



CITY OF KIRKLAND
Department of Public Works
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www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Nancy Otterholt, Senior Accountant
Kathy Brown, Public Works Director
Michael Olson, Director of Finance and Administration

Date: September 22, 2016

Subject: Approve Resolution to Eliminate Cross Subsidies

RECOMMENDATION:

It is recommended that the City Council approve the attached resolution regarding the elimination of cross subsidies between customer classes.

BACKGROUND DISCUSSION:

Over the past several years, the City of Kirkland has conducted various cost of service studies on its various utility rates. These studies identified that in the water, sewer and garbage rates, there is a cross-subsidy of services from commercial/multifamily to residential. This is not uncommon among most jurisdictions. However for equity and liability reasons, it is prudent for a jurisdiction to reduce or eliminate the cross-subsidies over time so that each class of rate payer pays approximately the cost of service. The Council began reducing these cross-subsidies in the last biennium, but has never adopted target dates for elimination of the subsidies. The Council requested a resolution establishing target dates for Council consideration without significantly impacting residential customers in any one year.

The 2015-2016 adopted rates for water and solid waste included an initial reduction of the subsidy from multifamily and commercial customers to residential customers. In order to manage the impact to residential customers, further reductions of the subsidy will be gradual. The 2017-2018 rates assume a reduction in the subsidy for water, sewer, and solid waste. A significant wholesale rate increase that would be passed through to our customers or other factors that would cause a large rate increase could impact the timing of reducing the subsidy.

Attached is a resolution to set rates to eliminate the cross subsidies by 2022. The resolution also acknowledges that the City Council could determine 2022 to be impractical due to unforeseen circumstances impacting a utility rate such as a significant wholesale rate increase imposed by a provider. Should that occur, the resolution states that the City Council will identify a subsequent date for eliminating the subsidies within the impacted utility rate or rates.

Attached Resolution:
A - Elimination of Cross Subsidies

RESOLUTION R-5210

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND TO ELIMINATE CROSS SUBSIDIES BETWEEN CUSTOMER CLASSES OF THE WATER, SEWER, AND SOLID WASTE UTILITIES NO LATER THAN THE END OF THE 2021-2022 BIENNIUM.

1 WHEREAS, recent cost of service studies indicate that there
2 should be a shift in cost recovery from multifamily and commercial
3 customers to residential customers to eliminate existing subsidies
4 between classes; and
5

6 WHEREAS, the financial impact to residential customers would
7 be too significant to eliminate such subsidies all at once and a gradual
8 reduction in the subsidy over time is more sustainable; and
9

10 WHEREAS, beginning with the 2015-2016 adopted rates, such
11 subsidies have been gradually reduced; and
12

13 WHEREAS, such subsidies should continue to be reduced until
14 eliminated as soon as practicable.
15

16 NOW, THEREFORE, be it resolved by the City Council of the City
17 of Kirkland as follows:
18

19 Section 1. The utility rates for Water, Sewer, and Solid Waste
20 will be set to eliminate the cross subsidies between customer classes on
21 or before the end of 2022, unless such date is determined by the City
22 Council to be impractical due to unforeseen circumstances impacting a
23 utility rate such as a significant wholesale rate increase imposed by a
24 provider. In such circumstances the City Council will identify a
25 subsequent date for eliminating the subsidies within the impacted utility
26 rate or rates.
27

28 Passed by majority vote of the Kirkland City Council in open
29 meeting this ____ day of _____, 2016.
30

31 Signed in authentication thereof this ____ day of _____,
32 2016.

MAYOR

Attest:

City Clerk