



**CITY OF KIRKLAND
PUBLIC WORKS**

123 Fifth Avenue, Kirkland, WA 98033
425-587-3000

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Deputy City Manager of Operations
Julie T Underwood, Director of Public Works
Jennifer J Gaus, Surface Water Strategic Advisor
Grant P Raupp, Senior Financial Analyst
Veronica Hill, Financial Planning Supervisor

Date: July 28, 2026

Subject: **2027-2028 Utility Rates Update**

RECOMMENDATION:

Staff recommends that the City Council receives an informational briefing regarding preliminary 2027-2028 Solid Waste, Water, Sewer, and Surface Water Utility rates and provides direction to staff.

EXECUTIVE SUMMARY:

- This is the first of three discussions with Council on 2027-2028 utility rates, which are a key part of the 2027-2028 biennial budget:
 - August 5 (Study Session): Preliminary rates will be presented which incorporate base budget CIP, and external service rates.
 - September 15: Proposed utility rates. The Proposed rates will be updated from Preliminary based on Council input, updated budget and CIP data, and updated external service rates.
 - October 20: Final rates will be presented for Council adoption. Adoption at this meeting will allow new rates to become effective on either December 1, 2026 (water and sewer), or January 1, 2027 (Surface Water, Solid Waste).
- Table U-1 presents Preliminary 2027-2028 Solid Waste, Water, Sewer, and Surface Water rate increases based on preliminary budget and current fiscal policies.
- Average residential bill estimates and portions of the bill that are internal and external costs, are also presented in Table U-2.
- The consulting firm FCS has created models that incorporate operating costs, capital funding, and fiscal policies and allow for testing and selection of rate scenarios that keep rate increases as moderate as possible while aiming to meet fiscal policies, with the overall goal of maintaining financial stability. The FCS report is Attachment 1.
- The drivers of rate increases for each utility are described in this memorandum, and are a combination of external costs, operating costs, and how/when fiscal target policies are met.

- External costs for water (Cascade Water Alliance), sewer (King County), and solid waste (King County and the City's contract with Waste Management) are rising significantly over the next 10 years, due to large upcoming capital funding needs for the various utilities and, as a result, external costs will make up an increasingly larger proportion of future rate increases.
- Discussions are occurring at the countywide level on the regional utility affordability.
- The potential impact, benefits, and risks of alternative rate scenarios are described so that Council can provide guidance on use of these items.
- The City's Kirkland Cares Low-Income Support Program and the King County-administered surface water utility senior/low-income discount program provide rate relief for eligible customers but do increase rates for those not qualifying for these programs.

BACKGROUND:

1. Introduction

The City's Public Works Department manages four utilities: domestic water (water), sanitary sewer (sewer), surface water, and solid waste. Rates for each utility are set for a two-year period that matches the two-year budget period, in this case 2027-2028. General information about the utilities and about the rate-setting process was provided at the May 19 Study Session¹, and this information was intended to provide a foundation for the decision-making process.

FCS, a Bowman Company, ("the consultant") was selected through a Request for Proposal process to conduct revenue forecasting and rate modeling for 2027–2028. Attachment 1 is the consultant's report summarizing preliminary rate results and describing the model's inputs, methodology, and key assumptions. This information and the associated model are the key to evaluating and choosing a rate path.

The information that follows provides context and more detail on the rate drivers for each utility to supplement the consultant's report. Following each individual utility discussion is an overview of the City's efforts to influence external costs and affordability. The final section identifies possible modifications that staff and the consultant have identified to smooth rate impacts and provide rate relief, while maintaining the financial integrity of the utilities.

¹ https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/may-19-2026/3a_study-session.pdf

2. Preliminary Rate Increases - Summary

Table U-1 presents Preliminary rate increases calculated by the consultant for 2027-2028. These rates are what are needed to meet current fiscal policies, operations and maintenance costs, and capital needs for each utility. Modeled rates for 2029-2032 are also shown to illustrate the impact of the chosen 2027-2028 rates on the outer years of the 6-year planning period. The rate impact to the average residential bill is shown in Table U-2 on the next page.

Table U-1 Preliminary and Projected 2027-2028 Utility Rate Increases*						
Utility	Preliminary		Projected			
	2027	2028	2029	2030	2031	2032
Water	8.50%	6.50%	6.50%	6.50%	5.15%	5.15%
Sewer	19.50%	8.95%	8.95%	8.95%	8.95%	8.95%
Surface Water	7.15%	7.15%	7.15%	2.75%	2.75%	2.75%
Solid Waste	6.75%	3.95%	3.95%	3.95%	3.95%	3.95%
* Rates are currently being set for 2027-2028. Rates for 2029-2032 are shown to illustrate the impact of the chosen rates over the 6-year planning horizon						

The impact of the Preliminary rate on the average residential bill is presented in Table U-2. The drivers of rates are different for each utility and are described in the Discussion section.

Table U-2 Impact of Preliminary and Projected Utility Rates on the Average Residential Bill*								
	Preliminary			Projected				
	2026	2027	2028	2029	2030	2031	2032	
Water								
Local Share	\$34.74	\$38.48	\$40.70	\$42.08	\$43.71	\$45.00	\$46.37	
Cascade Water Alliance	\$21.85	\$22.92	\$24.69	\$27.57	\$30.46	\$32.99	\$35.63	
Subtotal	\$56.59	\$61.40	\$65.39	\$69.64	\$74.17	\$77.99	\$82.00	
Sewer								
Local Share	\$40.80	\$48.76	\$53.12	\$57.87	\$63.05	\$68.70	\$74.85	
King County Wastewater Treatment	\$62.36	\$70.65	\$79.66	\$89.82	\$101.28	\$112.68	\$125.36	
Subtotal	\$103.16	\$119.41	\$132.78	\$147.69	\$164.33	\$181.38	\$200.21	
Surface Water								
Local Share	\$23.08	\$24.73	\$26.50	\$28.39	\$29.17	\$29.98	\$30.80	
External	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Subtotal	\$23.08	\$24.73	\$26.50	\$28.39	\$29.17	\$29.98	\$30.80	
Solid Waste								
Local Share	\$12.69	\$13.84	\$14.03	\$14.61	\$15.18	\$15.74	\$16.29	
Waste Management Contract and King County Solid Waste Division	\$39.88	\$42.27	\$44.30	\$46.03	\$47.86	\$49.79	\$51.82	
Subtotal	\$52.57	\$56.12	\$58.34	\$60.64	\$63.03	\$65.52	\$68.11	
Subtotal Local Share	\$111.31	\$125.81	\$134.35	\$142.95	\$151.11	\$159.41	\$168.30	
Subtotal External Share	\$124.09	\$135.84	\$148.65	\$163.42	\$179.60	\$195.46	\$212.82	
Subtotal Monthly Sample Bill	\$235.40	\$261.65	\$283.00	\$306.37	\$330.71	\$354.87	\$381.12	
Utility Taxes**	\$25.65	\$28.50	\$30.80	\$33.32	\$35.99	\$38.61	\$41.46	
King County Hazardous Waste***	\$1.04	\$1.04	\$1.04	\$1.04	\$1.04	\$1.04	\$1.04	
Total Monthly Sample Bill	\$262.09	\$291.20	\$314.85	\$340.73	\$367.74	\$394.51	\$423.62	
Monthly Bill Impact		\$29.10	\$23.65	\$25.88	\$27.01	\$26.78	\$29.11	
*Assumes 5/8" water meter, 7 ccf monthly water usage, 6 ccf average winter water usage, 1 ESU, and weekly collection with a 35-gallon solid waste bin for the average residential customer								
**Effective Utility Tax rate varies among the utilities. Water 13.38%, Sewer 10.50%, Surface Water 7.5%, Solid Waste 10.5%.								
***The hazardous waste fee is set by King County. \$1.04 reflects the current rate. There has been recent discussion of a possible increase in the future.								

3. Proposed Rates to be Presented at September 15 Council Meeting

The Preliminary rate scenario presented in Attachment 1 and in Table U-1 serves as a starting point. It assumes operating reserve targets are met beginning in 2027 and rate-funded system reinvestment (RFSR) targets are met in all years (see Attachment 1 and the discussion below for explanation of these terms). This is a conservative approach, and it results in relatively high first-year rate increases for utilities whose operating reserves currently fall below target. There is a discussion at the end of this report on the benefits and risks of alternative rate scenarios that could smooth and/or lower rate increases. Based on Council's feedback, staff will return with

Proposed rates for consideration at the September 15 meeting that may use an alternative rate scenario.

In addition to responding to Council policy direction, the alternative scenarios will include updated assumptions and preliminary budget numbers. For example, the June-to-June Seattle-Tacoma-Bellevue CPI-W, which is used to estimate general cost inflation in the city budget, was released after the development of the Preliminary rates. The actual CPI-W came in at 3.8%, slightly under the 4.0% used in the Preliminary models.

Proposed rates may also include service packages. Staff have kept service package requests to a minimum, and it is expected that, as currently proposed, these will have a relatively small impact on rates.

4. Staff Acknowledgement

Many staff members beyond those listed in the header of this memorandum helped in developing Preliminary rates and in the writing and production of this memorandum. We thank and acknowledge the following: Sarah R Olson, Chris Gavigan, Michael Olson, Kevin Pelstring, Kelli Jones, Tom Chriest, Tim Hanser, Gena Jain, Andreana Campbell, Jessica Clem, and Jintana Tanrattana.

DISCUSSION/ANALYSIS:

1. Introduction

This section provides detail to supplement the rate scenario presented in Attachment 1. The main drivers of rates for each utility are discussed. The aggregate impact of the costs of regional partnerships and contracts on rates is presented alongside a description of Council advocacy regarding rate affordability and the costs of regional partnerships. The benefits and risks of alternative rate scenarios are presented to assist Council in providing guidance on a preferred rate path. The scope and cost of rate relief programs is presented in response to Council questions about these programs that were posed at the May 19 Council Study Session.

Attachment 2 provides a brief overview of utility functions and staffing for reference. It also includes a summary of service packages submitted for consideration during the 2027-2028 budget process.

2. Water Utility Rate Discussion

2.A Introduction

Kirkland serves domestic water to customers in approximately the southern half of the city. The utility has a Preliminary 2027-2028 budget of \$43.5 million, and includes 14.31 FTE. The utility maintains local water distribution and storage facilities and is a member of and purchases water from the Cascade Water Alliance ("Cascade").

2.B Preliminary and Projected Water Rate

Preliminary Water rate adjustments are shown in Chart M-1 separated by components that account for the increase. Preliminary rate increases for the Water Utility and the impact on the average residential bill are presented in Table W-1. Details of the Preliminary rate scenario are provided in Attachment 1.

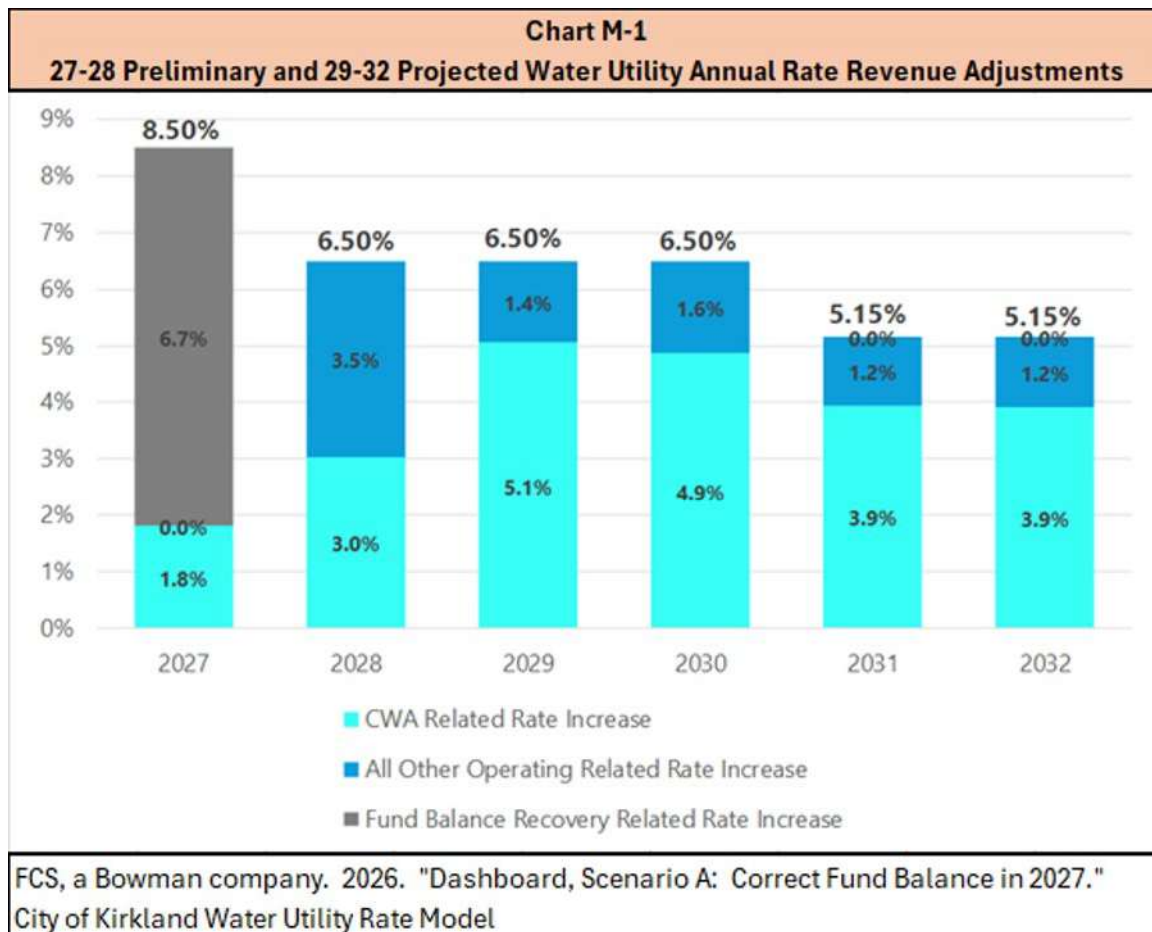


Table W-1 Preliminary and Projected Water Utility Rates for the Average Residential Customer*							
		Preliminary		Projected			
	2026	2027	2028	2029	2030	2031	2032
% increase		8.50%	6.50%	6.50%	6.50%	5.15%	5.15%
Local Share	\$34.74	\$38.48	\$40.70	\$42.08	\$43.71	\$45.00	\$46.37
Cascade Water Alliance	\$21.85	\$22.92	\$24.69	\$27.57	\$30.46	\$32.99	\$35.63
Subtotal Monthly Sample Bill	\$56.59	\$61.40	\$65.39	\$69.64	\$74.17	\$77.99	\$82.00
Utility Taxes**	\$7.57	\$8.22	\$8.75	\$9.32	\$9.92	\$10.43	\$10.97
Total Monthly Sample Bill	\$64.16	\$69.62	\$74.14	\$78.96	\$84.09	\$88.42	\$92.98
Monthly Bill Impact		\$5.45	\$4.53	\$4.82	\$5.13	\$4.33	\$4.55

* Assumes 5/8" meter and 7 ccf water usage per month for the average residential customer
**Effective Utility Tax: 13.38%

2.C Drivers of Water Utility Rate Increases

In 2027, replenishment of operating reserves is the main driver of the Preliminary rate increase. In 2028 and beyond, the increases are driven by a combination of local operations and maintenance and Cascade costs, with Cascade costs becoming an increasingly larger portion of the overall increase. Debt service for the South Reservoir project is proposed to lower rate impacts and spread this cost equitably to ratepayers. The South Reservoir, built in 1971 to outdated API standards, has significant structural, seismic, and regulatory deficiencies and

lacks adequate storage for Kirkland's projected growth. After evaluating alternatives, the City selected the most cost-effective solution: a new 15 MG prestressed concrete reservoir that meets current AWWA and IBC seismic standards and fully resolves all identified deficiencies at the site. The cost of the new reservoir is also shared proportionally with Redmond and Bellevue.

Cascade Water Alliance

Payments to the Cascade Water Alliance comprise 35.3% of the 2027-2028 Water Utility budget. Kirkland's Cascade costs are rising by 5.32% in 2027 and 8.18% in 2028. It is projected that by 2032, Cascade costs will increase to 43.0% of the overall water utility budget.

Cascade is expecting rate increases, as noted in Table W-2, as they embark on the Cascade Supply Program (CSP). This program aims to build the necessary infrastructure over the coming decades to connect with a new water supply system from Tacoma Public Utilities. Cascade rate increases are primarily driven by the costs associated with developing this new system. A more detailed discussion of external rate drivers and the City's efforts to influence those costs and affordability, follows the discussion of each utility.

Table W-2 Cascade Water Alliance (Cascade) Projected Kirkland Rate Increases						
	2027	2028	2029	2030	2031	2032
Total Kirkland Cascade Annual Increase	5.32%	8.18%	12.21%	11.08%	8.93%	8.63%

Operations and Maintenance Costs

Operations and maintenance costs comprise 23.5% of the 2027-2028 budget, and account for over half of the Preliminary rate increase in 2028 as shown in Chart W-1. Costs of salaries and benefits, utility billing and customer service, and City cost of service are rising due to increased costs and increases in maintenance work.

Funds have also been added to the base budget to support the increase in maintenance work based on actual costs experienced in the past few years. In past years staffing expenditures were below budget primarily because of vacancies. Now that staff is at budgeted levels, more work is getting done, and there is need to add maintenance inventory (e.g., gravel), utility services (e.g., material disposal), and street cut fees that are paid to the Streets Fund for pavement repair, to support that work.

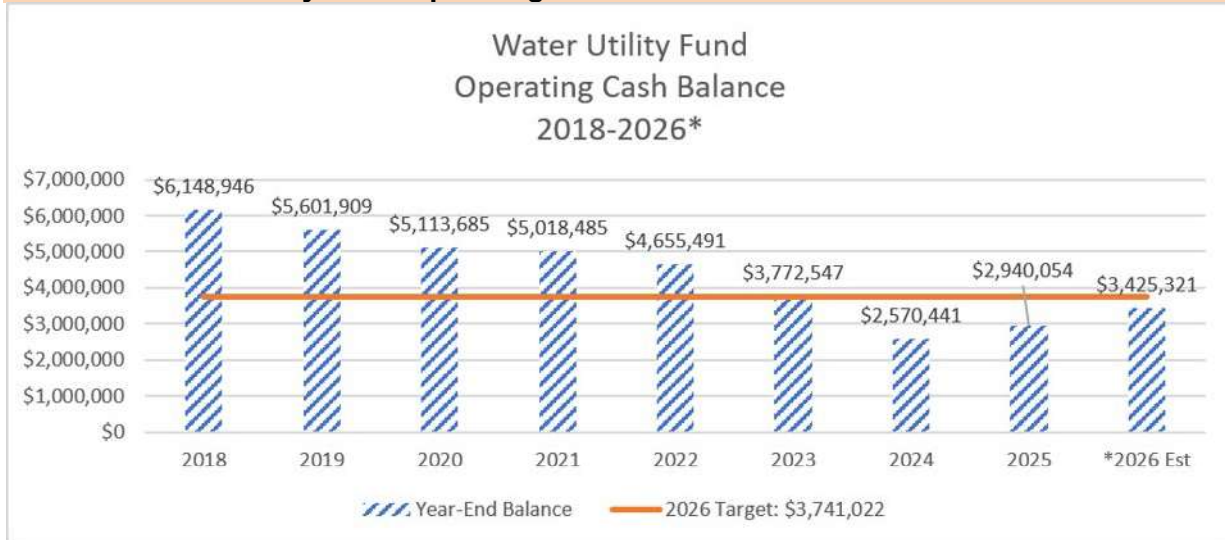
Replenishment of Operating Reserves

It is estimated that Water operating reserves will be at 92 percent of the target level in 2026. The rate model scenario in Attachment 1 brings reserves to the target level beginning in 2027. Chart R-1 shows the history of reserve levels relative to the 2026 target for the past 8 years. Reserves were used in prior years, and thus fell below target in 2024 and 2025 because of a combination of the following factors:

- Water usage decreased in 2024, leading to revenue that was below forecast.
- Operation and maintenance expenses were higher due to one-time costs for water pressure mitigation in Highlands, increased costs of the Water System Plan, and for ongoing increases for maintenance inventory and services costs (e.g., soil disposal) due to full staffing, which occurred after rates were adopted.

