

## FOR BOARD ACTION

Agenda Item # 3

Meeting Date:

11/15/2011

**SUBJECT:**

Approval of the 2012 Electric and Water Budgets

**PREPARED BY:**

Sue Parker, Director of Corporate Services

ITEM DESCRIPTION:

In October, management reviewed the preliminary 2012 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 \$142,488,000 and \$7,975,000 respectively.

The main drivers for the water budget are:

- Continued water conservation programs and education.
- Slowdown in new development.
- New reservoir to be constructed in 2013 and 2014.
- Addition of one water operator to support water system growth.

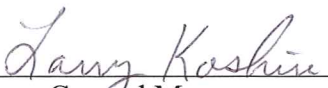
The significant current year business drivers are:

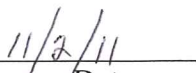
- Commitment to community to have no rate increase for the third year during continuing tough economic times supporting our mission statement and strategic initiatives.
- Continue to hold staff positions open to evaluate need in slow times while adding two positions to support the customer and system growth.
- While SMMPA continues to be a significant operating expense at approximately \$89 million or about 68% of our operating costs, SMMPA's Board approved rates with no increase for 2012.
- Lack of demand and low prices in MISO market have made the Silver Lake Plant uncompetitive this past year, and RPU is projecting few wholesale sales from this facility in 2012.
- Increasing our energy conservation goals to achieve required reduction in KWh.
- Continuing our participation in CAPX 2020 initiative to expand the electric transmission grid to ensure reliable and affordable service.
- Continuing to implement Smart Grid education and possible pilot projects.

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 2012 RPU electric and water budgets.

  
General Manager

  
Date

**ROCHESTER PUBLIC UTILITIES**

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2012 OPERATING BUDGET**

**BASIC ASSUMPTIONS**

- Cost center budgets maintained at reduced 2011 level
- Interest Earnings Rate: 1.5%
- Average Salary Expense Change: 1.5%  
(consists of COLA, merit and promotion increases)
- Change in Full-time Equivalents: 2
- SMMPA Wholesale Power Cost: 0.0% increase
- SMMPA CROD Level: 216 MW
- Cash Reserve Requirements: Policy amount \$31,800,000

**RETAIL REVENUES / SALES**

- Revenue Adjustment: 0% Proposed
- Electric KWH Sales Forecast: 0.6 % Decrease from 2011 F2 Year End Projected Sales
- Total Electric Utility Customers: 0.2% Increase over Year End 2011 F2 Projected Customers
- Forecast Assumes Normal Weather : 499 Cooling Degree Days

**WHOLESALE REVENUES / SALES & EXPENSES**

- Wholesale Revenue Forecasts
  - o Silver Lake Plant \$1,974,022
  - o Cascade Creek Gas Turbines \$684,201
  - o Steam Generation \$5,199,601
  - Total \$7,857,824 (0.2% increase from Y/E 2011 F2 Projected Revenue)
- Estimated Cost of Fuel 2012 \$3.970 / mmBtu
- Budgeted Cost of Fuel 2011 F2 \$5.060 / mmBtu

