



STAFF REPORT
5/27/2026

TO: Honorable Mayor and City Council Members
FROM: Gabriel Gonzalez, Interim City Manager
PREPARED BY: Lincoln Bogard, Finance Director
SUBJECT: Second Fiscal Year 2026-27 Annual Budget Study Session

STAFF RECOMMENDATION:

Provide feedback and direction to staff regarding proposed budget for Fiscal Year 2026-27.

EXECUTIVE SUMMARY:

Each year the city conducts an annual budgeting process that includes department proposals, finance review and analysis, and City Manager feedback prior to holding a workshop with City Council. Generally, staff brings the budget to Council three times, with the third item being for adoption. This is the second session for this fiscal year. Staff has incorporated all recommended changes from the first study session.

BACKGROUND:

The city is required to have an adopted budget for all governmental funds each year. Enterprise funds do not require an adopted budget, but best practices include budgeting for enterprise funds. The city has two enterprise funds: water and sanitary sewer.

DISCUSSION/ANALYSIS:

Staff is working to balance the operating budget of the General Fund, which currently reports an approximate \$450,000 deficit. The original budget presented to Council had an approximate \$1.35 million shortfall. After incorporating all requested items from the first study session, the shortfall increased to over \$2.1 million. Staff has identified ways to minimize the shortfall, but may need to budget fund balance to cover the remaining \$450,000.

Enterprise fund budgets are still inline with the recent presentations by the rate study consultant and assume rate increases in January 2027.

Finance has changed the allocation process for charging support service expenses from the General Fund to other city funds. Staff implemented a 2 Code of Federal Regulations 200 compliant Cost

Allocation Plan. This methodology causes General Fund salaries and benefits to increase and corresponding enterprise funds decreases. This implemented process is accepted by the Federal and State Governments and is considered a best practice and can be used for grant reimbursement of overhead costs. Although, the city does not generally charge any overhead to grants currently.

ALTERNATIVES:

1. Provide feedback and direction.

FISCAL IMPACT:

None. This is planning for spending of the coming fiscal year.

RECOMMENDED ALTERNATIVE(S):

Provide feedback and direction.