SMITHVILLE missouri	STAFF REPORT
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Subject:	FY2026 Third Quarter Fiscal Update
Staff Report:	Finance Department

Q3 FY2026 – General Fund Budget Performance

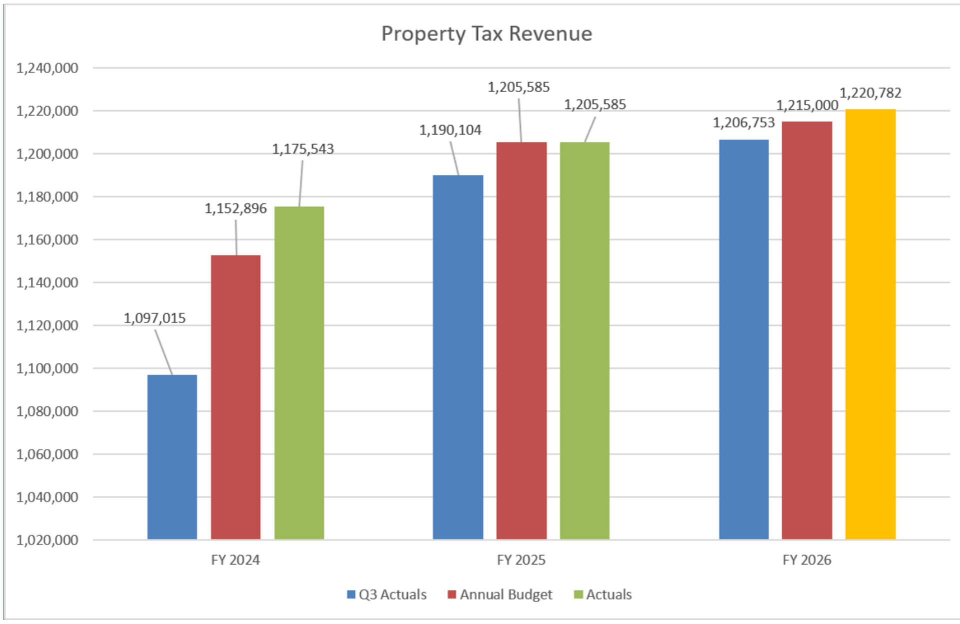
Revenue Highlights

Through the first nine months of Fiscal Year 2026, the City's overall financial performance remains stable. Revenues are trending positively, and FYE projections are 12% over adopted budget. The General Fund has a revenue projection of $8,022,378 for FY2026 compared to $7,143,408 as budgeted. Current projections, reflected in orange below, illustrate anticipated performance based on year-to-date activity. The following chart depicts the FY2026 budgeted vs projected revenues highlighted in this report.

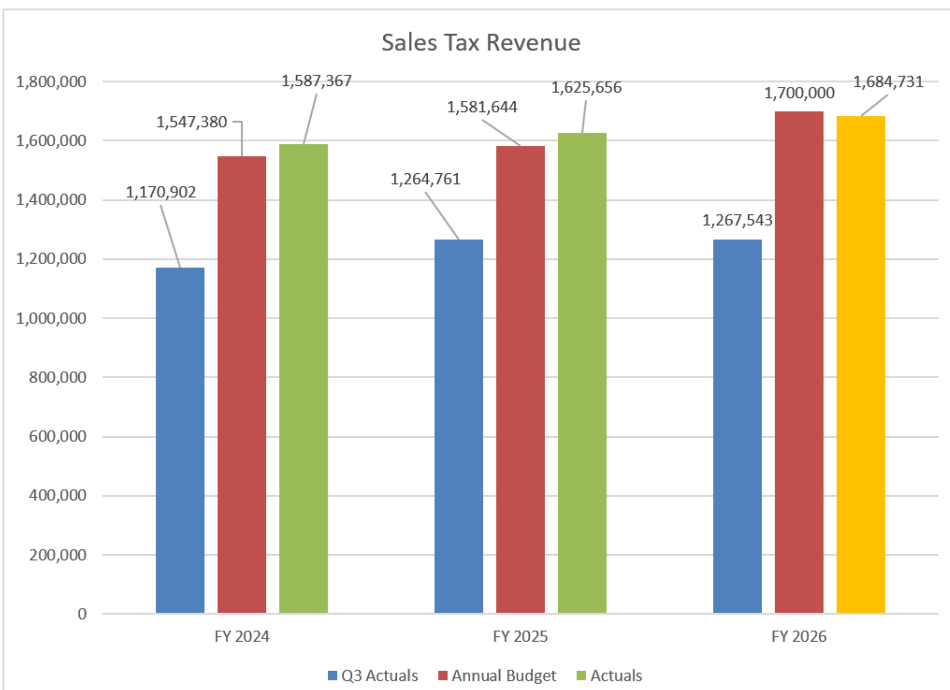
General Fund Revenues	FY2026 Budgeted	FY2026 Projected
Property Tax	$ 1,215,000	$ 1,220,782
Sales Tax	$ 1,700,000	$ 1,684,731
Use Tax	$ 1,070,000	$ 1,371,352
Interest Income	$ 222,684	$ 301,535
Building Permit	$ 200,000	$ 605,213