**OTHER ITEMS**

- In Lieu of Tax forecast decreasing \$47,000

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

	Historical Data								
	2009	2010	2011 F2	2012	2013	2014	2015	2016	
in 000's									
RPU Rate Increase	5.0%	0.0%	0.0%	0.0%	4.0%	3.0%	3.0%	3.0%	
<b>Revenue</b>									
Retail Electric	\$120,960	\$125,238	\$126,264	\$128,588	\$135,040	\$140,483	\$146,018	\$151,397	
Wholesale Electric	\$4,507	\$5,377	\$2,549	\$2,658	\$2,712	\$2,766	\$2,591	\$1,381	
Wholesale Steam	\$5,178	\$5,555	\$5,297	\$5,200	\$5,264	\$5,373	\$5,485	\$5,599	
Other Services & Fees	\$5,504	\$6,598	\$6,992	\$6,042	\$6,113	\$6,216	\$6,322	\$6,404	
<b>Total Revenue</b>	<b>\$136,149</b>	<b>\$142,768</b>	<b>\$141,102</b>	<b>\$142,488</b>	<b>\$149,129</b>	<b>\$154,839</b>	<b>\$160,416</b>	<b>\$164,782</b>	
<b>Cost of Revenue</b>									
SMMPA Rate Increase	6.0%	4.0%	0.0%	0.0%	2.0%	2.0%	2.0%	2.0%	
Power Supply	\$81,139	\$88,158	\$89,082	\$89,346	\$90,980	\$93,444	\$96,024	\$97,968	
Generation Fuel	\$4,489	\$5,517	\$3,605	\$3,133	\$3,439	\$3,500	\$3,570	\$3,641	
<b>Total Cost of Revenue</b>	<b>\$85,628</b>	<b>\$93,674</b>	<b>\$92,687</b>	<b>\$92,480</b>	<b>\$94,418</b>	<b>\$96,945</b>	<b>\$99,594</b>	<b>\$101,609</b>	
<b>Gross Margin</b>									
Retail Electric	\$39,821	\$37,081	\$37,183	\$39,241	\$44,060	\$47,039	\$49,994	\$53,429	
Wholesale	\$5,196	\$5,415	\$4,241	\$4,724	\$4,537	\$4,639	\$4,506	\$3,339	
Other Services & Fees	\$5,504	\$6,598	\$6,992	\$6,042	\$6,113	\$6,216	\$6,322	\$6,404	
<b>TOTAL GROSS MARGIN</b>	<b>\$50,521</b>	<b>\$49,094</b>	<b>\$48,415</b>	<b>\$50,008</b>	<b>\$54,711</b>	<b>\$57,894</b>	<b>\$60,822</b>	<b>\$63,172</b>	
<b>Controllable Costs</b>									
Salaries & Benefits	\$18,548	\$18,379	\$18,190	\$19,135	\$20,143	\$20,549	\$20,949	\$21,338	
Other Operating Expenses	\$10,374	\$9,807	\$10,190	\$12,291	\$12,625	\$12,929	\$13,258	\$13,593	
Major Maintenance	\$1,805	\$1,871	\$2,724	\$1,904	\$2,406	\$2,124	\$2,189	\$1,998	
Non-Bonded Capital Projects	\$196	\$5,517	\$6,171	\$8,661	\$2,808	\$5,875	\$9,378	\$7,361	
<b>TOTAL CONTROLLABLE COSTS</b>	<b>\$30,922</b>	<b>\$35,575</b>	<b>\$37,276</b>	<b>\$41,991</b>	<b>\$37,983</b>	<b>\$41,477</b>	<b>\$45,773</b>	<b>\$44,290</b>	
Depreciation & Amortization	\$8,221	\$9,055	\$10,028	\$10,610	\$10,400	\$10,547	\$10,934	\$11,151	
Less Non Bonded Projects (capitalized)	(\$196)	(\$5,517)	(\$6,171)	(\$8,661)	(\$2,808)	(\$5,875)	(\$9,378)	(\$7,361)	
Less Total Internal Costs (capitalized)	(\$2,782)	(\$3,477)	(\$2,735)	(\$2,694)	(\$1,963)	(\$1,667)	(\$1,579)	(\$1,931)	
Interutility Allocation	(\$1,438)	(\$1,409)	(\$1,569)	(\$1,472)	(\$1,509)	(\$1,547)	(\$1,586)	(\$1,626)	
