Climate Investment at a Scale that Matters

Utility Franchise Fees & Pollution Control Annual Registration

Comparing two Minneapolis tools that can direct pollution fees toward local community's climate justice priorities

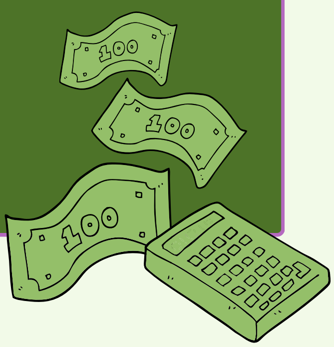
Illustration by Ntxoo Art

Minneapolis has a narrowing window of opportunity to model how to act swiftly and impactfully on climate change, with the important benefit of closing racialized wealth gaps. Just as the impacts of climate change are unevenly distributed across communities—Black, Indigenous, and People of Color (BIPOC) residents and low-wealth communities continue to face greater vulnerability to climate change due to inequitable policies, disinvested infrastructure, and increased barriers to accessing political power and resources. Unfortunately, funding to address climate change across all scales of government remains both insufficient and often inaccessible to communities.

Two existing funding mechanisms—**utility franchise fees** and the **Pollution Control Annual Registration (PCAR)**—present innovative opportunities to resource climate mitigation and adaptation efforts because they are uniquely positioned, compared to federal and state funds, to do so in a community-driven and equitable way.

What is the "social cost of carbon"?

A measure, in dollars, of the long-term damage from 1 ton of carbon dioxide (CO_2) emissions in a year.



Further adjusting these pollution and impact fees to match the "social cost of carbon" would more accurately reflect the damages caused by by the emitted fossil fuels. These local, community-driven funding sources can prevent catastrophic future harms, mitigate damage, and help Minneapolis communities rebuild resiliently.

Why do we need long-term, sustainable funding tailored to our local communities?

Pervasive Barriers to Solutions

Funding historically includes heavy access barriers like upfront costs, tax burden thresholds, credit scores, income limits, and immigration paperwork.

Scale-Up of Reliable Resources

Federal funding opportunities are one-time infusions of money; existing utility and state programs have additional access barriers and limited funding that can meet only a small fraction of the need.

Targeted Collection & Equitable Distribution

Local funding mechanisms enable the City to target the biggest pollution sources with the biggest fees, and reinvest in frontline and marginalized communities first.

Header illustrations by Tori Hong/Ntxoo Art. Fact sheet prepared by the Institute for Market Transformation for the Just Transition Fund Coalition.

How do the funding mechanisms work now?

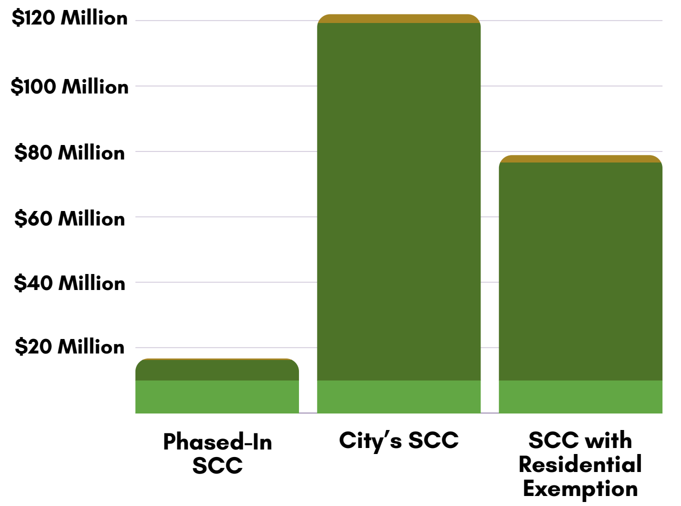
	Utility Franchise Fees	Pollution Control Annual Registration
What is it today?	Fees associated with formal agreements between a municipality and gas and/or electric utility that allow the utility to use public property in order to provide service to its customers: franchise agreements. Since 2017, a small portion of the fees has been used by the City to help achieve climate and energy goals and this could be expanded to enable equitable climate action.	Fee applied to businesses, commercial buildings, buildings with 4+ residential dwelling units that generate, or have the potential to generate, certain pollutants through equipment or processes. Does not currently cover greenhouse gases (GHG) nor target major carbon dioxide emissions from non-utility fossil fuel combustion.
How does it work now?	Franchise agreements define a franchise fee paid by each utility to the city, though this fee can be increased at any time with council approval. Gas and electric utilities collect the franchise fee from customers through their monthly energy bills.	Covered entities are required to register for a license with the City and pay fees related to how much pollution they are expected to produce. Before applying for the permit, the equipment and business processes must be inspected, maintained and functioning properly; without the license the equipment or process cannot be used. Could be expanded to include GHGs.
How do residents experienc e the fee now?	Utilities treat the franchise fee as a business expense and pass it onto customers as a line item on their monthly energy bill before paying it to the city.	Business owners, property owners, and landlords pass the cost through to customers through purchase of goods and services such as dry cleaning, paint, and for some buildings, rent. An expansion of PCAR could be targeted to only impact the biggest polluters such as commercial/industrial companies.
Who sets the fee now?	The City Council and Mayor	Fees are recommended by the Minneapolis Health Department and approved by the City Council.
What do funds collected currently support?	Currently, the majority of funds—more than $20 million/year—are directed into the City's General Fund to pay for non-climate expenses. In 2017, the Council voted to raise the franchise fee by 0.5% to create approximately $2.78 million annually in additional funding focused on equitable climate action programs. This money funds projects such as the Green Cost Share and staffing of the Sustainability Office. In 2023, the Council expanded these funds by $10 million/year for the Climate Legacy Initiative.	Administrative costs, including permitting and inspections. The Green Cost Share program, which provides grants to projects that save energy, reduce pollution, and cut carbon emissions like: investment in renewable energy, high efficiency lighting, electrification of gas appliances, insulation and air sealing, transition to low VOC paint and degreasers, and free energy audits.

