



## CITY OF KIRKLAND

Department of Finance & Administration  
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100  
www.kirklandwa.gov

---

### MEMORANDUM

**To:** Kurt Triplett, City Manager

**From:** Tracey Dunlap, Director of Finance & Administration  
Ray Steiger, P.E., Public Works Director

**Date:** July 5, 2012

**Subject:** 2013-2014 Utility Rate Policy Issues

#### **RECOMMENDATION:**

Council receives a briefing on two critical utility rate policy issues in advance of considering rate recommendations for 2013-2014.

#### **BACKGROUND DISCUSSION:**

City staff is in the process of preparing 2013-2014 rate proposals for the City's water, sewer, surface water, and solid waste utilities. During this process, two critical policy issues were identified:

- Options for adjusting the Solid Waste rate structure to improve stability, while continuing to encourage conservation (Attachment 1), and
- A state-required change in the accounting for City utility tax, which may impact revenues and/or the tax rates (Attachment 2).

Both issues have been reviewed in-depth with the Council Finance Committee at several meetings. However, given the complexity of these two issues, and the scope of the overall rate update process, the July 17 study session will provide an opportunity to discuss these specific issues in more detail with the objective of obtaining concurrence with the direction discussed with the Finance Committee.

The overall process for bringing the 2013-2014 utility rate recommendations forward is:

July 17 – Study Session briefing on Major Policy Issues  
July 30 – Rate recommendations reviewed with Council Finance Committee  
August 7 – Cascade Water Alliance Special Presentation  
September 4 – Rate recommendations presented to City Council  
September 18 – Rate ordinances for City Council approval

*[Note that the solid waste rates must be adopted at or before the October 16 Council meeting to be effective at the beginning of 2013.]*



## CITY OF KIRKLAND

Department of Public Works

123 Fifth Avenue, Kirkland, WA 98033 425.587.3800

[www.kirklandwa.gov](http://www.kirklandwa.gov)

---

### MEMORANDUM

**To:** Kurt Triplett, City Manager

**From:** John MacGillivray, Solid Waste Programs Lead  
Ray Steiger, P.E., Public Works Director

**Date:** July 5, 2012

**Subject:** 2013/2014 Solid Waste Rates Policy Briefing

### RECOMMENDATION:

It is recommended that City Council receives a briefing on a proposed policy modification to be included in 2013/2014 solid waste rates proposal.

### BACKGROUND DISCUSSION:

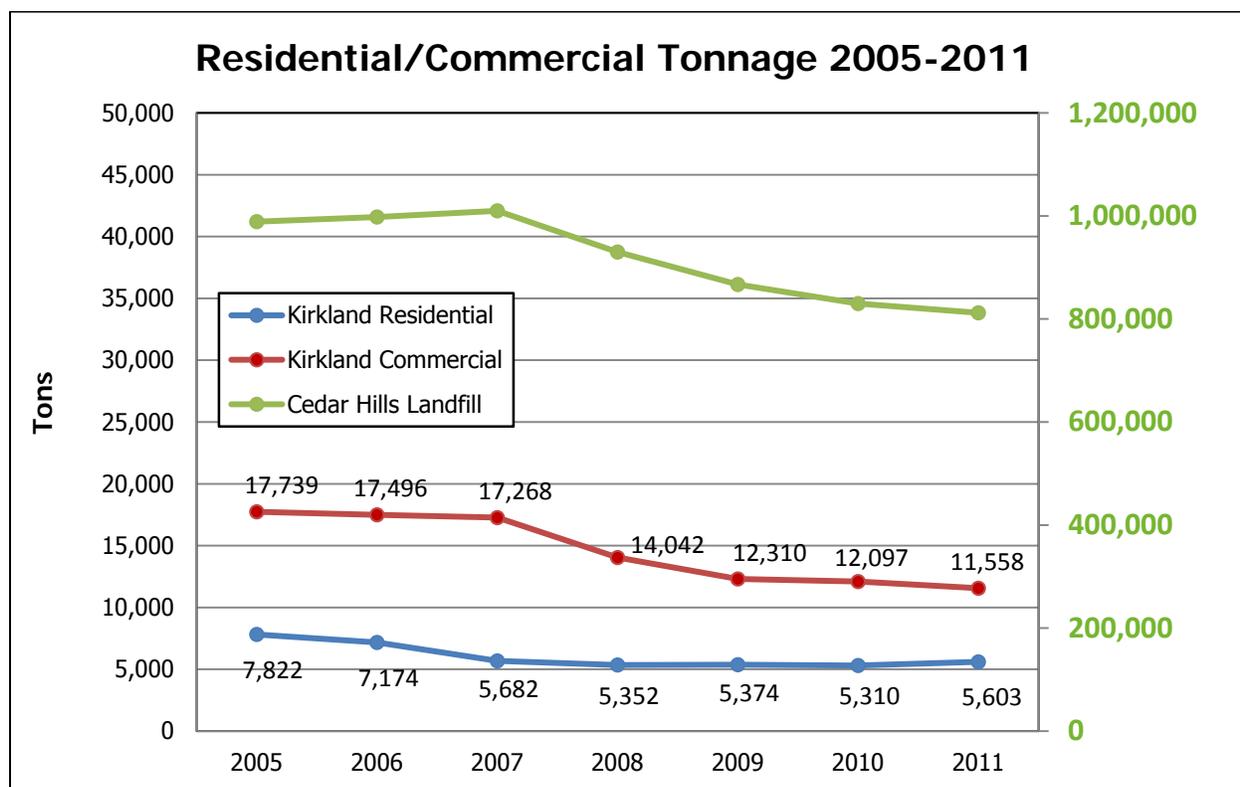
Kirkland's "linear" solid waste rate structure, established in 2009, is such that customers are billed just one price per gallon of refuse no matter what their size of container (approximately \$.56/gal in 2012). Customers are thus billed in direct correlation to the container size and efforts to save money by the customer can be realized by them reducing their container size. A linear rate structure has the effect of encouraging customers to reduce their waste, recycle more, and consequently be able to reduce the size of their garbage carts and their bills.

While the environmental impact of waste reduction due to a linear rate structure is beneficial, the potential financial consequences of excessive customer downsizing (and subsequent revenue reduction) such as that which occurred during the recent annexation, can be detrimental to the utility. In Kirkland's case, for the smaller cart sizes (35 gallon containers and less), the solid waste utility currently pays Waste Management (WMI) *more* for collection and disposal than it receives in revenue. For larger cart sizes (64 gallons and larger), the solid waste utility pays WMI *less* for collection and disposal than it receives. Depending on the container sizes and the customer makeup, those deficits and surpluses should eventually equalize, and the utility can remain in financial balance.

