CITY OF KIRKLAND
FINANCE AND ADMINISTRATION
123 Fifth Avenue, Kirkland, WA 98033
425-587-3000

MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Kevin Pelstring, Financial Planning Manager
Cody Harris, Budget Analyst

Date: May 19, 2026

Subject: **2026 First Quarter Financial Management Report**

RECOMMENDATION:

Staff recommends that the City Council receives a financial update with the First Quarter 2026 Financial Management Report.

EXECUTIVE SUMMARY:

- The First Quarter 2026 Financial Management Report presents the financial performance of the City of Kirkland as of March 31, 2026.
- No action by the Council is requested.
- Total operating revenues (including internal transfers) at the end of the first quarter (Q1) of 2026 were approximately $47.9 million, which is $2.42 million (5%) higher than the first quarter of 2025. This increase to total operating revenue is predominantly due to growth within the General Fund (up $1.2 million), which was driven by growth to utility and sales tax revenues.
- The total operating revenues at end of Q1 represent 22% of budgeted revenues, which is below the budget threshold but within expectations. General Fund revenues were $32.6 million, with the next largest operating fund being Development Services ($4.2 million).
- Total operating expenditures at the end of Q1 2026 were $58.0 million, up $1.7 million (3%) higher than Q1 2025 but at 25% of budget, which is at the budget threshold. The largest share of expenditures came from the General Fund at $39.4 million, followed by Development Services at $5.7 million.

BACKGROUND:

The Financial Management Report (FMR) is a quarterly financial update required by RCW 35A.34.240. The intent of the report is to apprise all stakeholders of the overall financial health of the City of Kirkland. The report provides analysis of financial performance in the City's Operating Funds, Utility Funds, and CIP projects, as well as changes to reserves. Staff includes relevant economic indicators, forecasts, and analyses to help readers understand the economic environment and factors impacting the City's financial performance in the quarter.

DISCUSSION/ANALYSIS:

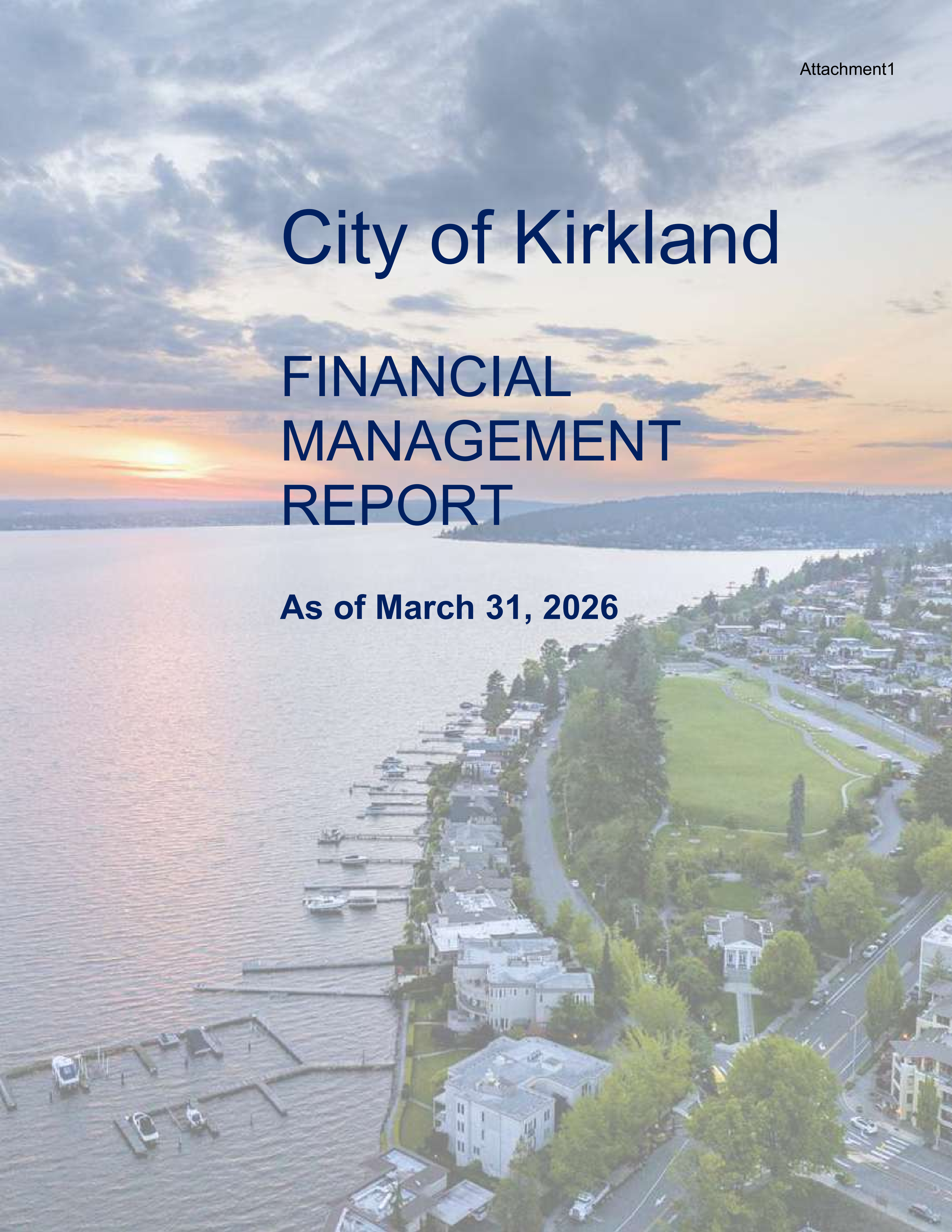
Discussion and analysis are captured in Attachment 1, which is the City's First Quarter 2026 Financial Management Report.

NEXT STEPS:

None.

ATTACHMENTS:

Attachment 1 – 2026 First Quarter Financial Management Report



City of Kirkland

FINANCIAL MANAGEMENT REPORT

As of March 31, 2026

Contents

First Quarter Highlights

Authorization to Acquire the Property Adjacent to Mark Twain Park

During the February 17, 2026 City Council meeting, Council adopted Resolution R-5721 and Ordinance O-4926 authorizing the City Manager to acquire property for the purpose of expansion and improvement of Mark Twain Park. The purchase of this property would enable access and small-scale parking, making the park usable for a much broader segment of the community and allowing for further park amenity investments in the future.[1]

O.O. Denny Park Bridge – Emergency Replacement

On March 3, 2026, the City Council approved the use of $233,000 in funds to replace the pedestrian bridge at O.O. Denny Park. A windstorm in October 2025 caused a tree strike that critically damaged the bridge and following an emergency structural assessment, full bridge replacement was recommended. An insurance claim has been submitted, and a portion of the replacement costs is expected to be approved by insurance, however to expedite replacement of the bridge the City is planning to use available funds in the short term. Design and permitting are anticipated to take approximately 3-5 months and staff intend to request expedited permit reviews where available.[2]

Authorization to Acquire the Overlake Oil Property to expand the Maintenance Center

