Agenda Item 11B
DOC # 2021-0453

City of Muscatine

AGENDA ITEM SUMMARY

DATE: 12-16-21

City Council

STAFF

Nancy Lueck, Finance Director
Carol Webb, City Administrator

SUBJECT

Ordinance on 2nd and Final Reading to Decrease the Utility Franchise Fee for Interstate Power & Light Company

EXECUTIVE SUMMARY

At the December 2, 2021 Council meeting, the City Council set a public hearing on the proposed decrease in the Utility Franchise Fee rate from 5% to 3%. After the public hearing the City Council approved the first reading of the ordinance amending the franchise fee rate. At the December 16, 2021 meeting, the City Council can consider waiving the third reading and approving the Ordinance on 2nd and final Reading.

STAFF RECOMMENDATION

Staff supports the ordinance change which would decrease the Utility Franchise Fee rate from the current 5% to 3%.

BACKGROUND/DISCUSSION

The following is the Background Information presented at the November 18 2021 meeting:

Background

An overview of the Utility Franchise Fee was presented to City Council at the September 9, 2021 In Depth meeting. This included the history of the franchise fee rates and revenues. This information is in Attachment #1 to this Agenda Item Summary.

Increased Natural Gas Prices Projected for this Winter

There have been various news articles and news releases concerning projected increased prices for major home heating fuels for this coming winter. An Alliant Energy News Center report (Attachment #2) references a U.S. Energy Information Administration report which "projects natural gas expenditures in the Midwest will rise by nearly 50% compared to last winter" and notes "we expect natural gas prices to remain volatile over the coming months, with winter temperatures being a key driver of demand and prices".

Alliant Energy's News Center report further states that "it is extremely difficult to accurately predict a realistic impact for customers" which directly correlates to the Utility Franchise Fees collected by the

City. Projecting customer heating bills is further impacted since "customer heating bills are based on two elements: Cost of energy itself and the amount of energy customers use".

City Council members have indicated a desire to reduce the City's Utility Franchise Fee rate to lessen the impact to residents from the projected increase in natural gas prices.

Process to Reduce the Utility Franchise Fee

1. Council concurrence of the rate reduction is needed to draft the required Ordinance amendment. The ordinance amendment would need to be prepared and reviewed by Alliant Energy.
2. A public hearing would be required for the ordinance amendment.
3. Since this would be a rate decrease, the City would not need to amend the Revenue Purpose Statement for the Franchise Fee.
4. After approval, the signed and notarized amended Ordinance would need to be forwarded to Alliant Energy.
5. Alliant Energy will have paperwork to file and submit to the Iowa Utilities Board (IUB). The IUB needs a full month to review the filing. The rate change would be appied to the next billing cycle after their review.
6. Per Mike Wagner from Alliant Energy, if the City can hold the public hearing and have the ordinance amendment adopted and submitted to Alliant right after the December 16 meeting, and if Alliant can then get the paperwork filed with the IUB by the end of December, the rate decrease would be reflected on the bills customers receive in February. It should be noted that the bills that customers receive in February reflect usage of natural gas in January.

CITY FINANCIAL IMPACT

Since natural gas prices are dependent on both the cost of natural gas and the amount of energy used, it is difficult to project the financial impact of a rate reduction to the City's Utility Franchise Fee revenues. The duration of the increased natural gas prices is also unknown.

Using the actual fiscal year 2020/2021 Utility Franchise Fee revenues of $456,312 at the 5% rate, the fee was approximately $91,262 for each 1% of the fee. Per Alliant Energy, using the current prices of natural gas the fee would be estimated at $465,312 at the 5% rate or $93,062 for each 1%.

With the reduction proposed to be implemented midway through the current fiscal year, it further complicates estimating the financial impact to the current fiscal year revenues. With setting a lower rate that will continue to future fiscal years (unless it would be modified), the current rate change will impact future year Franchise Fee revenues when it is not known if the higher gas prices will continue.

