



**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Basic Financial Statements and
Required Supplementary Information

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

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Independent Auditors' Report

The Board of Electric Commissioners
City of Burlington, Vermont:

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of the City of Burlington, Vermont Electric Department (the Department), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements for the years then ended as listed in the table of contents.

In our opinions, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Department, as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Reporting Entity

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Burlington, Vermont that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Burlington, Vermont, as of June 30, 2023 or 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Principle

As discussed in Note 1(v) to the basic financial statements, in 2022, the Department has elected to change its method of accounting for costs associated with compliance with Vermont Renewable Energy Standard requirements. 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 U.S. generally accepted accounting principles, 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 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, 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 Department's 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

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audits of the basic 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.

KPMG LLP

Colchester, Vermont
October 27, 2023

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Management's Discussion and Analysis – Required Supplementary Information (Unaudited)

June 30, 2023 and 2022

This section of the City of Burlington, Vermont Electric Department's ("the Department") annual financial report presents a discussion and analysis of the Department's financial performance during the fiscal years ended June 30, 2023 and 2022. Please read it in conjunction with the Department's financial statements, which follow this section.

Overview of the Financial Statements

The financial section of this report consists of three parts: management's discussion and analysis (this section), the financial statements, which provide both long-term and short-term information about the Department's overall financial status, and the notes to the financial statements, which explain some of the information in the financial statements and provide more detailed data.

The Department's financial statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP") as applied to governmental proprietary (enterprise) and fiduciary (custodial) funds and employ the economic resources measurement focus and the accrual basis of accounting. The Department follows GAAP for external financial reporting and is subject, as to rates, accounting, and other matters, to the regulatory authority of the State of Vermont Public Utility Commission ("PUC") and the Federal Energy Regulatory Commission ("FERC"). In accordance with FASB ASC Topic 980, *Regulated Operations*, the Department records certain assets and liabilities in accordance with the economic effects of the rate-making process.

Unless otherwise noted, the remainder of management's discussion and analysis will focus on the Department's proprietary (enterprise) activities.

Financial Highlights

June 30, 2023

- Operating income was \$1,711,876, a decrease of \$205,818 or 10.7% from the operating income in 2022.
- Sales to ultimate customers were \$50,533,107, an increase of \$2,038,462 or 4.2% from 2022.
- Other revenues (primarily sales of renewable energy credits) were \$12,403,932, an increase of \$1,284,861 or 11.6% from 2022.
- Total operating expenses were \$61,104,736, an increase of \$3,551,812 or 6.2% from 2022.
- Total net position was \$64,811,727, an increase of \$1,638,994 or 2.6% compared to 2022.
- Total capital assets (net of depreciation) were \$96,798,049, an increase of \$2,897,137 or 3.1% above 2022.
- The McNeil Generating Station capacity factor for fiscal year 2023 was 48.9% compared to 55.6% in 2022, supplying 107,033 MWH and 121,695 MWH, respectively, of energy production to the Department.

June 30, 2022

- Operating income was \$1,917,694, an increase of \$1,887,757 or 6,306% from the operating income in 2021.
- Sales to ultimate customers were \$48,494,645 an increase of \$3,672,046 or 8% from 2021.

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- Other revenues (primarily sales of renewable energy credits) were \$11,119,071, a decrease of \$172,838 or 1.5% below 2021.
- Total operating expenses were \$57,552,924, an increase of \$1,555,413 or 2.8% from 2021.
- Total net position was \$63,172,733, an increase of \$1,938,039 or 3.2% above 2021.
- Total capital assets (net of depreciation) were \$93,900,912, an increase of \$51,680 or 0.1% above 2021.
- The McNeil Generating Station capacity factor for fiscal year 2022 was 56% compared to 62% in 2021, supplying 121,695 MWH and 135,169 MWH, respectively, of energy production to the Department.

Financial Analysis of the Department

Net Position

The following summarizes the Department's overall financial position as of June 30, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Percentage change 2022–2023</u>	<u>Percentage change 2021–2022</u>
Current assets – unrestricted	\$ 24,457,806	26,731,563	24,372,837	(8.5)%	9.7 % (A)
Restricted assets	21,166,674	25,881,220	5,681,559	(18.2)	355.5 (B)
Capital assets, net	96,798,049	93,900,912	93,849,232	3.1	0.1
Other noncurrent assets	43,208,606	39,276,787	36,767,291	10.0	6.8 (C)
Total assets	<u>\$ 185,631,135</u>	<u>185,790,482</u>	<u>160,670,919</u>	<u>(0.1)%</u>	<u>15.6 %</u>
Deferred outflows of resources	\$ 6,703,141	3,738,188	4,065,163	79.3 %	(8.0)% (D)
Current liabilities	\$ 10,841,125	12,453,689	9,687,818	(12.9)%	28.5 % (E)
Current liabilities payable from restricted assets	798,539	376,569	407,594	112.1	(7.6)
Other noncurrent liabilities	2,550,635	2,683,241	1,460,187	(4.9)	83.8
Net OPEB liability	944,849	909,836	1,054,323	3.8	(13.7)
Net pension liability	21,677,516	11,606,188	17,414,582	86.8	(33.4) (F)
Long-term debt, net	82,746,617	85,675,359	66,921,910	(3.4)	28.0 (G)
Total liabilities	<u>\$ 119,559,281</u>	<u>113,704,882</u>	<u>96,946,414</u>	<u>5.1 %</u>	<u>17.3 %</u>
Deferred inflows of resources	\$ 7,963,268	12,651,055	6,554,974	(37.1)%	93.0 %
Net position:					
Net investment in capital assets	\$ 45,408,157	40,686,130	39,742,036	11.6 %	2.4 %
Restricted	6,475,757	6,300,800	5,273,965	2.8	19.5
Unrestricted	12,927,813	16,185,803	16,218,693	(20.1)	(0.2)
Total net position	<u>\$ 64,811,727</u>	<u>63,172,733</u>	<u>61,234,694</u>	<u>2.6 %</u>	<u>3.2 %</u>

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- (A) Current assets (unrestricted) at June 30, 2023 were \$24,457,806, a decrease of \$2,273,757 compared to June 30, 2022 primarily due to a decrease in cash resulting from both higher prices paid for wood fuel and lower prices received for excess energy (purchased power owned or under contract in excess of the Department's load) during the winter of 2022-2023. Current assets (unrestricted) at June 30, 2022 were \$26,731,563, an increase of \$2,358,726 compared to June 30, 2021 primarily due to an increase in cash resulting from decreased customer receipts and capital contributions in FY2021 due largely to the COVID-19 pandemic (COVID-19).
- (B) Restricted assets at June 30, 2023 were \$21,166,674, a decrease of \$4,714,546 compared to June 30, 2022 primarily due to the drawdown of Electric System Revenue Bond Series 2022A proceeds from the Construction Fund, an investment account where bond proceeds are held until used for the bond's intended purpose. Restricted assets at June 30, 2022 were \$25,881,220, an increase of \$20,199,661 compared to June 30, 2021 due to the issuance of revenue bond Series 2022A.
- (C) Other noncurrent assets at June 30, 2023 were \$43,208,806, an increase of \$3,931,819 compared to June 30, 2022 due primarily to an increase in regulatory assets to defer and amortize (1) a shortfall in revenues from the sale of excess energy for the winter of 2022-2023 and (2) a payment to the City of Burlington toward the abatement and/or remediation of environmental contaminants at the site of the former Moran Station.
- Other noncurrent assets at June 30, 2022 were \$39,276,787, an increase of \$2,509,496 compared to June 30, 2021 due primarily to a change in accounting policy to establish inventory assets for the Department's holdings of Tier 1 RECs eligible for compliance with Vermont's Renewable Energy Standard.
- (D) Deferred outflows at June 30, 2023 were \$6,703,141, an increase of \$2,964,953 compared to June 30, 2022 due to an increase in the deferred pension contribution caused by an increase in the difference between actual and projected investment earnings. Deferred outflows at June 30, 2022 were \$3,738,188, a decrease of \$326,975 compared to June 30, 2021 due to a decrease in the deferred pension contribution caused by a decrease in the difference between actual and projected investment earnings.
- (E) Current liabilities at June 30, 2023 were \$10,841,125, a decrease of \$1,612,564 compared to June 30, 2022 due primarily to decreases in accounts payable due to decreases in purchased power and miscellaneous operating payables. Current liabilities at June 30, 2022 were \$12,453,689, an increase of \$2,765,871 compared to June 30, 2021 due primarily to increases in accounts payable due to an increase in REC purchase payables and other current liabilities.

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(F) The net pension liability at June 30, 2023 was \$21,677,516, an increase of \$10,071,328 compared to 2022 due to increases in the difference between expected and actual experience, net investment loss, pension expense, decreases in the difference between the projected and actual plan experience and investment earnings, and changes in assumptions related to inflation and salary increases, offset by pension contributions. See note 8 – Retirement Benefits.

The net pension liability at June 30, 2022 was \$11,606,188, a decrease of \$5,808,394 compared to 2021 due to pension expense, decreases in the difference between the projected and actual plan experience and investment earnings, and changes in assumptions related to inflation and salary increases, offset by pension contributions. See note 8 – Retirement Benefits.

(G) Long-term debt, net at June 30, 2023 was \$82,746,617, a decrease of \$2,928,742 compared to June 30, 2022 in accordance with current maturities schedules. Long-term debt, net at June 30, 2022 was \$85,675,359, an increase of \$18,753,449 compared to June 30, 2021 due to issuance of Electric System Revenue Bond Series 2022A in the amount of \$18,045,000.

Changes in Net Position

A summary of changes in net position for the fiscal years ended June 30, 2023, 2022 and 2021 follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Percentage change 2022–2023</u>	<u>Percentage change 2021–2022</u>
Operating revenues:					
Sales to ultimate customers	\$ 50,533,107	48,494,645	44,822,599	4.2 %	8.2 % (A)
Other revenues	12,403,932	11,119,071	11,291,909	11.6	(1.5) (B)
Less provision for uncollectible accounts	<u>(120,427)</u>	<u>(143,098)</u>	<u>(87,060)</u>	<u>(15.8)</u>	<u>64.4</u>
Total operating revenues, net	<u>62,816,612</u>	<u>59,470,618</u>	<u>56,027,448</u>	<u>5.6</u>	<u>6.1</u>

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	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Percentage change 2022–2023</u>	<u>Percentage change 2021–2022</u>
Operating expenses:					
Production	\$ 12,170,285	11,329,585	10,891,484	7.4 %	4.0 % (C)
Purchased power	13,584,701	14,745,060	14,762,501	(7.9)	(0.1) (D)
Other power supply expenses	1,680,300	1,645,104	1,420,639	2.1	15.8 (D)
Transmission	9,337,070	8,918,774	8,049,248	4.7	10.8 (D)
Distribution	3,171,244	3,352,809	3,501,169	(5.4)	(4.2) (E)
Customer accounting and service	7,699,127	5,924,783	5,326,122	29.9	11.2 (F)
Administration and general	6,212,561	4,555,018	5,714,889	36.4	(20.3) (G)
Depreciation and amortization	6,176,061	6,048,674	5,330,061	2.1	13.5 (H)
Taxes	1,073,387	1,033,117	1,001,398	3.9	3.2
Total operating expenses	<u>61,104,736</u>	<u>57,552,924</u>	<u>55,997,511</u>	<u>6.2</u>	<u>2.8</u>
Operating income (loss)	<u>1,711,876</u>	<u>1,917,694</u>	<u>29,937</u>	<u>(10.7)%</u>	<u>6,305.8 %</u>
Other income (expense):					
Dividend income	4,399,511	4,335,722	4,326,608	1.5 %	0.2 %
Interest income	501,766	84,678	82,765	492.6	2.3
Loss on sale of capital assets	(116,431)	(256,663)	(248,260)	(54.6)	3.4
Grants and other income	(9,137)	(3,153)	754,406	189.8	(100.4)
Total other income	<u>4,775,709</u>	<u>4,160,584</u>	<u>4,915,519</u>	<u>14.8</u>	<u>(15.4)</u>
Total finance charges	<u>(3,450,296)</u>	<u>(2,305,770)</u>	<u>(2,455,482)</u>	<u>49.6</u>	<u>(6.1)</u>
Income before transfers and capital contributions	<u>3,037,289</u>	<u>3,772,508</u>	<u>2,489,974</u>	<u>(19.5)</u>	<u>51.5</u>
Transfers to the City for payment:					
In lieu of taxes	<u>(2,133,939)</u>	<u>(2,274,239)</u>	<u>(2,696,171)</u>	<u>(6.2)</u>	<u>(15.6)</u>
Income (loss) before capital contributions	<u>903,350</u>	<u>1,498,269</u>	<u>(206,197)</u>	<u>(39.7)</u>	<u>(826.6)</u>
Capital contributions	<u>735,644</u>	<u>439,770</u>	<u>647,678</u>	<u>67.3</u>	<u>(32.1)</u>
Change in net position	<u>1,638,994</u>	<u>1,938,039</u>	<u>441,481</u>	<u>(15.4)</u>	<u>339.0</u>
Net position at beginning of year	<u>63,172,733</u>	<u>61,234,694</u>	<u>60,793,213</u>	<u>3.2</u>	<u>0.7</u>
Net position at end of year	<u>\$ 64,811,727</u>	<u>63,172,733</u>	<u>61,234,694</u>	<u>2.6 %</u>	<u>3.2 %</u>

(A) Sales to ultimate customers in 2023 of \$50,533,107 increased by \$2,038,462 compared to 2022. 2023 reflected a 3.95% increase in rates effective August 1, 2022.

