

MEMORANDUM

TO: Dave Perrault, City Administrator
FROM: Stacie Kvilvang and Dan Tienter, Ehlers
DATE: August 21, 2023
SUBJECT: Preliminary Franchise Fee Analysis for Electric and Gas Utilities

Recently, the City Council and staff expressed an interest in exploring a Franchise Fee (the “Fee”) to support capital projects and similar needs for the City of Arden Hills (the “City”). Based on recent City Council discussions and additional direction from City staff, Ehlers developed three preliminary Fee structures (Attachment A) designed to meet predetermined, annual, revenue targets: 1) \$350,000; 2) \$400,000; and 3) \$450,000. Generally, these revenue targets support projected capital expenditures and allow the City to maintain appropriate fund balances.

Pursuant to Minnesota Statutes, Section 216B.36, a municipality may require a public utility to obtain a license, permit or franchise to operate on public property. Under this statutory authority, the City may also require public utilities to operate under certain regulations or terms, including the payment of a Fee. Most often, municipalities craft these arrangements as contracts, which the City Council then adopts as an ordinance.

Generally, these franchises apply to electric and gas utility providers. The Fee itself may take different forms, most notably as 1) a percentage of revenues, 2) an amount per production unit (e.g., therm, kilowatt hour), or, most commonly, 3) a flat monthly account fee. Often municipalities prefer the flat fee as both the most transparent option for the account holder and the most predictable revenue source for City. Generally, the Fee applies to all public utility users, *including tax-exempt properties*, and the City may use the revenues for any public purpose. The public utility will pass the Fee along to ratepayers directly, usually labeled on their bill as “City Fee.”

Each scenario relies on a series of assumptions to support their respective revenue targets, most notably:

- Uses a flat monthly account Fee based on ratepayer class;
- Structures Fee amounts for about 3% to 5% more than the revenue target as coverage;
- Maintains same or similar Fees based on ratepayer class between the two utility types;
- Excludes any Fees for street lighting and municipal pumping; and
- Provides for Fees in amount similar to other metropolitan municipalities (Attachment B).

Additionally, the preliminary analysis relies upon ratepayer counts from 2014. If the City Council decides to continue the discussion, Ehlers and City staff will contact the utility provider for current ratepayer counts, update the analysis, including any direction from the City Council, and present revised estimates at a future City Council meeting or work session.

Franchise Fee Alternative Analysis
City of Arden Hills, Minnesota

Attachment A

Electric Utility: Estimated Monthly Fees by Revenue Target

| Revenue Target | Monthly Fee by Fee Class | | | | | | |
|----------------|--------------------------|----------------------------|-----------------------|-----------|------------------------|-----------------------|----------------------|
| | Residential | Small C&I, Non-Demand (ND) | Small C&I, Demand (D) | Large C&I | Public Street Lighting | Municipal Pumping, ND | Municipal Pumping, D |
| \$350,000 | \$2.61 | \$6.96 | \$26.10 | \$104.40 | \$0.00 | \$0.00 | \$0.00 |
| 400,000 | 3.00 | 8.00 | 30.00 | 120.00 | 0.00 | 0.00 | 0.00 |
| 450,000 | 3.36 | 8.96 | 33.60 | 134.40 | 0.00 | 0.00 | 0.00 |

Gas Utility: Estimated Monthly Fees by Revenue Target

| Revenue Target | Monthly Fee by Fee Class | | | | Not Applicable |
|----------------|--------------------------|--------------|--------------|--------------|----------------|
| | Residential | Commercial A | Commercial B | Commercial C | |
| \$350,000 | \$2.61 | \$6.96 | \$26.10 | \$104.40 | LVDF |
| 400,000 | 3.00 | 8.00 | 30.00 | 120.00 | \$104.40 |
| 450,000 | 3.36 | 8.96 | 33.60 | 134.40 | 120.00 |

