



**CITY OF KIRKLAND**  
**Department of Public Works**  
123 Fifth Avenue, Kirkland, WA 98033 425.587.3800  
[www.ci.kirkland.wa.us](http://www.ci.kirkland.wa.us)

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**MEMORANDUM**

**To:** Dave Ramsay, City Manager  
**From:** Daryl Grigsby, Public Works Director  
**Date:** September 2, 2008  
**Subject:** Proposed Utility Rates for the City of Kirkland, 2009-10

On July 28 and August 26 the Finance Committee of the Kirkland City Council reviewed detailed information regarding the rate proposals for the 2009-10 rates for the Solid Waste Utility, the Surface Water Utility, and the Water and Wastewater Utilities. Staff responded at the second meeting to questions and issues raised at the July 28<sup>th</sup> session. On August 26, the Finance Committee recommended to full Council the rate proposals detailed below.

**SOLID WASTE UTILITY**

Single Family Typical Monthly Rate History:

	<b>2007</b>	<b>2008</b>	<b>Proposed 2009</b>	<b>Proposed 2010</b>
<b>64 Gallon Cart</b>	\$24.44	\$27.11	\$31.92	\$31.92
<b>Percent increase</b>		10.92%	17.75%	0.00%
<b>35 Gallon Cart</b>	\$17.73	\$19.67	\$17.46	\$17.46
<b>Percent increase</b>		10.94%	-11.24%	0.00%

The Solid Waste Utility funds the collection and disposal services provided by Waste Management, billing services performed by the Utility billing division in Finance, and program development and outreach. The City of Kirkland currently administers an increasingly successful Single Family recycling program. In 2007, Kirkland's single family recycling program tied with Bellevue in achieving the highest recycling diversion rate in King County. In 2008, the single-family sector has continued to perform well, evidenced by a one-month, all-time diversion rate high in June of 75.6%. In addition, the number of participants in the recently-approved Commercial Organics Program has increased to 65 and the 24 tons of organic material collected in June 2008 was also a one-month high. Staff is working to enhance the Multi-Family recycling efforts and has delivered over 1,200 recycling containers to 30 apartments and condominium properties in the first half of 2008. A key effort in the second half of 2008 is partnering with Waste Management to identify and contact properties with low recycling to garbage volume ratios to offer free assistance in reconfiguring services to improving recycling opportunities for tenant and owners.

In addition to the above efforts, Council requested last year that staff explore ways to enhance recycling by including additional incentives in the rates. This rate proposal accomplishes Council's request. At Council's direction, Public Works staff is recommending a 'cost of service' solid waste rate structure for 2009-2010. The cost of service model enables the Single Family and the Multi-Family/Commercial sectors to balance revenues and expenses within each classification. In other words, it would eliminate any subsidy between the two classifications. During the 2008 Solid Waste rate discussion, it was noted, the Single Family sector currently subsidizes Multi-Family/Commercial sector.

In addition, Council requested staff develop a rate structure that encourages recycling. Therefore, we are recommending a 'linear' rate model. This model provides for a cost difference between the rates for various can sizes that is proportional to the difference in can size. In other words, downsizing from a 96 to 64 gallon cart, or from a 64 to 35 gallon cart, results in a larger cost saving to the customer. This creates a financial incentive for either recycling or waste reduction by increasing the savings when customers reduce the can size. Under the current rate structure the cost difference is not as dramatic between the 35, 64, and 96 gallon containers. This proposed structure also will maintain rate equity so similar can sizes cost the same in each sector.

A linear rate structure will result in an increase in the average rate of 4.71% for the multi-family/commercial sector and a 2.28% decrease for single-family customers. Overall, the rate increase for all Solid Waste customers is 1.71%. The average two-year rate for Single Family Residential is 2.28% lower for 2009-10. However, different cart sizes will experience increases or decreases to accomplish the linear rate described above. It is very important to note that a consequence of this rate change results in an increase of \$17.75% per month on the bill of those Single Family residents with 64 gallon carts. There are more customers (4361) with this cart size than any other can size. The rate model, intended to encourage recycling or waste reduction, assumes a large percentage (See Attachment A) of users will reduce their can size in order to save on their monthly bill. The monthly bill for the 35 gallon cart will be 11.25% lower than the current rate. Therefore, a citizen with a 64 gallon cart who is able to implement waste reduction and recycling will experience significant savings. In other words, Council's direction to provide incentives for recycling and waste reduction is fulfilled in the new rate structure. The consultant utilized information from other municipalities who experienced shifts in can size after implementing similar rate models. The details of this information are contained in Attachment A, where we display the various rates for each category, as well as the number of current and projected customers in each category.

Overall there are two primary drivers of the proposed rate changes. The first is the shift to both Linear and Cost of Service Models. The second is our contract with Waste Management which allows for an annual COLA for 70% of their operating costs, assumed to be the cost of their collection services. Attachment B is a summary of the current expenditures, by category, from the Solid Waste fund.