- Reallocation of costs for the Utility Policy and Community Relations Supervisor position. In early 2025, this position was reallocated from 100% solid waste funding to be distributed across water, sewer, and solid waste utilities, reflecting the support the position provides to each.

Chart R-1 Water Utility Fund Operating Cash Balance 2018-2026*



New Debt Service

Debt financing is proposed for a part of Kirkland's funding of the South Reservoir Replacement (Kirkland Project WAC 12900) beginning in 2027. The total project cost is estimated at \$44.8 million. The Kirkland cost share for replacement of this long-lived asset is estimated at \$25.6 million, with the remainder being paid by Bellevue and Redmond. Issuance of a \$12.5 million revenue bond is built into the Preliminary rate, with the remainder funded from rates in prior years. This debt will help to spread costs over 20 years, which will smooth rates and also ensure that the costs are better spread over future users. The benefits and costs of debt financing are described in Attachment 1.

3. Sewer Utility Rates Discussion

3.A Introduction

The sewer utility serves customers in approximately the southern half of the city. The northern portions are served primarily by the Northshore Utility District (NUD). Sewer services include operation, maintenance and construction of local collection and transmission infrastructure, and payments to King County's Wastewater Treatment Division (KCWTD) for regional collection and treatment services. The 2027-2028 Preliminary Budget is \$51.1 million, and there are 10.36 FTE in operations and maintenance.

3.B Preliminary and Projected Sewer Rate

Preliminary Sewer rate adjustments are shown in Chart M-2 separated by components that account for the increase. Preliminary rate increases for the Sewer Utility, and the impact on the average residential bill are presented in Table S-1. Details of the Preliminary rate scenario are provided in Attachment 1.

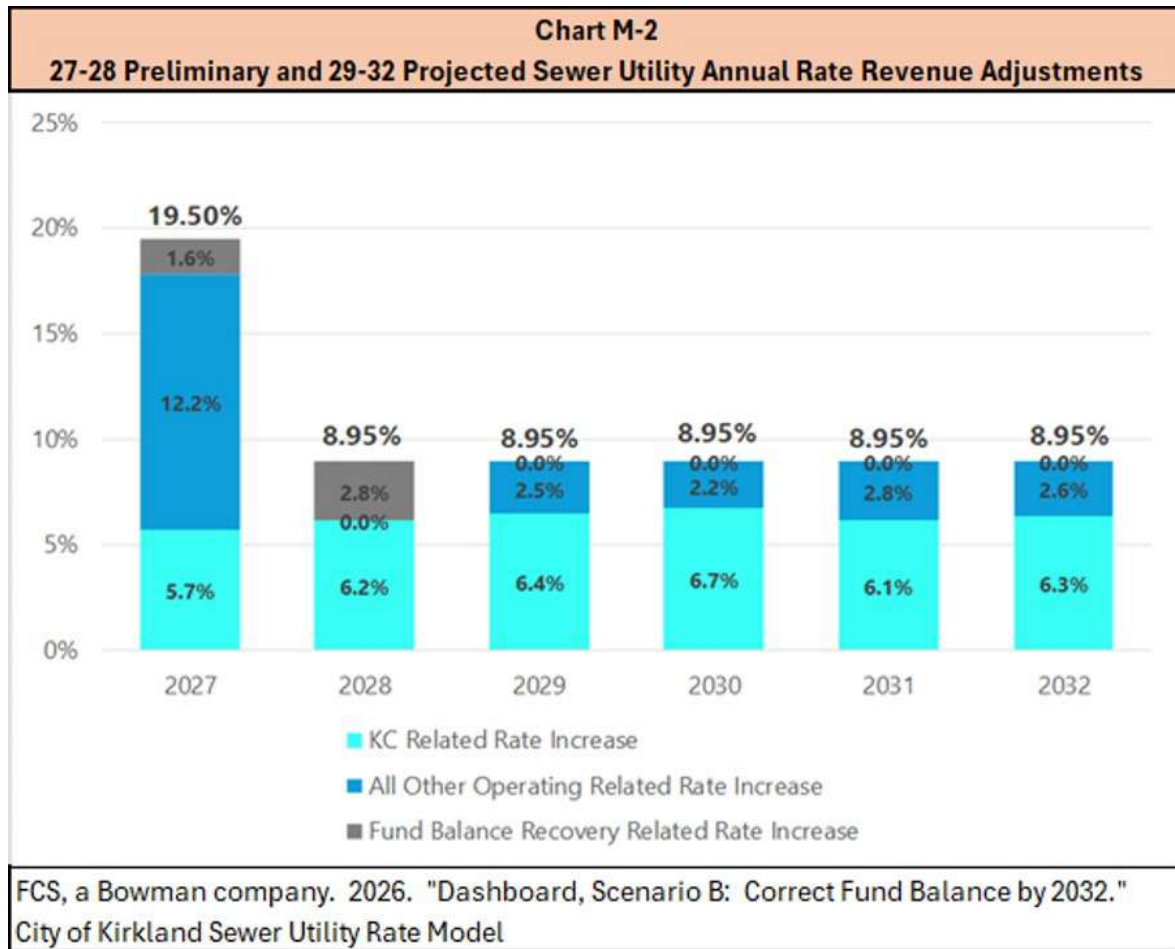


Table S-1 Preliminary and Projected Sewer Utility Rates for the Average Residential Customer*							
		Preliminary		Projected			
	2026	2027	2028	2029	2030	2031	2032
% increase		19.50%	8.95%	8.95%	8.95%	8.95%	8.95%
Local Share	\$40.80	\$48.76	\$53.12	\$57.87	\$63.05	\$68.70	\$74.85
King County Wastewater Treatment	\$62.36	\$70.65	\$79.66	\$89.82	\$101.28	\$112.68	\$125.36
Subtotal Monthly Sample Bill	\$103.16	\$119.41	\$132.78	\$147.69	\$164.33	\$181.38	\$200.21
Utility Taxes**	\$10.83	\$12.54	\$13.94	\$15.51	\$17.26	\$19.04	\$21.02
Total Monthly Sample Bill	\$113.99	\$131.94	\$146.72	\$163.20	\$181.59	\$200.42	\$221.23
Monthly Bill Impact		\$17.95	\$14.78	\$16.48	\$18.39	\$18.83	\$20.81

* Assumes 6 ccf average winter water usage per month for the average residential customer
**Effective Utility Tax: 10.50%

3.C Drivers of Sewer Utility Rate Increases

Preliminary sewer rate increases in 2027 are mostly due to increases in operations and maintenance expenses and reserve replenishment. In 2028 and beyond, rate increases are largely caused by increasing costs for services of the KCWTD.

King County Wastewater Division (KCWTD) Rates

Payments to KCWTD comprise 58.8% of the Preliminary 2027-2028 Sewer Utility budget. Cost increases from KCWTD will cause approximately 25% of the overall Preliminary rate increase in 2027 and will make up the majority of rate increases from 2028-2032.

KCWTD has projected rate increases over the next 10 years as noted in Table S-2 to support maintenance of existing infrastructure and compliance with regulatory requirements. As discussed below, Council has been advocating for cost controls at KCWTD.

Table S-2 King County Wastewater Treatment 2027 Rate and 2028-2032 Rate Forecast						
	2027	2028	2029	2030	2031	2032
Rate Increase %	12.75	12.75	12.75	12.75	11.25	11.25
Source: King County , April 23, 2026. Proposed 2027 Sewer Rate and Capacity Charge and 2027-2046 Financial Forecast						

Operations and Maintenance Costs

Operations and maintenance costs make up approximately 16% of the 2027-2028 Preliminary budget. Costs of salaries and benefits, utility billing and customer service, and city cost of service are rising due to increased costs and increases in maintenance work.

Funds have also been added to the base budget to support the increase in maintenance work based on actual costs experienced in recent years. In past years, staffing levels were under-budget due, mainly to vacant positions. Now that staff is at budgeted levels, more work is getting done, and there is a need to add maintenance inventory (e.g., gravel), utility services (e.g., material disposal), and street cut fees paid to the Streets Fund for pavement repair, to support that work.

Replenishment of Operating Reserves

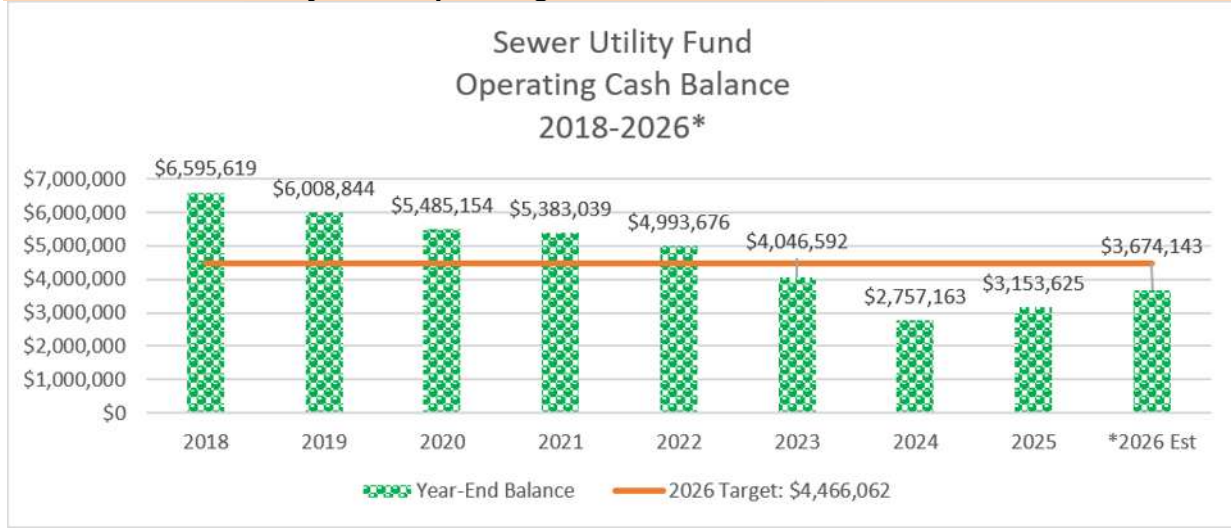
It is estimated that sewer operating reserves will be at 49 percent of the target fiscal policy level at the end of 2026 as shown in Chart R-2. The Preliminary rate scenario described in Attachment 1 brings reserves to the target level beginning in 2032. Reserves fell below target in 2024 and 2025 because of a combination of the following factors:

- Rate synchronization with King County – Recovery of King County costs from customers was lowered during COVID in order to keep utility rates steady.
- Timing of King County rate increases versus Kirkland utility rate and budget process. King County raised the rate in 2026 from a projected increase of 7.0% to an actual increase of 7.5%. As the Kirkland rate was already set for 2025 and 2026, the full King County increase was not passed through to customers.
- 2025 revenue was below expectations. To help refine revenue projections in future years, FCS created a revenue forecasting model as part of the rate study.
- Higher expenses than budgeted in 2025-2026 for utility services (e.g., material disposal) and street cut fees that are paid to the Streets Fund for pavement repair were needed to support increased productivity.
- Reallocation of costs for the Utility Policy and Community Relations Supervisor position. In early 2025, this position was reallocated from 100% solid waste funding to be

distributed across water, sewer, and solid waste utilities, reflecting the support the position provides to each utility.

In addition, the extent of the reduction in the sewer fund balance was not as apparent in financial results given that the water and sewer utilities have historically been accounted for as a combined utility (primarily to support debt issuance). To provide additional transparency into the individual utilities in the future, the water and sewer utilities fund balances will be tracked separately in the City's financial system starting in 2027.

Chart R-2 Sewer Utility Fund Operating Cash Balance 2018-2026*



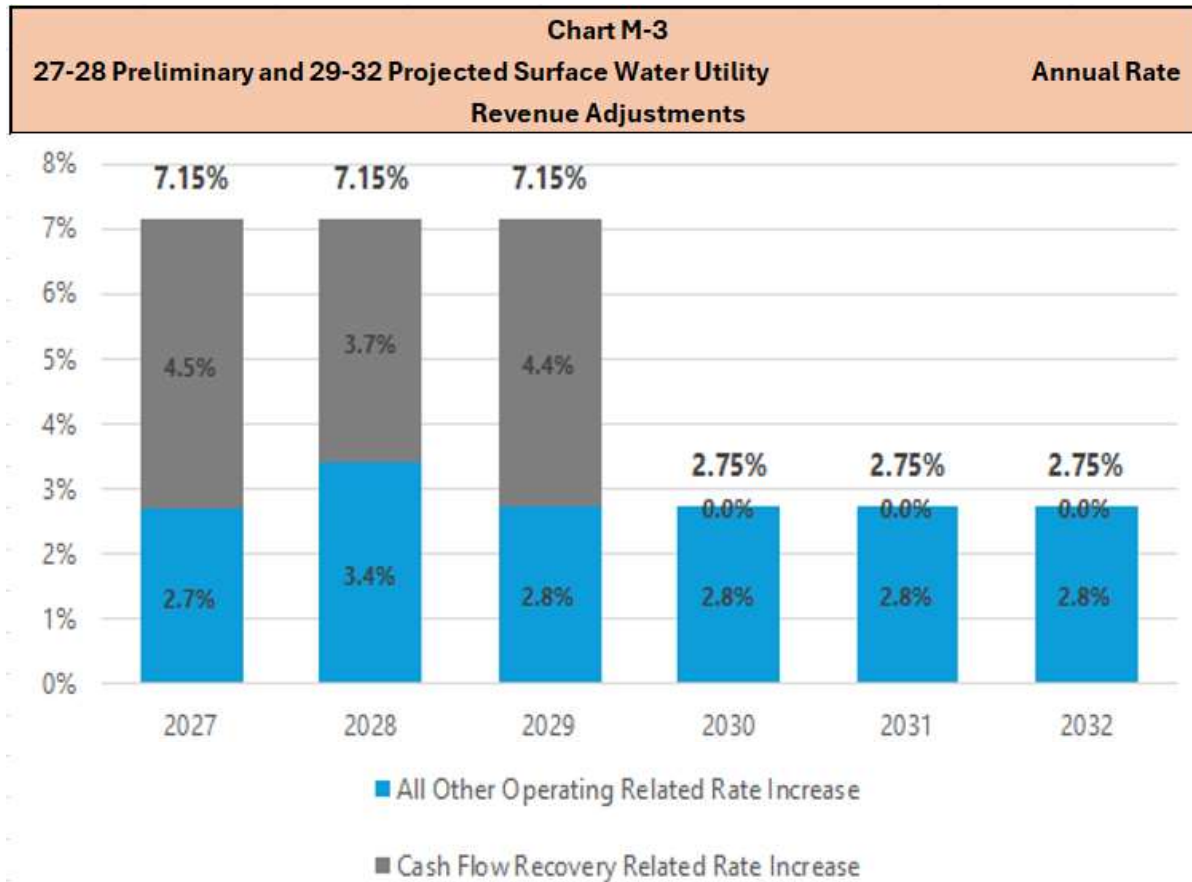
4. Surface Water Utility Rates Discussion

4.A Introduction

The Surface Water Utility provides services to the whole City that include flood reduction, instream habitat restoration, water quality improvement, maintenance and operation of pipes and related stormwater infrastructure, and education and public engagement regarding surface water issues. The 2027-2028 Surface Water Utility Preliminary budget is \$33.3 million. The utility has 41.20 FTE that provide engineering, planning, and operations and maintenance services.

4.B Preliminary Surface Water Rate Projections

Preliminary Surface Water rate adjustments are shown in Chart M-3 separated by components that account for the increase. Preliminary rate increases for the Surface Water Utility, and the impact on the average residential bill are presented in Table SWM-1. Details of the Preliminary rate scenario are provided in Attachment 1.



FCS, a Bowman company. 2026. "Dashboard, Scenario A: Maintain fund balance in all years."
City of Kirkland Surface Water Utility Rate Model.

Table SWM-1 Preliminary and Projected Surface Water Utility Rates for a Residential Customer*							
		Preliminary		Projected			
	2026	2027	2028	2029	2030	2031	2032
% increase		7.15%	7.15%	7.15%	2.75%	2.75%	2.75%
Local Share	\$23.08	\$24.73	\$26.50	\$28.39	\$29.17	\$29.98	\$30.80
External Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Subtotal Monthly Sample Bill	\$23.08	\$24.73	\$26.50	\$28.39	\$29.17	\$29.98	\$30.80
Utility Taxes**	\$1.73	\$1.85	\$1.99	\$2.13	\$2.19	\$2.25	\$2.31
Total Monthly Sample Bill	\$24.81	\$26.58	\$28.49	\$30.52	\$31.36	\$32.22	\$33.11
Monthly Bill Impact		\$1.77	\$1.90	\$2.04	\$0.84	\$0.86	\$0.89
* Assumes 1 Equivalent Surface Unit (ESU) for the average residential customer							
** Effective Utility Tax: 7.50%							

4.C Surface Water Utility Rate Drivers

The Surface Water Utility budget is primarily comprised of operations and maintenance costs as noted below. Expenses are above revenue in the first three years, and so a combination of use of reserves and a rate increase are needed to balance these expenses. Reserves are above target as discussed below, and this helps to moderate the required rate increase.

Operations and Maintenance Costs

Operations and maintenance costs make up approximately 71% of the Surface Water Utility budget. Costs of salaries and benefits, utility billing and customer service, and city cost of service are rising due to increased costs and increases in maintenance work; this is making up most of the future rate increases.

Funds have also been added to the base budget to support the increase in maintenance work based on actual costs experienced in 2025. In past years, staffing levels were under-budget due to vacant positions. Now that staff is at budgeted levels, more work is getting done. As a result, as with the Water and Sewer, there is a need to add maintenance inventory (e.g., gravel), utility services (e.g., material disposal), and street cut fees that are paid to the Streets Fund for pavement repair to support that work.