<b>Total Operating Expenses</b>	<b>\$34,728</b>	<b>\$34,227</b>	<b>\$36,829</b>	<b>\$39,775</b>	<b>\$42,102</b>	<b>\$42,935</b>	<b>\$44,164</b>	<b>\$44,524</b>	
<b>Net Operating Income (Loss)</b>	<b>\$15,793</b>	<b>\$14,867</b>	<b>\$11,587</b>	<b>\$10,233</b>	<b>\$12,609</b>	<b>\$14,959</b>	<b>\$16,658</b>	<b>\$18,649</b>	
<b>Financing &amp; Other Non-Operating Items:</b>									
Bond & Interest Related Expenses	(\$4,086)	(\$4,235)	(\$3,903)	(\$3,908)	(\$6,125)	(\$5,915)	(\$5,654)	(\$5,474)	
Interest Income	\$947	\$803	\$848	\$605	\$1,069	\$948	\$718	\$620	
Misc Non-Operating Income (Expense)	(\$622)	(\$363)	(\$199)	(\$176)	(\$180)	(\$183)	(\$187)	(\$191)	
<b>Total Financing &amp; Non-Operating Items</b>	<b>(\$3,761)</b>	<b>(\$3,795)</b>	<b>(\$3,254)</b>	<b>(\$3,479)</b>	<b>(\$5,236)</b>	<b>(\$5,151)</b>	<b>(\$5,123)</b>	<b>(\$5,044)</b>	
<b>Income Before Transfers or Capital Contributions</b>	<b>\$12,032</b>	<b>\$11,072</b>	<b>\$8,332</b>	<b>\$6,754</b>	<b>\$7,373</b>	<b>\$9,808</b>	<b>\$11,535</b>	<b>\$13,604</b>	
Transfers (In Lieu of Taxes)	(\$8,242)	(\$8,403)	(\$8,352)	(\$8,306)	(\$8,497)	(\$8,776)	(\$9,067)	(\$9,295)	
Capital Contributions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>NET INCOME</b>	<b>\$3,790</b>	<b>\$2,670</b>	<b>(\$20)</b>	<b>(\$1,551)</b>	<b>(\$1,125)</b>	<b>\$1,032</b>	<b>\$2,468</b>	<b>\$4,310</b>	
<b>1/01 Cash Balance</b>	<b>\$ 37,948</b>	<b>\$ 42,314</b>	<b>\$ 40,284</b>	<b>\$ 34,078</b>	<b>\$ 33,622</b>	<b>\$ 33,892</b>	<b>\$ 32,329</b>	<b>\$ 32,329</b>	
Change in Net Assets	2,670	(20)	(1,551)	(1,125)	1,032	2,468	4,310		
Depreciation & Amortization	9,055	10,028	10,610	10,400	10,547	10,934	11,151		
Capital Additions/Service Territory Comp	(12,646)	(8,906)	(11,355)	(22,275)	(20,853)	(24,524)	(9,292)		
Bond Principal Payments	(3,630)	(3,820)	(4,025)	(4,960)	(5,221)	(4,008)	(4,203)		
Bond Proceeds	-	-	-	47,500	-	-	-		
Net Change in Other Assets/Liabilities	8,916	688	115	(29,997)	14,764	13,566	-		
<b>Net Changes in Cash</b>	<b>4,365</b>	<b>(2,030)</b>	<b>(6,206)</b>	<b>(456)</b>	<b>270</b>	<b>(1,563)</b>	<b>1,966</b>		
<b>12/31 Cash Balance</b>	<b>\$ 42,314</b>	<b>\$ 40,284</b>	<b>\$ 34,078</b>	<b>\$ 33,622</b>	<b>\$ 33,892</b>	<b>\$ 32,329</b>	<b>\$ 34,295</b>		
Reserve Target	\$ 42,215	\$ 37,100	\$ 31,800	\$ 33,100	\$ 34,500	\$ 35,100	\$ 35,600		
Excess (Deficit) from Target	\$ 99	\$ 3,184	\$ 2,278	\$ 522	\$ (608)	\$ (2,771)	\$ (1,305)		
Cash Balance as % of Reserve Target		108.6%	107.2%	101.6%	98.2%	92.1%	96.3%		
<b>Debt Service Coverage Ratio</b>	<b>3.1</b>	<b>2.9</b>	<b>2.7</b>	<b>2.2</b>	<b>2.4</b>	<b>2.9</b>	<b>3.1</b>		