Typically, downsizing behaviors can be accounted for during a rate update analysis. The solid waste rate analysis done prior to adoption of the linear rate structure in 2009 accurately anticipated the amount of downsizing that would occur as a result of implementing the new linear rates in 2009/2010. The \$ 8.5 million in annual revenues projected in the rate analysis were within \$5,000 of actual year end revenues – a deviation of less than 1/1000 of one percent.

However, in the case of rapid, unanticipated downsizing, expenditures can outpace revenues and result in a deficit to the utility. This was the case after the 2011 annexation of the JFK neighborhoods.

Several factors have contributed to the discrepancy between the estimated rate of downsizing and the actual rate of downsizing that was built into the 2012 solid waste rate (note: the rate of downsizing has exceeded estimates by approximately six percentage points (pp), and the revenue shortfall is valued at \$322,000; it will be proposed later this summer that solid waste reserves be used to balance the utility in 2012): 1) the implementation of the City's new solid waste contract in the JFK neighborhoods in July, 2011, and its comparably attractive variable rates and services encouraged more JFK residents to reduce their service levels; 2) a robust education and outreach effort undertaken in greater Kirkland around the time of annexation caused even more non-JFK residents to opt for smaller garbage carts; and 3) the poor economy has continued to contribute to the rate of downsizing. As can be seen in the table below, the overall tonnage collected in Kirkland and that processed at the Cedar Hills Landfill has gradually decreased since 2007. In an economic downturn, less waste is produced by residents and businesses, and many have decided to take advantage of Kirkland's variable rates by selecting a smaller and less expensive garbage service level to match their waste production.



*Rates Policy Review Recap*

At their February 28, 2012, meeting, the Finance Committee received a briefing on the circumstances that caused the revenue deficit in the 2012 solid waste rates. At the March 27, 2012, Finance Committee meeting, staff introduced several potential rate options intended to correct the revenue deficit in the 2013/2014 solid waste rates. The Finance Committee subsequently indicated an interest in further discussion of the linear and "nearly" linear rate options but discarded the more aggressive pure cost-of-service and variable recycling and

organics rate options. Accordingly, a refined list of three rates options were presented for the Finance Committee's review and consideration at their May 29, 2012, meeting. At that meeting, staff also received unanimous direction from the Finance Committee on the three solid waste rates policy questions presented below.

### *Important Factors*

Any of the rate policy options presented herein will likely resolve the revenue deficit in 2013/14 given the assumption that service level migration will be at a predictable, pre-annexation levels during 2013/14. Each option provides a varying degree of protection from further downsizing and, correspondingly, more or less incentive for customers to reduce waste and recycle more. More protection from further downsizing generally equates to less of an incentive to reduce waste and recycle.

The numbers presented in the following narratives and *Graph 1* (Attachment 3) should be taken as indicative of the concept and not of any specific projection of likely rate increases for each group. *The 10% rate increase example is hypothetical, not actual or proposed; it is used to illustrate how an increase could be distributed within each of the three potential rates structures.* Additional components affecting the final proposed 2013/2014 solid waste rate are the annual CPI increase to WMI (not released until July 17) and pending consideration of an administrative personnel service request.

### **SOLID WASTE RATES POLICY QUESTIONS:**

*RATES POLICY QUESTION 1: Unanticipated past and ongoing customer downsizing has caused expenditures to outpace revenues in the 2012 solid waste utility. How and should the 2013-14 solid waste rate structure be modified to correct the revenue deficit?*

#### *Solid Waste Rate Policy Options Primer*

There are different revenue shortfall risks, diversion incentives, waste prevention incentives, and differential rate impacts on service levels for the three rate policy options presented below. In all cases, however, the further rates move from a linear approach towards a cost-of-service model, the lower the risk that revenues will fall short of solid waste expenses. Conversely, the more linear rates are, the higher the risk that customer migration to smaller container sizes that is not accurately projected in the rate analysis will result in revenues not covering expenses.

Additionally, in terms of the rate impact on smaller versus larger container size service levels, an increase in revenues that is apportioned across service levels will likely amplify the increase in the lower service levels when moving from linear garbage collection fees toward any of the other rate options.

#### *Solid Waste Rate Policy Options*

An illustration of each option is included in *Graph 1: Examples of 2013 Rate Design Options*. This graph illustrates a *hypothetical* 10% increase. While each service level is presented in a cost per gallon format, a retail price point for each cart size is also presented for to show what might be charged to the customer in the scenario. The blue line indicates the wholesale rate the City would pay WMI for each service level. *Table 1: Potential Rate Increase Distribution*

presents how the hypothetical 10% rate increase might be distributed across each service level by percentage and shows how each distribution might compare to the current 2012 rates.

OPTION 1: Stay Linear  
*(Graph 1: Red line)*

Kirkland's residential rates are currently linear. Under the residential rate option of maintaining current linear rates any increase in total costs for residential collection and disposal would be passed on with equal percentage increases for all cart sizes and collection frequencies. For example, if residential costs go up by 10% in 2013 then all residential rates would go up 10%.

Option 1 offers the most diversion and waste prevention benefit, but its revenue component is the most sensitive to fluctuations in service levels. If downsizing levels can be accurately predicted, Option 1 is the preferred option. Since annexation, the rate of downsizing has leveled off to approximately 0.63% per month which is equivalent to the migration rate in pre-annexation Kirkland. Before annexation, the migration rate from the 96W/64W carts to the smaller 35M, 20W, and 35W was about 0.60% per month. However, if an unpredicted spike in downsizing occurred due to a successful education and outreach effort or a further slump in the economy, for example, expenditures would likely outpace revenues.

*Conclusion: Option 1 provides the least protection from unpredicted spikes in downsizing but provides the most waste reduction and recycling diversion incentive.*

OPTION 2: Nearly Linear 1 (Less linear for 10/20 gallon weekly and 35 gallon monthly)  
*(Graph 1: Green Line)*

Under this option, residential rates for the 10 gallon weekly (10W), 20 gallon weekly (20W) and 35 gallon monthly (35M) service levels would increase by a greater percentage than would the 35 gallon (35W), 64 gallon (64W) and 96 gallon (96W) weekly service levels. The amount of the differential increases would depend on how nearly linear the rates were modified. A 10% rate increase overall for residential would increase the three higher service levels (35W, 64W, 96W) by 10%; the same as under Option 1. The three lower service levels (10W, 20W, 35M) would increase by greater than 10%. The size of the additional increase would determine the amount of additional revenue that would be available to mitigate downsizing that is not anticipated by the rate study or to offset a portion of the commercial subsidization of the residential sector. An increase of 31% for the three lower service levels would raise approximately \$55,000 in additional revenue compared to Option 1 (based on the 2012 rate study).

