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Memorandum

To: Micah Heckman

From: Nick Dragisich

Subject: Comparison of Utility Franchise Fees and Transfers

Date: January 10, 2020

A comparison of franchise fees and transfers from municipal utilities to other city funds was undertaken to provide context to the transfers to the City from the Shakopee Public Utilities. The comparison municipal utilities chosen were those in geographic proximity to Shakopee which included Anoka, Buffalo, Chaska, Delano, Elk River, and North Saint Paul which are all metropolitan cities. Marshall and Moorhead were chosen because they are larger municipal utilities in regional centers while not being overwhelmingly larger such as Rochester.

Each of these municipal utilities transfer funds to other city funds. The budgeted amounts of funds transferred in 2019, and the basis of the transfer varies for each of them. Municipal utilities can transfer funds to other City funds under Minnesota statutes absent any specific local restrictions. Local restrictions are generally found in those cities governed by a home rule charter. A description of the transfers and the basis for each comparison City is provided below.

Anoka

Anoka is governed by a home rule charter. Transfers from the utility are authorized by a city ordinance. Transfers budgeted from the electric utility in 2019 included a franchise fee of \$0.004/kWh which was budgeted at \$955,000 and a \$500,000 transfer to other funds. The total budgeted transfer was \$1,455,000 which is 4.92% of electric revenues. Transfers from the water utility to other funds were budgeted at \$380,180 which is 20.03% of water revenues. The total budgeted transfers were \$1,835,180 which is 5.83% of total revenues.

Buffalo

Buffalo is a statutory city. Transfers from the utility were not defined in any ordinances or other data available on the city's website. However, the city's budget documents included language about the transfers as follows:

Transfers In includes revenue from the enterprise funds to cover services provided by the General Fund and Special Revenue Funds. The City's general fund tax levy would be significantly higher without these transfers of excess profits. Budgeted transfers from enterprise funds to the General Fund in 2019 include \$900,000 from Electric and \$475,000 from the Liquor Funds to Parks. A \$100,000 transfer from the Electric Fund to the Civic Center Fund is also budgeted in 2019.

Transfers appear to be made only from the electric utility. The total budgeted transfers for 2019 were \$1,000,000 which represents 6.25% of electric revenues and 5.28% of combined electric and water revenues.

Chaska

Chaska is statutory city. The transfers from the utility are made pursuant to city ordinance Chapter 8 - Electricity /Article III Section 49 Franchise Fee. Information in the City's 2019 budget shows the City charges the electric utility a franchise fee on per kilowatt-hour basis which is roughly equal to 10% of electric revenue. The amount budgeted for 2019 was \$3,750,000. In addition, the City budgeted transfers \$1,530,000 from the electric utility to other city funds. These budgeted transfers include:

- \$430,000 to the Community Center
- \$800,000 the Community Building Fund
- \$300,000 to the Fire Station Debt Service Fund

The total franchise fees and transfers from the electric utility were budgeted to be \$5,280,000 or 14.15% of electric revenues for 2019.

Transfers from the Water Utility were budgeted at \$56,000 which is 1.79% of budgeted revenues. There was no explanation for this budgeted transfer.

Total transfers were budgeted to be \$5,336,000 or 13.19% of total budgeted electric and water revenues.

Delano

Delano is a statutory city. Transfers from the electric utility are made pursuant to an agreement between the city and the utility commission. There are two transfers. One is a transfer comparable to a franchise fee and the other is a payment in lieu of taxes (PILOT). The transfer was budgeted at \$200,000 and the PILOT was budgeted at \$130,000 for a total of \$330,000 in 2019. This amount is 5.2% of budgeted electric revenues. There are no transfers from the water utility. The transfers are budgeted at 4.43% of combined electric and water revenues.

Elk River

Elk River is a statutory city. Transfers out of the electric utility are by city ordinance and are 4% of gross electric sales within the corporate limits of the city. The City Council determines the portion of this contribution to be allocated to the General fund, Library, and the Equipment Replacement fund. 2019 budget data was not available on the city's website, so 2018 actual data was used. In 2018 the electric fund transferred \$1,188,664 as franchise fees and transferred \$215,296 to pay

for city services bringing total transfers to \$1,403,960 which was 4.72% of electric revenues. There were no transfers out of the water utility. The transfers were 4.36% of combined electric sales and water revenues.

