

Review Preliminary 2024 Budget Timetable, Appoint Budget Working Group, and Set Date for Water and Electric Rate Hearings

RECOMMENDATION:

The General Manager respectfully requests the Commission appoint a Budget Working Group for the purpose of the 2024 budget review and recommendations, and set Tuesday, October 17, 2023, as the date for the water and electric rate hearings. For reference, Commissioners Heidi Durand, Sebastian McDougall, and Chuck Hendrickson served as the 2023 Budget Working Group.

BACKGROUND:

Staff had begun updating the 2023 final budget with revised financial revenue and expenditure forecasts by gathering key preliminary 2024 inputs to include major items such as purchased power costs, transmission costs, Southwest Power Pool Annual Transmission Revenue Reimbursement (ATRR), transfer payments to the City of Moorhead (City), and capital projects.

Moorhead Public Service (MPS) staff has also provided City staff with the updated 2024 electric General Fund Transfer amount as calculated in accordance with the Electric Fund Transfer Agreement (Transfer Agreement) for 2019-2023 between the City of Moorhead and Moorhead Public Service.

In 2023 to date, the Commission took the following actions that will impact MPS' 2024 budget, rates, and long-term financial forecasts:

January 2023

- Award Bid for Furnishing Control Panels at Moorhead DOE Tab Substation
- Approve Electric Rate Study Proposal from Missouri River Energy Services

February 2023

- Approve Specifications and Authorize Advertisement for Bids for 11th Street Underpass Relocation Projects
- Approve Change Order No. 1 with Border States Industries, Inc., for Circuit Breakers at Moorhead DOE Tap Substation
- Award Bid for Construction at Moorhead DOE Tap Substation
- Approve Contract with Western Area Power Administration for 230-KV Transmission Line Construction Services Related to the Moorhead DOE Tap Substation Project
- Approve Amended Policy on Residential Meter Relocation Credit (AMI)

March 2023

- Rescind Award of Bid and Award Bid to the Next Lowest, Qualified Bidder for Furnishing Control Panels at Moorhead DOE Tap Substation
- Approve Policy of Non-Operational Equipment During Advanced Metering Infrastructure Project

April 2023

- Award Bid for Underground Boring for Electric Line Relocations Related to 11th Street Underpass Grade Separation Project (a/k/a 11th Street Underpass Relocation Projects)
- Approve Engagement Letter Agreement with Baker Tilly for Advisory Services (Bonding)

June 2023

- Approve Utility Relocation Agreement with MnDOT for Reimbursement for Electric Line Relocations Related to the City of Moorhead’s 11th Street Grade Separation Project

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 2024.
- Water—Preliminary budget projections indicate an overall water rate increase between 2 and 5 percent for 2024.

Purchased Power and Transmission:

Purchased power and transmission costs remain the largest expenses within MPS. Preliminary information received includes:

- Western Area Power Administration (WAPA) imposed a rate increase of approximately 16 percent in 2023. This increase was a key driver to the 2 percent overall increase in electric rates for 2023. At this time, preliminary indications appear to show that WAPA’s rates will likely not be changing in 2024, but may be subject to another review in 2024 for 2025.
- Missouri River Energy Services (MRES) is still reviewing rates for 2024. Preliminary information provided from MRES indicates they may be possibly increasing electric rates between 2 and 5 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 (2023 budget was \$7,350,000).
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, the four-year Transfer Agreement between the City and the Commission was finalized. The Transfer Agreement states that the General Fund Transfer for the upcoming year will be based on the greater of net kilowatt hour (kWh) sales for the previous year times an annual multiplier (1.44 cents per kWh), or a pre-determined base transfer floor. A new five-year Transfer Agreement (2019-2023), with an annual increase of \$125,000 per year in the base transfer floor, was approved by the Commission and City Council in 2018.