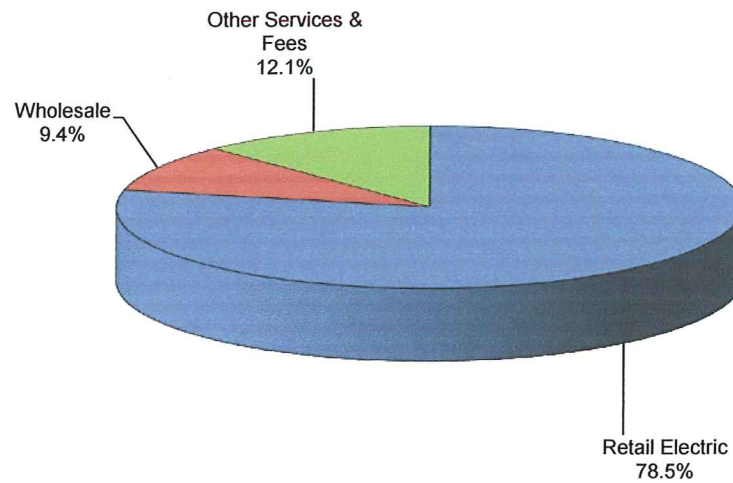


**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
Management Reporting P&L**

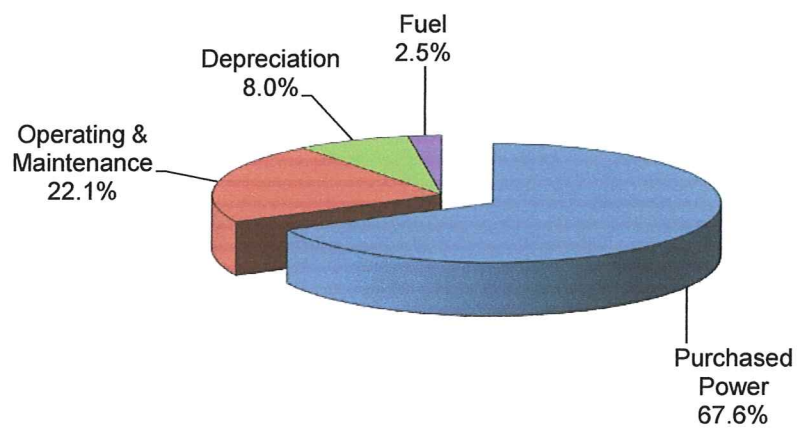
	Historical Data		2011		Variance		%
	2009	2010	Orig Bdgt	2011 F2	2012	2011 Orig	
in 000's							
<b>Revenue</b>							
Retail Electric	\$120,960	\$125,238	\$126,606	\$126,264	\$128,588	\$1,982	1.6%
Wholesale Electric	\$4,507	\$5,377	\$2,406	\$2,549	\$2,658	\$252	10.5%
Wholesale Steam	\$5,178	\$5,555	\$5,369	\$5,297	\$5,200	(\$169)	-3.2%
Other Services & Fees	\$5,504	\$6,598	\$7,035	\$6,992	\$6,042	(\$992)	-14.1%
<b>Total Revenue</b>	<b>\$136,149</b>	<b>\$142,768</b>	<b>\$141,415</b>	<b>\$141,102</b>	<b>\$142,488</b>	<b>\$1,073</b>	<b>0.8%</b>
<b>Cost of Revenue</b>							
Power Supply	\$81,139	\$88,158	\$90,251	\$89,082	\$89,346	(\$905)	-1.0%
Generation Fuel	\$4,489	\$5,517	\$3,246	\$3,605	\$3,133	(\$113)	-3.5%
<b>Total Cost of Revenue</b>	<b>\$85,628</b>	<b>\$93,674</b>	<b>\$93,497</b>	<b>\$92,687</b>	<b>\$92,480</b>	<b>(\$1,018)</b>	<b>-1.1%</b>
<b>Gross Margin</b>							
Retail Electric	\$39,821	\$37,081	\$36,355	\$37,183	\$39,241	\$2,887	7.9%
Wholesale	\$5,196	\$5,415	\$4,528	\$4,241	\$4,724	\$196	4.3%
Other Services & Fees	\$5,504	\$6,598	\$7,035	\$6,992	\$6,042	(\$992)	-14.1%
<b>TOTAL GROSS MARGIN</b>	<b>\$50,521</b>	<b>\$49,094</b>	<b>\$47,917</b>	<b>\$48,415</b>	<b>\$50,008</b>	<b>\$2,091</b>	<b>4.4%</b>
<b>Controllable Costs</b>							
Salaries & Benefits	\$18,548	\$18,379	\$19,509	\$18,190	\$19,135	(\$374)	-1.9%
Other Operating Expenses	\$10,374	\$9,807	\$10,845	\$10,190	\$12,291	\$1,446	13.3%
Major Maintenance	\$1,805	\$1,871	\$3,153	\$2,724	\$1,904	(\$1,248)	-39.6%
Non-Bonded Capital Projects	\$196	\$5,517	\$8,432	\$6,171	\$8,661	\$229	2.7%
<b>TOTAL CONTROLLABLE COSTS</b>	<b>\$30,922</b>	<b>\$35,575</b>	<b>\$41,938</b>	<b>\$37,276</b>	<b>\$41,991</b>	<b>\$53</b>	<b>0.1%</b>
Depreciation & Amortization	\$8,221	\$9,055	\$9,722	\$10,028	\$10,610	\$888	9.1%
Less Non Bonded Projects (capitalized)	(\$196)	(\$5,517)	(\$8,432)	(\$6,171)	(\$8,661)	(\$229)	2.7%
Less Total Internal Costs (capitalized)	(\$2,782)	(\$3,477)	(\$1,000)	(\$2,735)	(\$2,694)	(\$1,694)	169.5%
Interutility Allocation	(\$1,438)	(\$1,409)	(\$1,590)	(\$1,569)	(\$1,472)	\$118	-7.4%
