

## MEMORANDUM

TO: Mr. Ben Martig, City Administrator  
Ms. Brenda Angelstad, Finance Director

FROM: Doug Green, Director

DATE: November 2, 2020

SUBJECT: Franchise Fee Refund Program

### Purpose and Background

The purpose of this memorandum is to provide policy considerations and financial estimates for a potential franchise fee refund program. The City is in the process of replacing the revenue collected from special assessments with electric and gas franchise fees. The City has determined franchise fees are a more efficient and effective way to pay for street improvement projects within the City.

Special assessments are imposed for a period of 10 years and the revenue is legally pledged to the repayment of specific outstanding general obligation bond issues; therefore, special assessments must remain in place until the bond issue has matured or been paid in full. As a result, for a period, certain properties will be paying both special assessments and franchise fees. In order to lessen the burden to these property owners, the City Council is considering options to refund property owners the franchise fee paid during the time assessments are outstanding.

### Special Assessments: The Numbers

Depending on the area of the street improvement project, the number and type of properties assessed varies each year. The table below shows the total number of residential, commercial and industrial properties assessed and the number that remain outstanding.

Original Assessment Role	2010	2011	2013	2014	2015	2016	2017	2018	2019	2020 (1)	Total
<b>Number of Assessed Properties</b>											
Residential	77	207	113	169	64	73	67	46	175	212	1,203
Commercial	0	7	11	9	8	0	22	41	6	22	126
Industrial	0	3	0	22	10	0	0	0	8	0	43
<b>Total Properties Assessed</b>	<b>77</b>	<b>217</b>	<b>124</b>	<b>200</b>	<b>82</b>	<b>73</b>	<b>89</b>	<b>87</b>	<b>189</b>	<b>234</b>	<b>1,372</b>
<b>Number of Outstanding Assessments</b>											
Residential	36	87	39	62	44	25	35	14	47	125	514
Commercial	0	3	3	5	2	0	16	16	9	6	60
Industrial	0	0	0	6	6	0	0	0	8	0	20
<b>Total Properties Outstanding</b>	<b>36</b>	<b>90</b>	<b>42</b>	<b>73</b>	<b>52</b>	<b>25</b>	<b>51</b>	<b>30</b>	<b>64</b>	<b>131</b>	<b>594</b>
<b>Outstanding Properties by Year</b>	<b>558</b>	<b>468</b>	<b>426</b>	<b>353</b>	<b>301</b>	<b>276</b>	<b>225</b>	<b>195</b>	<b>131</b>	<b>0</b>	

Note 1: Includes 53 high-density residential PID's.

**Program and Policy Considerations**

Below are various policy and program implementation options to consider:

Topic	Considerations
<b>Eligible Properties</b>	<ul style="list-style-type: none"> <li>What types of properties are eligible? The majority of outstanding assessments are single-family residential; however, between 10%-15% are commercial and industrial properties. In addition, the 2020 assessment roll included high-density residential and educational institutional properties. (The educational institutional properties are not included in the previous table.)</li> </ul>
<b>Assessment Status</b>	<ul style="list-style-type: none"> <li>Approximately 56% of the properties that were originally assessed have paid their assessment early. Are property owners who paid their assessment early eligible?</li> <li>When properties are sold, assessments are sometimes paid off by the seller. It is not known what percent of properties fall into this category.</li> </ul>
<b>Administration</b>	Depending on the scope of the program, the time and expense to administer the program could be significant.

**Financial Projections**

The cost of a program is highly variable and depends on eligibility criteria and the level of participation by eligible property owners. For reference purposes, the monthly franchise fee for each customer class being proposed is shown below

Electric Customer Classes	Approx # of Premises	Monthly Fee
Residential	6,532	\$3.25
Small C&I: Non-Demand	486	\$4.00
Small C&I: Demand	214	\$32.50
Large C&I	49	\$990.00
<b>Estimated Annual Revenue</b>	<b>7,281</b>	<b>\$960,000</b>

Gas Customer Classes	Approx # of Premises	Monthly Fee
Residential	5,237	\$2.25
Commercial Firm: Non-Demand	510	\$12.50
Commercial Firm: Demand	1	\$485.00
Small Interruptible	3	\$99.50
Medium & Large Interruptible	2	\$1,880.00
<b>Estimated Annual Revenue</b>	<b>5,753</b>	<b>\$298,000</b>

The initial estimates are based on the following assumptions:

- All residential, commercial and industrial properties that were originally assessed are eligible.
- It is not known what customer class the commercial and industrial properties fall into for the purposes of the franchise fee.
- For projection purposes, it is assumed that all commercial and industrial properties are refunded at the Small C&I: Demand (electric) and Commercial Firm: Non-Demand (gas) levels.
- 100 percent of the properties eligible for the program participate.

ALL RESIDENTIAL ASSESSMENTS					ALL COMMERCIAL AND INDUSTRIAL ASSESSMENTS				
	Total Properties	Total Electric	Total Gas	Total		Total Properties	Total Electric	Total Gas	Total
	1,203	\$3.25	\$2.25			169	\$4.00	\$12.50	
Year					Year				
2021	1,203	\$ 46,917	\$ 32,481	\$ <b>79,398</b>	2021	169	\$ 8,112	\$ 25,350	\$ <b>33,462</b>
2022	1105	\$ 43,107	\$ 29,843	\$ <b>72,950</b>	2022	164	\$ 7,872	\$ 24,600	\$ <b>32,472</b>
2023	933	\$ 36,406	\$ 25,204	\$ <b>61,610</b>	2023	159	\$ 7,632	\$ 23,850	\$ <b>31,482</b>
2024	806	\$ 31,434	\$ 21,762	\$ <b>53,196</b>	2024	148	\$ 7,104	\$ 22,200	\$ <b>29,304</b>
2025	637	\$ 24,843	\$ 17,199	\$ <b>42,042</b>	2025	117	\$ 5,616	\$ 17,550	\$ <b>23,166</b>
2026	573	\$ 22,347	\$ 15,471	\$ <b>37,818</b>	2026	99	\$ 4,752	\$ 14,850	\$ <b>19,602</b>
2027	500	\$ 19,500	\$ 13,500	\$ <b>33,000</b>	2027	99	\$ 4,752	\$ 14,850	\$ <b>19,602</b>
2028	433	\$ 16,887	\$ 11,691	\$ <b>28,578</b>	2028	77	\$ 3,696	\$ 11,550	\$ <b>15,246</b>
2029	387	\$ 15,093	\$ 10,449	\$ <b>25,542</b>	2029	36	\$ 1,728	\$ 5,400	\$ <b>7,128</b>
2030	212	\$ 8,268	\$ 5,724	\$ <b>13,992</b>	2030	22	\$ 1,056	\$ 3,300	\$ <b>4,356</b>

Based on these assumptions, the first-year cost of the program would be approximately \$110,000, approximately 10% of the estimated franchise fee revenue, and decline approximately \$10,000 each year. Additionally, the cost to administer the program would need to be included in the estimates.

**Conclusion**

Assuming the City Council chooses to implement a refund program, numerous policy decisions remain, including the following: eligible property classes; eligibility based on assessment status; program implementation and administration. The potential cost of a program is highly variable and will be primarily based on the participation rate of property owners.