On March 17, 2026, the City Council adopted Ordinance O-4930 authorizing the acquisition of property to expand the Public Works Maintenance Center. The 2025-2026 City Work Program includes an initiative to renovate and expand the Maintenance Center to meet safety and operational needs. The property identified as a preferred site for expansion meets the City's criteria for size, location, building type, and zoning suitable for expansion. It also provides immediate availability for City use with minimal capital improvements needed, saving taxpayer and ratepayer funds.[3]

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[1] https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/february-17-2026/9b_business.pdf
[2] https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/march-3-2026/8h4_other-items-of-business.pdf
[3] https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/march-17-2026/9d_business.pdf

Economic Outlook

U.S. real GDP expanded at an annualized rate of about 2.0% in Q1 2026, due to increases in investment, exports, consumer spending, and government spending. Imports, which are a subtraction in the calculation of GDP, also increased. Compared to the fourth quarter of 2025, the acceleration in real GDP in the first quarter of 2026 reflected upturns in government spending and exports, and an acceleration in investment that were partly offset by a deceleration in consumer spending. Imports turned up in Q1 compared to Q4 2025.[4]

State of Washington Forecast

The February 2026 report from the State of Washington Economic & Revenue Forecast Council includes an updated forecast with assumptions regarding changes to U.S. trade policy. The Federal Reserve's reluctance to lower rates due to inflation concerns has kept borrowing costs elevated and has contributed to a slowing of business fixed investment. Real GDP for the U.S economy was expected to increase 2.1% in 2026 and 2.1% in 2027.[5]

The inflation rate was expected to increase to 2.7% in 2026 from 2.6% in 2025. The State forecast calls for inflation to reach 2.4% in 2027 but trend down to 2.0% in 2030. The Washington State inflation rate rose from 2.6% in December to 3.3% in March, and is currently at 3.9% as of April due to factors like the Iran war that have had a large impact after the State's quarterly report was written.

Tariffs and federal job cuts have been accounted for in the forecast with new tariffs on lumber, semiconductors, pharmaceuticals, and critical minerals, ranging from 10% to 25%. Reciprocal tariffs range from 10% to 50% based on the rates announced August 1 or later. Tariffs are expected to increase prices in the near term.

Real consumer spending growth is expected to slow this year to 1.9% from 2.7% in 2025. Job growth has been weak and continues to trend down. The February forecast calls for the unemployment rate to increase to 4.7% this year from 4.3% in 2025. The forecast then calls for the unemployment rate to increase to 4.8% in 2027 before declining to 4.5% in 2029, unchanged from the previous forecast.

King County Forecast

According to the King County EconPulse Report, total employment in King County fell by 0.8% in the fourth quarter of 2025, with about 12,400 fewer jobs. Sectors with employment losses were concentrated in sectors such as information, construction, professional and business services, government and trade, transportation, and utilities. The strongest sectors were manufacturing, education and health services, financial activities, and arts, entertainment, and recreation. The unemployment rate in December 2025 was 4.9%, slightly higher than the U.S. unemployment rate of 4.4% in December.

Local inflation continues to ease from the highs of 2022. The Seattle CPI-U fell from 5.9 percent in 2023 to 3.6 percent in 2024 and now 2.7 percent in 2025 (missing October data). In December 2025, the inflation rate for all items was 3.1 percent year-over-year, while all items less food and energy (local core inflation) were at 2.7 percent growth. Looking forward, new tariffs on imported goods are expected to push prices up further. Inflation is projected to average 3.6 percent in 2026, 3.9 percent in 2027, and about 3 percent in subsequent years. As

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[4] https://www.bea.gov/news/2026/gdp-advance-estimate-1st-quarter-2026
[5] https://erfc.wa.gov/sites/default/files/2026-03/feb26pub.pdf

of February inflation increased to 3.8% and rose again to 4.5% in April, leading staff to believe King County's forecast will be revised. [6]

City of Kirkland Forecast

Sales tax revenue began 2026 with moderate growth, up 3.3% (roughly $369,000) through April compared to the same period in 2025. Through the first quarter, 26.3% of budgeted sales tax revenues have been collected, and it's likely that revenues will end the year at or slightly ahead of budget, due in part to the City's conservative two-year sales tax lag. To give a better sense of the potential additional sales tax revenue that could be collected in 2026, financial planning staff have developed the following forecast for sales tax revenue, shown below in Figure 7.

Using a method consistent with the past few cycles, staff assessed first quarter revenues as a function of first quarter collections over the past 16 years (excluding one-time payments) and determined a lower bound, average, and upward bound of revenue collections in 2026. Staff forecast retail sales tax to come in 6.0% above budget (4.4% above 2025 revenues excluding a one-time payment) in 2026, expecting growth in taxable sales mainly due to the City's two-year sales tax lag and steady inflation (reported 3.8% in February) as measured by CPI-W in the Seattle-Bellevue-Tacoma area.

As ever, there is considerable uncertainty in the forecast over the next year as the US War in Iran has destabilized the global oil and gas market, which could have lasting impacts on the regional economy. However, the expansion of sales tax to additional services under ESSB 5814, effective October 2025, is likely to further buoy revenues beyond 2025 levels. Earlier this year, the Legislature passed ESSB 6346 (sometimes called "the millionaire's tax"), which creates a new tax on very high-income earners while also rolling back portions of the 2025 expansion of sales taxes on services beginning in 2030 and creating new sales tax exemptions for products such as diapers, hygiene products, and certain over-the-counter medications. As a result, some of the recent or upcoming sales tax revenue gains are temporary.

The City's forecast of 4.4% above 2025 revenues sits below bullish regional forecasts – the Puget Sound Economic Forecaster's Q1 Annual Forecast expects a 17.3% growth in taxable retail sales in King County (up from 14.9% in January), and King County's March forecast expects 6.85% growth in local and optional sales tax. Both are expecting a significant bump from summer retail activity related to the six FIFA World Cup games being held in Seattle. Although Kirkland will benefit from increased tourism and retail activity related to the World Cup as with the region, it will likely have a much smaller impact.

Figure 1: 2026 Retail Sales Tax Forecast

Category	2026 Q1 Revenues	Q1 Revenues % Total Revenue	Forecasted Annual Revenues	Percentage Change from 2025 revenues	Percentage Change from Budget
Lower Bound	9,094,453	26.9%	33,841,595	-3.5%	-2.0%
Average	9,094,453	24.8%	36,608,474	4.4%	6.0%
Upper Bound	9,094,453	23.7%	38,370,140	9.4%	11.1%

[6] https://cdn.kingcounty.gov/-/media/king-county/independent/governance-and-leadership/government-oversight/forecasting/documents/econpulse4q2025.pdf?rev=11b33c030222491889e0a6b71527192b&hash=3531435D754CE11396156D7FB28770EB

Figure 2 below shows the forecasted $36.6 million by month, incorporating average seasonality since 2010.