(B) Other revenues for 2023 of \$12,403,932 increased by \$1,284,861 compared to 2022 due to increased program cost reimbursements from the Energy Efficiency Utility (EEU) partially offset by decreased McNeil REC production. Other operating revenues for 2022 of \$11,119,071 decreased by \$172,838 compared to

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2021, due to lower production of wind RECs and a slight reduction in the price of McNeil RECs, partially offset by increased McNeil REC production.

- (C) Production expense for 2023 of \$12,170,285 increased by \$840,700 compared to 2022 due to increased fuel expense at the McNeil Generating Station partially offset by lower fuel expense at the Gas Turbine. Production expense for 2022 of \$11,329,585 increased by \$438,101 compared to 2021, due to increased operations and maintenance expense at the McNeil Generating Station and the Gas Turbine.
- (D) Purchased power costs for 2023 of \$13,584,701 decreased by \$1,160,359 compared to 2022 due to the deferral and amortization of a revenue shortfall due to reduced price for sales of excess winter energy to ISO-NE and decreased deliveries under the Vermont Wind contract, partially offset by increased costs to retain the Mystic Generating Station (booked under ISO-NE Capacity) and increased prices under the Hydro-Québec contract.

Purchased power costs for 2022 of \$14,745,060 decreased by \$17,441 compared to 2021. Increases in purchase cost of RECs for compliance with Vermont's RES, price and energy deliveries associated with the Vermont Wind contract, and price associated with the Hydro Quebec contract were offset by reduced ISO-NE capacity prices, reduced price and energy deliveries associated with the Hancock Wind contract, and increased price associated with sales of excess energy to ISO-NE.

Other power supply expenses are based on ISO-NE administration charges for each of the comparative periods.

Transmission costs for 2023 of \$9,337,070 increased by \$418,296 compared to 2022 primarily due to increased VELCO transmission charges, partially offset by decreased New York Power Authority transmission charges. Transmission costs for 2022 of \$8,918,774 increased by \$869,526 compared to 2021 primarily due to increased ISO-NE transmission rates for Regional Network Service and increased New York Power Authority transmission rates, partially offset by decreased VELCO transmission charges.

- (E) Distribution expense for 2023 of \$3,171,244 increased by \$181,565 compared to 2022 primarily due to increases in overhead and underground line maintenance expense, partially offset by decreased supervision and engineering operation expense. Distribution expense for 2022 of \$3,352,809 decreased by \$148,360 compared to 2021 primarily due to decreased meter operation and underground line maintenance expenses.
- (F) Customer accounting, service, and sales expense for 2023 of \$7,669,127 increased by \$1,774,344 compared to 2022 due primarily to an increase in EEU program activity expenses. Customer accounting, service, and sales expense for 2022 of \$5,924,783 increased by \$589,661 compared to 2021 increases in meter and customer records software expenses offset by a change in accounting treatment for costs associated with Vermont RES Tier 3 strategic electrification programs.
- (G) Administrative and general expense for 2023 of \$6,212,561 increased by \$1,657,543 compared to 2022 primarily due to increases in expense for pension and benefits and injuries and damages. Administrative and general expense for 2022 of \$4,555,018 decreased by \$1,159,871 compared to 2021 due to decreases in pension and benefits costs offset by increased financial services expenses.

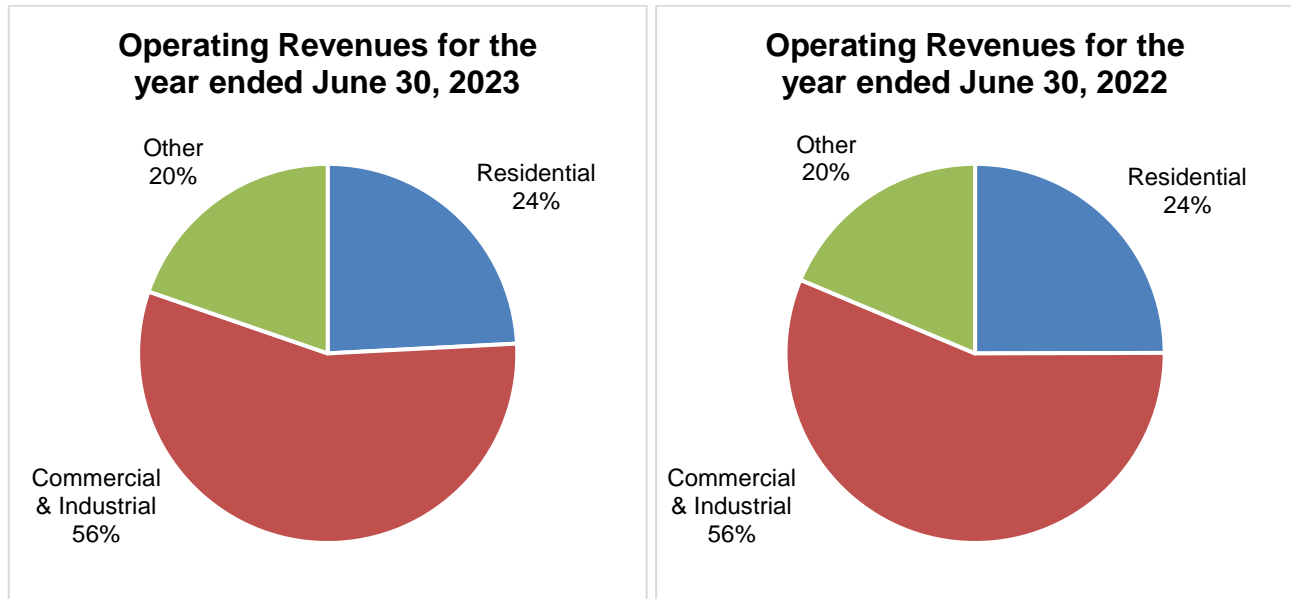
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(H) Depreciation and amortization, including deferred depreciation expense, for 2023 of \$6,176,061 increased by \$127,387 compared to 2022 primarily due to an increase in the adjustment to sinking fund depreciation partially offset by decreased distribution plant depreciation expense. Depreciation and amortization, including deferred depreciation expense, for 2022 of \$6,048,674 increased by \$718,613 compared to 2021 primarily due to increased distribution plant depreciation expense and a reduction in the adjustment to straight-line depreciation.

Revenue

The following charts show the major sources of operating revenues for the years ended June 30, 2023 and 2022:



Long-Term Debt – Revenue and General Obligation Bonds

The following table summarizes long-term debt related to revenue and general obligation bonds for the years ended June 30, 2023, 2022 and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenue bonds, net of current installments	\$ 36,574,879	38,514,236	19,045,601
General obligation bonds, net of current installments	<u>46,171,738</u>	<u>47,161,123</u>	<u>47,876,309</u>
Total bonds, net	<u>\$ 82,746,617</u>	<u>85,675,359</u>	<u>66,921,910</u>

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During the fiscal year ended June 30, 2023, the Department, through the City of Burlington, entered into a \$3,000,000, Series 2022 general obligation bond anticipation note ("BAN") bearing interest at the fixed rate of 2.79%. The Department, through the City of Burlington, also issued \$2,650,000 in general obligation bonds, 2022 Series A, with an average coupon rate of 5.00%. These bonds were issued for use during fiscal year 2022 in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department.

During the fiscal year ended June 30, 2022, the Department, through the City of Burlington, issued \$18,045,000 in new Electric System Revenue Bonds, 2022 Series A with an average coupon rate of 5.00% for the purpose of funding capital improvements to the Department's distribution and renewable generation plants, information technology systems, and electric vehicle charging infrastructure.

During the fiscal year ended June 30, 2022, the Department, through the City of Burlington, entered into a \$3,000,000, Series 2021, general obligation BAN bearing interest at the fixed rate of 0.44%. The Department, through the City of Burlington, also issued \$2,625,000 in general obligation bonds, Series 2021A, with an average coupon rate of 3.45%. These bonds were issued for use during fiscal year 2022 in accordance with the City Charter to cover annual capital improvements to the electric infrastructure of the Department.

During the fiscal year ended June 30, 2021, the Department, through the City of Burlington, entered into a \$3,000,000, Series 2020, general obligation BAN bearing interest at the fixed rate of 0.72%.

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Capital Assets

The following chart summarizes capital assets and accumulated depreciation for the years ended June 30, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Capital assets	\$ 209,678,058	201,769,918	199,431,817
Accumulated depreciation/amortization	<u>112,880,009</u>	<u>107,869,006</u>	<u>105,582,585</u>
Net capital assets	<u>\$ 96,798,049</u>	<u>93,900,912</u>	<u>93,849,232</u>

Capital assets are stated at historical cost and include assets related to land, production plant, transmission plant, distribution plant, general plant, and other plant. Capital assets also include the Department’s ownership interest in the following jointly owned facilities:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
McNeil Generating Station	50.0 %	50.0 %	50.0 %

During 2023, net capital assets increased \$2,897,137 from 2022. Net capital asset additions amounted to \$7,908,140 which included improvements to production and distribution plant and software system upgrades. These capital asset additions were offset by depreciation expense of \$4,639,294 and retired plant assets with a net carrying value of \$125,200.

During 2022, net capital assets increased \$51,680 from 2021. Net capital asset additions amounted to \$2,338,100 which included improvements to production plant, distribution and system upgrades. These capital asset additions were offset by depreciation expense of \$4,798,206 and retired plant assets with a net carrying value of \$3,003,693.

Requests for Information

This financial report is intended to provide an overview of the finances of the Department for those with an interest in this organization. Questions concerning any information contained in this report may be directed to Emily Stebbins-Wheelock, CFO and Manager of Strategy & Innovation.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Statements of Net Position – Proprietary (Enterprise) Fund

June 30, 2023 and 2022

Assets and Deferred Outflows of Resources	2023	2022
Capital assets, net	\$ 96,798,049	93,900,912
Current assets:		
Cash and cash equivalents	8,840,234	12,257,496
Restricted investments – deposits with bond trustees and accrued interest receivable	798,539	376,569
Accounts receivable, net of allowance for uncollectible accounts of \$139,260 and \$159,811, respectively	4,360,086	4,788,084
Unbilled revenues	2,336,080	2,121,852
Fuel and materials inventory, at average cost	7,390,327	6,000,306
Other	1,531,079	1,563,825
Total current assets	25,256,345	27,108,132
Noncurrent assets:		
Restricted investments – deposits with bond trustees	20,368,135	25,504,651
Regulatory assets	6,061,013	1,833,710
Renewable Energy Standard inventory	1,846,257	1,944,355
Equity interests in associated companies	35,301,336	34,666,846
Other noncurrent assets	—	831,876
Total noncurrent assets	63,576,741	64,781,438
Total assets	185,631,135	185,790,482
Deferred outflows of resources:		
Loss on advanced refunding	294,654	338,070
Pension amounts	6,224,886	3,151,949
Other post-employment benefits amounts	183,601	248,169
Total deferred outflows of resources	6,703,141	3,738,188

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Statements of Net Position – Proprietary (Enterprise) Fund

June 30, 2023 and 2022

Liabilities and Deferred Inflows of Resources	2023	2022
Liabilities:		
Current liabilities:		
Current installments of long-term debt:		
Revenue bonds	\$ 1,935,000	1,850,000
General obligation debt of the City of Burlington	3,825,000	3,575,000
Accounts payable	3,016,183	4,864,424
Other current liabilities	2,064,942	2,164,265
Liabilities payable from restricted assets – deposits with bond trustees	798,539	376,569
Total current liabilities	11,639,664	12,830,258
Noncurrent liabilities:		
Long-term debt:		
Revenue bonds	36,574,879	38,514,236
General obligation debt of the City of Burlington	46,171,738	47,161,123
Other noncurrent liabilities	2,550,635	2,683,241
Net pension liability	21,677,516	11,606,188
Other post-employment benefits	944,849	909,836
Total noncurrent liabilities	107,919,617	100,874,624
Total liabilities	119,559,281	113,704,882
Deferred inflows of resources:		
Pension amounts	696,361	6,337,356
Other post-employment benefits amounts	544,782	653,384
Regulatory deferral	6,722,125	5,660,315
Total deferred inflows of resources	7,963,268	12,651,055
Net position		
Net position:		
Net investment in capital assets	45,408,157	40,686,130
Restricted:		
Deposits with bond trustees	6,475,757	6,300,800
Unrestricted	12,927,813	16,185,803
Total net position	\$ 64,811,727	63,172,733

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Statements of Revenues, Expenses, and Changes in Net Position – Proprietary (Enterprise) Fund

