	<b>STAFF REPORT</b>
<b>Date:</b>	May 19, 2026
<b>Prepared By:</b>	Rick Welch, Finance Director
<b>Subject:</b>	FY2026 2 <sup>nd</sup> Quarter Fiscal Update
<b>Staff Report:</b>	Finance Department

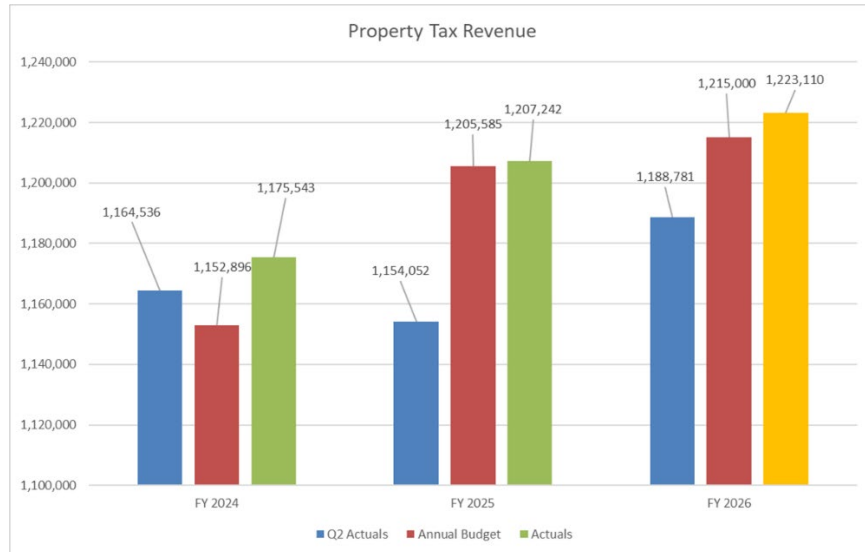
## Q2 FY2026 – General Fund Budget Performance

### *Revenue Highlights*

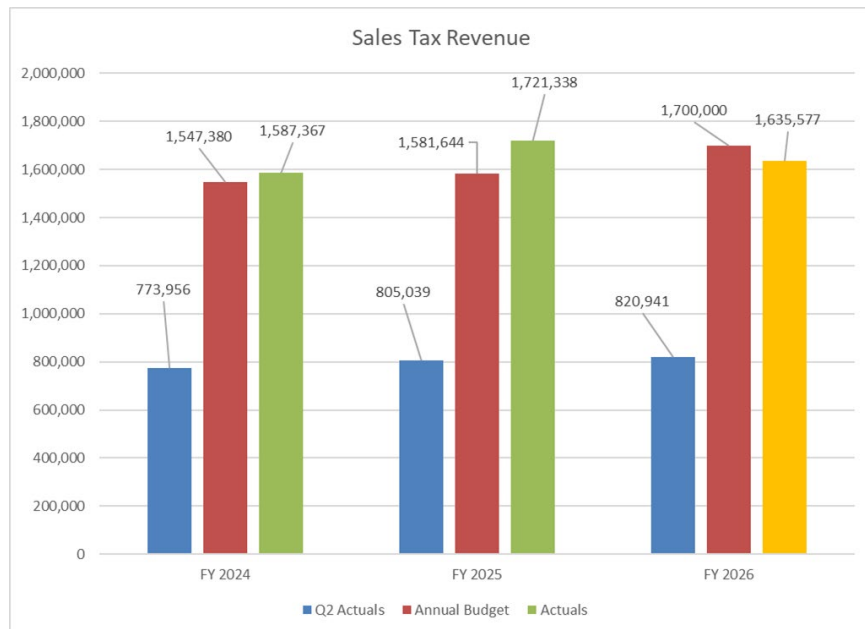
Through the first three months of Fiscal Year 2026, the City’s overall financial performance remains stable. Revenues are trending positively, and expenditures are closely aligned with budgeted expectations. The General Fund has a revenue projection of \$7,243,444 for FY2026 compared to \$7,143,408 as 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	\$ 1,223,110
Sales Tax	\$ 1,700,000	\$ 1,635,577
Use Tax	\$ 1,070,000	\$ 1,264,612
Interest Income	\$ 222,684	\$ 323,185
Building Permit	\$ 200,000	\$ 200,000

