CITY OF KIRKLAND
PUBLIC WORKS
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Jennifer J Gaus, Surface Water Strategic Advisor
Tracey Dunlap, Deputy City Manager of Operations
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Grant P Raupp, Senior Financial Analyst
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Date: October 5, 2026

Subject: Adoption of 2027-2028 Utility Rates Ordinances

RECOMMENDATION:

Staff recommends the City Council adopts the four proposed ordinances establishing the 2027 and 2028 rates for the water, sewer, surface water, and solid waste utilities. Staff will also submit a resolution for City Council consideration at the December 8 Council meeting that provides policy direction to restore operating reserves to specified target levels by the end of 2032, or sooner, for all utilities.

EXECUTIVE SUMMARY:

- Final rates are the same as the proposed rates presented at the September 15 Study Session and are summarized in Table U-1. The impact to the average utility customer is shown in Table U-2.
- The utility cost of service study begins in 2027 and will include evaluation and possible recommendations for alterations to rate designs and benchmarking with other agencies.
- Adoption of rates at the October 20 Council Meeting will allow sufficient time for staff to meet posting and notification requirements to have water and sewer rates become effective on December 1, 2026, and for surface water and solid waste rates to become effective on January 1, 2027.
- Staff will propose a resolution on December 8 stating Council's intent to achieve specified operating reserve targets by the end of 2032, or sooner, for each utility. This will provide guidance to staff and Council for the utility cost of service study, and for 2029-2030 and 2031-2032 rate setting processes.

BACKGROUND:

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. Staff provided general information about the utilities and rate-setting process at the May 19 Study Session,[1] and that information was intended to provide a foundation for Council's decision-making process.

FCS, a Bowman company, was selected as the consultant through a Request for Proposal process to conduct revenue forecasting and rate modeling for 2027-2028. Attachment 1 is the consultant's final report summarizing Final rate results and describing the model's updated inputs, methodology, and key assumptions. This information and the associated models are the keys to evaluating and choosing a rate path.

The information below will supplement the consultant's report and is intended to aid Council in adopting Final rates.

This is the third of three meetings where utility rates will be discussed; below is a summary of presentations:

- August 5: Preliminary rates were presented.[2] Those preliminary rates met current fiscal policies and that included the preliminary 2027-2028 base budget and CIP, and external service rates.
- September 15: Proposed were presented.[3] The proposed rates were updated based on updated budget and CIP data, service packages, updated external service rates, and Council feedback regarding the need to smooth and moderate rate increases, as practical.
- October 20: Final rates will be presented for Council adoption. Adoption of the rates at this meeting will allow rates to become effective on either December 1, 2026 (Water, Sewer), or January 1, 2027 (Surface Water, Solid Waste).
- Final rates, and a table of impact to the average monthly bill are in Tables U-1 and U-2. Final rates presented here are unchanged from the Proposed rates from September 15

Final Utility Rates – Summary

Final utility rate increases are summarized in Table U-1. Final rate increases are the same as Proposed increases that were presented at the September 15 Council Study Session. The impact to the average residential customer monthly bill is presented in Table U-2. Please note that Table U-1 has been revised to include sewer rate increase lines for both the Kirkland and King County Wastewater Treatment portions of that rate.

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

[2] Council memo: https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/august-5-2026/3a_study-session.pdf and presentation: https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/august-5-2026/3a_preliminary-utility-rates.pdf

[3] Council memo: https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/september-15-2026/3a_study-session.pdf and presentation: https://www.kirklandwa.gov/files/sharedassets/public/v/1/city-council/agenda-documents/2026/september-15-2026/3a_proposed-utility-rates.pdf

Table U-1 Proposed and Projected 2027-2028 Utility Rate Increases*						
	Proposed		Projected			
Utility	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Water	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Sewer – Kirkland	8.85%	8.85%	8.85%	8.85%	8.85%	8.85%
Sewer – King County**	13.29%	12.75%	12.75%	12.75%	11.25%	11.25%
Surface Water	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%
Solid Waste	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%
Total for All Utilities	8.40%	8.35%	8.43%	8.51%	8.13%	8.18%

* Rates are currently being set for 2027-2028. Rates for 2029-2032 are shown to illustrate the impact of the projected rates over the 6-year planning horizon

** As noted in the August 5 Preliminary Rate Memo, King County Wastewater 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. The proposed increase in 2027 achieves 100% pass-through of King County costs.

Table U-2 Impact of Proposed and Projected Utility Rates on the Average Monthly Residential Bill*							
		Proposed		Projected			
	2026	2027	2028	2029	2030	2031	2032
Water							
Local Share	$34.74	$37.51	$39.74	$41.12	$42.70	$45.01	$47.54
Cascade Water Alliance	$21.85	$22.90	$24.75	$27.72	$30.79	$33.44	$36.20
Subtotal	$56.59	$60.41	$64.49	$68.84	$73.49	$78.45	$83.74
Sewer							
Local Share	$40.80	$44.41	$48.34	$52.62	$57.28	$62.35	$67.86
King County Wastewater Treatment	$62.36	$70.65	$79.66	$89.82	$101.28	$112.68	$125.36
Subtotal	$103.16	$115.06	$128.00	$142.44	$158.56	$175.03	$193.22
Surface Water							
Local Share	$23.08	$24.44	$25.88	$27.41	$29.03	$30.74	$32.55
External	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Subtotal	$23.08	$24.44	$25.88	$27.41	$29.03	$30.74	$32.55
Solid Waste							
Local Share	$12.35	$12.31	$12.99	$13.64	$14.80	$16.01	$17.29
Waste Management Contract and King County Solid Waste Division	$40.22	$43.04	$45.30	$47.74	$49.84	$52.05	$54.38
Subtotal	$52.57	$55.36	$58.29	$61.38	$64.63	$68.06	$71.67
Subtotal Local Share	$110.97	$118.67	$126.95	$134.79	$143.80	$154.11	$165.24
Subtotal External Share	$124.43	$136.59	$149.71	$165.28	$181.90	$198.16	$215.94
Subtotal Monthly Sample Bill	**$235.40**	**$255.27**	**$276.66**	**$300.07**	**$325.70**	**$352.27**	**$381.19**
Utility Taxes**	$25.65	$27.81	$30.13	$32.67	$35.44	$38.33	$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**	**$284.12**	**$307.83**	**$333.78**	**$362.18**	**$391.64**	**$423.69**
Monthly Bill Impact		$22.03	$23.71	$25.95	$28.40	$29.46	$32.04
% Increase		8.40%	8.35%	8.43%	8.51%	8.13%	8.18%