Cash Flow Recovery

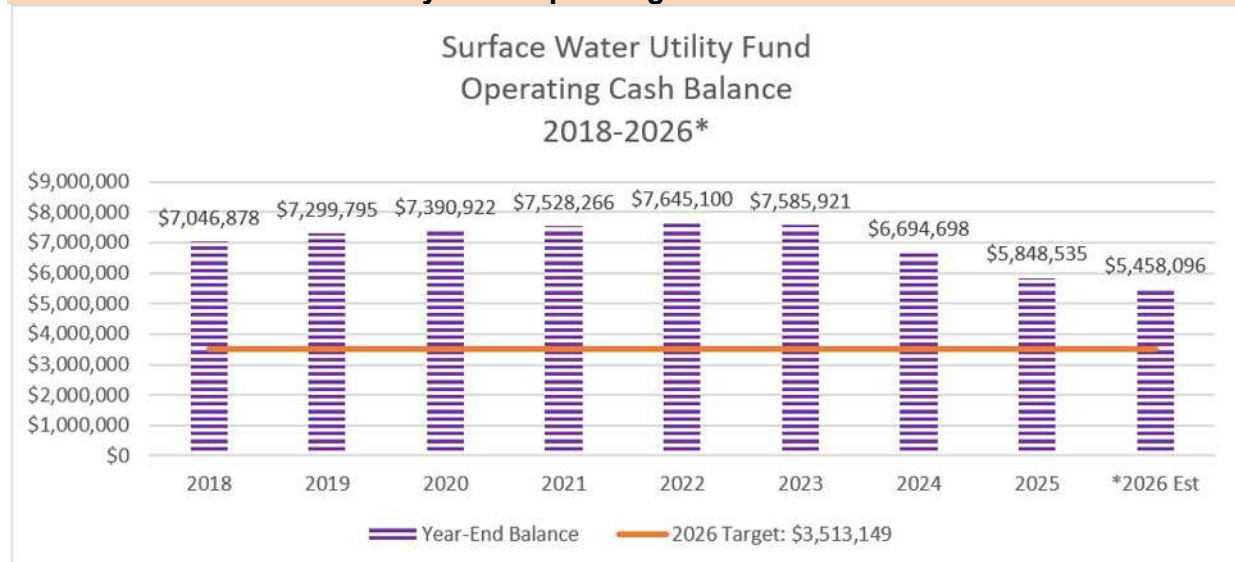
By design, expenses will be above revenue for the first three years of the 6-year planning period. The modeled scenario draws down operating reserves to the target (see discussion below) which moderates the Preliminary rate increase.

Level of Operating Reserves

It is estimated that the Surface Water Utility will have reserves that will be at 153% of target at the end of 2026 as noted in Chart R-3. The rate model scenario in Attachment 1 keeps reserves to the target throughout the 6-year planning horizon. In the case of the Surface Water Utility, reserve levels serve to protect against greater rate increases.

The reserves level as of 2026 has resulted from lower-than-targeted staffing levels in the Maintenance Division over the last several years. This resulted in reduced spending on salaries/benefits, maintenance inventory, decant services, and street cut fees that are paid to the Streets Fund for pavement repair. Staffing has now recovered to target levels and, as a result, productivity and the associated need for maintenance inventory and decant services has now risen.

Chart R-3 Surface Water Utility Fund Operating Cash Balance 2018-2026*



5. Solid Waste Utility Rates Discussion

5.A Introduction

The Solid Waste Utility provides garbage, recycling, and compost collection and disposal services for Kirkland residents and businesses. Occupied residential properties are required to have garbage, recycling, and yard waste services. Collection services are provided via a contract with Waste Management, Inc. (WMI) that was effective July 1, 2022. Kirkland pays King County directly for use of its landfill and for hazardous waste management services. The Solid Waste Utility 2027-2028 preliminary budget is approximately \$75.2 million. The utility has 2.33 FTE that provide contract oversight for collection services and manages public outreach.

5.B Preliminary Solid Waste Rate Projections

Preliminary Solid Waste rate adjustments are shown in Chart M-4 separated by components that account for the increase. Preliminary rate increases for the Solid Waste Utility, and the impact on the average residential bill are presented in Table SW-1. Details of the Preliminary rate scenario are provided in Attachment 1.

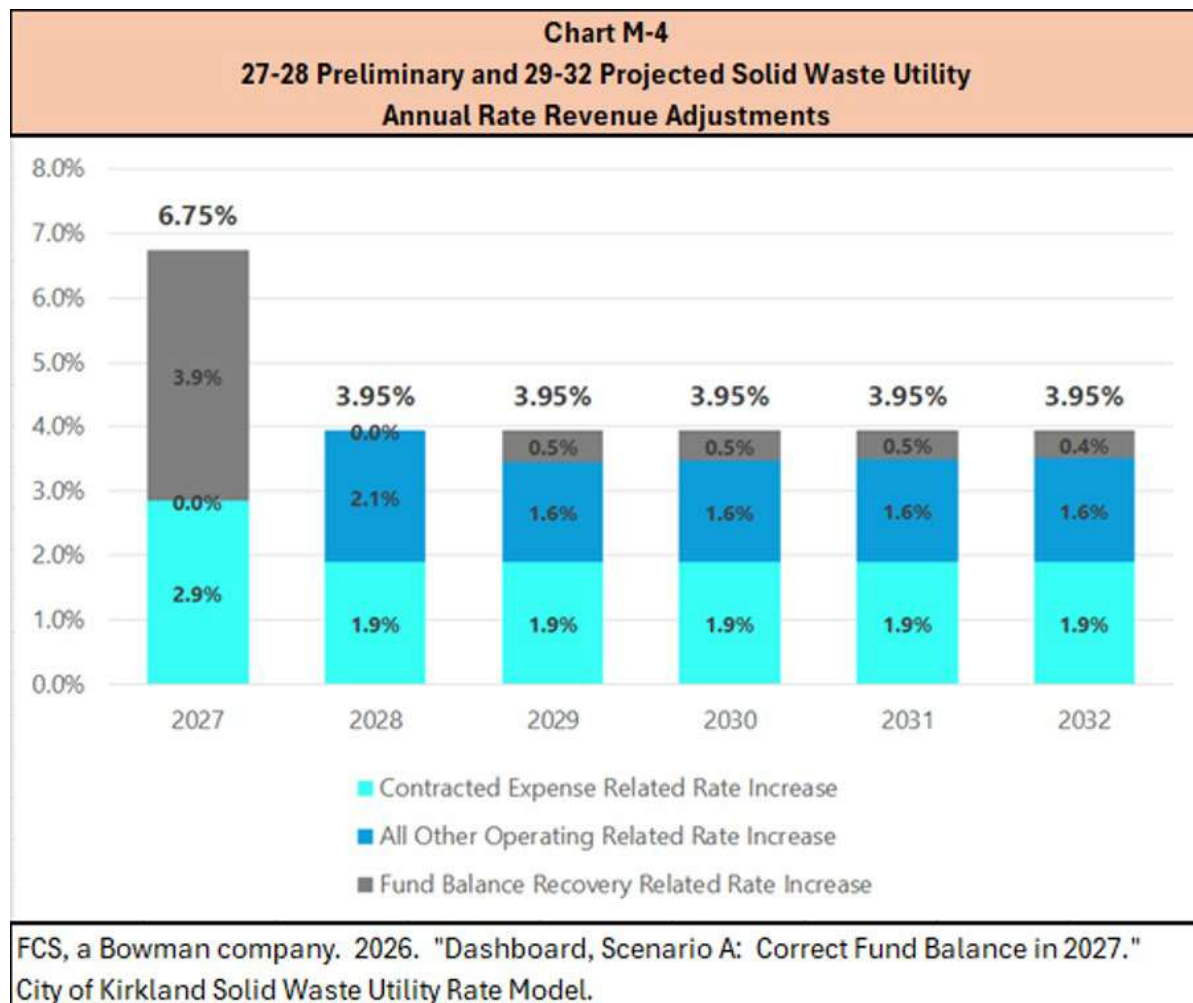


Table SW-1 Preliminary and Projected Solid Waste Utility Rates for the Average Residential Customer*							
	Preliminary		Projected				
	2026	2027	2028	2029	2030	2031	2032
% increase		6.75%	3.95%	3.95%	3.95%	3.95%	3.95%
Local Share	\$12.69	\$13.84	\$14.03	\$14.61	\$15.18	\$15.74	\$16.29
Waste Management Contract and King County Solid Waste Division	\$39.88	\$42.27	\$44.30	\$46.03	\$47.86	\$49.79	\$51.82
Subtotal Monthly Sample Bill	\$52.57	\$56.12	\$58.34	\$60.64	\$63.03	\$65.52	\$68.11
Utility Taxes**	\$5.52	\$5.89	\$6.13	\$6.37	\$6.62	\$6.88	\$7.15
King County Hazardous Waste***	\$1.04	\$1.04	\$1.04	\$1.04	\$1.04	\$1.04	\$1.04
Total Monthly Sample Bill	\$59.13	\$63.05	\$65.50	\$68.05	\$70.69	\$73.44	\$76.30
Monthly Bill Impact		\$3.92	\$2.45	\$2.55	\$2.65	\$2.75	\$2.86
* Assumes weekly collection and a 35-gallon bin for the average residential customer							
**Effective Utility Tax: 10.50%							
***The hazardous waste fee is set by King County. \$1.04 reflects the current rate. There has been recent discussion of a possible increase in the future.							

5.C Solid Waste Rate Drivers

Approximately 79% of the Solid Waste Utility Preliminary 2027-2028 budget is paid to either Waste Management for collection (54%) or to King County Solid Waste Division for disposal services (25%). Thus, changes in collection and disposal costs, combined with replenishment of operating reserves in 2027, are driving Preliminary solid waste rate increases.

The King County Hazardous Waste Management fee (currently \$1.04 per month for residential customers) is passed through the Kirkland Utility customers via the Kirkland utility bill. The King County Board of Health will consider an increase in this fee in 2028. Kirkland staff and Council advocate on behalf of Kirkland residents to keep this fee as low as possible.

Waste Management Contract and King County Solid Waste Division Disposal Costs

The Waste Management contract began in 2022 and runs through 2032 with an option to extend. Per the terms of the contract, the overall cost is inflated each year by the CPI-W. The Preliminary rates include an increase in the CPI-W of 5.0%. Please note that the actual June-to-June CPI-W, which was issued in mid-July, has come in at 3.8%, and that this lower rate will be incorporated in the Proposed rates.

King County Solid Waste is projecting that its disposal rates will increase by 8.5% per year for each year between 2027 and 2032. According to King County, these increases are to support commitments outlined in the 2019 Comprehensive Solid Waste Management Plan. These rates allow the County to run and preserve critical programs and services, maintain operations at the Cedar Hills Regional Landfill, and fund essential capital projects, such as the South County Recycling and Transfer Station. As discussed below, Council is advocating for control of costs and rates.

Replenishment of Operating Reserves

Solid Waste operating reserves are estimated to be at 62% of target as of the end of 2026 as noted in Chart R-4. The following are reasons that reserves have been used over the last several years:

- A new collection contract with Waste Management was signed in 2022, after the 2021–2022 budget was adopted. As a result, reserves were used to cover related expenditures. Since 2022, reserves have been gradually rebuilt through operating surpluses and budgeted contributions.
- The 2025-2026 rate model expected to hold reserves steady to mitigate any needed rate increase. (Note: expenses were lower than expected in 2025, and reserves were replenished somewhat in 2025).

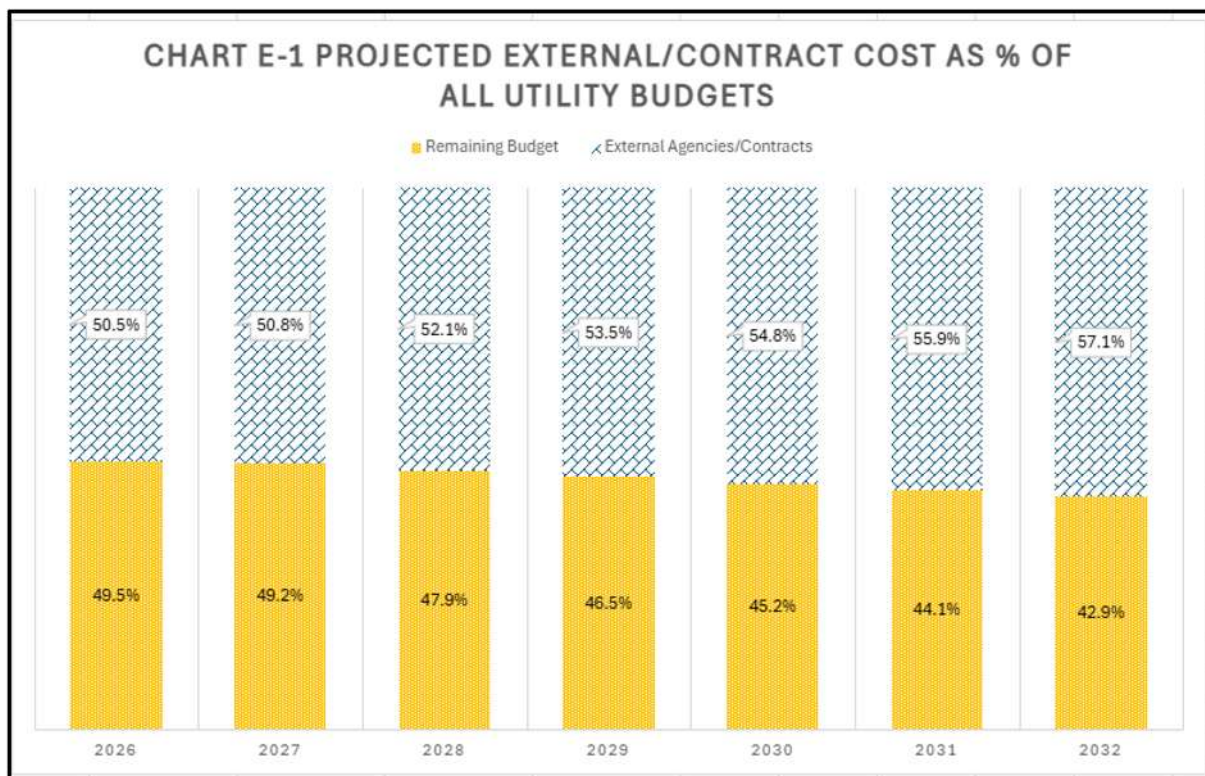
Chart R-4 Solid Waste Utility Fund Operating Cash Balance 2018-2026*



6. Regional Rate Discussion

6.A External Rate Impacts

As noted in Chart E-1, the cost of services provided by other agencies and by the Waste Management Contract will become an increasing share of utility budgets over the next six years given current rate proposals from these agencies. Regional efforts are underway as discussed in the next section to address utility rate affordability.



6.B Regional Advocacy for Utility Rate Affordability

Kirkland is a member of the Cascade Water Alliance for purchase and transmission of water, King County Wastewater Treatment Division provides wastewater collection and treatment, and King County Solid Waste Division provides landfill and hazardous waste management services. The cost of these partnerships and their services is projected to rise significantly over the next ten years. These costs are determined by external bodies such as the Cascade Water Alliance Board of Directors and the King County Council. Kirkland Council members participate in committees that advise these bodies, but Kirkland does not have the final vote on regional rates.

Recognizing the growing affordability challenges associated with utility rate increases across the region, the City has focused its regional engagement efforts on elevating Kirkland's concerns regarding the cumulative impact of wastewater, water, stormwater, and other utility rate increases on the community. Last year, the City along with regional partners convened the first regional Utility Rate Affordability Summit, bringing together utility providers, elected officials from across King County, and municipal leaders to discuss the growing financial impacts of utility rate increases on residents and businesses.

The summit highlighted that many of the projected rate increases are driven by regulatory requirements and underscored the need for continued regional collaboration to address affordability. Since the summit, staff has continued to advance this work through regional advocacy, policy recommendations, and direct engagement with partner agencies, while also encouraging the convening of a second regional affordability summit. The County is currently

leading the effort on a second summit and Kirkland staff are staying engaged. Staff will make Council aware as more information becomes available.

The following are specific advocacy efforts the City is taking with regional partners:

Cascade Water Alliance (Cascade):

Cascade is expecting rate increases as they embark on the Cascade Supply Program (CSP) as described at their presentation at the June 16, 2026 City Council meeting.² This program aims to build the necessary infrastructure over the coming decades to connect with a new water supply system from Tacoma Public Utilities. Councilmember Pascal (voting board member) and Mayor Curtis (alternate), who participate on the Cascade Board of Directors, are involved in the CSP development process. They are working to ensure that decisions made are in the best interest of the community's long-term water supply needs while balancing costs.

King County Wastewater Treatment:

The King County Wastewater Division has projected rate increases primarily due to infrastructure costs needed to maintain the existing system and comply with regulatory requirements.

The Kirkland Council is actively engaged in discussions to moderate these rate increases and ensure regional affordability for residents. Notably, Kirkland Council has written to the King County Council, emphasizing the need to reduce rates for better affordability. Sewer rates were discussed at the May 19, 2026 Council meeting.

King County Solid Waste:

The solid waste rates in King County support commitments outlined in the 2019 Comprehensive Solid Waste Management Plan.³ These rates allow the County to run and preserve critical programs and services, maintain operations at the Cedar Hills Regional Landfill, and fund essential capital projects, such as the South County Recycling and Transfer Station.

Councilmember Arnold (Voting committee member) and Mayor Curtis (alternate) are active members of the Metropolitan Solid Waste Advisory Committee (MSWAC), where they have voiced concerns regarding the affordability of solid waste rates. They provided comments to MSWAC on the solid waste rate letter sent to the King County Council. Additionally, Councilmember Arnold has taken on a proactive role by joining an ad hoc group of the Sound Cities Association dedicated to exploring Long Term Disposal strategies.

The City's advocacy has emphasized the importance of balancing infrastructure investments and policy driven regulatory requirements with the compounding financial impacts on ratepayers. Through participation in regional committees, collaboration with partner jurisdictions, and direct communication with regional utility providers, Kirkland has encouraged greater transparency, stronger coordination with local jurisdictions, and continued exploration of opportunities to moderate future rate increases while maintaining essential utility services. Staff will continue working with regional partners and City Council representatives serving on these

² https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/june-16-2026/3a_study-session.pdf

³ <https://cdn.kingcounty.gov/-/media/king-county/depts/dnrp/waste-services/garbage-recycling-compost/solid-waste-planning-monitoring/comprehensive-solid-waste-management-plan/2019-comp-plan.pdf?rev=50638e7e133e471890d46e9009df75dc&hash=F1B6056DD36B5739C569B5E8B40C9827>

committees to advance policy recommendations and ensure Kirkland's interests are represented as future utility rates and capital investment decisions are considered.

7. Recommendations to Develop Proposed Rates

As noted earlier, the Preliminary rates calculated by the consultant reflect base budget needs and meeting the utility fiscal policies, resulting in large increases in 2027. To help address the affordability of utility rates, this section provides options and programs that can lower rates for all or a portion of the City's customers.

7.A Recommendations for Proposed Rate Scenarios

As noted in Attachment 1, operating reserve and rate-funded system reinvestment policies have a large impact on utility rates. These items are discussed in Attachment 1, and additional information is provided here.

Extend the Period for Replenishing Reserves

For utilities that will start the 2027-2028 biennium with reserves below target (water, sewer, and solid waste), the impact on rates of bringing reserves to target in 2027 is significant. As reserve levels fell over a period of several years, it is reasonable to restore reserves over a period of several years. One option staff recommends is to restore reserves by 2032, rather than by 2027. The purpose of reserves is to help manage cash flow and absorb risks associated with revenue fluctuations and unexpected expenses. Reserves have served the City well by allowing cost increases to be absorbed during COVID and providing a funding source for unexpected costs and revenue shortfalls. If reserves are depleted, this flexibility is eliminated, necessitating immediate rate changes or cost reductions to protect the fiscal integrity of the utilities. Reserves are a best practice in utility management and support the City's strong bond rating.

