



DATE: May 13, 2025

TO: Chair Woll and Assembly Finance Committee

FROM: Katie Koester, City Manager

SUBJECT: **FY26 Budget Risks**

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The purpose of this memo is to provide an update on FY26 funding issues and budget risks as we know them today. The economic impacts of Federal and State Government decisions are wide ranging and ever shifting.

Secure Rural Schools

Congress failed to extend the Secure Rural School program which means the program expired at the end of FY23 and will not be renewed without a new vote. Without reauthorization, the Forest Service must follow the amended 1908 Act, which results in lower payments to states (25% of gross receipts generated on Forest Service lands during the fiscal year is distributed). The State lost \$12M of funding due to this program not being reauthorized. CBJ was notified that our FY25 Title I allocation was reduced by \$523K, and the Title III distribution was reduced from \$45K to \$0. The FY26 proposed budget included funding of \$550K for Title I. This amount should be reduced to the amount received in FY25 - \$27K. This results in a \$500K reduction in expected fund balance available for FY25; and a revenue reduction of \$523K in FY26.

Community Assistance

The State has lowered the recapitalization of the Community Assistance funding source from \$30.0M to \$13.3M which will reduce CBJ's allocation down nearly zero in FY26. The Manager's Proposed Budget included Community Assistance revenue at \$624K which is no longer likely.

Sales Tax

Currently, Sales Tax (and other related sales-type taxes) are coming in very close to projections, with the exception of Tobacco Excise Tax which is falling even further than predicted. At this time, no action is required on sales tax-type revenue. Staff will continue to monitor performance. The next big update will be available mid-August with the April – June quarterly filing; however if negative trending seems to emerge, staff will alert the Assembly.

Other Unknowns

There are several other unknowns that have potential impact on CBJ and the community:

1. Youth Shelter Grants (CBJ receives \$156K in direct funding)
2. CDBG funding for homelessness and childcare
3. Medicaid funding
4. Recession

In summary, the draft FY26 budget is **\$1.147M short in revenue** due to recent federal and state budget decisions. This is roughly .17 mills.