Figure 2: 2026 Sales Tax Forecast Seasonality by Month

Allocation	Year	2026 Actual Sales Tax Revenue	2026 Forecast	Variance	% Variance
8.0%	January	2,878,960	2,915,716	(36,756)	-1.3%
9.1%	February	3,530,287	3,315,290	214,997	6.5%
7.5%	March	2,684,092	2,731,297	(47,205)	-1.7%
7.2%	April	2,586,129	2,637,220	(51,091)	0.0%
8.5%	May		3,126,391		0.0%
8.1%	June		2,973,086		0.0%
8.5%	July		3,098,725		0.0%
8.9%	August		3,247,644		0.0%
8.7%	September		3,183,902		0.0%
8.4%	October		3,067,200		0.0%
9.0%	November		3,306,333		0.0%
8.2%	December		3,005,670		0.0%
100%	**YTD Total**	**11,679,469**	**36,608,474**	**79,946**	**0.2%**

Information about wider trends in the economy provides a mechanism to help understand the external forces impacting results in Kirkland and improve the ability to predict future performance.

National inflation, as measured by CPI-W, increased from 2.2% in February to 3.3% in March. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 3.1% in December to 3.8% in February. The Federal Reserve held the federal funds rate steady at its March 2026 meeting. This brings the Federal Funds Rate to a range between 3.5% - 3.75%.[7]

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead, increased by 0.8 points from 91.0 in February to 91.8 in March.

The national **Unemployment Rate** decreased from 4.4% in February to 4.3% in March. Washington's unemployment rate decreased from 5.8% in January to 5.7% in February. For both King County and Kirkland, the unemployment rate increased from 4.9% in December to 5.7% in January.

New Housing Permits in Washington State increased from 35,300 in December to 38,500 in January. Housing permits remain significantly below the recent peak of 61,100 units permitted in the fourth quarter of 2021. The most recent **Case-Shiller Home Price Index** for Seattle area home prices decreased slightly from 391.2 in September to 388.24 in October.

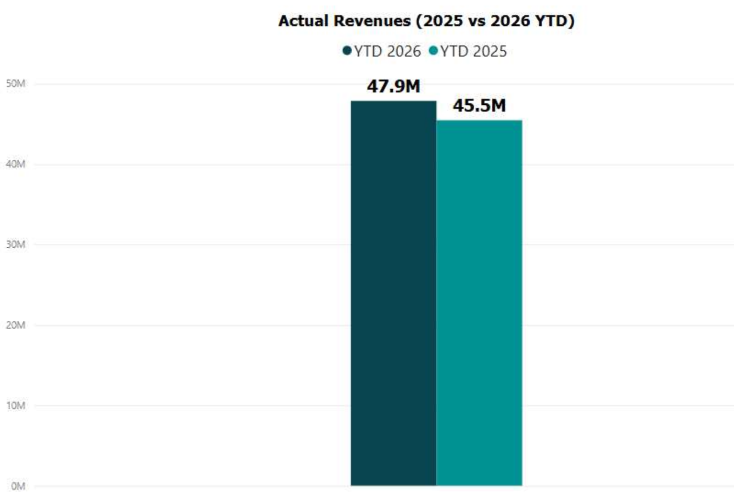
New Vehicle Registrations in Washington State stayed flat from 19,800 in February to 19,800 in March. Washington car and truck sales have been trending down since reaching a peak of 26,300 in April 2025.

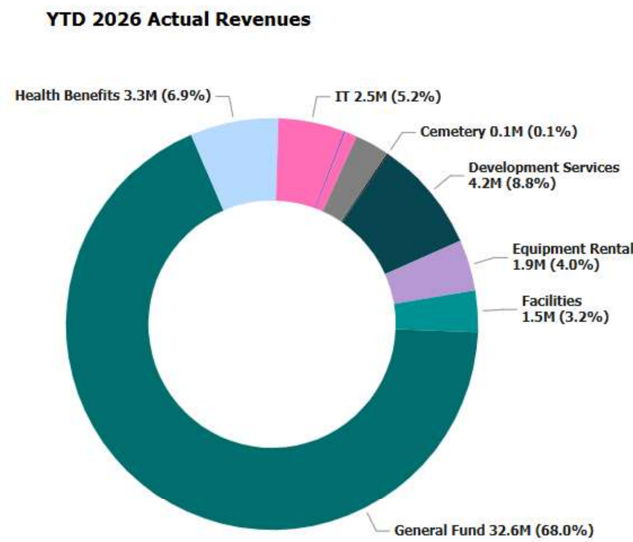
[7] https://www.federalreserve.gov/monetarypolicy/files/monetary20260318a1.pdf

Summary of All Operating Funds

Operating Revenues

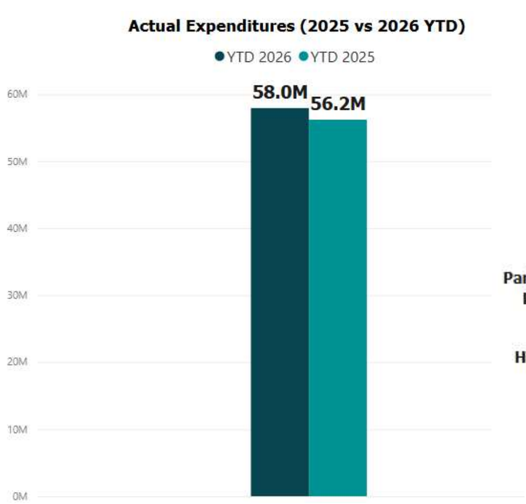
Total operating revenues at the end of Q1 2026 were approximately $47.9 million, which is 5% ($2.42 million) higher than 2025. The largest increase occurred in the General Fund (up $1.2 million). The largest share of operating revenues also came from the General Fund ($32.6 million), followed by Development Services ($4.2 million), Health Benefits Fund ($3.3 million), and Information Technology ($2.5 million).

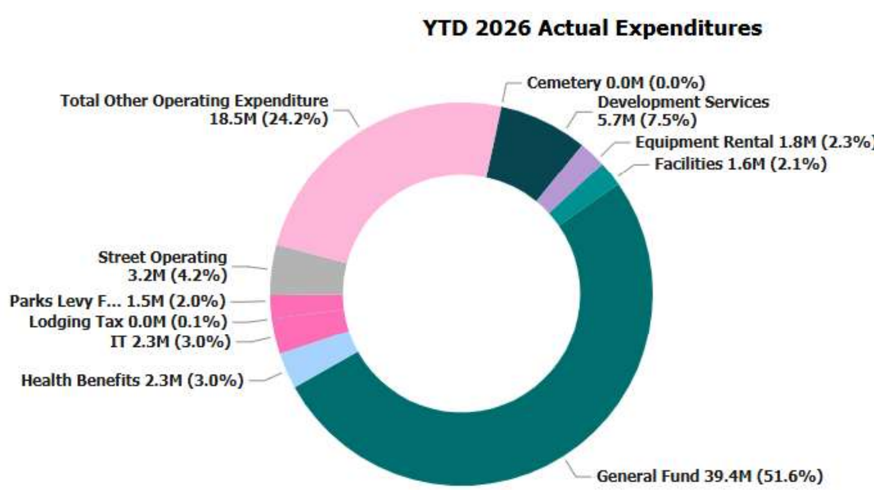




Operating Expenditures

Total operating expenditures at the end of Q1 were $58.0 million, up 3% or $1.7 million, and reflect 25% of the total operating budget expended. The largest share of Q1 expenditures came from General Fund ($39.4 million), followed by Development Services ($5.7 million), Street Operating ($3.2 million), Health Benefits ($2.3 million), and Information Technology Fund ($2.3 million). Year-Over-Year (YOY), the largest increases by dollar amount occurred within the General Fund (up $660,959) followed by the Development Services Fund (up $660,228).

