

Electric and Gas Utility Franchise Fees

Prepared for

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I. Background

The City of Northfield requested Baker Tilly assist the City conduct a preliminary evaluation on the use of utility franchise fees as a replacement to property assessments to fund the City's street and utility repair and replacement projects. Street and utility projects are currently paid for with a combination of property tax levies, assessments, state aid and utility revenues. Those sources are used to pay for both construction costs and debt service (principal and interest) on municipal bonds.

This report outlines a city's ability to impose franchise fees, outlines the implementation options, provides examples of existing franchise fees in the state, estimates potential annual revenue and lastly, offers an alternative to general obligation improvement bonds paid for with special assessments.

II. Franchise Fee Information

Under Minnesota Statute (216B.36), cities can impose a fee on utility companies that use the public rights-of-way to deliver service. Per state law, a city may impose a franchise fee on a gas or electric utility for the use of the public right-of-way by adopting an ordinance that establishes fee terms, including structure, collection, schedule and effective dates. There is no cap on the fees and the revenues can be used for any public purpose. Many communities opt to dedicate the franchise fees for specific purposes, such as infrastructure management, road maintenance, sidewalks or trails.

Advantages of franchise fees include the following:

- 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 of franchise fees include the following:

- Everyone pays the franchise fee when they pay their gas and electric bills.
- A flat-rate franchise fee would be the same for all residential homes, regardless of the value of their property or utility usage.
- A flat rate franchise fee can be burdensome on households with lower incomes because they pay the fee regardless of utility usage.
- Like property taxes, franchise fees may make a city less desirable than surrounding communities that do not impose franchise fees.
- Depending on various circumstances (type of business, utility usage, amount of fee, etc.), franchise fees can be a financial hardship on commercial businesses.

III. Implementation Options

Cities have the option to structure the franchise fee four ways:

1. Flat fee per utility account (e.g. \$4 per month)
2. Percentage of consumption used by each utility account (e.g. \$0.0050 per KWh for electric and \$0.040 per therm for gas)
3. Percent of revenue (e.g. 3.0% of monthly bill)
4. Hybrid of flat fee and percent of usage or revenue (e.g. flat fee for residential and percentage of usage or revenue for commercial and industrial)

These fees can vary between residential customers and various commercial customer types. For example, cities can impose a \$4 flat fee on residential customers and an \$8 flat fee on commercial and industrial customers who are larger users. By statute, the utility companies pass the franchise fees on to their customers. Utility customers in the designated franchise fee area would see a line item on their bills titled "City Franchise Fee." Utility companies collect the franchise fees and remit the money to the City on a quarterly basis.

The primary implementation considerations are outlined below:

- *Xcel Energy's policy is to only implement a flat fee structure. The City would have to negotiate with Xcel Energy if it desires to implement an alternative structure.*
- The flat rate fee structure provides a stable revenue stream, rather than one based on consumption, which would vary each month.
- If customers are charged the same flat fee across all customer classes, smaller utility users (e.g., most residential and small business customers) pay a higher fee as a percentage of their total bill compared to large consumption users.
- An increasing flat fee for the various customer classes mitigates the inequities described above.
- A percentage fee provides a more equitable fee across all users as it ensures the largest users pay a proportionally higher fee.
- A percentage fee can have a significant financial impact on certain commercial and industrial users that may also be one of the largest taxpayers and employers.

IV. Sample of Existing Franchise Fees

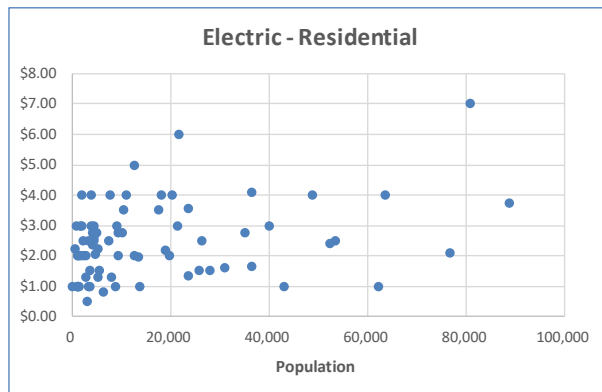
The following tables and charts provide information on existing electric and gas franchise fees *that implement a flat rate* by customer class. This list does not include all franchise fees imposed by cities throughout the state.

The full list of cities included in the summary tables below are included in **Appendix A**. Appendix A also provides the fees for cities that impose franchise fees based on a percent of revenue or percent of usage.

