



City of Northfield, Minnesota City Council Updates

Franchise Fee Public Hearing

November 10, 2020



Public Hearing Overview

- I. Presentation:
 - A. Background on Exploration of Franchise Fees and Comparison to Other Cities.
 - B. Special Assessment Revenue Replacement Use.
 - C. Climate Action Plan Use of Funds
 - D. Cost Impact of Franchise Fees, Fee Amount & Comparison to Special Assessments
 - E. Exploration of Franchise Fee Refund Program for Eligible Properties
- II. Public Hearing: Public Input
- III. City Council Close Public Hearing
- IV. Council Questions & Discussion

Background on Exploration of Franchise Fees

- By law, MN Cities (MN Statute 216B.36) Cities may charge utility companies to manage the use of the publicly-owned right-of-way to deliver service.
- Gas and Electric Are Set by Northfield Ordinance
 - Not restricted to a particular use of funds
- City Council's Initial review to replace assessment process with franchise fees
- Current Ordinance Proposal is for Gas and Electric Franchise for Streets & Trails as well As Climate Action Plan Implementation
- Utility Company (Xcel Energy) would itemize the bill for the fee, collect and redistribute to the City on a quarterly basis

Background on options:

Initial review to replace assessment process with franchise fees

Special Assessments

Advantages:

- Common tool to fund and finance infrastructure improvements.
- Relationship between value received / cost of service and amount paid.
- Tax-exempt properties pay for improvements they benefit from.
- Reduces overall property tax rate.
- Can be used to cash flow projects, i.e. reduce size of bond issues.

Disadvantages:

- Process is complex, long and expensive
- LMC Guide to Special Assessments is over 100 pages.
- No perfect method for assessing property.
- Special Benefits Test is difficult to prove at times.
- Time consuming to administer.
- Multiple deferral options can make revenue projections difficult.



How do other cities fund street improvement projects?

- Special Assessments
 - Percent ranges from 0% (Minnetonka) to 100% (Edina)
 - No one method is the same
- Annual Levy for Mill and Overlay
 - Only bond for full street reconstruction projects
- Infrastructure Replacement Reserve Fund (M.S. 471.572)
 - Commonly referred to as a Permanent Improvement Replacement (PIR) fund
 - Provides additional flexibility by pooling funds
 - Can be used to cash flow projects prior to bonding
- Assessment Funds
 - Similar to a PIR Fund
 - Monies used to pay cash for street projects, reducing borrowing amount
 - Future assessments replenish the fund

Comparable City Information

- Mix of franchise fee revenue uses.
- Majority still assess for improvement projects.
- Elk River eliminated assessments in 2013.
- Created a franchise fee rebate program to reimburse property owners with outstanding assessments.

City	Annual Franchise Fee Revenue	Receiving Fund	Assess for Street Projects
Forest Lake	\$730,000	Capital Projects	No
St Louis Park	\$3,100,000	Pavement Management Fund	No
Owatonna (1)	Unknown	General Fund	Yes
Elk River (2)	\$1,400,000	Pavement Management Fund	No
New Brighton	\$900,000	General Fund	Yes
Stillwater	\$470,000	General Fund	Yes
South St Paul	\$1,100,000	General Fund	Yes
Faribault	\$761,000	GF, DSF, CIP	Yes
White Bear Lake	\$309,000	General Fund	Yes
New Hope	\$945,000	GF & Street Fund	No

(1) Owatonna Public Utilities (OPU) does not charge the City for electric use. Amount equals approximately 4% of OPU electric revenues.

