

A small price to pay?

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Content

OTTUMWA — Philip Rath projected the first slide of his presentation on the twin TVs in a tucked-away conference room at City Hall.

"Any idea when this was?" he asked, looking at a picture of a full council chamber from Feb. 18, 2020 (the answer is the budget hearing for fiscal year 2021, which ultimately led to the day deep public safety cuts were made). "My first official city council meeting. My second day on the job."

Since that day, when it was determined the city would lay off 20% of its fire department, the Ottumwa city administrator has been considering ways to make sure that never happens again to any city department.

He believes, now, in 2022, there is a way: franchise fees.

Rath has toggled the concept — [embraced by 215 cities in the state according to 2021 data](#) — in front of multiple councils to address staff shortages, but also to alleviate pressure on current levies by creating an additional revenue stream. It is anticipated that franchise fees will come before the council May 3, but there must be a public hearing before establishing them.

"Right now it's just making sure we can at least maintain those levels of services that are important to the city," he said. "I think we have 28 open positions. Ideally, I would advertise all of those tomorrow if we could afford to maintain it and we knew that revenue was going to be there."

What are franchise fees?

No, franchise fees don't involve starting a new business.

[Franchise fees](#) are essentially an assessment on utilities under Iowa Code to bring in additional revenue for a community's general fund, which is essentially the city's operating budget. In this case, it would only be imposed on residents and businesses within city limits.

[By state law, a franchise fee can't exceed 5% of a utility's gross income.](#) Rath estimated that just a 1% franchise fee on Alliant Energy and Mid-American Energy for gas and electric utilities would create roughly \$540,000 in new revenue, and would replace what the city receives from local option sales tax for those utilities. Some communities have either gas or electric franchise fees.

But Rath is hoping for the 5% initially for residents and businesses, which would bring in about \$2.7 million of new revenue.

Franchise fees, however, can't be spent on just anything, though the list of items is fairly broad. The new revenue:

- Would increase staffing for public safety and other city departments more adequately by paying for salaries and benefits, while lowering the levies that those figures are listed under.
- Would aid in construction of public works projects, such as sewers, street projects and other infrastructure, without having to bond as much for those projects through debt service, therefore lowering that levy.
- Would provide property tax relief.
- Would potentially increase economic development projects and possibly eliminate the need for tax abatement, such as tax-increment financing, for developments, and potentially boosting property valuations.
- Could be used for energy conservation for low-income homeowners, low-income energy assistance programs, etc.

While franchise fees do replace the amount of sales tax revenue generated by utilities, the city will continue to receive sales tax from gas, groceries, and other goods.

From the city's personnel perspective, franchise fees will help put a dent into the 26 positions that were casualties of budget cuts over the last decade, mainly in the code enforcement and parks departments, which have become a shell of what they were.

The fees also will help the city get a head start on hiring and training for a big chunk (about 25%) of the city workforce that is eligible to retire in the next five years.

However, Rath doesn't necessarily plan on going on a hiring spree; instead, some of that franchise fee revenue will go toward spurring economic development and addressing many of the residents' perennial concerns.

"I'm not planning to get back up to 23 parks employees, unless it's identified that we need to have 23 parks employees," he said. "Even just adding two gets us a lot better than where we're at now. Right now it's just making sure we can at least maintain those level of services important to the city."

Are consumers willing to pay a little more?

Rath estimates that franchise fees, at a 5% rate, would add an average of about \$10 per month, or \$102 dollars per year, to a utility bill. In simpler terms, two 12-packs of Mountain Dew a month would add six firefighters, two police officers, at least another staff member in code enforcement, as well as help revitalize the community.

Essentially, the first 1% of a franchise fee would offset the sales tax residents and businesses already pay for utilities that shows up on their bill. The drop in property tax also would be offset by the utilities increase.

However, franchise fees do not need to be permanent, and can be adjusted or even eliminated as needed. It takes about six months for franchise fees to take effect from the time of approval, so the first revenues probably wouldn't be seen until early next year.

