



TO: Mayor and City Council
FROM: William A. Gaines, Director of Utilities/CEO
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: Resolution - Authorization for Tacoma Power to Accept Franchise Extension Granted by the City of Lakewood – August 15, 2017
DATE: August 10, 2017

SUMMARY:

Tacoma Power seeks Council approval to enter into a 20 year franchise agreement extension with the City of Lakewood. This agreement will allow Tacoma Power to continue to serve electric customers within the City of Lakewood boundaries after the existing franchise agreement expires in October 2017.

STRATEGIC POLICY PRIORITY:

- Assure outstanding stewardship of the natural and built environment.
 - The franchise agreement provides a framework for working with the City of Lakewood to relocate electrical facilities required by improvement projects. This framework requires the City of Lakewood to provide 120 days’ notice to Tacoma Power, provide Tacoma Power with copies of pertinent portions of the plans and specifications for such improvement projects, propose locations for Tacoma Power’s facilities, and evaluate alternatives provided by Tacoma Power to proposed relocations.
- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.
 - The franchise agreement provides for a waiver of permit fees (except for private development). The franchise also establishes *pro rata* cost sharing for relocation based upon a 15 year life expectancy of facilities.

BACKGROUND:

The existing franchise agreement between Tacoma Power and the City of Lakewood will expire October 2017. Although the existing franchise provides for up to two 5 year extensions, Tacoma Power and the City of Lakewood mutually agreed that extending the term of the franchise to 20 years would be mutually beneficial. A longer term agreement creates more stability for planning purposes.

On July 17, 2017, the City Council of the City of Lakewood approved Ordinance No. 672, granting a 20 year franchise extension to Tacoma Power. City of Lakewood Ordinance No. 672 provides 60 days for Tacoma Power to accept the franchise extension. Approval of City of Lakewood Ordinance No. 672 is scheduled to be brought before the Tacoma Public Utility Board on August 9, 2017.

The following is a summary of adjustments to the existing franchise agreement.

- An increase in the notification time provided to Tacoma Power by the City of Lakewood for relocation of major utility infrastructure.
- Removal of a 2003 amendment allowing Click! to extend into the Flett Creek area. This language is now included in the 2004 Click! franchise agreement with the City of Lakewood.
- The franchise administrative fee is adjusted to match the Gross Earnings Tax rate Tacoma Power pays to the City of Tacoma.



ISSUE:

The existing franchise agreement between Tacoma Power and the City of Lakewood will expire October 2017. A new or extended franchise is needed for Tacoma Power to continue to properly operate its facilities within the City of Lakewood and serve these ratepayers.

ALTERNATIVES:

Alternatives to the recommendation include the following:

1. Request a 5 year extension to the existing franchise agreement and enter into negotiations with the City of Lakewood for different terms. The existing franchise offers two 5 year extensions under the same terms as the existing franchise. Exercising the 5 year extension option would require concurrence by the City of Lakewood. Overall, the terms proposed by the City of Lakewood in the 20 year franchise extension are favorable to Tacoma Power. Obtaining a 20 year term, compared to the 5 year term, provides greater stability for longer term planning.

RECOMMENDATION:

Tacoma Power recommends that the City Council authorize approval of the franchise extension approved by the City Council of the City of Lakewood on July 17, 2017, City of Lakewood Ordinance No. 672.

FISCAL IMPACT:

The franchise extension will increase the administrative fee applied to gross revenue received by Tacoma Power within the City of Lakewood to match the Gross Earnings Tax rate Tacoma Power pays to the City of Tacoma, but not less than 6%. The current rate, effective until approximately 2026, is 7.5%, 1.5% over the baseline of 6%. The administrative fee is spread across Tacoma Power's ratepayers. The estimated impact to the current biennial budget is \$285,000 – 310,000. Additionally, the table below summarizes two scenarios surrounding the anticipated fiscal impact over the term of the agreement.

SCENARIOS SURROUNDING ESTIMATED FISCAL IMPACT	WITHOUT INFLATION	WITH INFLATION
2018-2026: Gross Earnings Tax Rate 7.5%, (1.5% additional impact)	\$2,200,000	\$2,400,000
2027-2037: Gross Earnings Tax Rate 6%, (0% additional impact)		
2018-2037: Gross Earnings Tax Rate 7.5% (1.5 % additional impact)	\$4,800,000	\$5,900,000

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
4700 Power	80012246	5419000	
TOTAL			Estimated \$2.4M – 5.9M

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$285,000-310,000

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.

The expense could be rolled into future rate increases, or other O&M expenses could be reduced.