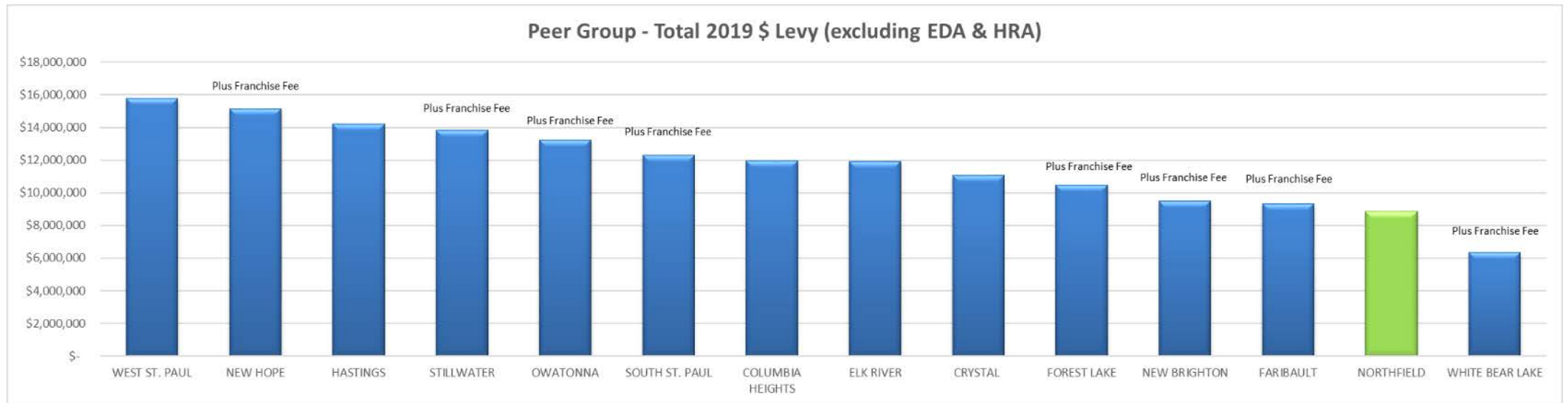
(2) 2013 rebate program for outstanding special assessments.

Comparable Cities

- 9 of 13 comparable cities have franchise cities.
- 6 of 13 have franchise fee and assessments.
- All cities either collect franchise fees or assessments.

City	Annual Franchise Fee Revenue	Receiving Fund	Assess for Street Projects
West St. Paul	\$1,200,000	Multiple	Yes
South St Paul	\$1,100,000	General Fund	Yes
New Brighton	\$900,000	General Fund	Yes
Faribault	\$761,000	GF, DSF, CIP	Yes
Stillwater	\$470,000	General Fund	Yes
White Bear Lake	\$309,000	General Fund	Yes
		Pavement Management Fund	
St Louis Park	\$3,100,000		No
		Pavement Management Fund	
Elk River	\$1,400,000		No
New Hope	\$945,000	GF & Street Fund	No
Forest Lake	\$730,000	Capital Projects	No
Hastings	No	N/A	Yes
Columbia Heights	No	N/A	Yes
Crystal	No	No	Yes
Owatonna (1)	Unknown	General Fund	Yes
(1) Owatonna Public Utilities (OPU) does not charge the City for electric use. Amount equals approximately 4% of OPU electric revenues.			

Comparable Cities: City Tax Levy & Those With Franchise Fees



- 8 of the 13 Peer Group Cities also have a Franchise Fee

Current Trend: Franchise Fees

Under Minnesota Statute (216B.36), cities can impose a fee on utility companies that use the public rights-of-way to deliver service.

Advantages:

- Franchise fees are paid by all properties within the City, including tax-exempt properties.
- Diversifies the City's revenue sources, potentially reducing reliance on property taxes, local government aid and assessments.
- Provides a reliable source of revenue.
- Easy for the City to administer and no administrative costs are charged by the utility companies.

Disadvantages:

- A flat-rate franchise fee is the same for all residential homes, regardless of the value of their property or utility usage.
- Depending on various circumstances (type of business, utility usage, amount of fee, etc.), franchise fees can be a financial hardship on commercial businesses.
- Like property taxes, franchise fees may make a city less desirable than surrounding communities that do not impose franchise fees.

