



To: MAYOR AND COUNCIL

Agenda Item #: VII.B. and VII.C.

From: Scott H. Neal, City Manager

Action

Discussion

Date: September 1, 2015

Information

Subject: PROPOSED INCREASE IN UTILITY FRANCHISE FEES: ORDINANCE No. 2015-15 and No. 2015-16

PROPOSED POLICY FOR CONSERVATION AND SUSTAINABILITY (CAS) FUND

Action Requested:

Approve first reading of Ordinance No. 2015-15 and No. 2015-16 increase utility franchise fees.

Approve the proposed Conservation and Sustainability Fund Policy.

Information / Background:

The City of Edina has bold goals for environmental protection. Those goals are described in great detail in Chapter 10 or the City's Comprehensive Plan, and included Greenhouse Gas (GHG) reduction goals for Edina city government of 15% by 2015, 30% by 2025 and 80% by 2050. In order to meet the GHG reduction goals, the City created a five point plan:

- Conduct a baseline emissions inventory and forecast
- Adopt an overall GHG reduction goal and an emissions reduction target based on the forecast year
- Develop a Local Action Plan
- Implement policies and measures
- Monitor and verify results

In addition to adding its environmental protection goals to its Comprehensive Plan, the City Council created a new citizen advisory commission in 2007, the Energy & Environment Commission (EEC), and gave it a broad environmental protection mandate, including the following:

- Energy conservation for Edina's citizens and businesses
- City government purchasing policies to encourage energy conservation
- Residential recycling program
- Municipal solid waste collection
- Public education about energy issues
- Promotion of Renewable energy options
- Establishing targets for GHG reduction

Various attempts have been made over the past eight years by the City to create a *focused systemic approach* to accomplishing the goals of Chapter 10 and the EEC, with limited success, despite spending in excess of \$700,000 during that time period on various software packages, consulting studies and capital improvements. Examples of these expenditures include the staff time dedicated to maintenance of the B3 database and participation in the Green Step

Cities program; the energy conservation capital improvements that were part of the McKinstry performance contract in 2011; and the installation of solar panels on the roof of City Hall.

The resources spent by the City to date on conservation and sustainability have not been wasted. The 2011 McKinstry improvements to our buildings, for example, have achieved their goal of reducing the City's carbon footprint. But it is a fair critique to say that these expenditures have been uncoordinated and have lacked focus on the singular goal of reducing the City's production of GHG. And, it is also fair to say that because these past expenditures have been uncoordinated, they have not led to new embedded conservation and sustainability practices on our daily city government operations.

If the City is going to achieve its ambitious GHG reduction goals, it must be willing to make an equally ambitious decision to dedicate the resources, staff and organizational attention necessary to achieve these goals. If the City Council is willing to create a dedicated source of revenue and a new dedicated fulltime staff position, organizational attention will follow, as will substantial progress toward the accomplishment of the City's environmental goals.

The Conservation and Sustainability Fund Initiative

In order to make substantial progress toward the accomplishment of the City's environmental protection goals, I propose the City Council approve the creation of a new initiative focused on the concepts of conservation and sustainability. The initiative will be supported by a new special revenue fund called the Conservation and Sustainability (CAS) Fund. The CAS Fund will be supported by a dedicated revenue source - utility franchise fees.

At your September 1 meeting, the City Council will consider the first of two readings of ordinances that will increase utility franchise fees for the customers of Xcel Energy and CenterPoint Energy that were first established in 2012. If adopted, the ordinance will increase the existing franchise fees for the residential customer by \$0.50/meter/month for both utilities. Existing franchise fees were set in 2012 at \$1.45/month for both Xcel Energy and CenterPoint Energy. If adopted as proposed, the proposed increase will bring the monthly franchise fees to \$1.95 for each utility for residential customers.

The current franchise for both utilities requires the City to provide them each a 60 day notice prior to the adoption or change of franchise fees. If the Council adopts first reading of the proposed ordinances at your September 1 Council meeting, the second reading will be scheduled on November 4. If second reading is approved on November 4, the ordinance will be adopted and the both utilities will be notified to begin imposing the new franchise fees during the first quarter of 2016. Anticipated additional revenue from the new franchise fees will be \$250,000 per year.

