



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

Date: September 4, 2026

Subject: Public Hearing on Revenue Sources for the 2027-2028 Budget

RECOMMENDATION:

Staff recommends that the City Council holds a public hearing on revenue sources for the 2027-2028 Budget as required by RCW 84.55.120.

EXECUTIVE SUMMARY:

- No action is needed. This public hearing meets the requirements in RCW 84.55.120, including consideration of possible increases in property tax revenues and other proposed tax increases.
- The memorandum reviews growth assumptions for property tax, sales tax, utility tax, and business license fees, which collectively make up 69% of budgeted ongoing General Fund revenues.
- Consistent with past practice, property tax revenues are budgeted to increase by roughly 2.5% each year (1%, plus 1.5% new construction) and sales tax is budgeted with no increases each year. Public utility taxes increase consistent with proposed rate models and increases in electric/natural gas taxes are budgeted slightly less than rate increases requested by Puget Sound Energy (PSE).
- This is the first of three scheduled public hearings before Council to receive public comment on the 2027-2028 budget, including revenue sources:
 - September 15, 2026
 - November 4, 2026
 - November 17, 2026
- Staff will return to Council to present the Preliminary 2027-2028 Budget at the October 29 Council Budget Work Session.

BACKGROUND:

This is the first of three scheduled public hearings on the 2027-2028 budget (two of which are required by statute). This first public hearing addresses revenue sources. The second and third public hearings on the 2027-2028 Budget are scheduled to be held on Wednesday,

November 4, and Tuesday, November 17. In addition, there will be a public hearing on the Preliminary 2027 Property Tax Levy on November 4.

DISCUSSION/ANALYSIS:

The most recent comprehensive briefing to City Council on the state of the City's budget and financial outlook was at Council's May 29, 2026 retreat. At that time the City's General Fund forecast, showing only ongoing expenses and ongoing revenues continued into 2027-2028, projected a deficit of \$6.4 million in the next biennium. That figure excluded one-time positions, which when included would bring the biennial deficit to \$11.8 million.

Throughout the spring, Financial Planning staff worked with department staff to develop the preliminary budgets and rates for internal services (i.e., facilities, fleet, and information technology (IT)) and utilities (i.e., surface water, solid waste, water, and sewer). Staff formally began the base budget development process with remaining departments in late June. Through this process, base budget projections for 2027 and 2028 are being updated to reflect current information, including:

- An estimation of ongoing Salaries and Wages budgeted at 2026 levels;
 - The City maintains a separate reserve for anticipated wage increases negotiated in collective bargaining. To date, AFSCME, Teamsters, and IAFF have agreed to 2027 increases based on the June 2026 CPI-W for the Seattle area at 3.8%, and Teamsters has agreed upon an increase for 2028 (3.0%). Bargaining for the remaining bargaining units for 2027 and 2028 is ongoing.
- An assessment of revenue collections under current economic conditions, based on department input and 2026 collections to date;
- New information on contractually- and/or statutorily-derived insurance rates; and
- Basic budget information supporting current service levels as submitted by departments in July and August.

This updated financial projection provides the basis for department budget meetings with the City Manager's Office, which took place in early September. The 2027-2028 budget is being developed under the following principles detailed in the budget guidance provided to departments:

- Maintaining and sustaining the current service levels with current revenues. The overall focus of the 2027-2028 budget process is to maintain current levels of service, including upcoming strategic Council additions and recent Council investments in human services. Rising inflation, slower economic growth, and lower revenue growth pose real challenges to meet these goals.
- Service packages (program additions) must either:
 - Come with an identified new revenue source such as taxes or fees; or
 - Continue currently one-time funded activities with limited one-time resources.

Following is a more detailed discussion of current revenue and expenditure assumptions and a calendar of next steps in the budget process.

Revenue Assumptions

The 2027-2028 projection is being developed based on several revenue assumptions, including:

- **Property Tax** – 1.0% optional increase each year and an assumption of 1.5% annual growth in new construction, consistent with the last two budget cycles and better aligned with historical new construction growth than the 2% total assumption used before 2023-2024. Because the levy growth is applied to a 2026 estimate that is slightly below the 2026 revised budget, effective growth over the 2026 budget is 2.3% in 2027 and 2.5% in 2028. The following table shows, by levy, the 2026 estimated and 2027-2028 projected amounts.