North Saint Paul

North Saint Paul is a statutory city. Transfers from the electric utility are made pursuant to city ordinance. The 2019 budget included \$363,256 in electric utility franchise fees and \$236,744 in other transfers out of the electric utility. The franchise fee is based on \$0.004/Kwh sold. The other transfer was not defined in the budget documents other than the amount. The total electric utility transfer was budgeted at \$600,000 or 6.10% of budgeted electric revenues.

Transfers out of the water utility for 2019 were budgeted at \$205,000. There was no description of this transfer in the budget documents. The transfer was 11.77% of budgeted water revenues.

Total combined budgeted transfers were \$805,000 which was 6.95% of combined budgeted revenues.

Marshall

Marshall is a home rule charter city. Transfers out of the electric utility are made by agreement between utility and city. Electric transfers for 2019 were budgeted to be from PILOT payments. The first payment is based on \$0.0014/Kwh based on 5-year average sales and were budgeted at \$828,669. The other transfers from the electric utility is also a PILOT for industrial land development and was budgeted at \$500,000 for 2019. The combined PILOT payments \$1,328,669 or 6.58% of revenues.

Marshall does not transfer any funds from its water utility.

The combined transfer was budgeted to be \$1,328,669 which was 5.17% of combined revenues.

Moorhead

Moorhead is a home rule charter city. Franchise fees are limited by the provisions of the city charter not to exceed 20% of gross revenues for both the electric and water utilities. The applicable charter sections are pasted below,

Subd. 4. The council may by a vote of six members transfer in any fiscal year to the general revenue fund of the city from the net revenues of a utility or service under the control of the commission and from the net revenues of any city owned utility the following amounts:

(a) from the electric utility, an amount not to exceed 20 percent of gross revenues,

(b) from the district heating utility, an amount not to exceed 10 percent of gross revenues,

(c) from any other city owned utility, an amount not to exceed 5 percent of gross revenues, and

(d) any amount authorized by law to be so transferred.

Subd. 5. In this chapter the term "gross revenues" means all operating and non-operating revenues of a utility from whatever source derived; the term "net revenues" means gross revenues less current expenses of the operation of the utilities. The amounts of gross revenues and net revenues must be determined by the commission in accordance with generally accepted accounting principles. Transfers made pursuant to this section must be consistent with covenants with bondholders in city resolutions authorizing the issuance of obligations payable from revenues of the utilities.

The 2019 budget showed electric utility transfers totaling \$8,986,000 or 19.92% of revenues as follows;

- General Fund \$6,850,000
- Economic Development Fund \$50,000
- Capital Improvement Fund \$2,086,000

The budget shows water utility transfers totaling \$596,000 or 6.41% of revenues as follows:

- General Fund \$470,000
- Capital Improvement Fund \$126,000

The combined transfer was \$9,582,000 which is 17.61% of combined electric and water revenues.

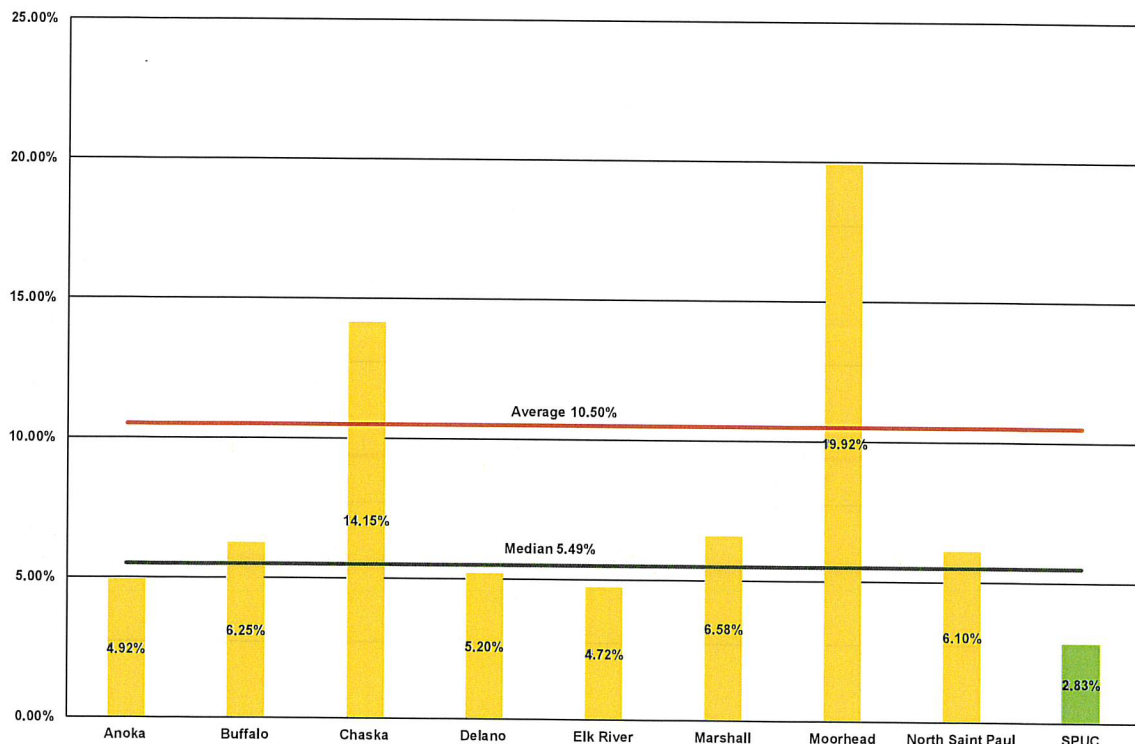
The average of these comparable utilities percent of transfers is shown in the tables and charts that follow.

