

End the Negative Impacts of Franchise Fees in Alberta (2023)

Issue

The current structure and use of Local Access or Municipal Franchise Fees negatively impacts the growth and competitiveness of Alberta businesses and the economy.

Background

The Municipal Franchise Fee (MFF), also known as a Local Access Fee (LAF), is a rate rider that is determined by municipalities in exchange for a utility service provider's exclusive right to sell services within a municipality's boundaries. Utility service providers apply the rate rider to rate payer's bills, collect the fees, and then pass the revenue to the municipality. Franchise fees are typically calculated as a percentage of the total distribution charges on a bill and are capped at twenty percent for electrical and thirty-five percent for natural gas. The provisions and requirements are found in section 45 and 360 of the Municipal Government Act.

Many municipalities elect to use the franchise fee revenue as a means of funding various programs and services and/or to keep their property taxation rates competitive and are considered a reliable and 'growing' revenue stream that allows the municipality to receive compensation for the loss of taxable 'property' such as churches, schools, and other non-profit facilities that are exempt from property taxation pursuant to provincial legislation.³⁴⁹

Besides the cap there is no standardized calculation or required justification for the percentages chosen by municipalities. Minimal requirements for reporting the franchise fee revenue often leave residents and businesses alike unable to see what value they receive from the collection of the fee, if any. While some municipalities have taken steps to improve transparency of LAF/MFF rates charged, the reporting is inconsistent.

Franchise fees are rising across the province, and many have already hit the maximum cap set by the Alberta Utilities Commission. Since the removal of the rate cap in 2019 electricity costs continue to rise and contribute to the cost layering burden businesses face.

An Alberta Perspectives Municipal Red Tape and Business Supports survey, conducted by the Alberta Chambers of Commerce in 2022², shows that businesses believe the wide variety of fees/taxes negatively affect competitiveness and/or growth. Municipal Franchise Fees were the second highest barrier to growth and competitiveness, an increase of nine percent since 2021 which was more than any other noted tax or fee. Additionally, more than seventy percent of respondents were concerned about the cost of gas and electricity – up from the forty and fifty-four percent that were concerned when the survey was conducted in 2020.³⁵⁰

³⁴⁹ <https://stalbert.ca.legistar.com/View.ashx?M=F&ID=18166&GUID=D31C3945-B0CD-448D-AEC7-8506EFD7B359>

³⁵⁰ <https://www.abchamber.ca/wp-content/uploads/2022/12/ACC-2022-Municipal-Red-Tape-Report-Dec-18-FINAL.pdf>

As an example, when St. Albert introduced their FF in 2019, their report included tables that demonstrated the potential impact on residential and non-residential users based on an estimating tool provided by Fortis Alberta:³⁵¹

Residential	Selected Franchise Fee Amounts					
Usage Estimate	3% Monthly	5% Monthly	8% Monthly	10% Monthly	15% Monthly	20% Monthly
Low Use 400 kWh	\$1.45	\$2.42	\$3.87	\$4.84	\$7.26	\$9.67
Mid Use 600 kWh	\$1.82	\$3.03	\$4.85	\$6.06	\$9.09	\$12.13
High Use 800 kWh	\$2.19	\$3.64	\$5.83	\$7.29	\$10.93	\$14.58

Non-Residential	Selected Franchise Fee Amounts					
Usage Estimate	3% Monthly	5% Monthly	8% Monthly	10% Monthly	15% Monthly	20% Monthly
Low Use 1000 kWh	\$32.07	\$53.46	\$85.53	\$106.91	\$160.37	\$213.83
Mid Use 2500 kWh	\$79.32	\$132.21	\$211.53	\$264.41	\$396.62	\$528.83
High Use 5000 kWh	\$158.07	\$263.46	\$421.53	\$526.91	\$790.37	\$1053.83

The difference in cost distribution is significant for non-residential customers for a fee passed onto the consumer at the municipality's request with no required value-added benefit and a 'lower' property tax.

Municipalities are required to provide basic services to their constituents and have a constitutionally transparent mechanism for collecting revenues to deliver on a level of service that taxpayers are willing to pay for: property tax. Eliminating franchise fees or local access fees may require an equal reduction in spending, but revenue collection would be more transparent and justifiable to constituents.

The Alberta Chambers of Commerce recommends the Government of Alberta, immediately:

1. Freeze all Local Access Fee (LAF)/ and Municipal Franchise Fee (MFF) rate increase applications;
2. Mandate municipalities to report LAF/MFF revenues as distinct revenue line items in annual consolidated financial statements;
3. Publish LAF/MFF on Municipal Measurement Index; and,

³⁵¹ <https://www.abchamber.ca/wp-content/uploads/2022/05/ACC-Dec-2020-Report-FINAL.pdf>

4. Pause renewal applications of tax agreements of Municipal LAF/MFF starting in 2024 and review for removal Section 360 of the Municipal Government Act.