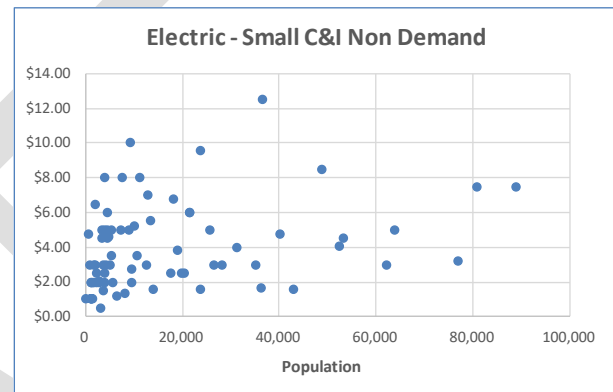
Electric Franchise Fee Summary Table

Electric Fees	Residential	Small C&I Non-Demand	Small C&I Demand	Large C&I	Public Street Lighting
Number of Cities*	78	78	78	77	35
Mean	\$2.43	\$3.89	\$15.05	\$76.03	\$6.95
Median	\$2.30	\$3.00	\$11.95	\$50.00	\$4.00
Minimum	\$0.50	\$0.50	\$0.50	\$0.50	\$1.00
Maximum	\$7.00	\$12.50	\$45.00	\$335.00	\$25.00
*69 cities served by Xcel Energy, 7 by Minnesota Power and 3 by Ottertail Power.					

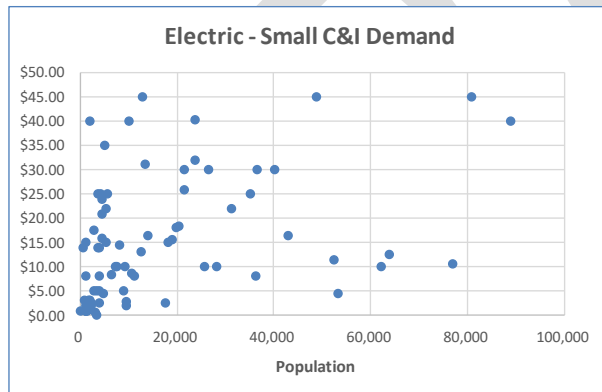
Electric Franchise Fee Scatter Plot Graphs



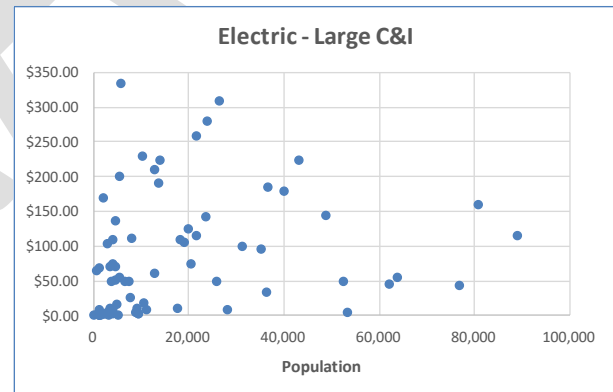
N= 78
Mean \$2.43
Median \$2.30
Minimum \$0.50
Maximum \$7.00



N= 78
Mean \$3.89
Median \$3.00
Minimum \$0.50
Maximum \$12.50



N= 78
Mean \$15.19
Median \$12.50
Minimum \$0.50
Maximum \$45.00



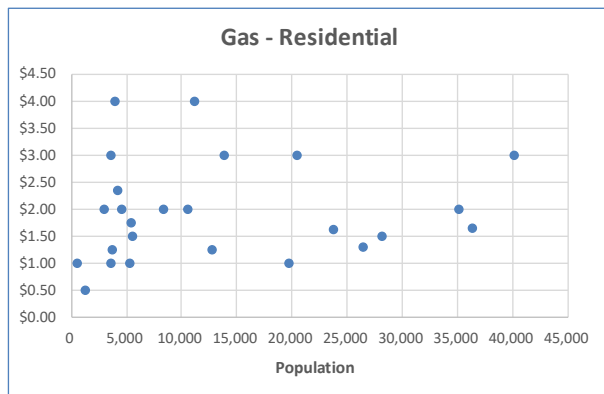
N= 78
Mean \$76.03
Median \$50.00
Minimum \$0.50
Maximum \$335.00