Clay County has implemented a senior tax freeze program for FY2026 and the county has initially indicated a $15,000 impact prior to implementation. The county subsequently indictated actual impact to the City of $10,000 due to this program. Property tax is currently projected at $1,220,782.

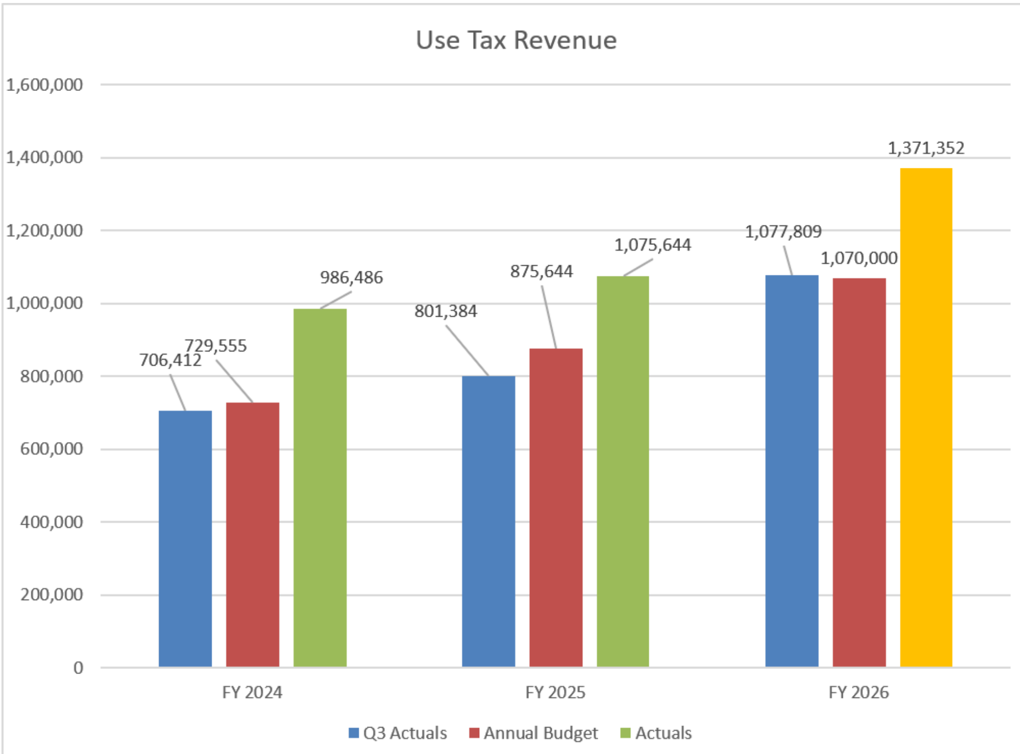
The chart on the next page summarizes property tax revenues since FY2024.