Debt Issuance

- Use General Obligation Improvement Bonds for New Constructions if Authorized by Council Upon Request by Developer
- Use G.O. Street Reconstruction Plan Bonds for Reconstructions and Mill & Overlay
 - Property tax and franchise fees
- Use Tax Abatement Bonds or Cash for Sidewalks, Trails, Others
 - Property Tax and/or franchise fees

Authorized Uses	G.O. Improvement Bonds	G.O. Street Reconstruction Plan Bonds	G.O. Abatement Bonds
Repair & Replace Utilities*			
Water Lines	●	●	●
Sanitary Sewer Lines	●	●	●
Storm and Gutters	●	●	●
Repair & Replace Streets			
Reconstruct and Overlays	●	●	●
Adding Turn Lanes	●	●	●
Widening Streets	●		●
Installing New Streets	●		●
Installing New Curbs and Gutters	●		●
Improving Sidewalks	●		●
<i>Exception: Public Safety Function</i>		●	
Payment & Process			
Payment Source	Min 20% Assess	Any	Any
Council Approval - Ordering Imp.	5/7	N/A	N/A
Council Approval - Bonds	Majority	Two-Thirds	Majority
Subject to Reverse Referendum	No	Yes	No
Number of Public Hearings	2	1	1
Subject to Debt Limit	No	Yes	No
Timing of Process	Min 6 months	Approx 3 mo	Approx 3 mo
Cost of Process	1% of constr.	None	\$10K
*Cities can repair and replace utilities under the Street Reconstruction			
Plan authority if it is in conjunction with a street project.			

Franchise Fee Implementation Options

Four Implementation Options

1. Flat fee per utility account

- *Example: \$5.50 per month*

2. Percentage of consumption used by each utility account

- *Example: \$0.0050 per kWh for electric and \$0.040 per therm for gas)*

3. Percent of Revenue

- *Example: 4.0% of monthly bill for electric and 5.0% for gas*

4. Hybrid of flat fee and percent of usage or revenue

- *Example: Flat fee for residential and percentage of usage or revenue for commercial and industrial) 4% monthly bill for electric and 5% bill for gas with a maximum not to exceed*

Implementation Considerations

- *Xcel Energy's policy is to only implement a flat fee structure.*
- Flat rate structure provides stable revenue stream, rather than one based on consumption or revenue.
- Percentage fee structure provides a more equitable fee across all users as it ensures the largest users pay a proportionally higher fee.
- Under a flat rate structure, setting an increasing flat fee for the various customer classes would be a way to mitigate the inequities.
- Financial impact on companies and institutions within the City.



Special Assessment Background and Considerations

- Approximately \$2.6 million principal outstanding (includes \$1.3 million for 2020 projects)
- Approximately 580 properties with assessments outstanding (includes 2020 projects)
- Average historical assessment revenue is approximately \$500,000
- Due to larger projects and inflation included in 2020-2024 CIP, future assessment revenue is expected to be approximately \$970,000 annually by 2025
- There is no legal authority to forgive outstanding assessments
- Potential **Franchise Fee Refund Program** (cover in later slides)



Franchise Fee Revenue Requirements

- Approximately \$1.2 million needed annually to be budget neutral
 - Minimum staff recommended revenue to be generated to pursue this fee
 - 100% of future annual special assessment revenue
 - Includes Franchise fee rebate program for existing property owners paying assessments (currently evaluating 3 options)
 - Other lost revenue
- Franchise Fee Ordinances Also Provides for Use of Funds for Climate Action Plan Implementation
 - Would develop a resolution establishing more detailed use of funds for Council Approval
 - \$100,000 annually is the model
 - Funds to implement City strategic priorities in climate action plan implementation; or
 - Specific initiatives require Council Approval under each alternative would be determined at a future date
 - See next slides for more information

Climate Action Plan Goals

The City of Northfield is committed to **100% carbon-free electricity** by 2030 and being a **100% carbon-free community by 2040.**



The Climate Action Plan was adopted by City Council on November 5, 2019



Climate Action Plan: Funding

- Many city services are funded through collection of fees from the community for example – water, sewer, garbage
- Implementing the Climate Action Plan will benefit the community.
- Some examples include:
 - Cleaner air from less fossil fuel emissions
 - Healthier community
 - More options for transportation/getting around
 - Save money by being more energy efficient
 - Reduce heat island effect
 - Reduce flooding impacts
 - Build resiliency of infrastructure
 - Improve food and water security
 - Extend the lifespan of County landfill



Climate Action Plan: Examples of Climate Initiatives

City Properties

- Energy efficiency upgrades to reduce operating costs
- Renewable energy - on-site solar and other routes
- Transition fleet to electric vehicles over time
- Increase tree canopy and native plants
- Manage for invasive species – Emerald Ash Borer
- Street/infrastructure projects to reduce and manage flooding

In the Community

- Energy efficiency for residents and businesses
- Renewable energy options for residents and businesses
- Infrastructure for transportation (EV chargers), transit hub, multi-modal options (trails, bike lanes)
- Increase trees and native plants
- Potential incentives for items above
- Waste reduction



Assessments vs Franchise Fee: Impact on Residential Users

- Franchise fee approximately 10% of annual assessment cost, but ongoing.

