



ARDEN HILLS  
MEMORANDUM

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**DATE:** June 6, 2013 (for June 17<sup>th</sup> work session)

**TO:** Honorable Mayor and City Council Members

**FROM:** Patrick Klaers, City Administrator 

**SUBJECT:** Financial Challenges and Franchise Fees

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There are a number of financial issues that I would like to review and discuss with the City Council. Most of the financial issues are related to the Capital Improvement Program (CIP) but a few of the issues cross over into the General Fund (property taxes) category.

### The Challenges

#### .....part 1

In recent years, the City Council has included in the General Fund budget the transfer of \$200,000 to the Permanent Improvement Revolving (PIR) fund. The purpose of this transfer is to help finance the City share (50%) of the street segment of the Pavement Management Plan (PMP) projects. However, at some point over the past few years, the crack filling/seal coating maintenance program and the trail rehabilitation program has moved from the General Fund budget to the PIR fund; and the expenses for these two maintenance programs is now approaching \$200,000 annually. In other words, all of the transfer that is intended to go for street segment of the PMP is really going for street and trail maintenance projects. If this funding approach for streets and trail maintenance continues, the City could run out of PIR money for its share of the street work in the PMP projects. What makes this situation an even bigger concern is that the need for street and trail maintenance is increasing and the program could easily use 50% more than the current budget.

#### .....part 2

The City has no dependable revenue source to finance Park and Trail improvement. All significant park and trail improvements – including any match for a grant – have been coming out of the PIR fund. Spending PIR money on parks and trails presents challenges in terms of keeping the PIR fund financially healthy. There are no Park Dedication funds currently available for projects. Recent Park Dedication funds were used for the Elmer L. Andersen trail. There will not be a lot of additional Park Dedication funds available until TCAAP starts to develop; and the funds generated from TCAAP will likely need to be spent on TCAAP property.

Additionally, the need to address deteriorating park facilities and equipment is increasing as our current system ages. For example, the PIR fund shows a \$70,000 annual expense starting in 2016 for playground structure replacement.

.....part 3

For a number of years, the City Council has included in the General Fund budget the transfer of \$40,000 to the Equipment fund. (The water, sewer, and surface water funds also annually transfer money into the Equipment fund.) The City is only purchasing the items it needs, but the transfer amount is not enough money to deal with the long term ongoing needs of the City. The shortage in the Equipment fund continues to grow. This fund is starting the year 2013 with a \$500,000 deficit.

**Possible Solutions**

Possible actions to help address these financial problems include:

- 1.) increase tax revenues (you can then move the street and trail maintenance expenses back into the General Fund or increase the Transfers to the PIR and Equipment funds),
- 2.) changing the 50/50 split on the PMP street expenses to a 2/3 – 1/3 split in favor of the City,
- 3.) begin assessing seal coating expenses to the benefitted property owners,
- 4.) decrease the street and trail maintenance program (this is not recommended as the need for maintenance is increasing),
- 5.) consider presenting to the residents a public referendum to finance a 10 to 15 year park and trail improvement program, and/or
- 6.) consider a new gas and electric franchise fee to generate money for capital projects, equipment, and street and trail maintenance.

**Franchise Fees**

I think that this revenue option has real potential to help solve our infrastructure improvements and maintenance challenges. To agree with this statement means that you also have to agree that our problems center on not enough revenues verse the City spending too much or the City having mixed up priorities. In this regard, I truly believe that the problem is not enough revenues.

.....the PMP factor

In October 2012, the City Council reviewed a “fiscally constrained street CIP” that capped the spending level at \$1 million per year (as an average). This discussion was in response to Council concerns that the City was spending too much money on too many projects in too short of a period; and that the PIR fund was going to run out of money.

