



CITY OF KIRKLAND

Department of Public Works

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MEMORANDUM

To: Kurt Triplett, City Manager

From: Chris Lynch, Senior Financial Analyst
Julie Underwood, Interim Director of Public Works Director
Michael Olson, Director of Finance and Administration

Date: August 26, 2020

Subject: 2021-2022 PROPOSED UTILITY RATES BRIEFING

RECOMMENDATION

It is recommended that the City Council receive a briefing at its September 1, 2020 Study Session regarding the proposed 2021-2022 rates for the City's water, sewer, and surface water utilities and provide direction to staff.

BACKGROUND

The City manages four public utilities: domestic water, sanitary sewer, solid waste, and surface water. Since the City moved to biennial budgeting beginning with the 2005-2006 biennium, the Council has reviewed and established utility rates to span the two-year period of the budget, though the rates themselves may be slightly different for each year of the biennium.

During the budget development and review phase, the utility rate discussion usually begins with solid waste rates. State law is specific about the timing of solid waste rate increases, in that a city that plans to increase solid waste rates must provide notice to the affected rate payers at least 45 days prior to the proposed effective date of the rate increase (RCW 35.21.157). The 45-day period begins after two weeks of advertised public notices of the rate change. This year, to align this requirement with the City's own budget calendar, staff asks the Council to act on solid waste rates and the other proposed utility rates by October 6, so that the 45-day solid waste rate notice period may be satisfied for the rates to be effective January 1, 2021.

The proposed 2021-2022 solid waste rates were reviewed by the Council on August 4 and will be further reviewed during its regular meeting on September 15. Staff was assisted by Sound Resource Management in the development of proposed solid waste rates.

As in prior years, the City engaged FCS Group to update the rates for the water, sewer, and surface water utilities. In the 2014 update, the consultant conducted a Cost of Service Analysis (COSA) as part of the rate projections for 2015-2016. The COSA concluded there should be a shift in cost recovery from multifamily and commercial customers to residential and irrigation customers. Starting in 2015, residential and irrigation customers have seen rate increases while multifamily and commercial have had no rate increases. The COSA recommended gradually reducing the subsidy over a 5-6 year period to reach full cost of service by sector. Substantial progress has been made toward reaching the cost of service rates. For 2021-2022, this COSA effort has been suspended to focus rates on pandemic economic relief and overall fund stability.

This suspension is recommended because continued COSA phasing would result in some customers seeing rate increases and others experience rate decreases, even if the City has an overall 0% increase for 2021 and/or 2022. Holding off on continued implementation would also allow the detailed COSA analysis to be updated in 2022 to reflect any changes due to the significant development the City has experienced since the last detailed analysis.

Because the costs of two of these utilities are tied significantly to the pass-through rates from partner service providers, Cascade Water Alliance and the King County Wastewater Treatment Division, Kirkland's rate analyses ran concurrent to those service providers' rate adoption processes. In addition to pass-through costs, the 2021-2022 proposed utility rates considered the financial performance of each utility over the past several years, needs identified in their respective master and system plans, and contractual obligations and requirements. For 2021-2022, Kirkland's rate scenarios are built with strong consideration to ratepayer economic relief, while ensuring the future financial integrity of each utility.

The rates developed were guided by the following overarching principles:

- Fully fund ongoing operations (subject to the policy-based rate relief principles below);
- Maintain cash reserves at or above policy target levels;
- Maintain capital contributions at depreciation-driven system reinvestment levels;
- Consider 0% local rate increases for Kirkland's operating costs in both 2021 and 2022; and
- Develop rate scenario options to either absorb or pass through regional rate increases.

A description of each utility's financial and programmatic factors that were considered in the rate proposal is provided in the pages that follow. In addition, each section provides the impact of the scenarios on the average Kirkland single family customer, which is defined as having or using:

- Surface Water: A single-family residence
- Water: 700 cubic feet of consumption and a 3/4" water meter service
- Sewer: 600 cubic feet of average winter water consumption

Surface Water Utility Rates

OVERVIEW

The two Surface Water Utility rate scenario options reflect the continuation of basic services; the continued implementation of the recommendations contained in the Surface Water Master Plan (SWMP); and implications of the Surface Water Design Regulations, which were adopted in 2016.