Years ended June 30, 2023 and 2022

	2023	2022
Operating revenues:		
Sales to ultimate customers	\$ 50,533,107	48,494,645
Other revenues	12,403,932	11,119,071
	62,937,039	59,613,716
Less provision for uncollectible accounts	120,427	143,098
Total operating revenues, net	62,816,612	59,470,618
Operating expenses:		
Production	12,170,285	11,329,585
Purchased power	13,584,701	14,745,060
Other power supply expenses	1,680,300	1,645,104
Transmission	9,337,070	8,918,774
Distribution	3,171,244	3,352,809
Customer accounting, service, and sales	7,699,127	5,924,783
Administrative and general	6,212,561	4,555,018
Depreciation and amortization	6,176,061	6,048,674
Taxes	1,073,387	1,033,117
Total operating expenses	61,104,736	57,552,924
Operating income	1,711,876	1,917,694
Nonoperating revenue (expenses):		
Dividends from associated companies	4,399,511	4,335,722
Interest income	501,766	84,678
Grant income	(14,996)	139,892
Other income, net	(44,206)	40,320
Unrealized loss on investment	50,065	(183,365)
Interest and amortization on long-term debt	(3,450,296)	(2,305,770)
Loss on sale of capital assets	(116,431)	(256,663)
Total nonoperating revenue	1,325,413	1,854,814
Income before transfers and capital contributions	3,037,289	3,772,508
Transfers to the City of Burlington for payment in lieu of taxes	(2,133,939)	(2,274,239)
Gain before capital contributions	903,350	1,498,269
Capital contributions	735,644	439,770
Increase in net position	1,638,994	1,938,039
Net position at beginning of year	63,172,733	61,234,694
Net position at end of year	\$ 64,811,727	63,172,733

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Statements of Cash Flows – Proprietary (Enterprise) Fund
Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Receipts:		
From ultimate customers	\$ 50,241,294	49,026,216
Other revenues	12,930,066	10,667,283
Payments made for:		
Purchased power	(14,040,919)	(14,862,432)
Power production expense	(14,933,942)	(12,713,591)
Transmission expense	(9,337,070)	(8,918,774)
Distribution expense	(7,172,095)	(3,905,408)
Customer accounts and service expense	(7,933,324)	(6,447,983)
Administration and general expense	(5,889,140)	(3,491,823)
General taxes	(1,364,491)	(737,274)
Net cash provided by operating activities	2,500,379	8,616,214
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(8,127,820)	(5,554,606)
Capital contributions	735,644	439,770
Proceeds from bond premium	632,902	3,640,554
Principal paid on outstanding debt	(5,425,000)	(5,230,000)
Proceeds from new debt issuance	5,650,000	24,045,000
Refinancing of short-term borrowing	(3,000,000)	(3,000,000)
Interest paid on outstanding debt	(3,198,957)	(2,568,742)
Net cash (used in) provided by capital and related financing activities	(12,733,231)	11,771,976
Cash flows from noncapital financing activities:		
Amounts paid in lieu of taxes	(2,133,939)	(2,274,239)
Energy efficiency utility	(14,996)	139,892
Other income (loss)	(44,206)	40,320
Net cash used in noncapital financing activities	(2,193,141)	(2,094,027)
Cash flows from investing activities:		
Withdrawals from (deposits with) Bond Trustees	1,120,160	(23,238,034)
Proceeds from deposits with Bond Trustees	3,644,451	2,855,002
Purchase of equity interest in associated companies	(634,490)	—
Interest and dividends on investments	4,878,610	4,486,377
Net cash provided by (used in) investing activities	9,008,731	(15,896,655)
Net (decrease) increase in cash and cash equivalents	(3,417,262)	2,397,508
Cash and cash equivalents at beginning of year	12,257,496	9,859,988
Cash and cash equivalents at end of year	\$ 8,840,234	12,257,496
Reconciliation of cash from operating activities:		
Cash flows from operating activities:		
Operating income	\$ 1,711,876	1,917,694
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,465,310	4,630,862
Deferred depreciation expense realized in current year	1,167,249	907,849
Deferred projects amortization	543,579	509,963
Debt premium and discount amortization	(228,311)	(256,461)
Changes in assets and liabilities:		
Change in accounts receivable	427,999	54,611
Change in fuel and materials inventory	(1,390,021)	(143,793)
Change in unbilled revenues	(214,228)	58,483
Change in other deferred charges	(4,227,304)	(217,818)
Change in other current assets	55,338	3,504
Change in REC inventory	98,098	(1,459,802)
Change in other noncurrent assets	831,876	(831,876)
Change in accounts payable	(1,848,241)	1,941,893
Change in other current liabilities	(108,610)	651,329
Change in net deferred inflow/outflow pension liability	1,357,396	(393,844)
Change in net deferred inflow/outflow OPEB liability	(9,021)	20,566
Change in other noncurrent liabilities	(132,606)	1,223,054
Net cash provided by operating activities	\$ 2,500,379	8,616,214

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Statements of Net Position – Fiduciary (Custodial) Fund

June 30, 2023 and 2022

	2023	2022
Assets:		
Cash	\$ 1,798,023	3,706,742
Accounts receivable	279,158	296,862
Total assets	2,077,181	4,003,604
Liabilities:		
Accounts payable	176,636	311,443
Gross revenue taxes payable	4,995	5,830
Fuel taxes payable	770	897
Total liabilities	182,401	318,170
Net position restricted for Energy Efficiency Utility programs	\$ 1,894,780	3,685,434

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Statements of Changes in Net Position – Fiduciary (Custodial) Fund

June 30, 2023 and 2022

	2023	2022
Additions:		
EEC collections from customers	\$ 2,083,026	2,536,076
Forward capacity market	324,712	411,587
Regional greenhouse gas initiative	326,289	340,999
Weatherization Repayment Assistance Program Administrative Fees	12,000	—
Total additions	2,746,027	3,288,662
Deductions:		
Payments for programs	4,229,227	2,537,487
Payments for administration	277,840	334,660
EEC uncollectible return	8,263	16,141
Gross revenue taxes	10,936	13,323
Fuel taxes	10,415	12,680
Total deductions	4,536,681	2,914,291
Change in net position	(1,790,654)	374,371
Net position at beginning of year	3,685,434	3,311,063
Net position at end of year	\$ 1,894,780	3,685,434

See accompanying notes to financial statements.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Notes to Financial Statements

June 30, 2023 and 2022

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The City of Burlington, Vermont Electric Department (the Department) is an enterprise fund of the City of Burlington, Vermont (the City). The City has overall financial accountability for the Department, its Council appoints the Commissioners of the Department who oversee its operations, and the City collateralizes the Department's general obligation debt. The Department is also subject as to rates, accounting, and other matters, to the regulatory authority of the State of Vermont Public Utility Commission (PUC) and the Federal Energy Regulatory Commission (FERC). In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements as amended*, the Department records certain assets and deferred inflows of resources in accordance with the economic effects of the rate-making process.

The Department has been offering demand-side management programs since 1989. Effective 1999 the Department became an Energy Efficiency Utility (EEU). The PUC issued an Order of Appointment to the Department to serve as a Vermont EEU within its service territory effective January 1, 2017 through December 31, 2027. The Department is responsible for designing and implementing demand-side services and initiatives to comprehensively address cost-effective opportunities associated with electric and Thermal Energy and Process Fuels (TEPF) efficiency. In addition, effective January 1, 2020 the Department began to function as the Fiscal Agent and fund administrator under 30 V.S.A Section 209(d)(3) for electric efficiency and TEPF activities.

This report includes all of the Department's proprietary fund, which accounts for all activities of the Department. In addition, as discussed in note 1(t), the Department has a custodial relationship with the EEU. As the activities of the custodial fund do not belong to the Department, the net position and related changes in net position related to the custodial fund are reported within the Statements of Net Position – Fiduciary (Custodial) Fund and Statements of Changes in Net Position – Fiduciary (Custodial) Fund.

(b) Capital Assets

Capital assets are stated at historical cost. Provisions for depreciation of general capital assets are reported using the straight-line method at rates based upon the estimated service lives and salvage values of the several classes of property. For revenue bond-funded assets, when those assets have a longer (or shorter) life than the term of the bond funding them, the Department makes two adjustments to depreciation expense (a sinking fund depreciation adjustment and a straight-line depreciation adjustment) to align the timing of rate recovery with the timing of debt principal payments. For assets with a longer life than the term of the bond, the difference between the two adjustments is included in deferred inflows and will be amortized over the remaining life of the asset after the bonds are retired. For certain McNeil assets with a shorter life than the term of the bond, the difference between the two adjustments is included in regulatory assets and will be recovered in future years. See note 4, Regulatory Assets and Regulatory Deferred Inflows of Resources.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Notes to Financial Statements

June 30, 2023 and 2022

Maintenance and repairs of capital assets are charged to maintenance expense. Replacements and betterments are capitalized to capital assets. When assets are retired or otherwise disposed of, the costs are removed from capital assets, and such costs, plus removal costs, net of salvage, are charged to accumulated depreciation.

The Department's capitalization policy considers four factors. Property will be capitalized when:

1. The combined cost to put a unit in service is more than \$500 and
2. The unit's estimated life is at least three (3) years.
3. The unit is vital to the Department and must be controlled and tracked, even if it falls under the dollar limit stated in (1) above. Watt-hour meters to record electric usage are the only unit in this category.
4. The PUC rules in a rate-making decision that the Department will capitalize a cost that normally would not be capitalized based on the first three factors above. The Department does not have any assets in this category.

The depreciable lives of utility plant are as follows:

	Depreciable lives
Production plant	10–50 years
Transmission plant	33–50 years
Distribution plant	10–50 years
General plant	5–50 years
Other plant	5 years

(c) Jointly Owned Facility

The Department has recorded its ownership interest in its jointly owned facility as capital assets. The Department's ownership interest in the jointly owned facility is as follows:

	2023	2022
McNeil Generating Station	50.0 %	50.0 %

The Department is responsible for its proportionate share of the operating expenses of the jointly owned facility that are billed to the Department monthly. The associated operating costs allocated to the Department are classified in their respective expense categories in the Statements of Revenues, Expenses, and Changes in Net Position. Separate financial statements are available from the Department for this jointly owned facility.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Notes to Financial Statements

June 30, 2023 and 2022

(d) Cash, Cash Equivalents, and Investments

The Department considers unrestricted short-term investments, including money markets and certificates of deposit, that have an original maturity of 90 days or less, to be cash equivalents. The Department considers all restricted money market funds and certificates of deposit that have an original maturity of 90 days or more to be investments. Investments are carried at fair value.

(e) Equity Interests in Associated Companies

The Department follows the cost method of accounting for its 6.38% Class B common stock, 1.97% Class C common stock and 7.69% Class C preferred stock equity interest in VELCO, and its 5.46% equity interest in Transco. Transco is an affiliated entity of VELCO. VELCO owns and operates a transmission system in the State of Vermont over which bulk power is delivered to all electric utilities in the State of Vermont. Under a Power Transmission Contract with the State of Vermont, VELCO bills all costs, including amortization of its debt and a fixed return on equity, to the State of Vermont and others using the system.

During the year ended June 30, 2023, the Department purchased 27,918 Class A units and 35,531 Class B units in Transco for a cost of \$634,490.

During the year ended June 30, 2022, the Department opted to redeem 50,447 Class A units and 64,205 Class B units in Transco with a value of \$1,146,520 that the Department had purchased for specific facility equity 10 years ago. No cash was exchanged because the amount redeemed was the same as the amount purchased and the Department's equity in Transco remained unchanged.

Schedule of Carrying Value in Associated Companies

	June 30	
	2023	2022
Velco, Class B common stock	\$ 1,403,800	1,403,800
Velco, Class C common stock	39,200	39,200
Velco, Class C preferred stock	11,196	11,196
VT Transco, LLC, A Units	14,892,751	14,613,571
VT Transco, LLC, B Units	18,954,389	18,599,079
	<u>\$ 35,301,336</u>	<u>34,666,846</u>

(f) Restricted Investments – Deposits with Bond Trustees

The Department has established certain funds required by the General Bond Resolution adopted by the City of Burlington on October 7, 1981 pursuant to which the Electric System Revenue Bonds were issued. The funds include debt service, debt service reserve, construction (capital improvements), and renewal and replacement. Investment securities held in deposits with bond trustees are stated at fair value.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Notes to Financial Statements

June 30, 2023 and 2022

(g) Liabilities Payable from Restricted Assets with Bond Trustees

This balance represents accrued interest expense associated with the Electric System Revenue Bonds. Deposits are made with the Bond Trustees as required by the General Bond Resolution pursuant to which the Electric System Revenue Bonds were issued.

(h) Operating and Nonoperating Revenues and Expenses

Operating revenues are defined as income received from the sale of electricity to retail customers as well as to other entities for the purpose of resale. In addition, it includes rents from electric property, fees for changing, connecting, or disconnecting service, revenues from the transmission of electricity of others over transmission facilities of the utility, revenue from the sale of Renewable Energy Credits (RECs), and revenue received from requesting utilities to run generation facilities when not economically feasible due to normal market conditions.

Operating expenses are defined as the ordinary costs and expenses of the Department for the operation, maintenance, and repair of the electric plant. Operating expenses include the cost of production by the Department's owned generating facilities, purchased power, system control and load dispatch, maintenance of transmission and distribution systems, customer accounting and service expenses, administrative and general expenses, and depreciation and amortization. Operating expenses do not include the principal and interest on bonds, notes, or other costs of indebtedness.

Nonoperating revenues are defined as income received from sources other than the sale of electricity or from rents and fees from electric property or services. Nonoperating revenues generally include interest and dividend income, services rendered to customers upon their request, sale of parts from inventory to contractors, and rental of nonutility property merchandise.

Revenues, including amounts billed to the City of Burlington, are billed monthly based on billing rates authorized by the PUC that are applied to customers' consumption of electricity.

The fair value of donated capital assets is reported in the accompanying financial statements as capital contributions.

(i) Estimated Unbilled Revenue

The Department records unbilled revenue at the end of each accounting period based on estimates of electric services rendered but not yet billed to customers.