The first table shows the budgeted electric utility transfers from each utility. The comparison shows that the Shakopee Public Utility budgeted transfers of 2.83% of electric revenues the lowest percentage of the comparison utilities. Their budgeted transfer was 26.9% of the 10.50% average budgeted transfer and 51.4% of the 4.59% median budgeted transfer for the group.

Electric Utility Transfers

Electric						
City	Franchise Fee Basis	2019 Budgeted Franchise Fees	2019 Budgeted Transfers to Other Funds	2019 Total Fees	2019 Budgeted Revenues	Fees as a Percent of Electric Revenues
Anoka	\$0.004/Kwh	\$ 955,000	\$ 500,000	\$ 1,455,000	\$ 29,570,275	4.92%
Buffalo	flat fee	\$ 900,000	\$ 100,000	\$ 1,000,000	\$ 15,988,420	6.25%
Chaska	10% of revenues	\$ 3,750,000	\$ 1,530,000	\$ 5,280,000	\$ 37,323,400	14.15%
Delano	\$0.00317/Kwh	\$ 200,000	\$ 130,000	\$ 330,000	\$ 6,345,000	5.20%
Elk River	4% of sales within corporate	\$ 1,188,664	\$ 215,296	\$ 1,403,960	\$ 29,716,600	4.72%
Marshall	\$0.0014/Kwh based on 5-year average sales	\$ 828,669	\$ 500,000	\$ 1,328,669	\$ 20,185,000	6.58%
Moorhead	Not to exceed 20% of gross	\$ 6,850,000	\$ 2,136,000	\$ 8,986,000	\$ 45,118,000	19.92%
North Saint Paul	\$0.004/Kwh	\$ 363,256	\$ 236,744	\$ 600,000	\$ 9,835,500	6.10%
Average				\$ 2,547,954	\$ 24,260,274	10.50%
Median				\$ 1,366,315	\$ 24,877,638	5.49%
SPUC		\$ -	\$ 1,446,000	\$ 1,446,000	\$ 51,176,000	2.83%

