Parks and Trails Replacement Plan

Funding Recommendations from the Parks and Natural Resources Commission & Audit and Investment Commission
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Appendix A: 2019-2021 City Council Strategic Initiative Parks and Trails Replacement Plan
Appendix B: PowerPoint Presentation from August 13, 2020 Audit and Investment Commission Meeting
Appendix C: Parks and Trails Replacement Plan, Asset Management Needs Summary
Appendix D: PowerPoint Presentation from October 6, 2020 Joint Commissions Meeting
Appendix E: Franchise Fees of Comparison Cities
November 4, 2020

The Honorable Mayor and
Members of the City Council
City of Woodbury

Subject: Parks and Trails Replacement Plan, Funding Recommendation Report

Dear Mayor Burt and Council Members:

In December 2019, the City of Woodbury City Council approved a strategic initiative focusing on development of a parks and trails replacement plan with the intent to ensure our parks and trails meet the needs of a growing and changing community. City staff were already in the process of developing a comprehensive asset management plan for these facilities and also recognized the growing issue of not having a sustainable funding plan for replacing these assets. City Council then approved the creation of a Park and Trails Replacement Fund as part of the 2020 budget to begin to address the initiative and seeded the Fund with approximately $700,000.

A key missing component to connect the strategic initiative goals, staff’s asset management planning and a new Fund was a sustainable revenue plan. The City Council asked two of its standing advisory bodies, the Parks and Natural Resources Commission and the Audit Investment Commission, to take on this challenge and jointly provide a funding recommendation to sustain a currently underfunded Parks and Trails Replacement Fund.

This report is a summary of that work and includes a recommendation for Council’s consideration. The Commissions commend the forward thinking planning of the City Council and its staff in seeking what could become a significant liability to the City if not addressed. These assets of the City are a significant contributor to the City’s overall success and high quality of life and are thus prioritized to be replaced with the funding recommendation as provided herein.

Respectfully submitted on behalf of the Parks and Natural Resources Commission and the Audit and Investment Commission,

Angela Gorall    Michelle Okada
Assistant City Administrator  Parks and Recreation Director

“Long range planning does not deal with future decisions, but with the future of present decisions.”

Peter F. Drucker
Background

Woodbury’s parks and trails are essential assets that enhance the quality of life in our community. The City maintains approximately 3,386 acres of park and recreation land, 76 sport courts, 152 miles of paved trails, 55 named parks, 19 irrigation systems, 123 athletic fields, 31 buildings/structures, and 46 play structures.

Unfettered access to quality parks and trails support health and well-being, equity, economic development, and preservation and protection of the natural environment. The City Council has identified six strategic initiatives (shown right) as keys to the community’s overall success. Quality parks and trails are a notable contributor to many of those initiatives.

As outlined in the 2019-2021 City Council Strategic Initiative, Parks and Trails Replacement Plan (Appendix A), the initial acquisition or development of many park, recreation and trail amenities were tied to the City’s growth and have been development-driven. Modest operating funds have been utilized to support the still young system that has developed. This system, however, is now reaching toward maturity.

The age of individual assets and continued growth of the system necessitates a robust plan for maintenance and eventual replacement. The plan that has been developed recommends the replacement of specific park and trail amenities based on professional and safety replacement standards and standard life expectancy. Staff will continue to evaluate each area of the system regularly and as items are due and require replacement, they will be moved from the asset plan to the Capital Improvement Plan, and eventually presented with the annual budget request.

As of 2020, there is approximately $72 million in parks and physical recreation assets in our system; this breaks down to an approximate annual average need of $2.9 million to support the prescribed replacement of these amenities. Included are park buildings and structures, courts, fields, playgrounds, irrigation systems, parking lots, trails, and other miscellaneous items.
See Appendix B for an initial presentation as provided to the Audit and Investment Commission for further background.

Staff has recommended and the City Council approved a dedicated fund to support the replacement of park and trail amenities as outlined by the Parks and Trails Replacement Plan (summary provided in Appendix C), which is a comprehensive asset and depreciation plan. Staff and the City Council also recommended the evaluation of a sustainable funding source to support the fund, one of the tools which is the use of franchise fees.

As directed by Council, staff has presented information to the Parks and Natural Resources Commission and the Audit and Investment Commission seeking input on the financing approach and timing for the Parks and Trails Replacement Plan. Both Commissions were asked to work jointly to provide a recommendation to the City Council for their further review and consideration.

**Commission Members and Meetings**

Commission members that have participated in this process and contributed to the recommendations include are as follows:

**Audit and Investment Commission Members**

- Aileen Lyle (Chair)
- John Lehman
- Heidi Conrad
- Blake Darsow
- Ken Johnson
- Ross Dahlin
- Richard Osborn
- Jeanine Kuwik

**Parks and Natural Resources Commission Members**

- Greta Bjerkness (Chair)
- Karin Freymann
- Bruce Montgomery
- Rachel Nelson
- Timothy Brewington II
- Arin Kurtilla
- Deborah Musser
- Jakob Neau (student)

A series of meetings were completed by the Commissions both independently as well as jointly to develop the recommendations as provided in this report. All meetings were held publicly and several were also completed virtually to allow for further Commission and public participation during the COVID-19 pandemic. Meetings completed at which the Parks and Trails replacement fund/plan or franchise fees were discussed were as follows:

- February 4, 2020: Parks and Natural Resources Commission meeting
- March 4, 2020: Parks and Natural Resources Commission meeting
- August 13, 2020: Audit and Investment Commission meeting (PowerPoint provided in Appendix B)
- August 18, 2020: Parks and Natural Resources Commission meeting
- September 1, 2020: Joint Parks and Natural Resources Commission/Audit and Investment Commission meeting
- October 6, 2020: Joint Parks and Natural Resources Commission/Audit and Investment Commission meeting (PowerPoint provided in Appendix D)
- November 4, 2020: Joint Parks and Natural Resources Commission/Audit and Investment Commission meeting
The task charged to both the Parks and Natural Resources Commission and the Audit and Investment Commission was to identify and recommend a sustainable funding source for the newly created Parks and Trails Replacement Fund. After eliminating potential non-sustainable funding options such as grants, user fees, donations, etc. there remained essentially two funding options under consideration, including property tax and franchise fees.

