

# CITY COUNCIL STAFF REPORT



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**Agenda Date:** 9/9/2025

**Subject:** 2026 Budget - 2025 Estimated & Base 2026 Budgets

**Contact Person/Department:** Barb Stevens, Finance

**Budget Impact:**

**Legal Review:** No

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**RECOMMENDATION(S)/ACTION REQUESTED:**

Review Revenues and Estimates

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**SUMMARY/BACKGROUND:**

The budget process began this summer with an executive staff roundtable. We have continued updates in the Budget Resource Center, utilizing SharePoint and Power Apps. The new system is still a work in progress but has simplified many aspects of the budget request process.

The initial base budget included current staffing levels and current programs, with some basic increases due to cost increases only. Departments are given the opportunity to submit budget requests for additional operations, staffing, equipment, and projects based on the needs of their department and the city.

A review of revenues is a required step in the budget process.

Detailed discussions of revenues and expenses will occur at the Council retreat on September 13th. The capital budget will be brought to Council on September 30th. Due to the Veterans Day holiday, we are recommending the November 11th meeting be held on November 12th in order to provide Council with additional opportunities for discussion without missing legal deadlines.

The remaining city council meetings and workshop study sessions will be used by the Council to discuss recommendations and give feedback based on citizen

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communication and city needs.

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**APPLICABLE CITY POLICIES:**

