CITY OF ST. ALBERT
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St. Albert, AB T8N 3Z9

Legislation Text

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Electrical Franchise Fees
Presented by: Diane McMordie, Director of Financial Services

RECOMMENDATION(S)

1. That the City of St. Albert introduce an electrical franchise fee on the 1st of each year as follows:
   a. 2019 - 5%
   b. 2020 - 2.5%
   c. 2021 - 2.5%

   These fees are cumulative/incremental and will reach the final intended fee of 10% in January 2021.

2. That notice be provided to Fortis Alberta no later than October 1, 2018 of the City's intent to introduce a franchise fee of 5% effective January 1, 2019.

3. That Administration execute and complete all required documentation and advertising requirements to enable consideration of approval by the Alberta Utilities Commission.

4. That any required bylaw amendments are brought forth to Council at an appropriate time to enable the implementation of a franchise fee for January 1, 2019.

5. That City Council Policy C-FS-05 Budget and Taxation Guiding Principles, be amended by substituting the proposed City Council Policy C-FS-05 Budget and Taxation Guiding Principles (Amendments Incorporated), as shown in the Attachment to the June 25, 2018 agenda report entitled "Electrical Franchise Fees".

PURPOSE OF REPORT

To provide Council with the relevant information regarding the 2 options for the implementation of an electric franchise fee in St. Albert as well as to provide amendments to policy C-FS-05 Budget and Taxation Guiding Principles indicating the use of gas and electrical franchise fees as an offset to the municipal tax requirement.

COUNCIL DIRECTION

On May 7, 2018 Council passed the following motion:

CM-18-023

That Administration prepares for Council’s consideration by June 25, 2018 the following:

That Administration provides fee introductory options based on the following criteria:
a) A single fee introduction of 10%
b) A staged fee introduction that would foresee the initial introduction set at 5% with an annual 2.5% increment over the following two years until the maximum 10% fee rate is attained.
c) That a requisite reduction in residential and commercial property taxes be incorporated equal to the introduction cost of the selected franchise fee option.

That Administration draft amendments to Council Policy C-FS-05 Budget and Taxation Guiding Principles that adds a section defining the sole use of revenues generated by Gas and Electrical Franchise fees as general revenue to offset residential and commercial property tax rates.

BACKGROUND AND DISCUSSION

This report is intended to provide an analysis of the Council motion on new electric franchise fees options with a corresponding reduction of property taxes. A full discussion paper was provided in the February 12, 2018 Governance, Priorities and Finance committee meeting and is recommended to be read in combination with this report. It has been provided as an attachment for easy reference.

Definition
A franchise fee is a contracted amount paid by a utility company to a municipality in order to use the rights-of-way and to construct, operate and maintain the utility distribution system within the municipality. The utility company subsequently passes this fee on to the customer.

Benefits of new Electric Franchise Fee
Electric franchise fees provide the opportunity to generate revenue from an additional customer base and are an alternate revenue source for the municipality. Under the current proposal, while residents and businesses will see a reduction in property taxes, institutional, not-for-profit and government entities would bear an increased overall cost from a franchise fee, as they are exempt from property taxation by provincial legislation. The typical exempt property types include municipal properties, churches, schools, hospitals & health authorities, nursing homes (under the Nursing Homes Act), and most non-profit organizations as well as property held by the Province. The use of franchise fees to increase revenue from tax exempt groups distributes the burden of paying for City services and supports equity and fairness.

Should Council choose to implement a franchise fee, the revenue generated will be used to reduce/ offset the Municipal tax levy. It is important to note that the methodology used for the collection of franchise fees (% of distribution/delivery charges) and the methodology used for allocation of the reduced tax levy (assessment value) will produce a different net financial position for each customer.

- Customers with lower electricity consumption and average assessed property values will likely see an overall decrease in combined costs.
- Customers with higher electricity consumption (typically non-residential) may see an increase

to their overall costs.
- Not-for-profit, schools, churches and government buildings will see an increase in costs as there is no property tax offset available for these groups.

Like the natural gas franchise fee, the electric franchise fee is a flexible revenue source that varies with growth and consumption. Franchise fees are charged on utilities, by virtue of consumption, and therefore encourages conservation. The majority of customers will likely see a nominal impact however, high users of electricity will pay more.

As an example, with a 10% franchise fee, an average single family home assessed at $450,000 with an average electrical consumption of 600 kWh/month would see an increase to their annual electricity bill of approximately $73 and a decrease on their annual taxes of approximately ($100) providing a net annual benefit of $27. This same type of example cannot be provided for non-residential customers due the the vast range of assessment value and the vast range of electricity consumption driven by the type of operation.