Commissions met jointly over the course of three meetings to evaluate these two primary funding options. The Commissions agreed that any option to be recommended would need to fund the Parks and Trails Replacement Fund fully. In other words, an option that left a funding deficit would not be recommended or would require additional guidance on how to eliminate that deficit in a timely manner.

This section will summarize franchise fees, a review of comparison cities that was completed by the Commissions, advantages and disadvantages of the funding options, options reviewed and estimated customer impacts.

**Franchise Fees 101**

Cities have broad gas and electric franchise rights under state law. In Minnesota, these franchises are negotiated and take the form of a contract detailed in an ordinance. Cities have the right to require franchises and to include certain terms, such as franchise fees. There is little case law guidance on what specific franchise terms may be required by the City. Accordingly, a franchise can incorporate all reasonable terms within the limits of a City’s statutory franchise and police power authority. These rights are extensive and can be found in state statute and case law.

Franchise fees are typically either flat fees or percentage fees (based on utility usage) placed on utility bills by utility providers at the City’s direction. Utility bills will have a line item on a customer’s bill that would state something similar to “City Fee” and the fee to be charged. These fees are collected by the utilities and redistributed back to the City with no additional administrative charge. The utility passes on 100% of the franchise fee to its customers. While fees are collected monthly from utility customers, the utilities would distribute those revenues to the City quarterly.

The issue of potential delinquent utility bills and the impacts on the City’s revenue projections was reviewed as part of this process. Xcel confirmed that they address delinquencies and the City would receive 100% of its franchise fees.
Woodbury Utilities

There are two utility providers in Woodbury for which franchise fees were considered. Xcel Energy provides both electric and gas services and CenterPoint Energy provides just gas services. While not required, the Commissions evaluated applying franchise fees to both gas and electric services.

All utility customers that have a premise, as defined by the utility, would be charged the franchise fee.

Franchise Ordinances

The City of Woodbury currently already has franchise ordinances in the City Code, Chapter 9 – Franchises, however these franchises are expired and while the code included the necessary provision for franchise fees they were not negotiated and implemented. Proceeding with the implementation of franchise fees will require these ordinances to be updated and renegotiated with utility providers. Model ordinances are available from the League of Minnesota Cities.

It should also be noted that ordinances adopted which change an established franchise fee take approximately 90 days to implement fully. After such approval, the City would be required to notify the Minnesota Public Utility Commission and then allow time for the utilities to implement into their billing processes. These timeframes would need to be accounted for in an implementation process by the City.

Comparison Cities

A notable portion of the review completed by the Commissions was on comparable cities that currently utilize franchise fees. Franchise fee information is publicly available via posted rate books by utility providers. Note that the fees, as presented in this analysis, are a snapshot in time based on rate book information and may be subject to change at any time.

Comparison cities for analysis purposes, 22 total, were identified as follows:

- Member cities of the Municipal Legislative Commission (MLC)
- Geographically adjacent cities
- Cities in the metro area with a population over 40,000, not including Minneapolis and St. Paul

Of these comparison cities, six currently do not utilize franchise fees at the time of the analysis. These included Apple Valley, Eagan, Lakeville, Maple Grove, Savage and Blaine. For the 16 cities remaining for comparison purposes, two had implemented a percentage based franchise fee (Shakopee, Coon Rapids) while the remainder implemented a flat fee. The Commissions, therefore spent the majority of their review on comparison cities with flat fees.

The following chart is a summary of comparison cities with a flat franchise fee as applied to residential gas and electric customers. For the cities shown, 11 have implemented a franchise fee that is the same for both gas and electric for residential customers. Inver Grove Heights,
Plymouth and Shoreview have implemented fees that are different for gas and electric. The average of these fees for electric is $3.59 and the average for gas is $3.46.

Appendix E includes a detailed spreadsheet of all comparison city franchise fees including those for commercial and industrial customers. The Commissions also examined the franchise fees in place by comparison cities for commercial and industrial customers. This review is notably more complex as customer types used by Xcel and CenterPoint are not consistent when it is necessary to compare gas franchise fees.

Comparison Fee Summary, Average and Range

The following chart summarizes fees for comparable cities for both gas and electric including commercial and industrial customers. The average of fees are shown as well as the lowest fee and highest fee to provide a range.

There is a fairly small range of fees (highest fee to lowest fee) for residential customers, while the fee range for commercial and industrial businesses can vary significantly from one community to the next. For Woodbury at this stage in the analysis, Xcel’s recommendations for fees relied on informing the options considered by the Commissions.
### Comparable Cities with Franchise Fees: MLC, Adjacent Cities and Cities over 40,000 (except St. Paul and MSP) with Flat Fees

