

**ELK RIVER MUNICIPAL UTILITIES
REGULAR MEETING OF THE UTILITIES COMMISSION
HELD AT UTILITIES CONFERENCE ROOM**

November 12, 2025

Members Present: Chair John Dietz, Vice Chair Mary Stewart, Commissioners Jill Larson-Vito, Matt Westgaard, and Nick Zerwas

ERMU Staff Present: Mark Hanson, General Manager
Sara Youngs, Administrations Director
Melissa Karpinski, Finance Manager
Tom Geiser, Operations Director
Chris Sumstad, Electric Superintendent
Megan Zachman, Human Resources Generalist
Jenny Foss, Communications & Administrative Coordinator

Others Present: Jared Shepherd, Attorney; Cal Portner, City Administrator; Dave Berg, Dave Berg Consulting, LLC

1.00 GOVERNANCE

1.01 Call Meeting to Order

The regular meeting of the Utilities Commission was called to order at 3:30 p.m. by Chair Dietz.

1.02 Pledge of Allegiance

The Pledge of Allegiance was recited.

1.03 Consider the Agenda

Ms. Youngs updated the Commission on item 2.05 – 2025 Assessments, noting that the total should be revised from \$32,397.42 to \$34,257.42. She clarified that the City received the correct information, and the assessment notices sent to customers were accurate.

Moved by Commissioner Zerwas and seconded by Commissioner Westgaard to approve the November 12, 2025, agenda. Motion carried 5-0.

2.00 CONSENT AGENDA (Approved By One Motion)

Moved by Commissioner Larson-Vito and seconded by Commissioner Stewart to approve the Consent Agenda, including the update made to item 2.05 – 2025 Assessments, as follows:

- 2.01 Check Register – October 2025**
- 2.02 Regular Meeting Minutes – October 14, 2025**
- 2.03 2025 Third Quarter Utilities Performance Metrics Scorecard Statistics**
- 2.04 2025 Third Quarter Delinquent Items**
- 2.05 2025 Assessments**
- 2.06 2026 Wire Bid**
- 2.07 Summary of Information Security Committee Closed Session**

Motion carried 5-0.

3.00 OPEN FORUM

No one appeared for open forum.

4.00 POLICY & COMPLIANCE

4.01 Commission Policy Review – G.4e2 – Electric Services

Ms. Youngs presented Commission Policy Review G.4e2 – Electric Services for review noting that there were no recommended changes to this policy.

Commissioners did not have any comments, questions, or changes.

5.00 BUSINESS ACTION

5.01 Financial Report – September 2025

Ms. Karpinski presented the September financials, showing the combined electric and water revenues exceeding expenses by \$2.7 million year to date, resulting in a 6.64% profit margin.

Ms. Karpinski noted that as of September 30, total receivables were approximately \$2.97 million, with 89% of accounts current, and commended the customer service team for their efforts.

Department highlights included:

- Electric Department: Kilowatt-hour (kWh) sales are 6% higher than the previous year. Purchase power costs are 1% unfavorable to budget due to higher usage.
- Water Department: Year-to-date water usage is up over 9% compared to the prior year, and revenue is up 10%.

Moved by Commissioner Stewart and seconded by Commissioner Westgaard to receive the September 2025 Financial Report. Motion carried 5-0.

5.02 **Electric and Water Cost of Service and Rate Design Study**

Mr. Hanson introduced Dave Berg and distributed a handout to the Commission outlining the preliminary findings from Mr. Berg's rate study analysis. His review replaced the Governance agenda item, *Annual Business Plan – Review Proposed 2026 Rates and Other Revenue*.

Mr. Berg provided the Commission with a comprehensive overview of the electric and water rate structures ahead of the final reports.

Highlights from the electric utility analysis included:

- Projections assumed no rate changes but a full pass-through of the Minnesota Municipal Power Agency's (MMPA) wholesale energy adjustment clause (EAC) as a power cost adjustment (PCA) to customers.
- The current rate structure was found to be logical and well aligned with MMPA wholesale costs.
- A key discussion point was the need to increase reserve funds.
- The final report will include a four-year rate plan that incorporates anticipated wholesale rate increases from MMPA.