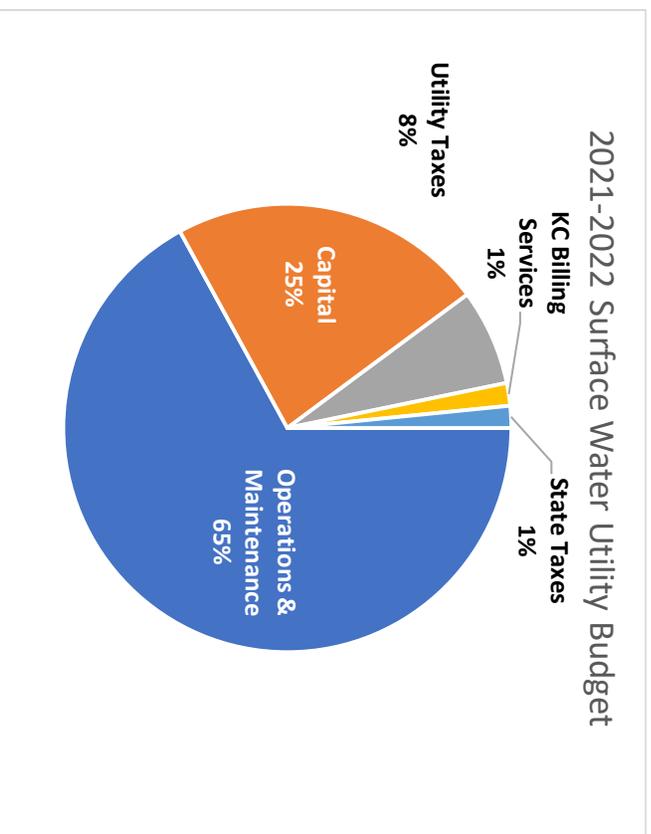
The current monthly surface water rate for single-family residential is \$18.44, to which is added a 7.5% utility tax. The last rate increase was in 2020.

SURFACE WATER UTILITY BUDGET

The annual Surface Water budget is approximately \$12 million with 65% going to operations and maintenance, including: 1) system maintenance and engineering; and 2) education and outreach programs. The surface water management fee is billed by King County on the property tax bill. The City pays King County a fee for this service, which represents about 1% of the Utility budget. Another 25% is transferred to the Surface Water CIP for surface water capital

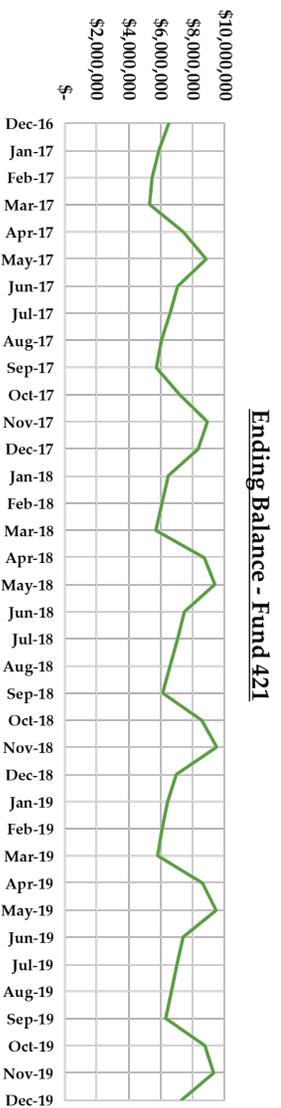
projects. The remaining 9% is composed of taxes and fees collected and sent to the State of Washington and other City Funds:

- Fees collected by King County on behalf of the City include the utility tax. The tax is transferred from the Surface Water Utility Fund to the General Fund; and
- The State of Washington imposes a Business and Occupation (B&O) tax on the utility.



SURFACE WATER UTILITY RATE ASSUMPTIONS

- Working Capital Reserve Target
 The working capital reserve policy for the Surface Water utility is 180 days of operations and maintenance (O&M) expense. This reserve is intended to address the cash flow needs of the utility during the year, recognizing that rate revenues are received every six months coinciding with property tax payments; expenses occur in a more consistent pattern throughout the year. A detailed analysis of the utility cash flow was conducted by the consultant, which indicates that a reserve of 100 days of O&M expense is adequate, as illustrated in the graphic below. The working capital reserve balance reaches high points in May and November, following semi-annual property tax deadlines. Staff is proposing to change this policy and the first scenario of no rate increases in 2021-2022 draws the reserve to 120 days O&M in later years.



System Reinvestment Funding

The target annual system reinvestment funding is 1.0 times the annual depreciation expense. The City is meeting this target currently. The proposed rates assume the current practice will continue. The purpose of a system reinvestment policy is to fund replacement of aging system facilities and ensure sustainability of the system for ongoing operations. Annual depreciation is intended to recognize the consumption of utility assets over their useful lives. Capital funding levels are \$2.13 million in 2021 and \$2.25 million in 2022. In addition, \$500,000 would be transferred to Capital for construction of surface water infrastructure that is in conjunction with City street or transportation projects. Use of this funding is reflected in the recommendations for the 2021-2026 Capital Improvement Program.

- Surface Water Master Plan
 The rates support ongoing efforts to implement the 2014 SWMP, which recommends many program and capital project additions to reduce flooding, improve water quality, protect and maintain infrastructure, and improve aquatic habitat conditions.
- Limited-Term Employees
 Currently, the surface water utility supports three occupied temporary positions, due to expire at the end of 2020. Staff projects that there is sufficient workload demand to extend these positions to help the utility meet federal requirements, surface water and sustainability master plan goals, and CIP deliveries. In the absence of these positions, this work would take place over a longer period of time. Service packages will be reviewed as part of the budget process. These positions total an annual expense of slightly more than \$400,000. The utility has capacity to temporarily extend this staff through the 2021-2022 biennium using cash reserves. To keep the utility above reserve target levels in future years, scenario 1 would result in an additional 0.5% increase in both 2023 and 2024; scenario 2 would avoid that projected increase.

