

Utility Franchise Fees and Revenues

The State of Iowa allows cities to grant franchises to organizations to operate an electric or gas distribution system within the city's right of way (typically in or adjacent to streets or alleys). These franchise agreements can be up to 25 years long, and can be fairly intricate with requirements and duties assigned to both the City and the respective utility. The State of Iowa formally allowed cities the right to charge a franchise fee to electric and gas utilities in 2009, with revisions to the rules surrounding these fees occurring in 2015. The fee can be from 1% to 5% on each utility. Since 2009, communities have gradually implemented these fees, especially as changes have occurred to the property tax system through legislative changes at the State level. There are now approximately 250 communities that have enacted a utility fee, ranging from 1% to 5%, with the average fee implemented being about 3%. (Source: Iowa Utility Association, representing Investor Owned Utilities).

One of the requirements that the State of Iowa places on a City, as part of the process of implementing a franchise fee, is that the City establish a Revenue Purpose statement, which lays out what the franchise fee revenue can and will be used for. When Keokuk went through the decision making process of considering the implementation of a franchise fee in 2022, we adopted the following list of possible uses for franchise fee revenues:

- 1) Inspecting, supervising, and otherwise regulating each franchise approved by the City.
- 2) The repair remediation, restoration, cleanup, replacement, and improvement of existing public improvements and other publicly owned property, buildings, and facilities.
- 3) Projects designed to prevent or mitigate future disasters as defined in Iowa Code Section 29c.2.
- 4) Energy conservation measures for low-income homeowners, low-income energy assistance programs, and weatherization programs.
- 5) Public safety including the equipping of fire, police, emergency services, sanitation, street, and civil defense departments.
- 6) The establishment, construction, reconstruction, repair, equipping, remodeling, and extension of public works, public utilities, and public transportation systems.
- 7) The construction, reconstruction, or repair of streets, highways, bridges, sidewalks, pedestrian underpasses and overpasses, street lighting fixtures, public grounds, and the acquisition of real estate needed for such purposes.
- 8) Property tax abatements, building permit fee abatements, and abatement of other fees for property damaged by a disaster as defined in Iowa Code Section 29c.2.
- 9) Economic development activities and projects.

The decision to implement this list provides a lot of flexibility to Keokuk in how we use franchise fee revenue. During the first few years of the program, we have chosen to focus the revenue on the support of Police and Fire Department operations. Based on the flexibility provided by the State of Iowa in the implementation of a utility franchise fee, Keokuk chose to implement a 3% fee on the gross revenues generated within the city limits for the electric utility beginning January 2023, along with a corresponding 2% fee on the gross revenues for the gas utility beginning January 2022.

The decision to implement these fees provided an immediate, significant revenue stream to the City of Keokuk, providing an overall revenue amount in Fiscal Year 2024 of \$1,170,000.00, the first year that fees were fully implemented. The amount collected dipped slightly in FY2025 to \$1,145,000.00, so this is a fairly steady revenue source.

During the process of implementing the franchise fees, Keokuk made a decision to provide a partial rebate to eligible industries of a portion of their electric fees paid. The amount of the rebate that was approved has amounted to \$160,000 to \$200,000. This means that the net revenues collected by the City of Keokuk, after rebates are paid out, has been just under \$1,000,000 annually.

The City does have flexibility in how much of a franchise fee is collected. The rebate that is provided to industries can be altered or eliminated at any time. Out of the 250 communities that have implemented a franchise fee, we are one of only approximately 10 that provide a comparable rebate. A discussion of altering or eliminating the rebate would be a realistic option for the City of Keokuk to consider as part of its budgetary deliberations. Another option that could be considered is an increase in either (or both) the gas or electric franchise fee amount (up to the maximum of 5% allowed by State statute). A Caveat to this, though, is that the City is not allowed to begin the process of altering the fee percentage until January 1, 2027 for either the gas or electric franchise amount. Once we do reach that time-frame, though, a change in either or both utility fees can be considered. For perspective, a 1% alteration in the franchise amount for electricity would generate about an additional \$340,000, while for gas a 1% change would be about \$35,000. There may be no desire to make alterations in revenue collection, but it is certainly part of the options that are available for the City to consider as it deals with a significant budget deficit.

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