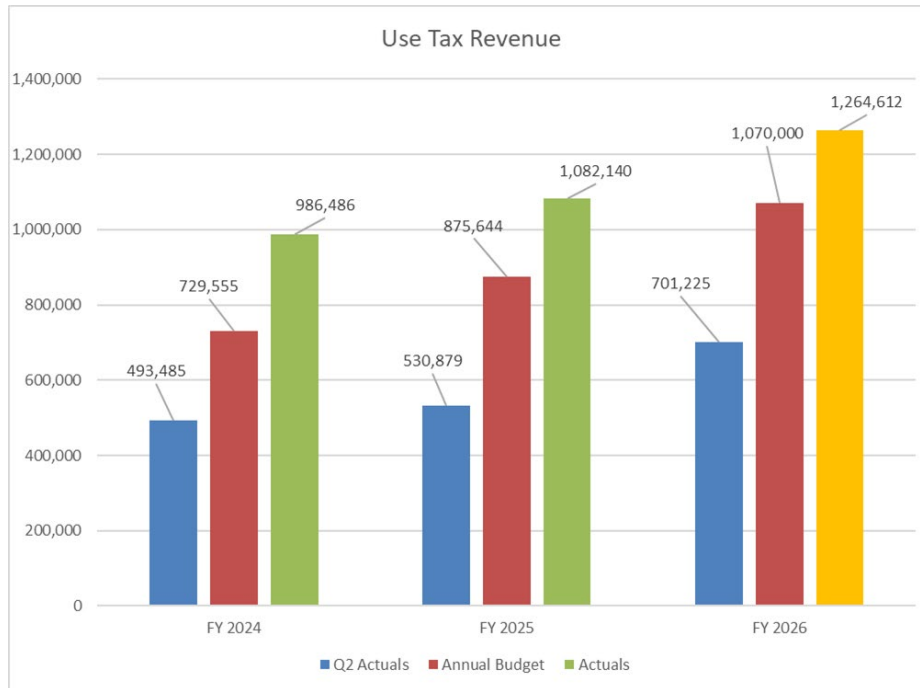
Clay County has implemented a senior tax freeze program for FY2026 and the county has indicated a \$10,000 impact to the City due to this program. Property tax is currently projected at \$1,223,110.



Sales tax revenues slowed in the first half of 2026. For FY2026, sales tax revenue is projected to be less than budgeted at \$1,635,577. This represents a decrease from FY2025 actual collections, as projections account for the potential effects of anticipated economic tightening.

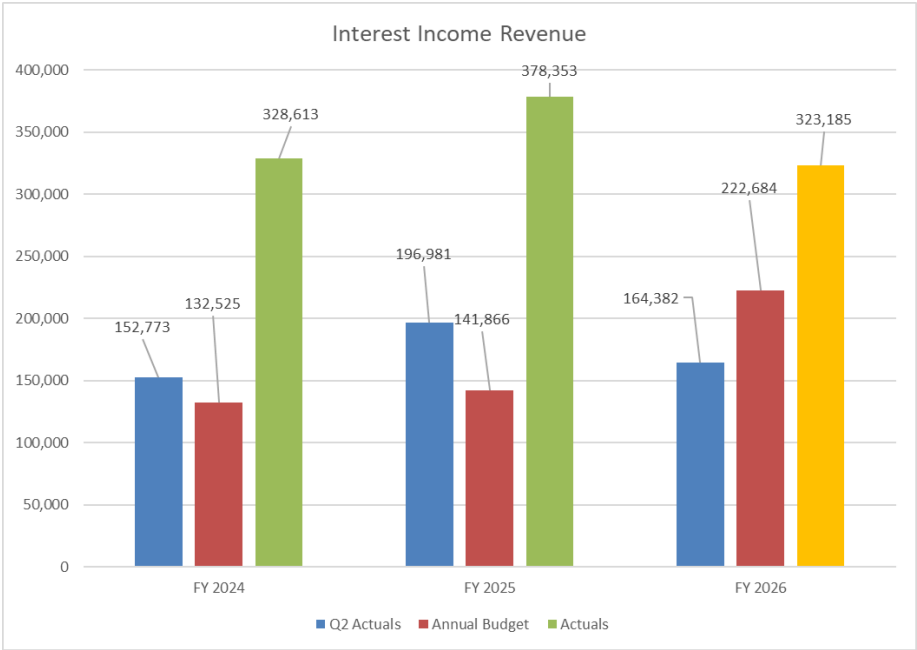


Use tax revenues have continued to trend upward in recent years, driven primarily by the sustained shift in consumer purchasing habits toward online retail and e-commerce platforms. Despite broader economic uncertainties and fluctuating consumer spending patterns, use tax collections have remained resilient 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 \$1,264,612.