The City of Kirkland has a successful recycling program, and Council direction to modify the rates will enhance the opportunities of residents and businesses to increase recycling opportunities and reduce their monthly rates.

Attachment I displays a summary of all the single family typical monthly rates from 2006 through 2010, with and without the proposed Utility Tax increase from 7.5% to 10.5% overall.

**Recommendation: Council approval for the Solid Waste rate overall increase of 1.71% in 2009 and 0.00% in 2010 and the change in rate structure. This increases the typical monthly single family bill from \$27.11 per month to \$31.92 in 2009 and \$31.92 in 2010, assuming a 64 gallon cart.**

**WATER UTILITY**

Single Family Typical Monthly Rate History:

	<b>2007</b>	<b>2008</b>	<b>Proposed 2009</b>	<b>Proposed 2010</b>
<b>Base rate + 7 Units*</b>	\$28.93	\$31.68	\$33.58	\$35.60
<b>Percent Increase</b>		9.50%	6.00%	6.00%

\* Assumes base rate and an additional 7 Units (1 unit = 100 Cubic Fee (CF) = 750 gallons)

The Water Utility collects funds for the construction, replacement and rehabilitation of water distribution and storage facilities, funds the purchase of water from the Cascade Water Alliance (CWA), and provides for ongoing maintenance and operations of the water utility. Overall the Water Utility is meeting the Capital Financing and Reserve requirements as outlined by a detailed report from 1998 and updated in 2006. In addition, the Utility is funding adequate water supply and annual ongoing maintenance and operations. City participation in CWA is intended to have a voice and a vote over reliable and adequate drinking water supplies. Approximately 40% of the total annual expenditures are payments for water to the Cascade Water Alliance.

There are two primary drivers for rate changes in the Water Utility. First are the costs for drinking water from the Cascade Water Alliance. The second is our own fiscal requirements, in this case driven by COLA and inflation-related program cost increases. There are no new operation programs, staff additions, or other changes in the Water Utility Fund. Attachment C contains information on the typical expenditures from the Water Utility Fund. Attachment D portrays the drivers for the rate proposal.

CWA rates will be increasing by 14.66% or \$466,248 in 2009 and 8.00% or \$299,898 in 2010. In addition, the City is experiencing inflation and COLA increases. As have other City departments, Water Utility staff have implemented efficiencies and cost-savings programs to reduce the rate of increase due to COLA and inflation. As examples, field staff and Utility billing modified the temporary meter program, and we have implemented diver cleaning of water tanks to reduce water loss and reservoir down-time.

**Recommendation: Council approval to increase the water rate of \$31.68 by 6.00% in 2009, and 6.00% in 2010. This increases the typical single family bill to \$33.58 in 2009 and \$35.60 in 2010.**

**WASTEWATER UTILITY**

Single Family Typical Monthly Rate History:

	<b>2007</b>	<b>2008</b>	<b>Proposed 2009</b>	<b>Proposed 2010</b>
<b>AWWC – 6 Units*</b>	\$45.77	\$48.59	\$52.54	\$54.09
<b>Percent Increase</b>		6.00%	8.04%	2.99%

\* Rate is based on the Average Winter Water Consumption (AWWC) of 6 Units

The Wastewater Utility funds Kirkland's share of the regional wastewater collection, treatment, disposal and biosolids reuse program administered by King County. In addition, it funds the construction, operation and maintenance of the

City's wastewater collection system. Both of these are sound and reliable systems, and the City of Kirkland has minimized system overflows and pump station failures. Approximately 59.34% of the total annual budgeted expenditures including debt service and capital expenditures for 2009 are to the County for regional wastewater services.

King County Council approved a monthly wholesale rate of \$31.90 per month for 2009 and 2010, a 14 % increase from the 2008 County rate of \$27.95 per month. This portion of the utility bill is a pass-through, approved by the King County Council, and paid by the component agencies of the wastewater system. This funds the costs of Brightwater and the ongoing treatment and conveyance needs in the regional wastewater system.

The biggest factor leading to the proposed 2009 wastewater rates is current expansion of the wastewater utility system – its greatest expansion since the 1960s. Construction is continuing at the Brightwater Treatment Plant. This plant will supplement the two major treatment plants in Renton and in Seattle. In addition, the new plant will utilize Membrane Bioreactive technology (MBR) and produce a large amount of reclaimed water for regional use.

Like the water utility, there are no additional City wastewater costs or program increases aside from those generated by cost of living and inflationary program costs. Also like the Water Utility, the Wastewater Utility has implemented program efficiencies to reduce annual financial requirements. Extensive use of the maintenance management system targets maintenance efforts where necessary and prevents overflows and overtime responses.

The details of the two primary rate drivers, local program costs and King County regional treatment services are contained on Attachment E. Attachment F shows how the current funds are expended by category. Based on the financial requirements and review of revenues we are recommending a wastewater rate increase.

