



## **CITY MANAGER BUDGET MESSAGE**

### **2025-2026 BIENNIAL BUDGET**

The City of Carnation is pleased to present the proposed 2025-2026 Biennial Budget, the first two-year budget document in its century-long history as a municipality. The City Council began to lay the groundwork for a successful transition during the 2023 and 2024 budget process by implementing long-range strategic planning principles for City staff to implement and execute. After careful research, the finance team is implementing new policies regarding how restricted funds are allocated, transferred, and expended, to comply with Washington State.

The following Council priorities were considered when building a budget that reflects the needs and desires of the Carnation community:

- Economic Development
- Public Safety
- Transportation
- Non-profit partnership
- Environmental Resiliency
- Tourism
- Infrastructure Improvements
- Enterprise Fund Stabilization

For this budget cycle, the City is prioritizing the stabilization of our Utility Maintenance and Operations funds. This includes the Water Operations Fund (401), Stormwater Operations Fund (409), and Sewer Operations Fund (411). We strive to have the enterprise funds self-sustaining without inter-fund transfers or loans.

Notable differences from the 2024 Annual Budget to the 2025-2026 Biennial Budget are as follows:

- In FY 2025 and 2026, the General Fund (001), is projecting about \$2M less revenue than FY 2024 simply due to a reorganization of funds for compliance purposes.
- The Real Estate Excise Tax Fund (150) is noted in the 2025-2026 Biennial.
- The Equipment Fund (107) had no expenditures budgeted in 2024. For FYs 2025 and 2026, the City will use the funds for much-needed upgrades to equipment
- Impact fee revenue in the Park Fund (108) is considerably higher in FY 2025, reflecting an increase of over \$600,000 due to new housing development.
- 2024 was an exciting year for street improvement projects. The City received nearly \$5M in grant funding for the Street Capital Improvement Project Fund (301) to execute the following projects: East Bird Street, McKinley Avenue, and Tolt Middle School Sidewalk. As we enter a design year, less funding is needed for construction. A little over \$300,000 in revenue is budgeted for FY 2025. As this fund is heavily grant-dependent for revenue, we have conservative estimates for FY 2026.



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- The Capital Facilities Fund (302) is currently only taking one project into account, which is the CCC (Carnation Community Center). In 2024, the City projected around \$6M in revenue to be expended that same year. Due to inflation, the project was unable to be completed in 2024. The majority of the project is planned for 2025, with \$3.2M budgeted for expenditures.
- As mentioned above, the Water Operations Fund (401) and Sewer Operations Fund (411) will operate at a deficit in FY 2025 if no legislative changes are made to increase revenue. The Stormwater Operations Fund (409) will also be in deficit in FY 2026.
- The Water Capital Improvement Project Fund (402) revenue is projected to exceed 2024 revenue by nearly \$2M in FY 2025. This is due to increased GFCs (General Facilities Charges), which are fees paid by developers when new water infrastructure is connected to our system. FY 2025 is a design year for capital improvement projects, so the budgeted expenditures are lower than FY 2024 by a little over \$1M. In FY 2026, construction on a few Water Improvement Projects will take place, including a new PRV valve and a chlorination project. A little over \$3M is budgeted for expenditures for the 2026 construction year.
- The City of Carnation was gifted an Endowment in 2019 to be used exclusively for cemetery maintenance and operations. Therefore, The Cemetery Endowment Fund (601) was created. After an audit of cemetery operational costs, the City determined that we had used about 75% of the fund, reflected in the 2025-2026 revenue and expenditure figures.
- The Pass-Through Fund (633) is used for any funding that we pass through from one party to another.

Stay tuned for further updates at future Council meetings.

A handwritten signature in dark ink, appearing to read "RE", followed by a long horizontal line.

Rhonda Ender  
City Manager



[rhonda.ender@carnationwa.gov](mailto:rhonda.ender@carnationwa.gov)



(425) 786-4435



[www.carnationwa.gov](http://www.carnationwa.gov)