



Franchise Fees

City of Fergus Falls

Fall 2023



What are Franchise Fees?

- ▶ City owned rights-of-way (ROW) are used for roadway, sidewalk and trail purposes, but also for utility services.
- ▶ Cities have franchise agreements with each utility company (gas, electric, etc.) for their use of city owned rights-of-way for their business purposes.
- ▶ Minnesota cities are authorized by State Statute 216B.36 to charge utilities a fee (or rent) for use of city rights-of-way.

How Do Franchise Fees Work?

- ▶ Once franchise fees are adopted, gas and electric utilities are required to remit the fees to the city
- ▶ Utilities commonly pass these fees on to their customers by adding them to the customer's monthly utility bills. The fee will likely appear as "City Fee" on utility bills.
- ▶ Franchise fees can be either a percentage of the utility customer's gross sales or a flat dollar amount
- ▶ Once collected, the utilities remit the fees to the city to be used for designated projects



Why Implement Franchise Fees?

- ▶ Implementing franchise fees is a common way for cities to fund projects without increasing property taxes
- ▶ Nearly half of Minnesota cities collect franchise fees to fund street improvements, parking lots, trails, sidewalks and other projects
- ▶ The City of Fergus Falls has experience with franchise fees as cable subscribers pay a franchise fee to fund PEG Access

Why Use Franchise Fees for Streets?

- ▶ Fergus Falls maintains over 122 miles of streets
- ▶ The city expects to spend \$3.5 million during 2023 for street maintenance including mill and overlays and reconstructions
- ▶ Current funding for street maintenance, construction, and reconstruction projects comes from:
 - Municipal state aid
 - Assessments
 - Bonds
 - General property taxes

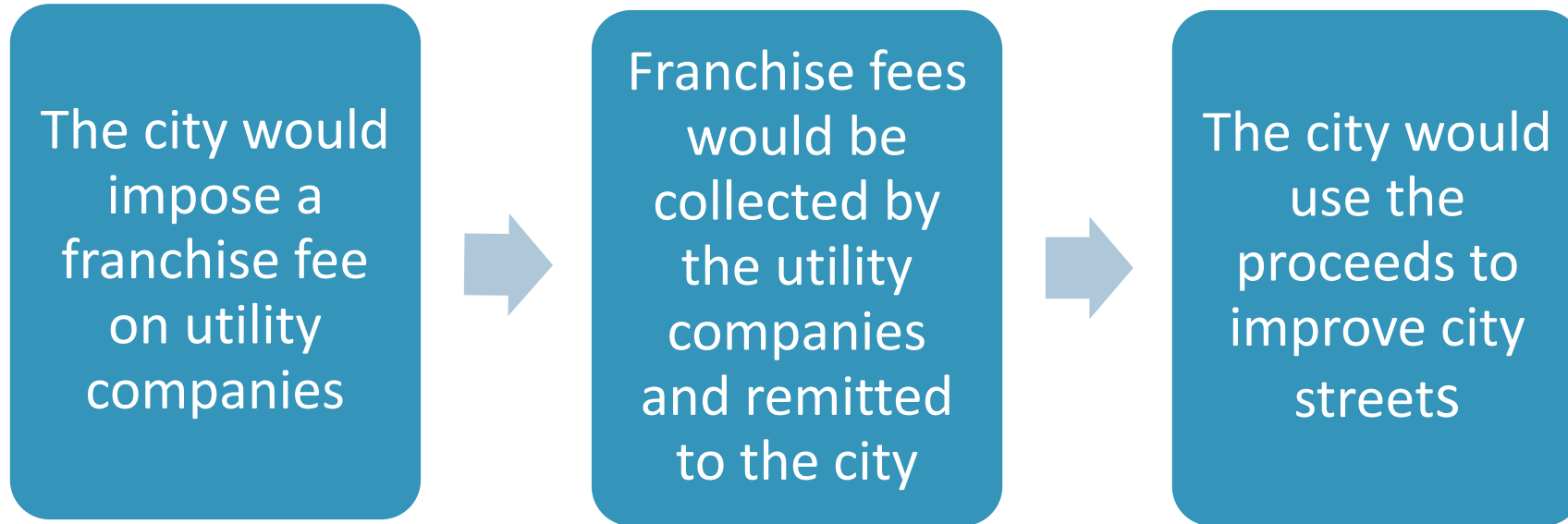
Why Use Franchise Fees for Streets?

- ▶ The city has a comprehensive plan for future street improvements, but costs are rising and funding is limited
- ▶ Residents and business owners have made it clear they want additional street projects completed
- ▶ Franchise fees could help fund additional street projects and allow the city to fix more streets on an annual basis
- ▶ Franchise fees would provide a predictable revenue source to help fund street projects and keep them on a proactive and timely schedule

Why Franchise Fees vs. Tax Increase?

- ▶ Franchise fees spread the cost of maintenance among those who benefit from the streets
- ▶ All utility users within the city pay for street maintenance, not just property owners
- ▶ Fees apply to all customers within the city including rental properties, non-profits and governmental entities
- ▶ New construction (which results in new utility accounts), contributes immediately to street project funding rather than one or two years down the road when added to the tax rolls

Process



Note: Utility companies include Otter Tail Power Company, Great Plains Natural Gas and Lake Region Electric Cooperative

Recommendation

- ▶ City Staff and the Tax Levy Committee are recommending the implementation of a 5% franchise fee
- ▶ There would be a monthly cap per account of \$1,000
- ▶ The franchise fee would be effective March 1, 2024
- ▶ Collections would provide an estimated \$1.3 million annually to improve city streets

Impact on Consumers (examples)

Monthly Combined Utilities (Gas and Electric)	Monthly Increase in Utility Bill	Annual Increase in Utility Bill
\$150	\$7.50	\$90.00
\$250	\$12.50	\$150.00
\$500	\$25.00	\$300.00
\$750	\$37.50	\$450.00
\$1,000	\$50.00	\$600.00
\$5,000	\$250.00	\$3,000.00

Proposed Timeline

