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The City of Vadnais Heights
800 East County Road E
Vadnais Heights, MN 55127

Memorandum:

TO: Mayor Gunderson and City Council Members

FROM: Kevin P. Watson, City Administrator

DATE: February 18, 2020

SUBJECT: Franchise Fee Discussion

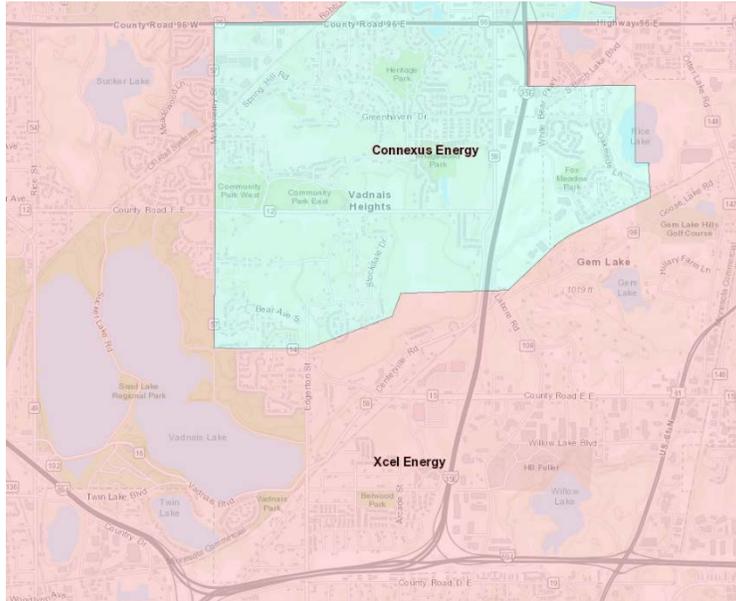
Background

In early 2018, the City Council initiated a Franchise Fee with its Gas and Electrical utilities in our community. It was the first of its kind in our community. This came on the heels of a robust discussion with the City Council and the Community (VHEDC and WB Chamber) that started in 2016. The fee was sold on a commitment to invest in our street infrastructure. The franchise fee collected paid for the 2019 Street project. Franchise fees are an option afforded to municipalities by Minnesota State Statute 216B.36. Below is the existing fee structure and the categories are the utility provider's categories.

Customer Classification	Existing Fee
Electric	Adopted May 2018
Residential	\$ 2.00
Small C&I: Non-Demand	\$ 3.00
Small C&I: Demand	\$13.00
Large C&I	\$60.00
Total Annual Collection	\$144,372.00
Xcel Energy Electric	
Connexus Energy Amounts	\$ 62,616.00
Customer Classification	Existing Fee
Gas	Adopted May 2018
Residential	\$ 1.25
Commercial Firm: Non-Demand	\$ 3.50
Commercial Firm: Demand	\$ 30.00
Small Interruptible	\$ 0.00
Medium & Large Interruptible	\$ 60.00
Firm Transportation	\$ 0.00
Interruptible Transportation	\$ 0.00
Total Annual Collection	\$ 93,831.00
Gas Xcel Energy	
GRAND TOTAL	Existing Fee Schedules \$300,819.00

Mayor Gunderson and City Council Members
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During the 2020 budget process, there was significant discussion about future street repair and how we envision paying for those costs. Increasing the franchise fee became the option City Council agreed was viable solution. Staff then reached out to our government liaisons at Xcel and Connexus. Both entities were tremendous partners through the first round of franchise fee discussions and helped provide data to the City. See below for a map on their districts in our community. Xcel provides Gas for our entire community.



In my discussions with Xcel, they would like to know how much we are looking to collect and I directed them to seek somewhere between \$600-700k. Connexus has allowed Xcel to do this work on their behalf. From there, Xcel backed into the proposed rates (see attached). Ideally, they would like to have the proportion of their company revenue match (as close as possible) the revenue received from franchise fees. Meaning they don't want one category paying a larger portion of franchise fee. Candidly, our first fee disproportionately had residents paying a greater amount than businesses. So this leads to the proposal attached. Additionally, they have indicated that they believe we have maximized the fees we could collect from residential.

