

**MINUTES OF THE WORKSHOP MEETING
CITY COUNCIL
LITTLE CANADA, MINNESOTA**

JULY 12, 2023

Pursuant to due call and notice thereof a Workshop meeting of the City Council of Little Canada, Minnesota was convened on the 12th day of July, 2023 in the Council Chambers of the City Center located at 515 Little Canada Road in said City.

Mayor Tom Fischer called the meeting to order at 6:00 p.m. and the following members of the City Council were present at roll call:

CITY COUNCIL: Mayor Fischer, Council Members T. Miller, Gutierrez, Kwapick and D. Miller (arrived at 6:25 p.m.). Absent: None.

ALSO PRESENT: City Administrator Chris Heineman, Community Development Director Corrin Wendell, Public Works Director Bill Dircks, Parks & Rec/Community Services Director Bryce Shearen, Finance Director Sam Magureanu and City Clerk/HR Manager Heidi Heller.

DISCUSS PROPOSED AMENDMENTS TO GAS & ELECTRIC FRANCHISE AGREEMENT

The City Administrator explained that the Minnesota Public Utilities Commission regulates public utilities and has authorized cities to impose a franchise fee on energy providers for utilization of public rights-of-way through a utility franchise agreement. He stated that when a franchise fee is levied on a private utility, it is passed on directly to customers and itemized on all customer's bills. He noted that franchise fees are an equitable way to raise funds for important infrastructure needs since every type of property in the city pays them. He stated the City of Little Canada has a long history of partnering with Xcel Energy, and both gas and electric franchise agreements have been in place for many years, although we have only levied a franchise fee for the electric franchise. He explained that the current version of the Electric Franchise Fee was initially adopted in 2003 and was updated on May 12, 2010. He noted that Franchise Agreements with Xcel Energy have a 20-year term, and the current agreement is set to expire on August 26, 2023.

The City Administrator stated that City Staff has been in communication with Xcel Energy, and a letter was submitted to the Minnesota Public Utilities Commission (PUC) extending the terms of the current agreement until a new franchise agreement is negotiated, but no later than one year after expiration of the 20-year term, which means no later than August 25, 2024.

The City Administrator stated that as we consider potential revisions to the franchise fees, one of the key questions will be how much revenue is needed on an annual basis from franchise fees. He explained that capital infrastructure costs have increased significantly in the past decade, and staff are looking at the possibility of increasing the existing electrical franchise fees and/or adding a gas franchise fee in order to generate additional revenues to fund the increased cost for capital infrastructure. He stated the last amendment to the City's electric franchise fees was in May 2010 when the City Council approved a 57% rate increase. He noted this was the first time an increase took place since the Franchise Agreement was initially implemented in 2001. He stated this increase added approximately \$130,000 in annual franchise revenues, bringing collections to approximately \$335,000 per year.

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The City Administrator explained that franchise fees have provided an essential source of revenues for the Capital Infrastructure Fund 450, and these fees have exclusively been used to fund street infrastructure capital projects. He noted that other sources of revenue for Fund 450 are approximately \$400,000 per year of Municipal State Aid (MSA) funds and approximately \$160,000 of General Property Tax Levy each year. He noted that other revenues are mostly one-time contributions to the fund, such as grants, or special assessment revenues which are the residents share of a street improvement project. He explained that the current proposed 2024-2033 ten-year Capital Improvement Plan (CIP) expects an estimated deficit of \$3,502,607.

The City Administrator stated that the recommendation is not to reduce the funding since that would eliminate a funding source, but noted that Little Canada is charging about half the amount that most other cities currently are. He stated that adding a gas franchise fee is also being considered. He explained that anytime the City wants to change the amount of the franchise fees, the agreement with Xcel Energy needs to be opened up and that is a big process.

Fischer stated that the Council seems to be in agreement with keeping the electrical franchise fee and increasing it, but that adding the new gas franchise fee could be more difficult. The City Administrator reviewed what other cities have for gas franchise fees, and noted that most have both electric and gas franchise fees. The Finance Director explained that these fees would continue to pay for improvement projects. He noted that the costs for these improvements are increasing, but the revenues to pay for these is not keeping up so there will be deficits in the fund soon. The City Administrator explained that if more franchise fees are collected, then some money that currently goes towards improvements could be directed to the General Fund instead to help cover increasing policing and staff costs.

Kwapick suggested making the electric fee higher and not adding the gas fee. T. Miller stated that she feels the fees should be separate in order to be more transparent for residents to understand that there are two fees instead of having one higher fee, even though they both go to the same place. She noted that people may compare the fee amount to another city's amount and not realize that Little Canada only charges one fee. The City Administrator stated that staff will bring this back to Council in the near future.

PRELIMINARY REVIEW OF PROPOSED STORMWATER UTILITY FEE

The City Administrator stated that staff has been talking about adding a stormwater fee for the last few years in order to help fund the stormwater maintenance costs that the City is currently paying for. The City Engineer stated that an overwhelming majority of cities in the metro area have stormwater fees in order to support the water utility systems. He explained that the City owns and maintains a growing network of stormwater infrastructure such as rain gardens, manholes and catch basins, culvers, ditches, conveyance piping, infiltration & filtration basins and constructed stormwater ponds. He stated that the increased revenue can help with flood mitigation and water quality improvements. He noted that stormwater requirements are continually getting more restrictive and cities have to do more to fulfill permit requirements. He stated that funding currently only comes from Franchise Fees and property taxes. He stated that stormwater improvements or repairs done during street improvement projects are paid only by the city, not through assessments.

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The City Engineer stated that most cities use a basic unit of measurement to determine the fee amount, such as the average impervious area of a single-family lot in Little Canada. He showed how the impervious surface area is calculated and examples of amounts for different land uses. He stated that this fee would be added to the quarterly utility bills. D. Miller asked if there could be a credit system for properties that add things like a rain garden. The City Engineer stated that a few cities do offer a credit of some sort and that would be a Council decision. He explained that staff has also been discussing what level of community engagement should be done to inform property owners about this.

Fischer stated adding this Stormwater Utility Fee is a long-time coming and is needed. He noted this is a new revenue stream, but it is the right money at the right time. He stated that his opinion is that if the electric franchise fee is raised and the stormwater fee is added, he would wait to add the gas franchise fee.

T. Miller stated that the City should maybe be reviewing the franchise fees every five years rather than waiting for 20 years. She stated that she is in favor of increasing the electrical franchise fee and adding the stormwater fee, she would be fine waiting on the gas franchise fee if that was the opinion of other Council members. Kwapick stated that the stormwater fee is very important and needed. Gutierrez stated she feels that the gas prices have increased a lot recently and adding another fee on top of that may be too difficult for residents.

There being no further business, the meeting was adjourned at 7:25 p.m.

Thomas Fischer, Mayor

Attest:

Christopher Heineman, City Administrator