(j) Taxes and Fees

The Department is exempt from Federal income taxes. Although it is also exempt from municipal property taxes, the Department pays an amount in lieu of taxes to the City of Burlington. The Department incurred payments in lieu of taxes totaling \$2,149,928 and \$2,290,228 for the years ended June 30, 2023 and 2022, respectively, with \$15,989 and \$15,989, respectively, being allocated to operating expenses.

In addition to the payments in lieu of taxes, the Department paid indirect costs of \$445,326 and \$311,300 in 2023 and 2022, respectively, for a prorated share of costs associated with general government, human resources, and city attorney services as billed by the City Treasurer's Office.

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Notes to Financial Statements

June 30, 2023 and 2022

The City of Burlington requires the Department to charge a franchise fee on its electric bills to its retail customers on behalf of the City. The franchise fee for both 2023 and 2022 was 3.5% of operating revenues and was charged separately to customers on electric bills and is therefore excluded from both operating revenues and expenses. The Department is not required to pay the City for franchise fee amounts billed to customers but not collected.

The Vermont Department of Taxes assesses a 6% sales and use tax on 31% of taxable purchases for the McNeil Generating Station. Due to a manufacturers' exemption clause, purchases of wood chips, oil, gas, and electricity were not subject to sales and use tax for the years ended June 30, 2023 and 2022. The City of Burlington imposed a 1% sales tax upon taxable sales within the City. The McNeil Generating Station is exempt from these sales taxes due to only being subject to use taxes.

(k) Inventories

Inventories consist of fuel, materials, supplies, and purchased Tier 1 RECs and earned Tier 3 Credits eligible for compliance with Vermont's Renewable Energy Standard (RES). Inventories are stated at the lower of cost or market. Cost is determined on a weighted average cost basis. Fuel is reported as inventory until it is used for power production, at which time it is expensed as a component of fuel expense. Wood fuel inventory consists of the cost of woodchips. As wood fuel inventory is used, it is expensed on a weighted average cost basis. Material and supplies inventory consists of items primarily used in the utility business for construction, operation and maintenance of poles, wires, and conduit. Purchased Tier 1 RECs and Tier 3 Credits are reported as inventory until used for annual compliance with Vermont's RES, at which time they are expensed as a component of purchased power expense and customer accounting, service, and sales expense, respectively.

(l) Deferred Loss on Refunded Debt

The Department incurred various losses in prior years in connection with the refinancing of Electric System Revenue Bonds. A deferred loss on reacquired (refunded) debt is amortized over the life of the new debt. Unamortized balances are included as a deferred outflow of resources on the statements of net position.

(m) Unamortized Debt Premiums and Discounts

Premiums and discounts incurred in connection with the sale of bonds are amortized over the terms of the related debt. Unamortized balances are included as a component of long-term debt.

(n) Restricted Net Position

Net position is restricted when constraints are placed on them externally. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted assets first with unrestricted resources used as needed.

(o) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Notes to Financial Statements

June 30, 2023 and 2022

doubtful accounts and unbilled revenue and the valuation of the net pension and other post-employment benefits (OPEB) liabilities. Actual results could differ from those estimates.

(p) Renewable Energy Credit Sales

The Department receives RECs based on the amount of energy produced by its renewable resources in a year. These RECs have value in terms of allowing the holder to demonstrate compliance with the Renewable Portfolio Standard (RPS) requirements of the various New England states. These RECs may be bought and sold, separate from the underlying energy production, and vary in value based on the amount of supply versus the demands created by the RPS, for each particular type of REC. The ability to claim energy renewability is transferred with the REC (either lost in the case of a REC sale or acquired in the case of a REC purchase).

The Department's policy & planning staff monitors output levels from the REC-producing units, REC commitments made, the markets for these RECs, and the State statutes and rules that govern the creation and sale of these RECs. With the advent of Vermont's RES in 2017, the policy & planning staff also monitor the Department's own need for RECs to comply with the RES.

The Department periodically sells RECs either through broker-initiated transactions or through direct placement with entities that need the RECs to comply with various New England statutes. The Department enters into agreements to sell or buy RECs for prior, current, and future years' production and electricity sales. Any revenue or expenses related to such sales or purchases are recognized at the time RECs are actually delivered or received.

In 2008, the McNeil Generating Station (McNeil) installed a Regenerative Selective Catalytic Reduction (RSCR) unit. The RSCR unit significantly reduces McNeil's Nitrous Oxide (NOx) emission levels, which allows the station to qualify to sell Connecticut Class 1 RECs. The McNeil RECs are determined to be qualified for sale based on a review of emissions outputs submitted by McNeil. At the end of every quarter, an affidavit is signed stating whether McNeil's emissions meet the requirements needed to produce Connecticut Class 1 RECs. McNeil receives a certification from the State of Connecticut indicating that it met the standards for the quarter based on the statistics provided by McNeil.

Effective September 1, 2014, the Department became the 100% owner of the Winooski One hydroelectric facility. Winooski One is a Low Impact Hydro Institute (LIHI)-certified generator and is qualified to produce Massachusetts Class 2 RECs (non-waste-to-energy).

The Department receives RECs from the Vermont Wind Project in Sheffield (the Department is entitled to 40% of the output of the 40MW project), the Georgia Mountain Community Wind Farm (the Department is entitled to the full 10MW of output from the project), along with RECs from its entitlement to 13.5 MW of the 52 MW Hancock Wind Project. The RECs from all these wind facilities are qualified for participation in most of the high-value New England REC markets.

In February 2015, the Department commissioned a 500 kW AC solar array at the Burlington International Airport (and leases space on the parking garage roof under a long-term agreement between the Department and the Burlington International Airport). Following that, in October 2015, the Department commissioned a 107 kW AC solar array at the Department's offices at 585 Pine Street. The Department owns 100% of these resources. Additionally, Burlington receives RECs from South

**CITY OF BURLINGTON, VERMONT
ELECTRIC DEPARTMENT**

Notes to Financial Statements

June 30, 2023 and 2022

Forty Solar, a 2.5 MW solar array, as well as RECs (or similar attributes) from several smaller solar arrays totaling 409 kW. One of the solar PPAs discussed in the Commitments and Contingencies Footnote (11.b.7) has elected not to transfer RECs to BED. All of these systems reside within the City limits. These solar arrays are designed to help reduce the Department's peak demand and energy needs during high-priced periods. Most of these facilities are qualified to produce Massachusetts Class 1 RECs. The Pine Street array and South Forty Solar project are also qualified as Vermont Tier 2 RECs, which can be applied to the Department's Tier 3 obligation under the RES if Tier 3 program activity does not meet or exceed Tier 3 requirements.

The Department no longer receives RECs from Vermont Standard Offer projects purchased by the Vermont Purchasing Agent. At the end of 2016, the Department's status as a distribution utility that sources 100% of the load it serves from renewable sources exempted it from purchasing energy from these projects in 2017. As of June 30, 2023, the Department expects this exemption will continue through at least 2024.

The Department purchases Vermont Tier I RECs to replace the New England Class I RECs that are sold in the market to maintain its ability to claim 100% renewability. The Department will continue to purchase RECs to replace the New England Class I RECs that are sold into the market on a voluntary basis.

Proceeds from REC sales are included in other revenue. For the fiscal year ended June 30, 2023, REC revenue for McNeil, wind resources, the Winooski One hydroelectric facility, and the solar arrays were \$3,570,994, \$3,017,739, \$696,658, and \$184,939 respectively. For the fiscal year ended June 30, 2022, REC revenue for McNeil, wind resources, the Winooski One hydroelectric facility, and the solar arrays were \$4,266,808, \$2,780,505, \$670,140, and \$178,252 respectively.

(g) *Pollution Remediation Obligations*

The City is a potentially responsible party (PRP) as one of several landowners of a hazardous waste superfund site in Burlington, Vermont that is the subject of remediation ordered by the Environmental Protection Agency (EPA). The Department has agreed to share on an equal basis with the City all past and future costs incurred in connection with the remediation of this site. In light of the agreement between the City and the EPA concerning the remediation plan at the site, the Department believes that the likelihood of any liability material to the financial position of the Department is remote and as such no liability has been accrued as of June 30, 2023 and 2022.

The Department faces possible liability with respect to the J. Edward Moran Electric Generation Station (Moran Station). The Moran Station is a decommissioned coal-fired power plant that was controlled and operated by the Department from 1954 until 1990 when the Department entered into a memorandum of understanding ("MOU") with the City of Burlington transferring responsibility for the Moran Station to the City. The MOU transferred the Moran Station to the City in "as is" condition and held the Department harmless for any and all future liability and or responsibility for such Moran Station and property, excluding environmental remediation (if any) which shall be required in the future by a state or federal environmental regulatory agency, for conditions existing before the transfer. In 2009 the City conducted an assessment of activities at the Moran Station site and was engaged in a corrective action plan with the Vermont Department of Environmental Conservation. The City and the Department entered into a

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letter of agreement in December 2009 whereby the Department agreed to make a \$100,000 payment to the City as settlement of the Department's liability for any and all environmental remediation costs associated with known environmental contamination at the Moran Station. In September 2019, the City began the efforts of creating a Site Resolution Plan and in February 2020, the City Council authorized the Mayor to execute a settlement agreement between the City and the Department to compensate the City for the costs of abating/remediating contaminants that had been identified at that time as requiring such abatement. In June 2022, the Department entered into a new MOU with the City of Burlington that calls for the Department to make a contribution of \$950,715 toward the abatement and/or remediation of the contaminants. The terms of the MOU also release the Department from any future environmental liability at the Moran site for any known or unknown above-ground contamination and any below-ground contamination that is known or should have been known as of the date of the MOU. The MOU further requires the City to consult with and obtain prior consent from the Department concerning future soil disturbance or the proposed use of the Moran site in a different manner than the current condition. The Department also executed a promissory note with the City that calls for the Department to pay the City the \$950,715 in eight equal installments with an interest rate of 1.00% per year on the unpaid principal. This obligation is reported as an other current and other non-current liability.

The Department implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*, for the fiscal year ended June 30, 2020. There have been no legally enforceable liabilities associated with the retirement of a tangible asset and as such no asset retirement obligation has been recorded for the years ending June 30, 2023 and 2022.

(r) Pension Obligations

In accordance with GASB Statement No. 68, *Accounting and Reporting for Pensions*, and GASB No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, employers report a net pension liability and related pension amounts as determined by the plan under the requirements contained in GASB Statement No. 67. Disclosures required under GASB Statement No. 68 apply to the Department for its participation in the City of Burlington Employees Retirement System defined benefit plan.

(s) Postemployment Benefits other than Pensions

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, employers report liabilities, deferred outflows of resources, deferred inflows of resources, and expenses associated with OPEB plans.

(t) Fiduciary Activities

The Department has adopted GASB Statement No. 84, *Fiduciary Activities*. Guidance under GASB Statement No. 84 updates existing guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. Since January 1, 2020, the Department functions as the Fiscal Agent and fund administrator under 30 V.S.A Section 209(d)(3) for electric efficiency and TEPF.

As a result of the implementation of GASB Statement No. 84, the EEU activities and the Department's role as a Fiscal Agent are considered a fiduciary activity and as such should be reported as custodial assets within the financial statements.

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(u) Leases

During the year ended June 30, 2022, the Department adopted GASB Statement No. 87, *Leases*. Guidance under GASB Statement No. 87 updates existing guidance regarding the standards of accounting and financial reporting for leases by lessees and lessors. The Department evaluated its existing leases and determined that the amounts associated do not have a material effect on the Department's financial statements.

(v) Vermont Renewable Energy Standard Compliance

During the year ended June 30, 2022, the Department implemented a change in accounting policy for the costs associated with Vermont RES compliance from an annual expense to an inventory basis. As a result of this change, Tier 1 REC purchases and RES Tier 3 program activity in excess of that required for compliance in a given period appear as RES inventory assets on the Statement of Net Position. RECs and Tier 3 credits used for annual compliance are expensed as a component of purchased power expense and customer accounting, service, and sales expense, respectively. The Department made this change to improve the alignment between the expenses being recorded and the statutory obligation for compliance in each reporting period, to align the amount recorded as an annual expense more closely with the amount that Vermont regulators will allow to be recoverable in rates, and to improve the accuracy and representativeness of the Department's financial reporting by reflecting current inventories of RECs and Tier 3 program credits on its financial statements.

(w) Subscription-Based Information Technology Agreements

During the year ended June 30, 2023, the Department adopted GASB Statement No. 96, *Subscription-Based Information Technology Agreements (SBITAs)*. Guidance under GASB Statement No. 96 establishes uniform guidance for accounting and financial reporting for transactions that meet the SBITA definition. The Department evaluated its existing information technology contracts and determined that none meet the criteria to be considered as SBITAs under GASB Statement No. 96.

(x) Reclassifications

Certain 2022 balances have been reclassified to conform to the 2023 presentation.