The 2012-16 PIR fund showed total funds available for projects declining from about \$4.5 million in January 2012 to about \$300,000 by the end of 2016. After the October 2012 work session the 2013-17 CIP was adjusted, and without a change in revenues, the PIR funds available at the end of 2016 is now projected at slightly above \$5 million. On

the other hand, in order to maintain the \$1 million average expenditure level, there are no PMP projects in the PIR fund between the 2015 Glenview project and the 2022 Indian Oaks/Floral Drive project. This lack of PMP projects increases the need for street maintenance expenses.

To review the PIR and other CIP financial information, the Council can refer to the blue pages at the back of the 2013-17 CIP document that has been previously distributed.

.....a franchise fee overview

At the October 2012 work session the Council briefly discussed franchise fees and staff was directed to bring the issue back in 2013 for further review. Franchise fees were a popular financial option for municipalities in the 1980's when significant cuts in Local Government Aid were taking place and franchise fees continued to be a viable option for cities facing various financial challenges. From the lists that I have seen, there are about 30 suburban cities that collect franchise fees. In talking with our neighboring cities, I understand that both New Brighton and Mounds View collect gas and electric franchise fees and that Shoreview currently is considering a franchise fee ordinance.

Franchise fees can be used for any purpose; however, in my discussions with staff from other cities, it seems that most cities use the majority of fees for activities and projects associated with the Right-of-Way (ROW). This means street and trail improvements and maintenance and the equipment needed to do this work. Gas and electric lines are installed in the City's ROW, so the logic is that the franchise fees should also be used for activities in the ROW.

.....the customer pays

All utility customers pay franchise fees. Both customers that are in the Tax Exempt category and the ones that pay property taxes. The logic for using franchise fees on streets and trails that are in the ROW means tax exempt properties pay something for streets and trails that they or their customer or employees use.

It can be debatable whether the benefits to a community for having businesses (and programs) that exist on tax exempt properties offsets the loss of tax revenues that would otherwise be generated for the property. There are lots of pros and cons to having tax exempt properties in the community...and this franchise fee verses property taxes is just another consideration in the complex equation of balancing what is fair payment for municipal services and programs.

According to information provided by Ramsey County, approximately 46% of the City's tax base is in the Tax Exempt classification and does not pay any property taxes.

.....info from Xcel

I have been in contact with our Xcel Energy representative, Colette Jurek, Manager – Community Relations & Economic Development, regarding the City's interest in exploring a gas and electric franchise fee. Colette has advised me that most franchise fees are based on a percentage according to the amount of money sought by the City. Once

this amount is established, Xcel converts the percentage into a flat rate in order to take the “highs and lows” out of the billing cycles due to the weather. Xcel collects the fee and pays the City quarterly. (The fee shows up on the utility bills as a “City fee”.) The franchise fee needs to be a bi-lateral agreement between the City and Xcel. No public hearing is required, but the City needs to adopt an ordinance to establish the franchise fee. It takes 90 -120 days for Xcel to implement the franchise fee after the City Council adopts the ordinance.

According to data supplied by Xcel (see attachment), a 4% gas and electric franchise fee will generate approximately \$880,000 per year. (You can do the math, but each 1% is about \$220,000 annually.) According to Colette, a franchise fee request of 5% needs to be reviewed by representatives above her in the organization, which makes it seem that a fee at the 5% level is discouraged.

.....impact to taxpayers

Each 1% increase in the City tax levy generates about \$30,000. What a franchise fee means to our tax levy and tax payers is “wide open” and depends on the amount collected and the use of the fee. (Another financial issue to keep in mind is the possible future need for a tax levy for the Economic Development Authority (EDA). The lack of an ongoing source of revenues for the EDA is topic that is starting to get some attention.)

In terms of trying to understand the financial impact of a franchise fee to home and business owners, it is much easier to analyze the impact on residential properties. For example, if a home owner pays \$800 in City taxes (about the average) and they pay \$1,200 annually for gas and electricity; then a 4% increase in gas and electric (\$48) can be compared to 6% of taxes being paid to the City. A lot of homes may be comparable proportionally when looking at the property value and their cost of gas and electricity. On the other hand, a business that has a low property value could use a lot of gas and electricity; and a business that has a high property value could use very little gas and electricity. While data practices laws prevent Xcel from telling cities too much about their customer base, they will advise cities if any proposed action has a significant negative impact on various business or residential classes.