- Annual Average Franchise Fee Residential

Gas \$27.00

Electric \$39.00

Total \$66.00

* \$5.50 per month

- Average Residential Special Assessment

\$6,800 (can be paid in entirety)

\$680 per year (10-years repayment option)



Assessments vs Franchise Fee: Impact on “most typical” commercial

- Franchise fee approximately 10% of annual assessment cost, but ongoing.

- Annual Average Franchise Fee Residential

Gas \$150.00

Electric \$ 48.00

Total \$198.00

* 16.50 per month

- Total Typical Assessment Estimated at \$9,180 to \$10,200

Proposed Electric & Gas Franchise Fees

Xcel Business Solutions Center: 1-800-481-4700 or email Business Solutions Center: bsc@xcelenergy.com

Electric

SCHEDULE A

Franchise Fee Rates:

Electric Utility

The franchise fee shall be in an amount determined by applying the following fee schedule per customer premise/per month based on metered service to retail customers within the City:

<u>Class</u>	<u>Amount per month</u>
Residential	\$3.25
Small Commercial & Industrial: Non-Demand	\$4.00
Small Commercial & Industrial: Demand	\$32.50
Large Commercial & Industrial	\$990.00
Public Street Lighting	\$0.00
Municipal Pumping Demand	\$0.00
Municipal Pumping Non-Demand	\$0.00

Gas

SCHEDULE A

Franchise Fee Rates:

Gas Utility

The franchise fee shall be in an amount determined by applying the following fee schedule per customer premise/per month based on metered service to retail customers within the City:

<u>Class</u>	<u>Amount per month</u>
Residential	\$2.25
Commercial Firm: Non-Demand	\$12.50
Commercial Firm: Demand	\$485.00
Small Interruptible	\$99.50
Medium & Large Interruptible	\$1,880.00
Firm Transportation	\$0.00
Interruptible Transportation	\$0.00

Council Consideration of Franchise Fee Refund Program

- Council considering establishing a policy to offer refund for eligible properties that either have remaining special assessments to be paid or could have been if they hadn't paid it off (generally last 10-years).
- On an annual basis, eligible for a refund of City franchise fee.
- Refund shall not exceed the special assessment paid during the same year or for the entire amount of special assessment eligible.
- Options to Consider:
 - Option A: Commercial & Residential Eligible Including Those Who Paid Off Assessments
 - Option B: Residential Eligible Only Including Those Who Paid Off Assessments
 - Option C: Commercial & Residential Eligible for Only Who Have Outstanding Assessments
 - Option D: Residential Eligible for Only Who Have Outstanding Assessments
- Discussion this evening. Tentative action scheduled next Tuesday.



Tentative Timelines

November 10th

Public Hearing

Resolution Franchise Fee Refund Program Discussion

First Reading Ordinance

November 17th

Second Reading of Ordinance

Resolution Franchise Fee Refund Program Consideration

November 18th

Notice to Xcel (90-day implementation)

2021

March

Revenue Commencement



Public Hearing

- Mayor Pownell will call on those who signed up to speak in advance
- Individuals will be able to speak up to 2 minutes. City Administrator Martig will be timing the comments and will verbally and visually give indication when the 2 minutes is up.
- If you have logged on to the call in or video but haven't registered, please turn on your camera and unmute yourself and request to be addressed by the Mayor.
- Persons must give their name, address and if representing a business, must give the name of the business or corporation.
- If an attorney or consultant is representing a client, the client must be identified for the record.
- After no further comments, the Mayor will entertain a motion from the City Council to close the public hearing.



City Council Questions & Discussion