

## CITY COUNCIL STUDY SESSION ITEM

### SUBJECT

Fire Protection Capacity Costs

### STAFF CONTACT

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### POLICY ISSUES

In October 2008, the Washington State Supreme Court ruled that, as in the case of street lighting, fire protection is a general government (General Fund) responsibility and cannot be paid for through water rates. As a consequence of this ruling, the cost of fire protection capacity must be removed from the water utility rate and shifted to the General Fund. The State Auditor's Office has notified entities that compliance with this ruling will be part of its review in 2010.

### DIRECTION NEEDED FROM COUNCIL

Action  
 Discussion  
 Information

Council is being asked to review the analysis included in this memo and consider staff's recommended approach to move the cost of fire protection capacity to the General Fund.

### BACKGROUND/ANALYSIS

Bellevue's Water Utility provides the capacity for fire protection to water customers in Bellevue, Medina, Clyde Hill, Hunts Point, Yarrow Point, and small portions of Issaquah, Kirkland, and King County. Fire protection costs are generally considered to mean the total cost of providing fire protection capacity, which includes hydrants, oversized pipe, reservoir storage, etc. Bellevue's existing water rate structure includes the recovery of fire protection costs. Projected total fire protection capacity costs in 2010 for Bellevue's service area are approximately \$2 million per year. Approximately \$1.7 million or 87% of this cost is attributed to the City of Bellevue. The remaining \$300,000 is attributed to the other jurisdictions in the service area. The other jurisdictions were notified of their financial obligation in July 2009, and are now considering options to address their portion of the cost.

## RECOMMENDED APPROACH

Staff analyzed funding options to pay for Bellevue's portion of fire protection capacity based on the following overarching goals:

- Have a straightforward cause-and-effect relationship that is easy for customers to understand;
- Minimize the net impact to utility ratepayers across all customer classes;
- Be sustainable and minimize the net impact to the General Fund.

The recommended approach is to remove the cost of fire protection capacity from the water rate, move Bellevue's portion (\$1.7 million) of these costs to the General Fund effective January 1, 2010, reduce water rates by 6%, and increase the utility tax rate on water by 5.4%. The other jurisdictions will be billed for their share of fire protection capacity costs.

- The net impact to the customer of these changes related to fire protection capacity is a few pennies difference on each bill (see tables below);
- Customer notification of this change will be included in the annual rate letter that is customarily delivered with the first bill in 2010;
- This utility tax increase of 5.4% would cover both the \$1.7 million cost of fire protection capacity and the reduction of approximately \$100,000 in General Fund utility tax revenues on water caused by reducing the water rate;
- To avoid under- or over-collection of utility tax revenue, staff would review the cost of providing fire protection capacity periodically to ensure that the portion of the utility tax dedicated to recovering the cost of fire protection capacity is accurate, and recommend that Council adjust the rate as appropriate.

### Impact to Bellevue Customers

#### Water Rate for 2010:

2009-2010 Adopted Increase	9.2%
Proposed Reduction for Fire Protection	<u>(6.0%)</u>
Proposed Rate Increase for 2010	3.2%

#### Water Utility Tax for 2010:

Existing Water Utility Tax Rate	5.0%
Increase to Fund Fire Protection Costs	<u>5.4%</u>
Proposed Utility Tax Rate on Water for 2010	10.4%

### Impact to Typical Customer Monthly Bill

		2009 <u>Bill</u>	2010 Bill Before Fire Protection <u>Adjustment</u>	2010 Bill After Fire Protection <u>Adjustment</u>	<u>Difference</u>
Single Family (10 ccf per mo.)	Bill Before Tax	\$38.85	\$42.45	\$40.05	(\$2.40)
	Utility Tax	<u>2.04</u>	<u>2.23</u>	<u>4.64</u>	<u>2.41</u>
	<b>Total</b>	40.89	44.68	44.69	<b>\$0.01</b>
Multi-family (25 units)	Bill Before Tax	987.17	1,078.77	1,017.78	(\$60.99)
	Utility Tax	<u>51.96</u>	<u>56.78</u>	<u>117.83</u>	<u>61.05</u>
	<b>Total</b>	1,039.13	1,135.55	1,135.61	<b>\$0.06</b>
Commercial (Medium Office)	Bill Before Tax	1,177.97	1,286.55	1,213.81	(\$72.74)
	Utility Tax	<u>62.00</u>	<u>67.71</u>	<u>140.53</u>	<u>72.82</u>
	<b>Total</b>	\$1,239.97	\$1,354.26	\$1,354.34	<b>\$0.08</b>

### RECOMMENDATION

Effective January 1, 2010, remove the cost of fire protection capacity from the water rate and move Bellevue's portion (\$1.7 million) of fire protection capacity costs to the General Fund. Reduce water rates by 6%. Increase the utility tax rate on water by 5.4%.