



City of Northfield, Minnesota City Council Updates

Franchise Fee Review

October 20, 2020

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.

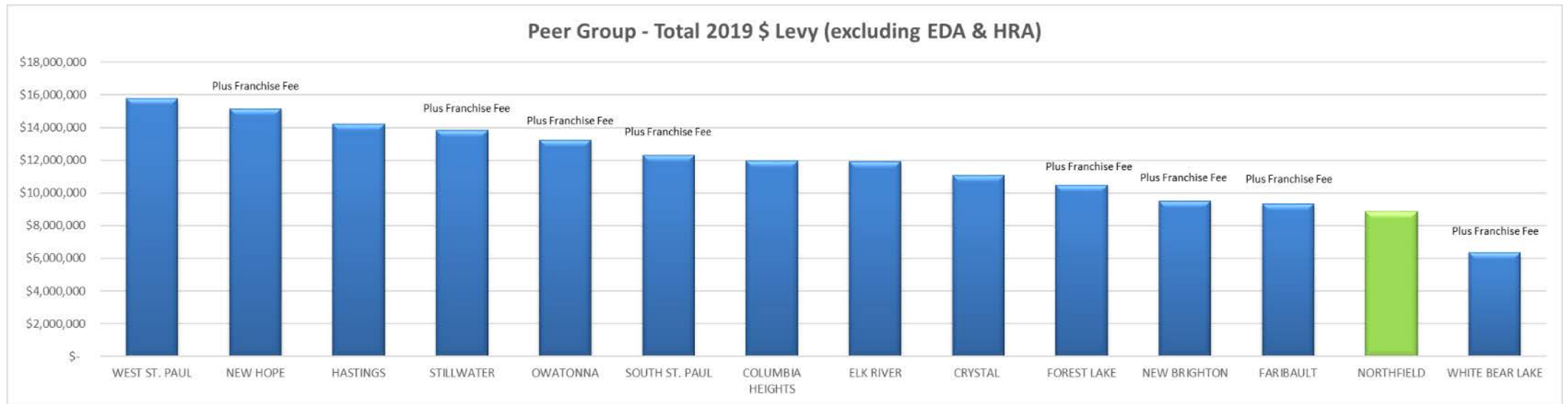
(2) 2013 rebate program for outstanding special assessments.

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 City



- 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.

Recommendations

- 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: \$4 per month*

Currently Not An Option Per Xcel Energy Position

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: 3.0% of monthly bill*

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)*

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 Rebate Program** (pending resolution to add for review November 10th):
 - Property owners with outstanding assessments are rebated franchise fees (annually)
 - Estimated cost is \$50,000 annually beginning in 2022 and decreasing \$5,000 each year
 - This cost impact is incorporated into the revenue options of the proposed fee structure



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
 - Other lost revenue
- Alternative Options to Add \$100,000 additional revenue for either:
 - Funds to implement City strategic priorities in climate action plan implementation; or
 - Funds to add additional revenue for streets & trails to accelerate projects in the 5-Year Capital Improvement Plan
 - Specific initiatives under each alternative would be determined at a future date.

Council Options

Motion to Call for public hearing on November 10, 2020 at 6:00 p.m. to consider proposed ordinance for gas and electric franchise fee with the following proposed two ordinance combinations “pick one (Option A, Option B, Option C or None)

Option A: Replace special assessments with franchise fees

- Using flat fee as presented (modeled after 3.5% electric and 5% gas percentage)

Option C: Replace special assessments with franchise fees plus added fees for climate goals

- Increase in franchise fee to generate \$100,000 extra.
 - Using flat fee as presented (modeled after 4.0% electric and 5% gas percentage)
 - Funds go to Climate Action Plan implementation or related Carbon Reduction Strategies

Option B: Replace special assessments with franchise fees plus added fees for increasing streets and pedestrian trail improvements

- Increase in franchise fee to generate \$100,000 extra.
 - Using flat fee as presented (modeled after 4.0% electric and 5% gas percentage)
 - Funds go to toward expanding street reconstructions, pothole filling, sealcoating, trails and sidewalks, etc.

Other: Do not pursue franchise fees and maintain assessment practice



Assessments vs Franchise Fee: Impact on Residential Users

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

OPTION A

- Annual Average Franchise Fee Residential

Gas \$27.00

Electric \$34.50

Total \$61.50

- Average Residential Special Assessment
\$6,800 (can be paid in entirety)
\$680 per year (10-years repayment option)

OPTION B OR C WITH ADDITIONAL \$100,000

- Annual Average Franchise Fee Residential

Gas \$27.00

Electric \$39.00

Total \$66.00

- 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.

OPTION A

- Annual Average Franchise Fee Residential

Gas \$150.00

Electric \$ 42.00

Total \$192.00

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

OPTION B OR C WITH ADDITIONAL \$100,000

- Annual Average Franchise Fee Residential

Gas \$150.00

Electric \$ 48.00

Total \$198.00

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

Option 1. 3.5% Electric & 5.0% Gas Model

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	\$2.75
Small Commercial & Industrial: Non-Demand	\$3.50
Small Commercial & Industrial: Demand	\$28.50
Large Commercial & Industrial	\$867.00
Public Street Lighting	\$0.00
Municipal Pumping Demand	\$0.00
Municipal Pumping Non-Demand	\$0.00

Gas SCHEDULE A

Franchise Fee Rates:

Gas Utility

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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

Option 1. 4.0% Electric & 5.0% Gas Model

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

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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



Tentative Timelines

October 20 th	Review Ordinance Call for Public Hearing
October 21 st – Nov. 17 th	Public Information on Ordinance Consideration
November 10 th	Public Hearing First Reading Ordinance
November 17 th	Second Reading of Ordinance
November 18 th	Notice to Xcel (90-day implementation)
2021 March	Revenue Commencement

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