

### Review Preliminary 2026 Budget Timetable, Appoint Commission Working Groups, and Set Date for Water and Electric Rate Hearings

#### **RECOMMENDATION:**

The General Manager respectfully requests the Commission appoint a Budget Working Group for the 2026 budget review and recommendations, appoint a Human Resources Working Group to address any potential 2025 year-end and 2026 human resources issues, and set Tuesday, October 21, 2025, as the date for the water and electric rate hearings. For reference, Commissioners Paul Baker, Matt Gilbertson, and Joel Paulsen were appointed to serve as the 2025 Budget Working Group at the Commission meeting on September 3, 2024.

#### **BACKGROUND:**

Staff has begun updating the 2025 final budget with revised financial revenue and expenditure forecasts by gathering key preliminary 2026 inputs to include major items such as purchased power costs, transmission costs, Southwest Power Pool (SPP) Annual Transmission Revenue Reimbursement (ATRR), transfer payments to the City of Moorhead (City), and capital projects.

Moorhead Public Service (MPS) staff provided City finance staff with the updated 2026 electric General Fund Transfer amount as calculated in accordance with the current Electric Fund Transfer Agreement between the City of Moorhead and Moorhead Public Service.

In 2025 to date, the Commission took the following actions that will impact MPS' 2026 budget, rates, and long-term financial forecasts:

#### January 2025

- Approve Task Order No. 12 with DGR Engineering for MPS' Northeast Substation
- Approve Water Rate Study Proposal from Missouri River Energy Services

#### April 2025

- Approve Task Order No. 13 with DGR Engineering for Control Building and Capacitor Banks at Southeast Substation

#### May 2025

- Approve Specifications and Authorize Advertisement for Bids for Construction Phase of Ozone Generator and Equipment Replacement Project at MPS' Water Treatment Plant

#### July 2025

- Award Bid for Construction Phase of Ozone Generator and Equipment Replacement Project at MPS' Water Treatment Plant

Key areas already under review within the budget development process include the following:

#### Rate Increases:

- Electric—Preliminary budget projections indicate an overall electric rate increase between 0 and 4 percent for 2026.
- Water—Preliminary budget projections indicate an overall water rate increase between 3 and 7 percent for 2026.

Purchased Power and Transmission:

Purchased power and transmission costs remain the most significant expenses within MPS. Preliminary information received from Missouri River Energy Services (MRES) indicates the following:

- Western Area Power Administration (WAPA) imposed a rate increase of approximately 16 percent in 2023. Preliminary indications appear to show that WAPA's rates will likely increase between 4 and 8 percent for 2026.
- Missouri River Energy Services (MRES) is still reviewing rates for 2026. Preliminary information provided to MPS indicates that MRES may be increasing electric rates between 4 and 6 percent, as well as imposing a possible increase in transmission rates. Transmission rate increases have averaged approximately 5 percent annually in recent years.

Electric Division City Transfer Payments:

Transfer payments from MPS' Electric Division to the City are the second largest use of MPS funds. The transfer payments to the City from MPS' Electric Division are comprised of three components—the General Fund, the Capital Improvements Fund, and the Economic Development Fund.

- General Fund Transfer (2025 budget was \$7,600,000).  
The Moorhead City Charter authorizes the City Council to transfer, in any fiscal year, "...to the general revenue fund of the city from the net revenues of...(a)...the electric utility, an amount not to exceed 20 percent of gross revenues" (Section 12.11, Subd.4).

In 2014, an initial four-year Transfer Agreement between the City and the Commission was finalized for 2014-2018 that guaranteed either a minimum base payment or a calculated payment based upon actual kilowatt hour (kWh) sales multiplied by a fixed rate per kWh. The Commission and the City Council also approved subsequent Transfer Agreements for 2019-2023 and 2024-2026, and each agreement included annual \$125,000 increases to the minimum base payment amounts.

The calculated transfer for 2026, based upon 2024 kWh sales, would be \$7,205,000. The negotiated base transfer for 2026 was set at \$7,725,000. Because the negotiated base transfer is the larger of the two transfer amounts, the 2026 General Fund Transfer from MPS' Electric Division to the City will be the negotiated base transfer of \$7,725,000.

- Capital Improvements Fund Transfer (2025 budget was \$2,097,000).  
The transfer to the City's Capital Improvements Fund from MPS' Electric Division is at the maximum allowed by City Charter, which is 5 percent of gross revenues. The language in the City Charter regarding net and gross revenues for the Capital Improvements Fund is very similar to the City Charter language for the General Fund Transfer: "The city council may...transfer from net revenues in its utility funds to the capital improvements fund an amount not to exceed 5 percent of the gross revenues derived by the commission in that fiscal year..." (Section 12.09, Subd. 2). Select revenue sources are excluded from the calculation. These include items such as fiber leases, generation and transmission leases, SPP ATRR credits, revenues subject to the Economic Development Incentive Rate, and revenues subject to service territory buyout payments.

