Agenda Item Report

Legislative Board:	City Council
Date:	July 21, 2026
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ITEM TITLE: Submittal of the Fiscal Year 2026 Second Quarter Financial Update (Finance Director Bianca Redmon)

1. EXECUTIVE SUMMARY

The City Charter requires the City Manager to keep the City Council fully advised as to the financial condition of the City. The Finance staff provides City Council a quarterly update of the City's finances in order to meet this requirement.

2. BACKGROUND/HISTORY

At the end of each quarter, the Finance Department reviews the City's finances for the preceding three months and provides a summary of the finances for the City's major funds. The fiscal year 2026 first quarter financial update was provided to City Council in March. This financial update represents the second quarter of the 2026 fiscal year.

3. ANALYSIS

Staff has reviewed the City's finances through the second quarter of the 2026 fiscal year, which includes January through March. The update through the second quarter represents 50% of the fiscal year. Revenues are performing ahead of expectations, largely attributable to the seasonal timing of property tax collections (which concentrate in Q2 following the January 31 deadline) and a positive sales tax performance. Expenditures are pacing favorably below the 50% target, reflecting typical quarterly timing, conservative spending, and some project delays.

For the City's major funds, which include the General Fund, Water Fund, Wastewater Fund, Governmental Interest & Sinking Fund, Hotel Occupancy Tax Fund, and the Sanitation Fund, the total budgeted revenue was $47.43 million. Through the end of the second quarter, the City collected $28.45 million for these funds, 60.0% of the budgeted revenues. This strong performance is primarily due to robust property tax inflows (96% of budget collected) offsetting weaker utility and hotel revenues, alongside steady sales tax collections. For expenditures, the budget for the major funds totaled $51.54 million, and expenditures through the second quarter totaled $21.78 million or 42.3% of the total budget for major funds, below the 50% target.

Other Key Financial Highlights

1. General Fund Expenditures
    - Target: 50.0% of budgeted expenditures for Q2.
    - Actual: 45.4% of budgeted expenditures for Q2.

- Overall expenditures are slightly below target for the midpoint of FY2026, reflecting prudent pacing and timing differences across departments.
- Community Relations – Art Projects not yet spent.
- Facilities – Higher Maintenance activity than anticipated.
- Fleet Maintenance – Lower repairs than expected.
- Animal Control – Lower expenditures due to not yet receiving invoices from animal shelter – expected to receive invoice in Q4.

2. Sales Tax Revenue Performance
   - Sales tax collections increased by 4.02% compared to the prior year through March.
   - Actual collections through March accounted for 53% of the total budgeted amount.
   - This exceeded the target collections by$260,635 (approximately 1.9%)

3. Property Tax Revenue Update

Budget expectations:

- Total collected as March: $11.1 million.
- Actual collections account for 96.4% of the total budgeted revenue, $72k over the target of 96.0% collection by this point in the fiscal year.

Compared to prior year:

- Represents $527k increase compared to the $10.5 million collected during the same period last year.

- The increase due to the adopted property tax rate increasing from $0.3395/$100 AV in the prior year to $0.3576/$100 AV.

4. Hotel Occupancy Tax (HOT) Revenue
   - City of Buda's hotel tax collections continue to trend downward due to reduced travel activity.
   - Occupancy: 66.6% (2026) vs. 72.3% (2025), a -7.9% change.
   - Average Daily Rate (ADR): $107.40 vs. $110.43, a -2.7% change.
   - Hotel revenues collected (on an accrual basis) totaled approximately $213,959, however decreased compared to $248,691 in Q2 of the prior year (down ~14%).
   - Statewide hotel tax collections are also experiencing a similar downward trend.

   - City of Buda is experiencing a regional hotel slowdown. Revenue per available room is showing a decline indicating broader regional pressure on hotel performance.

   - The ongoing decline in hotel tax revenue has impacted tourism-related initiatives. The City's adopted budget for FY 2026 reflects a reduction in services with a frozen Marketing Specialist position. Recurring revenues in this fund have been projected to NOT meet recurring expenditures and therefore the City has temporarily frozen the vacant Event Coordinator position as well. Further monitoring is needed to assess long-term impacts.

4. FINANCIAL IMPACT

Staff's review of the City's finances is prepared for City Council at the end of each quarter. Revenues and expenditures in all the major funds except the Hotel Occupancy Tax Fund are on target with staff's expectations regarding the receipt of revenues and expenditures of funds through the fiscal year.

Staff reviews the revenue and expenditure amounts in the City's budget on a monthly basis to ensure the City is receiving its budgeted revenues, and also ensures the expenditures are being properly recorded and are in line with the budget adopted by City Council. Any discrepancies are addressed. The attachment includes information on revenues and expenditures through the second quarter for the City's major funds, total property tax receipts, total sales tax receipts, and total hotel occupancy revenue.

In conclusion, revenue sources are performing strongly at the midpoint of FY2026, driven by property tax timing and improved sales tax collections. Expenditures remain well-managed and below pace. All major fund balance requirements continue to be met with comfortable margins. However, the continued decline in hotel tax revenue should be monitored closely for potential future budget impacts on tourism and related programs.

Fund Balance Requirements	Policy Requirement	Policy Target	Actual Through Quarter End	Meets Requirements
General Fund Unrestricted Fund Balance	**3.5 months** of recurring operating expenditures	5,599,075	14,002,445	Yes
Hotel/Motel Tax Fund Balance	**3.5 months** of recurring operating expenditures	316,880	1,374,073	Yes
Water / Wastewater Unreserved Working Capital	**3 months** of recurring operating expenditures	3,788,447	11,939,248	Yes
Debt Service Fund Balance	**5%** of total annual debt services requirements	409,641	5,886,808	Yes

5. **STRATEGIC PLAN/GOALS**
EXCEPTIONAL CITY SERVICES

6. **STRATEGIC PLAN OBJECTIVES**
Maintain a fiscally responsible City property tax rate and competitive fee structure.

7. **PROS AND CONS**
Not applicable.

8. **ALTERNATIVES**
Not applicable.

9. **REQUESTED ACTION / SUGGESTED MOTION / RECOMMENDATION**
Provided for informational purposes only.

Attachments:

h4 FY26 2nd Qtr.pdf