Considering all the factors, it is almost impossible for a city to make a franchise fee “revenue neutral” for the tax payers. It is easier when only looking at residential properties but it is very difficult from a city wide approach. Additionally, making the franchise fee revenue neutral somewhat defeats the goal of having more funds available to address the City’s infrastructure needs.

.....a separate fund

If the City establishes a franchise fee, it should also set up a separate Franchise Fee fund in order to more easily track revenues and expenditures. Then the Council could clearly define what expenditures would come out of the fund. The list of uses could include: Street Maintenance program, Trail Rehabilitation program, Equipment fund transfers, Park Playground Structures (new and replacements), and Trail capital improvements (i.e.

Lake Johanna Blvd. between the C.R. E bridge and the beach or the Old Highway 10 trail between Snelling (51) and Highway 96).

.....the next steps

There is a lot to consider and discuss when looking at the City's infrastructure needs and a possible franchise fee.

Colette Jurek from Xcel is available to attend a future Council work session to discuss the topic and issues.



1700 East County Road E  
White Bear Lake, Minnesota 55110-4658

May 1, 2013

Mr. Patrick Klaers  
City Administrator  
City of Arden Hills  
1245 Highway 96 West  
Arden Hills, MN 55112

SUBJECT: Franchise Fees (Gas and Electric)

Dear Pat:

As a follow-up to our recent phone conversation regarding the implementation of a franchise fee collection, I have enclosed a potential flat fee collection schedule based on 1% of gross revenues. Please take the opportunity to review these proposed collection schedules at your convenience. I will contact you via e-mail in a few days to schedule a meeting so that we can further discuss this issue.

Thank you for your recent inquiry regarding franchise fees. I look forward to working with you and your finance director on this matter.

Sincerely,

A handwritten signature in black ink that reads 'Colette Jurek'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Colette Jurek  
Manager – Community Relations & Economic Development  
[Colette.c.jurek@xcelenergy.com](mailto:Colette.c.jurek@xcelenergy.com)  
Work: 651/779-3105

City of Arden Hills, Minnesota  
 Franchise Fee Estimate  
 Xcel Energy  
 Gas Flat Fee  
 Information Based on Year Ending March 2013

Customer Class	Monthly Flat Fee Per Customer
Residential	\$1.00
Commercial Firm – Non-Demand	\$5.00
Commercial Firm – Demand	\$18.00
Small Interruptible	\$61.00
Medium & Large Interruptible	\$120.00
Firm Transportation	\$120.00
Interruptible Transportation	\$120.00
Estimated Annual Franchise Fee Revenue*	\$58,668

[Flat fee based on approximately 1% of gross revenues.]

\*Subject to subsequent reductions for uncollectibles, refunds and correction of erroneous billing;

City of Arden Hills, Minnesota  
Franchise Fee Estimate

Electric Flat Fee  
Information Based on Year Ending March 2013

Customer Class	Monthly Flat Fee Per Customer
Residential	\$1.00
Small C&I – Non-Demand	\$1.25
Small C&I – Demand	\$15.25
Large C&I	\$123.75
Public Street Lighting	\$1.25
Municipal Pumping – Non-Demand	\$4.00
Municipal Pumping – Demand	\$0.50
Estimated Annual Franchise Fee Revenue*	\$160,632

[Flat fee based on approximately 1% of gross revenues.]

\*Subject to subsequent reductions for uncollectibles, refunds and correction of erroneous billings.