"For four lattes from Starbucks a month, you're lowering the tax levy and increasing the tax base, and you're improving your city for that amount."

Why franchise fees, and why now?

The thinking behind adopting the fees stems from that council meeting two years ago. The city's levy for its general fund has been at its state-allowed maximum of \$8.10 for years, but property tax rates have fallen slower than hoped, and franchise fees serve to both staff the city, but also provide that property tax relief.

"In my experience, public safety is one of the last things that gets cut from a municipal budget, so what that meeting told me was the city was in pretty dire straits," Rath said. "Franchise fees give you a stable workforce, and we want to reverse that trend of cutting positions and maintain, if not add back."

However, Rath is mindful of an increase in utilities, especially with six children living in his house, and the rising costs of energy around the world.

"I'm conscious of all that, because energy prices are high around the world, so the timing from that perspective isn't great. We're not asking people to freeze, but how much utilities you can use is controllable to a certain degree," he said. "Instead of running an air conditioner, maybe there's a nice breeze and you can open your window. The offset of paying a little more is that we can continue to give more of the services that people have come to want and deserve."

Rath does not envision franchise fees as something that has to be permanent, but rather a way to "kickstart" many of the aspects of the community that simply haven't had the funding in the past.

"I think as long as we do this in a thoughtful way, it's a little easier to swallow," he said. "It's not just tacking this onto everything else and saying everyone has to pay a little bit more. This is a new revenue source. People want a place to live and have good homes, have parks and recreational opportunities. They also want to be safe.

"All of those things are here and we can affect that," he said. "But we need to have that revenue source."

County concerns

The Wapello County Board of Supervisors isn't on board with the franchise fees, because the county will lose between \$170,000 and \$180,000 in sales tax revenue from utilities.

Supervisors Brian Morgan and Jerry Parker took Rath to task during Tuesday's supervisors meeting, explaining that over the long-term, it will harm taxpayers.

"We can say whatever we want right now. We're just going to put this at 3%. Bull," Morgan said. "It'll be 5%, without question, and if not now, soon. You're not the first administrator to walk in and throw out franchise fees, because this is low-hanging fruit.

"The 25,000 people the council represents are the same people we represent," he added. "They're part of the county. So if you take our money, we have to figure out to how pay for the bridges, culverts, etc."

That is the rub for the county, which uses a portion of its sales tax revenue for infrastructure projects. Even though the county's amount of revenue from the utilities sales tax is a small percentage of its overall sales tax revenue, it is still part of a large pot that allows the county to contribute to different projects, as well as provide property tax relief.

"It's not just a one-sided issue, and I think we all agree on that," Morgan said. "If the council says yes to this, there's nothing we can do about it. I just think there's got to be better ways than hurting another entity."

Rath was sympathetic to county leaders.

"I'm going to assume the county benefited from our increased \$50 million increase in valuation to a degree," he said. "One of the things is economic development and not wanting to have the tax abatement.

"So when new development comes in, they can see the benefits of that almost immediately. So I think there are offsets there. What's good for the City of Ottumwa is good for Wapello County."

Final thoughts

Rath is pleased with the trajectory of valuations in the city, but it's been a slow process to get the city's personnel to where it needs to be. Improvements have been deferred because there either hasn't been enough funding. At this point, there are limited revenue avenues to pursue that would assist growth among city staff, as well as growth in economic development areas.

"The revenue is one piece of that because we need that to hire, but some of that can go toward capital projects, different programs that could benefit the city on a long-term basis and hopefully, we get to a point where we don't necessarily need to have franchise fees," he said. "Or we can cut back because we have enough to maintain some of those things.

"But we're growing our tax base enough to also grow out way out of this," he said. "This is that stopgap to help get us there."

Tagline

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Child images

1-4 Ottumwa City Council meeting



Philip Rath



11-16 Ottumwa City Council meeting