Option 2 insulates the Utility from some of the revenue risk caused by ongoing downsizing but still strongly encourages recycling diversion and waste prevention behaviors. However, it would result in a considerably larger rate increase for the 10W, 20W, and 35M service levels (31%) compared to the larger 35W, 64W, and 96W service levels (10%). Yet, in terms of actual dollars, the 31% increase is relatively small; for example, a 31% increase in the 20 gallon service increases the price by \$2.36 to \$14.75/month.

*Conclusion: Option 2 offers a greater protection from unpredicted spikes in downsizing than Option 1 but provides slightly less of a waste reduction and recycling diversion incentive.*

OPTION 3: Nearly Linear 2 (Less Linear for 10W/20W/35M, cover WMI wholesale rate for 35W, linear for 64W and 96W)  
*(Graph 1: Orange Line)*

Under this option, residential rates for the 10W, 20W, 35W and 35M service levels would increase by a greater percentage than would the 64W and 96W service levels. The amount of the differential increase depends on how much the 35W needs to be raised to cover WMI's wholesale rate for this service level, which is the service currently used by over half of residential customers.

If all of the 10% hypothetical cost increase is due to CPI and tipping fee increases, then the WMI wholesale rate for the 35W service level in 2013 would be \$24.48. In this case, the retail rate for the 35W and the three smaller service levels would all increase by 24.2%. This would raise approximately \$400,000 in additional revenue relative to the all linear option, based on the 2012 rate study. This additional revenue could be used to mitigate any residential downsizing not anticipated in the 2013 rate study, as well as to offset the commercial subsidization of residential sector costs.

Option 3 almost certainly insulates the Utility from any revenue risk caused by ongoing downsizing, since 85% of residential customers would pay retail rates that are equal to or exceed WMI wholesale rates, and this option would produce significantly more downsizing mitigation revenue than would be raised under Option 1. Option 3 still encourages recycling diversion and waste prevention behaviors, although the incentive to downsize from the 64W to the 35W service level is less than under Option 2 or Option 1.

Option 3 would result in a considerably larger rate increase for the 10W, 20W, 35W and 35M service levels (24.2%) compared to the larger 64W and 96W service levels (10%). Yet, in terms of actual dollars, the 24.2% increase is relatively small; for example, a 24.2% increase in the 20 gallon service increases the price by \$1.59 to \$13.98/month. Furthermore, the percentage increases for the three smaller service levels (10W, 20W and 35M) could be reduced below 24% without increasing the financial risk of unanticipated downsizing very much. Simply stated, the rates for the smaller service levels could be adjusted slightly downward relative to the 35W service level to dial in a downsizing mitigation revenue target.

*Conclusion: Option 3 offers greater protection from unpredicted spikes in downsizing than Options 1 or 2 but provides the lowest waste reduction and recycling diversion incentive.*

*RATES POLICY QUESTION 1 -- RECOMMENDATION: Finance Committee unanimously recommends Option 2.*

*RATES POLICY QUESTION 2: The City fully subsidizes yard waste extras. Should the City continue to fully subsidize yard waste extras, modify the subsidy, eliminate the subsidy, or limit the amount of extras?*

### *Yard Waste Subsidy Discussion*

In 2003, a policy decision was made to not charge customers for yard waste extras (a 32-gallon equivalent unit) or to limit the number of yard waste extras that may be put out at the curb. At the time, the decision was made primarily to discourage illegal dumping activity and, secondarily, as a way to encourage the diversion of more organic material for composting.

Before annexation, Kirkland customers generated on average about 1,400 yard waste extras per month at a cost to the Utility of about \$60,000 per year. After annexation, the number of yard waste extras has increased to an average of about 2,500 per month. Consequently, the subsidy of yard waste extras will cost the utility a projected \$140,000 in 2012. It is important to note, however, that if the subsidy is decreased or eliminated, the actual number of extras will decrease proportional to the amount of the extra rate increase (Principle of Price Elasticity of Demand). As such, the potential revenue received from yard waste extras will be substantially less than \$140,000.

### *Yard Waste Extra Policy Options*

#### *OPTION 1: Continue the Full Subsidy*

If the full subsidization of yard waste extras is continued in 2013, the cost of the subsidy could increase beyond \$150,000 depending on the annual CPI increase granted to WMI. Kirkland's high overall diversion rate is more reliant upon organics diversion than regular curbside recyclables diversion – in 2011, yard and food waste accounted for 59% of all materials recycled or composted by the single family residential sector. In terms of the impact free yard waste extras had upon diversion during 2003-2010, residents recycled on average 607 tons of organic material per month compared to only 524 tons per month during 1998-2002. In 2002, the average customer recycled 104 pounds of yard waste per week compared to 117 pounds of yard and food waste per week in 2011. It is important to note, however, that some of the increase in the diversion of organic waste in 2003-2010 can be attributed to the ban on yard waste disposal at the Cedar Hills Landfill and the introduction and proliferation of residential food scrap recycling. Full subsidization has had the most positive effect upon organics diversion but the most negative impact on the Utility's balance sheet.

#### *OPTION 2: Modify the Subsidy*

A second alternative is to partially subsidize yard waste extras and charge customers some fee per extra below the wholesale rate paid to WMI. As shown in *Table 2*, most cities charge their residential customers for yard waste extras. Depending upon the price point selected, this option would bring in some revenue but would keep yard waste extra rates comparably low thus retaining some of the diversion benefit provided by the full subsidy option. Several different price points are offered in *Table 3: Yard Waste Extra Analysis* as examples to illustrate how a given rate could increase revenue. Again, the number of extras residents put out will naturally decrease as the price point increases so the actual revenues received will be less than what is indicated in each example.

#### *OPTION 3: Subsidize with Extra Limits*

This option would subsidize yard waste extras up to a limit per customer per week. If the limit is exceeded, a fee per extra would be charged. The City of Bellevue has a policy of allowing each customer six 32-gallon "units" per week wherein the customer is provided with a 96-gallon cart (three units), like Kirkland, and may put out three additional units per week at no additional charge. As shown below in *Table 4: City of Bellevue Yard Waste Extras*, this policy results in a substantially lower number of billable extras per month when compared to Kirkland's monthly average of 2,500. Other than continuing the full subsidy, this option would generate the least revenue but would still highly encourage organics diversion. By comparison, charging customers a flat fee of \$1.00 per extra, for example, might generate about \$27,000 in annual revenue whereas this extra limit option may only result in revenues similar to Bellevue of only \$17,000 per year.