**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.*

Staff Acknowledgement
Many staff members beyond those listed in the header of this memorandum help in developing Final rates and in the writing and production of this memorandum. We thank and acknowledge the following: Sarah R. Olson, Michael Olson, Kevin Pelstring, Carly Joerger, Kelli Jones, Tom Chriest, Jessica Clem, and Jintana Tanrattana.

DISCUSSION/ANALYSIS:

Introduction
Final utility rate increases are noted in Table U-1 above. The impact of the Final rates on the average monthly residential bill is shown in Table U-2 above. These rates are the same as those presented at the September 15 Council Study Session.

Utility Rate Clarifications
Introduction
The rates incorporated in the ordinances reflect the proposed rate increases for 2027-2028 presented on September 15, 2026. The following information highlights any significant code changes that are included in the proposed ordinances and provides additional notes of clarification, as needed.

Water Utility
In addition to adopting the 2027 and 2028 rates for the water utility, language in Ordinance O-4951 includes one clarification. The description of the single-family residential Water Consumption Charge was updated to note that the first consumption charge category includes water usage over 200 cubic feet to over 1200 cubic feet of water, rather than usage from 201 to over 1200 cubic feet of water (see line 28 of Attachment 2). The previous language could have been interpreted to omit consumption charges for between 200 and 201 cubic feet of water.

Sewer Utility
A line has been added to Table U-1 showing the increase to the King County Wastewater charge separately from Kirkland's charge for clarity. The increase in the local portion of the sewer rate (8.85% for both 2027 and 2028), and the overall increase for all utilities as shown in the September 15 memo (8.4% for 2027 and 8.35% for 2028) are unchanged.

The King County Wastewater rate increase for 2027 is 13.29%. This consists of the 12.75% increase adopted by King County for 2027 plus an additional increase to achieve 100% pass-through of King County costs beginning in 2027.
As noted in the August 5 Preliminary Rate memo, the additional increase is needed because King County raised its 2026 rate by 7.5%, rather than the 7.0% increase originally projected in 2024. Because Kirkland's 2025 and 2026 rates were already set, the full King County increase was ultimately not passed through to customers in 2026.

The proposed 2028 King County Wastewater charge is based on King County's current projected increase of 12.75%. At this time, King County has adopted only the 2027 rate. The outer years, 2028 and beyond, are only projections. Should the County adopt a significantly different increase than the currently projected 12.75% in 2028, staff would likely need to return to Council in order to maintain 100% pass-through of King County costs.

Language in Ordinance O-4952 has been updated to separate King County Wastewater Treatment and Kirkland charges. This will provide customers with more clarity regarding the rates and rate adjustments of the King County Wastewater Treatment Division and the rates

and rate adjustments of Kirkland and is more consistent with what appears on customer bills, which show King County and Kirkland amounts separately.

Surface Water Utility
The surface water rate Ordinance O-4953 is updated to include the rate as an annual fee like the fee appears on the King County Assessor's statement, rather than as a monthly amount.

In 2025, Kirkland accepted a forgivable loan from the Department of Ecology for a regional stormwater facility near the site of the new Kraken Iceplex and Community Center. The terms of this loan may require costs in advance of reimbursement under certain circumstances. Staff wanted to highlight that a placeholder of approximately $365k per year has been included in the rate model as a conservative measure.

Council will be discussing aging and failing infrastructure needs for the surface water utility over the next two years. It is likely that there will be increased capital spending associated with aging and failing infrastructure. If the forgivable loan funding placeholder is not necessary, these funds could be re-allocated for aging and failing infrastructure needs or rate increases could be adjusted for 2029-2030.

Solid Waste Utility
Ordinance O-4954 establishes the 2027 and 2028 rates for the solid waste utility. Minor additional changes were made to the code to better clarify the application of rates and charges and to eliminate some outdated services.

Resolution Regarding Utility Operating Reserve Targets
Council is adopting rates for 2027-2028 through the four proposed ordinances, but the modeling for 2027-2028 utility rates included examination of projected rates through the year 2032. The projected rates presented are smoothed, and, as modeled, this smoothing achieves replenishment of the City's typical operating reserve targets by the end of 2032, or sooner, for each utility.

At the December 8 Council meeting, staff will present a resolution that reflects Council's direction to present utility rates in 2029-2030 and 2031-2032 processes that achieve operating reserve targets by the end of 2032 or sooner. This will provide guidance to staff and Council for Phase 2 of the utility cost of service study and for 2029-2030 and 2031-2032 rate setting processes.