Gas Franchise Fee Summary Table

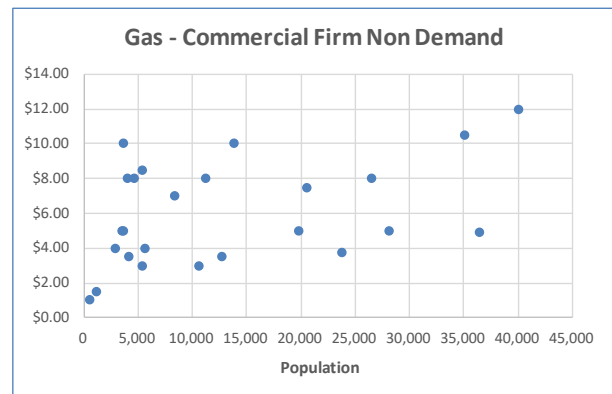
Gas Fees	Residential	Commercial Non-Demand	Commercial Demand	Small Interruptible	Med & Large Interruptible
Number of Cities*	25	25	22	22	21
Mean	\$1.95	\$5.99	\$31.48	\$35.79	\$63.51
Median	\$1.75	\$5.00	\$20.00	\$16.75	\$24.75
Minimum	\$0.50	\$1.00	\$1.00	\$1.00	\$1.00
Maximum	\$4.00	\$12.00	\$112.00	\$100.00	\$335.00

*All cities served by Xcel Energy.

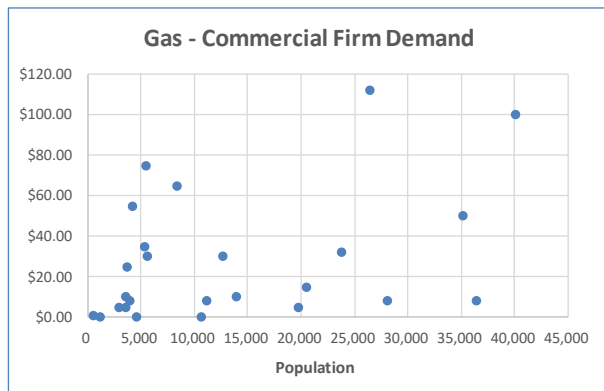
Gas Franchise Fee Scatter Plot Graphs



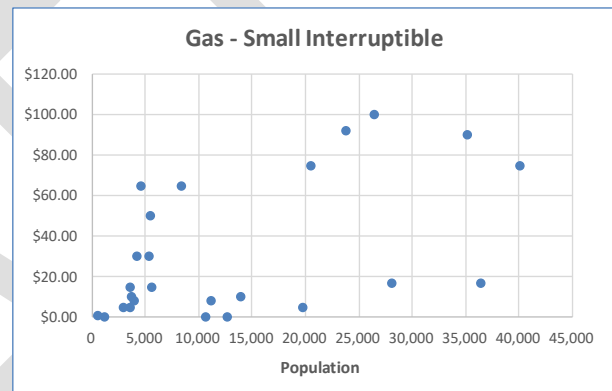
N= 25
 Mean \$1.95
 Median \$1.75
 Minimum \$0.50
 Maximum \$4.00



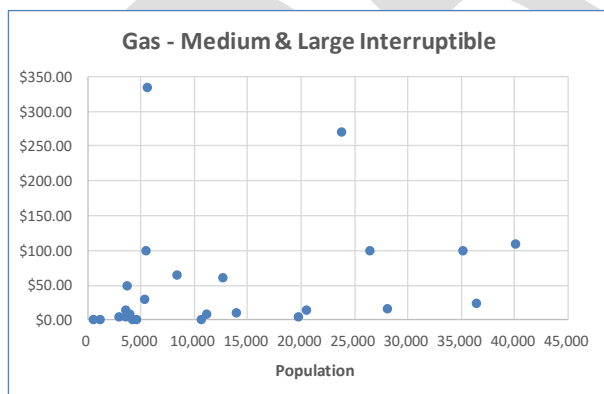
N= 25
 Mean \$5.99
 Median \$5.00
 Minimum \$1.00
 Maximum \$12.00



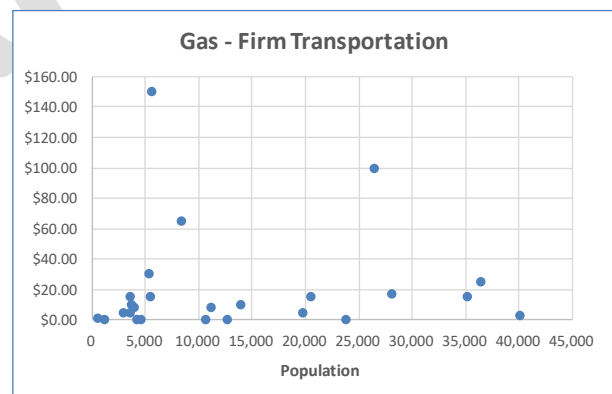
N= 25
 Mean \$31.48
 Median \$20.00
 Minimum \$1.00
 Maximum \$112.00