**Recommendation: Council approval for an 8.04% increase to \$52.54 in 2009 and an increase of 2.99% to \$54.09 in 2010.**

### **SURFACEWATER UTILITY**

Single Family Typical Monthly Rate History:

	<b>2007</b>	<b>2008</b>	<b>Proposed 2009</b>	<b>Proposed 2010</b>
<b>Rate</b>	\$14.15	\$14.15	\$14.15	\$14.15
<b>Percent Increase</b>		0.00%	0.00%	0.00%

The Surface Water Utility funds the construction, operation and maintenance of the surface water drainage, erosion control and water quality system. In addition it funds other program services such as outreach and citizen stewardship. The capital and operational annual requirements are based on the City's Surface Water Master Plan approved in 2005. In addition, the Utility enables the City to comply with the Phase II National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater permit required by the Environmental Protection Agency's Clean Water Act. The permit is issued and administered by the Department of Ecology, and the Phase II permit covers cities with populations over 10,000. The permit calls for a level of system maintenance, monitoring, outreach, documentation and other efforts intended to reduce flooding, control erosion, and, above all, protect water quality.

The current rate of \$14.15 per month funds capital, operating and outreach programs as specified in the Surface Water Master Plan.

In the 2009-10 biennium there are three primary drivers on the rate. Attachment G outlines the expenditures by category and Attachment H displays the primary rate drivers. The three primary drivers are as follows:

- 1. Proper Allocation of Services that benefit the Utility.** We have determined that specific general fund activities that benefit the Surface Water Utility have not been allocated to the Surface Water Fund. As an example, the GIS position in the City was funded exclusively from the General Fund. We have determined, however, that the Utilities, including Surface Water, should pay a share proportionate to their benefits. There are other similar examples of this cost reallocation.
- 2. Proper Allocation of Services that enhance water quality and reduce runoff, erosion.** Staff has determined that the work of the Arborist and some of the work done by the grounds crew benefits water quality. Nationally and regionally there is scientific information which details the benefits of the treescape to water quality, erosion control and urban runoff. Municipalities around the country are allocating a portion of their tree programs to the Surface Water Utility.
- 3. 1.00 New Surface Water Engineer to meet the requirements of our Phase II National Pollutant Discharge Elimination System (NPDES) permit.** Now that we have had a year of experience with the NPDES permit, there is the need for an additional 1.00 full time Surface Water Engineer. There will be a service package prepared for this position. Generally, this position will help implement permit conditions, coordinate and implement Low Impact Development programs, staff regional forums such as the County Flood Control Zone District and the WRIA 8 Forum, and respond to urban flooding and surface water issues in the City.

The costs of the three (3) points above resulted in additional expenses of approximately \$260,000 to the annual financial obligations of the Surface Water Fund. At the June 30 Finance Committee meeting, staff recommended holding on new projects for 2009-11 based on the backlog of projects. This was also discussed at the full Council study session of ?? A large portion of the backlog was for surface water projects. Currently \$2,825,000 per year (\$950,000 for Transportation related Surface Water Capital projects, \$950,000 for Surface Water Capital projects, \$437,500 for depreciation, \$437,500 for the Surface Water Master Plan, and \$50,000 for GIS) is transferred to the Surface Water Capital Fund from annual revenues. This allocation is at previous Council direction.

After further review of the financial stability and obligations of the Surface Water Fund, we are recommending no rate increase for 2009. This recommendation is based on two primary reasons.

1. As noted above, the Finance Committee earlier heard information about our plan to reduce the backlog of CIP projects. This plan includes a smaller Surface Water program for 2009-11. We propose therefore to reduce the size of the transfer from the operating budget to the capital fund from \$2.8 million to an average of \$1.65 million per year from 2008 to 2010. This results in a smaller annual revenue requirement.
2. Staff and the consultant reviewed some of the financial policies of the Surface Water Fund and found the current Minimum Target Fund Balance of 310 days of operating costs is too high. This time frame was based on the fact that Surface Water Fees are collected through the Property Tax levied in April and October. There is therefore the potential to receive one large revenue surge and one smaller one from the two Property Tax bills. It was believed a 310 day balance would provide enough operating cash to manage the Utility during potential lean months. However, after further review it was determined that the revenue stream comes in more equal components, almost a 50/50 split between April and October; therefore, staff and the consultant have decided a Balance that meets operating needs for 180 days is more appropriate. This move reduces actual needed annual cash for the Surface Water Utility.

In addition, staff would suggest we take several months to review our actual Surface Water Construction capacity. The Surface Water Master Plan outlined an array of projects which would reduce flooding, improve water quality and manage surface water. The reality of natural resource projects is that permitting, provisions for fish passage, mitigation, and other elements can delay projects such that agencies cannot complete their plan according to the original schedule. We would like to do some additional analysis to determine if the amount we currently transfer to Surface Water capital projects represents a practical allocation. Our review may determine the size and scope of the capital program is adequate and we should proceed with the suggestions of our Master Plan. Another alternative is that the current capital plan is too aggressive given constraints, and we should scale back accordingly.