<b>Total Operating Expenses</b>	<b>\$34,728</b>	<b>\$34,227</b>	<b>\$40,639</b>	<b>\$36,829</b>	<b>\$39,775</b>	<b>(\$864)</b>	<b>-2.1%</b>
<b>Net Operating Income (Loss)</b>	<b>\$15,793</b>	<b>\$14,867</b>	<b>\$7,279</b>	<b>\$11,587</b>	<b>\$10,233</b>	<b>\$2,954</b>	<b>40.6%</b>
<b>Financing &amp; Other Non-Operating Items:</b>							
Bond & Interest Related Expenses	(\$4,086)	(\$4,235)	(\$4,076)	(\$3,903)	(\$3,908)	\$169	-4.1%
Interest Income	\$947	\$803	\$1,202	\$848	\$605	(\$597)	-49.7%
Misc Non-Operating Income (Expense)	(\$622)	(\$363)	(\$165)	(\$199)	(\$176)	(\$11)	6.9%
<b>Total Financing &amp; Non-Operating Items</b>	<b>(\$3,761)</b>	<b>(\$3,795)</b>	<b>(\$3,039)</b>	<b>(\$3,254)</b>	<b>(\$3,479)</b>	<b>(\$440)</b>	<b>14.5%</b>
<b>Income Before Transfers or Capital Contributions</b>	<b>\$12,032</b>	<b>\$11,072</b>	<b>\$4,239</b>	<b>\$8,332</b>	<b>\$6,754</b>	<b>\$2,515</b>	<b>59.3%</b>
Transfers (In Lieu of Taxes)	(\$8,242)	(\$8,403)	(\$8,435)	(\$8,352)	(\$8,306)	\$130	-1.5%
Capital Contributions	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
<b>NET INCOME</b>	<b>\$3,790</b>	<b>\$2,670</b>	<b>(\$4,196)</b>	<b>(\$20)</b>	<b>(\$1,551)</b>	<b>\$2,645</b>	<b>-63.0%</b>
<b>1/01 Cash Balance</b>	<b>\$ 37,948</b>		<b>\$ 41,371</b>	<b>\$ 42,314</b>	<b>\$ 40,284</b>	<b>\$ (1,087)</b>	<b>-2.6%</b>
Change in Net Assets		2,670	(4,196)	(20)	(1,551)	2,645	-63.0%
Depreciation & Amortization		9,055	9,722	10,028	10,610	888	9.1%
Capital Additions/Service Territory Comp		(12,646)	(9,432)	(8,906)	(11,355)	(1,923)	20.4%
Bond Principal Payments		(3,630)	(3,820)	(3,820)	(4,025)	(205)	5.4%
Bond Proceeds		-	-	-	-	-	0.0%
Net Change in Other Assets/Liabilities		8,916	1,518	688	115	(1,403)	-92.4%
<b>Net Changes in Cash</b>		<b>4,365</b>	<b>(6,208)</b>	<b>(2,030)</b>	<b>(6,206)</b>	<b>2</b>	<b>0.0%</b>
<b>12/31 Cash Balance</b>	<b>\$ 42,314</b>		<b>\$ 35,163</b>	<b>\$ 40,284</b>	<b>\$ 34,078</b>	<b>\$ (1,085)</b>	<b>-3.1%</b>
<b>Reserve Target</b>	<b>\$ 42,215</b>		<b>\$ 37,100</b>	<b>\$ 37,100</b>	<b>\$ 31,800</b>	<b>\$ (5,300)</b>	<b>-14.3%</b>
<b>Excess (Deficit) from Target</b>	<b>\$ 99</b>		<b>\$ (1,937)</b>	<b>\$ 3,184</b>	<b>\$ 2,278</b>	<b>\$ 4,215</b>	<b>-217.6%</b>
<b>Cash Balance as % of Reserve Target</b>				<b>108.6%</b>		<b>107.2%</b>	

