



Franchise Fee Fact Sheet

Challenge

The City wishes to make an amendment to the long-term funding solution, franchise fee, which was implemented in 2018 and is used to fund annual street repair projects.

History

The City was established in 1957, but greatest growth occurred in 1980's and 1990's, 30-40 years ago. In 2017, the City utilized savings and pooled TIF resources in an effort to maintain lower levy increases. In 2018, the City implemented a flat fee Franchise Fee.

Current Practice

City growth has slowed and the City infrastructure continues to age. City streets were traditionally paid for by a tax levy. With other capital projects spending down savings, the City was left with the pooled TIF funding source or raising the levy significantly. In 2017, the City Council began to utilize savings and pooled TIF resources in an effort to maintain lower levy increases over the years. At the end of 2017, the City identified a new resource to help fund annual street repair projects, franchise fees. In 2018, the City implemented a franchise fee to fund street improvements in 2019 and 2020.

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 are dedicated to streets maintenance and segregated into a separate fund.

What is a Franchise Fee?

Franchise fees are an option afforded to municipalities by Minnesota State Statutes Section 216B.36. Under Statutes 216B.36, cities can impose a fee on utility companies that use the public rights-of-way to deliver service. A 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. In early 2018, the City Council initiated a Franchise Fee with its Gas and Electrical utilities in our community - Xcel and Connexus. 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, which we have done. The franchise fee collected paid for the 2019 Street improvement projects.

At this time, the City is considering amending the fee implemented in 2018, as shown in the chart below:

Classification: Electric	Current Fee (Adopted 2018)	2021 Fee (Adopted 2020)
Residential	\$ 2.00	\$ 4.00
Small Commercial & Industrial (C&I): Non-Demand	\$ 3.00	\$ 6.00
Small C&I: Demand	\$ 13.00	\$ 26.00
Large C&I	\$ 60.00	\$ 120.00
Annual Total Fee Collection for Xcel Energy Electric	\$ 144,372.00	\$ 288,744.00
Annual Total Fee Collection for Connexus Energy	\$ 62,616.00	\$ 124,776.00

Classification: Gas	Current Fee (Adopted 2018)	2021 Fee (Adopted 2020)
Residential	\$ 1.25	\$ 2.50
Commercial Firm: Non-Demand	\$ 3.50	\$ 7.00
Commercial Firm: Demand	\$ 30.00	\$ 60.00
Small Interruptible	\$ 0.00	\$ 0.00
Medium & Large Interruptible	\$ 60.00	\$ 120.00
Firm Transportation	\$ 0.00	\$ 0.00
Interruptible Transportation	\$ 0.00	\$ 0.00
Annual Total Fee Collection for Xcel Energy	\$ 93,831.00	\$ 187,662.00

GRAND TOTAL	Existing Collection	2021 Fee
Electric and Gas	\$ 300,819.00	\$ 601,182.00

Benefits of Franchise Fees

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

- Covers a wider base than property taxes
- Diversifies the City's revenue sources
- Reliable source of revenue to budget for
- Flat-rate fees are easy to administer and eliminates the ups and downs of summer/winter extremes.

Other Like Cities With Franchise Fees

Many cities in the State of Minnesota have franchise fees. Xcel has about 60 cities with some type of franchise fees and Connexus has 11 franchise fees with cities in their service area. Some of the Cities with franchise fees near us include: White Bear Lake, Shoreview, Little Canada, Maplewood, and New Brighton.

Some communities in a similar position as Vadnais Heights, have elected to move forward with approving an increase to their franchise fees, but defer the start of the new fee collection until the start of 2021. If Vadnais Heights was to defer the start of a new fee, the delay would obviously impact the size of the 2021 street projects, but would allow the City to move forward with the approval process.

City Street Program & Costs

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

Year	Assessed Cost	City Cost	Total Project Cost	Length Improved
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	\$ 635,000	5117 feet = 0.97 miles
2018	\$ 0	\$ 0	\$ 0	None
2019	\$ 277,000	\$ 491,000	\$ 768,000	4500 feet = 0.86 miles
*2020	\$ 553,000	\$ 1,677,000	\$2,230,000	1.70miles

*Estimates for 2020 total project cost may decrease, as it includes \$200,000 in contingencies and additional spending that may or may not occur.



Before



After