**Table 4: CITY OF BELLEVUE YARD WASTE EXTRAS**

2011	Number of Extras	Revenue	Number of Customers w/ Extras
January	88	\$365.88	15
February	92	\$362.28	22
March	367	\$1,508.37	69
April	293	\$1,189.78	79
May	407	\$1,634.55	98
June	424	\$1,731.80	77
July	235	\$915.97	63
August	477	\$1,935.01	105
September	314	\$1,277.51	64
October	341	\$1,380.91	79
November	785	\$3,218.74	199
December	427	\$1,732.02	107
<b>Average</b>	354	\$17,252.82	977
<b>Kirkland Average</b>	2,900	\$0	

*OPTION 4: Eliminate the Subsidy*

The final alternative is to eliminate the yard waste subsidy. The retail rate charged to customers would be the same as the wholesale rate paid to WMI (\$4.71 each in 2012) to fully cover costs. In a survey of several King County cities, every city except for Kirkland and Renton charge their customers in some fashion for units of extra yard waste. Kirkland does have a rate for an extra 96-gallon cart but no rate for 32-gallon equivalent extra unit. This option would likely have some negative impact on diversion but would fully recover all costs associated with yard waste extras and eliminate the \$140,000 deficit.

*RATES POLICY QUESTION 2 -- RECOMMENDATION: Finance Committee unanimously recommends Option 4.*

*RATES POLICY QUESTION 3: The City currently charges its customers less than it pays Waste Management for garbage extras. Should the City continue to partially subsidize garbage extras, eliminate the subsidy to cover costs, or increase the garbage extra retail rate beyond the wholesale rate?*

*Garbage Extra Policy Options Discussion*

For 2012, the City charges its customers \$4.16 per 32-gallon equivalent garbage extra and pays Waste Management \$5.25 per garbage extra. In 2011, the Solid Waste Utility lost approximately \$4,500 in revenue due to this partial subsidy. For 2012, staff projects that the Utility will lose almost \$7,700 in revenue. *Table 5: Garbage Extras Analysis* provides a detail of the potential revenues if garbage extra rates were increased to cover costs or raised above cost to increase revenue and encourage waste reduction.

Kirkland's garbage extra rate is comparable to most cities in King County and is neither relaxed nor punitive in nature. Low garbage extra rates discourage waste prevention and recycling behaviors by providing customers with a cheap alternative to dispose of their waste whereas higher or punitive garbage extra rates can encourage customers to reduce their overall waste as well as proactively sort recyclable and organic material from their garbage. Additionally, a higher extra rate ratio of garbage to yard waste (2:1) can both encourage waste prevention but also encourage customers to divert more organic materials into the yard waste stream via food scrap recycling. As shown in *Table 2*, most cities in King County have about a 1:1 garbage to yard waste extra rate. The City of Seattle, however, has a garbage to yard waste extra rate which is almost exactly 2:1 (\$8.95 to \$4.45)

*RATES POLICY QUESTION 3 -- RECOMMENDATION: Finance Committee unanimously recommends establishing a retail rate to fully cover the cost of the WMI wholesale rate.*

**SUMMARY:**

Based on feedback and discussion with the full Council on July 17<sup>th</sup>, staff will continue to develop the rate recommendations for 2013/2014 considering resolution of WMI's CPI announcement and of City budget discussions. The following depicts the tentative schedule of actions to follow:

<u>Month/Date</u>	<u>Task</u>	<u>Status</u>
Jan	Rates Study Consultant Procurement	Complete
Feb/Mar/Apr/May	Finance Committee Rates Policy Review	Complete
May	Data Gathering/Admin Budget Review	Complete
June	Conduct Rate Study	Ongoing
July	Internal Review/Council Study Session	Pending
July 30	Finance Committee – Rate Proposal	Pending
September 4	City Council Meeting Review/Ordinance	Pending
September 18	City Council Meeting Ordinance (if needed)	Pending
October 16	Deadline to pass rates ordinance	Pending



**CITY OF KIRKLAND**  
 Department of Finance & Administration  
 123 Fifth Avenue, Kirkland, WA 98033 425.587.3100  
 www.kirklandwa.gov

## MEMORANDUM

**To:** Kurt Triplett, City Manager  
**From:** Tracey Dunlap, Director of Finance and Administration  
**Date:** July 5, 2012  
**Subject:** Utility Tax Accounting Change and Related Impacts

### RECOMMENDATION:

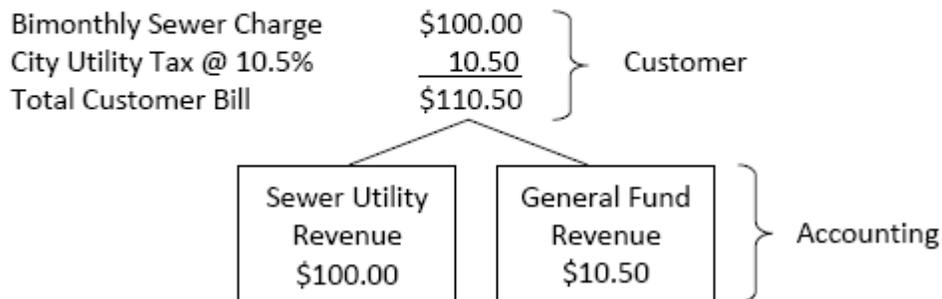
Council receives briefing on changes to the City's calculation of and accounting for City utility taxes and provides direction for inclusion in the 2013-2014 rate studies.