Table 1 – 2026 Estimate and 2027-2028 Projected Amounts

	Base Levy (General Fund & Street Fund)	2020 Fire Levy	2012 Road Levy	2012 Park Levy	Park Maintenance Fund	Total Regular Levy
2026 Estimate	27,401,870	8,354,875	4,175,268	3,261,806	1,748,330	44,942,149
1% Levy	274,019	83,549	41,753	32,618	17,483	449,422
New Construction	411,028	125,323	62,629	48,927	26,225	674,132
2027 Projected	28,086,917	8,563,747	4,279,650	3,343,351	1,792,038	46,065,703
1% Levy	280,869	85,637	42,797	33,434	17,920	460,657
New Construction	421,304	128,457	64,194	50,150	26,881	690,986
2028 Projected	28,789,090	8,777,841	4,386,641	3,426,935	1,836,839	47,217,346

- **Sales Tax**

- Retail sales tax is trending to approximately \$36.0 million in 2026, roughly \$1.5 million (4.3%) above the 2026 revised budget of \$34.5 million, based on collections through August.
- Sales tax is conservatively budgeted at \$36.0 million for both 2027 and 2028, reflecting the City's policy-based modified two-year lag. Both years are budgeted with no increase over the 2026 projected estimate sales tax of \$36.0 million.
- The Criminal Justice sales tax passed through from King County (\$3.9 million per year) and the voter-approved Police Proposition 1 public safety sales tax (\$3.2 million per year) are budgeted on the same basis – held flat at the 2026 estimate under the two-year lag.
- New in 2027-2028, the King County Transportation Benefit District (TBD) 0.1% sales tax (Resolution TD2026-01, adopted June 2026) remits 12.5% of collections to cities on a population basis for transportation purposes. Kirkland's share is budgeted in the Street Fund at \$472,000 in 2027 and \$566,000 in 2028, based on \$101.9 million in forecast countywide annual collections with no growth assumed over the two years. The 2027 amount reflects only ten months of revenue because of the two-month sales tax lag.
- Any sales tax collected above budget projections is highlighted for Council decision making in the various financial updates provided to Council throughout the biennium.

- **Utility Tax**

- Growth in public utility tax collections is projected commensurate with the proposed rate increases being brought to City Council on the same business agenda, each inclusive of proposed service packages. Combined, public utility taxes are budgeted at \$9.31 million in 2027 and \$9.95 million in 2028.
- Private utility tax collections remain mixed, with continued declines projected for cable and telecommunications but growth for electric and gas. Cable is budgeted

at 92% of the prior year, in line with the three-year average decline, and telephone at 95% of the prior year.

- 2026 electric utility tax collections are tracking to approximately \$7.4 million against a 2026 revised budget of \$5.85 million. PSE has requested a combined rate increase of approximately 15.0% for 2027 and 3.8% for 2028.¹ The budget assumes 85% of the request is approved by the Washington Utilities and Transportation Commission (UTC) and 2% annual demand growth, resulting in \$8.20 million in 2027 (up 11.1% over the 2026 estimate) and \$8.69 million in 2028 (up 6.0%).
 - Gas utility tax is discounted more heavily from PSE requested increases and reflects a longer trend of slowing natural gas use across the area from warmer winters and State policies encouraging electrification.² 2026 collections are tracking to approximately \$1.93 million. PSE has requested a combined increase of approximately 14.0% for 2027 and 3.2% for 2028,³ but the budget assumes only 55% of the 2027 request is approved and a 2.0% annual reduction in demand both consistent with historical experience, producing \$2.00 million in 2027 (up 3.5%) and \$2.06 million in 2028 (up 3.0%).
 - The differing treatment of the two PSE requests reflects three drivers: the potential that the UTC approves lower rate increases than requested; increasingly efficient and electrified appliances in new construction; and behavior changes of ratepayers as a result of higher prices (e.g., setting thermostats lower in winter, switching away from natural gas).
- **Revenue Generating Regulatory License (RGRL)**
 - Base revenues are budgeted flat at \$5.00 million in each year. This is below both the 2026 revised budget of \$5.69 million and the 2026 estimate of approximately \$5.08 million and is intentionally conservative: a portion of recent collection improvement is attributable to limited-term staffing that is proposed as a service package to continue into 2027-2028, but not built into the base budget. After several years of enhanced enforcement effort, staff considers this a stable and achievable amount based on existing employment in Kirkland.
 - The base budget does not assume any changes to the business license fees after their increase effective 2023. Annual business license renewal fees are budgeted flat at \$800,000 per year, below the \$815,000 average of 2023-2025 actuals, for the same reason.
 - **Transportation Benefit District (TBD)** – the \$20 vehicle license fee implemented effective January 1, 2024, is budgeted at \$1.35 million in 2027 and \$1.37 million in 2028, in line with the 2026 estimate. Of that amount, \$1.15 million per year is transferred to debt service on the 2024 Limited Term General Obligation (LTGO) bonds issued for Safe Walk Routes to School and other Active Transportation Plan priorities. The remainder continues to fund dedicated two street maintenance positions.
 - **Real Estate Excise Tax (REET)** – REET 1 and REET 2 are each budgeted at \$5.5 million per year, or \$11.0 million combined annually, matching the assumptions in the 2027-2032 Preliminary Capital Improvement Program presented to Council at the