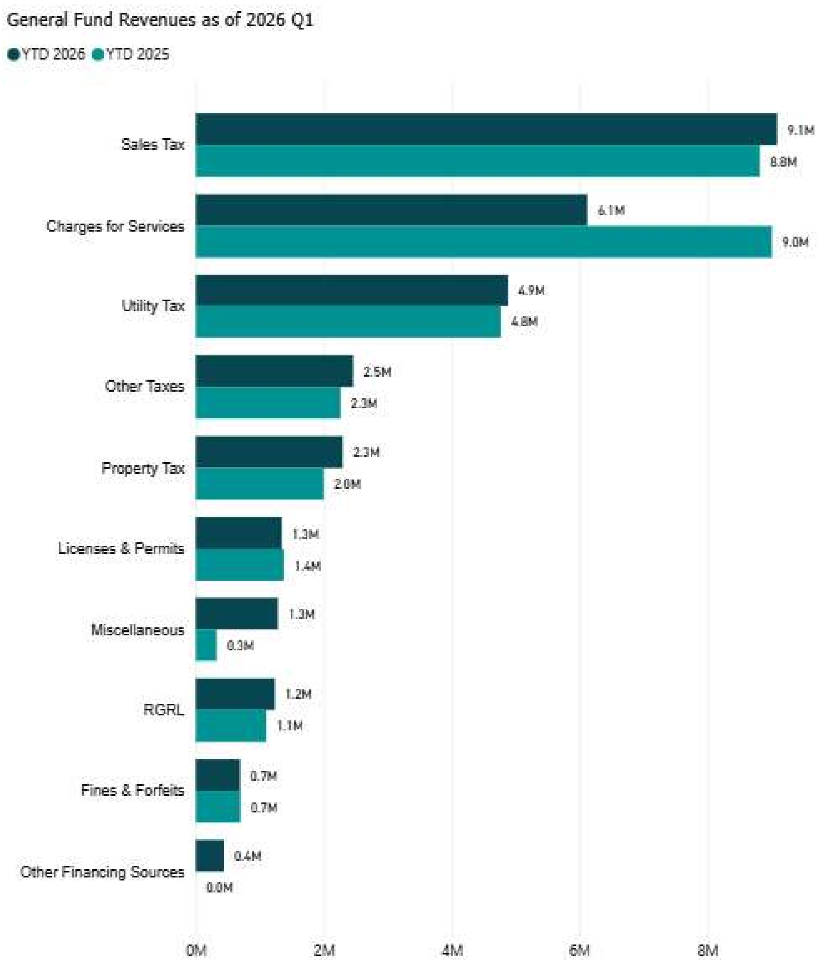




General Fund Revenues

General Fund revenues at the end of the first quarter of 2026 were $32.5 million, 23% of budgeted revenue collections. Revenues were up $1.2 million (4%) compared to the first quarter of 2025. This is primarily due to growth in utility and sales taxes, interfund charges, and growth in revenue from the Revenue Generating Regulatory License fee ("RGRL").

In the table below, it is evident that Charges for Services has shrunk by a large amount through 2026 compared to 2025. The City budgets on a *cash basis* (no adjustments back to prior years for budget to actual reporting, after the year closes). Occasionally, the City receives revenue for grants or payments late from prior year activity, causing revenue to be recognized in the following year budget vs. actuals. In early 2025, the City received two large payments for 2024 billings, EMS Levy and reimbursements for wildland fire deployment. This resulted in lower 2026 revenues and larger 2025 revenues, explaining the apparent shrinkage.



At the end of the first quarter of 2026, Property Taxes were the fifth largest single source of revenue for the City. These taxes are received twice a year, the first half by April 30th and the second half by October 31st. Sales Tax revenues at the end of Q1 2026 were $9.1 million, up 3% relative to prior year.

The most volatile source of General Fund revenues is sales tax revenues; therefore, the City tracks and reports on this source particularly closely. The following contains more detailed information regarding the City's sales tax.

Sales Tax Revenue Analysis

General retail sales tax is the City's largest single revenue source after property tax, accounting for just under 24% of total 2026 budgeted revenues in the General Fund. Sales tax, along with property and utility taxes, funds public safety and other general government (i.e., non-utility) services. It is also more sensitive to economic cycles than other tax revenues, therefore it is monitored closely by staff. There is a two-month lag between when sales tax is generated and when it is distributed to the City by the Washington State Department of Revenue (DOR). Accordingly, March sales tax revenue relates to January retail activity in Kirkland.

Sectors	March		Dollar Change	Percent Change
	2025	2026		
Contracting	642,912	615,907	(27,005)	-4%
Retail:				
Auto/Gas Retail	435,898	388,042	(47,856)	-11%
Other Retail	487,699	486,137	(1,562)	0%
Retail Eating/Drinking	170,245	175,328	5,083	3%
Gen Merch/Misc Retail	114,392	125,541	11,149	10%
Services	455,067	581,557	126,490	28%
Miscellaneous	177,611	172,977	(4,634)	-3%
Wholesale	128,657	101,974	(26,683)	-21%
Communications	36,003	36,630	627	2%
Total Sales Tax Receipts	**$ 2,648,484**	**$ 2,684,093**	**$ 35,609**	**1.3%**

Comparing March 2026 to March 2025 above, sales tax revenue receipts are up $35,609 or 1.3%. The sectors that reported the largest growth compared to March 2025, ranked by dollar change, include Services, up by $126,490 or 28%. Specifically, the sub-categories driving the large increase this month were Professional Scientific up $55,456 or 16%, Admin Support up $91,102 or 24% and Health care services up $64,759 or 74%.

General Merch/Miscellaneous Retail saw a moderate increase, up by $11,149 or 10%, as well as Retail Eating/Drinking, up by $5,083 or 3%. Communications had a small increase, up by $627 or 2%.

Sectors with large decline include Auto/Gas Retail down by $47,856 or 11%. The decline is specifically due to revenues from the Motor Vehicle category. Other sectors with declines include Contracting, down by $27,005 or 4% and Wholesale, down by $26,683 or 21%. Data also shows small declines in Miscellaneous, down $4,634 or 3% and Other Retail, down $1,562 or 0.3%.