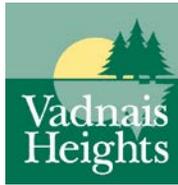
This is a unique taxing tool for cities to take advantage of and it's a way to diversify our revenue stream. Attached is an example of the flyer I used to describe the proposed franchise fee program and I'd plan to make something similar for the new education campaign. It would be my hope, with City Council approval, to reach out to the White Bear Chamber and VHEDC in the coming months to explain our new plan and talk about our ongoing street maintenance needs. If all goes well, I'd plan to bring to the City Council for approval in late Spring/early Summer.

Colette Jurek, with Xcel, will be in attendance to explain their proposal.

Attachment: -2017 Franchise Fee Flyer
-Xcel/Connexus Fee Proposal
-Xcel/Connexus Fee Summary

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Proposed Franchise Fee Fact Sheet

Challenge: The City wishes to identify a long-term funding solution to continue with annual street repair.

History: City established in 1957 but greatest growth occurred in 1980's and 1990's, 30-40 years ago.

Current Practice: City growth has slowed and the City infrastructure has aged. The City had to identify other resources to fund City Streets. City streets were traditionally paid for by tax levy, but City Council soon began to utilize savings and pooled TIF resources in an effort to maintain lower levy increases over the years. With other capital projects spending down savings, the City was left with the pooled TIF funding source or raising the levy significantly. Two years ago, the City levied \$50,000 for City streets, but not for the upcoming 2018 budget.

City Street Program & Costs: Street repair needs and costs continue to rise. City has 36 miles of streets with a majority of streets constructed in 1980's and 1990's. With expected life of 30 years, City should be repairing about 1.2 miles per year AT A MINIMUM. Current repair rate is 75% of ideal rate of repair.

<u>Year</u>	<u>Assessed Cost</u>	<u>City Cost</u>	<u>Total Project Cost</u>	<u>Length Improved</u>
2011	\$96,000	\$95,000	\$191,000	3631 feet=0.68 miles
2012	\$145,000	\$180,000	\$325,000	5000 feet=0.94 miles
2013	\$175,800	\$224,000	\$399,800	6250 feet=1.18 miles
2014	\$221,500	\$322,700	\$544,200	5500 feet=1.04 miles
2015	\$260,000	\$335,000	\$595,000	3100 feet=0.59 miles
2016	\$250,000	\$230,000	\$480,000	4330 feet=0.82 miles
2017	\$283,000	\$352,800	\$635,800	5117 feet=0.97 miles



Before



After

Pooled TIF: Pooled TIF dollars should be invested in projects to revitalize our community. Some would argue that maintaining city streets helps to maintain the vitality of the community. Others believe these dollars could have greater impact on the tax base if they assisted the business community in reinvesting in our City or attracting new businesses to Vadnais Heights. Currently there is between \$2-3M left in this fund balance. City staff estimates between 5-6 years are left before these dollars are exhausted, if spent at current rate.

What is a Franchise Fee: Under Minnesota Statute (216B.36), cities can impose a fee on utility companies that use the public rights-of-way to deliver service. The City can determine the amount, structure and use of collected franchise fees. Generally, they are structured in two ways: a flat rate per utility account OR a percentage of consumption used by each utility account. The City is recommending the “flat rate” fee, rather than one based on consumption – which would vary each month. Xcel and Connexus have not opposed our effort to implement this fee as they consider these fees a local government decision.

Why Franchise Fees: Franchise fees help cities cover increasing costs of providing important services – such as maintaining aging facilities and infrastructure – without raising property taxes. These fees are also more equally distributed than property taxes, and would be paid by ALL utility customers – even those who do not currently pay property taxes. These fees will be dedicated to streets maintenance and segregated into a separate fund.

Proposed fee and Customer breakdown:

Customer Class (Electric)	Proposed Fee (per month)	Connexus* Breakdown	Xcel Breakdown
Residential	\$2	95%	86%
Small C&I: Non-Demand	\$3	5% for all small	12% for all small
Small C&I: Demand	\$13		
Large C&I	\$60	0%	1%
Government	\$0		
Street Lighting	\$0		
Irrigation	\$0		

*Reminder Connexus only provides electric to Vadnais Heights. Xcel provides both electric and gas within city limits.

Customer Class (Gas)	Proposed Fee (per month)	Xcel Breakdown
Residential	\$1.25	93%
Commercial Firm: Non-Demand	\$3.50	7% for all Commercial
Commercial Firm: Demand	\$30	
Small Interruptible	\$0	
Medium & Large Interruptible	\$60	
Firm Transportation	\$0	
Interruptible Transportation	\$0	

Proposed rate would accrue about \$296,826, approximately our current street funding allotment.