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**ATTACHMENTS:**

1. 2026 Base Budget Summary Overview



## 2026 Budget Calendar

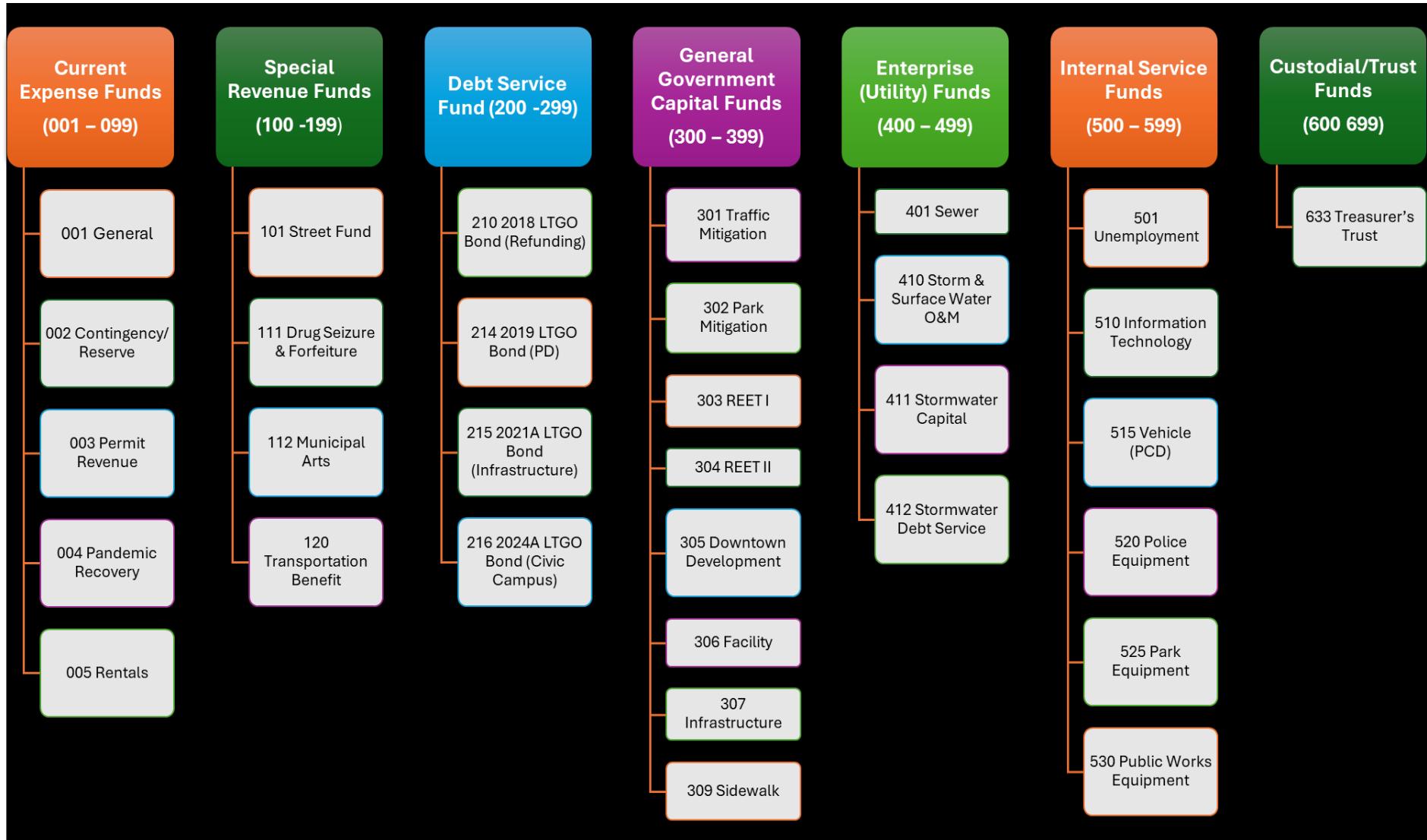
<b>City of Lake Stevens Schedule</b>	<b>Budget Process Step</b>	<b>2025 City Deadline Per RCW</b>
July 1-31 2025	Mid-year Financial Update & Base Budget Preparations	
August 4, 2025	Executive Staff Budget Roundtable – Pre-Request	
August 4, 2025	Budget Request Module Made Available	
August 8, 2025	Budget Instructions to Department Heads	9/8/2025
August 4 – August 22, 2025	DH Budget Prep & Discussions with HR, Finance, City Administrator & Mayor	9/22/2025
August 22, 2025	Department Budgets Filed with Finance Director	9/22/2025
August 27-28, 2025	Budget Review with City Administrator & Mayor	10/1/2025
September 4, 2025	Executive Staff Budget Roundtable – Finalized Requests	
September 9, 2025	Estimated Revenues	
September 13, 2025	Council Retreat – New Revenues, Preliminary Budget & Strategic Staffing	10/6/2025-10/30/25
September 23, 2025	Council Budget Discussion – Proposed Preliminary Budget Recap	10/30/2025
September 30, 2025 – 5 <sup>th</sup> Tuesday	Proposed Capital Budget	
October 7, 2025	Council Budget Discussion – Proposed Budget	10/30/2025
October 27, 2025	1 <sup>st</sup> Notice of Public Hearing	11/3/2025
November 3, 2025	2 <sup>nd</sup> Notice of Public Hearing	11/10/2025
October 21, 2025	Council Budget Session	
October 30, 2025	Proposed Budget & Budget Message Filed	10/30/2025
October 30, 2025	Proposed Budget Made Available to the Public	11/19/2025
November 11, 2025 – Nov 12, 2025	Public Hearing – Setting of Levies (Property Tax Levy – Filed by November 30)	11/30/2025
November 11, 2025 – Nov 12, 2025	Public Hearing - Proposed Budget Hearing	11/30/2025
November 25, 2025	Final Public Hearing	12/2/2025
December 2, 2025	Final Public Hearing (continuation – if needed)	12/7/2025

Council Meeting Dates

## Fund Structure

Funds are classified based on their function as follows:

- Current Expense Funds – General Fund
  - There may only be one General Fund for reporting purposes, but managerial funds are allowed for the purpose of tracking transactions assigned to a specific use. Most revenues in the current expense fund are unrestricted.
- Special Revenue Funds – Street Fund and Transportation Benefit Program
  - Uses are restricted for a specific purpose
- Debt Service Funds – Used to pay outstanding debt service
- General Government Capital Project Funds – Mitigation, REET, Project Specific
  - These funds are used to track and report revenues and expenditures related to capital projects. Revenues are generally restricted to use on capital projects listed in the Comprehensive/Capital Improvement Plan (CIP). Additional restrictions apply to certain revenue sources.
- Enterprise (Utility) Funds – Sewer and Storm & Surface Water Funds
  - The Sewer fund is used to receipt and pay debt service on loans held by the City on behalf of the Sewer District. The City invoices the District prior to paying the debt invoices.
  - The Storm & Surface Water Funds are self-sustained, meaning fees are charged to cover their expenses, and those revenues must not be comingled with other funds or pay for any expenses not related to the function of the fund. Allocations of expenses such as administrative and overhead are allowed but must be justified and reasonable.
- Internal Service Fund – Unemployment, IT, and Equipment
  - These funds receive allocated contributions from the General, Street, and Stormwater funds to build a reserve for future purchases and replacements.
  - The City uses a “pay-as-you-go” method for Unemployment rather than taking part in an insurance-type program. As such funds are allocated based on policy and paid from this fund when claims are made.
- Custodial/Trust Fund – Treasurer’s Trust Fund
  - Funds are held in trust until passed thru to the final recipient. Money does not belong to the City. Revenue sources include court fees, state share of taxes, and fire fees.



## 2025 Estimates and 2026 Initial Budgets

The initial base budget starts with a forecast of future revenues from all sources based on current trends, new initiatives, and resources provided by the Association of Washington Cities (AWC) and the Municipal Research Service Center (MRSC). Initial expenditure budgets generally start as a baseline equal to, or slightly above, the prior year's budget except for one-time requests that are removed from the total.

### Revenues: 2025 vs. 2026 Base Budget

Fund Name	2025 Budgeted Revenues	2025 Estimated Revenues	2026 Base Revenues	2025 Estimated to 2026 Base Budget
<b>General Fund</b>	\$ 21,215,243	\$ 20,850,341	\$ 20,941,579	0.4%
<b>Other General Funds</b>	\$ 2,349,030	\$ 3,025,229	\$ 3,000,450	-0.8%
<b>Special Revenue Funds</b>	\$ 5,734,581	\$ 5,584,432	\$ 6,369,250	14.1%
<b>Debt Service</b>	\$ 1,877,512	\$ 1,875,592	\$ 1,871,287	-0.2%
<b>Capital Projects</b>	\$ 18,680,597	\$ 19,584,468	\$ 4,615,236	-76.4%
<b>Other Proprietary</b>	\$ 798,285	\$ 805,547	\$ 742,436	-7.8%
<b>SWM Funds</b>	\$ 9,973,329	\$ 10,428,263	\$ 7,670,729	-26.4%
<b>Equipment Funds</b>	\$ 1,576,424	\$ 1,613,591	\$ 1,519,253	-5.8%
<b>Trust Fund</b>	\$ 395,900	\$ 333,504	\$ 395,900	18.7%
<b>Totals</b>	\$ 62,600,901	\$ 64,100,967	\$ 47,126,120	-26.5%

- We expect a very small increase in revenues in the General operating fund.
- Managerial funds for permit revenue, rental income, and pandemic recovery funds are included in Other General Funds. There is an anticipated decrease in rental income, with slight increases expected in construction sales tax and permit revenues.
- An increase in the Street special revenue fund is expected, as a full year of utility taxes will be received.
- New capital projects are reduced for grants, debt proceeds, and anticipated sale of property.
- Storm Water (SWM) funds are reduced by grant and PWTF loan revenues, many of which will be reallocated to 2026 budget after the first of the year.
- The trust fund is a pass-through fiduciary fund. All revenues received are due to other governments.

