

Franchise Fees FAQ

The Faribault City Council approved utility franchise fees on gas and electric utilities as an alternative revenue source starting back in 2004. Allocations from these utility franchise fees have funded various City improvements including parks and trail improvements, a portion of street improvements, as well as capital equipment and public facility projects.

Currently the City Council is considering raising the franchise fees on utilities to increase revenues for street improvement projects related to the City's pavement management program. By increasing franchise fees on utilities, the City can eliminate the need to generate revenues to fund street improvement projects from special property tax assessments. Historically the City has allocated as much as \$600,000 towards street improvements which is approximately 6% of the City's property tax revenues and 22% of the properties (based on property valuation) in the City are exempt from paying property taxes.

The City of Faribault currently maintains over 115 miles of streets in town and is seeking a more reliable and equitable revenue source to fund street improvements.

The following information is provided for property owners to review and be educated on why the City is considering raising franchise fees and the pros and cons of using these increased franchise fees to fund street improvement projects versus the current method of utilizing special assessments.

What is a franchise fee?

Many cities in Minnesota have a franchise agreement with each utility company (gas, electric) for the use of publicly-owned right-of-way for

their business purpose. The right-of-way is the public property located adjacent to roadways for utilities, construction access, and snow storage. By law (Minnesota Statute 216B.36), cities may charge utility companies a fee to manage the use of the publicly-owned right-of-way to deliver service.

The City determines the amount of franchise fees as established by an ordinance that is mutually agreed upon by the City and the utility company. In Faribault those utility companies are Xcel Energy (gas and electric), Steele Waseca Electric Cooperative (electric only) and Greater Minnesota Gas Co. (gas only). Existing City of Faribault franchise fees on these four utility companies are collected monthly based on a flat rate for residential and commercial customers, based on their defined customer categories.

Utility companies have the right to pass franchise fees on to their customers. Utility customers see a line item on their gas and electric bills for a "city fee." The utility companies collect this fee and remits all of the payments directly to the City.

What is a street assessment?

A street assessment is a fee levied against properties that receive direct benefit from a public improvement, such as a street improvement, and are typically limited to the properties that directly abut said improvement. Street assessments are levied according to Minnesota Statutes 429.

Home and business owners are assessed for street improvement projects and owners typically pay between 20% to 50% of the project costs based on the benefit of the improvement to property. The type of street improvement can vary, from a Mill and Overlay, to Reclamation, to Reconstruction. The expected life of a street is 60 years. Typically, you will have one type of street improvement on your street every 20 years, two mill and overlays and then a full street reconstruction.

According to the City's current special assessment policies regarding street improvement projects, home and business owners are assessed based on the amount of front footage the property has adjacent to the project street. These assessments can be quite costly and if not paid in full upfront, are added to a parcels property taxes and collected over a period of time (typically 15 years) and accrue interest as well.

Assessment amounts can vary largely due to the difference of size in each parcel and the rates can change annually. A typical residential street assessment for a mill and overlay can range from \$1,000- \$2,100 and for a reconstruction \$3,775 to \$7,550. Non-residential property assessments for street projects vary even more due to the increased variability in lot sizes but can range anywhere from \$1,000 to \$10,000+.

What are the benefits of franchise fees over a street assessment?

- Smaller monthly fees instead of one large assessment
- All typical single-family residential properties (assuming they have only one gas meter and one electric meter) would pay the same amount towards street improvements regardless of size of home or number of cars/drivers.
- Less time-consuming and substantially less costly overall for the city.
- Keeps maintenance and reconstruction on a proactive and timely schedule
- More equitable to people who move into, out of, or within the city

What are the benefits of franchise fees over increasing property taxes?

- New construction would contribute immediately, which would eliminate the one to two-year lag for the City to receive property taxes for property owners receiving municipal services
- A wider base than property taxes; property tax exempt, renters, non-profits, schools, and other entities that use the public infrastructure

pays franchise fees.

- Flat fee instead of tax increases based on property valuation increases/decreases.

How will the proposed franchise fee increases be used?

The proposed franchise fee increases will be used for street maintenance, which includes mill and overlays, full depth reclamations, and reconstructions and will be used in lieu of levying special assessments for typical street improvement projects.

How much will I be charged?

Residents will typically see an increased charge of \$5.00 on their electric bill and \$5.00 on their gas bill every month.

Commercial and industrial properties will need to contact their utility service provider to find your classification. When contacting your utility provider, please identify yourself as a city of Faribault commercial user.