ATTACHMENTS

1. AN ORDINANCE AMENDING ORDINANCE NO. 91191-0410 GRANTING TO INTERSTATE POWER AND LIGHT COMPANY (ALLIANT ENERGY), ITS SUCCESSORS AND ASSIGNS, THE RIGHT AND FRANCHISE TO ACQUIRE, CONSTRUCT, ERECT, MAINTAIN AND OPERATE A NATURAL GAS DISTRIBUTION SYSTEM IN THE CITY OF MUSCATINE, MUSCATINE COUNTY, IOWA FOR THE PURPOSE OF DISTRIBUTING, SUPPLYING AND SELLING NATURAL GAS TO THE CITY AND ITS INHABITANTS BY DECREASING THE FRANCHISE FEE TO THREE PERCENT (3%)

History of Utility Franchise Fee Rates and Financial Situations

Fiscal Year	Franchise Fee Rate	Impact/Rationale	Franchise Fee Revenues
2010/2011	2%	Fee first implemented 7-1-20; this allowed for a reduction in the property tax rate (Emergency Tax Levy was reduced)	$ 227,680
2011/2012	2%	Maintained at 2%; Emergency Tax Levy was eliminated	$ 170,225
2012/2013	1%	Reduced due to strong revenues from other sources (ATE fines, Fire inspection and other Fire department fees were implemented, etc.)	$ 103,931
2013/2014	1%	Maintained rate	$ 113,660
2014/2015	1%	Maintained rate	$ 96,810
2015/2016	1%	Maintained rate	$ 81,308
2016/2017	1%	Maintained rate	$ 81,399
2017/2018	1%	Maintained rate	$ 102,859
2018/2019	5% then 2%	The original budget included an increase in the Franchise Fee to 5% due to the revenue loss from the ATE camers at Hwy 61 and University being ordered to be turned off by the State. The City successfully appealed this ruling and the Franchise Fee was reduced back to 2%	$ 220,448
2019/2020	5%	Increased to 5% to maintain City services and address capital needs in departments - specifically, IT system security needs to address risks of ransomware, etc. and a new Police video system including body cameras	$ 440,654
2020/2021	5%	Maintained at 5% to maintain City services and to add 3 firefighters and a new HR Generalist in the original budget (hiring of these positions was deferred due to the COVID-19 pandemic)	$ 456,312
2021/2022	5%	Maintained at 5% to maintain City services and to address reductions in other City revenue sources due to the COVID-19 pandemic	$450,000 (Budgeted)

Attachment #2

News Center

News CenterLogo Library

Increased fuel prices projected to impact heating bills this winter

Alliant Energy encourages customers to take steps now to save energy, reduce bill impacts

MADISON, Wis. (November 3, 2021) – The U.S. Energy Information Administration (EIA) recently reported, "average U.S. household expenditures for all major home heating fuels will increase significantly this winter primarily because of higher expected fuel costs as well as more consumption of energy." Their report projects natural gas expenditures in the Midwest will rise by nearly 50% compared with last winter and noted "we expect natural gas prices to remain volatile over the coming months, with winter temperatures being a key driver of demand and prices."

"Providing affordable, safe and reliable service for customers continues to be a top priority at Alliant Energy," said **Linda Mattes**, vice president of customer operations at Alliant Energy. "Guided by our purpose-driven strategy to serve customers and build stronger communities, we take actions throughout the year to help stabilize the price customers pay for natural gas and minimize the impact on bills. For example, we buy and store some natural gas in the summer when the prices are lower. This contracted storage is then withdrawn and used during the home heating season when prices are typically higher."

Alliant Energy continues to monitor the global energy supply-and-demand imbalance that is driving the volatility and leading to unprecedented natural gas and energy price fluctuations. When combining the current dynamics with other annual variables such as commodity prices, market shifts and weather events, it makes it extremely difficult to accurately predict a realistic impact for customers. Based on the significant increase in natural gas prices projected by the EIA, Alliant Energy customers should anticipate their monthly natural gas bills will increase.