## Expenditures: 2025 vs. 2026 Base Budget

Fund Name	2025 Budgeted Expenditures	2025 Estimated Expenditures	2026 Base Expenditures	2025 Estimated to 2026 Base Budget
<b>General Fund</b>	\$ 26,080,474	\$ 24,036,374	\$ 26,161,441	8.8%
<b>Other General Funds</b>	\$ 8,927,475	\$ 8,445,068	\$ 2,734,455	-67.6%
<b>Special Revenue Funds</b>	\$ 5,986,761	\$ 4,820,180	\$ 4,626,995	-4.0%
<b>Debt Service</b>	\$ 1,867,512	\$ 1,866,762	\$ 1,866,287	0.0%
<b>Capital Projects</b>	\$ 34,699,570	\$ 31,476,509	\$ 4,713,587	-85.0%
<b>Other Proprietary</b>	\$ 839,739	\$ 839,150	\$ 740,436	-11.8%
<b>SWM Funds</b>	\$ 11,421,786	\$ 10,055,024	\$ 6,549,744	-34.9%
<b>Equipment Funds</b>	\$ 1,672,868	\$ 1,700,422	\$ 982,870	-42.2%
<b>Trust Fund</b>	\$ 396,961	\$ 300,536	\$ 396,961	32.1%
<b>Totals</b>	\$ 91,893,146	\$ 83,540,025	\$ 48,772,776	-41.6%

- The increase in the General Fund is related to increased operating costs as well as the staffing assumptions below. Medical/Dental rates equate to a \$300,000 increase over 2025 in the General Fund alone.
- Expenditures in the Other General funds include project budgets in the pandemic recovery fund, most of which will roll forward into 2026.
- The expenditure in the Debt Service funds decrease as loans are paid off. This is also true for the Other Proprietary fund that records debt service transactions on behalf of the Sewer.
- New capital projects are not included in the base budget, this will affect the capital project funds, the transportation benefit special revenue fund, and the SWM capital fund.
- The equipment funds only include ongoing expenses. New requests are not included in the base budget.
- The increased expenditures in the trust fund coincide with the revenues in the fund.

### **Staffing Assumptions:**

The Consumer Price Index for Workers (CPI-W) from June to June is used to determine a starting point for cost-of-living adjustments (COLA). The CPI-W for our 2026 budget year is 2.715%. Historically, the Council has used 90% of CPI-W for the adjustment. As such, our base budget will include 2.44% COLA for non-represented employees. The union represented rates are set by contract. The Teamsters contract is currently in negotiations. Medical insurance rates are also anticipated to increase 10-14%. While dental insurance rates are anticipated to increase 4-8%.

### **Additional Assumptions**

WCIA insurance rates are expected to increase 10% or \$121,000 citywide. A portion of the increase is based on the value of property and vehicles covered by the policy and a portion is based on risk. With the addition of equipment and property, the value of city vehicles and machinery increased by 1.6% over the prior year, while property value increased by 6.8%. Risk increased by 21% due to claims filed and closed in prior years.