PROPOSED SURFACE WATER UTILITY RATES

The table below shows the historical rate adjustments through current year 2020.

Table 1: Historical Surface Water Rate Adjustments

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------|------|------|------|------|------|------|
| Monthly Charge (ESU) | 4.0% | 4.0% | 2.0% | 2.0% | 2.5% | 2.5% |

Two scenario options are presented to consider the impacts to ratepayers and the financial integrity of the Surface Water utility. These rates reflect the City’s 2021-2022 inflation assumptions for wage, benefit, and other costs, and the projected needs to fund Capital Improvement Program (CIP) projects in the proposed 2021-2026 CIP. Operating reserves are reduced, but remain above revised policy target levels through 2028, when reserves stabilize.

- **Scenario 1:** Represents 0% total rate increase in both 2021 and 2022
- **Scenario 2:** Represents 0% local rate increase in 2021 and a 2.0% increase in 2022 to soften the projected increase in 2023 and 2024.

Table 2: Surface Water Rate Impact Scenarios

| Scenario 1 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Monthly Charge (ESU) | 18.44 | 18.44 | 18.44 | 19.27 | 20.14 | 21.04 | 21.99 |
| % Change | 2.5% | 0.0% | 0.0% | 4.5% | 4.5% | 4.5% | 4.5% |
| Working Capital Reserve (WCR) | 5,638,539 | 5,275,811 | 4,600,621 | 4,150,457 | 3,840,974 | 3,688,018 | 3,517,022 |
| Capital Contingency Reserve (CCR) | 3,480,680 | 3,929,481 | 4,379,778 | 4,046,728 | 3,836,562 | 3,788,499 | 2,128,226 |
| Total Reserve | 9,119,219 | 9,205,292 | 8,980,399 | 8,197,185 | 7,677,536 | 7,476,517 | 5,645,248 |
| *Minimum Balance per City Policy | 8,092,472 | 4,954,606 | 4,718,887 | 4,765,435 | 4,842,946 | 4,937,221 | 5,052,428 |
| Scenario 2 | | | | | | | |
| Monthly Charge (ESU) | 18.44 | 18.44 | 18.81 | 19.56 | 20.34 | 21.16 | 22.00 |
| % Change | 0.0% | 0.0% | 2.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Working Capital Reserve (WCR) | 5,638,539 | 5,275,811 | 4,804,522 | 4,519,985 | 4,332,701 | 4,252,941 | 4,100,112 |
| Capital Contingency Reserve (CCR) | 3,480,680 | 3,929,481 | 4,379,778 | 4,046,728 | 3,836,562 | 3,788,499 | 2,128,226 |
| Total Reserve | 9,119,219 | 9,205,292 | 9,184,300 | 8,566,713 | 8,169,263 | 8,041,440 | 6,228,337 |
| *Minimum Balance per City Policy | 8,092,472 | 4,954,606 | 4,718,887 | 4,765,513 | 4,843,107 | 4,937,471 | 5,052,773 |

*Assumes 180-day target through 2020. Policy adjusted to 100-day target beginning in 2021

Table 3: Surface Water Average Monthly Bill Scenarios (Single-Family Residence)

| Scenario 1 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Avg Monthly Rate | 18.44 | 18.44 | 18.44 | 19.27 | 20.14 | 21.04 | 21.99 |
| 7.5% Utility Tax | 1.38 | 1.38 | 1.38 | 1.45 | 1.51 | 1.58 | 1.65 |
| Total Monthly Bill | 19.82 | 19.82 | 19.82 | 20.72 | 21.65 | 22.62 | 23.64 |
| Monthly Impact \$ | 1.48 | - | - | 0.89 | 0.94 | 0.97 | 1.02 |
| % Increase | 2.8% | 0.0% | 0.0% | 4.5% | 4.5% | 4.5% | 4.5% |
| Scenario 2 | | | | | | | |
| Avg Monthly Rate | 18.44 | 18.44 | 18.81 | 19.56 | 20.34 | 21.16 | 22.00 |
| 7.5% Utility Tax | 1.38 | 1.38 | 1.41 | 1.47 | 1.53 | 1.59 | 1.65 |
| Total Monthly Bill | 19.82 | 19.82 | 20.22 | 21.03 | 21.87 | 22.75 | 23.65 |
| Monthly Impact \$ | 1.48 | - | 0.40 | 0.81 | 0.84 | 0.88 | 0.90 |
| % Increase | 2.8% | 0.0% | 2.0% | 4.0% | 4.0% | 4.0% | 4.0% |