YTD 2026 vs. YTD 2025

Sectors	YTD		Dollar Change	Percent Change
	2025	2026		
Contracting	1,998,406	2,155,889	157,483	8%
Retail:				
Auto/Gas Retail	1,456,599	1,283,699	(172,900)	-12%
Other Retail	1,692,474	1,766,313	73,839	4%
Retail Eating/Drinking	617,200	630,513	13,313	2%
Gen Merch/Misc Retail	468,327	479,166	10,839	2%
Services	1,622,355	1,766,885	144,530	9%
Miscellaneous	459,389	533,390	74,001	16%
Wholesale	377,669	349,257	(28,412)	-8%
Communications	129,527	128,227	(1,300)	-1%
Total Sales Tax Receipts	**$ 8,821,946**	**$ 9,093,339**	**$ 271,393**	**3.1%**

Comparing 2026 to 2025, year-to-date (YTD) sales tax revenue is up $271,393 or 3.1%.

Looking at the business sectors, the most significant growth (ranked in order of dollar change) has occurred in Contracting, up $157,483 or 8%; Services, up $144,530 or 9%; Miscellaneous, up $74,001 or 16%; and Other Retail, up $73,839 or 4%.

Sectors with small increases include Retail Eating/Drinking, up $13,313 or 2%, and General Merchandise/Miscellaneous Retail, up $10,839 or 2%.

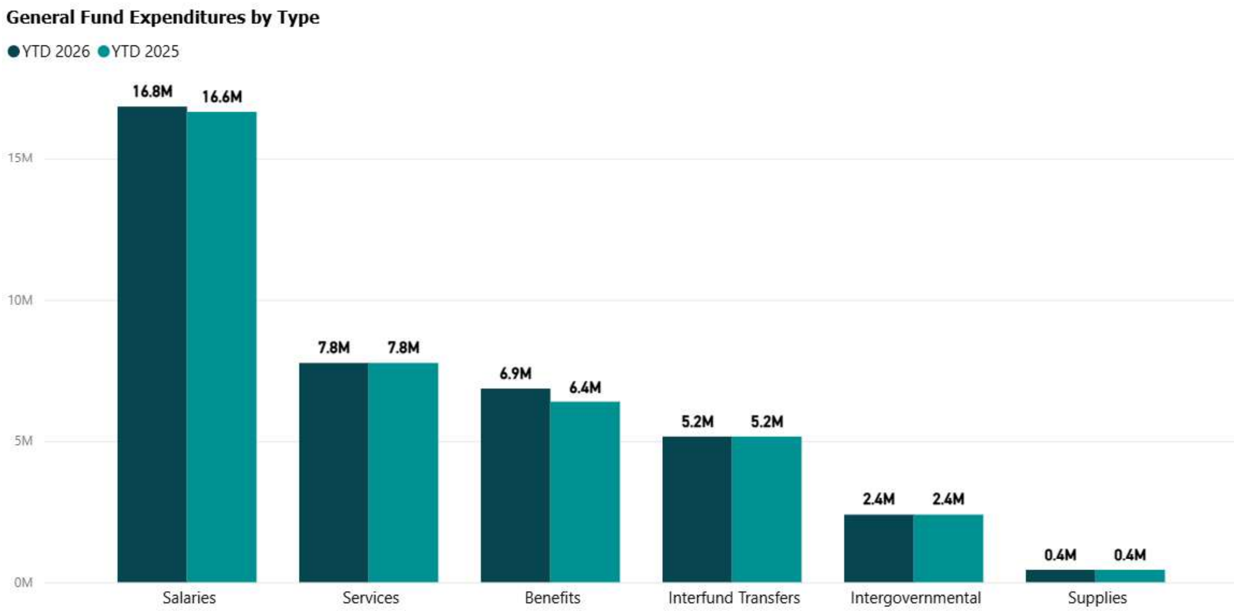
Sectors with a decline in sales tax include Auto/Gas Retail, down $172,900 or 12%; Wholesale, down $28,412 or 8%; and Communications, down $1,300 or 1%

Note that the continued increase from the Miscellaneous sector—and to a less obvious degree the Services sector—over the past three months likely reflects the expansion of services subject to retail sales tax effective October 1, 2025 (first received in December) following the passage of Senate Bill 5814 by the Washington State Legislature. Staff is monitoring this change and will provide more analysis as data becomes available.

Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which has increased YTD 2026 over the same period in 2025 by $13,439 or 2%. The second is Heavy and Civil Engineering Construction, up by $50,829 or 89%. The third is Construction of Buildings, which has increased by $93,217 or 7%. Overall Contracting sales tax revenue has been inconsistent in the last year and is being monitored closely to best prepare for the 2027-2028 budget.

General Fund Expenditures by Type

The General Fund accounts for services to the community including public safety, land use, parks, and administrative functions. Total General Fund expenditures at the end of the first quarter were $39.4 million which is 26% of the total 2026 budget. Personnel costs, including salaries and benefits, make up the largest portion (66%) of total budgeted expenditures. Personnel costs at the end of Q1 were around $23.7 million, 24% of budget, but 3% or $660.9k higher than in 2025.



Services make up 20% of the total budget, and total services costs were $7.8 million, exactly the same as Q1 2025. Professional Services experienced the largest dollar increase in costs, up $2.1 million, primarily due to Parks and Community Services having higher service costs as Kirkland is now the lead City on a pooled Human Services contract for several cities. Interfund transfers are flat YTD 2026 due in part to it being the second year of a change in how RGRL funding is initially recorded in the General Fund and then transferred from the General Fund to the Street Fund in the 2025-2026 budget.

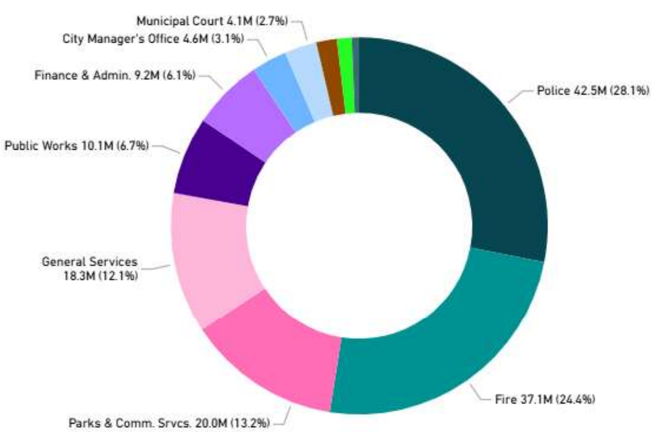
The table below shows a breakdown of General Fund expenditures across categories at the end of the first quarter of 2026.