Phase 2 of Utility Cost of Service Study
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
- Possible 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 survey of Kirkland's utility rates and capital facilities charges relative to those of other agencies

Comparison and review of fiscal policies as discussed above could be added to this scope of work. The consultant is well-positioned to do this work, as they have worked with many neighboring cities and are familiar with their policies.

The study is anticipated to cost $100,000, with the cost spread amongst the four utilities. The service package to support this work will be presented with the 2027-2028 Budget and are reflected in the final rates.

NEXT STEPS:

Following adoption of the four proposed ordinances, staff will proceed with posting and notification requirements to allow new water and sewer rates to become effective on December 1, 2026, and for new surface water and solid waste rates to take effect on January 1, 2027. Water, sewer, and solid waste customers will receive a bill insert notifying them of the updated rates. Staff will begin scoping and data collection for Phase 2 of the Utility Rate Study with the goal of kicking off work with the consultant in 2027.

ATTACHMENTS:

Attachment 1 – Utility Rate Study Results and Proposed Rates – Final
Ordinance O-4951, Amending Section 15.24.020 of the Kirkland Municipal Code to Change Water System Customer Rates for 2027 and 2028
Ordinance O-4952, Amending Section 15.24.070 of the Kirkland Municipal Code to Change Sewer System Customer Rates for 2027 and 2028
Ordinance O-4953, Amending Section 15.56.020 of the Kirkland Municipal Code to Change Annual Surface Water Utility Service Rates for 2027 and 2028
Ordinance O-4954, Amending Section 16.12.030 of the Kirkland Municipal Code to Change Solid Waste Collection Rates for 2027 and 2028

Attachment 1

CITY OF KIRKLAND

Utility Rate Study Results and Proposed Rates - Final

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September 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.

The current report is being delivered as supporting information for the October 20, 2026, City Council Study Session at which the Council is scheduled to vote on proposed utility rates for 2027-2028.

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 proposed 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 planned expenditures against 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

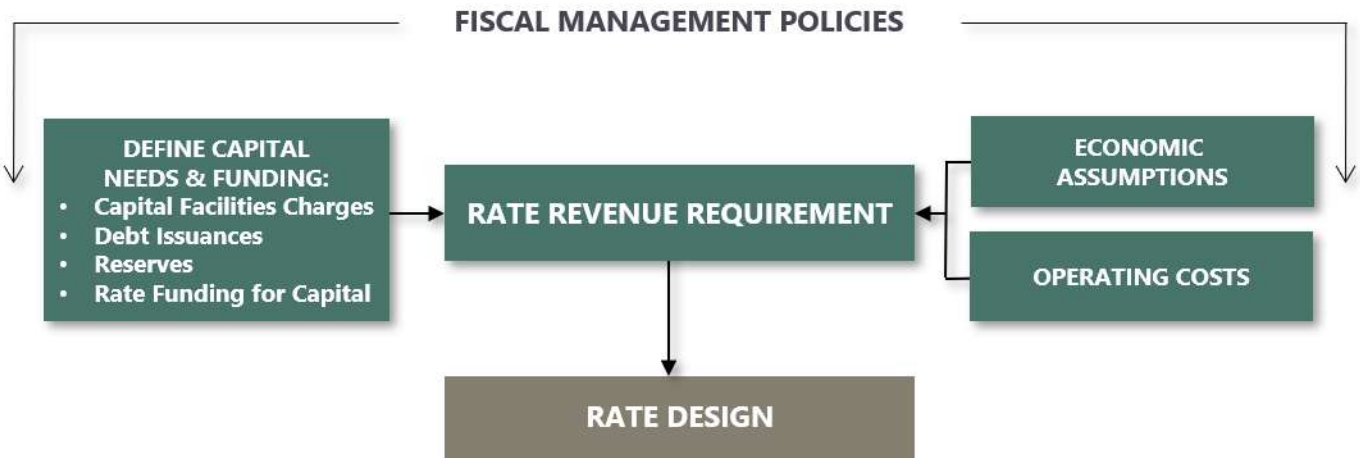
The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that recover costs by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate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

The primary tasks of the rate study are listed below:

- **Revenue Requirement Analysis**. This analysis identifies the total revenue needed to 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. While the City already has policies that specify targeted levels of utility reserves, it's recommended that the City consider documenting a policy to replenish reserves when they dip below targeted levels. On average, reserve replenishment policies allow for three to six years to rebuild reserves to target levels but are ultimately aligned with the City's risk tolerance.

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 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**. Projects 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 or volume charges.

No changes to the rate structure are considered in the current report; rather, all proposed 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 ($3.8 - $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%*365=43.8) and equates to approximately 90 days of O&M in total.

  The water utility is forecasted to end 2026 at 81 percent of target, or 72 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) ($3.7 million for the period 2026-2032). The water utility is forecasted to end 2026 at 92 percent of target.

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, 4.0 in 2028, 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, 4.0 in 2028, 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.** 4.8-13.4 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.** Two (2) new debt issues are anticipated to fund the 2027 expenditure on the South Reservoir Replacement. First, the City anticipates a $10.0 million issuance from the Washington State Public Works Board (PWB). The PWB issuance is assumed to have a twenty-year term and an interest rate of 2.31 percent. The City also anticipates a general obligation bond issuance of $2.5 million which is assumed to have a twenty-year term, an interest rate of 4.34 percent and an issuance cost of 1.00 percent. The additional annual debt service from these two issuances is expected to start in 2027 at $938,000.

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 - $3.3 million annually in rate funded system reinvestment from 2026 to 2032.

Capital Funding Plan

The water utility is anticipating $45.3 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 debt 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.