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**DATE:** June 12, 2013  
**TO:** Patrick Klaers, City Administrator  
**FROM:** Terry Maurer, Public Works Director  
**SUBJECT:** Round Lake Road West Improvements

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As you requested, this memo is intended to provide more detail on the proposed improvements we would suggest be included in a Round Lake Road West street and utility project. First, the area of the proposed improvement is from the south end of the short piece of urban street that has already been reconstructed, near the Holiday gas station at the north end to Gateway Boulevard at the south end. This is a total length of approximately 3,000 feet. The proposed sanitary sewer improvements go outside this area at the north end.

## **1. Street Improvement**

The proposed street improvement will provide a 10 ton design urban roadway 48 to 52 feet in width. The street section would be barrier concrete curb and gutter similar to the north end near Hwy 96. There would be an 8 foot wide concrete sidewalk along the entire east side. The current cost estimate does not include lighting or landscaping such as boulevard trees. The street design would meet all Municipal State Aid (MSA) requirements as this street is on the City's MSA system.

## **2. Storm Drainage Improvement**

With the street being reconstructed as an urban section there would need to be a pipe drainage system placed under the street. This system would be designed according to MSA standards. Rice Creek Watershed District will require a storm water pond to treat the runoff collected in the pipe system. It is likely that property would have to be acquired to construct this pond somewhere near the south end of Round Lake Road West. Monies have been included in the estimate for land acquisition for the storm water treatment pond.

### **3. Sanitary Sewer Improvement**

At the south end of the project site is a Metropolitan Council Environmental Service (MCES) meter site. By extending 12 inch gravity sanitary sewer northward from this meter location along Round Lake Road West, under Hwy 96, through the casing installed with the 10/96 project, we will be able to eliminate the need for Lift Station #11 located near the Prior Avenue entrance to Arden Manor. Although it is not part of this project, it would be possible to extend this 12 inch gravity sanitary sewer easterly from the Lift Station #11 location to the south end of the TCAAP property. A 12 inch sanitary sewer is likely not large enough to serve all of TCAAP, but this pipe may provide an economical means to provide sanitary sewer service to the south portion of TCAAP.

### **4. Water Main Improvement**

Much of the existing water main under Round Lake Road West is 8 inch pipe. However, at the south end this is connected to a 12 inch water main coming from the east. At the north end, much of the 8 inch water main along Hwy 96 will be replaced by 12 inch pipe with the 10/96 improvement. The proposal for the Round Lake Road West project is to replace the entire 8 inch pipe with 12 inch for two reasons. First, it will provide for better flow and pressure for domestic consumption and fire fighting needs in the immediate area. Secondly, it will provide an additional 12 inch loop from the north water tower to provide pressure and flow into the TCAAP property. Currently there are two 12 inch loops (Hamline Avenue and North Snelling) that will ultimately feed TCAAP.

### **5. Cost Estimate**

The estimated costs presented below have been determined at this point without the benefit of detailed topography of the area or any geotechnical investigation. The cost estimate has been prepared for placement in the City's CIP only. The estimated costs, including contingency and overhead for each item, are as follows:

Sanitary Sewer Construction	\$504,920
Water Main Construction	201,500
Street Construction	949,780
Storm Drainage Construction	606,450
Land Acquisition (street and pond)	365,000
Total Project Cost	\$2,627,650