### BACKGROUND DISCUSSION:

Historically, the City of Kirkland has charged and accounted for City utility taxes on the City-owned utilities (water, sewer, surface water, solid waste) in the following manner:

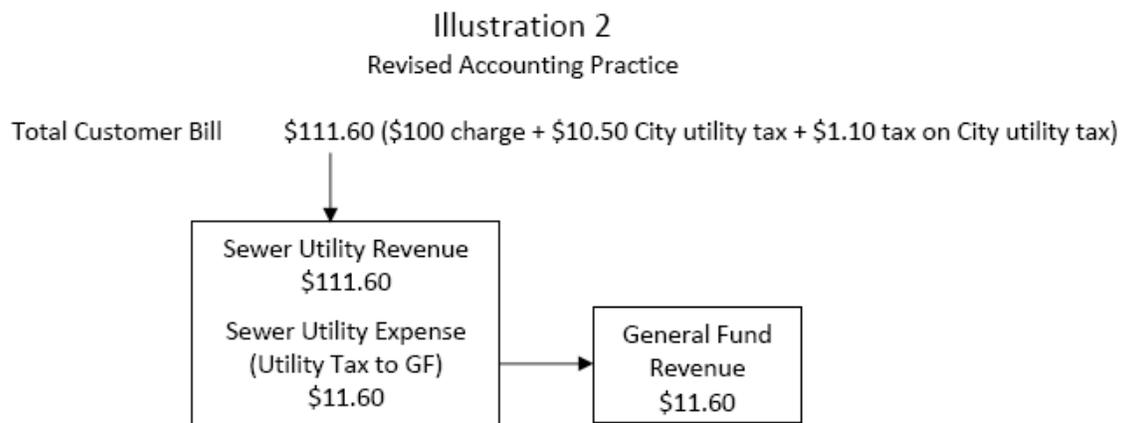
1. The customer charge is calculated based on the utility rate schedule.
2. City Utility tax is added to the bill as a separate line item.
3. Rate revenues are received to the appropriate utility enterprise fund
4. City Utility tax (City tax) revenues are received directly to the General Fund.

Illustration 1  
 Current Practice



The State of Washington imposes a utility excise tax (State tax) on the "gross revenues" of the utilities and the City has historically paid this tax on the rate revenues received to the utilities, but not on the City tax. During the recent audit, DOR audited the City's State tax payments and determined that the City should have been paying State taxes on both the rate revenues and the City utility taxes (see attached DOR Special Notice dated August 2011), which taken together should be treated as "gross revenues". The State tax is typically built into utility rates.

Based on the recent interpretation, generally accepted accounting principles requires that the City account for the gross revenues in the utility funds, including the City utility taxes, which are then paid by the utility funds to the General Fund.



This change has a number of consequences:

1. Increases the State taxes paid by the utilities, which will be taken into account during the rate updates for the 2013-2014 budget process.
2. Grosses up the budget by increasing the utility revenues and expenses by approximately \$4 million in City utility tax revenues added and \$4 million in expenditures for City utility tax payments to the General Fund. The General Fund budget would be unchanged in that the revenue would still be included but the amount could be larger (see below).
3. Changing the City utility tax calculation to be based on the "gross revenues" of the utility, which now includes the City utility tax, results in a "tax on a tax". In reality, this is consistent with the fact that the City utility tax is a tax on the gross income of the utility, not on the customer. There are a few options for addressing this issue:

#### Option 1

Many utilities build the local and state utility taxes into the utility rates, since they are taxes on the utility (a cost of doing business). In some cases, the utility includes a note on the bill, such as "Rates include the impact of the City's x.x% utility tax and the State's y.y% utility excise tax".

Option 2

If it is desirable to continue to show the City utility tax as a line item on the bill, the tax rate would need to be grossed up to reflect the impact of applying the tax to the gross revenues. For example, 10.5% would effectively be  $10.5\% \times 10.5\% = 11.60\%$ . This would reflect the application of the tax to gross utility revenue and would increase City utility tax collections by at least \$500,000. PSE shows the total City tax as a line item on their bills titled "Effect of City Tax".

Option 3

Lower the City utility tax rate, to neutralize the impact on utility tax revenues. For those utilities with 10.5% tax rate, the rate would be reduced to 9.58%.

An example of the options for a bimonthly sewer charge of \$100.00 follows:

	<b>Current</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
Utility Tax Rate	10.50%	10.50%	10.50%	9.58%
Sewer Charge	100.00		100.00	100.00
Effective Utility Tax	10.50		11.60	10.50
<b>Total Utility Bill</b>	<b>110.50</b>	<b>*111.60</b>	<b>111.60</b>	<b>110.50</b>

\*Note: Includes State Utility Excise Tax on collection at 3.852% and City Utility Tax on gross revenues at 10.5%

Staff has discussed these options with the Council Finance Committee and is recommending Option 3 for inclusion in the 2013-2014 rate updates.

An additional impact of the accounting change is the application of the tax rate to the gross revenues of the utilities, which subjects non-rate revenues to the tax. Since this is a tax on the utility, not on the customer, there are many instances where the added tax would be a significant burden and cannot be collected as an addition to the rate payers. A few examples include the Regional Capital Facilities Charges (RCFCs) which are remitted to Cascade Water Alliance (CWA) for new water connections, City capital facilities charges for new connections, interest earnings and grants. As a result, staff is recommending that the KMC be revised to exclude selected revenues from the gross revenues definition, specifically:

- Interest revenue,
- Capital facilities charges (including RCFCs and Emergency Sewer Program connection revenue),
- Grant revenue,
- Intergovernmental revenue (cost reimbursements from other jurisdictions), and
- Interfund transfers (cost reimbursements for work for other City funds).

Staff is seeking direction regarding the inclusion of Option 3 in the rate analysis and the recommended changes to the KMC.



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

AUGUST 15, 2011

## City-imposed Municipal Utility Taxes are Part of Taxable Gross Income

### Background

In some cases, cities provide utility services directly to their citizens. Many cities also impose a municipal utility tax on the **providers** of certain utility services. The municipal utility tax also applies to a department of the city that provides utility services.

If a city itself operates a department that provides utility services directly to its citizens, the municipal utility tax also applies to those services. The municipal utility tax is then passed on to and collected from customers by the utility provider. In some cases the municipal utility tax may be separately identified on the billing invoice to show the “effect” of the tax.

### How do I report?

The entire amount charged to and collected from customers is gross revenue to the utility provider. This amount cannot be reduced by the amount of recovered taxes when the utility provider computes its state public utility tax or business and occupation tax liability, even if the city itself provides the utility service.

