

Review Preliminary 2027 Budget Timetable and Set Date for Water and Electric Rate Hearings

RECOMMENDATION:

The General Manager respectfully requests the Commission review the preliminary 2027 budget timetable and set Tuesday, October 20, 2026, as the date for the water and electric rate hearings. For reference, Commissioners Paul Baker, Matt Leiseth, and Jason Ness were appointed to the Budget Working Group, and Commissioners Lisa Borgen, Amy Lammers, and Steve Lindaas were appointed to the Human Resources Working Group at the Commission meeting on March 17, 2026.

BACKGROUND:

Staff has begun updating the 2027 final budget with revised financial revenue and expenditure forecasts by gathering key preliminary 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 2027 electric General Fund Transfer amount as calculated in accordance with the current Electric Fund Transfer Agreement (Transfer Agreement) between the City of Moorhead and Moorhead Public Service, expiring at the end of 2026.

In 2026 to date, the Commission took the following actions that will impact MPS' 2027 budget, rates, and long-term financial forecasts:

February 2026

- Award Bid for Furnishing 115 kV IPO Breakers at MPS' Northeast and Southeast Substations

April 2026

- Approve Task Order No. 15 for Moorhead DOE Substation KV1A Transformer Replacement and Amendment No. 1 to Task Order No. 11 for Centennial Substation Differential Relays Upgrade with DGR Engineering
- Approve Specifications and Authorize Advertisement for Bids for Furnishing 15 kV Indoor Metalclad Switchgear at MPS' Northeast and Southeast Substations

May 2026

- Approve Task Order No. 17 with DGR Engineering for Northeast Substation Transmission Line Extension Projects

June 2026

- Award Bid for Furnishing 15 kV Indoor Metalclad Switchgear at MPS' Northeast and Southeast Substations
- Approve Resolution and Declaration of Intent to Approve Potential Bond Sale in 2027 or 2028

July 2026

- Approve Specifications and Authorize Advertisement for Bids for 2027 Electrical Materials

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 2027.
- Water—Preliminary budget projections indicate an overall water rate increase between 3 and 7 percent for 2027.

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, followed by a net 6.2 percent increase for 2026. Preliminary information from MRES indicates that WAPA's rates are unlikely to increase in 2027.
- MRES is still reviewing rates for 2027. Preliminary information provided to MPS indicates that MRES may increase electric rates by 4 to 5 percent for 2027 and may impose a transmission rate increase. 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 (2026 budget was \$7,725,000).
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, guaranteeing either a minimum base payment or a calculated payment based on 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 Transfer Agreement included annual \$125,000 increases to the minimum base payment amounts. A new Transfer Agreement has not yet been approved for 2027, so the general fund amount is projected to remain at the 2026 rate, with an additional \$125,000 increase. As a result, the projected 2027 General Fund Transfer from MPS' Electric Division to the City will be the negotiated base transfer of \$7,850,000 (the 2026 negotiated amount of \$7,725,000, plus \$125,000 as in the prior Transfer Agreement).

- Capital Improvements Fund Transfer (2026 budget was \$2,075,000).
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 on the maximum allowed transfer rate of 5 percent, a projected 2 percent electric rate increase, and anticipated 2027 electric sales remaining consistent with 2026 sales, the initial budgeted 2027 Capital Improvement Fund Transfer from MPS' Electric Division to the City is calculated to be \$2,116,000.

- Economic Development Fund (2026 budget was \$50,000).
As in 2026, the 2027 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 (2026 budget was \$9,850,000).
Based on the information provided above, the total 2026 transfer payments from MPS' Electric Division to the City were budgeted at \$9,850,000. Based on preliminary estimates, the total 2027 transfer payments from MPS' Electric Division to the City are tentatively budgeted at \$10,016,000, which is projected to be 23.4 percent of MPS' projected 2027 electric operating revenues (after excluding certain revenues).

Electric Division Capital Improvements:

Preliminary Electric Division infrastructure plans for the next three years include regular distribution system extensions and upgrades, as well as planned substation and transmission line updates.

Water Division City Transfer Payments:

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

- General Fund Transfer (2026 budget was \$643,500).
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 2027 budget is estimated at \$678,500.
- Capital Improvements Fund Transfer (2026 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 2027.
- Total MPS Water Division Transfers to the City (2026 budget was \$769,500).
Based on the information provided above, the total 2026 transfer payment from MPS' Water Division to the City was budgeted at \$769,500. The preliminary transfer payment amount for 2027 is estimated at \$804,500, which is approximately 5.9 percent of MPS' preliminary projected 2027 water operating revenues (after excluding certain 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 Advanced Metering Infrastructure (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 2027 budget process. The initial 2027 detailed budget binder, along with the Budget Working Group's recommendations, will be presented to the entire Commission on October 20, 2026.

Timetable for Budget Process:

August 25, 2026, Commission Meeting - Set Rate Hearing Date
From now through completion of the 2027 Budget - Budget Working Group Meetings
October 20, 2026, Commission Meeting - Review Financing and Capital Improvement Plan - Review Strategic Plan, Operating Budgets, and Rates - Review Budget and Budget Working Group's Recommendation - Hold Public Water and Electric Rate Hearings
November 3, 2026, Commission Meeting (if held) - Review Budget (if needed)
November 17, 2026, Commission Meeting - Review Budget (if needed) - Review Customer Comments (if any)
December 8, 2026, Commission Meeting (if held) - Review Budget (if needed) - Review Final Customer Comments (if any)
December 22, 2026, Commission Meeting - Approve 2027 Budget - Approve 2027 Rates

KEY ISSUES:

- Set the timetable to review the 2027 budget.
- Set the hearing date for the 2027 electric and water rates.

Respectfully submitted,



Travis L. Schmidt
 General Manager

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

Attachments: None.