**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2012 OPERATING BUDGET**

**GROSS MARGIN  
\$50,007,984**



**EXPENSE USES  
\$132,254,356**



**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
2012 OPERATING BUDGET**

**BASIC ASSUMPTIONS**

- Cost center budgets maintained at reduced 2011 level
- Interest Earnings Rate: 1.5%
- Average Salary Expense Change: 1.2%  
(consists of COLA, merit and promotion increases)
- Change in Full-time Equivalents: 0
- Cash Reserve Requirements: Policy Amount \$4,244,000  
(includes \$2.0M for Capital Project - Water Reservoir,  
per Jan., 2011 Board Action)

**RETAIL REVENUES / SALES**

- Revenue Adjustment: 0.0%
- Water CCF Sales Forecast: 1.7% Increase from 2011 Projected Sales
- Total Water Utility Customers: 0.8% Increase over Y/E 2011 Projected Customers
- Forecast Assumes Normal Weather : 499 Cooling Degree Days,  
18.67 Inches Summer Rainfall

**OTHER ITEMS**

- In Lieu of Tax forecast increasing \$6,000, driven by a projected increase 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	2010	2011 F2	2012	2013	2014	2015	2016
in 000's								
RPU Rate Increase	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Revenue</b>								
Retail Water	\$7,425	\$7,388	\$7,181	\$7,271	\$7,238	\$7,175	\$7,186	\$7,222
Other Services & Fees	\$768	\$744	\$709	\$704	\$719	\$734	\$750	\$766
<b>Total Revenue</b>	<b>\$8,192</b>	<b>\$8,133</b>	<b>\$7,890</b>	<b>\$7,975</b>	<b>\$7,957</b>	<b>\$7,909</b>	<b>\$7,936</b>	<b>\$7,988</b>
<b>Cost of Revenue</b>								
Water Supply	\$1,656	\$1,637	\$1,587	\$1,576	\$1,567	\$1,551	\$1,555	\$1,566
<b>Total Cost of Revenue</b>	<b>\$1,656</b>	<b>\$1,637</b>	<b>\$1,587</b>	<b>\$1,576</b>	<b>\$1,567</b>	<b>\$1,551</b>	<b>\$1,555</b>	<b>\$1,566</b>
<b>Gross Margin</b>								
Retail Water	\$5,768	\$5,751	\$5,594	\$5,695	\$5,671	\$5,624	\$5,632	\$5,656
Other Services & Fees	\$768	\$744	\$709	\$704	\$719	\$734	\$750	\$766
<b>TOTAL GROSS MARGIN</b>	<b>\$6,536</b>	<b>\$6,496</b>	<b>\$6,303</b>	<b>\$6,399</b>	<b>\$6,390</b>	<b>\$6,358</b>	<b>\$6,382</b>	<b>\$6,422</b>
<b>Controllable Costs</b>								
Salaries & Benefits	\$1,794	\$1,828	\$1,955	\$2,074	\$2,124	\$2,166	\$2,212	\$2,261
Other Operating Expenses	\$455	\$524	\$562	\$643	\$639	\$655	\$671	\$687
Major Maintenance	\$184	\$163	\$372	\$236	\$243	\$289	\$472	\$243
Non-Bonded Capital Projects	\$1,124	\$1,590	\$1,881	\$1,723	\$2,779	\$3,037	\$1,987	\$1,397
<b>TOTAL CONTROLLABLE COSTS</b>	<b>\$3,557</b>	<b>\$4,105</b>	<b>\$4,771</b>	<b>\$4,676</b>	<b>\$5,785</b>	<b>\$6,147</b>	<b>\$5,341</b>	<b>\$4,589</b>
Depreciation & Amortization	\$2,110	\$2,178	\$2,376	\$2,304	\$2,341	\$2,404	\$2,441	\$2,495
Less Non Bonded Projects (capitalized)	(\$1,124)	(\$1,590)	(\$1,881)	(\$1,723)	(\$2,779)	(\$3,037)	(\$1,987)	(\$1,397)
Less Total Internal Costs (capitalized)	(\$448)	(\$468)	(\$352)	(\$343)	(\$402)	(\$375)	(\$335)	(\$311)
Interutility Allocation	\$1,438	\$1,409	\$1,569	\$1,472	\$1,509	\$1,547	\$1,586	\$1,626
<b>Total Operating Expenses</b>	<b>\$5,533</b>	<b>\$5,634</b>	<b>\$6,484</b>	<b>\$6,385</b>	<b>\$6,454</b>	<b>\$6,687</b>	<b>\$7,046</b>	<b>\$7,001</b>
<b>Net Operating Income (Loss)</b>	<b>\$1,003</b>	<b>\$862</b>	<b>(\$180)</b>	<b>\$14</b>	<b>(\$65)</b>	<b>(\$328)</b>	<b>(\$665)</b>	<b>(\$579)</b>
<b>Financing &amp; Other Non-Operating Items:</b>								
Bond & Interest Related Expenses	(\$43)	(\$24)	(\$0)	\$0	\$0	\$0	\$0	\$0
Interest Income	\$155	\$160	\$119	\$199	\$186	\$148	\$115	\$104
Misc Non-Operating Income (Expense)	(\$111)	(\$72)	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Financing &amp; Non-Operating Items</b>	<b>\$2</b>	<b>\$64</b>	<b>\$119</b>	<b>\$199</b>	<b>\$186</b>	<b>\$148</b>	<b>\$115</b>	<b>\$104</b>
<b>Income Before Transfers or Capital Contributions</b>	<b>\$1,005</b>	<b>\$926</b>	<b>(\$61)</b>	<b>\$213</b>	<b>\$121</b>	<b>(\$180)</b>	<b>(\$550)</b>	<b>(\$475)</b>
Transfers (In Lieu of Taxes)	(\$360)	(\$343)	(\$323)	(\$328)	(\$323)	(\$315)	(\$314)	(\$315)
Capital Contributions	\$2,595	\$2,910	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100
<b>NET INCOME</b>	<b>\$3,241</b>	<b>\$3,493</b>	<b>\$716</b>	<b>\$985</b>	<b>\$898</b>	<b>\$604</b>	<b>\$236</b>	<b>\$310</b>
<b>1/01 Cash Balance</b>	<b>\$ 5,869</b>	<b>\$ 6,921</b>	<b>\$ 6,681</b>	<b>\$ 6,804</b>	<b>\$ 5,762</b>	<b>\$ 4,259</b>	<b>\$ 3,514</b>	<b>\$ 3,514</b>
Change in Net Assets	3,493	716	985	898	604	236	310	
Depreciation & Amortization	2,178	2,376	2,304	2,341	2,404	2,441	2,495	
Capital Additions/Service Territory Comp	(2,058)	(2,232)	(2,066)	(3,181)	(3,411)	(2,322)	(1,709)	
Non-Cash Contributions	(2,910)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	
Debt Principal Payments	(410)	-	-	-	-	-	-	
Debt Proceeds	-	-	-	-	-	-	-	
Net Change in Other Assets/Liabilities	760	-	-	-	-	-	-	
<b>Net Changes in Cash</b>	<b>1,052</b>	<b>(240)</b>	<b>123</b>	<b>(1,042)</b>	<b>(1,503)</b>	<b>(745)</b>	<b>(3)</b>	
<b>12/31 Cash Balance</b>	<b>\$ 6,921</b>	<b>\$ 6,681</b>	<b>\$ 6,804</b>	<b>\$ 5,762</b>	<b>\$ 4,259</b>	<b>\$ 3,514</b>	<b>\$ 3,511</b>	
<b>Reserve Policy</b>	<b>\$ 5,313</b>	<b>\$ 4,581</b>	<b>\$ 4,244</b>	<b>\$ 3,551</b>	<b>\$ 2,277</b>	<b>\$ 2,323</b>	<b>\$ 2,318</b>	
<b>Excess (Deficit) from Policy</b>	<b>\$ 1,608</b>	<b>\$ 2,100</b>	<b>\$ 2,559</b>	<b>\$ 2,210</b>	<b>\$ 1,981</b>	<b>\$ 1,192</b>	<b>\$ 1,192</b>	
<b>Cash Balance as % of Reserve Policy</b>		<b>145.8%</b>	<b>160.3%</b>	<b>162.2%</b>	<b>187.0%</b>	<b>151.3%</b>	<b>151.4%</b>	