Our recommendation therefore, is to temporarily reduce the size of the operating transfer to the capital fund to accommodate the reduced 2009-11 CIP reviewed previously by the Finance Committee and at a full Council study session. In addition, staff recommends we conduct the review of the Capital Plan as noted above. We would return to Council sometime in 2009 with an updated Capital Plan for 2012 and beyond, as well as scenarios that show the capital program scope, the fund balances, and the rates necessary to manage the Surface Water Capital program.

**Recommendation: Council approval to shift a smaller transfer from the operating fund to the capital fund for 2009-11, and reduce the minimum operating balance from 310 days to 180 days to manage the Surface Water budget and eliminate the need for a rate increase in the 2009-10 biennium.**

**NEXT STEPS**

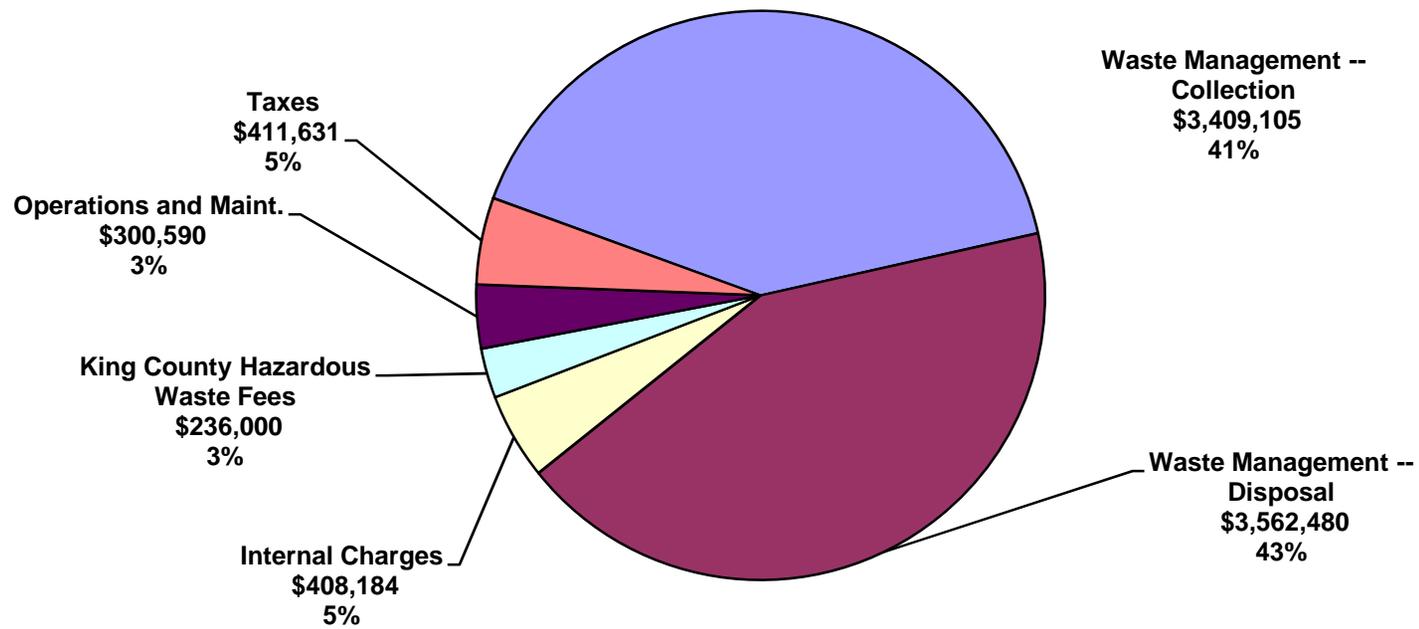
We will come to the City Council meeting of October 7<sup>th</sup>, 2008, with an Ordinance reflecting Council direction at this meeting. It should be noted that state law requires Council action on Solid Waste rates by the October 21<sup>st</sup> meeting in order to be effective by January 1<sup>st</sup>, 2009. All rates will be effective on January 1<sup>st</sup>, 2009.