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(2) Capital Assets

	Capital assets			
	June 30, 2022	Additions	Disposals and transfers	June 30, 2023
Operating:				
Land – nondepreciable	\$ 1,140,532	—	—	1,140,532
Production plant	16,810,057	841,510	—	17,651,567
Transmission plant	2,358,314	—	—	2,358,314
Distribution plant	90,337,160	4,216,159	141,591	94,411,728
General plant	13,448,719	396,272	76,763	13,768,228
Other plant	5,718,230	1,984,582	—	7,702,812
Depreciable operating	128,672,480	7,438,523	218,354	135,892,649
Construction WIP	4,263,053	6,456,166	6,931,817	3,787,402
Total	134,076,065	13,894,689	7,150,171	140,820,583
McNeil 50%:				
Land – nondepreciable	138,299	—	—	138,299
Production plant	55,073,884	1,128,561	—	56,202,445
General equipment	174,733	5,971	—	180,704
Other plant	383,477	—	—	383,477
Depreciable McNeil 50%	55,632,094	1,134,532	—	56,766,626
Total	55,770,393	1,134,532	—	56,904,925
Construction WIP	717	1,160,811	1,131,720	29,808
Total capital assets	189,847,175	16,190,032	8,281,891	197,755,316
Electric plant acquisition:				
Adjustment:				
Production plant – Winooski One	11,922,742	—	—	11,922,742
Total capital assets and acquisition adjustment	\$ 201,769,917	16,190,032	8,281,891	209,678,058

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	Capital assets			
	June 30, 2021	Additions	Disposals and transfers	June 30, 2022
Operating:				
Land – nondepreciable	\$ 1,140,532	—	—	1,140,532
Production plant	19,373,813	53,963	2,617,720	16,810,057
Transmission plant	2,358,314	—	—	2,358,314
Distribution plant	87,432,312	3,393,220	488,371	90,337,160
General plant	13,165,567	385,594	102,442	13,448,719
Other plant	5,700,070	18,160	—	5,718,230
Depreciable operating	128,030,076	3,850,937	3,208,533	128,672,480
Construction WIP	3,404,878	3,871,045	3,012,871	4,263,053
Total	132,575,486	7,721,982	6,221,403	134,076,065
McNeil 50%:				
Land – nondepreciable	138,299	—	—	138,299
Production plant	54,168,448	968,529	63,093	55,073,884
General equipment	173,558	1,175	—	174,733
Other plant	383,477	—	—	383,477
Depreciable McNeil 50%	54,725,483	969,704	63,093	55,632,094
Total	54,863,782	969,704	63,093	55,770,393
Construction WIP	69,807	900,615	969,705	717
Total capital assets	187,509,075	9,592,301	7,254,201	189,847,175
Electric plant acquisition:				
Adjustment:				
Production plant – Winooski One	11,922,742	—	—	11,922,742
Total capital assets and acquisition adjustment	\$ 199,431,817	9,592,301	7,254,201	201,769,917

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	Accumulated depreciation			
	June 30, 2022	Depreciation	Deletions	
Operating:				
Production plant	\$ 7,483,244	654,570	—	8,137,814
Transmission plant	808,088	72,754	—	880,842
Distribution plant	38,581,148	2,535,278	102,165	41,014,261
General plant	8,762,159	502,625	23,035	9,241,749
Other plant	5,647,894	40,340	—	5,688,234
Total	<u>61,282,533</u>	<u>3,805,567</u>	<u>125,200</u>	<u>64,962,900</u>
McNeil 50%:				
Production plant	42,557,818	822,941	—	43,380,759
General equipment	144,944	9,935	—	154,879
Other plant	381,638	850	—	382,488
Total	<u>43,084,400</u>	<u>833,726</u>	<u>—</u>	<u>43,918,126</u>
Total accumulated depreciation	104,366,933	4,639,293	125,200	108,881,026
Electric plant acquisition Adjustment:				
Accumulated amortization	<u>3,502,073</u>	<u>496,910</u>	<u>—</u>	<u>3,998,983</u>
	<u>\$ 107,869,006</u>	<u>5,136,203</u>	<u>125,200</u>	<u>112,880,009</u>
Net capital assets	\$ 93,900,912	11,053,828	8,156,692	96,798,049

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	Accumulated depreciation			
	June 30, 2021	Depreciation	Deletions	June 30, 2022
Operating:				
Production plant	\$ 9,389,187	657,540	2,563,484	7,483,243
Transmission plant	735,334	72,754	—	808,088
Distribution plant	36,255,386	2,636,956	311,194	38,581,148
General plant	8,303,979	560,620	102,440	8,762,159
Other plant	5,594,134	53,760	—	5,647,894
Total	<u>60,278,020</u>	<u>3,981,630</u>	<u>2,977,118</u>	<u>61,282,533</u>
McNeil 50%:				
Production plant	41,778,609	805,786	26,577	42,557,818
General equipment	135,004	9,940	—	144,944
Other plant	380,788	850	—	381,638
Total	<u>42,294,401</u>	<u>816,576</u>	<u>26,577</u>	<u>43,084,400</u>
Total accumulated depreciation	102,572,421	4,798,206	3,003,695	104,366,933
Electric plant acquisition Adjustment:				
Accumulated amortization	<u>3,010,164</u>	<u>491,910</u>	<u>—</u>	<u>3,502,073</u>
	<u>\$ 105,582,585</u>	<u>5,290,116</u>	<u>3,003,695</u>	<u>107,869,006</u>
Net capital assets	\$ 93,849,232	4,302,185	4,250,505	93,900,912

During fiscal years 2023 and 2022, respectively, the Department allocated \$173,984 and \$167,345 of depreciation expense to other operating expense captions in the statements of revenues, expenses, and changes in net position in order to allocate depreciation associated with stockroom equipment and vehicles to capital projects.

In August 2014, the Department acquired the Winooski One hydroelectric facility, an existing facility on the Winooski River between the Cities of Burlington and Winooski. The Department recorded the net book value of the station as received. The difference between the fair market value purchase price and the net book value has been recorded in the electric plant acquisition adjustment account and is being amortized over the life of the associated bond financing.

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(3) Cash and Cash Equivalents and Investments

(a) Custodial Credit Risk – Deposits

The custodial credit risk for current operating deposits is the risk that in the event of a bank failure, the Department's proprietary fund deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Total proprietary fund deposits at June 30, 2023 were \$9,785,564, of which \$8,103,088 was exposed to custodial credit risk; however, the City of Burlington is insured with the Federal Home Loan Bank (FHLB), Pittsburgh under letters of credit for \$2,500,000 expiring August 23, 2023 and \$10,000,000 expiring November 29, 2023, which would cover uninsured amounts over the FDIC limit of \$250,000. Total proprietary fund deposits at June 30, 2022 were \$13,126,863, of which \$11,466,355 was exposed to custodial credit risk; however, the City of Burlington is insured with the Federal Home Loan Bank (FHLB), Pittsburgh under a letter of credit for \$19,000,000, which would cover uninsured amounts over the FDIC limit of \$250,000.

Total fiduciary (custodial) fund deposits at June 30, 2023 were \$1,798,023, all of which was exposed to custodial credit risk. Total fiduciary (custodial) fund deposits at June 30, 2022 were \$3,706,742, all of which was exposed to custodial credit risk.

(b) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used for measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for incidental assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Department has the ability to access.

Level 2 – Input to valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Department's own assumptions about the inputs market participants would use in the pricing of the asset or liability (including assumption of risk). Unobservable inputs are developed based on the best information available in circumstances and may include the Department's own data.

All the Department's investments, as of June 30, 2023 and 2022 are considered to be Level 1 under the fair value hierarchy.

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(c) Investments

The Department has a formal investment policy and is authorized per Article 1, Section 1.1 of the General Bond Resolution to invest in obligations as follows:

- (1) Direct obligations of the United States of America or obligations guaranteed by the United States of America.
- (2) Bonds, notes or other evidences of indebtedness issued or guaranteed by the CoBank, Federal Intermediate Credit Banks, FHLB, FNMA, GNMA, Export-Import Bank of the United States, Federal Land Banks, United States Postal Service, Federal Financing Bank, or any agency or instrumentality of or corporation wholly owned by the United States of America.
- (3) New Housing Authority Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under annual contributions contract with the United States of America, or Project Notes issued by public agencies or municipalities and fully secured by a requisition or payment agreement with the United States of America.
- (4) Obligations of any state, commonwealth, or territory of the United States of America, or the District of Columbia, or any political subdivision of the foregoing, with an investment grade rating not lower than the three highest categories by at least one nationally recognized debt rating service.
- (5) Certificates of deposit and bankers acceptances issued by banks that are members of the Federal Deposit Insurance Corporation and each of which has a combined capital and surplus of not less than \$10,000,000, provided that the time deposits in and acceptances of any bank under the Resolution (a) do not exceed at any time 25% of the combined capital and surplus of the bank or (b) are fully secured by obligations described in items 1, 2, 3, and 4 above.
- (6) Repurchase contracts with banks that are described in item 5 of this paragraph, or with recognized primary dealers in government bonds, fully secured by obligations described in items 1, 2, 3, and 4 above.

(d) Concentration of Credit Risk

Concentration of credit risk of investments is the risk of loss attributable to the magnitude of a Department's investment in a single issuer. The Department invests its current operating cash in money market accounts, which are approximately 12% of the total investment balance at June 30, 2023. The invested balance of money market funds reported within unrestricted cash and cash equivalents at June 30, 2023 and 2022 was \$3,065,957 and \$2,913,009, respectively. The Department invests its restricted funds in several cash accounts with its bond trustees. The invested balance of cash funds reported within restricted investments-deposits with bond trustees at June 30, 2023 and 2022 was \$4,014,025 and \$4,505,551, respectively. The invested balance of U.S. Treasuries reported within restricted investments at June 30, 2023 and 2022 was \$17,114,235 and \$21,337,195, respectively.

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(e) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Department has minimized its risk exposure as its investments are limited to government securities and other high-quality investments as outlined in the investment policy.

The money market funds held by the Department are not rated.

The Department's propriety debt investments as of June 30, 2023 and 2022 are (all of which are restricted by bond resolution) presented below by investment type, and debt securities are presented by remaining maturity. The fiduciary fund has no debt investments.

Year	U.S. Treasury bills	Cash	Total fair value	Investment maturities (in years)				
				Less than 1	1-2	2-3	3-4	5+
2023	\$ 17,114,235	4,014,025	21,128,260	12,152,436	4,961,799	—	—	—
2022	21,337,195	4,505,551	25,842,746	—	6,228,570	10,055,895	5,052,730	—

The Department is required by its bond indenture to make monthly deposits into the renewal and replacement fund equal to 10% of the monthly revenue bond debt service funding requirements. Funds on deposit may be withdrawn from the renewal and replacement fund for expenses allowed by the bond covenant. Amounts in excess of \$867,000 at June 30 may be returned to the revenue fund. A summary of deposits with bond trustees is as follows:

	June 30	
	2023	2022
Bond funds:		
Construction fund	\$ 13,892,378	19,203,851
Renewal and replacement fund	867,000	867,000
Debt service fund	2,830,095	2,235,013
Debt service reserve fund	<u>3,538,787</u>	<u>3,536,882</u>
	21,128,260	25,842,746
Accrued interest receivable	<u>38,414</u>	<u>38,475</u>
	<u>\$ 21,166,674</u>	<u>25,881,221</u>

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(4) Regulatory Assets and Regulatory Deferred Inflows of Resources

Regulatory assets and regulatory deferred inflows of resources at June 30, 2023 and 2022 are composed of the following:

	<u>2023</u>	<u>2022</u>
Deferred depreciation expense to be recovered in future years	\$ 1,159,822	1,265,260
COVID-19 capitalized personnel costs	180,546	227,139
IBEW pension back-payment	228,482	304,643
Triennial consulting engineer report	18,333	36,668
Winter 2022-2023 excess energy revenue shortfall	3,641,954	—
Moran settlement payment	831,876	—
	<u>\$ 6,061,013</u>	<u>1,833,710</u>
Deferred depreciation expense – McNeil Plant	\$ 2,756,021	2,874,376
Deferred depreciation expense – operating	<u>3,966,104</u>	<u>2,785,939</u>
	<u>\$ 6,722,125</u>	<u>5,660,315</u>

(a) Deferred Depreciation Expense to be Recovered in Future Years

Provisions for depreciation of general capital assets, including the McNeil Generation Station are reported using the straight-line method at rates based upon the estimated service lives and salvage values of the several classes of property. However, a portion of the current depreciation expense for the McNeil Station is only recoverable through future rates. The difference is included in deferred charges (calculated as the straight-line depreciation expense less the depreciation expense on a sinking fund basis) and will be recovered in future years. The Department recorded straight-line depreciation of \$4,639,294 and \$4,798,210 for the years ended June 30, 2023 and 2022, respectively. In 2023 and 2022, \$1,180,165 and \$930,427, respectively, of deferred depreciation expense was realized. Unamortized deferred depreciation of \$1,159,822 and \$1,265,260 remained at June 30, 2023 and 2022, respectively.

(b) COVID-19 Capitalized Personnel Costs

On September 9, 2021, the Department filed a request with the PUC for an accounting order, pursuant to 30 V.S.A. §221, that would allow the Department to capitalize certain costs by debiting FERC account 182.3 (other regulatory assets) instead of showing the costs as expenses on its income statements for the year ending June 30, 2021. The Department evaluated its budgeted capitalized labor and benefit expenses to identify which capital projects have been delayed specifically due to the COVID-19 pandemic for the year ending June 30, 2021. The Department proposed to capitalize and record as a regulatory asset \$146,721 instead of showing these expenses on its income statement for the year ending June 30, 2021. On October 25, 2021, the PUC issued the accounting order. This regulatory asset is being amortized over a 5-year period beginning on August 1, 2022. Amortized expense of \$19,694 and \$18,053 was recorded in 2023 and 2022, respectively.

