



Where Life is Sweet

Mayor and Members of the City Council
STAFF REPORT
For the Meeting of November 25, 2024

Title/Subject

Resolution 2347- authorizing city staff to initiate proceedings to adjust the franchise fee structure with PacifiCorp

Summary and Background

This resolution will direct staff to initiate proceedings with PacifiCorp (d.b.a. Pacific Power) to adjust the utility's franchise fee structure from a flat fee to one based off of a percentage of sales within city limits.

Franchise agreements are typical between cities and utility providers which allows the utility providers to utilize the publicly-owned right-of-way to place their infrastructure. In exchange for this privilege, it is common for cities to collect fees from the utility. Generally there are two types of fee collection methods.

1. Percentage: This type of fee is most common. This fee is set as a percentage of the utility's gross revenues collected from customers that the utility serves within the city limits. All but two of Hermiston's franchises are percentage-based fees.
2. Linear-Foot: This type of fee is typically used when a utility doesn't serve any customers within the city, but may need to use city right-of-way to cross through the community. In that situation, a percentage-based fee wouldn't collect anything, therefore a fee is established per linear foot that the utility's infrastructure passes through city right of way.

PacifiCorp has a sub-station located on NE 10th Street, which remained in place to serve customers surrounding Hermiston after Hermiston Energy Services was formed. This substation is primarily served by utility lines coming/going north/south along 10th street.

At the time of PacifiCorp's last franchise agreement renewal in 2013, approximately 2,500 linear feet of PacifiCorp utility lines existed within city limits south of Diagonal Boulevard. Therefore, the franchise fee was established as a flat fee of \$2,500 per year. This was deemed prudent as it seemed unlikely much, if any, PacifiCorp customer growth would occur within city limits in the foreseeable future. However, the agreement retained the ability for the city to, at it's sole discretion, increase the franchise fee amount in the future.

Community growth has now pushed development to the point of expanding in to PacifiCorp territory, specifically with the groundbreaking of the 208 tax lot subdivision “Henry K’s Place” east of the intersection of SE 10th & Columbia Drive. In the interest of community-wide equity, it is prudent to amend PacifiCorp’s franchise agreement such that their customers also pay franchise fees similar to all other users within the city.

Aside from the new subdivision, it appears that there is also two or three other existing PacifiCorp customers already within city limits. There is at least one single family home at the corner of McKinney & S 1st which recently annexed, and another neighbor may also be a PacifiCorp customer while being within city limits. The largest existing customer which will be impacted by this change is the Oregon State University’s Hermiston Agricultural Research & Extension Center (HAREC).

The City’s external franchise attorney has advised on adjusting this fee, and has drafted a letter to notify PacifiCorp of this change. It is recommended to set the franchise fee at 5%, which is equal the franchise fee that Umatilla Electric customers pay within city limits.

Tie-In to Council Goals

Fiscal: maintain service levels, strengthen internal operations to support sustainability, accountability, and transparency.

Fiscal Information

PacifiCorp currently pays \$2,500 per year. The proposed change would change the fee structure to 5% of gross revenues, but still require the payment be not less than \$2,500 per year. It is anticipated that percentage based franchise fees will generate significantly less than \$2,500 per year in the initial years as the new subdivision builds-out; hence retaining the payment amount floor.

Currently a typical single family residential customer (1,400kWh per month) with Pacific Power would pay approximately \$206 per month for electricity, with a 5% franchise fee adding roughly \$10 per month.

The Henry K’s Place subdivision is approved for 208 tax lots, each of which could theoretically accommodate two housing units. Therefore, although the current developer’s plan is for 208 detached single-family homes, it is possible that it could become 416 housing units. Therefore, at full future build-out, utilizing today’s electric rates, the projected annual Franchise Fee revenue will be somewhere between \$25,000 and \$50,000. That revenue predominantly goes to support General Fund (Police, Library, Recreation, etc.) operations with a portion dedicated to street network construction. Failure to make this change would result in residents of the new subdivision not paying in to those services similarly as all other residents of the City.

Alternatives and Recommendation

Alternatives

1. Approve Resolution 2347
2. Reject Resolution 2347
3. Table & Request changes

Recommended Action/Motion

Motion to approve Resolution 2347.

Submitted By:

Mark Morgan