



Audit of Franchise Fee Collections

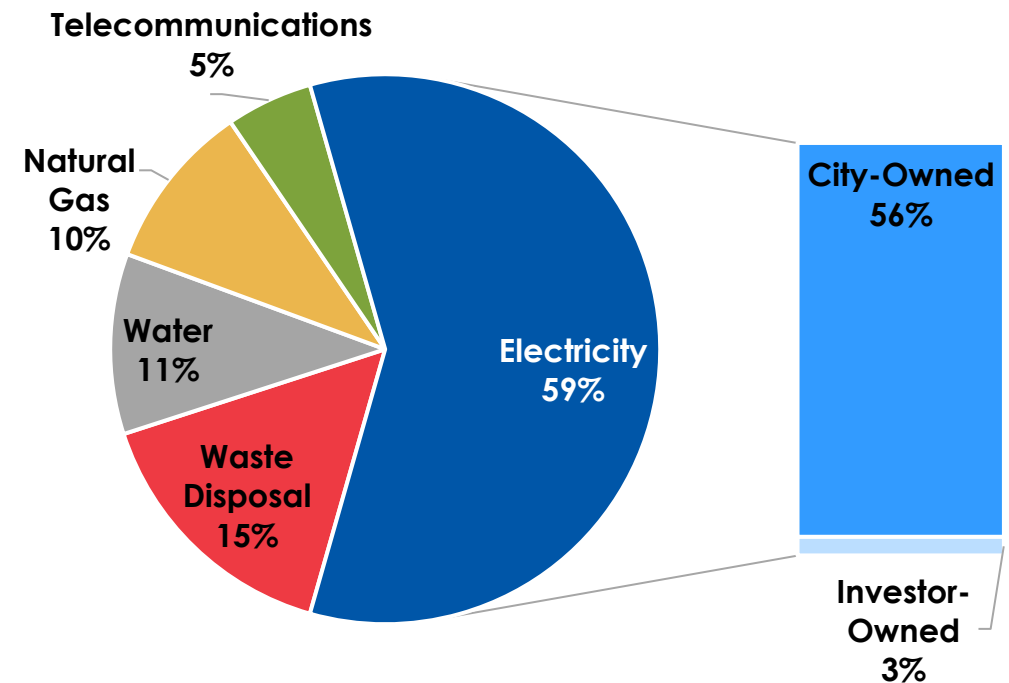
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Purpose of the Audit

- Audit evaluated the effectiveness of fee collection monitoring and franchise agreement management.
- During Fiscal Years 2022 and 2023, the City received almost \$43.5 million in franchise fee revenues.

FY22 & FY23 Franchise Fee Revenues by Utility Type



Add'l Payment Reconciliation Guidance Needed; Opportunities to Increase Revenue Exist

- City-owned utility franchise fee transfer calculated inconsistently.
 - Some revenues appear to be inappropriately excluded from the calculation – most notably the resale of raw water.
- Agreement-authorized franchise payments generally appear timely, accurate, and reasonable except for one utility with an expired agreement.
- Not all state-authorized franchise appear to be submitting payments including one video and cable provider and one significant certified telecommunications provider.

Franchise Utility Types

City-Owned

- Electricity
- Water
- Liquid Waste
- Solid Waste

Agreement-Authorized

- Electricity
- Natural Gas

State-Authorized

- Video and Cable
- Telecommunications



ID 23-2457

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Equation 1: General Franchise Fee Calculation Methodology

*Franchise Fee Payment = Gross Revenue * Franchise Percentage*

Lack of Clear Responsibility Hinders Franchise Fee Agreement Management

- Responsibility for managing franchise agreements has been unclear.
- Two of the City's agreements are currently expired – one for over 15 years.

Summary of Franchise Agreements

Utility	Original Agrmt.	Yrs. Expired	New Agrmt.	Yrs. Expired
Charter	11/15/88	1	NA*	NA
CoServ Gas	01/19/99	15	None	NA
CoServ Electric	01/16/00	2	12/21/12	1
Atmos	01/17/02	8	10/01/20	NA
Oncor	01/17/02	1	02/06/24	NA

*In 2005 the State of Texas established a State-Issued Certificate of Franchise Authority to replace individual cable and video franchises – including Charter's – as they expired.

Management Response Summary

Rec.	Recommendations*	Response	Implementation Actions*
1	Create SOP to guide staff in calculating City-owned franchise fee transfers.	Agree	Will develop SOP and review chart of accounts annually.
2	Clarify by when City-owned franchise fee transfers should be posted.	Agree	Will close month end within specific time-frame.
3	Create SOP to guide staff in tracking & verifying investor-owned franchise fee payments.	Agree	Will develop SOP.
4	Ensure investor-owned utilities are informed when the City limits change.	Agree	Will work with internal departments to develop a process.
5	Require investor-owned utilities to submit clear supporting documentation.	Agree	Will reach out to external parties for supporting documents.
6	Reach out to certain franchises to request expected revenue.	Agree	Will reach out to State for reports.
7	Clarify responsibility for managing franchise agreements.	Agree	Centralized management in the Finance Department.
8	Execute new franchise agreements with investor-owned utilities without current authorization.	Agree	Will work with City Attorney's Office to review agreements.
9	Consider more closely aligning City-owned franchise fee transfer calculations with investor-owned utility gross revenue definitions.	Partially Agree	Will evaluate aligning definitions; may not recommend moving forward.
10	Consider requesting an amendment to Oncor's franchise agreement.	Agree	Will work with City Attorney's Office to review agreement.



*Detailed recommendations and implementation actions can be seen in the full audit report.

Questions?

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