The Local Government Revenue Toolbox

Exploring Alternative Funding Sources

9/23/2026

Our Discussion Today

Gas & Electric Utility Franchise Fees	Storm Water & Street Lighting Utilities	Statutory Districts	Fund Balances	Fee Schedule Maintenance & Other Revenues

What Are Public Utility Franchises?

Minnesota Statues Section 216B.36

Cities may require public utilities to obtain a franchise to operate on public property

- Generally applicable to electric & gas utility providers
- Public property includes parks, streets & other rights-of-way
- Cities may require other terms & conditions, including obligations to pay municipal or franchise fees

The franchises are typically negotiated as contracts, then adopted by municipality via ordinance

What Are Franchise Fees?

Minnesota Statues Section 216B.36
Franchise Fees may be used "to raise revenue or defray increased municipal costs accruing as a result of utility operations, or both"

The franchise fee may take different form, including:

- Percentage of revenues
- Amount per production unit
- Flat monthly account fee

Flat monthly fees tend to be the most transparent option & provide the most predictable revenue stream for cities

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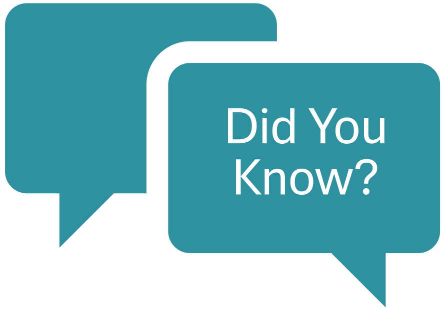
What Else?

Given statutory authorization, municipalities may use franchise fee for any public purpose, most commonly:

- Streets & Sidewalks
- Parks & Sustainability
- Building & Public Facilities

Public utilities pass franchise fees though to ratepayers, usually labeled “City Fee” in billing



More than **350** cities in Minnesota collect Franchise Fees!

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Franchise Fees: The Pros & Cons

Advantages

- Flexible funding source
- Revenue stream diversification
- Capture tax-exempt Properties

Disadvantages

- More regressive than property taxes
- No state relief program
- Less transparent process

Okay, Okay, Now Show Us The Fees!

Franchise Fee Estimates

Electric Utility			
Customer Class	**Monthly Fee**	**Average Monthly Accounts**	**Estimated Annual Revenue**
Residential	$ 3.00	3,000	$ 108,000
Small C&I – Non-Demand	8.00	200	19,200
Small C&I – Demand	30.00	100	36,000
Large C&I	120.00	60	86,400
Subtotal, Electric Utility		**3,360**	**$ 249,600**

Gas Utility			
Customer Class	**Monthly Fee**	**Average Monthly Accounts**	**Estimated Annual Revenue**
Residential	$ 3.00	2,700	$ 97,200
Commercial A	8.00	300	28,800
Commercial B	30.00	10	3,600
Commercial C	120.00	10	14,400
SVDF A & B	30.00	10	3,600
LVDF	120.00	-	-
Subtotal, Gas Utility		**3,030**	**$ 147,600**

Total		**6,390**	**$ 397,200**

Storm Water Utility Fund

Authorized under Minnesota statutes, chapter 444

- Requires adoption of Watershed Plan or Water Management Plan

Allows municipalities to:

- Shift costs from property tax levy to enterprise activity
- Respond to municipal storm water requirements

Designed so properties with higher storm water needs pay higher fee

- Costs must be just and equitable, usually based on storm water run-off
- Capture tax-exempt properties

Storm Water Utility Fund – *Continued*

Flat Fee

- All properties pay same amounts, regardless of use

Property Type

- Properties pay different amounts based on use

Property Type & Acreage

- Properties pay different amounts based on use & characteristics

Administrative Effort & Equality

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Street Lighting Utility Fund

Minnesota Statues Chapter 429

Allows municipalities to:

- Shift costs from property tax levy to enterprise activity
- Respond to demand for additional lighting

- Designed so properties with higher lighting needs pay higher fee
  - Costs must be assessed to benefiting properties
  - Capture tax-exempt properties

Storm Water Utility Fund – *Continued*

Flat Fee

- All properties pay same amounts, regardless of use

Property Type

- Properties pay different amounts based on use

Property Type & Linear Foot

- Properties pay different amounts based on use & lighting footage

Administrative Effort & Equality

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Common Statutory Districts

Economic Development Authorities

Housing Improvement Areas

Special Service Districts

Storm Sewer Improvement Districts

Economic Development Authorities

01.