**CONCLUSION**

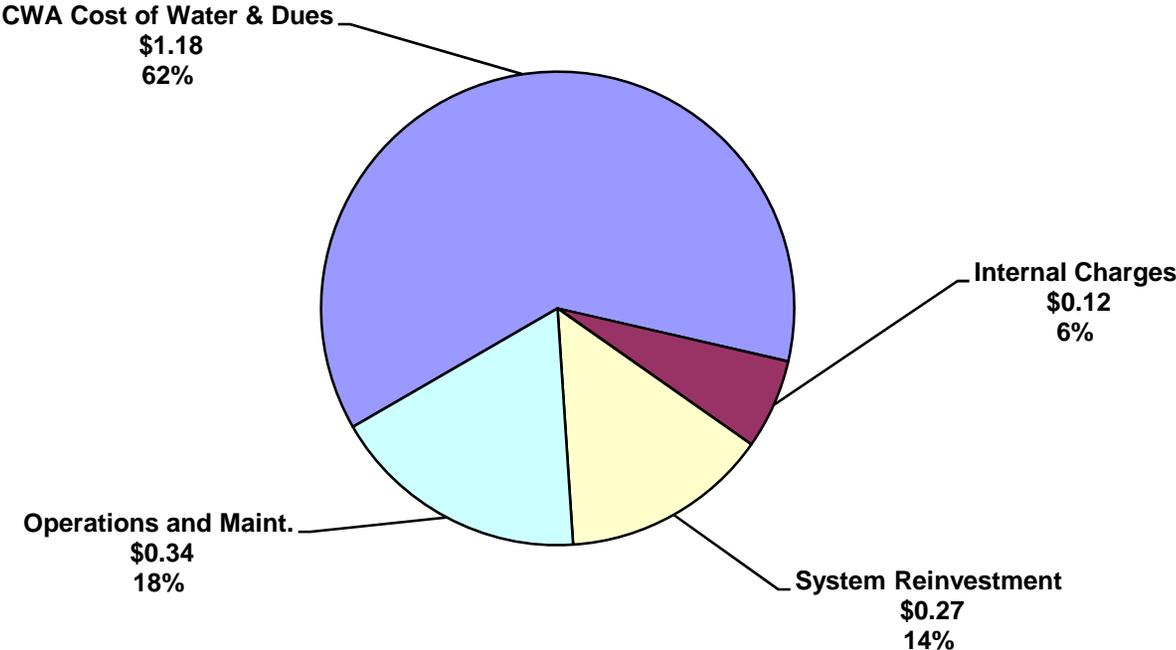
	<b>2008</b>		<b>Proposed 2009</b>	<b>Proposed 2010</b>
<b>Solid Waste assuming a 64 Gallon Cart</b>	10.92%		17.75%	0.00%
<b>Solid Waste assuming a 34 Gallon Cart</b>	10.94%		-11.24%	0.00%
<b>Water</b>	9.50%		6.00%	6.00%
<b>Wastewater</b>	6.00%		8.04%	2.99%
<b>Surfacewater</b>	0.00%		0.00%	0.00%
<b>Total average overall percent increase</b>	<b>7.47%</b>		<b>4.11%</b>	<b>1.80%</b>



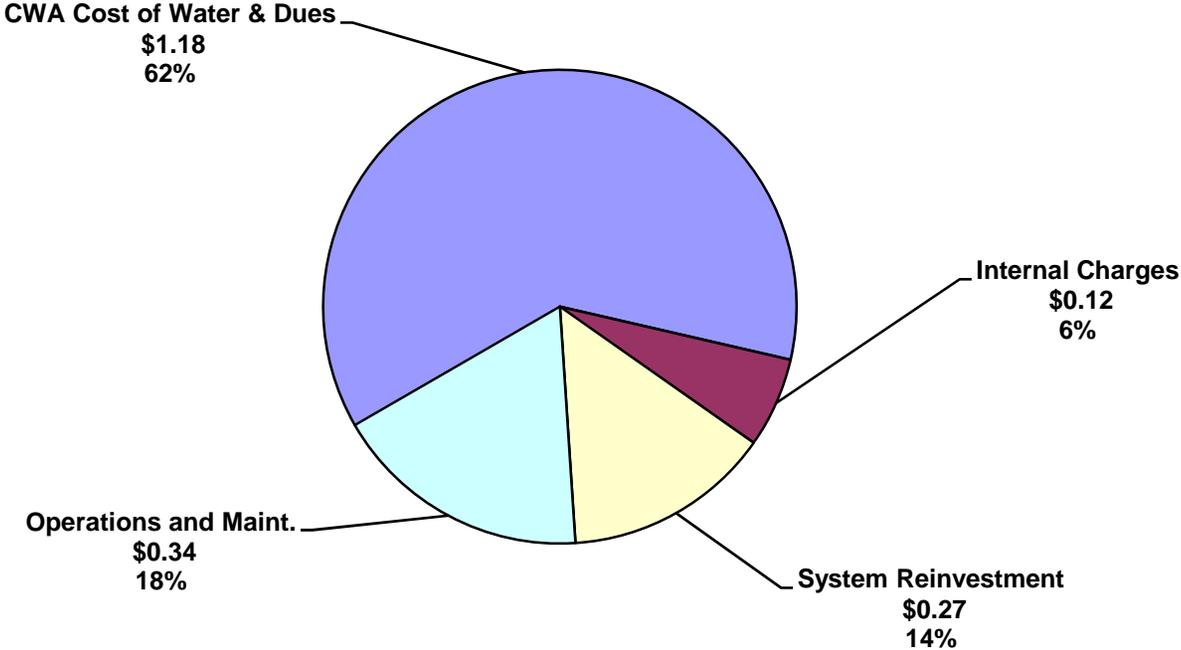
### Solid Waste Utility Operating Expense Year End Estimate 2008