<table>
<thead>
<tr>
<th>Service</th>
<th>Average</th>
<th>Lowest</th>
<th>Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electric Service</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Residential</td>
<td>$3.59</td>
<td>$1.50</td>
<td>$7.00</td>
</tr>
<tr>
<td>Small C&amp;I Non-demand</td>
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<td>$1.65</td>
<td>$14.00</td>
</tr>
<tr>
<td>Small C&amp;I Demand</td>
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<td>$8.25</td>
<td>$46.50</td>
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<td>Large C&amp;I</td>
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<td>$310.00</td>
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<td>Public Street Lighting</td>
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<td>$6.00</td>
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<td>Municipal Pumping Non-demand</td>
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<td>$0.75</td>
<td>$10.00</td>
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<td>Municipal Pumping Demand</td>
<td>$14.25</td>
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<td>$46.50</td>
</tr>
<tr>
<td><strong>Gas Service</strong></td>
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</tr>
<tr>
<td>Residential</td>
<td>$3.46</td>
<td>$1.30</td>
<td>$7.00</td>
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<tr>
<td>Xcel Commercial Firm-Non-Demand</td>
<td>$8.09</td>
<td>$4.95</td>
<td>$12.00</td>
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<td>Xcel Commercial Firm-Demand</td>
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<td>$8.00</td>
<td>$112.00</td>
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<td>Xcel Small Interruptible</td>
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<td>Xcel Medium &amp; Large Interruptible</td>
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<td>$100.00</td>
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<td>Xcel Interruptible Transport</td>
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<td>$100.00</td>
</tr>
<tr>
<td>CenterPoint</td>
<td></td>
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</tr>
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<td>Com-A Less than 1,500 therms/yr</td>
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<td>$180.00</td>
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<td>SVDF B &gt; 120,000 therms/yr</td>
<td>$68.57</td>
<td>$16.50</td>
<td>$180.00</td>
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<tr>
<td>Large Volume Firm &amp; Dual Fuel &gt; 1,999 therms/yr</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Peak Day</td>
<td>$68.86</td>
<td>$17.00</td>
<td>$180.00</td>
</tr>
</tbody>
</table>

### Advantages and Disadvantages of Funding Options

In addition to an extensive review of comparison cities, the Commissions spent time considering the advantages and disadvantages of the two primary funding options, property tax and franchise fees. There are some similarities to both options as follows:

- Either option will provide transparency through fund accounting. Since an established fund has been created, both franchise fees and property taxes would be allocated to this fund allowing for clear accounting of revenues in as well as expenses out.

- It has been recognized by the Commissions that the use of funds will not benefit all payers equally, regardless of the funding source, however this is not uncommon for many of the services provided by the City.
It is expected there will be a general ease of collection by City staff for the administration of property taxes or franchise fees. The City already collects and has processes in place for addressing property taxes and adjustments. While collecting franchise fees would be new to the City, staff is confident it is a rather straightforward process and can be adjusted with relative ease administratively if revenue needs change over time.

Applicability of a property tax increase or franchise fees to tax exempt parcels was viewed somewhat equally as an advantage and disadvantage depending upon individual perspective on if these entities should or shouldn’t contribute to the fund.

Provided is a summary of key points as reviewed by the Commissions unique to each funding option.

**Franchise Fees**

**Advantages**
- Sustainable source of revenue and revenue diversification
- Local control over fee amounts and future changes
- Utilities address delinquencies, strong collection
- Better aligns Woodbury’s property tax rate with the cities that use franchise fees
- Opportunity cost if not used now for a Council strategic initiative

**Disadvantages**
- Raises utility costs to customers
- May be viewed as “just another tax”, not a true fee
- Disconnect between the use of the funds and method of collection
- Increasing franchise fee for fund needs may be more politically challenging
- Better aligns Woodbury’s property tax rate with the cities that use franchise fees
- Opportunity cost if not used now for a Council strategic initiative

**Property Tax**

**Advantages**
- Has an existing relationship to fund citywide priorities and/or quality of life projects
- The value of a property has a congruence to ability to pay
- May be deductible against Federal income taxes
- MN property tax relief programs are available based on eligibility

**Disadvantages**
- Property tax increases compete with other City funding priorities; which can change year to year
- Increases may be limited if levy limits are reinstated
- Not utilizing an available method to diversify revenue streams
- Not utilizing an available method used by many other cities

**Options Reviewed**

The Commissions reviewed essentially four primary options in making their final recommendation to the City Council.

- **Option 1.** Blended (low end fee): This option included a blending of both property tax and franchise fees. Franchise fees were generally on the low-end in comparison to other cities. This option however, resulted in a funding deficit of achieving the $2.9 million annual goal.
- Option 1A, Blended (mid-end fee): This option also included a blending of both property tax and franchise fees. Franchise fees were generally in a mid-range in comparison to other cities. This option resulted in achieving the funding goal of $2.9 million annually.

- Option 2, Franchise Fees (high-end fee): This option included only utilizing franchise fees with no property tax contribution. Franchise fees were generally on the high end in comparison to other cities. This option resulted in achieving the funding goal of $2.9 million annually.

- Option 3, Property Tax: This option included only utilizing property tax with no franchise fee contribution. This option resulted in achieving the funding goal of $2.9 million annually.

Note that option 1A and option 2 did result in a surplus over the funding goal, however both were considered negligible. The following is a summary graphic of the options as reviewed by the Commissions.

Each option reviewed also included a review of the potential franchise fees that would be recommended to achieve the revenues as indicated if such fees were part of the option. The following spreadsheet details the fees that were reviewed.
For residential customers, a fee of $1.25 for electric and $1.25 for gas plus the commercial and industrial fees as shown would result in the estimated revenue for Option 1. Option 1A and Option 2 then increase franchise fees as shown to achieve their estimated increased revenues under those options. Options 1A and 2 both considered having a higher residential fee for electric than for gas as an average residential customer bill for electric is generally higher than gas. Therefore, resulting in a fee that is more proportionate to the overall customer’s bill. Since Option 3 is fully funded by property tax, there are no franchise fees to be applied.