Expenditures by Type	YTD 2026	2026 Budget	% Expended	YTD 2025	2025 Budget	% YTD Change	$ YTD Change
Salaries	$ 16,821,570	$ 68,956,205	24%	$ 16,637,181	$ 69,749,625	1%	$ 184,389
Benefits	$ 6,861,509	$ 29,299,421	23%	$ 6,384,940	$ 27,142,683	7%	$ 476,570
Personnel	$ 23,683,079	$ 98,255,626	24%	$ 23,022,120	$ 96,892,308	3%	$ 660,959
Professional Services	$ 3,819,279	$ 12,052,888	32%	$ 1,734,312	$ 9,053,023	120%	$ 2,084,967
Operating Charges	$ 3,701,292	$ 14,849,527	25%	$ 3,609,104	$ 14,617,868	3%	$ 92,188
Other Services	$ 242,072	$ 2,764,226	9%	$ 2,419,227	$ 5,995,750	-90%	$ (2,177,155)
Total Services	$ 7,762,643	$ 29,666,641	26%	$ 7,762,643	$ 29,666,641	0%	$ -
Supplies	$ 439,078	$ 1,578,676	28%	$ 439,078	$ 1,578,676	0%	$ -
Intergovernmental	$ 2,394,619	$ 6,030,962	40%	$ 2,394,619	$ 6,030,962	0%	$ -
Interfund Transfers	$ 5,157,860	$ 14,444,143	36%	$ 5,157,860	$ 14,444,143	0%	$ -
Total General Fund Expenditures	**$ 39,437,278**	**$ 149,976,048**	**26%**	**$ 38,776,319**	**$ 148,612,730**	**2%**	$ 660,959

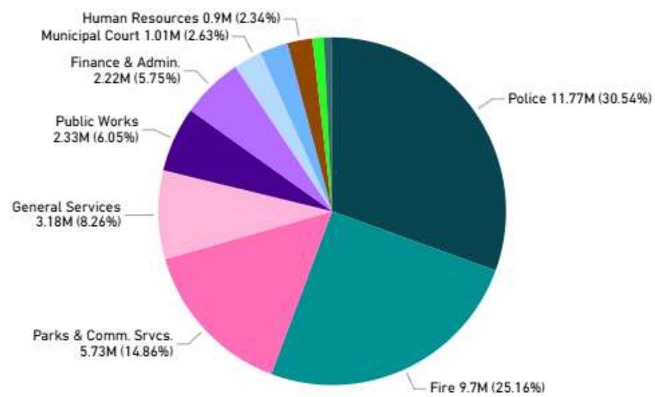
General Fund Expenditures by Department

Of the total budgeted 2026 General Fund expenditures, roughly 52% was dedicated for public safety including Police (28%) & Fire (24%). Beyond this, the largest departments by budget were Parks & Community Services (13%), Public Works (7%), Finance & Administration (6%), and General Services costs and reserves (includes transfers to other funds for capital expenditures and street maintenance) which accounted for roughly 12% of total budgeted General Fund expenditures. The departments with the highest proportion of budget expended at the end of the first quarter were Human Resources (33%), City Council (32%), Parks and Community Services (29%), and Police (28%).

2026 Budgeted Expenditures by Department



2026 Q1 Actual Expenditures by Department



At the end of the first quarter of 2026, General Fund departments' expenditures were down 1% ($230,029) compared to previous year. The majority of the departmental changes were tied to staff cost-of-living adjustments (COLA) and services expenditures.

Parks and Community Services expenditures were up 75% ($2.45 million) higher than 2025 due, almost entirely, to the City taking over lead administration of the Pooled Human Services contracts with several local cities, including Issaquah, Kenmore, Mercer Island, Redmond, Sammamish, and Shoreline. Fire expenditures were up 7% or $602,219, due to increased benefits and insurance costs.

Summary of Other Operating Funds

Other Operating Revenues by Fund

Among the funds that have seen large revenues increases, Equipment Rental is up $107,129 or 6% compared to 2025, primarily due to increased internal service rates. Health Benefits revenues have increased $687,899 or 26% compared to 2025 due to increases in health benefit premiums. Facilities Fund revenues have increased $87,144 or 6% also due to increased internal service rates.

Overall, revenues to other general government funds received at the end of the first quarter of 2026 were roughly $15.32 million, 22% of the budget, an 8% increase from 2025.

Other Operating Funds Revenue	2026 Actuals	2026 Budget	% Received	2025 Actuals	2025 Budget	% Change	$ Change
Lodging Tax	$ 66,363	$ 344,933	19%	$ 63,549	$ 327,160	4%	$ 2,813
Street Operating	$ 1,294,007	$ 10,772,949	12%	$ 1,236,615	$ 10,576,243	5%	$ 57,392
Development Services	$ 4,217,687	$ 16,335,660	26%	$ 4,032,738	$ 15,876,707	5%	$ 184,949
Cemetery	$ 53,211	$ 166,583	32%	$ 45,420	$ 160,236	17%	$ 7,791
Parks Levy Fund	$ 449,361	$ 5,416,639	8%	$ 426,733	$ 5,267,220	5%	$ 22,628
Health Benefits	$ 3,321,382	$ 12,450,294	27%	$ 2,633,483	$ 11,448,514	26%	$ 687,899
Equipment Rental	$ 1,909,094	$ 7,133,992	27%	$ 1,801,965	$ 6,884,540	6%	$ 107,129
Information Technology	$ 2,468,011	$ 10,000,199	25%	$ 2,454,776	$ 10,050,696	1%	$ 13,235
Facilities	$ 1,545,397	$ 5,665,960	27%	$ 1,458,253	$ 6,030,430	6%	$ 87,144
Total Other Operating Revenue	$ 15,324,513	$ 68,287,209	22%	$ 14,153,532	$ 66,621,746	8%	$ 1,170,981

Other Operating Expenditures by Fund

Other general government expenditures ended the first quarter at $18.52 million, around 25% of the total budget and were 6% higher compared to the previous year. Equipment Rental expenditures were down $149,172 or 2% due to decreases in capital vehicle purchases from 2025. Parks Levy expenses were $393,661 or 35% higher than the previous year mainly due to increased insurance costs and staff COLA adjustments. Development Services expenditures were up $660,288 or 13% due to the timing of ARCH contributions that were not yet made in 2025.

Other Operating Funds Expenditure	Actuals 2026	2026 Budget	% Expended	2025 Actuals	2025 Budget	% Change	$ Change
Lodging Tax	$ 38,838	$ 514,265	8%	$ 97,532	$ 347,221	-60%	$ (58,695)
Street Operating	$ 3,226,957	$ 14,729,807	22%	$ 3,182,307	$ 14,569,354	1%	$ 44,650
Development Services	$ 5,747,561	$ 24,561,841	23%	$ 5,087,273	$ 22,650,979	13%	$ 660,288
Cemetery Operating	$ 18,763	$ 118,209	16%	$ 31,673	$ 118,529	-41%	$ (12,910)
Parks Levy Fund	$ 1,510,426	$ 6,293,032	24%	$ 1,116,765	$ 6,159,353	35%	$ 393,661
Health Benefits	$ 2,318,240	$ 12,913,796	18%	$ 2,255,306	$ 11,769,802	3%	$ 62,933
Equipment Rental	$ 1,757,217	$ 8,963,232	20%	$ 1,906,388	$ 10,262,813	-8%	$ (149,172)
Information Technology	$ 2,273,905	$ 9,870,383	23%	$ 2,327,142	$ 10,921,730	-2%	$ (53,236)
Facilities	$ 1,629,288	$ 5,838,733	28%	$ 1,454,736	$ 7,810,038	12%	$ 174,552
Total Other Operating Expenditure	$ 18,521,195	$ 83,803,298	22%	$ 17,459,123	$ 84,609,819	6%	$ 1,062,072

Utility Revenues and Expenditures

Water & Sewer Operating Fund

Year to date Water & Sewer Operating Fund revenues were 7% or $653,311 lower compared to 2025. The City received 20% of total budgeted revenues through the end of March. The decrease in Water & Sewer operating revenues is primarily attributed to reduced permit activity in the fund.