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On July 31, 2020, the Department filed a request with the PUC for an accounting order, pursuant to 30 V.S.A. §221, that would allow the Department to capitalize certain costs by debiting FERC account 182.3 (other regulatory assets) instead of showing the costs as expenses on its income statements for the year ending June 30, 2020. The Department evaluated its budgeted capitalized labor and benefit expenses to identify which capital projects have been delayed specifically due to the COVID-19 pandemic for the year ending June 30, 2020. The Department proposed to capitalize and record as a regulatory asset \$231,768 instead of showing these expenses on its income statement for the year ending June 30, 2020. On September 17, 2020, the PUC issued the accounting order. On February 25, 2021, the Department notified the PUC that it would reduce the fiscal year 2020 regulatory asset to \$98,472 due to the reimbursement of some COVID-19–related expenses. This regulatory asset is being amortized over a 5-year period beginning on August 1, 2021.

(c) *International Brotherhood of Electrical Workers (IBEW) Pension Back-Payment*

As discussed in note 8, as a result of a March 25, 2021 arbitration decision, the Burlington Employee Retirement Systems (BERS) Plan is required to pay additional benefits to certain IBEW union employees and provide the same additional benefits to up to certain current IBEW employees who may qualify for those benefits if they continue to work for the Department for more than 25 years. The City's actuary calculated a total of \$1,234,973 in past benefits owed to the 24 eligible employees who retired after May 4, 2008 through June 30, 2021, and the BERS Plan has paid these back benefits to the individual employees. The City and the Department agreed in October 2021 that the Department's share of the back benefits was 35.24% or \$435,204. The Department included this amount, amortized over five years, in its June 17, 2021 rate case, which was approved by the PUC in February 24, 2022.

(d) *Triennial Consulting Engineer Report*

The Department is required to engage a consulting engineer at least once every three fiscal years to examine and report on the properties of the Electric Plant as a covenant of the General Bond Resolution that authorizes the issuance of Electric System Revenue Bonds. The Department included its expenses associated with the FY 2021 report, \$55,000, amortized over three years, in its June 17, 2021 rate case, which was approved by the PUC on February 24, 2022.

(e) *Winter 2022-2023 Excess Energy Revenue Shortfall*

Forward prices for the sale of excess energy for the winter of 2022-2023, which were relied upon to establish the Department's cost of service in its 2022 rate request, were unprecedentedly high. Actual prices for excess energy that the Department received from ISO-NE during that period were significantly lower. The difference between the forward and actual prices for the sale of excess energy from December 2022 to March 2023 for the same volume of energy was \$4,162,233 of lost revenues. The Department included this amount, amortized over eight years, in its June 16, 2023 rate case, which is under investigation by the PUC. Annual amortization recorded in 2023 was \$520,279.

(f) *Moran Settlement Payment*

Pursuant to the terms of a June 2022 MOU with the City of Burlington, the Department agreed to make a contribution of \$950,715 toward the abatement and/or remediation of environmental contaminants at the site of the former Moran Station. The Department included this amount, amortized over eight years, in its June 16, 2022 rate case, which was approved by the PUC on October 12, 2023.

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(g) Deferred Depreciation Expense to be Paid in Future Years

Beginning in 2011, certain accumulated deferred depreciation balances became negative due to the fact that the financed assets were close to being fully depreciated when compared to the future debt sinking fund requirements. These accumulated amounts are displayed as deferred inflows of resources. Deferred depreciation expense of \$6,722,125 and \$5,660,315 remained at June 30, 2023 and 2022, respectively.

(5) Long-Term Liabilities

Outstanding debt consists of the following at June 30, 2023 and 2022:

	<u>June 30, 2022</u>	<u>Increases</u>	<u>Payments and reductions</u>	<u>June 30, 2023</u>	<u>Current portion</u>
Outstanding debt:					
Electric System Revenue Bonds:					
3.78% 2014 Series A, due 2035	\$ 8,715,000	—	(520,000)	8,195,000	545,000
3.36% 2014 Series B, due 2025	1,930,000	—	(620,000)	1,310,000	645,000
4.85% 2017 Series A, due 2032	4,010,000	—	(320,000)	3,690,000	340,000
Taxable 3.40% 2017 Series B, due 2032	4,520,000	—	(390,000)	4,130,000	405,000
5% 2022 Series A, due 2043	18,045,000	—	—	18,045,000	—
Total revenue bonds	37,220,000	—	(1,850,000)	35,370,000	1,935,000
Adjustments:					
Add unamortized premium	3,648,064	—	(44,563)	3,603,501	—
Less unamortized discount	(503,828)	—	40,206	(463,622)	—
Total revenue debt of the department	40,364,236	—	(1,854,357)	38,509,879	1,935,000
General obligation debt, repayable from the Department's resources:					
3.73%, due 2032:					
Cl#2011B	595,000	—	(50,000)	545,000	50,000
5.00%, due 2023:					
Cl#2012A1	95,000	—	(95,000)	—	—
5.00%, due 2023:					
Cl#2012A2	80,000	—	(80,000)	—	—
6.00%, due 2032:					
Cl#2012B	860,000	—	(60,000)	800,000	60,000
2.78%, due 2034:					
Cl#2014	1,950,000	—	(150,000)	1,800,000	150,000
5.0%, due 2023:					
Cl#2015A	120,000	—	(120,000)	—	—
4.82%, due 2029:					
Cl#2016A	7,125,000	—	(915,000)	6,210,000	980,000
4.62% due 2037:					
Cl#2016B	2,500,000	—	(115,000)	2,385,000	125,000

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	<u>June 30, 2022</u>	<u>Increases</u>	<u>Payments and reductions</u>	<u>June 30, 2023</u>	<u>Current portion</u>
4.03% due 2030: CI#2016C	\$ 5,970,000	—	(625,000)	5,345,000	650,000
2.76% due 2030: CI#2016D	7,125,000	—	(780,000)	6,345,000	810,000
4.88% due 2038: CI#2017C	2,590,000	—	(110,000)	2,480,000	115,000
5.00% due 2039: CI#2018B	2,715,000	—	(105,000)	2,610,000	110,000
4.39% due 2040: CI#2019A	2,815,000	—	(100,000)	2,715,000	105,000
Taxable 2.59% due 2036: CI#2019C	7,745,000	—	(190,000)	7,555,000	500,000
3.45% due 2041 CI#2021A	2,625,000	—	(80,000)	2,545,000	90,000
0.44% Series 2021 Bond Anticipation Note	3,000,000	—	(3,000,000)	—	—
5.00% due 2042 CI#2022A	—	2,650,000	—	2,650,000	80,000
2.79% Series 2022 Bond Anticipation Note	—	3,000,000	—	3,000,000	—
Total general obligation bonds	47,910,000	5,650,000	(6,575,000)	46,985,000	3,825,000
Adjustments:					
Add unamortized premium	3,786,797	409,568	(298,017)	3,898,348	—
Deduct unamortized discount	(960,674)	—	74,063	(886,611)	—
Total general obligation debt	50,736,123	6,059,568	(6,798,954)	49,996,737	3,825,000
Total long-term debt	\$ 91,100,359	6,059,568	(8,653,311)	88,506,616	5,760,000

	<u>June 30, 2022</u>	<u>Increases</u>	<u>Payments and reductions</u>	<u>June 30, 2023</u>	<u>Less current portion</u>	<u>Net noncurrent liability</u>
Other noncurrent liabilities:						
Accumulated provision for compensated absence	\$ 1,143,326	23,424	—	1,166,750	—	1,166,750
Other post-employment benefit	909,836	35,013	—	944,849	—	944,849
On-bill revolving loans	465,092	—	(1,596)	463,496	—	463,496
Equipment financing note	439,409	172,039	(212,914)	398,534	(198,228)	200,306
Moran Frame promissory note	950,715	—	(114,742)	835,973	(115,890)	720,083
Net pension liability	11,606,188	10,071,328	—	21,677,516	—	21,677,516
Total other noncurrent liabilities	\$ 15,514,566	10,301,804	(329,252)	25,487,118	(314,118)	25,173,000

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	<u>June 30, 2021</u>	<u>Increases</u>	<u>Payments and reductions</u>	<u>June 30, 2022</u>	<u>Current portion</u>
Outstanding debt:					
Electric System Revenue Bonds:					
5.24% 2011 Series A, due 2022 \$	315,000	—	(315,000)	—	—
8.11% 2011 Series B, due 2022	145,000	—	(145,000)	—	—
3.78% 2014 Series A, due 2035	9,225,000	—	(510,000)	8,715,000	520,000
3.36% 2014 Series B, due 2025	2,535,000	—	(605,000)	1,930,000	620,000
4.85% 2017 Series A, due 2032	4,010,000	—	—	4,010,000	320,000
Taxable 3.40% 2017 Series B, due 2032	4,755,000	—	(235,000)	4,520,000	390,000
5% 2022 Series A, due 2043	—	18,045,000	—	18,045,000	—
	<u>20,985,000</u>	<u>18,045,000</u>	<u>(1,810,000)</u>	<u>37,220,000</u>	<u>1,850,000</u>
Total revenue bonds					
Adjustments:					
Add unamortized premium	374,429	3,317,190	(43,555)	3,648,064	—
Less unamortized discount	(503,828)	—	—	(503,828)	—
	<u>20,855,601</u>	<u>21,362,190</u>	<u>(1,853,555)</u>	<u>40,364,236</u>	<u>1,850,000</u>
Total revenue debt of the department					
General obligation debt, repayable from the Department's resources:					
3.73%, due 2032:					
CI#2011B	640,000	—	(45,000)	595,000	50,000
5.00%, due 2023:					
CI#2012A1	185,000	—	(90,000)	95,000	95,000
5.00%, due 2023:					
CI#2012A2	160,000	—	(80,000)	80,000	80,000
6.00%, due 2032:					
CI#2012B	915,000	—	(55,000)	860,000	60,000

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	<u>June 30, 2021</u>	<u>Increases</u>	<u>Payments and reductions</u>	<u>June 30, 2022</u>	<u>Current portion</u>
2.78%, due 2034: CI#2014	\$ 2,100,000	—	(150,000)	1,950,000	150,000
5.0%, due 2023: CI#2015A	235,000	—	(115,000)	120,000	120,000
4.82%, due 2029: CI#2016A	7,990,000	—	(865,000)	7,125,000	915,000
4.62% due 2037: CI#2016B	2,610,000	—	(110,000)	2,500,000	115,000
4.03% due 2030: CI#2016C	6,585,000	—	(615,000)	5,970,000	625,000
2.76% due 2030: CI#2016D	7,890,000	—	(765,000)	7,125,000	780,000
4.88% due 2038: CI#2017C	2,695,000	—	(105,000)	2,590,000	110,000
5.00% due 2039: CI#2018B	2,815,000	—	(100,000)	2,715,000	105,000
4.39% due 2040: CI#2019A	2,915,000	—	(100,000)	2,815,000	100,000
Taxable 2.59% due 2036: CI#2019C	7,970,000	—	(225,000)	7,745,000	190,000
3.45% due 2041 CI#2021A	2,625,000	—	—	2,625,000	80,000
0.44% Series 2021 Bond Anticipation Note	—	3,000,000	—	3,000,000	—
Total general obligation bonds	48,330,000	3,000,000	(3,420,000)	47,910,000	3,575,000
Adjustments:					
Add unamortized premium	3,626,449	160,348	—	3,786,797	—
Deduct unamortized discount	(1,035,140)	74,466	—	(960,674)	—
Total general obligation debt	50,921,309	3,234,814	(3,420,000)	50,736,123	3,575,000
Total long-term debt	\$ 71,776,910	24,597,004	(5,273,555)	91,100,359	5,425,000

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	June 30, 2021	Increases	Payments and reductions	June 30, 2022	Less current portion	Net noncurrent liability
Other noncurrent liabilities:						
Accumulated provision for compensated absence	\$ 1,071,008	72,318	—	1,143,326	—	1,143,326
Other post-employment benefit	1,054,323	—	(144,487)	909,836	—	909,836
On-bill revolving loans	389,179	75,913	—	465,092	—	465,092
Equipment financing note	—	617,962	(178,553)	439,409	(196,462)	242,947
Moran Frame promissory note	—	950,715	—	950,715	(118,839)	831,876
Net pension liability	<u>17,414,582</u>	<u>—</u>	<u>(5,808,394)</u>	<u>11,606,188</u>	<u>—</u>	<u>11,606,188</u>
Total other noncurrent liabilities	<u>\$ 19,929,092</u>	<u>1,716,908</u>	<u>(6,131,434)</u>	<u>15,514,566</u>	<u>(315,301)</u>	<u>15,199,265</u>

The Electric System Revenue Bonds have been issued pursuant to the General Bond Resolution and are collateralized by a pledge of the Department's operating revenues. Pursuant to the General Bond Resolution, "revenues" (as defined) means all rates, fees, charges or other income and includes rentals, proceeds of insurance or condemnation or other disposition of assets, proceeds of bonds or notes and earnings from the investment of revenues. On an annual basis, revenues must be sufficient after deducting operating expenses (as defined) to meet minimum debt service coverage requirements (as defined). If minimum debt service coverage requirements are not met, the Department must take timely corrective action.

