



**CITY OF KIRKLAND**  
**Department of Public Works**  
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## **MEMORANDUM**

**To:** Dave Ramsay, City Manager

**From:** Rob Jammerman, Development Engineering Manager  
Daryl Grigsby, Public Works Director

**Date:** December 16, 2008

**Subject:** Updated Sewer Capital Facility Charge

### RECOMMENDATION

It is recommended that the City Council review the proposed Sewer Capital Facility Charge (CFC) and direct staff to implement the new fees on January 1, 2009.

### POLICY IMPLICATIONS

Chapter 15.12.063 - .064 of the Kirkland Municipal Code (See Attachment 1) requires a Sewer CFC to be paid prior to issuance of a permit to connect to the City sanitary sewer system. The Code also requires the Sewer CFC to be adjusted by the Public Works Department at least every odd numbered year. We are proposing that the 2009 Sewer CFC fee is to be adjusted per the analysis completed by the FCS Group developed in conjunction with the Draft Sewer Comprehensive Plan. Adopting the FCS-recommended Sewer CFC fee charges parallels the action taken by the Council in September of this year when they adopted new sewer rates based on the analysis completed by the FCS Group. The proposed CFC was presented to the Finance Committee on December 9, 2008, and the Committee recommended that the new CFC be adopted.

### BACKGROUND DISCUSSION

In Attachment 2, you will find pages 8.9 and 8.10 of the draft Financial Chapter, prepared by the FCS Group, which is part of the draft Sewer Comprehensive Plan. These two pages describe why Sewer CFC are collected and give a detailed breakdown of how the new CFC is calculated. In summary, the FCS Group discussed the following in relation to the recommended CFC:

1. CFC is a one-time charges imposed on sewer customers as a condition of connection to the utility.
2. CFC promotes equity between new and existing customers.
3. CFC provide a source of revenue to fund capital projects.
4. Without CFC, growth-related capital costs would be borne in large part by existing customers and effectively would be subsidizing new customers.
5. From a financial perspective, the CFC allows the new customer to become financially equivalent to existing customers.

6. The current Sewer CFC is \$1,860 per customer equivalent. Based on the current system investment and incorporating eligible capital projects identified in the 20 year Capital Facilities Plan, an updated charge of \$3,056 was derived. The calculation summary is below.

<b>Sewer CFC Calculation Summary</b>	
	<b>Dollars</b>
<b>EXISTING FACILITIES</b>	
<b>Plant-in-Service</b>	
Sewer Utility Capital Assets	\$52,659,325
Less: Contributed Capital	(23,755,218)
Plus: Cumulative Interest on Non-Contributed Capital	10,326,138
Less: Net Debt Principal Outstanding	-
<b>Total Allocable Existing Facilities</b>	<b>\$39,230,245</b>
<b>FUTURE FACILITIES</b>	
<b>Capital Facilities Plan*</b>	
Total Future Projects	\$66,809,600
Less: Identified Repair & Replacements	(43,167,678)
Less: Contributed Capital	(13,708,667)
<b>Total Allocable Future Facilities</b>	<b>\$9,933,255</b>
<b>CALCULATION</b>	
Total Allocable Costs	\$49,163,500
Total Customer Base (20 year planning period)	16,086
<b>TOTAL CHARGE PER EQUIVALENT METER</b>	<b>\$3,056**</b>
<i>Current Charge</i>	\$1,860

*\*One of the primary factors causing the increase in the Sewer CFC is the use of the 20-year Capital Facilities Plan in the Future Facilities Valuation. In the past the City has used the 6-year Sewer CIP which yielded a smaller CFC. However, because there are projects in the 20-year Capital Facilities Plan that are planned to provide service for additional growth, it is fair and equitable to include all of these projects in the CFC calculation. This same CFC calculation methodology has already been adopted by the Council for the Water and Surface Water CFC and the Sewer CFC is the last remaining utility to adopt this calculation methodology.*

*\*\*For entire Sewer CFC fee schedule by Meter Size, see page 8.10 of Attachment 2.*