Domestic Water Utility Rates

OVERVIEW

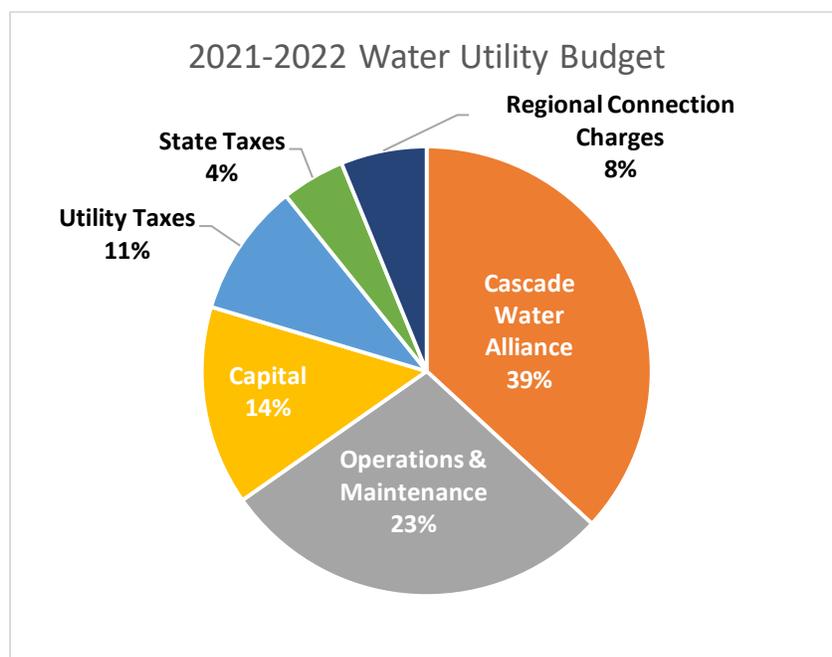
The Water Utility provides for construction, replacement, and rehabilitation of water distribution and storage facilities, funds the purchase of water from the Cascade Water Alliance (CWA), and ongoing maintenance and operations of Water Utility infrastructure. City participation in CWA allows Kirkland to have a voice and a vote over reliable and adequate drinking water supplies.

The current monthly water rate for the average residential single family is \$47.41, to which is added a 13.38% utility tax (which includes a component for fire hydrant maintenance). The last rate increase was in 2020 and reflected CWA rate increase for the purchase of water and continued phase-in of funding for the City's annual capital reinvestment based on depreciation of assets.

WATER UTILITY BUDGET

The annual Water Utility budget is approximately \$15 million. Approximately 39% of the annual expenditures are payments made to CWA for membership dues and the purchase of water. Another 9% is from the regional capital facility charges imposed by CWA for all new water connections, a fee that is collected by the City but passed through to CWA. Kirkland's direct costs for operations and maintenance account for 23% of the annual expenditures. The contribution to the Water CIP is 14% of the budget. The remaining 15% is composed of City utility taxes and State taxes imposed upon the utility itself:

- The City collects a utility tax that is charged on the utility bill and then transferred from the utility fund to the General Fund; and
- The State of Washington imposes a B&O tax and public utility tax on the utility.



WATER UTILITY RATE ASSUMPTIONS

The following factors and drivers influenced the proposed 2021-2022 water utility rates:

- Wholesale Rate Increase
CWA has presented multiple rate scenario options to its Board for consideration, with final adoption of one of those scenarios scheduled for October 2020. Payments to CWA represent about 39% of the Utility's budget, and the pass-through is 100% of the City's proposed rate increase in scenario 2. A 1.0% rate increase sufficiently absorbs CWA increases with no rate impact in outer years. The key factor for CWA is an increase in wholesale water prices from CWA's water supplier, Seattle Public Utilities.
- Rate-funded System Reinvestment
The target annual system reinvestment funding is 1.25 times the annual depreciation expense. The City is meeting this target currently. The proposed rates assume the current

practice will continue. The purpose of a system reinvestment policy is to fund replacement of aging system facilities and ensure sustainability of the system for ongoing operations. Annual depreciation is intended to recognize the consumption of utility assets over their useful lives. Capital funding levels are \$2.15 million in 2021 and \$2.22 million in 2022.

PROPOSED WATER UTILITY RATES

The table below shows the historical rate adjustments through current year 2020. Note that the differing increases by customer class reflect the phasing of the COSA recommendations discussed previously.

Table 4: Historical Water Rate Adjustments

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------|-------|-------|-------|-------|--------|--------|
| Single-Family | 4.90% | 3.30% | 1.70% | 1.70% | 3.00% | 2.80% |
| Multi-Family | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Commercial | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Irrigation | 4.90% | 3.30% | 1.70% | 1.70% | 10.00% | 10.00% |

Two scenario options are presented to consider the impacts to ratepayers and the financial integrity of passing-through or absorbing water supply cost increases from Cascade Water Alliance.