## 2026 Base Budget – All Funds

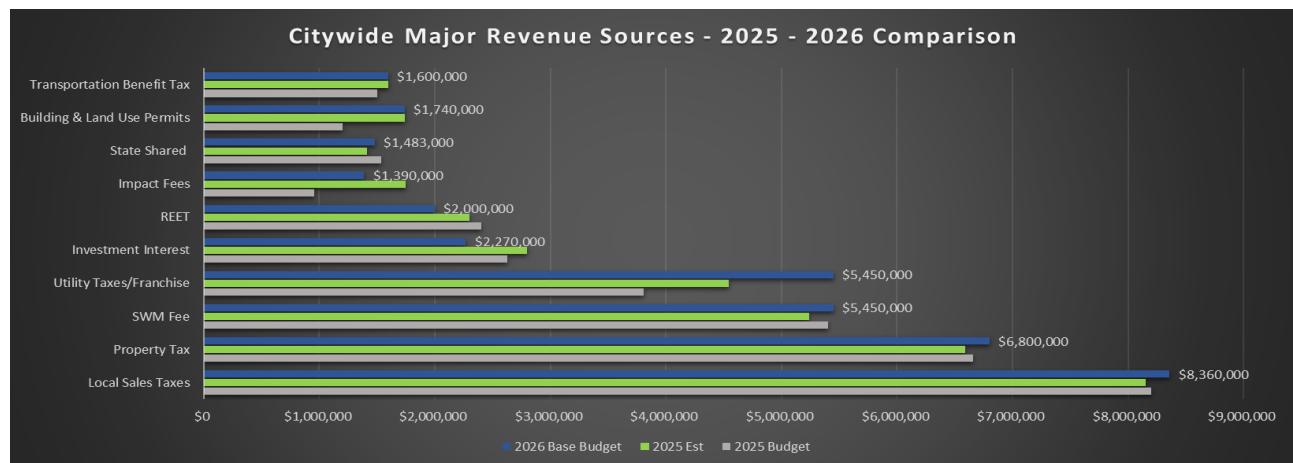
No.	Fund Name	2026 Beginning Cash Balance	2026 Base Revenues	2026 Base Expenditures	2026 Base Ending Cash Balance
001	General Fund	\$ 3,866,197	\$20,941,579	\$ 26,161,441	\$ (1,353,665)
002	Reserve Fund	\$ 9,537,235	\$ 900,000	\$ -	\$ 10,437,235
003	Permitting - Managerial	\$ 1,609,983	\$ 1,740,000	\$ 2,501,000	\$ 848,983
004	Pandemic Recovery - Managerial	\$ 0	\$ -	\$ -	\$ 0
005	Rentals - Managerial	\$ 41,452	\$ 360,450	\$ 233,455	\$ 168,447
<b>000</b>	<b>General Funds</b>	<b>\$ 15,054,868</b>	<b>\$23,942,029</b>	<b>\$ 28,895,896</b>	<b>\$ 10,101,001</b>
<b>101</b>	<b>Street</b>	<b>\$ 2,542,742</b>	<b>\$ 4,638,083</b>	<b>\$ 3,925,995</b>	<b>\$ 3,254,830</b>
111	Drug Seizure & Forfeiture Fund	\$ 58,373	\$ 2,814	\$ 51,000	\$ 10,187
112	Municipal Arts Fund	\$ 33,380	\$ 28,490	\$ -	\$ 61,870
120	Transportation Benefit Program	\$ 1,870,463	\$ 1,699,863	\$ 650,000	\$ 2,920,326
210	2008 Bonds	\$ -	\$ 209,335	\$ 209,335	\$ -
214	2019 LTGO Bond PD	\$ -	\$ 460,702	\$ 460,702	\$ -
215	2021A LTGO Bond	\$ -	\$ 606,950	\$ 606,950	\$ -
216	2024A LTGO Bond	\$ -	\$ 594,300	\$ 589,300	\$ 5,000
301	Cap. Proj.-Dev. Contrib.	\$ 4,507,474	\$ 812,187	\$ 123,000	\$ 5,196,661
302	Park Mitigation	\$ 4,515,915	\$ 1,088,049	\$ 150,000	\$ 5,453,964
303	Cap. Imp.-REET	\$ 8,567,988	\$ 1,500,000	\$ 1,233,637	\$ 8,834,351
304	Cap. Improvements REET 2	\$ 3,874,418	\$ 1,300,000	\$ 3,106,950	\$ 2,067,468
306	Facility Cap Project - PD	\$ 437,452	\$ 150,000	\$ 100,000	\$ 487,452
307	Infrastructure Capital Project	\$ -	\$ -	\$ -	\$ -
309	Sidewalk Capital Project	\$ 318,590	\$ 15,000	\$ -	\$ 333,590
401	Sewer	\$ 62,429	\$ 742,436	\$ 740,436	\$ 64,429
<b>410</b>	<b>Storm and Surface Water</b>	<b>\$ 2,418,670</b>	<b>\$ 5,634,885</b>	<b>\$ 6,299,567</b>	<b>\$ 1,753,988</b>
411	SWM Capital	\$ 5,014,261	\$ 1,935,667	\$ 50,000	\$ 6,899,928
412	SWM Debt	\$ 3	\$ 200,177	\$ 200,177	\$ 3
501	Unemployment	\$ 27,659	\$ 41,000	\$ 35,000	\$ 33,659
510	Equipment Fund - Computers	\$ 98,796	\$ 854,371	\$ 631,042	\$ 322,125
515	Equipment Fund-Vehicles	\$ 126,297	\$ 5,007	\$ -	\$ 131,304
520	Equipment Fund-Police	\$ 1,173,432	\$ 377,580	\$ 103,745	\$ 1,447,267
525	Equipment Fund - Parks	\$ 31,180	\$ 51,000	\$ 61,735	\$ 20,445
530	Equipment Fund-PW	\$ 590,853	\$ 190,295	\$ 151,348	\$ 629,800
633	Treasurer's Trust	\$ 61,472	\$395,900	\$396,961	\$60,411
<b>Total All Funds</b>		<b>\$ 51,386,715</b>	<b>\$47,476,120</b>	<b>\$48,772,776</b>	<b>\$ 50,090,058</b>