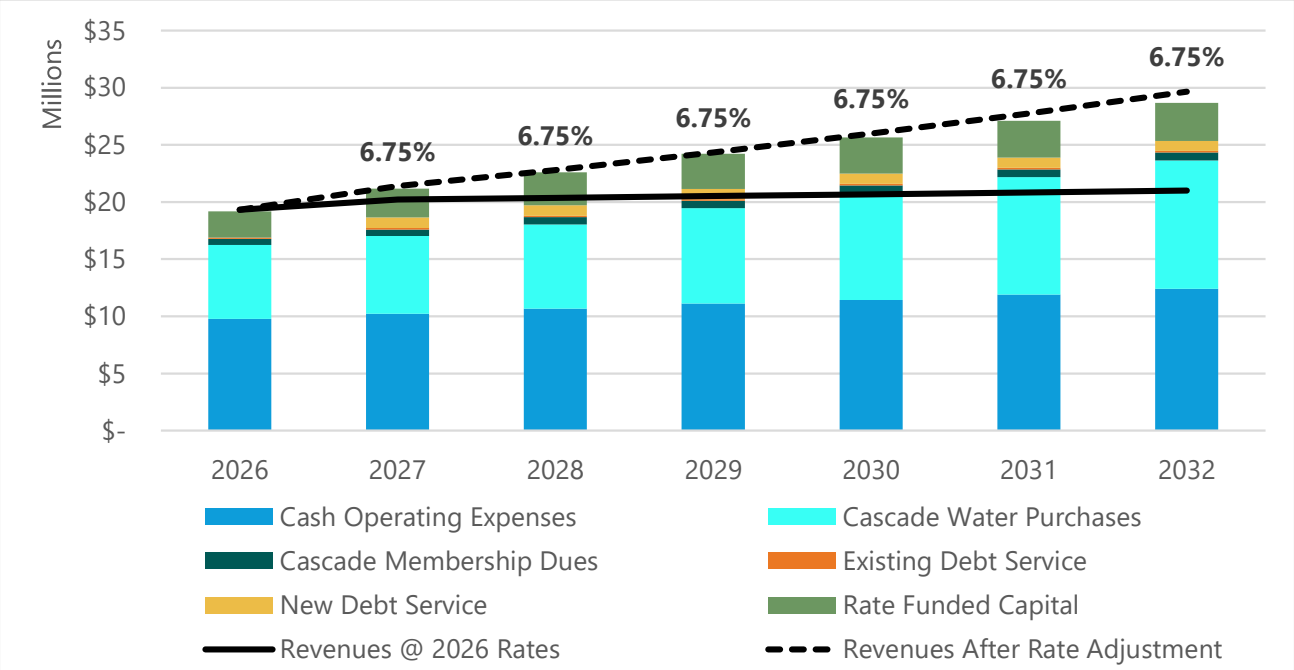
Exhibit 4. Water Capital Funding Summary

Funding Summary ($000s)	2026	2027	2028	2029	2030	2031	2032	Total
Total Capital Costs	**$8,514**	**$15,573**	**$7,321**	**$2,925**	**$3,510**	**$3,650**	**$3,796**	**$45,288**
Funding Sources								
Cash Balances	$7,653	$2,278	$2,519	$1,701	$2,242	$2,338	$2,438	$21,169
Capital Facilities Charges	662	795	1,034	1,224	1,267	1,312	1,358	7,651
External Funding	199	-	3,769	-	-	-	-	3,968
Debt Proceeds	-	12,500	-	-	-	-	-	12,500
Total Capital Funding	**$8,514**	**$15,573**	**$7,321**	**$2,925**	**$3,510**	**$3,650**	**$3,796**	**$45,288**

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 $10.0 million PWB loan issuance and a $2.5 million general obligation bond issuance in 2027 to fund the South Reservoir Replacement, new annual debt service is estimated at $0.9 million beginning in 2027.
- To meet the total projected financial obligations of the water utility, rate increases are recommended at 6.75 percent annually from 2027 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 by 2032.
- 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 and are generally consistent with the cost to serve each customer class.

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 volume 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. Volume rates are tiered for single family residential customers, increasing at certain usage thresholds, 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) **included in basic charge*	$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

Proposed 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 proposed and projected rates for the study period.

Exhibit 7. Proposed and Projected Water Rates

	Existing	Proposed		Projected			
	2026	2027	2028	2029	2030	2031	2032
Bi-monthly Basic Charge by Class and Meter Size							
Single Family Residential	$51.48	$54.95	$58.66	$62.62	$66.85	$71.36	$76.18
Multi-Family & Commercial by Meter Size							
5/8" - 3/4"	$38.68	$41.29	$44.08	$47.05	$50.23	$53.62	$57.24
1"	$66.52	$71.01	$75.80	$80.92	$86.38	$92.21	$98.44
1 1/2"	$105.70	$112.83	$120.45	$128.58	$137.26	$146.53	$156.42
2"	$169.56	$181.01	$193.22	$206.27	$220.19	$235.05	$250.92
3"	$481.62	$514.13	$548.83	$585.88	$625.43	$667.64	$712.71
4"	$665.26	$710.17	$758.10	$809.27	$863.90	$922.21	$984.46
5"	$860.16	$918.22	$980.20	$1,046.36	$1,116.99	$1,192.39	$1,272.88
6"	$1,138.86	$1,215.73	$1,297.80	$1,385.40	$1,478.91	$1,578.74	$1,685.30
8"	$1,696.30	$1,810.80	$1,933.03	$2,063.51	$2,202.80	$2,351.48	$2,510.21
Charge for Water Consumed (per ccf)							
Single Family Residential							
Tier 1 (0-4 ccf) **included in basic charge*	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Tier 2 (5-24 ccf)	$6.17	$6.59	$7.03	$7.51	$8.01	$8.55	$9.13
Tier 3 (over 24 ccf)	$8.11	$8.66	$9.24	$9.87	$10.53	$11.24	$12.00
Multi-Family & Commercial	$5.84	$6.23	$6.66	$7.10	$7.58	$8.10	$8.64
Sprinkler (Irrigation)	$9.39	$10.02	$10.70	$11.42	$12.19	$13.02	$13.90

Sewer Utility

Introduction

The City of Kirkland operates, maintains and repairs 137 miles of wastewater mains, over 3,500 maintenance manholes, 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%*365=43.8) and equates to approximately 90 days of O&M in total.

