



Financial Impact of Franchise Fee Implementation

The franchise fees were implemented in 2006 and the rates have not been increased. It would be prudent to increase the rates to reflect the increase in funding needs that have occurred over time. Preliminary review of the fees indicates that If the gas and electric fee is increased from \$1.50 to \$5.00 per month for residential users and increased a comparable amount for commercial and industrial users, approximately \$1,050,000 in additional revenue per year would be generated and dedicated for pavement management.

The tax impact to generate \$1,050,000 in revenue for pavement management via tax levy as compared to a franchise fee is shown in the table below.

				To generate \$1,050,000 in revenue for pavement mgmt	
				Option A: Residential Increase in tax thru tax rate	Option B: Residential Increase in franchise fee
Total Taxes		2022- current	2022 - add \$1,050k in tax levy		
	Residential \$350,000	\$ 1,188	\$ 1,275	\$87	\$ 84
	Residential \$600,000	\$ 2,561	\$ 2,750	\$188	\$ 84
	Residential \$900,000	\$ 3,842	\$ 4,124	\$282	\$ 84
	Residential \$1,000,000	\$ 4,269	\$ 4,583	\$314	\$ 84
	Commercial \$1,000,000	\$ 6,790	\$ 7,292	\$502	\$162 - \$2400
	Commercial \$2,000,000	\$ 13,580	\$ 14,583	\$1,003	
	Commercial \$3,000,000	\$ 20,370	\$ 21,875	\$1,505	
	Commercial \$4,000,000	\$ 27,160	\$ 29,167	\$2,007	

The table above shows a snapshot in time for 2022, however, the funding need, and tax levy impact increases over time in the five-year plan. The overall city tax levy and tax rate impact of the pavement management options as modeled in the financial plan is shown in the next section.

To maintain our streets at an average network OCI of 70, an annual budget of \$5,000,000 per year is required. For financial modeling purposes, we have incrementally increased the pavement management costs and funding from \$3 million to \$5 million by the year 2026 then maintain that budget. For modeling purposes, the street activity cost and funding sources are as follows:

Activity	Goal Total	Funding Source
Reconstruction	3,300,000	Street Project - Tax Levy
Mill and Overlay	1,475,000	Mill & Overlay- Franchise Fee Revenue/Special Assessments/PIR Fund balance
Seal Coating	225,000	Seal Coat - Tax Levy
Total	5,000,000	

Staff has provided two pavement management funding options: 1) via tax levy and 2) via franchise fee increase. Staff recommends funding via Option 2 – franchise fee increase. The additional revenue generated would be dedicated to funding the City's Pavement Management Plan.

Base Scenario:

Under this scenario, the financial plan only includes partial funding for the pavement management plan, primarily for street reconstruction/improvement. It does not include the funding needed to maintain a 20-year projected average network OCI of 70. This means we will find ourselves with a funding gap of about \$4,500,000 from 2022-2026.

Base Priorities and Funding	2021	2022	2023	2024	2025	2026
Total Tax Levy \$ Change		1,111,000	1,147,000	1,353,000	1,278,000	965,000
Total Tax Levy % Change		7.76%	7.44%	8.16%	7.13%	5.02%
TAX CAPACITY TAX RATE	31.105%	31.326%	31.692%	32.561%	32.930%	33.000%

Pavement Management Option 1- Add Tax Levy:

Under this scenario, the financial plan includes funding the pavement management plan via tax levy increases. Therefore, the tax rate for each year is higher than the base scenario.

Pavement Mgmt - Tax Levy Option 1	2021	2022	2023	2024	2025	2026
Total Tax Levy \$ Change		1,204,000	1,608,000	1,561,000	1,512,000	960,000
Total Tax Levy % Change		8.41%	10.36%	9.12%	8.09%	4.75%
TAX CAPACITY TAX RATE	31.105%	31.533%	32.845%	34.062%	34.773%	34.744%

Pavement Management Option 2 - Add Franchise Fees:

Under this scenario, the financial plan includes funding the pavement management plan with an increase in franchise fees. Therefore, the tax rate for each year is less than the base scenario and the plan fully funds pavement management vs limited funding in the base plan.

Pavement Management Option 2 - Add Franchise Fees:	2021	2022	2023	2024	2025	2026
Total Tax Levy \$ Change		1,011,000	1,057,000	1,317,000	1,262,000	955,000
Total Tax Levy % Change		7.07%	6.89%	8.04%	7.13%	5.04%
TAX CAPACITY TAX RATE	31.105%	31.105%	31.296%	32.118%	32.485%	32.560%