These rates reflect the City’s 2021-2022 inflation assumptions for wage, benefit, and other costs, and the projected needs to fund Capital Improvement Program (CIP) projects in the proposed 2021-2026 CIP. Operating reserves are reduced, but remain above policy target levels through 2028 where reserves stabilize.

- **Scenario 1:** Represents 0% total rate increase in both 2021 and 2022. Kirkland absorbs finalized CWA increase in both years.
- **Scenario 2:** Represents 0% local rate increase in both 2021 and 2022. A 1.0% rate pass-through increase in 2022 absorbs anticipated CWA increases and lowers rate projections in future years.

Table 5: Water Rate Impact Scenarios

| Scenario 1 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Avg Monthly Single-Family Residence | 47.42 | 47.42 | 47.42 | 48.61 | 49.82 | 51.07 | 52.34 |
| % Change | 2.8% | 0.0% | 0.0% | 2.5% | 2.5% | 2.5% | 2.5% |
| Working Capital Reserve (WCR) | 3,569,640 | 4,369,033 | 4,759,375 | 4,972,447 | 5,357,204 | 5,808,047 | 6,381,747 |
| Operating Contingency Reserve (OCR) | 1,593,880 | 1,575,639 | 1,633,469 | 1,691,591 | 1,731,923 | 1,785,136 | 1,835,358 |
| Capital Contingency Reserve (CCR) | 12,701,069 | 8,453,160 | 6,694,665 | 8,001,309 | 9,745,439 | 12,332,853 | 10,541,414 |
| Total Reserve | 17,864,589 | 14,397,832 | 13,087,509 | 14,665,346 | 16,834,567 | 19,926,035 | 18,758,519 |
| *Minimum Balance per City Policy | 5,304,229 | 5,700,096 | 5,340,242 | 4,961,227 | 5,121,117 | 5,349,437 | 5,654,763 |
| Scenario 2 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Avg Monthly Single-Family Residence | 47.42 | 47.42 | 47.89 | 48.85 | 49.83 | 50.83 | 51.84 |
| % Change | 2.8% | 0.0% | 1.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Working Capital Reserve (WCR) | 3,569,640 | 4,369,033 | 4,876,843 | 5,153,918 | 5,544,431 | 5,937,650 | 6,384,910 |
| Operating Contingency Reserve (OCR) | 1,593,880 | 1,575,639 | 1,633,469 | 1,691,629 | 1,731,982 | 1,785,196 | 1,835,400 |
| Capital Contingency Reserve (CCR) | 12,701,069 | 8,453,160 | 6,694,665 | 8,001,309 | 9,745,439 | 12,332,853 | 10,541,414 |
| Total Reserve | 17,864,589 | 14,397,832 | 13,204,977 | 14,846,856 | 17,021,852 | 20,055,698 | 18,761,724 |
| *Minimum Balance per City Policy | 5,304,229 | 5,700,096 | 5,340,242 | 4,961,227 | 5,121,117 | 5,349,437 | 5,654,763 |

*Equal to 45 days of operating expenses (WCR) + 12% of operating expenses (OCR) + 10% of the rolling 6-year CIP (CCR)

Table 6: Water Average Monthly Bill Scenarios (Single-Family Residence)

| Scenario 1 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Avg Monthly Rate (base + 7 units) | 47.42 | 47.42 | 47.42 | 48.61 | 49.82 | 51.07 | 52.34 |
| 13.38% Utility Tax | 6.34 | 6.34 | 6.34 | 6.50 | 6.67 | 6.83 | 7.00 |
| Total Monthly Bill | 53.76 | 53.76 | 53.76 | 55.11 | 56.49 | 57.90 | 59.34 |
| Monthly Impact \$ | 1.48 | - | - | 1.35 | 1.37 | 1.42 | 1.44 |
| % Increase | 2.8% | 0.0% | 0.0% | 2.5% | 2.5% | 2.5% | 2.5% |
| Scenario 2 | | | | | | | |
| Avg Monthly Rate (base + 7 units) | 47.42 | 47.42 | 47.89 | 48.85 | 49.83 | 50.83 | 51.84 |
| 13.38% Utility Tax | 6.34 | 6.34 | 6.41 | 6.54 | 6.67 | 6.80 | 6.94 |
| Total Monthly Bill | 53.76 | 53.76 | 54.30 | 55.39 | 56.50 | 57.63 | 58.78 |
| Monthly Impact \$ | 1.48 | - | 0.54 | 1.09 | 1.11 | 1.13 | 1.15 |
| % Increase | 2.8% | 0.0% | 1.0% | 2.0% | 2.0% | 2.0% | 2.0% |

*Multifamily, Commercial, and Irrigation sectors increase by the same rate percentage as single-family residence