Temporarily Reduce Rate-Funded System Reinvestment and Restore it over Several Years

Rate-funded system reinvestment (RFSR) targets for CIP funding can result in buildup of capital reserves depending on the planned capital projects in each utility. In some cases, particularly where there is not a recent system plan to guide capital expenditures, it may be reasonable to reduce RFSR on a temporary basis. Based on review of the age and size of capital plans, staff recommends evaluating the actions described below related to RFSR for each utility.

A new Water System Plan is currently being developed. This plan will be presented to Council in the first quarter of 2027. As it is likely that this plan will include recommendations for increased CIP spending, it is advisable to meet the current rate-funded system reinvestment target of 1.25 times depreciation to support this work. Once the capital portion of the Water System plan is adopted, the needed funding (including the RFSR) can be re-evaluated as part of the 2028 CIP update to determine adequacy of capital funding.

The Sewer Utility has a system plan that is several years old. A new Sewer System Plan is set to be developed in 2027-2028. To moderate rate increases, staff is planning to evaluate an option to reduce the RFSR in the early years of this rate projection, then to restore to the full 1.65 times depreciation (or a different multiplier depending on needs), in time to construct capital projects as identified in the new plan.

The current Surface Water Master (Strategic) Plan (SWSP)⁴ was adopted in 2023 and is being used to guide capital spending. In addition, the SWSP identified the need for a plan to address

⁴ https://www.kirklandwa.gov/files/sharedassets/public/v/4/public-works/surface-water/sw-master-plan/2023finalkirklandsurfacewatermasterplan_compressed.pdf

additional CIP needs to address aging and failing infrastructure. This plan is a high-priority programmatic action in the SWSP (INF-16 in Appendix H of the SWSP) and is currently in development. The implementation of this plan may result in increased CIP expenditures in 2027-2032. Because the Surface Water Utility's RFSR target is already set at 1.0 times depreciation and additional capital needs may be identified through the aging and failing infrastructure study, staff recommends maintaining the current target pending completion of that study.

The Solid Waste Utility does not have a CIP, so this RFSR tool is not applicable.

Staff is seeking Council's questions and feedback on use of these policy levers to develop proposed rate scenarios for review on September 15. The intent is to moderate proposed rate increases, while maintaining financial integrity and infrastructure of the utilities.

7.B Rate Study Phase II: Cost of Service Analysis

The current rate setting process keeps the existing utility rate structures. Beginning in 2027, staff propose to embark on a second phase of utility rate study that includes the following items:

- Evaluate assignment of cost shares and customer class equity
- Recommend alterations to existing utility rate designs
- Balance rate design and policy-based low-income discount strategies
- Review capital facilities charges and the balance of cost-recovery from growth versus the burden on existing customers
- Conduct a comparative survey to verify that Kirkland's utility rates and capital facilities charges are competitive and reasonable by benchmarking with other agencies

This study may result in changes to utility programs and assumptions that may be able to help mitigate rate increases to some degree. The study is anticipated to cost \$100,000, with the cost spread amongst the four utilities. Service packages to support this work will be presented with the 2027-2028 Budget.

7.C Recommendations for Kirkland Cares Low-Income Support Program and Surface Water Low-income Seniors Rate Relief

Since 2024, Kirkland has administered the Kirkland Cares Low-Income Support Program (Kirkland Cares) to help mitigate the impacts of inflation and higher utility rates. In addition, the Surface Water Utility provides rate relief to low-income seniors as administered by the King County Assessor (the entity that collects surface water fees on behalf of cities, including Kirkland). The following is a summary of these programs, and their impact on utility rates. Details of how these programs are included in the rate models are in Attachment 1. In addition, staff will provide an update on the Kirkland Cares Low-Income Support Program at the August 5 Council Study Session.

Kirkland Cares provides water, sewer, and solid waste utility discounts to low-income customers that own their homes and rebates to those that rent. Please review the Kirkland Cares materials to be presented for the August 5 Council Study Session for further details on the overall program.

Table U-3 provides a summary of 2025 program usage and costs. These costs are divided between the water, sewer, and solid waste utilities. Approximate rate impacts to each utility are estimated to be less than 1% for each utility in 2025. Program usage is estimated to grow at

10% per year, so, over time, rate impacts may rise somewhat. These growth projections are incorporated and accounted for in the rate models.

Table U-3 Kirkland Cares Program 2025 Utility Rate Relief Summary				
Utility	Discounts	Rebates	Total Cost	Approximate Utility Rate Impact*
Water	\$50,676	\$11,002	\$61,678	0.41%
Sewer	\$68,356	\$10,558	\$78,914	0.71%
Solid Waste	\$151,979	\$17,440	\$169,419	0.52%
Subtotal for all Utilities			\$310,011	N/A
Program Administration - all utilities combined			\$108,993	0.19%
Total Program Cost - all utilities combined			\$419,004	0.72%
* Rate impact is calculated based on a "rule-of-thumb" that compares costs to 2026 estimated revenues for each utility. Actual rate impact will vary based on the rate scenario used in the model and on actual revenue.				

The Surface Water Utility has, since its inception, provided a 50% fee discount to single-family homeowners that qualify as low-income senior citizens, as determined by the King County Assessor. Condominium owners are not currently included in this program. Council could consider adding condominiums to the program. As of 2026, there were 883 homeowners in the program, and the cost of the discounts was approximately \$131,000 (including taxes that are levied on the surface water fee). The King County Assessor collects surface water fees on behalf of Kirkland and charges a fee of 1% of revenue collected for this service (approximately \$425k for 2027-2028). King County does not have separate charges for administering its low-income senior low-income discount program, so it is not possible to call out administration costs for this work. At the 2026 usage rate, this program contributes to a rate increase of approximately 1% to surface water utility customers.

These programs provide important relief for utility ratepayers. At the same time, they increase rates slightly for customers not participating in the programs. These programs are modeled explicitly for the 2027-2028 rate process to allow for evaluation of these impacts.

NEXT STEPS:

Staff will return with Proposed utility rates at the September 15 Council meeting. Utility rates need to be adopted at the October 20 Council meeting in order to become effective on either December 1, 2026 (water, sewer) or January 1, 2027 (surface water, solid waste).

ATTACHMENTS:

Attachment 1 – City of Kirkland Preliminary Rate Results Report
Attachment 2 – Utility Background Information

Attachment 1
City of Kirkland Preliminary Rate Results Report
July 2026



CITY OF KIRKLAND

Utility Rate Study Preliminary Results

Submitted by:

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Submitted to:

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July 2026

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Introduction

In 2026, the City of Kirkland (“the City”) contracted with FCS to conduct a rate study for the water, sewer, surface water, and solid waste utilities. The purpose of the study was to provide an updated rate forecast and financial plan targeting revenue sufficiency for ongoing operating costs and upcoming capital infrastructure investments throughout the forecast period. This study represents Phase I of the process and concentrates on overall revenue needs. Phase II is planned for 2027 and will address cost of service and rate design changes.

Approach

The methods used to complete the study are based on analytical principles that are generally accepted and widely followed throughout the industry – rates and charges should generate enough revenue to maintain self-supporting and financially viable utilities.

Throughout the study, FCS worked with the City to arrive at rate conclusions that meet forecasted utility financial obligations, achieve City goals and policies, comply with legal requirements, and adhere to industry best practices. Meetings were held with City staff to validate input parameters, review interim findings, and receive policy direction.

Scope

The scope of the project included the following key elements:

- Update the forecast for operating revenues and expenses to reflect the most recent adopted 2026 and preliminary 2027-2028 budgets. Incorporate the most recent capital plans identifying the capital projects required to maintain each system in good repair. Develop a capital funding analysis that balances available funding from rate revenue, reserve funds, contributions, and additional debt, if needed.
- Review the rate revenue forecast and update, if necessary, to better reflect “average” trends and smooth out effects of unusually wet or dry years on projected revenue collection.
- Evaluate cash flow needs to meet existing and anticipated new annual debt service requirements and debt coverage requirements. Test the sufficiency of current revenues in meeting all annual obligations. Identify any projected shortfalls over the forecast period.
- Design a rate implementation strategy that meets the financial obligations over the multi-year planning horizon and provides a smooth and moderated impact to ratepayers, if possible.

The methodology, key factors, conclusions, and recommendations for each of the key task areas of the study are summarized in this executive level report. The full rate study can be found in the detailed rate models provided to the City.

Rate Study Methodology

Rate Setting Principles and Methodology

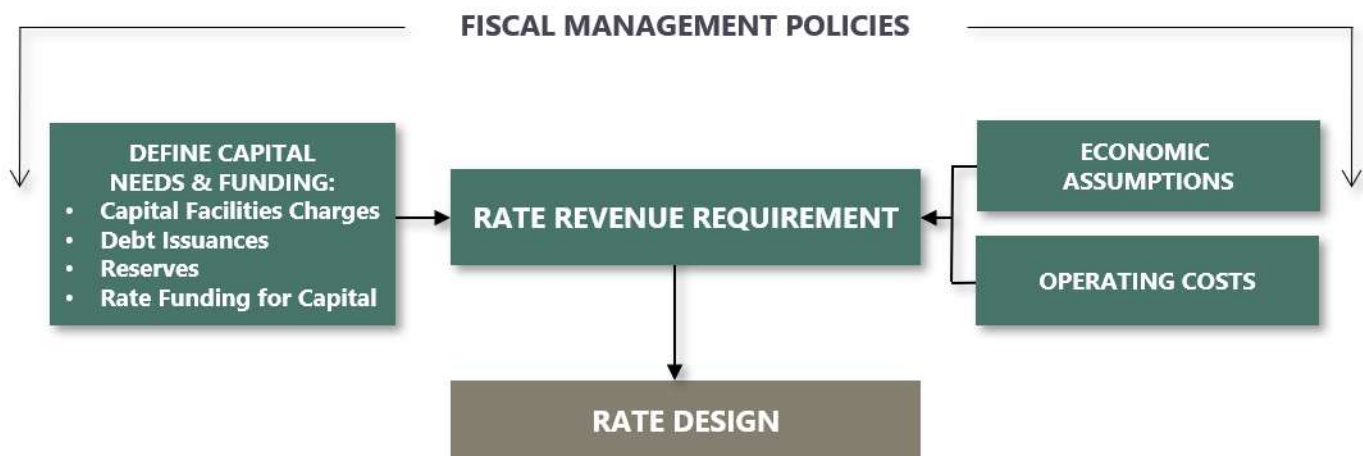
The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that recover costs by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate structure to collect those revenues.

The primary tasks of the rate study are listed below:

- **Revenue Requirement Analysis.** This analysis identifies the total revenue requirement to fully fund each system on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements, and fiscal policy objectives.
- **Rate Design Analysis.** This analysis includes the development of rates that generate sufficient revenue to meet each system's revenue requirement forecast. Phase I will apply any recommended rate adjustments across the board, with equal adjustments to the fixed and variable components. Any rate design changes will be addressed in Phase II.

Exhibit 1 illustrates the rate study process.

Exhibit 1. Overview of the Rate Study Process



Fiscal Policies

The foundation for evaluating utility revenue needs consists of a set of fiscal policies. These policies, which can address a variety of topics including cash management, capital funding strategy, and financial performance, are intended to promote long-term financial viability for the City's utilities. Fiscal policies provide essential guardrails for a utility to operate within, ensuring there is sufficient revenue to operate and maintain the system while also planning for unseen events. Documented fiscal policies also offer stability and over time as staff and leadership change. The City's specific documented fiscal policies are discussed and referred to throughout the report.

Reserves

Reserves are a key component of any utility financial strategy, as they provide the flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. When evaluating fund reserve levels and objectives, it is important to recognize that the value of reserves lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuation of reserve levels may indicate that the system is working, while lack of variation over many years strongly suggests that the reserves are, in fact, unnecessary. However, when reserves are used, it is equally important to have a plan to replenish them, as they are a finite resource managing uncertainty and unforeseen events. For the purpose of financial planning for the City's utilities, resources are separated into the following reserve categories:

Operating Contingency and Working Capital Reserves:

Operating contingency and working capital reserves are designed to provide a liquidity cushion; protecting the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. Industry practice for utility operating reserves typically ranges from 30 days (8 percent) to 120 days (33 percent) of operating expenses, with the lower end more appropriate for utilities with stable revenue streams and the higher end of the range more appropriate for utilities with significant seasonal or consumption-based fluctuations.

Capital Contingency Reserve

This reserve provides a source of emergency funding for unexpected asset failures or other unanticipated capital needs. This capital reserve policy is not intended to guard against catastrophic system failure or extreme acts of nature. Given these different purposes, there are a variety of potential benchmarks for setting a minimum balance for this fund – options include a percentage (commonly 1 – 2 percent) of the original cost of fixed assets, a rolling multi-year average of capital costs, or an amount determined sufficient to fund an equipment or asset failure. The final target level should balance industry practice with the risk level of the City.

Exhibit 2. Existing Operating and Capital Reserve Policies:

Policy	Water	Sewer	Surface Water	Solid Waste
Working Capital	45 days of O&M expense	45 days of O&M expense	100 days of O&M expense	30 days of O&M expense
Operating Contingency	12% of O&M expense	12% of O&M expense	Not applicable	Not applicable
Capital Contingency	10% of 6-year CIP	10% of 6-year CIP	10% of 6-year CIP	Not applicable

Debt Reserve

Bond covenants often establish reserve requirements as a means of protecting against the risk of nonpayment. A common reserve requirement is one year's debt service payment. The balance held in reserve for a particular debt instrument may be used to make the final payment on that debt instrument. The City must continue to fully fund such reserves as required by bond covenant or loan agreement. Since the debt reserve provides a static reserve against inability to pay, it is unnecessary to maintain operating reserves against debt repayment.

Existing Policy: *The City of Kirkland Debt Management Policy, adopted by Resolution (R-5458), does not outline a formal debt reserve policy outside of maintaining reserve funds as required by bond covenants. For study purposes, reserves are assumed to be funded through new bond issuances, equal to one year's debt service payment. The City will determine final reserve levels required as new debt is issued.*

Debt Management

Debt financing is a viable tool for capital funding. Compared with “pay-as-you-go” funding, debt smooths out the rate impact of a capital program by spreading costs over time. It also creates intergenerational equity – also referred to as “pay-as-you-use” because future customers who use the assets are the ones paying for them. However, debt should not be relied on too heavily as it carries the risk of default. Debt also reduces budget flexibility – cash-funded capital projects can be delayed if there is a revenue shortfall, but once the utility has issued debt, the debt service needs to be paid in good times or bad. While debt is a useful part of the capital funding toolbox, it needs to be monitored to ensure that the system does not become too heavily dependent on it. Debt service coverage is a metric used to evaluate the City's debt level.

Debt Service Coverage

Debt service coverage is typically a requirement associated with revenue bonds and some State loans and is a financial measure assessing the ability to repay debt. A typical minimum coverage requirement for utility revenue bonds is 1.25. If the City issues debt, the coverage requirements essentially require that the City collect enough revenue to meet operating expenses and not only pay annual debt service but collect an additional 25.00 percent above the bonded debt service. The extra revenue is a cushion that assures bondholders that the City has the financial resources to meet its debt service obligations and helps to maintain the City's AAA credit rating.

Existing Policy: *The City of Kirkland Fiscal Policies, adopted by Resolution R-5664, requires each utility to maintain minimum annual average debt coverage at a 1.50 ratio. Achieving a debt service coverage level greater than the minimum required level is a positive signal to debt rating agencies and can result in more favorable terms when the City enters the market for new debt.*

System Reinvestment

A utility's infrastructure (e.g., storage facilities, lift stations, collection/conveyance systems, etc.) is a critical element of serving the City's customers. Establishing a financial plan for the eventual replacement of these assets ensures system reliability and integrity. This practice is known as system reinvestment funding. In the absence of a formal asset management plan, target system reinvestment funding levels are commonly linked to annual depreciation expense. Depreciation expense is a measure of the decline in asset value associated with routine use of the system.

The specific benchmark used to set system reinvestment funding targets is a matter of policy that must balance various objectives including managing rate impacts, keeping long-term costs down, and promoting “generational

equity” (i.e. not excessively burdening current customers with paying for facilities that will serve a larger group of customers in the future). The City’s reinvestment policy is summarized below.

Exhibit 3. Existing System Reinvestment Policies

Policy	Water	Sewer	Surface Water	Solid Waste
System Reinvestment	125% of depreciation levels	165% of depreciation levels	100% of depreciation levels	Not applicable

Revenue Requirement Analysis

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for each system. It also enables the City to set utility rate structures which fully recover the total cost of operating each system: capital improvement and replacement, operations, maintenance, general administration, fiscal policy attainment, cash reserve management, and debt repayment. Linking rate levels to a financial plan such as this helps to enable sound financial performance for the City’s utility enterprise funds, as well as a clear and reasonable relationship between the costs imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis includes the following core elements to form a complete portrayal of the utility’s financial obligations.

- **Fiscal Policy Analysis.** Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, capital/system replacement funding, and debt service coverage.
- **Revenue Forecasting.** Evaluates normalized year revenue projections based on historical revenue generation and review of precipitation and temperature data to identify outliers.
- **Capital Funding Plan.** Defines a strategy for funding the City’s capital improvement/equipment replacement program, including an analysis of available resources from rate revenues, debt financing, and any special resources that may be readily available (e.g., grants, outside contributions, etc.).
- **Operating Forecast.** Identifies future annual non-capital costs associated with the operation, maintenance, and administration of each system.
- **Sufficiency Testing.** Evaluates the sufficiency of revenues in meeting all financial obligations, including any coverage requirements associated with long-term debt.
- **Strategy Development.** Designs a forward-looking strategy for adjusting rates to fully fund all financial obligations on a periodic or annual basis over the projection period.

Rate Design

The principal consideration of rate design is for the rate structure to generate sufficient revenues for the system which are reasonably commensurate with the cost of providing service. The pricing structure is largely dictated by the objectives of the system. Most rate designs consist of fixed and, for some utilities, variable charges. Fixed charges typically attempt to cover costs of the system that do not vary while variable costs will fluctuate with a change in user demand.

No changes to the rate structure are considered in the current report; rather, all preliminary and projected rate changes are intended to be applied across the board to fixed and variable rates for all customer classes. City staff have planned for review of rate structures to follow if service package funding is approved for Phase II.

Water Utility

Introduction

The City of Kirkland operates and maintains the City's water infrastructure from parts of the South Juanita and Totem Lake neighborhoods southward. The City's Public Works department oversees approximately 180 miles of water mains, close to 80 pressure-reducing stations, three water supply/pump stations, two water reservoirs and nearly 2,000 fire hydrants. The City is a member of Cascade Water Alliance, which has water purchase contracts with Seattle Public Utilities and Tacoma Public Utilities. Currently the water utility provides service to more than 13,000 residential, multi-family, and commercial customers and charges bi-monthly rates to cover all utility obligations.

Revenue Requirement

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the City.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the water system. The 2026 amended budget and the 2027-2028 preliminary budgets formed the baseline for this forecast. The operating forecast was developed through 2045 with the discussion below concentrating on the 2027 through 2032 rate setting period. The following list highlights some of the key assumptions used in the development of the water utility operating forecast.