2019 Transfers From Electric Utility As a Percent of Budgeted Revenues



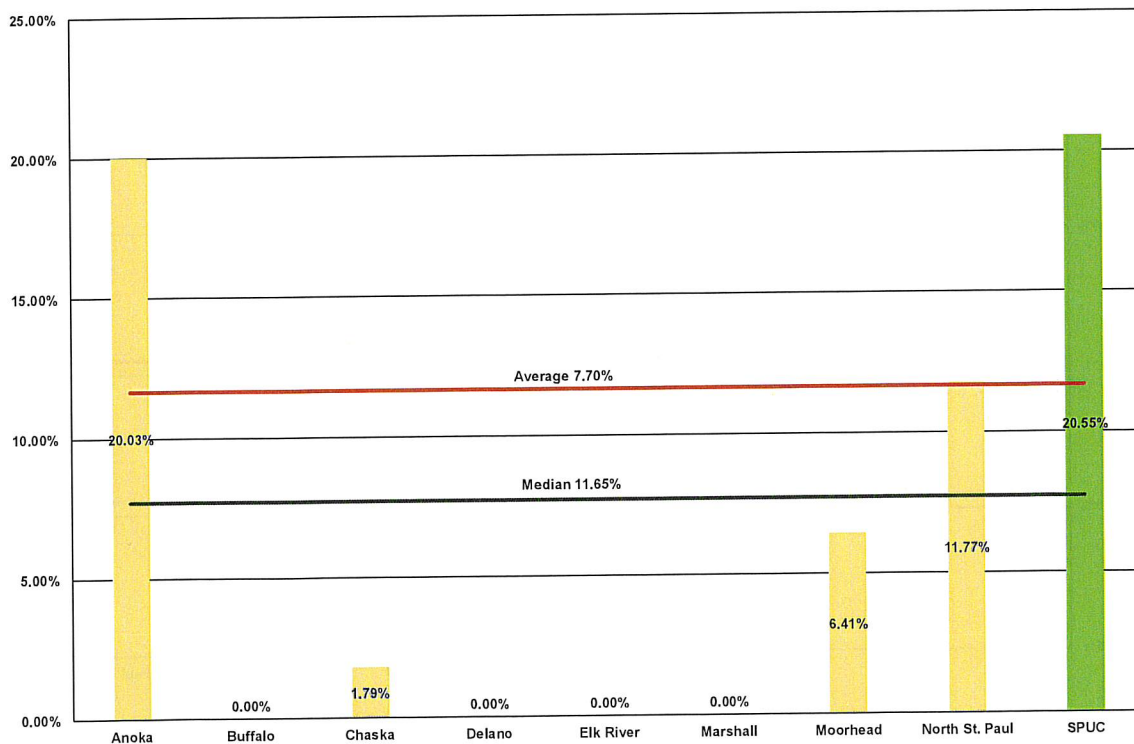
The next table shows the budgeted water utility transfers from each utility. The comparison shows that the Shakopee Public Utility budgeted transfer of 20.55% of water revenues was the highest percentage of the

comparison utilities. Their budgeted transfer was 267% of the 7.70% average budgeted transfer and 176% of the 11.65% median budgeted transfer for the group.

Water Utility Transfers

Water						
City	Franchise Fee Basis	2019 Budgeted Franchise Fees	2019 Budgeted Transfers to Other Funds	2019 Total Fees	2019 Budgeted Revenues	Fees as a Percent of Water Revenues
Anoka		\$ -	\$ 380,180	\$ 380,180	\$ 1,898,500	20.03%
Buffalo		\$ -	\$ -	\$ -	\$ 2,954,456	0.00%
Chaska		\$ -	\$ 56,000	\$ 56,000	\$ 3,126,380	1.79%
Delano		\$ -	\$ -	\$ -	\$ 1,110,934	0.00%
Elk River		\$ -	\$ -	\$ -	\$ 2,515,821	0.00%
Marshall		\$ -	\$ -	\$ -	\$ 5,528,000	0.00%
Moorhead	Not to exceed 20% of gross	\$ 470,000	\$ 126,000	\$ 596,000	\$ 9,294,486	6.41%
North St. Paul		\$ -	\$ 205,000	\$ 205,000	\$ 1,741,000	11.77%
Average				\$ 309,295	\$ 4,015,092	7.70%
Median				\$ 292,590	\$ 2,512,440	11.65%
SPUC		\$ -	\$ 1,079,000	\$ 1,079,000	\$ 5,250,000	20.55%