Combined Electric and Gas Utilities: Estimated Monthly Fees by Revenue Target (1)

| Revenue Target | Monthly Fee by Fee Class | | | | | | |
|----------------|--------------------------|----------------------------|---------------------------|------------------------|------------------------|-----------------------|----------------------|
| | Residential | Small C&I, ND/Commercial A | Small C&I, D/Commercial B | Large C&I/Commercial C | Public Street Lighting | Municipal Pumping, ND | Municipal Pumping, D |
| \$350,000 | \$5.22 | \$13.92 | \$52.20 | \$208.80 | \$0.00 | \$0.00 | \$0.00 |
| 400,000 | 6.00 | 16.00 | 60.00 | 240.00 | 0.00 | 0.00 | 0.00 |
| 450,000 | 6.72 | 17.92 | 67.20 | 268.80 | 0.00 | 0.00 | 0.00 |

Combined Electric and Gas Utilities: Estimated Annual Fees by Revenue Target (1)

| Revenue Target | Annual Fee by Fee Class | | | | | | |
|----------------|-------------------------|----------------------------|---------------------------|------------------------|------------------------|-----------------------|----------------------|
| | Residential | Small C&I, ND/Commercial A | Small C&I, D/Commercial B | Large C&I/Commercial C | Public Street Lighting | Municipal Pumping, ND | Municipal Pumping, D |
| \$350,000 | \$62.64 | \$167.04 | \$626.40 | \$2,505.60 | \$0.00 | \$0.00 | \$0.00 |
| 400,000 | \$72.00 | \$192.00 | \$720.00 | \$2,880.00 | \$0.00 | \$0.00 | \$0.00 |
| 450,000 | \$80.64 | \$215.04 | \$806.40 | \$3,225.60 | \$0.00 | \$0.00 | \$0.00 |

Notes

(1) Assumes that commercial and industrial fee classifications remain consistent between the two utilities.