During the fiscal year ended June 30, 2022, the Department, through the City of Burlington, issued \$18,045,000 in new Electric System Revenue Bonds, 2022 Series A with an average coupon rate of 5.00% for the purpose of funding capital improvements to the Department's distribution and renewable generation plants, information technology systems, and electric vehicle charging infrastructure.

The Department has pledged future revenues, net of specified operating expenses, to repay the principal and interest on its Electric System Revenue Bonds issued in 2011, 2014, 2017, and 2022. The bonds are payable solely from revenues as defined and are payable through 2043. Annual principal and interest payments on the bonds are expected to require less than 50% of net revenues. The total principal and interest remaining to be paid on the bonds was \$51,158,487 and \$54,339,133 at June 30, 2023 and 2022, respectively. During 2023, principal and interest paid, and net revenues available for debt service, were \$3,240,646 and \$12,920,823, respectively. During 2022, principal and interest paid, and net revenues available for debt service, were \$2,594,164 and \$12,412,643, respectively.

The general obligation bonds were issued to finance electric system improvements and are collateralized by the general revenue-raising power of the City of Burlington. Pursuant to the terms of the General Bond Resolution, the claim on the revenues of the Department by the holders of revenue bonds under the General Bond Resolution is prior to any claim of the holders of general obligation bonds.

During the fiscal year ended June 30, 2023, the Department, through the City of Burlington, entered into a \$3,000,000, Series 2022 general obligation BAN, maturing on September 15, 2023 and bearing interest at

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the fixed rate of 2.79%. This note has been recorded as a long-term liability for 2023 pursuant to GASB Codification Section 1500, as the Department has the intent and ability to refinance the obligation on a long-term basis. On August 31, 2022, the Department, through the City of Burlington, issued \$2,650,000 in general obligation bonds, 2022 Series A, with an average coupon rate of 5.00% for the purpose of refunding the \$3,000,000 BAN, Series 2021, issued November 2, 2021.

During the fiscal year ended June 30, 2022, the Department, through the City of Burlington, entered into a \$3,000,000, Series 2021, general obligation BAN maturing on October 21, 2022 and bearing interest at the fixed rate of 0.44%. This note has been recorded as a long-term liability for 2022 pursuant to GASB Codification Section 1500, as the Department has the intent and ability to refinance the obligation on a long-term basis. On September 28, 2021, the Department, through the City of Burlington, issued \$3,000,000 in general obligation bonds, 2021 Series A, with an average coupon rate of 3.45% for the purpose of refunding the \$3,000,000 BAN, Series 2020, issued July 21, 2020.

Annual debt service requirements exclusive of unamortized premium or discount are as follows:

	<u>Revenue debt</u>		<u>General obligation debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending June 30:					
2024	\$ 1,935,000	1,557,679	3,825,000	1,703,320	9,020,999
2025	2,000,000	1,477,296	4,005,000	1,548,827	9,031,123
2026	1,395,000	1,408,176	4,180,000	1,385,895	8,369,071
2027	1,445,000	1,352,969	4,205,000	1,215,722	8,218,691
2028–2032	11,710,000	5,505,817	17,215,000	3,655,126	38,085,943
2033–2037	8,020,000	3,092,175	7,305,000	1,401,164	19,818,339
2038–2042	7,195,000	1,352,625	3,050,000	297,250	11,894,875
2043–2047	1,670,000	41,750	200,000	5,000	1,916,750
	<u>\$ 35,370,000</u>	<u>15,788,487</u>	<u>43,985,000</u>	<u>11,212,304</u>	<u>106,355,791</u>

(6) Short-Term Debt

In February 2012, the City issued on behalf of the Department a \$5,000,000 General Obligation Revenue Anticipation Note (Line of Credit) with a local bank, placing the Line of Credit directly with the Department. On June 22, 2020, this Line of Credit was renewed for a two-year term to May 18, 2022, and on June 30, 2022 the Line of Credit was renewed for another two-year term to June 30, 2024. The Department had the entire Line of Credit balance of \$5,000,000 available for use during both fiscal years 2023 and 2022 and there was no activity during the past two fiscal years.

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(7) Production Expenses

Production expenses are comprised of the following:

	Year ended June 30	
	2023	2022
McNeil Generating Station:		
Fuel	\$ 8,391,587	7,569,938
Operations	1,976,269	1,926,207
Maintenance	1,003,840	975,017
	11,371,696	10,471,162
Winooski One Hydro station:		
Operations	286,599	273,389
Maintenance	237,944	234,210
	524,543	507,599
Gas turbine		
Fuel	24,680	171,394
Operations	53,057	23,474
Maintenance	174,459	134,927
	252,196	329,795
Solar:		
Operations	21,850	21,029
Total production expenses	\$ 12,170,285	11,329,585

(8) Retirement Benefits

The City maintains a single employer defined benefit pension plan and a deferred compensation retirement plan. The Department contributes to the defined benefit plan the allocated required contribution as set forth by the City's actuary for its employees, together with a direct employee contribution of 4.87% (nonunion) and 4.87% and 5.87% (IBEW union, depending on choice of plan) of gross base wages. For the years ended June 30, 2023 and 2022, the Department made 100% of its required contributions which totaled \$1,530,804 and \$1,451,264, respectively. In addition, the Department paid an Administrative Fee of \$0 and \$67,675, for the years ending 2023 and 2022, respectively. Participation in the deferred compensation plan is strictly voluntary, with no matching contribution from the Department.

(a) Defined Benefit Plan

All full-time employees of the Department participate in the City of Burlington Employees' Retirement System (BERS Plan). The BERS Plan covers substantially all of the City's employees except elected officials, other than the mayor, and the majority of the public school teachers, who are eligible for the Vermont Teachers' Retirement System.

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For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the BERS Plan and additions to/deductions from BERS Plan's fiduciary net position have been determined on the same basis as they are reported by the BERS Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Unaudited financial information for the BERS Plan is available from the City of Burlington, Burlington Vermont 05401.

(i) Summary of BERS Plan

All eligible Department union and nonunion employees vest 100% after 5 years of creditable service. Department employees who retire at 65 are entitled to a retirement benefit.

For non-union employees hired prior to July 1, 2006 and IBEW union employees hired on or before May 4, 2008: Age 65 and older, the retirement benefit is the greater of (i) 1.6% of average final compensation (AFC) (at age 65) times creditable service not in excess of 25 years plus 0.5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the Cost of Living Adjustment detailed below.

For non-union employees hired after July 1, 2006 and IBEW union employees hired after May 4, 2008: Age 65 and older, the retirement benefit is the greater of (i) 1.4% of AFC (at age 65) times creditable service not in excess of 25 years plus 0.5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the Cost of Living Adjustment detailed below.

In lieu of this benefit, at the time of retirement, a non-union employee may choose (i) an accrual rate of 1.9% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 1.8% for all years of service commencing July 1, 2006 for the first 25 years, plus an accrual of 0.5% for creditable service in excess of 25 years, and a Cost of Living Adjustment equal to one-half of the Cost of Living Adjustment detailed below, or (ii) an accrual rate of 2.2% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 2.0% for all years of service commencing July 1, 2006 for the first 25 years, plus an accrual of 0.5% for creditable service in excess of 25 years, with no Cost of Living Adjustment.

As a result of a March 25, 2021 arbitration decision, the BERS Plan is required to pay additional benefits to 24 IBEW employees and provide the same additional benefits to up to 29 current IBEW employees who may qualify for those benefits if they continue to work for BED for more than 25 years. The arbitrator found that these employees who were hired prior to May 4, 2008 who chose a half or no-cost of living adjustment (COLA) benefit should receive the pre-May 4, 2008, higher multiplier for all years of service over 25 for IBEW.

The arbitrator ruled that the employees are to be made whole and are not entitled to interest on any back pension benefits owed. The make-whole remedy has two parts: (1) a payment of back benefits for those eligible employees who retired after May 4, 2008 and (2) an increase in future

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contributions to the BERS Plan for IBEW employees hired before May 4, 2008. The City's actuary calculated a total of \$1,234,973 in past benefits owed to the 24 eligible employees who retired after May 4, 2008 through June 30, 2021, and the BERS Plan has paid these back benefits to the individual employees. The City and the Department continue to negotiate the funding of the back benefits. Further, in its annual valuation report as of June 30, 2021 the City's actuary increased the unfunded accrued liability and the actuarially determined employer contribution (ADEC) by \$3,880,000 and \$348,000, respectively, to reflect the cost of providing this additional benefit to the approximately 29 current employees who may qualify at retirement. Per City policy, the ADEC is shared 70% by the employer and 30% by employees.

Except for employees detailed below, the above benefit based on AFC and creditable service at retirement is reduced by 2% for each year that retirement is between ages 60 and 64. For IBEW union employees hired before May 1, 2008 who elect an additional contribution rate of 4%, a reduction factor is applied of 2% for each year the retirement precedes age 65. For IBEW union employees hired before May 1, 2008, who elect a contribution rate of 3%, the benefit is reduced by a factor which varies with age: factor of 1 at age 65 and a factor of 0.4 at age 50.

For IBEW employees hired after May 4, 2008, the benefit is reduced by a factor which varies by age: factor of 1 at age 65 and a factor of 0.356 at age 55.

(ii) Cost of Living Adjustment

Benefits increase annually by changes in the Consumer Price Index of more than 1%. For IBEW employees retiring after March 9, 2016 and non-union employees retiring after July 1, 2017, the maximum annual increase is 2.75%. For all other members, the maximum annual increase is 5%. This increase is not applicable to deferred vested benefit prior to commencement, survivor income benefit, disability benefit prior to normal retirement age, or participants who choose to have no cost of living adjustment.

(iii) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The BERS Plan's net pension liability was measured as of June 30, 2022 (Measurement Date). As of the Measurement Date, BERS Plan reported a net pension liability of \$116,393,214. The plan fiduciary net position as a percentage of the total pension liability is 64.28%.

At June 30, 2023 and 2022, the Department reported a liability of \$21,677,516 and \$11,606,188, respectively, for its proportionate share of the net pension liability. The net pension liability at June 30, 2023 was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The net pension liability at June 30, 2022 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 Department's proportion of the net liability was based on a projection of the Department's long-term share of contributions relative to the projected contributions of all participating departments in the City, actuarially determined. At June 30, 2023, the Department's proportion was 18.62%, which was a decrease of 0.15% from its proportion measured as of June 30, 2022. At June 30, 2022, the

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Department's proportion was 18.77%, which was an increase of 1.11% from its proportion measured as of June 30, 2021.

For the years ended June 30, 2023 and 2022, the Department recognized pension expense of \$2,873,713 and \$1,057,421, respectively. At June 30, 2023 and 2022, the Department reported its allocated proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023	
	Deferred outflows of resources	Deferred inflows of resources
Payment after the measurement date	\$ 1,530,804	—
Difference between actual and projected experience	446,811	—
Net difference between actual and projected investment earnings	3,278,851	—
Changes in assumptions	645,001	—
Change in proportion	323,419	696,361
	\$ 6,224,886	696,361
	2022	
	Deferred outflows of resources	Deferred inflows of resources
Payment after the measurement date	\$ 1,451,264	—
Difference between actual and projected experience	360,184	—
Net difference between actual and projected investment earnings	—	5,575,600
Changes in assumptions	693,656	—
Change in proportion	646,845	761,756
	\$ 3,151,949	6,337,356

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Deferred outflows of resources for payments made after the measurement date will be recognized as a reduction in the net pension liability in the next fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2024	\$	713,962
2025		170,133
2026		1,876,228
2027		—
Thereafter		—
Total	\$	<u>2,760,323</u>

(iv) *Actuarial Assumptions*

The actuarial assumptions used in the June 30, 2023 and 2022 valuations were based on results of an actuarial experience study for the period July 1, 2012 to June 30, 2017, with changes in the investment rate of return actuarial assumptions to better reflect the actuary's current best estimate of anticipated experience.

	2023	2022
Valuation dates	June 30, 2022	June 30, 2021
Mortality tables	RP-2014 adjusted to 2006 total dataset mortality table, scale MP-2021, set forward 2 years (Non-Disabled) RP-2014 adjusted to 2006 disabled mortality table, scale MP-2021 (Disabled)	RP-2014 adjusted to 2006 total dataset mortality table, scale MP-2021, set forward 2 years (Non-Disabled) RP-2014 adjusted to 2006 disabled mortality table, scale MP-2021 (Disabled)
Inflation	2.6%	2.6%
Salary increases	3.0% average, including inflation	3.0% average, including inflation
Investment rate of return	7.10%	7.20%

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The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building-block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Target allocation	20 Year expected rate of return
Asset class:		
Large cap core equity	31.00 %	7.30 %
SMID cap core equity	9.00	7.60
International developed equity	20.50	10.10
International emerging markets equity	7.00	11.40
Private equity	0.50	10.40
Real estate/ timber	7.00	7.60
Core fixed income	17.50	3.90
US bonds – dynamic	7.50	3.90

Discount rate 7.1% (7.2% as of June 30, 2022)

The projection of cash flows used to determine the discount rate for financial reporting purposes assumed that contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the BERS Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

Sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate. The following presents the Department's proportionate share of the net pension liability calculated using the 2023 and 2022 discount rates of 7.1% and 7.2%, respectively, for financial reporting purposes, as well as what the Department's proportionate share of the net

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pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than those rates:

	2023		
	1% Decrease (6.10%)	Current discount rate 7.10%	1% Increase (8.10%)
Department's proportionate share of the net pension liability	\$ 27,873,442	21,677,516	16,385,872
	2022		
	1% Decrease (6.20%)	Current discount rate 7.20%	1% Increase (8.20%)
Department's proportionate share of the net pension liability	\$ 17,580,765	11,606,188	6,504,184

(b) Deferred Compensation Plan

The Department offers its employees a deferred compensation plan administered through the City, in accordance with Section 457 of the Internal Revenue Code. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or for "unforeseeable emergency" as defined by IRS guidelines. The assets of the plan are not included in the accompanying financial statements.