Sales tax revenues slowed in the first half of 2026. For FY2026, sales tax revenue is projected to be slightly less than budgeted at $1,684,731. Staff continues to monitor this revenue source and relevant economic indicators.

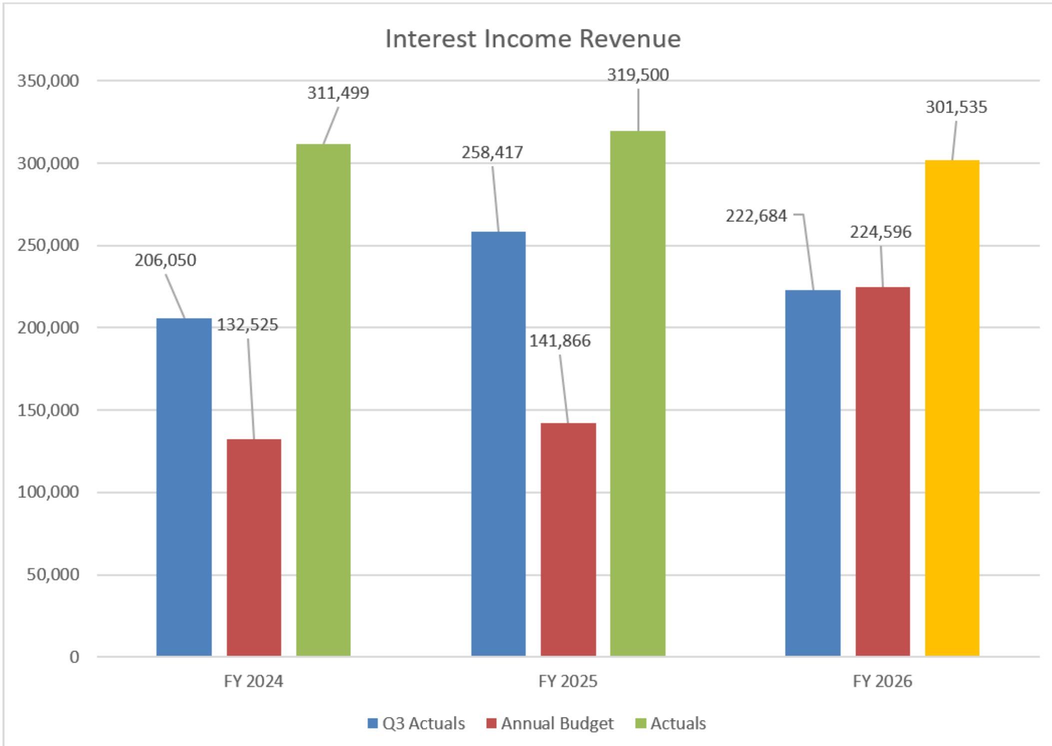


Use tax revenues have continued to trend upward in recent years, driven primarily by the sustained shift in consumer purchasing habits toward online retail and e-commerce platforms. Despite broader economic uncertainties and fluctuating consumer spending patterns, use tax collections have remained resilient and consistently exceeded prior expectations. This continued strength in online sales activity has positively impacted the City's revenue outlook, resulting in an increase to the projected FY2026 use tax revenue estimate to $1,371,352.