Mr. Hanson clarified for the Commission that staff is proposing a 50% pass-through of the EAC to reduce the PCA and to modify the published rate as needed for the remaining 50% of the EAC.

Highlights from the water utility analysis include:

- The water utility is in a strong financial position; however, discussions regarding reserve funds may impact rates.
- The preliminary analysis did not include growth in water.
- The existing tiered rate structure for residential customers was affirmed as effective for encouraging conservation and reflecting the high fixed costs of infrastructure.

A final recommendation for both electric and water rates will be presented to the Commission in December.

5.03 **Payment in Lieu of Taxes to City of Elk River**

Mr. Hanson provided a detailed review of his memo outlining the adjustments made to the Payment in Lieu of Taxes to the City of Elk River (PILOT) policy following feedback from the October commission meeting.

He distributed a revised, redlined PILOT policy to the Commission, which incorporated Commissioner Stewart's request for additional clarifying language related to a catastrophic event.

Mr. Hanson also clarified that the \$8,000 in labor charges had been counted twice in his memo; therefore, the \$272,000 in electric charges should be \$264,000.

There was discussion to ensure that management will work with city staff to determine which services are practical to bill for, ensuring administrative costs do not outweigh the revenue.

Mr. Berg clarified that the approved PILOT rate changes have been incorporated into the 2026 budget projections.

Moved by Commissioner Larson-Vito and seconded by Commissioner Zerwas to approve the amended Commission Policy G.2a1 Payment in Lieu of Taxes and Other Donations to the City of Elk River. Motion carried 5-0.

5.04 **Financial Reserves & Investment Committee Update - Verbal**

Commissioner Westgaard provided an update from the Financial Reserves & Investment Committee meeting held just prior to the November commission meeting.

Investment Portfolio (as of September 2025):

The total portfolio value is approximately \$11.6 million, consisting of just over \$5 million in cash and nearly \$6.6 million in fixed investments. Committee members noted a recent drop in market rates, which will continue to be monitored.

Reserve Balances (as of end of year audited cash balances):

Electric:

- \$9.9 million in unrestricted designated reserves
- \$1.7 million in restricted debt services
- \$3 million in unrestricted for capital projects

Water:

- \$1.4 million in unrestricted designated reserves
- No restricted reserves for debt service
- \$8.5 million in unrestricted for capital projects

5.05 **Management Policy – A.10 – Financial Reserves**

Mr. Hanson presented recommended updates to Management Policy A.10 – Financial Reserves, based on discussions at the October 27, 2025, Financial Reserves & Investments Committee meeting. After comparing ERMU's financial reserve policy with those of similar municipal utilities, the Committee had recommended several updates.

He requested commission feedback on the proposed changes outlined in his memo, noting that commission approval is not required because A.10 is a management policy; however, the updates will influence future rate setting.

Commissioner Zerwas noted that ERMU's reserves are well below those of its peer utilities and expressed appreciation for the increased transparency the changes provide. He recommended adopting a multi-year approach to increasing reserve balances.

Chair Dietz asked a clarifying question regarding the different layers of the current financial reserves policy, prompting further discussion.

Commissioner Westgaard agreed with Commissioner Zerwas on a multi-year approach, suggesting a timeline of no more than five years.

Commissioners supported the new structure for its transparency and agreed that reaching higher reserve targets should occur gradually over multiple years, with a formal review in four years.

Mr. Hanson will present redlined policy revisions in December, and Mr. Berg will incorporate the commission's feedback into his final rate study.

5.06 **Commission Policy – 5.A – Margins Policy**

Mr. Hanson noted that the updates to the Management Policy - A.10 - Financial Reserves policy will also require revisions to Commission Policy – 5.A – Margins Policy. He explained that staff is recommending the use of a cap, or maximum margin, as outlined in the memo, rather than the range used in the current policy.