Electric Franchise Fee Comparative Analysis
City of Arden Hills, Minnesota

| City | Residential | Small C&I Non-demand | Small C&I Demand | Large C&I | Public Street Lighting | Municipal Pumping Non- Demand | Municipal Pumping Demand | Effective Date |
|-------------------------|-------------|-------------------------|---------------------|--------------------|---------------------------|--|--------------------------------|-------------------|
| Apple Valley | 1.13 | 7.42 | 20.13 | 25.00 | - | - | - | |
| Bloomington | 4.60 | 11.90 | 63.00 | 182.00 | - | - | - | 1/1/2023 |
| Brooklyn Park | 7.00 | 7.50 | 45.00 | 160.00 | - | - | - | 3/1/2016 |
| Burnsville | 4.00 | 12.00 | 40.00 | 180.00 | - | - | - | 9/1/2020 |
| Coon Rapids | 2.26 | 14.84 | 40.26 | 193.44 | - | - | - | 4/1/2018 |
| Eagan | 1.85 | 10.00 | 10.00 | 20.00 | - | - | - | 6/1/2023 |
| Eden Prairie | 4.00 | 5.00 | 12.50 | 55.00 | - | - | - | 7/1/2019 |
| Edina | 2.90 | 4.90 | 13.68 | 58.32 | - | - | - | 7/1/2019 |
| Mnettonka | 4.50 | 4.50 | 13.50 | 45.00 | - | 4.50 | 4.50 | 1/1/2019 |
| Plymouth | 2.52 | 3.79 | 12.65 | 50.61 | - | - | - | 4/1/2023 |
| St. Louis Park | 6.75 | 12.00 | 48.50 | 148.50 | - | 12.00 | 48.50 | 6/1/2021 |
| Woodbury | 3.25 | 3.50 | 23.00 | 90.00 | 8.00 | - | - | 1/1/2022 |
| Chaska | 2.83 | 18.54 | 50.32 | 241.80 | - | - | - | |
| Chanhassen | 5.00 | 14.00 | 40.00 | 290.00 | - | - | - | 2/1/2020 |
| Falcon Heights | 2.25 | 3.50 | 22.00 | 200.00 | 2.00 | - | - | 10/1/2018 |
| Golden Valley | 6.00 | 6.00 | 30.00 | 258.00 | - | - | - | 4/1/2018 |
| Little Canada | 2.75 | 5.25 | 40.00 | 230.00 | 15.50 | 2.00 | 3.00 | 7/1/2010 |
| Maplewood | 3.00 | 4.75 | 30.00 | 180.00 | 4.00 | 4.00 | 4.00 | 11/1/2018 |
| Mounds View | 2.26 | 14.84 | 40.26 | 193.44 | - | - | - | 1/1/2022 |
| Shakopee | 1.70 | 11.13 | 30.19 | 145.08 | - | - | - | 1/1/2017 |
| Shoreview | 3.75 | 5.00 | 36.00 | 340.00 | - | - | - | 1/1/2021 |
| South Saint Paul | 2.83 | 18.54 | 50.32 | 241.80 | - | - | - | 4/1/2018 |
| Spring Lake Park | 0.80 | 1.20 | 8.50 | 50.00 | - | - | - | 4/1/2015 |
| Vadnais Heights | 4.00 | 6.00 | 26.00 | 120.00 | - | - | - | 1/1/2021 |
| White Bear Lake | 0.85 | 5.56 | 15.10 | 72.54 | - | - | - | 5/1/2018 |
| Basic Statistics | | | | | | | | |
| Mean | 3.18 | 8.14 | 29.27 | 145.02 | 1.13 | 0.87 | 2.31 | 5/14/2019 |
| Median | 2.87 | 6.00 | 30.00 | 154.25 | - | - | - | 7/1/2019 |
| Range (Min.) | - | - | - | - | - | - | - | 7/1/2010 |
| Range (Max.) | 7.00 | 18.54 | 63.00 | 340.00 | 15.50 | 12.00 | 48.50 | 6/1/2023 |
| Apple Valley (1) | 2.00% | 2.00% | 2.00% | 2.00% | - | - | - | |
| Chaska | 5.00% | 5.00% | 5.00% | 5.00% | - | - | - | |
| Coon Rapids (2) | 4.00% | 4.00% | 4.00% | 4.00% | - | - | - | 4/1/2018 |
| Mounds View | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 1/1/2022 |
| New Brighton | | | | Calculated Per kWh | | | | 3/1/2016 |
| South Saint Paul | 5.00% | 5.00% | 5.00% | 5.00% | - | - | - | 4/1/2018 |
| Shakopee | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 1/1/2017 |
| White Bear Lake | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% | 5/1/2018 |

Notes

- (1) For municipalities with franchise fees set as a percentages the amount listed in the table assumes an average bill for the respective user class.
- (2) The maximum fee that will be applied to any account will not exceed \$25.00 per month.
- (3) The franchise fee excludes rate schedules for highway lighting, municipal street lighting, municipal water pumping, municipal fire sirens, and municipal sewage disposal service. For all consumers, the four percent franchise fee is applicable to the first \$950,000 of calendar year gross operating revenues. The franchise fee is reduced to one half percent (0.5%) for the remaining amount of annual gross operating revenues exceeding \$950,000.