N= 25
 Mean \$35.79
 Median \$16.75
 Minimum \$1.00
 Maximum \$100.00



N= 25
 Mean \$63.51
 Median \$24.75
 Minimum \$1.00
 Maximum \$335.00



N= 25
 Mean \$26.38
 Median \$15.00
 Minimum \$1.00
 Maximum \$150.00

V. Potential Franchise Fee Revenue

The tables below estimate the potential annual franchise fee revenue based on a monthly flat fee. The worksheets were provided by Xcel and allow the City to estimate franchise fee revenue by inputting a monthly flat fee. In order to fully understand the estimates, further explanation is required:

1. Premise – Xcel Energy bills their customers by “premise”. A customer may have one or multiple premises. Additionally, there may be more than one meter per premise.
2. Xcel 15/15 Rule – For privacy reasons, Xcel Energy will not release usage information if there are less than 15 customers within a customer class or if a customer accounts for 15 percent of the total usage in a particular customer class. In the tables below, an asterisk denotes the customer classes affected by this rule. For example, in the electric table, one or more customers in the Large C&I customer class account for more than 15% of the usage. In the gas table, there are less than 15 customers in the Commercial Firm – Demand, Small Interruptible and Medium and Large Interruptible customer classes. **As a result, the estimated annual franchise fee revenues do not include these customer/premises.**

Estimated Electric Franchise Fee Revenue

SECTION NOT COMPLETE:

THIS SECTION IS IN DEVELOPMENT FOR PART 2 OF 2 PRESENTATION. THE CONSULTANT AND STAFF ARE WORKING ON ESTIMATES OF REVENUE AND RELATED IMPACTS.

VI. G.O. Improvement Bonds vs General Obligation Street Reconstruction Plan Bonds

One of the primary considerations for exploring franchise fees is to move away from the special assessment process, which is time-consuming and costly. Like many cities, the City has utilized the authority granted in state statutes to issue general obligation improvement bonds as long as special assessments account for at least 20 percent of the overall project cost. This bonding authority allows cities to issue general obligations bonds without a referendum or a petition requiring a referendum (“reverse referendum”).

However, state statute allows cities to issue general obligation bonds for street and utility projects under another authority called General Obligation Street Reconstruction Plan Bonds. The authorized uses under this authority are very similar to General Obligation Improvement Bonds and most often allows cities to perform necessary repairs. Most importantly, bonds issued under the street reconstruction plan authority do not require that assessments account for at least 20% of the overall project cost. The table below compares the authorized uses for each bonding authority.

Authorized Uses	G.O. Improvement Bonds	G.O. Street Reconstruction Plan 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
Council Approval	Majority	Two-Thirds
Subject to Reverse Referendum	No	Yes
Number of Public Hearings	2	1
Subject to Debt Limit	No	Yes
Timing of Process	Min 6 months	Approx 3 mo
Cost of Process	1% of constr.	None

*Cities can repair and replace utilities under the Street Reconstruction Plan authority if it is in conjunction with a street project.

A comparison of the bond issue process is shown below. As the City has experienced, the special assessment process oftentimes involves multiple steps as well as additional hearings and discussions to consider specific issues and concerns by residences. A comprehensive outline of the steps involved in the special assessment process is provided in Appendix B.

G.O. Improvement Bonds Process - Number of Weeks																									
Task	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Draft Feasibility Report																									
Send Notification Letters																									
Public Improvement Hearings																									
Bond Issuance Process																									
Send Assessment Letters																									
Assessment Hearing																									

G.O. Street Reconstruction Plan Bonds Process - Number of Weeks																									
Task	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Draft Street Recon Plan																									
Public Hearing Process																									
30-Day Reverse Referendum																									
Bond Issuance Process																									

VII. Franchise Fee Implementation Timeline

A tentative timeline to implement an electric and gas franchise fee is shown below.

Activity	Timeline
City determines the amount of franchise fees.	June-July 2019
City negotiates the fees with Xcel Energy	July 2019
City updates existing franchise fee agreements to include fees.	July – August 2019
City passes Ordinance updating franchise agreements.	August 2019
City sends approved ordinance to Xcel.	September 2019
Xcel implements franchise fee into payment systems.	October – December 2019

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Appendix A

Example City Franchise Fees in Minnesota

Appendix B

Special Assessment Process

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