The calculated transfer for 2024, based upon 2022 kWh sales, would be \$6,145,000. The negotiated base transfer for 2024 is \$7,475,000, or \$1,330,000 over the calculated transfer. Because the negotiated base transfer is the larger of the two transfer amounts, the 2024 General Fund Transfer from MPS’ Electric Division to the City will be the negotiated base transfer of \$7,475,000.

- Capital Improvements Fund Transfer (2023 budget was \$2,053,000).
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 expected electric sales in 2024 expected to remain consistent with 2022 sales, the 2024 Capital Improvement Fund Transfer from MPS’ Electric Division to the City will be budgeted at \$2,080,000.

- Economic Development Fund (2023 budget was \$50,000).
As in 2023, the 2024 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 of Moorhead (2023 budget was \$9,453,000).
Given the above descriptions, the total 2023 transfer payment from MPS’ Electric Division to the City was budgeted at \$9,453,000. Based upon preliminary estimates, the total 2024 transfer payment from MPS’ Electric Division to the City will be tentatively budgeted at \$9,605,000, which is projected to be 22.8 percent of MPS’ projected 2024 electric operating revenues (adjusted for excluded revenues).

Electric Division Capital Improvements:

Preliminary Electric Division infrastructure plans for the next three years include normal distribution system extensions and upgrades, construction of a transmission reactor to allow for more efficient transmission of electricity within and through Moorhead, master plan substation and transmission line updates, conversion to an Advanced Metering Infrastructure (AMI) over several years, and the continued consolidation of electric operations at one 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 (2023 budget was \$566,000).
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 on a preliminary 4 percent rate increase in overall water rates, the tentative projected transfer from MPS’ Water Division to the City’s General Fund for the 2024 budget is estimated at \$590,000.
- Capital Improvements Fund Transfer (2023 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 2024.

- Total MPS Water Division Transfers to the City of Moorhead (2023 budget was \$691,000).
 Given the above descriptions, the total 2023 transfer payment from MPS’ Water Division to the City was budgeted at \$691,000. The preliminary transfer payment amount for 2024 is tentatively estimated to be \$716,000, which is approximately 6.06 percent of MPS’ preliminary projected 2024 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 (WAMP) (annual and ongoing), conversion to AMI over several years, updates to water treatment systems within MPS’ Water Treatment Plant, and preliminary projects related to the Highway 10 raw water transmission line replacement.

Compensation:

Collective bargaining agreements covering 2022 through 2024 will expire at the end of 2024. The 2023 negotiated estimated overall net wage and benefits increase is 4.3 percent.

Budget Working Group Actions:

The Commission’s Budget Working Group will meet throughout the budget process. The initial 2024 detailed budget binder, along with the Budget Working Group’s recommendations, will be presented to the full Commission on October 17, 2023.

Timetable for Budget Process:

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| <p>August 15, 2023, Commission Meeting</p> <ul style="list-style-type: none"> - Set Rate Hearing Date - Appoint Budget Working Group |
| <p>Present through completion of the 2024 Budget</p> <ul style="list-style-type: none"> - Budget Working Group Meetings |
| <p>October 17, 2023, Commission Meeting</p> <ul style="list-style-type: none"> - 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 |
| <p>November 7, 2023, Commission Meeting</p> <ul style="list-style-type: none"> - Review Budget |
| <p>November 21, 2023, Commission Meeting</p> <ul style="list-style-type: none"> - Review Budget - Review Customer Comments |
| <p>December 5, 2023, Commission Meeting</p> <ul style="list-style-type: none"> - Review Budget - Review Final Customer Comments |
| <p>December 19, 2023, Commission Meeting</p> <ul style="list-style-type: none"> - Approve 2024 Budget - Approve 2024 Rates |

KEY ISSUES:

- Set timetable to review the 2024 budget.
- Set hearing date for 2024 electric and water rates.
- Appoint Commissioners to serve on the Budget Working Group.

Respectfully Submitted,



Travis L. Schmidt
General Manager

Division/Response Person: Mark Moilanen, Finance Division Manager.

Attachments: None.