Note regardless of property classification, franchise fees are charged on a per meter basis, so if you have multiple gas and/or electric meters/accounts, the fee will be charged on each meter based on that meter's classification.

	Existing Faribault 2021 Franchise Fees	Proposed Additional Franchise Fees for Street Improvements	Proposed Total 2022 Franchise Fees
XCEL	Monthly Fee	Monthly Fee	Total Proposed Monthly Fee
Electric - Residential	\$1.63	\$5.00	\$6.63
Electric - Sm C&I Non Demand	\$1.94	\$20.00	\$21.94
Electric - Sm C&I Demand	\$38.72	\$20.00	\$58.72
Electric - Large C&I	\$338.80	\$100.00	\$438.80
Gas - Residential	\$1.96	\$5.00	\$6.96
Gas - Comm Firm Non-Demand	\$4.57	\$20.00	\$24.57
Gas - Comm Firm Demand	\$39.20	\$20.00	\$59.20
Gas - Small Interruptible	\$111.08	\$20.00	\$131.08

Gas - Med & Lg Interruptible	\$326.70	\$100.00	\$426.70
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	Existing Faribault 2021 Franchise Fees	Proposed Additional Franchise Fees for Street Improvements	Proposed Total 2022 Franchise Fees
Steele Waseca Electric	Monthly Fee	Monthly Fee	Total Proposed Monthly Fee
Electric - Residential	\$1.63	\$5.00	\$6.63
Electric - Sm C&I Non Demand	\$1.94	\$20.00	\$21.94
Electric - Sm C&I Demand	\$38.72	\$20.00	\$58.72
Electric - Large C&I	\$338.80	\$100.00	\$438.80

	Existing Faribault 2021 Franchise Fees	Proposed Additional Franchise Fees for Street Improvements	Proposed Total 2022 Franchise Fees
Greater MN Gas	Monthly Fee	Monthly Fee	Total Proposed Monthly Fee
Gas - Residential	\$1.96	\$5.00	\$6.96
Gas - Small Commercial	\$4.57	\$20.00	\$24.57
Gas - Commercial	\$4.57	\$20.00	\$24.57
Gas - Mid Commercial	\$39.20	\$20.00	\$59.20
Gas - Large Commercial	\$39.20	\$20.00	\$59.20
Gas - Agricultural	\$111.08	\$20.00	\$131.08
Gas - Industrial	\$326.70	\$100.00	\$426.70

Why now?

Residents who have gone through a street assessment process have stated they do not like the large unanticipated assessment and the assessment process is complex and exhausting to figure out.

By implementing a franchise fee, residents will pay a flat fee per month. This revenue replacement is more manageable and eliminates an unanticipated expense for the projects the City has planned.

Is this just another tax?

This is revenue replacement - a different revenue source for the city. Franchise fees will replace special assessments and are applicable to all properties in the City who have gas and electric utility accounts regardless of their tax or tax-exempt status.

What if I am paying for a street assessment?

Continue to pay your street assessment. A refund program for eligible properties plan will be put in place to offset the franchise fee increase amount related to street improvements. Eligible properties with an active assessment roll for an eligible project regardless or not if the property previously paid all, some or none of their assessment will be sent a rebate form from the City after the first year of the franchise fee increase. These eligible properties will receive an annual rebate of either their street portion of their franchise fees or the amount of their assessment whichever is smaller.

Why not add this fee to the water bill? Why don't you just charge a 'Street Fee' to each property and bill it similar to a water bill? Why go through a third party for collection?

State law does not allow a city to charge a direct street fee for maintenance. State law does allow for the collection of a franchise fee from utility service providers for their use of the right-of-way. That is why we are charging this fee to the utility companies and then dedicate its use to maintain the city street system.

I live in an apartment, town home or manufactured home. Will I be charged the fee?

Yes, you will pay the standard residential fee assuming you are responsible for you gas and electric utility bills.

Will commercial/industrial properties or state or school properties pay the fee?

Yes, all properties with a gas and/or electric utility account will pay the fee regardless of tax/tax-exempt status.

I live on a private road or county road. Will I be charged the fee?

Yes, you will pay the standard residential fee.

When will this go into effect?

The franchise fees go into effect January 2022.

When do I have to pay the franchise fee?

The franchise fee is included on your gas and electric bill every month.

How long will the city have franchise fees?

The fee is expected to be a long-term funding option for the city and not anticipated to be eliminated.