How much money could be raised for climate action in Minneapolis by using the social cost of carbon?

Right now, neither the franchise fees nor PCAR directly connect their fee collection with greenhouse gas emissions. The amount the city charges does not reflect the real cost to local communities of the gases released when fossil fuels are burned, nor does it encourage utilities to shift to cleaner energy.

Making these fees proportional to the climate emissions generated from things like burning methane gas, electricity generation, manufacturing processes, and gasoline/diesel sales would encourage a switch to cleaner energy and more electrified processes. The fees would also generate funds for programs that help transition homes and businesses in Minneapolis to be more comfortable, healthy, affordable, and carbon-free.

Minneapolis' Potential Franchise Fee and PCAR Climate Funding



Legend

Research courtesy of Matt Grimley.

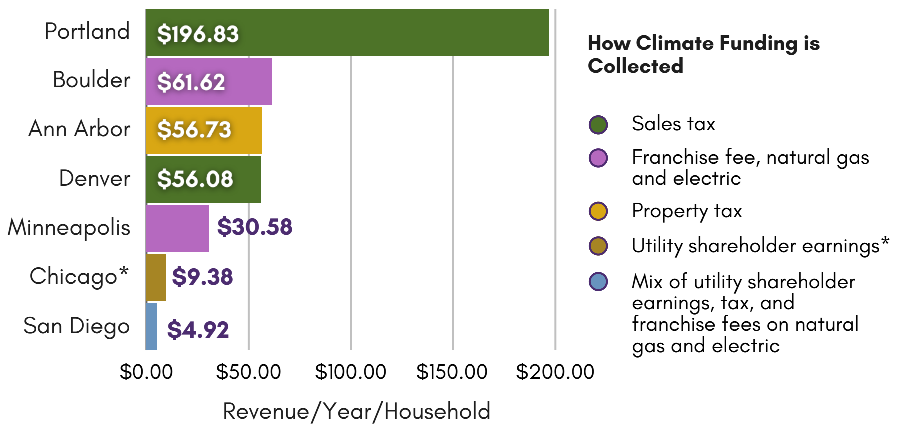
- PCAR, with 2024 social cost of carbon
- Franchise fee, with 2024 social cost of carbon
- Franchise fee, 2024

What the Numbers Say

The chart to the right estimates the potential climate action funds raised by accounting for carbon emissions through the franchise fee and PCAR, stacked on top of current revenue.

These estimates are based on applying a phased-in social cost of carbon (SCC) ($8 per metric ton) and then a 2024 City-adopted ($50.77 per metric ton) SCC value. The potential funds raised from a phased-in SCC applied to both the franchise fee and PCAR would yield over **$16 million per year**. Combining franchise fee and PCAR increases based on the full value of Minneapolis' adopted SCC value for 2024 could raise more than **$121 million annually**. Providing exemptions for residential customers from the franchise fee charge would reduce the total funds collected to approximately **$78 million per year**. Any significant increase in fees should be phased in over time and allow for flexibility through exemptions, discounted fees, or pathways to opt-out of paying a fee.