Sanitary Sewer Utility Rates

OVERVIEW

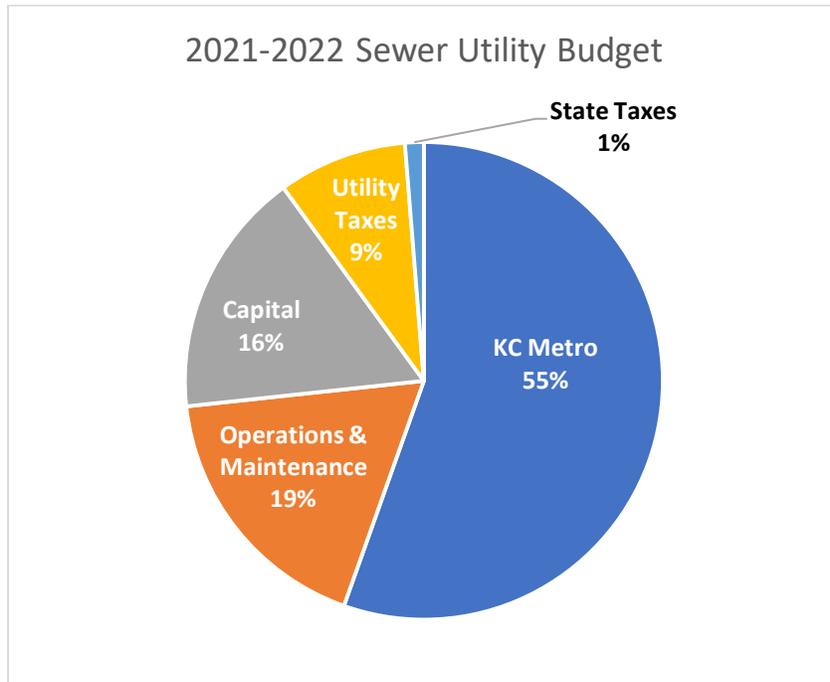
The Sewer Utility provides for Kirkland’s share of the regional wastewater collection, treatment, and disposal administered by the Wastewater Treatment Division of King County (KCWTD). In addition, the Utility provides for the construction, operation, and maintenance of the City’s local wastewater collection and transmission system.

The current monthly sewer rate for single family residential is \$78.28, to which is added a 10.5% utility tax. The last rate increase was in 2020 and reflected the continued phase-in of capital reinvestment funding based on the annual depreciation of assets.

SEWER UTILITY BUDGET

The annual Sewer Utility budget is approximately \$16 million. Approximately 55% of the annual expenditures are payments made to KCWTD for regional wastewater services. Kirkland’s direct costs for operations and maintenance account for 19% of the annual expenditures. The contribution to capital accounts for 16% of the budget. The remaining 10% is composed of City utility taxes and State taxes imposed upon the utility itself:

- The City collects a utility tax that is charged on the utility bill and then transferred from the utility fund to the General Fund; and
- The State of Washington imposes a B&O tax and public utility tax on the utility.



SEWER UTILITY RATE ASSUMPTIONS

The following factors and drivers were influential in drafting the proposed 2021-2022 Sewer Utility rates:

- Wholesale Rate Increase**
 KCWTD proposed rates of \$47.37 per residential-customer-equivalent per month in 2021 and \$49.50 in 2022, a 4.5% increase in each year. Payments to KCWTD for sewer treatment represent about 55% of the sewer budget. The key factor for KCWTD is the goal of reducing outstanding debt through 2030 using increased cash financing and moderate rate increases.
- Rate-funded System Reinvestment**
 Maintain existing capital funding set-aside at 1.55 times calculated depreciation in both 2021 and 2022; continuing to make progress toward the goal of 1.65 in future rate adjustments. The 2021 and 2022 level of capital funding is \$2.64 million. The multiplier applied to the depreciation expense recognizes that the cost to replace infrastructure over time will be higher than the original cost on which depreciation is based.

PROPOSED SEWER UTILITY RATES

The table below shows the historical rate adjustments through current year 2020. These rates also reflect the phase-in of COSA rate recommendations discussed earlier.

Table 7: Historical Sewer Rate Adjustments

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------|-------|-------|-------|-------|-------|-------|
| Single-Family | 4.20% | 1.10% | 4.80% | 1.00% | 4.00% | 2.45% |
| Multi-Family | 4.20% | 1.10% | 2.70% | 1.40% | 1.40% | 0.00% |
| Commercial | 4.20% | 1.10% | 2.70% | 1.40% | 1.40% | 0.00% |

Three scenario options are presented to consider the impacts to ratepayers and the financial integrity of passing through or absorbing the proposed regional King County Metro sewer capacity increase.

These rates reflect the City's 2021-2022 inflation assumptions for wage, benefit, and other costs, and the projected needs to fund Capital Improvement Program (CIP) projects in the proposed 2021-2026 CIP. Operating reserves are reduced, but remain above policy target levels through 2028 where reserves stabilize.