Gas Franchise Fee Comparative Analysis
City of Arden Hills, Minnesota

| Municipality | Residential | Com/Ind B | | | Small Volume Dual | | Large Volume Firm & Dual | Effective Date |
|-------------------------|-------------|---------------------------------|------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|----------------|
| | | Com-A Less than 1,500 therms/yr | 1,500 > or < 5,000 therms/yr | Com/Ind C > 5,000 therms/yr | Fuel A < 120,000 therms/yr | SVDF B > 120,000 therms/yr | Fuel >1,999 therms Peak Day | |
| | Residential | C&I-A | C&I-B | C&I-C | SVDF-A | SVDF-B | LVDF | |
| Apple Valley | - | - | - | - | - | - | - | |
| Bloomington | 4.60 | 11.90 | 11.90 | 63.00 | 63.00 | 63.00 | 182.00 | 1/1/2023 |
| Brooklyn Park | 7.00 | 6.50 | 20.00 | 70.00 | 160.00 | 160.00 | 160.00 | 3/1/2016 |
| Burnsville | 4.00 | 12.00 | 40.00 | 180.00 | 180.00 | 180.00 | 180.00 | 9/1/2020 |
| Coon Rapids | 3.62 | 3.81 | 10.72 | 57.96 | 100.00 | 124.91 | 433.16 | 1/1/1992 |
| Eagan | 1.85 | 10.00 | 10.00 | 10.00 | 10.00 | 20.00 | 20.00 | 6/1/2023 |
| Eden Prairie | 4.00 | 5.00 | 12.50 | 55.00 | 55.00 | 55.00 | 55.00 | 4/1/2018 |
| Edina | 2.90 | 4.90 | 13.68 | 58.32 | 58.32 | 58.32 | 58.32 | 5/1/2019 |
| Minnnetonka | 4.50 | 4.50 | 13.50 | 45.00 | 45.00 | 45.00 | 45.00 | 1/1/2019 |
| Plymouth | 2.52 | 3.79 | 12.65 | 50.61 | 50.61 | 50.61 | 50.61 | 4/1/2023 |
| St. Louis Park | 6.75 | 6.75 | 12.00 | 48.50 | 48.50 | 48.50 | 148.50 | 6/1/2022 |
| Woodbury | 1.75 | 10.00 | 10.00 | 100.00 | 90.00 | 90.00 | 55.00 | 1/1/2022 |
| Chanhausen | 5.00 | 5.00 | 9.00 | 20.00 | 90.00 | 90.00 | 90.00 | 2/1/2020 |
| Chaska | 2.70 | 2.85 | 8.60 | 39.50 | 140.00 | 315.00 | 715.00 | 8/1/2014 |
| Falcon Heights | 1.75 | 8.50 | 75.00 | 50.00 | 100.00 | 15.00 | 15.00 | 10/1/2018 |
| Golden Valley | 6.00 | 7.50 | 30.00 | 30.00 | 258.00 | 258.00 | 258.00 | 4/1/2018 |
| Maplewood | 3.00 | 12.00 | 100.00 | 75.00 | 110.00 | 2.50 | 2.50 | 11/1/2018 |
| Mounds View | 3.62 | 3.81 | 10.72 | 57.96 | 100.00 | 124.91 | 433.16 | 1/1/2022 |
| North St. Paul | 2.49 | 2.62 | | \$0.005 Per Therm | | | | 3/1/2019 |
| Shakopee | 2.72 | 2.86 | 8.04 | 43.47 | 75.00 | 93.68 | 324.87 | 1/1/2017 |
| Shoreview | 2.25 | 13.00 | - | 115.00 | - | - | - | 1/1/2021 |
| South Saint Paul | 4.53 | 4.76 | 13.40 | 72.45 | 125.00 | 156.14 | 541.45 | 4/1/2018 |
| Spring Lake Park | 0.58 | 0.61 | 1.66 | 8.05 | 37.00 | 50.00 | 50.00 | 4/1/2015 |
| Vadnais Heights | 2.50 | 7.00 | 60.00 | - | 120.00 | - | - | 1/1/2021 |
| Basic Statistics | | | | | | | | |
| Mean | 3.23 | 5.99 | 20.14 | 52.08 | 83.98 | 83.36 | 159.07 | 6/2/2018 |
| Median | 2.90 | 5.00 | 11.95 | 50.31 | 82.50 | 56.66 | 56.66 | 3/1/2019 |
| Range (Min.) | - | - | - | - | - | - | - | 1/1/1992 |
| Range (Max.) | 7.00 | 13.00 | 100.00 | 180.00 | 258.00 | 315.00 | 715.00 | 6/1/2023 |
| Coon Rapids | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 1/1/1992 |
| Mounds View | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 1/1/2022 |
| North St. Paul | 2.75% | 2.75% | | \$0.005 Per Therm | | | | 3/1/2019 |
| Shakopee | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 1/1/2017 |
| South Saint Paul | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 4/1/2018 |

Notes

- (1) For municipalities with franchise fees set as a percentages the amount listed in the table assumes an average bill for the respective user class.