Water & Sewer Operating Fund expenditures were 10% or $817,900 lower than 2025. By dollar value, Supplies experienced the largest increase (up $77,276), followed by Personnel costs (up $65,995) due to recent years of inflation as well as COLA adjustments. Services expenditures decreased (down $111,135) as well as Intergovernment/Interfund costs (down $850,036) which decreased in part due to a reduction in collections for Regional Capital Facilities Charges (RCFC). These are pass-thru fees paid to the regional water supplier, Cascade Water Alliance, after they are received by the City from new development.

Water Sewer Utility Fund	YTD 2026	2026 Budget	% Received/ Expended	YTD 2025	2025 Budget	% YTD Change	$ YTD Change
Revenues							
Charges for Goods & Services	$ 8,007,962	$ 39,471,896	20%	$ 8,218,379	$ 37,407,503	-3%	$ (210,417)
Miscellaneous	$ 93,306	$ 276,228	34%	$ 43,208	$ 239,199	116%	$ 50,098
Proprietary Sources	$ 182,583	$ 938,708	19%	$ 675,575	$ 905,129	-73%	$ (492,992)
Total Revenues	$ 8,283,851	$ 40,686,832	20%	$ 8,937,163	$ 38,551,831	-7%	$ (653,311)
Expenditures							
Personnel	$ 933,381	$ 3,458,673	27%	$ 867,387	$ 3,314,652	8%	$ 65,995
Supplies	$ 1,318,519	$ 6,832,253	19%	$ 1,241,243	$ 6,586,439	6%	$ 77,276
Services	$ 1,848,925	$ 5,045,536	37%	$ 1,960,060	$ 4,844,129	-6%	$ (111,135)
Intergov/Interfund	$ 3,019,178	$ 18,415,166	16%	$ 3,869,214	$ 17,283,733	-22%	$ (850,036)
Total Operating Expenditures	$ 7,120,003	$ 33,751,628	21%	$ 7,937,903	$ 32,028,953	-10%	$ (817,900)

Surface Water Operating Fund

Surface Water revenue is collected along with the property tax payments, and this predictability means that revenues trend close to budget in most years. At the end of Q1 2026, actual revenue received was 6% or 909,280, with year-over-year revenues being essentially flat. Charges for Goods & Services represents rate revenue and ended the first quarter 6% of budget. Intergovernmental revenues decreased due to a large Department of Ecology grant received in 2025 that is not currently budgeted for 2026. Surface Water operating expenditures expended 22% of budget and increased YOY 3% ($68,894) primarily due to personnel adjustments and services costs.

Surface Water Utility Fund	YTD 2026	2026 Budget	% Received/ Expended	YTD 2025	2025 Budget	% YTD Change	$ YTD Change
Revenues							
Intergovernmental	$ 41,906	$ 185,000	23%	$ 94,558	$ 50,000	-56%	$ (52,652)
Charges for Goods & Services	$ 798,753	$ 14,355,148	6%	$ 784,794	$ 13,568,864	2%	$ 13,959
Fines & Forfeits	$ 4,000	$ 30,000	13%	$ 2,000	$ 30,000	100%	$ 2,000
Miscellaneous	$ 64,622	$ 304,909	21%	$ 27,791	$ 263,341	133%	$ 36,830
Proprietary Sources	$ -	$ -	0%	$ -	$ -	0%	$ -
Total Revenues	$ 909,280	$ 14,875,057	6%	$ 909,143	$ 13,912,205	0%	$ 137
Expenditures							$ -
Personnel	$ 1,540,443	$ 6,294,039	24%	$ 1,380,177	$ 6,253,490	12%	$ 160,266
Supplies	$ 101,553	$ 430,051	24%	$ 123,408	$ 430,051	-18%	$ (21,856)
Services	$ 898,970	$ 3,691,554	24%	$ 959,067	$ 3,472,783	-6%	$ (60,097)
Intergov/Interfund	$ 121,793	$ 1,479,333	8%	$ 131,212	$ 1,413,521	-7%	$ (9,419)
Total Operating Expenditures	$ 2,662,759	$ 11,894,977	22%	$ 2,593,865	$ 11,569,845	3%	$ 68,894

Solid Waste Operating Fund

Solid Waste Fund actual revenues were 3% higher than Q1 2025. Rate increases for 2025 and 2026 became effective January 1, 2025, with the adoption of Ordinance O-4883[8] by City Council during the October 15, 2024 Council meeting. Most of the rate increase was driven by increases required in the City's contract with Waste Management. Those costs include mandated profit margins, inflation of driver wages, health and welfare benefits, pensions, and recycling processing and contamination disposal costs.

Solid Waste Fund	YTD 2026	2026 Budget	% Received/ Expended	YTD 2025	2025 Budget	% YTD Change	$ YTD Change
Revenues							
Intergovernmental	$ 77,952	$ 156,169	50%	$ 86,918	$ 156,169	▼ -10%	$ (8,966)
Charges for Goods & Services	$ 7,860,903	$ 35,672,448	22%	$ 7,654,363	$ 33,741,564	▲ 3%	$ 206,540
Miscellaneous	$ 11,234	$ 44,119	25%	$ -	$ 36,849	N/A	$ 11,234
Total Revenues	$ 7,950,088	$ 35,872,736	22%	$ 7,741,281	$ 33,934,582	▲ 3%	$ 208,807
Expenditures							
Personnel	$ 95,243	$ 552,020	17%	$ 137,350	$ 550,114	▼ -31%	$ (42,107)
Supplies	$ 1,651	$ 8,300	20%	$ 218	$ 8,300	▲ 656%	$ 1,432
Services	$ 4,228,730	$ 28,815,265	15%	$ 4,538,789	$ 27,191,390	▼ -7%	$ (310,059)
Intergov/Interfund	$ 1,049,447	$ 5,661,719	19%	$ 998,094	$ 5,353,042	▲ 5%	$ 51,353
Total Operating Expenditures	$ 5,375,072	$ 35,037,304	15%	$ 5,674,452	$ 33,102,846	▲ -5%	$ (299,380)

[8] https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2024/october-15-2024/9b1_business.pdf

2025-2030 Capital Improvement Plan

The 2025-2030 Capital Improvement Plan (CIP) was originally adopted by Council at the December 10, 2024 Council Meeting. The Council is presented with updates to the key projects including award of bid memos throughout the biennium at Council Study Sessions and Meetings.

Key project updates

NE 85th St Ped/Bike Connection – The project started construction in Summer 2025 and will be completed by Summer 2026.

NE 85th Street Eastbound Third Lane – The project started construction in Summer 2025 and will be completed by Summer 2026.