Reserves

- **Operating Reserves.** A minimum of 90 days of operating and maintenance (O&M) expenses (\$3.7 - \$5.4 million for the period 2026-2032). This reserve includes both Working Capital and Operating Contingency, which is a combination of 45 days of O&M plus 12% of O&M ($12\% \times 365 = 43.8$) and equates to approximately 90 days of O&M in total.
The water utility is forecasted to end 2026 at 92 percent of target, or 83 days of O&M expenses. Resulting rate strategies will incorporate refunding this reserve to target.
- **Capital Reserves.** A minimum of 10.0 percent of the six-year capital improvement program (CIP) (\$3.4 million for the period 2026-2032). The water utility is forecasted to end 2026 at the minimum target of 10 percent.

Operating Revenue

- **Rate Revenue.** Based on 2026 budgeted rate revenues plus anticipated customer growth applied annually through the end of the forecast period.
- **Non-Rate Revenue.** Non-rate revenue consists of hydrant rentals, other miscellaneous revenues, and investment interest. Hydrant rentals are calculated as 2.61% of rate revenues collected each year. Other miscellaneous non-rate revenues are forecasted based on the 2026 budget with either no escalation, general cost inflation, or anticipated customer growth depending on the type of

revenue, while investment interest is calculated based on forecasted interest rates and fund balances

- **Customer Growth.** Annual customer growth is forecasted based on the City's forecasted growth for each customer class, with the 2027 percentage growth applied to each subsequent year of the forecast. The annual growth factors are 1.0 percent for residential and multi-residential customers, 0.0 percent for commercial customers, and 0.8 percent for irrigation customers.
- **KirklandCares Program Participation.** 10.0 percent annual growth in current participation rate, based on recent trends.
- **Interest Earnings.** 4.5 percent in 2026, decreasing to 3.0 percent in 2027 and 2.0 percent thereafter. Projections are based on recent performance of the Washington State Local Government Investment Pool.

O&M Expenses

The operating and maintenance expenditure forecast largely relies on the City's 2026 budget and 2027-2028 preliminary budgets. The line items in the budget are then adjusted each year by utilizing one of the following applicable factors for the years 2029 through 2032:

- **General Cost Inflation.** 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Construction Cost Inflation.** 4.0 percent annually for all years of the study period based on the recent historical performance of the Engineering News-Record's 20-City Construction Cost Index.
- **Labor Cost Inflation.** Matches General Cost Inflation at 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Benefit Cost Inflation.** 5.5 percent annually for all years of the study period based on City staff input.
- **Cascade Water Alliance Charges.** 4.8-12.8 percent annually based on the draft forecast provided by Cascade Water Alliance.
- **Utility Billing and Customer Service Provided by the Finance Department.** 3.5 percent annually for all years of the study period based on City staff input.
- **State Excise Taxes.** Public utility excise tax rate of 5.029 percent on all water rate revenue and turn on/off charges.
- **State B&O Taxes.** State Business and Occupation tax rate of 2.1 percent on all rate revenue, penalty charge revenue, and capital facilities charge (CFC) revenue.
- **City Tax.** The City currently assesses a water utility tax of 11.8 percent on all rate revenue and non-rate revenues other than interfund and hydrant rental revenues.

Debt Obligations

- **Existing Debt.** The water utility currently has one (1) outstanding Public Works Trust Fund (PWTF) loan. Existing debt service averages \$132,000 annually from 2026 through 2032.
- **New Debt.** One (1) new debt issue of \$12.5 million is anticipated to fund the 2027 expenditure on the South Reservoir Replacement. The revenue bond issuance is assumed to have a twenty-year term, an interest rate of 5.00 percent and an issuance cost of 1.00 percent. The additional annual debt service is expected to start in 2027 at \$1.1 million.

System Reinvestment

System reinvestment funding provides a long-term and sustainable funding source to support system integrity, repairs, and replacement. The City is forecast to contribute 125 percent of annual depreciation throughout the forecast period, equating to \$2.3 - \$3.2 million annually in rate funded system reinvestment from 2026 to 2032.

Capital Funding Plan

The water utility is anticipating \$42.0 million in capital costs from 2026 to 2032, escalated to the year of planned construction. Projects include Upper Highlands Water System Improvements, South Reservoir Replacement, SCADA Replacement, Supply Station S2 Improvements, Emergency/Normal Supply Well Feasibility Study, N Reservoir Pump Station Replacement & Outlet Meter Addition, and Annual Water Main Replacement. Funding for the capital identified includes cash balances, CFC revenues, external funding contributions, and revenue bond proceeds. **Exhibit 4** provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

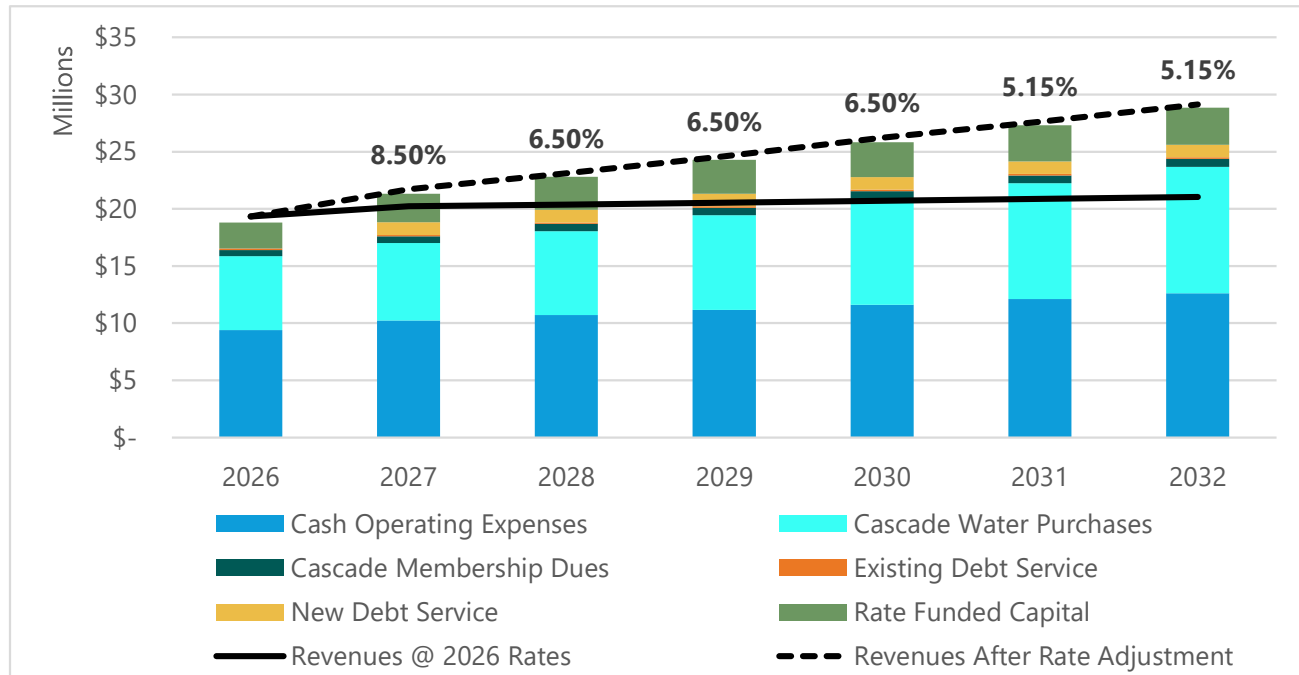
Exhibit 4. Water Capital Funding Summary

Funding Summary (\$000s)	2026	2027	2028	2029	2030	2031	2032	Total
Total Capital Costs	\$8,514	\$15,719	\$3,245	\$3,600	\$3,510	\$3,650	\$3,796	\$42,033
Funding Sources								
Cash Balances	\$7,647	\$2,093	\$2,079	\$2,393	\$2,261	\$2,357	\$2,458	\$21,289
Capital Facilities Charges	668	1,126	1,165	1,206	1,249	1,293	1,338	8,045
External Funding	199	-	-	-	-	-	-	199
Revenue Bond Proceeds	-	12,500	-	-	-	-	-	12,500
Total Capital Funding	\$8,514	\$15,719	\$3,245	\$3,600	\$3,510	\$3,650	\$3,796	\$42,033

Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service, and rate funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the water system to the expenses of the system to evaluate the sufficiency of rates on an annual basis. **Exhibit 5** provides a summary of the water system revenue requirement findings.

Exhibit 5. Water Revenue Requirement Forecast 2026 – 2032



Summary of the water revenue requirement:

- As identified in **Exhibit 5**, revenues at existing levels are sufficient to meet total operating and rate funded system reinvestment obligations in 2026.
- Beginning in 2027, rate revenues at existing rates including expected customer growth are projected to be insufficient to meet financial obligations of the water utility due to a new debt issuance combined with increases to Cascade Water Alliance water purchase costs.
- With the introduction of a \$12.5 million revenue bond issuance in 2027 to fund the South Reservoir Replacement, new annual debt service is estimated at \$1.1 million beginning in 2027.
- To meet the total projected financial obligations of the water utility, rate increases are recommended at 8.50 percent in 2027, 6.50 percent annually from 2028 to 2030, and 5.15 percent annually from 2031 to 2032.
- It is important to note that additional annual increases are projected outside the rate setting period. With the ever-changing nature of utility operating costs and ongoing capital needs, it is prudent to review revenues and expenses to the forecast and adjust the rate strategy, as needed.

With the annual rate increases in place, the utility will be able to meet or exceed its operating, debt service, and capital targets by the end of the forecast period:

- The operating fund balance target of 90 days of O&M is met in every year of the forecast period.
- The rate funded system reinvestment target of 125 percent of depreciation is met in every year of the forecast period.
- The capital fund balance target of 10.0 percent of the six-year CIP is met in every year of the forecast period.

- Individual water utility debt service coverage (excluding CFCs) is forecast to remain well above the City's internal target of 1.50 every year.

Rate Design

The principal objective of the rate design stage is to implement water rate structures that collect the appropriate level of revenue.

Establishing rates is a blend of "art" and "science" and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates. The results of the revenue requirement analysis were used to forecast the rate levels needed to recover the projected revenue from customers.

Existing Water Rates

The City's current rate structure consists of a fixed charge per account and a variable charge per hundred cubic feet (ccf) of water usage. The fixed charge is the same for all single family residential customers and is based on meter size for all other customers. Variable rates are tiered for single family residential customers, while multi-family, commercial, and irrigation-only customers are charged uniform rates on water usage volume. **Exhibit 6** provides a summary of the existing water utility rates. Utility rate rebates are available to certain households through the City's KirklandCares Program. Customers are assessed the rates on a bi-monthly basis.

Exhibit 6. Existing Water Rates

Bi-monthly Basic Charge by Class and Meter Size	
Single Family Residential	\$51.48
Multi-Family & Commercial by Meter Size	
5/8" - 3/4"	\$38.68
1"	\$66.52
1 1/2"	\$105.70
2"	\$169.56
3"	\$481.62
4"	\$665.26
5"	\$860.16
6"	\$1,138.86
8"	\$1,696.30
Charge for Water Consumed (per ccf)	
Single Family Residential	
Tier 1 (0-4 ccf) <i>*included in basic charge</i>	\$0.00
Tier 2 (5-24 ccf)	\$6.17
Tier 3 (over 24 ccf)	\$8.11
Multi-Family & Commercial	\$5.84
Sprinkler (Irrigation)	\$9.39

Preliminary and Projected Water Rates

No rate structure changes were recommended for the water utility at this time, pending results of Phase II. Across the board adjustments – equal increases to the fixed and variable charges – are to be implemented for all customer classes beginning in 2027. **Exhibit 7** provides a summary of the preliminary and projected rates for the study period.

Exhibit 7. Preliminary and Projected Water Rates

	Existing 2026	Preliminary 20272028		Projected 2029203020312032			
<u>Bi-monthly Basic Charge by Class and Meter Size</u>							
Single Family Residential	\$51.48	\$55.86	\$59.49	\$63.35	\$67.47	\$70.95	\$74.60
Multi-Family & Commercial by Meter Size							
5/8" - 3/4"	\$38.68	\$41.97	\$44.70	\$47.60	\$50.69	\$53.31	\$56.05
1"	\$66.52	\$72.17	\$76.87	\$81.86	\$87.18	\$91.67	\$96.39
1 1/2"	\$105.70	\$114.68	\$122.14	\$130.08	\$138.53	\$145.67	\$153.17
2"	\$169.56	\$183.97	\$195.93	\$208.67	\$222.23	\$233.67	\$245.71
3"	\$481.62	\$522.56	\$556.52	\$592.70	\$631.22	\$663.73	\$697.91
4"	\$665.26	\$721.81	\$768.72	\$818.69	\$871.91	\$916.81	\$964.03
5"	\$860.16	\$933.27	\$993.94	\$1,058.54	\$1,127.35	\$1,185.41	\$1,246.45
6"	\$1,138.86	\$1,235.66	\$1,315.98	\$1,401.52	\$1,492.62	\$1,569.49	\$1,650.32
8"	\$1,696.30	\$1,840.49	\$1,960.12	\$2,087.52	\$2,223.21	\$2,337.71	\$2,458.10
<u>Charge for Water Consumed (per ccf)</u>							
Single Family Residential							
Tier 1 (0-4 ccf) <i>*included in basic charge</i>	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tier 2 (5-24 ccf)	\$6.17	\$6.69	\$7.13	\$7.59	\$8.09	\$8.50	\$8.94
Tier 3 (over 24 ccf)	\$8.11	\$8.80	\$9.37	\$9.98	\$10.63	\$11.18	\$11.75
Multi-Family & Commercial	\$5.84	\$6.34	\$6.75	\$7.19	\$7.65	\$8.05	\$8.46
Sprinkler (Irrigation)	\$9.39	\$10.19	\$10.85	\$11.56	\$12.31	\$12.94	\$13.61

Sewer Utility

Introduction

The City of Kirkland operates, maintains and repairs 137 miles of wastewater mains, over 3,500 maintenance holes, and six wastewater lift stations. The City collects wastewater from approximately 12,000 residential, multifamily, and commercial customers and conveys that wastewater to King County's wastewater treatment plants.

Revenue Requirement

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the City.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the sewer system. The 2026 amended budget and the 2027-2028 preliminary budgets formed the baseline for this forecast. The operating forecast was developed through 2045 with the discussion below concentrating on the 2027 through 2032 rate setting period. The following list highlights some of the key assumptions used in the development of the sewer utility operating forecast.

Reserves

- **Operating Reserves.** A minimum of 90 days of O&M expenses (\$4.5 - \$8.4 million for the period 2026-2032). This reserve includes both Working Capital and Operating Contingency, which is a combination of 45 days of O&M plus 12% of O&M ($12\% \times 365 = 43.8$) and equates to approximately 90 days of O&M in total.
The sewer utility is forecasted to end 2026 at 49 percent of target, or 44 days of O&M expenses. Resulting rate strategies will incorporate refunding this reserve to target.
- **Capital Reserves.** A minimum of 10.0 percent of the six-year CIP (\$2.8 million for the period 2026-2032). The sewer utility is forecasted to end 2026 at 39 percent of the six-year CIP, well above the minimum target of 10 percent.

Operating Revenue

- **Rate Revenue.** Based on 2025 actual rate revenues plus the implemented 2026 rate increase and anticipated customer growth applied annually through the end of the forecast period. This method results in a different level of rate revenues compared to the adopted budget, as it incorporates additional analysis to align revenues to average trends.
- **Non-Rate Revenue.** Other miscellaneous non-rate revenues are forecasted based on the 2026 budget with either no escalation, general cost inflation, or anticipated customer growth depending on the type of revenue, while investment interest is calculated based on forecasted interest rates and fund balances
- **Customer Growth.** Annual customer growth is forecasted based on the City's forecasted growth for each customer class, with the 2027 percentage growth applied to each subsequent year of the

forecast. The annual growth factors are 0.8 percent for residential customers, 1.0 for multi-residential customers, and 0.0 percent for commercial customers.

- **KirklandCares Program Participation.** 10.0 percent annual growth in current participation rate, based on recent trends.
- **Interest Earnings.** 4.5 percent in 2026, decreasing to 3.0 percent in 2027 and 2.0 percent thereafter. Projections are based on recent performance of the Washington State Local Government Investment Pool.

O&M Expenses

The operating and maintenance expenditure forecast largely relies on the City's 2026 budget and 2027-2028 preliminary budgets. The line items in the budget are then adjusted each year by utilizing one of the following applicable factors for the years 2029 through 2032:

- **General Cost Inflation.** 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Construction Cost Inflation.** 4.0 percent annually for all years of the study period based on the recent historical performance of the Engineering News-Record's 20-City Construction Cost Index.
- **Labor Cost Inflation.** Matches General Cost Inflation at 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Benefit Cost Inflation.** 5.5 percent annually for all years of the study period based on City staff input.
- **King County Metro Rate Increases.** 12.75 percent annually for 2027-2030 then 11.25 percent annually for 2031-2032 based on the draft forecast provided by King County.
- **Utility Billing and Customer Service Provided by the Finance Department.** 3.5 percent annually for all years of the study period based on City staff input.
- **State Excise Taxes.** Public utility excise tax rate of 3.852 percent on the collection portion (55.73 percent) of sewer rate revenue.
- **State B&O Taxes.** State Business and Occupation tax rate of 2.1 percent on the treatment portion (44.27 percent) of rate revenue and on all penalty charge revenue and CFC revenue.
- **City Tax.** The City currently assesses a sewer utility tax of 9.5 percent on all rate revenue and non-rate revenues other than interfund revenue.

Debt Obligations

- **Existing Debt.** The sewer utility currently has one (1) outstanding Public Works Trust Fund (PWTF) loan. Existing debt service averages \$127,000 annually from 2026 through 2032.
- **New Debt.** No new debt issues are forecast in the rate setting period.

System Reinvestment

System reinvestment funding provides a long-term and sustainable funding source to support system integrity, repairs, and replacement. The City is forecast to contribute 165 percent of annual depreciation throughout the forecast period, equating to \$3.9 - \$4.8 million annually in rate funded system reinvestment from 2026 to 2032.