### Proposed Franchise Fees

<table>
<thead>
<tr>
<th>Proposed Franchise Fees</th>
<th>Current Fund Financing</th>
<th>Option 1: Blended (Low End Fee)</th>
<th>Option 1A: Blended (Mid End Fee)</th>
<th>Option 2: Franchise Fees (High End Fee)</th>
<th>Option 3: Property Tax</th>
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<tbody>
<tr>
<td>Electric Service</td>
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<td>$1.25</td>
<td>$3.25</td>
<td>$4.00</td>
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<tr>
<td>Small C&amp;I Non-dem</td>
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<td>$3.50</td>
<td>$4.50</td>
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</tr>
<tr>
<td>Small C&amp;I Demand</td>
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<td>$26.00</td>
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<td>Large C&amp;I</td>
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<tr>
<td>Public Street Lighting</td>
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<td>Municipal Pumping Non-dem</td>
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<tr>
<td>Municipal Pumping Demand</td>
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<td>$1.00</td>
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<tr>
<td>Gas Service</td>
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<td>Residential</td>
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<td>Xcel</td>
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<td>Medium &amp; Large Interruptible</td>
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<td>$70.00</td>
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<tr>
<td>Firm Transportation</td>
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<td>Com-A Less than 1,500 therms/yr</td>
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<td>$10.00</td>
<td>$15.00</td>
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<td>Com/Ind B 1,500 &gt; or &lt; 5,000 therms/yr</td>
<td>$30.00</td>
<td>$100.00</td>
<td>$110.00</td>
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<tr>
<td>Com/Ind C &gt;5,000 therms/yr</td>
<td>$40.00</td>
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<td>$100.00</td>
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<td>Small Volume Dual Fuel A &lt; 120,000 therms/yr</td>
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<td>SVDF B &gt; 120,000 therms/yr</td>
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<td>NA</td>
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<td></td>
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<tr>
<td>Large Volume Firm &amp; Fuel &gt; 1,999 therms Peak Day</td>
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<td>NA</td>
<td>NA</td>
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</tbody>
</table>

### Estimated Customer Impacts

A vital component of the Commissions evaluation included understanding Woodbury’s residential and commercial customers’ impacts with each option. The following provides an estimated annual impact for each option for a median value home in Woodbury. Note that franchise fee impacts are exact, but property tax impacts are estimates and not as precise.

<table>
<thead>
<tr>
<th>Annual Impacts</th>
<th>Current Fund Financing</th>
<th>Option 1: Blended (Low End Fee)</th>
<th>Option 1A: Blended (Mid End Fee)</th>
<th>Option 2: Franchise Fees (High End Fee)</th>
<th>Option 3: Property Tax</th>
</tr>
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<tbody>
<tr>
<td>Median value home property tax impact</td>
<td>$20.58</td>
<td>$20.58</td>
<td>$20.58</td>
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<td>$88.22</td>
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<tr>
<td>Total Est. Median Value Home Impact</td>
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<td>$50.58</td>
<td>$80.58</td>
<td>$78.00</td>
<td>$88.22</td>
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</tbody>
</table>

The Commissions were also provided some average billing information from Xcel to assist in understanding the potential impacts of franchise fees in relation to a customer’s total annual bill. An average residential customer is estimated to have an annual electric bill of approximately $1,190 and $500 for gas. Again, these are average estimates and can vary significantly based on household size, energy efficiency and residential square footage.
Understanding the impacts on commercial and industrial customers for each option is significantly more challenging due to protecting customer data by the utilities and the variation in each customer type. Xcel indicated that an average small commercial/industrial customer averages approximately $1,120 for electric and $4,000 for gas annually. Again, these are estimated figures and it is not uncommon for large energy users to see bills for gas or electric in excess of $5,000 per month. Overall, the Commissions noted that fully understanding impacts to such users would need to be part of our business community's public engagement process.

**Utility Customer Counts**

The City was provided the number of utility customers in Woodbury from each utility. Some figures were limited, however, to protect private customer data particularly for commercial or larger users. The provided pie charts detail the number of customers for both electric and gas in the City of Woodbury by residential and other customers.

Staff questioned the accuracy of this information as it seemed inconsistent with the known number of non-residential parcels in the City. The information was verified as accurate and is likely a result of how multi-tenant buildings are established with the utility provider. For example, it is likely that some multi-tenant buildings have a single premise (which would receive the franchise fee) and are sub-metering on their side of the service connection. This is more common with gas than electric, which is reflected in the figures with approximately 800 more electric premises than gas.

**Tax Exempt Impacts**

Each option reviewed by the Commission has a varying impact on property tax exempt parcels. While such parcels would remain exempt from any property tax contribution to an option, these parcels would be charged a franchise fee if they have electric or gas service.
Staff evaluated Washington County tax records and found 124 parcels currently identified as exempt from property taxes that are listed as having an improvement value on such parcel. The assumption being that a parcel with an improvement value is then most likely to also have gas or electric service, but there may be exceptions. For example, a property tax-exempt parcel may have a pole barn on site creating an improvement value, but there may only be electric service to such site. In that case, that customer would receive an electric franchise fee only.

As presented at a meeting of the Commissions, the 124 property tax exempt parcels are broken down as shown at the right. Parcels owned by the City of Woodbury were not included in this analysis.

Q&A Recap

- 36 Washington County CDA
- 27 Church, Church residences or Church related
- 24 Townhome or Homeowners Association properties
- 13 Public Schools
- 11 Charitable Institutions
- 3 Washington County
- 2 Metropolitan Council
- 2 Private Schools
- 2 Federal
- 2 Nursing Homes
- 1 Hospital
- 1 Municipal services, other
The Commissions are pleased to present their funding recommendation as well as additional policy guidance to the City Council. Throughout the process the Commissions were asked to keep considering the key questions as shown to the right. With consensus, the Audit and Investment Commission and the Parks and Natural Resources Commission are able to jointly answer “Yes” to the five questions provided and as presented in this report.

At the joint Commissions meeting on October 6, 2020 a recommendation for City Council’s consideration was developed (PowerPoint presentation from that meeting is in Appendix D). This recommendation was finalized and this report was reviewed by the Commissions at their November 4, 2020 meeting.

**Final Recommendation**

Commissions **recommend that the City Council implement Option 1A (blended, mid-end fee)** as presented in the previous section. Commissions came to a full consensus on this recommendation. Key findings as to why this recommendation is supported include:

- Provides a combination of property tax and franchise fees in a proportion viewed as most desirable by the Commissions. A property tax contribution of 20%-25% is recommended currently and recommended to be maintained in the future. This recommendation also results in tax exempt parcels having a contribution to the fund through franchise fees which is recommended.
Franchise fees proposed for this option are in a mid-range in comparison to other cities. For residential fees, the proposed gas and electric fee are under the comparable cities average, allowing for potential increases to fees as necessary over time as liabilities grow within the parks system. There is also an overall simplicity with a monthly flat fee for customers and communications with the public.

