



EHLERS
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Franchise Fees – Pavement Management and Street Lighting Program

City of Baxter

1/19/2016



Franchise Fees

- City of Baxter commissioned a pavement management plan (PMP) study in 2013 to address ongoing maintenance and funding of the city's now 85 miles of streets
- Study initiated due to aging of streets and associated need to increase maintenance
- Purpose of the study:
 - Develop a PMP to preserve and/or improve quality of City's streets in a fiscally responsible manner
 - Develop and implement a plan considering immediate and long-term needs
 - Prepare systematic plan for routine evaluation with sustainable funding
 - Provide information for better communication and decision making

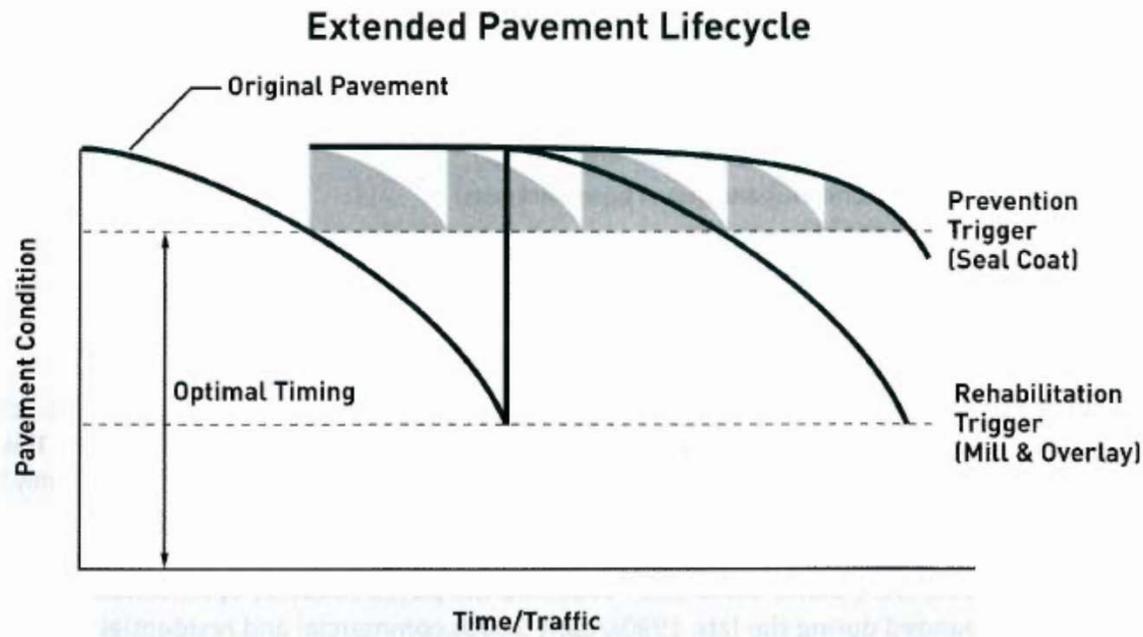


Franchise Fees

- PMP study recommended dramatically increasing street maintenance budget to maintain all streets with a condition rating of 5 and above, targeting preservation improvements first with a sealcoating program
- Ongoing preventative maintenance would save property owners higher costs the higher cost of more frequent reconstruction
- PMP study identified need for an average annual funding of \$539,600 for sealcoating over an initial ten year period
- PMP study recognized franchise fees as a potential funding source for ongoing maintenance not currently being performed



Franchise Fees



- Preventative maintenance through sealcoating during early stages of a pavement's lifecycle can be the most cost effective method for extending pavement life
- Sealcoating protects the street subgrade from the negative effects of water intrusion, a savings over more costly reconstruction methods



Franchise Fees

	36-foot Urban Commercial Street	26-foot Rural Residential Street
Sealcoat	\$9 per foot	\$7 per foot
2" Mill & Overlay	\$70 per foot	\$56 per foot
Full Depth Reconstruction	\$253 per foot	\$174 per foot