Last, as with any fee increase, the City should be cognizant of how our recommended fee compares with other cities and Utility Districts. However, when comparing connection fees, one should remember that connection fees are charged differently throughout the state, with some cities or utility districts using a similar calculation methodology to ours, and others choosing different calculation methodologies. As an example, some cities may choose to charge a minimal connection charge and instead collect the funding needed for new projects by other means such as monthly rates. Also, because most connection fees are directly influenced by the dollar value of growth-related sewer capital improvement projects and the number of projected new customers, one will find that connection fees significantly vary from city to city based on these two factors alone. Thus it is important to remember that when comparing fees, the fee posted by another city probably does not correlate exactly to the fee we collect. Below is a list of cities and their respective sewer CFC provided by the FCS Group.

<b>JURISDICTION</b>	<b>SEWER CFC*</b>
Everett	\$814
Auburn	\$850
Mercer Island	\$921
Renton	\$1,017
Richland	\$1,269
Bothell	\$1,481
Yakima	\$1,776
Redmond	\$1,860
<b>Kirkland (Existing)</b>	<b>\$1,860</b>
College Place	\$2,500
Mount Vernon	\$2,700
Wenatchee	\$2,750
Bellevue	\$2,949
<b>Kirkland (Proposed)</b>	<b>\$3,056</b>
Sammamish Utility Dist.	\$3,085
Burlington	\$3,180
Everett	\$3,500
Lake Forest Park	\$3,970
Centralia	\$4,282
Marysville	\$4,490
North Bend	\$4,800
Snohomish	\$4,904
<b>Northshore Utility Dist. **</b>	<b>\$5,075</b>
Poulsbo	\$5,430
Bellingham	\$5,536
Tumwater	\$5,682
Centralia	\$5,762
Monroe	\$5,915
Lacey	\$5,932
Battle Ground	\$7,500

*\*Listed fee is per equivalent meter (typical single family connection charge)*

**\*\* Serves approximately 1/3 of Kirkland**

Please let us know if you have any questions.

Attachments (2)

cc: Tracey Dunlap, Director of Finance and Administration  
 Ray Steiger, PE, Capital Projects Manager

**Attachment 1**

**15.12.063 Sewer capital facility charges (SCFC)—Definitions.**

The sewer connection charge(s) must be paid prior to issuance of the permit and shall be determined as to each requested connection by the application of the criteria set forth below.

(1) For all sewer connections a sewer capital facility charge will be assessed and shall consist of the following:

(a) Each sewer connection will be assigned a “residential customer equivalent” (RCE) factor. The RCE has a base of one for a three-fourths-inch by five-eighths-inch water meter, i.e., a building served by a five-eighths-inch by three-fourths-inch meter will be given a sewer RCE factor of one.

(b) The RCE for each sewer connection is as follows:

**Single-Family/Multifamily Sewer Fees**

- Single-family (1 RCE)
- 2 unit multi (1.6 RCE, 0.8 RCE per unit)
- 3 unit multi (2.4 RCE)
- 4 unit multi (3.2 RCE)
- 5 or more units Number of units x 0.64 x 1 RCE (0.64 RCE per unit)

(c) The sewer capital facility charge shall be waived for the bonus or additional units or floor area being developed in exchange for construction of affordable housing units pursuant to Chapter 112 of the Kirkland Zoning Code. Any claim for waived sewer capital facility charges must be made before payment of those charges. The amount of sewer capital facility charges not collected under this waiver shall be paid from public funds other than the sewer utility.

(d) Other use (commercial, office, light industrial, churches, school, etc.) shall be based on the water meter size serving the property:

<b>Meter Size</b>	<b>R CE</b>
5/8" x 3/4"	1
1"	2.5
1-1/2"	5
2"	8
3"	16
4"	25
6"	50
8"	80

(e) Each property will be assessed an SCFC for each domestic water meter service or as determined by the department of public works. (Ord. 3939 § 2B, 2004: Ord. 3870 § 3, 2002: Ord. 3720 § 1, 1999: Ord. 3368 § 4 (part), 1993)

**15.12.064 Sewer capital facility charge adjustment.**

The SCFC fee with Section [15.12.063](#) will be adjusted periodically, but not less often than every odd number year. The adjustment shall use the method following:

(1) At the time of adjustment, the value of the sewer capital facility shall be determined based on the worth of all city sewer mains less any sewer mains funded by local improvement districts, grants, or installation by private entities (developers); this shall be known as the plant in service;

(2) The total of all connections to the sewer capital facility shall be determined and an RCE factor assigned;

(3) The adjusted SCFC shall be calculated by dividing the current sewer capital facility value by the current number of RCEs;

(4) Upon determining the adjusted SCFC, the director of public works shall file with the director of finance three copies of the adjusted fee schedule along with the values the fee schedule is based on. The director of finance shall file said schedules and values with the city clerk to be available for use by the general public and the affected city officials and departments;

(5) Whenever any connection is made to the city sewer system to serve property outside of the city limits, the property will be assessed the same fees set forth in this section. (Ord. 3870 § 4, 2002; Ord. 3573 § 66, 1997; Ord. 3368 § 4 (part), 1993)

# Attachment 2

## **Capital Facilities Charges**

A capital facilities charge (CFC), also called a "connection charge" as provided for by RCW 35.92.025, refers to a one-time charge imposed on new customers as a condition of connection to the utility system. The purpose of the CFC is two-fold: (1) to promote equity between new and existing customers; and (2) to provide a source of revenue to fund capital projects. Equity is served by providing a vehicle for new customers to share in the capital costs incurred to support their addition to the system. CFC revenues provide a source of cash flow used to support utility capital needs; revenue can only be used to fund utility capital projects or to pay debt service incurred to finance those projects. In the absence of a CFC, growth-related capital costs would be borne in large part by existing customers. In addition, the net investment in the utility already collected from existing customers, whether through rates, charges and/or assessments, would be diluted by the addition of new customers, effectively subsidizing new customers with prior customers' payments. To establish equity, a CFC should recover a proportionate share of the existing and future infrastructure costs from a new customer. From a financial perspective, a new customer should become financially equivalent to an existing customer by paying the CFC.

The City currently imposes a CFC of \$1,860 per customer equivalent. Based on current system investment and incorporating the eligible capital projects identified in this Plan, an updated charge of \$3,056 was derived.

Table 8.3 summarizes the CFC calculation per customer equivalent and Table 8.4 provides the schedule of charges by meter size.

<b>Table 8.3</b>	
<b>CFC Calculation Summary</b>	
	<b>Dollars</b>
<b>EXISTING FACILITIES</b>	
<b>Plant-In-Service</b>	
Sewer Utility Capital Assets	\$52,659,325
less: Contributed Capital	(23,755,218)
plus: Cumulative Interest on Non-Contributed Capital	10,326,138
less: Net Debt Principal Outstanding	-
<b>Total Allocable Existing Facilities</b>	<b>\$39,230,245</b>
<b>FUTURE FACILITIES</b>	
<b>Capital Facilities Plan</b>	
Total Future Projects	\$66,809,600
less: Identified Repair & Replacements	(43,167,678)
less: Contributed Capital	(13,708,667)
<b>Total Allocable Future Facilities</b>	<b>\$9,933,256</b>

**Table 8.3**  
**CFC Calculation Summary**

	Dollars
<b>CALCULATION</b>	<b>TOTAL</b>
Total Allocable Costs	49,163,501
Total Customer Base (20 year planning period)	16,086
<b>TOTAL CHARGE PER EQUIVALENT METER</b>	<b>\$3,056</b>
<i>Current Charge</i>	<b>\$1,860</b>

**Table 8.4**  
**Schedule of CFCs by Meter Size**

Meter Size	Meter Capacity Factor	Charge	Fee Basis
5/8" Meter	1.0	\$3,056	per meter
3/4" Meter	1.0	\$3,056	per meter
1" Meter	2.5	\$7,641	per meter
1 1/2" Meter	5.0	\$15,282	per meter
2" Meter	8.0	\$24,451	per meter
3" Meter	16.0	\$48,902	per meter
4" Meter	25.0	\$76,409	per meter
6" Meter	50.0	\$152,819	per meter
8" Meter	80.0	\$244,510	per meter