



City of Colusa California

STAFF REPORT

DATE: March 3, 2026
TO: Mayor and Members of the City Council
FROM: Ishrat Aziz-Khan, through Jesse Cain, City Manager

AGENDA ITEM:

Mid-Year Budget Update and Proposed Budget Adjustments – FY 2025–2026 and approve the updated GANN Limit for FY 2024-25 and FY 2025-26.

Recommendation: Receive and file the Mid-Year Budget.

BACKGROUND

In June 2025, the City Council adopted the FY 2025–2026 budget with a goal of maintaining a zero-deficit General Fund. To accomplish this, the Council approved the use of:

- \$209,802 from Strike Team funds
- \$217,500 from Supplemental Law Enforcement Services Funds (SLESF)

These revenues were incorporated into the adopted budget to balance projected expenditures with anticipated revenues.

At the time of adoption, staff acknowledged the structural challenges within the General Fund but anticipated that stable revenues and controlled expenditures would allow the City to maintain fiscal balance.

Now that the City has reached the mid-year mark, staff have conducted a comprehensive review of revenues and expenditures. Even when accounting for the Strike Team and SLESF funds as adopted, current revenue trends indicate that if conditions remain unchanged, the General Fund is projected to end the fiscal year with an approximate \$295,000 deficit.

The primary factors contributing to this shortfall include:

- Continued decline in sales tax revenues
- Increased public safety funding needs
- Ongoing structural imbalance between recurring revenues and expenditures

This projected deficit is not an isolated occurrence but part of a continuing trend within the General Fund.

For reference:

- **FY 2023–2024 General Fund Deficit:** \$809,466
- **FY 2024–2025 General Fund Deficit:** \$561,472

While the deficit has decreased year over year, the General Fund has remained structurally imbalanced for the past two fiscal years. The current FY 2025–2026 projection indicates that without corrective action, the City will continue operating at a deficit, further impacting reserves and long-term financial stability.

The corrected GANN Limit reports are attached for both years.

FISCAL IMPACT

If no action is taken and current trends continue, the City will face an estimated \$295,000 General Fund deficit at year-end, even after utilizing Strike Team and SLESF funds.

Continued deficit spending will:

- Reduce General Fund reserves
- Limit the City's flexibility in responding to emergencies
- Increase long-term financial risk
- Impact service sustainability

STAFF RECOMMENDATION

To stabilize the FY 2025–2026 budget, staff recommends:

1. Initiating structural budget planning for FY 2026–2027 (2025–2026 budget cycle).

The City will need to begin evaluating long-term corrective measures, including:

- Departmental expenditure reductions
- Position and staffing evaluations
- Program prioritization
- Revenue enhancement strategies
- Potential service level adjustments

While the City has made progress in reducing the size of the annual deficit compared to FY 2023–2024, it is clear that structural adjustments will be necessary to prevent the General Fund from continuing to decline.

The City cannot continue to operate in a pattern of deficit spending. Difficult decisions may be required in the upcoming budget cycle to ensure fiscal sustainability and prevent further erosion of financial stability.

The mid-year review demonstrates that despite the Council's action in June 2025 to utilize Strike Team and SLESF funds to adopt a balanced budget, revenue shortfalls and public safety demands have resulted in a projected deficit.

However, long-term structural corrections will be required in the FY 2026–2027 budget to ensure that the City of Colusa stops operating at a deficit and returns to sustainable financial footing.

Staff request Council direction regarding the proposed mid-year budget adjustment and long-term fiscal strategy.

STAFF RECOMMENDATION:

Approve Resolution 26-

ATTACHMENT:

- Proposed Mid-Year budget 2025-26
- GAAN Limits FY 2024-25 & FY 2025-26