## 2026 Base Budget – All Funds Consolidated by Fund Type

Fund Name	2026 Beginning Cash Balance	2026 Base Revenues	2026 Base Expenditures	2026 Base Ending Cash Balance
<b>General Fund (000)</b>	\$ 3,866,197	\$ 20,941,579	\$ 26,161,441	\$ (1,353,665)
<b>Other General Funds (000)</b>	\$ 11,188,671	\$ 3,000,450	\$ 2,734,455	\$ 11,454,666
<b>Special Revenue (100)</b>	\$ 4,504,958	\$ 6,369,250	\$ 4,626,995	\$ 6,247,213
<b>Debt Service (200)</b>	\$ -	\$ 1,871,287	\$ 1,866,287	\$ 5,000
<b>Capital Projects (300)</b>	\$ 22,221,837	\$ 4,865,236	\$ 4,713,587	\$ 22,373,486
<b>Other Proprietary (400)</b>	\$ 62,429	\$ 742,436	\$ 740,436	\$ 64,429
<b>SWM Funds (400)</b>	\$ 7,432,934	\$ 7,770,729	\$ 6,549,744	\$ 8,653,919
<b>Internal Service (500)</b>	\$ 2,048,217	\$ 1,519,253	\$ 982,870	\$ 2,584,600
<b>Fiduciary (600)</b>	\$ 61,472	\$ 395,900	\$ 396,961	\$ 60,411
<b>Totals</b>	<b>\$51,386,715</b>	<b>\$47,476,120</b>	<b>\$48,772,776</b>	<b>\$ 50,090,058</b>