Moved by Commissioner Stewart and seconded by Commissioner Larson-Vito to approve Commission Policy G.5a – Margins revisions. Motion carried 5-0.

5.07 **2026 Utilities Fee Schedule**

Ms. Youngs presented the proposed 2026 Utilities Fee Schedule for approval.

Commissioner Larson-Vito asked for clarification on why certain fees show larger increases than others.

Mr. Hanson explained that while the fee schedule is updated annually, some fees require a significant in-depth review to calculate the costs and therefore are not updated as frequently. He noted that staff recognizes the need for more regular updates and staff is working to address this.

Commissioner Stewart asked for clarification on which rate applies when a project begins in one year but concludes in the next.

Ms. Youngs explained that the applicable rate depends on when payment is made. Payments made in 2025 would follow the 2025 rates, while payments made in the new year would follow the 2026 rates.

Moved by Commissioner Westgaard and seconded by Commissioner Stewart to approve the 2026 Utilities Fee Schedule for Adoption into Ordinance by the City Council. Motion carried 5-0.

5.08 **Health Insurance Update**

Mr. Hanson presented the Health Insurance Update noting that staff is recommending changing from the current carrier to Medica while maintaining the company's 85% contribution to the insurance premium and the 85% contribution to health savings accounts.

Moved by Commissioner Zerwas and seconded by Commissioner Westgaard to approve the 2026 ERMU health insurance plan with Medica as well as 85% premium and health savings account contribution amounts from the employer. Motion carried 5-0.

5.09 **Wage & Benefits Committee Proposed 2026 Adjustments**

Mr. Hanson provided an update from the October 27 Wage & Benefits Committee meeting, as reflected in the proposed 2026 adjustments outlined in his memo.

Staff requested commission approval of a wage adjustment range of 3.34% to 3.41%. If the metro average falls outside this range after the remaining utility reports, staff will return to the Commission with a revised recommendation.

With only six of the seven metro utilities reporting, the Commission was not ready to approve the cost-of-living wage adjustment and asked to revisit the item in December.

Mr. Hanson noted that he will add this to the December agenda and, in the meantime, will use the midpoint of the range for budgeting purposes.

5.10 **Advanced Metering Infrastructure Update**

Mr. Hanson provided an AMI update and shared that 100% of active residential water meters have been installed. He commended the water, customer service, and communications departments for their outstanding efforts.

He also noted that residential repairs associated with the project stayed within budget, with only one commercial instance requiring commission approval for project-related repair costs.

Ms. Youngs provided an update on the remaining electric meters awaiting replacement due to meter shortages, noting that it will take approximately six months to complete replacements once the meters are received.

5.11 **Verizon Water Tower Lease Agreements**

Mr. Hanson informed the Commission of an offer from Verizon to either buy out the current lease agreements for a lump-sum payment or renegotiate the lease terms to reduce both the annual rent and the annual escalator. The lump-sum offer is contingent on granting a perpetual easement on the property.

Staff presented Verizon's offers, as outlined in the memo, to maintain transparency with the Commission and customers, but recommended against accepting them.

The Commission agreed to follow staff's recommendation.

6.0 **BUSINESS DISCUSSION**

6.1 **Staff Updates**

There were no additional updates.

6.2 **City Council Update**

Chair Dietz presented a City Council update.

6.3 **Future Planning**

Chair Dietz announced the following:

- a. Regular Commission Meeting – December 9, 2025
- b. 2025 Governance Agenda

6.4 **Other Business**

There was no other business.

7.0 ADJOURN REGULAR MEETING

Moved by Commissioner Westgaard and seconded by Commissioner Larson-Vito to adjourn the regular meeting of the Elk River Municipal Utilities Commission 5:35 p.m. Motion carried 5-0.

Minutes prepared by Jenny Foss.



John J. Dietz, ERMU Commission Chair



Jolene Richter, Deputy Clerk