¹ <https://www.pse.com/en/pages/rates/pending-utc-filings/2026-general-rate-case>

² <https://www.pse.com/en/press-release/details/Puget-Sound-Energy-files-two-year-electric-and-natural-gas-rate-plan>

³ <https://www.pse.com/en/pages/rates/pending-utc-filings/2026-general-rate-case>

September 1, 2026 study session. Combined REET collections were \$13.03 million in 2025. Holding the budget at \$11.0 million maintains a conservative floor while continuing to support CIP improvements as well as the maintenance and affordable housing flexibility granted by RCW 82.46. Like sales tax, REET collected above budget projections is highlighted for Council decision making in the various financial updates provided to Council throughout the biennium.

- **Franchise Fees** – budgeted at \$4.50 million in 2027 and \$4.61 million in 2028. Northshore Utility District and Woodinville Water District franchise fees escalate with CPI-U (4.5% as of June 2026 for 2027 and an estimated 4.0% for 2028), partially offset by continued decline in the Comcast franchise fee (forecasted down 11% in 2027 and an estimated 5% in 2028).
- **Investment Interest** – citywide investment interest is estimated at \$7.7 million in 2027 and \$7.2 million in 2028 and allocated to funds based on fund balance. The General Fund share is \$4.1 and \$3.8 million respectively.
- **School Zone Safety Camera** – speed violation fines are budgeted at \$2.1 million per year, below the \$2.5 million budgeted in 2026. The amount reflects the Police Department's current estimate of \$2.0 million, plus \$86,000 from a Court-requested proposed increase in lower-level fines from \$136 to \$145. The increase would align Kirkland with peer cities, including Woodinville, whose citations City staff now process alongside Kirkland's citations. The School Zone Safety Camera program is the subject of a separate issue paper. Additional school zone camera locations to reduce speeds may be brought to Council for consideration. If authorized by the Council, projections of additional school zone fines from any new locations will be included in the budget.
- **Other Taxes** – admissions tax is budgeted at \$300,000 per year, equal to the 2023-2026 average of approximately \$360,000 less an average \$60,000 in refunds. Gambling taxes on card games are budgeted at \$1.6 million per year, deliberately set below the 2023-2025 average given the volatility and uncertain future of this revenue source.
- **Potential new revenue not included in the base** – the base budget does not assume any new tax. Under Engrossed Substitute House Bill (ESHB) 2015 (2025), qualified cities may impose a councilmanic 0.1% sales and use tax for criminal justice purposes, but cities must levy the tax by June 2028. Because that deadline falls within this biennium, staff is preparing an issue paper on what could be funded with ESHB 2015 for Council consideration during budget deliberations.

These assumptions are based on the revenue trends through June 30, 2026, collections experience through August, and current economic projections. Further refinements in revenue estimates will continue to occur throughout the budget development and deliberation process as new data becomes available.

Expenditure Assumptions

The updated projections also reflect the following expenditure assumptions, including:

- **Full Staffing** – all of the ongoing positions budgeted in 2026 are budgeted in 2027-2028, and the budget assumes 100% staffing throughout the two-year period. General Fund salaries and wages are budgeted at \$72.3 million in 2027 and \$72.8 million in 2028 before any cost-of-living adjustment.