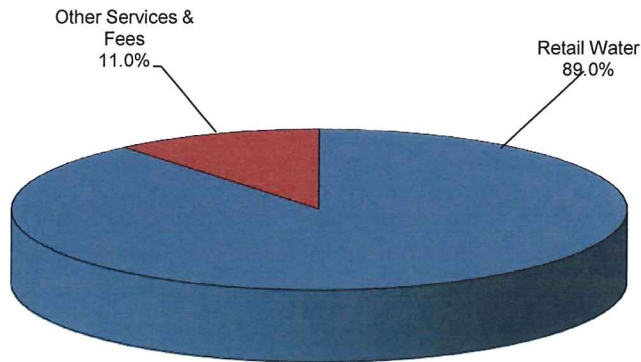
**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
Management Reporting P&L**

	Historical Data		2011		Variance		%
	2009	2010	Orig Bdgt	2011 F2	2012	2011 Orig	
in 000's							
<b>Revenue</b>							
Retail Water	\$7,425	\$7,388	\$7,437	\$7,181	\$7,271	(\$165)	-2.2%
Other Services & Fees	\$768	\$744	\$743	\$709	\$704	(\$39)	-5.2%
<b>Total Revenue</b>	<b>\$8,192</b>	<b>\$8,133</b>	<b>\$8,180</b>	<b>\$7,890</b>	<b>\$7,975</b>	<b>(\$204)</b>	<b>-2.5%</b>
<b>Cost of Revenue</b>							
Water Supply	\$1,656	\$1,637	\$1,565	\$1,587	\$1,576	\$11	0.7%
<b>Total Cost of Revenue</b>	<b>\$1,656</b>	<b>\$1,637</b>	<b>\$1,565</b>	<b>\$1,587</b>	<b>\$1,576</b>	<b>\$11</b>	<b>0.7%</b>
<b>Gross Margin</b>							
Retail Water	\$5,768	\$5,751	\$5,872	\$5,594	\$5,695	(\$176)	-3.0%
Other Services & Fees	\$768	\$744	\$743	\$709	\$704	(\$39)	-5.2%
<b>TOTAL GROSS MARGIN</b>	<b>\$6,536</b>	<b>\$6,496</b>	<b>\$6,615</b>	<b>\$6,303</b>	<b>\$6,399</b>	<b>(\$215)</b>	<b>-3.3%</b>
<b>Controllable Costs</b>							
Salaries & Benefits	\$1,794	\$1,828	\$1,989	\$1,955	\$2,074	\$85	4.3%
Other Operating Expenses	\$455	\$524	\$580	\$562	\$643	\$63	10.9%
Major Maintenance	\$184	\$163	\$424	\$372	\$236	(\$188)	-44.3%
Non-Bonded Capital Projects	\$1,124	\$1,590	\$2,294	\$1,881	\$1,723	(\$571)	-24.9%
<b>TOTAL CONTROLLABLE COSTS</b>	<b>\$3,557</b>	<b>\$4,105</b>	<b>\$5,286</b>	<b>\$4,771</b>	<b>\$4,676</b>	<b>(\$610)</b>	<b>-11.5%</b>
Depreciation & Amortization	\$2,110	\$2,178	\$2,376	\$2,376	\$2,304	(\$72)	-3.0%
Less Non Bonded Projects (capitalized)	(\$1,124)	(\$1,590)	(\$2,294)	(\$1,881)	(\$1,723)	\$571	-24.9%
Less Total Internal Costs (capitalized)	(\$448)	(\$468)	(\$288)	(\$352)	(\$343)	(\$55)	19.1%
Interutility Allocation	\$1,438	\$1,409	\$1,590	\$1,569	\$1,472	(\$118)	-7.4%
<b>Total Operating Expenses</b>	<b>\$5,533</b>	<b>\$5,634</b>	<b>\$6,670</b>	<b>\$6,484</b>	<b>\$6,385</b>	<b>\$326</b>	<b>4.9%</b>
<b>Net Operating Income (Loss)</b>	<b>\$1,003</b>	<b>\$862</b>	<b>(\$55)</b>	<b>(\$180)</b>	<b>\$14</b>	<b>(\$541)</b>	<b>986.4%</b>
<b>Financing &amp; Other Non-Operating Items:</b>							
Bond & Interest Related Expenses	(\$43)	(\$24)	\$0	(\$0)	\$0	\$0	0.0%
Interest Income	\$155	\$160	\$161	\$119	\$199	\$38	23.5%
Misc Non-Operating Income (Expense)	(\$111)	(\$72)	\$0	\$0	\$0	\$0	0.0%
<b>Total Financing &amp; Non-Operating Items</b>	<b>\$2</b>	<b>\$64</b>	<b>\$161</b>	<b>\$119</b>	<b>\$199</b>	<b>\$38</b>	<b>23.5%</b>
<b>Income Before Transfers or Capital Contributions</b>	<b>\$1,005</b>	<b>\$926</b>	<b>\$107</b>	<b>(\$61)</b>	<b>\$213</b>	<b>(\$503)</b>	<b>-472.4%</b>
Transfers (In Lieu of Taxes)	(\$360)	(\$343)	(\$355)	(\$323)	(\$328)	\$26	-7.3%
Capital Contributions	\$2,595	\$2,910	\$1,100	\$1,100	\$1,100	\$0	0.0%
<b>NET INCOME</b>	<b>\$3,241</b>	<b>\$3,493</b>	<b>\$852</b>	<b>\$716</b>	<b>\$985</b>	<b>(\$477)</b>	<b>-56.0%</b>
<b>1/01 Cash Balance</b>	<b>\$ 5,869</b>		<b>\$ 5,538</b>	<b>\$ 6,921</b>	<b>\$ 6,681</b>	<b>\$1,144</b>	<b>20.7%</b>
Change in Net Assets	3,493		852	716	985	133	15.6%
Depreciation & Amortization	2,178		2,376	2,376	2,304	(72)	-3.0%
Capital Additions/Service Territory Comp	(2,058)		(2,582)	(2,232)	(2,066)	516	-20.0%
Non-Cash Contributions	(2,910)		(1,100)	(1,100)	(1,100)	-	0.0%
Debt Principal Payments	(410)		-	-	-	-	0.0%
Debt Proceeds	-		-	-	-	-	0.0%
Net Change in Other Assets/Liabilities	760		344	-	-	(344)	-100.0%
<b>Net Changes in Cash</b>	<b>1,052</b>		<b>(110)</b>	<b>(240)</b>	<b>123</b>	<b>233</b>	<b>-211.3%</b>
<b>12/31 Cash Balance</b>	<b>\$ 6,921</b>		<b>\$ 5,427</b>	<b>\$ 6,681</b>	<b>\$ 6,804</b>	<b>\$ 1,376</b>	<b>25.4%</b>
<b>Reserve Policy</b>	<b>\$ 5,313</b>		<b>\$ 2,481</b>	<b>\$ 4,581</b>	<b>\$ 4,244</b>	<b>\$ 1,763</b>	<b>71.1%</b>
<b>Excess (Deficit) from Policy</b>	<b>\$ 1,608</b>		<b>\$ 2,946</b>	<b>\$ 2,100</b>	<b>\$ 2,559</b>	<b>\$ (387)</b>	<b>-13.1%</b>
<b>Cash Balance as % of Reserve Policy</b>			<b>218.8%</b>	<b>145.8%</b>	<b>160.3%</b>		

