



## MEMORANDUM

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**DATE:** August 21, 2023  
**TO:** Honorable Mayor and City Councilmembers  
**FROM:** Dave Perrault, City Administrator  
**SUBJECT:** Franchise Fee Discussion

Budgeted Amount:  
N/A

Actual Amount:  
N/A

Funding Source:  
N/A

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### **For Council Consideration**

Council should consider providing direction on moving forward with Franchise Fees.

### **Background**

At the last worksession, the City Council discussed the use of Franchise Fees to help support the Permanent Improvement Revolving (PIR) Fund. The City's financial advisor, Ehlers, has put together a memo on the topic and will be present to give an overview and answer questions.

If the Council is supportive, further discussions will need to be had with Xcel, and the Council may want to consider what marketing activities need to take place to help inform and educate residents.

### **Budget Impact**

N/A

### **Attachment**

Attachment A: Ehlers Memo on Franchise Fees

## 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

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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

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, D
\$350,000	\$2.61	\$6.96	\$26.10	\$104.40	\$0.00	\$0.00
400,000	3.00	8.00	30.00	120.00	0.00	0.00
450,000	3.36	8.96	33.60	134.40	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	\$120.00
450,000	3.36	8.96	33.60	134.40	\$134.40

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, D
\$350,000	\$5.22	\$13.92	\$52.20	\$208.80	\$0.00	\$0.00
400,000	6.00	16.00	60.00	240.00	0.00	0.00
450,000	6.72	17.92	67.20	268.80	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, D
\$350,000	\$62.64	\$167.04	\$626.40	\$2,505.60	\$0.00	\$0.00
400,000	\$72.00	\$192.00	\$720.00	\$2,880.00	\$0.00	\$0.00
450,000	\$80.64	\$215.04	\$806.40	\$3,225.60	\$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

Attachment B

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
<b>Basic Statistics</b>								
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
<b>Basic Statistics</b>								
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.