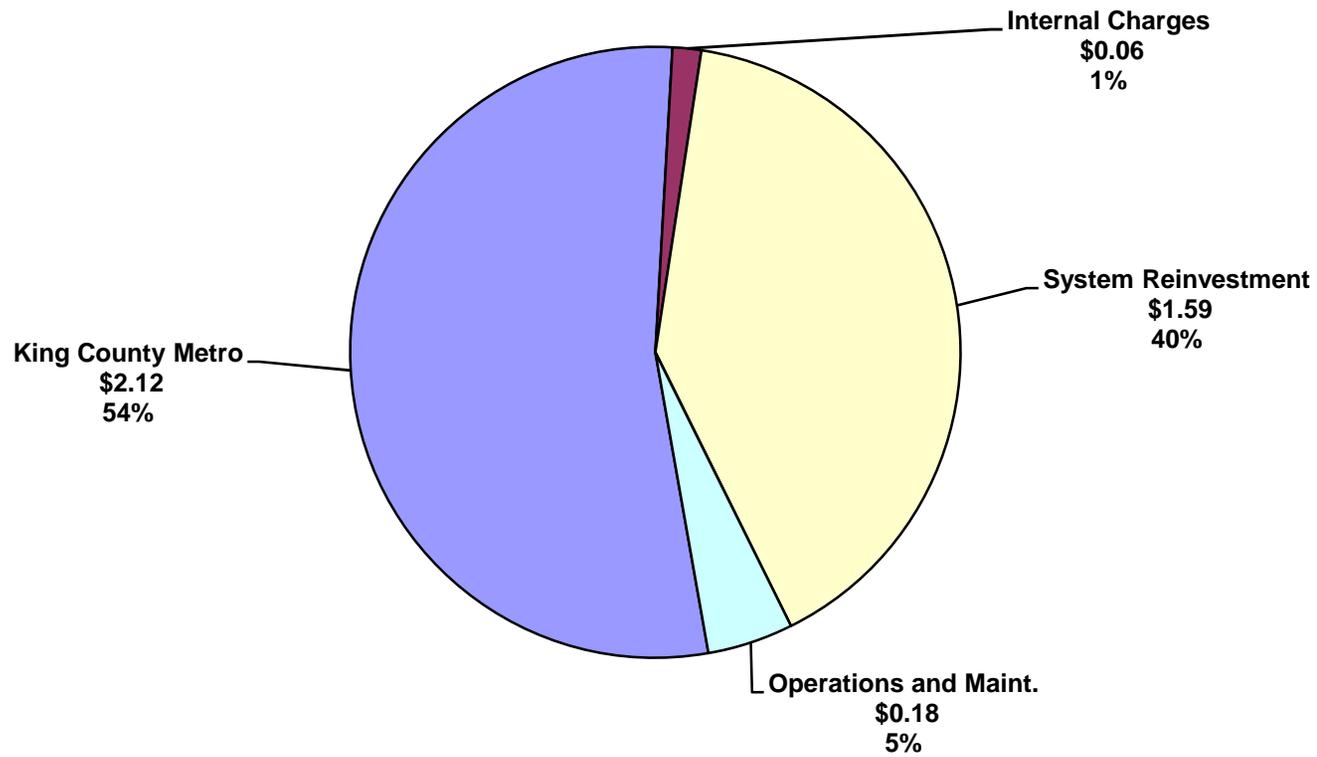
### Recommended Water Rate Drivers 2009 \$1.90



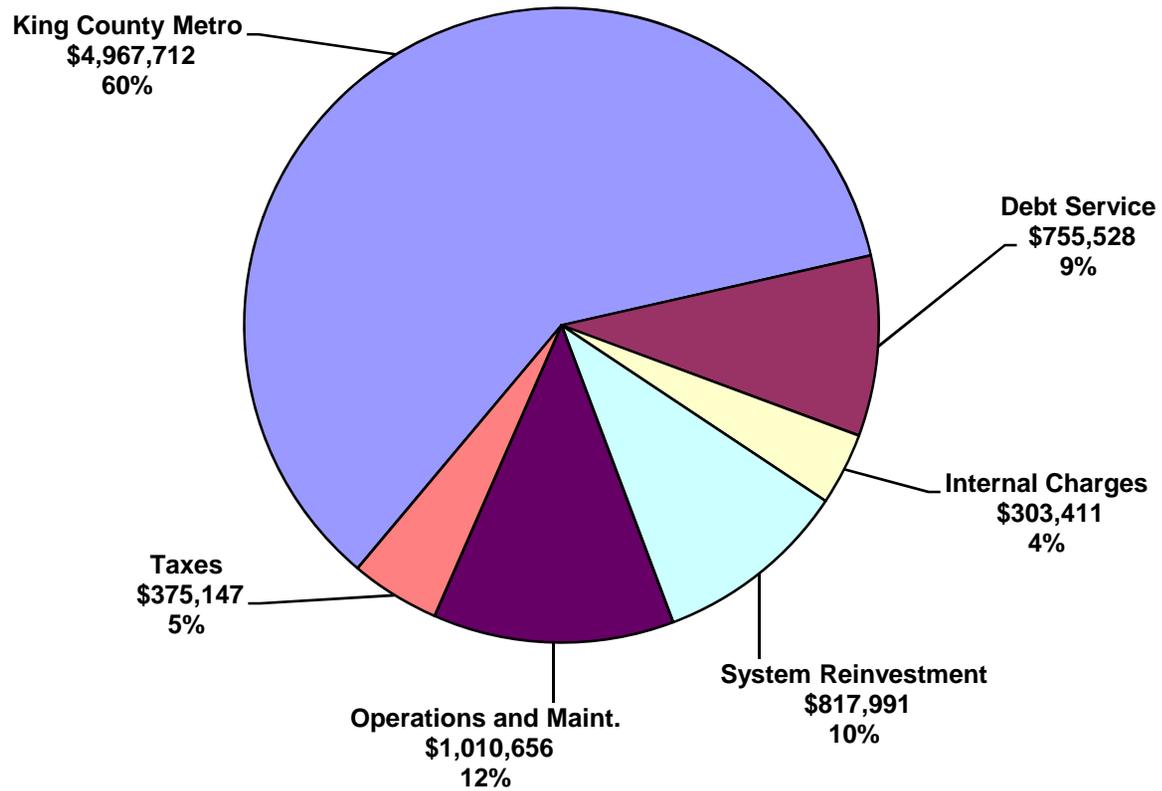
### Recommended Water Rate Drivers 2009 \$1.90