Capital Funding Plan

The sewer utility is anticipating \$31.1 million in capital costs from 2026 to 2032, escalated to the year of planned construction. Projects include NE 108th Street Sewermain Replacement, West of Market Sewermain Replacement,

105th Ave NE Sewerline Repair, SCADA Replacement, Annual Sanitary Sewer Pipeline Replacement, Feasibility Study for the I-405 Crossing at NE 70th St to NE 68th St, I-405 Crossing at NE 70th St to NE 68th St, and General Sewer Plan Projects. Funding for the capital identified includes cash balances, CFC revenues, and external funding contributions. **Exhibit 8** provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

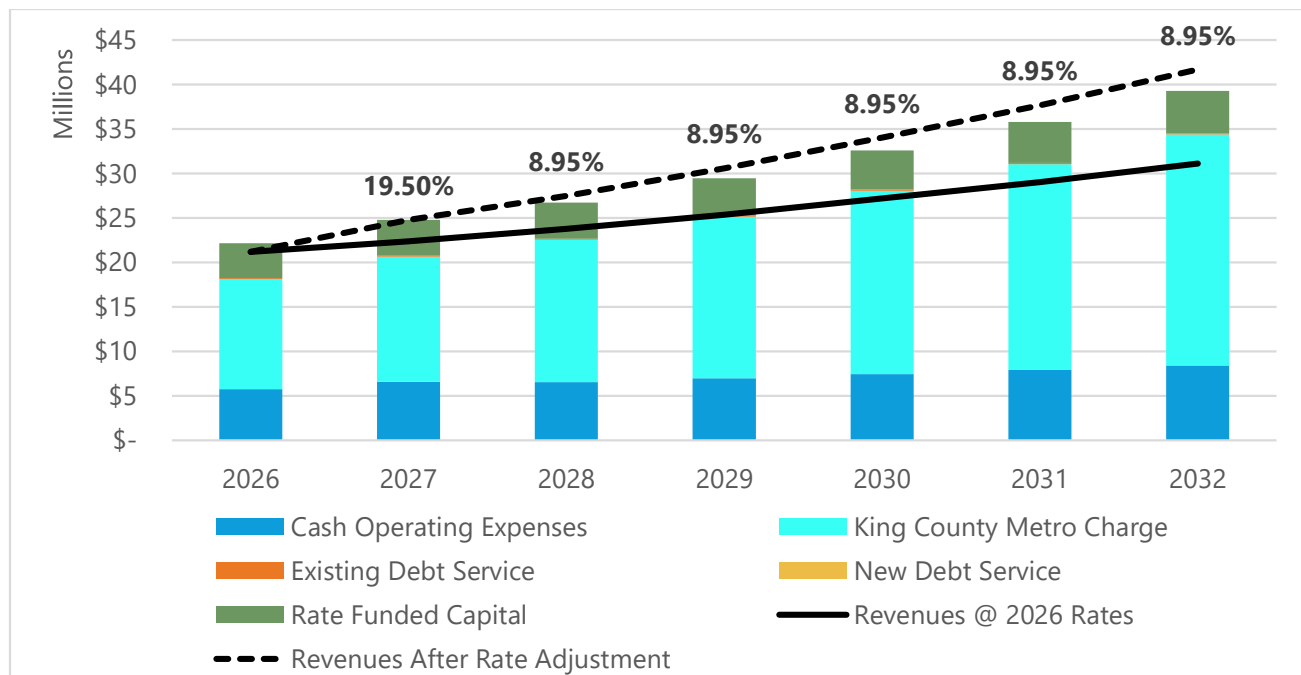
Exhibit 8. Sewer Capital Funding Summary

Funding Summary (\$000s)	2026	2027	2028	2029	2030	2031	2032	Total
Total Capital Costs	\$3,189	\$1,560	\$3,786	\$6,187	\$6,434	\$4,867	\$5,061	\$31,084
Funding Sources								
Cash Balances	\$2,454	\$828	\$3,029	\$5,404	\$5,625	\$4,031	\$4,197	\$25,567
Capital Facilities Charges	616	732	757	783	809	836	864	5,397
External Funding	119	-	-	-	-	-	-	119
Total Capital Funding	\$3,189	\$1,560	\$3,786	\$6,187	\$6,434	\$4,867	\$5,061	\$31,084

Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service, and rate funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the sewer system to the expenses of the system to evaluate the sufficiency of rates on an annual basis. **Exhibit 9** provides a summary of the sewer system revenue requirement findings.

Exhibit 9. Sewer Revenue Requirement Forecast 2026 – 2032



Summary of the sewer revenue requirement:

- As identified in **Exhibit 9**, revenues at existing levels are insufficient to meet total operating obligations and the system reinvestment funding target in 2026.
- Beginning in 2029, rate revenues at existing rates are projected to be insufficient to meet operating obligations of the sewer utility, due primarily to increases in King County treatment costs.
- In addition, the sewer utility is not currently meeting the working capital and operating contingency target of ninety days. Additional rate action is needed to generate cash to refund the reserve.
- To meet the total projected financial obligations of the sewer utility, rate increases are recommended at 19.50 percent in 2027 and 8.95 percent annually from 2028 to 2032.
 - It is important to note that additional annual increases are projected outside the rate setting period. With the ever-changing nature of utility operating costs and ongoing capital needs, it is prudent to annually review revenues and expenses to the forecast and adjust the rate strategy, as needed.

With the annual rate increases in place, the utility will be able to meet or exceed its operating and capital targets by the year 2032:

- The operating fund balance target of 90 days of O&M is met by the end of the forecast period in 2032 and stays above \$2.0 million every year until it meets the 90-day target.
- The rate funded system reinvestment target of 165 percent of depreciation is met in every year of the forecast period.
- The capital fund balance target of 10.0 percent of the six-year CIP is met in every year of the forecast period.
- Individual sewer utility debt service coverage (excluding CFCs) is forecast to remain well above the City's internal target of 1.50 every year.

Rate Design

The principal objective of the rate design stage is to implement sewer rate structures that collect the appropriate level of revenue.

Establishing rates is a blend of “art” and “science” and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates. The results of the revenue requirement analysis were used to forecast the rate levels needed to recover the projected revenue from customers.

Existing Sewer Rates

The City's current rate structure consists of a fixed charge per account and a variable charge per hundred cubic feet (ccf) of water usage. King County also charges a fixed rate for wastewater treatment which the City passes on directly to single family residential customers. The treatment cost from King County is embedded in the City's sewer rates for multi-family and commercial customers. Variable rates are applied to average winter water usage above 6 ccf for single family residential customers and applied to actual water usage above 12 ccf for multi-family and commercial customers. **0** provides a summary of the existing sewer utility rates. Utility rate rebates are available to certain households through the City's KirklandCares Program. Customers are assessed the rates on a bi-monthly basis.

Exhibit 10. Existing Sewer Rates

Bi-monthly Basic Charge by Class	
King County Wastewater Treatment	\$124.72
Single Family Residential	\$40.80
Multi-Family & Commercial	\$152.46
Charge for Water Consumed (per ccf)	
Single Family Residential (average winter water above 6 ccf)	\$6.80
Multi-Family & Commercial (above 12 ccf)	\$12.75

Preliminary and Projected Sewer Rates

No rate structure changes were recommended for the sewer utility at this time, pending results of Phase II. Across the board adjustments – equal increases to the fixed and variable charges – are to be implemented for all customer classes beginning in 2027. **Exhibit 11** provides a summary of the preliminary and projected rates for the study period.

Exhibit 11. Preliminary and Projected Sewer Rates

	Existing 2026	Preliminary 20272028		Projected 2029203020312032			
<u>Bi-monthly Basic Charge by Class and Meter Size</u>							
King County Wastewater Treatment	\$124.72	\$141.30	\$159.32	\$179.64	\$202.56	\$225.36	\$250.72
Single Family Residential	\$40.80	\$48.76	\$53.12	\$57.87	\$63.05	\$68.70	\$74.85
Multi-Family & Commercial	\$152.46	\$182.19	\$198.50	\$216.26	\$235.62	\$256.70	\$279.68
<u>Charge for Water Consumed (per ccf)</u>							
Single Family Residential (average winter water above 6 ccf)	\$6.80	\$8.13	\$8.85	\$9.65	\$10.51	\$11.45	\$12.47
Multi-Family & Commercial (above 12 ccf)	\$12.75	\$15.24	\$16.60	\$18.09	\$19.70	\$21.47	\$23.39

Surface Water Utility

Introduction

The City of Kirkland's surface water division ensures the proper maintenance and operation of all public and private drainage systems within the City. The City has a National Pollutant Discharge Elimination System (NPDES) Phase II permit with a goal to control water pollution and reduce water quality problems in local creeks and lakes. The surface water division is funded by the Surface Water Management Fee charged to property owners. The fee appears on the property tax statements of developed parcels within the City of Kirkland.

Revenue Requirement

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the City.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the surface water system. The 2026 amended budget and the 2027-2028 preliminary budgets formed the baseline for this forecast. The operating forecast was developed through 2045 with the discussion below concentrating on the 2027 through 2032 rate setting period. The following list highlights some of the key assumptions used in the development of the surface water utility operating forecast.

Reserves

- **Operating Reserves.** A minimum of 100 days of O&M expenses (\$3.5 - \$4.3 million for the period 2026-2032). The surface water utility is forecasted to end 2026 at 153 percent of target, or 153 days of O&M expenses. Resulting rate strategies will incorporate drawing down this reserve to target.
- **Capital Reserves.** A minimum of 10.0 percent of the six-year CIP (\$2.8 million for the period 2026-2032). The stormwater utility is forecasted to end 2026 at 13 percent of the six-year CIP, slightly above the minimum target of 10 percent.

Operating Revenue

- **Rate Revenue.** Based on 2026 budgeted rate revenues, revised with year-to-date actuals, plus anticipated customer growth applied annually through the end of the forecast period.
- **Non-Rate Revenue.** Non-rate revenue consists of miscellaneous revenues and investment interest. Other miscellaneous non-rate revenues are forecasted based on the 2026 budget with either no escalation, general cost inflation, or anticipated customer growth depending on the type of revenue, while investment interest is calculated based on forecasted interest rates and fund balances.
- **Customer Growth.** Annual customer growth is forecasted based on the City's forecasted growth for each customer class. The annual growth factors for residential customers are -0.4 percent in 2027-2030 and 0.0 percent in 2031-2032 for residential customers while the annual growth factors for commercial customers are 1.7 percent in 2027-2030 and 0.5 percent in 2031-2032. The

negative growth rate for residential customers and the elevated growth rate for commercial customers through 2030 aims to reflect ongoing conversion of residential land uses to multi-family/commercial land uses (e.g. the additions of accessory dwelling units (ADUs) leads to property being charged based on impervious surface rather than the single residential rate), with a return to more normalized conditions from 2031 and thereafter.

- **Senior Discounts Program Participation.** 10.0 percent annually based on recent trends.
- **Interest Earnings.** 4.5 percent in 2026, decreasing to 3.0 percent in 2027 and 2.0 percent thereafter. Projections are based on recent performance of the Washington State Local Government Investment Pool.

O&M Expenses

The operating and maintenance expenditure forecast largely relies on the City's 2026 budget and 2027-2028 preliminary budgets. The line items in the budget are then adjusted each year by utilizing one of the following applicable factors for the years 2029 through 2032:

- **General Cost Inflation.** 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Construction Cost Inflation.** 4.0 percent annually for all years of the study period based on the recent historical performance of the Engineering News-Record's 20-City Construction Cost Index.
- **Labor Cost Inflation.** Matches General Cost Inflation at 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Benefit Cost Inflation.** 5.5 percent annually for all years of the study period based on City staff input.
- **State B&O Taxes.** State Business and Occupation tax rate of 2.1 percent on all rate revenue, non-rate revenues other than interest earnings, and CFC revenue.
- **City Tax.** The City currently assesses a surface water utility tax of 6.98 percent on all rate revenue and non-rate revenues.

Debt Obligations

- **Existing Debt.** The surface water utility currently does not hold any outstanding debt.
- **New Debt.** No new debt issues are forecast for the surface water utility.

System Reinvestment

System reinvestment funding provides a long-term and sustainable funding source to support system integrity, repairs, and replacement. The City is forecast to contribute 100 percent of annual depreciation throughout the forecast period, equating to \$3.1 - \$3.7 million annually in rate funded system reinvestment from 2026 to 2032.

Capital Funding Plan

The surface water utility is anticipating \$35.2 million in capital costs from 2026 to 2032, escalated to the year of planned construction. Projects include enhanced Annual Replacement of Aging/Failing Infrastructure costs, Neighborhood Drainage Assistance Program (NDA), Juanita Creek Culvert at NE 137th Street, Holmes Point Pipe Replacement at Champagne Creek Basin, Property Acquisition Opportunity Fund, NE 140th Street Pipe Replacement, Storm Line Rehabilitation on NE 136th Street, 105th Pl NE Pipe Replacement, Holmes Point Drive NE Pipe Installation, Houghton Park and Ride Regional Stormwater Facility, Transfer for PPMC Upgrades (Quick Wins), Annual Transfers to Transportation, and Highlands Neighborhood - 116th Ave Storm Facility. Funding for

the capital identified includes cash balances, CFC revenues, and external funding contributions. **Exhibit 12** provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

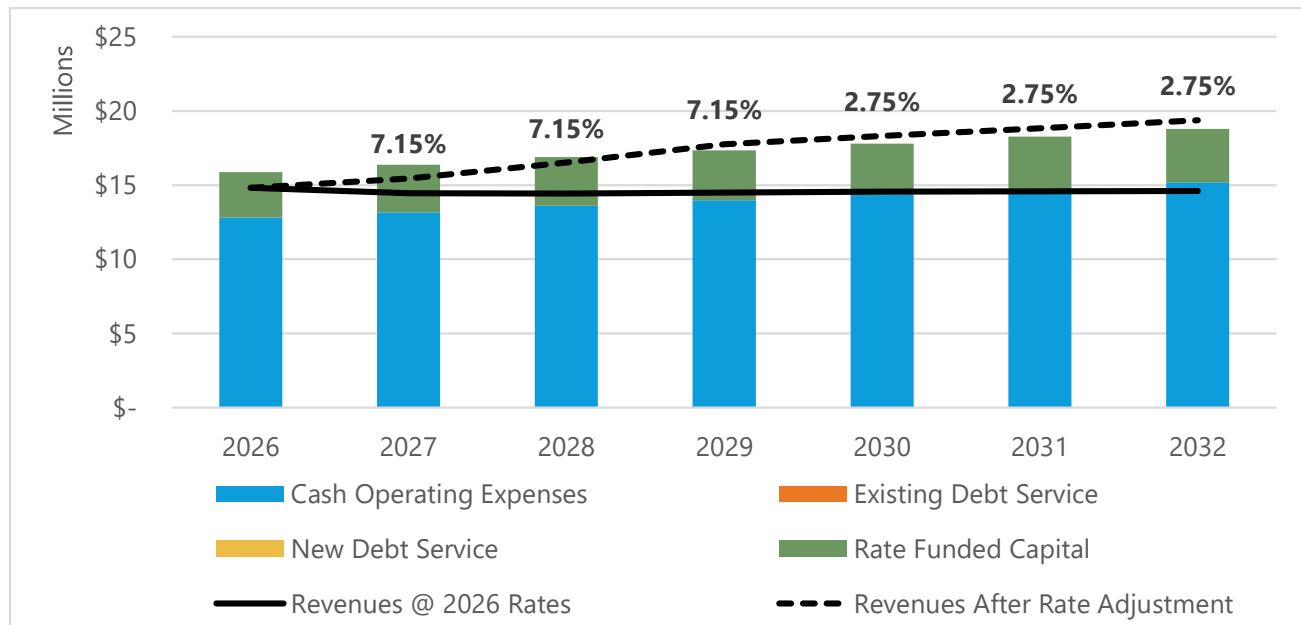
Exhibit 12. Surface Water Capital Funding Summary

Funding Summary (\$000s)	2026	2027	2028	2029	2030	2031	2032	Total
Total Capital Costs	\$7,400	\$4,066	\$3,945	\$3,019	\$3,033	\$6,141	\$4,112	\$31,716
Funding Sources								
Cash Balances	\$3,390	\$3,260	\$2,687	\$2,698	\$2,713	\$5,821	\$3,792	\$24,360
Capital Facilities Charges	312	324	323	321	320	320	320	2,240
DOE Forgivable Loan	3,698	-	-	-	-	-	-	3,698
Developer Funding	-	482	936	-	-	-	-	1,418
Total Capital Funding	\$7,400	\$4,066	\$3,945	\$3,019	\$3,033	\$6,141	\$4,112	\$31,716

Summary of Revenue Requirement

The operating forecast components of O&M expenses, and rate funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the surface water system to the expenses of the system to evaluate the sufficiency of rates on an annual basis. **Exhibit 13** provides a summary of the surface water system revenue requirement findings.

Exhibit 13. Surface Water Revenue Requirement Forecast 2026 – 2032



Summary of the surface water revenue requirement:

- As identified in **Exhibit 13**, revenues at existing levels are insufficient to meet rate funded capital obligations in 2026.

- Without any rate action, the utility would be deficient in meeting operating and maintenance costs in 2031.
- Excess operating contingency funds are used to cover the forecasted rate funded capital driven deficiency from 2027-2029 to smooth rate increases while still meeting capital requirements.
- To meet the total projected financial obligations of the surface water utility, rate increases are recommended at 7.15 percent annually from 2027 to 2029 followed by 2.75 percent annually from 2030 to 2032.
 - It is important to note that additional annual increases are projected outside the rate setting period. With the ever-changing nature of utility operating costs and ongoing capital needs, it is prudent to annually review revenues and expenses to the forecast and adjust the rate strategy, as needed.

With the annual rate increases in place, the utility will be able to meet or exceed its operating and capital targets:

- The operating fund balance target of 100 days of O&M is met in each year of the forecast.
- The rate funded system reinvestment target of 100 percent of depreciation is met in every year of the forecast period.
- The capital fund balance target of 10.0 percent of the six-year CIP is met in every year of the forecast period.

Rate Design

The principal objective of the rate design stage is to implement surface water rate structures that collect the appropriate level of revenue.

Establishing rates is a blend of “art” and “science” and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates. The results of the revenue requirement analysis were used to forecast the rate levels needed to recover the projected revenue from customers.

Existing Surface Water Rates

The City’s current rate structure consists of a fixed charge per Equivalent Surface Unit (ESU). **Exhibit 14** provides a summary of the existing surface water utility rates. Reduced utility rates are available to certain households through the City and are administered through the County’s low-income senior discount program. Customers are assessed annually via their property tax bill.

Exhibit 14. Existing Surface Water Rates

Monthly Fixed Charge per ESU	\$23.08

Preliminary and Projected Surface Water Rates

No rate structure changes were recommended for the surface water utility at this time, pending results of Phase II. Across the board adjustments are to be implemented for all customer classes beginning in 2027. **Exhibit 15** provides a summary of the preliminary and projected rates for the study period.

Exhibit 15. Preliminary and Projected Surface Water Rates

	Existing	Preliminary		Projected			
	2026	2027	2028	2029	2030	2031	2032
Monthly Fixed Charge per ESU	\$23.08	\$24.73	\$26.50	\$28.39	\$29.17	\$29.98	\$30.80

Solid Waste Utility

Introduction

The City of Kirkland (through Waste Management (WM)) provides garbage, recycling, and compost curbside collection services. As of the writing of this report, residential waste collection services are based on the garbage cart size which includes a 64-gallon recycling cart and a 96-gallon food and yard waste cart. The City bills on a bimonthly basis.

Revenue Requirement

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a rate plan that defines a strategy for funding the needs of the City.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the solid waste system. The 2026 amended budget and the 2027-2028 preliminary budgets formed the baseline for the revenue and expense forecast, respectively. The operating forecast was developed through 2045 with the discussion within this report concentrating on the 2027 through 2032 rate setting period. The following list highlights some of the key assumptions used in the development of the solid waste utility operating forecast.

Reserves

- **Operating Reserves.** A minimum of 30 days of O&M expenses (\$2.9 - \$3.6 million for the period 2026-2032). This 30-day target does not include any household hazardous waste fees. The solid waste utility is forecasted to end 2026 at 62 percent of target, or 18 days of O&M expenses. Resulting rate strategies will incorporate refunding this reserve to target.
- **Capital Reserves.** The solid waste utility does not reserve any funds for capital as any solid waste assets or other capital costs are maintained by Waste Management and paid for through the City's contract with this hauler.