### **6. Other Considerations**

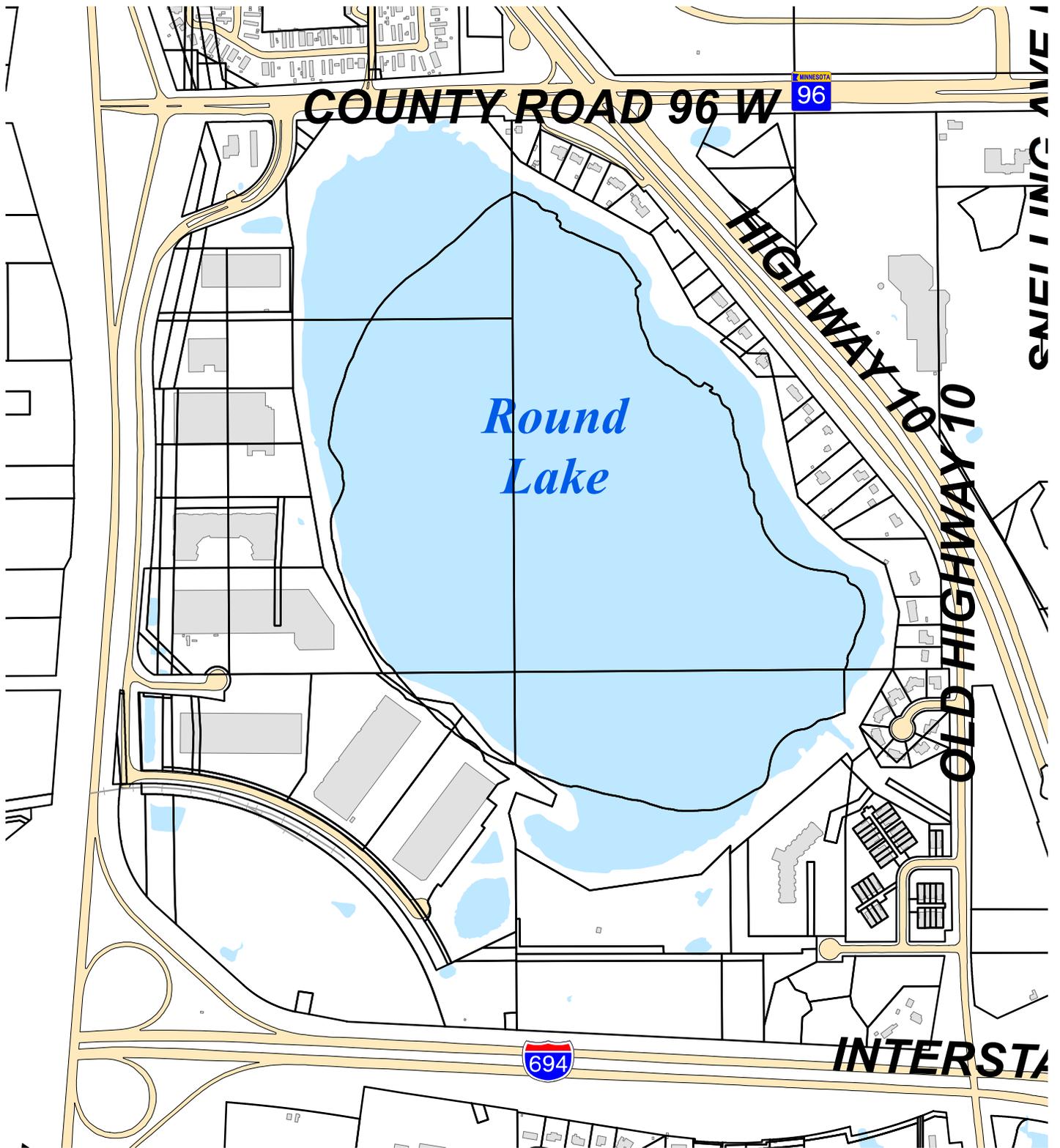
With the large area at the south end of Round Lake Road West currently undeveloped, there is always a question of "Should the improvement project wait until the area is developed so that construction of the buildings and infrastructure does not destroy the new road?" My

recommendation would be somewhat opposite of this view. With only one way in and out of this area, it will be difficult at best to maintain traffic flow to the existing buildings during the underground construction and street work. Waiting until the remaining land is developed will make this task that much tougher, not to mention the marketing of the new buildings to prospective tenants. I believe that getting this work done before any future development would be the best option. The City may have to plan on a seal coat and restriping immediately after any development at the south end, but, with a 10-ton design, the road should hold up to developing traffic just fine. If the goal is to do the project in 2014, without going through the assessment process, a possible timeframe could look like this:

August 2013	Hire consultant to assist on project
August 2013	Authorize Preliminary Engineering Study
November 2013	Accept Preliminary Engineering Study Order Plans and Specifications
February 2104	Accept Plans and Specifications Order Advertisement for Bids
March/April 2014	Award Project

If the Council is considering moving forward with this project in 2014, there are some things I would suggest getting started on now. These are items that would be valuable even if the project is delayed beyond 2014. There are three items that would help to better estimate the project costs and scope. These are: 1) full topographic survey; 2) geotechnical investigation; and 3) legal right-of-way research.

Please let me know if you have any questions regarding this information.



## Round Lake Road Study Area



Prepared by:  
City of Arden Hills Engineering Department  
June 12, 2013

mapdoc: Study Area.mxd  
map: Study Area.pdf



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**DATE:** February 21, 2012

**TO:** Honorable Mayor and City Councilmembers  
Patrick Klaers, City Administrator

**FROM:** Sue Iverson, Director of Finance and Administrative Services

**SUBJECT:** Economic Development Authority (EDA)

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**Background**

The EDA was created on January 29, 1996, by Resolution No. 96-08 by the City Council (a public hearing was held on this date and the resolution adopted – the purpose stated in the City Council minutes was to assist the City with its economic development efforts at the Gateway Business District and potential TCAAP projects.) The City Council had reviewed this item at its December 1995 worksession and Bob Deike was the Attorney who helped establish the authority. The By-laws of the Authority were revised on April 14, 1997.

On April 14, 1997, Resolution 97-18 was passed by the City Council which transferred the control, authority, and operation of any project as defined in Section 469.174, Subd. 8, or any other program or project authorized by Sections 469.001 to 469.124 to Section 469.134 located within the City, from the government agency that established the project to the Economic Development Authority. At that time the City had Development Dist. No. 1 and TIF Dist. Nos. 1, 2, and 3. This Resolution transferred to the EDA all activities, programs, operations, and control of budgeting, financing, property ownership, and personnel related to the economic development activities taking place within these districts. The EDA currently has five active funds, The EDA General Fund, Revolving Loan Fund, and TIF Dist 2, 3, and 4. The EDA met as needed, with the last meeting in 2004 prior to the recent December 2011 meeting.

The Economic Development Commission (EDC) was established on March 8, 2004 and the first EDC meeting was held on September 29, 2004. It was stated at that time that the broad charge of the EDC would center on business connections, marketing and assisting in developing redevelopment strategies. These areas were outlined in the City Council's original EDC ordinance.

### EDA General Fund

This fund accounts for general administration activities that are not specific to any individual TIF District, as well as activities associated with the Economic Development Commission. The estimated balance on December 31, 2011 is \$88,262.

### EDA Revolving Loan Fund

In 1996, a grant was applied for thru the Minnesota Department of Trade and Economic Development for CPI/Guidant. In both 1997 and 1998, the EDA secured \$300,000 in forgivable loans for CPI/Guidant totaling \$600,000. If CPI/Guidant achieved certain employment goals, up to \$500,000 of these loans were to be forgiven. \$100,000 of the \$300,000 1998 grant was not forgivable and was repaid to the EDA. The loan was expected at that time to become seed money for revolving loans to community businesses meeting loan criteria. The estimated balance on December 21, 2011 is approximately \$150,000 and it currently only received interest income. No other disbursements have ever been made. (Please note that research may be required to determine loan guidelines and State law restrictions or requirements.)

### TIF District No. 1

Round Lake Housing was certified as an Economic Development District on June 29, 1989. The district was generally located on the southeast corner of Round Lake and encompassed the Brueberry Townhomes project. This housing development occurred after the City had removed a rendering plant business (Kem Milling) on the southwest corner of Round Lake within TIF Dist No. 2. The tax increment was used to reimburse the PIR Fund for expenditures incurred in 1989 and 1990 to remove the Kem Milling business. This district has since been decertified (June, 1999) and the loan was repaid to the PIR Fund.