132nd Avenue NE/Slater Avenue Crossing and NE 124th Street & Slater Avenue Crossing Improvements – The project started construction in Spring 2025 and will be completed by Fall 2026.

More information about construction project updates can be found online at: https://www.kirklandwa.gov/Government/Departments/Public-Works-Department/Construction-Projects.

Project	Total Budget	Actuals through 2026	Phase
NE 85th St Ped/Bike Connection	$ 12,170,076	$ 8,229,348	The project started construction in summer 2025 and will be completed by summer 2026
NE 85th Street Eastbound Third Lane	$ 4,018,597	$ 2,193,064	The project started construction in summer 2025 and will be completed in summer 2026
132nd Avenue NE/Slater Avenue Crossing and NE 124th Street & Slater Avenue Crossing Improvements	$ 3,352,550	$ 2,743,503	The project started construction in spring 2025 and will be completed in fall 2026
South Reservoir Replacement	$ 28,381,000	$ 695,780	Currently in Design and expected to begin construction in spring 2027
Marina Park Dock & Shoreline Renovations	$ 6,304,726	$ 757,893	Currently in Design and expected to begin construction in summer 2027
NE 87th St/116th Ave NE Intersection Improvement	$ 910,000	$ 115,262	Currently starting Design and expected to begin construction in 2028

Reserve Snapshot

At the end of March 31, 2026, the City's revised ending reserves total roughly $122.9 million in all reserve balances. These are divided into the following:

- **General Purpose Reserves –** available to meet a wide variety of contingencies and require Council action to be used. The current adopted General Purpose Reserve balance for March 31, 2026 is $20.7 million.
- **Special Purpose Reserves –** have a specific or restricted purpose, such as Development Services reserves, and are set by Council policy, management practice or in some cases state and local laws.
- **General Capital Reserves –** in addition to the General Capital Contingency shown under General Purpose Reserves, there are other capital reserves dedicated either by Council policy or by state or local laws that govern their use.
- **Utility Reserves** - available to meet a wide variety of contingencies but can only be used in the specific utility from which the revenue originated.
- **Internal Service Fund Reserves –** are dedicated either by Council action or by state or local laws that govern their use. These funds include Health Benefits, Equipment Rental, Information Technology and Facilities Maintenance funds. Revenue to these funds is derived primarily from user charges to other funds.

Reserve	Description	Actual Balance as of January 1, 2026	Adopted 2026 Ending Balance	Total Approved Additions/(Uses)	Revised Ending 2026 Balance as of March 31, 2026
General Purpose Reserves					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	-	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	7,417,705	7,417,705	-	7,417,705
Revenue Stabilization Reserve	Temporary revenue shortfalls	4,917,775	4,917,775	-	4,917,775
Building & Property Reserve	Property-related transactions	886,599	886,599	-	886,599
Council Special Projects Reserve	One-time special projects	250,000	250,000	-	250,000
Contingency	Unforeseen expenditures	7,210,246	7,210,246	-	7,210,246
Total General Purpose Reserves		20,732,325	20,732,325	-	20,732,325
Capital Reserves					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects	3,832,953	4,102,397	(269,444)	3,832,953
REET 2	Transportation and other capital projects	2,925,794	2,883,211	42,583	2,925,794
Impact Fees					-
Transportation	Transportation capacity projects	1,709,873	2,001,993	(292,120)	1,709,873
Parks	Parks capacity projects	243,813	258,658	(14,845)	243,813
Fire	Fire capacity projects	722,681	856,421	(133,740)	722,681
General Capital Contingency**	Changes to General capital projects	4,047,951	4,397,951	-	4,397,951
Water/Sewer Utility:					-
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	4,750,214	4,750,214	-	4,750,214
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	13,239,778	6,900,079	-	6,900,079
Surface Water Utility:					-
Surface Water Capital Contingency	Changes to Surface Water capital projects	2,271,897	2,271,897	-	2,271,897
Surface Water Construction Reserve	Replacement/re-prioritized/new projects	1,088,537	609,692	-	609,692
Total Capital Reserves		34,833,491	29,032,513	(667,566)	28,364,947
Other Reserves Requiring Council Action					
Lodging Tax Reserves	Tourism program and facilities	297,231	391,947	(94,716)	297,231
Reserves Not Requiring Council Action					
Multiple	Multiple purposes		72,748,635	-	72,748,635
	Total All Reserves		122,905,420	-	122,905,420

*Uses of REET reserves represents revised revenue assumptions

**General Capital Contingency balance is lower than target due to a use of the fund balance for Parks Maintenance Center capital costs that will be replenished across 10 years. This is the 5th year, with 5 years remaining and the reserve will be fully replenished in 2030

Through reserve policy and management practice, the City requires approval through Council action, either fiscal notes or adoption of budget ordinances, for the use of some reserves. These include the General Purposes Reserves, General Capital Reserves and Utility Capital Reserves. In all cases these are reserves that either significantly impact the financial stability of the City or are of particular interest to City Council. The table above shows the originally adopted ending 2026 balances of these reserves, and their actual balances and total changes as of March 31, 2026.

Reserves not requiring a fiscal note include all fund balances, utility operating reserves, special purpose reserves (other than Lodging Tax), development services reserves, and a number of department specific donations and restricted purpose funds. The combined balances of these funds are tracked within the City's financial system.

Fiscal Notes & Council Action

In the first quarter of 2026, four Council actions resulted in a net use of reserves. Once fiscal notes and Council actions are approved, the corresponding budget adjustment is processed by Financial Planning staff. For tracking and reporting purposes, these adjustments are included within the June and December budget adjustment memos.

Date	Council Action in Q1 2026	Reserves	2026 Est End Balance	2025-2026 Uses	2025-2026 Additions	This Request	Revised 2026 End Balance
3-Mar	Tourism Development Committee has requested a one-time use of $20,000 of Lodging Tax working capital to fund the following additional expenses in the 2025-2026 budget: • Junior League Softball World Series welcome rally August 1,2026 • Umbrella Fringe Festival September 25-27 2026 • World Cup business education late March-May 2026 • Additional opportunities for TDC to engage and support events or tourism draws	Lodging Tax Working Capital	$ 121,310	$ -	$ -	$ (20,000)	$ 101,310
3-Mar	Transfer approximately $233,000 of Kirkland Park Levy funding from PKC1190200 to PKC1520200 for the emergency replacement of the OO Denny Park Bridge.		$ -	$ -	$ -	$ -	$ -
17-Mar	Recognize approximately $368,389 of 2025 investment interest above budget to fund additional expenditures in PCS/CMO operating budgets and CMTKRKNCTR. -One-time transfer of approximately $365,000 of REET 1 reserves to the Iceplex & Community Center parking lot capital project.	REET 1 Reserves	$ 5,507,192	$ (1,674,239)	$ -	$ (365,000)	$ 3,467,953
17-Mar	Use of approximately $101,650 of School Zone Safety Camera reserve balance in the General Fund to fund the extension of the temporary transportation engineer position through December 2026.	School Zone Safety Camera Reserve	$ 1,956,159	$ (185,059)	$ -	$ (101,650)	$ 1,669,450