(9) Other Post-Employment Benefits (OPEB)

The City maintains a single employer post-retirement benefits other than pension (OPEB) plan (the Plan). Plan costs relate to subsidized health care and life insurance for retirees during the period from retirement to the date of eligibility for social security benefits.

(a) OPEB Plan

Post-employment benefits and Compensated Absences (below) are paid for by the applicable fund where the employee is charged. For the years ended June 30, 2023 and 2022, the Department's contribution was \$(2,417) and \$(8,463), respectively, and is determined on a pay as you go basis.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

(i) Summary of OPEB Plan

Department employees' normal retirement age is 65 with 5 years of service; early retirement is age 55 with 5 years of service. All members are eligible where permanently disabled.

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Retired employees pay 100% of their post-retirement medical premium costs, which are based on COBRA rates for pre-65 coverage.

The City provides \$2,000 in life insurance for retirees, except for members of AFSCME and IBEW unions who receive \$10,000 in life insurance. Certain current retirees have \$6,000 of life insurance in force.

Retired employees pay 100% of their dental costs. Dental coverage is generally available for up to 18 months. The City does not subsidize this benefit.

As of June 30, 2021 (Actuarial Valuation Report), the Department had 104 active participants and 84 retirees in the Plan.

(ii) *Total OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs*

At June 30, 2023 and 2022, the Department reported a liability of \$944,849 and \$909,836, respectively, for its proportionate share of the total OPEB liability. The total OPEB liability as of June 30, 2023 was determined by an actuarial valuation as of July 1, 2021 increased by service costs and interest and decreased by benefit payments to estimate the total OPEB liability at June 30, 2023. The total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of July 1, 2021 increased by service costs and interest and decreased by benefit payments to estimate the total OPEB liability at June 30, 2022. The total OPEB liability as of June 30, 2023 and June 30, 2022 was also adjusted to reflect any material plan changes after the valuation. The Department's proportion of the total OPEB liability was based on a projection of the Department's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating departments in the City, actuarially determined. At June 30, 2023, the Department's proportion was 16.7% and at June 30, 2022, the Department's proportion was 16.7%.

For the years ended June 30, 2023 and 2022, the Department recognized OPEB expense of \$11,438 and \$12,103, respectively. At June 30, 2023 and 2022, the Department reported its allocated proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023	
	Deferred outflow of resources	Deferred inflow of resources
Difference between actual and projected experience	\$ 3,557	242,925
Changes in assumptions	111,744	115,872
Changes in proportion	68,300	185,985
	\$ 183,601	544,782

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	2022	
	Deferred outflow of resources	Deferred inflow of resources
Difference between actual and projected experience	\$ 7,508	268,677
Changes in assumptions	157,183	134,590
Changes in proportion	83,478	250,117
	\$ 248,169	653,384

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2024	\$ (98,460)
2025	(98,426)
2026	(105,234)
2027	(57,579)
2028	(1,482)
Thereafter	—
Total	\$ (361,181)

(iii) Actuarial Assumptions

The total OPEB liability in the June 30, 2023 and 2022 Measurement Date was determined using the following actuarial assumptions:

Valuation date	7/1/2021 for June 30, 2023 and 7/1/2021 for June 30, 2022
Mortality table	RP-2014 adjusted to 2006 total dataset mortality table, projected with Scale MP-2021 set forward 2 years (prior RP-2014, scale MP-2019, set forward 2 years)
Inflation	2.60%
Payroll growth	2.60%
Discount Rate	3.65% as of 6/30/23 and 3.54% as of 6/30/22

Healthcare Cost Trend Rates: 6.50% in 2021, reducing by 0.2% each year to an ultimate rate of 4.60% per year rate for 2031 and later.

Healthcare cost trend rates reflect both the current and long-term outlook for increases in healthcare costs. The short-term rates were based on recent industry surveys, plan experience,

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and near-term expectations. The long-term trend rate was based on the actuary's general inflation assumption plus an adjustment to reflect expectations for long-term medical inflation.

Since the Plan is not funded, the selection of the discount rate is consistent with the GASB Statement No. 75 standards linking the discount rate to the 20-year AA municipal bond index for unfunded OPEB plans. The discount rate used for the Plan's valuation is equal to the published Bond Buyer GO 20-Bond Municipal Index effective as of June 30, 2023. At June 30, 2023 and 2022, the discount rate was 3.65% and 3.54%, respectively.

Sensitivity of the Department's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the Department's proportionate share of the net OPEB liability calculated using the current discount rate of 3.65%, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.65%) or 1-percentage-point higher (4.65%) than the current rate:

		2023		
		1% Decrease 2.54%	Current discount rate 3.65%	1% Increase 4.54%
Department's proportionate share of the net OPEB liability	\$	1,070,683	944,849	839,353
		2022		
		1% Decrease 2.54%	Current discount rate 3.54%	1% Increase 4.54%
Department's proportionate share of the net OPEB liability	\$	1,032,336	909,836	807,366

Sensitivity of the Department's proportionate share of the net OPEB liability to changes in healthcare cost trend rates. The following presents the Department's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rate of 6.5% decreasing to 4.60%, as well as what the Department's proportionate share of the net OPEB liability would be if it were

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calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.5% decreasing to 3.60%) or 1-percentage-point higher (7.5% decreasing to 5.60%) than the current rate.

		2023		
		1% Decrease (5.5% decreasing to 3.60%)	Current healthcare cost trend rate (6.5% decreasing to 4.60%)	1% Increase (7.5% decreasing to 5.60%)
Department's proportionate share of the net OPEB liability	\$	856,410	944,849	1,055,484
		2022		
		1% Decrease (5.5% decreasing to 3.60%)	Current healthcare cost trend rate (6.5% decreasing to 4.60%)	1% Increase (7.5% decreasing to 5.60%)
Department's proportionate share of the net OPEB liability	\$	828,383	909,836	1,008,493

(10) Compensated Employee Absences

Vested vacation and nonexempt compensatory time are recorded under other noncurrent liabilities.

Employees earn vacation leave based upon length of employment up to a maximum of 200 hours per year, but may accumulate no more than a maximum of 360 hours.

Employees also accrue sick leave credits based upon length of employment up to 144 hours per year. The Department has accrued a liability for a portion of accrued sick leave for eligible employees. At retirement, union employees can convert unused sick leave 2:1 up to 240 hours to 120 hours of pay. This conversion may not bring the sick leave balance below 240 hours. Nonunion employees hired prior to January 1, 2001, upon retirement can convert one-third (1/3) the number of days of accumulated unused sick leave up to a maximum payment of four (4) weeks or, upon resignation, can convert one-fourth (1/4) the number of days of accumulated unused sick leave up to a maximum payment of three (3) weeks.

At June 30, 2023 and 2022, the Department has reported accrued compensated employee absences of \$1,166,750 and \$1,143,326, respectively, in other noncurrent liabilities.

(11) Commitments and Contingencies

(a) The Department receives output from generation of the McNeil Generating Station, the Burlington Gas Turbine, the Winooski One hydroelectric facility, the Airport Solar array, and the Pine Street Solar array. BED is responsible for the operation of all these resources. BED is entitled to 50% of the output

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of the McNeil Generating Station as 50% owner; BED owns 100% of the other resources and is entitled to 100% of their output.

- (b) In addition to energy provided by its owned generation, the Department purchases a portion of its electricity requirements pursuant to long-term (greater than one year in duration) contracts. During the fiscal years ended June 30, 2023 and 2022, long-term sources of purchased power included:
1. New York Power Authority (NYPA) power from hydro stations on the Niagara and St. Lawrence rivers under contracts through September 1, 2025 (Niagara) and through April 30, 2032 (St. Lawrence).
 2. Under a contract that was originally scheduled to expire in 2021, but which was extended for five years, the Department receives 16 MW (40%) of Vermont Wind's wind farm in northeast Vermont (Sheffield) through October 18, 2026. BED's 16 MW entitlement is expected to provide approximately 9% of BED's annual energy requirements.
 3. The Department purchases energy from the Georgia Mountain Community Wind (GMCW) project, which began commercial operation on December 31, 2012. Pursuant to a 25-year contract, the Department receives 10MW (100%) entitlement from GMCW's wind farm in Milton/Georgia, Vermont. GMCW is expected to produce energy sufficient to meet approximately 8% of BED's annual energy needs.
 4. Deliveries pursuant to a ten-year contract with Hancock Wind began in December 2016. Under the contract, which expires in December 2026, the Department will receive 13.5 MW (26.5%) of Hancock's wind farm. It is expected to produce energy sufficient to meet approximately 11% of BED's annual energy needs.
 5. Prior to 2017, BED received energy from long-term purchases from a number of small in-state resources under a state-mandated feed-in tariff program (called Standard Offer resources). Effective January 1, 2017, BED was exempted from purchasing energy from these high-priced resources (in recognition of its 100% renewable energy purchases). No power was received from Standard Offer Resources in either FY22 or FY23. BED expects this exemption to continue through at least December 31, 2024.
 6. The Burlington City Council, the Vermont Public Utility Commission, and the voters of Burlington have approved a 23-year energy-only contract with Hydro-Quebec. Deliveries began (for the Department) in November 2015. Under the contract, the Department received 5 MW of contract energy for the period November 1, 2015 to October 31, 2020 and is now receiving a second (additional) 4 MW of contract energy for the period November 1, 2020 to October 31, 2038 (i.e., 9 MW in total). BED's entitlement is expected to provide 16% of BED's annual energy requirements at the 9 MW level.
 7. In 2013, BED entered a long-term power agreement to purchase the output of a 2.5 MW solar generating facility located in Burlington (South Forty Solar). This facility came online in January of 2018 and provides the Department with VT Tier 2 RECs as well as energy and reduced capacity and transmission requirements.

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8. In addition to South Forty Solar, the Department purchases the output from 7 small, in-city solar projects under long-term agreements that amount to 414 kW.
9. In 2017, BED signed a two-year contract with Great River Hydro with deliveries beginning January 1, 2019. In 2019, this contract was extended for five additional years from 2021 through 2024. The Department receives 7.5 MW during 16 peak hours of each day, along with the associated RECs (that qualify as VT Tier I). This contract is sourced from one or more hydro facilities in the State of Vermont.

Energy and Capacity payments under these long-term power supply contracts were \$13,924,888 and \$13,884,484 for the years ended June 30, 2023 and 2022, respectively, with the modest increase from 2022 being largely due to increased price from Hydro Quebec partially offset by lower than normal production from Vermont Wind. Budgeted commitments under these long-term contracts and long-term contracts approved and executed for future delivery periods total \$61,112,547 for the 5-year period from July 1, 2023 to June 30, 2028.

Fiscal year	Budgeted commitments
2024	\$ 15,898,137
2025	15,034,294
2026	12,124,060
2027	9,579,517
2028	8,476,539
	\$ 61,112,547

The remainder of the Department’s energy requirements (if any) are satisfied through short-term purchases including:

- Short-term purchases from market counterparties if necessary.
- Net exchange of energy through the Independent System Operator – New England power markets.

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The costs of power purchased under these contracts are accounted for as purchased power expenses in the statements of revenues, expenses, and changes in net assets. The percentages of the Department's total energy sources were provided as follows:

	2023	2022
McNeil Generation and Gas Turbine	32 %	34 %
Winooski One	8	8
New York Power Authority	5	5
Wind Production	25	25
Hydro-Quebec	16	15
Great River Hydro	13	12
Short-Term Purchase	—	—
In-City Solar	1	1
	100 %	100 %

Note: the percentages are relative to the Department's total available sources of energy rather than a percentage of requirements. Additionally, the Department sells RECs associated with much of the above generation and the above table should not be considered a representation of the Department's renewability. In both years, the sources of energy shown above exceeded the Department's annual energy requirements.

(12) Subsequent Events

On June 16, 2023, the Department filed with the PUC a request for a 5.5% rate increase. PUC approval of the rate filing is pending. As permitted under Vermont statute, the Department began charging its customers the 5.5% increase as a tariff adjustment for bills rendered on or after September 1, 2023.

On September 13, 2023, the Department, through the City of Burlington, issued \$2,785,000 in general obligation bonds, 2022 BAN Refunding-Electric Department Portion, with an average coupon rate of 5.02%. These bonds were issued in accordance with the City Charter for the purpose of refunding the \$3,000,000 Bond Anticipation Note ("BAN"), Series 2022, issued September 15, 2022.

On September 13, 2023, the Department, through the City of Burlington, issued \$3,000,000 in general obligation bonds, 2023 Series A, with an average coupon rate of 5.02%.

On October 12, 2023, the PUC approved the Department's June 16, 2022 request for a 3.95% rate increase, which was implemented as a tariff adjustment for service rendered on/after August 1, 2022. In the same October 12, 2023 order, the PUC approved the Department's requested regulatory accounting treatment, pursuant to 30 V.S.A. §221, to defer and amortize over 8 years the expense of the \$950,715 Moran Station settlement payment beginning in FY 2023.