Proportionate: Xcel and Connexus request businesses and residents pay the same proportion of their overall bill. The City will oblige this request. Exhibit below details that percent revenue which is an effective comparison for the portion of the overall bill.

	Connexus Electric	Xcel Electric	Xcel Gas
Percentage of Revenue	1.6%	1.6%	2.3%

Benefits of Franchise Fees: When comparing franchise fees as a revenue source to property taxes, some advantages include:

- Cover a wider base than property taxes
- Will diversify the City’s revenue sources
- Reliable sources of revenue to budget for.
- A flat-rate fee is easy to administer and eliminates the ups and downs of summer/winter extremes.
- The City Council will be considering a policy amendment to current assessment policy that would reduce the commercial obligation from 100% paid by property owners, to 50% paid by property owners and the City.

Other like cities have franchise fees: Many cities in the State of Minnesota have franchise fees. Xcel has over 70 cities with some type of franchise fees. Connexus has 11 franchise fees with cities in their service area. Some near us include White Bear Lake, Shoreview, Little Canada, Maplewood, and New Brighton.

City of Vadnais Heights, MN
Franchise Fee Estimates
December 2019

The following information is being provided to assist your community in discussions regarding franchise fees. **Given market sensitivity to electric and gas rates, we strongly encourage the city to reach out to residents and businesses regarding franchise fees.**

1. Information based on a one-year average, ending September 2019.
2. Fee amounts are rounded to the nearest \$0.25 and **applied as a flat fee.**
3. The table below shows the fee that would be reflected on a customer's monthly bill.
4. Franchise fees must be applied equally by all energy providers.
5. Franchise fees are collected in lieu of any other permit fees.
6. Xcel Energy retains no portion of a franchise fee.
7. Fee collection begins within 90 days of receipt of documentation supporting city council action to implement fees.

Dated: December 9, 2019

Colette Jurek

Manager, Community Relations & Economic Development

Xcel Energy

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FRANCHISE FEES

Customer Classification	Existing Fee	Proposed Fee Schedule
Electric	Adopted May 2018	
Residential	\$ 2.00	\$ 4.00
Small C&I: Non-Demand	\$ 3.00	\$ 5.00
Small C&I: Demand	\$13.00	\$ 35.00
Large C&I	\$60.00	\$150.00
Total Annual Collection	\$144,372.00	\$316,812.00
Xcel Energy Electric		
Connexus Energy Amounts	\$ 62,616.00	\$130,680.00
Customer Classification	Existing Fee	Proposed Fee Schedule
Gas	Adopted May 2018	
Residential	\$ 1.25	\$ 2.00
Commercial Firm: Non-Demand	\$ 3.50	\$ 12.00
Commercial Firm: Demand	\$ 30.00	\$ 50.00
Small Interruptible	\$ 0.00	\$ 0.00
Medium & Large Interruptible	\$ 60.00	\$ 75.00
Firm Transportation	\$ 0.00	\$ 0.00
Interruptible Transportation	\$ 0.00	\$ 0.00
Total Annual Collection	\$ 93,831.00	\$179,340.00
Gas Xcel Energy		
GRAND TOTAL	Existing Fee Schedules \$300,819.00	Proposed Fee Schedule \$626,832.00

Vadnais Heights: Franchise Fee Collection

Dated: 12/9/19

City Requesting Fee Increase Within Range of \$600-700,000.00

Current Fee Schedule		
Xcel Energy – Electric	1.50%	\$144,372.00
Xcel Energy – Gas	1.81%	\$ 93,831.00
Total (XE only)		\$238,203.00
Connexus Energy		\$ 62,616.00
Combined Total		\$300,819.00

Increased Fee Scenario		
Xcel Energy – Electric	3.3%	\$316,812.00
Xcel Energy – Gas	3.5%	\$179,340.00
Total (XE only)		\$496,152.00
Connexus Energy		\$130,680.00
Combined Total		\$626,832.00

Electric Fee Scenario #1

Customer Classification	Existing	Proposed	Usage Explanation
Residential	\$2.00	\$4.00	
Small C&I: Non-Demand	\$3.00	\$5.00	Less than 25 KW per month Example: retail/office building
Small C&I: Demand	\$13.00	\$35.00	25 KW or greater per month Example: restaurant
Large C&I	\$60.00	\$150.00	1,000 KW or greater per month Example: manufacturer