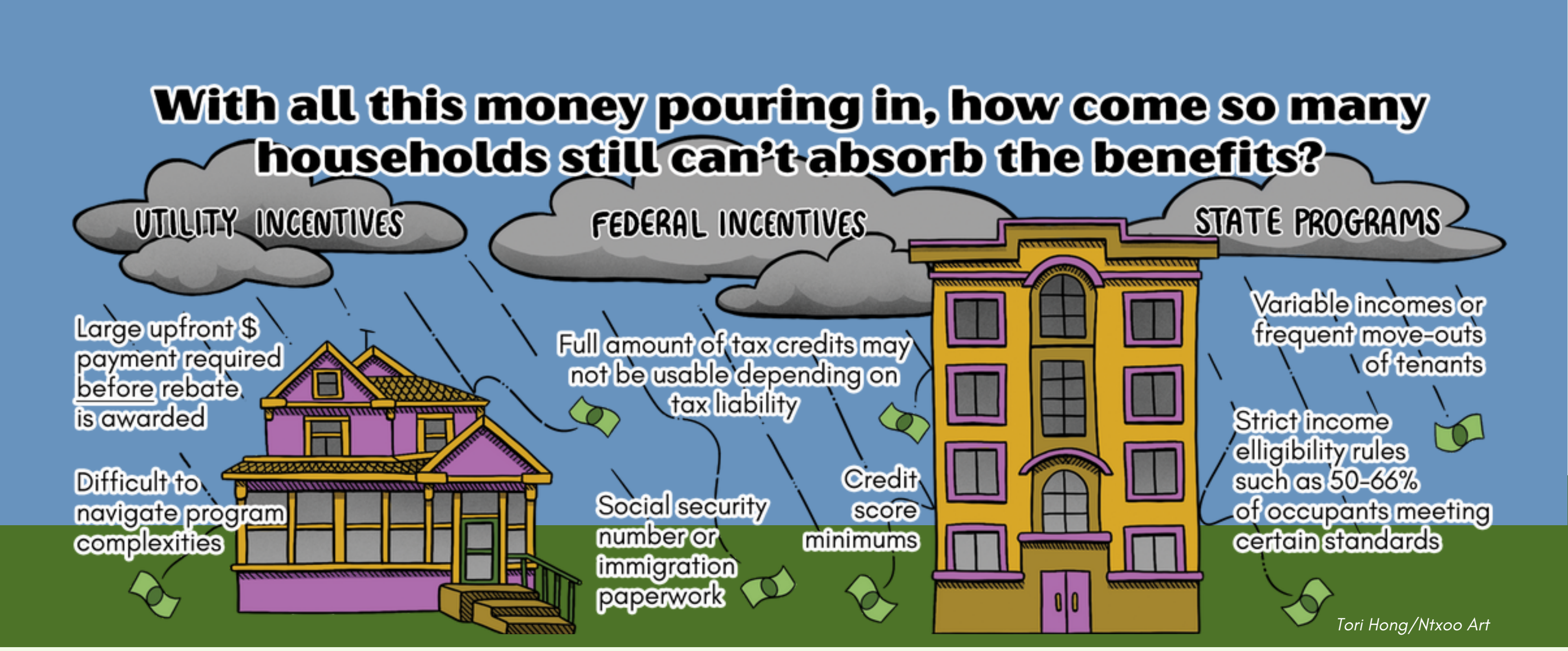
Climate Action Funds Raised by U.S. Cities



In Good Company

Cities across the country are generating funds for climate action through creative resident-endorsed and/or controlled financing tools, on average raising $40-50 per resident annually. The funds expand programs like weatherization, solar power, e-mobility, and more, while oversight measures ensure equitable spending toward carbon reduction goals. Replicating these municipal funding models allows cities to urgently raise and allocate money for climate action focused on justice.

**Chicago secured $120 million in utility shareholder profits amid ongoing bribery scandals with ComEd in 2021.*



How would these funds ensure equitable impact and investment?

Federal, utility, and state-level investments in climate action has been plagued with boom-bust cycles of political will, pervasive access barriers, and lack of community awareness. Cities have the ability and imperative to tailor climate funding to the unique needs of inequities in its communities. There are a number of options for how to both collect and distribute these fees equitably and build in protections for the most vulnerable residents and businesses. These include:

- Clear, objectives for both emission-reductions and equitable benefits by which all investments are selected, monitored and evaluated for effectiveness
- Community-grounded accountable governance, which could include specified seats for impacted communities, technical experts, and others and/or rely on pre-existing community advisory boards
- Exemptions (permanent or for a set number of years) or different charges for low-wealth households, important community institutions, and some residential sectors
- Prioritize frontline communities for early investment of funds (e.g. Minneapolis Green Zones, Justice40 disadvantaged communities) in order to quickly lower energy burden, emissions, and boost resilience to extreme weather

What are the benefits of a combined approach?

It may be most useful and comprehensive to pair these tools together based on the strengths and gaps in each:

Utility Franchise Fees

- Easiest for the City to design exemptions, such as for households that use clean energy or low wealth households.
- Misses emissions that are produced large commercial and industrial customers that purchase wholesale delivered fuels, rather than through the utilities, which may be among the largest emitters.

Pollution Control Annual Registration (PCAR)

- Easiest to apply to large polluters, including those who buy energy in bulk instead of from the utilities.
- Offers less City influence over the process and exemptions than if a franchise fee was used.

Learn more and read the full research paper.

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