## Major Revenue Sources

Revenue Source	Fund	Uses	% Total Rev	2025 Budget	2025 Est	2026 Base Budget	2026 Vs 2025 Estimated
Property Tax	General 72%	Unrestricted	10%	\$4,792,672	\$4,750,000	\$4,900,000	103%
Local Sales & Use Tax	General	Unrestricted	13%	\$6,212,586	\$5,980,000	\$6,130,000	103%
Construction Sales Tax	General/Reserve	Unrestricted	3%	\$900,000	\$1,160,000	\$1,200,000	103%
Crim Just./Afford Housing	General	Some Restrictions	2%	\$1,088,436	\$1,010,000	\$1,030,000	102%
Utility Taxes/Franchise	General	Unrestricted	8%	\$3,319,803	\$3,620,000	\$3,680,000	102%
Liquor/DUI/State Shared	General	Some Restrictions	2%	\$732,293	\$690,000	\$746,000	108%
Building Permits	Permit	Restricted	3%	\$1,000,000	\$1,500,000	\$1,500,000	100%
Zoning & Subdivision (Plats)	Permit	Restricted	1%	\$200,000	\$240,000	\$240,000	100%
Property Tax	Street - 28%	Unrestricted	4%	\$1,863,817	\$1,840,000	\$1,900,000	103%
Utility Taxes	Street	Unrestricted	4%	\$489,586	\$925,000	\$1,770,000	191%
State Shared - MVFT	Street	Restricted to Fund Usage	2%	\$807,953	\$725,000	\$737,000	102%
TB - Transportation Benefit ST	Transportation Benefit	Restricted	3%	\$1,500,000	\$1,600,000	\$1,600,000	100%
Real Estate Excise Taxes	REET I&II	Restricted	4%	\$2,400,000	\$2,300,000	\$2,000,000	87%
Traffic Impact Fees	Developer Contribution	Restricted	1%	\$455,000	\$748,160	\$490,000	65%
Park Impact Fees	Park Mitigation	Restricted	2%	\$500,000	\$1,000,000	\$900,000	90%
Surface Water Fees	Storm & Surface Water	Restricted to Fund Usage	11%	\$5,403,921	\$5,242,000	\$5,450,000	104%
Investment Interest	Various	Unrestricted	5%	\$2,626,214	\$2,800,000	\$2,270,000	81%

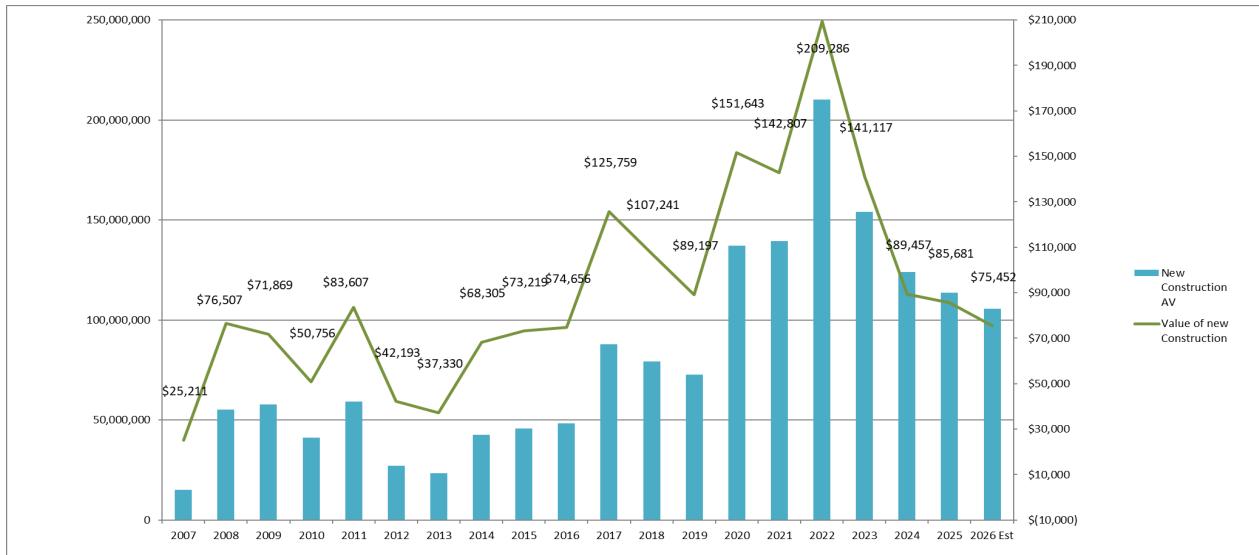


Largest revenue sources remain sales tax and property taxes.