Customers that consume a high amount of electricity will see an increase on their utilities bill which may or may not be offset by a reduction in property taxes dependent on the assessed value of their property. For example, according to estimates provided by Fortis, at a 5% electric franchise fee rate, a small commercial service business that consumes about 20,000 kWh and demand of 50kW a month, will see an annual increase of about $600 on their utility invoice or an equivalent of $50 per month. At 10% franchise fee, this small commercial service business will see an annual increase of about $1,200 on their utility invoice or an equivalent of $100 per month. Should Council choose to implement an electrical franchise fee, the amounts billed to each customer will be separately disclosed on the utility bill. Appendix A, provided as an attachment, provides the estimated impact for various customer types at the multiple rates contemplated by Council.

Business growth and Competitiveness

Since 2008, the number of commercial/industrial business licenses has grown from 1,232 to 1,511 as shown in Appendix B in 2017, provided as an attachment, trending upward and reflecting a 22.6% increase over a 10 year period. Thus, business growth has been stable and strong in St. Albert for in town registered businesses within the city that operate out of leased or owned retail/commercial/industrial locations, excluding home based and out-of-town businesses.

There is a myriad of factors that separate St. Albert from neighboring communities and decisions to locate or maintain a business within St. Albert will likely not be solely based on whether or not we have a franchise fee. Business licensing, taxes, location, utilities, franchise fees, servicing costs, access to labor and transportation routes etc, when assessed collectively, will do more to drive business investment within the community than focusing on the isolation of a single fee especially given that the intent is that businesses will also receive some property tax relief.

With the implementation of an electric franchise fee at an ultimate value of 10%, St. Albert would be competitive within Alberta and on-par with the City of Edmonton.

Implementation Options

<u>Option #1 A phased-in approach at 5% in year 1, and 2.5% increase in years 2 & 3</u>

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Using the 2018 property tax levy as a base, the year 1 electric NET franchise fee revenue is $1.43M ($1.57M new revenue less $0.14M for increased costs for municipal facilities), which would be redistributed to offset property taxes and have an approximate impact on taxes of -1.40%.

In years 2 & 3 of this phased in implementation the net franchise fee revenue (and corresponding reduction to the tax levy) is $0.71M in each year.

The advantage to a phased-in approach of electric franchise fees is that it may ease the burden of utility cost increases, particularly for businesses that consume high amounts of electricity as well as for property tax exempt entities such as schools, churches, not-for-profit community groups and government entities. Under this approach, impacted consumers will experience a gradual impact to their net operating costs.

The main disadvantage to this option is that the city would be required to go through the process of obtaining approval from the AUC-Alberta Utilities Commission (through Fortis) each year that the franchise fee is proposed to be increased, including requirements to advertise.

Administration is recommending this option. For a large portion of residential properties and some non-residential, the net impact of implementing a franchise fee and offsetting taxes will have a negligible or positive effect so either an immediate or phased in approach should be acceptable. For the high electricity users however, typically within the non-residential customer base, a phased in approach will help ease the burden over a period of time allowing more time to plan for the impact.

<u>A single 10% Electric Franchise Fee</u>
Using the 2018 property tax levy as a base, the year 1 electric NET franchise fee revenue is $2.81M ($3.1M new revenue less $0.29M for increased costs for municipal facilities), which would be redistributed to offset property taxes and have an approximate impact on taxes of -2.8%.

The advantages and disadvantages of this implementation strategy reflect the opposing arguments presented under option #1.

Given that the ultimate plan is to achieve a 10% franchise fee and that whatever fee is implemented will be provided as a tax offset in the same year, for the majority of the community (both residential and non-residential) there may be limited benefit in delaying or phasing the implementation.

On the other side, for those very high electricity users who will ultimately see a net increase to their overall costs, implementing the entire 10% fee in one year may be harder to plan for.

Amendments to Council Policy C-FS-05 Budget and Taxation Guiding Principles

Attached is a draft amendment to Council Policy C-FS-05 Budget and Taxation Guiding Principles which defines the sole use of revenues generated by Gas and Electrical Franchise fees as general revenue to offset residential and commercial property tax rates.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT
None

IMPLICATIONS OF RECOMMENDATION(S)

Financial:
Implementation of an electrical franchise fee in St. Albert at an ultimate value of 10% will provide the municipality with an alternate growing revenue source which will help to offset property tax increases now and in the future. Under this model, due to the different bases upon which franchise fees are charged and how property taxes are levied, some customers will see an overall net decrease in their costs and others may see an increase.

Legal / Risk:
The MGA provides the right for a municipality to charge a franchise fee. The addition of or changes to a franchise fee must be approved by the Alberta Utilities Commission after following a defined process.

Program or Service:
None at this time

Organizational:
None at this time

ALTERNATIVES AND IMPLICATIONS CONSIDERED

If Council does not wish to support the recommendation, the following alternatives could be considered:

Alternative 1. Define a different franchise fee (up to 20%) and/or an alternate implementation timeline.

Alternative 2. Do nothing. St. Albert would continue with a 0% franchise fee.

Report Date: June 25, 2018
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