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The City of Vadnais Heights
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Proposed Franchise Fee Fact Sheet

Challenge: The City wishes to identify a long-term funding solution to continue with annual street repair.

History: City established in 1957 but greatest growth occurred in 1980's and 1990's, 30-40 years ago.

Current Practice: City growth has slowed and the City infrastructure has aged. The City had to identify other resources to fund City Streets. City streets were traditionally paid for by tax levy, but City Council soon began to utilize savings and pooled TIF resources in an effort to maintain lower levy increases over the years. With other capital projects spending down savings, the City was left with the pooled TIF funding source or raising the levy significantly. Two years ago, the City levied \$50,000 for City streets, but not for the upcoming 2018 budget.

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

<u>Year</u>	<u>Assessed Cost</u>	<u>City Cost</u>	<u>Total Project Cost</u>	<u>Length Improved</u>
2011	\$96,000	\$95,000	\$191,000	3631 feet=0.68 miles
2012	\$145,000	\$180,000	\$325,000	5000 feet=0.94 miles
2013	\$175,800	\$224,000	\$399,800	6250 feet=1.18 miles
2014	\$221,500	\$322,700	\$544,200	5500 feet=1.04 miles
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	\$635,800	5117 feet=0.97 miles



Before



After

Pooled TIF: Pooled TIF dollars should be invested in projects to revitalize our community. Some would argue that maintaining city streets helps to maintain the vitality of the community. Others believe these dollars could have greater impact on the tax base if they assisted the business community in reinvesting in our City or attracting new businesses to Vadnais Heights. Currently there is between \$2-3M left in this fund balance. City staff estimates between 5-6 years are left before these dollars are exhausted, if spent at current rate.

What is a Franchise Fee: Under Minnesota Statute (216B.36), cities can impose a fee on utility companies that use the public rights-of-way to deliver service. The 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. The City is recommending the “flat rate” fee, rather than one based on consumption – which would vary each month. Xcel and Connexus have not opposed our effort to implement this fee as they consider these fees a local government decision.

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 will be dedicated to streets maintenance and segregated into a separate fund.

Proposed fee and Customer breakdown:

Customer Class (Electric)	Proposed Fee (per month)	Connexus* Breakdown	Xcel Breakdown
Residential	\$2	95%	86%
Small C&I: Non-Demand	\$3	5% for all small	12% for all small
Small C&I: Demand	\$13		
Large C&I	\$60	0%	1%
Government	\$0		
Street Lighting	\$0		
Irrigation	\$0		

*Reminder Connexus only provides electric to Vadnais Heights. Xcel provides both electric and gas within city limits.

Customer Class (Gas)	Proposed Fee (per month)	Xcel Breakdown
Residential	\$1.25	93%
Commercial Firm: Non-Demand	\$3.50	7% for all Commercial
Commercial Firm: Demand	\$30	
Small Interruptible	\$0	
Medium & Large Interruptible	\$60	
Firm Transportation	\$0	
Interruptible Transportation	\$0	

Proposed rate would accrue about \$296,826, approximately our current street funding allotment.

Proportionate: Xcel and Connexus request businesses and residents pay the same proportion of their overall bill. The City will oblige this request. Exhibit below details that percent revenue which is an effective comparison for the portion of the overall bill.

	Connexus Electric	Xcel Electric	Xcel Gas
Percentage of Revenue	1.6%	1.6%	2.3%

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

- Cover a wider base than property taxes
- Will diversify the City’s revenue sources
- Reliable sources of revenue to budget for.
- A flat-rate fee is easy to administer and eliminates the ups and downs of summer/winter extremes.
- The City Council will be considering a policy amendment to current assessment policy that would reduce the commercial obligation from 100% paid by property owners, to 50% paid by property owners and the City.

Other like cities have franchise fees: Many cities in the State of Minnesota have franchise fees. Xcel has over 70 cities with some type of franchise fees. Connexus has 11 franchise fees with cities in their service area. Some near us include White Bear Lake, Shoreview, Little Canada, Maplewood, and New Brighton.