Development of an Administrative Directive or Council Directive is recommended to be developed providing guidance for staff on the new Parks and Trails Replacement Fund if franchise fees are approved. Parameters should be established on when franchise fees are reviewed, guidance on when increases or adjustments should be considered, fund balance guidelines, what projects should or should not be paid from the fund, etc. The guidance used by the Audit and Investment Commission in reviewing Council salaries was noted as a good example to consider for establishing a directive.

**General Policy Guidance**

The following is a summary of overall policy guidance as part of and supplemental to the final recommendation to the City Council from the joint Commissions review process:

- Implementation of a funding solution which results in a deficit (not achieving the $2.9 million goal) is not recommended. Should Council pursue an option that results in a deficit, a plan to address the deficit within the next annual budget process would be recommended.

- Property tax should be used, and continue to be used in the future, as a component of funding the Parks and Trails Replacement Fund. Options that were 100% either property tax or franchise fees is not recommended.

- Implementation of a flat franchise fee set at different amounts based on customer types is recommended. Utilization of a percentage fee, based on utility usage, was reviewed and discussed by the Commissions and is not recommended at this time.

- The Parks and Natural Resources Commission shall continue to advise and work with staff on evaluating other revenue options such as new or adjusted user fees to further supplement the maintenance and operations necessary for park facilities.

- Staff should continue to monitor the Parks and Trails Replacement Plan (asset management plan) with ongoing analysis to ensure underlying assumptions remain accurate over time and to monitor for changes to the current established annual funding goal of $2.9 million.

- As feasible, the Commissions encourage the City Council to make a long-term commitment to sustaining this fund for its intended use including the commitment of using franchise fees solely for this fund.

**Community Engagement**

A robust community engagement process is recommended as part of the evaluation process to be conducted by the City Council. While not under the purview of the Commissions to provide a
detailed community engagement process, it will be an essential part of the process to ensure community education and support for franchise fees.

The Commissions jointly recommend that City staff advise the City Council further on the best means and methods for community engagement.

**Overall Timeline & Next Steps**

The overall timeline for major milestones for the implementation of this recommendation are as follows:

<table>
<thead>
<tr>
<th>Timeline</th>
<th>Milestone Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>August, 2020 – November, 2020</td>
<td>• Audit &amp; Investment Commission and Parks and Natural Resources Commission joint meetings</td>
</tr>
<tr>
<td></td>
<td>• Formation of recommendation to City Council</td>
</tr>
<tr>
<td>January, 2021</td>
<td>• Council workshop and presentation of recommendation</td>
</tr>
<tr>
<td>January, 2021 – August, 2021</td>
<td>• Council evaluation</td>
</tr>
<tr>
<td></td>
<td>• Potential public involvement process</td>
</tr>
<tr>
<td></td>
<td>• Potential franchise ordinance negotiations with utility providers</td>
</tr>
<tr>
<td></td>
<td>• Potential initial Council actions</td>
</tr>
<tr>
<td>January, 2022</td>
<td>• Potential first collection of franchise fees</td>
</tr>
<tr>
<td>2023</td>
<td>• Potential use of funds commences</td>
</tr>
</tbody>
</table>
Appendix A

2019-2021 City Council Strategic Initiative Parks and Trails Replacement Plan
I. Issue and Background

The City is responsible for the management of 3,386 acres of park and recreation land, 76 sport courts, 152 miles of paved trails, 55 named parks, 19 irrigation systems, 123 athletic fields, 31 park buildings, 46 play structures, and 17,134 inventoried park trees. These built and natural assets are no different than our fleet of vehicles, roadway system or pipes in the ground. The quality of these assets is also directly linked to our continued high performance as a City, as a community of choice, and maintaining our high quality of life ratings (92% of 2019 community survey respondents rating excellent or good). Our success as a leading community in which to live, work and thrive means that these quality of life amenities be provided, preserved, maintained, upgraded and expanded when required.

In June 2017, the City Council reviewed Critical Success Factors for the City and renewed support for Environmental Stewardship and Quality of Life as two of the six factors as critical to our success as a City and a community. Council supported the following guiding statements in support of Environmental Stewardship:

*Understanding that environmental health, economics and human well-being are interconnected and interdependent, Woodbury is committed to the responsible use and protection of all resources. To preserve our environment for future generations, the City will foster environmental stewardship through focused conservation, social responsibility and best management practices.*

Council supported the following guiding statements in support of Quality of Life:

*Woodbury maintains a high quality living environment characterized by attractive neighborhoods that offer a variety of housing options for people in all stages of life and that are linked through the City’s parks and trails system.*

*The City provides open spaces that allow active and passive uses by the public. Residents have convenient access to essential private sector goods and services such as health care, as well as to high quality year-round leisure and recreational services.*

*The City directly implements those aspects of the physical and service environment for which it is responsible and promotes the provision of desired services by private and other governmental agencies in areas outside its own responsibility.*

As anticipated for a community growing into maturity, the initial acquisition or development of many of these amenities was tied to our growth and development-driven. To this time, modest operating funds have been needed to support the still young system that has developed. This
system, however, is now reaching maturity, similar to the life cycle of any roadway, requiring additional preservation and resources before the spiral of decline whereby maintenance becomes futile and only replacement is cost effective. The City has also recently experienced fiscal challenges in funding planned park facility improvements requiring projects to be scaled back from original goals. Staff is anticipating that these challenges are expected as well for upcoming projects.

There is approximately $69 million in parks and recreation physical assets. Included are park buildings/structures, courts, fields, playgrounds, irrigation systems, parking lots, trails and miscellaneous items. This does not include the value of tree inventory nor current or future development. Maintenance of and improvements to these assets are NOT included in this replacement plan or financial analysis.

Funding needs for every department face a prioritization and competitive process with each annual budget cycle. Proceeding with this issue as a City Strategic Initiative will provide the necessary research, detail and focus on these assets to ensure the City Council can make informed, long-term and strategic decisions regarding preserving and enhancing our parks, forestry and recreation system through a financial plan to sustain them into the future.

