



STAFF REPORT

TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL
MEETING DATE: JUNE 1, 2026
FROM: CITY MANAGER DUBOIS AND FINANCE SUPERVISOR PETERS
SUBJECT: DRAFT BUDGET FOR FY26-27

RECOMMENDATION:

Review the proposed early draft items for the FY 2026-27 Operating and Capital Budget and provide direction to Staff on priorities, particularly regarding capital improvement projects. This is an early draft and work remains to be done on the wastewater fund and reserves. Those are not yet included in this draft.

BACKGROUND:

With the ongoing collection of Measure P (Transaction and Use Tax) funds into our baseline planning, as well as some generous donors and grants, and impact fees from Valley View Commons apartments, the City is well-positioned to address critical infrastructure needs while maintaining healthy reserves. This staff report and the attached draft budget provide a high-level overview of forecasted revenues, baseline operational expenses, and a comprehensive list of proposed capital projects for the upcoming fiscal year.

Valley View Commons Impact fees were finalized this week but are not yet fully incorporated in the draft budget. They total \$1.66M in all, including regional fees. The Parks budget demonstrates the benefits we will see from these fees. The next draft will fully incorporate all the incoming impact fees into the budget and reserves. Note - These are one time fees and they are being applied to capital projects, not annual obligations.

Staff is presenting this early draft to discuss potential changes to the baseline budget, gauge Council priorities on discretionary spending, and gather feedback before returning with the final balanced budget in mid-June.

DISCUSSION:

1. Economic Outlook

Based on the latest macroeconomic forecasts and local city data, here is an overview of the market outlook for Sutter Creek and Amador County through the rest of 2026 and the first half of 2027:

The U.S. economic outlook for the remainder of 2026 and the first half of 2027 points toward moderate economic growth, with real GDP projected to expand by roughly 2.2%

in 2026 and averaging between 1.9% and 2.1% in 2027. The economy is currently navigating a "low-hire, low-fire" labor market, and the national unemployment rate is expected to drift up slightly to around 4.5% to 4.7% by the end of 2026. A major near-term headwind for municipalities is inflation, which remains sticky due to new trade policies and geopolitical conflicts in the Middle East. These global frictions have created a temporary, supply-driven oil shock that is expected to push headline inflation higher in the near term as well as increase the costs of fuel, chemicals and other supplies. Fuel cost futures are expected to remain elevated and volatile through the end of 2026 before slowly cooling in 2027 as market disruptions are absorbed.

Locally, Sutter Creek's market remains heavily reliant on its reputation as the "Jewel of the Motherlode," drawing visitors to its historic 19th-century Main Street, local wineries, and proximity to outdoor recreation. While tourism is a foundational economic driver, city leaders are recognizing the vulnerabilities of a purely tourism-dependent and commuter-influenced economy. Recent economic development discussions support a strategic push to diversify the economic base, which will help mitigate structural challenges like an aging population and local economic leakage.

The intersection of national inflation and local economic dynamics is directly impacting Sutter Creek's municipal operational costs. The city faces notable cost pressures from rising labor and benefit expenses—which are expected to grow by roughly 10%. We are in Year 2 of a three year labor agreement which helps mitigate some of the pain but letting us plan for these increases. Furthermore, regional service costs, such as a 6% increase in Amador County dispatch allocations, and elevated fuel costs directly burden public works and emergency services. While the city is planning for conservative base revenue growth in the 2% range, the recent implementation of the Measure P Transaction and Use Tax provides a crucial financial buffer. This new tax revenue is allowing the city to manage these rising operational costs and fund deferred infrastructure maintenance without severely exhausting its general reserves.

2. General Fund Revenue

The proposed FY 2026-27 General Fund revenue is projected at **\$3,469,638**. This represents stable, modest growth compared to the previous fiscal year. Total tax revenues are forecasted at \$2,726,142. The budget now includes a full year of TUT revenue, allowing us to confidently program these funds toward deferred maintenance and street repairs.