  The sewer utility is forecasted to end 2026 at 47 percent of target, or 42 days of O&M expenses, if no changes to system reinvestment funding are implemented. The financial strategy described in this report leverages both rates and adjustments to system reinvestment funding to meet the operating reserve targets in each year of the rate setting period.
- **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 44 percent of the six-year CIP with the recommended adjustments to system reinvestment funding, 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, 4.0 in 2028, 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, 4.0 in 2028, 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. While the policy-based target for system reinvestment funding for the sewer utility is 165 percent of annual depreciation, discussions with the City of this policy's effects on rates alongside forecasted capital spending over the rate-setting period led to a recommendation to relax the policy over the study period while building back up to the policy level of funding. The City is forecast to contribute 50 percent of annual

depreciation in 2026 and ramp up to the policy-based target of 165 percent of annual depreciation by 2032. Assumed levels of system reinvestment included in the forecast are shown in **0**.

Exhibit 8. Sewer System Reinvestment Funding Forecast

	2026	2027	2028	2029	2030	2031	2032
Percent of Annual Depreciation	50%	90%	125%	125%	125%	145%	165%
System Reinvestment Funding ($000s)	$1,185	$2,190	$3,080	$3,174	$3,329	$4,049	$4,768

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 9** 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.

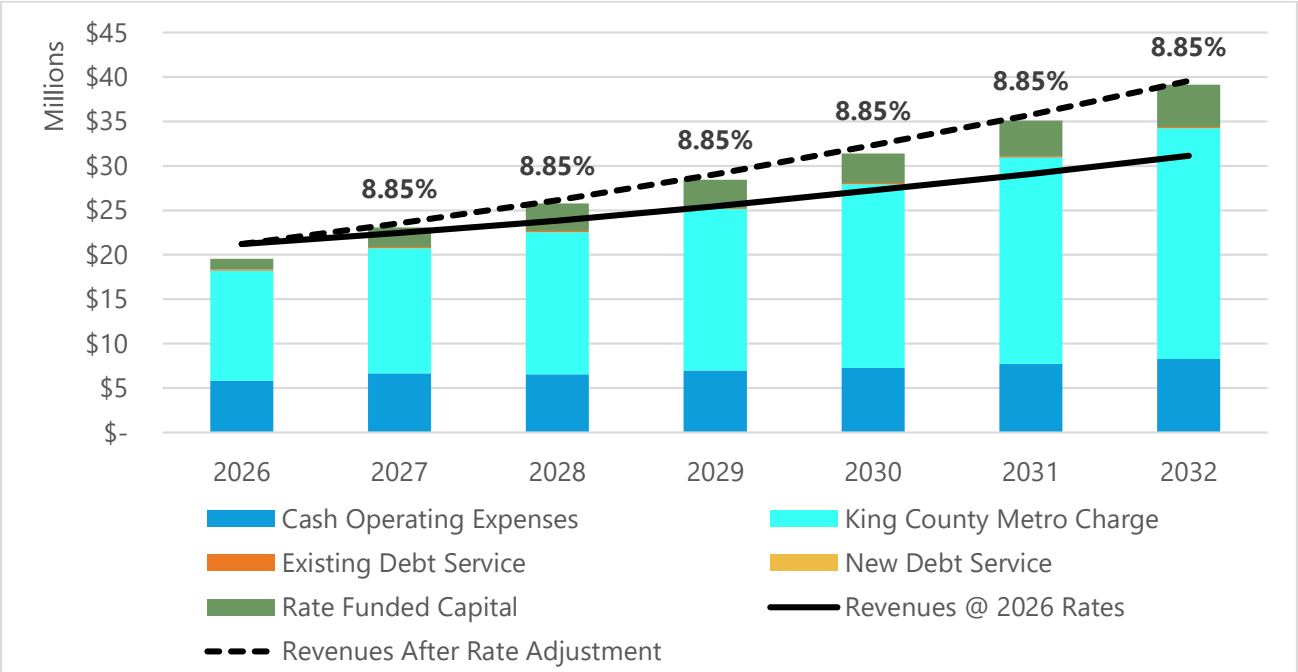
Exhibit 9. Sewer Capital Funding Summary

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	$2,532	$915	$3,029	$5,393	$5,614	$4,018	$4,184	$25,684
Capital Facilities Charges	538	645	757	794	821	848	877	5,280
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 10** provides a summary of the sewer system revenue requirement findings.

Exhibit 10. Sewer Revenue Requirement Forecast 2026 – 2032



Summary of the sewer revenue requirement:

- As identified in **Exhibit 10**, revenues at existing levels are sufficient to meet total operating obligations and the reduced system reinvestment funding target in 2026.
  - Reducing the system reinvestment funding levels allows the utility to fully fund the operating reserve in 2026 and mitigate rate pressure while rebuilding system reinvestment levels over the study period.
- Beginning in 2027, rate revenues at existing rates are projected to be insufficient to meet system reinvestment funding, even at reduced levels, and by 2030 would be insufficient to meet operating obligations of the sewer utility due primarily to increases in King County treatment costs.
- To meet the total projected financial obligations of the sewer utility, rate increases are recommended at 8.85 percent annually from 2027 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:

- With the reduced system reinvestment funding, the operating fund balance target of 90 days of O&M is met in every year of the forecast period.
- Rate funded system reinvestment funding is reduced throughout the forecast period but rebuilds to target by 2032.
- 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 and are generally consistent with the cost to serve each customer class.