Based upon the maximum allowed transfer rate of 5 percent, a projected 2 percent electric rate increase, and anticipated electric sales in 2026 expected to remain consistent with 2025 sales, the initial budgeted 2026 Capital Improvement Fund Transfer from MPS' Electric Division to the City will be \$2,075,000.

- Economic Development Fund (2025 budget was \$50,000).  
As in 2025, the 2026 budget will include a transfer from MPS' Electric Division to the City's Economic Development Fund of \$50,000, which is the maximum allowed by City Charter.
- Total MPS Electric Division Transfers to the City (2025 budget was \$9,747,000).  
Given the above descriptions, the total 2025 transfer payment from MPS' Electric Division to the City was budgeted at \$9,747,000. Based upon preliminary estimates, the total 2026 transfer payment from MPS' Electric Division to the City will be tentatively budgeted at \$9,850,000, which is projected to be 23.5 percent of MPS' projected 2025 electric operating revenues (adjusted for excluded revenues).

#### Electric Division Capital Improvements:

Preliminary Electric Division infrastructure plans for the next three years include regular distribution system extensions and upgrades, master plan substation and transmission line updates, the ongoing conversion to an Advanced Metering Infrastructure (AMI) system (expected to be completed in 2027), and the continued consolidation of electric operations at one central location.

#### Water Division City Transfer Payments:

Transfer payments from MPS' Water Division to the City include two different funds—the City's General Fund and the City's Capital Improvements Fund.

- General Fund Transfer (2025 budget was \$604,500).  
The City Charter authorizes the City Council to transfer, in any fiscal year, from the net revenues of the water utility an amount not-to-exceed 5 percent of gross revenues. The General Fund Transfer is at its maximum rate of 5 percent of gross revenues. Based upon a preliminary 5.5 percent rate increase in overall water rates, the tentative, projected transfer from MPS' Water Division to the City's General Fund for the 2026 budget is estimated at \$607,600.
- Capital Improvements Fund Transfer (2025 budget was \$126,000).  
Beginning in 2012, an annual transfer of \$126,000 from MPS' Water Division to the City's Capital Improvements Fund was added by the City to partially fund the City's flood mitigation bond payments. No increase or decrease is expected for 2026.
- Total MPS Water Division Transfers to the City (2025 budget was \$730,500).  
Given the above descriptions, the total 2025 transfer payment from MPS' Water Division to the City was budgeted at \$730,500. The preliminary transfer payment amount for 2026 is tentatively estimated to be \$733,600, which is approximately 6.04 percent of MPS' preliminary projected 2026 water operating revenues adjusted for excluded revenues.

#### Water Division Capital Improvements:

Preliminary Water Division infrastructure plans for the next three years include continuing the Watermain Asset Management Plan (annual and ongoing), the ongoing conversion to an AMI system (expected to be completed in 2027), updates to water treatment systems within MPS' Water Treatment Plant, and preliminary projects related to the Highway 10 raw water transmission line replacement.

**Compensation:**

The collective bargaining agreement and supporting Memorandums of Understanding (MOUs) for covered employees for 2025 through 2027 were approved in 2024 and will expire at the end of 2027. The estimated overall net wage increases for 2025 through 2027 were set by the agreement and supporting MOUs. Benefit cost increases have yet to be determined as they may fluctuate from year to year.

**Budget Working Group Actions:**

The Commission's Budget Working Group will meet as needed throughout the budget process. The initial 2026 detailed budget binder, along with the Budget Working Group's recommendations, will be presented to the full Commission on October 21, 2025.

**Timetable for Budget Process:**

<b>August 26, 2025, Commission Meeting</b> - Set Rate Hearing Date - Appoint Budget Working Group
<b>From now through completion of the 2026 Budget</b> - Budget Working Group Meetings
<b>October 21, 2025, Commission Meeting</b> - Review Financing and Capital Improvement Plan - Review Strategic Plan, Operating Budgets, and Rates - Review Budget and Budget Working Group's Recommendation - Hold Public Rate Hearings
<b>November 4, 2025, Commission Meeting (if held)</b> - Review Budget (if needed)
<b>November 18, 2025, Commission Meeting</b> - Review Budget (if needed) - Review Customer Comments (if any)
<b>December 2, 2025, Commission Meeting (if held)</b> - Review Budget (if needed) - Review Final Customer Comments (if any)
<b>December 16, 2025, Commission Meeting</b> - Approve 2026 Budget - Approve 2026 Rates

**KEY ISSUES:**

- Set timetable to review the 2026 budget.
- Set hearing date for 2026 electric and water rates.
- Appoint Commissioners to serve on the Budget Working Group and the Human Resources Working Group.

Respectfully submitted,



Travis L. Schmidt  
General Manager

**Division/Response Person:** Mark Moilanen, Administration and Finance Manager.

**Attachments:** None.