### Example

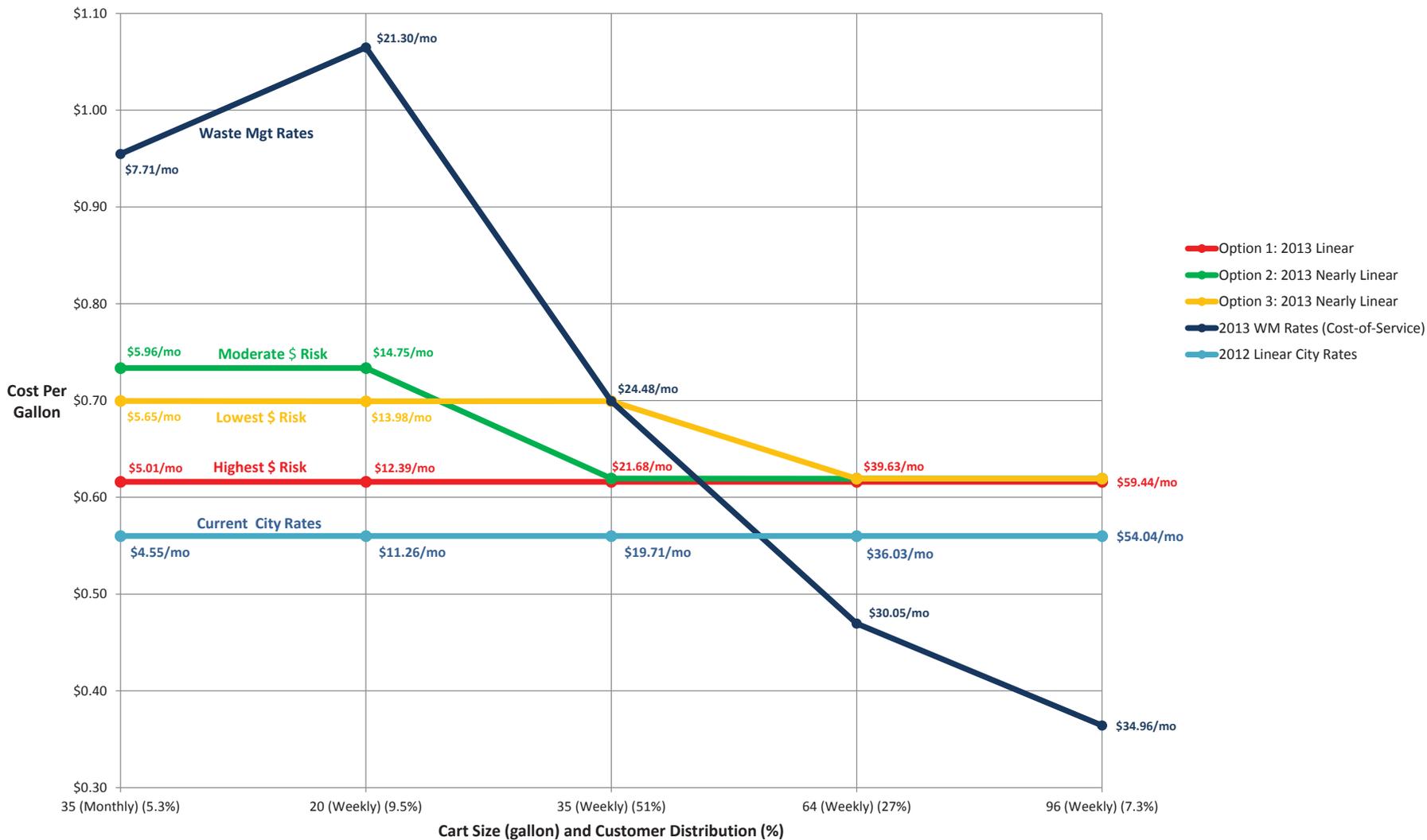
City Z imposes a public utility tax on providers of water distribution services within its city limits. City Z’s Water Department provides water services to residents of City Z. City Z’s Water Department is subject to City Z’s utility tax. City Z’s Water Department passes on the local utility tax to its customers.

The entire amount that City Z’s Water Department bills to its customers for water services, including the municipal utility tax liability (even if separately stated on the billing invoice), is subject to the state public utility tax under the water distribution classification.

### For more information

Visit our website at [dor.wa.gov](http://dor.wa.gov), send an email to [dorcommunications@dor.wa.gov](mailto:dorcommunications@dor.wa.gov), or call the Department’s Telephone Information Center at 1-800-647-7706.

**Graph 1: Examples of 2013 Rate Design Options - Hypothetical 10% Cost Increase**



**Table 1: Potential 2013 Rate Increase Distribution (10% HYPOTHETICAL INCREASE EXAMPLE)**

Rate Option	GARBAGE SERVICE LEVEL				
	35 (Monthly)	20 (Weekly)	35 (Weekly)	64 (Weekly)	96 (Weekly)
Number of Customers	1,094	1,984	10,586	5,623	1,510
Waste Management Rates	\$7.71	\$21.30	\$24.48	\$30.05	\$34.96
2012 City Rates	\$4.55	\$11.26	\$19.71	\$36.03	\$54.04
<b>Option 1: Stay Linear</b> Highest \$ Risk Best for Waste Reduction and Recycling	\$5.01 (+10%)	\$12.39 (+10%)	\$21.68 (+10%)	\$39.63 (+10%)	\$59.44(+10%)
<b>Option 2: Nearly Linear 1</b> Moderate \$ Risk Good for Waste Reduction and Recycling	\$5.96 (+31%)	\$14.75 (+31%)	\$21.68 (+10%)	\$39.63 (+10%)	\$59.44 (+10%)
<b>Option 3: Nearly Linear 2</b> Lowest \$ Risk Moderate for Waste Reduction and Recycling	\$5.65 (+24.2%)	\$13.98 (+24.2%)	\$24.48 (+24.2%)	\$39.63 (+10%)	\$59.44 (+10%)

**Table 2: Characteristics of Residential Organics Collection in Selected Cities**

	<b>Kirkland</b>	<b>Bellevue</b>	<b>Bothell</b>	<b>Redmond</b>	<b>Renton</b>	<b>Seattle</b>
<b>Mandatory Garbage</b>	Yes	No	Yes	No	Yes	Yes
<b>Mandatory Organics</b>	No	No	No	No	No	Yes
<b>Yard Debris Disposal Ban</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Food Scraps Disposal Ban</b>	No	No	No	No	No	No
<b>Garbage Collection Frequency</b>	weekly	weekly	weekly	weekly	biweekly	weekly
<b>Organics Collection Frequency</b>	weekly	weekly	weekly	weekly	weekly	weekly
<b>Organics Setout Limits</b>	1 - 96 cart	2 - 96 carts	1 - 96 cart	1 - 96 cart	No Limit	None Free
<b>Embedded Organics</b>	Yes	Yes	Yes	Yes	Yes	No
<b>13 gallons weekly (Monthly Fee)</b>						\$4.65
<b>32 gallons weekly (Monthly Fee)</b>						\$6.95
<b>96 gallons weekly (Monthly Fee)</b>						\$8.95
<b>Second Yard Waste Cart Fee</b>	\$11.46	no charge	\$5.61	\$7.66	no charge	\$8.95
<b>Second Yard Waste Cart Rental Fee</b>	incl. in above	\$2.43	incl. in above	incl. in above	\$1.98	incl. in above
<b>Yard Waste Extra Rate (32 gal.)</b>	\$0.00	\$4.22	\$4.52	\$4.93**	no charge	\$4.45
<b>Garbage Extra Rate (15 gal.)</b>					\$3.56	
<b>Garbage Extra Rate (32 gal.)</b>	\$4.17	\$4.38	\$4.97	\$4.56		\$8.60

\* Redmond has biweekly collection in winter.