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 volume 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. Volume 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. **Exhibit 11** 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 11. 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

Proposed 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 12** provides a summary of the proposed and projected rates for the study period.

Exhibit 12. Proposed and Projected Sewer Rates

	Existing	Proposed		Projected			
	2026	2027	2028	2029	2030	2031	2032
Bi-monthly Basic Charge by Class and Meter Size							
King County Wastewater Treatment	$124.72	$141.30	$159.32	$179.64	$202.56	$225.36	$250.72
Single Family Residential	$40.80	$44.41	$48.34	$52.62	$57.28	$62.35	$67.86
Multi-Family & Commercial	$152.46	$165.95	$180.64	$196.63	$214.03	$232.97	$253.59
Charge for Water Consumed (per ccf)							
Single Family Residential *(average winter water above 6 ccf)*	$6.80	$7.40	$8.06	$8.77	$9.55	$10.39	$11.31
Multi-Family & Commercial *(above 12 ccf)*	$12.75	$13.88	$15.11	$16.44	$17.90	$19.48	$21.21

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 ($3.6 - $4.3 million for the period 2026-2032). The surface water utility is forecasted to end 2026 at 147 percent of target, or 147 days of O&M expenses. Resulting rate strategies will incorporate drawing down this reserve and ending at the target by 2032.
- **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 14 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, 4.0 in 2028, 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, 4.0 in 2028, 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 $34.9 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, NE 106th Pl Storm Facility Improvements, 105th Pl NE Pipe Replacement, Holmes Point Drive NE Pipe Installation, High Woodlands Stormwater Management new NE 145th Street, Houghton Park and Ride Regional Stormwater Facility, Transfer for PWMC Upgrades (Quick Wins), and Annual Transfers to Transportation. Funding for the capital identified includes cash balances, CFC

revenues, and external funding contributions. **Exhibit 13** 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.

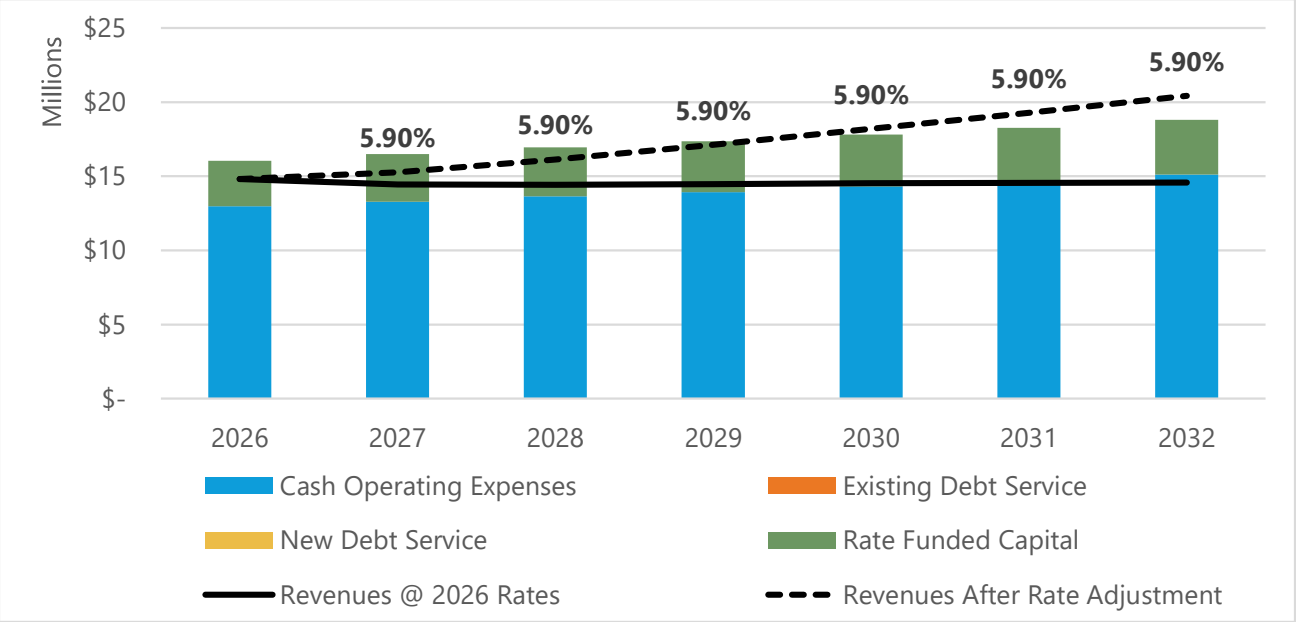
Exhibit 13. Surface Water Capital Funding Summary

Funding Summary ($000s)	2026	2027	2028	2029	2030	2031	2032	Total
Total Capital Costs	**$7,400**	**$4,820**	**$6,406**	**$3,019**	**$3,033**	**$6,141**	**$4,112**	**$34,931**
Funding Sources								
Cash Balances	$3,400	$3,596	$2,572	$2,698	$2,713	$5,821	$3,792	$24,592
Capital Facilities Charges	302	317	323	321	320	320	320	2,223
DOE Forgivable Loan	3,698	-	-	-	-	-	-	3,698
Developer Funding	-	907	3,511	-	-	-	-	4,418
Total Capital Funding	**$7,400**	**$4,820**	**$6,406**	**$3,019**	**$3,033**	**$6,141**	**$4,112**	**$34,931**

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 14** provides a summary of the surface water system revenue requirement findings.