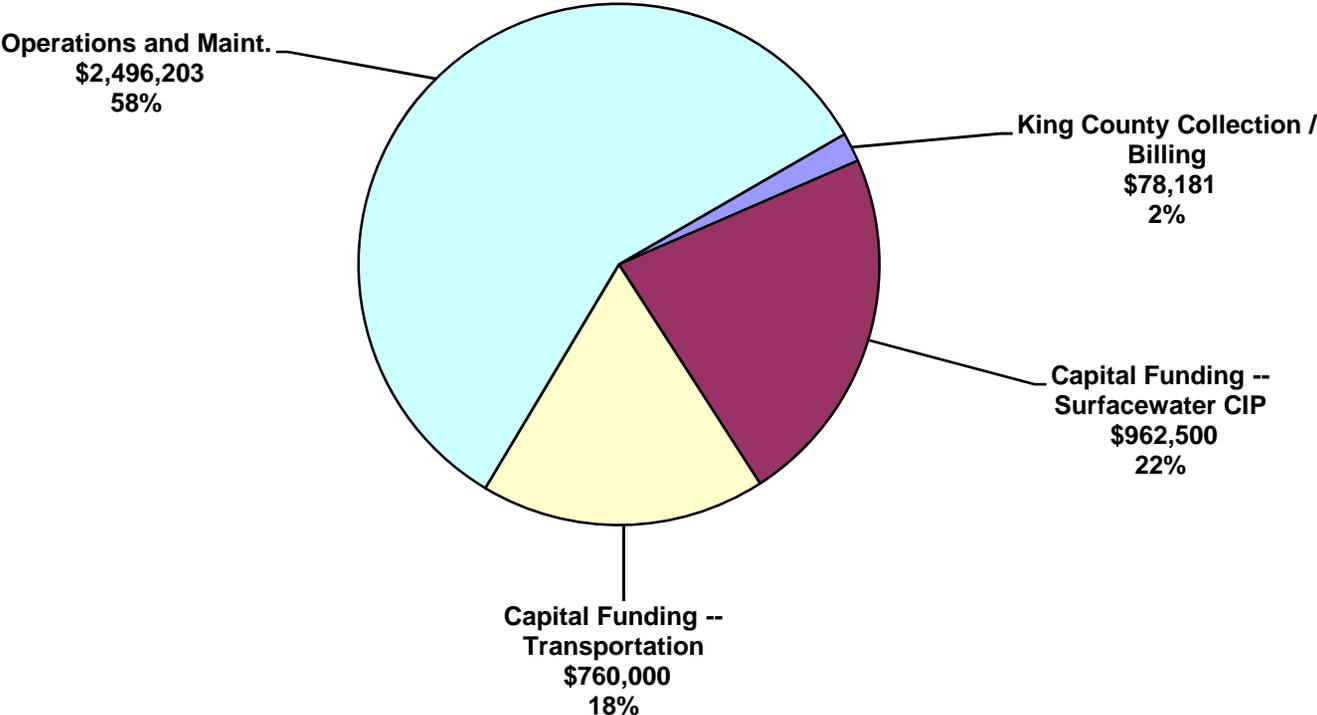
### Recommended Sewer Rate Drivers 2009 \$3.95