According to Alliant Energy, customer heating bills are based on two elements: Cost of the energy itself and the amount of energy customers use. To reduce the amount of energy used, and therefore reduce the impact of higher natural gas prices on heating bills, customers have access to a variety of tools and cost-saving measures. First, they can monitor their use in My Account and set up alerts to get notified when they've used a specific amount of energy. This could serve as an opportunity to implement additional energy efficiency measures.

Customers can also reduce their usage which directly ties to their overall bill. Helpful cost-saving tips can be found at alliantenergy.com/winterbills and include:

• Turn your thermostat down at night and when you're away.
• Open shades during the day to let the sun in. Close shades at night to keep heat in.
• Seal windows and block drafts around doorways with weatherstripping and caulk.
• Get a furnace tune-up: Keep your furnace clean, lubricated and properly adjusted to reduce energy use.
• Change your furnace filter: Your air handler will not have to work as hard to push air through a clean filter, which saves energy.

Additionally, customers are encouraged to learn about available options if they need financial assistance to pay their energy bills. Customers who need support to help pay their bill should call 211 or visit alliantenergy.com/energyassistance for details about available options, including the Low-Income Home Energy Assistance Program (LIHEAP) and the Hometown Care Energy Fund.

Alliant Energy Corporation (NASDAQ: LNT) provides regulated energy service to 975,000 electric and 420,000 natural gas customers across Iowa and Wisconsin. Alliant Energy's mission is to deliver the energy solutions and exceptional service customers and communities count on – safely, efficiently and responsibly. Interstate Power and Light Company and Wisconsin Power and Light Company are Alliant Energy's two public energy companies. Alliant Energy is a component of the Nasdaq CRD Sustainability Index, Bloomberg's 2020 Gender-Equality Index, and the S&P 500.

ORDINANCE NO. 2021-0453

AN ORDINANCE AMENDING ORDINANCE NO. 91191-0410 GRANTING TO INTERSTATE POWER AND LIGHT COMPANY (ALLIANT ENERGY), ITS SUCCESSORS AND ASSIGNS, THE RIGHT AND FRANCHISE TO ACQUIRE, CONSTRUCT, ERECT, MAINTAIN AND OPERATE A NATURAL GAS DISTRIBUTION SYSTEM IN THE CITY OF MUSCATINE, MUSCATINE COUNTY, IOWA FOR THE PURPOSE OF DISTRIBUTING, SUPPLYING AND SELLING NATURAL GAS TO THE CITY AND ITS INHABITANTS BY DECREASING THE FRANCHISE FEE TO THREE PERCENT (3%)

WHEREAS, pursuant to Ordinance No. 91191-0410, a franchise was granted to Interstate Power and Light Company (Alliant Energy) for the sale and distribution of natural gas within the city limits of the City of Muscatine;

WHEREAS, Section 7 of Ordinance No. 91191-0410 provided that the franchise fee may be increased or decreased by giving a 90-day notice to the utility with the fee limited to a maximum of five percent (5%);

WHEREAS, the franchise fee rates have been increased and decreased by the City Council since originally implemented with the most recent franchise fee set by Ordinance 2019-0064 at five percent (5%);

WHEREAS, the City of Muscatine wishes to amend the franchise ordinance to provide that Interstate Power and Light Company (Alliant Energy) shall remit a franchise fee of three percent (3%) beginning February 1, 2022, or as soon thereafter that it can be implemented by the utility.

