



MEMORANDUM

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**DATE:** September 18, 2023  
**TO:** Honorable Mayor and City Councilmembers  
**FROM:** Dave Perrault, City Administrator  
**SUBJECT:** Franchise Fee Discussion

|                  |                |                 |
|------------------|----------------|-----------------|
| Budgeted Amount: | Actual Amount: | Funding Source: |
| N/A              | N/A            | N/A             |

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**For Council Consideration**

Council should consider providing direction on next steps relating to the Franchise Fee Discussion.

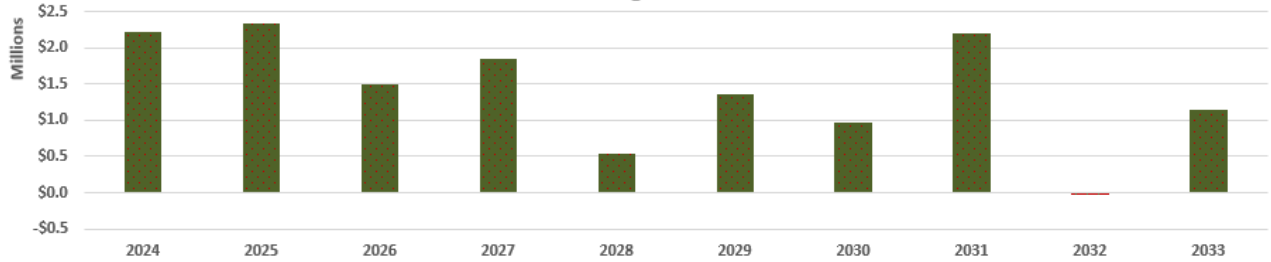
**Background**

At the August worksession, the City Council received a presentation from Ehlers on possible use of Franchise Fees on electric and gas bills in the City. The memos from that meeting are attached under Attachment A for background. The idea of Franchise Fees was raised as part of the need to fund ongoing capital projects in the City. At the July worksession, the City Council discussed the Capital Improvement Program (CIP) and noted shortfalls in the Public Safety and Equipment fund. One solution to this problem was to consider raising approximately \$400,000 in Franchise Fees and distributing between the PIR Fund, Public Safety Fund, and Equipment Fund. This would create stability in the Public Safety and Equipment Funds and provide an ongoing revenue stream for the PIR Fund. The outlook of each fund can be found below with no changes, as well as, if we were to introduce Franchise Fees to the different funds. Note: for the PIR Fund this does not include the Lake Jo Blvd Trail or the Old Highway 10 Trail, and for Public Safety it does include the proposed fire station starting in 2026.

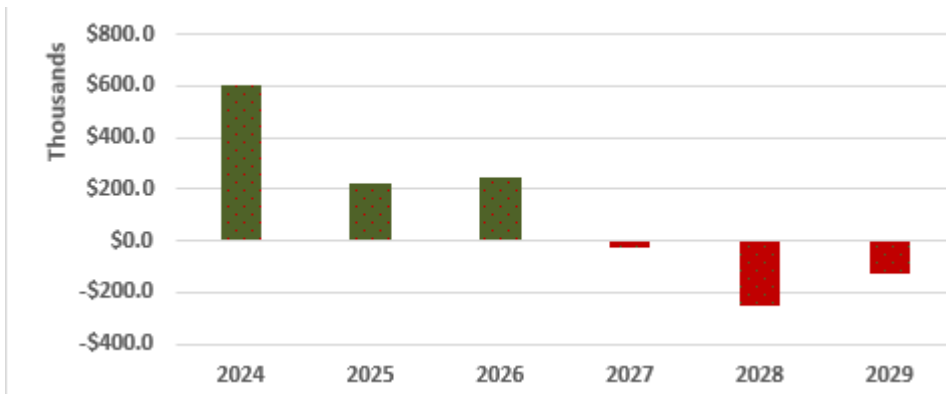
In order to raise \$400,000 in Franchise Fees, Xcel projects it would require a residential monthly fee of \$2.00 on electric and \$2.25 on gas, for a total of \$51 annually between the two (Attachment B outlines the proposed rates, other associated rates, and generated revenue). Should the Council decide not to charge Franchise Fees and pay for these expenditures with a tax levy increase, a comparable levy increase of \$400,000 would equate to an annual increase between \$55 and \$60 on a median priced home (\$469,000). The question was also raised at the worksession if either a fee on electric or gas would be more equitable. Xcel did look at this question and did not have a

perspective on what would be more equitable; however, there are about 400 more properties with electric than gas (i.e. it is assumed everyone has electric but not everyone has gas).