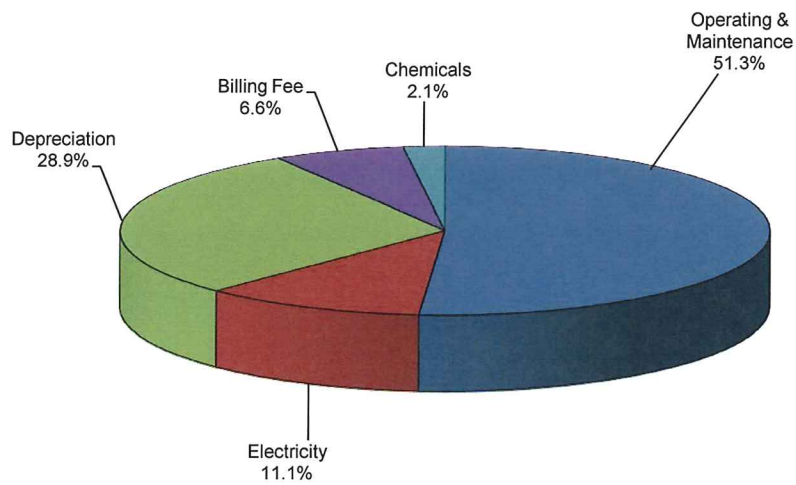


**ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
2012 OPERATING BUDGET**

**GROSS MARGIN  
\$6,399,413**



**EXPENSE USES  
\$7,961,383**





## 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 2012 electric and water capital and operating budgets.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 15<sup>th</sup> day of November, 2011.

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President

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Secretary