Funds from the new 2015 franchise fees will be segregated from other City revenues, and from other City utility franchise fees, into the new CAS Fund. The CAS Fund will be a dedicated funding source for the new conservation and sustainability functionality and programs, which will provide the City with three key benefits that we do not currently enjoy:

- A dedicated source of funding for capital improvements for City property and equipment that further the City's overall conservation and sustainability goals.
- A dedicated source of funding for dedicated staffing that will be charged with implementing the conservation and sustainability work plan goals.
- An organizational emphasis and attention to imbedding a strong conservation and sustainability ethos into the city government's overall operations.

I am proposing a similar model for the creation of the CAS Fund with the new franchise fees as was used to create the Pedestrian and Cyclists Safety (PACS) Fund with the first utility franchise fees in 2012. That model included a dedicated revenue source, dedicated employee staffing and focused control over the spending of the new revenue. One of the reasons for the success of the PACS Fund has been the policy adopted by the City Council that clearly described, and

restricted the manner in which, the PACS funds could be spent. The PACS Fund policy provided parameters around spending that were successful in keeping the PACS Fund spending tightly focused on the Council's overall goal to, generally, increase the size and safety of the City's network of sidewalks and bicycle infrastructure. I want to replicate the success of the PACS Fund with the proposed new CAS Fund. The following is my recommendation for the CAS Fund policy.

THE PROPOSED CAS FUND POLICY:

The Conservation and Sustainability Fund (CAS Fund) is a special revenue fund created to account for new (2015) utility franchise fee revenues. The 2015 utility franchise fees will be a dedicated revenue of the CAS Fund. Other potential revenues for the CAS Fund may include grants, gifts, special assessments and transfers from other City funds.

Eligible expenses for the CAS Fund will include the following:

1. Capital improvements to City-owned buildings and equipment which improve energy conservation, efficiency or performance for the purpose of reducing the City's production of GHG.
2. Legal and consulting services directly related to accomplishing the City's conservation and sustainability work plan or capital improvements.
3. Staffing and personnel operational costs (compensation, overhead related employee costs, work related equipment, professional development, etc.) for a new 1.0 FTE City employee that is 100% dedicated to implementing the City's goals, objectives and work plan related to energy conservation and sustainability.

Examples of ineligible expenses for the CAS Fund include the following:

1. Political and advocacy activities
2. Consulting studies not directly related to energy conservation and sustainability projects that are not included in the City's CAS work plan or CAS capital improvement plan (CIP).
3. Capital expenses not related to improving the sustainability of energy performance of a City building or equipment or does not reduce the GHG production of the building
4. Costs related to public education and events, including refreshments, speaker fees & honorariums, room rentals, gifts, marketing & advertising or any other similar expenses
5. Costs related to travel, professional development of City advisory commission members
6. Capital improvements eligible to be funded by the PACS Fund
7. Operating or capital expenses related to water conservation, local food production, solid waste management, resource recycling, storm water management, noise pollution reduction and other non-CAS related policy priorities of the Energy & Environment Commission.
8. Capital or operating costs related to vehicles

The proposed new City staff position will be responsible for creating a budget and work plan each year to accomplish the CAS Fund goals. Among the primary duties of the new CAS Fund staff position are the following:

- Serve as the staff liaison to the Energy & Environment Commission.
- Act as a resource and liaison to all City departments on conservation and sustainability matters.

- Represent the City to other levels of government on conservation and sustainability issues.
- Write grants and seek other outside funding to assist the City with meeting its conservation and sustainability goals.
- Provide cost/benefit analysis of proposed environmental projects and programs
- Report on performance management metrics related to the City's conservation and sustainability programs and projects
- Prepare CAS Fund project and annual operating budgets
- Prepare CAS Fund work plans and capital improvement plans

The CAS staff member will serve as the staff liaison to the EEC and will assist EEC with the completion of their approved annual Work Plan. CAS funds, however, may only be spent on CAS Fund eligible expenses.