Legal Authority

- Mn Statute 469.090-469.1081

02.

Adoption & Collection Method

- Specific to public facility funding - may issue EDA lease revenue bonds without a referendum

03.

Allowable Uses

- May use to finance city facilities such as police and fire facilities, park building, etc.

04.

Other Considerations

- More costly financing option
- Other, better options may exist

Housing Improvement Areas

01.

Legal Authority

- MN Statutes 428A.01 to 428A.20
- Based on Special Service District statute

02.

Adoption & Collection Method

- More than 50% of property owners must petition City
- Established by ordinance after public hearing (fee imposed on units)
- Includes objection & veto process

03.

Allowable Uses

- Finance common area improvements (roofs, siding, drives, etc.)
- Unit owner fees repay city loan or bond debt service

04.

Other Considerations

- Cities can issue taxable bonds to finance improvements
- Fee levied like special assessment to provide strong security
- Can use existing fund balance to finance HIA – fees repay fund

Special Services Districts

01.

Legal Authority

- MN Statutes 428A.01 to 428A.10

02.

Adoption & Collection Method

- Established by ordinance
- Service charge imposed on commercial & multi-family residential

03.

Allowable Uses

- Pay for services in area at a level above "typical"
- Maintenance, lighting, decoration, etc.

04.

Other Considerations

- 2023 change allows multi-family housing to pay service charge
- Can include other property types, but they don't pay fee

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Storm Sewer Improvement Districts

01.

Legal Authority

- Mn Statute 444.16-444.21

02.

Adoption & Collection Method

- Established by ordinance with 2/3 vote
- May tax properties in district to pay for improvements
- Taxes collected like other property taxes

03.

Allowable Uses

- Constructing & maintaining storm sewer systems
- Works well in regional stormwater context, provides funding mechanism for larger scale development / redevelopment

04.

Other Considerations

- Must follow statutory procedures to identify and contract for the improvements
- Requires public hearing

Use of Fund Balances

Combined with prudent planning, local governments may use fund balances to support certain costs

- General, Capital Project & Closed Debt Service Funds may be used for any public purpose
- Excess funds may be reallocated, transferred or loaned

How to know if you have extra money:

- Set up a capital improvement plan
- Establish fund balance requirements by fund & policies for use of excess
- Calculate fund balances in excess of requirements

Recommended Fund Balance Requirements

Fund	Description	Requirement	Measurement	Basis
General	Small Local Governments	> $500,000	Credit Rating Agency Req.	Fund Balance
	All Others	42%–50%	Subsequent Year Expenditures	
Special	Property Tax Supported	25%–50%	Subsequent Year Expenditures	
	Other Revenues	0%–50%		
Capital	Equipment & Improvements	25%–35%	Five-Year Rolling Average	
Enterprise	Public Utility	Varies	Six-Months Operating + Debt Service + Capital Projects	Cash Balance
	Other			

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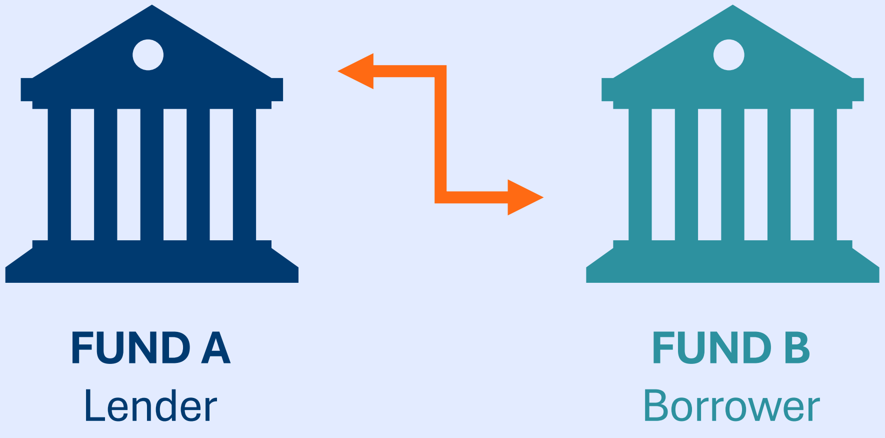
Internal Loans & Transfers