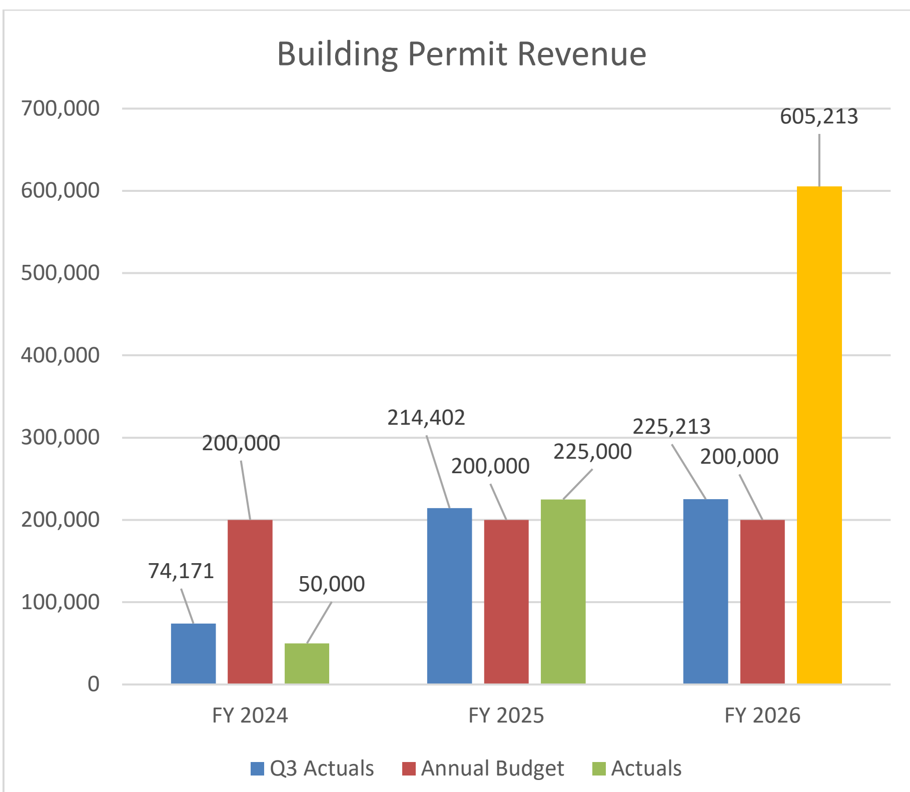


The City's interest earnings are tied to a variable rate that fluctuates with the U.S. Treasury Bill rate. Beginning in FY2026, interest income has been separated into two distinct budget categories: the General Fund and the Combined Water and Wastewater Fund. The allocation is divided 45% to the General Fund and 55% to the Combined Water and Wastewater Fund to more accurately reflect cash balances and fund activity.

The following chart compares the allocation of interest revenue using the City's new established methodology applied to FY2024 and FY2025. In recent years, interest earnings have benefited from strong market interest rates resulting in higher overall returns. As a result of these continued favorable conditions, the City has increased its projected FY2026 interest revenue estimate to $301,535.



Building permit activity remained strong throughout Q3. One development project has increased the projected revenue for 2026, tripling the City's budget revenue projections to $605,213.



Expenditure Highlights

The majority of General Fund expenditures are allocated to salaries and benefits, which remain on track to align with the budgeted amounts for FY2026.

Beyond personnel costs, significant expenditure also includes professional services and capital expenditure directed by the Board through budget amendments. Budget Amendments since the Governing Body Budget Retreat reflect a focus on use of fund balance to address infrastructure needs. The City continues to closely monitor fluctuations in commodity prices and potential shifts in economic policy, both of which could have a notable impact on overall General Fund expenses. Ongoing oversight ensures that spending remains consistent with budgetary priorities while allowing for timely adjustments if conditions change.

Public Safety Sales Tax

Sales tax revenue is projected to remain in line with the third quarter budget, with year-to-date collections totaling $488,184 against the annual budgeted amount of $700,000. Step increases outlined in Collective Bargaining Agreements (CBAs) were implemented in January. Salary increases outlined in the 2026 CBAs were fully implemented in April. In May, staff recommended adding a Support Services Captain position, with funding allocated 50% from the Public Safety Sales Tax Fund and 50% from the General Fund. Implementation of the upgraded LAGERS retirement plan began July 2026, and the hiring of the Animal Control personnel is anticipate in the fourth quarter of 2026. Projected expenditures are $480,386, compared to an amended budget of $565,760, primarily due to the implementation of programs occurring later in the fiscal year than originally anticipated.