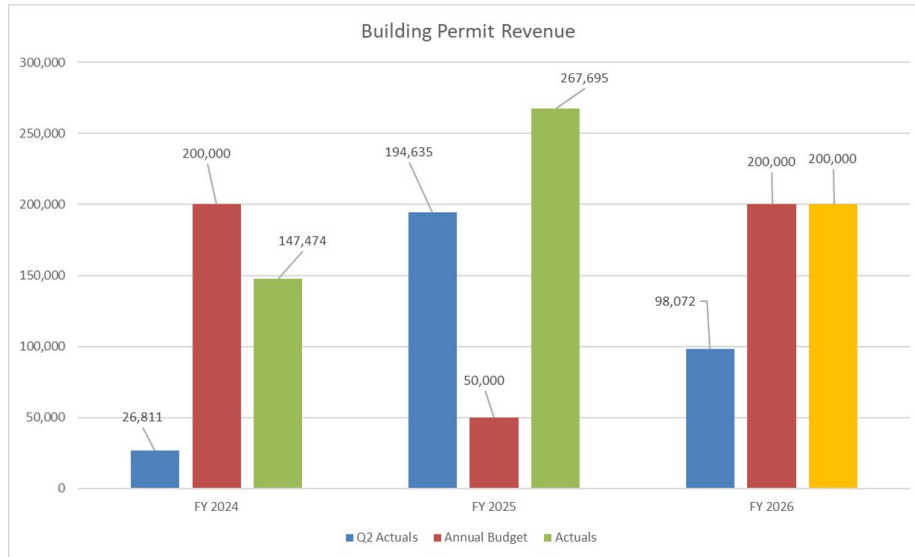


The City's interest earnings are tied to a variable rate that fluctuates with the U.S. Treasury Bill rate. Beginning in FY2026, interest income has been separated into two distinct budget categories: the General Fund and the Combined Water and Wastewater Fund. The allocation is divided 45% to the General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

Beginning in FY2026, the City implemented a new methodology for allocating interest income, with 45% distributed to the General Fund and 55% allocated to the Combined Water and Wastewater Fund. 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 \$323,185.



Building permit activity remained strong during the first quarter, despite weather conditions that typically slow construction and reduce permit-related revenue during this period. Year-to-date performance indicates continued development momentum within the City which will meet budget revenues. Staff will monitor permit revenues throughout FY2026 and adjust as necessary to ensure projections remain aligned with actual activity.



### *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 expenditures also include professional services and capital projects. 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.

### **Q2 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, indicating that current rate structures are sufficient to meet budgeted expectations while the City completes its ongoing evaluation process.

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 has begun exploring potential debt issuance as a funding mechanism. 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 first quarter of Fiscal Year 2026. The following chart depicts the FY2026 budgeted vs projected revenues for the Special Sales Tax Revenues.

Special Sales Tax Revenues	FY2026 Budgeted	FY2026 Projected
Capital Improvement Sales Tax	\$ 1,376,869	\$ 1,376,869
Transportation Sales Tax	\$ 1,500,322	\$ 1,409,890
Parks and Recreation Sales Tax	\$ 988,766	\$ 988,683
Public Safety Sales Tax	\$ 700,000	\$ 700,000

- Capital Improvement Sales Tax Fund:* Sales tax revenue is expected to align with budget as 2<sup>nd</sup> quarter revenue is \$382,194 with a budgeted sales tax amount of \$776,869. Expenditures include the 2<sup>nd</sup> Creek Sidewalks engineering, Downtown Streetscape Phase III, 1<sup>st</sup> Street and Bridge Round-A-Bout engineering. 2<sup>nd</sup> Creek Sidewalks construction and Riverwalk & Trail construction, both of which have significant MARC reimbursements totaling \$1,080,000 (\$600,000 in FY2026), will begin construction this fiscal.
- Transportation Sales Tax Fund:* Sales tax revenue is expected to align with budget as 2<sup>nd</sup> quarter revenue is \$347,563 with a budgeted sales tax amount of \$809,315. This decrease reflects current and projected revenues for the remainder of FY2026. The City completes 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 expected to align with budget as 2<sup>nd</sup> quarter, revenue is \$380,067 with a budgeted sales tax amount of \$804,733. Sales tax projection for this fund has decreased slightly, to \$786,834. Five projects in this fund are projected to be completed in FY2026. Dundee Road Stormwater Improvements, Riverwalk Park & Trail, OK Railroad Trail, Forest Oaks Stormwater Improvements and the Smith's Fork Park Complex. OK Railroad Trail – Phase I has been awarded a grant reimbursement of \$201,849.
- Public Safety Sales Tax:* Sales tax revenue is projected to remain in line with the second-quarter budget, with year-to-date collections totaling \$297,590 against the annual budgeted amount of \$700,000. The January 1, 2026, step increases outlined in the existing Collective Bargaining Agreements have been implemented, and the 2026 Collective Bargaining Agreements were fully implemented in April. Implementation of the upgraded LAGERS retirement plan has been postponed until July 2026, along with the hiring timeline for Animal Control personnel. 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.