### TIF District No. 2

Round Lake Office was established as a 25-year Redevelopment Development District on June 29, 1989. This district will expire on December 31, 2015. Since the creation of the district, the following significant events have occurred:

- 1989 - 1990  
In conjunction with the creation of the district, the City removed a rendering plant business (Kem Milling) within the district that was funded from a loan from the PIR Fund.
- 1997 - 1998  
In conjunction with the execution of a Development Agreement with Welsh Companies, the EDA undertook significant public improvements to facilitate development of approximately 450,000 square feet of office/warehouse construction. Public improvements included the relocation of a sanitary sewer trunk line, relocation of a water main line, relocation of Fourteenth Street, and the creation of storm retention ponds. These improvements, and Round Lake Road, Phase I, were funded by the issuance of a \$3,100,000 G.O. Tax Increment Bond on March 1, 1998. (The bond was refinanced in 2004 at a lower interest rate and the approximate balance remaining to be paid as of December 31, 2011 is \$1,065,000. The last payment is scheduled in 2015.)

1999 - 2000

The EDA completed Round Lake Road, Phase I, in 1999. This project included the relocation of the Round Lake Road/Highway 96 intersection, signaling the intersection, property acquisition, and the creation of a storm retention pond. An inter-fund loan from the PIR Fund was needed for the acquisition of the Indykiewicz property and was repaid in 2004.

The estimated balance in this account as of December 31, 2011 is \$1,209,533. The estimated future increment to be collected is \$1,386,743, if added to the current estimated balance, less the outstanding bond payments, this would amount to approximately \$1,531,276 that could be used for other improvements. Since this is an older district, the City is able to use these funds for a number of different uses, but not for recreational purposes. It may be used for sidewalks, infrastructure, and other improvements, but a plan would have to be in place before the district decertifies in 2015. The additional tax base that this district has added to the City is \$346,686, which is the increment currently received.

TIF District No. 3

Cottage Villas Housing was originally certified as a Housing District on May 10, 1993. The district is generally located on the east side of Cleveland Avenue, just south of the County Road E-2/Cleveland Avenue intersection, and encompasses the sixty-four (64) unit Cottage Villas Apartments complex. These apartments are available for low-to-moderate income seniors.

The City entered into a “pay-as-you-go” Development Agreement with Cottage Villas of Arden Hills Limited Partnership on February 28, 1994. The Development Agreement calls for the developer to be reimbursed for certain public development activities including: land acquisition, site preparation, site utilities, and financing costs. Repayment to the developer would only be from, and to, the extent tax increment was actually received from the district. The developer was entitled to no more than \$57,557 per payment year for 14.5 years. The City was not obligated to make any payments subsequent to February 1, 2010. As a result of the class rate reduction for property taxes, increment received was less than expected, but payments ceased to the developer on February 1, 2010. The district was originally set to decertify on December 31, 2009, but the City Council extended the district in December 2009 to its statutory limit and will now expire in 2019.

The estimated balance in this account as of December 31, 2011 is approximately \$166,844. The estimated future increment to be collected is \$312,500, if added to the current estimated balance this would amount to \$479,344 that could be used for “low-to-moderate income housing.”

TIF District No. 4

This is the new Presbyterian Homes district and we have not yet begun to receive increment on this district or incurred any costs, thus there is no balance in this fund. This is a renovation and renewal district. On December 13, 2010, the City Council modified the development program for Development District No. 1 and establish Tax Increment Financing District No. 4 within Development District No.1 and adopt the Tax Increment

Financing Plan. As part of the process, the City Council approved the Development Contract between the City and Presbyterian Homes and approved an interfund loan to advance money from the PIR Fund to finance qualified costs and be reimbursed from the tax increments derived from the Tax Increment District.