Q3 FY2026 – Combined Water and Wastewater Fund Budget Performance

The City did not implement any utility rate increases for FY2026 and conducted a comprehensive utility rate study to evaluate long-term financial sustainability and operational needs. The findings and recommendations from this study were presented during the April 7, 2026 work session.

Currently, both water and wastewater revenues are performing in line with initial budget projections. Revenue collections remain stable, with year-end projections slightly above budget.

Fiscal Year 2026 represents the launch of several key initiatives that begin implementation of the City's long-term, multi-year infrastructure investment strategy. This comprehensive effort focuses on modernizing existing systems, expanding capacity, and strengthening the City's ability to support both current service demands and anticipated future growth.

As these projects move forward, the City will maintain ongoing oversight to ensure alignment with established priorities. Regular evaluations will allow for timely adjustments in response to construction cost fluctuations, changing economic conditions, and evolving community expectations. To support the financial requirements of this strategic plan, the City brought to the Board potential debt issuance beginning in FY2027. These discussions will continue in the coming years to coordinate financing strategies with project timelines and capital needs.

Special Sales Tax Funds

The City allocates special sales tax revenues to fund projects that directly support the intended purpose of each designated fund. These revenues play a critical role in advancing the City's comprehensive infrastructure strategy by providing dedicated resources for system improvements, capital upgrades, and ongoing maintenance needs. Outlined below is a summary of the three primary special sales tax funds — the Capital Improvement Sales Tax Fund, the Transportation Sales Tax Fund, and the Park and Stormwater Sales Tax Fund — including a status update as of the third quarter of FY2026. Also included among the City's special sales tax funds is the Public Safety Sales Tax Fund, which is dedicated to supporting public safety services and initiatives. The following chart depicts the FY2026 budgeted vs projected revenues for the Special Sales Tax Revenues.

Special Capital Sales Tax Funds	FY2026 Budgeted	FY2026 Projected
Capital Improvement Sales Tax	$ 1,376,869	$ 788,774
Transportation Sales Tax	$ 1,500,322	$ 1,420,008
Parks and Recreation Sales Tax	$ 988,766	$ 987,798
Public Safety Sales Tax	$ 700,000	$ 700,000

- *Capital Improvement Sales Tax Fund*: Sales tax revenue is projected to align with budget as third quarter revenue is $581,614 with a budgeted sales tax amount of $776,869 and projected $788,774. Expenditures include the Riverwalk & Trail engineering, 2nd Creek Sidewalks engineering, Downtown Streetscape Phase III, and 1st Street and Bridge Round-A-Bout engineering. 2nd Creek Sidewalks construction and Riverwalk & Trail construction, both of which have significant MARC reimbursements totaling $1,080,000 ($600,000 budgeted in FY2026), will be deferred to FY2027.

- *Transportation Sales Tax Fund*: Sales tax revenue is projected to be lower than budget as third quarter revenue is $529,844 with a budgeted sales tax amount of $809,315 and projected $709,479. This decrease reflects current and projected revenues for the remainder of FY2026. The City completed the mill and overlay annual maintenance program and annual sidewalk program through this fund. Two other budgeted projects for FY2026 will be completed, Commercial Street Sidewalks, Commercial Overlay and 169 Signal project. Commercial Street Sidewalks and 169 Signal project include a MARC reimbursement of $688,026.

- *Park & Stormwater Sales Tax*: Sales tax revenue is projected to be slightly lower than budget for the 3rd quarter, revenue is $579,020 with a budgeted sales tax amount of $804,733 and projected $785,949. One project in this fund was completed in FY2026, Forest Oaks Stormwater Improvements engineering. Two projects will be completed before FYE, OK Railroad Trail – Phase I construction, with a grant reimbursement of $201,849, and Forest Oaks Stormwater Improvements construction. Two projects will be deferred and completed in FY2027, Dundee Road Stormwater Improvements and Riverwalk Park & Trail construction.