\*\*Redmond extra can not include food waste.

**Table 3: Yard Waste Extra Analysis**

Month	Year	Number	Rate/ea	Paid to WM	Yard Waste Extra Fee Options					Add Revenue
					\$1.00/each	\$1.50/each	\$2.00/each	1/2 WM Rate	No subsidy	
Jan	2011	145	\$3.61	\$522.55	\$144.75	\$217.13	\$289.50	\$261.28	\$522.55	
Feb	2011	99	\$3.61	\$357.39	\$99.00	\$148.50	\$198.00	\$178.70	\$357.39	
Mar	2011	566	\$3.61	\$2,043.26	\$566.00	\$849.00	\$1,132.00	\$1,021.63	\$2,043.26	
April	2011	1388	\$3.61	\$5,010.68	\$1,388.00	\$2,082.00	\$2,776.00	\$2,505.34	\$5,010.68	
May	2011	1253	\$3.61	\$4,523.33	\$1,253.00	\$1,879.50	\$2,506.00	\$2,261.67	\$4,523.33	
June	2011	5103	\$3.61	\$18,422.13	\$5,103.08	\$7,654.62	\$10,206.17	\$9,211.07	\$18,422.13	
		8554			\$8,553.83	\$12,830.75	\$17,107.67	\$15,439.67	\$30,879.34	
July	2011	2712	\$4.55	\$12,337.43	\$2,711.52	\$4,067.28	\$5,423.05	\$6,168.72	\$12,337.43	
Aug	2011	2268	\$4.55	\$10,319.41	\$2,268.00	\$3,402.00	\$4,536.00	\$5,159.71	\$10,319.41	
Sept	2011	1734	\$4.55	\$7,889.70	\$1,734.00	\$2,601.00	\$3,468.00	\$3,944.85	\$7,889.70	
Oct	2011	1855	\$4.55	\$8,439.25	\$1,854.78	\$2,782.17	\$3,709.56	\$4,219.63	\$8,439.25	
Nov	2011	3629	\$4.55	\$16,511.95	\$3,629.00	\$5,443.50	\$7,258.00	\$8,255.98	\$16,511.95	
Dec	2011	5210	\$4.55	\$23,705.50	\$5,210.00	\$7,815.00	\$10,420.00	\$11,852.75	\$23,705.50	
		17407		\$110,082.58	\$17,407.31	\$26,110.96	\$34,814.61	\$39,601.62	\$79,203.24	
		25961			\$25,961.14	\$38,941.71	\$51,922.28	\$55,041.29	\$110,082.58	Add Revenue
					(\$84,121.44)	(\$71,140.87)	(\$58,160.30)	(\$55,041.29)	\$0.00	Profit/Loss

Month	Year	Number	Rate/ea	Paid to WM	Yard Waste Extra Fee Options					Add Revenue
					\$1.00/each	\$1.50/each	\$2.00/each	1/2 WM Rate	No subsidy	
Jan	2012	1154	\$4.71	\$5,436.64	\$1,154.28	\$1,731.41	\$2,308.55	\$2,718.32	\$5,436.64	
Feb	2012	1840	\$4.71	\$8,666.40	\$1,840.00	\$2,760.00	\$3,680.00	\$4,333.20	\$8,666.40	
Mar	2012	686	\$4.71	\$3,231.06	\$686.00	\$1,029.00	\$1,372.00	\$1,615.53	\$3,231.06	
April	2012	3837	\$4.71	\$18,072.27	\$3,837.00	\$5,755.50	\$7,674.00	\$9,036.14	\$18,072.27	
May	2012	4686	\$4.71	\$22,071.06	\$4,686.00	\$7,029.00	\$9,372.00	\$11,035.53	\$22,071.06	
June	2012	2794	\$4.71	\$13,159.74	\$2,794.00	\$4,191.00	\$5,588.00	\$6,579.87	\$13,159.74	
July	2012	2500	\$4.71	\$11,775.00	\$2,500.00	\$3,750.00	\$5,000.00	\$5,887.50	\$11,775.00	Projected
Aug	2012	2500	\$4.71	\$11,775.00	\$2,500.00	\$3,750.00	\$5,000.00	\$5,887.50	\$11,775.00	
Sept	2012	2500	\$4.71	\$11,775.00	\$2,500.00	\$3,750.00	\$5,000.00	\$5,887.50	\$11,775.00	
Oct	2012	2500	\$4.71	\$11,775.00	\$2,500.00	\$3,750.00	\$5,000.00	\$5,887.50	\$11,775.00	
Nov	2012	2500	\$4.71	\$11,775.00	\$2,500.00	\$3,750.00	\$5,000.00	\$5,887.50	\$11,775.00	
Dec	2012	2500	\$4.71	\$11,775.00	\$2,500.00	\$3,750.00	\$5,000.00	\$5,887.50	\$11,775.00	
		29997		\$141,287.17	\$29,997.28	\$44,995.91	\$59,994.55	\$70,643.59	\$141,287.17	
					(\$111,289.89)	(\$96,291.26)	(\$81,292.62)	(\$70,643.59)	\$0.00	Profit/Loss