- **Benefit Inflation** – General Fund benefits are budgeted at \$28.4 million in 2027 and \$29.8 million in 2028. Health, dental, and vision rates for the biennium are being reviewed with the City's benefits consultant and are the subject of a separate Health Benefits issue paper; the base budget will be updated as final renewal information becomes available. Benefits that are paid as a percentage of salaries, such as pension contributions and social security, will increase by the same amount as salaries.
- **COLA Reserve** – as referenced earlier in this memo, most of the City's bargaining units do not have settled agreements covering both years of the biennium. As increases are not yet known for both years except for Teamsters, a reserve will be set aside for potential annual wage increases in anticipation of the impacts of settled contracts through both years of the biennium.
- **Debt** – The City has two potential debt issuances during the 2027-2028 budget cycle:
 - The first is a mix of Public Works Board (PWB) loan of \$10 million, and Limited Term General Obligation (LTGO) bond issuance of approximately \$2.75 million, both backed by Water Utility revenues. This debt would fund a portion of the City's contribution to the replacement of the South Reservoir facility owned jointly with the cities of Bellevue and Redmond. The remainder has been funded with utility rate funding and Capital Facility Charges (CFCs) to date. The exact mix of loan versus LTGO bonds will depend on the successful receipt of the PWB loan. The combined debt service payments are estimated to be \$1.89 million across the biennium, and roughly \$916,000 per year in future budget cycles to be paid by water utility rate revenue.
 - The second potential debt issuance is related to the purchase of the church property in the Kingsgate neighborhood as well as a portion of the Peter Kirk Pool renovation project. Staff is currently studying immediate options to use the church site for 2027-2028, but the eventual use is intended to be a city-operated community center. Future plans are expected to be formalized during the 2027-2028 biennium. Debt service payments on this issuance are assumed to begin in 2027 and would cost up to \$1.20 million per year, pending final Council direction and timing.
- **Reserve Replenishment** – the base budget funds general purpose reserves at Council policy levels, including a \$7.52 million General Operating (Rainy Day) Reserve, a \$5.46 million Revenue Stabilization Reserve, an \$886,599 Building and Property Reserve, and a \$250,000 Council Special Projects Reserve. These reserves replenishment payments total approximately \$740,000.
- **Current Service Levels** – as the budget process is ongoing, no new one-time or ongoing service packages are yet included in the expenditures described above.

The following table (Table 2) includes highlights of some key revenues that are tentatively to be included in the 2027-2028 Biennial Budget. The revenues shown below represent 63% of General Fund revenues, 76% of Street Fund revenues, and 66% of Development Services Fund revenues.

Table 2 – Key Revenues Tentatively Scheduled in the 2027-2028 Biennial Budget

	2027	2028	Total
General Fund			
Property Tax	32,682,162	33,499,216	66,181,378
Retail Sales Tax	36,000,000	36,000,000	72,000,000
Utility Taxes	21,293,124	22,376,237	43,669,361
Revenue Generating Regulatory License	5,000,000	5,000,000	10,000,000
General Fund Total	94,975,286	96,875,453	191,850,739
Street Fund			
Property Tax	8,248,152	8,454,356	16,702,508
Gas Tax (MVFT)	1,695,449	1,695,449	3,390,898
Vehicle License Fee (TBD)	1,354,238	1,367,780	2,722,018
King County Transportation Benefit District (TBD) Sales Tax	472,000	566,000	1,038,000
Street Fund Total	11,769,839	12,083,585	23,853,424
Development Services Fund			
Development Fees	13,575,664	13,795,645	27,371,309
Development Fund Total	13,575,664	13,795,645	27,371,309

These will be subject to refinement during the budget process. An updated forecast reflecting the new 2027-2028 baseline will be included as part of the budget process.

NEXT STEPS:

A balanced preliminary budget, reflecting the City Manager's recommendations, will be available to the City Council and the public on or before October 22. The following list includes this and other significant dates in the 2027-2028 budget process.

- September 15 – Proposed 2027-2028 Utility Rates
- October 20 – 2027-2028 Utility Rates adopted
- October 22 – 2027-2028 Preliminary Budget provided to the City Council/public
- October 29 – Council Budget Work Session (3-9 p.m.)
- November 4 – Additional budget study session (if needed) and Public Hearing on the 2027-2028 Budget
- November 4 – Public Hearing on the Preliminary 2027 Property Tax Levy
- November 17 – Additional budget study session (if needed)
- November 17 – Public Hearing on the 2027-2028 Budget
- December 8 – Adoption of 2027-2032 CIP, 2027-2028 Budget, and final 2027 property tax levy (pending final information from the King County Assessor's Office)

ATTACHMENTS:

None.