

Electric & Natural Gas Franchise Fees

At the City Council meeting on October 21, 2025, City Council approved implementing a franchise fee of 2% on electric and natural gas bills. A franchise fee is a small charge on a utility bill that goes to a city to help fund local services. An implementation process has begun, and customers will likely see the fee on their MidAmerican Energy and Consumers Energy bills in May. The franchise fee will replace the 1% local option sales tax on electric and gas services that is currently in place. Communities with a franchise fee keep the entire amount of revenue raised by franchise fees, whereas local option sales tax revenue is shared with other cities in Polk County that participate. Elkhart currently only receives 0.17% of the 1% sales tax collected due to the state formula for distributing the funds to the cities that participate in Polk County. However, the City of Elkhart will receive 100% of the 2% franchise fee. This means it will only be a net increase to customers of 1%, which is an estimated annual increase of \$10.30 (electric) for the average residential bill, and an estimated annual increase of \$4.84 (natural gas) for the average residential bill. The fee is based off a customer's usage. This would apply to properties only inside of Elkhart city limits.

Overview of Franchise Fees

Franchise fees are a common municipal funding tool used by many Iowa communities. 270 cities in Iowa already have gas/electric franchise fees in place with several others currently considering adopting franchise fees now. The state of Iowa allows cities to approve a franchise fee from 1%-5%. The City of Elkhart has opted to implement a 2% franchise fee to offset increased costs. The funds may be used for several public purposes as mentioned below.

Here is a link to Iowa cities with franchise fees already in place: [Franchise Fees | Iowa Utility Association](#)

At the meeting on August 18, 2025, Elkhart City Council held a public hearing and first reading of a proposed ordinance to apply a 2% franchise fee on the electric and gas utility bills through MidAmerican Energy and Consumers Energy. A second reading took place at the September 15, 2025 meeting, and a third reading took place at the October 21, 2025 meeting. Prior to any readings that took place on the ordinance, this topic was discussed at several council meetings in March, May, June, and July 2025 and a public hearing was conducted.

FAQs:

What does this mean for residential utility bills?

Currently, Elkhart residents pay a 1% sales tax on gas and electric service. State code does not allow both a sales tax and a franchise fee to apply. The 1% sales tax is removed when a franchise fee is applied. This means the net increase to Elkhart electric and gas customers will only be 1%.

Why is the City implementing a franchise fee rather than sales tax?

The City of Elkhart only receives 0.17% of the 1% sales tax collected due to the state formula used to calculate sales tax distribution for Polk County. However, by replacing the sales tax with a franchise fee, the City of Elkhart will receive 100% of the 2% franchise fee.

What purposes will the revenue from the franchise fee support?

The Elkhart City Council approved a Revenue Purpose Statement at their meeting on July 21, 2025 that says what the franchise fee revenue will be used for:

- Repair or remediation, restoration, cleanup, replacement, and improvement of existing public improvements and other publicly owned property, buildings, and facilities
- Construction, reconstruction, or repair of streets, highways, bridges, sidewalks, pedestrian underpasses and overpasses, street lighting fixtures, public grounds, and the acquisition of real estate needed for such purposes
- Establishment, construction, reconstruction, repair, equipping, remodeling, and extension of public works, public utilities, and public transportation systems
- Public safety (fire, police, emergency services, sanitation, street and civil defense departments)
- Projects designed to prevent or mitigate future disasters
- Economic development activities and projects

The revenue would be placed in the city's general fund, which pays for the operations of many city services, including law enforcement, fire, ambulance services, and parks. The city has an immediate need to cover the rising costs associated with emergency services being provided to the community.

How does this align with what other communities are doing?

Many of the cities in the metro have a franchise fee already in place. There are three metro cities that currently do not have franchise fees. Urbandale, Bondurant, and Grimes are currently discussing the potential adoption of a fee. Below is a chart showing cities in the metro area:

City	Electric Franchise Fee (%)	Gas Franchise Fee (%)	Notes
Alleman	5%	5%	
Altoona	5%	5%	
Ankeny	2%	2%	
Bondurant	0%	0%	
Carlisle	4%	5%	
Clive	5%	5%	
Des Moines	7.50%	7.50%	
Grimes	0%	0%	3% currently proposed (electric & gas)
Johnston	5%	5%	
Mitchellville	3%	3%	
Norwalk	1%	1%	
Pleasant Hill	5%	5%	
Polk City	1%	1%	
Urbandale	0%	0%	1% currently proposed (electric & gas)
Van Meter	5%	5%	
West Des Moines	1%	1%	
Windsor Heights	5% res./3% non-res	5% res./3% non-res	
Waukee	2%	2%	

What is the Iowa code related to franchise fees?

Chapter 364.2 of the Iowa Code specifies rules for the approval and management of a franchise within City limits and includes the ability for a City to establish a franchise fee. A franchise fee of up to 5% may be assessed by a City based upon gross revenues generated from sales of the franchise within the City.

Has this been publicized before?

The franchise fee was discussed over several months at regularly scheduled council meetings in 2025. The ordinance went through the legally required three readings at separate meetings, and a public hearing was held prior to final approval in late October. All meeting agendas were posted publicly in advance and on social media, consistent with City practice. The City also records and posts each council meeting recording to the City's YouTube channel for easy reference.

Why does this show up on my gas/electric utility bill?

Franchise fees are collected through utility providers because they are fees paid for the utility's use of public rights-of-way within the city. This is the standard method used by municipalities across Iowa.

This fee will not be on your utility bill issued by the City of Elkhart.