II. ISSUE URGENCY

As with any City Strategic Initiative, there should be a notable timing component as to why it reaches the priority of being a Strategic Initiative. The urgency of the issue to rise to being a priority City focus for the next two to three years include the following factors:

- The City’s objective for any issue, fiscal or not, is ideally to be proactive rather than reactive. This topic is at a critical point of soon moving into a reactive position if no action is taken. Life cycles of current assets range from 15 to 50 years.

- The City’s 2040 Comprehensive Plan parks and trails chapter was just updated as well as the parks focused comprehensive outdoor recreation plan; however neither document provides for a funding plan.

- In addition to parks and trails asset replacements, the City needs to provide the financial resources to pay for public improvements that are parks and trail resource enhancements that are presently partially or fully unfunded.

- Gaps have been identified in our asset management systems for parks. For example, not having as-built drawings of key infrastructure leading to management challenges of that asset and missed opportunities for good planning.

- Currently the Roadway Rehabilitation program and MSA funding mechanisms have paid for trail improvements. These funding sources are increasingly under pressure and may not be able to continue funding trails.
Close to half (47%) of 2019 respondents to the Community Survey supported increasing property taxes to maintain City services at their current level and levels of support have been increasing since 2015. Woodbury residents have also supported previous park and open space referenda. In addition, if a referendum is a selected financial mechanism then significant advance planning is necessary.

The City has previously completed thorough reviews and funding analysis for streets and utilities infrastructure. Parks and trail resources should be the next priority.

Top tier and high performing local governments have strong, diverse, resilient park, trail and natural resource assets that support quality of life and sustain the community’s wellbeing and health long into the future and are critical to maintain our current high performance goals.

III. SCOPE AND SCHEDULE

March - April, 2019    Issue framing and internal initiative scoping by staff.
April, 2019            Financial options internal review by staff (high-level).
May - June, 2019       Issue framing and scoping review
July – August, 2019    Staff finalization of park asset and depreciation plan (may continue through end of the year as needed).
August, 2019          Consideration as a Strategic Initiative.
November, 2019        Staff preliminary report to Council on full scope of project.
Dec., 2019 – July, 2020 Development, review and analysis of plan and financial recommendation by staff under the guidance and input from the Parks and Natural Resources Commission.
August, 2020          Presentation of plan and recommendations to Council.
September-Dec., 2020  Public engagement.
December, 2020        Council consideration of funding action.
January, 2021         Funding plan in place and plan implementation commencement.

IV. IMPLEMENTATION TEAM

To implement the current proposed scope of work in the schedule presented, a team of resources is required. The Parks and Natural Resources Commission will provide the necessary review, input and vetting process for the majority of this project in coordination with City staff.

The City staff team will be led by Michelle Okada, Park and Recreation Director, with direct reporting to the City Administrator. The following additional City departments and divisions will also have a key role in this initiative: Administration, Finance, Community Development, Communications Division, Parks Division of Public Works and Engineering.
Appendix B

*PowerPoint Presentation from August 13, 2020 Audit and Investment Commission Meeting*
Parks and Trails Replacement Plan & Fund

Main Discussion Points

• Why this fund is important?
• Framework of the fund
• Funding options and franchise fees 101
• Next steps
Importance of Parks and Trails Replacement Fund

- Important contributor to the quality of life
- Insufficient ongoing funding
- Growing liability of aging parks system
- Equity of quality assets
- Average yearly replacement need is ~$2.9 Million (plus future inflation, plus additions)
- Competition for operating funds
- Council strategic initiative

Framework

- This fund will support the replacement of park and trail amenities as outlined by the comprehensive asset and depreciation plan.
- The plan recommends replacement of specific park and trail amenities based on standard life expectancy
- The fund covers only replacement, not new or maintenance items
Assumptions

• Actual expenses and prioritization of replacement will be presented as part of annual CIP process
• Where appropriate, funding for replacement items will be shifted from operating budgets (i.e. playground replacement)

Assumptions

• Plan updated annually with new assets and replacements, and updated replacement costs
• This plan does not change the CIP, budget and project process
Replacement timeline

<table>
<thead>
<tr>
<th>Amenity</th>
<th>Life Span</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ballfields</td>
<td>30 Years</td>
</tr>
<tr>
<td>Buildings</td>
<td>50 Years</td>
</tr>
<tr>
<td>Courts</td>
<td>20 Years</td>
</tr>
<tr>
<td>Irrigation Systems</td>
<td>20 Years</td>
</tr>
<tr>
<td>Parking lots and trails</td>
<td>25 Years</td>
</tr>
<tr>
<td>Play structures</td>
<td>15 Years</td>
</tr>
<tr>
<td>Other: dugout covers, boardwalks, fishing piers, security, etc.</td>
<td>Various</td>
</tr>
</tbody>
</table>

Liabilities vs. Funding

Current Available Funding: $686,000

Current Average Yearly Need: $2.9 Million
Next Steps

| January 2020-December 2020 | • Additional plan development incorporating funding options with actuals/CIP development  
|                          | • Franchise Fee research and analysis  
|                          | • Seek recommendation from Parks and Natural Resources Commission and Audit and Investment Commission |

| January 2021              | Council Workshop- Seek direction from Council Financing Plan |

Discussion

• Questions about:  
  • Assumptions  
  • Replacement timeline  
• What additional information do you need to help you make an informed decision?
Franchise Fees 101

What is a Franchise?