- **Scenario 1:** Represents 0% total rate increase in both 2021 and 2022.
- **Scenario 2:** Represents 0% total rate increase in 2021. In 2022 there are 0% local increases, but begins to normalize and pass-through 2021 and 2022 King County Metro increases.
- **Scenario 3:** Represents 0% local rate increase in both 2021 and 2022. The King County Metro increases are passed-through in both 2021 and 2022. This third scenario is presented for sewer to recognize that the single family fixed charge is set equal to the Metro rate by policy, so the other scenarios deviate from that rate structure.

Table 8: Sewer Rate Impact Scenarios

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|-------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| % Proposed KC Metro Increase | 0.00% | 4.50% | 4.50% | 10.24% | 0.00% | 10.26% | 0.00% |
| Avg Monthly KC Metro | 45.33 | 47.37 | 49.50 | 54.57 | 54.57 | 60.17 | 60.17 |
| Scenario 1 | | | | | | | |
| *Avg Monthly Local Rate | 16.47 | 16.47 | 16.47 | 17.46 | 18.51 | 19.44 | 20.41 |
| % Local Increase | 2.45% | 0.0% | 0.0% | 6.0% | 6.0% | 5.0% | 5.0% |
| % KC Metro Increase Passed-Through | 0.0% | 0.0% | 0.0% | 10.19% | 9.25% | 10.24% | 0.0% |
| Working Capital Reserve (WCR) | 4,636,988 | 4,093,024 | 3,216,283 | 2,306,632 | 2,305,440 | 2,139,598 | 2,372,529 |
| Operating Contingency Reserve (OCR) | 1,575,173 | 1,641,034 | 1,711,695 | 1,860,162 | 1,894,413 | 2,061,566 | 2,090,594 |
| Capital Contingency Reserve (CCR) | 3,517,086 | 6,891,557 | 12,220,475 | 9,972,667 | 8,738,143 | 5,437,436 | 8,168,472 |
| Total Reserve | 9,729,247 | 12,625,616 | 17,148,453 | 14,139,462 | 12,937,995 | 9,638,599 | 12,631,595 |
| **Minimum Balance per City Policy | 6,051,040 | 5,363,079 | 5,854,483 | 6,425,123 | 6,282,507 | 6,499,567 | 6,233,349 |
| Scenario 2 | | | | | | | |
| *Avg Monthly Local Rate | 16.47 | 16.47 | 16.47 | 17.30 | 18.16 | 19.07 | 19.93 |
| % Local Increase | 2.45% | 0.0% | 0.0% | 5.0% | 5.0% | 5.0% | 4.5% |
| % KC Metro Increase Passed-Through | 0.0% | 0.0% | 4.50% | 10.24% | 0.0% | 10.24% | 0.0% |
| Working Capital Reserve (WCR) | 4,636,988 | 4,093,024 | 3,609,474 | 2,897,657 | 2,902,621 | 2,740,719 | 2,923,570 |
| Operating Contingency Reserve (OCR) | 1,575,173 | 1,641,034 | 1,718,463 | 1,864,805 | 1,897,353 | 2,064,535 | 2,093,593 |
| Capital Contingency Reserve (CCR) | 3,517,086 | 6,891,557 | 12,220,475 | 9,972,667 | 8,738,143 | 5,437,436 | 8,168,472 |
| Total Reserve | 9,729,247 | 12,625,616 | 17,548,413 | 14,735,129 | 13,538,117 | 10,242,689 | 13,185,635 |
| **Minimum Balance per City Policy | 6,051,040 | 5,363,079 | 5,854,483 | 6,425,123 | 6,282,507 | 6,499,567 | 6,233,349 |
| Scenario 3 | | | | | | | |
| *Avg Monthly Local Rate | 16.47 | 16.47 | 16.47 | 17.13 | 17.82 | 18.53 | 19.37 |
| % Local Increase | 2.45% | 0.0% | 0.0% | 4.0% | 4.0% | 4.0% | 4.5% |
| % KC Metro Increase Passed-Through | 0.0% | 4.5% | 4.5% | 10.24% | 0.0% | 10.24% | 0.0% |
| Working Capital Reserve (WCR) | 4,636,988 | 4,469,284 | 4,365,787 | 4,146,691 | 4,129,007 | 3,832,486 | 3,869,262 |
| Operating Contingency Reserve (OCR) | 1,575,173 | 1,647,510 | 1,724,859 | 1,874,557 | 1,899,794 | 2,066,990 | 2,096,034 |
| Capital Contingency Reserve (CCR) | 3,517,086 | 6,891,557 | 12,220,475 | 9,972,667 | 8,738,143 | 5,437,436 | 8,168,472 |
| Total Reserve | 9,729,247 | 13,008,352 | 18,311,121 | 15,993,915 | 14,766,944 | 11,336,912 | 14,133,768 |
| **Minimum Balance per City Policy | 6,051,040 | 5,363,079 | 5,854,483 | 6,425,123 | 6,282,507 | 6,499,567 | 6,233,349 |

