

City Council Work Session  
February 20, 2024

The Fergus Falls City Council held a work session regarding roadway infrastructure planning, franchise fees and utility rates on February 20, 2024, at 4:00 pm in the City Council Chambers. Mayor Schierer called the meeting to order and council members in attendance were Kremeier, Rachels, Job, Kvamme, Fish and Rufer. Hicks and Thompson arrived at later points in the meeting.

**Franchise Fees**

The biggest concern the council hears from the public is the condition of the city's streets. Although the Tax Levy Committee has been recommending annual increases to the street improvement budget, the city is falling behind in making the necessary improvements. As equipment, labor and material costs continue to increase, the city has been looking for alternative funding sources for street improvement projects. Tyson Hajicek of Moore Engineering reviewed the typical project funding for street projects (bond issuance, sewer fund, water fund, storm water fund and special assessments) and proposed the city consider adding franchise fees as another funding source. Within the city's Capital Improvement Plan (CIP) is \$15 million of street improvements identified as baseline projects. \$43.4 million of street improvements can be accomplished as "fast-track" projects. Incorporating a 5% franchise fee, along with bond issuances would provide an additional \$28.4 million for street improvement projects without raising the levy.

Franchise fees would be spread amongst all residents and businesses who use the utility services of Otter Tail Power Company, Lake Region Electric Cooperative and Great Plains Natural Gas. A 5% franchise fee would generate approximately \$1.3 million annually and these funds would be restricted to only funding street improvements. A 5% increase to fund the fast-track CIP projects would cost the resident paying a combined \$150 per month in gas and electric utilities an additional \$7.50 per month or \$90.00 per year in utility costs.

**Utility Rates**

Finance Director Bill Sonmor presented information on the utility rates. Although the refuse fund is not associated with franchise fees, the rates need to be increased as the operational costs of garbage collection continue to rise, as do the prices to replace equipment. The city's disposal rates from Otter Tail County rose 5.22% on January 1, 2024. Staff are recommending a 3.5% increase in residential/commercial collection and disposal fees: a 10% increase in roll off fees a 3% increase in landfill fees for garbage disposal and a 3% increase in recycling fees. There would be no change in the tree management fee. The sewer, water and storm water funds are related to the franchise fee discussion and Sonmor made the following recommendations to these enterprise funds:

*Baseline Capital Improvement Plan*

Sewer Fund: a 5% increase to the flat and variable flow rates. No debt issuance would be included in this model.

Water Fund: a 6% increase to the flat and variable flow rates. \$1.1 million in debt issuance is assumed in 2027.

Storm Water Fund: an 8.6% increase to the residential monthly flat rate. No debt issuance would be included in this model.

The average residential utility bill for a customer using 6,000 gallons of water usage would increase from the current \$117.20 monthly rate to \$123.50 per month for a \$6.30 per month or 5.4% increase.

*Fast Track Capital Improvement Plan*

Sewer Fund: an 8% increase to the flat and variable flow rates. No debt issuance would be included in this model.

Water Fund: a 10% increase to the flat and variable flow rates. \$2.7 million in debt issuance is assumed in 2027.

Stormwater Fund: a 14.3% increase to the residential monthly flat rate. No debt issuance would be included in this model.

The average residential utility bill for a customer using 6,000 gallons of water usage would increase from the current \$117.20 monthly rate to \$126.68 per month for a \$9.48 per month or 8.1% increase. If the utility rates are approved they would become effective for the utility bills printed at the end of April 2024.

The city has pursued grants and has been leveraging MSAS and gas tax dollars. Without the ability to increase special assessments, franchise fees are the only other viable option to increase the amount of money put towards street improvements without raising taxes. Kvamme preferred franchise fees in lieu of raising property taxes and spoke about the equity in franchise fees as all utility users, not just property owners would contribute to the cost of the franchise fees and how they can be used as a tool to leverage improvements. Mayor Schierer felt utility rate increases are inevitable with rising costs and aging roads and infrastructure. He was in favor of finding another funding mechanism to keep up with street projects. Rachels and Rufer agreed that fast-tracking street improvements through franchise fees is the city's only viable option to making significant roadway improvements.

The council discussed the timing of the utility rate increases and the path they want to pursue with franchise fees. They were in consensus to host an open house to present more information about franchise fees and gather public input. They also felt the city needs to move forward with utility rate adjustments as some of the fees have already gone up and we are not collecting enough to cover these increases.

The work session adjourned at 5:11 pm

*Lynne Olson*