• Any public utility ... occupying streets, highways, or other public property...may be required to obtain a license, permit, right or franchise...
• Non-City services
Franchise Ordinance

- ROW management
- Street restoration
- Relocation for utilities
- Performance bonds
- Mapping information
- Street vacation
- Removal of abandoned facilities
- Indemnification
- Construction standards
- Coordination requirements

Franchise Statute

- Cities have gas and electric franchise rights under State law (Minn Stat. §216B.36)
- Franchises are negotiated taking the form of a contract in an ordinance
Franchise Statute

• Cities have the right to require franchises include certain terms, such as fees.
  • Fees to raise revenue
  • Fees to defray costs as a result of utility operations
  • Or Both

Woodbury Utilities

• Xcel Energy
  • Gas and electric
• CenterPoint Energy
  • Gas only
Franchise Ordinances

• Existing Woodbury Code Chapter 9 - Franchises
  • Northern States Power Company-Electric & Gas franchise
  • Minnegasco Inc-Gas franchise
• Both Expired
• Both included section on Franchise Fees - not implemented

Franchise Fees

• Flat fee or a percentage fee
• Fee amounts can vary between customer types
• Several options to be evaluated
Franchise Fees

• Utility passes 100% of fee to its customers
• Could be for just gas, just for electric, or both
• City decides when to consider fee increases and how often

Franchise Fees

• Model franchise ordinances available from League of MN Cities
• Attorney assistance specializing in franchises
Who has Franchise Fees?

Franchise Fee Pro’s

• Sustainable source of revenue
• Easy to administer
• Local control
• Transparency through fund accounting
• Applicable to all customers, including non-profits, tax-exempt
• Will diversify City’s revenue sources
Franchise Fee Con’s

- Raises utility costs to customers
- Use of funds will not benefit all payers equally
- Viewed as another fee/tax

Options for Evaluation

- Funding Options (examples)
Options for Evaluation

• Timing Options

Options for Evaluation

• If Franchise Fees, Structure Options
Public Process

- Recommendation from Parks and Natural Resource Commission
- Recommendation from Audit and Investment Commission
- Prescribed public process if collection and utilization of franchise fees move forward

Discussion

- Questions about Franchise Fees?
- What additional information do you need to help you make an informed decision?
Appendix C

Parks and Trails Replacement Plan, Asset Management Needs Summary
### Parks & Trails Replacement Plan - Working Document

**Inflated Need by Year**

#### Total Need for Replacement Fund of Parks Existing Assets (with inflation)

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need (before inflation)</td>
<td>$3,050,300</td>
<td>$3,105,300</td>
<td>$3,237,500</td>
<td>$3,453,500</td>
<td>$3,692,500</td>
<td>$3,994,300</td>
<td>$4,659,200</td>
<td>$4,931,300</td>
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</table>

- **Capital Improvement Plan (with inflation)**
  - Contingency - 10%
  - Inflation

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need (before inflation)</td>
<td>$300,600</td>
<td>$315,000</td>
<td>$329,700</td>
<td>$348,100</td>
<td>$368,400</td>
<td>$398,400</td>
<td>$460,600</td>
<td>$493,300</td>
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- **Enhancements (Buildings, Playgrounds, Misc - 15%**

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
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<th>2030</th>
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</thead>
<tbody>
<tr>
<td>Need (before inflation)</td>
<td>$92,770</td>
<td>$98,710</td>
<td>$98,710</td>
<td>$102,150</td>
<td>$106,950</td>
<td>$110,950</td>
<td>$124,950</td>
<td>$130,350</td>
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</table>

- **Subtotal (need by year with inflation, contingency and enhancement)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<th>2028</th>
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<tr>
<td>Need (before inflation)</td>
<td>$3,632,780</td>
<td>$3,520,000</td>
<td>$3,608,300</td>
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#### Inflated Need by Year

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
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<th>2027</th>
<th>2028</th>
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<th>2030</th>
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<tr>
<td>Need (after inflation)</td>
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<td>$3,126,380</td>
<td>$3,237,500</td>
<td>$3,453,500</td>
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<td>$4,659,200</td>
<td>$4,931,300</td>
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#### Covered by Funding

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<tr>
<th>Year</th>
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<th>2028</th>
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<tbody>
<tr>
<td>Covered by Funding (%)</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
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**Assumptions of Parks and Recreation Replacement Fund**

1. Projects and general fund adjustments will commence in 2021.
2. This is a "like for like" living document to identify replacement costs of Parks and Trails Infrastructure.
3. The plan will be updated annually in time for the next CIP cycle with prior year projects as well as proposed projects within next CIP cycle.
4. All assets listed as to when their replacement life is expected, unless on the CIP plan.
5. If an asset is demolished, it will be removed from the asset list and replaced with the new asset.
7. Full plan is a 50 year plan.

*Update 10/26/20*
Appendix D

PowerPoint Presentation from October 6, 2020 Joint Commissions Meeting
Parks and Trails Replacement Plan & Fund

Audit and Investment Commission
Park and Natural Resources Commission
October 6, 2020

Agenda & Main Discussion Points

• Last Meeting Recap
• Q&A Review
• Further Options Review
• Property Tax vs. Franchise Fee Pro’s/Con’s
• Key Questions for Commissioners
Last Meeting Recap

• Reviewed overall timeline
• Reviewed comparison cities with franchise fees
• Focused on average yearly replacement need ~$2.9 Million
• Initial options review

Liabilities vs. Funding

Current Average Yearly Need $2.9 Million

Current Available Funding $686,000
Total Median Value Home Impact

<table>
<thead>
<tr>
<th>Current Fund Financing</th>
<th>100% Property Tax Fund Financing</th>
<th>Option 1 Fund Financing (Low End Fee)</th>
<th>Option 2 Fund Financing (High End Fee)</th>
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<td>$20.58</td>
<td>$88.22</td>
<td>$50.58</td>
<td>$81.00</td>
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</table>

- Property Tax Contribution
- Franchise Fees Contribution
- Funding Deficit

Overall Timeline

<table>
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<th>Timeline</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>August, 2020 – November, 2020</td>
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<tr>
<td>- 9/1/20 Joint Meeting</td>
<td>• Formation of recommendation to City Council</td>
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<tr>
<td>- 10/6/20 Joint Meeting</td>
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<tr>
<td>- 11/4/20 Joint Meeting</td>
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<td>January, 2021</td>
<td>• Council workshop and presentation of recommendation</td>
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<td>• Potential first collection of franchise fees</td>
</tr>
<tr>
<td>2023</td>
<td>• Potential use of funds commences</td>
</tr>
</tbody>
</table>
Q&A Recap