- Preventative maintenance through sealcoating is significantly less costly than the reconstruction alternative



Franchise Fees

City Council determined the establishment of utility franchise fees to be an equitable means of generating the funding needed for the increased maintenance costs

- Fee to utility providers for use of public right of way
 - Typically passed through to utility customers
- Used by over 65 Minnesota cities to fund specific projects
- A common alternative to taxes for funding street maintenance



Benefits of Franchise Fees

- Reliable and stable source of revenue
- Not subject to loss of revenue due to State budget issues
- Growth in revenues is proportional to growth in business activity and population
- New entities immediately begin contributing
- Tax exempt properties contribute
- Opportunity to balance financial obligations between payer classes



Disadvantages of Franchise Fees

- May be viewed as another tax
- May be perceived as a means of generating revenues without annual notification
- May be unpopular with certain user classes
- May be opposed by those entities that currently do not contribute through the payment of property taxes



Implementation Process

- City adopts ordinance for each provider enacting the fee
 - Contains terms of fees, and effective and expiration dates
- Xcel and Centerpoint request a certified copy of the action 90 days in advance of the first collection
 - Providers must provide 60 day notice to PUC for change in fees
- Fees are collected monthly or quarterly and remitted to the City



Utility Classifications

- Each provider has unique classifications
 - Classifications differ by both type of utility and each provider
 - Residential
 - Commercial: small, large, and Demand/Interruptible
- Providers charge monthly fixed fees and usage rates
- Schools, churches and hospitals are classified as commercial



Franchise Fees

- Most cities' fee structures are fixed but are initially developed from a percent of the utilities' gross revenues.
- Fixed fees are preferable because they will not fluctuate monthly based on energy consumption.



Proposed Fee Structure Methodology

- Average monthly gross revenue information was reviewed for each provider by customer classification
- 2% of gross revenue was slightly less than amount needed for street sealcoating maintenance; AND there were disparities in the fees because of different customer classifications
- Data was pooled for the providers by type of utility to determine fixed fee equivalent
- Fixed fees were slightly modified to level out disparities and attain targeted revenue for street sealcoating maintenance and street lighting program



Proposed Electric Franchise Fees for Street Maintenance & Street Lighting

Electric		Pavement Mgmt.		Street Lighting		Total Mo. Fee
Brainerd Public Utilities & Crow Wing Power Customer Class	Combined	Est. Annual Revenue	Monthly Fee	Est. Annual Revenue	Monthly Fee	
Residential	3,903	\$ 93,672	\$ 2.00	\$ 46,836	\$ 1.00	\$ 3.00
Small Commercial	419	\$ 35,196	\$ 7.00	\$ 30,168	\$ 6.00	\$ 13.00
Commercial-Demand	259	\$ 127,428	\$ 41.00	\$ 34,188	\$ 11.00	\$ 52.00
Large Commercial	18	\$ 25,920	\$ 120.00	\$ 3,888	\$ 18.00	\$ 138.00
Total	4,599	\$ 282,216		\$ 115,080		



Proposed Natural Gas Franchise Fees for Street Maintenance

Natural Gas		Pavement Mgmt.	
CenterPoint Energy & Xcel Energy Customer Class	Combined	Est. Annual Revenue	Monthly Fee
Residential	2,725	\$ 65,400	\$ 2.00
Small Commercial-Non-Demand	316	\$ 26,544	\$ 7.00
Large Commercial-Non-Demand	67	\$ 17,688	\$ 22.00
Commercial-Demand/Interruptible	3	\$ 2,340	\$ 65.00
Total	3,111	\$ 111,972	



Impacts for Street Maintenance & Lighting

- Estimated Annual Gross Revenue: \$509,268
 - \$394,188 for street maintenance
 - \$115,080 for street lighting

Example of Monthly Impact

Residential:	\$5.00
Small Commercial:	\$20.00

