

October 11, 2011

~CORRECTED~

**ANNEXATION UPDATE
IMPACT OF UTILITY TAXES AND FRANCHISE FEES ON NEW
RESIDENTS**

The City has received a number of inquiries about franchise fees as a result of a recent letter mailed to Northshore Utility District customers that live within the Kirkland city limits. The following questions and answers provide information about franchise fees and on the overall tax and fee impact of annexation.

What are franchise fees and how do they compare to the City's utility tax?

Franchise agreements between the City and utilities provide for payments to the City for utilities' right to use the public right-of-way for their pipes, conduits, etc. For a utility, the franchise fee is the charge they pay for occupying property they don't own (similar to the rent a resident might pay to a landlord). The franchise fee is a cost of doing business for the utility which is passed along to its customers.

Utility taxes are imposed by the City on private and city-owned utilities. Utility taxes are imposed as a percentage of electric, natural gas, telephone, cable TV, garbage and, when provided by a city, water and sewer charges. Cities are not allowed to impose a utility tax on water and sewer utility districts within the city limits.

Both franchise fees and utility tax revenue are considered General Fund revenue and are used for general governmental expenses such as road maintenance, police, fire and parks. Residents served by the City's water and sewer utility do not pay a franchise fee and those served by the Northshore Utility District do not pay utility tax on water and sewer services.

What is the difference between the franchise fee paid by Northshore Utility District customers and the utility tax paid by Kirkland Utility customers?

Franchise fees are not considered a tax and therefore are not calculated or imposed like a tax. The franchise fee is a fixed dollar amount that is based on the lineal square footage of right-of-way available to the utility district multiplied by a per foot charge. The charge per foot is a negotiated rate between the utility district and the city.

Since the franchise fee is part of the district's cost of operating the utility, the fee is recouped through the district's utility bills. The district determines the amount it needs to add on to utility bills to recover the amount needed to make the franchise fee payment – usually calculated by the district as a percentage amount. The following chart compares the average monthly water and sewer charges and the utility tax or franchise fee amount for a City of Kirkland utility customer compared to a Northshore Utility District customer.

Utility Provider	Average Monthly Water and Sewer Charges	Utility Tax or Franchise Fee Percentage	Utility Tax or Franchise Fee*	Total Monthly Water/Sewer Utility Bill
City of Kirkland Utilities	\$96.21	Water 13.38% Sewer 10.50%	\$11.14	\$107.35
Northshore Utility District	\$80.85 [^]	12.86%	\$10.38	\$91.23 [^]

[^]Corrected 10/11/11

Why did Northshore Utility District have to raise their rate twice this year for the franchise fee?

Northshore Utility District agreed to pay a franchise fee of \$3.21 per lineal foot of public right-of-way. When annexation occurred, the new right-of-way, coupled with the right-of-way that the District already had prior to annexation, resulted in an annual franchise fee of approximately \$2.1 million per year. In order for Northshore Utility District to generate this fee from their rate payers in the City, they needed to impose a fee equivalent to 12.86%. In June of this year, Northshore Utility District raised their rates by 10.5%. The City is not consulted as part of the District's rate-setting process so the City is not in a position to speak to why the District did not raise the rates to 12.86% in June.

Why does the Northshore Utility franchise fee revenue shown in the City's budget double between 2011 and 2012?

The annexation took effect on June 1, 2011, so the Northshore Utility District will only be paying the franchise fee for the annexation area for approximately half the year in 2011.

Woodinville Water District (WWD) pays only \$1.73 per lineal foot of right of way. Why is there a difference?

Franchise fees are negotiated amounts. The Woodinville Water District franchise fee is less than the \$3.21 per foot Northshore Utility District charged due to several factors:

- (1) Differing development patterns – the Northshore Utility District area is more densely developed and therefore the use of the right of way is greater,
- (2) Scope of Services – WWD has a less intensive use of the right-of-way since most of the facilities provide water service only

How does the increase in Northshore's franchise fee rate change the overall impact on fees and taxes paid before and after annexation.

The utility tax and franchise fees are part of the City's overall tax base along with property tax and sales tax and are used to fund services such as public safety (police and fire) and street maintenance. For the majority of residents of Juanita, Finn Hill, and Kingsgate, the overall taxes paid for the municipal services provided by the City will be lower than what was paid to King County for a lower level of service. The table below was provided to annexation area residents at various times prior to annexation and illustrates the estimated impacts on a

homeowner. The following table has been updated to reflect Northshore's changes as well as other known changes.

Tax or Fee	King County	City of Kirkland	Annual Increase or (Decrease)
Property Tax*	\$5,788	\$4,763	(\$1,025)
Utility Tax/Franchise Fee**	\$0	\$455	\$455
Surface Water Fees	\$122	\$178	\$56
King County Surface Water Debt	\$11	\$11	\$0
Total	\$5,921	\$5,406	(\$515)

*Figures based on average home value of \$495,000 and excludes debt service on City's voted debt since residents in the annexation area did not assume Kirkland's outstanding voted debt. Actual property tax rates vary within different areas of the annexation area. King County property taxes will continue to apply in 2011. City of Kirkland property taxes will apply in 2012.

**Utility taxes apply to all residents for electric, natural gas, cable TV, garbage and telephone. Utility taxes on water and sewer only apply for Kirkland water and sewer utility customers and franchise fees only apply to Northshore Utility District and Woodinville Water District Customers. Actual utility taxes or franchise fees will vary for individual customers based on utility usage.

The most recent version of this table estimated annual tax and fee savings of \$539 compared to an updated savings of \$515. Overall taxes and fees for an average single family residence are still lower, however, it is important to note that total taxes and fees will be different for each resident based differences in assessed valuation and utility usage.

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