**Table 5: Garbage Extras Analysis**

Month	Year	Number	2011 Rates				Garbage Extra Fee Options (City Rate)								
			WM Rate/ea	Paid to WM	City Rate/Ea	City Revenue	Cover Cost	\$6.00/ea	\$6.50/ea	\$7.00/ea	\$7.50/ea	\$8.00/ea	\$8.50/ea	\$9.00/ea	
Jan	2011	670	\$3.97	\$2,660.94	\$3.80	\$2,547.00	\$2,660.94	\$4,021.57	\$4,356.70	\$4,691.83	\$5,026.96	\$5,362.10	\$5,697.23	\$6,032.36	
Feb	2011	530	\$3.97	\$2,102.22	\$3.80	\$2,012.20	\$2,102.22	\$3,177.16	\$3,441.92	\$3,706.69	\$3,971.45	\$4,236.21	\$4,500.97	\$4,765.74	
Mar	2011	456	\$3.97	\$1,810.32	\$3.80	\$1,732.80	\$1,810.32	\$2,736.00	\$2,964.00	\$3,192.00	\$3,420.00	\$3,648.00	\$3,876.00	\$4,104.00	
April	2011	574	\$3.97	\$2,278.78	\$3.80	\$2,181.20	\$2,278.78	\$3,444.00	\$3,731.00	\$4,018.00	\$4,305.00	\$4,592.00	\$4,879.00	\$5,166.00	
May	2011	631	\$3.97	\$2,505.07	\$3.80	\$2,397.80	\$2,505.07	\$3,786.00	\$4,101.50	\$4,417.00	\$4,732.50	\$5,048.00	\$5,363.50	\$5,679.00	
June	2011	801	\$3.97	\$3,179.97	\$3.80	\$3,043.80	\$3,179.97	\$4,806.00	\$5,206.50	\$5,607.00	\$6,007.50	\$6,408.00	\$6,808.50	\$7,209.00	
July	2011	528	\$5.00	\$2,642.49	\$3.80	\$2,008.29	\$2,642.49	\$3,170.99	\$3,435.24	\$3,699.49	\$3,963.74	\$4,227.98	\$4,492.23	\$4,756.48	
Aug	2011	551	\$5.00	\$2,755.00	\$3.80	\$2,093.80	\$2,755.00	\$3,306.00	\$3,581.50	\$3,857.00	\$4,132.50	\$4,408.00	\$4,683.50	\$4,959.00	
Sept	2011	580	\$5.00	\$2,900.00	\$3.80	\$2,204.00	\$2,900.00	\$3,480.00	\$3,770.00	\$4,060.00	\$4,350.00	\$4,640.00	\$4,930.00	\$5,220.00	
Oct	2011	645	\$5.00	\$3,225.00	\$3.80	\$2,451.00	\$3,225.00	\$3,870.00	\$4,192.50	\$4,515.00	\$4,837.50	\$5,160.00	\$5,482.50	\$5,805.00	
Nov	2011	506	\$5.00	\$2,530.00	\$3.80	\$1,922.80	\$2,530.00	\$3,036.00	\$3,289.00	\$3,542.00	\$3,795.00	\$4,048.00	\$4,301.00	\$4,554.00	
Dec	2011	434	\$5.00	\$2,170.00	\$3.80	\$1,649.20	\$2,170.00	\$2,604.00	\$2,821.00	\$3,038.00	\$3,255.00	\$3,472.00	\$3,689.00	\$3,906.00	
				\$30,759.79		\$26,243.89	\$30,759.79	\$41,437.72	\$44,890.86	\$48,344.00	\$51,797.15	\$55,250.29	\$58,703.43	\$62,156.58	
					Profit/Loss	(\$4,515.90)	\$0.00	\$10,677.93	\$14,131.07	\$17,584.21	\$21,037.36	\$24,490.50	\$27,943.64	\$31,396.79	

Month	Year	Number	2012 Rates				Garbage Extra Fee Options (City Rate)								
			WM Rate/ea	Paid to WM	City Rate/Ea	City Revenue	Cover Cost	\$6.00/ea	\$6.50/ea	\$7.00/ea	\$7.50/ea	\$8.00/ea	\$8.50/ea	\$9.00/ea	
Jan	2012	610	\$5.25	\$3,200.50	\$4.16	\$2,536.02	\$3,200.50	\$3,657.71	\$3,962.52	\$4,267.33	\$4,572.14	\$4,876.95	\$5,181.76	\$5,486.57	
Feb	2012	383	\$5.25	\$2,010.75	\$4.16	\$1,593.28	\$2,010.75	\$2,298.00	\$2,489.50	\$2,681.00	\$2,872.50	\$3,064.00	\$3,255.50	\$3,447.00	
Mar	2012	551	\$5.25	\$2,893.83	\$4.16	\$2,293.02	\$2,893.83	\$3,307.23	\$3,582.84	\$3,858.44	\$4,134.04	\$4,409.65	\$4,685.25	\$4,960.85	
April	2012	806	\$5.25	\$4,233.84	\$4.16	\$3,354.81	\$4,233.84	\$4,838.67	\$5,241.90	\$5,645.12	\$6,048.34	\$6,451.57	\$6,854.79	\$7,258.01	
May	2012	665	\$5.25	\$3,489.59	\$4.16	\$2,765.08	\$3,489.59	\$3,988.10	\$4,320.44	\$4,652.79	\$4,985.13	\$5,317.47	\$5,649.81	\$5,982.15	
June	2012	714	\$5.25	\$3,746.84	\$4.16	\$2,968.92	\$3,746.84	\$4,282.10	\$4,638.94	\$4,995.79	\$5,352.63	\$5,709.47	\$6,066.31	\$6,423.15	
July	2012	560	\$5.25	\$2,940.00	\$4.16	\$2,329.60	\$2,940.00	\$3,360.00	\$3,640.00	\$3,920.00	\$4,200.00	\$4,480.00	\$4,760.00	\$5,040.00	
Aug	2012	560	\$5.25	\$2,940.00	\$4.16	\$2,329.60	\$2,940.00	\$3,360.00	\$3,640.00	\$3,920.00	\$4,200.00	\$4,480.00	\$4,760.00	\$5,040.00	
Sept	2012	560	\$5.25	\$2,940.00	\$4.16	\$2,329.60	\$2,940.00	\$3,360.00	\$3,640.00	\$3,920.00	\$4,200.00	\$4,480.00	\$4,760.00	\$5,040.00	
Oct	2012	560	\$5.25	\$2,940.00	\$4.16	\$2,329.60	\$2,940.00	\$3,360.00	\$3,640.00	\$3,920.00	\$4,200.00	\$4,480.00	\$4,760.00	\$5,040.00	
Nov	2012	560	\$5.25	\$2,940.00	\$4.16	\$2,329.60	\$2,940.00	\$3,360.00	\$3,640.00	\$3,920.00	\$4,200.00	\$4,480.00	\$4,760.00	\$5,040.00	
Dec	2012	560	\$5.25	\$2,940.00	\$4.16	\$2,329.60	\$2,940.00	\$3,360.00	\$3,640.00	\$3,920.00	\$4,200.00	\$4,480.00	\$4,760.00	\$5,040.00	
				\$37,215.35		\$29,488.73	\$37,215.35	\$42,531.83	\$46,076.15	\$49,620.47	\$53,164.79	\$56,709.10	\$60,253.42	\$63,797.74	
					Profit/Loss	(\$7,726.62)	\$0.00	\$5,316.48	\$8,860.80	\$12,405.12	\$15,949.44	\$19,493.75	\$23,038.07	\$26,582.39	

Projected