- **Wastewater Enterprise Fund:** Projected revenues of \$5,637,624 with operating expenditures estimated at \$6,002,935. This includes a use of reserves to start construction of solar and batter storage for the new wastewater plant, to lock in grants and federal tax incentives. .
- **Gas Tax / Streets & Sidewalks (Fund 03):** Projected revenues of \$926, 641 against proposed expenditures of \$842,554, use of state grant funds of \$612,000 via ACTC let us maintain reserves. .
- **Park Impact Fees:** Projected revenues of \$688,067 from impact fees will let us execute several park and community building improvements while maintaining a healthy reserve. With the dissolution of ACRA we have been attempting to offer rec programs without any additional full-time staff (utilizing part-time and volunteers). This may change in future years if we are unable to sustain programs..

3. Personnel & Operating Expenses

Total City staffing remains stable at 17.92 FTEs (20 total employees), with no new positions proposed in this baseline draft. Key operational adjustments include:

- **CalPERS UAL:** Pension Unfunded Accrued Liability (UAL) allocations have been updated based on the latest actuary reports and accurately allocated across departments (e.g., General Fund, Streets, Sewer, etc.) reflecting actual staff time distribution.
- **Police Department:** The proposed budget is \$1,180,139. The increase is largely driven by Amador County dispatch cost increases and necessary safety equipment replacements.
- **City Management & Finance:** Proposed at \$150,983 and \$168,362 respectively. Efforts have been made to appropriately allocate administrative effort to the Wastewater Enterprise Fund to reflect the significant time spent on WWTP planning and ARSA issues.

4. Proposed Capital Improvement Projects

Staff has compiled a priority list of capital projects totaling over \$2.1 million across all funds plus \$3.6M for solar and battery storage for the new wastewater plant. We are proposing to budget all of these projects, and will attempt to complete them all within the fiscal year. This is a larger number of projects than normal, so we may not complete all of them, if not funds will not be spent and be available to rollover to the following year.

Highlights include:

Category	Project Description	Est. Cost & Funding
Streets & Sidewalks	Sutter Hill Road Paving, Old 49 Pedestrian Shoulder, Gopher Flat Traffic Calming (Speed tables & restriping), David Drive repair.	\$800k (Sutter Hill) largely offset by \$610k ACTC grant. \$75k (Old 49).
Facilities	Auditorium HVAC replacement, Auditorium siding and paint, Admin Building Roof replacement, and critical repairs to Monteverde (HVAC, wall/floor, electrical).	\$100k (Aud. HVAC), \$40k (Aud. Siding), \$20k (Admin Roof). Monteverde funding will increase if we are awarded grant funding.
Wastewater	Five critical WWTP projects, Preston Forebay inlet valve replacement, and Freshwater diversion line repairs completion.	\$500k (WWTP 1/1 Projects), \$30k (Preston Valve), \$25k (Diversion).
Parks & Recreation	Minnie Provis ADA improvements, Bryson Pump Track, Creek cleanup (flood/fire mitigation), and Pool 3-way valve replacement.	\$140k (Minnie Provis, \$125K donation), \$10k (Pump Track - \$10K grant), \$11k (Creek Cleanup).
Police Equipment	Smart Cameras (LPR/facial	\$50k (Smart Cameras), \$11k

Category	Project Description	Est. Cost & Funding
	recognition), Car Cameras (Year 1 of 5-year plan), Radar, and routine firearm/radio replacements.	(Car Cameras Year 1). Possible funding by Embarc (not counting on that)

5. Conclusions

Comparing this year's budget to last year, we largely accomplished our goals of creating a sustainable budget. Unlike last year where the budget bridged the gap by using some reserves, this year's budget reflects a stronger revenue story and increases reserves except for wastewater where we are starting expenditures for the new plant. Costs do continue to rise faster than our core tax revenue sources. We have proactively raised our fees, so our recovery rates are solid for paid services like building permits and planning. It is enlightening to see how much one apartment building can add to the city's coffers, though these impact fees are one-time funds and should be used for one-time expenses, such as capital projects.

BUDGET IMPACT:

The proposed FY 2026-27 baseline budget strikes a balance between maintaining healthy operating reserves and addressing critical, long-deferred infrastructure repairs. By leveraging anticipated grant revenues and appropriately allocating enterprise fund costs, the General Fund impact of these capital improvements is minimized.

Feedback received from the Council during tonight's meeting will be used to refine project priorities, finalize departmental budgets, and balance the FY 2026-27 Operating and Capital Budget. The final budget resolution will be brought back to the Council for adoption in late June.

ATTACHMENT:

1. **Draft FY26-27 Budget**
2. **Budget - Projects - FY26-27**