*Local rate established using a prior-year winter consumption average

**Equal to 45 days of operating expenses (WCR) + 12% of operating expenses (OCR) + 10% of the rolling 6-year CIP (CCR)

Table 9: Sewer Average Monthly Bill Scenarios (Single-Family Residence)

| Scenario 1 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Avg Monthly Local Rate | 16.47 | 16.47 | 16.47 | 17.46 | 18.51 | 19.44 | 20.41 |
| Avg Monthly KC Metro | 45.33 | 45.33 | 45.33 | 49.95 | 54.57 | 60.16 | 60.16 |
| 10.5% Utility Tax | 6.49 | 6.49 | 6.49 | 7.08 | 7.67 | 8.36 | 8.46 |
| Total Monthly Bill | 68.29 | 68.29 | 68.29 | 74.49 | 80.75 | 87.96 | 89.03 |
| Monthly Impact \$ | | - | - | 6.20 | 6.27 | 7.20 | 1.07 |
| % Increase | 2.45% | 0.0% | 0.0% | 9.1% | 8.4% | 8.9% | 1.2% |
| Scenario 2 | | | | | | | |
| Avg Monthly Rate | 16.47 | 16.47 | 16.47 | 17.295 | 18.16 | 19.07 | 19.93 |
| Avg Monthly KC Metro | 45.33 | 45.33 | 47.37 | 52.22 | 52.22 | 57.57 | 57.57 |
| 10.5% Utility Tax | 6.49 | 6.49 | 6.70 | 7.30 | 7.39 | 8.05 | 8.14 |
| Total Monthly Bill | 68.29 | 68.29 | 70.54 | 76.81 | 77.77 | 84.69 | 85.64 |
| Monthly Impact \$ | | - | 2.25 | 6.27 | 0.96 | 6.92 | 0.95 |
| % Increase | 2.45% | 0.0% | 3.3% | 8.9% | 1.2% | 8.9% | 1.1% |
| Scenario 3 | | | | | | | |
| Avg Monthly Rate | 16.47 | 16.47 | 16.47 | 17.13 | 17.815 | 18.53 | 19.37 |
| Avg Monthly KC Metro | 45.33 | 47.37 | 49.50 | 54.57 | 54.57 | 60.16 | 60.16 |
| 10.5% Utility Tax | 6.49 | 6.70 | 6.93 | 7.53 | 7.60 | 8.26 | 8.35 |
| Total Monthly Bill | 68.29 | 70.54 | 72.90 | 79.23 | 79.99 | 86.95 | 87.88 |
| Monthly Impact \$ | | 2.25 | 2.35 | 6.33 | 0.76 | 6.97 | 0.92 |
| % Increase | 2.45% | 3.3% | 3.3% | 8.7% | 1.0% | 8.7% | 1.1% |

*Multifamily and Commercial sectors increase by the same rate percentage as single-family residence

SUMMARY

The table that follows summarizes the average single family impact of the scenarios with the highest rate increases (scenario 3 for sewer and scenario 2 for the other utilities). This table will be updated based on the Council’s direction on the scenarios presented.

| Proposed Utility Rate Summary: Impact to Average Kirkland Customer | | | | | | | |
|--|-----------------|-----------------|-------------------|--------------------|-----------------|-------------------|--------------------|
| Utility | 2020 | 2021 | | | 2022 | | |
| | Monthly Rate | Monthly Rate | Monthly Impact \$ | Monthly Increase % | Monthly Rate | Monthly Impact \$ | Monthly Increase % |
| Solid Waste | \$27.90 | \$27.90 | \$0.00 | 0.00% | \$28.45 | \$0.55 | 2.00% |
| Surface Water | \$18.44 | \$18.44 | \$0.00 | 0.00% | \$18.81 | \$0.37 | 2.00% |
| Water | \$47.42 | \$47.42 | \$0.00 | 0.00% | \$47.89 | \$0.47 | 1.00% |
| Sewer | \$78.28 | \$80.31 | \$2.03 | 2.59% | \$82.44 | \$2.13 | 2.65% |
| Subtotal | \$172.04 | \$174.07 | \$2.03 | 1.18% | \$177.59 | \$3.52 | 2.02% |
| Utility Taxes | \$18.87 | \$19.08 | \$0.21 | 1.11% | \$19.47 | \$0.39 | 2.04% |
| KC Haz Waste | \$1.46 | \$1.46 | \$0.00 | 0.00% | \$1.46 | \$0.00 | 0.00% |
| Total | \$192.37 | \$194.61 | \$2.24 | 1.16% | \$198.52 | \$3.91 | 2.01% |

NEXT STEPS

Based on City Council feedback and direction, staff will prepare water, sewer, and surface water rate ordinances to accompany the solid waste rate ordinance for Council adoption at either the September 15 or October 6, 2020 Council meeting. Because of the aforementioned customer notification requirements for solid waste rates established in State law, Council action must be taken on solid waste rates on or before the October 6 City Council meeting in order to meet the December 11 target date for adoption of the full 2021-2022 budget, and accordingly for the solid waste rates to be effective January 1, 2021. Staff proposes action on all proposed utility rates at the same meeting.