To: Finance Committee

From: Tony Arnett

Re: 2026 Budget

Date: September 8, 2025

I once worked for a very smart person who split things up into three groups: things we “know” (the data is definitive); things we “think” (based on experience and best available data); and things we “believe” (based on experience and/or related examples.) In that spirit, I'd like to offer the following regarding the 2026 budget.

3 things I know about the budget:

1. We inherited an unbalanced budget for 2025, with a deficit of nearly $1 million ($993,000 to be exact.) (Yes, when your expenses exceed your revenue, it is not a balanced budget, it is an unbalanced budget.)
2. Much of the 2025 deficit spending is structural - it is recurring operational costs. (Which means if left unchecked, the deficit spending will continue for 2026.)
3. The General fund balance at the end of 2025 will be $1 million less ($993,000) than 2024 year-end. It is the 2024 year-end fund balance that has been cited in recent discussion. In other words, much of the fund balance some wanted to see spent in 2026 has already been spent in 2025.

It is tempting to ask how an unbalanced budget with a $1 million deficit was judged as appropriate, let alone why it was purposely misrepresented as a "balanced" budget. However, such questions will not help solve the problem.

I "think" there are several aspects to our approach to the budget that will help find the solution(s) to this huge problem we have inherited.

4 things I think about the budget:

1. We need to take a multi-year approach (3-5 year projection) to both fully understand the scope of the problem and find solution(s).
2. The multi-year view of the budget needs to look back, too, not just forward. We need to understand what has been added and what areas have grown in the last few years that have contributed to where we are now.
3. Exceeding the limits of the Expenditure Restraint Program will not solve the deficit. You don't spend your way out of a deficit. And keep in mind the General fund balance, the main justification previously provided for leaving the program, will be about $1 million less than some believed.

4. The solution(s) to this problem will include both changes we make in 2026, as well as changes we make over the longer term. The immediate changes will help "buy time" to identify and enact the longer-term changes.

Lastly, I "believe" there are specific considerations we should make that will help us see a way through this.

5 things I believe about the budget:

1. Even though it is late in the year, we should look at what General fund expenses for 2025 can still be reduced.
2. Despite this dire circumstance, we can find ways to shift resources to where they are most needed. But it will mean shifting resources away from other areas.
3. Our 2026 borrowing should be focused on needs, not wants. And the number 1 thing we hear about the most from citizens is the condition of city streets. That is the need.
4. We should exhaust other funding sources before we ask City residents to pay more. This includes accumulated balances tucked away in corners of the overall city budget.
5. We can't continue to do everything we have been doing, and we can't keep doing things the same way. The scale of the challenge requires big changes.

Thank you very much for your time and consideration.

Tony