NOW THEREFORE BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF MUSCATINE, IOWA, that Muscatine Ordinance No. 91191-0410, as most recently amended by Ordinance No. 2019-0064, is hereby amended as follows:

SECTION 1. Section 7 (A) of Ordinance No. 91191-0410 included in the City Code under Title 14, Chapter 1, is amended by revising Subsection 14-1-7(A) as follows (changes italicized and in bold):

14-1-7 <u>Franchise Fee.</u>

(A) In its monthly billing Company shall include a franchise fee of ***three percent (3%)*** on the gross receipts from the distribution, supply, or sale of natural gas for customers within the limits of the City of Muscatine, Muscatine County, Iowa. The Company shall make all reasonable effort to commence collecting the ***3%*** franchise fee by the date of ***February 1, 2022***, but no later than ***March 1, 2022***. The franchise fee may be increased or decreased by the City on or after ***July 1, 2022***, provided that the franchise fee shall be limited to a maximum of 5%. The City shall give the Company a minimum 90-day notice prior to the request to implement an increase or decrease in the franchise fee. The City shall be solely responsible for the proper use of any amounts collected as franchise fees, and shall only use such fees as collected for a purpose as allowed by applicable law. Collection of the franchise fee shall cease at the earlier of the City's repeal of the franchise fee or the end of the Ordinance term.

SECTION 2. Ordinance No. 91191-0410, as amended herein and set forth in Attachment A, attached hereto and by this reference made a part hereof, shall be inserted into the Municipal Code under Title 14, Chapter 1 and made a part of said Code as provided by law.

SECTION 3. All ordinances or parts thereof in conflict with the provisions of this ordinance are hereby repealed.

SECTION 4. If any section, provision, sentence, clause, phrase, or part of this Ordinance shall be adjudged to be invalid or unconstitutional, such adjudication shall not affect the validity of this Ordinance as a whole or any section, subsection, provision, sentence, clause, phrase, or part thereof not adjudged invalid or unconstitutional.

SECTION 5. This ordinance shall be effective from and after its final passage, approval and publication as provided by law.

Passed First Reading by the City Council of Muscatine, Iowa, the 9th day of December, 2021.

Passed Second Reading and Waived Third Reading by the City Council of Muscatine, Iowa, the 16 day of December, 2021.

PASSED AND ENACTED by the City Council of Muscatine, Iowa, the 16 day of December 2021.

Diana Broderson, Mayor

ATTEST:

Carol Webb, City Clerk

CITY OF MUSCATINE, IOWA * CHARTERED 1851 *

1st Reading –

Motion by Council Member Brackett, seconded by Council Member Gordon, first reading of Ordinance No. 2021-0453 (2021/2022).

AYES: 6
NAYS: 0
ABSENT: 1(Jindrich)

2nd Reading – _

Motion by Council Member Malcolm, seconded Council Member Brackett, to approve the second reading of Ordinance No. 2021-0453 .

AYES: _7

NAYS: _0

ABSENT: _

The Mayor declared Ordinance No. 2021-0453 was passed on December 16, 2021. I certify that the foregoing was published as Ordinance No. 2021-0453 on the 16th day of December 2021.

Carol Webb, City Clerk

*** Proof of Publication ***

The undersigned, being first duly sworn, on oath does say that he/she is an authorized employee of THE MUSCATINE JOURNAL, morning edition, a daily newspaper printed and published by Lee Enterprises, Incorporated, in the City of Davenport, Scott County, Iowa, and that a notice, a printed copy of which is made a part of this affidavit, was published in said THE MUSCATINE JOURNAL, on the dates listed below.

CITY OF MUSCATINE- Legals account

215 Sycamore Street
MUSCATINE, IA 52761

ORDER NUMBER 114603

The affiant further deposes and says that all of the facts set forth in the foregoing affidavit are true as he/she verily believes.

Section: Notices & Legals
Category: 2635 Legal Ordinance
PUBLISHED ON: 12/22/2021

TOTAL AD COST: 52.50
FILED ON: 12/22/2021

Subscribed and sworn to before me by said affiant this 22 day of December 2021.

Danine Glascock

Notary Public in and for Scott County, Iowa

NOTARIAL SEAL IOWA
DANINE GLASCOCK
Commission Number 810108
My Commission Expires
4-17-22

*** Proof of Publication ***

NOTICE

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ATTEST:
Carol Webb, City Clerk