Exhibit 14. Surface Water Revenue Requirement Forecast 2026 – 2032



Summary of the surface water revenue requirement:

- As identified in **Exhibit 14**, revenues at existing levels are insufficient to meet rate funded capital obligations in 2026.
- Without any rate action, utility revenue would be deficient against operating and maintenance costs in 2031.

- Excess working capital 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 5.90 percent annually from 2027 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 by 2032.
- 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 and are generally consistent with the cost to serve each customer class.

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 single rate per Equivalent Service Unit (ESU), with one ESU equal to 2,600 square feet of impervious surface area. **Exhibit 15** 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 15. Existing Surface Water Rates

Monthly Charge per ESU	$23.08

Proposed 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 16** provides a summary of the proposed and projected rates for the study period.

Exhibit 16. Proposed and Projected Surface Water Rates

	Existing	Proposed		Projected			
	2026	2027	2028	2029	2030	2031	2032
Monthly Fixed Charge per ESU	$23.08	$24.44	$25.88	$27.41	$29.03	$30.74	$32.55

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 rates 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 - $3.7 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 approximately 50 percent of target, or 15 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, 4.0 in 2028, 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, 4,0 in 2028, 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 fees for the collection, transfer, storage, or disposal of solid waste.
- **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 of 9.5 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

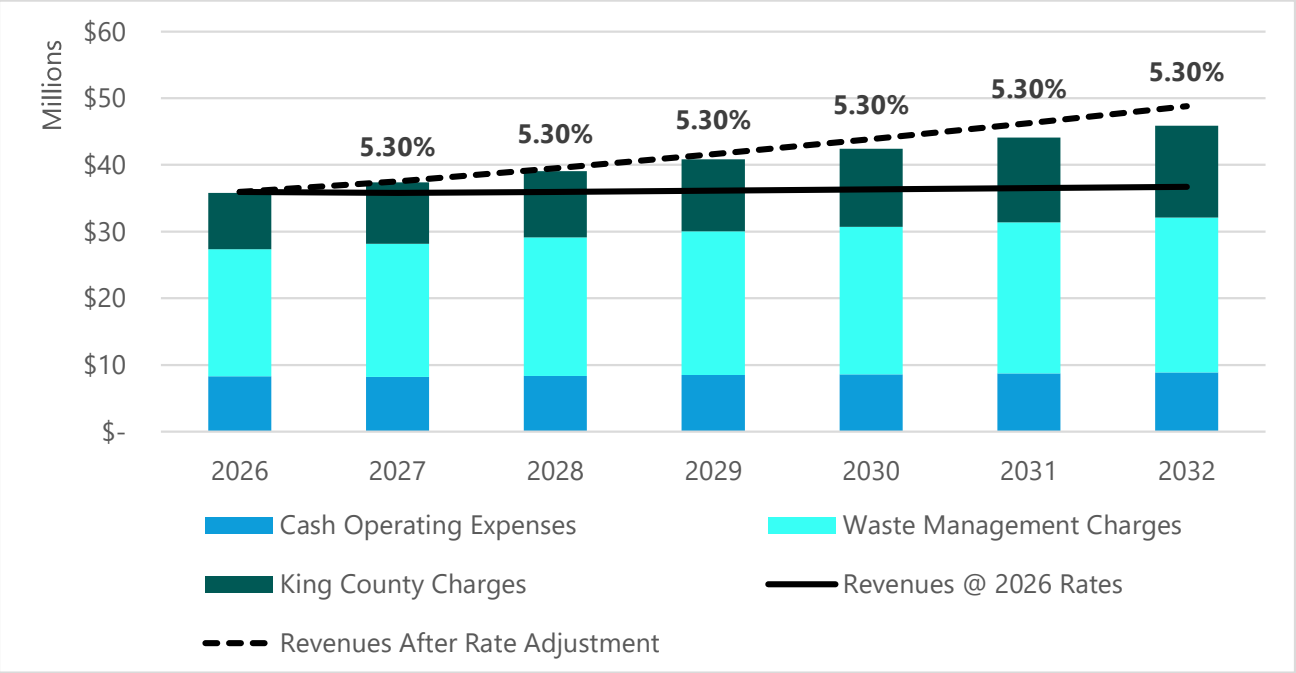
The solid waste utility does not have any planned capital expenses.

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 17** provides a summary of the solid waste system revenue requirement findings.

Exhibit 17. Solid Waste Revenue Requirement Forecast 2026 – 2032



Summary of the solid waste revenue requirement:

- As identified in **Exhibit 17**, 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 working capital 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 5.30 percent annually from 2027 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 working capital target of 30 days of O&M is met by 2032.

Rate Design

The principal objective of the rate design stage is to implement solid waste rate structures that collect the appropriate level of revenue and are generally consistent with the cost to serve each customer class.

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 18** 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 18. Existing Solid Waste Rates

Single Family Residential	
Monthly Collection	
35-gallon bin	$27.30
Weekly Collection	
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
Hazardous Waste Fee	$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	
Roll-Off Service (per Pickup)	
Loose (Permanent)	$245.83
Loose (Temporary)	$248.22
Compactors	$269.68
Miscellaneous Service Fees (per Event)	
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

Proposed 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 19** provides a summary of the proposed and projected rates for the study period.