Operating Revenue

- **Rate Revenue.** Based on 2026 budgeted rate revenues plus anticipated customer growth applied annually through the end of the forecast period.
- **Non-Rate Revenue.** Non-rate revenue consists of miscellaneous revenues and investment interest. Miscellaneous non-rate revenues are forecasted based on the 2026 budget with no escalation while investment interest is calculated based on forecasted interest rates and fund balances.
- **Customer Growth.** Annual customer growth is forecasted based on the City's forecasted growth for each customer class, with the 2027 percentage growth applied to each subsequent year of the forecast. The annual growth factors are 0.49 percent for residential customers, 0.0 for multi-residential customers, and 1.0 percent for commercial customers. Growth for the solid waste utility differs from the projected growth in the water and sewer utilities due to the difference in service area, with water and sewer only serving the southern half of the City.

- **KirklandCares Program Participation.** 10.0 percent annual growth in current participation rate, based on recent trends.
- **Interest Earnings.** 4.5 percent in 2026, decreasing to 3.0 percent in 2027 and 2.0 percent thereafter. Projections are based on recent performance of the Washington State Local Government Investment Pool.

O&M Expenses

The operating and maintenance expenditure forecast largely relies on the City's 2026 budget and 2027-2028 preliminary budgets. The line items in the budget are then adjusted each year by utilizing one of the following applicable factors for the years 2029 through 2032:

- **General Cost Inflation.** 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Construction Cost Inflation.** 4.0 percent annually for all years of the study period based on the recent historical performance of the Engineering News-Record's 20-City Construction Cost Index.
- **Labor Cost Inflation.** Matches General Cost Inflation at 4.0 percent in 2026, 3.8 in 2027, and 2.5 percent annually for each year thereafter based on City staff input.
- **Benefit Cost Inflation.** 5.5 percent annually for all years of the study period based on City staff input.
- **Waste Management Contract Rate Growth.** 5.0 percent in 2027, then set to the previous year's General Cost Inflation throughout the remainder of the forecast.
- **King County Disposal Rate Growth.** 8.5 percent annually based on estimated County rates.
- **Utility Billing and Customer Service Provided by the Finance Department.** 3.5 percent annually for all years of the study period based on City staff input.
- **State Refuse Tax.** Washington State Refuse tax rate of 3.6 percent on all solid waste rate revenue.
- **State B&O Taxes.** State Business and Occupation tax rate of 2.1 percent on all rate revenue and non-rate revenues
- **City Tax.** The City currently assesses a solid waste utility tax effective rate of 10.5 percent on all rate revenue.

Debt Obligations

- **Existing Debt.** The solid waste utility currently does not hold any outstanding debt.
- **New Debt.** No new debt issues are forecast for the solid waste utility.

System Reinvestment

The City does not contribute to rate funded system reinvestment in the solid waste utility as there are not typically capital expenditures associated with the fund.

Capital Funding Plan

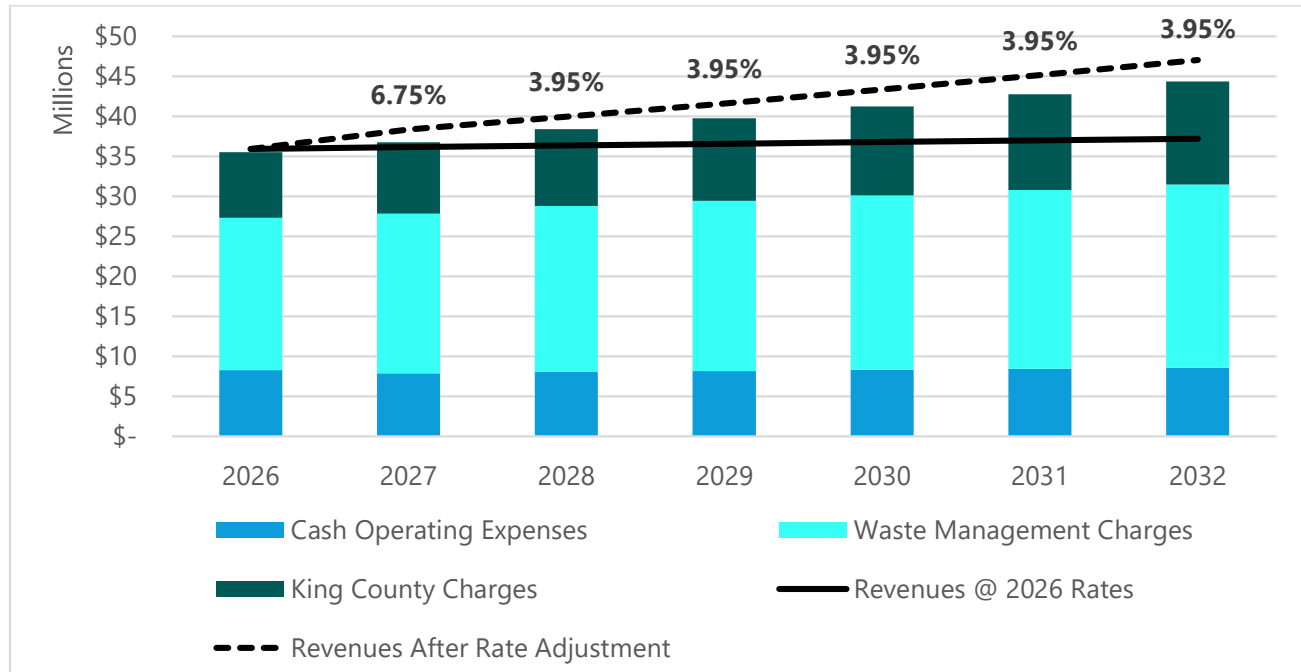
The solid waste utility does not have any planned capital expenses.

Summary of Revenue Requirement

The operating forecast components come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the solid waste system to the expenses of the system to

evaluate the sufficiency of rates on an annual basis. **Exhibit 16** provides a summary of the solid waste system revenue requirement findings.

Exhibit 16. Solid Waste Revenue Requirement Forecast 2026 – 2032



Summary of the solid waste revenue requirement:

- As identified in **Exhibit 16**, revenues at existing levels are sufficient to meet annual expenses in 2026.
- Beginning in 2027, rate revenues at existing rates are projected to be insufficient to meet annual expenses of the solid waste utility due to growth in contracted expenses as well as cash operating expenses.
- In addition, the solid waste utility is not currently meeting the operating contingency target of thirty days. Additional rate action is needed to generate cash to refund the reserve.
- To meet the total projected financial obligations of the solid waste utility, rate increases are recommended at 6.75 percent in 2027 and 3.95 percent annually from 2028 to 2032.
 - It is important to note that additional annual increases are projected outside the rate setting period. With the ever-changing nature of utility operating costs, it is prudent to annually review revenues and expenses to the forecast and adjust the rate strategy, as needed.

With the annual rate increases in place, the utility will be able to meet or exceed its financial targets:

- The operating fund balance target of 30 days of O&M is met in 2027 and maintained throughout the remainder of the forecast.

Rate Design

The principal objective of the rate design stage is to implement solid waste rate structures that collect the appropriate level of revenue.

Establishing rates is a blend of “art” and “science” and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates. The results of the revenue requirement analysis were used to forecast the rate levels needed to recover the projected revenue from customers.

Existing Solid Waste Rates

The City’s current rate structure consists of a fixed charge per account based on bin size and collection frequency. **Exhibit 17** provides a summary of the existing solid waste utility rates. Utility rate rebates are available to certain households through the City’s KirklandCares Program. Customers are assessed the rates on a bi-monthly basis.

Exhibit 17. Existing Solid Waste Rates

Single Family Residential	
<u>Monthly Collection</u>	
35-gallon bin	\$27.30
<u>Weekly Collection</u>	
10-gallon bin	\$33.80
20-gallon bin	\$67.54
35-gallon bin	\$105.14
64-gallon bin	\$192.22
96-gallon bin	\$288.32
<u>Hazardous Waste Fee</u>	\$2.08

Commercial Cart and Container Service

Cart Service

One 20-gallon min cart	\$33.77
One 35-gallon cart	\$52.57
One 64-gallon cart	\$96.11
One 96-gallon cart	\$144.16

Container Service - Loose

1 Cubic Yard Service	\$159.50
1.5 Cubic Yards	\$202.44
2 Cubic Yards	\$244.92
3 Cubic Yards	\$324.49
4 Cubic Yards	\$405.31
6 Cubic Yards	\$564.69
8 Cubic Yards	\$723.07

Container Service - Compacted

1 Cubic Yard Service	\$403.85
1.5 Cubic Yards	\$561.39
2 Cubic Yards	\$717.85
3 Cubic Yards	\$1,025.75
4 Cubic Yards	\$1,334.83
6 Cubic Yards	\$2,857.37

Commercial Roll-Off and Miscellaneous Service	
<u>Roll-Off Service (per Pickup)</u>	
Loose (Permanent)	\$245.83
Loose (Temporary)	\$248.22
Compactors	\$269.68
<u>Miscellaneous Service Fees (per Event)</u>	
Container Rollouts (per Container)	\$15.10
Unlocking Lids	\$4.37
Opening Gates	\$7.76
Standby Time (over 5 min.) per minute	\$5.02
Additional Mileage Charge (for hauls to other sites- -charge per mile)	\$10.03
Return Trips	\$69.53
Carry-Out Service (per Container per 25 ft)	\$15.10
Redelivery	\$97.87
Extra Cart Service (35-gallon equivalent)	\$9.67
Extra Uncompacted Cubic Yard	\$43.26
Pressure Washing (per yard)	\$46.34

Preliminary and Projected Solid Waste Rates

No rate structure changes were recommended for the solid waste utility at this time, pending results of Phase II. Across the board adjustments – equal increases to the fixed and variable charges – are to be implemented for all customer classes beginning in 2027. **Exhibit 18** provides a summary of the preliminary and projected rates for the study period.

Exhibit 18. Preliminary and Projected Solid Waste Rates

	Existing 2026	Preliminary 2027	2028	Projected 2029	2030	2031	2032
<u>Single Family Residential</u>							
<u>Monthly Collection</u>							
35-gallon bin	\$27.30	\$29.14	\$30.29	\$31.49	\$32.73	\$34.03	\$35.37
<u>Weekly Collection</u>							
10-gallon bin	\$33.80	\$36.08	\$37.51	\$38.99	\$40.53	\$42.13	\$43.79
20-gallon bin	\$67.54	\$72.10	\$74.95	\$77.91	\$80.98	\$84.18	\$87.51
35-gallon bin	\$105.14	\$112.24	\$116.67	\$121.28	\$126.07	\$131.05	\$136.23
64-gallon bin	\$192.22	\$205.19	\$213.30	\$221.73	\$230.48	\$239.59	\$249.05
96-gallon bin	\$288.32	\$307.78	\$319.94	\$332.58	\$345.71	\$359.37	\$373.56
<u>Hazardous Waste Fee</u>	\$2.08	\$2.22	\$2.31	\$2.40	\$2.49	\$2.59	\$2.69

	Existing 2026	Preliminary 2027 2028		Projected 2029 2030 2031 2032			
<u>Commercial Cart and Container Service</u>							
<u>Cart Service</u>							
One 20-gallon min cart	\$33.77	\$36.05	\$37.47	\$38.95	\$40.49	\$42.09	\$43.75
One 35-gallon cart	\$52.57	\$56.12	\$58.34	\$60.64	\$63.03	\$65.52	\$68.11
One 64-gallon cart	\$96.11	\$102.60	\$106.65	\$110.86	\$115.24	\$119.79	\$124.53
One 96-gallon cart	\$144.16	\$153.89	\$159.97	\$166.29	\$172.86	\$179.68	\$186.78
 <u>Container Service - Loose</u>							
1 Cubic Yard Service	\$159.50	\$170.27	\$176.99	\$183.98	\$191.25	\$198.80	\$206.66
1.5 Cubic Yards	\$202.44	\$216.10	\$224.64	\$233.51	\$242.74	\$252.33	\$262.29
2 Cubic Yards	\$244.92	\$261.45	\$271.78	\$282.51	\$293.67	\$305.27	\$317.33
3 Cubic Yards	\$324.49	\$346.39	\$360.08	\$374.30	\$389.08	\$404.45	\$420.43
4 Cubic Yards	\$405.31	\$432.67	\$449.76	\$467.52	\$485.99	\$505.19	\$525.14
6 Cubic Yards	\$564.69	\$602.81	\$626.62	\$651.37	\$677.10	\$703.84	\$731.65
8 Cubic Yards	\$723.07	\$771.88	\$802.37	\$834.06	\$867.01	\$901.25	\$936.85
 <u>Container Service - Compacted</u>							
1 Cubic Yard Service	\$403.85	\$431.11	\$448.14	\$465.84	\$484.24	\$503.37	\$523.25
1.5 Cubic Yards	\$561.39	\$599.28	\$622.96	\$647.56	\$673.14	\$699.73	\$727.37
2 Cubic Yards	\$717.85	\$766.30	\$796.57	\$828.04	\$860.75	\$894.75	\$930.09
3 Cubic Yards	\$1,025.75	\$1,094.99	\$1,138.24	\$1,183.20	\$1,229.94	\$1,278.52	\$1,329.02
4 Cubic Yards	\$1,334.83	\$1,424.93	\$1,481.22	\$1,539.72	\$1,600.54	\$1,663.76	\$1,729.48
6 Cubic Yards	\$2,857.37	\$3,050.24	\$3,170.73	\$3,295.97	\$3,426.16	\$3,561.50	\$3,702.17

	Existing 2026	Preliminary 2027 2028		Projected 2029 2030 2031 2032			
<u>Commercial Roll-Off and Miscellaneous Service</u>							
<u>Roll-Off Service (per Pickup)</u>							
Loose (Permanent)	\$245.83	\$262.42	\$272.79	\$283.56	\$294.77	\$306.41	\$318.51
Loose (Temporary)	\$248.22	\$264.97	\$275.44	\$286.32	\$297.63	\$309.39	\$321.61
Compactors	\$269.68	\$287.88	\$299.25	\$311.08	\$323.36	\$336.14	\$349.41
 <u>Miscellaneous Service Fees (per Event)</u>							
Container Rollouts (per							
Container)	\$15.10	\$16.12	\$16.76	\$17.42	\$18.11	\$18.82	\$19.56
Unlocking Lids	\$4.37	\$4.66	\$4.85	\$5.04	\$5.24	\$5.45	\$5.66
Opening Gates	\$7.76	\$8.28	\$8.61	\$8.95	\$9.30	\$9.67	\$10.05
Standby Time (over 5 min.) per minute	\$5.02	\$5.36	\$5.57	\$5.79	\$6.02	\$6.26	\$6.50
Additional Mileage Charge (for hauls to other sites--charge							
per mile)	\$10.03	\$10.71	\$11.13	\$11.57	\$12.03	\$12.50	\$13.00
Return Trips	\$69.53	\$74.22	\$77.16	\$80.20	\$83.37	\$86.66	\$90.09
Carry-Out Service (per							
Container per 25 ft)	\$15.10	\$16.12	\$16.76	\$17.42	\$18.11	\$18.82	\$19.56
Redelivery	\$97.87	\$104.48	\$108.60	\$112.89	\$117.35	\$121.99	\$126.81
Extra Cart Service (35-gallon equivalent)	\$9.67	\$10.32	\$10.73	\$11.15	\$11.59	\$12.05	\$12.53
Extra Uncompacted Cubic Yard	\$43.26	\$46.18	\$48.00	\$49.90	\$51.87	\$53.92	\$56.05
Pressure Washing (per yard)	\$46.34	\$49.47	\$51.42	\$53.45	\$55.56	\$57.76	\$60.04

Summary

FCS completed a rate study for the water, sewer, surface water, and solid waste utilities. The purpose of the study was to provide an updated rate forecast and financial plan targeting revenue sufficiency for long-term financial health and adequate funding for upcoming capital infrastructure investments throughout the forecast period.

The results of this analysis indicate that each utility will need annual increases to satisfy all fiscal obligations. Preliminary and projected rate increases are summarized in **Exhibit 19**.

Exhibit 19. Preliminary and Projected Utility Rate Increases

	Preliminary		Projected			
	2027	2028	2029	2030	2031	2032
Water	8.50%	6.50%	6.50%	6.50%	5.15%	5.15%
Sewer	19.50%	8.95%	8.95%	8.95%	8.95%	8.95%
Surface Water	7.15%	7.15%	7.15%	2.75%	2.75%	2.75%
Solid Waste	6.75%	3.95%	3.95%	3.95%	3.95%	3.95%

These revenue adjustments are designed to fund annual operating expenses, capital improvement programs, reserve goals, and financial performance targets.

As indicated in the discussion above, additional annual increases are projected outside the rate-setting period for both utilities. With the ever-changing nature of utility operations and ongoing capital needs, it is prudent to annually review revenues and expenses to the rate forecast and adjust the rate strategy, as needed.

We recommend that the City revisit the study findings during the budget cycle to check that the assumptions used are still appropriate and no significant changes have occurred that would alter the results of the study. In addition to the rate strategies presented in this report, FCS developed multiple options with staff to further smooth rate increases which can be made available for further consideration by the City upon request. The City should use the study findings as a living document, continuously comparing the study outcomes to actual revenue and expenses. Any significant or unexpected changes will require adjustments to the rate strategy.

Attachment 2
Utility Background Information

July 2026

EXECUTIVE SUMMARY:

The City manages four Public Works utilities: domestic water, sanitary sewer, solid waste, and surface water.

Since the City transitioned to a biennial budget process beginning in the 2005-2006 biennium, the Council has reviewed and established coinciding biennial utility rates to fund the operations of these individual, public business enterprise funds. The preliminary 2027-2028 Utility rate discussion is Council's first look at the rates for Water, Sewer, Surface Water, and Solid Waste, which Council sets every two years. It is an opportunity for Council to provide direction to staff.

This document provides a brief description of the services provided by each utility and provides a list of the staffing from the 2025-2026 Adopted Budget document for reference. The staffing figures may differ slightly from those in the main memorandum due to budget adjustments and one-time positions since budget adoption. In addition, a summary of service packages that have been submitted for consideration for the 2027-2028 budget process is included for reference. Note that the Council will begin its review of the Proposed Budget in October with adoption expected on December 8, 2026.

BACKGROUND:

The City manages four Public Works utilities: domestic water, sanitary sewer, solid waste, and surface water. Since the City transitioned to a biennial budget process beginning in 2005-2006 biennium, the Council has reviewed and established coinciding biennial utility rates to fund the operations of these individual, public business enterprise funds.

The information below is provided as brief background on each utility. A summary of service packages submitted for consideration in the 2027-2028 appears at the end of the document. Note that these service packages are not included in the preliminary rates.

DISCUSSION/ANALYSIS:

Water Utility

The Water Utility is responsible for operation, repair, and replacement of water distribution systems, delivery, and storage services and infrastructure. It oversees approximately 180 miles of water mains, close to 80 pressure-reducing stations (PRVs), three water supply/pump stations, two water reservoirs, nearly 1,900 fire hydrants, and approximately 5,300 backflow prevention assemblies. Kirkland receives its water supply from Cascade Water Alliance (payments to Cascade comprise approximately 38% of the City's water budget).