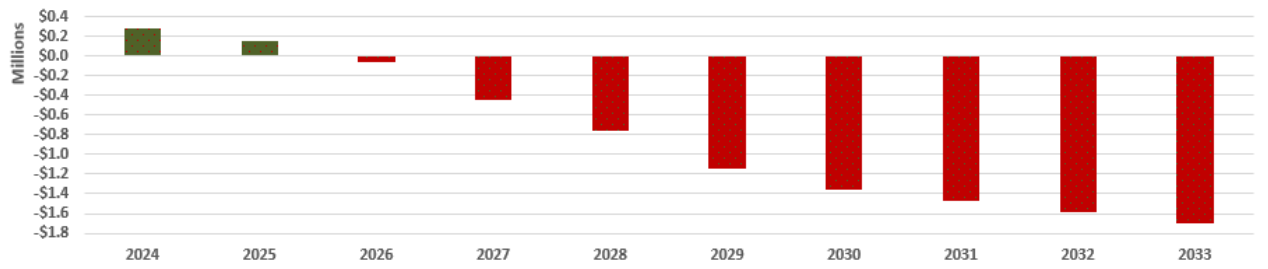
PIR Fund – No Changes



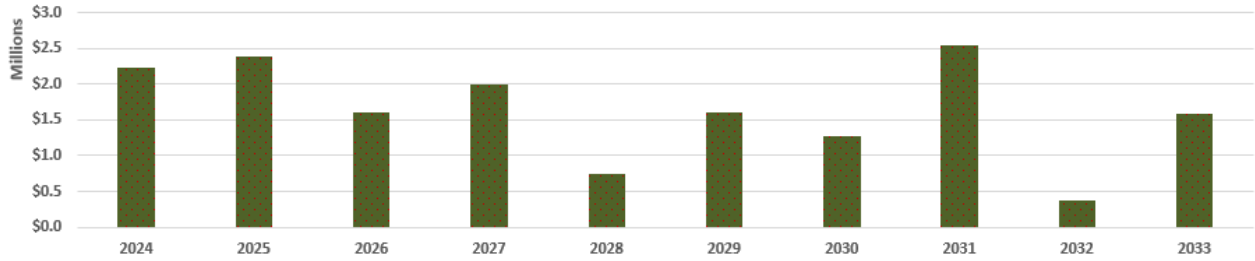
Equipment Fund – No Changes



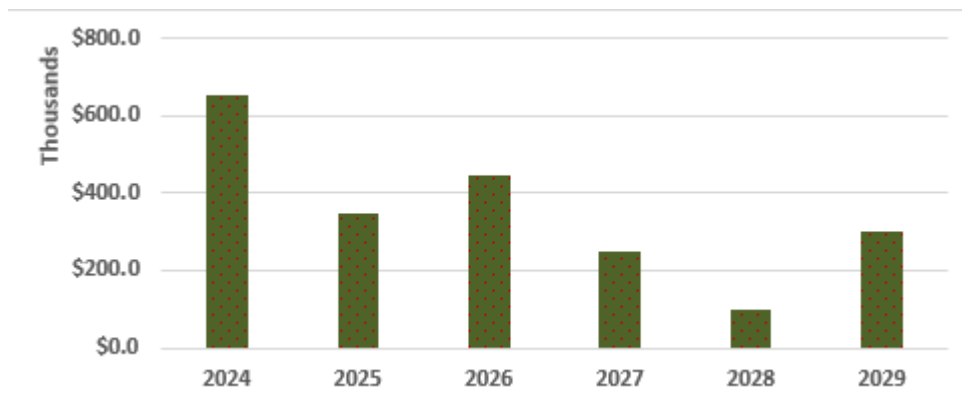
Public Safety Capital Fund – No Changes



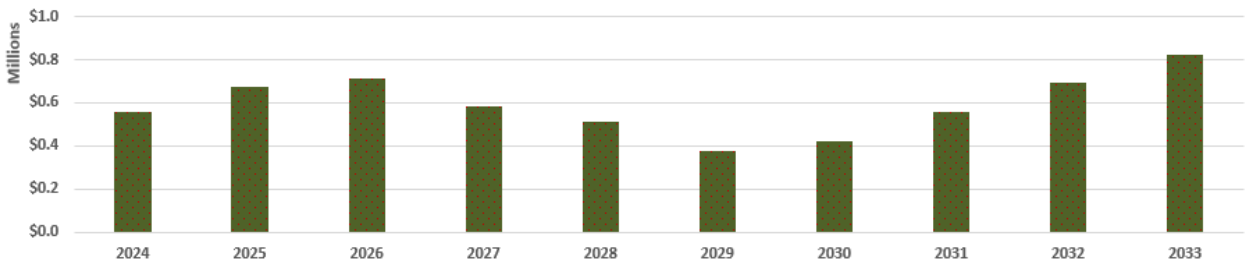
PIR Fund – Suggested Changes with Franchise Fees



Equipment Fund – Suggested Changes with Franchise Fees



Public Safety Capital Fund – Suggested Changes with Franchise Fees



Should Council want to consider moving this forward, direction will be needed on if, and what type of, public engagement will be needed. No public engagement needs to happen, it can be done by ordinance and updated agreements with Xcel, but the last time Franchise Fees were considered by the Council they were voted down largely due to public opposition. Regarding timing, if Council decides to move forward with a Franchise Fee, it does not need to do that by the end of 2023, it can be done any time, but Staff would recommend having it in-place no later than end of 2024. Should Council decide to increase the tax levy, it would need to be done in-conjunction with the preliminary levy at the end of September, or it would need to wait until next year. Staff believes either option would be acceptable, but would not recommend waiting beyond 2024 to shore up the

capital funding. It should be noted that Xcel would request that we waive permit fees on their ROW permits when pulled for projects as part of a franchise fee agreement. Those fees in 2021 and 2022 were \$2,170 and \$3,040, respectively.

**Budget Impact**

Budget impacts will depend on how Council wants to move forward.

**Attachment**

Attachment A: August Worksession Memos – Franchise Fees

Attachment B: Information from Xcel Energy

Attachment C: Combined Comparison of Other Franchise Fees