Exhibit 19. Proposed and Projected Solid Waste Rates

	Existing	Proposed		Projected			
	2026	2027	2028	2029	2030	2031	2032
Single Family Residential							
Monthly Collection							
35-gallon bin	$27.30	$28.75	$30.27	$31.87	$33.56	$35.34	$37.22
Weekly Collection							
10-gallon bin	$33.80	$35.59	$37.48	$39.46	$41.56	$43.76	$46.08
20-gallon bin	$67.54	$71.12	$74.89	$78.86	$83.04	$87.44	$92.07
35-gallon bin	$105.14	$110.71	$116.58	$122.76	$129.27	$136.12	$143.33
64-gallon bin	$192.22	$202.41	$213.14	$224.43	$236.33	$248.85	$262.04
96-gallon bin	$288.32	$303.60	$319.69	$336.64	$354.48	$373.26	$393.05
Hazardous Waste Fee	$2.08	$2.08	$2.08	$2.08	$2.08	$2.08	$2.08

	Existing	Proposed		Projected			
	2026	2027	2028	2029	2030	2031	2032
Commercial Cart and Container Service							
Cart Service							
One 20-gallon min cart	$33.77	$35.56	$37.44	$39.43	$41.52	$43.72	$46.04
One 35-gallon cart	$52.57	$55.36	$58.29	$61.38	$64.63	$68.06	$71.67
One 64-gallon cart	$96.11	$101.20	$106.57	$112.22	$118.16	$124.43	$131.02
One 96-gallon cart	$144.16	$151.80	$159.85	$168.32	$177.24	$186.63	$196.52
Container Service - Loose							
1 Cubic Yard Service	$159.50	$167.95	$176.86	$186.23	$196.10	$206.49	$217.44
1.5 Cubic Yards	$202.44	$213.17	$224.47	$236.36	$248.89	$262.08	$275.97
2 Cubic Yards	$244.92	$257.90	$271.57	$285.96	$301.12	$317.08	$333.88
3 Cubic Yards	$324.49	$341.69	$359.80	$378.87	$398.95	$420.09	$442.36
4 Cubic Yards	$405.31	$426.79	$449.41	$473.23	$498.31	$524.72	$552.53
6 Cubic Yards	$564.69	$594.62	$626.13	$659.32	$694.26	$731.06	$769.80
8 Cubic Yards	$723.07	$761.39	$801.75	$844.24	$888.98	$936.10	$985.71
Container Service - Compacted							
1 Cubic Yard Service	$425.25	$447.79	$471.53	$496.52	$522.83	$550.54	$425.25
1.5 Cubic Yards	$591.14	$622.47	$655.47	$690.21	$726.79	$765.31	$591.14
2 Cubic Yards	$755.90	$795.96	$838.14	$882.57	$929.34	$978.60	$755.90
3 Cubic Yards	$1,080.11	$1,137.36	$1,197.64	$1,261.12	$1,327.96	$1,398.34	$1,080.11
4 Cubic Yards	$1,405.58	$1,480.07	$1,558.52	$1,641.12	$1,728.10	$1,819.68	$1,405.58
6 Cubic Yards	$3,008.81	$3,168.28	$3,336.20	$3,513.01	$3,699.20	$3,895.26	$3,008.81

	Existing	Proposed		Projected			
	2026	2027	2028	2029	2030	2031	2032
Commercial Roll-Off and Miscellaneous Service							
Roll-Off Service (per Pickup)							
Loose (Permanent)	$245.83	$258.86	$272.58	$287.03	$302.24	$318.26	$335.12
Loose (Temporary)	$248.22	$261.38	$275.23	$289.82	$305.18	$321.35	$338.38
Compactors	$269.68	$283.97	$299.02	$314.87	$331.56	$349.13	$367.64
Miscellaneous Service Fees (per Event)							
Container Rollouts (per Container)	$15.10	$15.90	$16.74	$17.63	$18.56	$19.55	$20.58
Unlocking Lids	$4.37	$4.60	$4.85	$5.10	$5.37	$5.66	$5.96
Opening Gates	$7.76	$8.17	$8.60	$9.06	$9.54	$10.05	$10.58
Standby Time (over 5 min.) per minute	$5.02	$5.29	$5.57	$5.86	$6.17	$6.50	$6.84
Additional Mileage Charge (for hauls to other sites--charge per mile)	$10.03	$10.56	$11.12	$11.71	$12.33	$12.99	$13.67
Return Trips	$69.53	$73.22	$77.10	$81.18	$85.48	$90.01	$94.79
Carry-Out Service (per Container per 25 ft)	$15.10	$15.90	$16.74	$17.63	$18.56	$19.55	$20.58
Redelivery	$97.87	$103.06	$108.52	$114.27	$120.33	$126.70	$133.42
Extra Cart Service (35-gallon equivalent)	$9.67	$10.18	$10.72	$11.29	$11.89	$12.52	$13.18
Extra Uncompacted Cubic Yard	$43.26	$45.55	$47.97	$50.51	$53.19	$56.01	$58.97
Pressure Washing (per yard)	$46.34	$48.80	$51.38	$54.11	$56.97	$59.99	$63.17

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 for each service.

The results of this analysis indicate that each utility will need annual increases to satisfy all fiscal obligations. Proposed and projected rate increases are summarized in **Exhibit 20**.

Exhibit 20. Proposed and Projected Utility Rate Increases

	Proposed		Projected			
	2027	2028	2029	2030	2031	2032
Water	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Sewer	8.85%	8.85%	8.85%	8.85%	8.85%	8.85%
Surface Water	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%
Solid Waste	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%
Combined	8.40%	8.35%	8.43%	8.51%	8.13%	8.18%

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. 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.