- Summary of key answers from last meeting
- Additional info from staff and utilities

Q&A Recap

- Fees are collected monthly from customers, distributed quarterly (for Xcel) to the City
- Xcel does not charge any administrative fee to customers or to the City
Q&A Recap

• Xcel deals with delinquencies, City is paid 100% of its franchise fee amount
• Changing a fee takes approximately 90 days from when City requests it
  • 60 days for MN Public Utilities Commission
  • 30 for Xcel to implement

Q&A Recap

• Non-users or “off-the-grid”
  • If a premise for buying/selling will still get fee
  • Full disconnection rare, most will maintain a premise
Q&A Recap

• Average residential Xcel customer
  • ≈ $99/month; $1,190/year for Electric
  • ≈ $41/month; $500/year for Gas

• Average small commercial/industrial Xcel customer
  • ≈ $93/month; $1,120/year for Electric
  • ≈ $333/month; $4,000/year for Gas

Q&A Recap

• Property Tax Exempt; Per Washington County tax records
  • 124 parcels that have an improvement value
  • Unable to verify if gas or electric serviced
  • Does not include any City of Woodbury parcels
Q&A Recap

- 36 Washington County CDA
- 27 Church, Church residences or Church related
- 24 Townhome or Homeowners Association properties
- 13 Public Schools
- 11 Charitable Institutions
- 3 Washington County

- 2 Metropolitan Council
- 2 Private Schools
- 2 Federal
- 2 Nursing Homes
- 1 Hospital
- 1 Municipal services, other

Q&A Recap

Woodbury Electric Premises

- Residential, 27,615, 93%
- Other, 2,000, 7%

Woodbury Gas Premises or Meters

- Residential, 26,625, 96%
- Other, 1,223, 4%
Further Options Review

• Handout

Further Options Review

Current Fund Financing
Option 1: Blended (Low End Fee)
Option 1A: Blended (Mid End Fee)
Option 2: Franchise Fees (High End Fee)
Option 3: Property Tax

Annual Median Value Home Impact

<table>
<thead>
<tr>
<th>Current Fund Financing</th>
<th>Option 1: Blended (Low End Fee)</th>
<th>Option 1A: Blended (Mid End Fee)</th>
<th>Option 2: Franchise Fees (High End Fee)</th>
<th>Option 3: Property Tax</th>
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<td>$50.58</td>
<td>$80.58</td>
<td>$78.00</td>
<td>$88.22</td>
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- Property Tax Contribution
- Franchise Fees Contribution
- Funding Deficit
Property Tax vs. Franchise Fees

- Property Tax Pro’s/Con’s
- Franchise Fees Pro’s/Con’s

Property Tax vs. Franchise Fees

- Common to Both
  - General ease of collection for the City
    - Can adjust to revenue needs
  - Fund accounting transparency
  - Use of funds do not benefit payers equally
  - Applicability to tax exempt parcels
    - Pro and/or Con under both options
  - Fee structure (flat vs. %) can affect pro’s and con’s
### Property Tax vs. Franchise Fees

**Property Tax Pro’s**
- Property tax relationship to fund citywide priorities (quality of life)
- Value of property relationship to ability to pay
- May be deductible against federal income taxes
- MN property tax relief programs available based on eligibility

**Property Tax Con’s**
- Property tax increases compete with other funding priorities
- Increases may be limited if levy limits are reinstituted
- Not utilizing an available method to diversify revenue, used by many other Cities

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**Franchise Fees Pro’s**
- Sustainable source of revenue and revenue diversification
- Utilities address delinquencies, strong collection
- Better aligns Woodbury’s property tax rate with the cities that use the franchise fee
- Opportunity cost if not used now for a Council strategic initiative

**Franchise Fees Con’s**
- Raises utility costs to customers
- May be viewed as “just another tax”, not a true fee
- Disconnect between the use of the funds and method of collection
- Increasing franchise fee for Fund needs; increasing a specific fee to users politically challenging
10/5/2020

**Property Tax vs. Franchise Fees**

- **Discussion**
- **Policy guidance consensus**

---

1) **Recommend this overall pursuit?**
   - Strategic Initiative, Establishment of Fund
   - Comprehensive Asset & Depreciation Planning

2) **Recommend this overall approach?**
   - Evaluating options by Commissions
   - Making a recommendation to Council

3) **Support the financial options under consideration?**

4) **Support the timing for implementation of the selected recommendation?**

5) **Support the final recommendation to Council?**

---

**Key Questions**

- No
- Yes

---
• Next Joint Commissions Meeting November 4
  • Staff review and analysis of questions from tonight
  • Finalization of recommendation
Appendix E

Franchise Fees of Comparison Cities
<table>
<thead>
<tr>
<th>Cities</th>
<th>Residential Electric</th>
<th>Small C&amp;I Non-demand</th>
<th>Small C&amp;I Demand</th>
<th>Large C&amp;I</th>
<th>Public Street Lighting</th>
<th>Municipal Pumping Non-demand</th>
<th>Municipal Pumping Demand</th>
<th>Utility</th>
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*For Electric: The fee collected shall total three percent (3%) of the Company's gross revenues from its operations within the City collected from each customer of each class. For customers in the Large C&I class, the three percent franchise fee is applicable to the first $950,000 of calendar year gross revenues. The franchise fee is reduced to one-half percent (0.5%) for the remaining amount of annual gross revenues exceeding $950,000.

**For Gas: The franchise fee excludes rate schedules for highway lighting, municipal street lighting, municipal water pumping, municipal fire stations, and municipal sewerage disposal service. For all customers, the four percent franchise fee is applicable to the first $950,000 of calendar year gross operating revenues. The franchise fee is reduced to one-half percent (0.5%) for the remaining amount of annual gross operating revenues exceeding $950,000.