The revenue for the CAS Fund will be determined by the Finance Director each year based upon a consultation with representatives from both utilities. The Finance Director will provide a revenue forecast to the new CAS staff member. The CAS staff member will prepare an operating and capital budget for the CAS Fund at the direction of the City Manager and Finance Director.

The CAS staff member will also prepare a proposed CAS Fund Capital Improvement Plan (CIP). The CAS staff member will present the CIP to the EEC annually for their review and comment through the City's regular budget preparation process. Not less than 50% of the available annual CAS Funds will be dedicated to the CAS CIP.

The CAS Fund staff member will create an annual CAS Work Plan through the City's standard work plan process. The Work Plan will be consistent with previously adopted City plans and goals. The Work Plan will be presented to the EEC for review and comment before it is presented to the City Manager and City Council for approval. Once approved by the City Council, the new CAS Fund staff member will be charged with implementing the Work Plan.

ORDINANCE NO. 2015-15

**AN ORDINANCE AMENDING ORDINANCE NO. 2012-15 A GAS ENERGY FRANCHISE FEE
ON CENTERPOINT ENERGY MINNESOTA GAS ("CENTERPOINT ENERGY")
FOR PROVIDING GAS ENERGY SERVICE WITHIN THE CITY OF EDINA**

THE CITY COUNCIL OF THE CITY EDINA MINNESOTA ORDAINS:

SECTION 1. Section 3 of Ordinance No. 2012-15 is amended to provide as follows:

Section 3. FRANCHISE FEE STATEMENT AND SCHEDULE. A franchise fee is hereby imposed on Company in accordance with the following fee schedule:

<u>Customer Classification</u>	<u>Amount per Account per Month (\$)</u>
Residential	\$ 1.95
Firm A	\$ 3.40
Firm B	\$ 9.50
Firm C	\$40.50
Sm Vol, Dual Fuel A (SVDF A)	\$40.50
Sm Vol, Dual Fuel B (SVDF B)	\$40.50
Lg Vol, Dual Fuel (LVDF)	\$40.50

SECTION 2. Effective Date of Franchise Fee. The effective date of this Ordinance shall be after its publication and ninety (90) days after sending written notice enclosing a copy of this adopted Ordinance to Company by certified mail.

Attest:

Debra A. Mangen, City Clerk

James B. Hovland, Mayor

ORDINANCE NO. 2015-16

**AN ORDINANCE AMENDING ORDINANCE 2012-16
IMPLEMENTING AN ELECTRIC SERVICE FRANCHISE FEE ON
NORTHERN STATES POWER COMPANY, A MINNESOTA CORPORATION,
D/B/A XCEL ENERGY, ITS SUCCESSORS AND ASSIGNS,
FOR PROVIDING ELECTRIC SERVICE WITHIN THE CITY OF EDINA**

THE CITY COUNCIL OF THE CITY OF EDINA DOES ORDAIN:

SECTION 1. Schedule "A" of Ordinance 2012-16 is amended as attached hereto.

SECTION 2. Effective Date of Franchise Fee. The effective date of this Ordinance shall be after its publication and ninety (90) days after the sending of written notice enclosing a copy of this adopted Ordinance to Xcel Energy by certified mail.

Attest:

Debra A. Mangen, City Clerk

James B. Hovland, Mayor

SCHEDULE "A"

Franchise Fee Rates:

Electric Utility

The franchise fee shall be in an amount determined by applying the following schedule per customer premise/per month based on metered service to retail customers within the City:

<u>Class</u>	<u>Amount Per Month</u>
Residential	\$ 1.95
Sm C&I, Non-Dem	\$ 3.40
Sm C&I, Demand	\$ 9.50
Large C&I	\$40.50

Franchise fees are to be collected by the Utility at the rate listed below, and submitted to the City on a quarterly basis as follows:

- January – March collections due by April 30.
- April – June collections due by July 31.
- July – September collections due by October 31.
- October – December collections due by January 31.