\$ 2,155	\$ 2,248	\$ 477	\$ (481)	\$ (481)
51 <b>Cash Balance as % of Reserve Policy</b>		<b>228.7%</b>	<b>189.3%</b>	<b>181.6%</b>	<b>185.4%</b>	<b>118.0%</b>	<b>82.7%</b>	<b>82.7%</b>

**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
Management Reporting P&L**

	Historical Data		2009		Variance		%	
	2007	2008	Orig Bdgt	2009 F2	2010	2009 Orig		Variance
5	in 000's							
6	<b>Revenue</b>							
7	Retail Water	\$7,652	\$7,508	\$7,848	\$7,309	\$7,122	(\$726)	-9.3%
8	Other Services & Fees	\$622	\$666	\$800	\$761	\$790	(\$10)	-1.3%
9	<b>Total Revenue</b>	<b>\$8,274</b>	<b>\$8,174</b>	<b>\$8,648</b>	<b>\$8,071</b>	<b>\$7,911</b>	<b>(\$736)</b>	<b>-8.5%</b>
10	<b>Cost of Revenue</b>							
11	Water Supply	\$1,561	\$1,601	\$1,623	\$1,576	\$1,486	(\$137)	-8.4%
12	<b>Total Cost of Revenue</b>	<b>\$1,561</b>	<b>\$1,601</b>	<b>\$1,623</b>	<b>\$1,576</b>	<b>\$1,486</b>	<b>(\$137)</b>	<b>-8.4%</b>
13	<b>Gross Margin</b>							
14	Retail Water	\$6,091	\$5,907	\$6,225	\$5,734	\$5,636	(\$589)	-9.5%
15	Other Services & Fees	\$622	\$666	\$800	\$761	\$790	(\$10)	-1.3%
16	<b>TOTAL GROSS MARGIN</b>	<b>\$6,713</b>	<b>\$6,573</b>	<b>\$7,025</b>	<b>\$6,495</b>	<b>\$6,425</b>	<b>(\$399)</b>	<b>-8.5%</b>
17	<b>Controllable Costs</b>							
18	Salaries & Benefits	\$1,881	\$1,712	\$1,863	\$1,836	\$1,786	(\$77)	-4.1%
19	Other Operating Expenses	\$705	\$391	\$490	\$425	\$465	(\$25)	-5.2%
20	Major Maintenance	\$167	\$273	\$410	\$208	\$364	(\$46)	-11.2%
21	Non-Bonded Capital Projects	\$1,434	\$1,231	\$2,451	\$1,429	\$2,448	(\$4)	-0.1%
22	<b>TOTAL CONTROLLABLE COSTS</b>	<b>\$4,187</b>	<b>\$3,607</b>	<b>\$5,214</b>	<b>\$3,898</b>	<b>\$5,062</b>	<b>(\$152)</b>	<b>-2.9%</b>
23	Depreciation & Amortization	\$2,094	\$2,112	\$2,296	\$2,195	\$2,258	(\$38)	-1.6%
24	Less Non Bonded Projects (capitalized)	(\$1,945)	(\$1,231)	(\$2,451)	(\$1,429)	(\$2,448)	\$4	-0.1%
25	Less Total Internal Costs (capitalized)	\$0	(\$326)	(\$582)	(\$527)	(\$378)	\$204	-35.1%
26	Interutility Allocation	\$1,041	\$1,223	\$1,536	\$1,536	\$1,668	\$132	8.6%
27	<b>Total Operating Expenses</b>	<b>\$5,377</b>	<b>\$5,385</b>	<b>\$6,013</b>	<b>\$5,673</b>	<b>\$6,168</b>	<b>\$892</b>	<b>5.0%</b>
28	<b>Net Operating Income (Loss)</b>	<b>\$1,336</b>	<b>\$1,189</b>	<b>\$1,011</b>	<b>\$822</b>	<b>\$262</b>	<b>(\$901)</b>	<b>-89.1%</b>
29	<b>Financing &amp; Other Non-Operating Items:</b>							
30	Bond & Interest Related Expenses	(\$77)	(\$60)	(\$44)	(\$44)	(\$41)	\$3	-7.2%
31	Interest Income	\$130	\$196	\$195	\$195	\$158	(\$37)	-19.1%
32	Misc Non-Operating Income (Expense)	(\$35)	\$1	\$0	\$0	\$0	\$0	0.0%
33	<b>Total Financing &amp; Non-Operating Items</b>	<b>\$19</b>	<b>\$136</b>	<b>\$151</b>	<b>\$151</b>	<b>\$117</b>	<b>(\$34)</b>	<b>-22.6%</b>
34	<b>Income Before Transfers or Capital Contributions</b>	<b>\$1,355</b>	<b>\$1,325</b>	<b>\$1,162</b>	<b>\$973</b>	<b>\$379</b>	<b>(\$936)</b>	<b>-80.5%</b>
35	Transfers (In Lieu of Taxes)	(\$386)	(\$374)	(\$384)	(\$349)	(\$329)	\$55	-14.3%
36	Capital Contributions	\$1,285	\$1,091	\$1,100	\$1,100	\$1,100	\$0	0.0%
37	<b>NET INCOME</b>	<b>\$2,254</b>	<b>\$2,042</b>	<b>\$1,878</b>	<b>\$1,724</b>	<b>\$1,198</b>	<b>(\$681)</b>	<b>-46.9%</b>
38	<b>1/01 Cash Balance</b>	<b>\$ 3,844</b>		<b>\$ 5,332</b>	<b>\$ 5,332</b>	<b>\$ 5,805</b>	<b>\$473</b>	<b>8.9%</b>
39	Change in Net Assets		2,042	1,878	1,724	1,150	(728)	-38.8%
40	Depreciation & Amortization		2,112	2,296	2,195	2,258	(38)	-1.6%
41	Capital Additions/Service Territory Comp		(1,557)	(3,033)	(1,956)	(2,825)	208	-6.8%
42	Non-Cash Contributions		(1,091)	(1,100)	(1,100)	(1,100)	-	0.0%
43	Debt Principal Payments		(370)	(390)	(390)	(410)	(20)	5.1%
44	Debt Proceeds		-	-	-	-	-	0.0%
45	Net Change in Other Assets/Liabilities		353	(723)	-	-	723	-100.0%
46	<b>Net Changes in Cash</b>		<b>1,488</b>	<b>(1,072)</b>	<b>473</b>	<b>(927)</b>	<b>145</b>	<b>-13.5%</b>
47	<b>12/31 Cash Balance</b>	<b>\$ 5,332</b>		<b>\$ 4,260</b>	<b>\$ 5,805</b>	<b>\$ 4,878</b>	<b>\$ 618</b>	<b>14.5%</b>
48	Reserve Target	\$ 2,537		\$ 2,538	\$ 2,538	\$ 2,576	\$ 38	1.5%
49	<b>Excess (Deficit) from Target</b>	<b>\$ 2,795</b>		<b>\$ 1,722</b>	<b>\$ 3,267</b>	<b>\$ 2,302</b>	<b>\$ 580</b>	<b>33.7%</b>
50	<b>Cash Balance as % of Reserve Policy</b>			<b>167.8%</b>	<b>228.7%</b>	<b>189.3%</b>		



**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
2010 OPERATING BUDGET**





## 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 2010 electric and water capital and operating budgets.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 10<sup>th</sup> day of November, 2009.

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President

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Secretary