2019 Transfers From Water Utility As a Percent of Budgeted Revenues

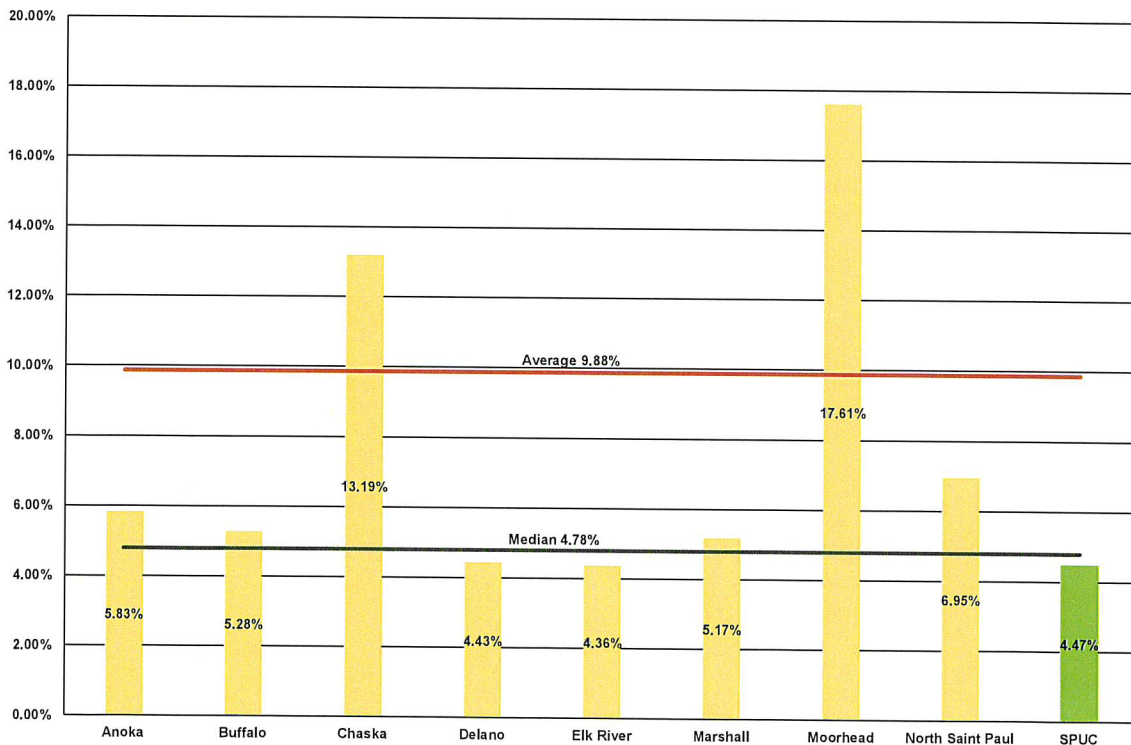


The last table shows the combined utility budgeted transfers from each utility. This comparison shows that the Shakopee Public Utility combined budgeted transfers of 4.47% of revenues was the second lowest of the comparison utilities with only Delano budgeted to transfer less at 4.43% of combined revenues. Shakopee's budgeted combined transfer was 45.29% of the 9.88% average budgeted transfer and 93.64 % of the median budgeted transfer for the group.

Combined Utility Transfers

Combined						
City	Franchise Fee Basis	2019 Budgeted Franchise Fees	2019 Budgeted Transfers to Other Funds	2019 Total Fees	2019 Budgeted Revenues	Fees as a Percent of Combined Revenues
Anoka		\$ 955,000	\$ 880,180	\$ 1,835,180	\$ 31,468,775	5.83%
Buffalo		\$ 900,000	\$ 100,000	\$ 1,000,000	\$ 18,942,876	5.28%
Chaska		\$ 3,750,000	\$ 1,586,000	\$ 5,336,000	\$ 40,449,780	13.19%
Delano		\$ 200,000	\$ 130,000	\$ 330,000	\$ 7,455,934	4.43%
Elk River		\$ 1,188,664	\$ 215,296	\$ 1,403,960	\$ 32,232,421	4.36%
Marshall		\$ 828,669	\$ 500,000	\$ 1,328,669	\$ 25,713,000	5.17%
Moorhead		\$ 7,320,000	\$ 2,262,000	\$ 9,582,000	\$ 54,412,486	17.61%
North Saint Paul		\$ 363,256	\$ 441,744	\$ 805,000	\$ 11,576,500	6.95%
Average		\$ 2,163,190	\$ 810,497	\$ 2,973,687	\$ 30,096,467	9.88%
Median		\$ 927,500	\$ 470,872	\$ 1,366,315	\$ 28,590,888	4.78%
SPUC		\$ -	\$ 2,525,000	\$ 2,525,000	\$ 56,426,000	4.47%

2019 Transfers From Combined Utility As a Percent of Budgeted Revenues



Summary of the comparison is shown below. The summary also shows the 2016 American Public Power Association (APPA) average transfers from electric revenues.

Comparison Utility Statistics	Average	Median	Shakopee Public Utility	APPA 2016 Average From Electric Revenues
Electric Utility transfer	10.50%	5.49%	2.83%	5.60%
Water Utility transfer	7.70%	11.65%	20.55%	
Combined Utility transfer	9.88%	4.78%	4.47%	

The comparative data shows that the Shakopee Electric Utility budgeted transfers are considerably less than the comparison utilities and less than the average transfers of the members of A PPA. Budgeted transfers from the water utility are considerably greater than the comparison; however, the water utility revenues are also significantly less for each utility than the electric revenues. Perhaps the most relevant comparison is the combined budgeted revenues which shows Shakopee Public Utilities budgeted transfers are less than half of the budgeted transfers of the comparison utilities. However, it is important to understand that there is no standard transfer amount but rather a broad range of franchise fees and other transfers that are driven by the specific needs of each city as the data shows. Shakopee should review this comparison and discuss what is an appropriate transfer amount from the Utility to the City given this comparative data and the unique needs of the City and the Utility.