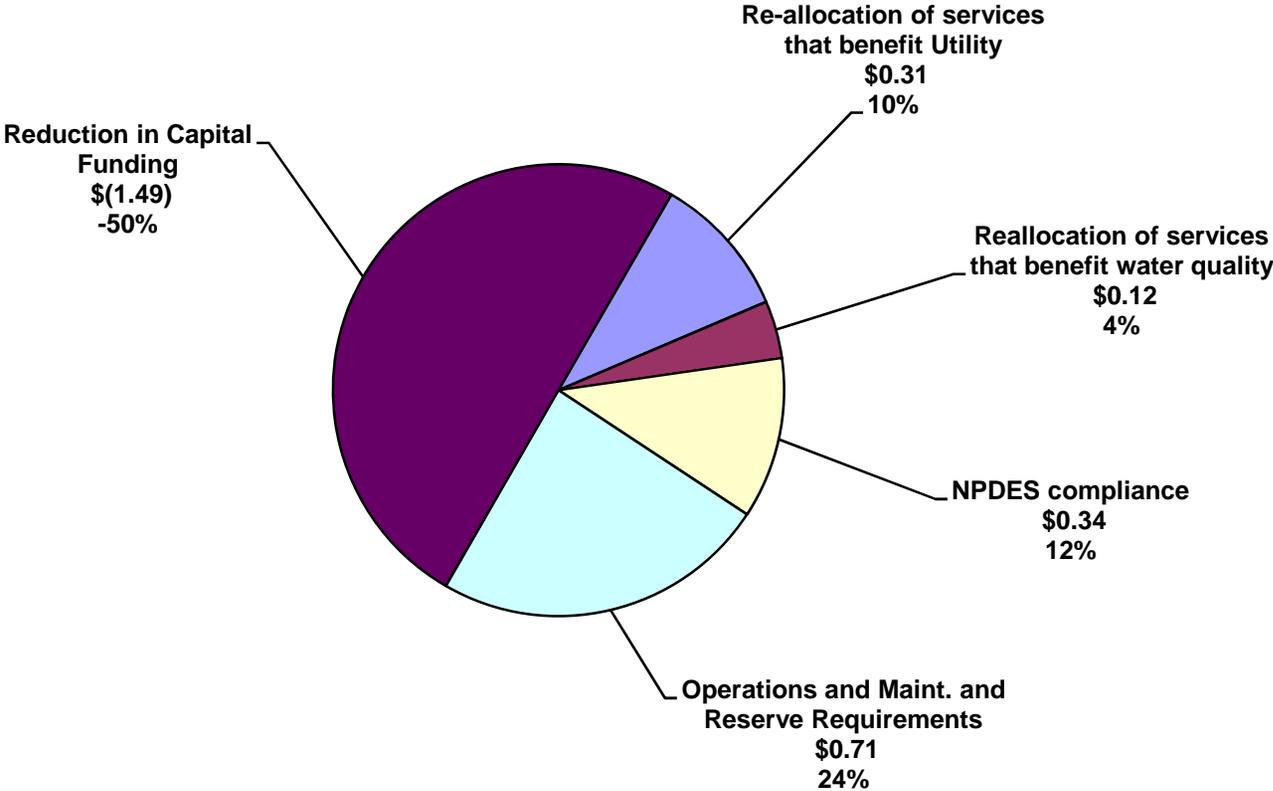
### Sewer Utility Operating Expense Year End Estimate 2008



### Surfacewater Utility Operating Expense Year End Estimate 2008



### Surfacewater Reallocation of Rate for 2009 & 2010 No Rate Increase Required Due to Reduction in Capital Funding



**ATTACHMENT I**

Monthly Utility Charges for the Typical Single Family Account					
	2006	2007	2008	2009	2010
<b>SOLID WASTE</b>					
35 Gallon Cart Rate	17.05	17.73	19.67	17.46	17.46
64 Gallon Cart Rate	23.50	24.44	27.11	31.92	31.92
<b>WATER</b>	26.44	28.93	31.68	33.58	35.60
<b>SEWER</b>	42.52	45.77	48.59	52.54	54.09
<b>SURFACE WATER</b>	14.15	14.15	14.15	14.15	14.15
<b>TOTAL</b> (w/ 35 Gallon Cart)	100.16	106.58	114.09	117.73	121.3
<b>Dollar Increase</b> (w/ 35 Gallon Cart)		6.42	7.51	3.64	3.57
<b>Percent Increase</b> (w/ 35 Gallon Cart)	X	6.41%	7.05%	3.19%	3.03%
<b>TOTAL</b> (w/ 64 Gallon Cart)	106.61	113.29	121.53	132.19	135.76
<b>Dollar Increase</b> (w/ 64 Gallon Cart)		6.68	8.24	10.66	3.57
<b>Percent Increase</b> (w/ 64 Gallon Cart)	X	6.27%	7.27%	8.77%	2.70%
<b>% Increase w/ Utility Tax Changes</b> (w/ 35 Gallon Cart)		6.41%	7.05%	5.72% *	3.04% *
<b>% Increase w/ Utility Tax Changes</b> (w/64 Gallon Cart)		6.27%	7.27%	11.49% *	2.70% *

\* Includes surface water at a utility tax rate of 7.5% and all other utilities at 10.5%