Interfund or Internal Loans

- One fund lends to another
- Allow organization to retain funds from financing activity vs. pay bondholders
- Both borrowing & lending funds should be treated fairly
- Can create fund balance & cash flow issues for lending fund



May be able to “revolve” funds

Interfund Loan Example

Year	Beg. Balance	Principal	Interest	Payment	End Balance
2025	$100,000	$7,950	$5,000	$12,950	$92,050
2026	92,050	8,348	4,602	12,950	83,702
2027	83,702	8,765	4,185	12,950	74,936
2028	74,936	9,204	3,747	12,950	65,733
2029	65,733	9,664	3,287	12,950	56,069
2030	56,069	10,147	2,803	12,950	45,922
2031	45,922	10,654	2,296	12,950	35,267
2032	35,267	11,187	1,763	12,950	24,080
2033	24,080	11,746	1,204	12,950	12,334
2034	12,334	12,334	617	12,950	-
Total		**$100,000**	$\boxed{\textbf{\$29,505}}$	**$129,505**	

Fee Schedule Maintenance

Local governments should adjust fees annually to account for:

- Inflation
- Service delivery costs
- Competitor pricing
- Structure & fairness

Local governments should adjust fees annually by standard amount

- Any change other than standard requires justification

Fee Schedule Maintenance

Year	Property Tax Levy		Fee Revenue		Cost	
	Amount	Annual Change	Amount	Annual Change	Total	Annual Change
1	50.00	-	50.00	-	100.00	-
2	53.00	6%	50.00	0%	103.00	3%
3	56.09	6%	50.00	0%	106.09	3%
4	59.27	5%	50.00	0%	109.27	3%
5	62.55	5%	50.00	0%	112.55	3%
Total Change	**12.55**	**25%**	**-**	**-**	**12.55**	**13%**

Cost Share	
Property Tax Levy	Fee Revenues
50%	50%
51%	49%
53%	47%
54%	46%
56%	44%

Infrastructure Funding

Special Assessments MN Statue 429

- City authorized to issue debt for improvements; debt service repaid by private development through annual assessment

Tax Increment Financing (TIF)

- Require developer to pay for & install infrastructure, then provide TIF payments on pay-as-you-go basis
- Issue debt (G.O. TIF bonds) for infrastructure within TIF district & leverage future increment collections to repay debt service

Infrastructure Funding

Grant Funding

State of MN:
Department of Employment & Economic Development

TED & TEDI grants

Some Counties

Metropolitan Council

Tied to Development

Federal Grants

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Tax Abatement

Outside economic development context, tax abatement can finance public improvements

- Parks, trails & facilities

(ice arenas, community centers, etc.)

- Infrastructure

Provides legal authority to issue bonds without referendum by "abating" taxes of existing property

Requires new levy to raise taxes for debt service

Annual abatement limited to greater of 10% of NTC or $200,000

Conduit Bond Fees

Local governments often asked to issue conduit bonds on behalf of private development projects

Bonds 100% supported by private development

- no recourse to city
- no risk to credit rating

You can charge a fee

- Often up to 1% of bond amount, but should be reasonable
- Fee can be used for any governmental purpose

Developer Escrow for Subsidy Requests

Fees charged to developers requesting public assistance

- Covers third party & staff costs related to review, analysis of request

Can include smaller application fee to cover initial review

- $1,500 to $5,000

Larger escrow deposit if project proceeds

- $10,000 or more + additional, as needed, based on costs
- TIF projects can cost over $30,000; cities need funding source

Final Thoughts

01.

Turns out there’s no free lunch

- Many options for local governments
- Diverse funding sources always helpful
- Don’t leave money on the table

02.

Be prepared to think creatively

- Consider fairness
- Think about who benefits from service

Questions?

Your Presenters

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