



City of Northfield, Minnesota City Council Updates

Franchise Fee Review

June 9, 2020



Goals and Outcomes for Today

- A. Refresher on Purpose of Study and Franchise Fees
- B. Updated Financial Information
- C. Tentative Schedule of Events
- D. Receive Feedback: Questions/Discussion



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

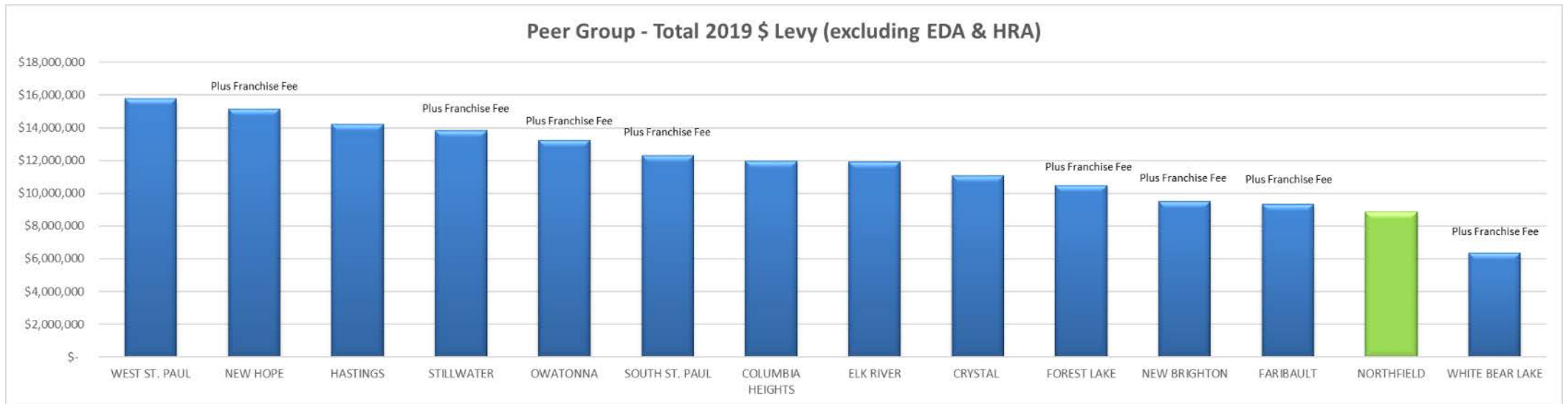
- Mix of franchise fee revenue uses.
- Majority still assess for improvement projects.
- Elk River eliminated assessments in 2013.
- Created a franchise fee rebate program to reimburse property owners with outstanding assessments.

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 City



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

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.			

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.



Comparison of Process & Cost Required to Issue Bonds

- Improvement process is twice as long as Street Recon process.
 - Cost of Street Reconstruction is significantly more:
 - Estimated staff cost \$
 - Appraisal cost (2020) \$
- * Could be higher in future as we anticipate more properties impacted in the CIP.

Bonding Options

- City has historically used General Obligation Improvement Bonds (Requires 20% of total project paid for with assessments)
- G.O. Street Reconstruction Plan Bonds provides another authority to finance street and utility improvements (can use property tax levy/franchise fees/or combination)
- General Obligation Tax Abatement Bonds are a third option. Can be used to finance trails and sidewalks. Process is cumbersome and adds additional costs. Potential negative impact on future economic development initiatives.
- Use of Franchise Fee revenue could allow for much more flexibility of use toward sidewalks and trails with more flexible cash mgt.

	G.O. Improvement Bonds	G.O. Street Reconstruction Plan Bonds	G.O. Abatement Bonds
Authorized Uses			
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*
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:
 - 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



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
 - Franchise fee rebate program for existing property owners paying assessments
 - Other lost revenue