The Water Utility serves approximately 13,500 customers, which represents only a portion of City residents/businesses (roughly south of 124th St. and east of 98th Ave.). The majority of the remaining Kirkland residents are served by Northshore Utility District, with a much smaller portion served by Woodinville Water District, Bellevue, and/or Redmond. Exhibit 1 provides a map of the City's water and sewer service providers.

Exhibit 2 contains summary level information about the Water/Sewer utility staffing from the 2025-2026 Adopted Budget. Note that the water and sewer utilities are combined for budgeting purposes, so the staff positions shown are the total for both utilities. Staff will be working to separate the utilities for budgeting purposes beginning in 2027.

Sewer Utility

The Sewer Utility operates, maintains, and repairs nearly 137 miles of sewer mains, nearly 3,500 maintenance holes, six sewer lift stations, and collects wastewater from more than 11,300 side sewer connections. Kirkland receives wastewater treatment services from King County (payments to King County comprise approximately 56% of the City's sewer budget).

The Sewer Utility serves approximately 12,000 customers, representing only a portion of City residents/businesses (generally a similar service area to Water although there are some exceptions). Exhibit 1 provides a map of the City's service area and other water and sewer service providers.

Exhibit 2 contains summary level information about the Water/Sewer utility staffing from the 2025-2026 Adopted Budget. Note that the water and sewer utilities are combined for budgeting purposes, so the staff positions shown are the total for both utilities. Staff will be working to separate the utilities for budgeting purposes beginning in 2027.

Surface Water Utility

The Surface Water Utility operates, maintains, and repairs storm drain infrastructure including pipes, maintenance holes, catch basins, ditches, and detention systems (including but not limited to tanks, vaults, and ponds). The storm drains system serves all residential, multifamily, and commercial customers. The Surface Water Engineering and Planning Division works to provide strategic planning and engineering expertise, education and outreach, regulatory compliance, environmental monitoring and assessment, and pollution prevention assistance.

All services are provided by the City, except that billing is done by King County on the property tax bill and payments are then remitted to the City. The Surface Water utility serves approximately 21,800 single family residences, approximately 470 condos (9,350 units), and approximately 1,270 commercial customers (all parcels in City limits).

Exhibit 3 contains summary level information about the Surface Water utility staffing from the 2025-2026 Adopted Budget.

Solid Waste Utility

The Solid Waste Utility collects all solid waste within the City through a contract with Waste Management Inc. (payments to Waste Management comprise approximately 54% of the City's solid waste budget). The current contract expires December 31, 2032. The City pays disposal charges to King County (payments to King County comprise approximately 23% of the City's solid waste budget). City staff oversees and administers the waste collection contract, grants, and coordinates waste reduction and recycling, garbage, and compost services, recycling events, and education and outreach programs for the community. There is no physical infrastructure associated with the solid waste utility.

The Solid Waste utility serves approximately 22,900 residential and 860 commercial customers (mandatory service to the full City).

Exhibit 4 contains summary level information about the Solid Waste utility staffing from the 2025-2026 Adopted Budget.

2027-2028 Service Packages Submitted for Consideration

Table 1 below summarizes the service packages submitted for consideration during the 2027-2028 budget process and the utilities they impact. Exhibit 5 contains brief descriptions of each of the proposed service packages. These service packages are not included in the preliminary rates presented in the main memo. Services packages will officially be considered and/or approved during the budget process that begins in October.

<i>Table 1 – Proposed Service Packages</i>								
Description	Years	Water	Sewer	Surface Water	Solid Waste	Non-Utility Funds	One-Time	Ongoing
2027 Cost of Service Study	2027	X	X	X	X	-	\$100,000	-
Utility Policy Advisor LTE (3-years)	2027, 2028	X	X	-	-	-	\$516,649	-
0.50 FTE Office Specialist Increase	Ongoing	X	X	X	-	X	-	\$127,039
Development Surface Water Opportunity Fund	2027, 2028	-	-	X	-	-	\$150,000	

EXHIBITS:

- Exhibit 1 – Map of Water and Sewer Service Providers
- Exhibit 2 – Water/Sewer Operating 2025-2026 Position Summary
- Exhibit 3 – Surface Water Operating 2025-2026 Position Summary
- Exhibit 4 – Solid Waste Operating 2025-2026 Position Summary
- Exhibit 5 – Description of 2027-2028 Service Package for Consideration

Exhibit 1 – Kirkland Water and Sewer Service Areas

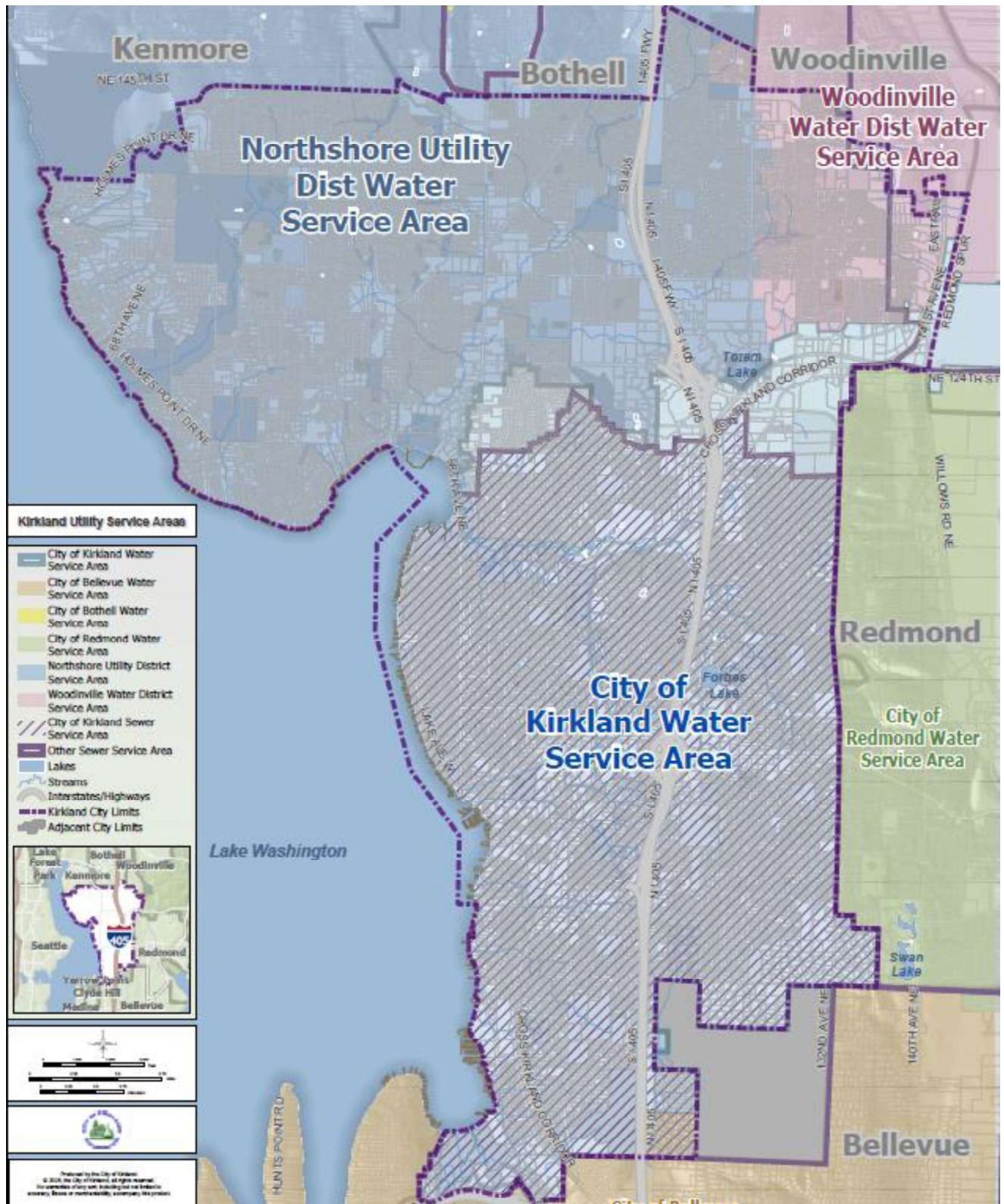


Exhibit 2 – Water/Sewer Operating 2025-2026 Position Summary

Water/Sewer Operating

2025-2026 Position Summary

POSITION SUMMARY BY CLASSIFICATION

Classification	2023-2024 Positions	Additions/ Reductions	2025-2026 Positions	Budgeted 2025 Salary Range
PUBLIC WORKS DEPUTY DIRECTOR OF OPERATIONS	0.45	-	0.45	149,133 - 194,585
UTILITY OPERATIONS MANAGER	0.40	-	0.40	124,181 - 162,029
WATER AND WASTEWATER SUPERVISOR	1.00	-	1.00	114,023 - 148,774
MANAGEMENT ANALYST	0.50	-	0.50	99,206 - 116,726
LEADPERSON - WATER LEAD	1.00	-	1.00	91,728 - 110,335
LEADPERSON - WASTE WATER LEAD	1.00	-	1.00	91,728 - 110,335
CROSS CONNECTION PROGRAM COORDINATOR	1.00	-	1.00	89,297 - 105,074
CONTRACT AND PURCHASING SPECIALIST	0.10	-	0.10	88,723 - 104,375
SENIOR MAINTENANCE	4.00	-	4.00	79,855 - 97,258
YARD MAINTENANCE AND INVENTORY CONTROL	0.45	-	0.45	79,855 - 97,258
CROSS CONNECTION SPECIALIST	1.00	-	1.00	81,405 - 95,774
ENGINEERING TECHNICIAN	0.40	-	0.40	80,191 - 94,344
SENIOR ACCOUNTING ASSOCIATE	0.70	-	0.70	76,938 - 90,515
UTILITY CRAFTSPERSON	2.40	-	2.40	74,677 - 87,859
MAINTENANCE WORKER	8.10	-	8.10	64,123 - 80,368
OFFICE SPECIALIST	1.16	-	1.16	61,790 - 72,694
TOTAL	23.66	-	23.66	

POSITION SUMMARY BY DIVISION

Classification	2023-2024 Positions	Additions/ Reductions	2025-2026 Positions
Utilities	23.66	-	23.66
TOTAL	23.66	-	23.66

Exhibit 3 – Surface Water Operating 2025-2026 Position Summary

Surface Water Operating

2025-2026 Position Summary

POSITION SUMMARY BY CLASSIFICATION

Classification	2023-2024 Positions	Additions/ Reductions	2025-2026 Positions	Budgeted 2025 Salary Range
PUBLIC WORKS DEPUTY DIRECTOR OF OPERATIONS	0.20	-	0.20	149,133 - 194,585
SURFACE WATER MANAGER	1.00	-	1.00	137,489 - 179,392
UTILITY OPERATIONS MANAGER	0.60	-	0.60	124,181 - 162,029
SURFACE WATER PLANNING SUPERVISOR	1.00	-	1.00	114,394 - 149,258
SURFACE WATER STRATEGIC ADVISOR	0.50	-	0.50	126,662 - 149,011
SURFACE WATER SUPERVISOR	1.00	-	1.00	114,023 - 148,774
SENIOR SURFACE WATER ENGINEER	1.00	-	1.00	124,688 - 146,696
STREETS AND GROUNDS SUPERVISOR	1.00	-	1.00	104,815 - 136,760
SURFACE WATER UTILITY ENGINEER	1.00	-	1.00	108,590 - 127,752
SURFACE WATER ENGINEER	1.00	-	1.00	108,590 - 127,752
SURFACE WATER ENVIRONMENTAL ANALYST	1.00	-	1.00	108,377 - 127,504
ENVIRONMENTAL PROGRAM COORDINATOR	0.50	-	0.50	104,950 - 123,471
WATER QUALITY PROGRAM COORD	1.00	-	1.00	103,351 - 121,589
SURFACE WATER PLANNER	1.00	-	1.00	101,990 - 119,989
MANAGEMENT ANALYST	0.20	-	0.20	99,206 - 116,726
LEADPERSON	0.05	-	0.05	91,728 - 110,335
LEADPERSON - STORM WATER LEAD	2.00	-	2.00	91,728 - 110,335
EDUCATION AND OUTREACH COORDINATOR	1.00	-	1.00	93,787 - 110,332
SURFACE WATER ENGINEERING ANALYST	1.00	-	1.00	91,939 - 108,163
WATER QUALITY SPECIALIST	1.00	-	1.00	89,297 - 105,074
ENVIRONMENTAL EDUCATION AND OUTREACH SPECIALIST	1.00	-	1.00	89,298 - 105,074
CONTRACT AND PURCHASING SPECIALIST	0.20	-	0.20	88,723 - 104,375
SENIOR MAINTENANCE	9.30	-	9.30	79,855 - 97,258
YARD MAINTENANCE AND INVENTORY CONTROL	0.15	-	0.15	79,855 - 97,258
FIELD ARBORIST	1.00	-	1.00	79,855 - 97,258
ENGINEERING TECHNICIAN	0.20	-	0.20	80,191 - 94,344
SENIOR ACCOUNTING ASSOCIATE	0.10	-	0.10	76,938 - 90,515
UTILITY CRAFTSPERSON	0.35	-	0.35	74,677 - 87,859
MAINTENANCE WORKER	10.70	-	10.70	64,123 - 80,368
OFFICE SPECIALIST	1.09	-	1.09	61,790 - 72,694
TOTAL	41.14	-	41.14	

POSITION SUMMARY BY DIVISION

Classification	2023-2024 Positions	Additions/ Reductions	2025-2026 Positions
Development/Environmental Services	14.00	-	14.00
Utilities	27.14	-	27.14
TOTAL	41.14	-	41.14

Exhibit 4 – Solid Waste Operating 2025-2026 Position Summary

Solid Waste Operating

2025-2026 Position Summary

POSITION SUMMARY BY CLASSIFICATION

Classification	2023-2024 Positions	Additions/ Reductions	2025-2026 Positions	Budgeted 2025 Salary Range
UTILITY POLICY AND COMMUNITY RELATIONS SUPERVISOR	1.00	-	1.00	115,160 - 150,258
SOLID WASTE PROGRAMS LEAD	1.00	-	1.00	100,824 - 117,824
ENVIRONMENTAL EDUCATION AND OUTREACH SPECIALIST	0.75	0.25	1.00	89,298 - 105,074
ENGINEERING TECHNICIAN	0.10	-	0.10	80,191 - 94,344
SENIOR ACCOUNTING ASSOCIATE	0.10	-	0.10	76,938 - 90,515
TOTAL	2.95	0.25	3.20	

POSITION SUMMARY BY DIVISION

Classification	2023-2024 Positions	Additions/ Reductions	2025-2026 Positions
Development Environmental Services	2.95	0.25	3.20
TOTAL	2.95	0.25	3.20

Exhibit 5 – 2027-2028 Proposed Service Package Descriptions

Below are brief descriptions of the proposed service package for consideration during the 2027-2028 budget process and the utilities they impact. These service packages are not included in the preliminary rates presented in the main memo. Services packages will officially be considered and/or approved during the budget process that begins in October.

- **2027 Cost of Service Study** (All Utilities): \$100,000 one-time funding
 - Funding Phase 2 of the Utility Rate Study is essential to translate the financial framework developed in Phase 1 into equitable, implementable rates across the City's water, sewer, surface water, and solid waste utilities. This phase provides a defensible, industry-standard cost of service analysis that ensures each customer class pays its proportional share, while also evaluating adjustments to improve equity and support policy priorities such as the Kirkland Cares Low-Income Support Program.

It will also enable the City to modernize rate design to enhance revenue stability, transparency, and administrative feasibility, while addressing utility-specific issues such as residential water tiers and evolving solid waste regulations. Additionally, updating Capital Facility Charges will ensure compliance with state requirements and reinforce the principle that growth pays for growth by aligning system capacity, asset inventories, and future capital needs. Finally, benchmarking against peer jurisdictions will validate that Kirkland's rates remain competitive and reasonable, supporting public trust and long-term financial sustainability.

- **Utility Policy Advisor LTE** (3-years: Water & Sewer): \$516,649 one-time funding in 2027 & 2028

- This position will serve as a key utility policy advisor for the City for the water and wastewater utilities.

This position will provide strategic leadership in coordination with the Cascade Water Alliance, particularly on the Cascade Supply Project and Phase 1 of the Capital Funding Plan. With project costs estimated to exceed \$2 billion, dedicated staff capacity is essential to support Kirkland's elected representatives in shaping policy, financial strategy, system integration, and long-term investment decisions. Over the next three years, Phase 1 planning will require sustained engagement across staff workgroups, technical committees, member committees, and Board-level discussions. This position will synthesize complex technical and financial information, coordinate City positions, and ensure consistent, well-informed representation among member agencies with differing priorities. The scale of coordination demands focused support to prepare materials, brief elected officials, analyze capital financing approaches, assess rate impacts and risk allocation, and guide long-term system planning.

This position will also represent the City on regional wastewater and water-quality committees and partnerships, including the King County Regional Water Quality Committee (RWQC), the Metropolitan Water Pollution Abatement Advisory Committee, and Sound Cities Association committees. This role will support technical review and elected official engagement with a strong emphasis on long-term utility affordability.

This position could be delivered either through a consultant or a three-year Limited Term Employment (LTE) position. Given the unique blend of policy, financial, and intergovernmental coordination expertise required, we anticipate the need to develop a new job description and classification.

- **0.50 FTE Office Specialist Increase** (Water, Sewer, Surface Water, and non-utility funds): \$127,039 total for 2027 & 2028 ongoing
 - This position is currently budgeted as 0.50 FTE. Since January 2023, it received a term-limited 0.25 FTE (a total of 0.75 FTE) increase through the end of 2026. The need for this position continues to grow and is needed to operate at 1.00 FTE in 27-28 Budget.

The Maintenance Center workload continues at a sustained level including billing/invoicing and support to supervision staff. In the Fleet group, there was a 64% increase in invoices processed from 2024 to 2025. In 2026 year-to-date, invoices are on-track to meet 2025 numbers. In addition, the increase to 1.00 FTE will allow for further support to the Facilities group, which was integrated into Public Works in mid-2025. There has been a steady increase in workload in the Facilities group. From 2023 to 2025 there was a 29% increase in the number of invoices processed. Moreover, adding more hours to this position helps to provide continuity when there's turnover, addresses coverage when others are on vacation or leave, as well as seasonal workload demands.

- **Development Surface Water Opportunity Fund** (Surface Water): \$150,000 one-time
 - This fund is used by Development Services Engineering to repair and replace surface water infrastructure adjacent to new development projects by leveraging private development.

The development opportunity fund was funded through a one-time service package in both the 2023/2024 and 2025/2026 biennium to efficiently install new stormwater infrastructure through partnership with development projects conducting ROW improvements for their development. Approximately \$92,000 of the \$150,000 was used in 23-24 and installed ~1,220 LF to either connect gaps within the system or replace identified aging and failing infrastructure. In 2025, approximately \$52,000 of the \$75,000 has been either spent or encumbered to projects. This program has allowed the replacement of aging pipes for a cost of ~\$80 per LF based on the past three years of data. Typical total costs (design, construction - including installation and restoration, inhouse, etc.) for pipe replacement in CIP is ~\$750/LF. This funding source has proven to be a successful and cost-effective way to replace aging infrastructure or complete gaps.