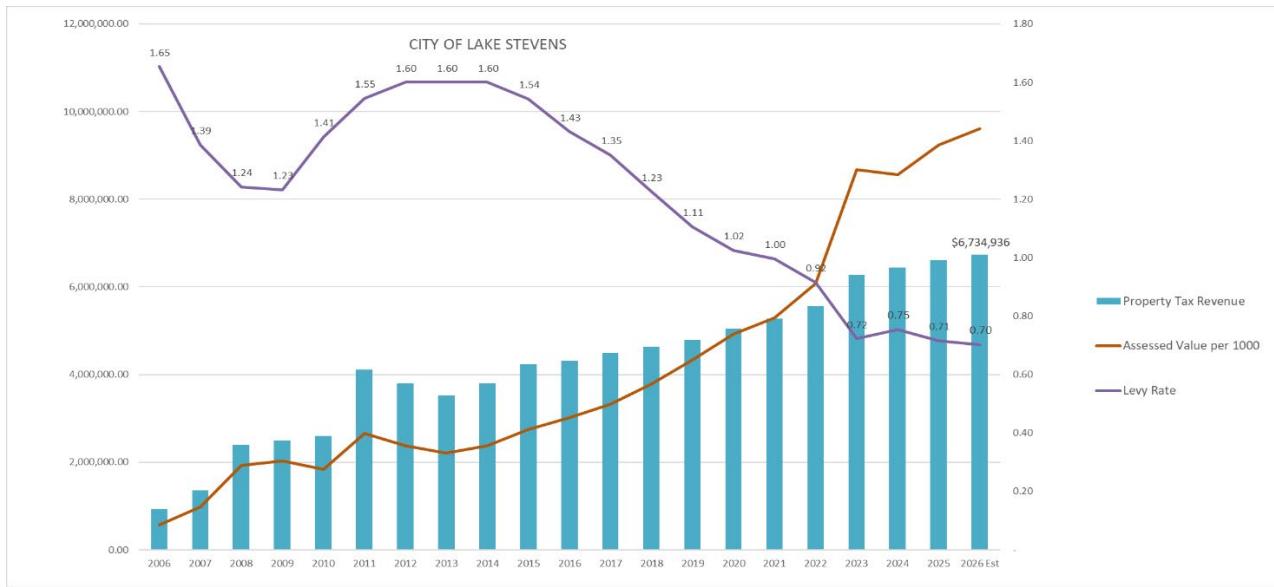
- We decreased Sales Tax expectations for 2026 as current revenues are tracking at only a 2% increase over prior year versus the 4% increase built in for increased retailers. We are cautiously optimistic that it will pick up with summer and anticipated holiday shopping to a 3% increase so that is what is used for 2026.
- Construction sales tax (reserve fund) – up 20%, we expect a slight upward trend in 2026 due to the school construction. Permitting is above expectations. Currently budgeted with no change, yet the permitting team is working on better estimates for 2026.
- Cable Franchise fees are down 11% or -\$28,000 (customers are moving away from Cable to streaming services). Reduced 2026 budget by 11% or -\$37,000.
- Investment Interest is going to decrease eventually. Planning a 10% decrease for 2026 with additional decrease due to reduced cash on hand. For the General Fund that equates to about - \$90,000.

## Property Taxes

This graph shows a 10 year look at the assessed value of annual new construction added to the City and the property tax revenues from the additional AV. The property tax on new construction is delayed by one year as compared to construction sales tax yet the trend is consistent with both revenue sources.



This graph illustrates the effect assessed values have on the levy rate and property tax revenue year over year.



- Estimated 2026 citywide AV increase is 4% (based on school AV – City AV not available yet)
- Estimated Levy Rate of \$0.701/\$1000 AV
- Estimated 2026 Revenues with 1% increase approximately \$6,800,000
  - Allocation General Fund 72%, Street Fund 28%
  - Recommend revising allocation to align revenues with expenses