Projected Franchise Fee Revenue - Electric

SCENARIO: FRANCHISE FEE AS A PERCENT OF REVENUE

SCENARIO: FRANCHISE FEE AS A PERCENT OF REVENUE							3.70%
ELECTRIC CUSTOMER CLASS	PREMISE COUNT	ESTIMATED MONTHLY FEE	ESTIMATED ANNUAL FEE	ESTIMATED ANNUAL FRANCHISE FEE REVENUE	ANNUAL XCEL ELECTRIC REVENUES	ANNUAL XCEL REVENUE PER PREMISE	PERCENT INCREASE PER PREMISE
Residential	6,527	\$3.23	\$39	\$253,341	\$6,847,047	\$1,049	3.70%
Commercial & Industrial							
Small C&I – Non-Demand	485	\$4.24	\$51	\$24,653	\$666,287	\$1,374	3.70%
Small C&I – Demand	214	\$33.13	\$398	\$85,090	\$2,299,741	\$10,746	3.70%
Large C&I	47	\$350.19	\$4,202	\$197,506	\$5,337,995	\$113,574	3.70%
Large C&I*	20	\$1,342.52	\$16,110	\$322,204	\$8,708,222	\$435,411	3.70%
Total Commercial & Industrial	766			\$629,453	\$17,012,245	\$22,209	
Public							
Public Street Lighting	11	\$64.16	\$770	\$8,468	\$228,878	\$20,807	3.70%
Municipal Pumping – Non-Demand	1	\$5.96	\$72	\$72	\$1,933	\$1,933	3.70%
Total Public	12			\$8,540	\$230,810	\$19,234	
Total	7,305			\$891,334	\$24,090,102	\$3,298	

Projected Franchise Fee Revenue – Gas & Total

SCENARIO: FRANCHISE FEE AS A PERCENT OF REVENUE

3.70%

GAS CUSTOMER CLASS	CUSTOMER COUNT	ESTIMATED MONTHLY FEE	ESTIMATED ANNUAL FEE	ESTIMATED ANNUAL FRANCHISE FEE REVENUE	ANNUAL XCEL GAS REVENUES	ANNUAL XCEL REVENUE PER PREMISE	PERCENT INCREASE PER PREMISE
Residential	5,265	\$2.01	\$24	\$126,697	\$3,424,234	\$650	3.70%
Commercial Firm – Non-Demand	510	\$11.20	\$134	\$68,517	\$1,851,817	\$3,631	3.70%
Commercial Firm – Demand*	10	\$134.89	\$1,619	\$16,187	\$437,489	\$43,749	3.70%
Small Interruptible*	1	\$363.24	\$4,359	\$4,359	\$117,809	\$117,809	3.70%
Medium & Large Interruptible*	1	\$6,369.97	\$76,440	\$76,440	\$2,065,935	\$2,065,935	3.70%
Total	5,787			\$292,199	\$7,897,284	\$1,365	

*Affected by 15/15 Rule

Total Electric and Gas Annual Revenue

\$1,183,533 \$31,987,386

3.70%



Assessments vs Franchise Fee: Impact on Residential Users

- Franchise fee approximately 10% of annual assessment cost, but ongoing.
- Annual Average Franchise Fee Residential

Gas	\$24
<u>Electric</u>	<u>\$39</u>
Total	\$63
- Average Residential Special Assessment
 - \$6,800 (can be paid in entirety)
 - \$680 per year (10-years repayment option)



Options & Policy Direction

Option 1: Replace special assessments with franchise fees

- Percentage Based Fee with 3.7% Rate

Option 2: Replace special assessments with franchise fees

- Option 2a. Percentage Based Fee with 4.0% Rate (working on illustration)
 - Accelerate CIP program (ex: streets/trails/sidewalk gaps)
 - Alternative Revenue for Other (ex: Program Mgr, Climate, Parks, Tax Reduction)
- Option 2b. Percentage Based Fee with 5.0% Rate (working on illustration)
 - Accelerate CIP program (ex: streets/trails/sidewalk gaps)
 - Alternative Revenue for Other (ex: Program Mgr, Climate, Parks, Tax Reduction)
 - Have the gas fee at 5% and keep the electric rate at adjusted lower rate related to climate action plan goals to reduce natural gas usage.

Option 3: Adopt franchise fees as additional revenue source to CIP and maintain assessments

- Option 3a: Accelerate CIP program.
- Option 3b: Use franchise fees on annual basis to pay for mill & overlay projects; reduces bonding amount; reduces number of properties subject to assessments.

Option 4: Do not pursue franchise fees and maintain assessment practice

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

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Installing New Streets	●		●
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Improving Sidewalks	●		●
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Tentative Timelines

1. May 8, 21 Paired Council Updates on Franchise Fees
2. May 25th – May 29th Meetings with Colleges, NH+C, NPS, Post Brands
3. June 9th Council Worksession
4. June 10- July Public Information & Feedback
5. July 14 Council Worksession: Refine & Clarify
6. July/August Ordinance Development
7. August 2 Readings Ordinances Franchise Fee Revenue Requirement
8. September Notice to Xcel
9. October – December Xcel Implementation
10. January Revenue Commencement



Councilor Questions & Discussion